

Outlook/2022 Vision: Navigating the Uncertainty of a Moving Target

Thoughts and Observations to:

**Focus Central Pennsylvania
Industrial Development Forum**



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Principal
Robey Analytics**

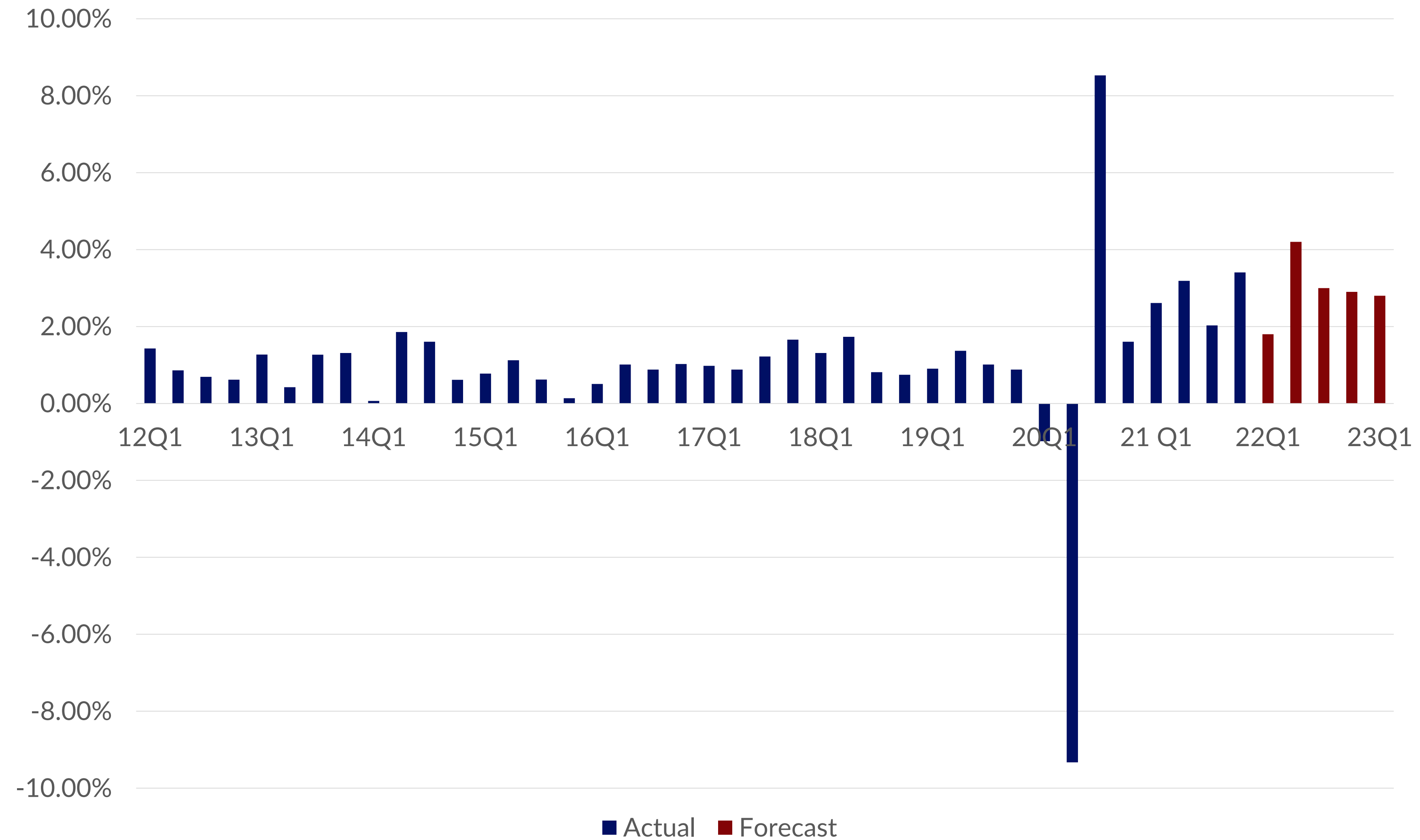
Some Technical Notes for Today

- I am not a macro economist
- Moody's data are provided courtesy of FirstEnergy
- Federal Reserve of St Louis is regularly sourced
 - The site is: <https://fred.stlouisfed.org/>
 - FRED is sourced for simplicity, but the underlying data are scraped from a number of sources including (but not limited to):
 - Bureau of Labor Statistics
 - Census: American Community Survey
- A shout-out to Larry Myers at the Pennsylvania State Data Center for a quick response and in supplying data
- Some of the data shown are based in author estimates—use the direction in some cases not the absolute value. Some data were tortured for this presentation

Macro Conditions

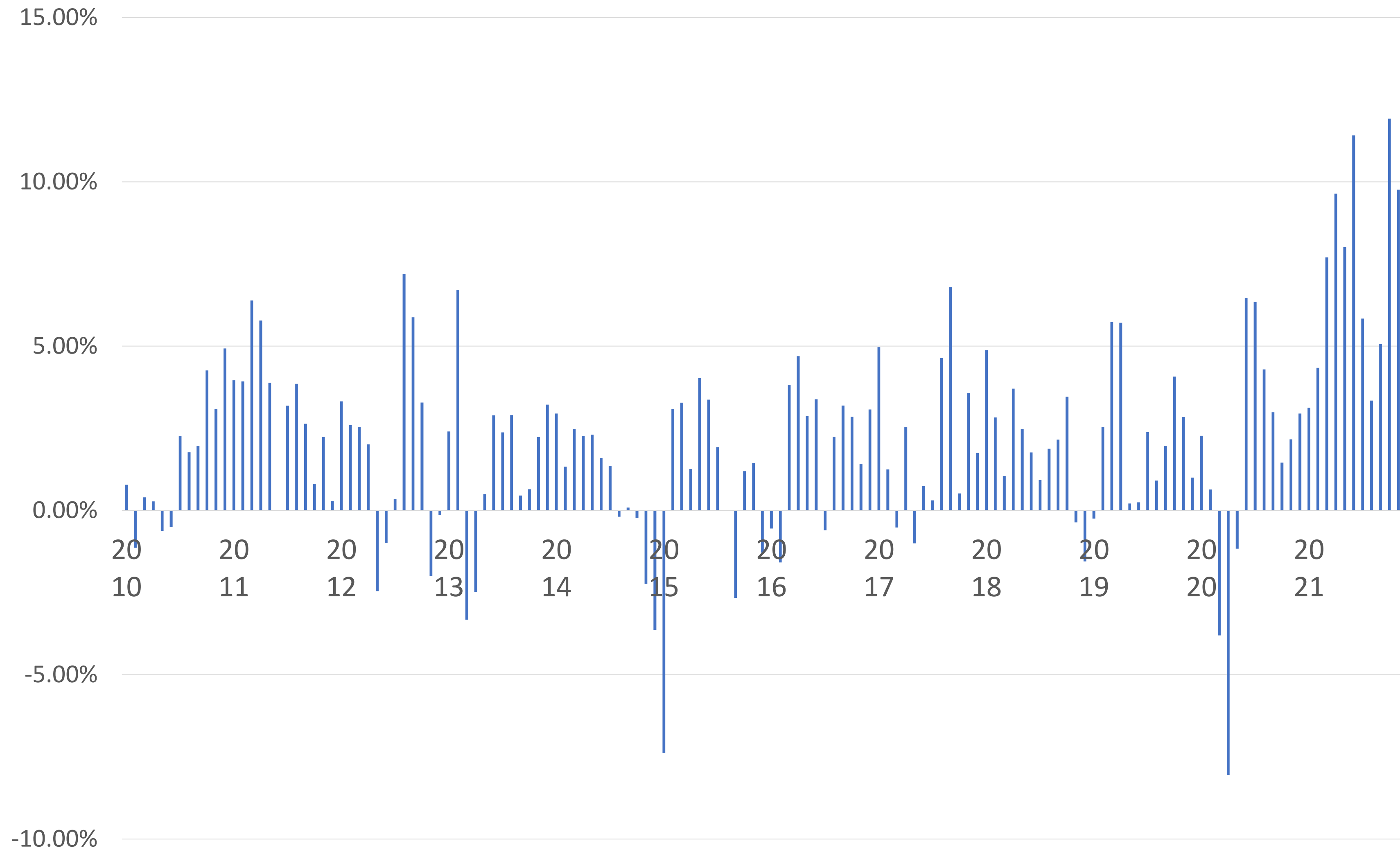


How Will Recent Events Affect the GDP Forecast?



Is Inflation Truly Transitory?

