



Summary of Economic Activity

Aggregate Third District business activity edged back to a slight pace of growth during the current Beige Book period. Manufacturing slowed to a slight pace of growth, and financial services slowed to a modest pace. On balance, nonfinancial services continued growing modestly, but the pace seemed to ebb a bit. Nonresidential construction declined slightly after holding steady in the prior period. In contrast, homebuilders and auto dealers experienced slight-to-modest growth after a prior period of slight decline and no growth, respectively. Commercial leasing activity held steady, and sales of existing homes continued to decline at a moderate pace. Labor markets remained excessively tight throughout the District, and wages continued growing moderately. While contacts describe increased wage pressure, they continued to report slight employment increases. Overall, price pressures remained modest. The firms' outlook for growth over the next six months remained positive, though cautious, and broadened further among nonmanufacturing firms.

Employment and Wages

Employment continued to grow slightly during the current Beige Book period. About two-thirds of the nonmanufacturing firms and four-fifths of the manufacturers reported no change in staff. While the share of manufacturers reporting a higher number of employees fell, the share among the much larger nonmanufacturing sector rose somewhat. Average work hours have continued to edge down since the prior period at manufacturing firms but rebounded at nonmanufacturing firms.

The firms continued to report tight labor market conditions. Lack of available labor has constrained production and expansion plans, according to various manufacturing and service-sector firms. Staffing firms reported continued demand for new job placements from clients but an insufficient supply of qualified labor to fill the orders. Turnover rates are rising, and nonstandard shifts are most difficult to fill. One staffing contact noted that some clients simply canceled orders from the fall that had gone unfilled. Another noted that a new hire took another job during the firm's onboarding orientation.

On balance, wage growth continued at a moderate pace, and many contacts noted a resumption of rising wage pressure. One staffing firm reported that its wage rates were up 4 to 5 percent year over year. Another staffing firm noted that \$15 an hour was now the minimum re-

quired to attract workers for a manufacturing/warehousing job but that these workers were being drawn from other employers. On average, the share of nonmanufacturing contacts who reported increases in wage and benefit costs remained near 44 percent; just 3 percent reported decreases.

Prices

Most firms continued to report modest increases for both input prices and prices received for their own goods and services. However, the share of nonmanufacturers reporting higher prices paid rose significantly – well above its average. The share of firms reporting no change in prices rose to about three-fourths for manufacturers but fell to about half for nonmanufacturers.

Looking ahead six months, the anticipation of higher prices has broadened among manufacturers. About half of the firms expected higher prices; almost none expected prices to fall. This was true for prices firms expected to pay as well as for prices firms expected to receive for their own goods.

Manufacturing

On balance, manufacturers reported slight growth in activity – easing from the modest pace reported during the prior period. The percentage of firms reporting increases in shipments and new orders slipped to one-

third; the percentage reporting decreases also dipped for shipments but rose to one-fourth for new orders.

Comments remain mixed. Primary metals firms continued to note that some customers are beginning to source parts domestically again. However, downstream fabricators continued to note uncertainty, delayed or canceled expansions, and fewer orders from their customers. One contact did note that settling the new trade agreement with Canada and Mexico provided greater certainty and should increase some domestic production.

Manufacturers' expectations of activity over the next six months eased somewhat. Expectations of shipments and of new orders edged lower but remained above long-term nonrecession averages. Planned capital spending also fell, yet expectations of future employment increases rose.

Consumer Spending

Contacts for malls and convenience stores continued to report modest growth in nonauto retail sales. Although the holiday sales season began late this year, mall store operators noted that activity appeared strong from Black Friday through mid-December across most retail segments. Mall shoppers seemed to focus on a single store's promotion, then make return trips for other stores' sales. Contacts also noted that shoppers are increasingly returning their online sales to local stores, which has boosted mall traffic. Convenience store contacts continued to report modest sales growth and no lull in the morning coffee runs of construction workers. Retailers expressed positive outlooks for 2020.

Most auto dealers reported that sales were flat to up slightly, although the pace appeared to wane near year-end. Dealers noted that sales were stronger in more profitable segments, such as SUVs, than in sedans. The profitable used car market also remained strong. Early estimates of total 2019 sales growth were positive for most New Jersey and Pennsylvania dealers, and they expressed optimism for another good sales year in 2020.

Nonfinancial Services

On balance, activity at service-sector firms continued at a modest pace of growth. However, activity weakened a bit, as the percentage of firms reporting increases in new orders decreased significantly, while the share of firms reporting decreases in current revenues doubled. Proposed tariffs on European wine prompted an area merchant to stock up with over 35,000 cases to beat the February sanction and minimize price hikes. Over two-thirds of the firms – more than in the prior period – expect growth over the next six months.

Financial Services

Financial firms reported modest growth in overall loan volumes (excluding credit cards) on a year-over-year basis – a bit slower than in the prior period. Credit card lending also edged back to a modest pace.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly for home mortgages and commercial real estate, and modestly for other consumer loans (not elsewhere classified). Home equity lines and commercial and industrial loan volumes declined, while auto lending appeared flat.

Banking contacts continued to express few concerns over credit quality; however, one contact noted that mortgage delinquencies had ticked up but were still at good levels. Of greater concern was an observation that as interest rates fell, many homeowners took additional cash with their refinanced mortgages – raising the question for banking contacts of whether the cash was for additional investment or was taken out of necessity to pay down other debt. Most banking contacts remained optimistic about continued growth through 2020.

Real Estate and Construction

Homebuilders reported a pickup to modest growth in contract signings, noting ongoing strength in 55+ communities and renewed interest in the luxury market. Apartment and condo construction has helped offset the difficulty of building affordable single-family units.

Existing home sales continued to decline moderately on a year-over-year basis across most local markets, with exceptions of slight growth at the Jersey shore. Inventory constraints persisted. An area broker confirmed that potential listings of existing homes may be lost to investors converting houses to rentals and to developers razing houses, then rebuilding new units, to a greater degree than normal, especially in Philadelphia.

On balance, commercial real estate construction appeared to ease slightly, while leasing activity held steady – both at relatively high levels. Contacts reported continued strength in the industrial market, with ongoing demand for new construction; however, a few contacts noted that some warehouses are not being used to capacity. Most contacts remain optimistic about office space leasing and construction, but one noted that Philadelphia's construction activity has fallen slightly and may remain a bit below prior-year levels. ■

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