



INTELLIGENCE REPORT
ON THE STATE OF
BERKS COUNTY'S
ECONOMY



SUMMARY OF ECONOMIC ACTIVITY

In the current environment, a strong labor market and growth in consumer spending have been two data points deterring economists from saying the US economy is in a recession. Local data, however, suggests that regional economies may have been more exposed to the implications of the economic slowdown that occurred in the first half of this year. Consumer spending in Berks County appears to remain strong, which is a positive sign. However, Berks County's labor market remains an area of concern.

National headlines suggest people are returning to the labor market at a pace that has total labor supply back to pre-pandemic levels. This trend is not true for Berks County, but the County is not alone in this challenge. Neighboring counties, like Montgomery and Lancaster, are also struggling but to a lesser degree. Tight labor supply suggests that Berks County's businesses may be more exposed to the pressure to raise wages to attract and retain talent and ongoing supply chain-related price increases. Sectors, such as Manufacturing and Health Care, are particularly exposed to these forces. In Berks County, these two sectors represent 38% of the County's employment base and have been operating throughout the year with 4,200 fewer workers than in 2019.

While surveys capture business worries over activity slowing over the next six months, economic forecasts are predicting the economy to improve. Current forecasts reflect positive GDP growth for the third quarter despite the Federal Reserve signaling more rate hikes to combat inflation. Additionally, consumer sentiment is improving modestly. These two dynamics suggest business conditions could be improving in the second half of the year.

DATA SNAPSHOT

US GDP

- » Second quarter GDP Growth was -0.6%.
- » Atlanta Fed forecasts positive 1.3% GDP growth in the third quarter.

CONSUMER OUTLOOK

- » For the second month in a row, US consumer sentiment improved but remains at recessionary levels.

LOCAL UNEMPLOYMENT

- » Berks County's labor force averaged 210,000 over the first seven months of this year.
- » Unemployment was 10,000 in July, contributing to a 4.7% unemployment rate; total employment was 202,700.

BUSINESS CONDITIONS

- » Key industries began to show a pattern of employment levels consistently below pre-pandemic levels, possibly signaling longer-term post-pandemic employment levels.

GDP: NATIONAL & PENNSYLVANIA

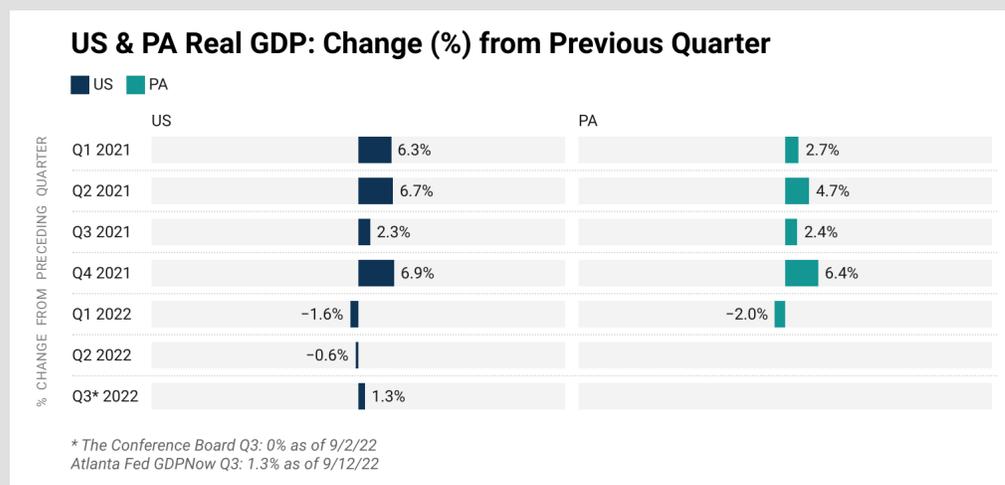
The US GDP stalled in the second quarter with estimates showing negative growth (-0.6%). The loss was not surprising. Forecasts varied ranging from -1.2% to +0.8%.

Economists are not signaling that the US is in a recession, despite the first half of this year showing a contracting economy. Two consecutive quarters with negative annualized GDP growth typically serve as an indicator of a recession. However, key aspects of the economy remain positive - including the labor market and consumer spending. Building on these strengths, third quarter GDP forecasts predict the economy will gain momentum. The latest estimate from the Atlanta Fed's GDPNow anticipates positive growth (+1.3%) in the third quarter

Recent Pennsylvania GDP trends have been closely aligned with the nation's. The release of second quarter GDP numbers for the state will be out in late September. It is expected to show Pennsylvania's economy continuing to slow down in the second quarter.