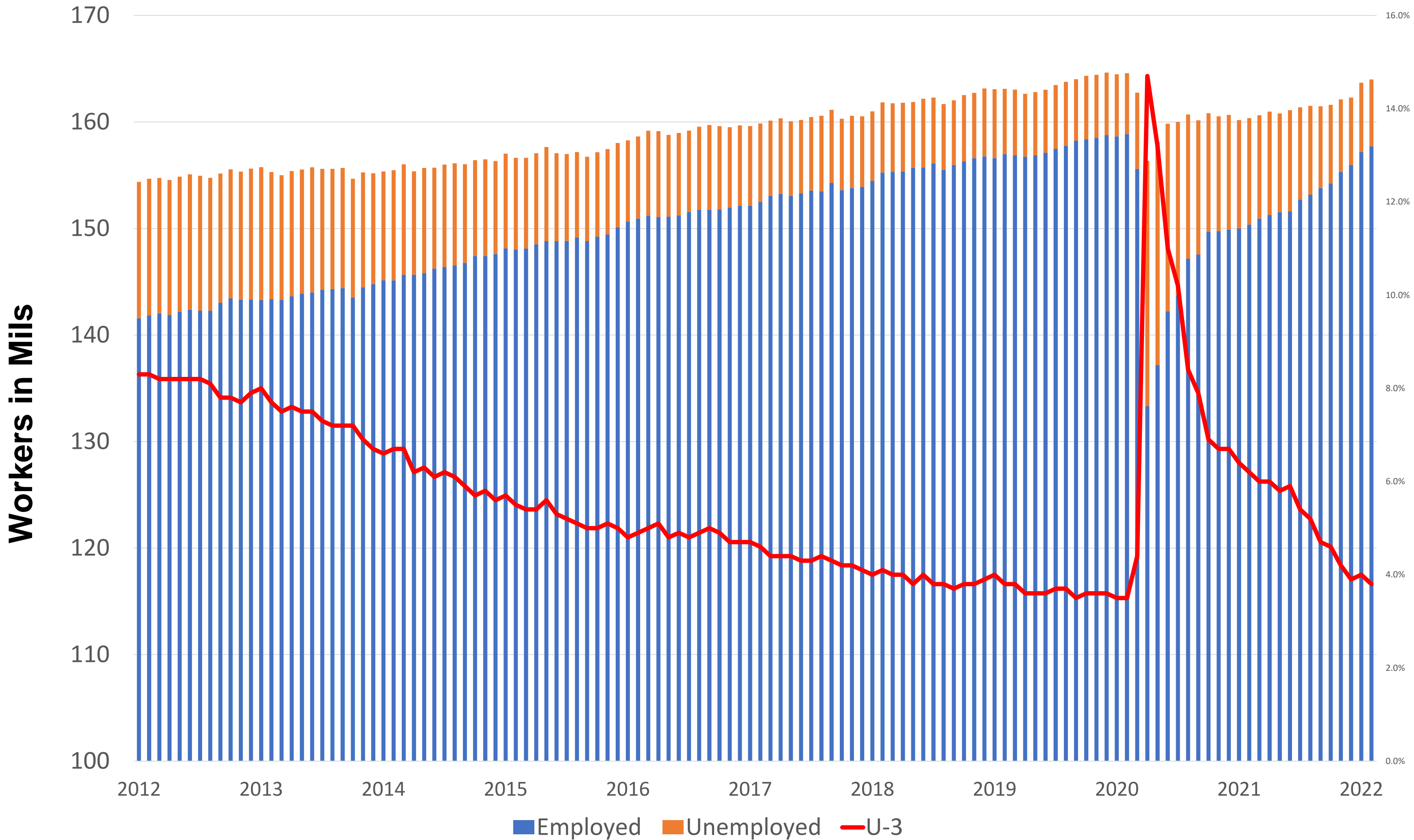
Forecast: 2.4% Q4:2022



Some Factors Affecting Inflation

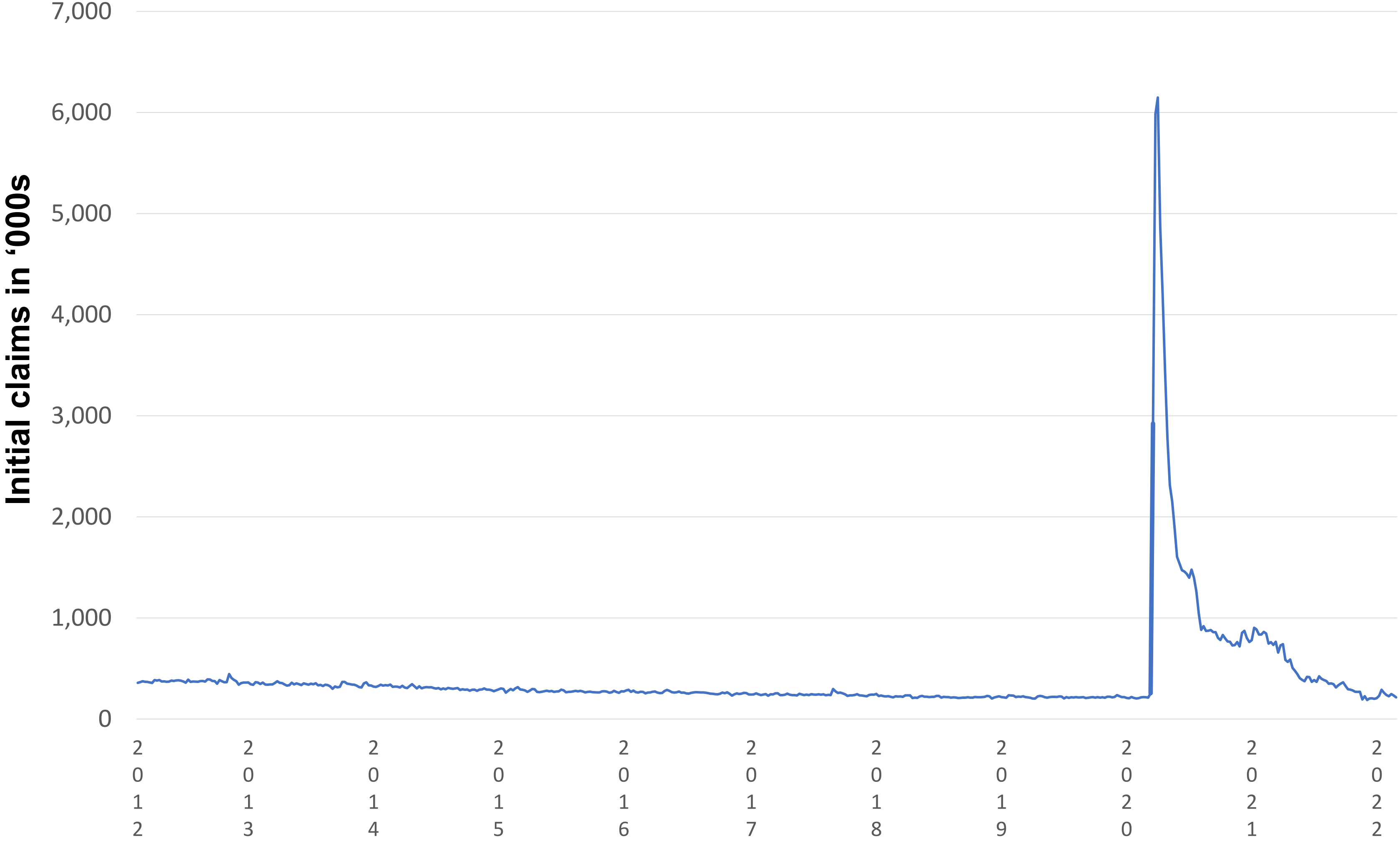
- Year-Over-Year: 7.9%
- Without food and energy: 6+%
- New and used cars: 23%
- Groceries: 7.4%
- Commodity prices
- Consumers are “flush” with cash
- Fewer workers in the labor force
- Energy prices
- Look for wage push inflation

