Brennan Barometer

Analysis of the Economy of Wyoming Valley of Northeastern Pennsylvania

The University of Scranton

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Foreword

In this issue of Brennan Barometer we take a deeper look at the regional economy by focusing on the region's labor markets, housing markets, credit conditions, and business sentiment.

Aram Balagyozyan would like to thank and acknowledge several undergraduate students in the Frank P. Corcione Business Honors Program who have conducted the survey of business sentiment in downtown Scranton. Those students are Jessieca Moira Aguasin, John Paul Baran, Owen Boison, Alyssa Campbell, Camia Capalongo, Matthew Capretto, Matthew Clark, Brendan Donohue, Connor Farrington, Caden Faulk, Mason Fischer, Katelyn Flanagan, Julian Francis, Charles Howley, Joseph Kilpatrick, Joseph Kulikowski, Faith McKeon, Gary Mrozinski, Gianna Natale, Margaret Noonan, Ryan Pardo, Dylan Port Vliet, Luke Roberto, Matthew Ruffler, Morgan Ryan, and Davalyn Ursich.

Satyajit Ghosh would like to thank Steven Zellers of the Center for Workforce Information and Analysis, Pennsylvania Department of Labor and Industry for providing useful regional data and for his valuable insights and suggestions.

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

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Executive Summary

Labor Markets

The labor market in The Scranton - Wilkes-Barre - Hazleton Metropolitan Statistical Area (SC-WB-HZ MSA) continued to be robust. It followed the broad patterns of the labor markets in the nation and the state of Pennsylvania. Statewide, the seasonally adjusted unemployment rate remained mostly stable at 3.4% between April 2023 and April 2024. In March 2024, the MSA's seasonally adjusted unemployment rate fell to the new record low rate of 3.9% and remained unchanged at 3.9% in April 2024. This record low rate was first reached in July 2023. Most new jobs in the MSA were created in the Health care and Social Assistance sector. Other major job contributors between April 2023 and 2024 were all service-providing industries: Educational Services, Professional, and Business Service and Leisure and Hospitality. Unemployment rates in all three counties also remained low. Lackawanna county's unemployment rate reached its record low 3.3% in July 2023. Similarly to Luzerne county, Lackawanna county reached its highest employment level ever in March 2024. The labor markets of the three major cities in the MSA also remained strong. Scranton's unemployment rate fell to a record low of 2.7% in April 2024, the lowest among all the big cities in the MSA. In Wilkes-Barre, the unemployment rate fell to its lowest level 3.6% in November 2023. Like Scranton, Hazleton also reached its record high employment level in April 2024. The same level of employment was reached earlier in November 2023.

Housing Markets

According to Realtor.com's Real-Estate Market Hotness Index, in April 2024, real estate prices in the SC-WB-HZ MSA were slightly higher compared to March 2024 but slightly lower than in April 2023. The housing inventory in the area moved 14% faster than last year and 1.5 days faster than the US overall. In April 2024, the MSA was ranked the 74th hottest real-estate market out of 300 metropolitan areas in the country. During early 2024, both the SC-WB-HZ MSA and the U.S. had more for-sale housing inventory than the previous year, indicating a softening housing market. Despite the increase in housing inventory, housing price growth in the area remained quite strong, outpacing inflation. Still, housing in the MSA remains more affordable compared to to state and national averages, and rent affordability is comparable to the US average and more favorable than in Philadelphia.

Credit Conditions

We measured consumer credit and household financial health in Lackawanna, Luzerne, and Wyoming counties by examining the percentage of the population classified as "subprime," representing those with lower credit scores. In late 2023, credit conditions in these counties were stable but slightly elevated, with a modest increase in the subprime population over the past year.

Downtown Scranton Business Sentiment

In April 2024, we surveyed thirty-nine downtown Scranton businesses, including bars, restaurants, retail shops, fitness clubs, salons, and service providers, to assess their current and expected business conditions. While business sentiment remains positive, it showed a significant decline from the previous year. However, optimism for the near future improved. Most businesses reported stable or increasing input and selling prices and neutral labor market indicators, with many planning to maintain or boost capital and technology spending in the near future.

The Big Picture

In May 2024, inflation cooled down somewhat at the annual rate of 3.3%. The main contributor to inflation was an increase in shelter costs. The cost of Medical Care Services and Hospital Services also increased. The price of energy and gasoline fell in May. The reduction of producer price index indicates that CPI- or PCE-based inflation may fall in future. Although the economy grew at a low rate in the first quarter in 2024, it was not in recession. Investment in housing expanded in spite of an increase in mortgage rates and the labor market remained very strong. It is likely that the Fed will cut the interest rate to provide a further boost to the economy.

Labor Markets

Satyajit Ghosh

Employment, Unemployment in the Local Economy

In the last issue of Brennan Barometer (October 2023) we reported that the labor market in The Scranton - Wilkes-Barre - Hazleton Metropolitan Statistical Area (SC-WB-HZ MSA) continued to be strong. As the preliminary estimate showed, the MSA's seasonally adjusted unemployment rate reached– what was then the record low unemployment rate of 4.2% in August 2023. The newly updated data show that the trend of low unemployment continued even after August 2023.[1] The MSA's seasonally adjusted unemployment rate fell to the new record low rate of 3.9% in March 2024 and remained unchanged at 3.9% in April 2024. This record low rate was first reached in July 2023. Regional records have been maintained since January 1976. Taking a broader view, we notice that between April 2023 and April 2024 the seasonally adjusted unemployment rate in the MSA remained remarkably stable – dropping only by two-tenths of a percentage point – from already low 4.1% to 3.9% and in nine out of the thirteen months span it stayed at 4%. But it should be noted that in spite of its consistent low unemployment rate, the SC-WB-HZ MSA is the second highest in terms of unemployment rates among the 18 MSAs in the state where the unemployment rate ranged between 2.6% and 4.1%.

The pattern of low unemployment rates in the MSAs reflects the experience of the state of Pennsylvania. Since August 2023 the statewide unemployment rate rose marginally to 3.4 in October 2023, where it stayed stable until April 2024 – the month for which the most recent statewide data is available. The record low unemployment rate in the Commonwealth was reached at 3.2% in both June and July of 2023. To compare with the SC-WB-HZ MSA, the seasonally adjusted unemployment rate across the state remained mostly stable at 3.4% between April 2023 and April 2024 with some dips between May and September of 2023.

The graphs in Figure 1 show the historic patterns of the monthly unemployment rates of the state of Pennsylvania and the SC-WB-HZ MSA dating back to January 1976. The vertical gray bars are the recession bars show the recessions in the country. The MSA's unemployment rate has always exceeded that of the state, but recently, particularly after the Covid-19 recession, the gap between the two series of unemployment rates has shrunk considerably. It is also important to note that after the official end of every recession, the unemployment rates for both the state and the MSA usually increased for a few months before they started to fall. The notable exception is the Covid-19 recession. Immediately after the end of the recession, the unemployment rates for the state and the MSA began to fall. This happened because of the fundamental reason of the Covid-19

[1] Since the publication of the previous issue of Brennan Barometer in October 2023, the jobs and employment data for the MSA and the counties have been updated. As a result, some observations made in October 2023 issue need to be modified.

recession. The recession and the reduction of production along with the increase in unemployment happened due to the "lockdown" of the economy. As soon as the economy opened up, production picked up, and unemployment started to fall.

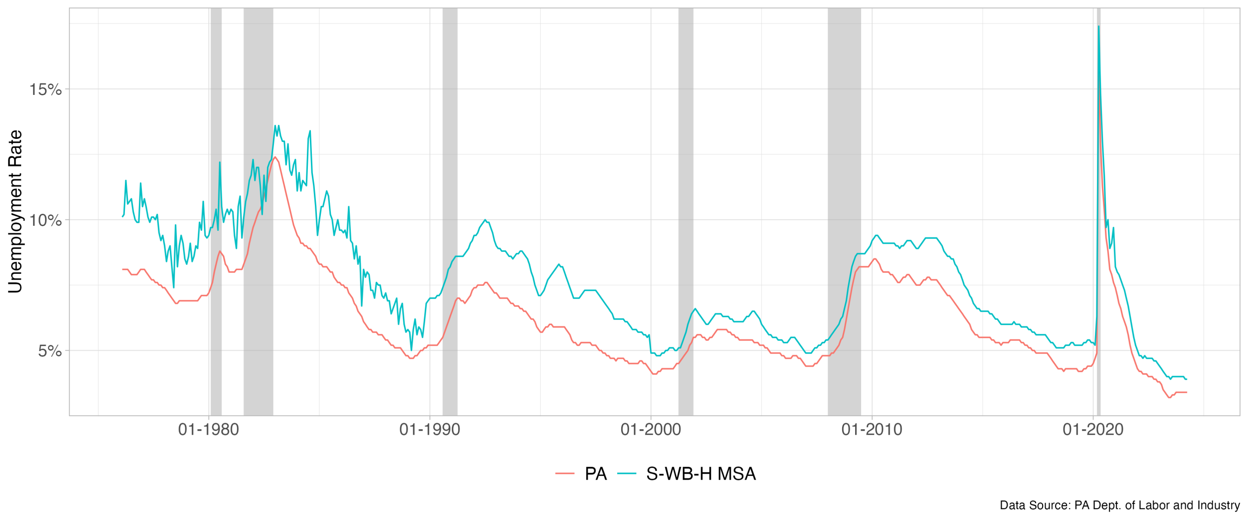


Figure 1: Unemployment Rate in Pennsylvania and the SC-WB-HZ MSA

The strength of the labor market in the state is further evidenced by the fact that between April 2023 and April 2024 employment in the state increased by 87000 while the labor force expanded by 88000 leading to a slight increase in the total volume of unemployment by 1000.

In the nation, Pennsylvania now ranks 25th in terms of low unemployment rates among all 50 states and Washington DC. What is more remarkable is that Pennsylvania consistently ranks very high among all the states and Washington DC, in terms of reduction of unemployment rate. As we reported earlier, between August 2022 and August 2023 the state of Pennsylvania ranked sixth among all the states in the country in terms of reduction of unemployment rate. Now, over the thirteen months between April 2023 and April 2024, it ranked fifth. Its unemployment rate did not change between April 2023 and April 2024. No other neighboring states experienced a larger reduction of the unemployment rate. Of all its neighboring states, only Maryland posted a lower unemployment rate of 2.6% in April 2024. But in the nation, it ranked 39th in terms of reduction in the monthly unemployment rate (its rate increased by 0.7 percentage points between April 2023 and April 2024). Among Pennsylvania's other neighbors, Delaware (ranked 11th) experienced a 0.1 percentage point increase in its unemployment rate during this period; New York ranked 21st, as its unemployment rate increased by 0.3 percentage points; both Ohio and New Jersey ranked 32nd in the nation with 0.6 percentage points increase in their monthly unemployment rates, and West Virginia ranked 43rd, as its unemployment rate increased by 0.8 percentage points during the thirteen month period.

