



Brennan

Barometer

Snapshot of the Economy of Wyoming
Valley of Northeastern Pennsylvania
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The University of Scranton

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Foreword

Much has happened in the local as well as the national economy since the publication of the first issue of Brennan Barometer in May 2022. In our continuing effort to update the members of our community, in this supplement, we are providing a snapshot of the current state of the economy for the Scranton-Wilkes Barre-Hazleton MSA along with brief analysis of some of the most important economic issues of the region. From now on, we plan to publish two long, comprehensive issues of Brennan Barometer in a year: in January and July. In between those two issues, we plan to publish periodic snapshots, such as this one.

This issue of Brennan Barometer is organized as follows. The first section overviews the most recent developments in the local labor markets. The unemployment rate continues to fall and much of the job gain is in the private service sector. Section two discusses the local housing market. As of August 2022, the housing market in the area does not show any significant signs of weakening. The last section is dedicated to the recent surge in consumer prices and the implications of that for the cost of living. While inflation is worrisome, it is a global phenomenon that is largely caused by the supply chain disruptions and the world energy prices.

The authors would like to thank Dr. Mark Higgins and Dr. Hong Nguyen for helpful comments and suggestions. This document reflects the views and opinions of the authors who alone are responsible for any errors or omissions. Any comments and suggestions are most welcome.

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Labor Market: Employment, Unemployment in the Local Economy

After March 2022, the broad trends in the local labor market remained virtually unchanged. As shown in Figure 1, mimicking the trends of the State and the Nation, the Scranton-Wilkes Barre-Hazleton MSA and the three counties within the MSA: Lackawanna, Luzerne and Wyoming, recorded low unemployment rates from April to August, the most recent month for which we have official data. The slight increase in unemployment rates in re-

