



INTELLIGENCE REPORT
ON THE STATE OF
LANCASTER COUNTY'S
ECONOMY



LANCASTER COUNTY, PA
Economic Development Company

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SUMMARY OF ECONOMIC ACTIVITY

Overall, Lancaster County's economy remains healthy. However, the data continues to point to some exposure of softening market demand as the Federal Reserve tries to combat inflation while not causing a deep recession.

The county is experiencing strong job recovery; almost all of the jobs people had before the pandemic are filled. We also have the backdrop of economic growth that has occurred since the beginning of the pandemic. Businesses have been experiencing solid demand in 2022 which has led to more jobs and higher employment. The County's aging demographics have constrained the labor supply, resulting in fewer available workers. High employment mixed with a labor supply that is settling in at 2021 levels has resulted in a low unemployment rate of 3.8% and a continually tight labor market.

Despite inflationary pressures, consumers have maintained spending levels. While sentiment levels that gauge the perception of the economy are still low, they are becoming gradually more optimistic about local conditions. Lancaster's trademark confidence in the local economy remains higher than national confidence levels.

Local business interviews and polls of County households have expressed concern over economic conditions in the coming season and looking ahead to 2023. Inflationary pressures have remained one of the top concerns of both households and local businesses, with inflation rates remaining high at 8.2% in September. The Fed has indicated that it intends to continue to raise interest rates. This is creating unease in the business community on the impact of rate-sensitive investments.

GDP rose in the third quarter after stalling through the first half of the year. It came in at +2.6% nationally. In the second quarter, Pennsylvania's GDP measured -0.9%, mirroring national trends. GDP growth is expected to continue to rise in the fourth quarter of 2022.

DATA SNAPSHOT

GDP

- » Preliminary third-quarter **US GDP** estimate is +2.6%. The Atlanta Fed forecasts positive 3.1% GDP growth in the fourth quarter.
- » Second quarter **PA GDP** growth was -0.9%.

CONSUMER OUTLOOK

- » For the fourth month in a row, US consumer sentiment (59.8) improved but remains at recessionary levels.
- » Lancaster County's consumer sentiment gradually rose 11 points from July to 72.86 in September.

EMPLOYMENT

- » Lancaster County's labor supply dipped to 288,800 in August.
- » The unemployment rate held at 3.8%, with 11,100 unemployed people.
- » Negative pandemic labor force shifts appear to be holding, as 2022 data is tracking consistently with 2021.

BUSINESS CONDITIONS

- » The business outlook is uneasy given challenges stemming from inflation, the tight labor market, and rising interest rates.

GDP: NATIONAL & PENNSYLVANIA

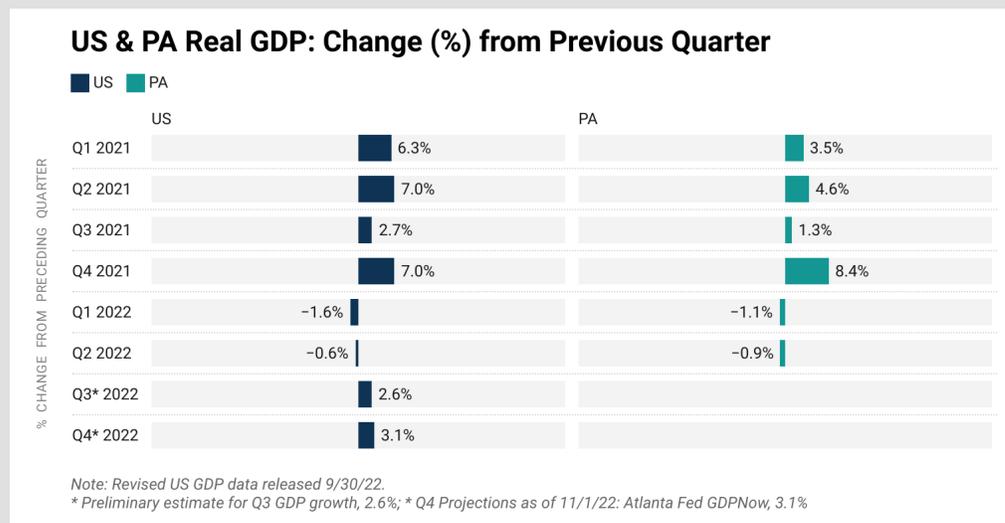
The US economy expanded in the third quarter, after contracting through the first half of the year. The preliminary estimate for third-quarter GDP growth is 2.6%, which was higher than some forecasts and supports why economists have not officially declared the US to be in a recession.

