



Summary of Economic Activity

The latest economic data points to Lancaster County sharing in the economic expansion taking place in the US. The US economy is on track to officially exit the recession this year. Both businesses and households are reporting general optimism as COVID vaccinations have become more widely available and all sectors are able to resume normal operations. At the same time, the data indicates that the economic recovery is not following a smooth path. Overall GDP growth is strong and projected to possibly gain speed in the second quarter. This growth comes with some headwinds, namely, bottle necks, supply chain shortages, rising wages and labor shortages. It is still too soon to tell if these challenges are structural or pandemic-related.

To date, fiscal stimulus benefiting households and small businesses appears to be bolstering the economy. Consumer spending was strong in the first part of 2021, supporting both goods producing sectors (e.g., manufacturing) and services sectors (e.g., hospitality, retail). However, households and businesses are anticipating inflation. A concern is whether rising prices will act as a drag on the economy by dampening consumer spending and slowing down development projects.

As the local economy heads into the summer months, the labor market remains an area warranting close attention. With full-scale business operations resuming and more federal funding working its way through the economy (as a result of the American Rescue Plan), employer demand for labor continues to gain speed, further outpacing the rate at which people are returning to the labor market. With so much in transition, labor demand and supply are not anticipated to equalize in the short run. Despite eagerness to settle into a new "normal," economic volatility will persist, and more time is required to understand which of the past year's changes become permanent.

Data Snapshot

- *US GDP.* US GDP grew in the first quarter of 2021 at 6.4%. Consistent with bullish expectations, second quarter GDP is projected to expand, growing at an annualized rate of 10%.
 - *Consumer Outlook.* March and April of this year recorded the highest levels of consumer sentiment since the start of the pandemic. Lancaster County residents remain positive, but downgraded near-term expectations for the local economy in the face of rising prices.
 - *Employment.* Lancaster County's unemployment rate in March was 5.6%, with an estimated 15,300 unemployed persons. It is expected to fall through the year as businesses reopen and people return to the labor market.
 - *Business Conditions.* Business attitudes are positive given strong consumer spending and the green light to resume operations and full capacity. However, business interviews pointed to concerns over rising costs of raw materials and labor, ongoing, spotty, supply chain disruptions and increasing difficulty in securing talent.
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GDP - National & PA

The US economy has been heating up and gaining speed through the first part of 2021. GDP for the first quarter grew by 6.4%, affirming bullish expectations for 2021. The strong gain, which is among the highest on record, was fueled by exceptionally high consumer spending.

The rapid expansion is coming with some challenges. It is taxing supply chains and labor supply as the economy opens up in response to easing COVID-19 restrictions.

Outlook: *The US economy continues to show growth and be on track to officially exit the recession this year. With all sectors able to resume normal operations, the focus is shifting to the labor market and how much of the past year's changes become permanent. Funds from the American Rescue Plan Act and further federal infrastructure spending will continue to bolster the economy.*

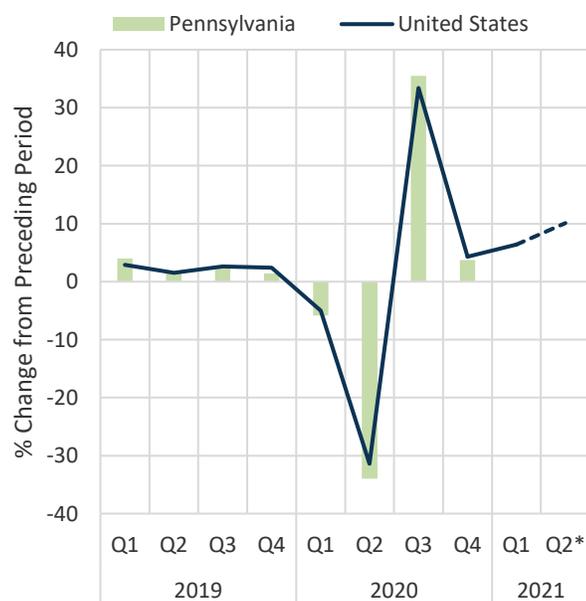
Consumer Outlook & Spending

Consumer sentiment is an important economic measure because consumer spending accounts for nearly 70% of the GDP. It is often viewed as a leading indicator because it signals how consumers may change their spending in response to their current conditions and future expectations.

Through the pandemic, measures of consumer sentiment have been sensitive to a number of factors not related to personal finances or business conditions. The index score plummeted last year at the start of the pandemic and has been slowly improving but with setbacks along the way.

