

Summary of Economic Activity

Advanced estimates of third quarter GDP for the US showed striking gains in economic activity. October's local data suggests key drivers of national third quarter growth were in play in Lancaster County. The County's consumer sentiment showed substantial gains. With a score of 92.6, confidence returned to pre-COVID levels for the first time since April. Unemployment compensation claims maintained a steady decline, falling 30% through October. Unemployment claims were down to roughly 11,450 by week-ending 10/24 which is near last year's unemployment levels. Taken together, the national and local results are promising, as they signal the economy is currently recovering from the devastating pandemic impacts in the second quarter of 2020.

Despite these promising signs, some caution is warranted. Lancaster County respondents noted the importance of electoral results, policy decisions and public health outcomes in their outlook. These are influencing factors to whether the economy faces headwinds or tailwinds in the fourth quarter. The data also continues to show that some sectors of the economy and portions of our community are not necessarily being carried along in the economic recovery. Despite generally improving conditions, the strain on these hard-hit portions of the economy – namely tourism (hotel), food service, and entertainment (art and live events) and the companies that support their activities – is approaching a tipping point. They remain in a holding pattern with little hope that their traditional revenue streams will recover until a vaccine is broadly available for the coronavirus. There is a human side to the impact on these businesses as well. The end of October marks 32 weeks since the pandemic started a dramatic rise in unemployment. Many of these workers have exhausted their benefits or are approaching the time limit for receiving unemployment compensation. It is not readily apparent how many of these displaced workers can be reabsorbed into the economy, posing potentially higher demands on our social services and networks of community aid.

Policy Recommendations

For the past few months, our analysis has highlighted the same four policy recommendations to aid Lancaster County's economic recovery. The data continue to support the need for policies and resources that: (i) bolster the economic health of households; (ii) support businesses responsible for significant portions of the employment base to protect livelihoods of county residents; (iii) aid businesses facing depressed demand due to public health concerns, and (iv) provide technical and advisory services to small businesses with limited capacity to plan in such extreme uncertainty.

As the challenges of the pandemic continue to run its course, some of these recommendations take sharper focus and increased urgency. Unlike past recessions, the pandemic is causing sustained disruptions to well-managed businesses, not just to the ones that had weak cash positions pre-COVID. The hardest hit sectors – such as food service, accommodation, entertainment – were important sources of jobs in the local economy. The challenges brought by the pandemic are not anticipated to go away in the coming 3 to 6 months. To date, the majority of stimulus-related assistance provided only short-term relief. It is inadequate for businesses experiencing 9 months to a year of disruption.

GDP - National

Advanced estimates of third quarter GDP for the US showed economic gains that offset second quarter losses. As an annualized rate, the US economy expanded by 33%, while the second quarter GDP contracted by 31%. Personal consumption expenditures, which is typically responsible for nearly 70% of US economic activity, drove this recovery. Despite significant uncertainty coming from political and public health concerns, the US economy is forecasted to continue to expand in the fourth quarter but at a significantly more modest pace. The net effect is expected to be a US economy that contracted by 4-5% in 2020.

Outlook: While fourth quarter GDP is anticipated to experience moderate but positive growth, the focus is increasingly shifting to 2021. Expect, slow continued growth, with concentrated and persistent losses for some sectors and populations.

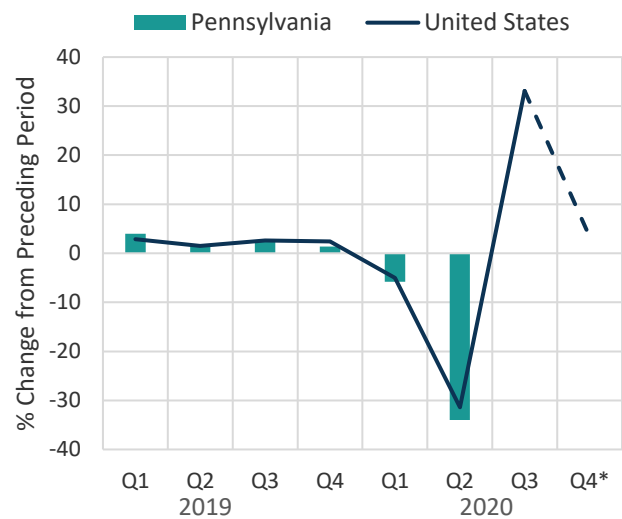
Consumer Outlook & Demand

For Lancaster County, consumers sentiment rose 11 points to 92.6, placing confidence at pre-COVID levels. Improved expectations for short- and medium-term conditions played a key factor in October's gains.

