

Summary of Economic Activity

August data reflect a leveling off with modest changes in economic conditions from July, and businesses signaling a tactical shift towards anticipating what the fall and winter months may bring. However, this plateau belies the tensions straining the economy. Employers are struggling to recruit workers while unemployment remains high. Families report less optimism about the economy along with increased financial stress. Interviews highlight growing concern that by the end of the year more businesses will be closing their doors permanently while far fewer new businesses are sprouting up.

The economic data reinforced the continuing relevance of two themes:

- **Increased uncertainty** around how strategies to curtail the spread of the coronavirus will continue to disrupt and limit business operations and reduce labor supply; and
- **Solidification of winners and losers** in the economy created as a result of policy and consumer response to COVID-19.

Policy Recommendations

Despite some economists expecting strong economic growth in the 3rd quarter of this year, 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 recession. While some sectors are doing extremely well (food, home improvement), these gains are not likely to spillover to other sectors. The stress of the last five months on the economy points towards recessionary dynamics extending into 2021 (high unemployment and depressed business revenue).

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

- bolstering the economic health of households,
- supporting businesses responsible for significant portions of the employment base to protect livelihoods of county residents (as drivers of economic activity?),
- 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 August, with approximately 23,000 claims in week ending 8/22. This level of unemployment claims suggests the August unemployment rate will be around 9%.
 - Early August read of **consumer sentiment in Lancaster County shows residents developing a pessimistic outlook**. This read came shortly after the expiration of the extra \$600 weekly boost to unemployment benefits and before announcements of PA approving the temporary federal Lost Wages Assistance Program that will provide an extra \$300 per week to eligible unemployed workers.
 - **Temporary small business closures increased locally, echoing national trends**. Small business openings and revenue fell through most of August. The number of small businesses operating in July was between 8 and 9% below January levels. For the first half of August, that share fell to 12% below January 2020 levels. The hardest hit continues to be leisure and hospitality.
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Consumer Outlook & Demand

Consumer sentiment in Lancaster County fell four points in August to 76.4, revealing eroding expectations of a local economic recovery. This downgraded outlook was out-of-sync with national consumer sentiment which was up according to preliminary results from the University of Michigan.

The share of Lancaster County respondents that expect poor economic conditions over the next 12 months for the County ticked up in August. 35% reported expecting “somewhat bad” or “bad” times, up 7 points from last month. Respondents cited uncertainty about the political landscape, continued challenges in managing the pandemic, and apprehension over increased business failures.

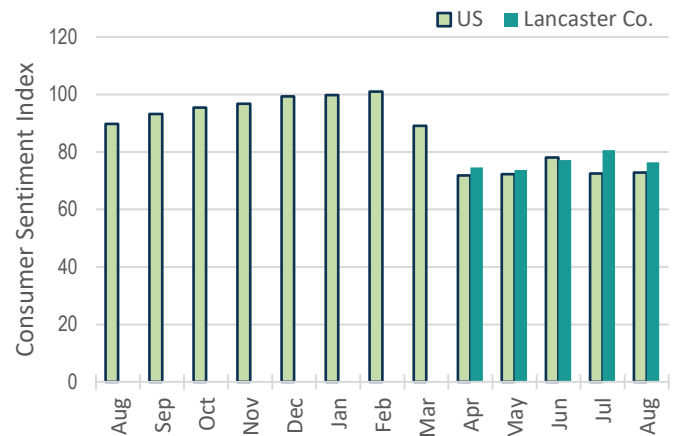
This faltering optimism coincided with the current (financial) conditions of households having generally improved through the summer months. Four out of five respondents in early August reported their household finances were about the same or better compared to a year ago. The number of households reporting being worse off (20%) was nearly unchanged between July and August.

Outlook: Increased financial stress for Lancaster County households from persistent high unemployment, reduced unemployment compensation and growing uncertainty about social and economic conditions in the fall months. These dynamics may further rein in household spending, and place downward pressure on the pace of recovery.

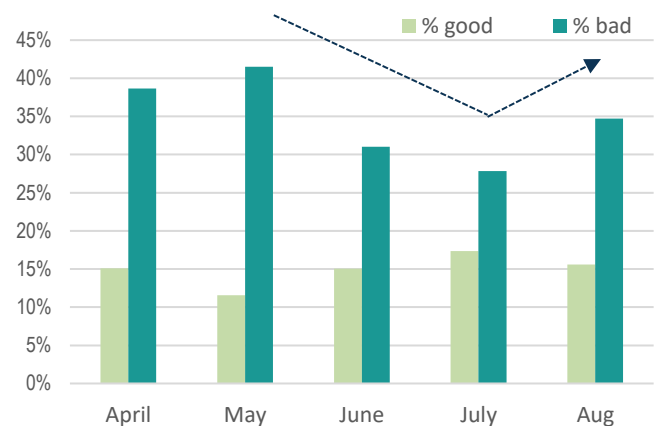
Employment

In the span of a few short months, businesses have established a “new normal” for operations that meets the health and safety concerns of their employees and customers. Interviews with employers highlighted the success of their strategies and that they are now pivoting to how operations will look in the fall months.

