



Summary of Economic Activity

The US economy remains strong with second quarter GDP growth expected to be above 7%, carrying forward momentum through the rest of 2021. With the economy fully reopened and US vaccination rates leading the world, attention is shifting to more traditional economic fundamentals and identifying how much the pandemic may have permanent impacts on the economy. This means closer tracking of consumer spending patterns, labor force participation and price pressure.

Sectors that performed well through the last 18 months remain on strong growth pathways – namely manufacturing, construction, and professional services. For sectors most adversely impacted by the pandemic it is too soon to determine when they will fully recover. Interviews with business leaders in the Greater Berks region highlight that businesses generally maintain adequate liquidity but will be challenged by inflation, supply chain bottlenecks and labor shortages. It is not evident if these headwinds are part of the transition out of the pandemic or more permanent. Regardless, businesses and household remain optimistic.

Looking forward, county economies can anticipate a return to local economic fundamentals playing a stronger role in driving growth. This means, as the public health effects on the economy subside, local trends will likely return to following their own unique paths rather than following national or state patterns. This divergence is already beginning to emerge. The June read on consumer sentiment highlights differences by income and region. The departure of local conditions from national (or state) trend comes at a time when economic data made available during the pandemic are being reigned in.

It will likely take the remainder of the year to sort through which dynamics accompanying the economy's reopening are local or temporary.

Economic Snapshot

- *US GDP.* The June meeting of the FOMC showed continued confidence in the US economy expanding. Q1 GDP grew at an annualized rate of 6.4%; Q2 is forecasted to pick up speed.
 - *Unemployment.* Berks County's unemployment rate steadily fell through the first half of 2021. May's unemployment rate was 6.1% (12,300 unemployed persons), down from 8.1% (16,600 person) in January. Bureau of Labor Statistics estimates that the County's total labor force has not fully recovered.
 - *Consumer Outlook.* Consumer sentiment recovered in June, with mixed signals. Its measure of current conditions weakened, while expectations rose strongly. The strong favorable outlook was not widely held but rather confined to higher income households.
 - *Small Business Conditions.* Business attitudes appear positive, while acknowledging the challenges of rising costs for materials and labor, transient supply chain disruptions and increasing difficulty in securing talent.
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GDP - National & PA

The US economy has expanded rapidly coming out of the pandemic environment this year. The second quarter GDP estimate (released later this month) is anticipated it be around 7%, conveying ongoing confidence in the US recovery.

Economic projections remain strong for the rest of 2021 despite growing concerns over inflation, the labor market, and a slowdown in consumer spending. Several factors, related to economic fundamentals rather than pandemic conditions, appear to be fueling the strong outlook. Government stimulus is supporting the economy. Past stimulus buffered business and household liquidity, minimizing debt accumulation typically associated with recessions, and government spending is projected to support the economy. Acceleration in the adoption of technology and business operations and strong private investment through the pandemic are expected to positively impact productivity trends.

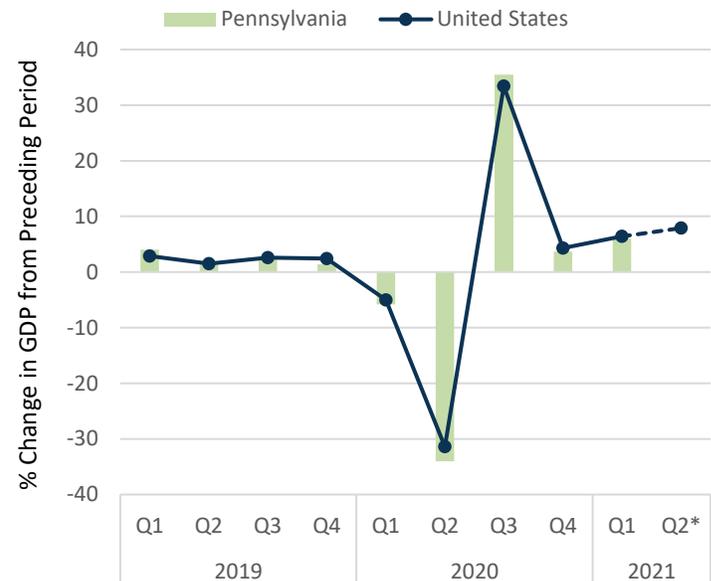
Outlook: *The economy is transitioning out of the pandemic and finding its footing in a new normal. Expect the remainder of the year to have overall strong growth but with continued mixed signals. Businesses and households will need to adjust to temporary supply chain disruptions, discern where price and wage growth is transient, and a labor market finding some stability.*

