Summary of Economic Activity

This edition focuses on looking back on how Berks County’s economy has tracked through the pandemic. Recently released data shows Berks County’s GDP contracted by 4.4% in 2020. This loss was relatively comparable to counties in the region, which is not surprising given that the pandemic’s disruptions were widespread. 2021, however, marked the return to regional differences as pandemic dynamics and economic fundamentals followed patterns reflecting a blend of unique local conditions and national trends.

Interviews with regional businesses along with consumer spending levels point to Berks County’s economy sharing in 2021’s economic growth. It also meant businesses and their employees had to be more productive while navigating an uncertain and constantly changing conditions and faced with strong customer demand.

Maintaining a strong and adequate workforce to support business activity was difficult last year and remains a concern for this year. Berks County’s labor pool registered a second year of contraction, with nearly 6,600 people exiting the labor force (in 2021). Despite tightening labor supply, Berks County businesses managed to preserve their workforce. Total employment did not fall in 2021. Instead, the County ended the year with the lowest level of unemployment since June of 2019, suggesting more people seeking employment found jobs. Average hourly earnings in 2021 also grew strongly, minimizing the effect record-high inflation had on household finances.

Economic Snapshot

- **US GDP.** Third quarter GDP grew at an estimated 2.3%, and Q4 GDP is expected to pick up, with forecasts around 6.5-6.8%. 2022 GDP growth is expected to be more modest.

- **Local Unemployment.** At the end of November, Berks County’s labor force had 201,740 people. With 192,560 employed, the County’s unemployment rate was 4.5%.

- **Consumer Outlook.** US consumer sentiment fell slightly this month to 65.9, reaching the second lowest level in a decade. Worry over inflation is key contributor.

- **Wages.** Average hourly earnings climbed to $28.14 in 2021 Berks County, up from 8.4% (since 2019).

- **Business Conditions.** The business outlook remains generally positive but less bullish as rising costs, labor shortages and supply chain disruptions are expected to ease in this year.
GDP - National & PA

The US economy is expected to end the year with strong fourth quarter activity after having modest third quarter (Q3) growth. The anticipated strong growth comes amidst headwinds reflecting economic fundamentals and ongoing COVID-induced challenges. The State’s economic growth has been robust but at a slightly slower pace. It continues to follow US movements from quarter to quarter.

The outlook for this year is measured but optimistic. Most forecasts build in rate hikes and an easing of both inflation and supply chain challenges. Materials from the Federal Reserve Board meeting in December show an unchanged 2022 real GDP forecast. The economy is expected to grow between 3.6 and 4.5%, which is slightly higher than forecasts by some analysts.

**Outlook:** Robust growth is expected despite disruptions caused by record levels of COVID cases and high inflation. Demand is expected to remain robust supporting solid growth as the economy adapts and tries to normalize.

Consumer Outlook

COVID-19 variants and rapidly rising inflation continue to dampen consumer sentiment. The US measure fell slightly this month to 65.9, reaching the second lowest level in a decade.

Pessimism over future business conditions and how households assess their current finances have depressed sentiment since August. One-third reported being financially worse off compared to a year ago. Of note, poll of households in neighboring Lancaster found similar results, with nearly one-quarter of households reported being worse off compared to a year ago.

While acknowledging Omicron and Delta variants as contributors to this month’s loss, University of Michigan researchers (responsible for the national survey) found inflation to be playing an important
role in consumer attitudes. Three-quarters of consumers ranked inflation (over unemployment) as a serious problem facing the nation, and nearly half anticipate inflation will rise faster than incomes, eroding future financial prospects. They also found that lower income households tended to have darker outlooks, while higher income households were generally more positive.

The on-going weakness of current financial conditions for consumers is a point of concern. For several months retail sales have held up despite consumer weariness. But in December, US inflation hit 7% and retail sales dropped, which suggests households across the nation may finally be taking a more precautionary stance to spending.

**Outlook:** Expect consumer sentiment to remain weak as the economy settles into inflationary conditions and an uncertain economic policy environment. While still too early to tell, some data hints at consumers adopting more conservative spending patterns.

**Employment**

The County’s employment situation hit a significant milestone. After strongly fall for four months, the total number of unemployed in the County was 9,175. It was the lowest level of unemployment since June of 2019. For two of the four months, the drop in unemployment was accompanied by a strong rise in employment.

December data is not yet available for the County, but unemployment compensation (UC) claims offer some insight. Initial claims, (which indicate job separations due to layoffs or involuntary separations) generally recorded a slight rise in December, averaging around 330 per week, which is well below levels in early 2020 right before the pandemic started.

Notably, continued claims are also tracking at levels below pre-pandemic trends. In the last week of December, the two-week moving average for continued claims was 2,510.