GDP measures economic activity across several categories, including consumer spending, private investment, government spending, and net exports. The sharp uptick in the national third-quarter GDP is heavily attributed to a spike in government spending and exports. The data also revealed consumer spending, which is the largest component of GDP, continues to increase despite historically high inflation. The latest estimate from the Atlanta Fed predicts a 3.1% rise in the fourth quarter. However, The Conference Board warns that “rising interest rates will tip the US economy into a broad-based recession” in 2023.¹

Third-quarter data bodes well for Pennsylvania. The state's GDP has been closely following the national trend. The most recent data reflects only second-quarter GDP estimates and showed the State's economy stalled in the second quarter (-0.9%), mirroring the national slowdown.

OUTLOOK

Following third-quarter GDP results, the US economy is expected to end the year on a positive note, pushing anticipation of a slowdown to next year. Key components of the US economy, including exports and consumer demand, show some weakening but are anticipated to remain positive in the last quarter of this year.



CONSUMER OUTLOOK

Consumer sentiment in Lancaster County has been on the rise after dropping in June. The measure of consumer sentiment rose to 72.86, reflecting an 11-point improvement from July to September. The recent gains signal that the local sentiment is beginning to move away from scores reflective of recessionary periods. Notably, national consumer sentiment is much lower (59.8), remaining solidly in recessionary levels despite gaining 9.8 points over the summer months (from June to September). The most recent poll showed improved attitudes towards current conditions and future expectations among Lancaster County residents. County households were more positive about the strength of the local economy and their household's financials.

¹ “The Conference Board Economic Forecast for the US Economy” (10/12/22) <https://www.conference-board.org/research/us-forecast>

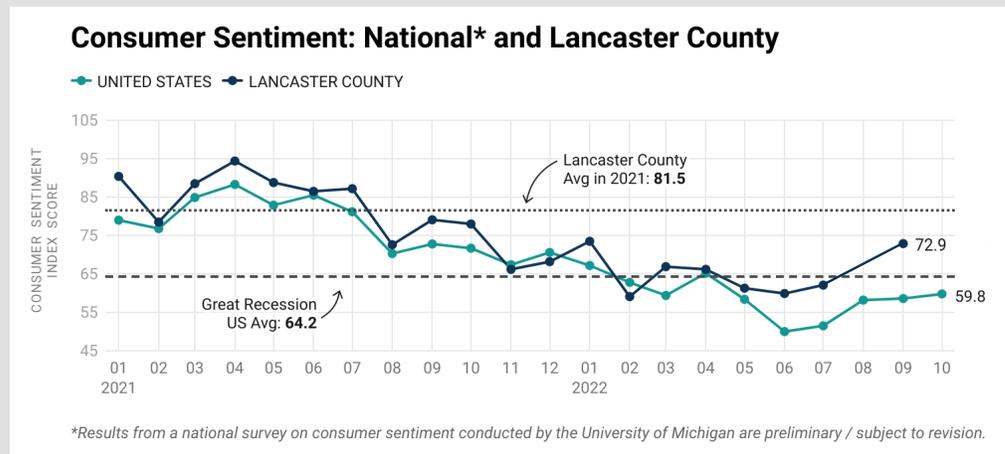
CONSUMER SENTIMENT (CONT'D)

Decreased gas prices (at the time of the poll) and a strong labor market are key factors fueling Lancaster's cautious optimism. The number of households that reported being better off than a year ago rose from 7% in July to 14% in September. While the gain was significant, a greater share of households, 44%, reported being worse off. Inflation remains at the forefront of household concerns.

