

Economics Group

Special Commentary

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COVID-19 Tests the Pennsylvania Economy

A rising number of COVID-19 cases may weigh on the state’s economic recovery

The coronavirus crisis is thoroughly testing the Pennsylvania economy. Pennsylvania has registered over 111,000 COVID-19 cases. When controlling for population size, that amounts to about 8,450 cases per million residents. This is far less compared to its neighbors in New York and New Jersey (both over 20,000), as well as Delaware and Maryland (about 14,500 and 13,800, respectively). At the onset of the crisis, state officials were swift to issue stay-at-home orders and direct non-essential businesses to close. As the number of new infections began to wane, the state cautiously began to reopen, with officials first beginning to ease restrictions in less-impacted regions within this large and geographically diverse state.

These measures, while clearly necessary from a public health perspective, have had devastating economic consequences. During the lockdown months of March and April, employers shed over 1.1 million jobs and the unemployment rate spiked to 16.1% from just 4.7% previously. As more businesses gradually started to reopen, the jobless rate has improved, edging down to 13.0% in June. Employers added over 231,000 to payrolls during the month. Encouragingly, much of the recent improvement has been in the industries that were forced to furlough or lay off the most employees during the lockdowns (such as leisure & hospitality, retail and healthcare). Still, employers have only recouped about 40% of the lost-jobs and the level of employment remains about 11% below February’s peak level.

During the lockdown months of March and April, employers shed over 1.1 million jobs.

While recent gains are certainly a step in the right direction, the pace of improvement will now likely begin to slow. The initial outbreak of COVID-19 was centered in Philadelphia, but new cases have begun to emerge west of the Appalachians in the Pittsburgh area. In response, state officials have ordered masks to be worn in public spaces and imposed stricter rules on alcohol sales at bars and restaurants statewide. Even without new restrictions, fear of the virus may be causing consumers to pull back. According to Morning Consult, the earlier rebound in consumer sentiment in the state has stalled out. Similarly, the number of new jobless claims remains stubbornly elevated, which points to a moderation in employment growth this summer.

Figure 1

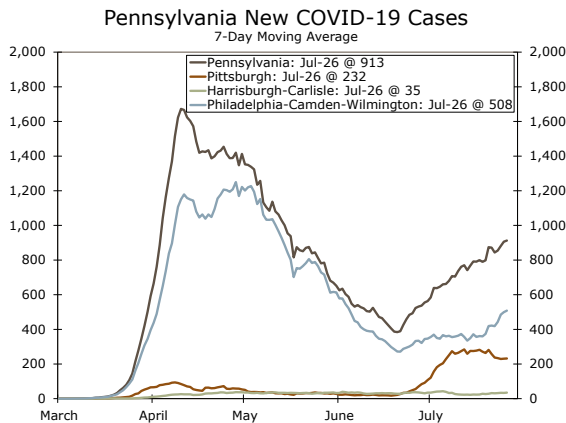
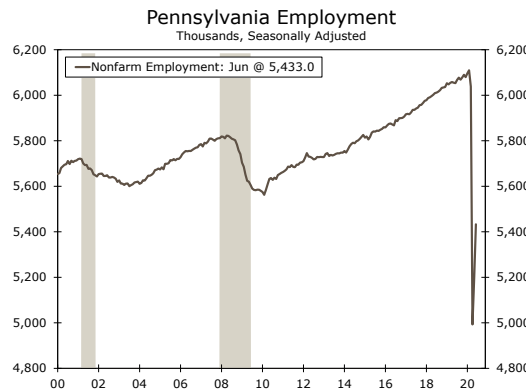


Figure 2



Source: New York Times, U.S. Department of Labor and Wells Fargo Securities

Together we'll go far



The education services industry—a keystone to economic growth in the state—has been severely disrupted.

Overall, the Pennsylvania economy appears to be on the mend. The recovery will likely be slow and gradual, however. The education services industry, which has long been a keystone to economic growth in the state (about 250 colleges and universities call the state home), has been severely disrupted. Even before the pandemic, higher education institutions were battling the structural headwinds of a dwindling college-bound age cohort and slower tuition revenue growth. COVID-19 presents a set of entirely new challenges. It is tough to rationalize sending students into packed classrooms while a highly infectious virus continues to circulate, and with virtual distance learning, it is difficult to justify charging higher tuition. What’s more, tax revenues continue to plummet, which will likely force painful cuts in public education spending during the next fiscal year, the effects of which will live on throughout 2021.