**Outlook:** With nearly two years of COVID conditions disrupting the labor market, analysts are asking who left the labor market and if their exits are permanent. Expect the pandemic-induced labor shortage to extend through the first half of the year.

**Look Back on 2020 and 2021**

**Economic Growth**

In 2020, the pandemic caused the US economy to briefly and dramatically plummet. Second quarter GDP fell by 31%, only to quickly recover in the following quarter (growing by nearly 34%). The net effect was an overall 3% contraction in 2020. State data showed Pennsylvania following a very similar path, netting a loss of 3.5%.

Last month, the Bureau of Economic Analysis released GDP data for local economies. While quarterly data is not available, the annual figures reports Berks County’s GDP in 2020 was $17,993 million. It had contracted by 4.4%, reflecting a loss of $829 million. In real terms, the contraction walked back several years of economic growth for the County. This loss was relatively larger than the State but comparable to many of the counties in the region.

**COUNTY GDP: 2019 & 2020**
With one month of data for 2021 to yet be released, Berks County will likely register a second year of losses. The labor force measures the availability of people to fill jobs, counting people that are currently employed and unemployed people actively seeking employment.

In 2019, the County had a labor force that averaged 215,800 people. Over the last two years, the labor force has lost 10,900 people. The decline was greater in 2021 (6,590 fewer people) than in 2020 (decrease of 4,310 people).

The trend for Berks County is notably different from the nation. The US labor force has been stalled through most of 2021 in returning to pre-pandemic levels (hovering at 1.4% below 2019 levels through the fall and winter months). In contrast, Berks County’s labor force has been trending down. The gap between current levels and 2019 is widening.

**BERKS COUNTY LABOR FORCE: 2019-2021**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of People</th>
<th>Change from Previous Year...</th>
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</thead>
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<tr>
<td></td>
<td></td>
<td>Level</td>
</tr>
<tr>
<td>2019</td>
<td>215,799</td>
<td>+2,830</td>
</tr>
<tr>
<td>2020</td>
<td>211,486</td>
<td>-4,313</td>
</tr>
<tr>
<td>2021*</td>
<td>204,897</td>
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</tr>
</tbody>
</table>

*Average for January through November.

**Employment**

While labor force data reflects the total supply or availability of workers, employment data provides information on the number of people working (ie, the workforce). A tightening labor supply (ie, decreasing labor force) is impacting employers across all sectors. It contributes to lower employment levels and creates pressure to pay higher wages.

Charting employment data for the County shows that Berks County’s workforce stabilized in 2021. While the County’s labor supply was tightening, employers managed to preserve their employment base in 2021. The challenge is that the employment loss in 2020 was significant. Across the County, businesses have had to operate with 14,760 fewer employees for well over a year.
A Sector-Level Look at Employment

The stagnation in employment is caused by many factors. The ongoing disruptions and uncertainty to the workplace caused by COVID-19 conditions cannot be overstated, and the impacts are varied across sectors. Some sectors have much more ground to cover in rebuilding their workforce. A common theme in interviews with employers in the region is that they would hire more people if they could. 

Manufacturing is responsible for nearly 18% of the County’s employment. In 2019 it employed around 32,200 people. Since then its workforce has fallen to roughly 28,800. Most of the loss occurred in 2020, when total employment fell by 3,100. Through most of 2021, its workforce has hovered around 28,700. Interviews with manufacturers in the region stress that strong customer demand over the last two years has taxed their existing workforce. Many noted that if they were able to fill vacancies their workforce would grow beyond 2019 levels.

Health care and social assistance is another significant sector. In 2019 it employed around 29,400 people. Over the last two years, its workforce has been tracking close to 2019 levels. Employment levels in 2020 and 2021 have averaged 28,300, which is around 4% below 2019.

Professional and Business Services accounts for nearly 14% of all jobs in Berks County, employing 24,600 people in 2019. Its employment base in this sector has fallen year-over-year since then. In 2021, it averaged 21,900 employees, which is nearly 11% smaller than in 2019.

Employment trends in retail trade were positive in 2021. The sector ended the year with average employment up from 2020. Total employment was 18,500 in 2019. It fell to 17,200 in 2020 but rebounded to 17,600 in 2021.

Leisure and hospitality continues to be one of the hardest hit sectors. In Berks County, the sector employed around 15,200 people prior to the pandemic. Since then, its employment has contracted by nearly 25%, falling to around 11,500.
Average Hourly Earnings

Wages have risen through the pandemic. In Berks County average hourly earnings grew 8.4% (since 2019). Most of the earning increase occurred in 2021 amidst rising inflation and a contracting labor supply. Average hourly earnings in the County were $28.14 in 2021, up from $25.95 in 2019. This level of earnings is close to the State average. It is higher than neighboring Lancaster County ($26.54) but lower than in the Montgomery-Bucks-Chester Counties metro division ($33.46).

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).