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# ELI

Erie  
Leading  
Index

2<sup>ND</sup> QUARTER 2021 REPORT

## THE LONG AND WINDING ROAD: Erie's Gradual Recovery and the Lingering Economic Effects of COVID-19

*ELI is now moving in the right direction, but the pace of job recovery remains uneven across different sectors of the local economy*



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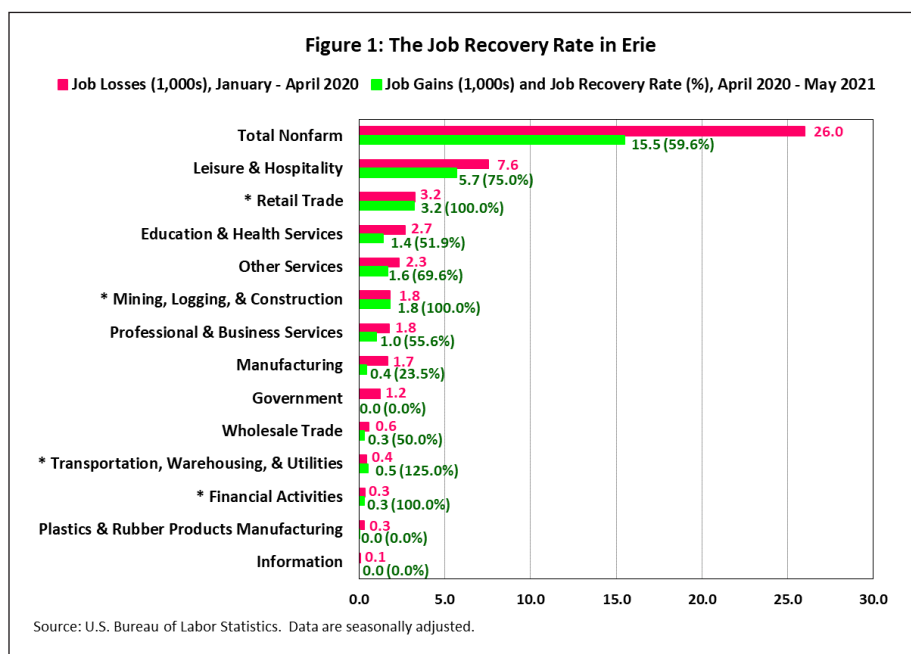
# After the Storm: ELI Resumes an Upward Trajectory Once Again

The **Erie Leading Index (ELI)** is once again moving in the right direction: *upward!*

This is welcome news since ELI provides important clues about the state of Erie's economy in the upcoming months. As shown in the charts at the bottom of this page and the table at the top of the next page, six of ELI's eight components rose between December and March, causing the overall Index to increase by 0.8%.

At the height of the COVID-19 pandemic, the three-month moving average for ELI had declined for five consecutive months, one possible indication of an impending downturn in the local economy. Since then, ELI has reversed course, rising for 10 consecutive months from May 2020 to March 2021. Moreover, analysis of the latest economic data using a formal statistical model designed to forecast cyclical turning points in the Index indicates that ELI has not turned back in the negative direction. Therefore, a downturn in the Erie economy no longer appears to be on the horizon despite the lingering effects of the pandemic.

