The University of Scranton
Kania School of Management

Foreword

I am immensely proud to introduce the first edition of the Brennan Barometer, a series that presents analyses and commentary on trends and developments in our Northeastern Pennsylvania economy. A key part of the vision of the Kania School of Management is to 'be a major academic resource for business and economic development in Northeastern Pennsylvania' and we hope the information and education provided through this series advances that vision.

The Brennan Barometer is named in honor of Mr. John E. Brennan '68, loyal alum, successful entrepreneur, benefactor, mentor, and champion of student success over many years of voluntary service at the University of Scranton.

Two distinguished colleagues, Dr. Satyajit Ghosh, Professor of Economics and well-known analyst and commentator on our regional economy, and Dr. Aram Balagyozyan, Associate Professor of Economics, designed, wrote, and edited this maiden issue. Dr. Sam Beldona, former Dean of the Kania School, suggested and initiated the series. I am grateful to all of them for their work and valuable contributions to our community and region. Thank you.

Michael O. Mensah, Kania School of Management Interim Dean

Introduction

Brennan Barometer is a digital newsletter sponsored by the Kania School of Management at the University of Scranton, Scranton, Pennsylvania. Created by Aram Balagyozyan, Associate Professor, Department of Economics and Finance at the University of Scranton and Satyajit Ghosh, Professor, Department of Economics and Finance at the University of Scranton, the periodic newsletter aims to provide a rigorous analysis of the regional economy of Wyoming Valley of Northeastern Pennsylvania that can be accessible to academics and non-academics alike. With its many anthracite coal mines, the Wyoming valley of Northeastern Pennsylvania played an important role in the American Industrial Revolution. Although those glory days are long gone, the valley, being the fifth largest metropolitan statistical area of Pennsylvania (Scranton – Wilkes-Barre – Hazleton MSA), is still an important part of the state's economy. Brennan Barometer plans to analyze economic issues that are of particular importance for the MSA and the three counties that it covers: Lackawanna, Luzerne, and Wyoming. However, often the principal focus will be on the two larger counties: Luzerne and Lackawanna that account for ninety-five percent of the population of the MSA and its two larger cities: Scranton and Wilkes-Barre. In each issue of the newsletter, two topics will be covered in detail: labor market trends in employment and unemployment and the housing market. In addition, other issues of importance will also be analyzed. In this inaugural issue, besides employment-unemployment and housing, the importance of the new infrastructure bill is also analyzed in detail.

Brennan Barometer was originally envisioned in 2021 by Sam Beldona, then the Dean of the Kania School of Management (KSOM) at the University of Scranton. Later, Michael Mensah, the interim Dean of KSOM, provided the encouragement and support that has made the publication of the newsletter possible.

The newsletter is named after Jack Brennan, an alumnus of the University. John E. (Jack) Brennan received a bachelor's degree in management from the University in 1968. A veteran of the Vietnam War, he served as a 1st lieutenant in the U.S. Army Signal Corp. in Thailand. Following his years of service, Mr. Brennan joined Motorola as a salesman. He later co-founded Metro Mobile CTS, Inc., and served as the president and chief operating officer. Metro Mobile was later sold to Bell Atlantic, which would eventually become Verizon Communications. He was also president of Activated Communications and a member of the board of directors at Spectrum Signal Processing. At the time of his retirement, he was the vice chairman of the board of Southern Union Co. (later acquired by Energy Transfer LP). Mr. Brennan was a long-time member of the Board of Trustees at the University, where he was also a founding member of the Kania School of Management Advisory Board. He was also among the inaugural inductees to the Business Leader Hall of Fame. In October 2000, the University named Brennan Hall, the home of the Kania School of Management, in his honor.

For comments on and suggestions for Brennan Barometer, please contact: Aram Balagyozyan at aram.balagyozyan@scranton.edu or Satyajit Ghosh at satyajit.ghosh@scranton.edu.

Labor Markets in the Scranton – Wilkes-Barre – Hazleton Metropolitan Statistical Area

Satyajit Ghosh

Overview

Like most parts of the country, the Scranton – Wilkes-Barre – Hazleton MSA experienced soaring unemployment in the early months of Covid-19. The April 2020 unemployment rate of 18.2% in the MSA was unprecedented in the post-World War II period. In the same month, the number of unemployed in the MSA stood at 49,600 – recording the highest single month job loss for the MSA. Most of the job loss was in the service sector. Some sectors such as Health Services and Leisure and Hospitality suffered substantial job loss from which they have not yet fully recovered. In spite of the considerable progress that has been made in the MSA's labor market since 2021, the recovery is not complete yet. The March 2022 unemployment rate of 5.9% in the MSA is still higher than the pre-pandemic level. There are still 8000 fewer jobs. But if the current rate of job creation is sustained, the MSA may return to the pre-pandemic level of employment in another seven to eight months. The wages and salaries consistently lag behind the state and the national levels, but given the tightness of the labor market, it is most likely that area will continue to experience wage growth.

