



INTELLIGENCE REPORT
ON THE STATE OF
LANCASTER COUNTY'S
ECONOMY



LANCASTER COUNTY, PA
Economic Development Company

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SUMMARY OF ECONOMIC ACTIVITY

The final quarter of 2022 saw key headwind trends in Lancaster County's economy continue. Low unemployment, increasing interest rates and inflation are vexing business leaders looking ahead into 2023, while consumers indicate concerns over current conditions. Local business people and consumers, however, reflect a steady optimism about Lancaster's overall economy.

Lancaster County's labor market remains tight as unemployment dropped to 2.5% in October and November, the lowest it has been in over 20 years. Post-pandemic labor trends show December continuing to see a decline in the labor force (people working or actively seeking employment), with a slight uptick expected in January. The drastically low unemployment rate locally also continues to be a challenge at the national level.

On top of a tight labor market, interviews with local businesses show inflation and interest rates continue to erode business conditions. Many businesses are beginning to re-evaluate capital expenditure plans in order to readjust for the aggressive rate hikes the Fed has been using to quell inflation. This adjustment may result in longer timelines and the slowing of pipelines in some industries, such as construction.

Inflationary pressures continue to remain at the forefront of Lancasterians' minds. Residents believe their current economic conditions are weak. November's local Consumer Sentiment survey revealed that 49% of residents believe they are worse off financially than they were a year ago. Despite inflationary pressures and difficult financial circumstances, consumer spending has remained steady in Lancaster County, yet it is beginning to level out.

Data confirmed that national and state GDP expanded in the third quarter and is expected to have expanded in the fourth quarter of 2022. However, most economists agree that the economy will begin to contract in 2023, in part due to the interest rate hikes the Fed is using to ease inflation.

DATA SNAPSHOT

GDP

- » Third-quarter **US GDP** expanded 3.2%. The Atlanta Fed forecasts positive 3.9% GDP growth in the fourth quarter.
- » Third-quarter **PA GDP** grew 3.2%.
- » **Lancaster County GDP** grew 5% from 2020 to 2021, with Manufacturing and Professional and Business Services responsible for 46% of the GDP growth.

CONSUMER OUTLOOK

- » Lancaster County consumer sentiment index dropped 3.5 points from September to November to a score of 69.4.
- » After a dip in November (56.8), the US consumer sentiment score rose to 59.7 in December, but remains at 2008 recessionary levels.

EMPLOYMENT

- » Unemployment dipped to 2.5% for October and November in Lancaster County.
- » The labor force dipped to 283,700 in November, following post-pandemic seasonal trends.

BUSINESS CONDITIONS

- » Some sectors are beginning to brace themselves for a possible slowdown in demand in 2023.

GDP: NATIONAL & PENNSYLVANIA

Data Sources:

Atlanta Fed GDPNow Forecast (as of 1/3/23); atlantafed.org/cqer/research/gdpnow

The Conference Board, "The Conference Board Economic Forecast for the US Economy" (12/14/22); conference-board.org/research/us-forecast

US Bureau of Economic Analysis (BEA), "Gross Domestic Product (Third Estimate), GDP by Industry, and Corporate Profits (Revised), Third Quarter 2022" (12/22/22); bea.gov/data/gdp/gross-domestic-product

US BEA, "Gross Domestic Product by State and Personal Income by State, 3rd Quarter 2022" (12/23/22); bea.gov/data/gdp/gdp-state

The US economy saw a 3.2% growth in real GDP in the third quarter of 2022, outpacing preliminary forecasts estimating a 2.6% expansion. Increases in government spending and exports remain large contributors to the positive third-quarter GDP growth.

