



Brennan Barometer

Snapshot of the Economy of Wyoming
Valley of Northeastern Pennsylvania
July 2023

The University of Scranton Kania School of Management

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Foreword

In our commitment to serve the community, in this issue of Brennan Barometer, we provide updates on the two most important areas of the regional economy: the labor market and the housing market, using the data that have become available since our last issue in February and the Banking Crisis supplement in April 2023. But no discussion of economic conditions can be complete without reflecting on the current state of inflation in the economy. Therefore, we have included in this issue a brief discussion on that as well.

In our next long issue of the Brennan Barometer, we plan to provide more detailed discussions and analysis of these and other topics of interest.

We thank Dr. Mark Higgins, Dean, Kania School of Management, University of Scranton for his continued support. Satyajit Ghosh wants to take this opportunity to extend special thanks to Steven Zellers, Industry and Business Analyst—Pennsylvania Department of Labor and Industry, for his help with regional data and many valuable discussions.

However, we alone are responsible for our analysis and any errors or omissions.

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Labor Market: Employment, Unemployment in the Local Economy

In 2023, in spite of the strong anti-inflationary policy of continued interest rate hikes by the Fed that led most analysts to expect the labor market to cool down considerably, the national unemployment rate remained very low. In May 2023, it was 3.7% – further falling to 3.6% in June. The strength of the labor markets were also evident in the state of Pennsylvania and the regional economy of the Northeastern Pennsylvania. In May 2023, Pennsylvania reached its lowest unemployment rate – 4% – in the recorded history that dates back to 1976. At 6,510,000, the size of its labor force was the largest since December 2020, and the 62% labor force participation rate – which measures the percentage of the population in the labor market – was the highest since January 2021. Both are clear indicators that people are hopeful about the state of the labor market. Besides the unemployment rate, which may often fluctuate even when more jobs are not being created, the employment-population ratio, which measures the percentage of the adult civilian population that is gainfully employed was at 59.6% – its highest value for the Commonwealth since April 2020.

Consistent with the trends for the nation and the state, the regional economy also continued to demonstrate the strength of the labor market with historically low unemployment rates at both the Metropolitan Statistical Area (MSA) and county levels, as illustrated in Figure 1.

It is noteworthy that between January and May 2023, the national unemployment rate, while remaining very low, increased by two-tenths of a percentage point. In contrast, the unemployment rate in Pennsylvania fell by three-tenths of a percentage point, which was outpaced by the Scranton-Wilkes-Barre-Hazleton Metropolitan Statistical Area (S-WB-H MSA). In the same time period, the unemployment rate in the S-WB-H MSA fell by half a percentage point.

In the MSA, the unemployment rate continued to fall from 5.1% in January 2023 to the record low 4.6% in May 2023, with records dating back to 1976. Furthermore, the total number of employed individuals in the MSA reached 265,000 – the largest since December 2019.

In the same time period, the unemployment rates in all three counties of the MSA remained very low. In Lackawanna County, the unemployment rate fell to its historic low value of 3.6% in April and May 2023. Prior to these two months, only once in May 2018 the unemployment rate was this low but at that time the rate was not as stable as in the recent months. In 2018 the unemployment rate was much higher before and after the month of May. It went up to 4.3% in June and remained at a much higher level since then. In Luzerne County – the MSA's largest county – the same pattern unfolded. The unemployment rate fell to its historic low of 4.5% in both April and May of 2023. Just as in the case of Lackawanna County, the last time when Luzerne County's unemployment rate fell to 4.5% was for one month in May 2018. Even Wyoming County – the MSA's smallest county that usually does not show much fluctuations in job creation, recorded very low

