Summary of Economic Activity

Aggregate business activity in the Third District resumed a modest pace of growth during the current Beige Book period — a bit stronger than during the prior period — but reports were mixed by sector. Manufacturing, nonfinancial services, new home sales, and tourism grew modestly; nonresidential construction and leasing appeared to grow slightly; nonauto retail sales and new home construction activity exhibited essentially no growth; and auto sales declined modestly. These trends were an improvement over the prior period for nonauto retail sales, new home construction, and nonresidential construction and leasing; they were less positive for manufacturing and more negative for auto sales. On balance, employment, wages, and prices continued to grow at a modest pace. Overall, firms appear to anticipate continued modest growth over the next six months with a somewhat larger percentage of firms expecting growth.

Employment and Wages

Employment has continued at a modest pace of growth, although reports of net additions to staff were somewhat less than the prior period for both manufacturing and nonmanufacturing firms. Average hours worked also dipped over the period for manufacturing firms but held steady among nonmanufacturers.

On balance, wage growth held steady at a modest pace. Staffing firms and other contacts generally reported steady wage growth and an occasional lack of labor availability for specific jobs. In particular, Pennsylvania staffing firms continued to note difficulties finding qualified, committed workers, while demand for labor continued to grow. One staffing firm added to its own staff in order to keep pace.

Prices

On balance, price levels rose modestly. Although reports were mixed, over two-thirds of the contacts responding indicated no change at all in prices paid and prices received. Prices appeared to hold firmer for raw inputs to and intermediate goods from manufacturers, while fewer firms reported increases for prices received for their own goods sold.

Retailers and banking contacts generally noted no signs of inflation, while homebuilders continued to report high lumber costs. Overall, existing home prices continued to edge up with some variance across markets and price categories.

Looking ahead one year, firms anticipate a 2.25 percent increase in prices received for their own goods and services — unchanged from one quarter prior. Firms also reported expectations of nearly 2.6 percent annual inflation for consumers — a bit higher than last spring.

Manufacturing

On balance, manufacturing firms edged back to a modest pace of growth in general activity after nearly six months at a moderate pace. Firms reported somewhat slower overall growth of new orders and shipments than during the prior period; however, growth rates appeared to begin picking up late in the period.

The makers of paper products, chemicals, fabricated metal products, industrial machinery, and electronic products continued to note gains in new orders and shipments; firms in the lumber and primary metal sectors reported declines in activity.
Generally, manufacturing contacts continued to expect growth over the next six months. The percentage of firms expecting future increases rose for general activity and capital expenditures, and held steady for employment.

**Consumer Spending**
As physical stores continued to struggle, nonauto retail contacts reported little change in sales, on balance — an improvement over the modest declines of the prior period. In late reports from traditional malls, declining apparel sales pulled overall sales negative in June, although remaining segments were up. An outlets operator reported a summer resurgence and good back-to-school sales through the current Beige Book period. Convenience store contacts noted a “tough” July and a weak start to August.

Auto dealers throughout the region reported that the slight year-over-year sales declines of the prior period had deepened to a modest rate during the current period, although the level of sales remains high. Prices are very competitive and manufacturers are providing significant dealer incentives to move inventory. Dealers expect manufacturers to back off production next year.

Tourism held steady at a modest pace, although mountain resorts appeared to make greater gains than the shore locations this summer. Strong gains were reported from the Poconos and from Amish country, while a Delaware shore contact noted concerns about shorter stays and more cautious spending, and Atlantic City’s July casino revenues fell relative to July 2016. A Philadelphia analyst noted that demand exceeded expectations, locally and nationally, and that international tourism seems to have held steady.

**Nonfinancial Services**
Service-sector firms continued to report modest growth in general activity for the period as a whole, but as with manufacturers, reports of sales and shipments began to strengthen late in the period. Expectations about future growth have increased somewhat since the prior Beige Book period and remained positive with nearly 60 percent of the firms anticipating increased activity.

**Financial Services**
Financial firms reported modest growth of overall loan volumes (excluding credit cards) — a bit faster than the slight growth that had occurred during the prior Beige Book period. Auto loans and other consumer loans exhibited moderate growth in loan volume. Commercial real estate and mortgages grew modestly, while home equity loan volumes were essentially flat. Commercial and industrial loan volumes declined again. Credit card volumes are highly seasonal — they grew at a modest rate during this Beige Book period, but at a somewhat higher rate in the comparable year-ago period.

Banking contacts tended to describe economic growth as slow and steady. Several noted a small increase in shale gas drilling activity; others pointed to gains stemming from renewed global activity. On balance, loan portfolios were considered healthy, with low delinquencies and no significant signs of concern.

**Real Estate and Construction**
Homebuilders generally reported little change in a market that has oscillated between slight growth and slight decline in activity in recent months. The four weeks around Labor Day are typically slow for traffic and contract signings. Production problems continued to include labor availability, labor costs, and lumber prices.

Brokers in most major Third District housing markets continued to report modest growth of existing home sales, but no increase of inventories. Several contacts noted a pickup of second home purchases in vacation areas, but this trend appears modest so far.

Nonresidential real estate contacts reported slight growth in construction activity, which had been flat last period; individual markets do vary by sector and geography. Leasing activity also appeared to grow slightly, at best. One contact reported that the industrial market was holding up nicely, but that two spec buildings have taken longer to lease up than has been the case recently. Contacts also reported that the Philadelphia office market was getting tighter, with steady demand being met mostly by changing space utilization and shifting locations within the region’s footprint rather than by new office construction. The rental market is shifting in favor of landlords.

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