As Figure 1 shows, Erie lost 26,000 jobs

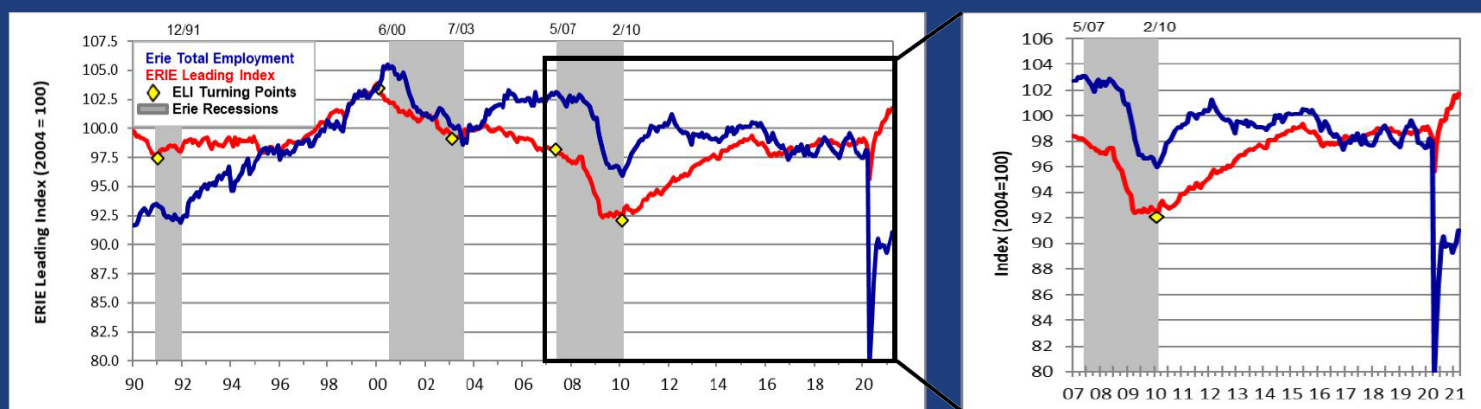


between January and April of 2020 and has recovered only 15,500 jobs since then, resulting in a job "recovery rate" of 59.6%. This is slightly below the overall job recovery rate of 66.7% in the U.S. as a whole and 63.8% in Pennsylvania during the same period. The job recovery rate in Erie has also varied across economic sectors.

The good news is that a few sectors (highlighted with an asterisk in Figure 1) have recovered all the jobs lost during the pandemic. For example, on a seasonally adjusted basis, employment in Erie's retail trade

sector is now the same as it was at the beginning of the pandemic in January 2020. But the job recovery rate in Erie's manufacturing sector has been much lower at 23.5%.

The National Bureau of Economic Research (NBER) has not formally declared an end to the U.S. economic recession, which began in February 2020. But emerging signs of national economic recovery include a robust 6.4% rate of growth (at an annual rate) in U.S. real gross domestic product (GDP) during the first quarter as well as continued employment gains.



\*Data through March 2021



## Components of ELI

Variable	December	January	February	March	Dec-March	% Change*	Weights
<b>ERIE Leading Index</b>	<b>101.00</b>	<b>101.59</b>	<b>101.37</b>	<b>101.78</b>	<b>0.77</b>	<b>0.76</b>	<b>1.000</b>
U.S. Interest Rate Spread (%)	0.8	1.0	1.2	1.5	0.70	83.33	0.405
U.S. Index of Coincident Indicators (2016=100)	103.0	103.6	102.9	103.8	0.80	0.78	0.134
U.S. Real Money Supply (M2) (bill of chained 2009 \$)	16,947.3	17,101.8	17,282.4	17,373.7	426.37	2.52	0.157
PA Avg Weekly Hours in Manufacturing (hours)	41.5	41.5	41.4	42.2	0.75	1.82	0.086
Erie Manufacturing Employment (thou of jobs)	17.9	18.0	18.1	18.2	0.26	1.47	0.105
U.S. TS Freight Index (2000=100)	133.6	135.6	131.6	128.2	-5.40	-4.04	0.065
S&P 500 Stock Index (1941-43=10)	3,695.3	3,793.8	3,883.4	3,910.5	215.20	5.82	0.028
U.S. Building Permits (thou of units)	1,758	1,883	1,726	1,755	-3.00	-0.17	0.020