A Partial Recovery in the Labor Market

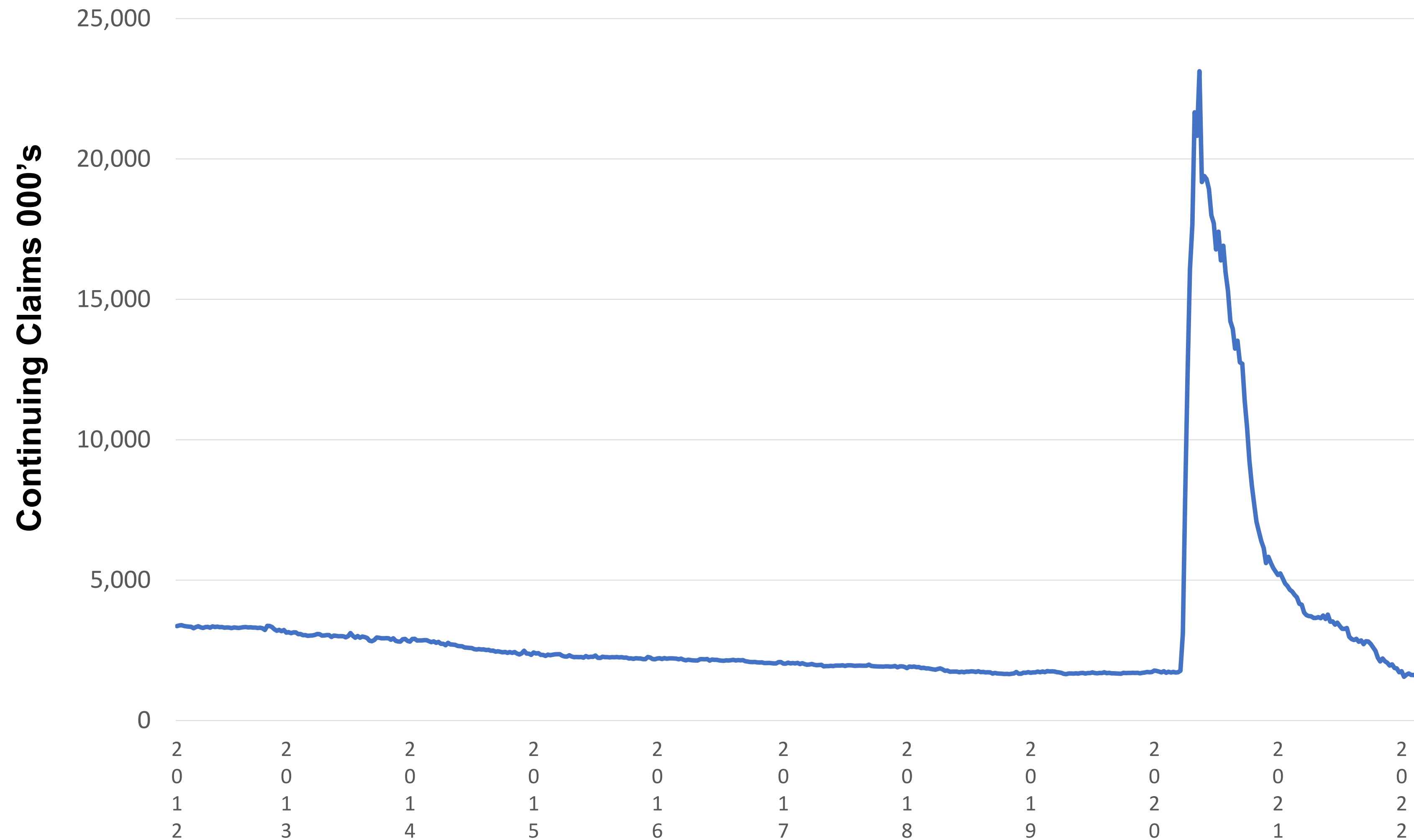


Initial Claims Remain Near Trend

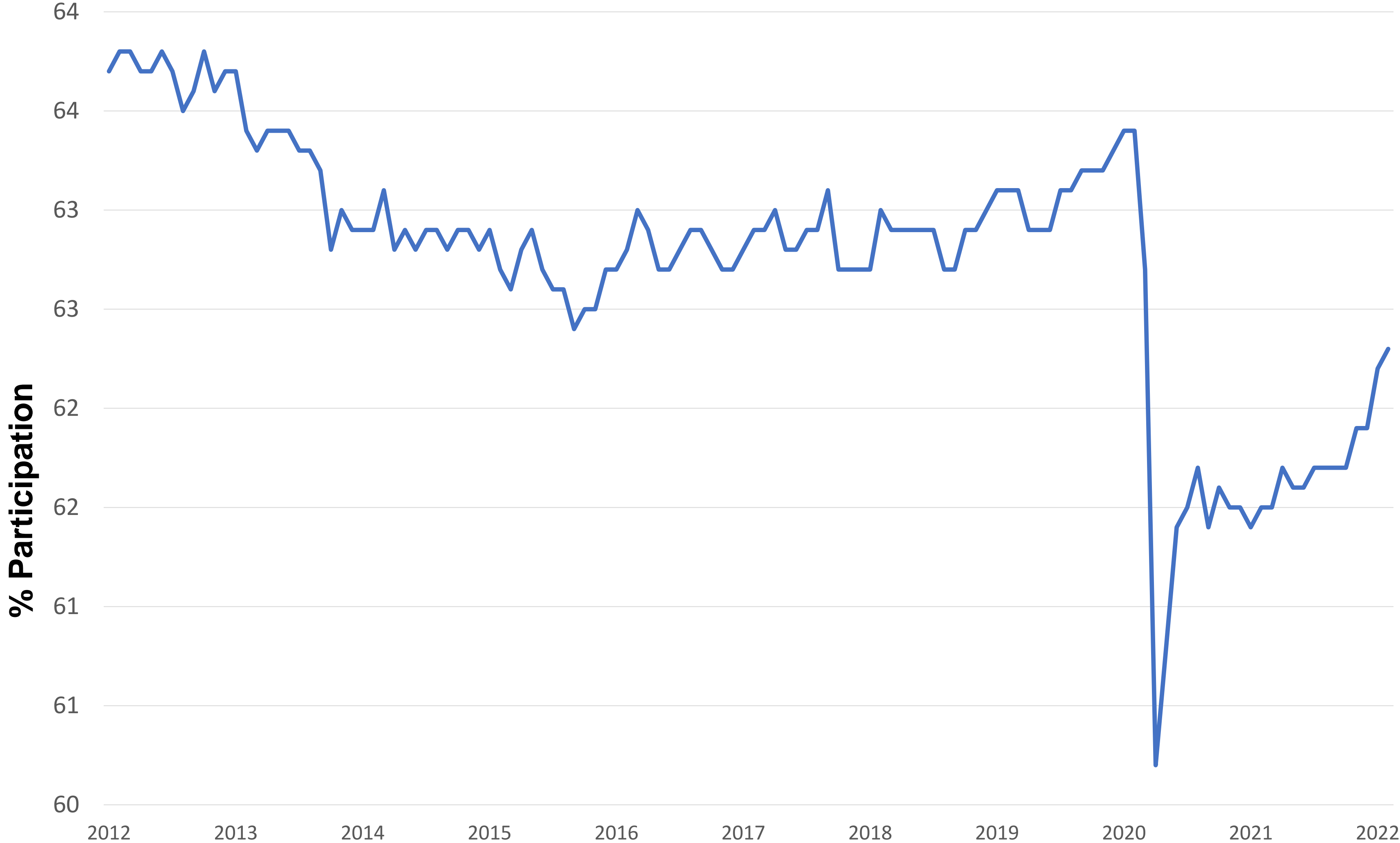
Week of March 17: 214,000



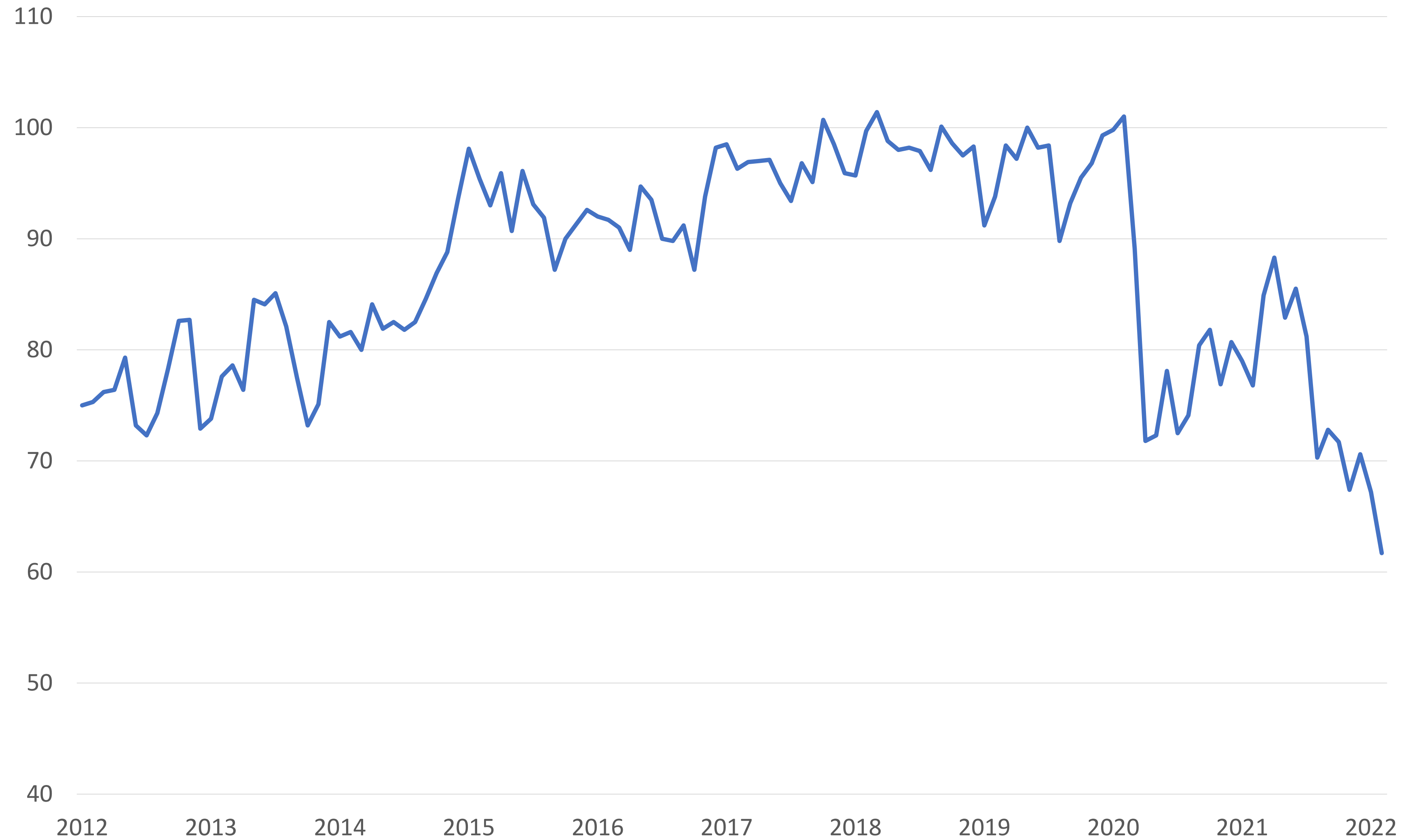
Continuing Claims Remain About Trend



Labor Force Participation Continues to be an Issue



Consumers are Trending Negative



National Outlook: RSQE Forecast

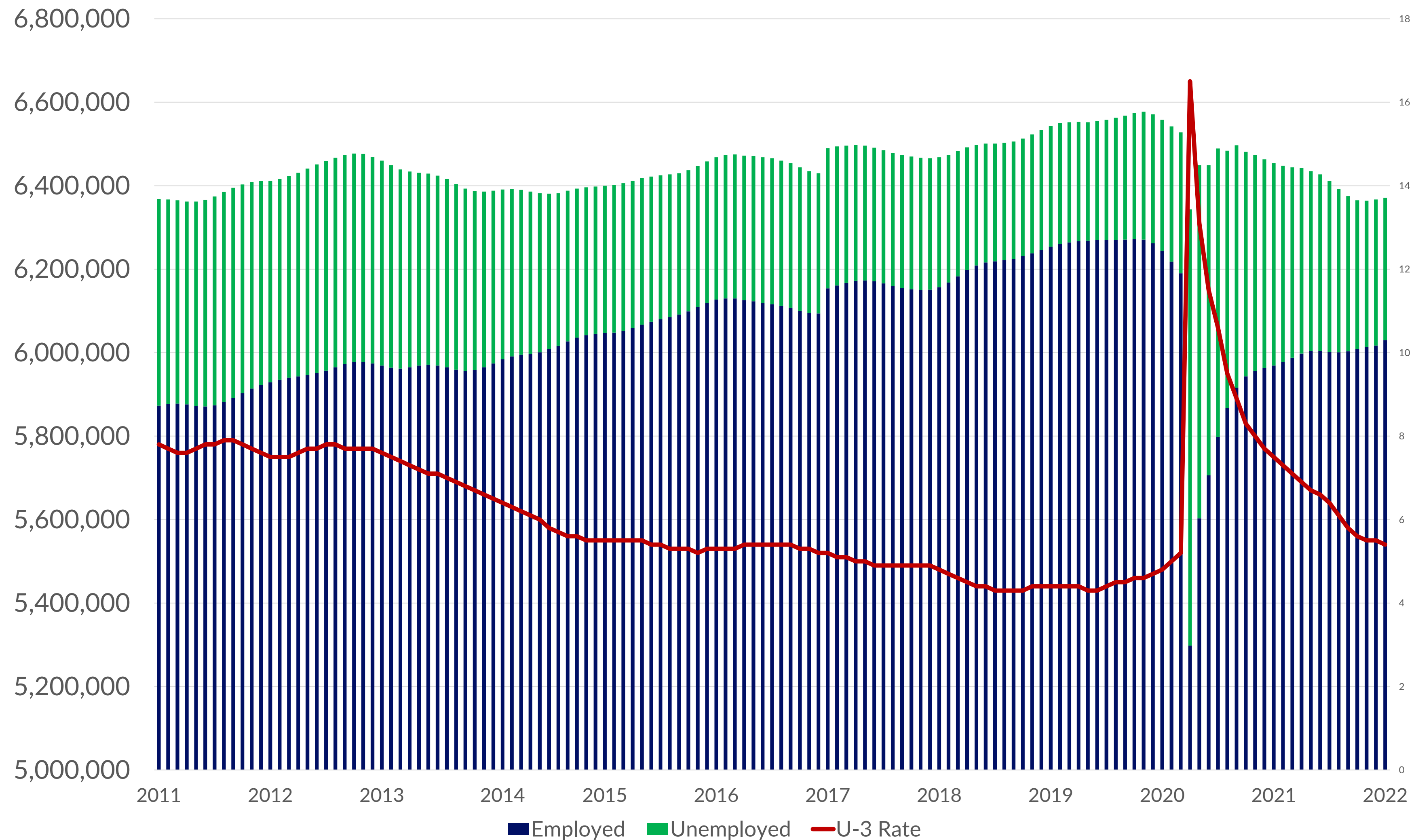
	2021	2022 Forecast	2023 Forecast
GDP (Percent)	5.7	4.1	2.8
Employment (Percent)	2.81	3.90	2.1
Light Vehicle Sales (Millions)	15.0	15.5	16.7
Unemployment Rate (Percent)	5.4	3.5	3.1
Housing Starts (Millions)	1.598	1.726	1.722
CPI/Inflation (Percent)	4.7	6.1	3.2

