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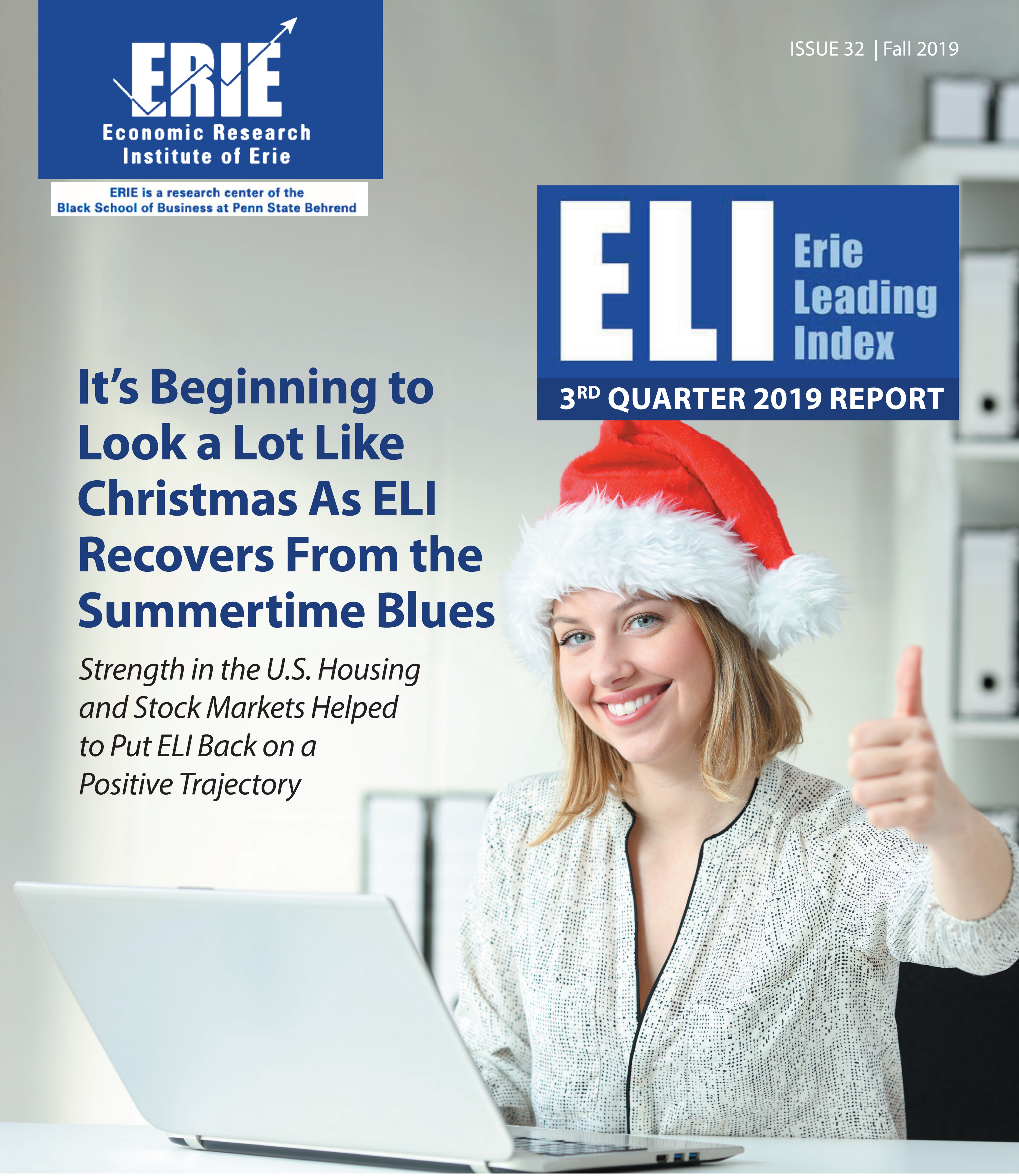
ERIE
Economic Research Institute of Erie

ERIE is a research center of the Black School of Business at Penn State Behrend

ELI
Erie Leading Index

3RD QUARTER 2019 REPORT



It's Beginning to Look a Lot Like Christmas As ELI Recovers From the Summertime Blues

Strength in the U.S. Housing and Stock Markets Helped to Put ELI Back on a Positive Trajectory

Though Santa Has Arrived Early, Weak Job Growth is the Ghost of Christmas Past That Still Haunts the Local Economy

Santa and his elves must have worked hard to bring Erie an early Christmas present: The Erie Leading Index (ELI) is back in positive territory after a slight decline last quarter.

