

Summary of Economic Activity

Some economists have revised, upwards, third quarter GDP estimates for the nation, while others are hedging optimism on the passage of further stimulus to aid the economy. Regardless, the local focus should remain on detecting where additional support is needed to aid segments of the business community and households hardest hit by the pandemic and vulnerable to a protracted recession.

September's local data continued the leveling off that started in July. The pace at which economic conditions are evolving appears to have slowed suggesting the recession will extend into next year. Businesses continued to report settling into this pandemic environment, with little significant changes in their operations and labor needs. Despite this calm, the strain on some portions of the economy – namely tourism (hotel) and entertainment (art and live events) and the companies that support their activities is taking a toll and calling into question how many can weather the ongoing revenue loss until their markets pick up.

With the slowed pace of recovery, we are looking to fourth quarter data for signs of:

- how quickly households can, or choose to, go back to work;
- 2021 project pipelines strengthening to signal recovering demand; and
- business closures transitioning from temporary to permanent.

Policy Recommendations

For Lancaster County's economic recovery, the data continue to support a shift in policies and resources to:

- bolstering the economic health of households,
- supporting businesses responsible for significant portions of the employment base to protect livelihoods of county residents,
- strategically retraining and connecting displaced workers to industry sectors with stronger growth in a post-pandemic economy,
- aiding businesses facing depressed demand due to public health concerns, and
- providing technical and advisory services to small businesses with limited capacity to plan in such extreme uncertainty.

Data Snapshot

- Unemployment claims for Lancaster County declined through the month of September, with approximately 16,500 claims in week-ending 9/26.
 - September read of consumer sentiment in Lancaster County showed residents walking back last month's pessimistic outlook. Consumer sentiment gained five points, registering the highest score since April.
 - Lancaster County's three key employment sectors – manufacturing, healthcare and retail – made steady gains in employment. Based on unemployment claims, they are within 5-7% of last year's employment levels.
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GDP - National and State

Economic forecasts of US GDP for the remaining part of 2020 suggest third quarter strongly rebounding to partially offset the extreme loss experienced in the second quarter. Fourth quarter shows moderate growth. The expected net effect is that the US economy will have contracted by 4 to 5%. This level of loss is comparable to the Great Recession. However, it is far sharper and more concentrated in terms of industry and geography.

Outlook: *The expected economic growth for the US economy in the third and fourth quarters of this year will likely mask the concentrated and persistent losses for some sectors and populations.*

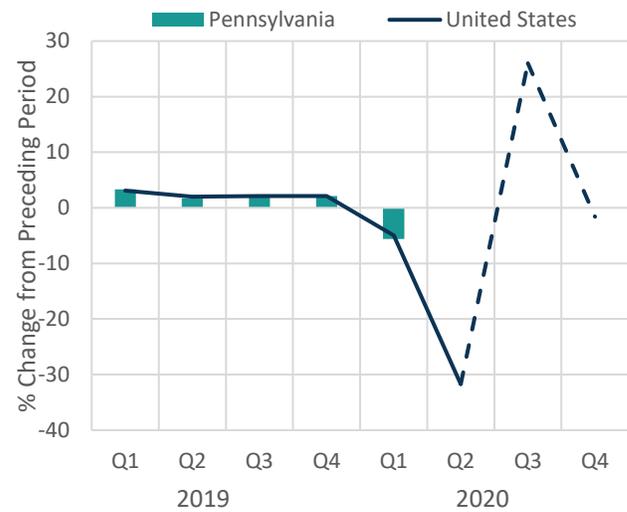
Consumer Outlook & Demand

Both the national and Lancaster County-based measure of consumer sentiment in September registered their highest scores since the start of the pandemic. For Lancaster County, consumer sentiment rose five points to 81.6. For the nation, consumer sentiment rose six points to 78.9.