OUTLOOK

Despite the Fed aggressively raising interest rates, the United States economy is anticipated to gain strength in the second half of the year.



CONSUMER OUTLOOK

US consumer sentiment showed some improvement in August. It was the first time this year that the measure registered two consecutive months of improving outlook. Despite the positive trajectory, overall consumer sentiment remains uncomfortably at recessionary levels. After rising 6.7 points from July to August, the consumer sentiment score remains 12 points below levels at this time last year.

Consumer sentiment reflects attitudes about household financial conditions and the economy in the moment and over the medium term. A 6.7-point rise is significant. The August gains were heavily influenced by a 23% increase in households having positive expectations. Researchers at the University of Michigan, responsible for the national measure of consumer sentiment, reported a 59% increase in people anticipating their household finances will be in a better place a year from now. Researchers pointed to inflationary pressures expected to ease, giving households a slight reprieve. For example, gas prices are a prominent and easily observed example of how inflation is impacting household budgets.

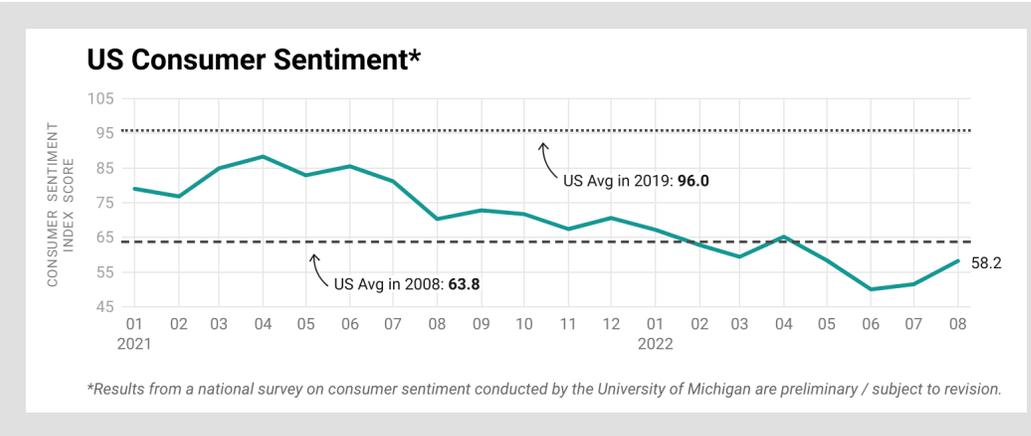
**CONSUMER
OUTLOOK
(CONT'D)**

From June to August, the Bureau of Labor and Statistics reported the national average gas price dropped by almost a dollar. Households felt the financial relief and responded with a 4.8-point raise in current conditions from June to August.

The recent, modest improvement in household expectations is likely to prop up consumer spending. It slowed but remained positive in June and July, despite rising interest rates and headline inflation climbing.

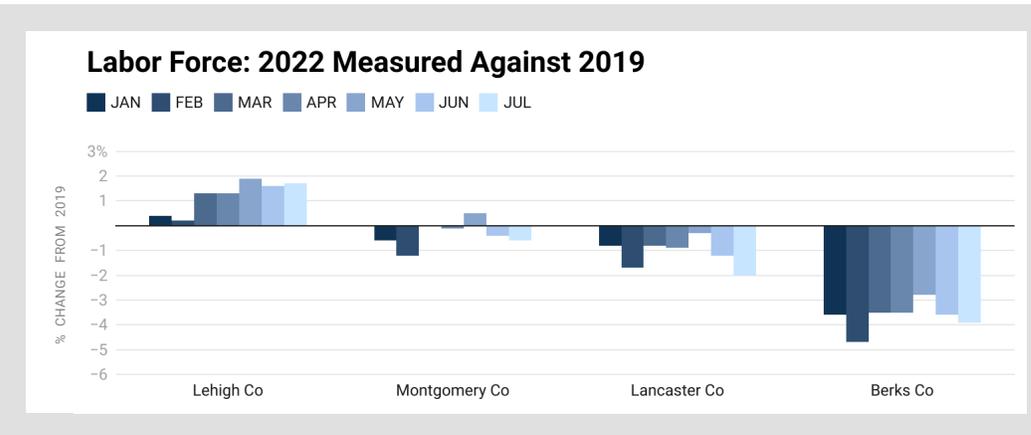
OUTLOOK

The recent modest improvement in household expectations, coupled with consumer spending data sends a positive signal heading into the second half of the year. Expect consumer sentiment to gradually increase as households begin to feel slight relief from inflationary pressures.