Consumer Outlook & Spending

In June consumer sentiment recovered from the May drop to register the second highest score since the start of the pandemic. The results, however, call attention to the see-saw nature of consumer sentiment and the measured optimism households maintain for personal and business conditions.

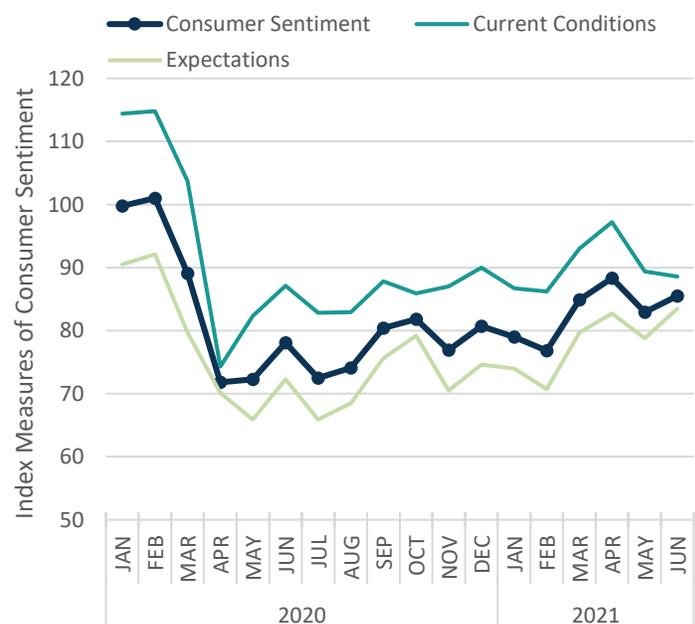
While the overall score increased, its components (index of current economic conditions and index of consumer expectations) moved in opposing

REAL GDP - UNITED STATES AND PENNSYLVANIA



*2021:Q2 estimate based on GDPNow estimate from the Atlanta Federal Reserve on 7/9/2021.

CONSUMER SENTIMENT - UNITED STATES



Source: University of Michigan.

directions. The measure of current conditions slipped further in June as buying attitudes turned negative in response to recent price dynamics. In contrast, expectations distinctly rose. Researchers at the University of Michigan, who are responsible for the poll, noted gains in expectations were not widely held, rather confined to households with incomes above \$100,000.

June's results were the second month in a row that signaled favorable economic conditions may not be evenly distributed and that rising prices may be more acutely felt among some households. It was also the second consecutive month of results indicating households increasingly shifting their attention to economic fundamentals, like inflation and the jobs market, rather than pandemic conditions.

Of note, a poll of Lancaster County residents revealed a different trend in consumer sentiment. Consumer sentiment fell in June as households downgraded their near-term expectations about personal household financial conditions and a healthy economy.

Outlook: July's results, released later this month, will be telling. As the US continues to recover, differences in local and regional markets are emerging. These differences suggest that local economies can expect to see growth patterns that may not follow the nation. It also suggests that the role consumer spending plays in GDP growth could weaken as the year goes on.