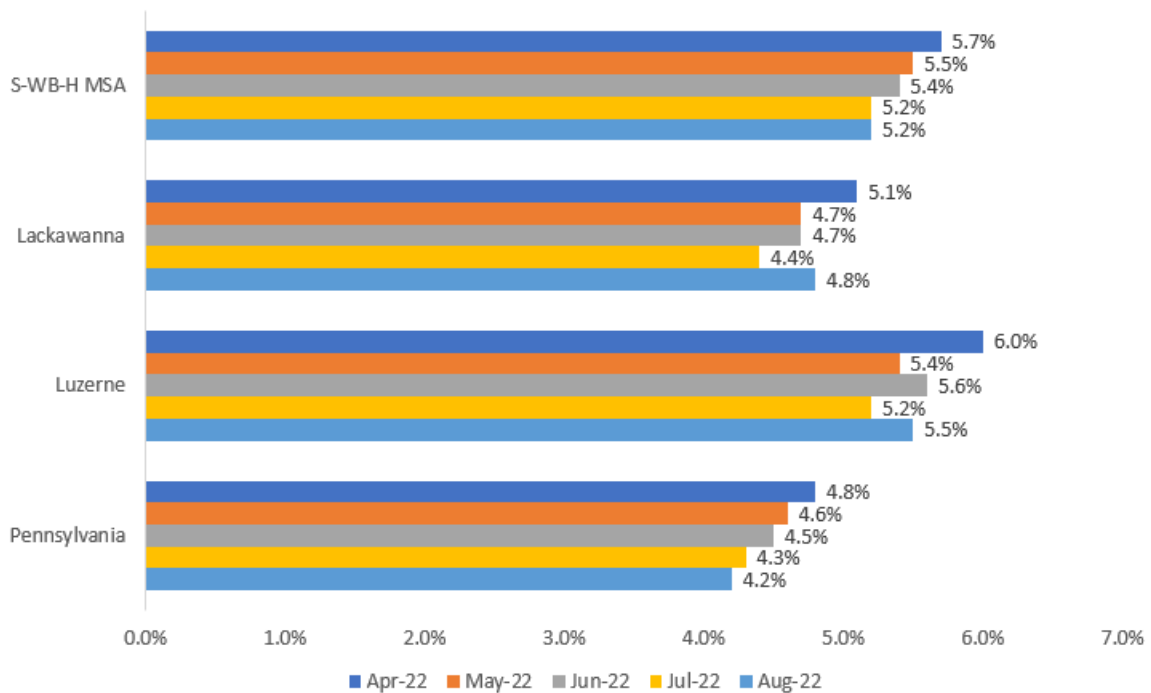


Figure 1: Local and State Unemployment Rates

Source: PA Dept. of Labor and Industry

cent months is not at all alarming, since, as Figure 2 shows, the total labor force and the total number of employed workers continued to increase, while the total number of unemployed workers declined. It was four years back in April-October 2018, when the last time the MSA had a 5.2% unemployment rate. Furthermore, there is ample evidence that the local labor market continues to be quite strong. Local unemployment rates, both at the MSA and county levels usually exceed the state and national rates. That is still true. But in the one-year period between August 2021 and August 2022, the reduction in the unemployment rate in the Scranton-Wilkes Barre-Hazleton MSA (2.2%) outpaced both the state of Pennsylvania and the U.S. where the respective unemployment rates in the same time period fell by 1.9% and 1.5%.

As for the source of job creation in the region between August 2021 and August 2022, out of 10,800 new non-farm jobs, the private service-providing sectors contributed 9,700