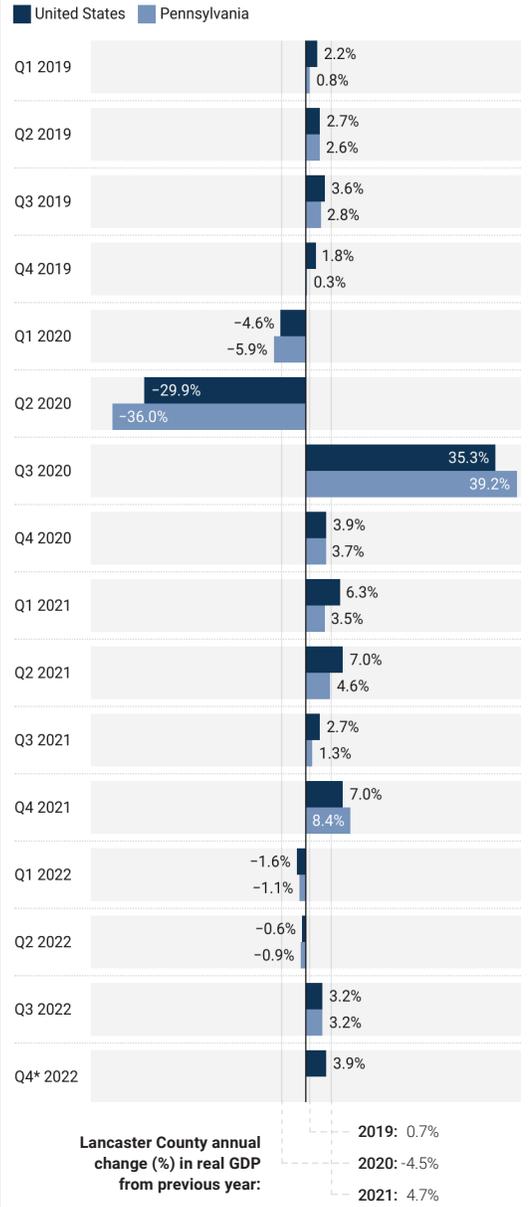
Presently, national economic forecasts for the fourth quarter signal continued growth, although they remain varied on the scale of that growth. In early January, Atlanta Fed's GDPNow model forecasted 3.9% growth for the fourth quarter. Conversely, The Conference Board forecasts significantly smaller growth at 0.7% GDP expansion. Despite the diverging, yet positive, fourth-quarter predictions, economists are more aligned in anticipating an economic downturn in 2023. In the wake of the Fed's aggressive interest rate hikes in 2022, used to tamp down inflation, there is growing concern that the high rates will end up tipping the United States' economy into a recession.

At the state level, Pennsylvania's economy continues to mirror that of the nation, expanding by 3.2% in the third quarter after two consecutive quarters of contraction since the start of 2022. While there are no preliminary estimates for Pennsylvania's fourth-quarter GDP, it is expected that the state's economy will continue to follow national trends and show further expansion as the year came to a close.

OUTLOOK

National GDP is expected to expand in the fourth quarter of 2022. In 2023, economists are anticipating the economy to contract, causing the US to head into a recession by the end of the year.

Real GDP: Change (%) from Previous Quarter



* US GDP Q4 estimate via Atlanta Fed GDPNow (as of 1/3/23)
 GDP data via US Bureau of Economic Analysis (as of 12/23/22)