Although the increase registered by ELI in the third quarter was by a modest 0.2%, this is still welcome news. That's because the direction of ELI's movements provide important clues about the future path of Erie's economy.

In addition, it seems Santa may have checked his list twice and discovered that Erie has indeed been nice. So he has brought the local economy an extra present in the form of more good news: The U.S. Bureau of Economic Analysis (BEA) reported in November that per capita personal income in Erie County rose by an impressive 6.1% between 2017 and 2018, after having risen by 2.8% during the previous year.

Erie's per capita personal income of $44,903 in 2018 still lags behind that in Pennsylvania ($56,225) and the nation as a whole ($54,446). However, the 6.1% increase experienced by Erie in 2017-18 was higher than that in Pennsylvania (5.8%) and the U.S. (4.9%).

Of course, it's important to note that these personal income estimates by the BEA do not factor in taxes and inflation, so the actual growth in consumer purchasing power will be lower than the 6.1% figure would suggest. Nevertheless, especially with inflation remaining tame, the growth in nominal per capita personal income represents a significant boost for the local economy.

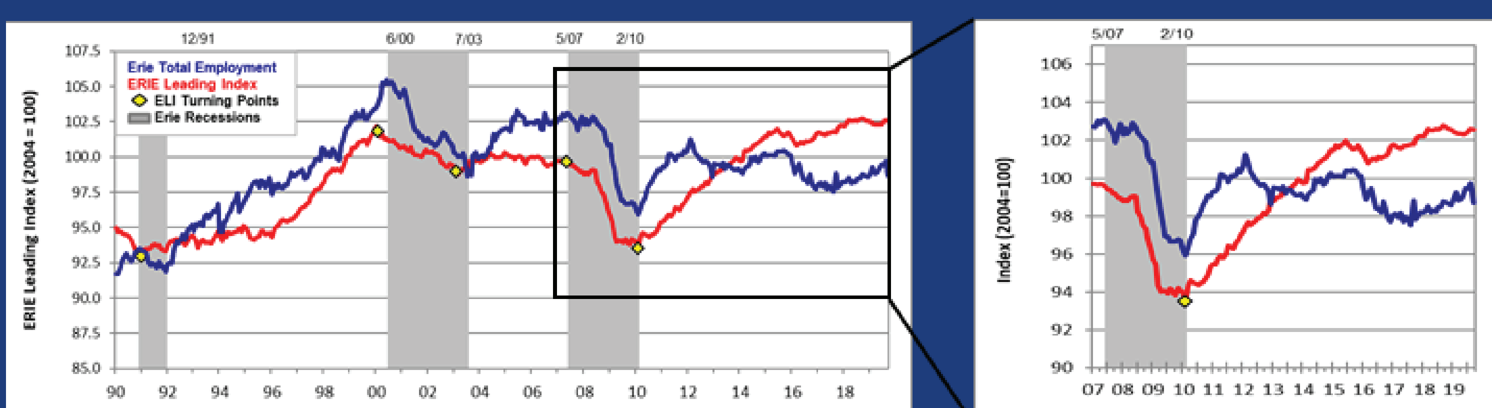
Unfortunately, weak job growth is the ghost of Christmas past that continues to haunt the Erie economy. According to the Pennsylvania Department of Labor and Industry, total nonfarm jobs in Erie rose slightly on a seasonally adjusted basis between September and October by 0.2% (200 jobs) to its current level of 128,600.

However, nonfarm employment is 0.1% (100 jobs) below where it was a year ago. By contrast, nonfarm jobs grew year-over-year in October by 0.5% (28,700 jobs) statewide and by 1.4% (2.1 million jobs) in the nation as a whole.

Local sectors experiencing job growth year-over-year in October were local government (+3.0% or 300 jobs); transportation, warehousing, and utilities (+2.9% or 100 jobs); education and health services (+1.7% or 500 jobs); financial activities (+1.5% or 100 jobs); leisure and hospitality (+1.4% or 200 jobs); and professional and business services (+0.9% or 100 jobs).

Local sectors experiencing job losses during the year were manufacturing (–4.0% or 800 jobs); retail trade (–3.4% or 500 jobs); wholesale trade (–2.8% or 100 jobs); and other services (–1.7% or 100 jobs).

Although the local labor force expanded slightly by 0.8% (1,000 individuals) year-over-year, Erie's seasonally adjusted unemployment rate rose slightly to 4.4% in October from 4.2% in September. This was higher than that in Pennsylvania (4.2%) and the nation as a whole (3.6%).



