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

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The economic data for Lancaster County points to prevailing strong demand despite headwinds generated by the rapid growth in the first half of 2021 and ongoing uncertainty caused by COVID. Consumer spending has generally risen through the fall months even as polls of County residents show increased concern over inflation and less favorable views on making large household purchases.

Keeping pace with demand, however, is straining businesses. Lancaster County businesses have had to operate with fewer workers. For some businesses this means difficulties expanding their workforce to meet demand that has exceeded 2019 levels. For others, the labor shortage means stunted progress towards returning to pre-pandemic levels. As of October, total nonfarm employment was down by nearly 13,000 workers (compared to 2019). This reflects a labor force that remains below pre-COVID levels, coupled with elevated unemployment. At the same time, wage growth has picked up speed through the year. Over the first nine months of 2021, the average hourly earnings for the private sector were nearly $26.50; it increased by $1.90 (7.8%) compared to 2019.

With the recent emergence of another COVID mutation, ongoing supply chain disruptions and strong inflation, businesses and consumers appear to be diverging in their outlook. Business attitudes remain positive as they anticipate solid demand, despite the fatigue that comes from having been stretched too thin in navigating the operational and economic challenges of the last 20 months. In contrast, consumer sentiment continues to darken. County households report weakening financial conditions and waning optimism about the health of the local and national economies over the next 12 months.

This divergence in attitudes sends mixed signals for what to expect in the coming months. National forecasts predict robust growth and gradually improving conditions in 2022. Local conditions may mirror the national forecasts, however, it will likely hinge on whether dampened consumer attitudes continue into the new year and eventually curtail household spending patterns.

DATA SNAPSHOT

GDP: NATIONAL & PA

» Q3 GDP grew at an estimated 2%. This represented a significant slowdown from Q2 where GDP grew at an annualized rate of 6.6%.

» Q4 GDP is expected to pick up.

SMALL BUSINESS CONDITIONS

» While many businesses remain bullish on consumer demand, attitudes slipped as businesses shared a sense of fatigue over persistent rising costs, ongoing supply disruptions, an unstable workforce and continuing COVID-driven uncertainties.

EMPLOYMENT

» September's unemployment rate fell to 4.2%.

» The total labor force was 278,220 in September, with 266,430 employed persons. Total unemployed persons was 11,790.

CONSUMER OUTLOOK

» Consumer sentiment set a new low in November according to national (fell five points to 66.8) and local (dropped over 11 points to 66.2) polls.

» The decline raises flags over whether household spending will finish the year on a strong note..

GDP: NATIONAL & PENNSYLVANIA

The estimate for third quarter US GDP (Q3 GDP) growth showed the economy slowed as businesses and households struggled to cope with drawn-out pandemic conditions.

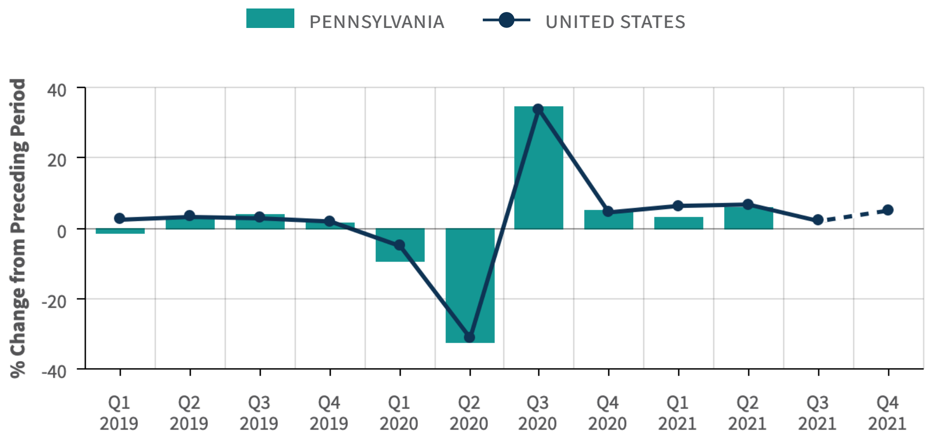
GDP grew strongly in the first half of this year, with the economy expanding at an annualized rate north of 6%. Through the third quarter, expectations were repeatedly downgraded in response to three significant and ongoing drags on the economy – supply chain disruptions, persistent inflation, and low labor force participation. The current estimate of Q3 GDP growth is 2%.