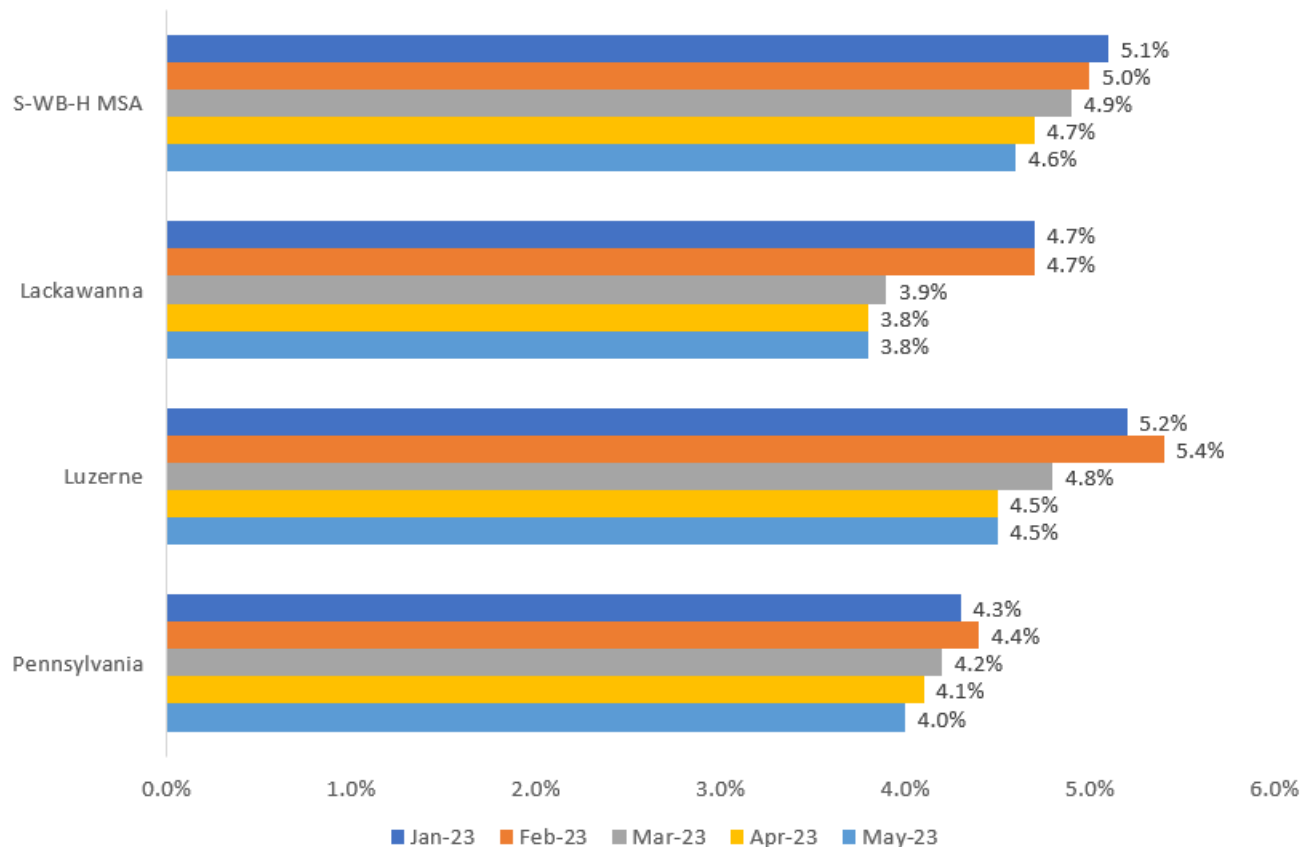


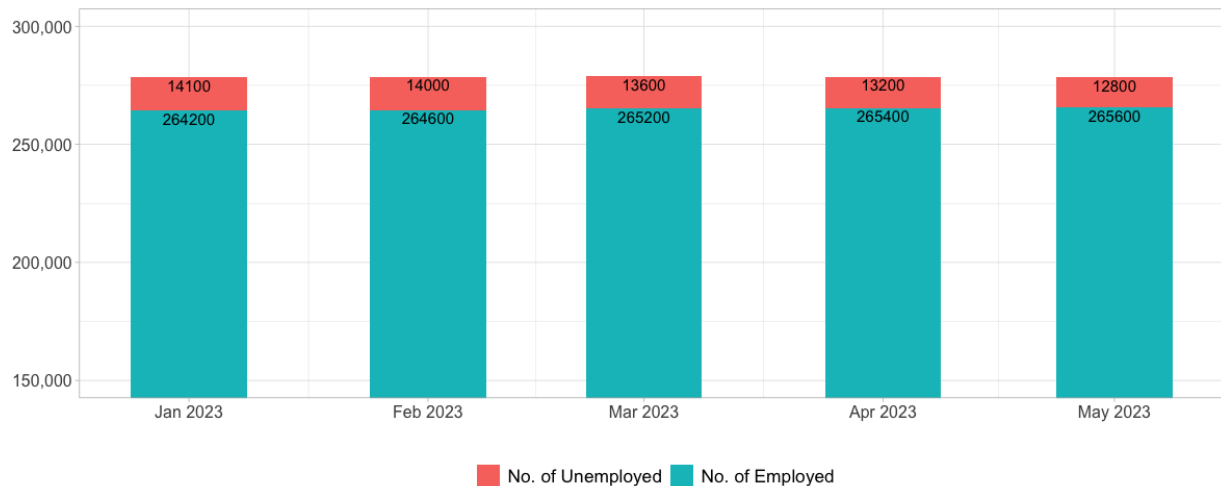
Figure 1: Local and State Unemployment Rates
(January 2023-May 2023)

Source: PA Dept. of Labor and Industry

unemployment rates between January and May 2023. In April 2023, its unemployment rate fell to 3.7%. Only once before, its unemployment rate fell below this level, when it fell to 3.6% in May 2018. Wyoming County's unemployment rate increased somewhat to 4% in May 2023.