Employment and Unemployment

Unemployment rate is one of the few economic indicators that is watched with great interest by economists and non-economists alike. The rate of unemployment tells us a lot, not just about the labor market of a country, a state or a region; but it tells us broadly about the state of the economy and where it is heading. The recent movement of the unemployment rates in the U.S., Pennsylvania or even the Scranton–Wilkes-Barre–Hazleton MSA in NEPA is closely related to the Covid-19 pandemic and its economic effects. As Figures 1 and 2 show, the sharp rise in the unemployment rates coincides with the "lockdown" of most of the U.S. economy due to the spread of Covid-19 in early 2020. As we learnt to deal with Covid-19, the economy started to reopen slowly and unemployment rate began to improve gradually.
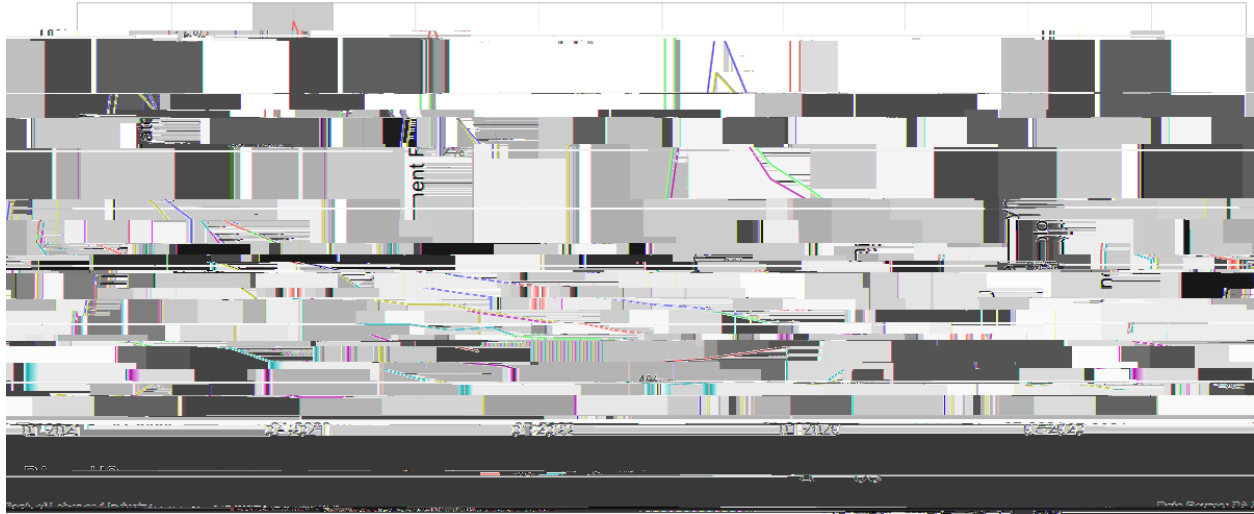
Figure 1: Unemployment Rate in the United States and Pennsylvania

This was to be expected. The unemployment rate fluctuates along with the ups and downs of the business activities, commonly known as a "business cycle". During the phase of recession in a business cycle, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year. The unemployment rate increases during a recession, which happened in the early months of the pandemic. When recession ends, the economy begins to recover and eventually enters the phase of expansion: economic activity rises substantially, spreads across the economy, and usually lasts for several years. The early part of expansion is the period of recovery when the economy starts to catch up and tries to recover from the loss of income and employment. In the later months of 2020, the unemployment rates began to fall, showing signs of recovery.

The dating of business cycle, particularly the start and the end of a recession, is determined by a special committee, known as the "Business Cycle Dating Committee" of the National Bureau of Economic Research (NBER)–a private, non-profit, non-partisan organization dedicated to conducting research. The Business Cycle Dating Committee consists of eight internationally acclaimed macroeconomists. According to NBER, the Covid-19 recession started in February of 2020 and lasted until April, a span of little more than two months. In April 2020, the U.S. unemployment rate shot up to 14.7% from a mere 3.5% in February 2020, while the unemployment rate in Pennsylvania increased sharply in the same period from 5% to 16.5%. The effects of the recession lingered for several months even after the official end of the recession. Even in October 2020, six months after the official end of the recession, the unemployment rate remained high for both the U.S.(6.9%) and Pennsylvania (8.3%).

The recent trends in unemployment rates in the local labor market mimic the national and state level trends. Usually, if the economy is not in recession, the unemployment rate in Pennsylvania is about 1% higher than the national unemployment rate and the unemployment rate in Scranton – Wilkes-Barre – Hazleton MSA is about 1% higher than

the state unemployment rate. During recession, these gaps often fluctuate. As Figure

February 2020. But for more than twenty years the importance of the goods producing industries has been declining in the region. It was the service sector, particularly the private-service sector, that was especially hard hit by the Covid-19 recession. By December 2020, there were 11,400 fewer jobs in the private service-providing sector compared to February 2020. The job recovery has been rather slow. In March 2022 the level of employment was still down by 7,500.

Within the private service producing sector different sectors were affected differently. In recent years, the importance of retail trade in the MSA has grown significantly, Initially, the industry suffered due to the lockdown. But with the reopening of the economy, the industry recovered quickly and in March 2022, the industry showed a net gain of employment of 800. Another sector that has grown in importance in recent years in the MSA is Transportation, Warehousing, and Utilities. Due to the increased demand for its services, during and the immediate aftermath of the Covid-19 recession, the industry experienced an increase in its level of employment. By December 2020, it created 4400 more jobs and by March 2022, the level of employment increased by 4900 compared to February 2020.

