



# 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

JULY / AUGUST 2021

The economy – locally and nationally – remains strong despite the headwinds generated by the rapid growth that marked the first half of 2021. Economic forecasts cut GDP growth to around 3.7% for the second half of the year. While still bullish, the forecasts reflect a more modest pathway.

The shift in GDP growth lines up with business activity in Lancaster County. Local economic data points to Lancaster County having reopened this past summer to robust market activity. Retail, tourism and hospitality experienced record level revenue reflective of pent-up demand and healthy household incomes. Goods producing sectors, like manufacturing and construction, were also busy and did not appear to slow down during the summer.

Despite healthy demand, the resurgence of COVID coupled with a labor force that is still struggling to return to pre-pandemic levels are causing concern. These trends point to new potential drags on the economy. After a strong rise in household incomes, second quarter estimates walk back the gains. The Lancaster County consumer sentiment poll captured some of this dynamic, with current financial conditions for households beginning to wane in July. More recent polls show household concerns over inflation and the local economy deepening. This worry is starting to translate to consumer discomfort over making major purchases and could cause households to adopt a more precautionary position on spending for the remainder of this year.

October's data on the labor force and consumer sentiment will be a critical signal for businesses heading into the holiday season and planning for 2022.

### DATA SNAPSHOT

#### GDP: NATIONAL & PA

- » Economic growth forecasts were downgraded over the past month as COVID cases rose, delaying labor market recovery and disrupting supply chain stabilization.
- » Q2 GDP grew at an annualized rate of 6.6%; Q3 forecasts reflect more modest growth, around 3.7%.

#### SMALL BUSINESS CONDITIONS

- » Many businesses remain bullish on consumer demand, but attitudes slipped in late August / early September over the prospects of rising costs, ongoing supply disruptions and an unstable workforce continuing through the fall and winter.

#### EMPLOYMENT

- » Lancaster County's labor force grew to 284,190, adding 7,700 people over June and July.
- » Growth came with an increase in the number of employed and unemployed. The net effect drove the unemployment rate up to 5.4% in July.

#### CONSUMER OUTLOOK

- » Consumer sentiment plunged to a new low in August amidst the rapid spread of the Delta variant and rising prices.
- » September's score remained depressed, gaining only six points. It raises flags over whether household spending can stay strong through the rest of 2021.

#### 2020 CENSUS RESULTS

- » Lancaster County's population was 552,980 according to the 2020 Census. Over the last decade, it grew by 6.5%, adding 33,540 people.

**GDP:  
NATIONAL &  
PENNSYLVANIA**

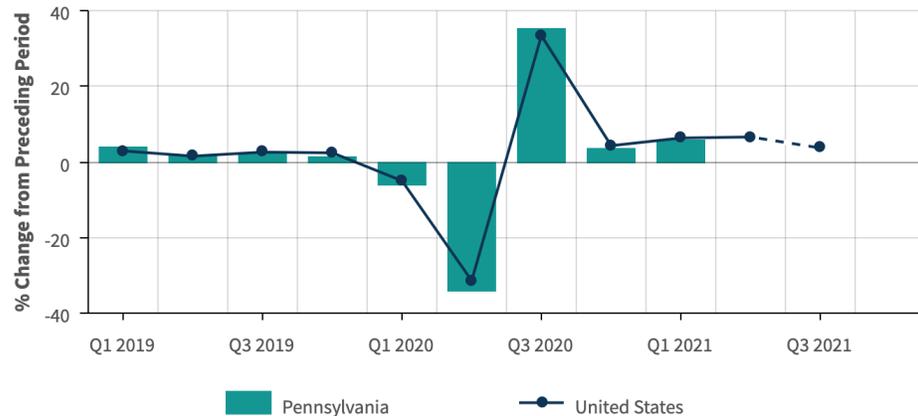
Third quarter growth forecasts are now hovering around 3.7%, down from early estimates in excess of 6%. While still strong, downgraded projections signal economic headwinds and the spread of COVID are putting the brakes on the recovery.

