Summary of Economic Activity

On balance, growth of aggregate Third District business activity appeared to pause for much of the current Beige Book period; however, late reports indicated a resumption of slight growth in some sectors. Significant sectors, including manufacturing, nonfinancial services, and nonauto retail sales, slowed from modest growth in the prior period to little or no change in the current period. Factors cited for the slowdown included weak global demand and uncertainty because of trade wars and the government shutdown. Nevertheless, employment continued to grow at a modest pace, although the labor market remained tight and upward wage pressures remained moderate. Price pressures remained modest. Despite the apparent pause in growth, firms' outlook for growth over the next six months remained positive, with two-thirds of the nonmanufacturing firms and nearly half of the manufacturers anticipating increases in general activity.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. About one-fourth of the firms reported an increase in staff. Manufacturers have noted little change in the average hours worked since the prior Beige Book period; however, average hours appeared to contract a bit among other firms.

Most contacts continued to note that the labor market was very tight and that hiring and retaining workers remained difficult. Firms are responding by raising wages, increasing job flexibility, training new hires who have fewer skills than desired, and making greater use of trial periods of temp agency placements.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases averaging about 3.0 percent. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged higher to near 40 percent. Contacts noted that recent state increases in the minimum wage may cause some wage compression, but most firms were already paying above the new minimums. A few that were not continue to look toward automation.

Prices

Price increases remained modest for most firms. The share of manufacturing firms reporting increases in prices paid and prices received averaged around 30 percent. The share was much lower among nonmanufacturing firms. Several contacts noted that food commodity prices had remained modest or were better than expected.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs fell to 40 percent from 60 percent. Those firms expecting to receive higher prices for their own goods fell to 30 percent from near 50 percent.

Manufacturing

Manufacturing activity appeared to decline slightly – a reversal of trend from modest growth. The percentage of firms that reported increased shipments and new orders fell almost to one-fifth, but the percentage reporting decreases rose to about one-fourth.

The makers of chemicals, primary and fabricated metal products, and electronic and industrial equipment mostly have noted no change in new orders and shipments – and occasionally declines – since the prior period. However, these changes were weaker than those reported for the same period last year. The makers of lumber and paper products also reported flat or negative activity, changes which were comparable to the prior year.

Explanations cited for the slowdown included falling demand from European and Asian markets, with tariffs and Brexit as prime factors. Reduced demand from domestic sources was attributed to several factors: a pullback in orders following an excessive inventory buildup; lower oil prices, which have dampened capital expenditures from energy producers; and uncertainty during the government shutdown.

Despite the current period's pause, manufacturers' expectations of general activity six months from now did not shift. Moreover, expectations of future shipments also held steady. However, expectations of future new orders, employment, and capital spending edged lower. On balance, expectations for each of these indicators were near or above their historic nonrecession averages.

Consumer Spending

On balance, nonauto retailers reported slight gains in the new year. While some brick-and-mortar retailers continue to lose market share to online stores, contacts cited low unemployment rates, relatively high consumer confidence, and relatively low gas prices as factors contributing to ongoing gains in current sales and in expected sales. However, the government shutdown was costly for a few smaller Center City Philadelphia businesses, such as coffee shops, that serve federal office buildings and national historic areas.

Auto sales continued to bump along at relatively high levels, with little overall change compared with the same period last year. Sales reports for January were mixed, and some early reports for February noted a decline.

Tourism activity was off a bit, according to contacts. One contact noted an unexpected downtick in activity in the Poconos – partially due to poor weather in January. Philadelphia hotels were challenged compared with last year; the Eagles' 2019 playoff run included no home games, then the government shutdown closed several national park attractions, reducing tourism activity in the city. An analyst noted concerns with ongoing trade uncertainty and the strong dollar, which reduces foreign tourist visits and average visitor spending.

Nonfinancial Services

On balance, service-sector firms grew slightly as mid-period reports suggested a brief pause in activity. The percentage of firms reporting increases in sales and in new orders remained nearly the same, while reports of declining sales and fewer new orders edged higher on average. Expectations of future growth rebounded to two-thirds of the firms from half 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 robustly in commercial and industrial lending and in other consumer loans (not elsewhere classified). Loans grew modestly in commercial real estate and home mortgages; auto loans were flat; and home equity lines declined.

Bankers cited client uncertainty stemming from trade policy, the government shutdown, and global outlooks but described no concerns with the underlying U.S. economy. Lending standards were mostly unchanged, with a few banks tightening in specific segments. Contacts also noted no problems with credit quality.

Real Estate and Construction

According to homebuilders, contract signings appear to have held steady, although excessive rain has hampered construction activity. One builder – just returned from a national trade conference – reported that after a year-end slowdown, activity had picked up by February, nationally and locally.

Existing home sales continued to decline moderately across most local markets. Contacts noted no early signs that the spring selling season would bring an end to the extremely low inventories that have constrained sales.

On balance, commercial real estate construction and leasing activity appear to have edged down slightly from relatively high levels. However, most contacts remain very busy. Consolidations in health care and education are fueling new projects for architects and engineers. Contacts noted that absorption of new hotel properties and high-end multifamily units have largely kept pace with construction. The strong market for industrial and warehouse space continued for smaller spaces; however, demand may have eased a bit for warehouses in excess of 1 million square feet. ■

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