For many analysts, these impediments to economic growth have lasted longer than expected, and there is active debate over when they may dissipate. Despite the uncertainty, forecasts for the fourth quarter and next year suggest some easing of these headwind conditions which will help economic growth to pick up.

OUTLOOK *Persistent headwinds from COVID, inflation, supply chain disruptions and labor shortages caused weaker than expected third quarter growth. These drags on the economy are expected to last through the rest of this year, causing slower but solid economic growth in the fourth quarter.*

US & PA REAL GDP: PERCENT CHANGE AS ANNUAL RATE

** Q4 2021 ESTIMATE PER THE CONFERENCE BOARD (11/10/2021)*



SMALL BUSINESS CONDITIONS

Across key sectors, businesses continue to face a similar set of conditions. Businesses have had to deal with rising costs, unreliable inventory and difficulties in securing talent given a labor force that has not yet returned to pre-COVID levels. Interviews with County businesses revealed that many have adjusted to the idea of these strains extending into 2022, but these pressures are taking a toll. Some businesses shared a sense of exhaustion over managing the ongoing difficulties, particularly when it comes to their workforce. Employment data for the County shows that the labor force continues to recover but at a slow pace. In the first nine months of the year, Lancaster County's labor force was 2.5% smaller (7,070 fewer people engaged in the labor market) compared to 2019.

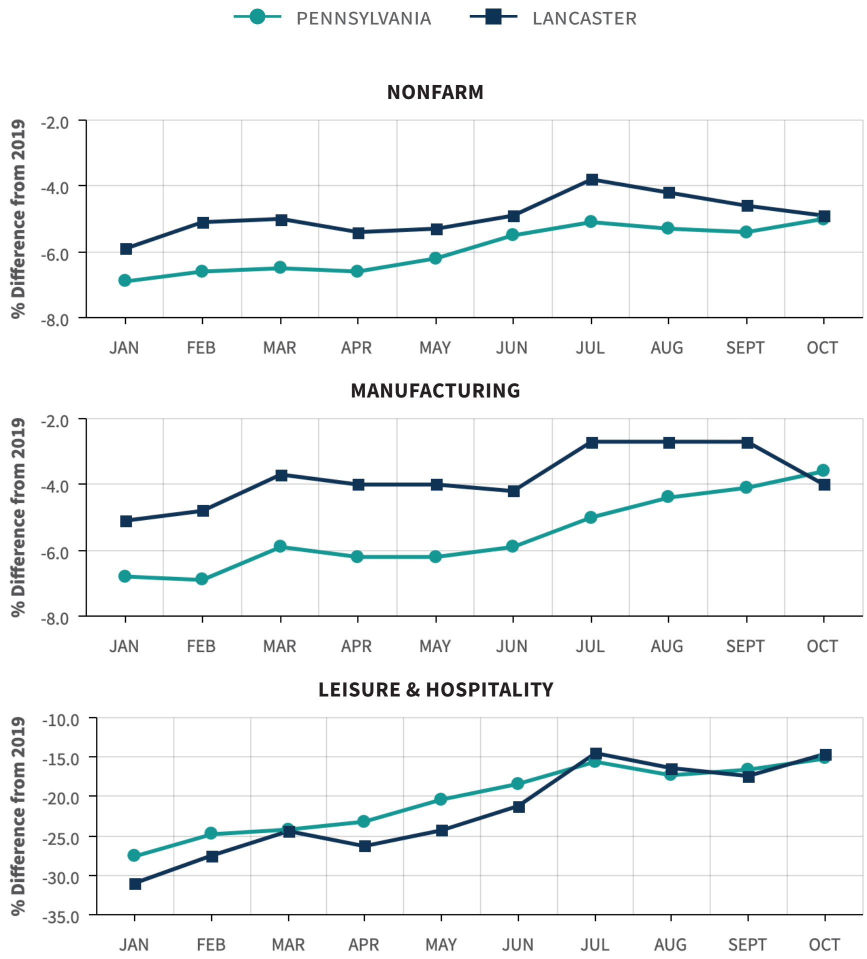
This labor shortage has impacted the County's employment base in different ways. For the goods producing sectors, the employment base has steadily climbed through the year to the point that total employment is within hailing distance of 2019 levels. Despite these gains, these businesses still have significant unmet labor needs.

