



Philadelphia area economy more positive than nation

By: DEBORAH YAO

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PHILADELPHIA - The economy performed better in the Philadelphia region in June and early July than in other parts of the country due to a less severe housing slump and improved manufacturing activity, according to a report released Wednesday.

The Philadelphia Federal Reserve Bank said economic conditions in eastern Pennsylvania, southern New Jersey and Delaware have improved. New orders and shipments in manufacturing rose while sales of upper-end retail goods and autos were up.

"It looks pretty good," said Steven Cochrane, senior managing director at Moody's Economy.com in West Chester. "It's the only Fed district that actually said economic conditions are improving."

The Philadelphia report is part of the Federal Reserve's widely watched Beige Book survey, named for the color of its cover, on regional economies. The survey provides a snapshot of the economy based on business activity information gathered by the Fed's 12 regional banks.

The findings will be considered at the Fed's policy-making meeting on Aug. 7 to decide on the direction of interest rates.

Nationally, the economy kept growing at a moderate pace in June and early July, as the housing slump continued.

"The optimism has been tamed a little bit," Cochrane said. "The housing market is still the strong weight on the economy as well as the related deterioration in household credit quality."

The Philadelphia region hasn't been hit as hard in housing because it never saw the stratospheric rise in home prices seen in places like Boston and parts of Florida, Cochrane said.

In the Philadelphia area, new manufacturing orders rose in July and the increase in shipments was the largest in the past six months. Order backlogs went up for the first time in a year.

Capital spending plans also rose. Lumber, petroleum, rubber and metal products manufacturers reported better business in July. Over half of manufacturers surveyed expect business to increase over the next six months.

In retail, luxury goods sellers posted double-digit growth and sales of moderate and upper-end goods also went up. Lower-end merchants didn't fare as well, with no sales growth on average.

Cochrane said lower-income consumers are constrained in spending because of problems in the subprime mortgage market and higher payments on adjustable rate mortgages as interest rates rise.

Auto sales improved in the second quarter from the first. While June sales were down, dealers expect July to improve because of new incentives from U.S. carmakers.

In banking, residential mortgage and personal loans posted no growth. Commercial real estate lending went up and delinquencies remained low. Industrial lending edged up.

Business services companies said they saw steady growth. Employment and temporary worker agencies said demand for employees has been on an upswing and should keep the pace in the third quarter.

Companies said raw materials prices and energy costs have been rising; they expect to pay higher prices in the next six months. Wages paid to employees went up moderately.