*Data through September 2019

Components of ELI

Variable	June	July	Aug.	Sept.	June-Sept.	% Change*	Weights
ERIE Leading Index	**102.33**	**102.49**	**102.59**	**102.56**	**0.23**	**0.23**	**1.000**
U.S. Interest Rate Spread (%)	-0.3	-0.3	-0.5	-0.3	**-0.03**	**9.68**	0.303
U.S. Index of Coincident Indicators (2016=100)	106.1	106.1	106.4	106.5	**0.40**	**0.38**	0.270
U.S. Real Money Supply (M2) (bill of chained 2009 $)	13,469.1	13,520.7	13,581.5	13,671.1	**202.00**	**1.50**	0.182
PA Avg Weekly Hours in Manufacturing (hours)	41.2	41.2	41.0	40.8	**-0.41**	**-1.00**	0.071
Erie Manufacturing Employment (thou of jobs)	19.4	19.2	19.2	19.2	**-0.12**	**-0.63**	0.085
U.S. TS Freight Index (2000=100)	137.9	138.8	140.1	136.6	**-1.30**	**-0.94**	0.051
S&P 500 Stock Index (1941-43=10)	2,890.2	2,996.1	2,897.5	2,982.2	**91.99**	**3.18**	0.022
U.S. Building Permits (thou of units)	1,232	1,317	1,425	1,391	**159.00**	**12.91**	0.016

**Symmetric % change, using the average value of the series in the last quarter as the base. *Changes may differ from hand calculations due to rounding.*

Five of ELI's eight components increased between June and September, nudging the index up by a modest 0.2% in the third quarter. ELI may receive a further boost going into the new year if consumer spending during the holiday season is strong.

As in the past, the strength of several economic indicators at the national level helped to boost ELI. For example, the ELI component showing the biggest gain this quarter was U.S. Building Permits, which grew by almost 13%. And despite day-to-day volatility, overall the major U.S. stock market indexes have remained strong, with the S&P 500 Stock Index rising by 3.2% between June and September.

Further contributing to ELI's upward movement was an increase in the U.S. Interest Rate Spread by 9.7%. The spread, which measures the difference between the 10-year Treasury bond yield and the short-term federal funds rate, had been narrowing in recent quarters. This was of concern because research suggests that a negative interest rate spread may signal a downturn in the U.S. economy, with adverse local consequences since the U.S. economy tends to lead the local economy.

In fact, the interest rate spread became negative earlier in the year, causing a temporary "inversion of the yield curve" whereby short-term interest rates were higher than long-term rates. This sparked fears of an economic slowdown since an inversion of the yield curve has predicted U.S. recessions fairly reliably over the past half century.

Amidst this and other signs of potential weakness in the U.S. economy, the Federal Reserve has lowered its benchmark federal funds rate three times this year. The Fed recognizes that, despite the overall robustness of the national economy, the U.S. manufacturing sector has been slowing, as reflected in the Institute for Supply Management's PMI Index.

As a result of the Fed's expansionary monetary policy stance, the U.S. Real Money Supply grew by 1.5% over the third quarter, which also helped to lift ELI. In addition, the lower federal funds rate alleviated some of the pressure on the narrowing interest rate spread.

Offsetting these positive factors that lifted ELI were declines in three of ELI's components.

The U.S. Transportation Services Freight Index decreased by 0.9% in the third quarter. However, this component may turn positive in the 4th quarter if holiday shoppers place more shipping orders for Santa to deliver all those presents on time.

Further restraining ELI this quarter was a 1% decline in Pennsylvania Average Weekly Hours in Manufacturing. Additionally, the potential Grinch in the picture continues to be Erie Manufacturing Employment, which fell by 0.6% on a seasonally adjusted basis in the 3rd quarter.

The latest uptick in ELI is certainly great news for Erie. And the ongoing efforts to revitalize the local economy, including the substantial investment projects already underway, may help to sustain ELI's upward momentum in the months ahead. In addition, the national economy, which grew by 2.1% in the third quarter and added 266,000 jobs in November, will continue to exert influence on the local economy.

Bah humbug! The local manufacturing sector continues to shed jobs.

Trends and Implications for Different Sectors of the Erie Economy

Goods-Producing Sectors

Mining, Logging, and Construction:

Reflecting its seasonal pattern, employment in this sector decreased by 4.4% (200 jobs) between June and October. The current employment level of 4,300 is unchanged compared to a year ago, although it may pick up when warmer weather returns in the spring. In addition, upcoming construction projects downtown may add to employment. This sector will continue to be affected by fiscal, regulatory, and environmental policy.

