



# INTELLIGENCE REPORT ON THE STATE OF LANCASTER COUNTY'S ECONOMY

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**REPORTED BY** ECONOMIC DEVELOPMENT COMPANY  
OF LANCASTER COUNTY'S  
CENTER FOR REGIONAL ANALYSIS

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## SUMMARY OF ECONOMIC ACTIVITY JUNE / JULY 2021

The US economy remained strong with second quarter GDP growth expected to be above 7%. Through the first part of the summer, the economy fully reopened, US vaccination rates led the world, and economic expectation remained bullish.

Attention shifted to more traditional economic fundamentals, with closer scrutiny on consumer spending patterns, labor force participation and price pressure. Sectors that performed well through the last 18 months – namely manufacturing, construction, and professional services – followed healthy growth paths. Hospitality and tourism sectors reopened to robust demand. Early July interviews confirmed that local businesses were part of the economy's strong reopening, while also tackling rising labor and material costs, combined with spot supply shortages and ongoing high levels of job openings.

Although local conditions are generally consistent with national reports, differences in local and national trends emerged. The June and July read on consumers highlighted differences by income and region. In July, Lancaster County expectation for the local economy rose as the national outlook darkened. Consumer spending has been strong, playing a critical role in fueling the US economic recovery. This departure in outlook raises an early flag. If concerns over rising prices and income disparities gain traction, they could act as a brake on the pace of the local economy's recovery in the second half of this year.

Households and businesses, alike, shifted attention away from the public health threat of COVID in the early part of this summer. In Lancaster County, the measure of future expectations hit its highest level since April of last year, coinciding with the lowest reported level of concern over the threat COVID-19 posed for personal finances. Since the early July survey, COVID cases have ticked up and a growing number of states are reinstating measures to curb the spread of the coronavirus. This latest trend renews questions around how quickly the US and local economies will be able to transition out of the pandemic economy.

### DATA SNAPSHOT

#### GDP: NATIONAL & PA

- » June meeting of the FOMC showed continued confidence in the US economy expanding.
- » Q1 GDP grew at an annualized rate of 6.4%; Q2 is forecasted to pick up speed despite concerns over inflation.

#### CONSUMER OUTLOOK

- » Consumer sentiment fell through May and June, coming off of a peak in early April. July results show a halt to the drop but provide weak indication of a fast recovery.
- » The County's consumer sentiment score in July was 87.2, rising less than one point from June. Nationally, consumer sentiment fell six points to a score of 80.8.

#### UNEMPLOYMENT

- » Lancaster County's unemployment rate steadily fell through the first half of 2021.
- » May's unemployment rate was 4.5% (12,500 unemployed persons), down from 6.3% (17,200 person) in January.
- » Bureau of Labor Statistics estimates that the County's total labor force has not fully recovered.

#### SMALL BUSINESS CONDITIONS

- » Business attitudes appear positive, while acknowledging the challenges of rising materials and labor costs; transient supply chain disruptions; and increasing difficulty in securing talent.

**GDP:  
NATIONAL &  
PENNSYLVANIA**

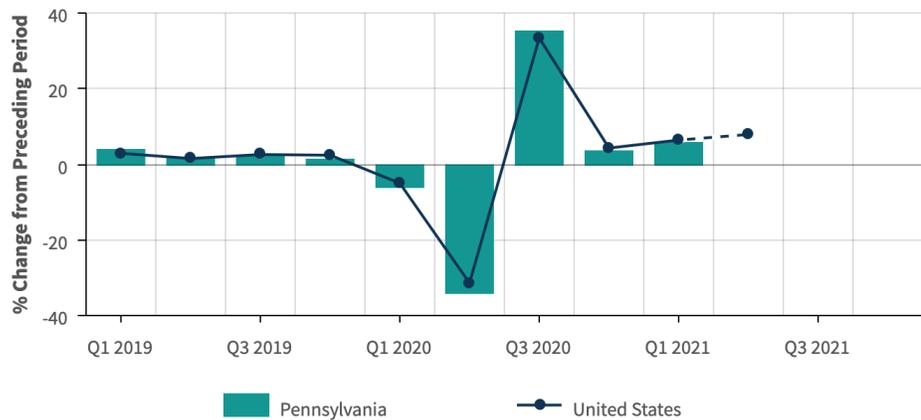
The US economy expanded rapidly coming out of the pandemic environment this year. The second quarter GDP estimate (released later this month) is anticipated to be around 7%, conveying ongoing confidence in the US recovery.

Economic projections remain strong for the rest of 2021 despite growing concerns over inflation, the labor market, and a slowdown in consumer spending. Several factors, related to economic rather than pandemic conditions, appear to be fueling the strong outlook. Past stimulus buffered business and household liquidity, minimizing debt accumulation typically associated with recessions, and government spending is projected to support the economy. Productivity impacts are anticipated to trend positively as the pandemic accelerated the adoption of technology in business operations and private investment remained solid through the past 18 months.