National consumer spending remained steady, increasing 0.4% in August from the previous year, according to the Bureau of Economic Analysis. Despite 65% of respondents stating it is currently a bad time to make large household purchases, Lancastrian spending has remained steady, mirroring the national levels. Confidence in the local economy remains strong, despite the Fed signaling that it will continue to raise interest rates as it tries to curb inflation

OUTLOOK

Local sentiment improved in recent months. However, the local poll highlights that the financial strength of Lancaster County households needs to be closely monitored. A significant share continues to report being worse off than a year ago, calling into question whether consumer spending can remain strong heading into the holiday season.

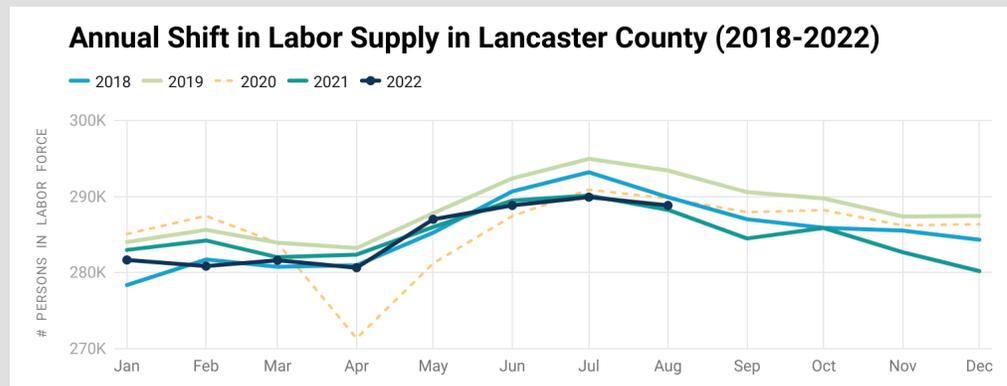
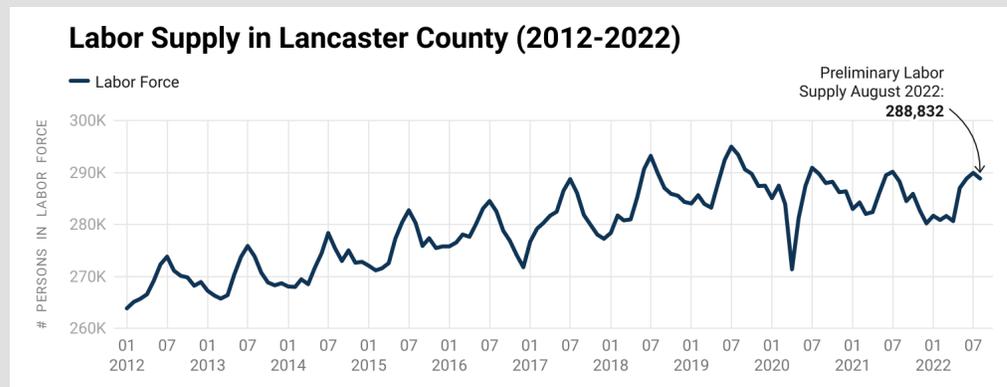