The Professional and Business Services sector suffered job loss during the pandemic, mostly because of the reduction of the demand for their services, which required close personal contact with the customers. By December 2020, the sector lost 2300 jobs. Over the past 12 months, many of the lost jobs were recovered and in March 2022, the sector has only 600 fewer jobs than in February 2020. The Educational and Health Services sector did not recover as quickly. Because of school closings, the Educational Services subsector lost 1600 jobs by December 2020 and in March 2022, it still has 900 fewer jobs. The Health Services subsector, which includes Health Care and Social Assistance and also Hospitals, experienced sharp reduction of employment, not due to weakness in demand but(December2rl615(5tecember2r,)-88(the)tppbs)-24a15(.lo)p(mostlylo)p(m/ee14)120(r)10

February 2020 (5.1%, and 5.9%), the unemployment rate for the MSA in March 2022 (5.9%) is still slightly higher than the rate in February 2020 (5.5%). But the comparison of unemployment rates between a pre-recession and a post-recession dates may not be sufficient nor desirable to determine if the recovery is complete for at least two reasons. First, unemployment rates can fluctuate from month to month. So, unless a stable pattern is observed for unemployment rates, such comparison is not very useful. Second, even when a stable trend in unemployment rate is established, the use of the unemployment rate alone in determining the state of recovery is not desirable due to the way the unemployment rate is calculated. The unemployment rate is measured as the number of unemployed (those who are jobless, but actively seeking work and available to take a job) as a percentage of the labor force (the sum of the employed in full-time, part-time, or temporary employment and unemployed). Since the calculation of the unemployment rate depends on the size of the labor force as well as the number of employed, they should also be considered to properly examine the state of the labor market and recovery.

Labor force is not a fixed number. Every month a few unemployed workers stop looking for jobs perhaps because they have not had any luck for a long time to get a job, or perhaps they have to stay home to care for a sick family member, or have experienced changes in the need for childcare – both of which happened at a large scale during the pandemic; some may even decide to go back to school full-time. All these individuals may be broadly classified as "discouraged workers" and are no longer counted as unemployed and are not regarded as a part of the labor force. This reduces the size of the labor force. Therefore, even if the number of employed individuals does not change or goes down, because the labor force has shrunk, the unemployment rate falls, But clearly, the state of the labor market or the economy does not show any improvement in such a scenario. Labor force may also increase due to a natural increase in population or immigration. Size of the labor force usually increases when the economy starts to recover or expand. As job opportunities improve, more individuals, previously not in the labor force, start actively looking for jobs. However, in such a scenario, if the rate of job creation cannot keep up with the rate of increase of the labor force, the unemployment rate increases. In such a scenario, an increase in the unemployment rate may send the wrong signal that the conditions in the labor market and the economy are weaker than before. For a proper examination of the labor market and the economy, one should consider not only the unemployment rate but also the sizeienced
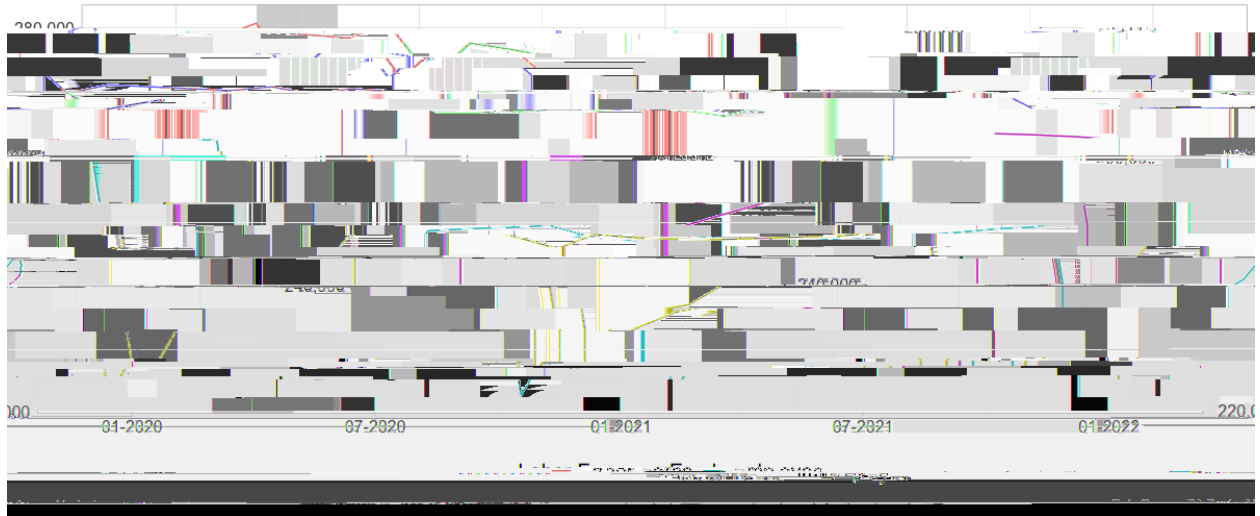
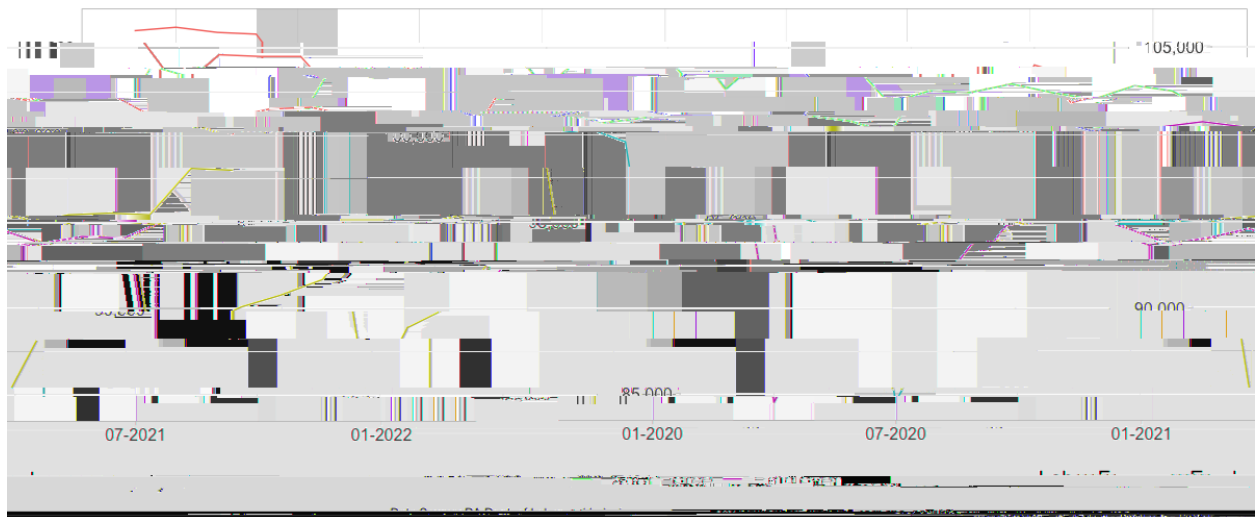Figure 3: Scranton – Wilkes-Barre – Hazleton MSA: Labor Force and Employed