GDP: LANCASTER COUNTY

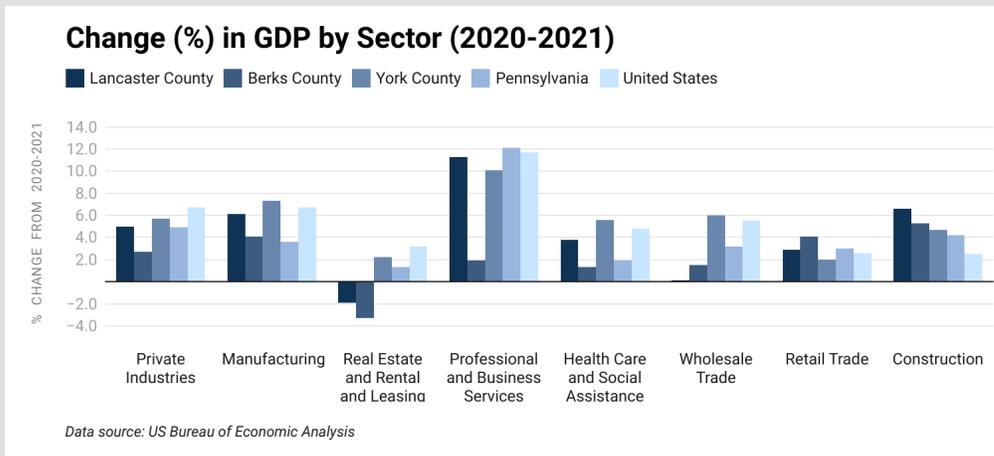
The US Bureau of Economic Analysis (BEA) released 2021 Lancaster County GDP data in December of 2022. While the data lags by close to a year, it provides helpful insights into the nuances of the local economy versus the macro level data at a state or federal level. Lancaster County's GDP grew 5% from 2020 to 2021 in real terms (adjusted for inflation), which was slightly higher than the growth rate for Pennsylvania (4.9%) but lower than that of the nation (6.7%) during the same time. Compared to neighboring counties, Lancaster outpaced Berks County which grew 2.7% while remaining just behind York County which grew 5.7%.

GDP: LANCASTER COUNTY (CONT'D)

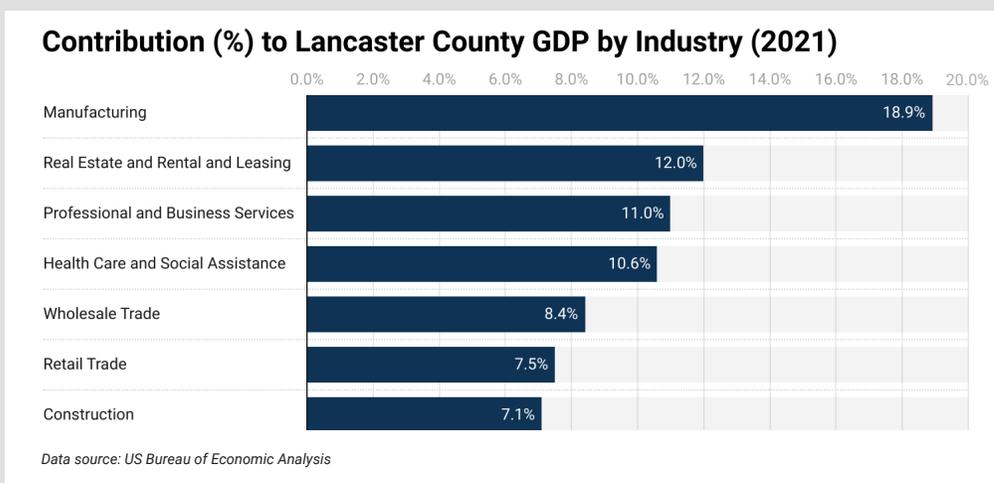
Data Sources:

US BEA, "Gross Domestic Product by County, 2021" (12/8/22); [bea.gov/data/gdp/gdp-county-metro-and-other-areas](https://www.bea.gov/data/gdp/gdp-county-metro-and-other-areas)

Lancaster County GDP data represents percentages based on total private sector GDP.



Notably, all but one of the top seven industries in Lancaster County experienced growth from 2020 to 2021. Real Estate and Rental Leasing contracted by 1.9%. During this period, 46% of the County's GDP growth was from the Manufacturing and Professional and Business Services sectors, with another 17% attributed to growth in both the Health Care and Social Assistance and Construction sectors, underscoring the significance of these key sectors to the overall health of Lancaster County's economy.



CONSUMER OUTLOOK & SPENDING

Lancaster County's local consumer sentiment index dipped 3.5 points from September (72.9) to November (69.4), based on increased apprehension towards current financial conditions, combined with a grim outlook on where the economy is heading. Responses given to the national Survey of Consumers – conducted monthly by the University of Michigan – also showed a dip in November (56.8) before rebounding slightly to 59.7 in December.

