



## Summary of Economic Activity

Economic forecasters expect the U.S. economy to grow through 2021, with GDP growing 3.7% - 5%, outpacing 2018 and 2019. The focus will be on how much ground the US can regain in productivity and jobs. While the overall economy is slated to regain much of the ground lost in 2020, the rebound will be uneven. Some segments of the economy are on very different recovery paths. Expect concentrated segments of business and households to face persistent challenges and slower rates of improvement.

Many of these national dynamics apply to Lancaster County. The County closed out the year with some data suggesting close monitoring is warranted.

- Consumer sentiment and spending softened through November and December.
- The pandemic's effect on the labor market gained momentum in December, with the size of the labor force contracting and unemployment compensation claims rising.
- Small business revenue and openings showed larger swings in the fourth quarter, with a generally worsening trajectory.

Conditions in the first quarter of 2021 will set the stage for the scale and pace of the County in rebuilding its economy. While some segments are experiencing strong growth, the data points to significant segments of the local economy and population that have not yet turned the corner and begun to recover, such as the entertainment and food service sectors and their workers.

Headline figures provide optimism, however, attention through this new year needs to be on uneven and inequitable impacts of the pandemic-induced recession and recovery. The economic consequences for the hardest-hit sectors may require significant support, while the majority of the community moves closer to "back to normal".

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## Data Snapshot

- *Unemployment.* The County's unemployment rate fell to 4.4% in November. However, December's initial and continued claims ticked up. Unemployment claims for Lancaster County at the end of December total nearly 11,700.
  - *Consumer Outlook.* Consumer sentiment weakened, falling in November and December. Poll results revealed less favorable financial conditions for County residents and growing pessimism about local and national economic conditions. These poll results preceded the three-week business restrictions put in place by Governor Wolf in mid-December
  - *Small Business Conditions.* Small business conditions generally worsened in December with revenue falling and more businesses (temporarily) closing.
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## GDP - National & PA

Fourth quarter GDP estimates will not be released until the end of January. However, economists are forecasting that the US ended 2020 on a strong note despite rising COVID-19 cases. Materials from the December Federal Open Market Committee (FOMC) meeting revealed that the US economy is expected to have contracted by 2.4% overall in 2020.

2021 forecasts were buoyed by late December and early January events that offset concern over rising COVID cases and mitigation measures (eg, political certainty, initial rollout of a vaccine and approval of additional fiscal stimulus). Projected growth for the national economy ranges from 3.7% to 5%. This range suggests general agreement that 2021's expansion will outpace 2018 and 2019.

**Outlook:** *The US economy is expected to grow through 2021. The focus will be on how much ground the US can regain in productivity and jobs. Despite overall growth, expect "K-shaped" recovery with some segments being left out or trailing.*

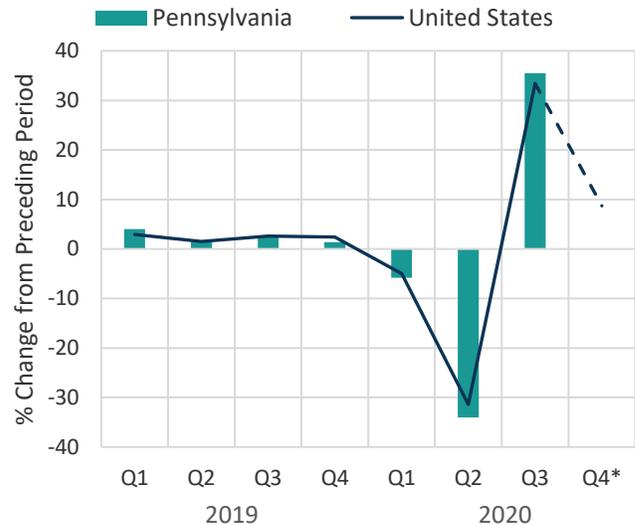
## Consumer Outlook & Spending

For Lancaster County, the year closed out with two consecutive months of softening consumer sentiment. Weakened financial conditions for County residents, along with lower expectations for an economic recovery in the coming year, contributed to the results.