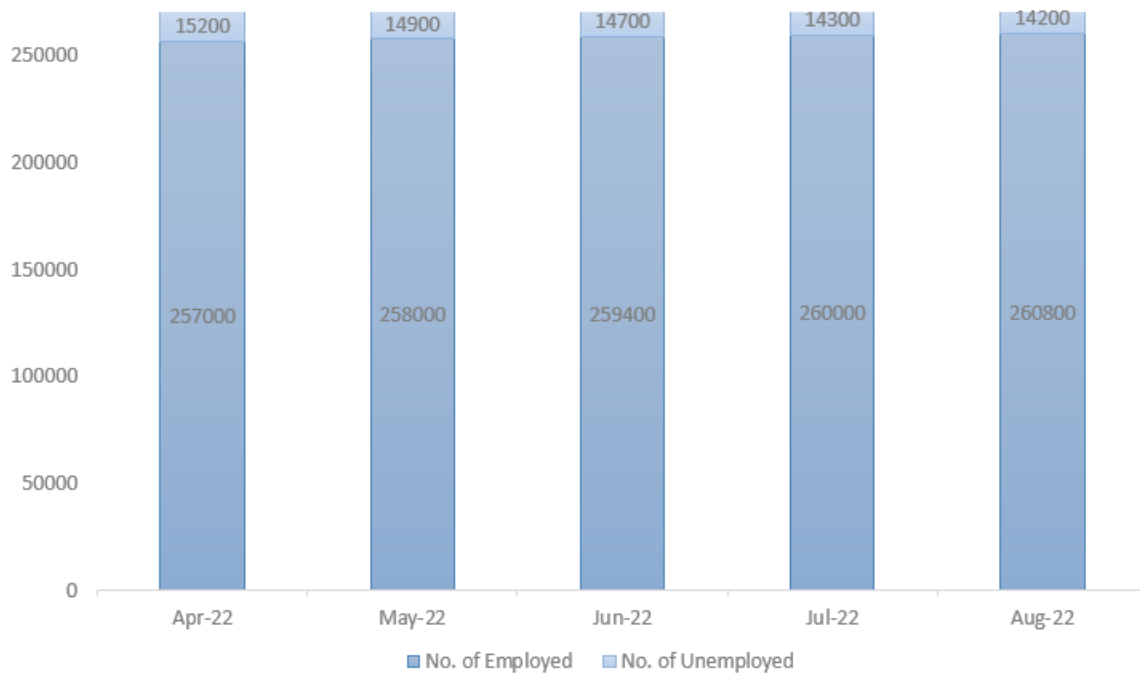


Figure 2: Total Number of Employed and Unemployed in S-WB-H MSA

Source: PA Dept. of Labor and Industry

or 90% of those jobs, once again demonstrating the transformation of the region from a manufacturing-based economy to a service-based economy. Among the service-providing industries, the Transportation, Warehousing, and Utilities sub-sector continued its strong showing by adding 4,100, or about 42% of the new private service-sector jobs. Professional and Business Services sub-sector added another 1,700 jobs. The Leisure and Hospitality sector, that suffered significantly during the pandemic, started to bounce back and added 2,100 jobs in the same time period. What is important to note is that in August 2022, the Health Services sub-sector that includes Health Care, Social Assistance, and Hospitals, reported a modest (200) gain of jobs. Normally, this should not be viewed as a significant event. However, historically, this sub-sector has been a very significant source of jobs in the region, and the loss of 5,900 jobs that occurred between February 2020 and March 2022 (or 13% of the employment base in the sub-sector) is staggering. The trend continued in recent months perhaps because some health care workers preferred to switch to retail and restaurant jobs for better pay and working conditions. It remains to be seen if this modest job gain in the health care sector is just a short time phenomenon perhaps due to the opening of the new LeHigh Valley Hospital in the region or an indication of a turn around of the industry.

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.

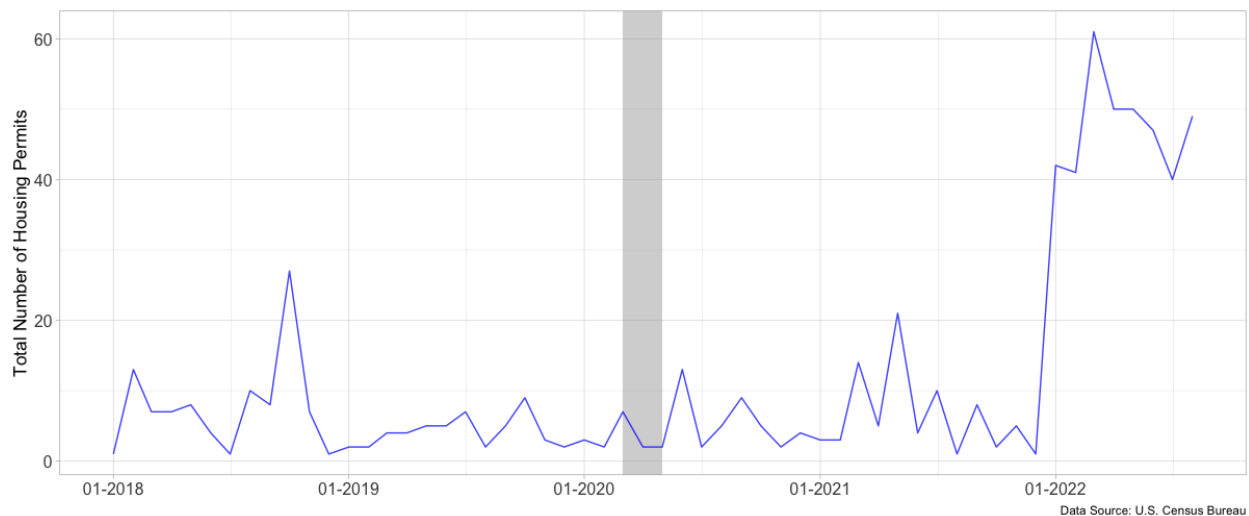


Figure 3: Total Number of Housing Permits in the Scranton – Wilkes-Barry – Hazleton MSA

Figure 3 shows the total number of approved building permits in the Scranton – Wilkes-Barry – Hazleton MSA. As the chart indicates, the sudden jump in the monthly number of building permits observed in early 2022 did not dissipate until August 2022.

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 continual tightening of the housing market. However, by looking at Figure 5 that shows the year-over-year percent change in housing inventory, one can conclude that the most recent

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

tightening of the housing market in Scranton has occurred at faster pace than in the US. Between August 2021 and August 2022, Scranton has shed roughly 25% of its housing inventory, while in the United States, this number has declined by only 6.4%.