The strength of the MSA's labor market is also seen in Figure 2, which demonstrates that while the size of the labor market remained relatively stable between January and May 2023, the fall in the MSA's unemployment rate was brought about by a consistent increase in the number of employed workers and reduction in the number of unemployed individuals.

As for the source of job creation in the region between January 2023 and May 2023, out of 5500 new non-farm jobs, the private sector contributed more than 96% jobs and the public sector contributed less than 4%. Among all the new non-farm jobs, private service-providing sectors contributed 4400 or 80% of those jobs, again demonstrating the importance of the private service sector in the local economy. Among the service-providing industries, the biggest job gains came from the Professional and Business Services supersector, which inspite of the sharp fall between December 2022 and January 2023,



Data Source: PA Dept. of Labor and Industry

Figure 2: Total Number of Employed and Unemployed in S-WB-H MSA
(January 2023-May 2023)

Source: PA Dept. of Labor and Industry

added 2600 or about 47.3 new non-farm jobs. The Leisure and Hospitality supersector continued its improvement after the Covid-19 lockdown. During these five months, it added 1600 jobs which accounted for about 29% of all new non-farm jobs. Education and Health Services supersector added another 1400 jobs, the bulk of which was in the Educational Services that generated 1200 jobs amounting to 25.4% of all the new non-farm jobs, while the Health Services sector added only 200 jobs over the five months demonstrating the continuing post Covid-19 weakness of the once powerful sector of the region. There was very little job gain in the retail trade sector which added a meager 100 new jobs which amounted to less than 2% of the new non-farm jobs. Continuing a trend that began in 2023 after a robust growth in the recent years, the Transportation, Warehousing and Utilities sector lost 1400 or 4.5 percent of its employment – perhaps indicating a near saturation in the industry in the local area. The Goods-producing sectors also contributed to job gains – adding 900 or about 16.4% of new non-farm jobs – most of which were created in the Mining-Logging and Construction sectors. The manufacturing sector added only 100 new jobs.

For any questions and comments regarding this section contact Satyajit Ghosh.

Housing Markets: Building Permits, Home Sales Inventory, House Prices, and Rent

Building Permits

The number of approved housing permits is one of the ten components of the Index of Leading Economic Indicators computed by the Conference Board, and is a leading indicator closely tied to consumer confidence.

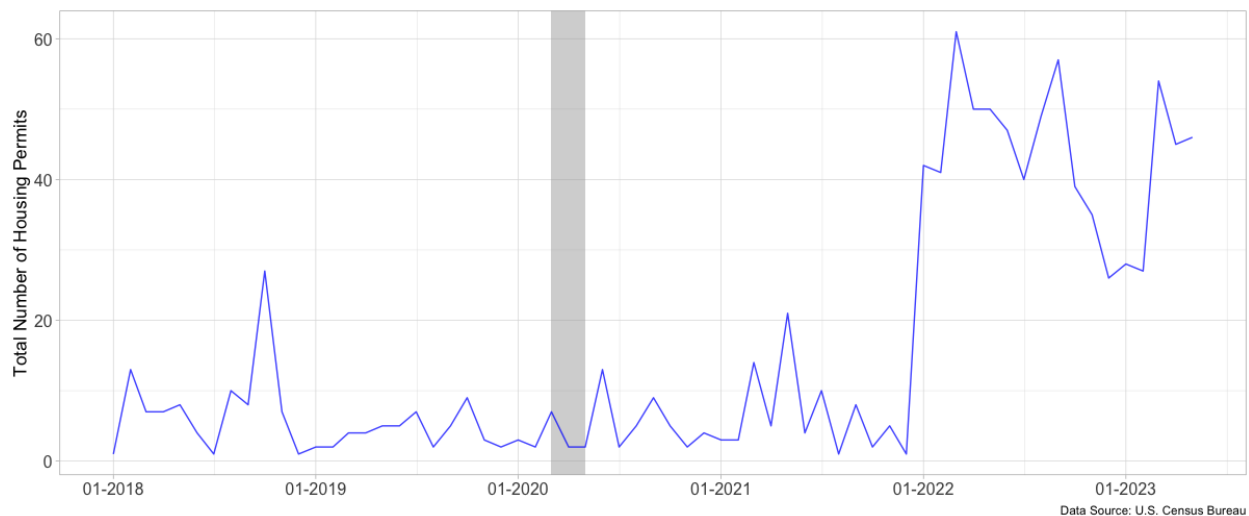


Figure 3: Total Number of Housing Permits in the Scranton – Wilkes-Barry – Hazleton MSA

