



INTELLIGENCE REPORT
ON THE STATE OF
BERKS COUNTY'S
ECONOMY



LANCASTER COUNTY, PA
Economic Development Company

CENTER FOR
REGIONAL
ANALYSIS

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SUMMARY OF ECONOMIC ACTIVITY

Berks County's economy faced familiar headwinds in the final quarter of 2022, with heightened inflation, low unemployment, and elevated interest rates continuing to cause concern for businesses and consumers alike. The labor market has remained tight in Berks County, as unemployment dropped to 3.4% in both October and November of 2022, the lowest rate the County has experienced in 22 years. Post-pandemic labor levels have settled in at around 3.5% lower than 2019 levels. Following historic trends, labor levels are expected to have dipped slightly in December of 2022 and should tick back up in January and February of 2023.

These local conditions are influenced by trends at the national level. December recorded a 6.5% annual inflation rate which is a modest improvement from the year's 9.1% apex in June. Interest rate hikes are likely to resume in the new year as the Fed continues its efforts to combat inflation.

Economists have grown more concerned that a recession is likely to occur in the second half of 2023. Buoying that dim view, businesses in the region have expressed caution related to large capital expenditures such as purchases of equipment or real estate. This hesitancy, however, also extends to their workforces, with few businesses to date signaling layoffs or any reduction in the workforce given the challenges businesses have had finding and keeping employees.

The economic picture of 2023 remains unclear at both the federal and local levels. It is too early to tell if, or when, the prediction by economic forecasters of a slowdown will hit Central Pennsylvania.

DATA SNAPSHOT

GDP

- » Third-quarter 2022 **US GDP** expanded 3.2%. The Atlanta Fed forecasts positive 4.1% GDP growth in the fourth quarter.
- » Third-quarter 2022 **PA GDP** grew 3.2%.
- » **Berks County GDP** grew 2.4% from 2020 to 2021, with the Manufacturing sector responsible for 31% of the GDP growth in that period of time.

CONSUMER OUTLOOK

- » The US consumer sentiment index rose to 64.6 in January, however still remains at 2008 recessionary levels.
- » Berks County's consumer sentiment index stayed relatively unchanged from October to December, registering at 62.5.

EMPLOYMENT

- » Unemployment dipped to 3.4% for October and November in Berks County.
- » On average, 2022 labor levels remain 3.5% below pre-pandemic 2019 levels.

BUSINESS CONDITIONS

- » Predictions vary significantly by industry for 2023 performance.

GDP: NATIONAL & PENNSYLVANIA

Data Sources:

Atlanta Fed GDPNow Forecast (as of 1/10/23); atlantafed.org/cqer/research/gdpnow

The Conference Board, "The Conference Board Economic Forecast for the US Economy" (1/10/23); 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.

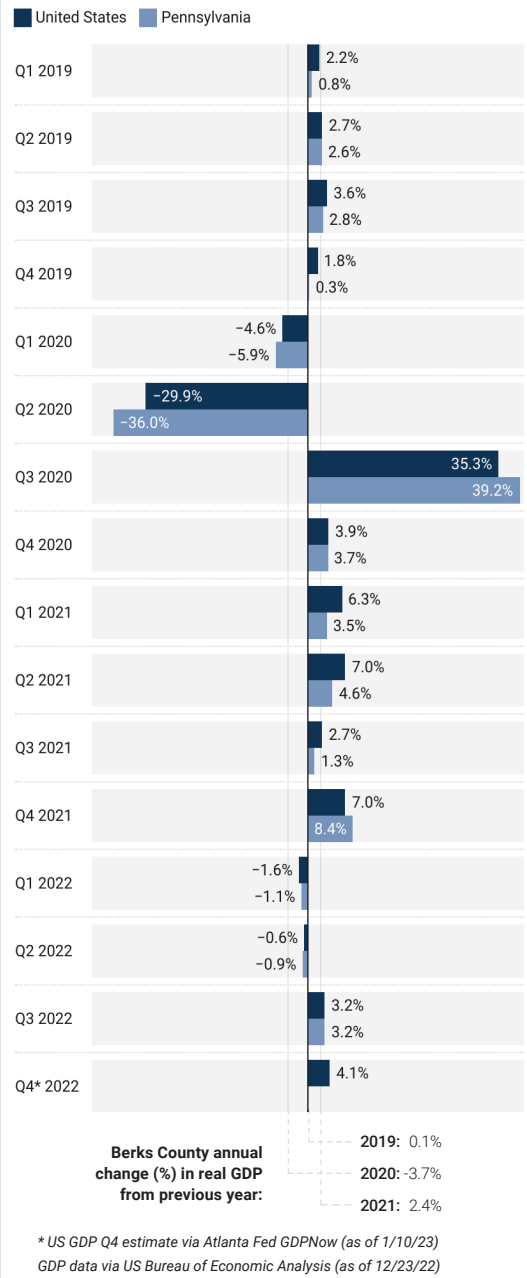
Presently, national economic forecasts for the fourth quarter of 2022 signal continued growth, although they remain varied on the scale of that growth. In its latest estimate, Atlanta Fed's GDPNow model forecasts 4.1% growth for the fourth quarter. Conversely, The Conference Board forecasts significantly smaller but substantial growth at 1.9% 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 have continued to follow national trends and show further expansion as the year ends.