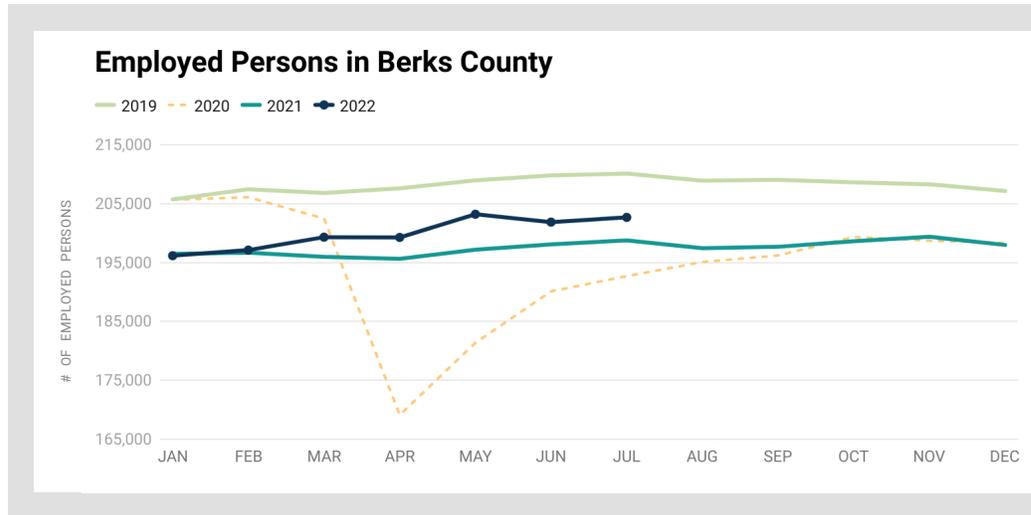
The employment situation in Berks County continues to be a challenging area. Unemployment remains low – signaling ongoing tight labor conditions resulting from a labor force that has not recovered from the pandemic. The labor force through 2022 has generally remained 3.7% below 2019 levels, representing 8,000 fewer people in the labor market. For industries such as Health Care and Manufacturing, the two largest drivers in Berks County, the smaller labor force comes at a time when business demand has been strong, exacerbating the concern over human capital.

Berks County is not alone; other counties in the region are also seeing their labor force numbers struggle to return to pre-pandemic levels. However, the progress towards a full recovery is slower for Berks County. Both Montgomery and Lancaster Counties maintain employment levels on average 0.4% and 1.1% below pre-pandemic levels respectively.



EMPLOYMENT

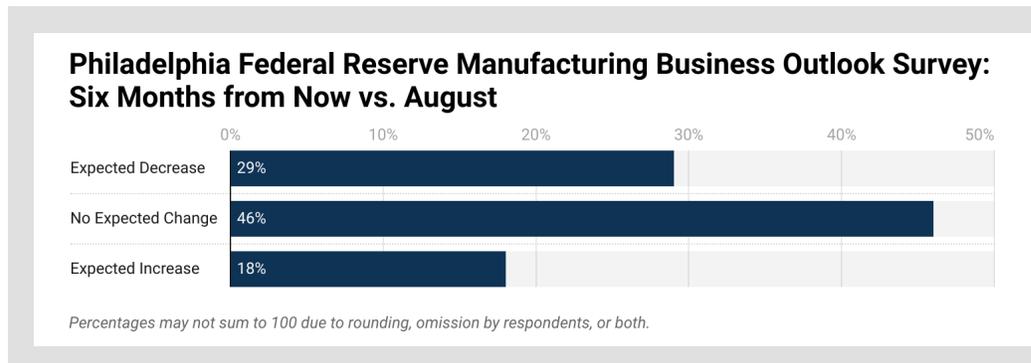
While the County's labor force and employment levels have not returned to the 2019 benchmark, both show strong gains throughout the year. Total employment in Berks County has steadily increased through this year. As of July, the County has 202,700 employed people in the workforce. Total employment grew by 3.3%, adding 6,500 employed people this year.



The unemployment rate of 4.7% has begun to level out in 2022 reaching back to the pre-pandemic levels. Berks' unemployment rate through July continues to hover just above local surrounding counties. Weekly unemployment claims suggest levels of unemployment in August look to have remained steady with a slight dip towards the beginning of September.

