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SUMMARY OF ECONOMIC ACTIVITY

Lancaster County appears to be faring better than some counties in the region. Labor market conditions offer some promise with the County's labor force participation poised to recover. The total number of people employed or actively seeking employment is almost back to pre-pandemic levels, but the County is at full employment. Key sectors in the local economy – like manufacturing – have an employment base that is at or above 2019 levels, while several sectors, like health care and tourism, are faced with strong demand and a smaller workforce. As we head into the summer months, employers are not likely to see any easing of challenges in attracting and retaining talent. Rising labor needs will likely tighten labor conditions and fuel more workforce churn.

Local business interviews and polls of County households detected growing concern over how economic conditions will take shape through the rest of the year. Households have been sharing a grim view of their current financial conditions for several months as inflation continued to accelerate. But this pessimism has not been raising strong flags as household spending has held up even as inflation accelerated. Consumer spending in the County has been tracking well above pre-pandemic levels.

The first quarter of this year highlights the complexity emerging in the economy and uncertainty over economic headwinds. First quarter US GDP growth did not deliver on expectations. It registered a 1.4% contraction instead of expansion. Accelerating inflation was a factor along with other drags on the economy coming from global disruptions to supply chains and food and energy markets. Countering these drags, business investment and consumer demand were healthy through the first part of this year and point to growth potential. Both appear to be holding up in Lancaster County and may serve as a buffer to the continued market uncertainty.

DATA SNAPSHOT

US GDP

- » *First quarter GDP growth was -1.4%. Despite the underperformance, growth expectations for the rest of the year remain positive.*

CONSUMER OUTLOOK

- » *Consumer sentiment continues to darken. The score fell to 61.3 in May as households continue to feel the effects of persistent, high inflation.*
- » *Consumer spending rose through the first quarter despite inflation remaining above 7%.*

UNEMPLOYMENT

- » *March data indicates Lancaster County's labor supply climbed to 282,500. The unemployment rate fell to 3.4%, with 9,600 unemployed people.*
- » *Both measures are comparable to pre-pandemic benchmarks and suggest the County is at full employment.*

BUSINESS CONDITIONS

- » *Despite strong first quarter demand, business outlook is beginning to shift. The latest surveys revealed less optimism about near term market condition.*

**GDP:
NATIONAL &
PENNSYLVANIA**

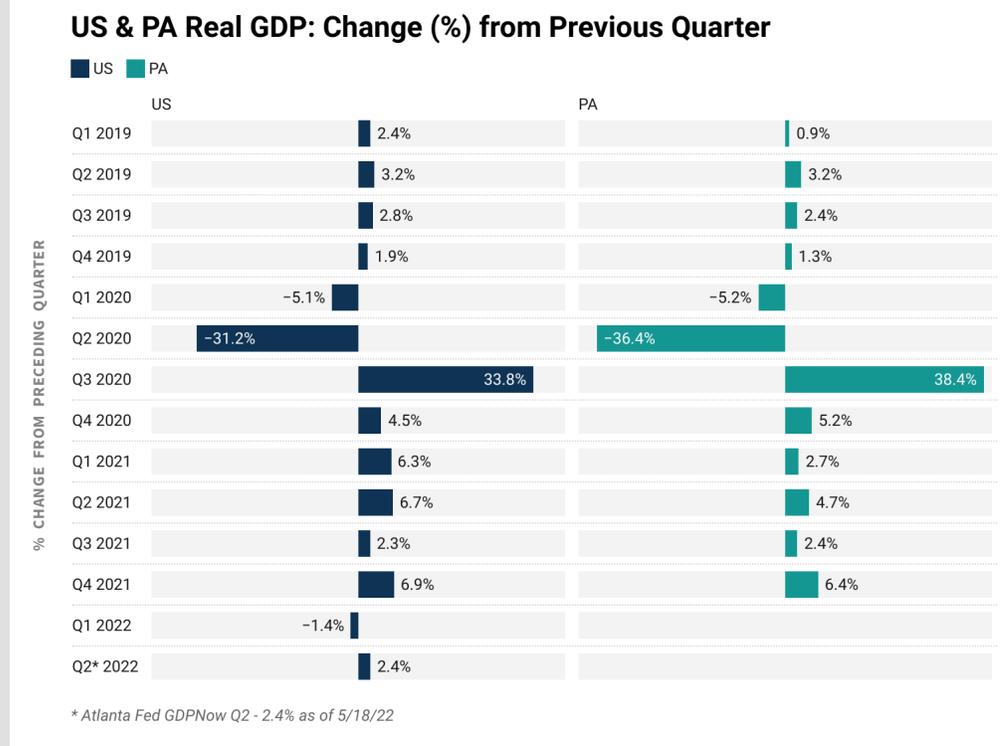
US economic growth did not meet expectations in the first quarter of this year. Forecasts had predicted GDP growth falling from 6.9% at the end of last year to 1.5%. Instead, the US economy contracted slightly, losing 0.4% from the fourth quarter of last year. This loss translates to an annualized growth rate of -1.4%.

