

Quarterly Economy Tracker

A partnership among Keystone College, King's College, Lackawanna College, Luzerne County Community College, Marywood University, Misericordia University, Penn State Wilkes-Barre, The Commonwealth Medical College, The University of Scranton & Wilkes University

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Small Businesses Making Big Contributions to Regional Economy

It is commonly understood that small businesses play a vital role in our economy at the local, regional, and national scales. However, it is still easy to underestimate the scale of the contribution of the smallest businesses in a region.

Among business establishments in Lackawanna and Luzerne counties that have at least one employee, more than half have fewer than five employees, and over 70 percent have fewer than 10 employees. Despite having relatively

few employees, these businesses make a big impact on the economy, according to data from the Census Bureau's County Business Patterns. Statewide, businesses organized as sole proprietorships (with an average of 4.4 employees each) accounted for over \$5 billion in employee payroll in 2013. Though this is a small percentage of all wages paid by businesses in the Commonwealth, this money is spent in all other areas of the economy, accounting for a significant ripple effect.

In addition to establishments with employees, there are also a large number of establishments with no paid employees - these are called nonemployers. Many of these are businesses held by self-employed individuals. Others may be part-time business ventures for individuals with other employment.

(continued on next page)

The Quarterly Economy Tracker is a publication of The Institute for Public Policy & Economic Development which seeks to explore economic data, trends, and issues related to our region's economy.

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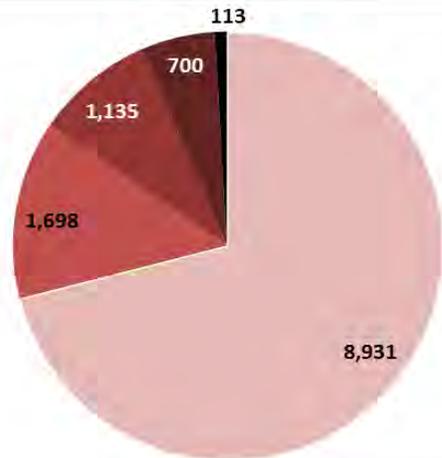


Small Business Statistics - 2013

	Lackawanna	Luzerne	Pennsylvania
Total Establishments with Employees	5,402	7,175	297,692
Percent with fewer than 5 employees	50.6%	49.8%	50.9%
Percent with fewer than 10 employees	71.4%	70.7%	71.2%
Total Nonemployers	11,625	16,441	778,528
Total Receipts by Nonemployers (Thousands \$)	\$576,849	\$798,224	\$37,039,266

Establishments with Employees by Size Lackawanna and Luzerne Counties, 2013

- 1 to 10 employees
- 10 to 19 employees
- 20 to 49 employees
- 50 to 249 employees
- 250 or more employees



Data Sources: US Census Bureau County Business Patterns and Nonemployer Statistics

Small Businesses *(continued from page 1)*

Statewide, businesses organized as sole proprietorships accounted for over \$5 billion in employee payroll in 2013.

In Lackawanna and Luzerne counties, there were over 28,000 of these nonemployer establishments in 2013. They range from self-employed tradespeople to professional consultants to artisans and salespeople.

In the two county region, these businesses took in receipts of over \$1.37 billion in 2013, an average of just under \$50,000 each. Statewide, receipts by nonemployers were over \$37 billion that year. This means that in terms of revenue,

nonemployers across Pennsylvania made up the equivalent of seven or eight Fortune 500 companies.

Even with no employees, the smallest businesses in our region are making a considerable positive impact. A healthy base of small businesses is necessary for regional economic success.

In order to maximize the economic benefits of small businesses, a region must cultivate entrepreneurship. There are several aspects to

this: lowering barriers to starting and running a business, ensuring adequate support systems for startups and raising awareness of these services, and promoting creativity and entrepreneurial thinking among young people. By doing these things, a region can prosper by encouraging businesses to start, grow, and thrive. ♦

Labor Force Participation Remains Low Despite Economic Gains

The labor force participation rate is a measure of the ratio of individuals in the labor force (either employed or unemployed) to the total working age population. Compared with ten years ago, the labor force participation rate has decreased by three to four percentage points in both Lackawanna and Luzerne counties.