Figure 4: Lackawanna County: Labor Force and Employed

Figure 5: Luzerne County: Labor Force and Employed

Between February 2020, just at the peak before the start of the Covid-19 recession, and March 2022, the size of the labor force in the Scranton – Wilkes-Barre – Hazleton MSA, fell by 7400 or 2.6%. Similar patterns are observed in the counties in the MSA; in Lackawanna and Luzerne Counties, the size of the labor force fell by 2400 (by 2.3%) and by 3500 (by 2.2%) respectively. The statewide picture was similar. In Pennsylvania during the same time period, the size of the labor force fell by 154,000 (by 2.4%). It should be noted that there is a mis-perception that the Government's stimulus payment and generous unemployment insurance program during the pandemic may have caused the reduction in labor force. There is no evidence to support that. The reduction in the labor force is actually a continuing trend in the country caused by a demographic shift. According to the Census Bureau, the oldest baby boomers were 64 in 2010 and turned 73 in 2019. As a large segment of the population has been ageing, the labor force participation rate (the percentage of the working age population that wants to work) is also declining leading to continued reduction in the labor force. Due to the pandemic and its adverse impact on the elderly population combined with the need for at home childcare, the shrinkage of the labor force was intensified in the MSA. However, in the last few months, there has been some increase in the labor force in the MSA and the counties that make up the MSA.
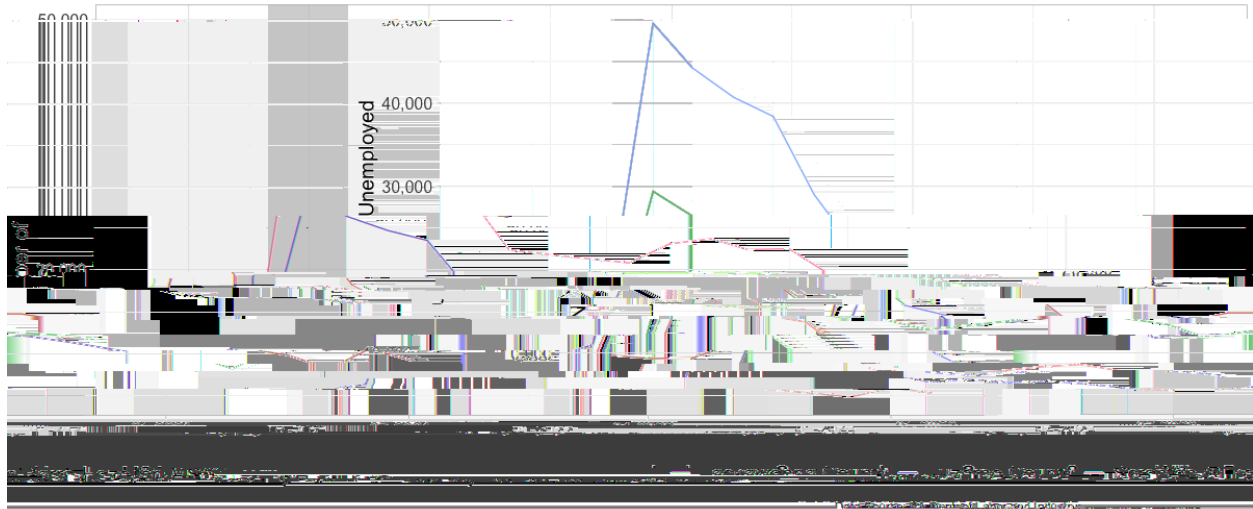
Figure 6: Scranton – Wilkes-Barre – Hazleton MSA, Lackawanna and Luzerne Counties: Unemployed