OUTLOOK

National GDP is expected to have expanded 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



GDP: BERKS COUNTY

The US Bureau of Economic Analysis (BEA) released 2021 Berks 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. Berks County's GDP experienced 2.4% growth from 2020 to 2021 in real terms (adjusted for inflation), which was lower than the growth rate for Pennsylvania (4.4%) and that of the nation (5.9%) during the same timeframe. The County's GDP

**GDP: BERKS COUNTY
(CONT'D)**

Data Sources:

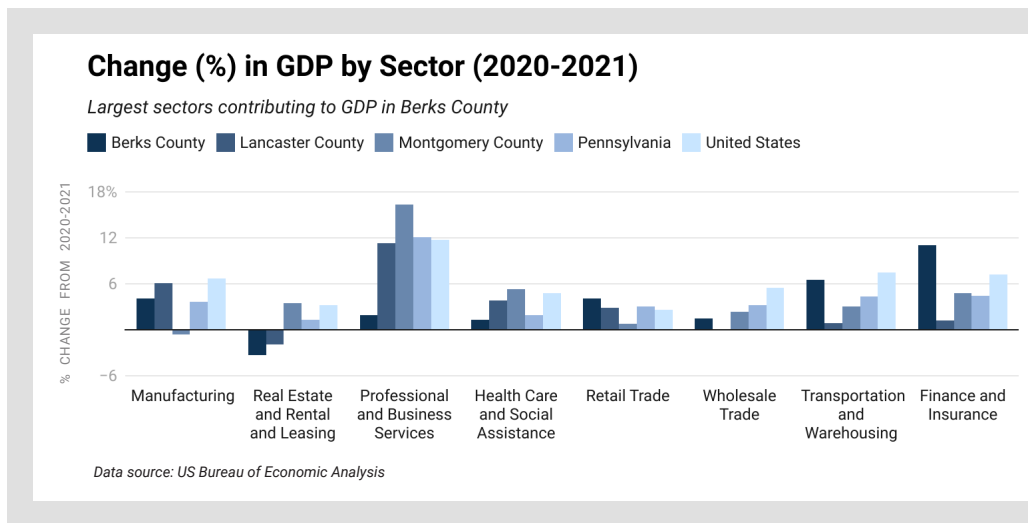
US BEA, "CAGDP11 Contributions to percent change in real GDP 1/ (Berks, PA)" (12/8/22)

US BEA, "CAGDP11 Contributions to percent change in real GDP 1/ (Pennsylvania)" (12/8/22)

