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## Summary of Economic Activity

On balance, aggregate Third District business activity continued at a modest pace of growth during the current Beige Book period. Manufacturing slowed to a slight pace of growth, but nonmanufacturing, nonauto retail sales, and tourism continued at a modest pace of growth. Homebuilding held steady, while the ongoing trend of declines in existing home sales appeared to have slowed. Auto sales as well as commercial real estate construction and leasing continued to decline slightly. Contacts continued to note that trade uncertainty was constraining business investment and expressed relief that tariffs had not been imposed on Mexican products. Wage pressures appeared to rise further, as the labor market remained tight. Overall, price pressures eased but remained modest. The firms' outlook for growth over the next six months remained positive but softened, with about two-fifths of all firms anticipating increases in general activity and less than one-fifth expecting decreases.

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### Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. More than one-fourth of all firms reported increases in staff. On balance, average work hours declined across firms.

Staffing firms noted that new client orders kept pace or resumed a pace consistent with moderate labor demand, but a lack of interested, qualified applicants constrained fulfillment to a modest pace. Commercial real estate contractors have stepped up training programs to replace their experienced workers as more baby boomers retire. A shore contact noted that the tight labor market nationwide led to greater demand for H-2B visas – widely used by seasonal vacation spots. Thus, far fewer visas were awarded to local businesses than had been expected. Owners were observed working their own counters.

Wage growth continued at a moderate pace, but more reports of wage and benefit cost increases – ranging above 3.0 percent to as high as 5.0 percent – suggest that pressure is rising. The share of nonmanufacturing contacts who reported increases in wage and benefit costs rose to over 45 percent; only 2 percent reported decreases. Staffing contacts noted that some manufacturers cannot offer a wage sufficient to attract workers for nontraditional shifts (e.g., night shifts and weekends).

### Prices

The firms reported that price increases remained modest for prices paid, but prices received grew only slightly. The share of firms reporting increases fell, while the share reporting decreases rose a bit. Well over half of all firms reported no change in prices. Builders expressed few concerns that material price increases were accelerating, and most banking contacts continued to note no signs of inflation.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs fell below 40 percent, and the share expecting to receive higher prices for their own goods fell below 30 percent.

### Manufacturing

On balance, manufacturers reported slight growth in activity – a slower pace than in the prior period. Shipments and unfilled orders remained somewhat above long-term nonrecession averages; however, the new orders index slipped below its average.

Since the prior period, the makers of paper products, chemicals, fabricated metal products, and industrial machinery have tended to note gains in new orders and shipments, and the primary metal producers and makers of electronic products tended to note decreases. These

trends were somewhat weaker this year compared with the same period one year ago for most of the sectors.

Most firms continued to note some negative effects from tariffs, including higher costs, lower profit margins, greater uncertainty, and lower capital expenditures on new industrial capacity. Food processors noted relief that tariffs were not imposed on imports from Mexico.

Manufacturers' expectations of activity over the next six months changed little and remained subdued. However, expectations of shipments and of new orders shifted higher and are at or above long-term nonrecession averages. Expectations of future employment and planned capital spending also remain above average, with the latter rising higher over the period.

### **Consumer Spending**

On balance, contacts for malls and convenience stores continued to report modest growth of nonauto retail sales. Some mall store operators reported declines in year-over-year sales but steady foot traffic, which may result from online sales that are picked up at mall stores. Contacts at convenience stores noted strong sales for the overall marketplace, especially when the sun shines.

Auto sales remained near high levels, with continued signs of slight slowing. One contact attributed a greater share of recent sales to fleet purchases rather than consumer purchases. Pennsylvania dealers reported moderate year-over-year growth through May, but the pace appeared to have slowed in June. New Jersey dealers reported a slight decline in year-over-year sales for May and estimated a modest decline for June.

Tourism activity continued to grow at a modest pace as the summer season began. Weekend food and fuel sales have been strong along the shore routes. Delaware shore contacts noted that the season started early in May and remained busy through June. During the July Fourth week, traffic was "massive," and restaurant waits were long even on a Tuesday night.

### **Nonfinancial Services**

Service-sector firms noted some slowing, but overall, they maintained a modest pace of growth. The percentage of firms reporting increases in current revenues fell, although the percentage reporting increases in new orders edged up. The firms commented on rising uncertainties, including tariffs, inadequate labor supply, uncertain federal policy, and signs of an economic slowdown. One large firm noted a slight uptick in delinquent accounts receivables of its consumer base. The share of firms expecting growth over the next six months fell considerably to under one-half from nearly two-thirds.

### **Financial Services**

Financial firms reported a continuation of moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis and a resumption of moderate growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in commercial real estate, home mortgages, and auto lending. Loans grew moderately for commercial and industrial lending and home equity lines. Other consumer loans (not elsewhere classified) were up slightly.

Banking contacts noted increased uncertainty but remained optimistic about the economic expansion. They continued to note overly aggressive loan pricing and some looser standards, but few credit quality problems.

### **Real Estate and Construction**

Homebuilders reported little change in contract signings in May and June. One builder noted that sales have been sufficient through the first six months to make its budget for the year but observed that greater opportunities were found building apartments for lease, rather than homes for sale.

On balance, existing home sales declined modestly on a year-over-year basis – a lesser decline than in the prior period. Continued declines in the Harrisburg and Greater Philadelphia markets more than offset sales increases in southern New Jersey. Low inventories continued to limit sales in all markets, despite demand.

On balance, commercial real estate construction and leasing activity continued a slight retreat from their recent peaks. In the Greater Philadelphia area, contractors described a flat market at a healthy level and optimism for the remainder of the year. Net increases were still evident in a few industrial markets with sufficient labor supply. Office markets were characterized with relatively even net absorption, stable vacancy rates, and incremental rent growth. Contacts were optimistic that current negotiations would recharge the construction pipeline for office and life sciences research facilities. ■

For more information about District economic conditions visit:  
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