



Summary of Economic Activity

Third District business activity changed little overall during the current Beige Book period and remained far below levels observed prior to the onset of the COVID-19 pandemic. Business operations increased incrementally, as COVID-19 caseloads remained at relatively low levels throughout the period. As firms recalled more of their workforce, net employment also grew modestly; however, firms also continued to issue permanent layoffs. Some wage increases were noted among lower-paying jobs. Meanwhile, contacts reported ongoing difficulties attracting workers. Prices edged higher again amid continued spotty price spikes. Firms maintained modestly positive expectations for growth over the next six months; however, uncertainty is extremely high, as contacts worried about the end of stimulus measures, pending layoffs, and an inevitable rise of evictions, foreclosures, and bankruptcies. Looming over all is the active presence of the coronavirus.

Employment and Wages

Employment increased modestly overall as firms stepped up hiring and recalling workers; however, layoffs continued as well. Among firms in our COVID-19 survey, 25 percent reported that they had hired new workers in July, and 13 percent recalled furloughed workers. Meanwhile, about 6 percent of the firms had laid off workers permanently, and another 6 percent had furloughed workers. However, at mid-August, a slightly greater percentage of firms reported that employment had declined over the month than had increased.

Staffing firms reported that activity continued to increase but remained below pre-pandemic levels by as much as 30 percent. Staffing contacts noted far more orders than they can fill with available labor, and they worried – as the school year neared – that childcare issues will further reduce the labor supply. A lack of childcare was also the only impediment cited by a greater percentage of firms in our COVID-19 survey in late July than in early July. Fear of infection and expanded unemployment benefits had become lesser concerns. From a separate July survey of Philadelphia's Center City offices, a vaccine was the overwhelming factor that firms required for a return from remote work; safer transit was a distant second.

Wages appeared to trend slightly upward. In mid-August, the percentage of nonmanufacturing firms reporting

higher wage and benefit costs per employee was higher than the percentage reporting lower costs. Manufacturers anticipate compensation costs to rise 3 percent over the next year – a bit higher than last quarter.

Several firms maintained previously imposed salary cuts on higher-paid positions, but further cuts were not reported. Upward wage pressure is most evident for lower-wage jobs, especially for Pennsylvania firms that are paying closer to the federal minimum than to the \$15 an hour, or more, being offered by many warehouses. Also, some firms found it difficult to end the temporary “hero” pay and have made all or part of it permanent.

Prices

Prices edged higher again, as more contacts reported higher prices rather than lower during the period, except for prices received by nonmanufacturers. However, over 60 percent of all firms noted no change in prices.

Contacts continued to describe spotty price surges as demand shifts, production disruptions, and logistics problems have created scarcity, delays, and price hikes for an ongoing parade of commodities. Scarcity and high prices for lumber continued to plague builders.

Manufacturing

On balance, manufacturers reported little or no change in activity during the current period. In our COVID-19

survey, manufacturing firms began the period with sales and new orders of about 11 percent below what had been anticipated pre-pandemic. Firms reported that demand was about 14 percent below expectations as of the end of July.

In contrast, positive but low diffusion indexes for shipments and for new orders from a mid-August survey suggested the possibility of slight growth. However, both indexes had fallen since mid-July, indicating that growth was less widespread among firms and that the overall direction of change was less certain.

Consumer Spending

On balance, nonauto retail sales leveled off over the period – remaining below expectations by 5 to 20 percent, depending on the retail segment (restaurants would be lower). Contacts continued to note some pickup in market share as some of their competitors had closed permanently. Most restaurants are cobbling sales together from a mix of sit-down dining, takeout/delivery, catering, and groceries. A heavy reliance on outdoor seating has contacts nervous as colder weather approaches.

Demand remained strong for auto sales; however, low inventories kept new car sales steady at levels about 15 percent below the prior year. However, prices rose and used car sales were strong, so dealer profits were also stronger and sometimes record-setting.

Tourism picked up slightly, following a partial recovery last period. However, overall activity was about 40 percent below prior-year levels. Contacts described good activity at open-air resort destinations but still less than in recent years. Attractions, business travel, and urban destinations remain depressed.

Nonfinancial Services

Nonmanufacturers reported a slight increase in activity, but levels remained well below pre-pandemic expectations. In our COVID-19 survey, nonmanufacturing firms began the period with demand about 23 percent below what had been anticipated; this improved slightly to 21 percent below expectations as of the end of July.

Financial Services

The volume of bank lending continued to hold steady over the period, in contrast to the same period in 2019, during which loan volumes continued growing moderately. Residential mortgages grew moderately during the period, and auto loans and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in commercial and industrial loans. Credit card volumes continued falling moderately; last year, they rose moderately over the same period.

Banking contacts continued to report that government stimulus and moratoriums on evictions and foreclosures had worked well for most households and businesses. Many creditors have already resumed payments. However, there was universal concern about the outcome once stimulus measures and protections end.

Accountants and attorneys agreed. With moratoriums in place on foreclosures and evictions, the most serious consequences, thus far, had been a rise in corporate bankruptcies, especially in retail and hospitality. There were also reports of small business closings, but these are difficult to catalog and some simply shut their doors without leaving a trace. However, they expect a wave of foreclosure/eviction cases when the moratoriums end.

One attorney noted that banks were working with clients to form new payment plans. However, he said that collection rates have gone down significantly and “at some point, defaults need to happen.” Attorneys and accountants worried that clients were too complacent – believing that another round of assistance would occur. Others noted that increasing numbers of apartment tenants and small businesses had begun skipping payments. Several contacts at one law firm agreed that “this is a disaster waiting to happen.”

Real Estate and Construction

Homebuilders reported modest growth in sales activity that has kept contractors busy at levels comparable with recent years and created problems securing lumber and labor. Existing home sales grew moderately – July sales had returned to levels comparable with the prior year. Contacts described very strong demand – driven by low interest rates and well-heeled consumers searching for more space. However, inventories continued falling, driving prices higher and constraining potential sales growth.

Philadelphia’s commercial real estate construction grew modestly and leveled off at about 15 percent below the level of activity anticipated before the pandemic. Crew-size reductions for worker safety are the primary reason, but the pipeline for projects beyond the first quarter of 2021 is thin. Commercial office leasing activity declined slightly, as firms continued to delay decisions while many workers remain remote and potential layoffs lie ahead. Demand remains strong for warehousing and positive for life science activities, but weak for retail space. ■

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