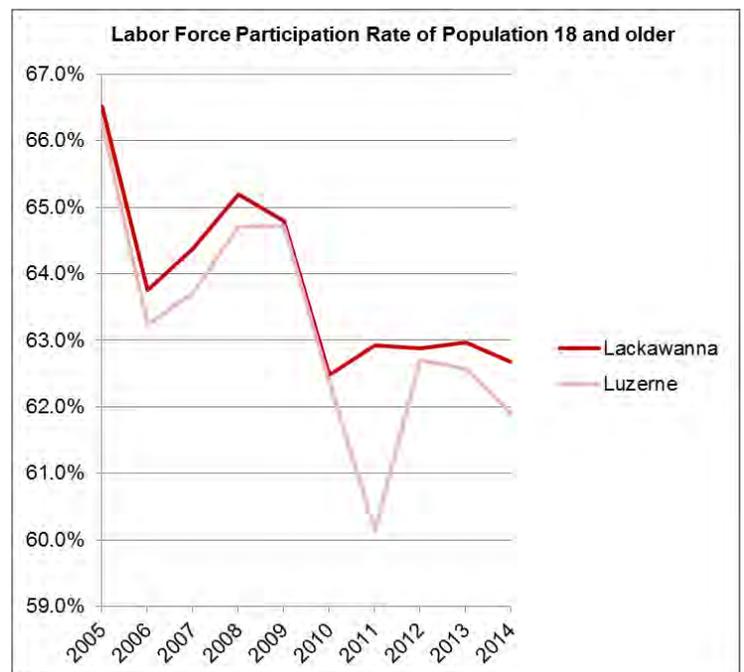
In Fall 2014's Quarterly Economy Tracker, The Institute reported that the labor force participation remained low regionally despite a declining unemployment rate. Based on the most recent data, that trend has continued. Despite some gains since then in other areas of the economy, including growth in total employment, the labor force participation rate has not shown much substantial growth in the region since 2008.

There has been a similar trend nationwide. According to data from BLS, the na-

tional labor force participation rate in 2015 hovered near low levels not seen in decades.

Part of this pattern stems from continued economic challenges. Though the unemployment rate locally and nationally has improved and job growth has been noted, some long-term unemployed individuals have remained out of the labor force after giving up looking for work.

However, another part of this trend is related to demographics: as baby boomers leave the labor force and retired workers live longer, the number of individuals who are not in the labor force because they are retired will almost certainly increase. This means that the "new normal" for the labor force participation rate will likely be lower than in past decades. ♦



Sources: BLS Local Area Unemployment Statistics, US Census Bureau ACS 1-year Estimates

"Despite some gains since then in other areas of the economy...the labor force participation rate has not shown much substantial growth in the region since 2008."

PA Businesses Disproportionately Hit by Great Recession

In 2008, the United States entered into an economic downturn often called the Great Recession. Since then, economists and business leaders alike have looked for signs of economy recovery. Nationwide, it now appears that at least some aspects of the economy have improved measurably. One of the most important symptoms of economic distress is closure of businesses and a lack of new firms taking their place.

Looking back, we can now use historic data to see how the recession impacted Pennsylvania.

Analyzing Pennsylvania and its 14 metropolitan statistical areas (MSAs), Scranton/Wilkes-Barre ranked near the bottom in terms of business birth rate per 1,000 establish-

ments. Perhaps more striking, however, is the fact that not a single metro area in the Commonwealth matched or exceeded the nationwide business birth rate in 2011, a turning point year in the recession.

Furthermore, ten of the 14 metro areas, including Scranton/Wilkes-Barre, had a business death rate exceeding the birth rate during the time analyzed. This means that businesses were closing at a rate faster than they were opening.

This leads to a decrease in the total number of establishments. In the years of economic turmoil from 2007 to 2011, the Scranton/Wilkes-Barre metro area saw a 5.3 percent decrease in the number of establishments, compared to

losses of 4.6 percent nationwide and 3.2 percent across the Commonwealth.