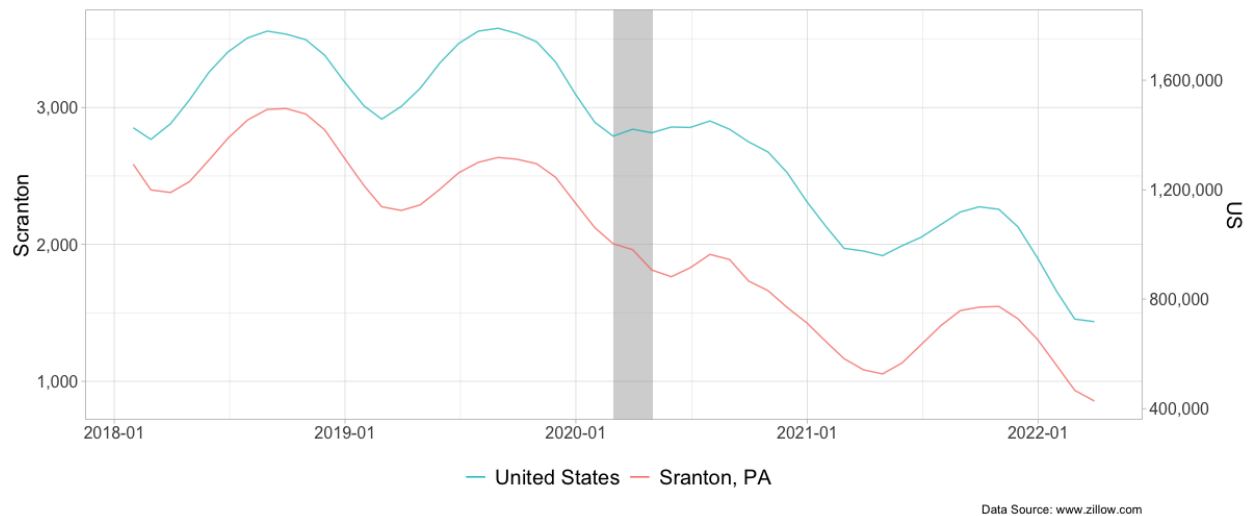


Figure 4: Monthly Smoothed Number of For-Sale Housing Inventory

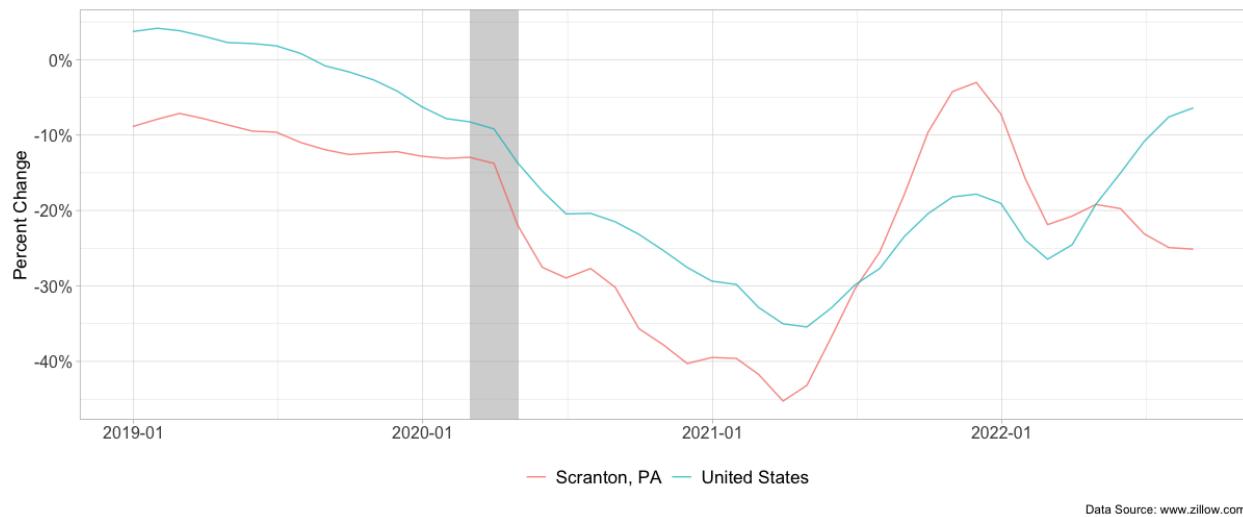


Figure 5: Year-over-Year Percent Change in Monthly Smoothed Number of For-Sale Housing Inventory

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. Be-

tween 2Q2021 and 2Q2022, the the FHFA housing price index for Scranton has grown by roughly 20%. During the same time period, house prices in Pennsylvania and the US have grown by 16.2% and 20.1% respectively.