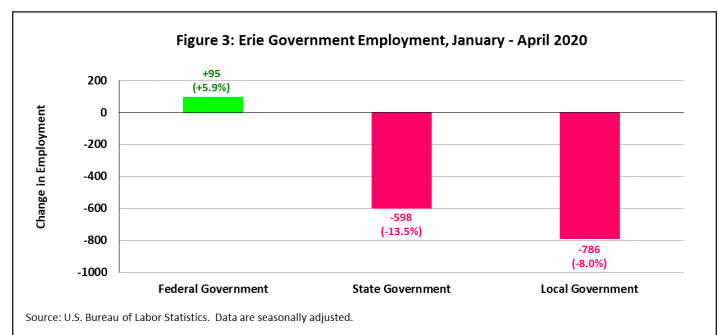
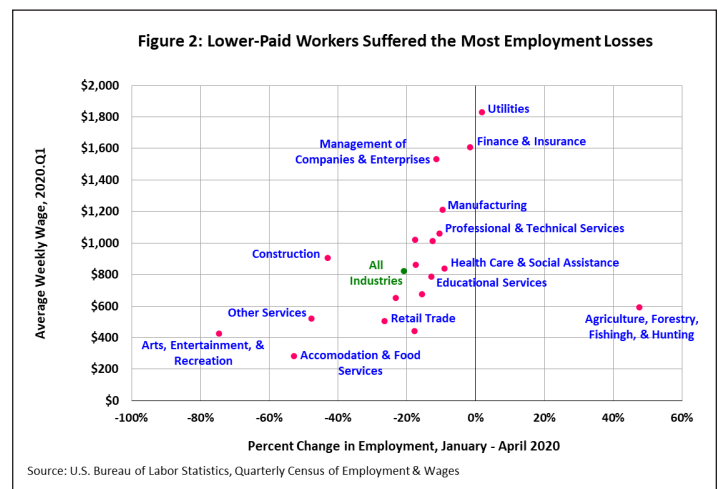
\*Symmetric % change, using the average value of the series in the last quarter as the base. \*Changes may differ from hand calculations due to rounding.

### Disparities in COVID Impact

Although ELI is now moving in the right direction, buoyed by the six components highlighted in green in the table above, more detailed analysis reveals some of the disparities in the impact that COVID has had. For example, Figure 2 shows that, in Erie's private sector, lower-paid workers have suffered the most employment losses during the pandemic. Workers with higher average weekly wages (e.g., those in industrial categories like utilities; finance and insurance; management; and manufacturing) have experienced smaller percentage reductions in employment. In contrast, workers with lower average weekly wages (e.g., those in arts, entertainment, and recreation; accommodation and food services; and retail trade) have experienced much higher percentage declines in employment. Figure 3 shows that the pandemic has also had differential effects in the public sector, with government at the local level experiencing the greatest number of job losses during the pandemic.

### Prospects for the Erie Economy?

Two ELI components (the U.S. Transportation Freight Services Index and U.S. Building Permits) did decline between December and March, but this was not enough to restrain ELI's rise. Though there is still much uncertainty about the strength and durability of the economic recovery, other positive trends suggest that the local economy is beginning to stabilize. For example, Erie's seasonally adjusted unemployment rate has fallen from 8.8% in February to 7.4% as of May. Although this is still higher than that in the U.S. (5.8%) and Pennsylvania (6.9%), it is significantly less than the 17.5% unemployment rate that Erie experienced a year ago. In addition, the number of people employed in Erie has increased by 12,600 (12.3%) since April 2020.



At the national level, the latest median projections made in June by the Federal Reserve are for U.S. real gross domestic product (GDP) to grow by 7.0% in 2021, which is an upward revision of the Fed's previous GDP growth projection of 6.5% made in March. This is also good news for Erie, since the national economy typically leads the local economy. Of course, fiscal and monetary policy measures taken by the federal government to mitigate the effects of the pandemic have sparked an important discussion regarding the potential long-term inflationary and budgetary consequences. Nevertheless, as the trends above indicate, there is reason to be cautiously optimistic about the Erie economy.

# Trends and Implications for Different Sectors of the Erie Economy

Note: The COVID-19 pandemic may continue to create additional employment effects in most sectors of the economy.

## Goods-Producing Sectors

### Mining, Logging, and Construction:

Employment in this sector rose by 8.1% (300 jobs) between January and April. Although employment in this sector fell by 42.1% (1,600 jobs) during the pandemic, on a seasonally adjusted basis it is now back at the pre-pandemic level of 4,300. In addition to seasonal factors, government fiscal, monetary, regulatory, and environmental policy will continue to affect this sector.

### Manufacturing:

Erie manufacturing employment fell by 9.3% (1,800 jobs) during the pandemic. Although employment grew on a seasonally adjusted basis by 1.7% (300 jobs) year-over-year in April, it is still below the pre-pandemic level of 19,400. COVID-related changes in consumer and industrial demand, and technology, automation, and government policy will affect this sector.