The national rate increased slightly from 3.8% in August 2023 to 3.9% in April 2024. In April 2023, it reached the 69-year low unemployment rate of 3.4% – the rate that was first reached in January 2023. In May 2024, the national unemployment increased slightly to 4%.

The labor market in the SC-WB-HZ MSA behaved in a similar fashion as the state of Pennsylvania. During April 2023 and April 2024, the labor force in the MSA increased by 6300 which was outpaced by the growth in employment of 6600 leading to a fall in the total number of unemployed workers by 400. In fact, the employment level in the MSA reached an all time high of 272,000 in April 2024.

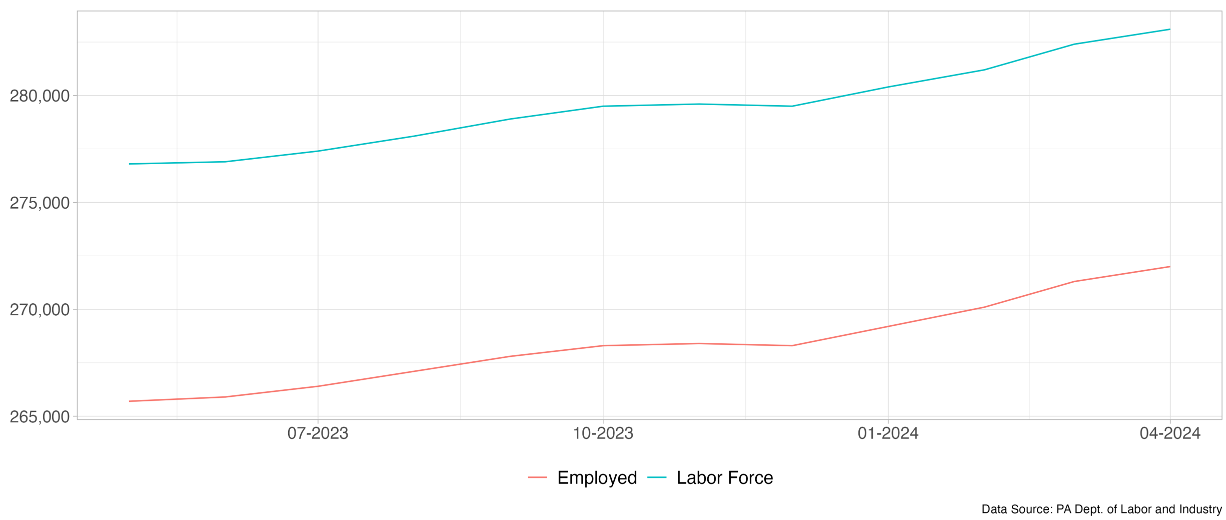


Figure 2: Labor Force and Number of Employed in the SC-WB-HZ MSA

Although the unemployment rate in the MSA was relatively high within the state, during the period from April 2023 to April 2024, the MSA ranked fourth highest in terms of job creation among all the MSAs, behind only the Philadelphia-Camden-Wilmington, Pittsburgh, and Allentown-Bethlehem-Easton MSAs.

Given the strong performance of the MSA, it is not surprising that the labor markets in its three counties – Luzerne, Lackawanna, and Wyoming – also continued to be robust. Unemployment rates remained low in all three counties. Of all three counties, Luzerne county usually experiences the highest unemployment rate, followed by Lackawanna and Wyoming counties. The graphs in Figure 3 show the same pattern between April 2023 and April 2024.

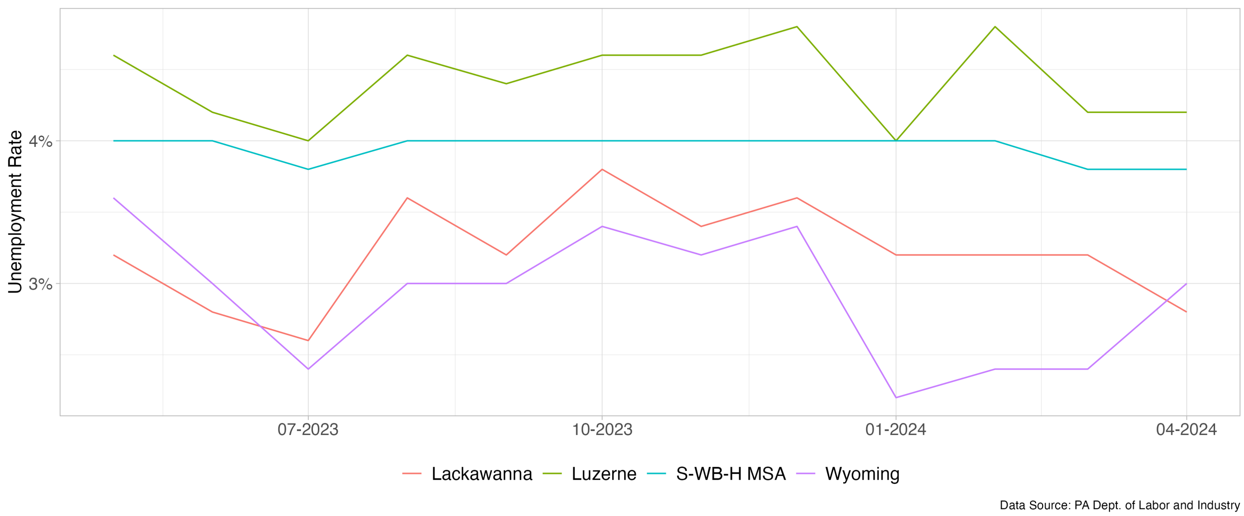


Figure 3: Unemployment Rates in the Lackawanna, Luzern, Wyoming Counties, and SC-WB-HZ MSA

While the unemployment rate in the MSA remained mostly stable during the thirteen month period, the three counties showed small fluctuations in unemployment rates. During this period, Luzerne county experienced mostly higher unemployment rate than the MSA. Lackawanna county showed similar pattern of narrow fluctuations in unemployment rate as Luzerne county but posted much lower unemployment rate. Wyoming county, which has the smallest labor force of the three counties, experienced mostly lower unemployment rate than Lackawanna county except for the first three months and the last month of the period.

In Luzerne county, the MSA's largest county, the unemployment rate fell to 4.1% in April 2024. Between April 2023 and April 2024 it fell by only 0.1 percentage points, with some fluctuations in between. It reached a record low low of 4% in July 2023 and January 2024, and rose to 4.4% in December 2023 and February 2024. The county's record high employment of 156,400 was reached in March 2024.

In Lackawanna county, the unemployment rate was lower. It mostly declined from 3.8% in August 2023 to 3.4% in April 2024, with an increase to 3.9% only in October 2023. Between April 2023 and April 2024, the unemployment rate fell by 0.2 percentage points. The county's unemployment rate reached its record low 3.3% in July 2023. Also, as in the Luzerne county, Lackawanna county reached its highest employment level ever, with 104,600 employed in March 2024.

Wyoming County, the smallest county in the MSA, typically does not exhibit significant changes in labor force, employment volume, or unemployment. Starting from the rate of 3.5% in August 2023, the unemployment rate fluctuated – between a high of 3.7% in October 2023 and a low of 3.1% in January 2024, before settling again at 3.5% in April 2024. The county's unemployment rate fell by 0.1 percentage points during the thirteen month period between April 2023 and April 2024, reaching its highest level of 3.8% in May 2024.

Between April 2023 and 2024, the labor force in both Luzerne and Lackawanna counties increased, with Luzerne county adding 4300 and Lackawanna county adding 3000. Job growth in Lackawanna county (3000) slightly outpaced the growth in its labor force and matched the labor force growth (4300) in Luzerne county. The graphs in Figure 4 and 5 show the trends in labor force and employment volume in Luzerne and Lackawanna counties, respectively.

Figure 4: Labor Force and Number of Employed in Luzerne County

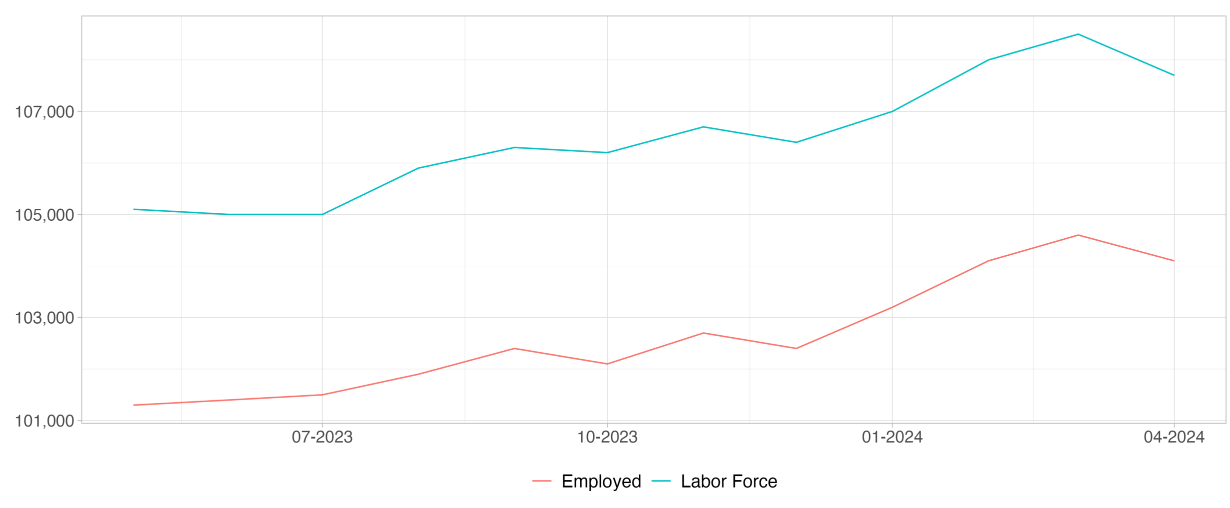


Figure 5: Labor Force and Number of Employed in Lackawanna County

Since the growth of the labor force was matched by job growth in the two larger counties (and since the labor force and employment did not fluctuate much in Wyoming county) the total number of unemployed workers remained virtually unchanged in Luzerne and Lackawanna counties as well as in the MSA between April 2023 and April 2024. The trend in the number of unemployed workers is shown in Figure 6. This stability accounts for the very little net change in the unemployment rate during this period.