Despite the increase, the level of employment (the number of employed workers) that shows the strength of job creation in any economy in the MSA and its counties has not yet reached the pre-pandemic levels. Compared to the employment level in February 2020, the employment in March 2022 remains lower by 8,000 – a drop of 3%. In Lackawanna County, in March 2022, there were 2000 fewer jobs than in February 2020 – a drop of 2%. In Luzerne County, the shortfall of jobs is 3000 or 2%. For the state, in March 2022, there were 144,000 (2.3%) fewer jobs than in February 2020. So, while at the state level and the MSA and county levels the unemployment rates have improved, there remain sizeable employment shortfall compared to the pre-pandemic level and the economic recovery from Covid-19 has not been complete. At the current rate of job creation, the MSA may return to the pre-pandemic level of employment in another 7 to 8 months.

The weakness of the local labor market, however, predates the pandemic. In the span of 22 years, between March 2000 and March 2022, the labor force in the MSA remained virtually stagnant: it fell by 500 or .2%. While the reduction in the labor force can be attributed to the demographic factors and the loss of population in the area, the persistent weakness of the labor market cannot be ignored. During the same period the level of employment in the MSA fell by 3300 or 1.3%. This is not consistent with the statewide trend. During this period, in Pennsylvania, the labor force grew by 293,000 or 4.8% and 231,000– nearly 4% more jobs were created.

The wages and salaries in the area have been historically much lower than the state and the national levels. As Table 1 shows, the estimated inflation adjusted per capita income level in the city of Scranton over the past 12 months was only about 67% of the state and national average while it was about 59% in Wilkes-Barre and 58% in Hazleton.
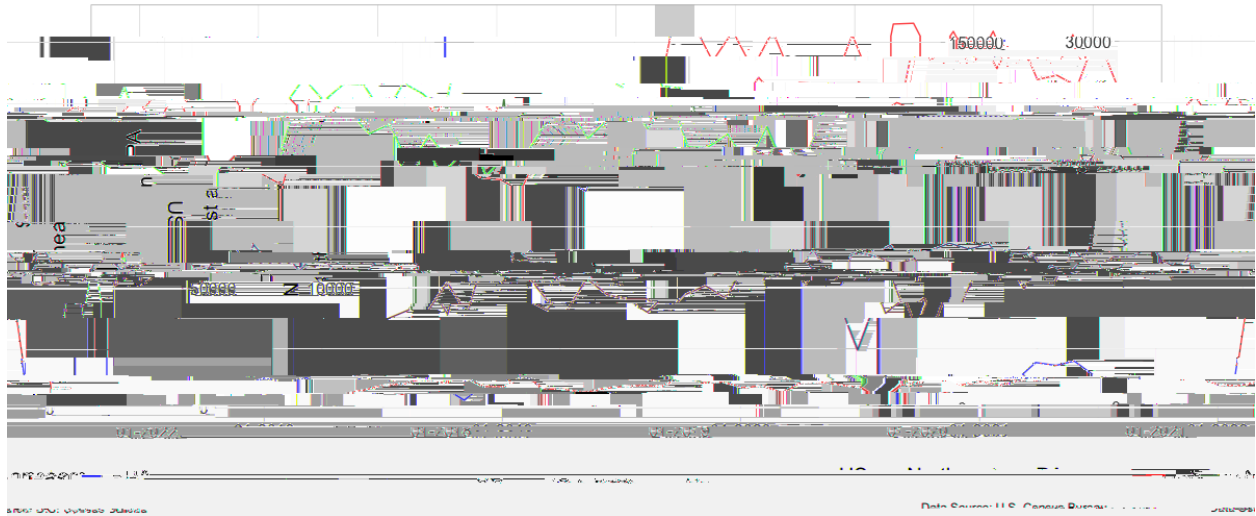
Figure 7: Total Number of Housing Permits in the Northeast, PA, and the US