Somewhat counter-intuitively, the state’s massive healthcare services industry has been among the most acutely hit by the pandemic. Early on in the crisis, there was a temporary halt to non-emergency services to preserve protective equipment as well as hospital capacity. Still fearful of COVID-19, patients have been slow to return, which has further thinned the revenue streams of the state’s healthcare systems as well as many medical and dental practices. On a brighter note, the state’s burgeoning life sciences and biotech sector is playing a key role in the ongoing war against the virus. Inovio Pharmaceuticals, GlaxoSmithKline, Integral Molecular and Chimeron Bio are Philadelphia-area companies working to develop a COVID-19 vaccine. Clearly, an effective vaccine would considerably improve the economic growth prospects for the both the state and nation.

The state’s burgeoning tech industry is a ray of sunshine poking through the dark economic clouds. This is most clearly evident in Pittsburgh, which has become a center for advanced robotics and autonomous driving research. Tech giants and startups alike continue to invest heavily in the area, with all the Big 5 tech companies (Apple, Amazon, Facebook, Google and Microsoft) now operating in the metro, not to mention Uber, Honeywell and Argo AI. More recently, Zoom announced plans to set up a research and development center in the Steel City. Overall, the state’s deep pool of tech talent is clearly paying dividends. With more tech investment dispersing from high cost areas (such as Silicon Valley and Seattle), we expect this to be a growth area for years to come.

The coronavirus crisis has also upended the state’s energy industry.

The coronavirus crisis has also upended the state’s energy industry. The drop-off in global energy demand and a persistent glut of supply has weighed on natural gas prices. As a result, many of the energy companies operating in the gas-rich Marcellus shale region of western Pennsylvania have announced sharp cutbacks to capital spending plans, the negative effects of which will likely linger for quite some time. Languishing global economic growth has also curtailed international trade, which is bad news for exporters and Pennsylvania’s transportation & logistics industry. In-bound logistics is improving, however, which should bolster activity for the scores of warehouses located in the Lehigh Valley and Central Pennsylvania. While reduced international trade will be a major short-term challenge, the surge in online sales from home-bound consumers will boost demand for transportation and warehousing. Businesses have stepped up efforts to bolster e-commerce, which is having positive spillover for demand for storage and distribution facilities.

Figure 3

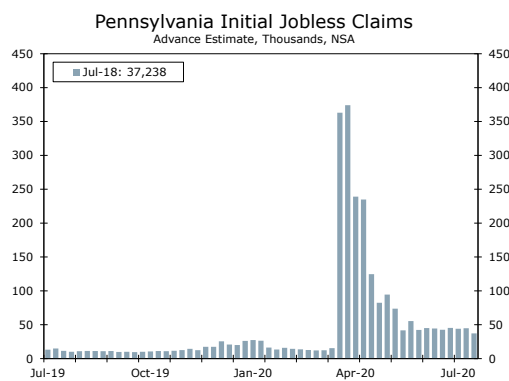
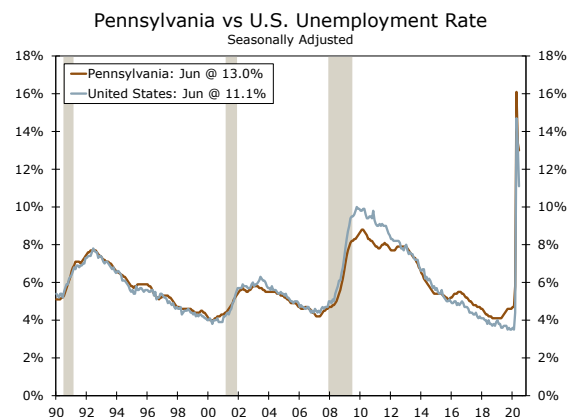