Source: University of Michigan RSQE

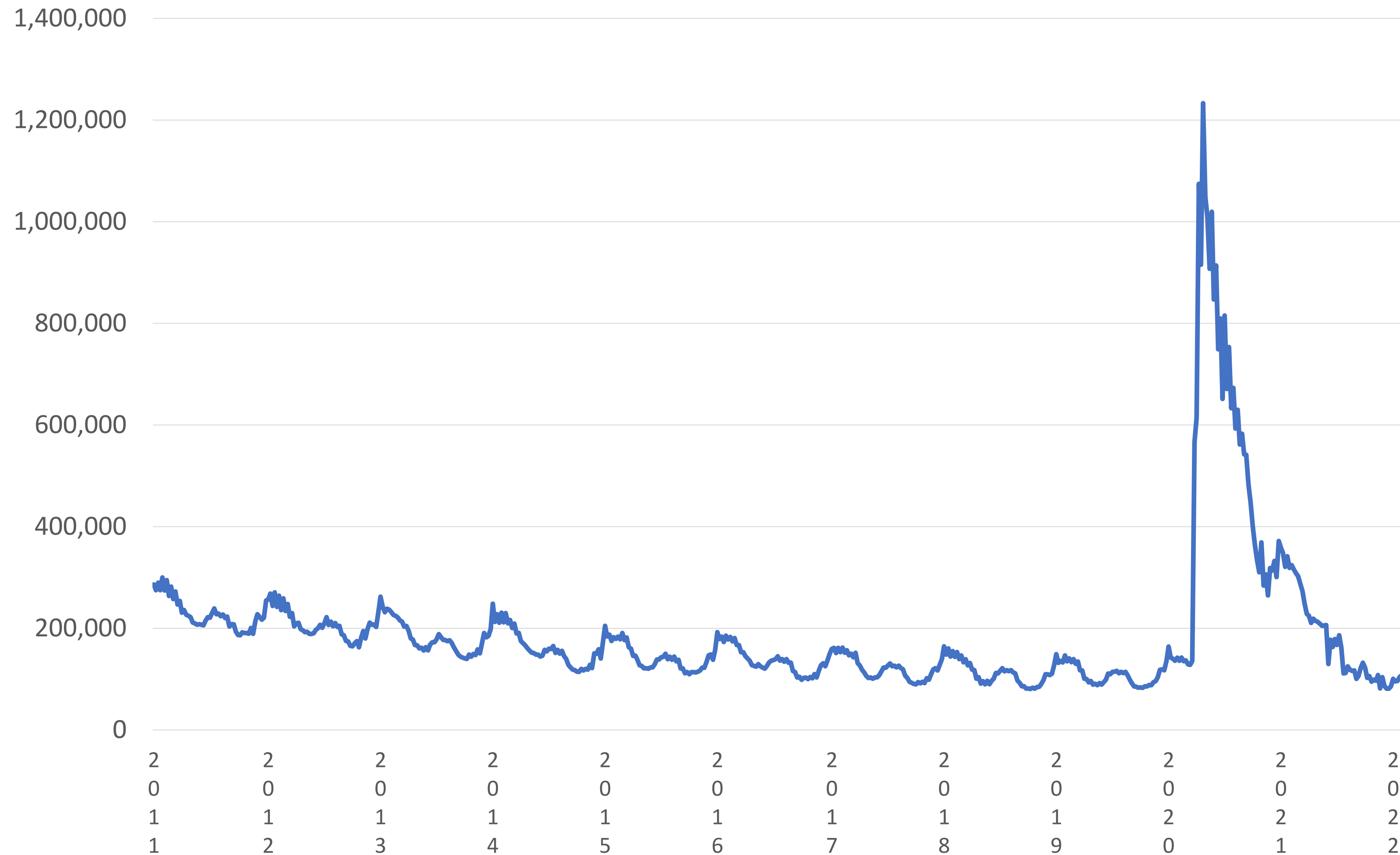
Pennsylvania Conditions



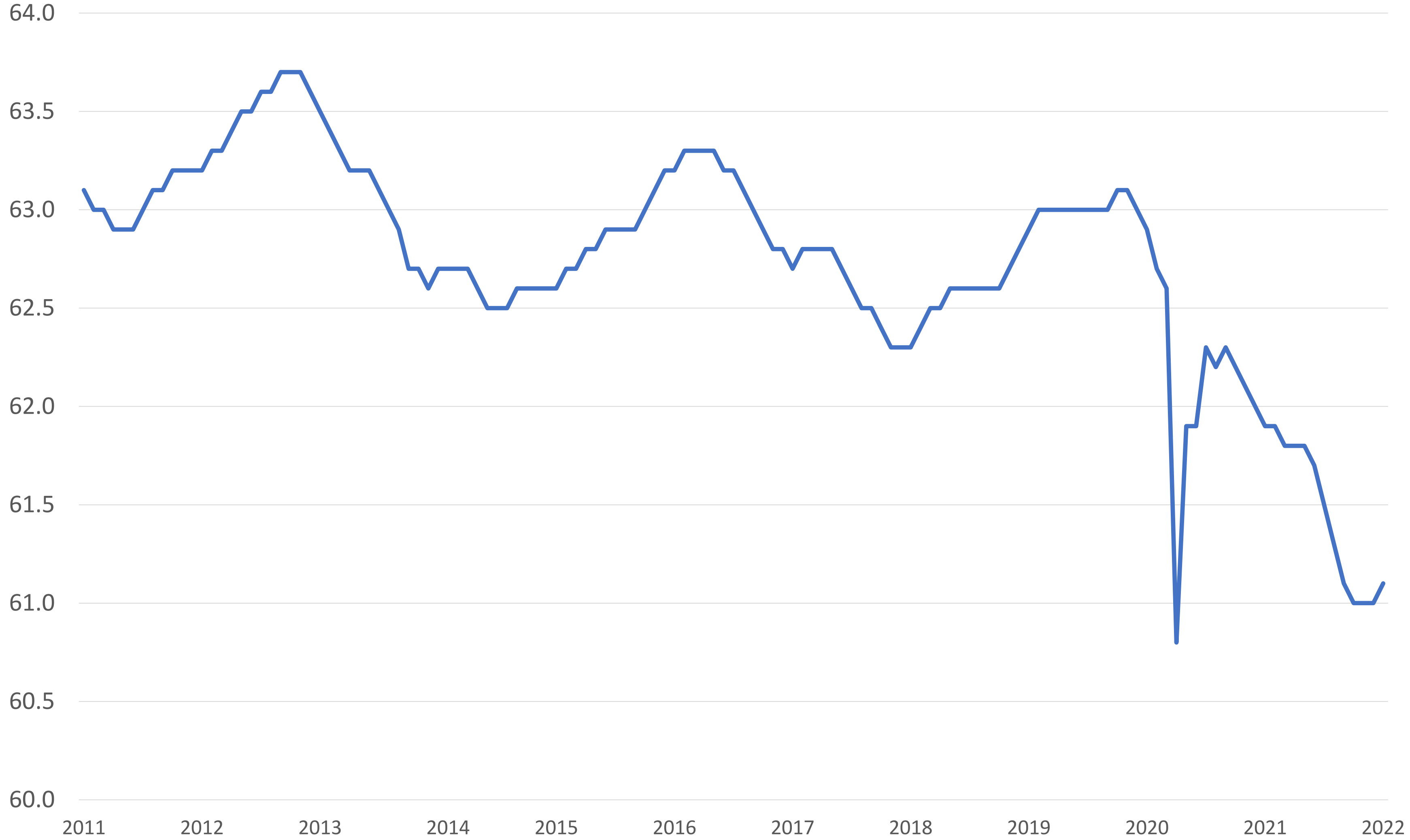
Unemployment Nearing Pre-COVID



Continuing Claims Remain About Trend



Labor Force Participation Continues to be an Issue



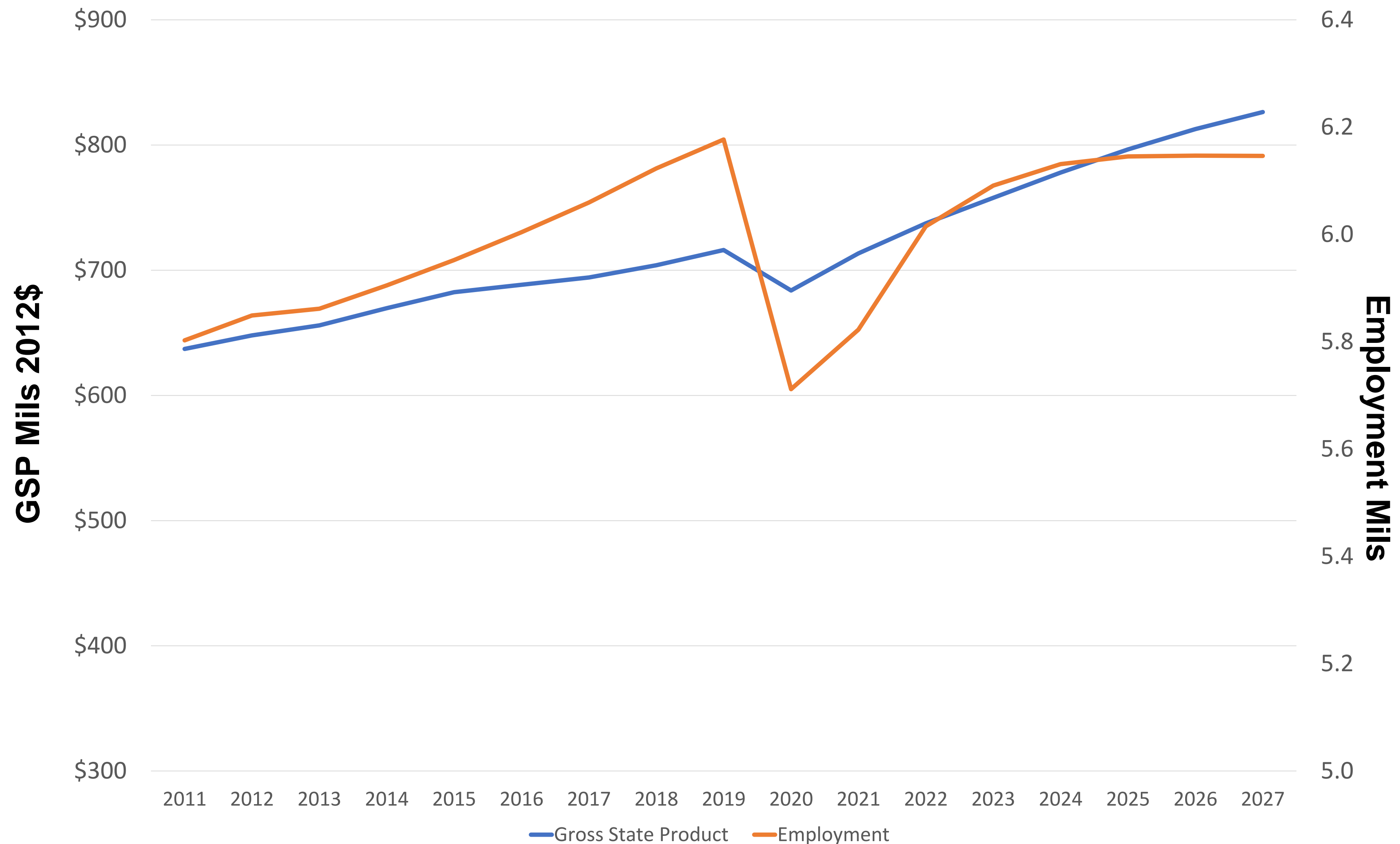
Source: Federal Reserve Bank of St. Louis