Figure 8 shows the total number of approved housing permits in the Scranton – Wilkes-Barry – Hazleton MSA, while Figure 9 shows the year-over-year changes in this number. As these figures indicate, in January and February 2022, the Scranton – Wilkes-Barre – Hazleton MSA has also experienced unusually high growth in housing permits. Although encouraging, it is hard to tell whether this upshift is going to be permanent or transitory.
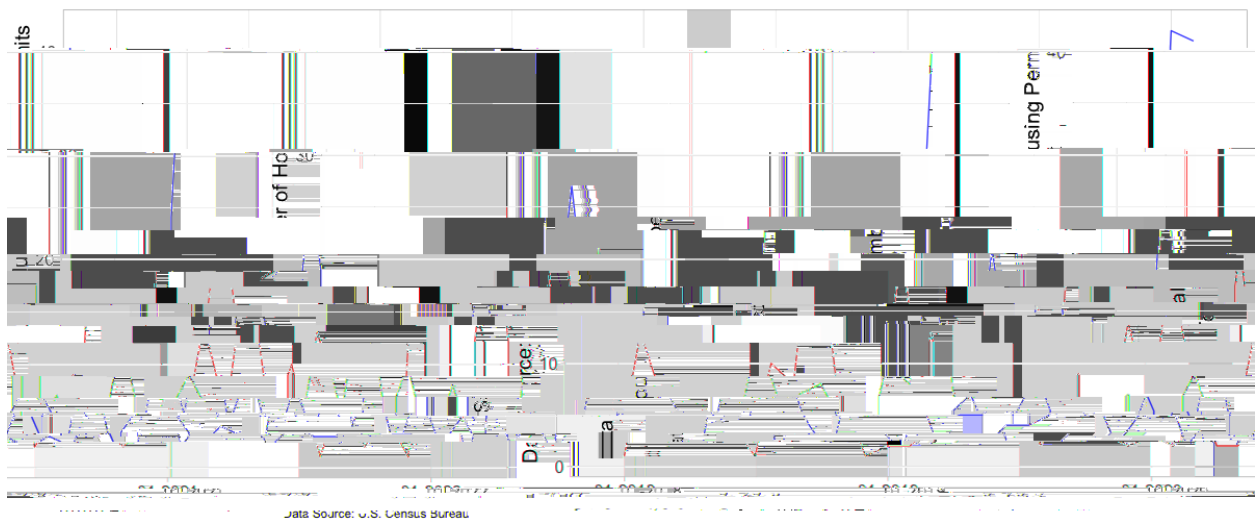

Figure 8: Total Number of Housing Permits in the Scranton – Wilkes-Barry – Hazleton MSA

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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. It must be obvious from the chart that during the pandemic, housing price growth in all three areas has accelerated, reaching a rate of around 15% per year. It is worth noting that while historically growth of housing prices in Pennsylvania exceeded that of the Scranton – Wilkes-Barre – Hazleton MSA, since the beginning of the pandemic in 2020, housing prices in the Scranton – Wilkes-Barre – Hazleton MSA grew at a slightly faster pace than in Pennsylvania.
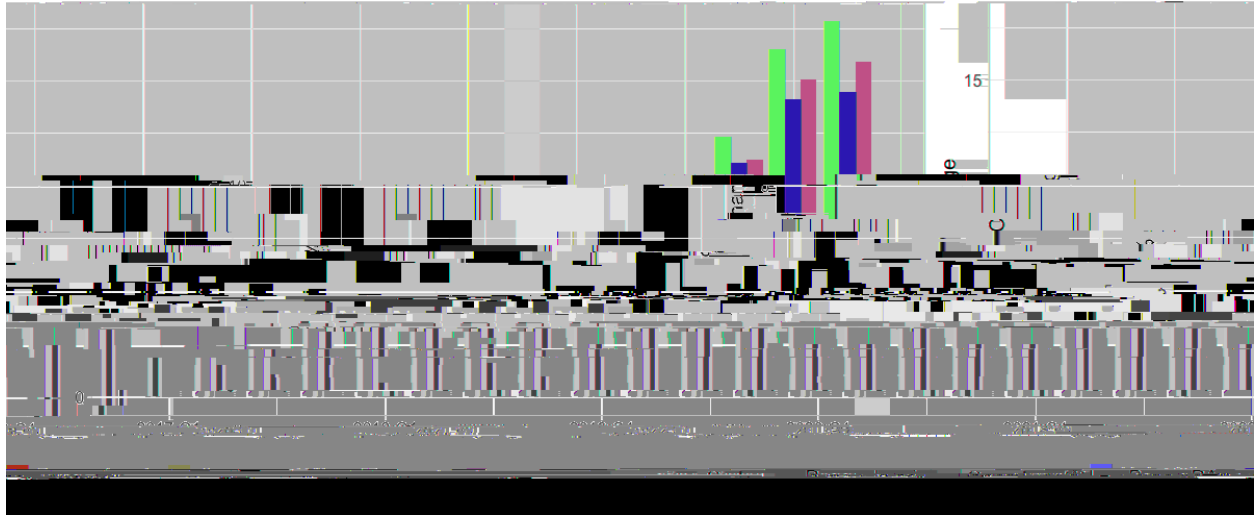

Figure 12: Year-over-Year Percent Change of the FHFA Quarterly Housing Price Index

Still, compared to other major city/metro areas, such as Philadelphia, PA or the US in general, housing in the Scranton area remains much more affordable. Zillow.com publishes historical data describing the value of a typical home in a given geography (e.g. metro area, city, ZIP code, etc.).[2] Figure 13 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 March 2022, the value of a typical home in the Scranton area was $167,000, around half as much as it was in Philadelphia ($322,475) or the United States ($337,560). However, as it can be observed in Figure 14 (that exhibits year-over-year percent change of the ZHVI) since late 2019, annual growth of housing prices in the Scranton area slightly outpaced growth of housing prices in Philadelphia and the US. In sum, while house prices in the Scranton area remain relatively low, their recent growth slightly outpaced growth of house prices in the US and Philadelphia, PA.