Figure 3 shows the total number of approved building permits in the Scranton – Wilkes-Barry – Hazleton MSA between January 2018 and May 2023. As the chart indicates, the number of housing permits in the area remained at a visibly higher level in comparison to the pre-January 2023 figures.

For-Sale Home Inventory

Every month, Zillow.com publishes the (smoothed) number of monthly for-sale inventory of all types of homes measured by the count of unique listings that were active at any time in a given month.¹ With lower numbers representing fewer houses listed for sale, this statistic is often viewed as an overall indicator of the tightness of the housing market. Figure 4 shows the monthly for-sale housing inventory in the United States and the city of Scranton. For both, Scranton and the United States, this indicator shows a slight softening of the housing market in recent months. However, upon reviewing Figure 5, which

¹<https://www.zillow.com/research/data/>

illustrates the year-over-year percent change in housing inventory, it can be inferred that the housing market in the Scranton area experienced a slight tightening in May 2023 compared to the corresponding period the previous year. Between May 2022 and May 2023, Scranton has shed 2.5% of its housing inventory, while in the United States, housing inventory has increased by 2.6%.

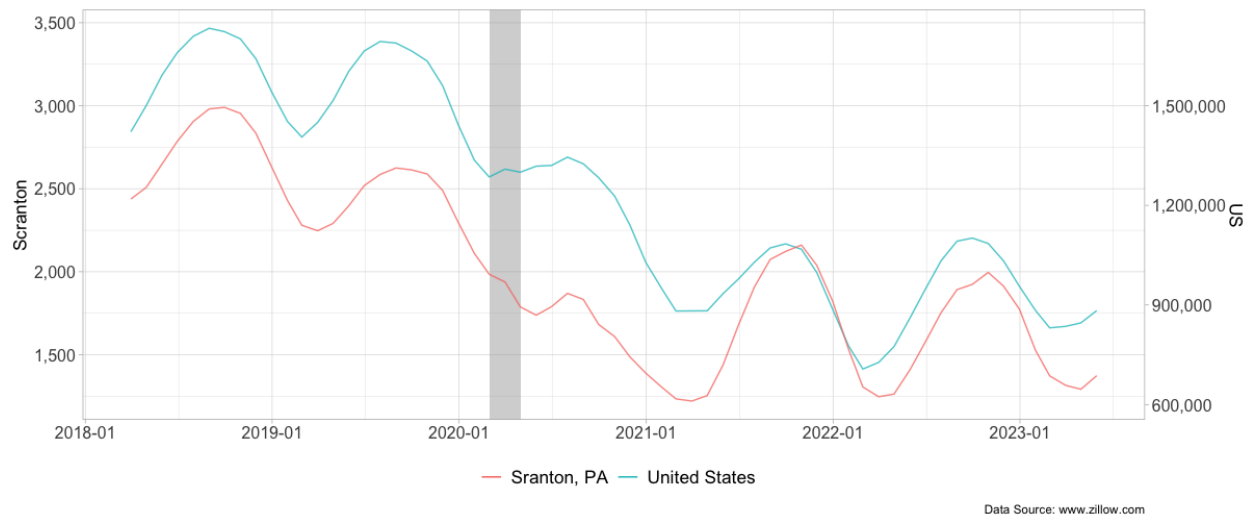


Figure 4: Monthly Smoothed Number of For-Sale Housing Inventory

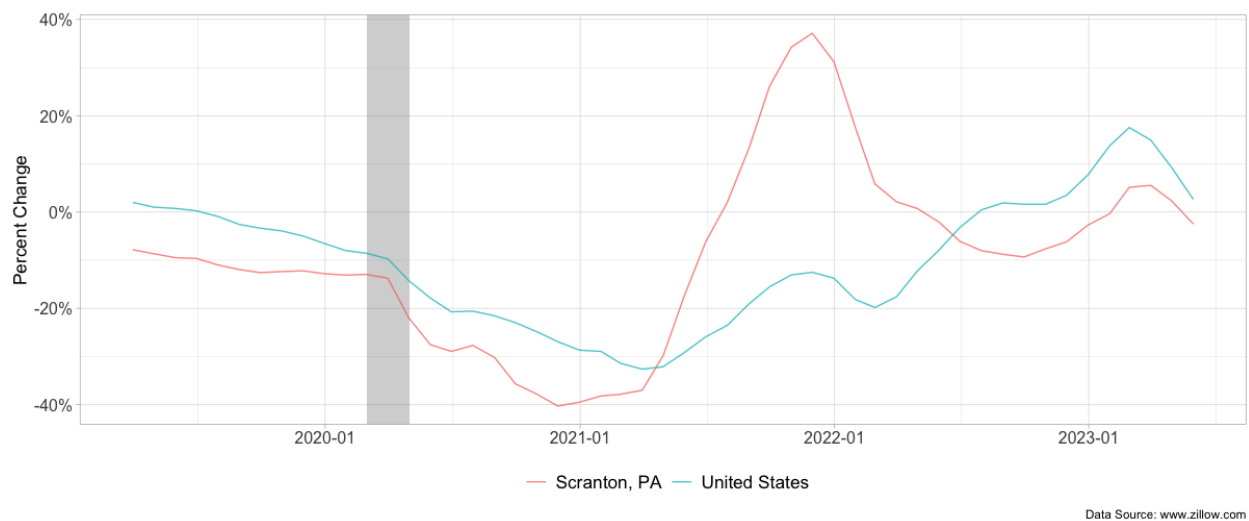


Figure 5: Year-over-Year Percent Change in Monthly Smoothed Number of For-Sale Housing Inventory

Home Prices and Rents