The change in GDP forecasts is abrupt but not surprising. Several factors related to economic fundamentals rather than pandemic conditions, such as labor shortages and inflation, have been present throughout the year. However, the recent resurgence of COVID cases and the stall in vaccination rates have created conditions where households and businesses are shifting their focus back to how pandemic conditions may unfold through the remainder of 2021.

**OUTLOOK** *While still strong, downgraded growth expectations signal that the economy has lost some of its economic footing in establishing a new normal. The resurgence of COVID cases raises new uncertainty about when the economy can transition out of the pandemic. Expect the remainder of the year to be marked by ongoing supply chain disruptions, inflationary pressure, and a delayed labor market recovery.*

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

\* Q3 2021 Estimate: Per Atlanta Federal Reserve on 9/10/2021



**SMALL  
BUSINESS  
CONDITIONS**

Lancaster County business across key sectors conveyed similar attitudes in September. Demand is strong. Workforce continues to be challenged. Supply chain disruptions continue. Materials and labor costs keep rising. However, the business outlook remains bullish as they settle into the resurgence of COVID cases and a recognition that emerging from the pandemic is being pushed back.

For sectors like manufacturing, construction, transportation and warehousing, the positive expectations are supported by strong cash balances and healthy pipelines as businesses plan for 2022. Businesses in these sectors are seeing major capital projects across health, residential and senior living and professional services moving forward, despite questions around how the workplace will be transformed by the pandemic.

Sectors directly serving consumers, like retail, hospitality and tourism, have tempered their outlook in the last few weeks. During the summer, they consistently reported reopening to strong demand at the start of the summer. Several interviews noted that their summer numbers surpassed 2019 levels. However, the resurgence of COVID, coupled with labor shortages, is prompting some to reevaluate fall expectations. The hospitality sector is starting to see some cancellations going into the fall months.

**SMALL BUSINESS  
CONDITIONS  
(CONT'D)**

National retail data and local employment data align with the insights from County businesses. In general retail and food service sales have tracked extremely strongly through 2021. Seasonally adjusted monthly sales for the nation have averaged 19% above 2019 levels this year. That said, the national sales data reveals that this high level of consumer spending is not consistent across all categories. For example, furniture and home furnishings are up 22% compared to 2019. Grocery store sales have averaged 11% to 14% above 2019 levels since the start of the pandemic. In contrast, other retail segments did not recover until this year. Gas station sales revenue was down 16% last year; this year it is tracking 9% above 2019 levels. Food service and drinking establishment sales paint a similar picture, with sales down 19% last year and not bouncing back until April of this year as things started to reopen.

Interviews with business across a wide swath of industries also identified a consistent set of challenges – particularly with respect to managing workforce. These include recalibrating pay scales, adjusting plans for bringing workers back into the workplace, responding to new public health measures and mandates, managing turnover in professional staff, and modifying operations to match labor availability. Many businesses appear to have adjusted to the prospect of supply chain disruptions and cost increases persisting into 2022.

**OUTLOOK**

*Delays and uncertainty over when the US will emerge from the pandemic is anticipated to slow the recovery in some sectors, like leisure and hospitality, and to extend labor shortages through the remainder of the year for all sectors. Despite the anticipated setbacks, businesses generally report relatively strong cash balances coming off of the summer months, which will buffer them against rising prices and the potential for demand to weaken over the remainder of this year.*

**EMPLOYMENT**

Labor shortages continue to characterize the labor market with record levels of job openings coinciding with higher than usual unemployment. While Lancaster County is not immune to these conditions, it showed some glimmers of improvement. Over the summer, it had two consecutive months of gains, adding a total of 7,700 people to reach 284,185 by July. Despite the gains, the County's labor force remained 3% below 2019 levels. This equates to roughly 7,800 fewer people in the labor market compared to July 2019, reinforcing tight labor market conditions.

The labor force which comprises employed and unemployed persons saw both components grow. The number of employed persons increased by 1.7% from May to July. Over the same period, the number of unemployed rose by 2.7%, resulting in the County's unemployment rate climbing to 5.4%.