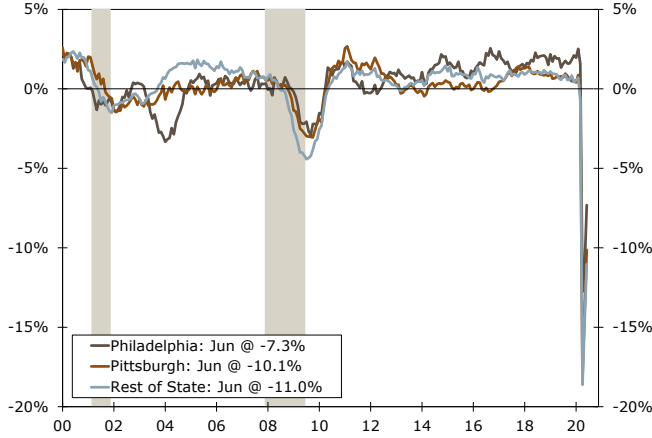
Figure 4



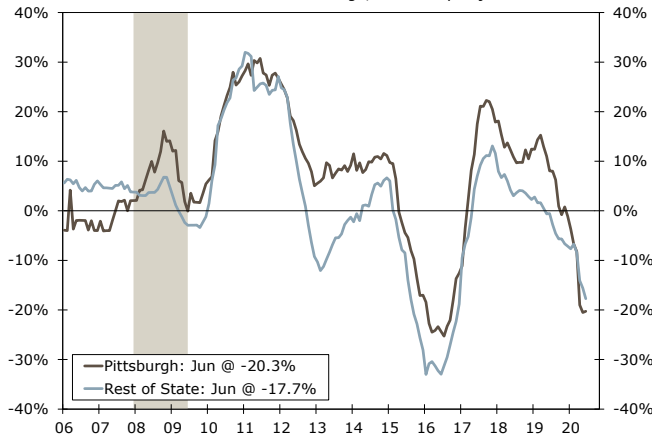
Source: U.S. Department of Labor and Wells Fargo Securities

Pennsylvania Labor Market Conditions

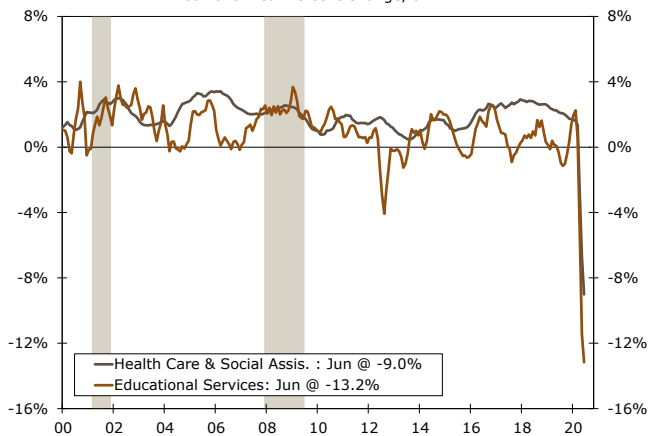
Pennsylvania Regional Nonfarm Employment
 Year-over-Year Percent Change



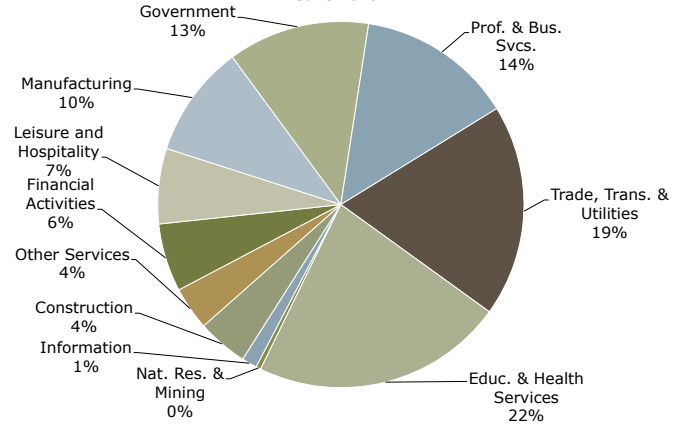
Resources and Mining Employment
 Year-over-Year Percent Change, Seasonally Adjusted