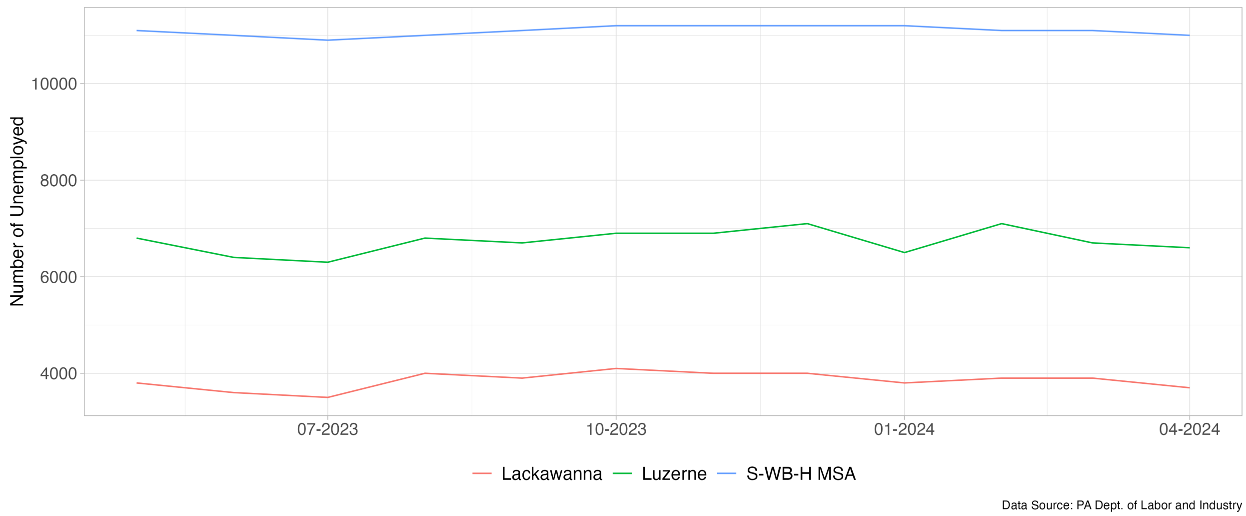


Figure 6: Number of Unemployed in the SC-WB-HZ MSA and Lackawanna and Luzern Counties

The three largest cities in the MSA – Scranton, Wilkes-Barre, and Hazleton – also experienced reduction in unemployment between April 2023 and 2024. Data for the cities have been available since January 1990. Table 1 outlines the changes in the labor market in these cities in the MSA.

Table 1: Labor Market Indicators in the Cities, April 2023- April 2024
(Data not seasonally adjusted)

Indicators	Scranton	Wilkes-Barre	Hazleton
Unemployment rate (April 2024)	2.7%	3.9%	4.2%
Unemployment rate (April 2023)	3.2%	4.4%	5.8%
Total Employment (April 2024)	35,900	18,000	11,000
Total Employment(April 2023)	34,900	17,500	10,700
Total Unemployment (April 2024)	1,000	700	500
Total Unemployment (April 2023)	1,200	800	700
Labor Force (April 2024)	36,900	18,700	11,500
Labor Force (April 2023)	36,100	18,300	11,400

Between April 2023 and April 2024, when all three counties witnessed a reduction in unemployment rates and an increase in employment, the labor force increased moderately in Wilkes Barre and remained virtually stable in Hazleton. Scranton remained the city with the largest labor market where the labor force increased by 800. Scranton's labor force was almost twice as large as Wilkes-Barry and more than three times that of Hazleton's.

In April, Scranton's unemployment rate fell to a record low 2.7%, the lowest among all the big cities in the MSA. Between April 2023 and April 2024 the city's unemployment rate fell by 0.5 percentage points. The city also witnessed its record high level of employment of 36,100 in March 2024.

In Wilkes-Barre, Luzerne county's largest city, the unemployment rate fell to its lowest level of 3.6% in November 2023. Between April 2023 and April 2024, the unemployment rate fell by 0.5 percentage points, from 4.4% to 3.9%.

Like Scranton, Hazleton, the second largest city in Luzerne county, also attained a record low unemployment rate of 4.2 percent in April 2024. Between April 2023 and 2024, Hazleton's unemployment rate fell by 1.6 percentage points, from 5.8% to 4.2%. Its employment level also reached its record high of 11000 in April 2024. The same level of employment was reached earlier in November 2023 and again in February 2024. Prior to this period, Hazleton reached the same level of employment some thirty years back in July and August of 1993.

Jobs in the region

As for the source of jobs in the SC-WB-HZ MSA, most jobs are provided in the service-providing industries. In April 2024, out of the total (not seasonally adjusted) 269,000 non-farm jobs, 228,600 jobs, amounting to 85% of all nonfarm jobs, were in the service-providing sectors (that included local and federal governments) and the remaining 15% or only 40,400 jobs were in the goods producing industries (that included manufacturing). Within the service providing sectors, 199,600 or 87.3% jobs were in the private service-providing sectors and 12.7% of all service-providing jobs, i.e., 29,000 jobs were in the government sector. Thus, on the whole, in April 2024, the private service-providing sectors contributed to 74.2% of all non-farm jobs and the government sector contributed to 10.8% jobs. In the goods-producing industries, most jobs – 29,900 – were in the manufacturing industries which accounted for 74% of all goods producing industries' jobs or 11.1% of all non-farm jobs. The remaining 10,500 or 26% of the goods-producing jobs were in mining-logging and constructing which contributed to 3.9% of all non-farm jobs in April 2024.

Between April 2023 and April 2024, 4,700 new non-farm jobs (based on not seasonally adjusted data) were created in the SC-WB-HZ MSA. However, 300 jobs were lost in the goods-producing sectors. 200 jobs were lost in manufacturing and 100 in the mining, logging, and construction sectors. The service-providing sectors added 5,000 jobs, out of which 82% (or 4100) jobs were in the private sector and 18% (or 900) jobs were created in the government sector. Of all government sector services 89% of the jobs were created in the local government. The pie chart in Figure 3 shows the contributions of the industries in all non-farm (service sector) jobs that were created in the MSA between April 2023 and April 2023. As the chart shows, most contributions for new jobs during the April 2023 - April 2024 period were provided by Health Care and Social Assistance (38%), Educational Services (private and local government, 26%), Professional and Business

Services (18%), and Leisure and Hospitality (10%).

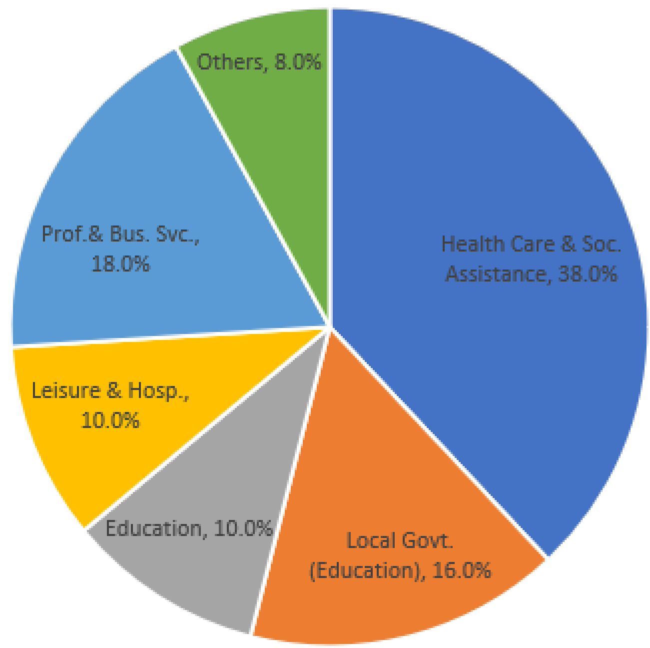


Figure 7: Contributions to New Non-farm (service providing) Jobs in SC-WB-HZ MSA April 2023-April 2024

The Health Care and Social Assistance industry added 1900 new jobs during the thirteen month period of April 2023-April 2024. It has long been one of the most important industries in the area, not only because of its importance given the regional demography, but also for its role in providing well-paying jobs. Along with Educational Services sector, it provided valuable stable employment during the Great Recession of 2007-2009. Between August 2019 and December 2019, this sector created its highest number of jobs, 45,900, amounting to around 17.5% of all non-farm jobs. However, the industry was the most hard hit during the pandemic and was slow to recover. However, from 2023, the pace of its recovery improved with the expansion of hospitals and health care facilities in the area. In April 2024, the level of employment in the Health Care and Social Assistance sub-sector was 45,100, amounting to 16.8% of all non-farm jobs in the MSA. It has not yet reached the pre-Covid-19 recession employment level of 45,500 (February 2020), but it appears that the industry is making very good progress toward reaching and surpassing that benchmark fairly soon.

Education Services sector, that includes both private and government (local) services, collectively added 1,300 new jobs: 500 in private educational services and 800 in local government's educational services. Between April 2023 and April 2024, all the increase in local government jobs (800) was in educational services. Educational Services sector is also a source for stable employment in the MSA. As noted above, both the Educational

Services industry and the Health Care and Social Assistance industry provided valuable employment support in the MSA during the Great Recession. Collectively,during and after the Great Recession, private and government educational services often provided in excess of 23,000 jobs or about 9-9.5% of all non-farm jobs. In April 2024, the educational services industry provided 22,400 or 8.3% of all non-farm jobs. The level of employment in the industry (22,400) has exceeded the pre-Covid recession level of 21,800.

Professional and Business Services industry, which in April 2024, accounted for 10.7% of all non-farm service jobs, added 900 new jobs in the MSA between April 2023 and April 2024. By the very nature of the service provided by this industry, it acts as a bellwether industry. The industry suffered significantly during Covid-19 lockdown and in its aftermath. But since February 2022, the industry recovered and exceeded its pre-pandemic level of employment while consistently providing new jobs for the MSA.

The Leisure and Hospitality industry, that includes Accommodation, Food Services, and Drinking Places, added 500 new jobs between April 2023 and April 2024. This industry perhaps suffered the most due to the Covid-19 lockdown. After the reopening of the economy and relaxation of the pandemic related restrictions, employment in the industry increased sharply. But the industry faced significant difficulty in hiring, and employment in the industry did not catch up to the pre-Covid 19 recession level of 22,700 (February 2020) until April 2023. But again in 2024, the level of employment in the industry began to fall below the pre-Covid 19 level. Only in April 2024, its employment level exceeded the February 2020 level when it rose to 23,300, accounting for 8.7% of all non-farm employment. The struggle that the industry is facing is not due to a lack of demand but mostly due to the lack of availability of workers, who are able to find better paying jobs in the tight regional job market.

What is notable in the above chart in Figure 3 is the absence of the Transportation, Warehousing, and Utilities sector or the supersector Trade, Transportation, and Utilities that it is a part of. With the shift of the region towards retail trade and the growing importance of warehousing, even before the Covid-19 pandemic, this supersector has been a major source of employment in the region for the past several years. Although retail trade suffered during the lockdown, in general, warehousing and trade transportation and utilities sectors continued to provide a large number of jobs in the MSA. In December 2023, the Transportation, Warehousing, and Utilities sector reached its highest level of employment of 32,000, while the Trade, Transportation, and Utilities supersector reached its highest level of employment of 71,400 also in December 2023 that amounted to 25.4% of all non-farm jobs in the MSA. But such spikes may be partly attributable to the seasonal nature of these industries.

