



Summary of Economic Activity

Lancaster County appears to be on a recovery path, tracking towards growth through 2021. Despite these gains, signs of a “K-shaped” recovery are clear. Large parts of the local economy are experiencing strong demand – particularly those tied to the manufacture and retail of durable goods, construction, and business and professional services. A broad and inclusive recovery, however, remains tied to local pandemic conditions getting to the point where consumers are feeling safe. Sectors delivering in-person services (entertainment, hospitality, transportation and education) and their upstream supplies are still trailing.

In the last month, businesses and consumers appear to be settling into more positive expectations about economic conditions. Still, strong month-to-month swings in measures of business health and consumer sentiment highlight sensitivity to changing policy efforts and public health conditions.

Three indicators suggest economic conditions in Lancaster County are moving in the right direction, but the rate and consistency of improvement is uncertain. Consumer spending, a key driver of the economy, is gaining strength and has been tracking with measures of consumer sentiment. Both show volatility likely driven by the emotional toll of the pandemic rather than just actual household finances. The employment situation is heating up with employers struggling to attract and retain workers. Yet, the County is still experiencing above normal levels of unemployment and an increased number of discouraged workers. The data points to labor force participation having fallen through the pandemic while key sectors are still trying to find solid financial footing to bring back workers. Lastly small businesses are a key part of the business community in Lancaster County. Two indicators of their health, temporary closures and revenue, are improving though they remain areas of concern.

Data Snapshot

- *Unemployment.* Lancaster County's unemployment rate in December 2020 was 4.7%, with 13,200 unemployed persons. December's numbers reflected the additional wave of claims caused by the Governor's time-limited mitigation order. The unemployment rate is expected to fall. At the end of February, the County has nearly 11,400 unemployment compensation claims. The volume of initial and continued claims shows signs of improvement.
 - *Consumer Outlook.* Consumer sentiment showed large swings through the first three months of 2021. The early March read shows consumer sentiment regaining positivity. The March improvement reflects stronger measures of both current household conditions and future expectations.
 - *Small Business Conditions.* Small business conditions showed volatility through the start of this year. While small business revenue shows large swings, it has an upward trajectory. Small business openings, in contrast, show a general erosion despite a brief uptick in early January.
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GDP - National & PA

US GDP contracted by 3.5% in 2020. After two quarters of devastating losses, the second half of 2020 experienced record-setting growth (33.4% in third quarter and 4.1% in fourth quarter). Economists remain bullish on 2021. They anticipate 2020's year-end momentum to carry through 2021, with the US economy expanding by 3.7% to 5%. The outlook reflects favorable expectations around three fundamentals: strong manufacturing, labor market recovery and continued improvement in consumer spending. Early signs point to the US economy being on track to have a strong year. With the American Rescue Plan Act now passed, the additional injection of stimulus will further fuel economic activity.

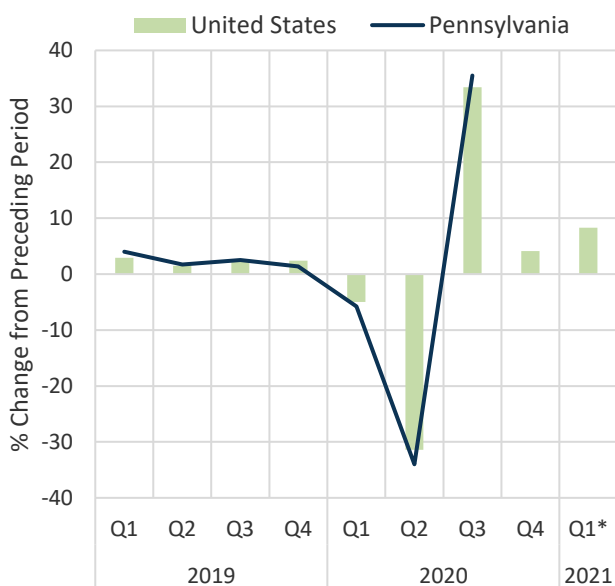
Outlook: *The US economy shows continued recovery and tracking toward solid growth through 2021. Despite these gains, there are signs of a "K-shaped" recovery with sectors tied to public health concerns trailing in their recovery (entertainment, hospitality, transportation and education). Funds from the*

American Rescue Plan Act will create opportunities for direct and targeted aid to parts of the economy still facing significant headwinds.