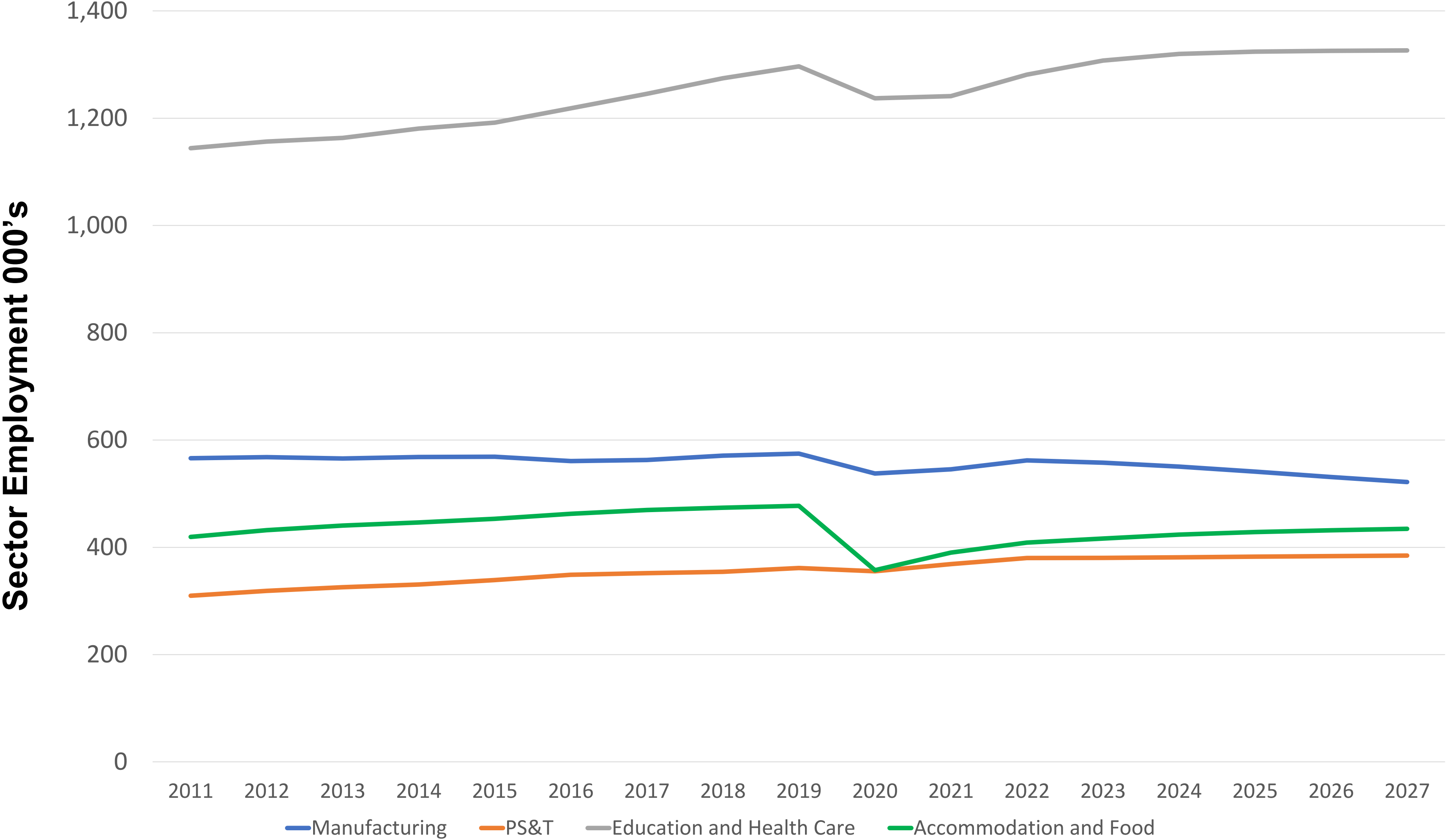
Pennsylvania Forecast



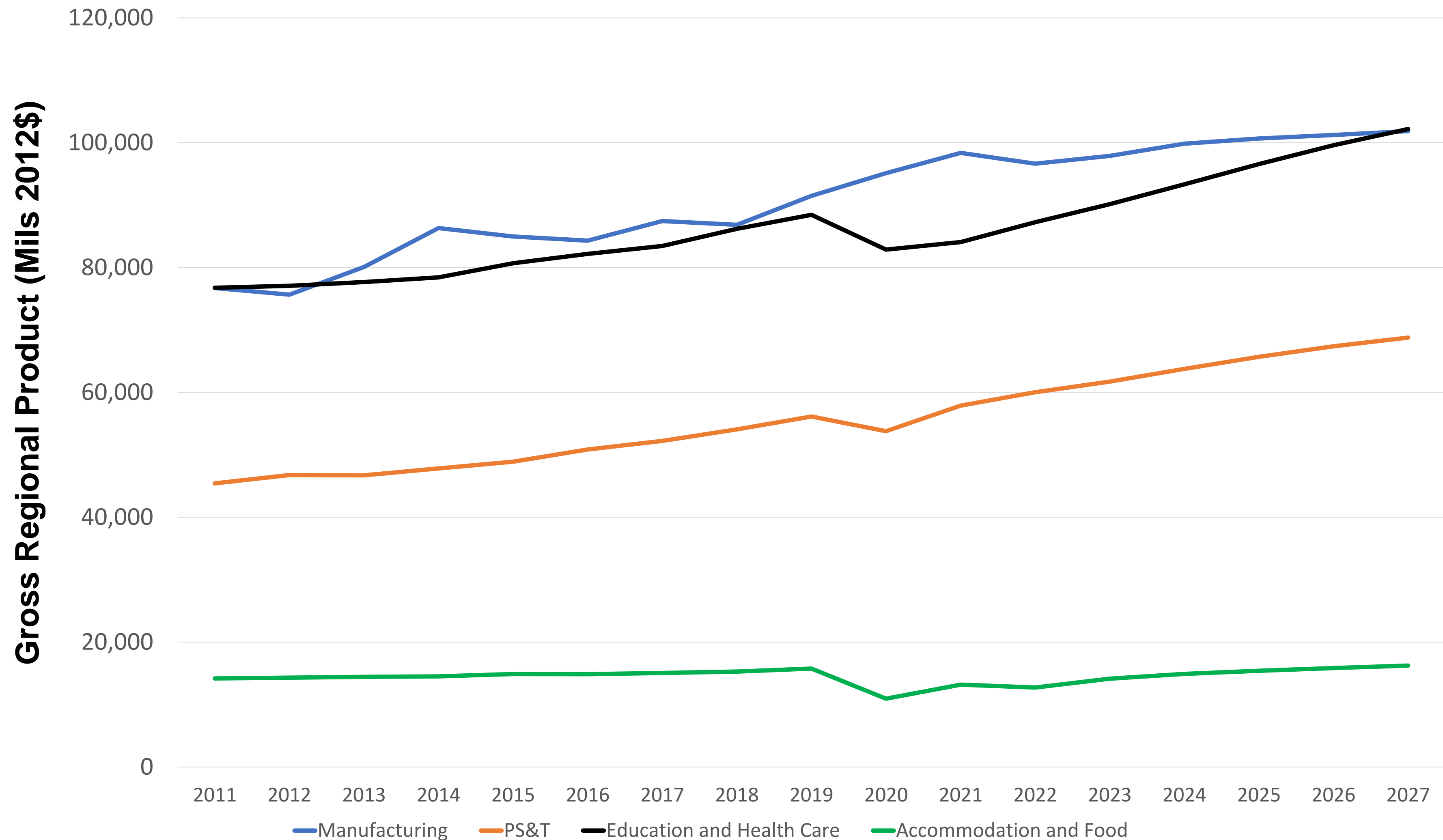
Moody's* Forecast for Pennsylvania



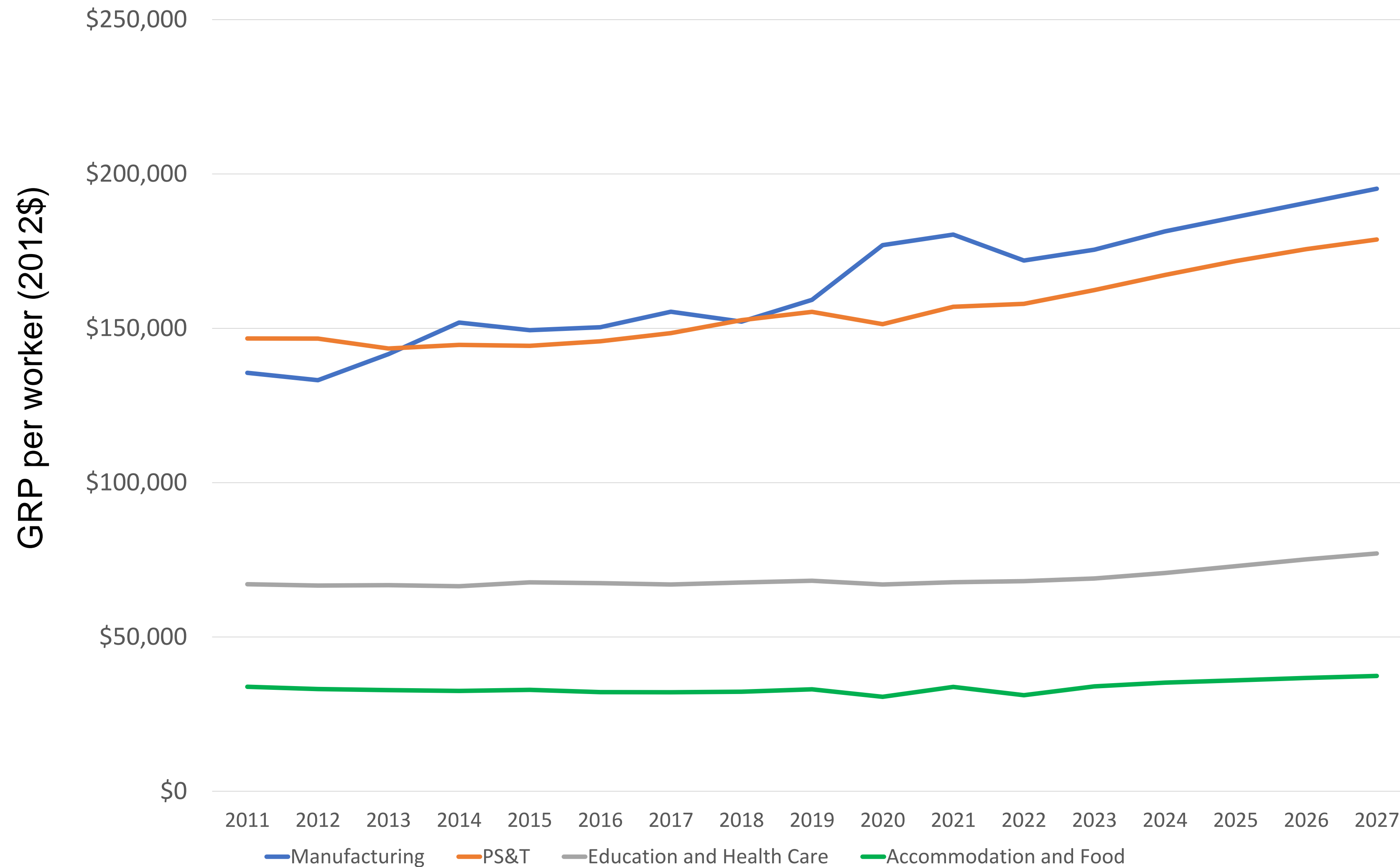
Employment Change is Forecast to be Relatively Flat



Real Gross State Product



Productivity is Forecast to Grow



Some Insights from Moody's

- Pennsylvania's economy is in "recovery"
- Costs of:
 - Living 96%
 - Business 95%
- Strengths:
 - Relative housing costs
 - Strong higher education
- Weaknesses
 - Slow population growth
 - Aging infrastructure