**OUTLOOK** *The economy was transitioning out of the pandemic and finding its footing in a new normal, but recent rising COVID infection rates may disrupt this trend. Expect the remainder of the year to have strong growth but with mixed signals. Businesses and households will need to adjust to temporary supply chain disruptions, discern where price and wage growth is transient, and await a labor market finding some stability.*

**US & PA REAL GDP: Percent Change as Annual Rate**

\* Q2 2021 Estimate: Per Atlanta Federal Reserve on 7/9/2021



**CONSUMER  
OUTLOOK**

Lancaster County consumer sentiment remained essentially unchanged in July, moving from 86.5 in June to 87.2. Nationally, the measure of sentiment fell nearly six points to 80.8 in July.

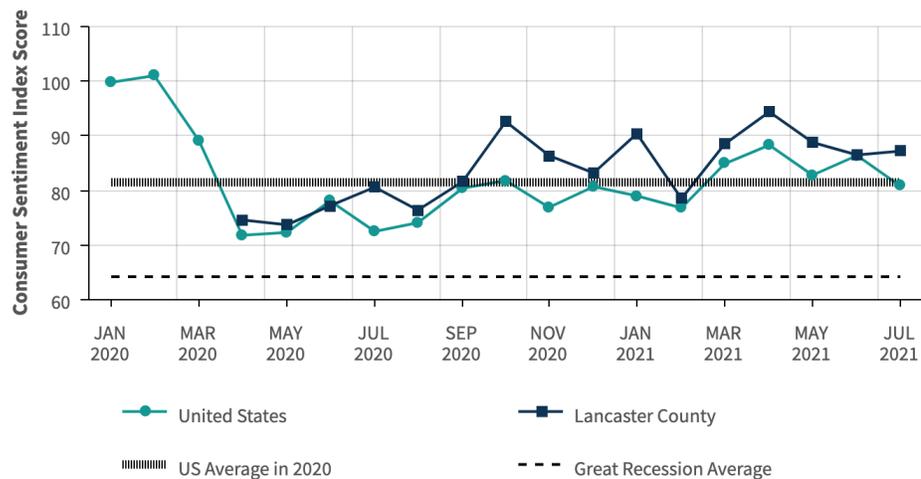
Although local consumer sentiment did not move much this month, Lancastrians are reporting a stronger divide between current conditions and future expectations. Matching national findings, current conditions for households continued to slide in Lancaster County. Negative attitudes towards making large purchases were a factor in downgraded current conditions. At the same time, the County poll showed households doubled down in their optimism despite growing concern over rising prices. The measure of future expectations rose to reach its highest level since April of last year. This coincided with the lowest reported level of concern over the threat COVID-19 posed for personal finances.

The timing of the July poll preceded recent reports of rising COVID cases nationally and the re-introduction of public health measures in some areas of the country. To date, the transition out of a pandemic economy has been bumpy, largely coinciding with the rise and fall of COVID cases. Through the summer months, public health concerns took a backseat as consumers focused concerns over the labor market and household finances. Whether rising prices and the persistence of COVID cases impacts the pace of the national and local economy in the second half of the year remains unclear.

**OUTLOOK** *As the US continues to climb out of a pandemic economy, differences in local and regional markets are emerging. These differences suggest that local economies can expect to see growth patterns that may not follow the nation. Lancaster County's results bolster concerns that consumer spending may become fragile, dampening the pace of the economic recovery in the second half of this year.*

**CONSUMER SENTIMENT: National\* and Lancaster County**

\* Results from a national survey on consumer sentiment conducted by the University of Michigan.



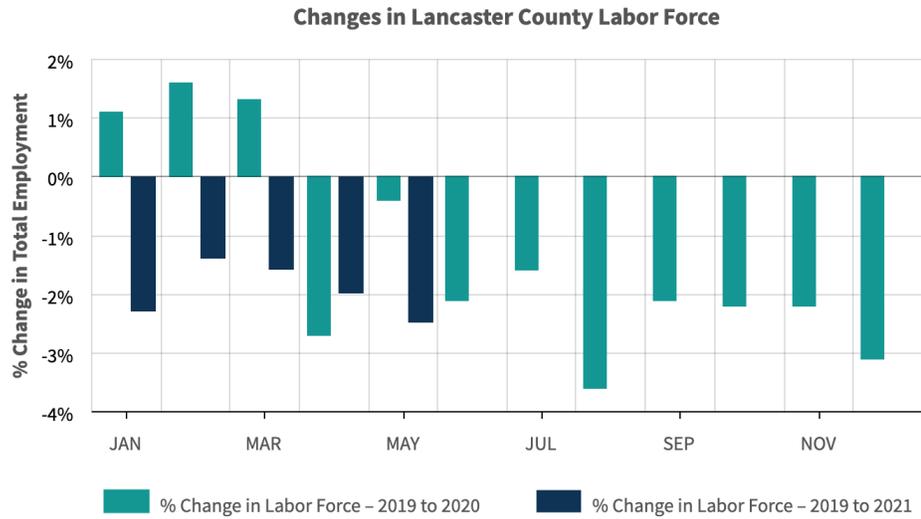
UNEMPLOYMENT

The labor market continues to be an area of intense focus. With the economy fully reopened and the pandemic-driven unemployment compensation benefits being phased out, the labor market searches for a new equilibrium. National data points to the number of job openings growing, despite sustained levels of unemployment and rising wages.