EMPLOYMENT

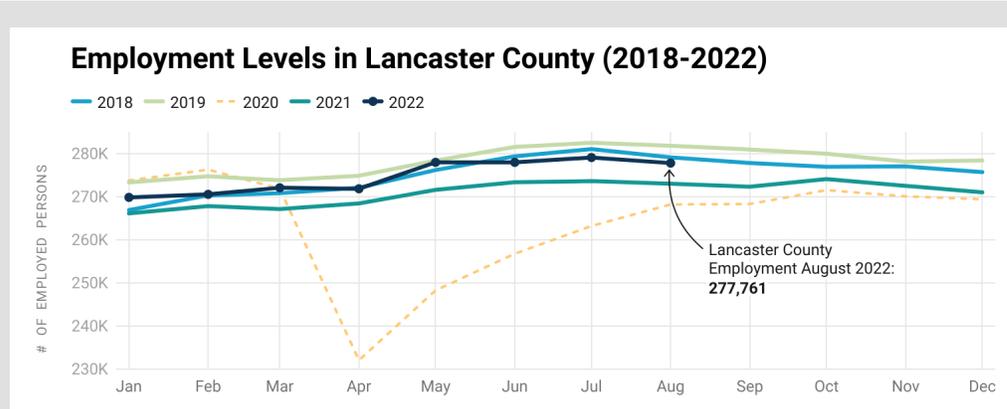
Since the start of the pandemic, Lancaster County's labor market has been severely disrupted. This year's patterns suggest it is settling into a new equilibrium. The size of the labor force is a measure of labor availability. It measures the number of people that are employed or actively seeking employment. In Lancaster County, the size of the labor force appears to be normalizing at a lower level compared to 2019. The County had 288,400 people in the labor force in 2019. Last year it averaged 284,900, around 3,500 fewer people.

This year's labor force numbers are tracking closely to 2021, rather than returning to 2019 levels. Through the first 8 months of this year, the County's labor force is averaging that same 284,900 people, around 1.2% lower than in 2019. Following seasonal patterns, the County labor force peaked in July at 289,900. This level was lower than in the previous four years. August labor supply was 288,800, exceeding last year by just 0.2%.

The expectations were that the labor force would return to pre-pandemic levels as COVID disruptions became less frequent. However, data for this year suggests that the labor force may not return to pre-pandemic levels. Instead, it suggests the labor force will remain at a lower level. The COVID disruptions likely accelerated demographic forces already in play. Economists had already pointed to the aging population as having an impact on the size of the labor force. The decline in labor supply was accelerated with the pandemic as waves of people left the labor force at the same time.



While labor supply is driven by demographics, employment is driven by businesses' economic activity and their need for workers. The demand for labor had been outpacing supply for several years prior to the pandemic. Since the pandemic, employment has recovered; 2021 showed strong job gains, but employment levels remained well below 2019. This year, employment is still below – but closer – to 2019 levels. Total employment levels reached 277,800 in August. Employment in Lancaster County remains below pre-pandemic levels, but July's peak is higher than it has been in the last two years. It is likely that labor supply is holding the County back from having total employment return to pre-pandemic levels. An unemployment rate of 3.8% means 96.2% of the total labor available is employed. While the shortage of workers challenges all sectors, the shortfall in employment is particularly stark in the Leisure and Hospitality sector where in September 2022 there were 3,300 fewer workers than in 2019, despite businesses in the sector reporting strong demand.



OUTLOOK

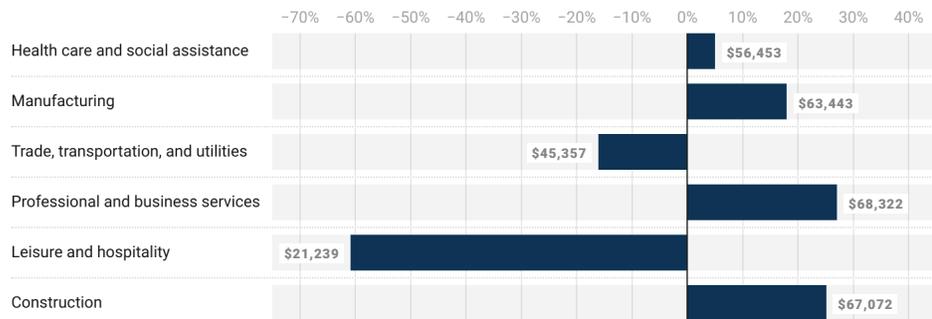
Lancaster’s labor market remains below pre-pandemic levels, with trends suggesting the County’s labor force may settle at 284,900, roughly 3,500 people lower than pre-pandemic. Expect labor markets to remain tight given the labor supply, especially as businesses try to hire for the coming holiday season.