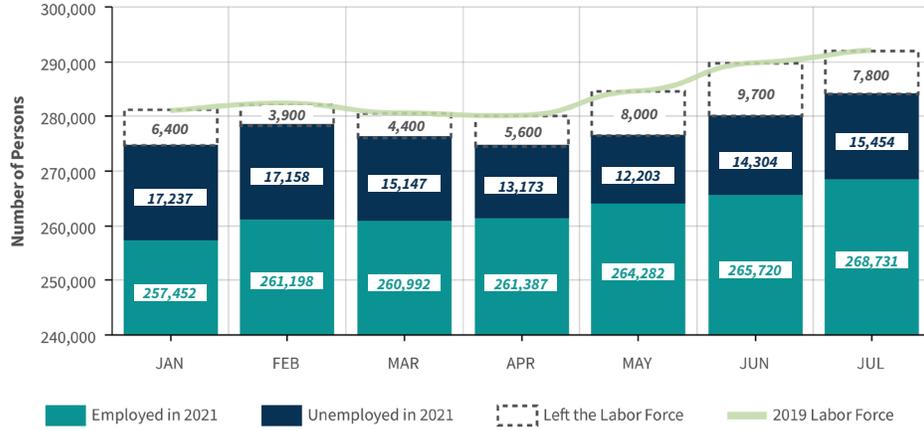
While August and September labor statistics have not been released, unemployment compensation (UC) claims provide some insight. Many expected to see initial UC claims rise as the Delta variant rapidly spread and interjected renewed uncertainty in the job market. This expectation did not bear out in the data. Initial UC claims in August recorded some of the lowest levels since the start of the pandemic. They averaged just under 300 per week. Notably, the low levels were consistent across all sectors in the County. Data for the first two weeks of September show initial UC claims on the rise across all sectors, but the trend is more likely attributed to the seasonal patterns.

**OUTLOOK**

*The August and September jobless claims suggest that the labor market may be finding some stability despite the resurgence of COVID cases. The County's labor force showed signs of improvement, but participation is gradual. Expect labor force participation to be influenced by local pandemic conditions, with ongoing labor shortages for the remainder of the year.*

**EMPLOYMENT**  
**(CONT'D)**

**Labor Force 2019 and 2021 Comparison**



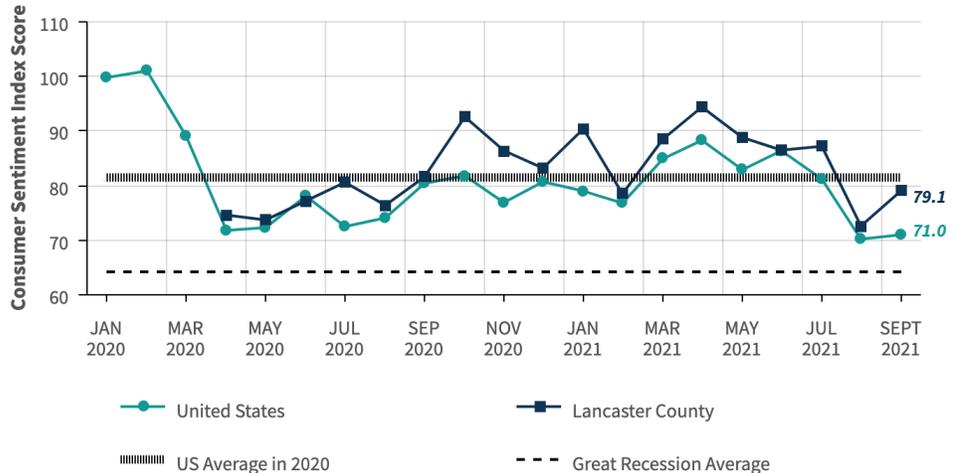
**CONSUMER OUTLOOK**

Consumer sentiment in September showed ongoing unease. Last month, the Lancaster County poll recorded the lowest score in consumer sentiment since the start of the pandemic last April. The decline was largely attributed to the rise in COVID cases coupled with worry over economic conditions – namely inflation. Many analysts anticipated consumer sentiment would recover in September. This month’s poll results show consumer sentiment in Lancaster County made a weak recovery. The consumer sentiment score for Lancaster County gained six points in September, moving from 72.6 to 79.1. Nationally, the consumer sentiment hardly changed, rising less than one point to 71.