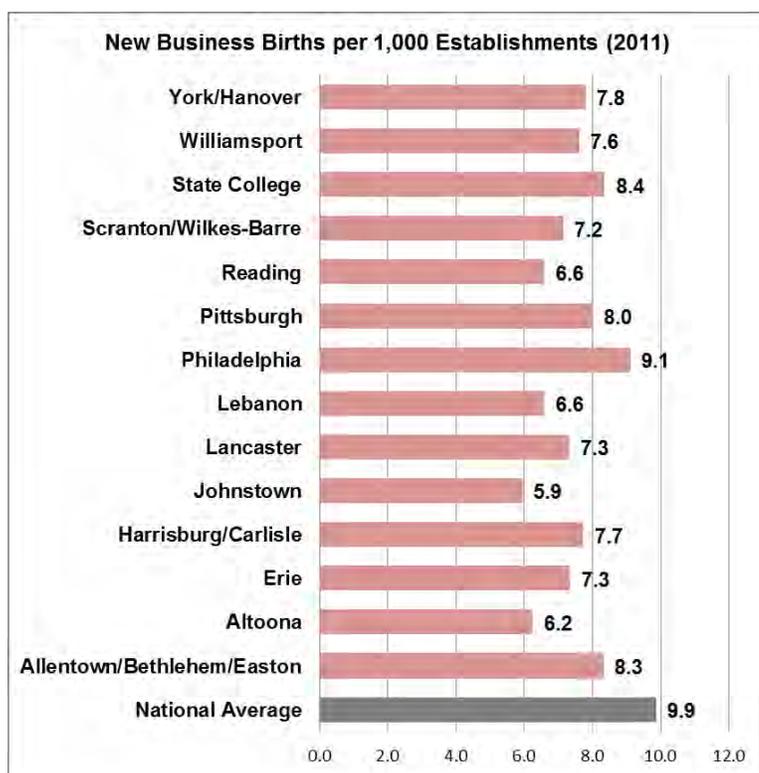
"Not a single metro area in the Commonwealth matched or exceeded the nationwide business birth rate in 2011."

Between 2011 and 2013, a time in which the United States began to see tangible recovery, both Pennsylvania and the metro area saw limited growth in establishments (less than a one percent increase over the two year time span).

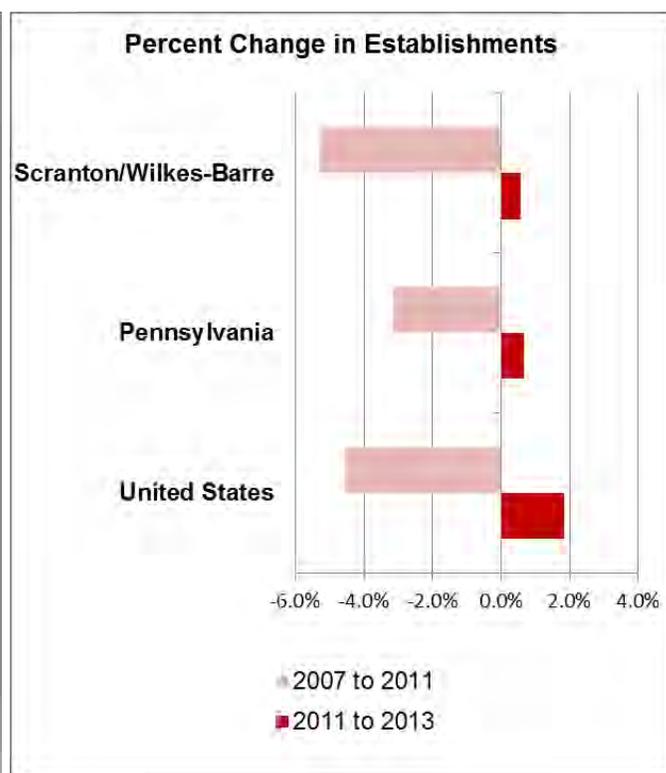
This data shows that Scranton/Wilkes-Barre area busi-

nesses were hit harder by the Great Recession than some other metropolitan areas in Pennsylvania, but that Pennsylvania as a whole remains challenged in business growth compared to the US as a whole.