The Trade, Transportation, and Utilities supersector and its components Transportation, Warehousing, and Utilities, and Retail Trade continue to be important sources of jobs in the region. In April 2024, Transportation, Warehousing, and Utilities provided 30,000 jobs, amounting to 11.1% of all non-farm jobs; Retail trade provided 28,300 or 10.5% jobs. The overall Trade, Transportation, and Utilities supersector provided 68,300 or 25.4% jobs. All three have long exceeded their pre-pandemic levels of employment, but the supersector and its components now seem to be rather stagnant. Between April 2023 and April 2024, Transportation, Warehousing and Utilities added only 200 jobs, which amounted to only 4% of the new jobs during that period. Retail trade provided no new jobs during that period, and the Trade, Transportation and Utilities supersector provided only 300 new jobs amounting to 6% of all new non-farm service jobs. The sustained growth potential of these industries is uncertain at best.

What is not surprising, however, is the absence of manufacturing as a major job contributor. In the glory days of manufacturing – even as late as March 1990, for example – it provided 53,400 or 22.3% of all non-farm jobs. The industrial structure of the region has changed. The MSA is now a service oriented region. In April 2024, manufacturing provided only 29,900 jobs amounting to 11.1% of all non-farm jobs. Instead of creating new jobs, there was actually a job loss during the period from April 2023-April 2024.

Housing Markets

Aram Balagyozyan

Building Permits and Housing Starts

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.

The graph in Figure 8 depicts the number of housing permits approved in the US, Northeast, and Pennsylvania. From January to April 2024, the number of approved housing permits in the US has shown a notable upward trend, indicating robust housing conditions and positive expectations nationwide, despite ongoing tight monetary policy and high mortgage rates. A similar upward trend is observed in the Northeast and Pennsylvania. As of April 2024, the number of housing permits approved in Pennsylvania and the Northeastern region stood at 2,127 and 12,052, respectively. These figures align with long-term trends.

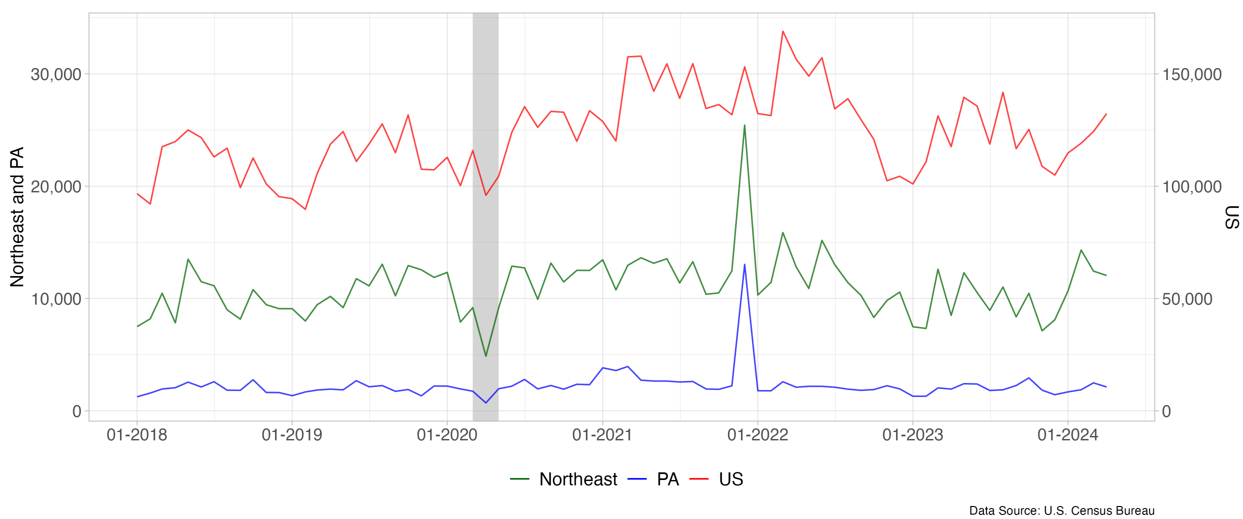


Figure 8: Total Number of Housing Permits in the Northeast, PA, and the US.

The data presented in Figures 9 and 10 illustrate the number of approved housing permits and their year-over-year changes in the Scranton-Wilkes-Barre-Hazleton Metropolitan Area (SC-WB-HZ MSA). These figures indicate that since January 2022, the area has been experiencing a housing construction boom that has continued through April 2024, despite tight monetary policy and high borrowing costs. While the recent increase in SC-WB-HZ permits might be attributed to seasonality, the number of housing permits has been rising even when adjusted for seasonality. As shown in Figure 10, housing permits in the SC-WB-HZ MSA have exceeded their levels from the previous year every month since July 2023.

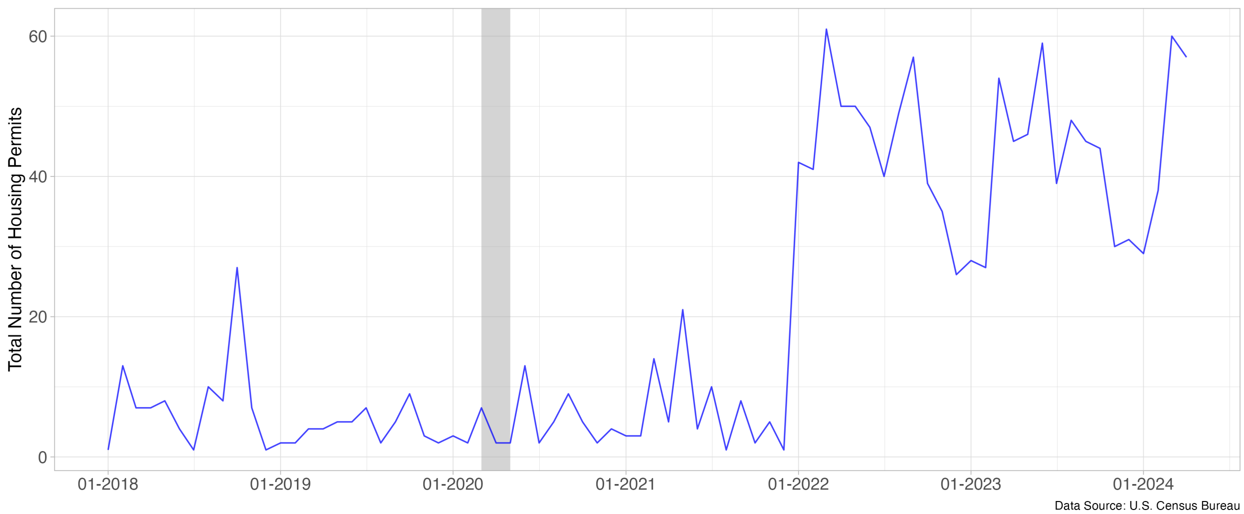


Figure 9: Total Number of Housing Permits in the Scranton – Wilkes-Barre – Hazleton MSA.

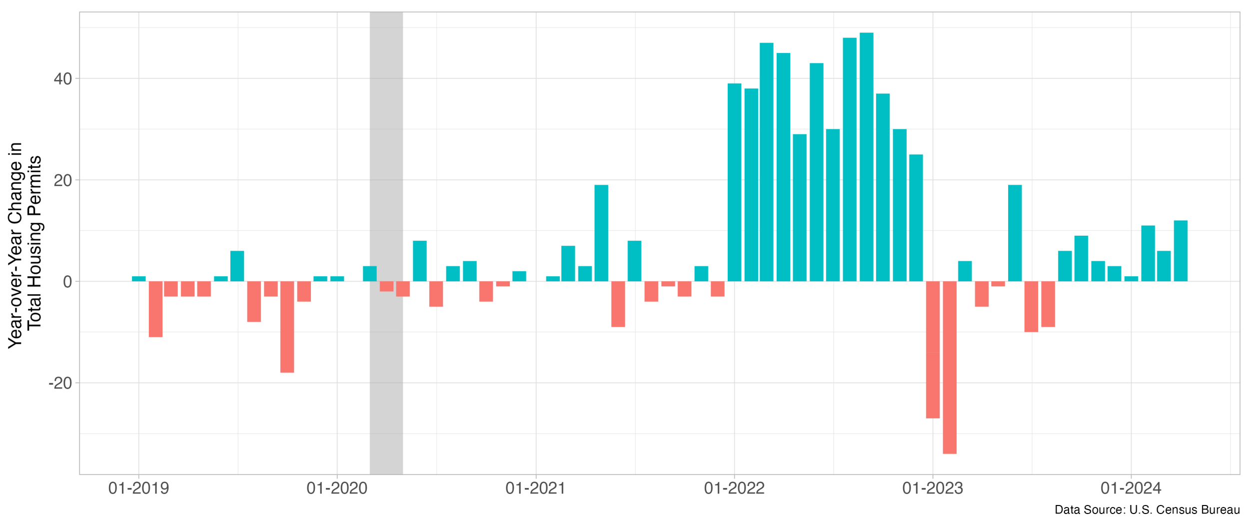


Figure 10: Year-over-year Change in Total Number of Housing Permits in the Scranton – Wilkes-Barre – Hazleton MSA.

Real-Estate Market Hotness

Realtor.com publishes data on the market hotness index. The index (shown on Figure 11) is an equally-weighted composite metric of a market's supply score (based on days on market) and demand score (based on Realtor.com listing views). In April 2024, the value of the index was 71.2, up 3.7 points compared to March 2024 but down 1.7 points compared to April 2023. This means that in August 2023, the real-estate market in the SC-WB-HZ MSA area was hotter than a month before but slightly cooler than a year before. According to Realtor.com[2], in March 2024, the median number of days that a for-sale housing property remained in the market was 48.5 days with the housing inventory moving 14% faster than last year and 1.5 days faster than the US overall. Properties in the area were viewed on average 2.2 times more than the US average. With the June score of 67.56, the area ranked number 74 out of 300 metropolitan areas in the country.

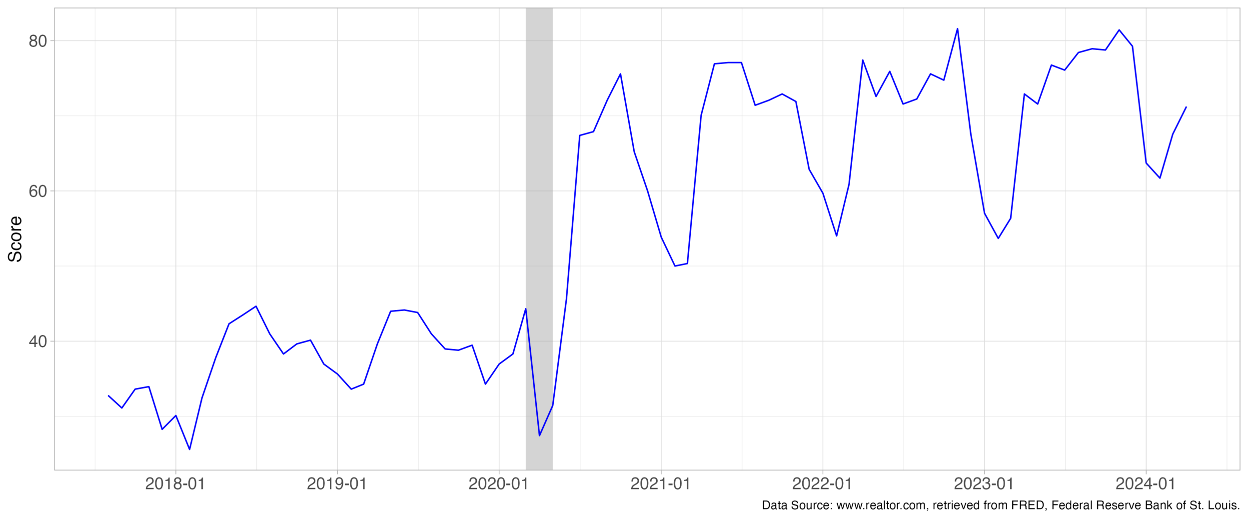


Figure 11: Real-Estate Hotness Score, SC-WB-HZ MSA.