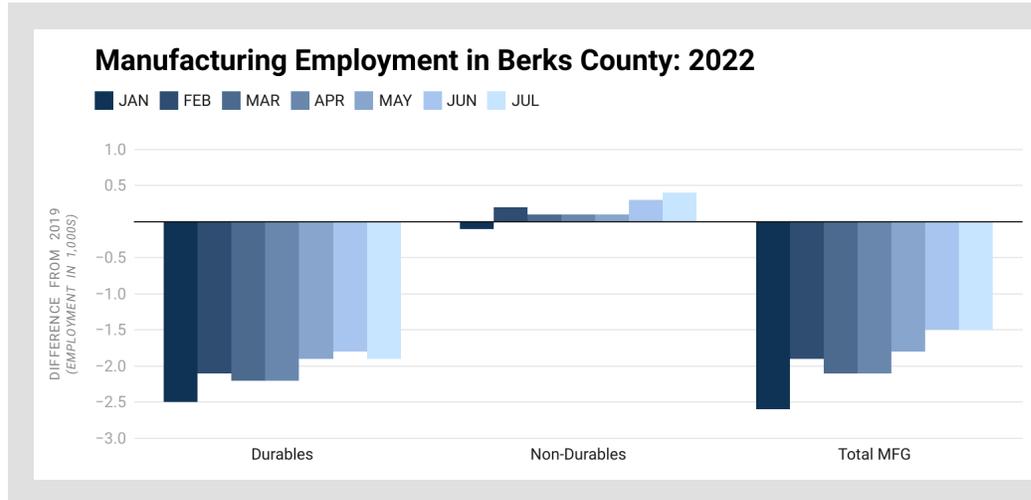
OUTLOOK *Berks County's labor force numbers continue to remain below pre-pandemic levels. Many surrounding counties similarly have labor markets that have not fully recovered, however, Berks is recovering at a noticeably slower rate.*

Recent surveys of small businesses show attitudes remain grim as they continue to navigate challenges in filling job vacancies and managing price increases. The August report by the National Federation of Independent Businesses (NFIB) found substantially 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.

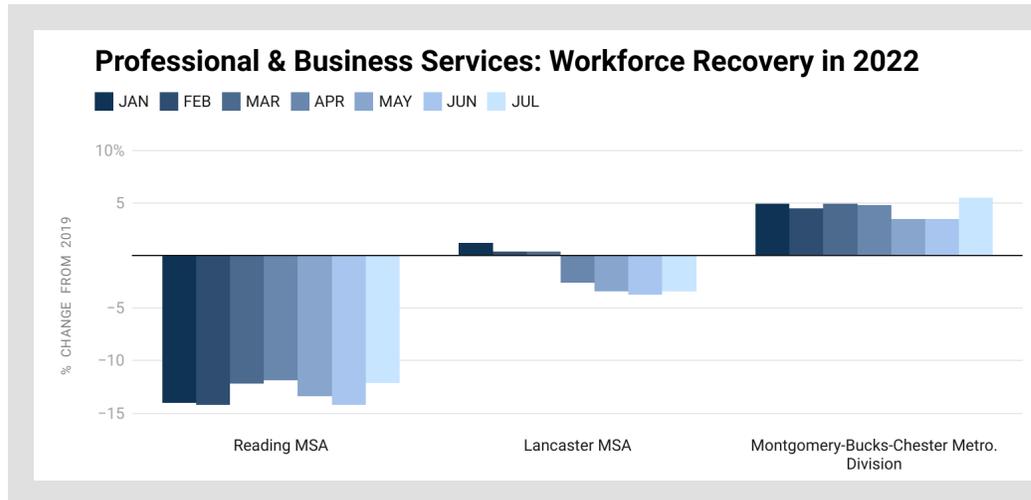


**BUSINESS
OUTLOOK**

While both reports identify Manufacturing as one of the sectors that's particularly hard-pressed to fill vacancies, employment data for Berks County underscores this challenge locally. As a key sector in Berks' economy, Manufacturing is responsible for 22% of the county's GDP and currently employs 30,800 workers. Although employment levels made some gains through the summer months, the sector continues to operate with a workforce that is 4.6% smaller than in 2019. The shortfall is concentrated in durable goods (e.g. furniture, metal), rather than non-durable goods (e.g. food, drinks) manufacturing. Non-durables have maintained employment slightly above pre-pandemic levels throughout the year.