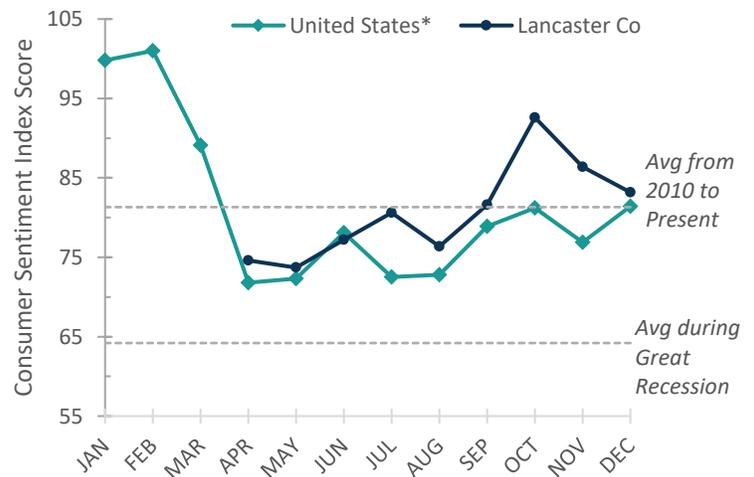
The County's consumer sentiment has generally tracked higher than national levels but followed the nation's ups and downs. December revealed local views on short- and long-term conditions departing from the national sentiment. US consumer sentiment, reported by the University of Michigan, gained momentum, rising four points to 81.4 in December. In contrast, local consumer sentiment fell three points to 83.2.

Mirroring less favorable attitudes and conditions, consumer spending through November and the first

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.

week of December remained depressed in Lancaster County. Nationally, consumer spending was only 1.7% below January 2020 levels and Pennsylvania was 3.3% below. In Lancaster County, consumer spending was 12% below levels at the start of 2020.

**Outlook:** Given the importance of consumer spending in fueling the economic recovery, close monitoring of these local and national measures is warranted. January's results will be an early signal of whether downgrading consumer sentiment and modest consumers spending begins to impact Lancaster's economy.

## Employment

Despite a falling unemployment rate, Lancaster County's labor market shows some areas of concern. The County's unemployment fell from 5.2% in October to 4.4% in November (based on preliminary estimates). However, November's strong drop in the number of unemployed was not accompanied by a rise in employment. November saw people rolling off unemployment compensation as they exhausted benefits and potentially exiting the labor market rather than returning to work.

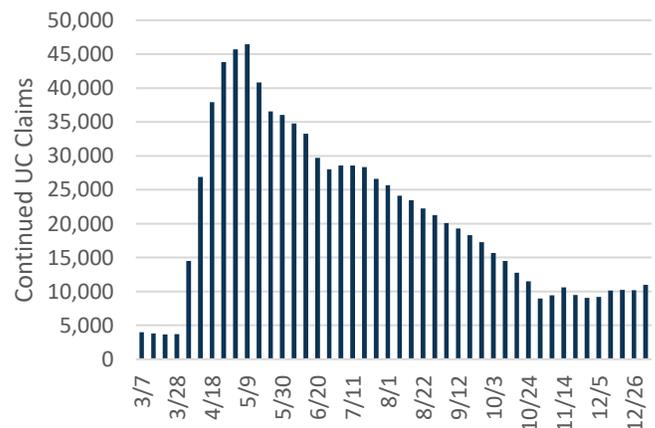
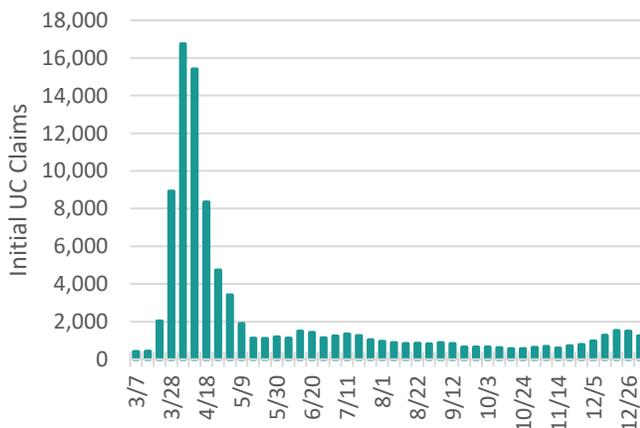
Lancaster County's labor market contracted in November. While fourth quarter typically brings some diminution, it was sharper than previous years. Both the number of employed persons and the total size of the labor force were smaller. From October to November, the County's labor force (comprised of people

employed or looking for work) decreased by 1.2% and the number of employed fell by 1100.

December data showed the pandemic's effect on the labor market gained momentum. Through November, initial claims remained relatively low and with little movement. They jumped up in early December, coinciding with the Governor's time-limited mitigation order, and have remained at elevated levels through the month. As a result, continued claims steadily grew.

**Outlook:** Economists are mixed on how quickly the labor market will recover. Expect tight labor market conditions reflective of pre-pandemic conditions as workers slowly return to the job market and are willing to seek employment in new sectors. Additionally, regaining the jobs lost through the pandemic will depend on consumers returning to pre-pandemic spending patterns (eg, travel) and the survival of small businesses. Data and interviews suggest sectors that are significant employers, like accommodation and food service, and/or anchors in local economy (eg, entertainment) do not expect to recover until late 2021 or even 2022. This timeline means they will be slow to rebuild their workforce.