Home Sales Inventory

Realtor.com also publishes the count of active single-family and condo/townhome listings for a given market during the specified month (excludes pending listings). [3] With lower numbers representing fewer houses listed for sale, this statistic is often viewed as an overall indicator of the tightness of the housing supply. One significant trend during the COVID-19 pandemic was an increased demand for larger housing spaces and units, driven by a growing number of workers transitioning to remote work. By examining Figure 12, which illustrates the monthly for-sale housing inventory in the United States and the SC-WB-HZ MSA, it's evident that there was a decrease in housing supply and a tightening of the housing market during and following the pandemic. However, when looking at Figure 13, which displays the year-over-year percent change in housing inventory, it becomes clear that during early 2024, both the SC-WB-HZ MSA and the U.S. had more for-sale inventory than the previous year, indicating a softening housing market. In April 2024, the number of for-sale housing units in the SC-WB-HZ MSA was 11.3% higher than during the same month in the previous year. For the U.S., in April 2024, the for-sale housing inventory was up 30.4% compared to the same month in the previous year. This softening is likely due to tight monetary policy measures and high borrowing costs.

[2] https://www.realtor.com/research/reports/hottest-markets/

[3] https://www.realtor.com/research/data/

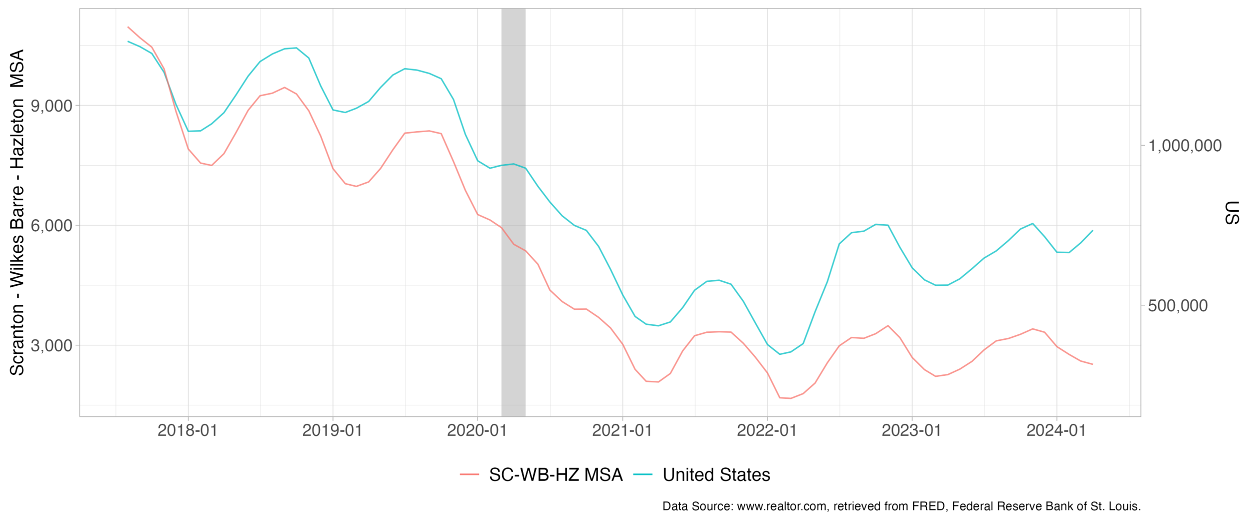


Figure 12: Monthly Number of For-Sale Housing Inventory.

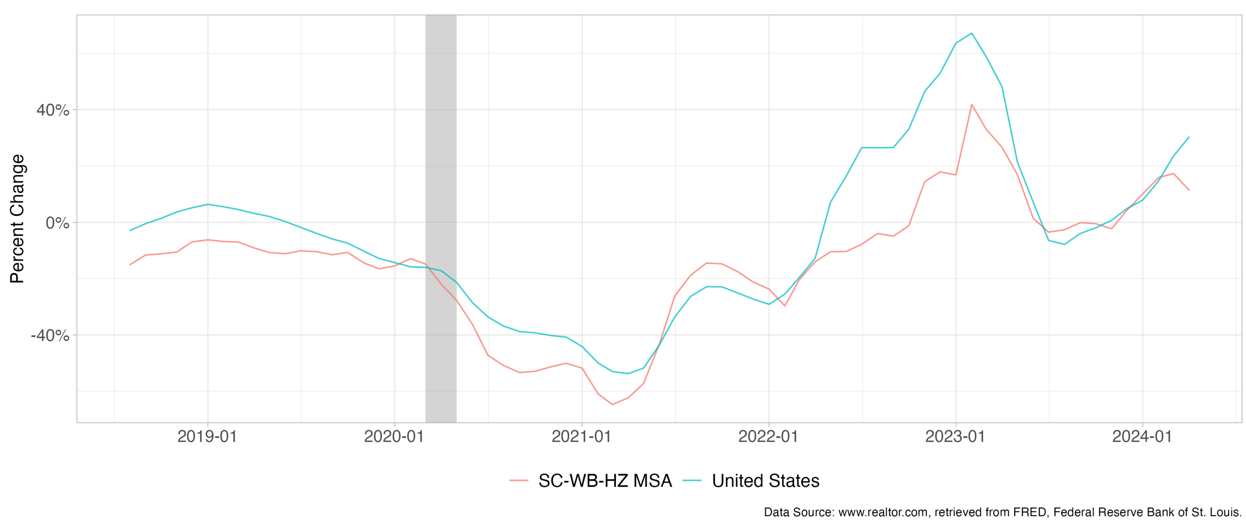


Figure 13: Year-over-Year Percent Change in Monthly Number of For-Sale Housing Inventory.

Home Prices and Rents

While an increase in home prices is welcomed news among current homeowners, it is inversely related to housing affordability and a cause for concern for perspective home buyers. Through 2023 and during the first quarter of 2024, housing prices continued to grow, albeit at a noticeably slower pace than in 2021 and 2022. The slowing growth of housing prices was most likely caused by the higher mortgage rates and slowing demand for housing. Figure 14 exhibits year-over-year growth of the quarterly housing price index published by the Federal Housing Finance Authority (FHFA) for the SC-WB-HZ MSA, Pennsylvania, and the US. The data reflect all metro-area transactions. It is evident from the chart that housing price growth in the first quarter of 2024 has remained relatively strong across all three areas, with SC-WB-HZ MSA, PA, and the US recording annual growth rates of 9.6%, 7.0%, and 6.3%, respectively. As a comparison, the annual PCE inflation in the US for the second quarter was 4.9%. This means that housing price growth outpaces inflation, despite relatively high borrowing costs. It is worth noting that historically, housing price growth in Pennsylvania exceeded that in the SC-WB-HZ MSA. However, since the beginning of the pandemic in 2020 and especially in 2022, housing prices in the local area have grown noticeably faster than in Pennsylvania. Despite a slight reversal of this trend during the last three quarters of 2023, in the first quarter of 2024, housing prices in the MSA grew 2.6% faster than in the state.

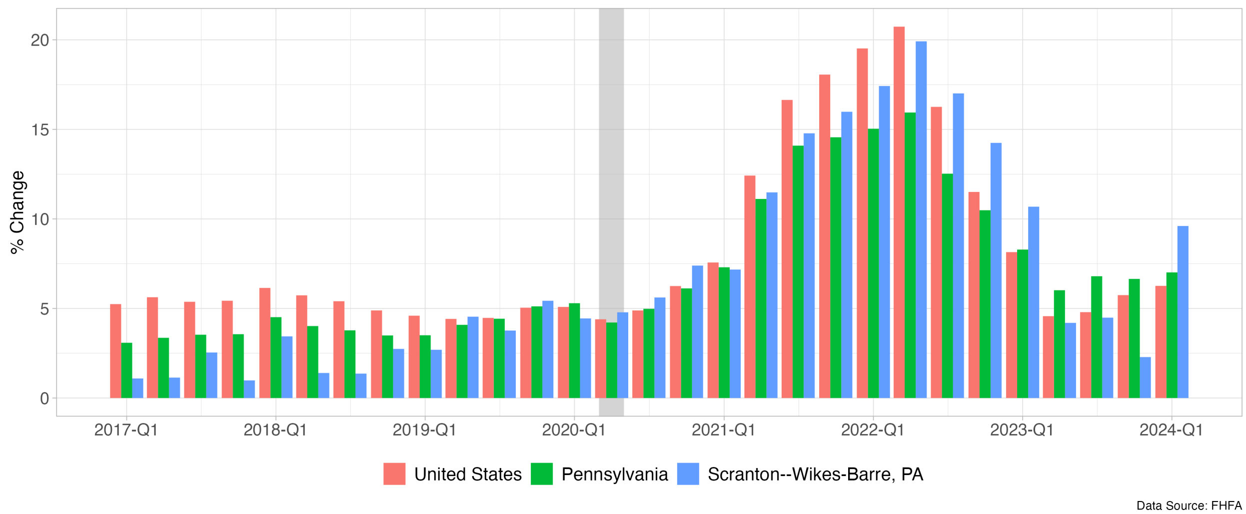


Figure 14: Year-over-Year Percent Change of the FHFA Quarterly Housing Price Index.

Still, housing in the SC-WB-HZ MSA remains quite affordable. Realtor.com also publishes historical data on the median listing price of single-family and condo/townhome housing within the specified geography during the specified month.[4] Figure 15 exhibits the historical monthly data of this metric for the SC-WB-HZ MSA, Pennsylvania, and the United States. In April 2024, the median home value in the SC-WB-HZ metropolitan area was $305,103 around 65% of the median house price in Pennsylvania ($466,662) and less than half of the median house price in the United States ($769,863). Figure 16 displays the year-over-year percent change in the median house price. The chart shows that while housing price growth in the SC-WB-HZ MSA slightly outpaced Pennsylvania and the US since early 2021, it fell below both state and national figures starting in mid-2023. By early 2024, growth turned negative, indicating that SC-WB-HZ housing prices were lower than the previous year. For the months between January and April 2024, the average annual housing price growth in the SC-WB-HZ MSA, PA, and the U.S. was -3.15%, 5.86%, and 1.61% respectively.

[4] ibid. see the footnote on page 15.