SMALL BUSINESS CONDITIONS (CONT'D)

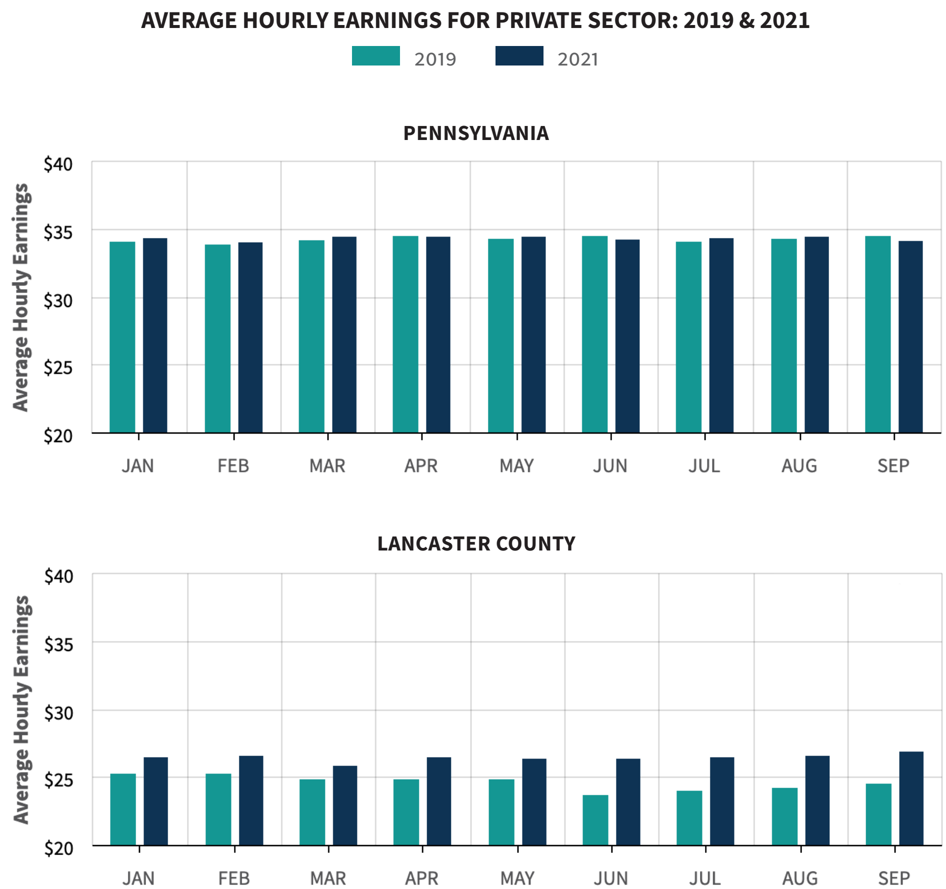
In contrast, many of the service sectors in Lancaster County are struggling to rebuild their workforce and, anecdotally, the labor shortage is curtailing operations. The employment data shows that October's total employment in the County's service sectors (such as retail, healthcare, food service and accommodation) is down around 5.8% compared to 2019. This equates to the service industries operating with roughly 12,000 fewer workers.

The labor shortage is most acute for leisure and hospitality. Local data and interviews report strong activity through October. Hard hit hoteliers saw good occupancies and ADRs but struggled to find a workforce that could meet the demand. This sector had 21,700 employees in October, which was 3,300 fewer than in 2019. Retail also faces challenges heading into the holiday season. With around 28,300 workers in October, its employee base has contracted by 5% (compared to 2019).

2021 EMPLOYMENT BY SECTOR: % DIFFERENCE FROM 2019



In addition to operating with fewer workers, the business interviews highlighted two additional themes. First was persistent wage pressure to attract and retain talent. Wage growth has accelerated through the year. Private hourly wages are on average 7.8% higher than 2019 (or about $1.90 per hour higher). The second was that little consensus is emerging on: (1) when and how to bring workers back to the office; and (2) strategies that balance public health measures and mandates with retaining workers. Many expect current hybrid and remote working to become permanent practices despite efforts to bring people back to the workplace.



While the weariness is causing the outlook to be less bullish, expectations remain generally positive particularly around pipelines and top line revenue. A recent survey of businesses reports a majority anticipate generally increasing activity over the next 6 months. Interviews with business leaders in Lancaster County echo this sentiment. Costs are up, but they anticipate demand in 2022 to remain robust.