The slight uptick in attitudes among Lancaster County residents was the result of very small changes across all components of the consumer sentiment measure. The modest movement in the consumer sentiment score masked how County respondents made a notable shift. The focal point moved away from COVID to economic fundamentals (inflation and labor market conditions) that are undermining household finances and the broader economy.

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

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



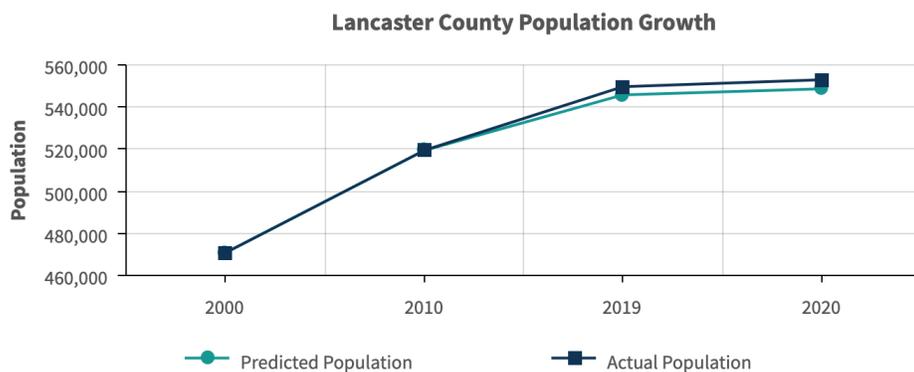
2020 CENSUS  
REPORT

OUTLOOK

Consumer sentiment in August and September show concerns over the economy and COVID weighing heavily on households. The polls capture ongoing apprehension over the health of household finances and when business conditions will improve. This worry is starting to translate to consumer discomfort over making major purchases and could cause households to adopt a more precautionary position on spending for the remainder of this year. October's poll will serve as a signal regarding holiday spending, a critical time of year for many consumer businesses.

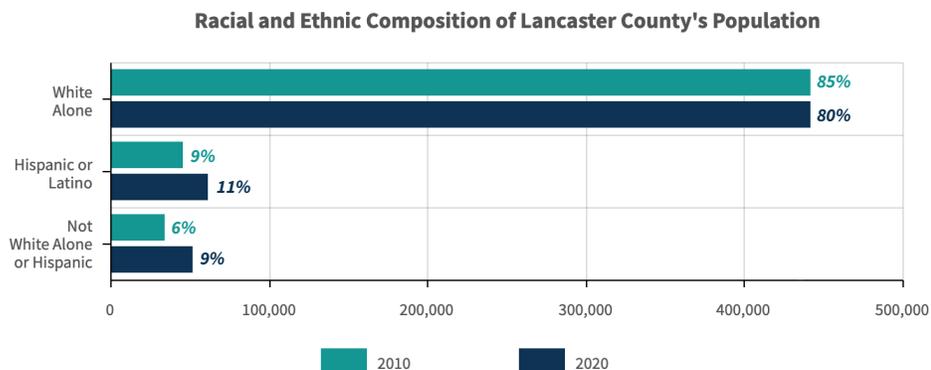
The first round of 2020 Census results were released last month. The results show that over the last decade population growth and racial and ethnic diversity departed from Census estimates. Lancaster County's population in 2020 was 552,980. It grew by 6.5% between 2010 and 2020, adding 33,540 people.

The population growth was larger than estimated by the Census Bureau. Census estimates would have placed the County's population at 548,640 by 2020, roughly 4,340 fewer people or growing by 5.6% over the 10-year period.



Lancaster County's population growth strongly outpaced the State, but not the nation. Pennsylvania's population grew by 2.4% from 2010 to 2020, while the US population grew by 7.4%.

Census results showed racial and ethnic diversity increased over the last decade in the County. This change in the composition of the County's population was consistent with national trends towards greater racial and ethnic diversity. According to the 2020, the White population remained the largest race or ethnic group but fell as a share of the population. From 2010 to 2020, it fell from 85% to 80% of the population. The Hispanic or Latino population in the County increased from 9% to 11% of the total population. Other racial groups that were not Hispanic in ethnicity increased from 6% to 9% of the population.



## 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

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