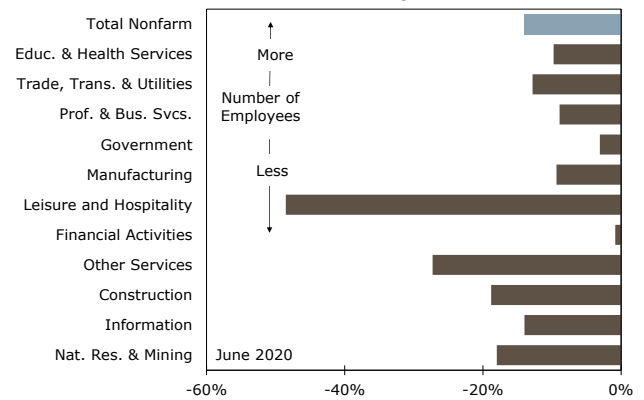
Pennsylvania Eds & Meds Employment
 Year-over-Year Percent Change, 3-MMA



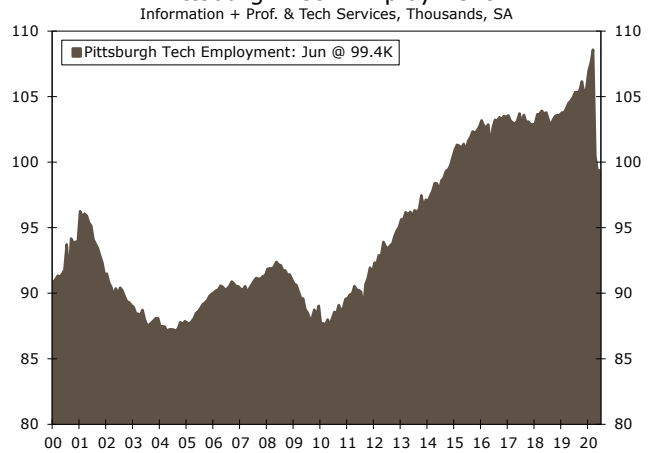
Pennsylvania Employment Composition
 June 2020