While the decrease took many economists by surprise, it is not being cast as a recession. Key components of GDP remain healthy and point to growth potential. Private domestic investment was strong as businesses continue to make investments in equipment and productivity. Importantly, consumer demand remained resilient to accelerating inflation. Personal consumption picked up speed in the first three months of this year. It grew at a seasonally adjusted annual rate of 2.7%, largely supported by demand for durable goods and services. Slower government spending and weaker demand for US exports drove the GDP losses.

PA's economy continues to closely trail national trend. Fourth quarter GDP grew at 6.4%; the national estimate was 6.9%. If State growth continues to follow the national trend, Pennsylvania's economy will also have slowed in the first three months of this year.

OUTLOOK

Most forecasts build in multiple interest rate hikes and increased uncertainty over how economic conditions will evolve, but the outlook for the remainder of this year continues to be measured. The slow down captured in the first quarter is not anticipated to continue. Economic forecasts continue to signal positive growth for the remainder of this year – especially given a strong labor market and solid consumer demand.



CONSUMER OUTLOOK

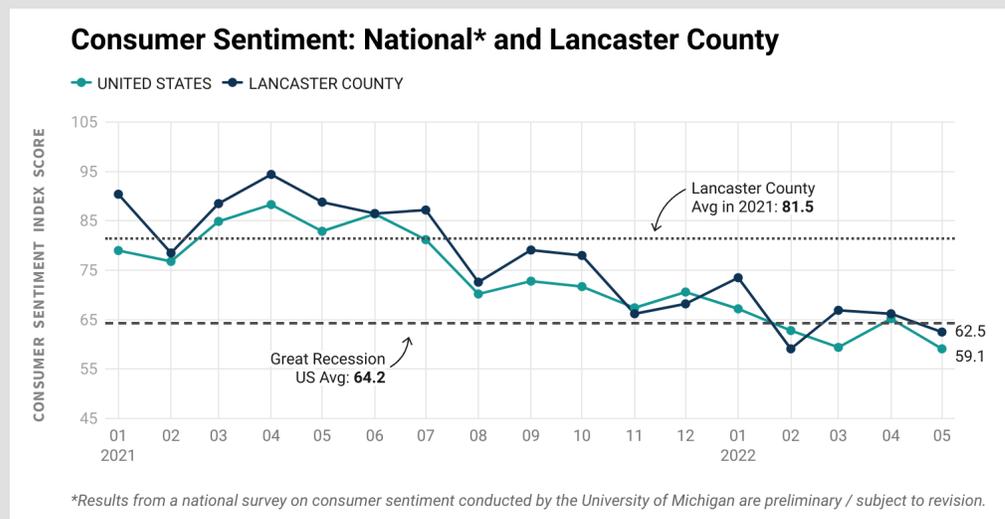
Consumer sentiment remains at recession-level scores. May's Lancaster County poll revealed the score dropped 5 points, coming in at 61.3. The US poll showed similar movement in May, falling six points to 59.1.

Both components of the consumer sentiment score contributed to the decline in May. The Lancaster poll captured worsening current household conditions along with greater apprehension for what the future holds. Only 9% of County respondents reported being in a better place financially than they were a year ago. 42% indicated they are worse off, marking the lowest percentage since the Lancaster County measure of consumer sentiment began. A large share of households also downgraded future expectations from optimism to uncertainty about where the economy is headed.