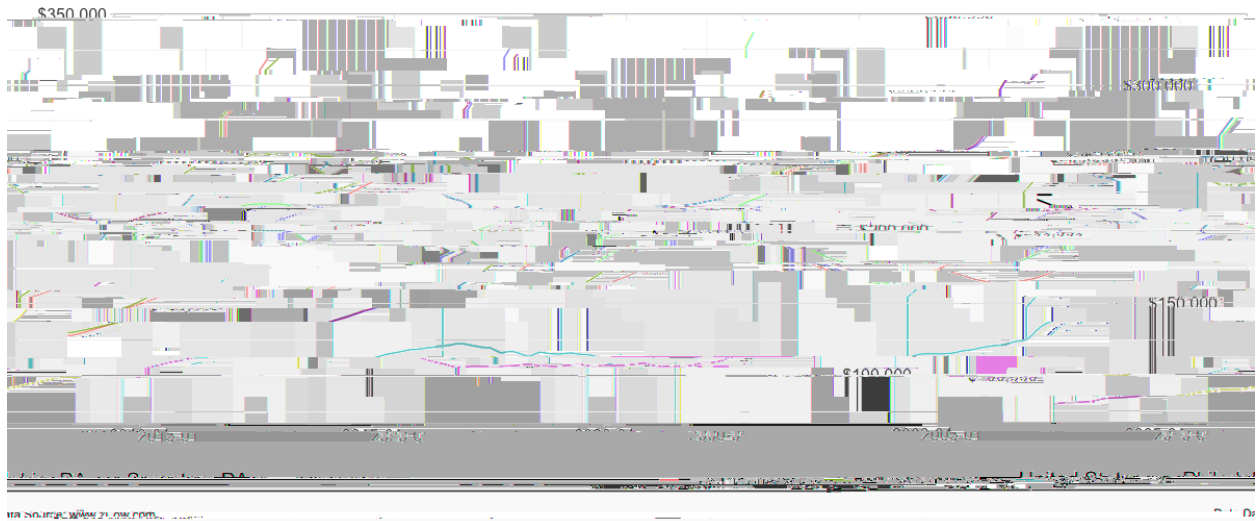[2]ibid. see the footnote on page 13.

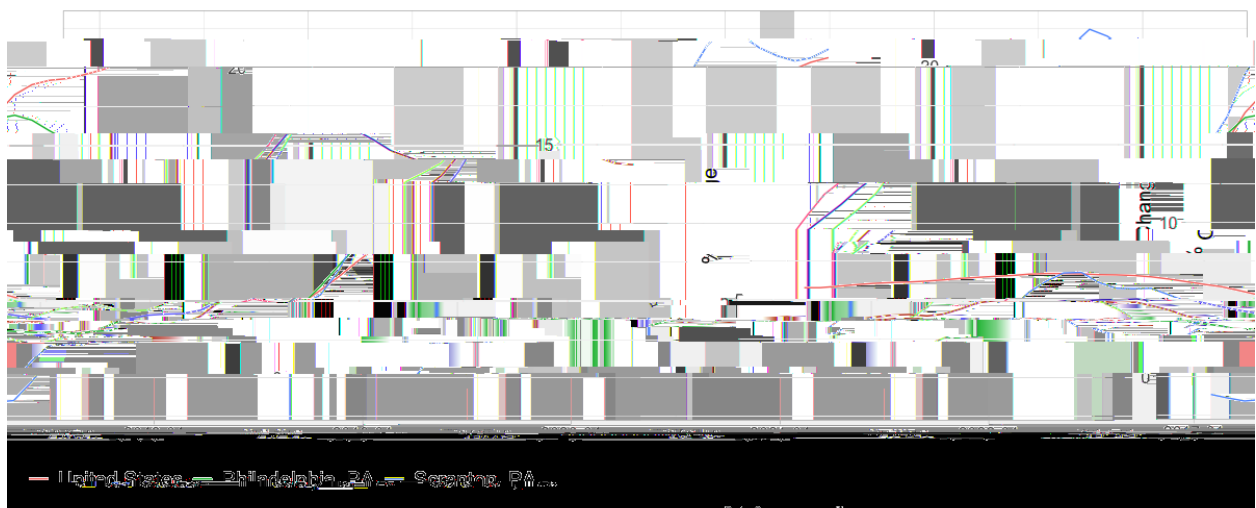Figure 13: The Zillow Monthly Housing Value Index (ZHVI)

Figure 14: Year-over-Year Percent Change of the Zillow Monthly Housing Price Index

A similar conclusion can be reached regarding Scranton rental prices. We source our data on rents again from zillow.com, that publishes its Observed Rent Index (ZORI) for different types of geographies (metro area, city, ZIP code, etc.).[3] 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 15 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

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[3]ibid. see the footnote on page 13.