Figure 6 exhibits the annual growth rate of the quarterly housing price index published by the Federal Housing Finance Authority (FHFA) for the Scranton – Wilkes-Barre – Hazleton MSA, Pennsylvania, and the US. The data reflect all metro-area transactions. Between 1Q2022 and 1Q2023, the the FHFA housing price index for Scranton has grown by roughly 11%. During the same time period, house prices in Pennsylvania and the US have grown by 8.2% and 8.1% respectively. It must be obvious from the graph that the post-Covid boom of the housing market has picked around the first and second quarters of 2022 and has been gradually softening thereafter.

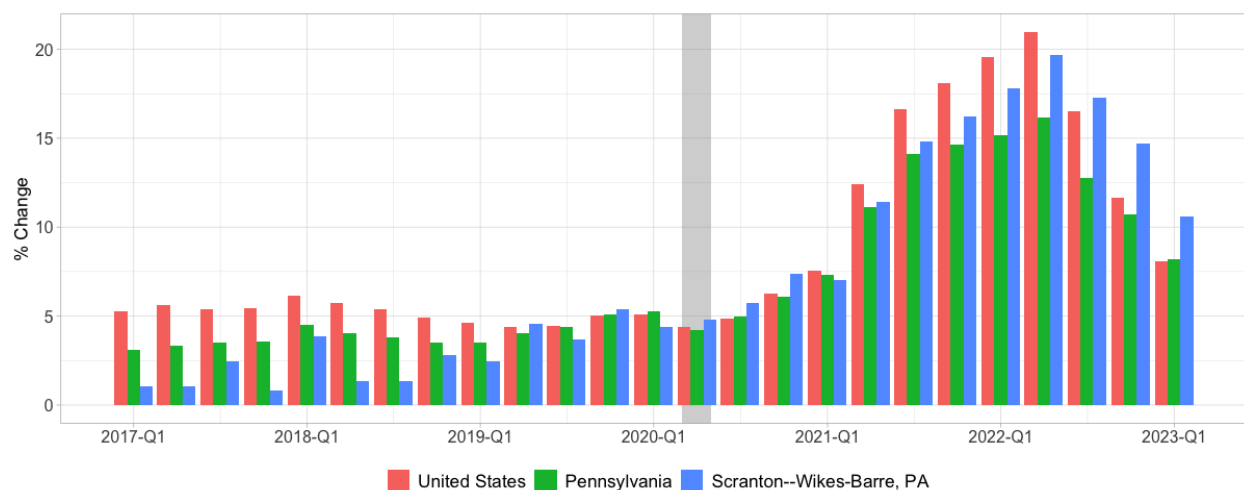


Figure 6: Year-over-Year Percent Change of the FHFA Quarterly Housing Price Index

A similar conclusion can be reached by considering the the monthly house price data published by zillow.com. Figure 7 exhibits the historical monthly data of the Zillow Housing Value Index (ZHVI) for Scranton, PA, Philadelphia, PA, and the United States. In May 2023, the value of a typical home in the Scranton area was \$177,916, around half as much as it was in Philadelphia (\$340,750) or the United States (\$346,270). Figure 8 exhibits year-over-year percent change of the ZHVI. According to the figure, there was a visible divergence in house price growth between the Scranton area and the Philadelphia and US markets from early to mid 2021. During this period, house prices in the Scranton area experienced a higher growth rate compared to Philadelphia and the overall US market. However, this trend was not sustained thereafter.