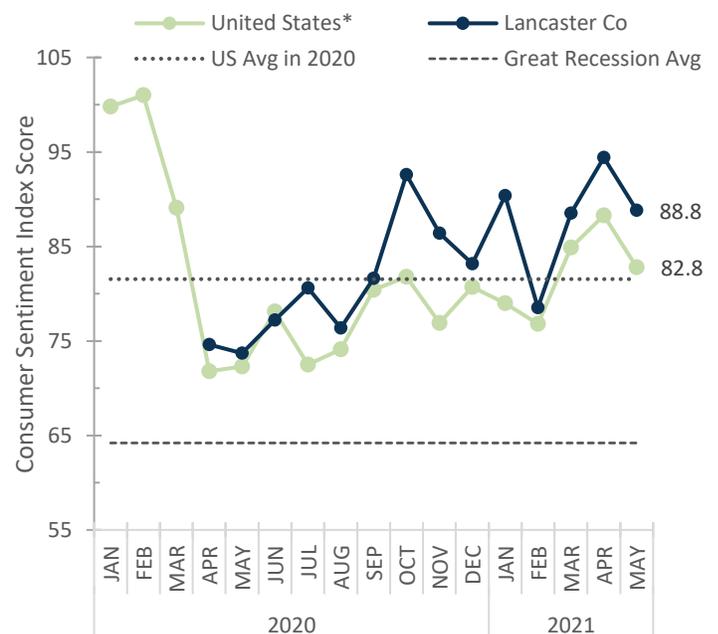
National and local consumer sentiment rose strongly through March and April, registering some of the highest scores since the start of the pandemic. Significantly, both components (measuring current household conditions and future expectations for personal finances and broader business conditions)

REAL GDP - UNITED STATES AND PENNSYLVANIA



*2021:Q2 estimate based on GDPNow estimate from the Atlanta Federal Reserve on 5/23/2021.

CONSUMER SENTIMENT - UNITED STATES* AND LANCASTER CO



Source: University of Michigan.

were positive and widely shared across all socio-economic groups and regions in the US.

This month, consumer sentiment faced a setback with respondents citing concerns over price increases. The Lancaster County poll saw consumer sentiment fall six points to 88.8 in May. The US poll reported a similar six-point drop. The downgrading of near-term expectations is the first time since the pandemic began that households appear to be shifting their focus away from the pandemic and back to economic fundamentals (e.g., inflation).

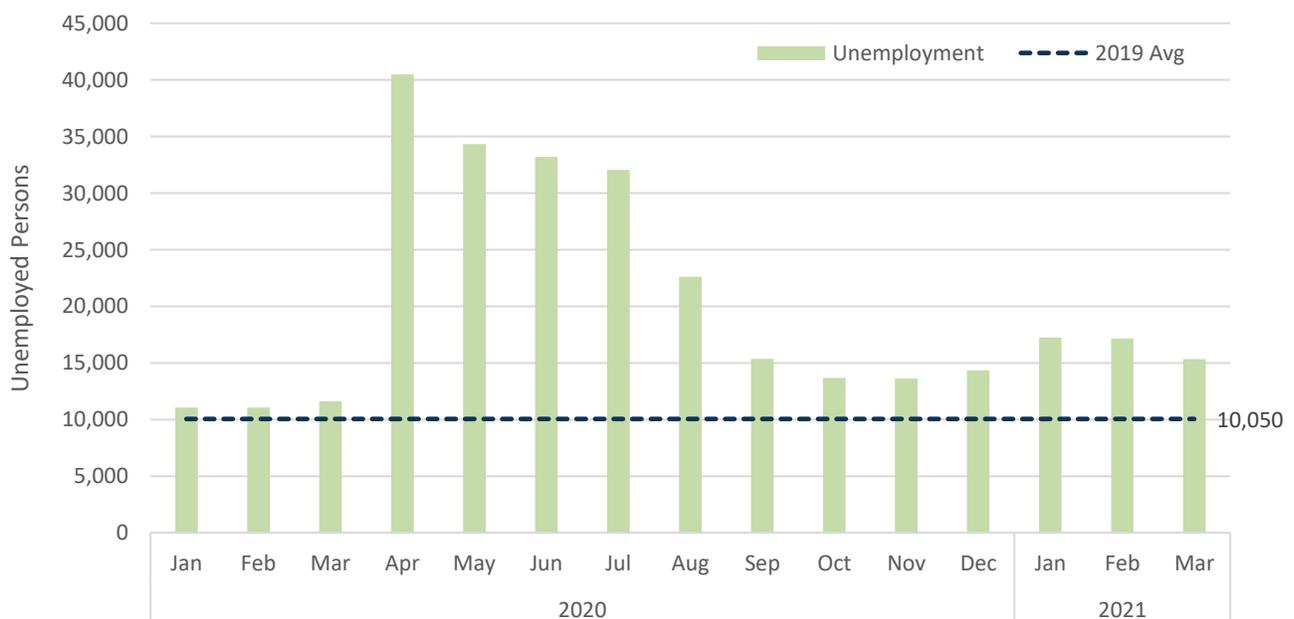
Outlook: *The May read reinforces that recent optimism is tenuous, even with County households reporting strong current conditions. Consumer spending in Lancaster County is expected to remain strong heading into the summer months. However, households are anticipating inflation, which may dampen consumer spending and act as a drag on the local economy.*