INDUSTRY
WAGE
BREAKDOWN

The average yearly pay across all industries in Lancaster County is \$53,803. The top two employment industries in Lancaster County, Health Care and Social Services and Manufacturing, have average pay over the County’s average wage along with Construction and Professional Business Services. Professional Business Services pays on average the most at \$68,322 a year. Trade, Transportation, and Utilities and Leisure and Hospitality, meanwhile, pay the least, with Leisure and Hospitality paying on average 60% under the County average. Notably, this data is influenced by part-time workers, thus sectors with a significant number of part-time workers will have their average pulled down. However, the wage trends with respect to the County average are supported by Pennsylvanian hourly wage data by sector. Employment levels and wages are two key factors in our economy and become particularly pressing in a tight labor market. Sectors that pay lower average wages and historically have more part-time workers are having more difficulty returning to pre-pandemic levels of employment.

2021 Avg Yearly Lancaster Wage by Sector in Order of Employment

Percentage of the average Lancaster County pay (\$53,803)

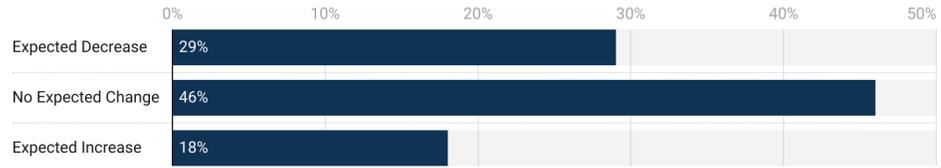


BUSINESS
HEALTH

The business environment in Lancaster County shares many of the same challenges identified in national reports. However, interviews with local businesses highlight that managing rising costs and worry over where the economy is headed may be overtaking labor as the biggest challenge. Businesses in several sectors have been seeing some easing in labor markets while others are adjusting to the constant challenge of being unable to fill some positions. To combat inflation, the Federal Reserve has aggressively raised interest rates. Earlier this month was the sixth rate hike, bringing the total increase to 375 basis points. Lancaster County businesses shared that they are planning for how these hikes will affect their capital and operating plans. Some businesses are intentionally trying to get ahead of the interest rates by how they time their upcoming expenditures. This impact is particularly true for companies with weaker cash positions.

Looking forward, the rapid rise in interest rates is also signaling concern for business pipelines. Key sectors in Lancaster County, such as construction, are seeing some softening of demand, particularly in residential markets. This softening is being interpreted as a potential early warning for where the economy is headed in the coming year.

Philadelphia Federal Reserve Manufacturing Business Outlook Survey: Six Months from Now vs. August



Percentages may not sum to 100 due to rounding, omission by respondents, or both.

Recent national and regional surveys of small businesses reveal they are uneasy about where the economy is headed. The Federal Reserve’s September Beige Book, which summarizes business conditions and attitudes, reported expectations of growth over the next six months fell in the Third District (which includes Lancaster County). Non-Manufacturing sectors anticipate weak, but positive growth, while the manufacturing sector expects growth to be negative. The results are consistent with August’s reports. The NIFB’s national September survey found significantly more businesses expect business conditions to worsen (rather than improve) over the next six months. The Philadelphia Federal Reserve’s Manufacturing Outlook for August echoed this pessimism. 29% of firms expect a decrease in activity over the next six months, compared to 18% that anticipate an increase in activity.

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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