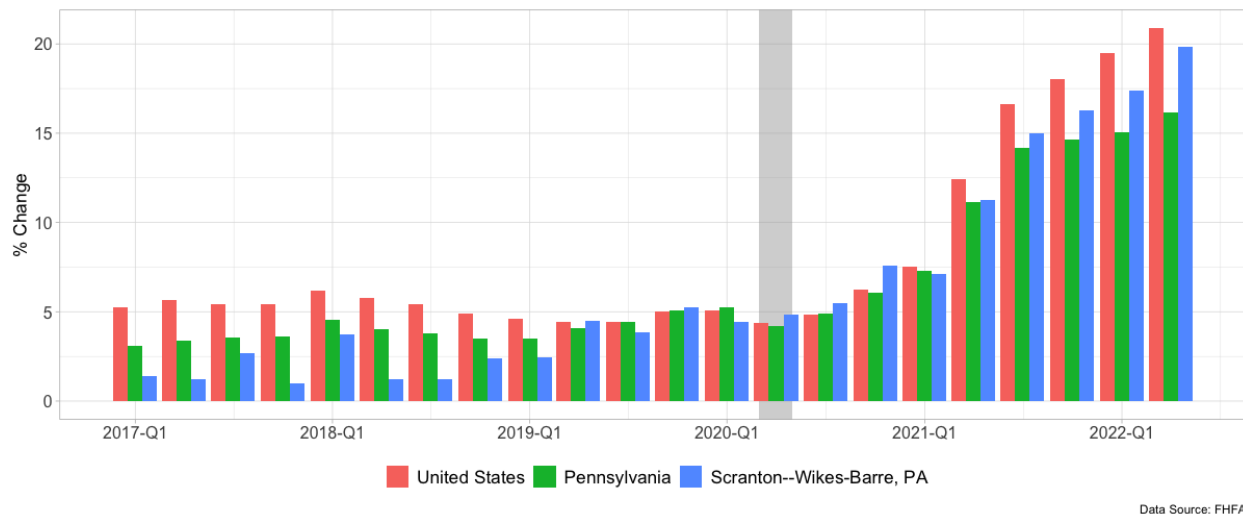


Figure 6: Year-over-Year Percent Change of the FHFA Quarterly Housing Price Index

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. As one can observe in the figure, in August 2022, the value of a typical home in the Scranton area was \$178,169, around half as much as it was in Philadelphia (\$338,343) or the United States (\$354,986). However, as it can be observed in Figure 8 (that exhibits year-over-year percent change of the ZHVI), since late 2019, and especially since 2021, growth of housing prices in the Scranton area outpaced growth of housing prices in Philadelphia and the US.

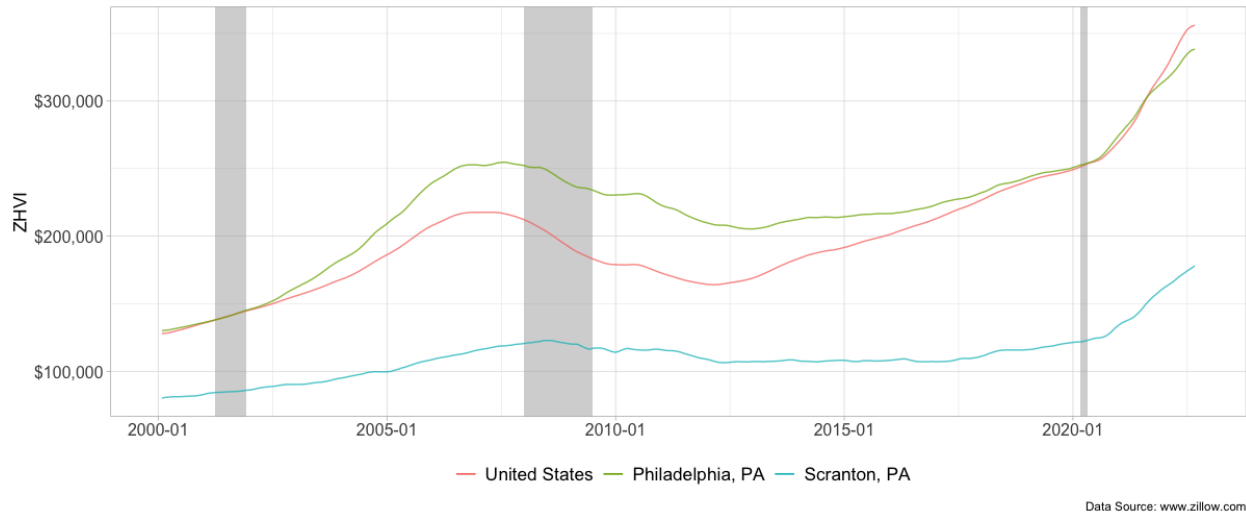


Figure 7: The Zillow Monthly Housing Value Index (ZHVI)