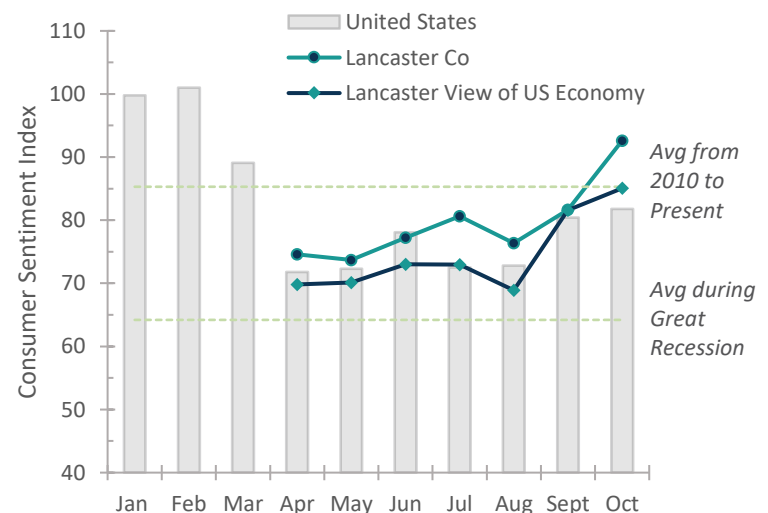
This rise was far stronger than results from the national survey. It signaled Lancastrians expect the local recovery to be stronger and faster than the nation. According to a survey by the University of Michigan, the national consumer sentiment score was 81.2. The one-point rise reflected falling current conditions counterbalanced by rising expectations.

Outlook: While October's results offer hope, the next two months will be critically important reads on consumer confidence in Lancaster County. Without policy action, some households will be left without unemployment compensation; additionally, public health outcomes continue to be cited as a notable influencing factor in consumer confidence.

Real 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 continued to fall through October. By week-ending 10/24, the moving average of total claims fell to 12,000; 26% lower than at the start of the month.

This level of unemployment is only slightly higher compared to this time last year. (Unemployment in October 2019 was 10,100.) However, the composition and drivers of unemployed are very different in today's setting.

Many of the currently unemployed are unable to return to work either because of COVID-induced contractions in business activity, health concerns, or limited access to child and/or elderly care. For example, since the start of the pandemic, women and seniors (65 and older) have had elevated representation among the unemployed. One potentially contributing factor is that they tend to make up a larger share of the workforce in the sectors hardest hit by COVID – such as leisure and hospitality, retail, in-person services. In contrast, male workers are traditionally more concentrated in sectors that have recovered more quickly, namely construction and manufacturing, or have been least impacted (professional service, transportation and utilities).

***Outlook:** Expect the County's unemployment claims to continue to fall through the remaining part of 2020. However, attention is needed to determine if unemployment continues to decline because individuals are able to return to work or because they have exhausted unemployment compensation.*

Business Health

October interviews and data generally show a continuation of August and September business conditions. Noteworthy is that as the economy heads

into the winter months, some sectors tend to slow down. This seasonality is beginning to show up in the data for the **construction** sector and some portions of the **manufacturing** sector.

While interviews confirm that bid activity is picking up, they are still at levels that warrant close monitoring. Consistent with this reporting, 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, plan to advance their capital projects. Increasingly the conversations hint to reservations over the potential health of activity in the second half of 2021.

Retail data showed mixed results. Locally household spending increased through October but is reported to be 10% below January levels. National data on personal consumption expenditures for the third quarter provide insight into how these spending patterns are impacting the retail sector. Spending on durable goods (such as household furnishing, recreational good) showed strong growth, offsetting second quarter losses. In contrast, household spending on services did not expand as strongly.

The sustained "wallet shift" brought on by the pandemic is likely to continue through early 2021, especially with rising COVID cases. This suggests that the sectors still operating under capacity restrictions, such as **hospitality, tourism and live events**, will continue to struggle. Increasing concern is being shared with us about the financial sustainability of businesses in these sectors especially since revenue streams will not likely resume/recover until late 2021.

Outlook for Next 3-6 Months

While a sense of resignation to pandemic conditions continues to be communicated, businesses were more willing to discuss what the next 3 to 6 months may look like.

Businesses that have been able to resume "normal" operations anticipate the current conditions

continuing through to spring of next year. On the market side, this means the shifts in consumer spending that have been driven or accelerated by COVID conditions are expected to persist. From a workplace perspective, this means staying the course with a slow, phased or wait-and-see approach to bringing employees back to the office. For the businesses that been severely impacted, an extended pandemic economy means planning for the status quo, with the hope that their markets come back online by late summer (at earliest) and doubling down on their pivots to new markets.

***Outlook:** Fourth quarter activity is likely to be a more measured continuation of current trends. This means deepening distress for some sectors, while others are able to settle into this new normal. First quarter 2021 is likely to see a rise in permanent business closures as small businesses faced with sustained, depressed revenue do not see their markets getting a “green light” to resume activities. This is a particular concern for the leisure and hospitality sectors and their suppliers.*

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).