Summary of Economic Activity

Third District business activity expanded moderately during the current Beige Book period but remained far below levels observed prior to the onset of the COVID-19 pandemic. Business operations resumed or increased, as lower COVID-19 caseloads prompted states to phase out stay-at-home orders and mandated closures. As firms recalled some of their workforce, net employment also grew moderately; however, firms continued to issue permanent layoffs as well. More firms have noted salary reductions than increases. Meanwhile, contacts noted difficulties attracting workers despite high unemployment rates. Prices edged higher, as a fitful economic restart generated spotty price spikes. Modestly positive expectations for growth over the next six months have broadened among firms; however, uncertainty remains high, as contacts cite the duration of the pandemic and the depth of the ensuing recession as key unknowns.

Employment and Wages

As firms reopened and recalled workers, overall employment rebounded moderately. However, these net gains masked a small, steady stream of permanent layoffs. By mid-June, a modest percentage of firms reported that employment had declined over the month. Since then, an average of 11 percent of the firms in our weekly surveys reported that they had recalled furloughed workers in the prior week; 19 percent had hired new workers – sometimes to replace those who would not return to work. Meanwhile about 6 percent of the firms reported that they had furloughed workers, and another 4 percent reported that they had laid off workers permanently.

Staffing firms reported that activity was increasing but remained off pre-pandemic levels – sometimes as much as 40 percent. Despite elevated unemployment rates, firms often described the labor market as tight. By late June, almost half of the firms in our weekly survey reported that they faced no impediments to hiring workers. However, the remainder did note challenges.

Among nonmanufacturing firms, an equal 30 percent share of the contacts noted fear of infection, childcare needs, and expanded unemployment insurance (UI) benefits, respectively, as impediments. According to manufacturers, their workers tended to be less concerned about the virus but more attracted to the UI benefits than their nonmanufacturing counterparts. In the Philadelphia metro area, contacts noted reluctance from their transit-dependent workers to return to work or end telecommuting.

Wages appeared to trend slightly downward. In mid-June, the percentage of nonmanufacturing firms reporting lower wage and benefit costs was slightly higher than the percentage reporting higher costs. To trim expenses, more firms noted cutting salaries (with or without cutting hours). Most firms ended or were phasing out pay premiums to attract and retain frontline workers. Staffing firms noted that the lowest wage rates were holding steady, or rising slightly, but observed that clients, especially in parts of Pennsylvania, were still shifting their firm’s wage structure toward a market-driven minimum that is about double the state minimum wage.

Prices

On balance, more contacts reported higher prices rather than lower during the period, except for prices received by nonmanufacturers. However, well over half of all firms noted no change in prices.

Rising prices were most often described as spotty, rather than general. Firms noted price spikes for disparate items, such as ground beef and food service containers. Contacts cited disruptions in the market’s normal supply
and demand relationships, plus supply chain disruptions, including transport logistics, as factors.

**Manufacturing**

Manufacturers reported a modest rebound in activity during the current period. At mid-June, over 40 percent of the firms reported increases in shipments and in new orders, while about 20 percent reported declines. When asked to estimate their total production changes, the median firm response was 25–30 percent lower for the second quarter compared with the first quarter of the year.

In our weekly survey, manufacturing firms began the period with sales and new orders of about 30 percent below what had been anticipated pre-pandemic. At the end of June, firms reported estimated demand about 18 percent below expectations.

**Consumer Spending**

On balance, non-auto retail sales rebounded moderately. However, the gains were distributed unevenly among retailers and restaurants. Some businesses have closed and some survivors have been picking up the market share the former leaves behind, but nearly all survivors report working harder to maintain a profit margin.

Sales of new and used cars rebounded moderately during the period. Some Pennsylvania dealers noted record sales for June but acknowledged that some of those sales may reflect pent-up demand.

Tourism has rebounded sharply in beach areas and mountain resorts for businesses that are permitted to reopen. Business travel and urban destinations remain largely inactive. Overall, activity remains more than 50 percent below prior-year levels.

**Nonfinancial Services**

On balance, nonmanufacturers reported a moderate rebound in activity, but the activity remains well below pre-pandemic expectations. In our weekly survey, reported demand of nonmanufacturing firms had already improved from an early-April low of 48 percent below pre-pandemic expectations to 30 percent below at mid-May. By the end of June, firms reported estimated demand was 22 percent below expectations.

**Financial Services**

The volume of bank lending held steady over the period in contrast to the same period in 2019, in which loan volumes grew moderately. Commercial and industrial loans, residential mortgages, and auto loans grew moderately during the period, and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in home equity lines and other consumer loans. Credit card volumes also fell moderately.

Banking contacts noted generally increased optimism among their clients – that Paycheck Protection Program loans, loan deferrals, and other assistance had supported many businesses well. However, one banker cautioned against a false sense of security. Most bankers noted that the third and fourth quarters will tell, as deferrals run out and businesses must begin to meet their loan obligations. As of late May, 16 percent of the firms in our weekly survey indicated that they were very concerned about maintaining solvency; 22 percent were somewhat concerned.

**Real Estate and Construction**

Homebuilders reported steadily improving traffic and sales that reached a moderate pace of growth. Contacts cited various contributing factors, including low interest rates, a desire for more elbow room, pent-up demand from prior months, and a lack of the usual competition from May/June weddings and graduations.

Existing home sales may have increased slightly. Although year-over-year sales in May were down sharply, pending contracts had improved. Real estate contacts reported that early estimates of June sales were stronger, but that recent gains may reflect pent-up demand from months during the shutdown.

Philadelphia’s commercial real estate construction grew modestly from low levels as more projects restarted. An engineering firm noted that many municipal projects have been shelved, as tax revenues and tolls have fallen. Commercial leasing activity continued to decline modestly, as firms are taking more time to reassess their space needs. Some firms will extend leases when possible to afford more time to understand the changes wrought by the COVID-19 pandemic on demand for their products, their workforce efficiency, and telecommuting’s long-term potential. Demand for retail space is in sharper decline.

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