The low rate at which new businesses are opening in Pennsylvania may be a symptom of a statewide structural economic problem, and this could hinder the economic vitality of both the Scranton/Wilkes-Barre area and the Commonwealth of Pennsylvania. ♦



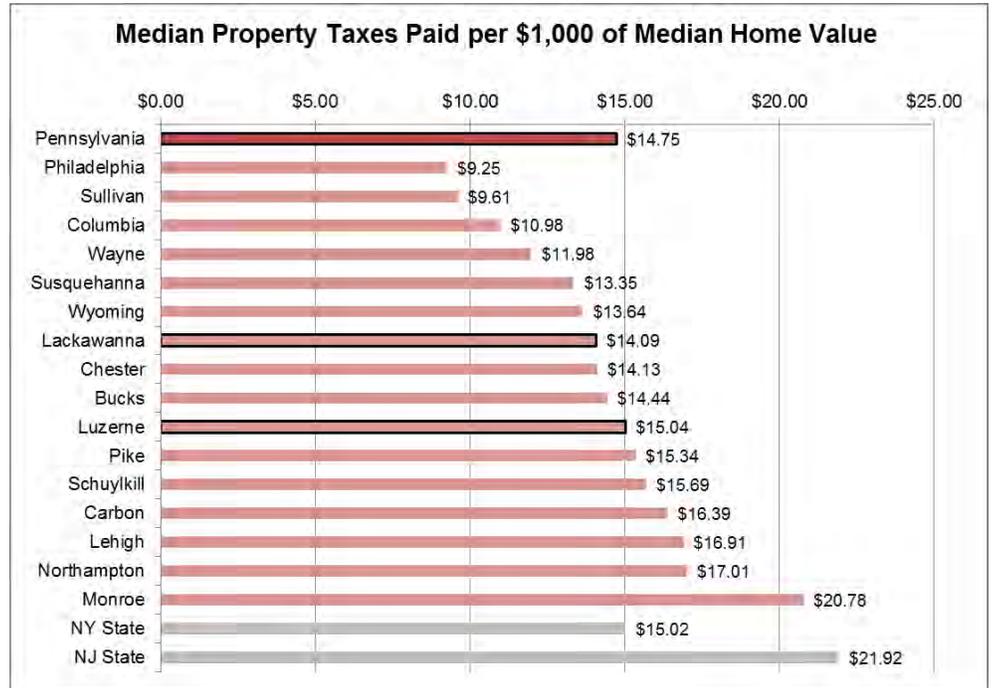
Data Source: US Census Bureau Statistics of US Businesses



Data Source: US Census Bureau County Business Patterns

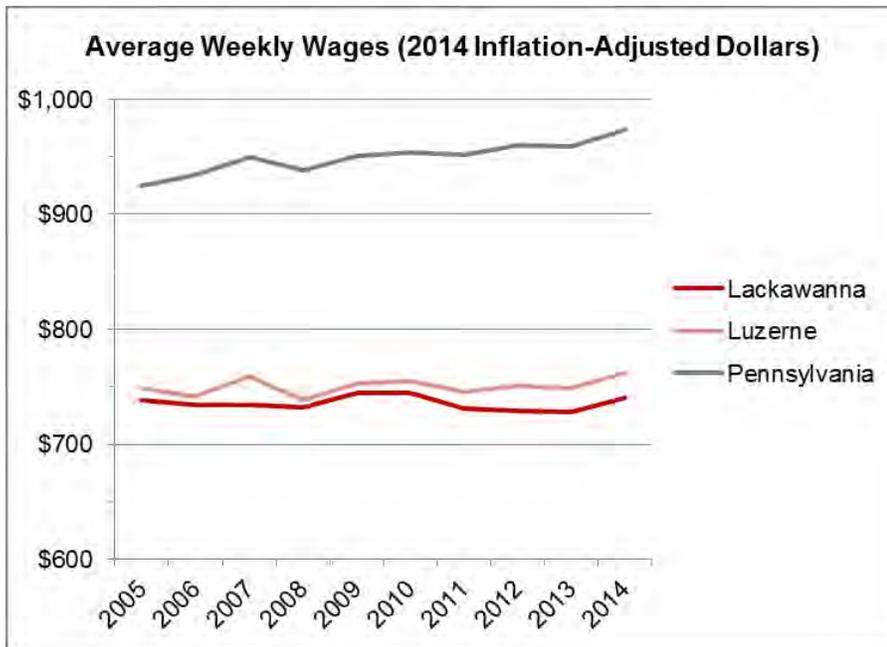
In Lackawanna and Luzerne Counties, Property Tax Burden Is Near Statewide Average