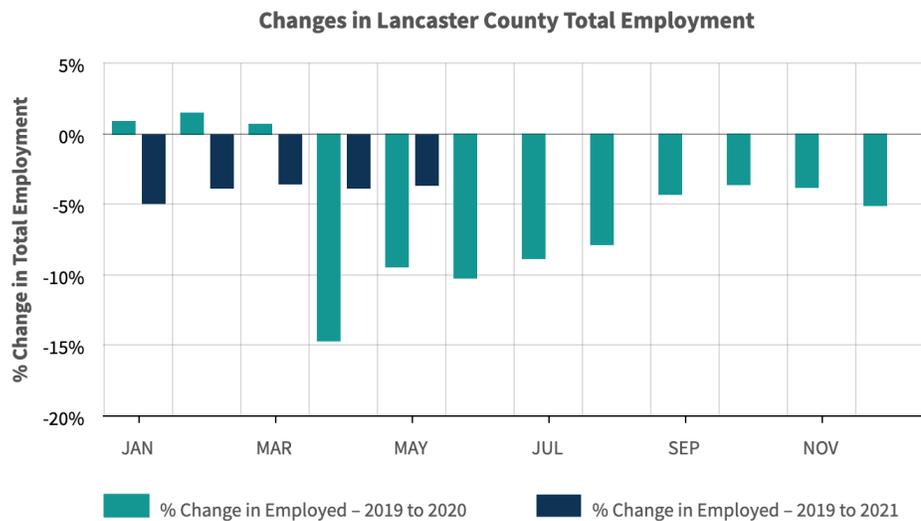
Some economists anticipate current labor market stress extending into the fall months as employers and potential workers work through the “matching” process. Data for Lancaster County suggests it is not immune to these challenges despite key sectors having navigated the pandemic economy. The County’s labor force mirrors national trends, with it struggling to return to pre-COVID levels. In May, the County’s labor force was estimated at 277,500, which was 2.5% smaller than in May 2019 and with a larger share of unemployed. Compared to the same month in 2019, the number of employed persons was down 10,100 and unemployed up 3,100. The slow pace for jobs to return in some sectors, such as hospitality and administrative

**UNEMPLOYMENT  
(CONT'D)**

and waste services, and the hesitancy of some workers to return to the labor market (due to lingering public health concerns or limited availability of some key services, such as childcare) contributed to the labor force contraction.



While unemployment remains elevated, it has steadily improved through the year and is expected to keep improving. The unemployment rate for Lancaster County was estimated to be 4.5% in May, down from 6.3% at the start of the year.



**OUTLOOK** *A return of jobs and pre-pandemic labor force participation levels are necessary components of Lancaster County's economic recovery. The pandemic created a strong and sustained disruption to the labor market in terms of labor supply and availability of jobs. Expect ongoing tight labor market conditions through this year as workers and employers wait to see if the County fully transitions to a post pandemic normal.*

## SMALL BUSINESS CONDITIONS

The attitudes of business leaders in the region remained steady in early July. They voiced strong, ongoing positive outlooks, with expectations that the business environment will continue to improve through the year. However, consistent with reports in May, business concerns are firmly focused on current market conditions. The pace of activity coming back online amplified concerns over ongoing labor shortages, rising prices, and supply chain bottlenecks.

Across the sectors, employers report difficulties attracting and retaining labor, with sustained, high levels of openings. Difficulties hiring has spread across all sectors, including hospitality and tourism, and is curtailing business efforts to ramp up services. Several employers have rolled out new wage and incentive structures in an effort to attract applicants, as traditional strategies (referrals and job fairs) have had limited effectiveness. They reported that increasing starting wages has helped but not enough to fill much needed openings or curtail high turnover.

A few themes cropped up in July's interviews, signaling potentially new areas to watch in the coming months. These included the mention of business closures, particularly upstream in supply chains; turnover in profession service positions; and concern over pandemic conditions stretching into the fall months.

### OUTLOOK

*Business attitudes remain generally positive, noting the pickup in activity. However, headwind costs are taking root in supply chains and securing adequate labor supply. Businesses face continued difficulties in managing escalating prices for materials and labor. Expect these headwinds to persist through the year.*

**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** Please contact Naomi Young, Director, EDC's Center for Regional Analysis » [nyoung@edclancaster.com](mailto:nyoung@edclancaster.com).



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