in general. In March 2022, the average rent in Scranton, Philadelphia, and across the US were $1,158, $1,775, and $1,904 respectively. But as it was the case with home values and as Figure 16 shows, while rents in the Scranton area are still low, their annual growth between February 2020 and September 2021 has visibly outpaced rent growth in Philadelphia and the US.
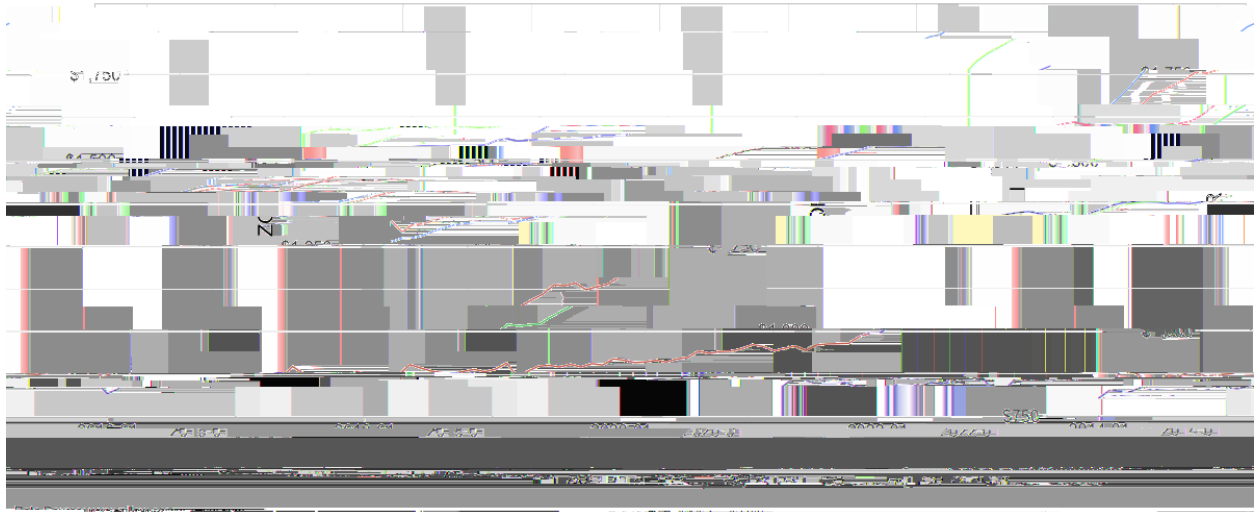

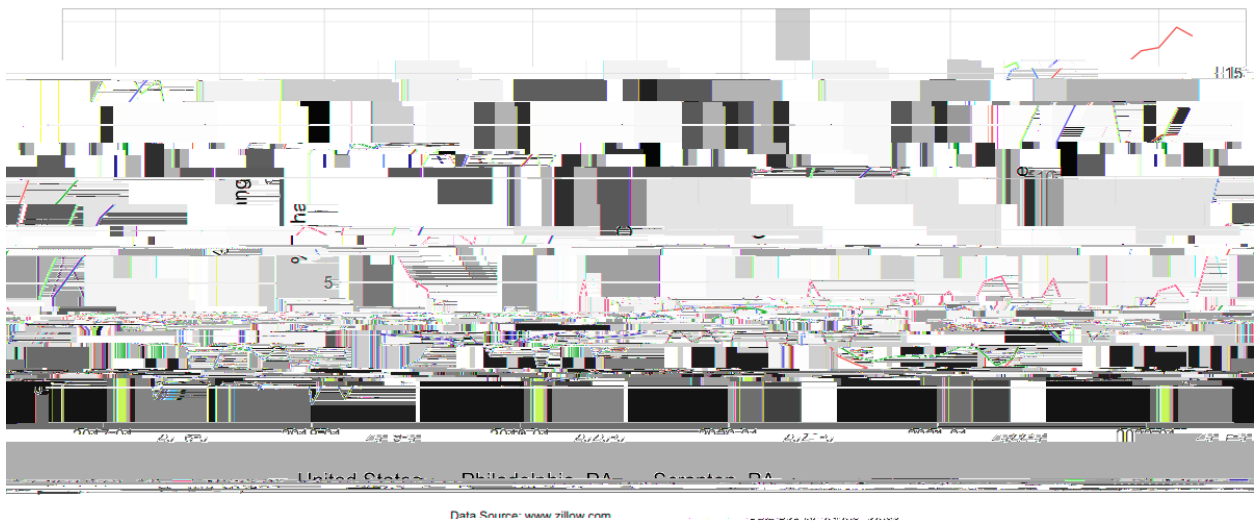Figure 15: The Zillow Monthly Observed Rent Index (ZORI)

Figure 16: Year-over-Year Percent Change of the Zillow Monthly Observed Rent Index (ZORI)

Impact of the Infrastructure Bill in the Region

Satyajit Ghosh

Overview

The 1.2 trillion-dollar Infrastructure Bill promises to be a "once in a generation" investment in the nation's infrastructure. Under the bill, over the next five years Pennsylvania is to receive at least $17.8 billion. Besides traditional infrastructural improvement, the MSA stands to benefit mostly in three areas: repair and replacement of bridges—there are 226 bridges in the tri-county area that are structurally deficient; new passenger rail service between Scranton and New York City that may become operational within three years, and finally, reclamation of abandoned mine land that poses a significant environmental challenge for the area. The substantial infrastructural investment in the area is also expected to create a large number of new jobs.

Wayne, and Wyoming Counties – will begin to repair or replace 88 bridges this year. These projects are supported and accelerated by the infrastructure act. According to PennDOT, under the Infrastructure act, the District 4 region will receive $266 million addi-