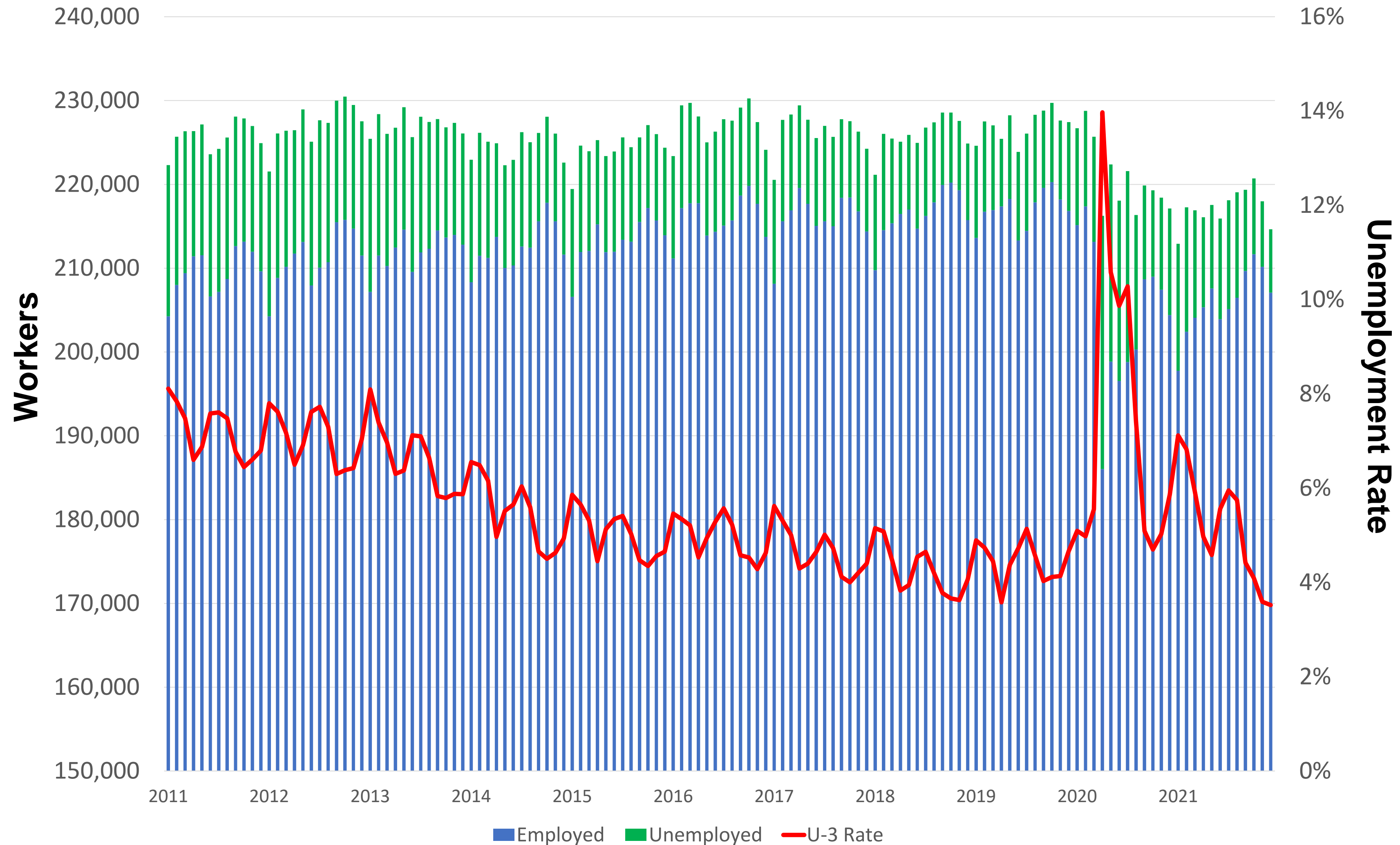
Focus Central Pennsylvania Conditions



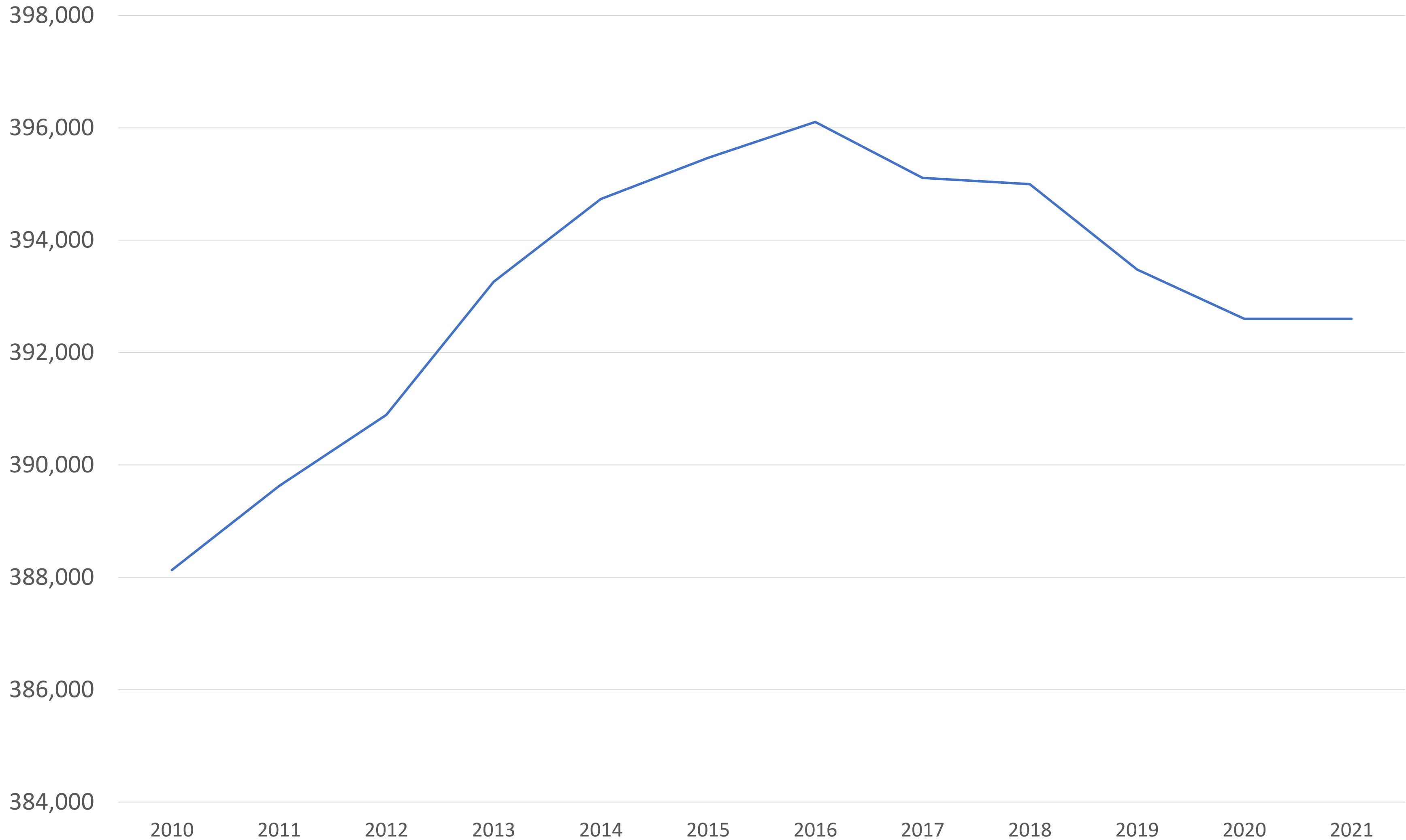
Defining the Region: At least for Today

- Data for counties are combined into a single statistic
 - At least where possible
- Counties included in the data:
 - Centre
 - Columbia
 - Mifflin
 - Montour
 - Northumberland
 - Snyder
 - Union

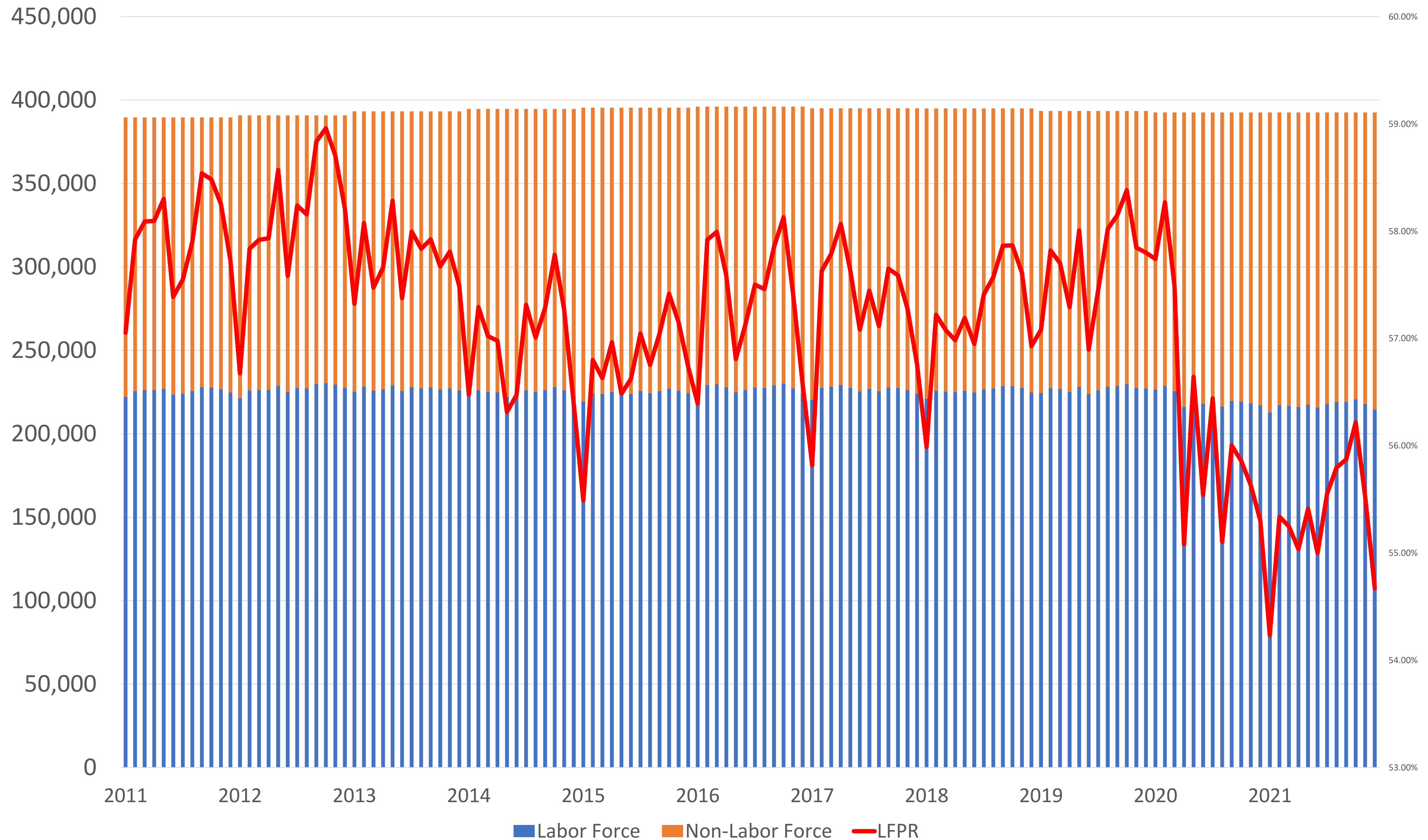
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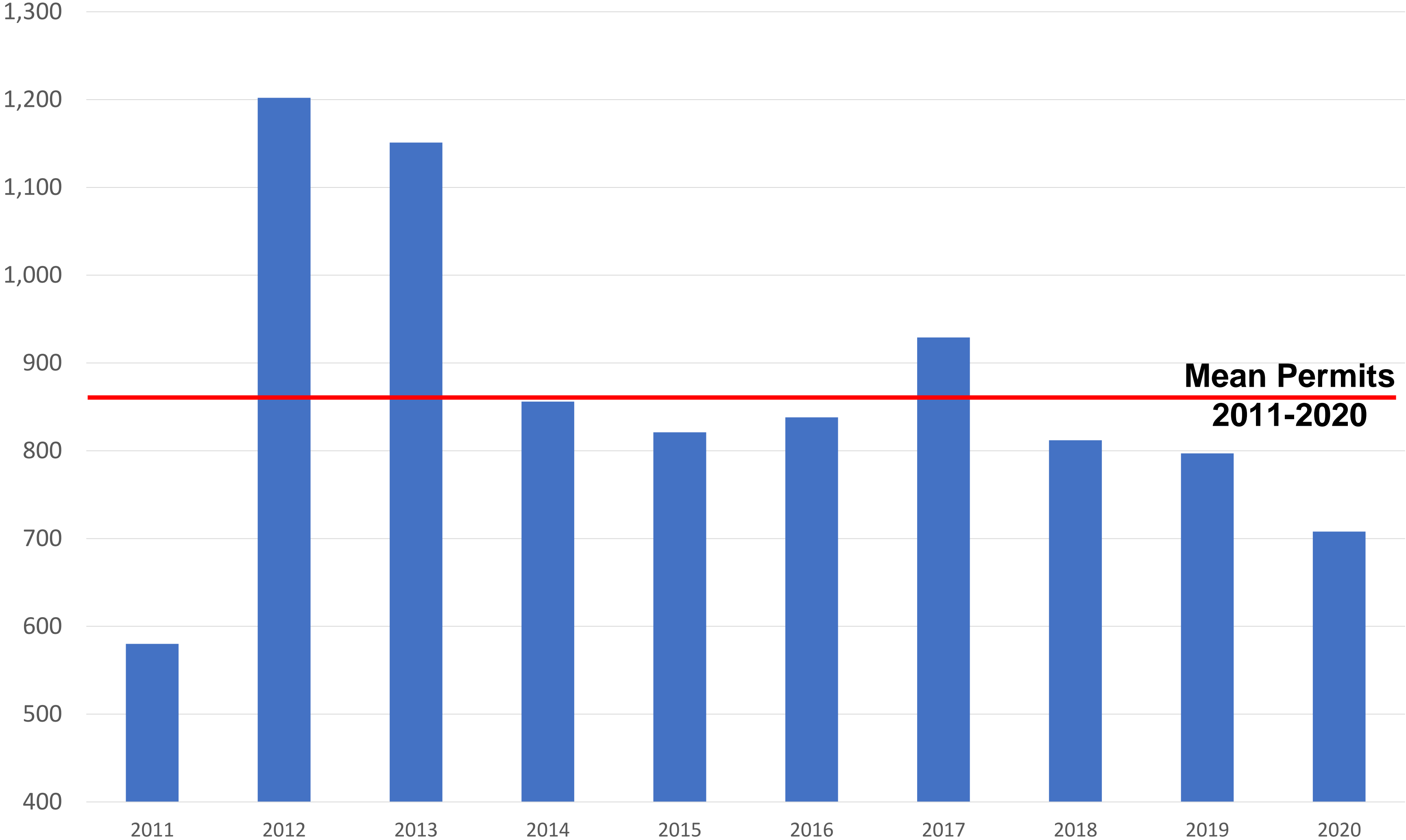
Working Age (16+) Population Trends