Inflation continues to erode household finances. While the headline number is 7.4%, the Lancaster County poll captured the attention households are placing on certain items, most notably gas prices. The Bureau of Labor Statistics reported a 43.6% rise in gas prices over the past year.

OUTLOOK

Expect consumer sentiment to remain weak, acting as a cautionary flag for the local economy. For several months, Lancaster County households have reported weakening current financial conditions but have maintained spending despite inflation. The disconnect between consumer sentiment and consumer demand underscores an uneasiness over how long households can maintain current spending levels especially as we head into the summer months.



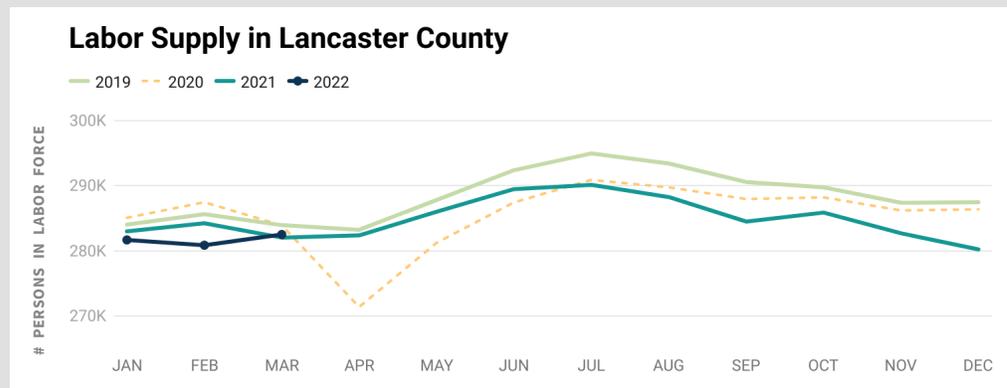
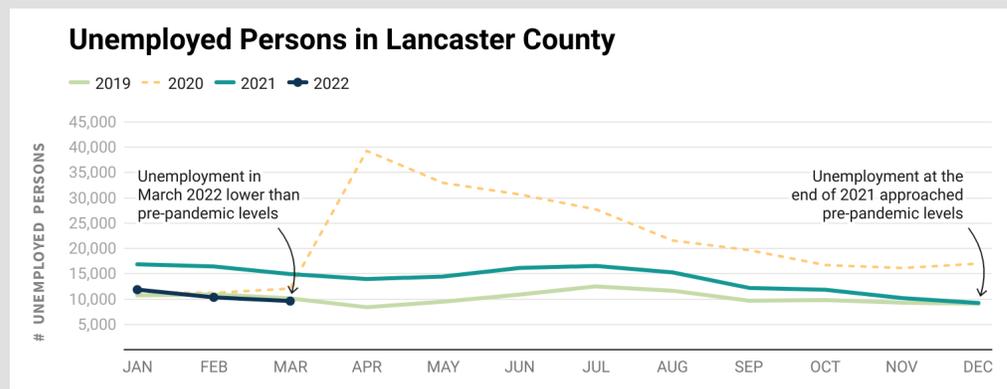
EMPLOYMENT

Revised data from the Bureau of Labor Statistics suggests Lancaster County's labor supply is headed toward pre-pandemic levels. While January and February were tracking well below 2019 and 2020 levels, March points to a strong recovery. The total number of people engaged in the labor market (ie, employed and actively seeking employment) rose to 282,500 in March (the latest available data point). It suggests that the County's labor supply is only half a percent off from pre-pandemic levels (or down 1,400 people). Recovery in Lancaster County is tracking better than the state, where labor supply was down 1.7% in March compared to 2019.

While improving labor supply is a welcome shift, employers are still face tight labor markets. The unemployment rate in March was 3.4%, with 9,600 unemployed people. The level and rate of unemployment was lower than in March 2019 and continues to suggest that the County may be at full employment which is contributing to the intense competition employers are feeling in attracting and retaining talent.

OUTLOOK

Several data points suggest Lancaster County's labor market conditions may be slightly improving. Total employment is beginning to rise, converging on 2019 levels. Hints of workforce stability may emerge heading into the summer season if COVID conditions continue to ease. However, competition to attract and retain workers and pressure to pay higher wages will likely persist.