### Plastics & Rubber Products Mfg:

After a decline of 6.7% (300 jobs) during the pandemic, employment in this sector has been relatively stable, holding steady at 4,200 since January. However, this remains below the pre-pandemic employment level of 4,500. Changes in consumer and industrial demand, as well as technology, globalization, and government policy can affect this sector.

## Private Service-Providing Sectors

### Wholesale Trade:

Although employment in this sector fell by 17.7% (600 jobs) during the pandemic, it rose slightly on a seasonally adjusted basis by 3.2% (100 jobs) between January and April to 3,200. However, this is still below the pre-pandemic employment level of 3,400. This sector can be affected by COVID-related changes in demand, as well as fiscal, monetary, and trade policies and other events that affect the global supply chain.

### Retail Trade:

This sector has been significantly affected by the pandemic, during which employment fell by 25.9% (3,600 jobs). However, this is one of the few sectors that have achieved full employment recovery. Indeed, on a seasonally adjusted basis, the current employment level of 14,100 is higher than the pre-pandemic level of 13,900. Government policies affecting disposable incomes will influence this sector.

### Transportation, Warehousing, Utilities:

Like retail trade, this sector has achieved full employment recovery. After falling by 15.2% (500 jobs) during the pandemic, employment on a seasonally adjusted basis is slightly higher than the pre-pandemic level and is currently at 3,300. In addition to COVID-19 and seasonal factors, government policies that affect the global supply chain can influence this sector.

### Information:

This broad sector encompasses the following industries: publishing (including software, traditional, and Internet publishing), motion picture and sound recording, broadcasting (including traditional and Internet broadcasting), data processing, and information services. Employment fell by 11.1% (100 jobs) during the pandemic and it has remained at its current level of 800 since November. This sector will continue to be affected by rapid changes in technology.

### Financial Activities:

Employment in this sector fell by 6.1% (400 jobs) during the pandemic but has returned to its pre-pandemic level of 6,600 on a seasonally adjusted basis. In addition to COVID-related impacts resulting from government fiscal and monetary stimulus measures, this sector will also be affected by innovations in the financial services industry, and by government banking, regulatory, and trade policies that influence household and corporate financial decisions.

### Professional and Business Services:

Employment in this sector declined by 16.7% (1,600 jobs) during the pandemic. Although employment grew on a seasonally adjusted basis by 11.3% (900 jobs) year-over-year in April, it is still below the pre-pandemic level of 9,800. In addition to disruptions due to COVID-19, this sector can be affected by government policy and by structural and demographic changes in the local economy.

### Education and Health Services:

Employment in this sector fell by 8.0% (2,400 jobs) during the pandemic. On a seasonally adjusted basis, employment has risen to its current level of 28,400, but this is still below the pre-pandemic level of 29,900. This continues to be the largest sector (by employment) in the local economy. COVID-19 may continue to have significant effects on this sector, as will education and health care policy, technology, and demographics shifts.

### Leisure and Hospitality:

This sector has experienced the most employment losses from the pandemic. Revised statistics indicate that employment between January and April 2020 fell by a staggering 55.7% (7,300 jobs). On a seasonally adjusted basis, the current employment level of 11,500 is still 17.3% (2,400 jobs) below the pre-pandemic level. But seasonal factors and continued improvement in the pandemic outlook should help.

### Other Services:

Employment in this sector fell by 40.7% (2,400 jobs) during the pandemic. On a seasonally adjusted basis, employment has risen to its current level of 5,200, but this is still below the pre-pandemic level of 5,900. This sector will be affected by improvement in the pandemic outlook and government policies and economic events that affect disposable incomes.

## Government Sector

As of April, Erie employment in the government sector stood at 15,000, which is 5.7% (900 jobs) below the pre-pandemic level. On a seasonally adjusted basis, federal government employment is at 1,700, up 6.3% (100 jobs) compared with the pre-pandemic level. State government employment is at 3,600, down 18.2% (800 jobs) compared with the pre-pandemic level. Local government employment is at 9,200, down 6.1% (600 jobs) from the pre-pandemic level. Federal as well as state education, fiscal, and regulatory policies will affect local government employment at all three levels. The COVID-19 pandemic is also likely to continue to have effects on the government sector.



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