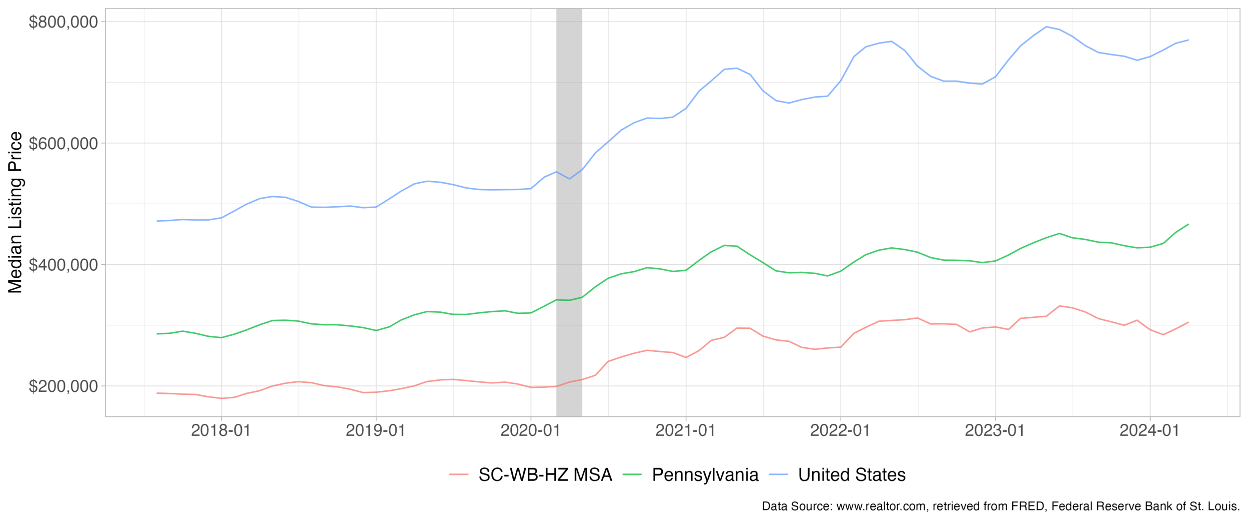


Figure 15: Median Housing Listing Price on Realtor.com.

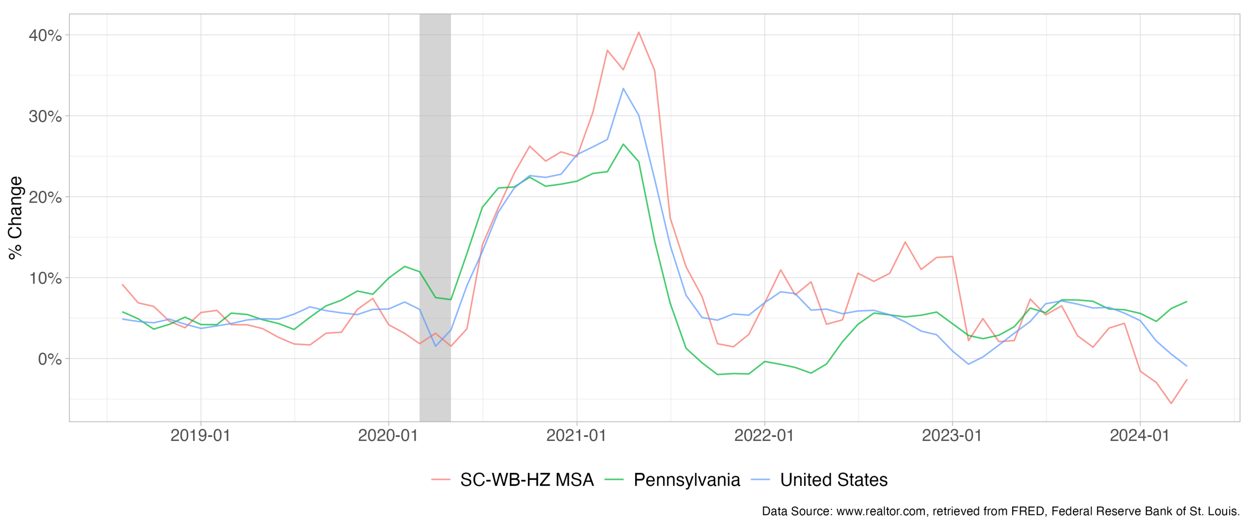


Figure 16: Year-over-Year Percent Change of the Median House Price Index.

Similar to housing prices, rents in the area remained quite affordable compared to state and national levels. We obtain our data on rents in the Scranton metro area from zillow.com, that publishes its Observed Rent Index (ZORI) for different types of geographies (metro area, city, ZIP code, etc.).[5] 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 17 shows the mean rents in Scranton, PA, Philadelphia, PA, and the US over time. In April 2024, the average rent in Scranton, Philadelphia, and across the US were $1,252,

[5] `https://www.zillow.com/research/data/`

$1,857, and $1,997 respectively. One may wonder whether the relatively lower rent in the Scranton area translates directly into more affordable rental housing. According to the US Census' American Community Survey data[6],in 2022, the median annual household incomes in Scranton, Philadelphia, and the US were $48,279, $56,517, and $74,755, respectively. These numbers imply that in April 2023, a median household in both the Scranton area and the US spent approximately 30% of their 2022 income on rent, while the same measure of rental affordability for Philadelphia was around 40%. This means that renting a house in the Scranton metro area was as affordable as the US average and more affordable than in Philadelphia, PA.

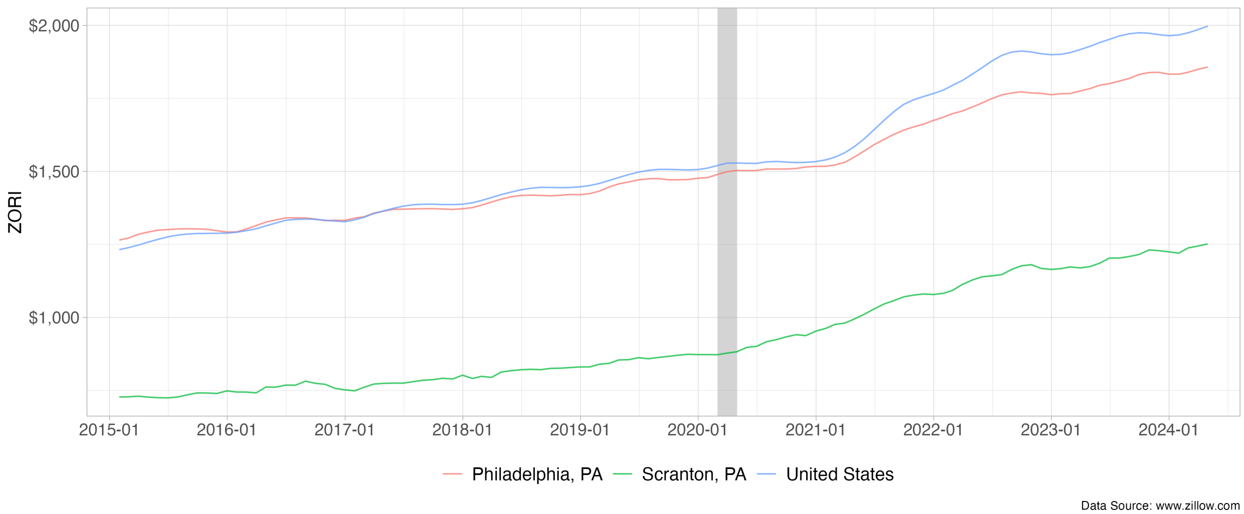


Figure 17: The Zillow Monthly Observed Rent Index (ZORI).

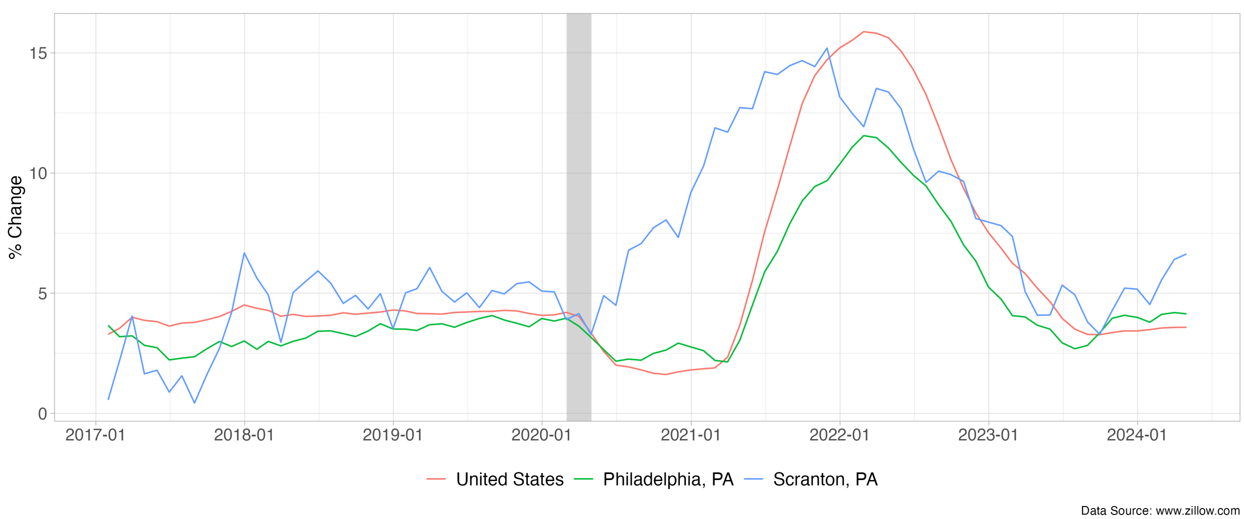


Figure 18: Year-over-Year Percent Change of the Zillow Monthly Observed Rent Index (ZORI).

[6]Table S1901, `https://data.census.gov/table/ACSST1Y2022.S1901`

Credit Conditions

Aram Balagyozyan

The state of consumer credit is an important coincident indicator of how well households are doing financially. It is also a leading indicator of economic conditions in the region as it predicts consumer spending on goods and services. One metric that allows us to gauge consumer credit conditions in the region is the estimate of "subprime population," percentage of population with a credit score below 660. This quarterly metric is produced by Equifax and Federal Reserve Bank of New York, and we retrieve these data for Lackawanna, Luzerne, and Wyoming counties from FRED, Federal Reserve Bank of St. Louis. As shown in Figure 19, credit conditions in these three counties remained slightly elevated but stable during the second half of 2023 and the first quarter of 2024, following a sharp decline at the beginning of the pandemic. Table 2 presents the most recent numbers. In the first quarter of 2024, the subprime populations of Lackawanna, Luzerne, and Wyoming counties were 22.8%, 25.2%, and 19.5%, respectively. Between 1Q 2023 and 1Q 2024, all three counties saw an increase in the subprime population, with Luzerne County experiencing the largest increase (0.9%) and Lackawanna County the smallest (0.5%).