Consumer Outlook & Spending

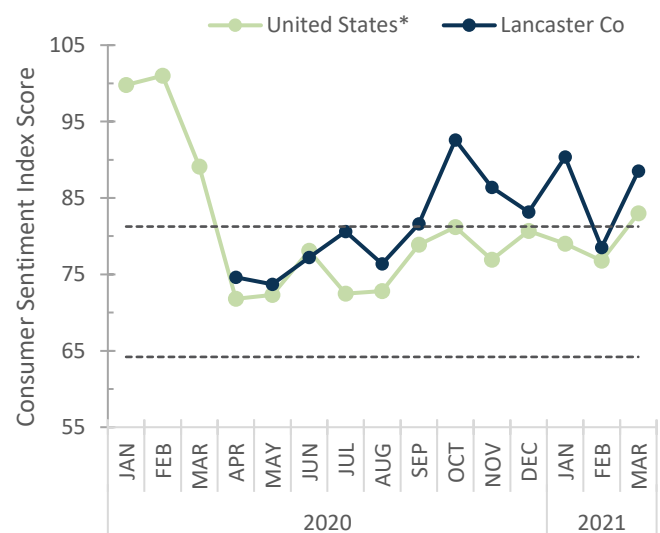
For Lancaster County, consumer sentiment experienced large swings in the first three months of 2021, conveying the emotional impact evolving pandemic conditions has had on how households assess current and future economic conditions. Consumer sentiment in the County rose ten points to 88.5 in March, signaling a return to optimism. Current household conditions strengthened, and future expectations for personal finances and broader business conditions improved. Similarly, the national read on consumer sentiment, reported by the University of Michigan, recorded the highest level of positivity since April of last year. With a score of 83, researchers note that this month's favorable attitudes were widespread (found across all socio-economic groups and regions).

REAL GDP - UNITED STATES AND PENNSYLVANIA



*2021:Q1 estimate based on GDPNow estimate from the Atlanta Federal Reserve on 3/13/2021.

CONSUMER SENTIMENT - UNITED STATES & LANCASTER COUNTY



Notes: ¹ US figures from a national survey conducted by the University of Michigan. ² Upper dotted line – 2020 average US average consumer sentiment; lower dotted line - US average consumer sentiment during the Great Recession.

Consumer spending in the County appeared to follow consumer sentiment in the first two months of this year. Total spending in January tracked at or above levels a year ago (in January 2019). When sentiment waivered in February, so did consumer spending. With attitudes up in March – bolstered by the prospects of additional stimulus, improved vaccine distribution and improving employment conditions – spending is anticipated to pick up. One concern is whether consumer spending will return to local rather than online retailers.

