Summary of Economic Activity

Third District business activity continued to fall sharply during the current Beige Book period, as the COVID-19 pandemic persisted across most of the mid-Atlantic region. Statewide stay-at-home orders and mandated closures of nonessential businesses remained in place for most of the current period. Economic contraction continued at a moderate or steep rate for manufacturing, services, and most consumer sectors; tourism fell modestly further to a near zero-level. Real estate sector activity was mixed. Firms continued to furlough or lay off workers even as Paycheck Protection Program (PPP) loans surged onto banks' ledgers. The wage path remains unclear, although downward pressure may emerge once hardship pay is no longer needed. Prices fell modestly, as lower demand and low oil prices prevailed. As mandated closures begin to lift, firms are hopeful that business will resume. However, contacts are uncertain how fearful consumers will be while the COVID-19 threat remains and how freely consumers will spend after the threat lifts.

Employment and Wages

Employment continued to contract sharply. By mid-April, over half of the firms reported that employment had declined. A greater percentage reported a shorter average workweek. By the end of the period, about eight percent of the firms in our weekly survey reported that they had shut down. In other responses, almost 40 percent ceased all hiring and 25 percent reported employee furloughs and reductions of employees' average work hours.

Staffing firms reported that activity was down in a range from 35 percent to 50 percent. One contact observed that over the course of a day, a recruiter might make 40 calls to prior job candidates, speak with four, and hire one. In our weekly survey, just 10 percent of the firms reported that they had recalled furloughed workers. When asked about impediments to recalling workers, 33 percent of the firms noted fear of infection and 25 percent noted lack of childcare; overcoming the lure of expanded unemployment benefits was noted by 29 percent of the firms.

The path of wages continued to be unclear, as firms offered mixed reports of various wage strategies. Some firms are still paying premiums to attract and retain frontline workers. Other firms were forced to cut wages, hours, and overtime in order to survive. In mid-April, over one-third of the nonmanufacturing firms reported decreases in wage and benefit costs.

Prices

On balance, more contacts reported lower prices rather than higher during the period, except for spikes associated with scarcity and hoarding. However, well over half of all firms noted no change in prices.

Falling demand and lower prevailing oil prices were cited as factors for generally lower prices. Price spikes were noted for fresh fruit. A Pennsylvania homebuilder observed that the sector's shutdown had compressed backlogs and increased short-term demand for materials. An analyst for the transportation services sector noted that after having cut capacity in prior downturns, firms sometimes took the position expressed by one, "I'm not adding people, I'll take it in price."

Manufacturing

According to manufacturing contacts, the contraction became broader and steeper during the current period. At mid-April, about three-fourths of the firms reported decreases in shipments and in new orders.

By the end of the period, three-fourths of the firms in our weekly survey reported that sales or new orders were down by greater than 5 percent of expectations prior to
the pandemic; one-third reported decreases in excess of 30 percent or had shut down.

According to several firms with global perspectives, supply chain problems have shifted from China to Mexico. One contact observed that Europe and the U.S. will not recover as easily from the pandemic as China did and that many facility investments in the U.S. have been delayed. A key supplier noted that U.S. manufacturing activity is down nearly 20 percent and “moving sideways now.”

**Consumer Spending**

On balance, nonauto retail sales declined further, but the pace of decline was moderate, not steep as before. Where possible, retailers and restaurants have further ramped up delivery and take-out services. However, the first clutch of many anticipated restaurant closings was announced in the Philadelphia area as the period ended.

Sales of new and used cars fell sharply again this period, but by early May, dealers and customers became more accustomed to online sales, which partially offset the steeper April decline. Sales, service, and profits are far below prior-year levels.

After a full six weeks at a near standstill, tourism was modestly lower than the average of the entire prior period. A majority of hotels, resorts, and attractions remain closed. As of May 9, a tourism analyst estimated that weekly travel spending was down nearly 90 percent from prior-year levels in Pennsylvania, and down about 85 percent in Delaware and New Jersey. Only as this period drew to a close were a few more attractions, such as beaches and golf courses, beginning to reopen.

**Nonfinancial Services**

Even more so than manufacturers, a broader cross section of service sector firms reported declining new orders/sales in the current period than before – resulting in another severe overall decline. At mid-April, almost nine-tenths of the firms reported decreases of sales or revenues, and two-thirds of the firms reported decreases of new orders.

By the end of the period, over 70 percent of the firms in our weekly survey reported that sales or new orders were down by greater than 5 percent of prior expectations; nearly 40 percent reported decreases in excess of 30 percent or had shut down.

**Financial Services**

The volume of bank lending grew rapidly over the period as commercial banks originated an enormous number of new loans to firms under the PPP. However, demand for consumer loans diminished and partially offset the PPP loan growth. Auto loans and other consumer loans fell moderately and steadily throughout the period; credit card volumes fell sharply throughout. By comparison, commercial and residential real estate lending trended about the same as in the same period one year ago.

Banking contacts noted increased optimism among their clients after PPP loans had been widely disbursed. Our weekly firm surveys also reflected increasing optimism from early April, when 28 percent of the firms were very concerned about maintaining solvency over the next month, and early May, when 18 percent of the firms were very concerned. Bankers noted that existing aid, loan extensions, and forbearance would carry most firms for the next three to six months, but problems may arise in the third quarter. Contacts most often noted hospitality and hospitals among the sectors of greatest concern.

**Real Estate and Construction**

Homebuilders maintained a lower level of construction activity similar to the end of the prior period, and Pennsylvania builders began restarting in early May. Builders noted that they were slowly converting most of their prior deposits into final contracts, but they were seeing too little traffic to sustain future activity.

Existing home sales declined sharply. Real estate contacts reported that potential sellers showed little interest in listing, much less showing, their homes, and fewer buyers were in the market. Brokers noted that credit markets were tightening and that interested buyers tended to be younger.

Philadelphia’s commercial real estate construction grew slightly at lower levels as some projects started back up in early May; however, some sites chose not to restart, and other projects are slowing delivery. Contacts noted a decline in new plans and little commercial construction financing. “None of our normal metrics apply,” an analyst stated of the commercial sales/leasing market, which continued a modest decline. April rent collections, which were down somewhat for office and industrial space, were down significantly for retail space. ■