While the national poll highlighted widespread unease about current financial conditions as well as future expectations for where the economy is headed, local polling revealed that Lancaster County residents are similarly apprehensive about current economic conditions but remain largely optimistic about where the economy is headed. Lancastrians are more cautious about where the economy will be in the next year, but their characteristic optimism towards the local community revealed confidence that the economic

CONSUMER OUTLOOK
(CONT'D)

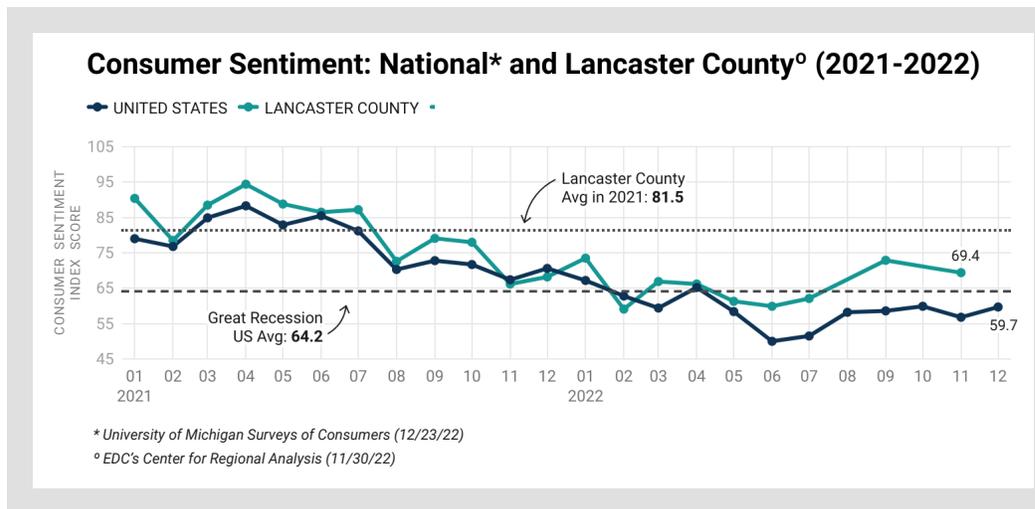
Data Sources:

Center for Regional Analysis, "Consumer Sentiment in Lancaster County" (11/30/22); edclancaster.com/center-for-regional-analysis-2

University of Michigan Surveys of Consumers (12/23/22); www.sca.isr.umich.edu

conditions would recover in the next five years. This sentiment was echoed in neighboring Berks County, where a similar rise in apprehension over current economic conditions was met with a significantly higher outlook on the future economy in a December polling.

Inflation remains at the forefront of Lancasterians' minds. While the current annual rate of 7.1% offers some reprieve from the 9.1% peak that occurred in June of this year, local polling shows that inflation remains a significant burden on household finances. A November survey of consumer sentiment in Lancaster County revealed that 68% of respondents think now is a bad time to make large household purchases – a 3% increase from September – and 74% believe that prices will continue to go up in 2023.

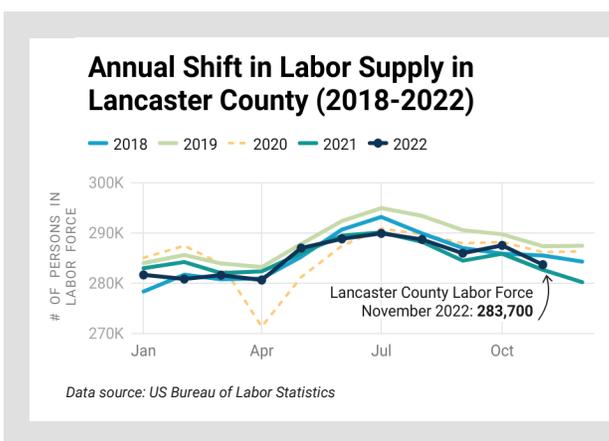


Over the course of 2022, a growing share of County households have indicated that their personal finances have worsened as compared to a year ago, reaching a high of 49% in November. Yet, consumer spending has held up. Fiscal stimulus and pent-up demand are thought to be reasons why household spending has seemed relatively unaffected by low economic sentiment and inflation. As household financial conditions continue to worsen and inflationary pressures remain a constant burden on household finances, a key question becomes whether consumer demand will begin to contract in the early part of 2023.