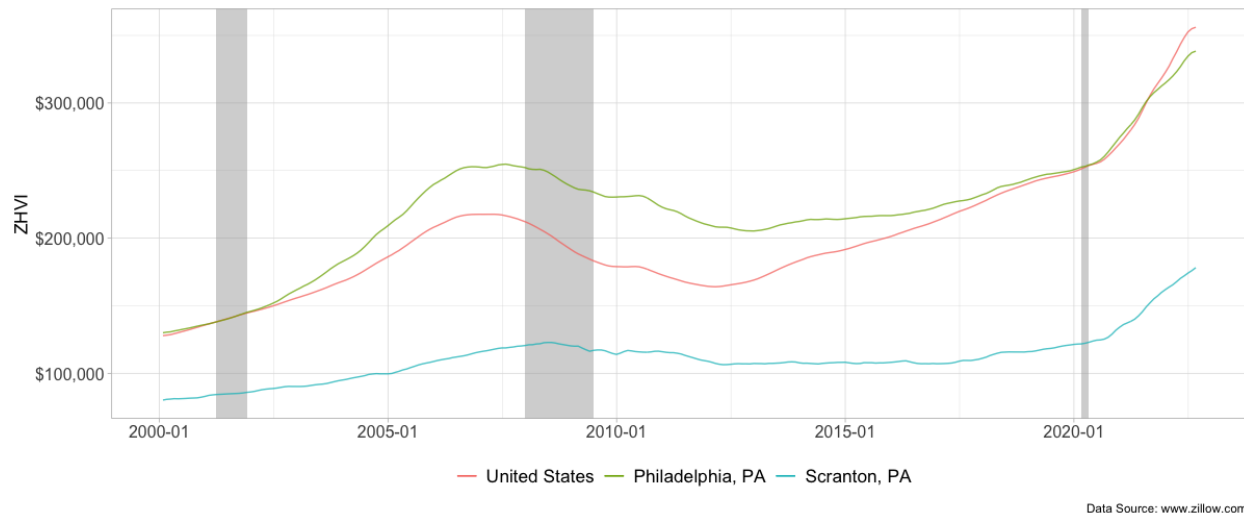


Figure 7: The Zillow Monthly Housing Value Index (ZHVI)

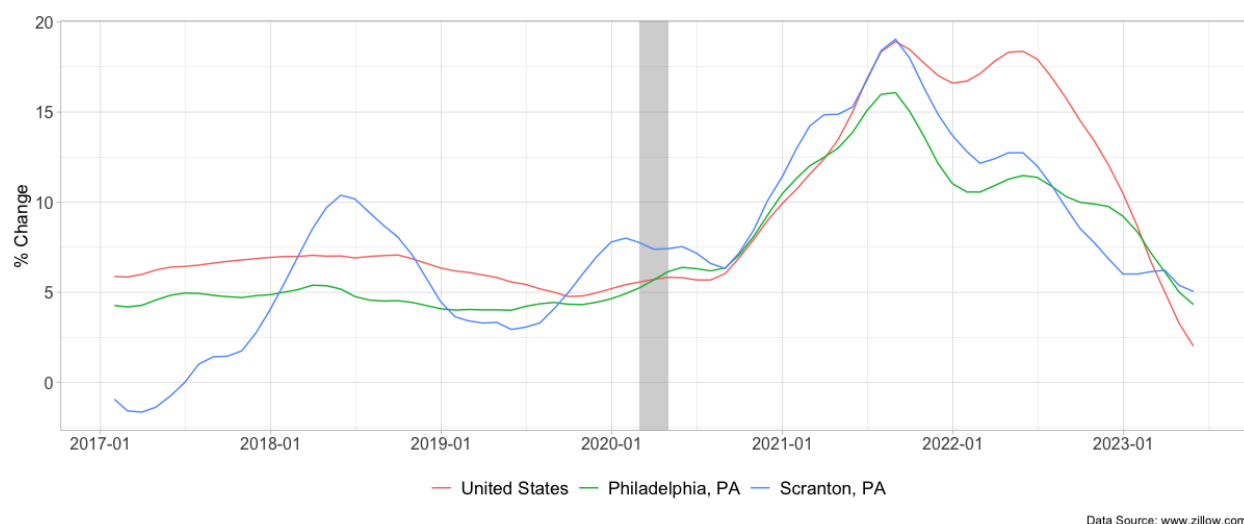


Figure 8: Year-over-Year Percent Change of the Zillow Monthly Housing Price Index