Small business optimism weakened over the first three months of this year according to a survey conducted by NFIB. The share of businesses casting now as a good time to expand fell to a low of 4%, largely due to uncertainty over economic conditions and the political climate. The survey also saw more expecting business conditions to worsen over the six months and hints of tightening credit conditions.

Consistent with NFIB's survey, the US Census Bureau reported businesses downgrading expectations. Its Small Business Pulse Survey found only one-third of respondents expected business to return to normal within the next six months (down from 40% at the end of last year). Driving these shifts is the fact that labor force challenges and inflation continue to escalate, applying mounting pressure on operations.

BUSINESS HEALTH

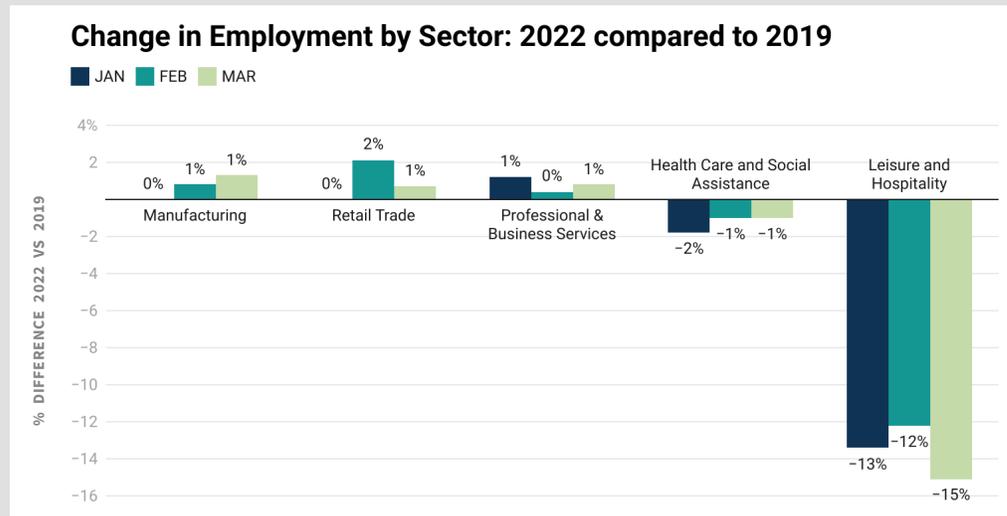
Locally, the employment data highlights how industries in the County are navigating the current labor market challenges and that workforce recovery is not uniform across the economy. Consistent with a rising labor force participation and low unemployment, key employer sectors have workforces that have returned to pre-pandemic levels. The retail and professional and business services sectors are also showing strong growth in the workforce. The first three months of this year are marked by workforce levels at or above 2019. The manufacturing sector, after two years of strong activity, has also exceeded 2019 employment levels. Despite this success, interviews with manufacturers highlight that they still have workforce challenges. High turnover, increasing labor costs, and ongoing strong customer demand, translate to unfilled positions.

In contrast, health care and leisure and hospitality are still operating with a contracted workforce. Unlike other sectors, health care's labor needs are steady throughout the year. Last year, the industry saw its employee base grow in the first half of the year, exceeding 2019 levels. After the summer, the workforce steadily declined to fall below 2019 and 2020 levels. The first three months of this year show a slight but positive trend. The total number of people working in the industry is still roughly 1% (or 400 people) below 2019.

The leisure and hospitality sector continues to be the hardest hit among the industry sectors. Last year, the industry reported strong gains – and for some, revenue and activity that exceeded 2019. Interviews with local businesses indicate that this momentum carried on through the first quarter of this year. While consumer demand is resurging, interviews also highlight that labor is a significant constraint on operations. In the first three months of this year, the industry workforce was still 12-16% below 2019 levels, representing a shortage of over 3,000 workers. Labor needs for this industry tend to rise through the spring and summer months. As activity ramps up, the ongoing labor shortage is likely to put more pressure on the sector's businesses, creating challenges to meeting demand and balancing ongoing price increases.

OUTLOOK

Business attitudes are beginning to shift as they push back expectations of when price pressure and supply chain disruptions will subside. While competition for talent and wage prices are a common challenge across all sectors, sectors with strong seasonality are likely to see these pressure rise as we head into the summer months.



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 bi-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, identify emerging issues, and confirm local relevance of national trends.

FOR MORE INFORMATION

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