Summary of Economic Activity

Third District business activity fell severely during the current Beige Book period, as the COVID-19 pandemic gripped the mid-Atlantic region. From March 19 through March 24, our three states ordered all nonessential businesses to close; by April 1, statewide stay-at-home orders were in place. As of March 29, over two-thirds of the firms reported that their new orders (or sales) had fallen in excess of 5 percent – one-fifth in excess of 30 percent – and one-fourth had shut down. Declines varied by sector; none were spared. Manufacturers were more likely to be essential and operating, but some closed after employees tested positive. Firms furloughed or laid off workers in record numbers. Still, contagion fears and at-home child care needs contributed to no-shows at existing jobs and kept workers from filling open jobs. The wage path is unclear – some firms offered hardship pay, while others imposed salary cuts. Price pressures eased as oil prices cratered and demand slumped. Uncertainty clouds outlooks as firms wait for the COVID-19 threat to subside.

Employment and Wages

Employment contracted sharply. At the end of March, one-fourth of the firms reported that they had shut down – a few shutdowns were permanent. In other responses to the crisis, one-half of the firms ceased all hiring. Employee furloughs, reductions of temporary or contract workers, and reductions of employees’ average work hours were mentioned in equal measure by one-fourth of the firms.

On average, payrolls of staffing firms’ placements appear to be down 40 to 50 percent across the District. Even business associated with essential food manufacturing and distribution was down over 10 percent. A Pennsylvania contact noted that a food manufacturer shut down for two weeks after an employee tested positive. Some staffing firms have trimmed their own staff; others have guaranteed staff full pay through June.

Multiple staffing contacts and firms from varied sectors reported that rising layoffs have not made it easier to attract and retain labor. Contagion fears and at-home child care needs have led some workers to stop showing up for work; those concerns plus unemployment benefits are also keeping workers from seeking other jobs.

Firms have reported a mix of wage strategies. Some firms reduced pay for their executives and/or managers; some issued annual raises and bonuses early. Other firms have added “appreciation” pay or “hazard” pay for hourly workers who must still report to work. Many salaried workers can telecommute – three-fourths of the firms noted an increase in their use of telecommuting. Contacts expect wage growth to moderate in the future.

Prices

In contrast to wages, firms were more unified in their belief that prices were stabilizing, if not falling. At mid-March, firms reported moderating prices compared with the prior period. Since then, prices have eased further. Aside from occasional price gouging, most commodity prices have stabilized; some construction materials have begun to fall. Contacts pointed to low oil prices and slumping demand as factors supporting their expectations that prices would moderate further.

Manufacturing

As March progressed, manufacturers reported weaker new orders – resulting in a moderate overall decline. At mid-March, one-half of the firms reported no change; of the remainder, twice as many noted decreases as noted increases. By the end of March, one-third of the firms reported no change; of the remainder, five times as many noted decreases (or shutdowns) as noted increases. Almost one-fifth of the firms saw orders drop by more...
than 30 percent of prior expectations. Nearly one in 10 firms shut down.

According to several firms with global perspectives, supply chain issues with China have eased, and China is mostly back to work. One contact did note that a few plants shut down again, as demand from foreign customers waned. These contacts noted substantial declines of demand in southern Europe and several weakening sectors across the U.S., including oil field services, light metals, and food production and distribution that was oriented toward restaurants and group dining facilities.

**Consumer Spending**

Nonauto retail sales plummeted, as a majority of retail stores and restaurants closed, plus essential stores and takeout restaurants faced limited demand under statewide stay-at-home orders. One food and beverage chain furloughed 700 employees without pay or benefits; another lost 90 percent of its usual sales overnight – it hopes to grow its takeout service to recoup a fraction of its sales. Two food-oriented retail chains were able to stabilize sales with losses of 30 percent or less.

Sales of new and used cars appear to have fallen by as much as 50 percent from February to March. From March 19 through March 26, our three states ordered dealers to stop sales, although they permitted selling parts and servicing vehicles. Delaware and New Jersey subsequently allowed limited sales.

Tourism has virtually stopped. A majority of hotels, resorts, and attractions have reported closing and laying off tens of thousands of employees. Most of Atlantic City’s 26,450 casino workers were laid off when the casinos were shut down. As of March 28, a tourism analyst estimated that weekly travel spending had fallen 80 percent in New Jersey and Pennsylvania, and 70 percent in Delaware.

**Nonfinancial Services**

Like manufacturers, broad service sectors also reported weaker new orders/sales as March progressed – resulting in a severe overall decline. At mid-March about one-fourth of the firms reported no change; of the remainder, one and a half times as many noted decreases as noted increases. By the end of March, a tenth of the firms reported no change; of the remainder, six times as many noted decreases (or shutdowns) as noted increases. Almost one-fifth of the firms saw orders drop by more than 30 percent of prior expectations. Nearly one in three firms shut down.

**Financial Services**

By March 25, reports from financial firms were starting to show signs of financial stress among firms and households. Volumes of credit card debt and of auto loans began falling after March 11. In contrast, over the same two weeks, volumes grew rapidly for two lending categories in which firms and households are able to draw down on or request extensions of existing lines of credit: commercial and industrial loans and home equity lines.

Commercial real estate lending and home mortgages did not appear to be impacted yet. Bankers and brokers indicated that most deals that were already scheduled were completed. However, contacts expect fewer deals to be brought to the table going forward.

Banking contacts were busy negotiating loan modifications and loan deferrals, while deciphering new Small Business Administration rules and other programs available in the Coronavirus Aid, Relief, and Economic Security Act recovery package, as fast as the regulations were being written. The bankers stated that liquidity was not a problem but would be a concern if the shutdown dragged on.

**Real Estate and Construction**

Homebuilders were sidelined in Pennsylvania, but construction continued in Delaware and New Jersey. Nevertheless, projects were slowed by supply disruptions, transactions that were complicated by disrupted local government services, and a reluctant workforce facing contagion fears. Buyers have not canceled existing contracts, but new orders are nonexistent.

Real estate firms also noted extra hurdles with title work and inspections required to close transactions. However, most scheduled closings were finalized. Showings and sales have dropped off considerably in Pennsylvania despite switching to virtual showings. Contacts note that activity has held up in Delaware.

Philadelphia’s commercial real estate construction fell 70 percent by the end of March – some contractors have no projects. After initially being shut down in Pennsylvania, commercial construction was allowed an exemption. Unfortunately, worker attendance is less than 50 percent on some projects. On the commercial leasing side, tenants are seeking lower rents, whether they need it or not. As with residential construction, deals already in the works have been finalized, but fewer new projects are coming forward now.

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