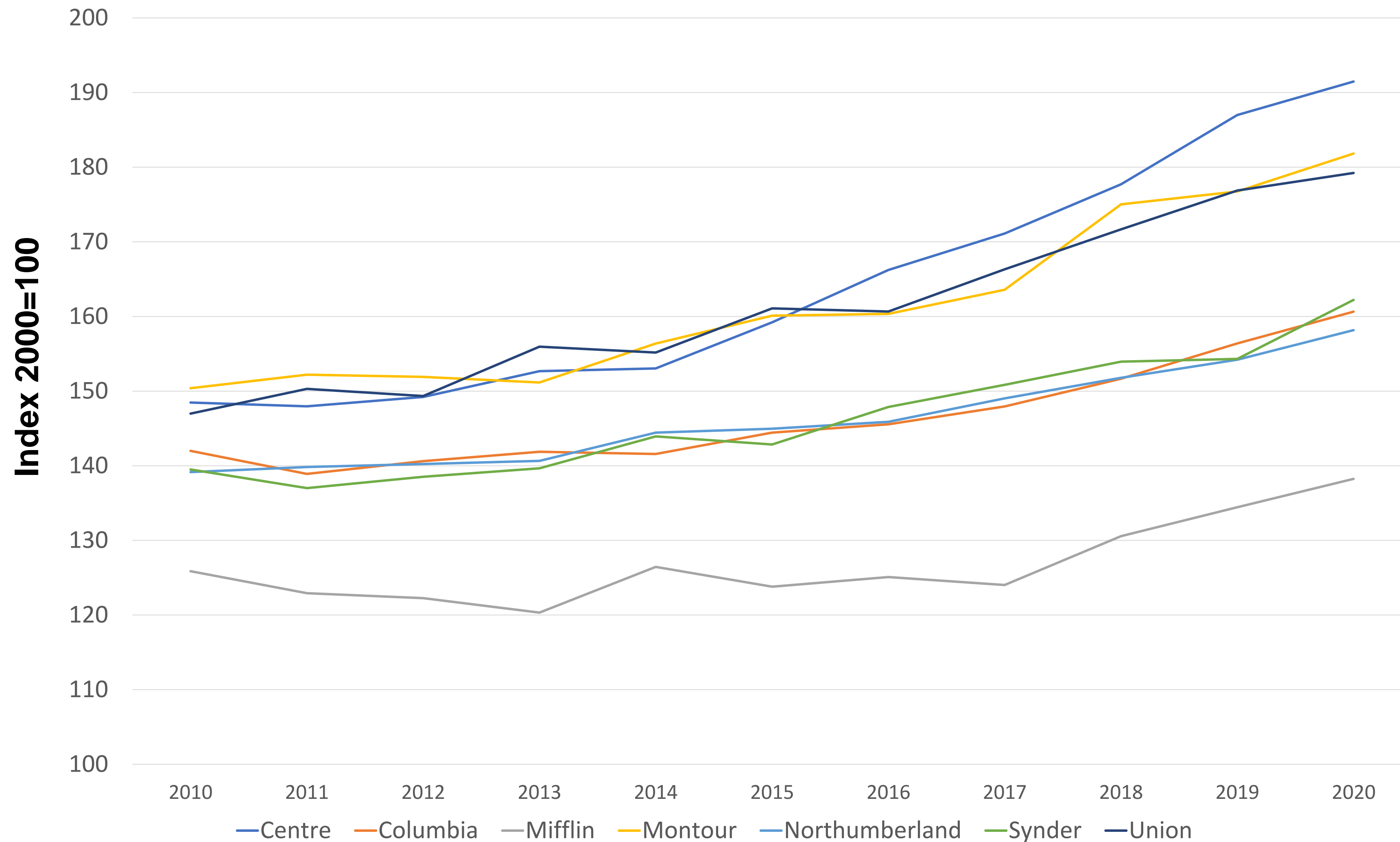
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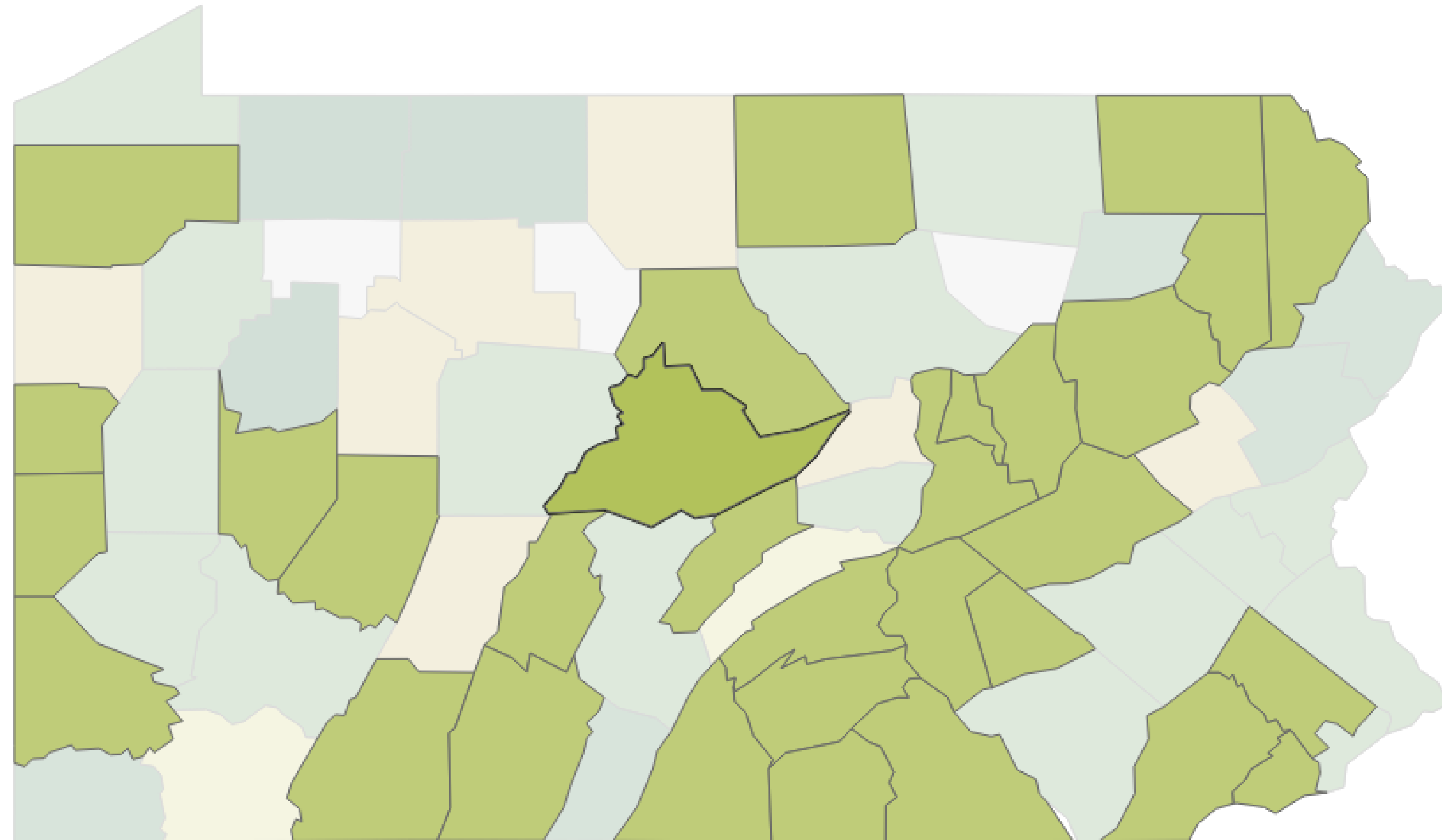
New Private Housing Permits