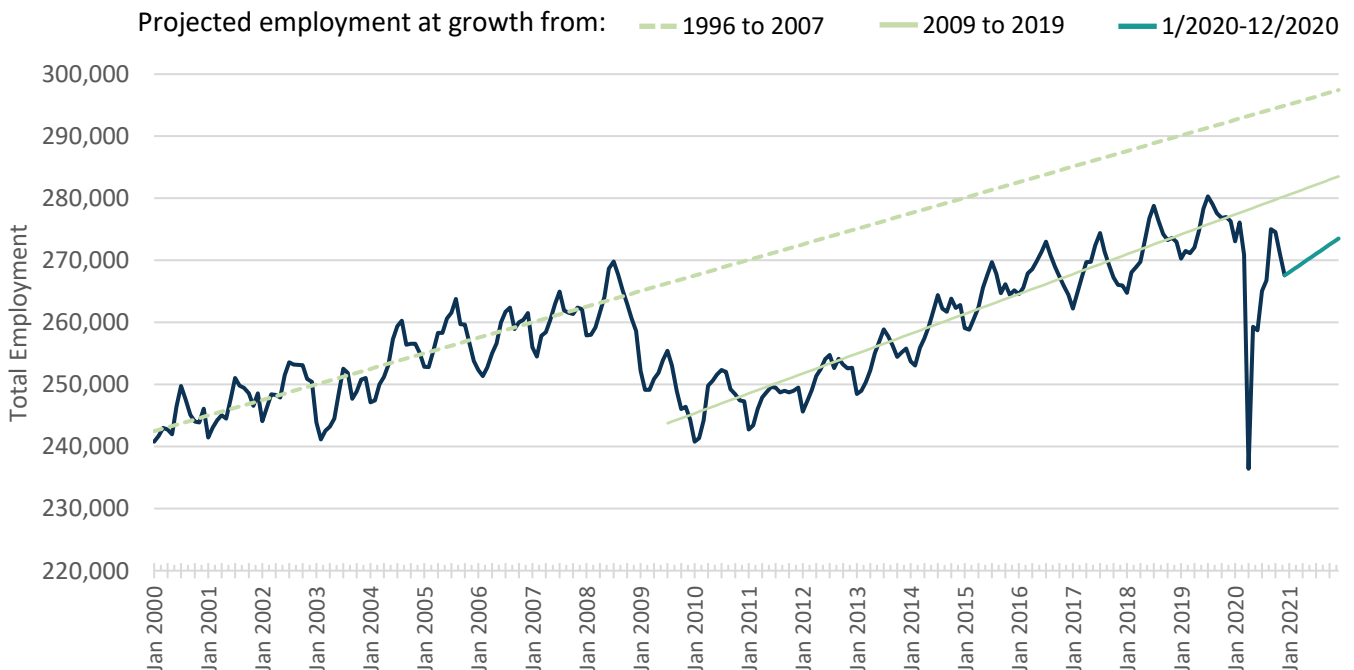
Outlook: Consumer spending in Lancaster County is generally recovering with parts of January and February comparable to (or higher than) January 2020. However, it has been highly volatile, like consumers sentiment, which raises concern over how well it will aid a local economic recovery. Close monitoring of local and national measures remains necessary.

Employment

Lancaster County’s labor market conditions continue to be an area warranting close attention. As the County moves out of the pandemic recession, focus will be on both job recovery and the creation and attraction of workers back to the labor market. The County saw its labor force contract, ending 2020 with 5,000 fewer participants (the combination of employed and unemployed). This loss was the net of 8,700 fewer employed person and 3,700 more unemployed.

Unemployment compensation (UC) claims (both continued and initial) have resumed moving in the right direction but remain elevated. Initial claims are a gauge of current employment conditions. Its trajectory provides insight into employment separations driven by reduced employer demand. At the end of February, initial claims were two times higher

TOTAL EMPLOYMENT IN LANCASTER: 2000 TO PRESENT



than this time last year (pre-pandemic) and about 20% higher than last fall.

Above-normal initial unemployment claims signal that Lancaster businesses and workers still need assistance before conditions fully turn the corner. Four sectors, responsible for nearly half of the County’s employment, illustrate this point. Accommodation and food service, retail, healthcare and manufacturing all had fewer employees at the end of 2020 and continue to make up substantial shares of UC claims.

Outlook: *With increased rates of community vaccinations and the economy heating up, the hope is that initial claims strongly trend down through the spring. Total employment is expected to rebound but at a slower pace. Expect ongoing tight labor market conditions through this year (reminiscent of 2019) as these dynamics materialize.*