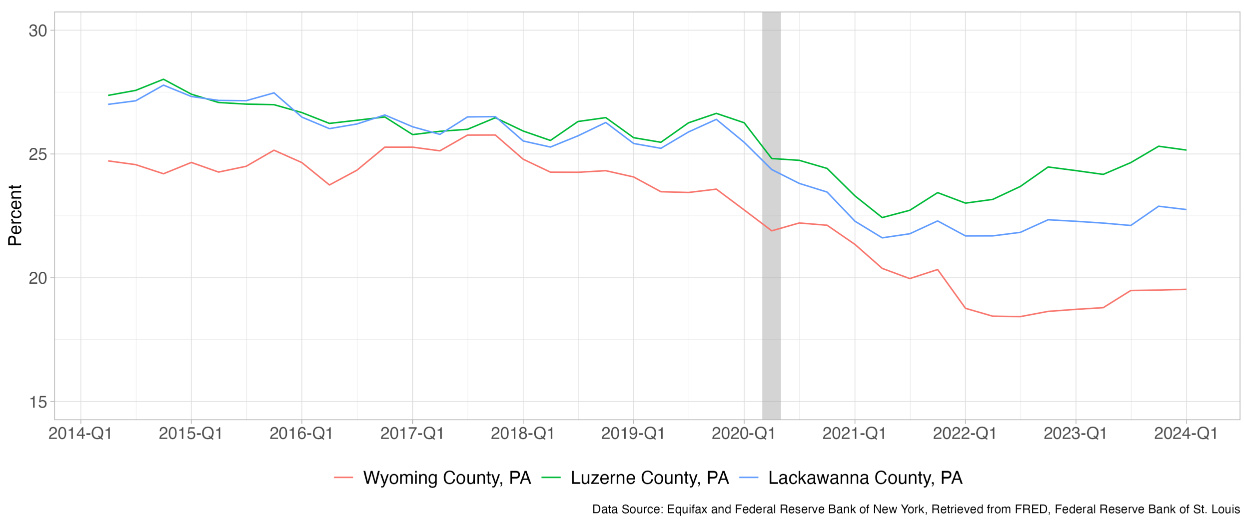


Figure 19: Equifax Subprime Credit Population.

Table 2: Equifax Subprime Credit Population.

	1Q 2023	1Q 2024	Change
Lackawanna	22.3%	22.8%	0.5%
Luzerne	24.3%	25.2%	0.9%
Wyoming	18.7%	19.5%	0.8%

Downtown Scranton Business Sentiment

Aram Balagyozyan

In April 2024, we surveyed thirty-nine downtown Scranton storefront businesses to assess their current and expected business conditions. The surveyed businesses in our sample encompassed various types, including bars and restaurants (46.15%) retail shops (33.3%), fitness clubs (7%), personal care salons (10.3%), and businesses offering hospitality (2.6%) and professional (2.6%) services. Businesses were asked to assess the most recent changes in their current conditions and their expectations for the next six months in six areas: general business conditions, the prices they pay, the prices they receive, their workforce size, average employee work hours, and their projections for technology spending and capital expenditure, such as store improvements or expansions. The survey is in the Appendix.[7]

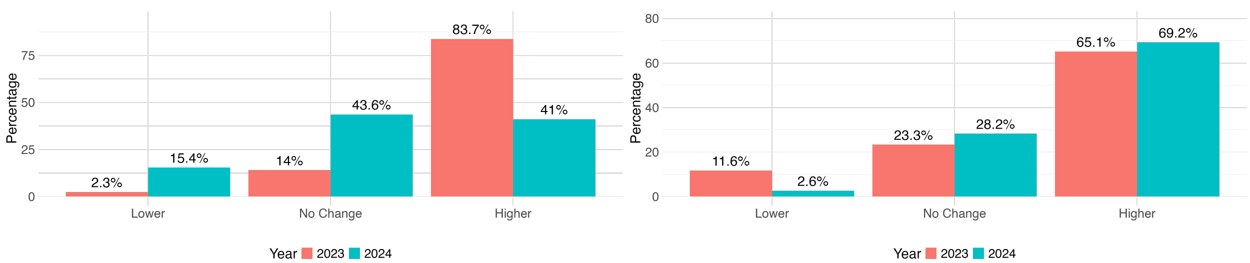
The results, shown in Figures 20-25, include a comparison with last year's data. For each survey question, we calculated a diffusion index by subtracting the percentage of pessimistic responses from the optimistic ones. This index ranges from -100 (pessimistic) to +100 (optimistic). The diffusion indexes for all questions, along with last year's values, are presented in Table 3. In April 2024, only 41% of businesses reported improved conditions between March and April, compared to 83.7% the previous year. Additionally, 15.4% of businesses experienced a decline in general business conditions, a significant increase from 2.3% last year. As a result, the current general-conditions diffusion index dropped from 81.4 in April last year to 25.6 in April this year. However, firms' optimism about the near future has improved, with the expected general business-condition index increasing from 53.5 last April to 66.7 this April.

For most surveyed businesses, input prices either increased (53.8%) or remained the same as the previous month (43.6%). However, only 38.5% anticipated higher input prices in six months. The majority either maintained (48.7%) or raised (46.2%) their selling prices compared to the previous month. Despite this, 53.8% expected to increase their prices in the next six months, while 5.1% anticipated lowering them. Consequently, the expected-selling-price index has increased slightly from 44.5 last year to 48.7 this year. Current labor market indicators remained relatively neutral, with the April 2024 diffusion index for the number of employees at 2.6. Looking ahead, nearly a quarter of the businesses planned to increase their workforce, and nearly 18% of them thought that work hours will increase. Indicators for expected general business conditions and future capital and technology spending suggest that in April, business sentiment regarding the near future remained relatively bullish. Over a quarter of surveyed businesses expected to boost their capital expenditure, and more than a third anticipated increasing their technology spending.

[7] The survey questions were adapted from the NY Federal Reserve Bank's Empire State Manufacturing Survey: `https://www.newyorkfed.org/medialibrary/media/research/regional_economy/mfg_survey/surveyform.pdf`

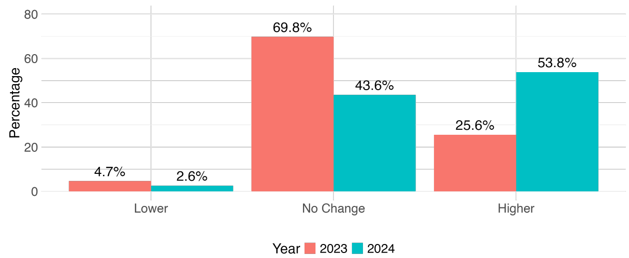
Table 3: Downtown Scranton Business Sentiment Diffusion Indexes.

Survey Question	April 2023	April 2024
Current General Business Conditions	81.4	25.6
Expected General Business Conditions	53.5	66.7
Current Prices Paid	20.9	51.3
Expected Prices Paid	41.9	35.9
Current Prices Received	37.2	41.0
Expected Prices Received	44.2	48.7
Current Number of Employees	14.0	2.6
Expected Number of Employees	44.2	20.5
Current Average Employee Workweek	16.3	5.1
Expected Average Employee Workweek	27.9	15.4
Expected Technology Spending	34.9	30.8
Expected Capital Spending	48.8	20.5

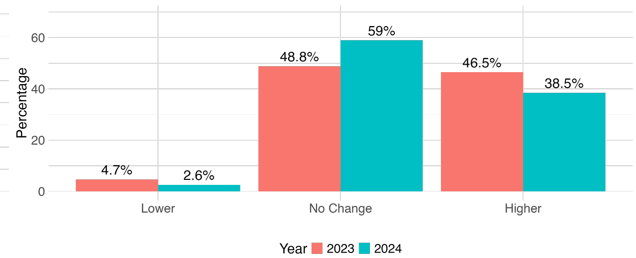


(a) Change from Preceding Month. (b) Expectations Six Months Ahead.

Figure 20: General Business Conditions, Downtown Scranton, April 2023 and April 2024.

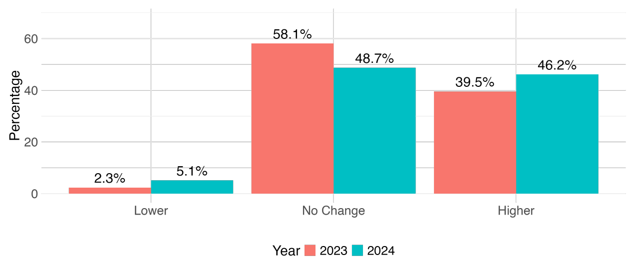


(a) Change from Preceding Month.

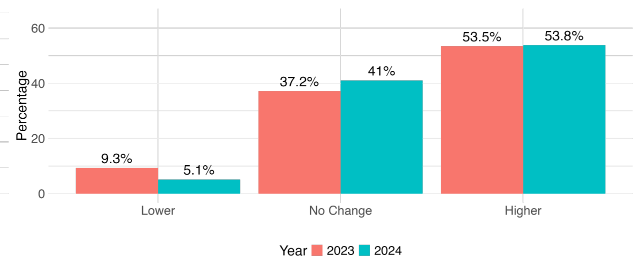


(b) Expectations Six Months Ahead.

Figure 21: Prices Paid, Downtown Scranton, April 2023 and April 2024.

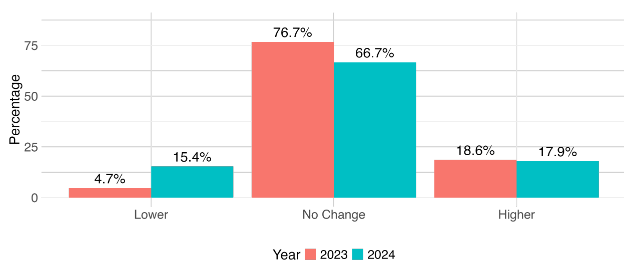


(a) Change from Preceding Month.

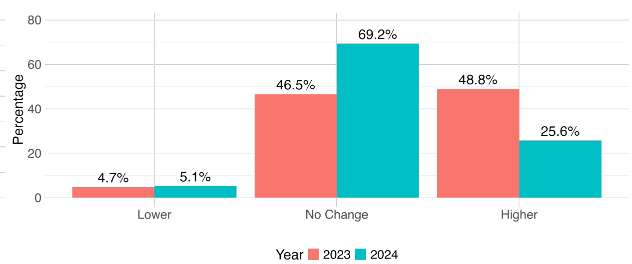


(b) Expectations Six Months Ahead.

Figure 22: Prices Received, Downtown Scranton, April 2023 and April 2024.

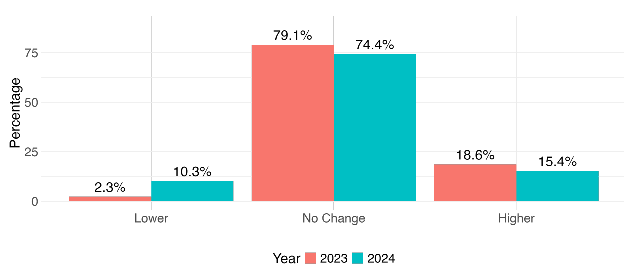


(a) Change from Preceding Month.