Pennsylvania Employment Growth By Industry
 Year-over-Year Percent Change, 3-MMA

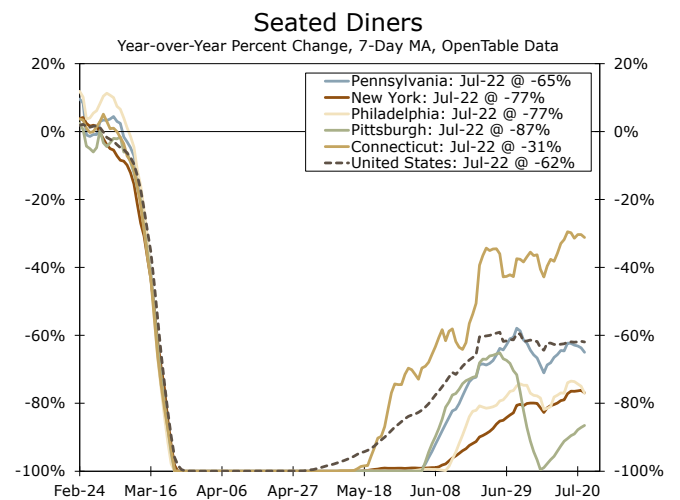
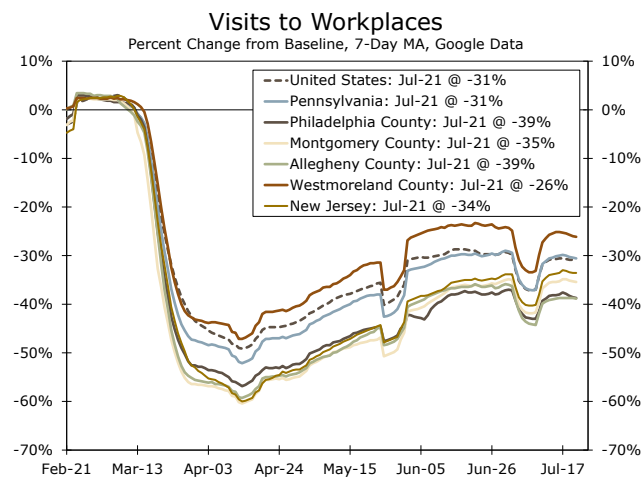
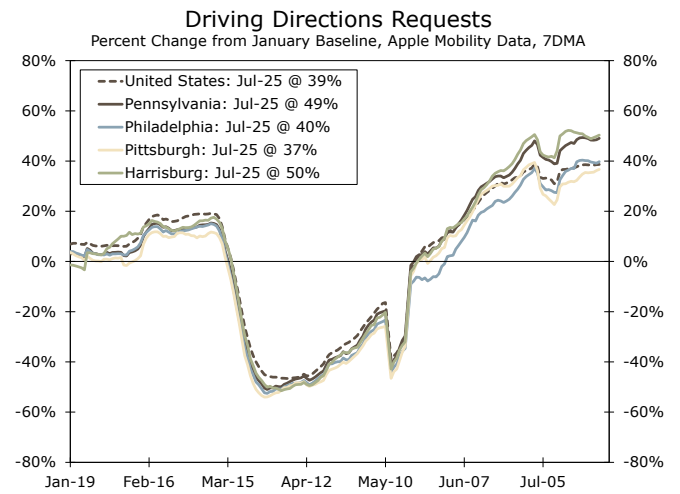
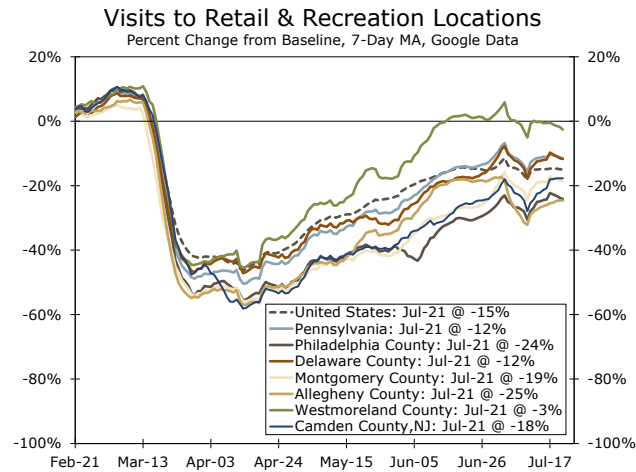
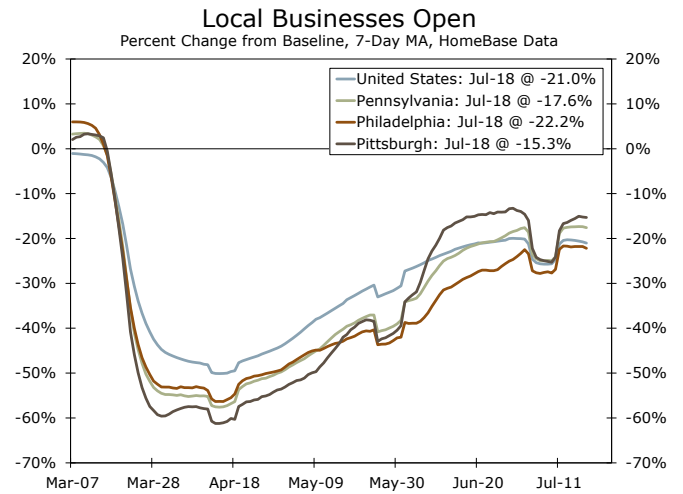
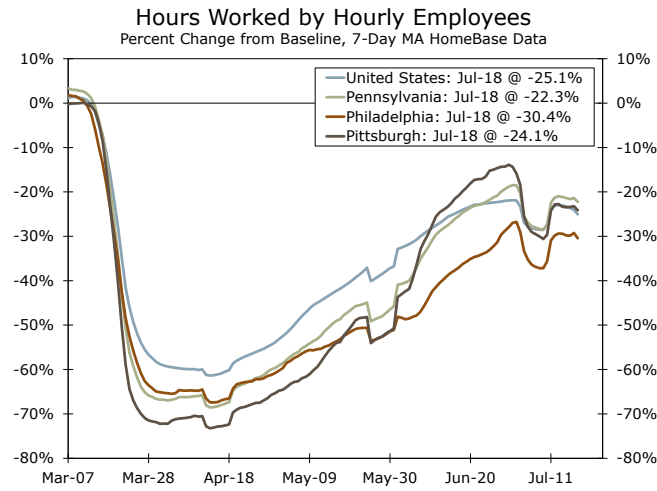


Pittsburgh Tech Employment



Source: U.S. Department of Labor and Wells Fargo Securities

Pennsylvania High-Frequency Data



Source: Apple, Google, HomeBase, OpenTable and Wells Fargo Securities

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