Summary of Economic Activity

On balance, aggregate Third District business activity strengthened further to a modest pace of growth during the current Beige Book period. Growth was characterized as slight in the prior period. Growth of manufacturing, nonauto retail sales, and tourism picked up to a modest pace, while homebuilding held steady and auto sales appeared to have fallen slightly. Contacts noted that tariffs continued to prompt concerns, induce uncertainty, and delay business investment. The labor market tightened further and continued to constrain employment growth and spur moderate wage increases. Overall, price pressures remained modest. The firms’ outlook for growth over the next six months remained positive and edged higher overall, with more than half of all firms anticipating increases in general activity and less than a third expecting no change.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. About one-fourth of all firms reported an increase in staff. This was a bit higher than last period for manufacturers, but lower than the previous period for nonmanufacturing firms. On balance, average work hours appeared to be flat to down across firms.

Most staffing firms noted that orders were flat to down through the first quarter and into the second. Some firms were beginning to see a pickup as the second quarter progressed. One firm suggested that uncertainty had prompted firms to delay hiring. Several firms, however, noted that finding workers remains difficult as the labor market continues to tighten and that this has continued to constrain their ability to expand.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases clustered around 3 percent. However, some firms noted that wage pressures had eased recently and that turnover rates had improved. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged back down to near 40 percent.

Prices

Price increases remained modest for most firms. The share of firms reporting increases ranged from one-fifth to one-third, while well over half of all firms reported no change in prices. The share of manufacturing firms reporting increases in prices paid rose but edged lower for prices received; these trends were reversed among nonmanufacturers. 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 edged down below 50 percent, while the share of firms expecting to receive higher prices for their own goods rose above 40 percent.

Manufacturing

On balance, manufacturers resumed modest growth in activity after noting a slight increase in the prior period. Shipments and unfilled orders are running a bit above long-term nonrecession averages; however, new orders are at typical levels.

The makers of lumber products, chemicals, fabricated metal products, and industrial machinery tended to note gains in new orders and shipments, while primary metal producers reported little change.
Tariffs remained a key concern for many manufacturers. Contacts noted that much of the impact from the initial 10 percent tariffs was absorbed along the supply chain before reaching the consumer. However, they expect much more of the impact from the 25 percent tariffs to be passed through to the consumer.

Manufacturers’ expectations of activity and of new orders over the next six months have changed little since last period and have generally remained below long-term nonrecession averages. Expectations for future shipments did rise somewhat, as did expectations of future employment and planned capital spending. The latter two indicators were above their historical nonrecession averages.

**Consumer Spending**

Contacts for malls and convenience stores reported modest growth of nonauto retail sales—a faster pace than the prior period. After some store brands closed in the first quarter, the surviving mall stores may have garnered higher sales. Convenience stores noted no signs of slowing and cited ongoing activity from early morning construction workers.

Auto sales remained at high levels, with signs of slight slowing. In Pennsylvania, dealers continued to report strong year-over-year growth through April, beating expectations and national trends, although April sales may have fallen off the pace set in the first quarter. Looking back to 2018, sales had been strong in the first quarter and then fell in April, so current comparisons are tougher than first quarter comparisons. In New Jersey, early estimates by dealers indicated a modest decline in year-over-year sales for April and May.

Tourism activity picked up to a modest pace of growth in the early spring with “blockbuster” growth noted in the Greater Philadelphia market. Bookings for the summer were described positively (ahead of the Memorial Day weekend), and more Canadians are showing up at the Jersey Shore. Concerns were expressed that consumers were digging deeper into their discretionary income to fund their travel and that uncertainty may be dampening business travel.

**Nonfinancial Services**

On balance, activity at service-sector firms continued at a modest pace of growth, although the percentage of firms reporting increases in current revenues and in new orders slipped somewhat. Numerous firms commented on the uncertainty of business conditions stemming primarily from tariffs and other political issues. Yet, one large firm noted no substantive signs of a downturn, and the percentage of firms expecting growth over the next six months rose to nearly two-thirds.

**Financial Services**

Financial firms reported a continuation of moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis and a continuation of modest growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in home mortgages and auto lending. Loans grew slightly for commercial and industrial lending. Commercial real estate loans, home equity lines, and other consumer loans (not elsewhere classified) were flat to down slightly.

Banking contacts continued to note looser lending standards and aggressive pricing but few problems with credit quality. Contacts in and out of the banking sector have noted that firms are now taking longer to pay (but without becoming delinquent); some suggest this may represent the relative value of money now that deposit interest rates are higher. Bankers and their customers continued to be bullish for the remainder of 2019.

**Real Estate and Construction**

Homebuilders noted no change in contract signings for early spring on a year-over-year basis after growing slightly last period. However, better weather this spring has been good for construction activity, and one builder noted that spec houses had sold well.

Existing home sales continued to decline moderately across most local markets. The spring sales season brought no relief to the falling inventory of new listings.

On balance, commercial real estate construction and leasing activity continued to edge back from relatively high levels, but contacts describe markets as healthy with room to grow for the remainder of 2019. Office and industrial markets were characterized with positive net absorption, stable vacancy rates, rent growth, and incremental new construction. ■