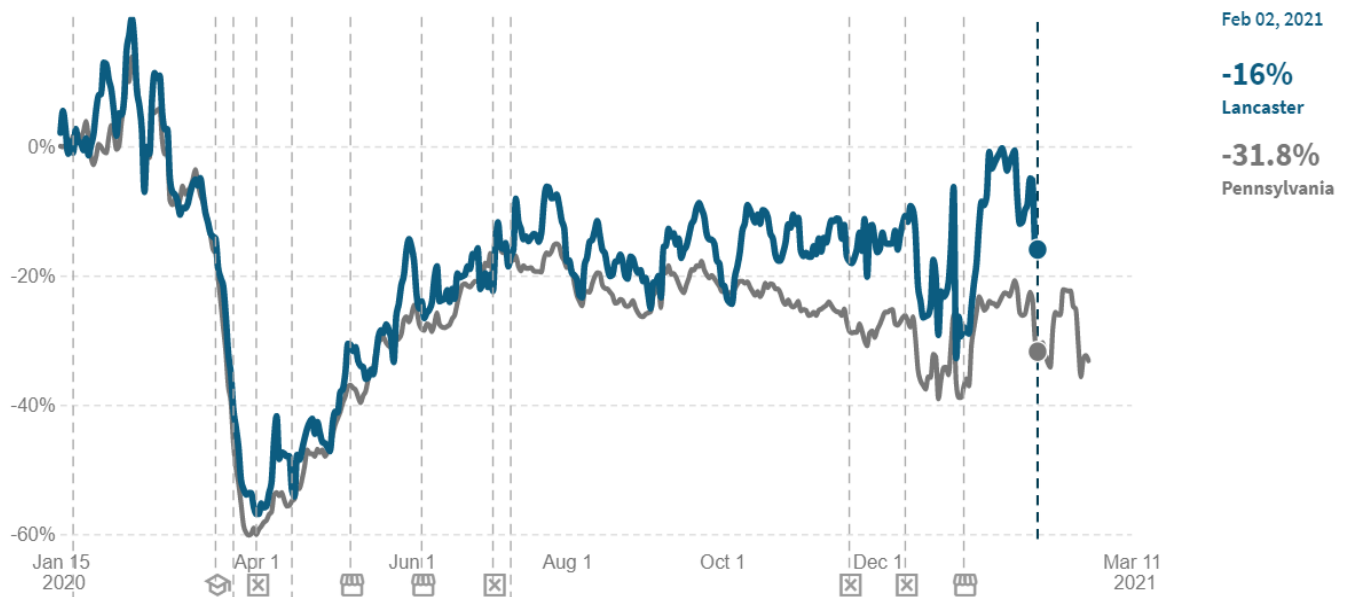
Business Health

The business outlook seems to be picking up with the prospects of increased vaccinations and falling COVID-19 cases. This emerging confidence comes despite persistent pandemic conditions driving a “K-shaped” recovery.

A significant share of Lancaster’s businesses (manufacturing, construction, business and professional services) are seeing strong demand as they settle into a new normal. Through our business interviews, many reported revenue for the first two months of 2021 being on budget. At the same time, these businesses emphasized two challenges in the moment that are likely to grow through the year: workforce and supply chains. Workforce remains a key issue with on-going difficulties attracting and retaining labor, pressure to raise wages, and increased efforts to maintain the mental and physical health and productivity of employees. Spot disruptions in supply chains have been a

PERCENT CHANGE IN SMALL BUSINESS REVENUE IN LANCASTER COUNTY

In **Lancaster**, as of **February 02 2021**, total small business revenue **decreased** by **16%** compared to January 2020.



Source: TracktheRecovery.org

characteristic of the pandemic environment. Businesses foresee ongoing disruptions through the rest of this year, straining their ability to forecast costs and secure materials necessary for production.

Looking forward, businesses are tracking how consumer behavior may shift as public health concerns lessen. Some anticipate pent up demand that will drive strong sales – particularly for tourism and hospitality. Others question if the shifts brought about by the pandemic have taken root to carry on in a post-pandemic environment – such as household spending on groceries or home renovations.

Despite these expectations, small businesses and sectors tied to public health perceptions (entertainment, hospitality, food service) still face uncertainty that keeps them in a fragile “wait and see” state.

Data suggests the first two months of this year have been a rollercoaster for small businesses. Revenue and openings showed large swings for the County’s small businesses. At the start of January, nearly 40% of small businesses registered at least one day of no financial transactions (the definition of a temporary closure) and revenue was a 25% below level previous year. Both metrics steadily improved through the month, with 22% to 25% of small businesses reporting a temporary closure. Small business revenue nearly returned to pre-pandemic levels. But February data walked back those gains, underscoring the shakiness of progress.

Outlook: *Businesses appear to be more sanguine about the economy opening up. The latest round of federal and state aid will likely bring much needed liquidity to businesses that have been in a holding pattern for this past year. However, a return to healthy balance sheets will take time. Early signs will be small business openings and revenue not only consistently moving in the right direction but also with smaller fluctuations. As this happens, businesses across the board are likely to face growing*

operational costs associated with managing their workforce and supply chains.

Methodology

Detecting and interpreting economic local signals is challenging. At the county-level, data lags force a 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).