OUTLOOK

Expect Lancasterians' view of current economic conditions to remain low in the face of continued inflationary financial impacts. If consumer spending continues its current trajectory, it will level out in 2023.

Labor levels in Lancaster County have followed post-pandemic 2021 seasonal trends closely since May. In November, Lancaster's labor force remained 3,700 people below 2019 levels. Despite having grown by 1,600 people in October to 287,500, the County's labor force fell back to 283,700 in November, which is consistent with local seasonal trends. The labor force appears to have stabilized below pre-pandemic levels, placing more pressure on employers that are eager to fill open positions.



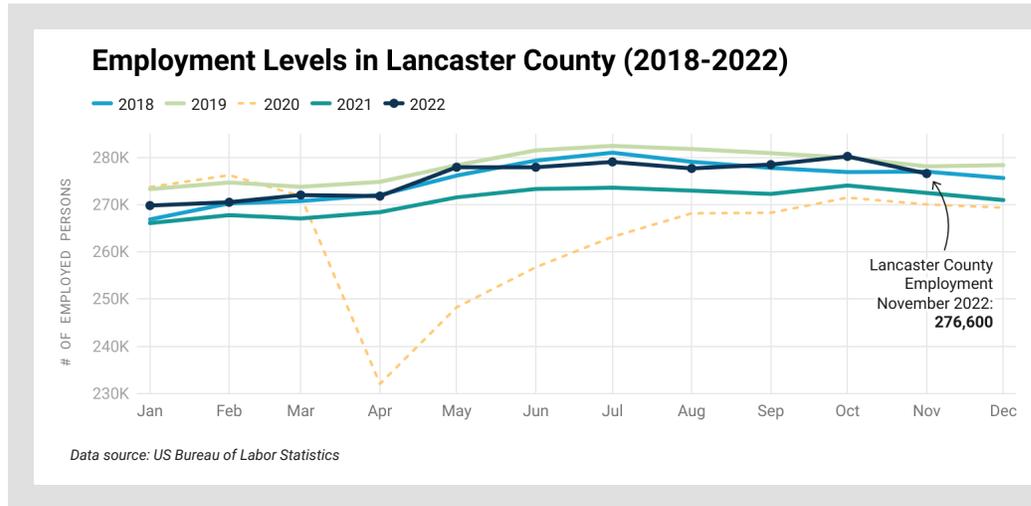
EMPLOYMENT

Data Sources:

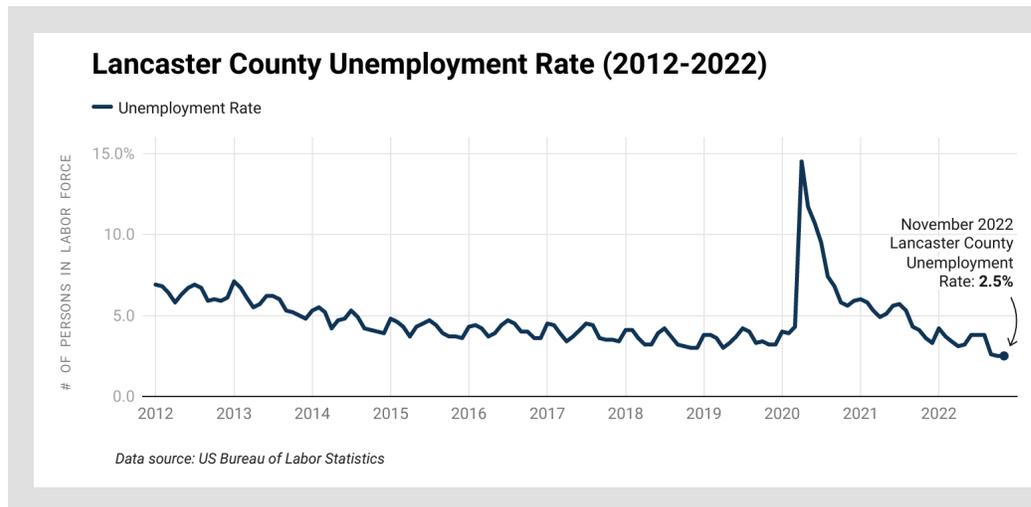
US Bureau of Labor Statistics (BLS), "Local Area Unemployment Statistics" (12/29/22); bls.gov/lau

