Summary of Economic Activity

Third District business activity incrementally improved during the current Beige Book period but remained well below levels observed prior to the onset of the COVID-19 pandemic. The number of COVID-19 cases had been manageable but began rising late in the period. Net employment continued to grow modestly, but the rate of permanent layoffs has persisted as well. On balance, wages continued to grow slightly, and many contacts continued to report difficulties attracting workers. Prices rose modestly – driven primarily by price spikes amid disruptions to production and distribution. Modestly positive expectations for growth over the next six months have broadened among firms. However, extreme uncertainty is uniformly expressed, with contacts citing rising COVID-19 cases, colder weather, rising layoffs, the failure to renew stimulus measures, a divisive political climate, and the consequences after moratoriums on evictions and foreclosures expire.

Employment and Wages

Employment increased modestly overall as firms continued hiring; however, recalls ebbed for previously furloughed workers, while new furloughs and permanent layoffs persisted. Among firms responding to our COVID-19 survey, 35 percent reported that they had hired new workers in September – up from 31 percent in August and 25 percent in July. Likewise, our mid-September surveys indicated somewhat stronger hiring among all types of firms than in the prior month.

Recalls of furloughed workers have slowed – to 5 percent in September from 13 percent in July. Meanwhile, the share of firms issuing permanent layoffs edged up to 7 percent in September from 6 percent in July, while the share issuing new furloughs edged down to 5 percent from 6 percent.

Staffing firms reported that activity continued to increase but tended to remain below pre-pandemic levels by 10–15 percent. Staffing contacts continued to note more orders than they can fill with available labor. In our COVID-19 survey, fewer firms noted impediments to hiring in late September than in late August. Lack of childcare and expanded unemployment benefits were cited by just over one-fourth of the firms, while fear of infection was cited by just under one-fourth. One manufacturer noted that it has provided onsite childcare for over 25 years – largely removing that barrier. Some firms continue to note offering wage and benefit packages sufficient to retain their workforce with little turnover.

Wages continued to grow slightly. In mid-September, the percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, nearly two-thirds of the firms reported no change.

Prices

Prices appeared to rise modestly, as about 25 percent of all contacts reported higher prices for their own goods and services and for their inputs to production. However, over 60 percent of all firms noted no change in prices. Most contacts were not worried about rising inflation. Instead, contacts continued to describe scarcity, delays, and spotty price hikes because of intermittent demand shifts, production disruptions, and logistics problems. Contacts noted that California wildfires have caused food prices to spike; builders continued to note numerous prices hikes (and delays) for lumber, appliances, and other critical inputs.

Manufacturing

On balance, manufacturing activity has grown slightly since the prior period but may have leveled off during
September. At the end of July, manufacturing firms responding to our COVID-19 survey reported that sales and new orders were about 14 percent below what had been anticipated pre-pandemic. At the end of August and September, firms reported demand was about 8 percent below pre-pandemic expectations.

Diffusion indexes for shipments and for new orders from our mid-month surveys also suggested growth. Both indexes had risen since mid-August, indicating that growth was more widespread among firms and that the overall direction of change was positive.

**Consumer Spending**

On balance, nonauto retail sales improved incrementally over the period but remained below contacts’ pre-pandemic expectations by 5–10 percent, depending on the retail segment (restaurants were on the low end or lower). Restaurants continue to survive with a mix of sit-down dining, takeout/delivery, catering, and groceries. Contacts anticipate weaker sales in the coming winter months.

Strong demand persisted for auto sales – new and used; however, inventory constraints limited new car sales to modest growth. Still, new car sales were less than 5 percent below the prior year, which marked a significant improvement. Dealers did note that they are seeing more credit-challenged customers, resistance from bank lenders, delinquencies, and repossessions.

Tourism changed little compared with the prior period as a whole but did grow softer with the move from summer to fall. In the first half of August, activity had improved to about 39 percent below prior-year levels but was averaging 47 percent below in late September. Contacts described mixed results for the summer: Rental homes were doing well, while some hotels struggled, and some restaurants were busy, while others never reopened. Attractions, business travel, and urban destinations remain depressed.

**Nonfinancial Services**

On balance, nonmanufacturing activity has grown slightly since the prior period, but mostly leveled off during September. At the end of July, nonmanufacturers in our COVID-19 survey had reported that sales and new orders were about 21 percent below what had been anticipated pre-pandemic. At the end of August and September, firms reported demand was 16.7 percent and 16.2 percent below pre-pandemic expectations, respectively.

Diffusion indexes for new orders and sales from our mid-month surveys also suggested slight growth. Both indexes had edged down since mid-August but remained positive, indicating that growth was slightly less widespread among firms but that the overall direction of change remained positive.

**Financial Services**

The volume of bank lending grew modestly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew robustly. Residential mortgages and other consumer loans grew moderately during the period, and auto loans and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in home equity lines and steep declines in commercial and industrial loans. Credit card volumes rose slightly; last year, they were essentially flat over the same period.

Banking contacts, as well as accountants and attorneys, noted little change in delinquencies or other credit problems. However, most remained concerned that significant problems would arise without renewed government stimulus and as moratoriums on evictions and foreclosures expire.

**Real Estate and Construction**

Homebuilders reported robust sales relative to a year earlier, while existing home sales grew modestly, as extremely low inventories continued to constrain sales. Builders and brokers alike noted that strong demand persisted because of low interest rates, a pandemic-driven desire for more space, and the emergence of more first-time buyers. Surging demand has enabled builders to raise prices to cover rising labor and commodity costs. For brokers, surging demand has spurred multiple offers and higher house prices for the limited available homes. Banking contacts are becoming wary of appraisals, and some appraisers are beginning to balk at the higher prices.

Activity in Philadelphia’s commercial real estate construction sector essentially held steady at about 10–15 percent below the level of activity anticipated before the pandemic. Production remains constrained by crew-size reductions for worker safety. Commercial office leasing activity continued to edge lower. With many workers remote and potential layoffs ahead, firms continued to delay leasing decisions; some are terminating leases. Demand remained strong for warehousing and positive for life science activities, but weak for retail space.

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