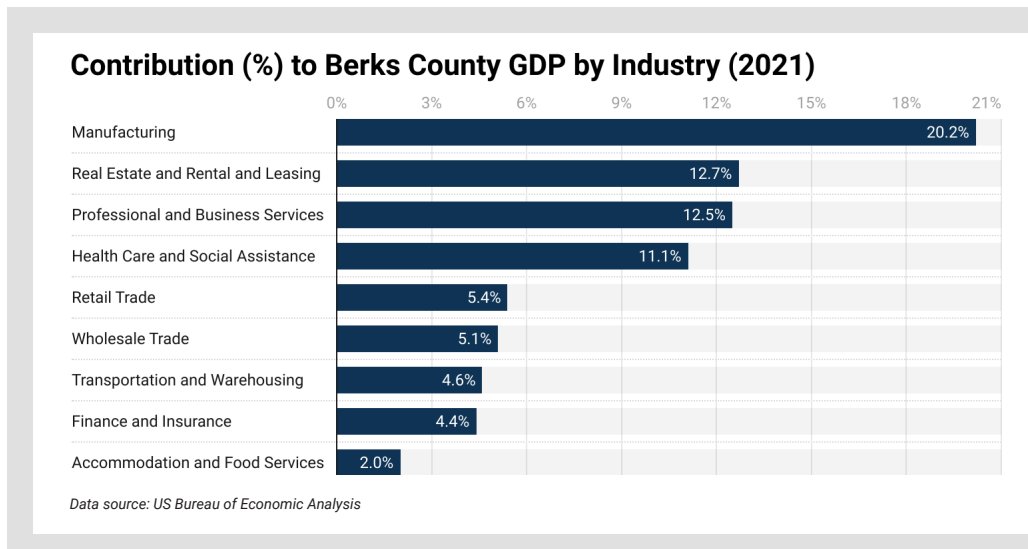
US BEA, "CAGDP9 Real GDP by county and metropolitan area 1/ (United States)" (12/8/22)

growth rate also lagged neighboring counties, with Lancaster County growing 4.7% and Montgomery County growing 6.1% from 2020 to 2021.

Comparisons of overall GDP growth offer a broad understanding of how the local economy is performing within the region, but a more complete picture is found by comparing GDP growth within specific industry sectors. The period from 2020 to 2021 included disruptions due to COVID-19, which played a role in the significant underperformance of the Real Estate and Rental and Leasing sector. In contrast, Berks County outperformed Pennsylvania's growth rate average in Manufacturing and continues to be a large contributor to the state's manufacturing sector. Berks County also performed well in Retail Trade, Transportation and Warehousing, and Finance and Insurance. Transportation and Warehousing has remained a strong growing sector of Berks County's economy in recent history. Retail Trade grew particularly strong over this time period, though it remains to be seen whether the sector will continue to grow with as high of margins in the coming years.



Among the top eight private industries in Berks County, all but one experienced growth from 2020 to 2021, with Real Estate and Rental Leasing contracting 3.3%. During this period, 31% of the County's GDP growth was from the Manufacturing sector, underscoring its significance to the local economy, while another 43% is attributed to Finance and Insurance and Accommodation and Food Services.



CONSUMER OUTLOOK

Data Sources:

Center for Regional Analysis, "Consumer Sentiment in Berks County" (12/23/22)

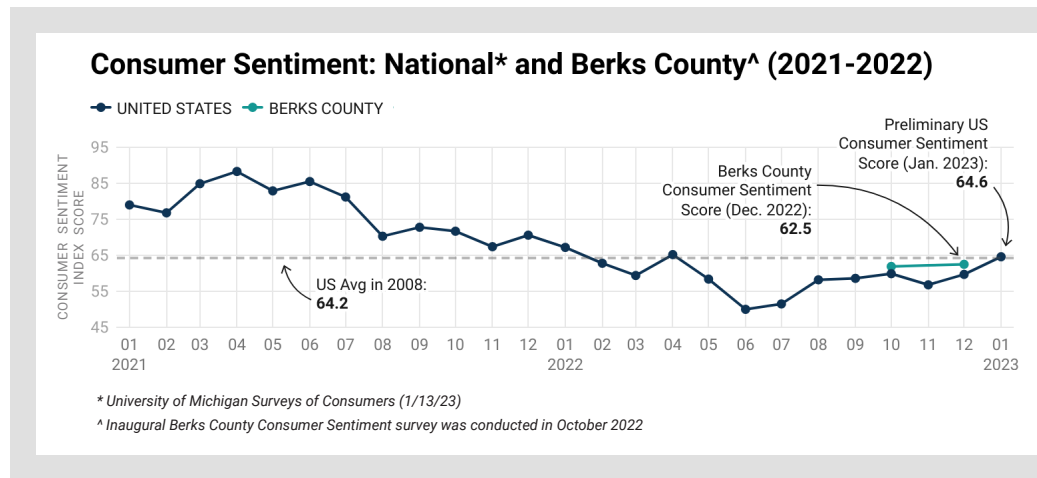
Opportunity Insights Economic Tracker, "Percent Change in All Consumer Spending (Berks County)" (as of 12/11/22); tracktherecovery.org