Consumer Sentiment about Lancaster County’s Economy Wavered in August



Expectations about Lancaster County’s Economy over the Next 12 Months Worsened in August



As a result of their efforts, August saw unemployment in the County fall 13%. The 2-week moving average (which smooths the weekly up and down movements) was 23,100 unemployment compensation (UC) claims by week-ending 8/22.

Despite improving conditions, this level of unemployment remains high and is comparable to the Great Recession. In 2009, the number of unemployed averaged 19,400 for the County and peaked in the first quarter of 2010 with an average of 22,800.

Employers are Anticipating Work Force Challenges in the Fall Months

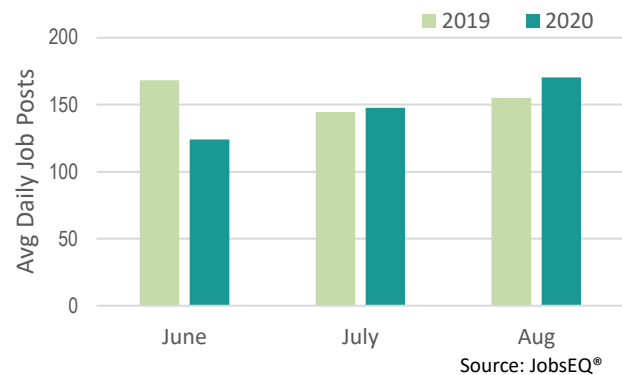
Employers across a number of sectors, such as professional services, manufacturing, and wholesale, are reporting difficulty in filling job openings. The growing need for workers is consistent with historical seasonal patterns where the second half of a year generally brings higher employer demand for labor. It is also showing up in the data on job openings. The average number of daily job postings in the County for July and August are higher than this time last year.

A critical path in the coming months will be drawing workers back to the job market, as well as preserving the productivity of the current workforce. The fall months are presenting workers with difficulty in securing care for family members (children and elderly) and navigating the uncertainty and variability in schools bringing back students to their buildings.

These deterrents to work intersect with portions of the workforce most strongly affected by the pandemic-driven job loss. Through January and February of this year, men filed 65% of UC claims; women filed 45%. However, women now represent nearly 56% of continued UC claims and 51% of initial claims. The disproportionate share of women with UC claims highlights the importance of reliable services that allow people to return to work.

Outlook: *The increase in job postings and the return of initial unemployment compensation claims to pre-COVID levels are favorable signals. However, unemployment remains at historical highs and increasingly concentrated to specific industry sectors and demographics. The ongoing disruption and uncertainty caused by managing COVID will likely be a headwind to employment recovering in the coming months.*

Average Daily Job Posts in Lancaster County: 2019 & 2020



Business Health

Interviews and data point to two factors driving the success of some Lancaster businesses over the last five months.

- *Benefitting from the significant shift in how households spend money.* Consumer expenditure data shows stronger spending in goods rather than services – such as automobiles and home improvement. Expenditures remain heavily depressed in areas related to travel and personal services.
- *Being able to quickly respond to shifts in customer (B to B or B to C) and mitigate supply chain disruptions (e.g., through strong inventory or online platforms).*

While some economists expect strong economic growth in the 3rd quarter of this year, the local focus should be detecting early signs of small businesses failures. Demand for workers is picking up, but August data hints at a slow and potentially stalled recovery for portions of the County’s economy. Total small business revenue and (temporary) small business openings lost some of the gains made in July. At the start of August, both revenue and openings were about 12% below levels in January. This dip follows a similar pattern observed for PA as a whole.

Contacts in the banking and finance sector also note

some sectors are doing well and others continue to struggle (restaurants and hotels). Retail and manufacturing showed strong gains in August. Construction maintained its high levels of activity. With most of the stimulus to support small business exhausted and additional federal support uncertain, businesses with balance sheets hard hit by the pandemic will likely encounter increased scrutiny from lenders on delinquencies and/or closer financial monitoring as the year goes on.

***Outlook:** Emergence of permanent business closures as small businesses exhaust cash reserves in the face of weak economic conditions and operational restrictions.*

Methodology

Detecting and interpreting economic local 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).