Zillow.com also publishes its Observed Rent Index (ZORI) for different types of geographies (metro area, city, ZIP code, etc.).² ZORI is a measure of typical observed market rent in a region; it represents repeat rents as well as the rents of those homes that are currently listed for-rent. The index is computed by considering the mean of listed rents that fall into the 40th to 60th percentile range for all homes and apartments in a given region. Figure 9 shows the mean rent in Scranton, PA, Philadelphia, PA, and the US over time. The chart reveals that rents in the Scranton metro area on average have been and still are much lower than in the Philadelphia metro area or in the US in general. In May 2023, the average rent in Scranton, Philadelphia, and across the US were \$1,212,

²ibid. see the footnote on page 4.

\$1,864, and \$2,048 respectively. However, relative to median income, rental costs in the Scranton area remained at par with the rest of the US. According to the 2020 US Census data, the median annual household income in Scranton, Philadelphia, and the US were \$41,687, \$49,127, and \$67,000 respectively. These numbers imply that in May 2023, median households in both, the Scranton area and the US spent about 30% of their 2020 income on rent, while the same measure of rental affordability for Philadelphia was around 38%.

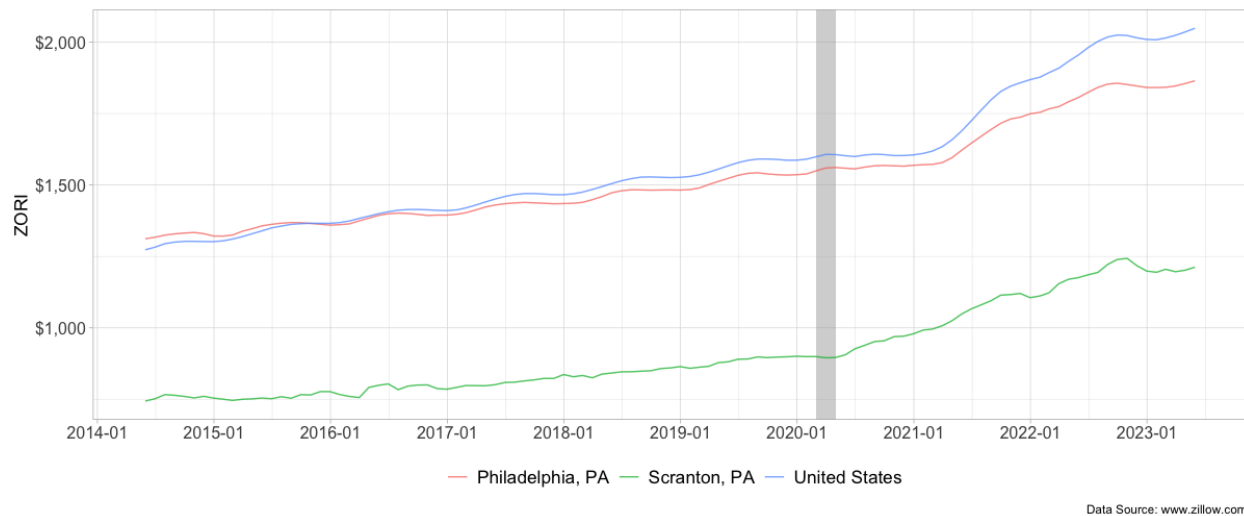


Figure 9: The Zillow Monthly Observed Rent Index (ZORI)

Figure 10, which displays the year-over-year percent change of the Zillow Observed Rent Index (ZORI), clearly illustrates that for approximately two years following the COVID pandemic, rents in the Scranton area experienced significantly faster growth compared to both Philadelphia and the overall United States market. However, it is evident that this trend did not persist, and by May 2023, rent growth in the Scranton is back to its pre-pandemic levels.