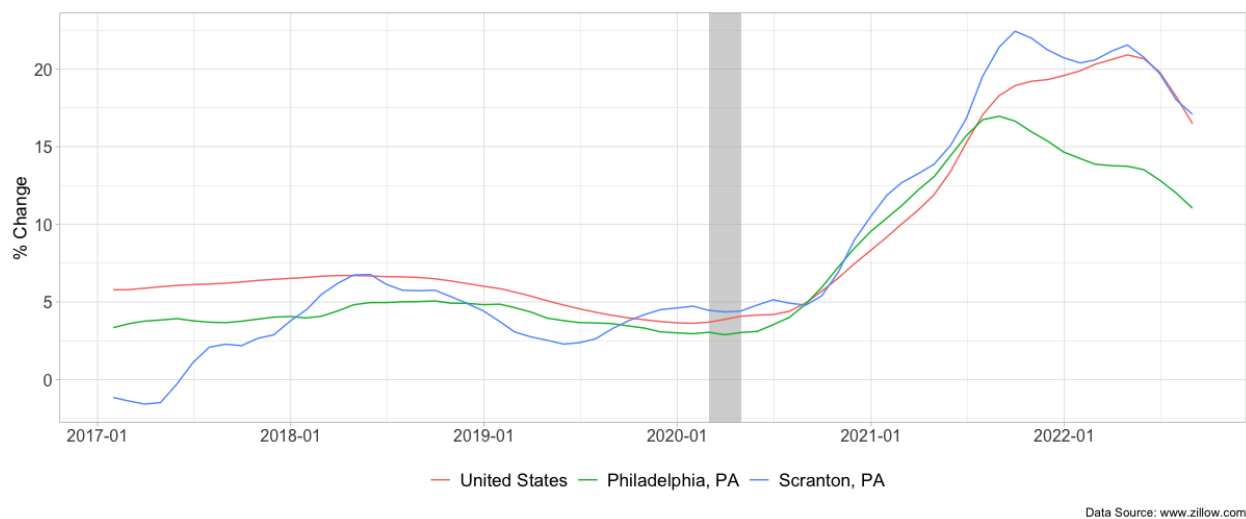


Figure 8: Year-over-Year Percent Change of the Zillow Monthly Housing Price Index

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 August 2022, the average rent in Scranton, Philadelphia, and across the US were \$1,306, \$1,869,

²ibid. see the footnote on page 3.

and \$2,090 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 August 2022, median households in both, the Scranton area and the US spent about 37% of their 2020 income on rent, while the same measure of rental affordability for Philadelphia was around 46%.