University of Michigan Surveys of Consumers (1/13/23); www.sca.isr.umich.edu

US BEA, "Table 2.6. Personal Income and Its Disposition, Monthly" (12/23/22)

The economic outlook of Berks County residents has remained relatively unchanged from October to December. The consumer sentiment index score rose by less than one point during this time, up to 62.5 in December. At the national level, researchers at the University of Michigan recorded a similar sentiment in its monthly Survey of Consumers; preliminary scoring for January shows a sentiment index of 64.6, a noticeable uptick from 59.7 in December.

Both Berks County and national sentiments of the economy remain at low 2008 recessionary levels. Local residents are feeling a higher unease about their personal finances and current economic conditions than national respondents. Notably, 46% of Berks respondents reported that their personal finances are worse off than a year ago. Local respondents, however, remain more optimistic about where the economy is headed as compared with the nation.



Personal savings skyrocketed in the United States during the peak of the COVID-19 pandemic, due in large part to a decrease in consumer spending coupled with a steady wave of federal stimulus programs. With high inflation and continued spending, however, Americans have been eating into these savings; in November of 2022, personal savings in the United States shrunk to \$461 billion – a 92% drop from its \$5.7 trillion peak in March 2021. Amid declining personal finances, 82% of Berks County respondents believe that it will not get more difficult to find a job in Berks County over the next year. Despite their sense of declining personal finances, Berks County residents' confidence in the job market is helping to buoy their spending.

OUTLOOK

Expect Berks County residents' view of current economic conditions to remain low and national personal savings to continue to erode in the face of lingering inflation.

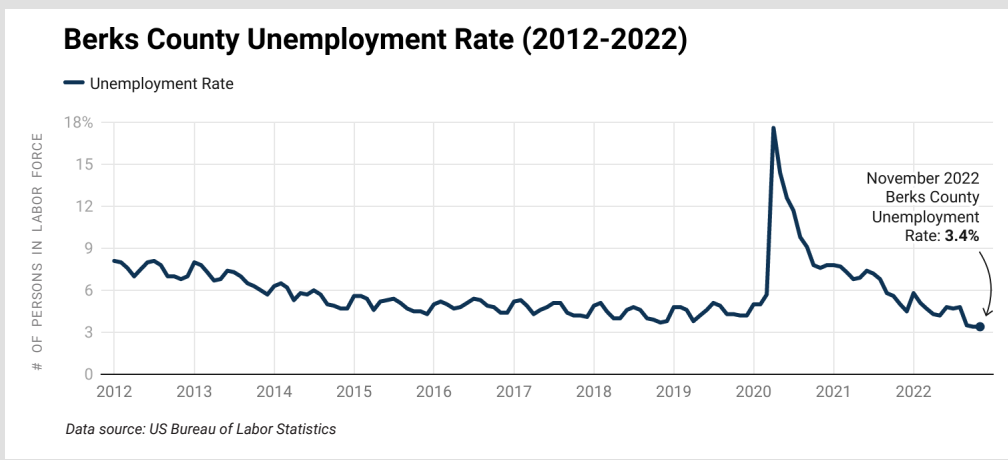
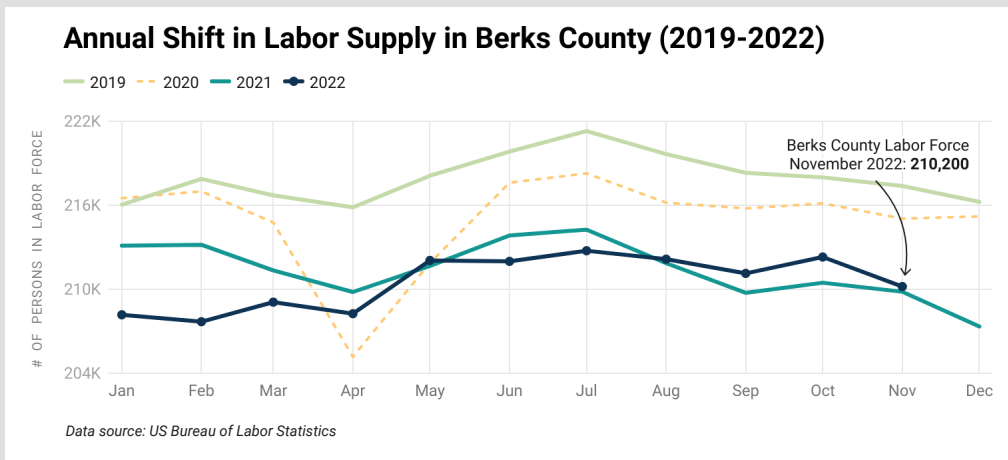
EMPLOYMENT