Employment

The job market continues to come under scrutiny, offering mixed signals about its role in the economic recovery. The past 15 months have been marked by persistent, high levels of unemployment, extended unemployment compensation (UC) benefits, and uncertainty about when and if businesses will be able to resume full or partial operations and bring back their workers.

Labor data for Lancaster County show slow improvement. The latest unemployment rate for Lancaster County was 5.6% in March. This figure reflected 15,300 unemployed persons which is still well above the average in 2019 (10,100 unemployed person). UC claims data suggest that the unemployment rate will continue to fall. Since March, total UC claims have decreased. Total claims (initial and continued) fell by 3,300 (from 11,000 in the

UNEMPLOYMENT IN LANCASTER



first week of March to 7,700 in the week ending 5/15/2021).

Despite generally positive trends, a focus on initial UC claims shows that the employment situation is unstable. Initial claims are a gauge of current employment conditions. While employers are facing significant challenges in filling vacancies, the initial claims paint a bumpy picture. Employment separations rise and fall every couple of weeks which masks its generally falling trend. Most recently, strongly falling initial claims encountered a setback in early April. Since then, initial claims have resumed falling but at a slower pace. The persistence of these fluctuations raises questions about how long it will take for the County’s labor market to stabilize and the labor force to return to pre-COVID levels.

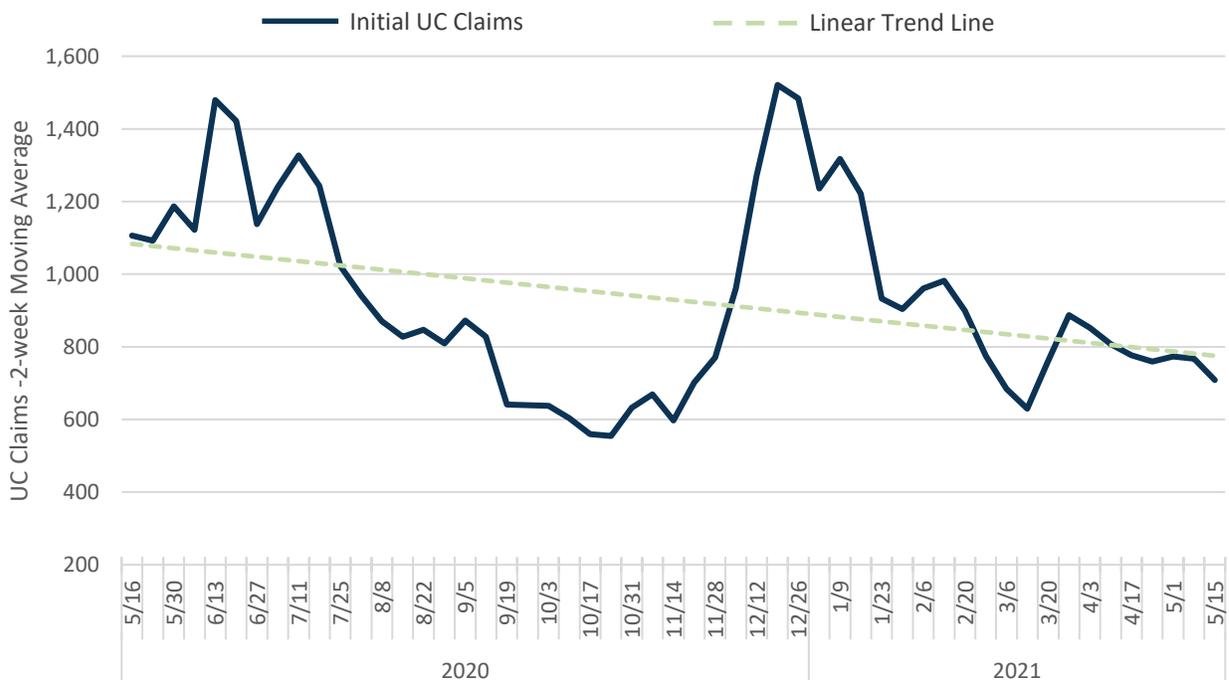
Outlook: *The return of jobs and the return of workers appear to be moving forward at very*