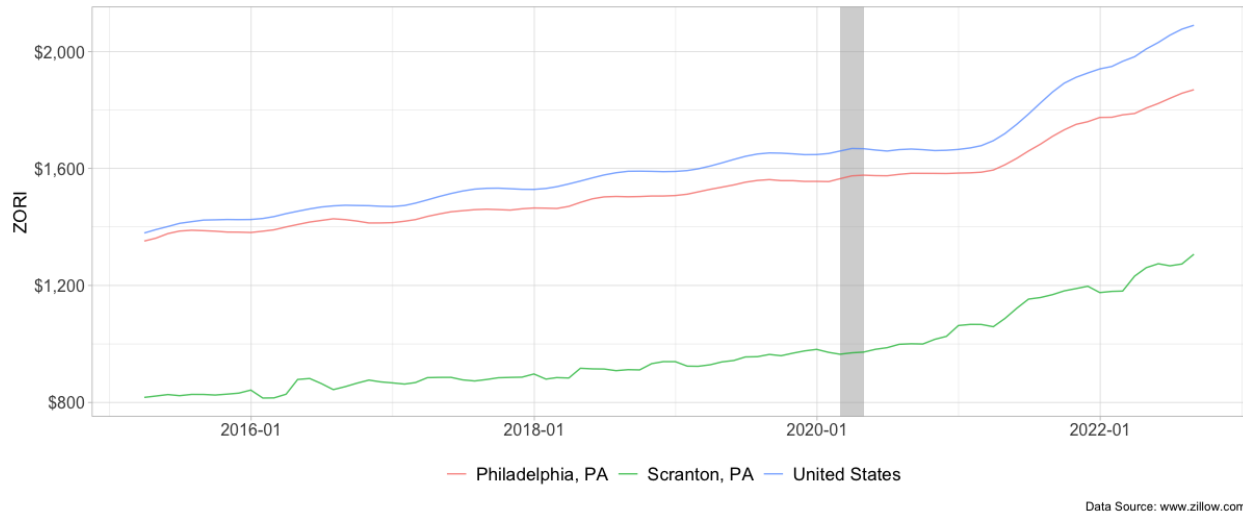


Figure 9: The Zillow Monthly Observed Rent Index (ZORI)

Figure 10 exhibits year-over-year growth of ZORI. It is clear from the graph that while rents are still growing at a significant pace, the pace of growth has clearly slowed across all three geographies.

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

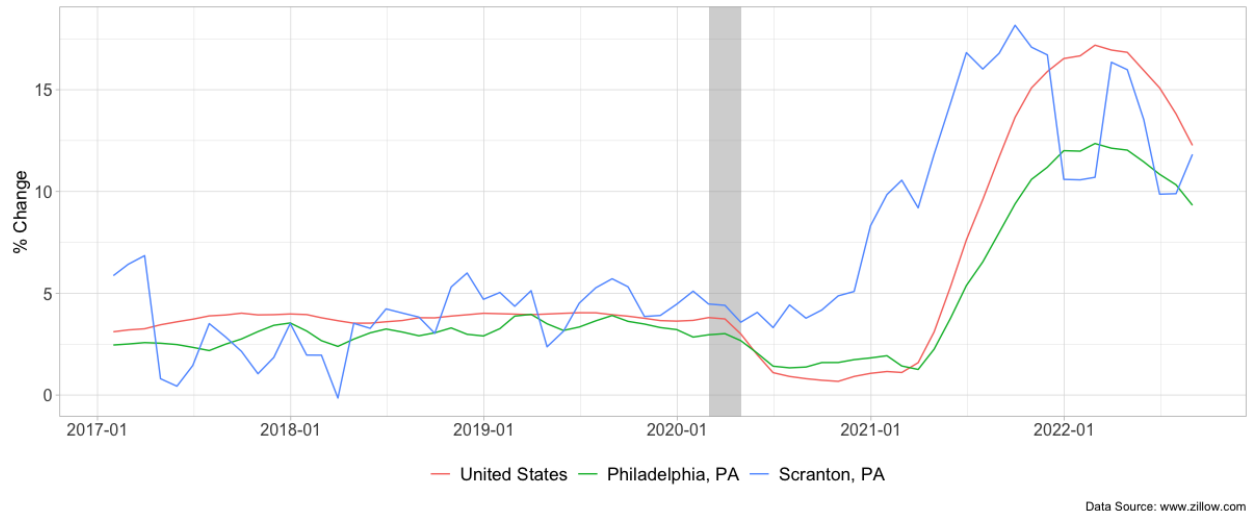


Figure 10: Year-over-Year Percent Change of the Zillow Monthly Observed Rent Index (ZORI)

Worries About Inflation

By the end of August 2022, the consumer price based annual inflation rate for the US was 8.3% and in the month of August alone consumer prices increased by one-tenth of a percentage point over July. There is a good reason to be worried about a high inflation rate since it reduces our purchasing power and can often bring about a slowdown of the economy and increase in unemployment. Last time we experienced consistently higher inflation rates was in 1981. Since we don't have any official data on the inflation rate for the local economy, how do we gauge the extent of inflation that affects us in Northeastern PA?