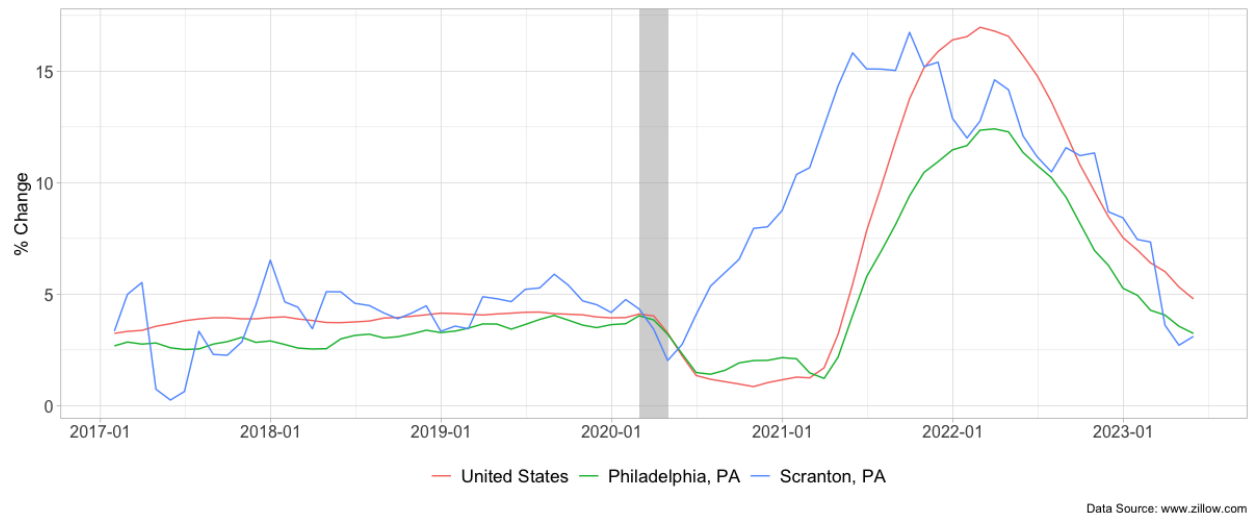


Figure 10: Year-over-Year Percent Change of the Zillow Monthly Observed Rent Index (ZORI)

For any questions and comments regarding this section contact Aram Balagyozyan.

Inflation Watch

Worries about inflation weigh heavily on everyone's mind. It was only a year ago when in June 2022 we experienced the highest inflation rate in nearly forty years when the CPI (Consumer Price Index) based inflation in the United States reached 9.1%. The good news is that since then, perhaps mostly due to the aggressive interest rate hikes by the Fed, the annual inflation rate fell and in June 2023, it reached 3.0% – its lowest level since March 2021.

Table 1 shows the changes in the CPI-based inflation rates between January 2023 and June 2023 for key items of consumer concern. All of items show reduction in inflation which is often rather substantial. While the headlines may say that the inflation rate is down, consumers are more interested in the prices of the basic items that they deal with in their daily lives, such as food, gasoline, and housing among others. As Table 1 shows, there has been a significant reduction in inflation across almost all items. Between January and June 2023, inflation in food prices continued to fall to 5.7%. By January 2023, the rate of price increase in Gasoline was already slowing down. That trend continued and by June, the 12-month average of gasoline prices fell by more than 26%. Energy prices also followed the same trend. Economists and policy makers pay close attention to inflation of items excluding food and energy, because the prices of these two items tend to be the most volatile. Inflation for all items, excluding food and energy, fell from 5.6% to 4.8%.

One important feature of the recent inflation is the high rate of inflation in the service sector. That also has improved. Between January 2023 and June 2023, inflation for

	January 2023	June 2023
All items	6.4%	3.0%
Food	10.1%	5.7%
Energy	8.7%	-16.7%
Gasoline	1.5%	-26.5%
All items less Food & Energy	5.6%	4.8%
Shelter	7.9%	7.8%
Services less Energy Services	7.2%	6.2%

Table 1: CPI-based Annual Inflation for Key Items
(Source: Bureau of Labor Statistics)

services, excluding energy services, fell by one percentage point. After the Covid-19 lockdown, prices and rents in the housing sector began to increase considerably. This is one sector that is yet to show any substantial improvement. Between January and June the inflation rate for shelter fell from 7.9 to 7.8%. It is worth noting that compared to the previous four months (February to May), when the inflation rate for shelter was at 8% or higher, the June rate provides some hope that perhaps inflation in that sector is also cooling down.

Reduction of the inflation rate by itself does not help unless it leads to increase in purchasing power. However, since the increase in wages is now outpacing the rate of inflation, real wage, (wage adjusted for inflation) for all employees continues to increase. While other factors, such as the easing of supply bottlenecks, may also contribute to this trend, the fall of the inflation rate in recent months can largely be attributed to the Fed's policy of increasing interest rate. Between March 2022 and June 2023, the Fed raised the key interest rate – the Federal Funds rate – from 0.25-0.50% to 5.0-5.25%. It is expected that the Fed will continue to raise the interest rate in the near future to further control inflation.

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