ELI Remains Steady.

Expected Job Cuts Pose Potential Future Threat.
ELI Remains Steady, but Expected Job Cuts Pose Potential Future Threat

The Erie Leading Index (ELI) continues to hold steady, although several local companies such as GE and LORD Corporation issued announcements of impending job cuts as 2015 came to a close. Despite a slight dip in November, ELI managed to rise modestly by 0.31% in the fourth quarter of 2015. Although this was below the 0.64% increase over the entire year of 2015, the fact that ELI continues to hold its ground suggests that the Erie economy thus far still has enough resiliency to withstand short-term unexpected shocks. Of course, ELI’s steady holding pattern also means that Erie total employment is unlikely to increase by very much in the near term.

According to data reported in February by the Pennsylvania Department of Labor and Industry, total employment in Erie County rose on a seasonally adjusted basis by 1.5% (1,900 jobs) year-on-year in December, and by about 1% (1,300 jobs) just in the 4th quarter alone. Moreover, total nonfarm jobs increased slightly by 0.3% (400 jobs) year-on-year in December and by the same amount in the 4th quarter. This continued modest improvement in the local jobs picture probably reflects the fact that not all of the job cuts announced by local firms in the 4th quarter had been fully implemented by December, as well as the fact that the manufacturing job cuts that did take place were being offset by job growth at other firms and perhaps in other sectors of the Erie economy. For example, despite GE’s announcement in November of up to 1,500 impending job cuts, the February report indicated that overall manufacturing employment in Erie County fell by only 0.5% (100 jobs) between October and December.

During the same period, employment increased in the trade, transportation, and utilities sector, as well as in the education and health services sector.

However, the most recent data (released on March 15) indicate that, between December 2015 and January 2016, total employment in Erie County fell on a seasonally adjusted basis by 0.9% (1,100 jobs), while total nonfarm employment fell by 1.8% (2,300 jobs). It remains to be seen whether this trend will continue throughout the 1st quarter, and what impact this will have on ELI going forward, especially if the announced job cuts continue to be implemented.

In December, Erie’s seasonally adjusted unemployment rate fell to 4.9%, and stood between the 4.8% rate in Pennsylvania and the 5.0% rate for the nation as a whole. However, in January, it has crept back up to 5.1% in Erie, while falling to 4.6% in Pennsylvania and 4.9% in the nation as a whole.

*Data through December 2015*
Six of the eight ELI components experienced a positive change over the 4th quarter, contributing to the overall index’s climb by 0.31%. The only two components of ELI that fell during the quarter were the U.S. interest rate spread, which declined by about 1.5%, and the U.S. freight index, which declined by about 1.2%. However, the decline in the interest rate spread (which measures the difference between 10-year Treasury bonds and the short-term Federal Funds rate) was much smaller than in the previous quarter, when it fell by almost 9%. Past trends indicate that when the interest rate spread becomes negative, it may be an indicator of an impending recession. Therefore, the moderation in the rate of decrease of the interest rate spread is potentially a good sign.

The ELI component registering the biggest increase in the 4th quarter was the number of U.S. residential building permits, which rose by almost 11.5% after falling 17.5% during the previous quarter. Similarly, the S&P 500 has also begun to recover, increasing by 5.6% in the 4th quarter after tumbling by more than 7% in the 3rd quarter. And despite the Fed’s recent move to nudge interest rates up slightly, monetary policy remains modestly expansionary, with the U.S. real money supply increasing by 1.1% in the 4th quarter.

Reinforcing these positive national trends in the 4th quarter were the 1.1% increase in PA average weekly hours in manufacturing and the 0.16% increase (on a seasonally adjusted basis) in Erie manufacturing employment.

Overall, at least for the time being, the continued recovery of the national economy from the Great Recession seems to be providing some buoyancy for the Erie economy and helping keep ELI afloat. Although it is not a component used to compute ELI, the U.S. index of leading indicators rose by 0.81% in the 4th quarter. Since this national index helps predict if the U.S. economy will grow or contract in the upcoming months, and since the U.S. economy typically leads the local economy, this offers yet another modest amount of good news and reason for optimism. However, if all of the local job cuts announced at the end of 2015 are fully implemented, this could still pose a potential future threat to total employment in the Erie economy.

6 out of the 8 ELI components are ready for an early spring! The number of U.S. building permits grew by 11.49% this quarter!
Trends and Implications for Different Sectors of the Erie Economy

Goods-Producing Sectors

**Mining, Logging, and Construction:**
Although employment increased by 5.7% (200 jobs) year-on-year in January 2016, it fell by 9.8% (400 jobs) between December and January. Therefore, this sector may continue to experience economic challenges.

**Manufacturing:**
With the expected layoffs announced by several local companies at the end of 2015, this sector will continue to undergo transformation. Employment fell by 3.6% (800 jobs) year-on-year in January 2016, and by 2.7% (600 jobs) between December and January.

**Plastics & Rubber Products Manufacturing:**
This sector has remained relatively steady. Employment grew by 2.4% (100 jobs) year-on-year in January 2016, and remained unchanged between December and January.

Private Service-Providing Sectors

**Wholesale Trade:**
This sector has remained relatively steady. Employment remained unchanged year-on-year in January 2016, and grew by 2.6% (100 jobs) between December and January.

**Retail Trade:**
This sector has been shrinking recently and may continue to face challenges associated with declining local manufacturing employment and sluggish income growth. Employment fell by 3.3% (500 jobs) year-on-year in January 2016, and by 6.4% (1,000 jobs) from December to January partly due to the end of the holiday shopping season.

**Information:**
Employment remained virtually unchanged in this sector throughout 2015.

**Financial Activities:**
This sector has remained relatively steady. Employment increased by a modest 1.6% (100 jobs) year-on-year in January 2016, and remained unchanged from December to January.

**Professional and Business Services:**
This sector has been shrinking. Employment fell by 2.0% (200 jobs) year-on-year in January 2016, and by 5.9% between December and January.

**Transportation, Warehousing, Utilities:**
This sector has been steady in 2015, although it suffered a 5.7% reduction in employment (200 jobs) between December and January.

**Education and Health Services:**
Despite growth in the recent past, this sector shrank somewhat in 2015. Employment fell by 0.4% year-on-year in January 2016, and by 3.5% (1,000 jobs) between December and January.

**Leisure and Hospitality:**
Employment in this sector grew slightly by 1.6% (200 jobs) year-on-year in January 2016, but declined by just under 3.0% (400 jobs) between December and January, perhaps reflecting the influence of seasonal factors.

**Other Services:**
Employment remained steady in service sectors other than those listed above, increasing by 1.7% (100 jobs) year-on-year in January 2016, but declining by the same magnitude between December and January.

Government Sector

The government sector overall experienced a slight decline in employment of 0.6% (100 jobs) year-on-year in January 2016, and a bigger decline of 5.5% (900 jobs) between December and January. Much of this decline occurred at the state and local levels. Although employment in state government held steady year-on-year in January 2016, it fell by 16.7% (800 jobs) between December and January. Employment in local government fell by almost 1.0% (100 jobs) year-on-year in 2016, and by the same magnitude between December and January.