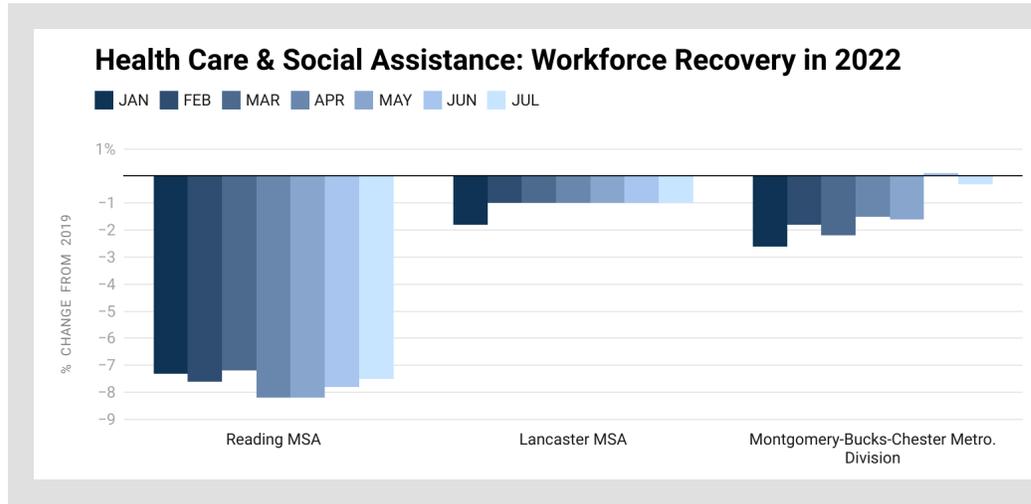


Another key sector in Berks County that has experienced employment levels in 2022 consistently below pre-pandemic levels is Professional and Business Services. This sector is responsible for 14% of the County's GDP and is currently responsible for 21,700 jobs. Employment in 2022 tracked 13% below pre-pandemic levels which corresponds to a loss of 3,200 workers in this sector.

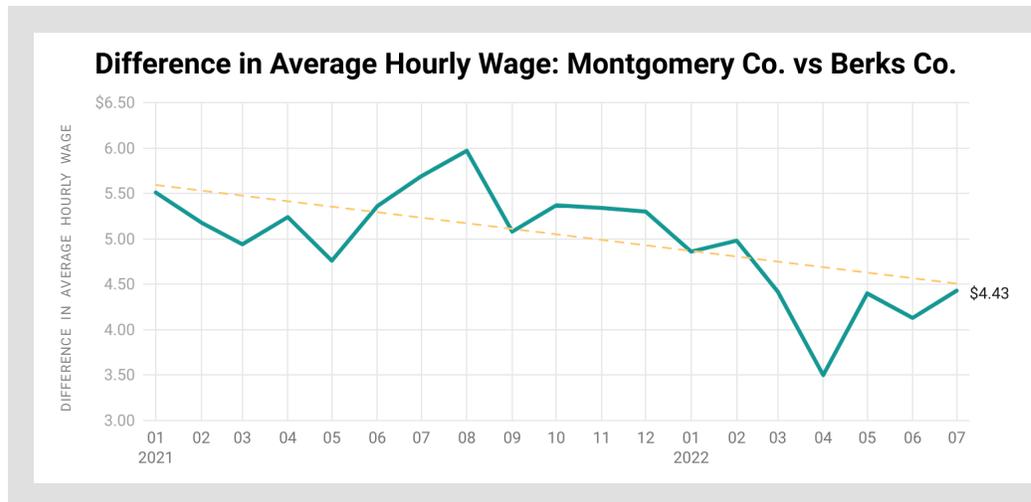


The chart shows that employment recovery for Business and Professional Services is more severe in Berks County than in neighboring counties. In Lancaster County, employment levels in this sector have worsened through the year. In contrast, Montgomery County's employment levels have fully recovered, exceeding the 2019 benchmark.

Health Care and Social Assistance has been a hard hit sector. The pandemic created great stress on its workforce and continues to have reports of burnout and labor shortages. Across the region, this sector lags in returning to 2019 levels, but the gap is largest for Berks County. In Berks County, 27,200 people work in this sector, which is 7.7% smaller than in 2019.



In the midst of ongoing inflation coupled with tight labor markets, the conditions have forced many businesses to increase their wages. In 2021, when inflation was starting to rise, Berks was lagging in raising wages compared to Montgomery County. Berks has begun to bridge this pay gap in 2022 reaching a gap of \$4.43 in July.



The duration of Berks County's reduced labor force and total employment through 2022 suggests these may be the new post-pandemic levels. If this is the case, it presents Berks County employers with challenges on how to adapt to changes in labor availability. This shortfall will continue to impact some industry sectors more than others, with the data showing a clear impact on key dominant local sectors.

OUTLOOK *Tight labor markets and supply chain price increases continue to challenge small business optimism. Berks businesses have responded to tight labor markets by gradually closing the wage discrepancy between Berks and Montgomery County.*

METHODOLOGY

Detecting and interpreting economic local 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 regional 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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