Employment

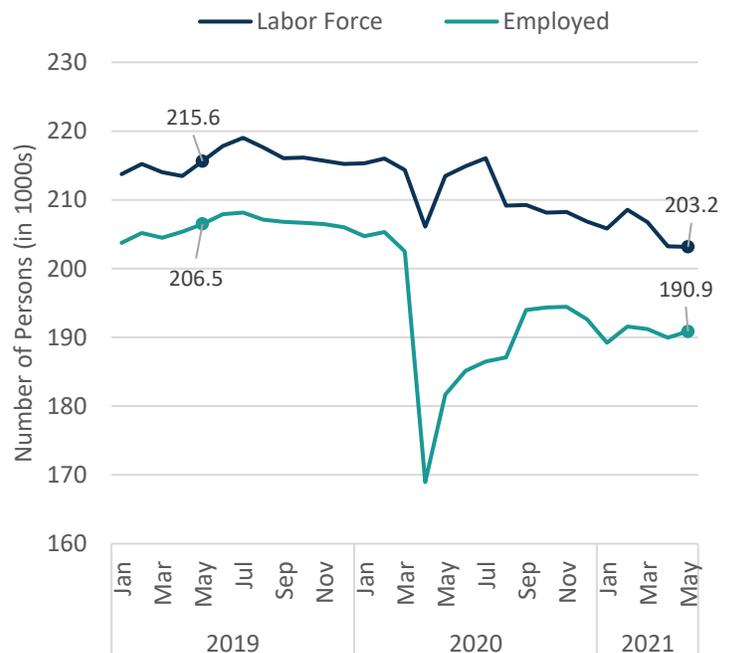
The labor market continues to be an area of intense focus. With the economy fully reopened and the pandemic-driven unemployment compensation benefits being phased out, the labor market searches for a new equilibrium. National data points to the number of job openings growing, despite sustained levels of unemployment and rising wages.

Some economists anticipate the labor market stress into the fall months as employers and potential workers work through the "matching" process.

Data for Berks County suggests it is not immune to these challenges despite key sectors having navigated the pandemic economy well, such as manufacturing.

Bureau of Labor Statistics (BLS) estimates the County's total labor force is struggling to return to pre-COVID levels. In May, the County's labor force was estimated at 203,200, which was 6% smaller than in May 2019 and with a larger share unemployed. Compared to the same month in 2019, the number of employed persons in May was down 15,600 and unemployed up 3,200. Most of this loss is attributed to the slow pace for jobs to return in some sectors, such as hospitality and administrative and waste services, and the hesitancy of some workers to return to the labor market (due to lingering public health

BERKS COUNTY LABOR FORCE STATISTICS: 2019 TO PRESENT



*Bureau of Labor Statistics, Local Area Unemployment Statistic.

concerns or limited availability of some key services, such as childcare).

While unemployment remains elevated, it has steadily improved through the year and is expected to keep improving. The unemployment rate for Berks County was estimated to be 6.1% in May, down from 8.1% at the start of the year.

Outlook: *A return of jobs and pre-pandemic labor force participation levels are necessary components of Berks County's economic recovery. The pandemic created a strong and sustained disruption to the labor market in terms of labor supply and availability of jobs. Expect ongoing tight labor market conditions through this year as workers and employers navigate the transition to a post pandemic normal.*

Business Health

The business environment has improved through the year and is expected to remain favorable. Business leaders in the region share strong and on-going positive outlooks. At the same time, business concerns are shifting focus. The pace of activity coming back online is amplifying concerns over rising prices, supply chain bottlenecks, labor shortages, and rising interest rates. While these are not new issues, business concerns about them took on a new context and uncertainty. In the moment, these challenges are paramount, but a common theme is how businesses are also grappling with identifying what dynamics are temporary and which are permanent.

Outlook: *Business attitudes remain generally positive, noting the pickup in activity. However, headwinds costs are taking root in the form of transient supply chain bottlenecks, difficulties in managing workforce, price increases for materials and rising labor. Expect these headwinds to persist through the year that impact all sectors, but potentially stalling the pace of recovery for sectors hardest hit by the pandemic, such as retail, hospitality and entertainment.*

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 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 business from key industry sectors. The business surveys provide essential insight, identifying emerging issues and confirming local relevance of national trends.

For more information about these reports, please contact Naomi Young, Director, EDC's Center for Regional Analysis (nyoung@edclancaster.com).