**EMPLOYMENT
(CONT'D)**

Employment reached 280,200 workers in October, marking the first time that post-pandemic employment surpassed pre-pandemic levels in Lancaster County. Employers remain eager to hire. As the labor force followed seasonal patterns and picked up in October, employers appear to be absorbing new entries, leaving the unemployment rate incredibly low. Following post-pandemic seasonal trends, the labor force is expected to dip in December and then rise back up at the beginning of the year. Employment levels will be heavily reliant upon whether the unemployment rate follows seasonal trends and peaks at the beginning of the year, and if employers continue to hire.



The labor market remains extremely tight with unemployment in Lancaster County at historically low levels; recent US Bureau of Labor Statistics data revealed an unemployment rate of 2.5% for November. The local unemployment rate first dropped to 2.6% in September, followed by a further dip to 2.5% in October, which marked the lowest it has been since December 2000. The lowest recorded unemployment rate in the County is 2.3% in 1998 and 1999, only marginally lower than our current unemployment condition.



OUTLOOK

Unemployment rates are expected to have remained low in December and then should pick back up in January if seasonal patterns in Lancaster County prevail. The labor force is also expected to have continued to decline through December and then should pick back up in January and February of 2023.

BUSINESS HEALTH

Data Sources:

Federal Reserve Bank of Philadelphia, "December 2022 Manufacturing Business Outlook Survey" (12/15/22); philadelphiafed.org/surveys-and-data/regional-economic-analysis/mbos-2022-12

Board of Governors of the Federal Reserve System, "Monetary Policy: Open Market Operations"; federalreserve.gov/monetarypolicy/openmarket.htm

Recent interviews with Lancaster County businesses convey a generally positive outlook for 2023 amidst continued inflationary pressures, an extremely tight labor market, and substantial interest rate hikes. For many businesses, activity is remaining strong, with business leaders cautiously optimistic for the coming year. Many sectors, apart from residential development, indicated solid performances in 2022 and good pipelines heading into 2023. Hospitality and tourism, specifically, saw strong demand in 2022, with industry leaders expressing optimism for 2023.

Interviews conducted with local manufacturers convey a relatively positive outlook for the year ahead, however regional industry experts are signaling some red flags for the second half of 2023. Responses given to the Philadelphia Fed's "December 2022 Manufacturing Business Outlook Survey" in early December demonstrate that firms within the region are holding a conservative outlook for the industry in 2023.

The Fed has continued to raise interest rates as a means of driving inflation down to a desired 2%, compared to the current annual rate of 7.1% in November. In its seventh and final interest rate hike of 2022 on December 14, the Fed increased rates by 50 basis points to 4.25% to end the year up a remarkable 4.25% since January 2022 and tied with the highest rates experienced in the US since December 2007.

While these rate hikes will take time to yield their intended results, the early ripple effect is starting to be visible in the local business community. Some businesses with large capital expenditure plans (such as a physical expansion or major investments in equipment) have reported taking a step back to reevaluate project budgets in light of surging interest rates and costs of materials. The construction industry, which has a strong presence in Lancaster County, continues to report solid 2023 pipelines, however it will be important to track project demand and timing in 2023 as a potential indicator of a local economic slowdown.

OUTLOOK

Inflation and interest rate hikes are eroding business conditions. Expect businesses to continue to reevaluate large capital expenditure plans in the beginning of 2023.

METHODOLOGY

These bi-monthly briefings draw upon quantitative and qualitative data that's routinely collected at the national, state and local levels. While most of the data skews towards the national and state economies and/or the large urban centers, these reports incorporate in-depth interviews with regional business leaders from key industry sectors to provide essential insight, identify emerging issues and tease out local relevance of national trends.

FOR MORE INFORMATION

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