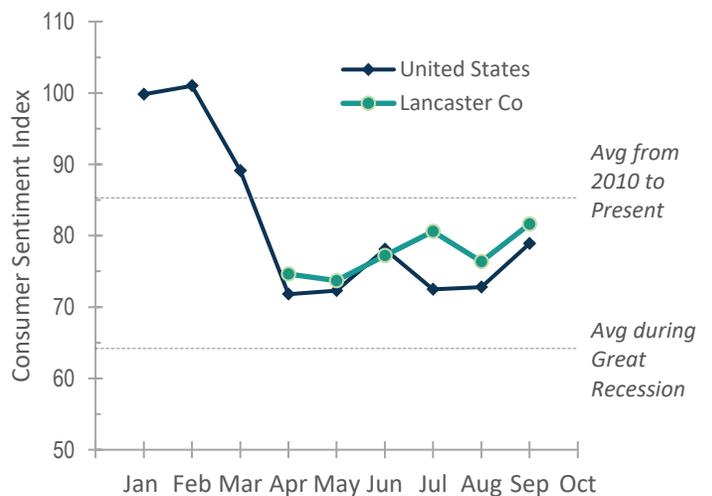
This improvement walked back the potential that last month's dip signaled concern over the local economy. The Lancaster poll revealed more respondents expecting their current personal finances to be better, rather than worse, in the coming year. Reinforcing this outlook, respondents showed greater confidence in making major purchases and the local economy improving over time.

Outlook: *Strengthening consumer confidence among Lancaster County households through the end of the year. A key concern is whether programs supplementing and expanding those eligible for unemployment are extended before the end of the year. Without an extension, the persistent high unemployment will likely rein in household spending, and place downward pressure on the pace of recovery.*

GDP – United State and Pennsylvania



Consumer Sentiment: National* and Lancaster County



* Results from a national survey on consumer sentiment conducted by the University of Michigan.

Employment

New and continued unemployment compensation (UC) claims fell throughout September. As of week-ending 9/26, total UC claims were just under 16,500. This level equates to roughly 6% of the County’s workforce being on the sidelines or working reduced hours.

For the second month in a row, we heard from employers – particularly in manufacturing and distribution– the challenges of filling vacancies. As reported last month, a critical path in the near term will be drawing workers back to the job market, as well as preserving the productivity of the current workforce.

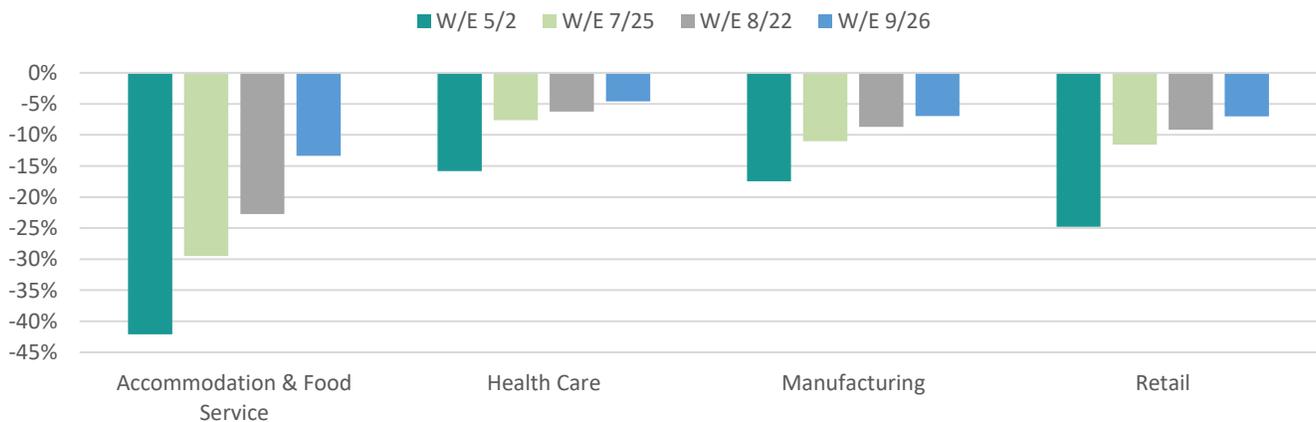
Discussion around deterrents to (returning to) work received increased attention in September. These deterrents are largely attributed to difficulty in securing care for family members (children and elderly) and navigating the uncertainty of whether in-school instruction for K through 12 can be maintained through the coming months.

