Summary of Economic Activity

On balance, aggregate Third District business activity resumed a slight pace of growth during the current Beige Book period following a brief pause in the prior period. Nonfinancial services accelerated a bit to a modest pace of growth, while manufacturing, homebuilding, and tourism resumed a slight pace of growth. Consumer spending continued to grow slightly for nonauto retail goods and held steady for autos. Weak global demand and trade uncertainty continued to constrain firm growth and prompt inventory adjustments. Labor demand continued to exceed supply in most sectors, which constrained employment growth to a modest pace, increased search times, and spurred moderate wage increases. Overall, price pressures remained modest. The firms' outlook for growth over the next six months remained positive but edged lower overall, with about half of all firms anticipating increases in general activity and a third expecting no change.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. Just one-fifth of the manufacturing firms reported an increase in staff, while about two-fifths of nonmanufacturing firms noted increases. Average hours appeared to expand somewhat among most firms.

Contacts continued to report that tight labor market conditions were constraining growth. One staffing firm noted that firms struggled to staff extra shifts. Another contact reported that restaurants had lost workers who had returned to their home countries. While most manufacturing firms also noted difficulty in finding labor, two firms said it "just takes longer," two more reported successfully attracting employees and reducing turnover by increasing wages and other benefits, and another firm noted that Pennsylvania has good labor availability.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases averaging about 3 percent. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged up to 45 percent. However, several contacts noted that the pace of wage growth had slacked off a bit.

Prices

Price increases remained modest for most firms. The share of manufacturing firms reporting increases in prices paid and prices received edged lower to about 25 percent; however, the share of nonmanufacturing firms reporting increases rose. Most banking contacts continued to note few signs of inflation.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs rebounded to 55, and the share of firms expecting to receive higher prices for their own goods rose to nearly 40 percent.

Manufacturing

On balance, manufacturers reported a slight increase in activity after noting no change in the prior period. The percentage of firms that reported increased shipments rose, easily outpacing the percentage reporting decreases. However, the percentage of firms that reported increased new orders was only a tad higher than the percentage reporting decreases.

The makers of primary and fabricated metal products and of industrial equipment tended to note gains in new orders and shipments; the makers of chemicals, paper products, and electronic products noted some weakness or declines since the prior period. Overall, the majority of these sectoral trends for this period were weaker than those reported for the same period last year.

Comments on current business conditions were mainly negative and often cited decreased global demand. One firm noted that customers were taking longer to pay. One large firm reported that its input costs continue to rise as more and more suppliers pass on their tariff costs. In addition, this firm noted that it has cut back on hiring because of tariff uncertainty. Another contact noted that one small builder had stockpiled a three-year supply of nails.

Manufacturers continued to expect general activity to increase over the next six months. However, expectations were somewhat lower this period, as were expectations of shipments, new orders, and planned capital expenditures. Expectations of future employment held steady. On balance, expectations for each of these indicators were below their historic nonrecession averages, except for capital expenditures, which remained on par.

Consumer Spending

On balance, nonauto retailers continued to report slight growth. Store traffic was much better in March than in February on a year-over-year basis, although several winter storms had reduced March sales in 2018. Contacts noted that leasing activity seems stable and reasonable.

Auto sales continued at high levels, but reports were mixed. In Pennsylvania, dealers reported strong year-over-year growth for March and for the first quarter, but they had reported comparable declines for the same periods last year. New Jersey dealers reported declining sales for March, but sales were flat for the first quarter.

Tourism activity picked up slightly as the winter season drew to a close. One contact noted that a late winter snowstorm had moved ski resorts above budget, while a high-end shore hotel had its best February ever. Most contacts were optimistic for the coming summer season.

Nonfinancial Services

On balance, activity at service-sector firms picked up to a modest pace of growth, with a rise in the percentage of firms reporting increased current revenues. However, the share of firms reporting an increase in new orders changed little. One large firm continued to report no sign of deterioration in its accounts receivable. Although the percentage fell, more than half of the firms still expect future growth.

Financial Services

Financial firms reported an uptick to a moderate pace of growth in overall loan volumes (excluding credit cards) on a year-over-year basis, but a continuation of modest growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes grew robustly in commercial real estate loans and in commercial and industrial lending. Loans grew slightly for homes and autos. Home equity lines and other consumer loans (not elsewhere classified) declined.

A few contacts voiced concerns about looser lending standards; more noted overly aggressive pricing, especially on commercial loans. Overall, contacts continued to note few problems with credit quality. Bankers reported that they and their customers remained largely optimistic for the remainder of 2019.

Real Estate and Construction

Homebuilders reported an uptick in contract signings for March, putting them back on pace to nearly match 2018 levels of activity. Demand remains greatest for more affordable units. Builders noted that margins remain very thin and that land availability remains a constraint.

Existing home sales continued to decline moderately across most local markets. Sellers remain sidelined, and extremely low inventories continue to constrain sales.

On balance, commercial real estate construction and leasing activity continued to edge down slightly from relatively high levels. Contractors noted that activity was about the same, but the backlog is smaller, and design firms are less busy. Demand remained strong for industrial and warehouse space; however, absorption has become difficult in smaller markets with an insufficient supply of labor. ■

For more information about District economic conditions visit:
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