Manufacturing:

Although it produces more than $2 billion of output and accounts for 20% of the local economy's real gross metro product, this sector continues to shed jobs. October employment was at 19,100, down 4.0% (800 jobs) compared to a year ago. Recent layoffs at Wabtec will add to the downward trend. Technology and automation as well as international trade and government policy will continue to affect this sector.

Plastics & Rubber Products Mfg:

This sector continues to be an important part of the local economy, with employment dipping slightly earlier in the year but bouncing back and remaining stable throughout the third quarter. Current employment stands at 4,500, the same level compared to a year ago. Changes in technology, globalization, and government policy can affect this sector.

Private Service-Providing Sectors

Wholesale Trade:

The wholesale trade sector has remained quite stable this year, with employment at 3,600 throughout the first nine months. However, employment fell by 2.8% (100 jobs) year-over-year in October. The sector will likely receive a boost as we move into the holiday shopping season. This sector can also be affected by government fiscal, monetary, and trade policies as well as by events that affect the global supply chain.

Retail Trade:

After dipping slightly in September, employment in this sector rebounded to its mid-year level by October. However, the current employment level of 14,100 represents a decline of 3.4% (500 jobs) compared to a year ago. The holiday season may provide a boost, but continued manufacturing job losses, e-commerce, and government policies that affect household disposable incomes can influence this sector.

Transportation, Warehousing, Utilities:

Employment in this sector fluctuated over the course of the year between 3,300 and 3,600. After dipping in July and August, employment has recovered to 3,600 in October, an increase of 2.9% (100 jobs) compared to a year ago. In addition to seasonal factors, events as well as government policies that affect the global supply chain can influence this sector.

Information:

This broad sector encompasses publishing (including software, traditional, and Internet publishing), motion picture and sound recording, broadcasting (including traditional and Internet broadcasting), data processing, and information services. The number of jobs has remained steady at 1,000 throughout the first ten months of the year, the same level compared to a year ago. This sector will continue to be affected by rapid changes in technology.

Financial Activities:

Employment in this sector grew gradually over the year, reaching 6,600 in October. This represents a year-over-year increase of 1.5% (100 jobs). Innovations in the financial services industry as well as in data and information processing will affect this sector. In addition, the sector will be affected by government fiscal, monetary, banking, regulatory, trade, and other policies that influence household and corporate financial decisions.

Professional and Business Services:

This sector has been growing, with employment increasing by 8% (800 jobs) in the first ten months of the year. Moreover, the current employment level of 10,800 represents a year-over-year increase of 0.9% (100 jobs). This sector can be affected by government policy as well as by structural and demographic changes in the local economy that alter the demand for professional services.

Education and Health Services:

Employment in this sector has grown by 3.8% (1,100 jobs) in the first ten months of the year. Moreover, the current employment level of 30,200 represents a year-over-year increase of 1.7% (500 jobs). This is the largest sector (by employment) in the local economy. Education and health-care policy, educational and medical technology, and shifting demographics in the local region are all likely to affect this sector.

Leisure and Hospitality:

As expected, recreational and tourist activities boosted employment in this sector during the summer months. With the onset of fall, employment has declined by 11.2% (1,800 jobs) between August and October. Nevertheless, the current employment level of 14,300 represents a year-over-year increase of 1.4% (200 jobs). In addition to seasonal factors, this sector will be affected by efforts to promote the region.

Other Services:

After reaching a peak for the year of 6,200 in July, employment in this sector has fallen back down by 6.5% (400 jobs) and stands at 5,800 as of October. The current level of employment also represents a year-over-year decrease of 1.7% (100 jobs). Government policy as well as demographic changes and events affecting disposable incomes will influence this sector.

Government Sector

As of October 2019, Erie employment in the government sector stood at 16,600, up 16.1% (2,300 jobs) compared to July, and up 1.8% (300 jobs) compared to a year ago. Federal government employment remained unchanged between July and October, and also unchanged at 1,600 compared to a year ago. Changes in state and local government employment normally occur over the course of the school year. For example, between July and October, state government employment increased by 27.0% (1,000 jobs) to 4,700, while local government employment rose by 14.4% (1,300 jobs) to 10,300. Compared to a year ago, state government employment remained unchanged while local government employment rose by 3.0% (300 jobs). Federal as well as state education, fiscal, and regulatory policies may also affect local government employment at all three levels.

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