Data Sources:

US Bureau of Labor Statistics (BLS), "Local Area Unemployment Statistics" (12/29/22)

Berks County's post-pandemic labor levels continued to take shape over the course of 2022. The labor force tracked closely to 2021 seasonal shifts, yet, overall, 2022 remained well below pre-pandemic 2019 labor levels by a noticeable 3.5% or 7,600 people. In November 2022, Berks' labor force numbered 210,200, a 3.3% dip from November 2019 (7,200 fewer people). This reduced labor level in 2022 is a key contributor to the tightness local employers continue to experience as they try to retain staff and hire.

In 2022, employers continued to post open positions, however with the labor market homing in on levels notably below pre-pandemic 2019 levels, there were not enough people available to fill them. As such, Berks County's unemployment rate is incredibly low. The local unemployment rate first dropped from 4.8% to 3.5% in September, falling further than the usual seasonal dip. In October and November of 2022, the unemployment rate dropped to 3.4%, the lowest it has been in 22 years.



OUTLOOK

Berks County's labor force appears to have stabilized below pre-pandemic levels, making it an important indicator to monitor closely. Unemployment rates are expected to have remained low in December and then will pick back up in January following seasonal patterns in Berks County.

Interviews during the fourth quarter of 2022 with regional businesses revealed an increasingly cautious undertone about the year ahead. Amid rising interest rates, the slowing of pipelines in some industries, and predictions of a recession in 2023, some business leaders are re-evaluating the timing of capital expenditures. Due to the ongoing tight labor market and the anticipation of a solid first half of 2023, business leaders are indicating plans to maintain current staffing levels, recognizing the challenge of replacing and training new hires.

In its "December 2022 Manufacturing Business Outlook Survey," the Philadelphia Fed revealed that the top two constraints on the region's manufacturing industry are supply chains and labor supply. The report conveys difficulties in the industry with 31% of firms reporting declines in activity as compared with 17% reporting increases. Nonetheless, the survey also conveyed hopeful optimism for improved business conditions as the year progresses.

BUSINESS HEALTH

Data Sources:
 Federal Reserve Bank of Philadelphia, "[December 2022 Manufacturing Business Outlook Survey](#)" (12/15/22)
 Board of Governors of the Federal Reserve System, "[Monetary Policy: Open Market Operations](#)"; [federalreserve.gov/monetarypolicy/openmarket.htm](https://www.federalreserve.gov/monetarypolicy/openmarket.htm)

Businesses are also keenly watching the rising interest rate environment. The Fed has continued to raise interest rates as a means of driving down inflation. In its seventh and final interest rate hike of 2022 on December 14, the Fed increased rates by 50 basis points to end the year up 4.25% since January 2022, tying the highest rates experienced in the US since December 2007. With the annual inflation rate at 6.5% as of December, additional rate hikes are expected in 2023 as the Fed continues its efforts to reach a national inflation rate of 2%.

OUTLOOK

Inflation and interest rate hikes are eroding business conditions. Expect businesses to reevaluate large capital expenditure plans in 2023 while maintaining employment levels.

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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For program funding details, in compliance with the Stevens Amendment, please visit <http://www.co.berks.pa.us/Dept/WDB>.