different paces. With so much in transition, the challenge is how long it will take for labor demand and supply to equalize. Tight labor market conditions are expected to get worse over the coming months. The lifting of COVID mitigation measures gives PA businesses – particularly those providing in-person services – the green light to resume operations without capacity limits. This will bring back a significant number of jobs. It is not clear if individuals who exited the workforce because of the pandemic are still uncertain or not yet able to return even as certain industries experience strong expansion, reopen at full capacity and offer higher wages.

Business Health

The business outlook is overwhelmingly positive – even recognizing potential headwinds. Widespread availability of the COVID-19 vaccine and falling positive cases give the sense of an exit from

INITIAL UNEMPLOYMENT COMPENSATION CLAIMS IN LANCASTER CO: 2-WEEK MOVING AVERAGE



pandemic conditions. This backdrop to the economy fully reopening is driving this optimism. Further fortifying the outlook are strong first quarter GDP figures, record high consumer spending, availability of funding through the American Rescue Plan and prospects of an infrastructure bill.

While these factors all add fuel to the economic recovery, they are also giving more credence to concerns over inflation. Business interviews across all sectors of the local economy consistently noted some challenges to managing the pace of economic expansion. Key concerns are:

- Supply chain bottlenecks
- Labor shortages
- Rising costs of materials and labor.

While these were not new issues, business concerns about them took on a new and stronger tenor.

Supply Chain Disruptions. Spot disruptions in supply chains have been a characteristic of the pandemic environment. At the start of 2021, businesses anticipated ongoing disruptions that would strain their ability to forecast costs and secure materials necessary for production. Recent interviews noted that the disruptions were beginning to act as a constraint to meeting customer demand. Raw material shortages and supply chain disruptions are particularly acute in construction and manufacturing.

Labor Shortages. Workforce remains a key issue with on-going difficulties attracting and retaining labor. Interviews with employers in the region echoed findings reported by the National Federation of Independent Businesses – record high levels of unfilled job openings. The difficulty of securing much needed workforce was universally discussed across all sectors. Employers noted that traditional strategies (from referrals bonuses, increased pay and job fairs) were having limited effectiveness with recruitment.

Rising costs. Both supply chain disruptions and labor shortages are materially impacting businesses – across most sectors and scales of business operations.

While these concerns were present throughout last year, they took on a new tone this month. The rising cost of raw materials is beginning to impact larger scale development projects and introduce hurdles to financing projects. While still too early to say for certain, some voiced concerns over how inflation, coupled with the potential for an interest rate hike (sooner than expected) could impact 2022 pipelines. Employers also noted that labor costs were on the rise as they actively compete for labor. The impact of raising base wages to fill essential, entry level vacancies across operations and over time is unclear.

Looking Forward. Despite the potential for inflation and persistent labor challenges, businesses voiced optimism about the lessons learned over the past year. Across all sectors, businesses shared that expectations about work schedules and remote working were still in flux and evolving as they transition towards a new normal with their employees. Many noted that the availability of COVID vaccinations eased pathways towards bringing employees back to the office. There was little consensus, however, on the timing and pace for completing a transition back to the workplace or for adjusting their real estate footprint.

***Outlook:** Businesses are generally optimistic. For many, particularly in manufacturing and construction, activity has been robust and is projected to keep at a steady pace. As the recovery continues (and possibly quickens), businesses are planning on how to navigate transient supply chain bottlenecks, increasing difficulties in managing workforce and rising material and labor costs. For other sectors, such as retail and professional services, managing workforce and employee expectations as the economy opens remain a key area in transition.*

Methodology

Detecting and interpreting local economic 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).