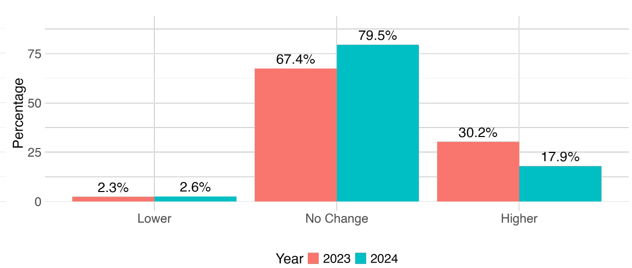


(b) Expectations Six Months Ahead.

Figure 23: Number of Employees, Downtown Scranton, April 2023 and April 2024.

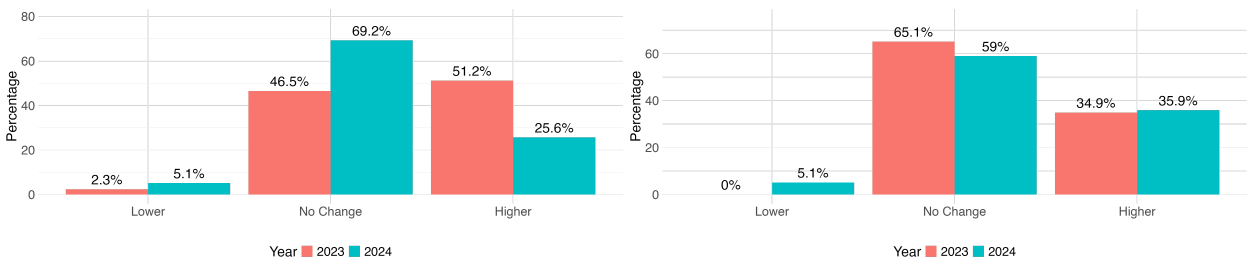


(a) Change from Preceding Month.



(b) Expectations Six Months Ahead.

Figure 24: Average Employee Workweek, Downtown Scranton, April 2023 and April 2024.



(a) Capital Expenditure.

(b) Technology Expenditure.

Figure 25: Six Months Ahead Expected Capital and Technology Expenditure, Downtown Scranton, April 2023 and April 2024.

The Big Picture

Satyajit Ghosh

Cooling of Inflation

On June 12 2024, the Bureau of Labor Statistics (BLS) reported a slight cooling of inflation for the nation. The Consumer Price Index for All Urban Consumers (CPI-U) – the most popular indicator of inflation – remained unchanged in May 2024 after seasonal adjustment. It had increased by 0.3% in April and 0.4 percent in March. Thus, for the 12-months ending in May, the popular measure of inflation (before seasonal adjustment) stood at 3.3% in comparison with 3.4% in April and 3.5% in March. For all items less food and energy, the two most volatile categories of consumer expenditure, the inflation rate – which is known as the Core rate of inflation – stood at 3.4% in May falling from 3.6% in April and 3.8% in March. The Chained CPI (C-CPI-U), which is designed to be a closer approximation to a cost of living index, increased at an annual rate of 3.2% in May based on seasonally unadjusted data. It remained unchanged from April and recorded a slight reduction from the March rate of 3.4%.

However, there are regional disparities. In recent months, inflation fell more in the Midwest, while the Northeast posted highest inflation rates in the country. Furthermore, in May, the CPI-U based inflation for the 12 month period in the Northeast increased to 3.9% from the comparable April rate of 3.6% and the March rate of 3.4%. In the Middle Atlantic Division of the Northeast region, that includes Pennsylvania, New Jersey, and New York, the CPI-U inflation rate was even higher. It was 4.0% over the one year period ending in May 2024, compared to the April rate of 3.7% and the March rate of 3.5%. However, all things considered, the current inflation is considerably lower than the post Covid-19 highs when between May 2021 and April 2023 monthly inflation was always higher than 5%.

The inflation indicator that the Federal Reserve Board closely watches and uses to formulate their interest rate policy is not the consumer price index based inflation but a somewhat complicated price index, the Personal Consumption Expenditure excluding food and energy chain type price index (PCE). In April, the PCE price index excluding food and energy reported a 2.8% annual inflation. It remained unchanged from February 2024. While it was still higher than Fed's target rate of inflation of 2%, the last time the PCE inflation rate was less than 2.8% was March 2021. So, indeed inflation seems to be cooling down.

The largest contributor to inflation in May was the cost of shelter, which includes rent, owners' equivalent rent, and lodging away from home. It increased by 0.4 percent from April after seasonal adjustment and rose by 5.4% over the last 12-months before seasonal adjustment. The rise in the cost of shelter more than offset the decline in price of energy led by gasoline. In May, energy costs fell by 2%, and gasoline costs declined by 3.6%, after increasing by 2.8% in April and 1.7% in March. However, for the 12-month period ending in May, energy costs were up by 3.7% and the price of gasoline was up by 2.2%. Costs of Medical Care services went up by 0.3% in May after increasing by 0.4% in April and 0.6% in March amounting to a 3.1% increase for the year. Costs of hospital services increased by 0.5 % in May and for the year by 7.2%.

An increase in the cost of food away from home also contributed to inflation in May, rising by 0.4% for the month and 4% over the 12 month period. The price of food in general increased at a moderate rate of 0.1% in May and only by 2.1% for the year. The price of food at home remained unchanged in May after declining by 0.2% in April. For the year it increased only by 1%. Price of new vehicles fell by 0.5% in May after falling by 0.4% in April and 0.2% in March. For the year, the price of new vehicles declined by 0.8%. The cost of motor vehicle insurance, often an overlooked item in discussions of inflation, fell slightly by 0.1% in May after posting increases of 1.8% in April and 2.6% in March. For the year ending in May, the cost of motor vehicle insurance went up by an astounding 20.3%.

What can we expect the inflation rate to be in the later part of the year? While it is difficult to predict, the future behavior of the inflation rate, we may find a possible clue in the behavior of another price index calculated by the BLS: the Producer Price Index or PPI. While consumer expenditure based indices, such as the CPI or PCE, inform us of current inflation, the PPI, that measures the price that producers pay to produce their products, indicates how consumer prices may change in future. A current increase in the PPI leads to an increase in consumer prices and hence inflation in future, while a fall in the PPI can lead to a fall in inflation within a few months. In May, the PPI fell by 0.2%. If the PPI does not change its course in the next few months, we can expect to witness a further reduction in inflation in the latter part of the year.

As we discussed here in Issue 1 of Brennan Barometer in February 2023, at the onset of the rapid inflation in 2021-2022, the following reasons for inflation were put forward: the supply bottlenecks due to shipping problems, worker shortages caused by Covid-19, increases in the energy prices due to the war in Ukraine, increased in consumer expenditure – first fueled by government assistance during the pandemic and then due to the strong labor market, and increase in wage cost leading to higher production costs. These no longer fully justify the sustained high level of inflation. Much of the current inflation is driven by the increase in the cost of shelter. In the upcoming issue of Brennan Barometer, we plan to discuss some additional reasons for sustained inflation.

Are we in a Recession?

Recently, it has been widely reported in the news media that in a few opinion polls, a large number of respondents stated that they believe that the country is in a recession. Are we? Let's set the record straight. We are not. At least not yet.

Although the unemployment rate is not used as an indicator to determine whether the economy is in recession, perhaps we can use the unemployment rate to see if the converse is true. Since 2021, the unemployment rate continued to fall. In April 2023, the unemployment rate was 3.4%, which was a 54-year low. In May 2024, the civilian unemployment rate inched up from 3.9% in April to 4%. While a 4% unemployment rate is considerably higher than the 3.4%, it is still lower than what is known as the natural rate of unemployment – the rate of unemployment that is consistent with full employment.[8]

While the unemployment rate is not an indicator of recession, the employment level or a decline in employment is regarded as a fundamental weakness of the economy and perhaps a sign of a recession. The preliminary estimate of BLS is that in May 2024, the economy added 272,000 jobs. Between May 2023 and May 2024, 2 million 411 thousand jobs were created. This is enough to establish the strength of the labor market. In April 2024, there were 1.24 job openings for every unemployed American. This ratio was the same as the pre-Covid-19 all-time-high ratio that was reached in October 2019. The all-time peak number of job openings, with 2 openings per every unemployed American was, reached in March 2022. This does not mean that there is no sectoral weakness in the labor market; the labor market is stagnating for white collar workers.

The main indicator of recession is the change in the level of Gross Domestic Product adjusted for inflation (Real GDP). According to the revised 'second' estimate, Real GDP increased at an annual rate of 1.3% in the first quarter. This increase was primarily due to increases in consumer spending and housing investment that were partly offset by a decrease in inventory investment and increase in Imports. The increase in housing investment is particularly important since for most recessions the housing sector is very adversely affected. It is important to note that housing investment increased in spite of an increase in mortgage rates due to Fed's policy of raising interest rate, since inventory of new houses has been rather low. But there is some weakness in consumption spending. The latest retail sales report shows that in May, retail sales were up only by 0.1%. There was also a spending slowdown among lower-income consumers. The slowdown in the first quarter of 2024 cannot be denied. In comparison, in the fourth quarter of 2023, real GDP increased 3.4%. However, the fact remains that the economy grew in the first quarter. According to the Business Cycle dating committee of the National Bureau of Economic Research (NBER) –the committee that determines when a recession begins or ends – "During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year". So we are not yet in a recession, and the labor market is still very strong. The slowdown of the economy was expected as an outcome of Fed's anti-inflationary policy of raising the interest rate. But now that inflation is cooling, it is not likely that the Fed will increase the interest rate any time soon. It may even cut the interest rate, as the European Central Bank and the Bank of Canada have done recently, if not in July, perhaps in the fall. The rate cut will improve investment and further increase GDP.

[8] The natural rate of unemployment, or the non-accelerating inflation rate of unemployment (NAIRU), is the rate of unemployment such that if the unemployment rate is below NAIRU, the rate of inflation increases. Thus, the recent behavior of inflation suggests that NAIRU is likely to be higher than 4%.

Appendix

Downtown Scranton Business Survey
Part 1: Firm and Respondent Information
Firm Name: ____________________________
Date: ____________________________
Respondent Title: ____________________________
Respondent Last, First Names: ____________________________

Part 2: General Business Conditions

Question	Higher	No Change	Lower
1. Compared to last month, what is your general evaluation of the current level of business activity			
2. Six months from now, do you expect the level of business activity to be			

Part 3: Additional Questions Relating to Your Facilities in Scranton

Question	Higher	No Change	Lower
3. Compared to last month, the prices your company pays are			
4. Six months from now, do you expect the prices your company pays to be			
5. Compared to last month, the prices your company is receiving are			
6. Six months from now, do you expect the prices your company receives to be			
7. Compared to last month, the number of employees (including contract workers) in your company is			
8. Six months from now, do you expect the number of employees in your company (including contract workers) to be			
9. Compared to last month, the average number of hours that employees work is			
10. Six months from now, do you expect the average number of hours that employees work to be			
11. Six months from now, do you expect your company's spending on technology to be			
12. Six months from now, do you expect your company's capital spending (such as improvement or expansion of the physical plant) to be			