OUTLOOK *Despite the ongoing challenges of supply chain bottlenecks, inflation, and labor shortages, demand is anticipated to remain robust. Expect COVID-induced uncertainty and economic headwinds that have characterized 2021 to dissipate sometime next year.*

EMPLOYMENT

With the return to school, the labor force typically contracts in August and September. Lancaster County followed this seasonal pattern. The County's labor force fell to 278,210 in September, reflecting roughly 3,900 fewer participants compared to August. Total employment fell by 700 to 266,430. Changes in the size of the labor force and the number of employed was reminiscent of 2019. The labor force contraction in September equated to 1.4%. This was slightly higher than in 2019, when September saw the labor force contract by 1.1% with the transition away from the summer season.

A key difference in September was the large drop in unemployment. The number of unemployed persons fell by 3,190 to 11,790. The net impact was an unemployment rate of 4.2%, down from 5.3% in August. While unemployment remains slightly elevated, the change is substantial and moves closer to pre-pandemic levels.

October data is not yet available for the County, but unemployment compensation (UC) claims offer some insight. Initial claims (which indicate job separations due to layoffs or involuntary separations),

EMPLOYMENT (CONT'D)

generally declined through October. The two-week moving average at the end of the month was 230, down from 480 at the start of the month. These numbers are consistent with pre-pandemic levels.

Notably, continued claims are also tracking at levels consistent with pre-pandemic trends. In the last week of October, the two-week moving average for continued claims was 3,210.

Despite improving conditions, the labor market continues to be a challenging area with reports of high job turnover coupled with record level job vacancies. At the moment, it is difficult to see these conditions easing in the near future.

OUTLOOK *The August rise of COVID cases derailed expectations of an autumn labor market recovery. The September and October jobless claims suggest that the labor market may be finding some stability, but it still needs to make strong strides before it can recover. Expect labor force participation to be influenced by local pandemic conditions, with ongoing labor shortages.*

CONSUMER OUTLOOK

Consumer sentiment took another dramatic dive this month. The November score reached the lowest level since the start of the Lancaster poll, dropping a substantial 11.8 points to 66.2. The score reflects the impact that increased inflation has had on personal economic conditions and a deteriorating view on when the local economy will bounce back. The County was not alone in its waning confidence. The US measure of consumer sentiment was 66.8, which was the lowest it has reached in a decade.

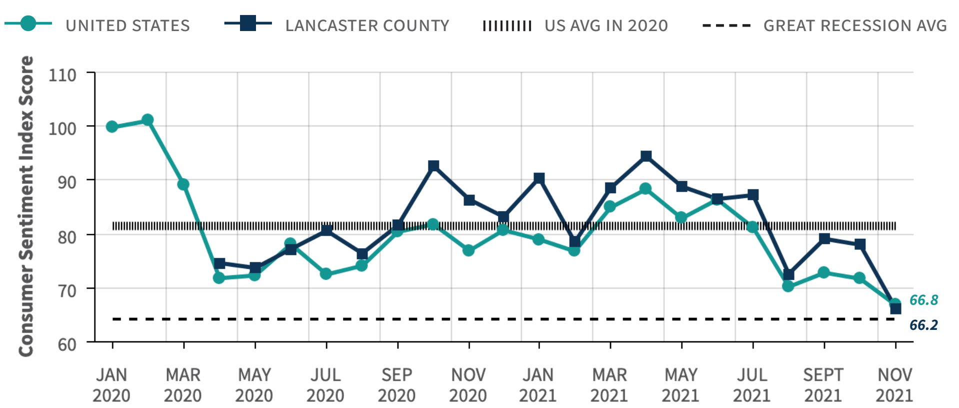
This is the fourth month of weak consumer sentiment for the County, but the key factors driving sentiment are shifting. Since August, COVID has been viewed as less of a threat to personal finances. County residents are, instead, turning to more traditional economic factors. Inflation was a frequently cited concern, which was consistent with it sharply rising in October to 6.2%.

Despite an increasingly foreboding outlook, consumer spending in the County has held up. It recovered in May, staying above levels observed in January 2020. After briefly softening in early September, it has steadily gained ground. As of mid-October, consumer spending in the County was 25% higher than January 2020 levels.

OUTLOOK *Households are keenly aware of inflation and thin inventories. To date, consumer spending has held up despite consumer worry and inflation. If the apprehensiveness continues, it is likely that a more conservative spending trend could emerge at the beginning of the new year.*

CONSUMER SENTIMENT: *NATIONAL & LANCASTER COUNTY

** RESULTS FROM A NATIONAL SURVEY ON CONSUMER SENTIMENT CONDUCTED BY THE UNIVERSITY OF MICHIGAN*



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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