Back in 1980s, we used to look at the milk price in grocery stores to get a sense of the price hike. The days of watching milk price are long gone. We now monitor, perhaps with much greater interest, the day-to-day movements of gas prices at neighborhood gas stations. So where do we stand regarding gas prices? The price of gasoline at the pump fell consistently for 14 weeks, before it increased slightly in the beginning of October, mostly due to issues related to our refineries. Although the gas price is rather high compared to what we were used to even a year back, as AAA reports, on October 13, 2022, the average price of regular unleaded gasoline in the Scranton-Wilkes Barre-Hazleton MSA was at \$3.894 – down from the high of \$5.173 on June 14, 2022. The price was less than the average price in the state (\$3.938) and the nation (\$3.913).³

While the price of gas at the pump may be a convenient indicator of inflation, it is far from being a perfect one. In spite of the current high price, the weekly expenditure on gasoline as a percentage of income in recent months is not much different from the past.

³<https://gasprices.aaa.com/?state=PA>

Nationwide, in September, we spent about 3.43% of our weekly income on gasoline, when adjusted for inflation. This was lower than what we spent per week in 2009 through 2014, when the price at the pump was much lower. Even in June 2022, when the gas price reached its peak, weekly expenditure on gasoline as a percentage of income (4.60%) was considerably lower than what it was in 2011-2013.

Instead of just focusing on gas prices, comparison of the overall costs of living can provide a better understanding of the impact of inflation on purchasing power. Table 1 shows the cost of living comparisons between Scranton, Wilkes Barre and NY City and Philadelphia.⁴ It shows the costs of living by calculating how much more income is needed in

Table 1: Cost of Living Comparisons

	NY City (Manhattan)	NY City (Queens)	Philadelphia
Scranton	+161%	+55%	+13%
Wilkes Barre	+155%	+51%	+11%

NY city and Philadelphia to have the same purchasing power as the median household income in Scranton or Wilkes Barre. For example, to have the same standard of living afforded by Scranton's median household income of \$41,687, a household in Queens, New York would require \$64,456, indicating a 55% higher cost of living. Similarly, a household income of \$103,477 would be needed in Manhattan, New York to maintain the same standard of living afforded by the median household income of \$40,505 of Wilkes-Barre—indicating a 155% higher cost of living in Manhattan. It should be noted that the higher cost of livings in the three cities listed in the table compared to the two biggest cities in the MSA are mostly due to higher housing cost and not due to food or fuel costs, which contribute to the higher cost of living to a significantly lower extent.

It may not be much of a consolation that the costs of living in the region may be much lower than other big cities in the area if income in the MSA fails to keep up with inflation. We do not have specific data for the region, but based on the national data and the broad indicators of tightness of the region's labor market, prompting higher income and relatively low cost of living, it seems that on an average, personal income in the region, however narrowly, is keeping up with inflation.

The inflation that we are experiencing is a global phenomenon. While at the end of August, annual US inflation rate was 8.3%, most countries in Europe had higher inflation rates. Germany's inflation rate was 10%, while the UK experienced inflation of 9.9%. Only France had a noticeably lower inflation rate of 5.6%. Unfortunately, inflation is here to stay and due to the proposed cut in oil production by OPEC and its partner countries, inflation may even increase before it falls.

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

⁴<https://www.nerdwallet.com/cost-of-living-calculator>

The Big Picture

The Bureau of Economic Analysis (BEA), the agency that provides the official macroeconomic data for the U.S. economy, reports that in the month of August, 2022 personal income increased in the nation, primarily reflecting increases in wages and salaries and profits of small businesses. After-tax income adjusted for inflation (Real Disposable Income) increased by 0.1%, while consumer spending adjusted for inflation increased also by 0.1%. Personal outlays increased in August, reflecting an increase in consumer spending for services that were partly offset by a decrease in consumer spending for goods. The personal consumption expenditures (PCE) price index (the price index that Fed watches) for August increased 6.2% from one year ago. Excluding food and energy, the PCE price index for August increased 4.9% from one year ago. This rate is much higher than the Fed's desired rate of 2%. So it is most likely that the Fed will continue aggressively raising the interest rate for the remainder of the year in the hope of curbing inflationary pressure. It is doubtful that Fed's policy can really control inflation. But, the continued sharp rate hike of the Federal Reserve is likely to further raise housing cost and rent. It is likely that Fed's policy will also slow down the economy. Until now, the labor market in the U.S. remains very strong, and we see the reflection of that in our region as well. But that may change if the national labor market becomes weaker by the end of the year.

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