All Transactions Housing Cost Change



2019 to 2020 Housing Price Changes



Economic development's three-legged stool:
Land
Labor
Housing

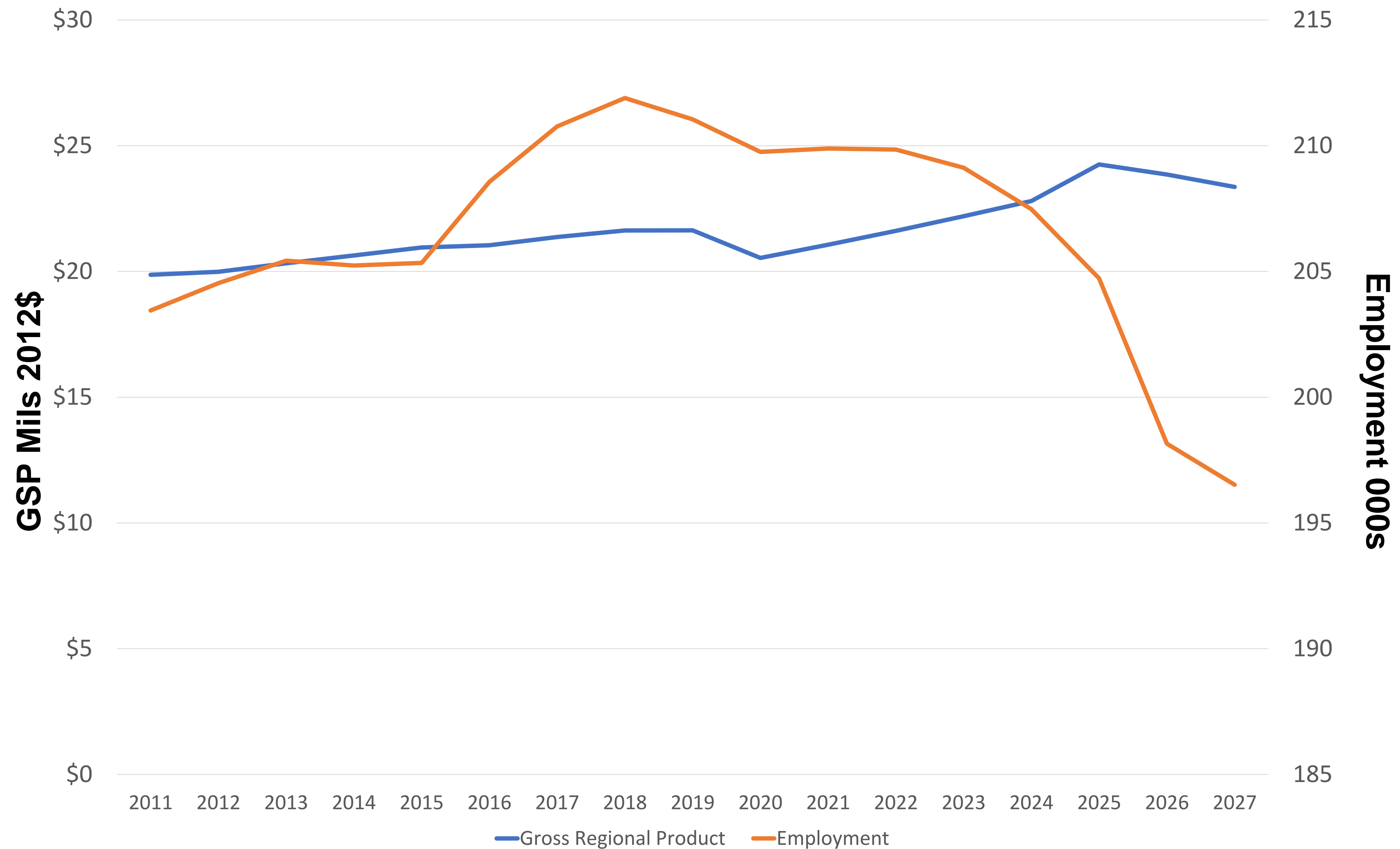
Centre County: 2019 to 2020 gains: 2.4%

**Major metro market CY21 increase 18.6%
(reported in WSJ 2/22/22)**

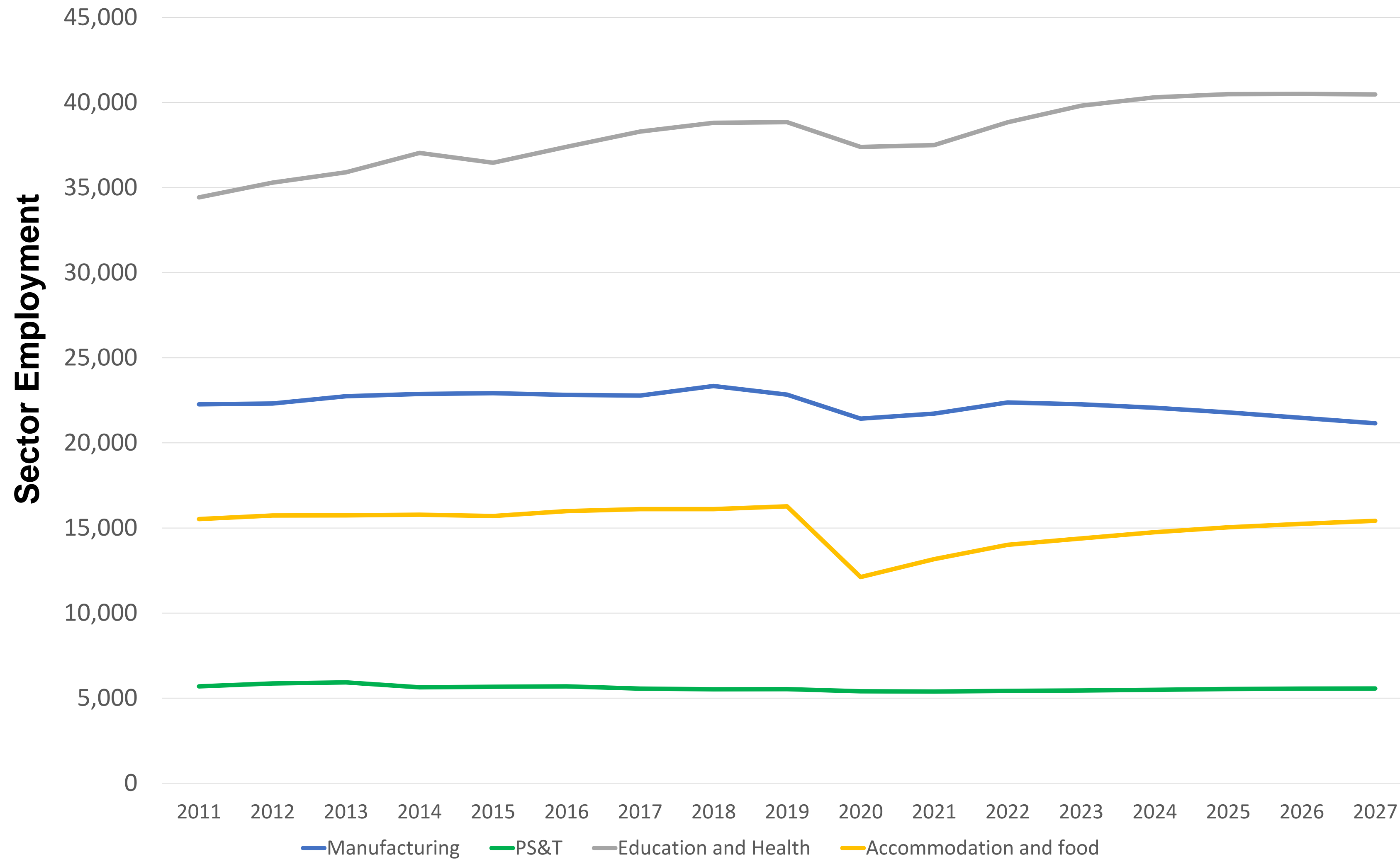
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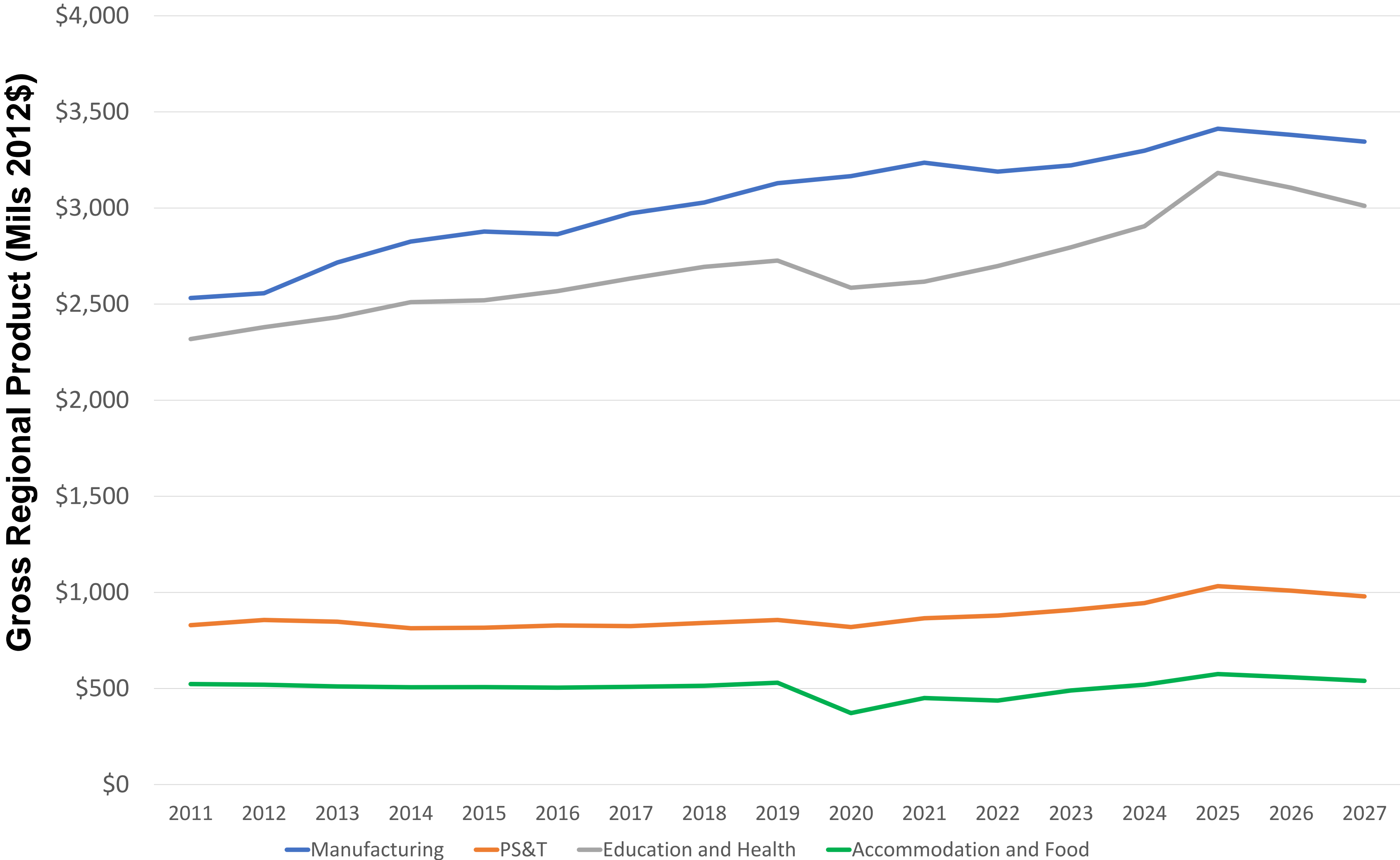
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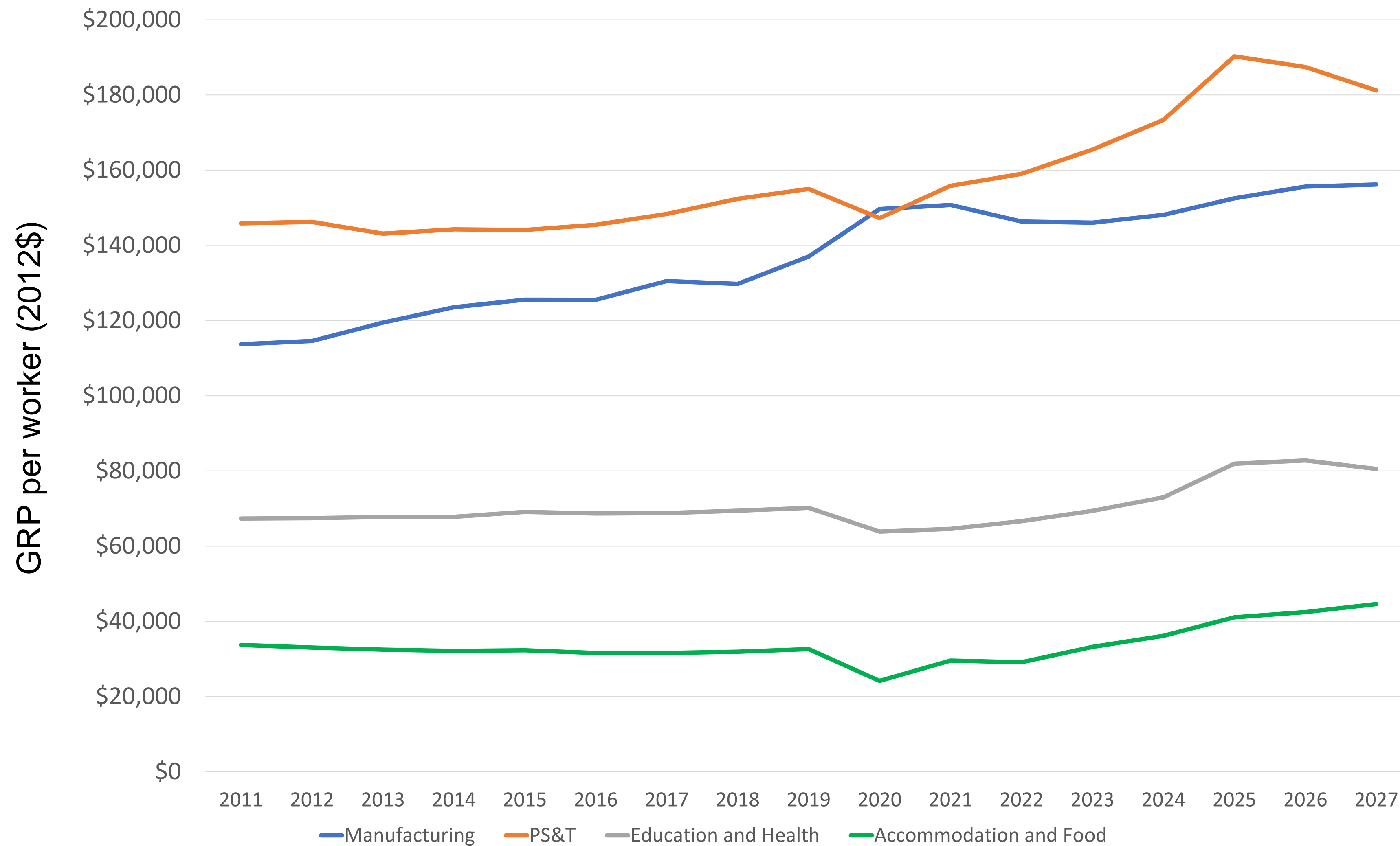
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Headwinds and Tailwinds



By the Numbers

- Fed funds rate change: .25% (250 basis points) 3/17
- 11.3 million job openings (WSJ, 3/9/2022)
- GDPNow forecast for Q1: .5% (Atlanta Fed, 3/8)
 - Q4: 7.0% actual
- Moody's definition of full employment (3/9)
 - Unemployment: 3.5%
 - LFPR: 62.5%
 - Prime age EPop: 80%
- Producer Price Index: +.8% m/m (3/15)
- 42 container ships off LA/Long Beach (down from 110 in January per WSJ 3/16)
- 18% increase in average residential rental prices (WSJ, 3/14)
- 30-year mortgage rates >4% (WSJ, 3/17)

Headwinds

- Inflation versus sustained higher costs: see the daisy chain
 - Barclays forecasts inflation at 2% by year end (WSJ 2/10/2022)
 - But wages are downward sticky
- Increased housing costs (Y/Y) according to National Association of Realtors (WSJ 2/10/22)
 - Single family +14.6% median price of \$361,700
 - Mortgage rates are going up 30-year fixed at 3.69%
- Girl Scout Cookies are in short supply and expensive (WSJ 2/20/2022)
- 33% of office workers are back in place (WSJ 2/14/2022)
- Increased commodity prices for farmers (WSJ 2/15/2022)

Tailwinds

- Housing starts at 1.769 annualized units (Moody's 3/17)
- Class 8 truck orders are strong (WSJ 2/17/2022)
- Industry 4.0/Smart factories: They won't look the same
- Middle-skill job trends
- Onshoring/near-shoring
- Government spending
- Families with cash

The Great Unknowns

- Ukraine/sanctions
- The impact of “variants” since COVID is here to stay
- Data integrity
 - ADP versus Bureau of Labor Statistics jobs report
 - Reliability of data reported by survey
 - Rapidly changing GDP estimates
- Middle-skill job trends
- Worker decisions including where: if, place of work, and place of residence
 - Office workers in hybrid (WSJ, 3/15)
 - Phased retirement (WSJ, 3/15)
- Policy decisions matter
 - Fed rate increases—level and number (6 penciled in this year, WSJ, 3/16)
- Is a recession on the horizon?



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