The pandemic induced a shift in the demographic composition of UC claims recipients in Lancaster County. This shift is still

present among the population that has a continued UC claim and less so with those filing new UC claims. Women continue to represent over half of the continued UC claims, which is inconsistent with pre-pandemic conditions. Continued UC claims are also skewed towards younger workers. Persons between the ages of 45 and 64 representing a lower than usual share. Pre-pandemic this older age group accounted for 40% of continued claims. In September, they accounted for only 30%.

Outlook: *The steady fall in continued UC claims, coupled with low levels of new claims, are favorable signals. Unemployment is still high and increasingly concentrated in specific industry sectors and demographics. Labor market recovery will depend on a number of factors not tied to the economy, such as the extension programs expanding who qualifies for unemployment and if the ‘twindemic’ of COVID-19 and the flu materialize.*

Lancaster County: Change in Sector Employment Based on Unemployment Compensation Claims



Business Health

September data showed a continuation of August’s business conditions and the business interviews affirmed this. Many of the business leaders interviewed conveyed a sense of resignation, with expectations of current conditions persisting through the rest of 2020 and the economic fall out of this pandemic coming next year. Many also noted that the severity and duration of the recession is heavily contingent on the availability of a COVID-19 vaccine, and the election. As one interviewee framed it, “winners, survivors and losers” cut through all sectors. The common marker is how they fall into the “wallet shift” that has occurred in how people spend money as a result of public health concerns or government restrictions on business operations.

This persistent economic loss is increasingly concentrated, but it cuts through all the economic sectors with varying degrees of severity. Generally, retail and manufacturing showed month over month improvements, along with construction and health care. Businesses also reported supply chains normalizing, with only the occasional spot exceptions.

Construction (commercial, residential and industrial) and the **manufacturers and suppliers of building materials** anticipate closing out the year with revenue and activity having a healthy recovery. The activity reflects pressure to complete this year’s slated project. However, these businesses are reserving judgment on how 2021 will take shape. They see lower than usual pipeline development – especially for large commercial real estate projects.

Consistent with their perspective, our interviews found little consensus on whether large capital projects slated for 2021 will move forward. Those with strong cash positions, and minimally impacted by public health strategies, signaled they intend to advance their capital projects. However, these businesses appear to be the exception. Larger businesses with more diversified products and services indicate taking a wait and see approach.

Retail data showed mixed results. While the employment data suggests fewer workers from this sector are unemployed, many retailers are still operating under reduced hours. Retailers reported seeing stronger foot traffic through stores but voiced concern over lower than usual sales. This trend was present in the consumer spending data. Consumer spending in Lancaster County fell throughout September, after briefly rising thorough August. A key factor for this sector will be the holiday season and then looking to how household spending habits stabilize in 2021.

The sectors still operating under capacity restrictions, such as **hospitality, tourism and live events**, continue to struggle. As they enter into their sixth month under these conditions, this group will not be part of the third quarter rebound that is forecasted by many economists.

While small business revenue improved through September (rising from 20% to 12% below January 2020), small business revenue for those in the leisure and hospitality sector remained 40% below January levels. This dire situation for the leisure and hospitality sector was reinforced in local business interviews and in how the sector’s unemployment is tracking. Approximately 13% of the accommodation and food service sector’s workforce continues to receive unemployment compensation.

***Outlook:** Going into fourth quarter of 2020, growing focus is on early detection of permanent business closures as small businesses exhaust cash reserves in the face of weak economic conditions and operational restrictions, particularly for the leisure and hospitality sectors and their suppliers.*

Methodology

Detecting and interpreting local economic signals is challenging. At the county-level, data tends to lag forcing reliance on national insight on the

acceleration of contractionary dynamics and/or inflections in the business cycle (signaling recovery). These monthly briefings draw upon quantitative and qualitative data. The report sources routinely collected data at the national, state and local levels. Most of the data is heavily skewed towards the national economy or the large urban centers. To overcome the national focus, these reports rely on in-depth interviews with Lancaster-based business leaders from key industry sectors. The business surveys provide essential insight, identifying emerging issues and confirming local relevance of national trends.

For more information about these reports, please contact Naomi Young, Director, EDC's Center for Regional Analysis (nyoung@edclancaster.com).