**Unemployment Compensation Claims in Lancaster County: Initial and Continued**



## Business Health and a Look Ahead

For many, the last quarter of 2020 highlighted how some segments of the economy are on very different recovery paths. Coined a “K-shaped recovery,” the economic data shows significant parts of the economy are recovering (manufacturing, business and professional services), while others have yet to rebound (entertainment, hospitality, food service).

For small businesses, the resurgence of COVID-19 cases and state-ordered mitigation measures in the last quarter of 2020 brought disruption to the “steadiness” that emerged through the summer and early fall months. Data on small business revenue and openings showed larger swings from week to week, but with a generally worsening trajectory. With the mitigation order lifted and coronavirus vaccinations beginning to be administered, the first quarter of 2021 will be crucial for gauging if the County’s hardest-hit businesses are on a path to recovery.

As noted, economic activity is anticipated to gain momentum through 2021. At the federal level, lots will need to be watched in 2021. The Consolidated Appropriations Act created much needed avenues for

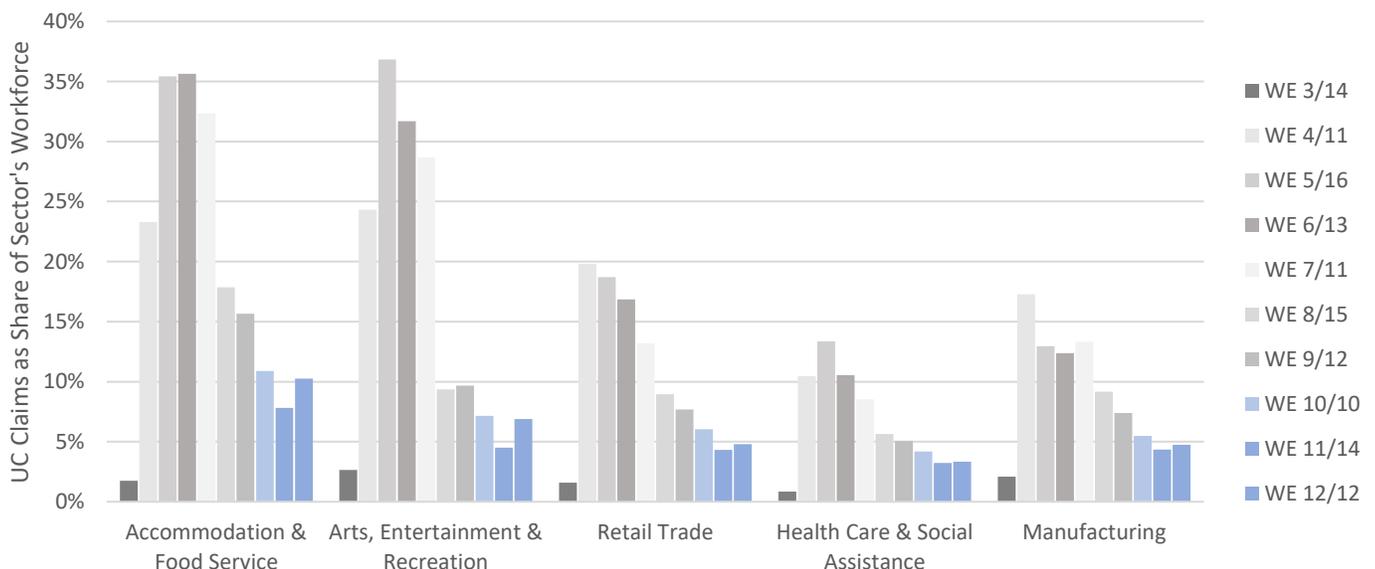
directing aid to businesses and households hard-hit by the pandemic. This stimulus combined with the early efforts and initiatives of the Biden Administration will be important to local recovery. Close attention is needed to ensure that the County’s businesses are able to fully capitalize on these opportunities as they emerge.

While the overall economy is slated to regain much of the ground lost in 2020, the local data calls attention wavering confidence in a timely recovery and that significant segments of the economy and population that are still “on hold.”

Looking ahead, the vitality of Lancaster County’s economy will need to track and address the distributional implications of recovering from this pandemic-induced recession. Focus will be on discerning from leading indicators:

- the effectiveness of the Consolidated Appropriations Act in aiding businesses;
- when conditions change for the segments of Lancaster’s economy that have not yet rebounded;

Unemployment Compensation Claims as a Share of Key Sector’s Workforce in Lancaster County in 2020





- labor market dynamics that reflect job creation and increased labor force participation;
- regained consumer confidence in the prospects of local economic conditions improving; and
- how consumer spending patterns shift if/as COVID-19 cases fall and vaccinations become more widely available.

## 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](mailto:nyoung@edclancaster.com)).*