Data examined in the Spring 2015 Quarterly Economy Tracker showed that housing costs in Lackawanna and Luzerne counties are relatively low. However, it is important to understand the role of property taxes in the affordability of housing. The table at right shows the median property tax paid adjusted for median value of homes for a number of counties in eastern Pennsylvania, the Commonwealth, and two neighboring states. Lackawanna County's property tax burden is somewhat below the statewide rate, and Luzerne County is approximately on par with the statewide average. However, it is important to note that individual tax bills vary greatly due to significant unevenness among municipal and school district tax rates. Still, at the regional scale, property taxes do not appear to disproportionately act as a barrier to housing affordability in Lackawanna and Luzerne counties compared to nearby areas. ♦



Data Source: U.S. Census Bureau ACS 5-year estimates

After Years of Stagnation, Wages Show Positive Growth



Data Source: BLS Quarterly Census of Employment and Wages; BLS CPI Inflation Calculator

The graph at left shows average weekly wages over time, adjusted for inflation. Though wages have grown steadily in absolute dollars, the real value of these wages stagnated locally in the wake of the economic downturn. Between 2005 and 2013, real wages fell by 1.4 percent in Lackawanna County and were flat in Luzerne County. However, both counties saw a more substantial wage growth from 2013 to 2014, according to preliminary figures from BLS. Lackawanna County's average weekly wages grew by 1.6 percent and Luzerne County's increased by 1.7 percent in one year. This is the first year of substantial inflation-adjusted wage growth in the two counties since 2009. This is a positive sign, as it indicates that on average, workers are now making more money in real terms. This means that the purchasing power of those workers has grown, along with their ability to further stimulate the economy. ♦

Selected Economic Indicators

Nonemployer Statistics by Industry

Nonemployers are business establishments with no paid employees. They are most often sole proprietorships, including businesses owned by self-employed individuals. In Lackawanna County, there were 11,625 nonemployers in 2013 with receipts of almost \$577 million. In Luzerne County, there were 16,441 nonemployers with receipts of \$798 million that year. Nonemployers are concentrated most heavily within a few industries: construction; retail trade; real estate rental and leasing; professional, scientific, and technical services; health care and social assistance; and other services except public administration. These six industries account for about 71 percent of all nonemployer establishments in the two county region and about 75 percent of all nonemployer receipts.

Nonemployer Statistics - 2013				
	Lackawanna		Luzerne	
	Establishments	Receipts (Thousands \$)	Establishments	Receipts (Thousands \$)
Agriculture, Forestry, Fishing and Hunting	55	\$2,020	87	\$2,916
Mining, Quarrying, and Oil and Gas Extraction	40	\$2,490	12	\$786
Utilities	20	\$621	19	\$1,338
Construction	1,371	\$83,219	1,820	\$105,294
Manufacturing	140	\$8,090	234	\$10,161
Wholesale Trade	212	\$21,370	339	\$31,466
Retail Trade	1,270	\$82,370	1,896	\$94,639
Transportation and Warehousing	481	\$32,011	809	\$61,050
Information	123	\$2,945	187	\$5,964
Finance and Insurance	381	\$24,363	545	\$33,141
Real Estate and Rental and Leasing	1,355	\$114,099	1,916	\$187,845
Professional, Scientific, and Technical Services	1,601	\$66,287	1,982	\$72,696
Administration and Support and Waste Management and Remediation Services	761	\$20,961	1,067	\$19,731
Educational Services	341	\$4,008	333	\$3,503
Health Care and Social Assistance	861	\$37,147	1,353	\$59,399
Arts, Entertainment, and Recreation	584	\$9,738	791	\$17,724
Accommodation and Food Services	260	\$12,848	388	\$20,964
Other Services (except Public Administration)	1,769	\$52,262	2,663	\$69,607
Total for All Industries	11,625	\$576,849	16,441	\$798,224

Data Source: U.S. Census Bureau Nonemployer Statistics

Legal Form of Organization

The legal form of organization of a business refers to its legal classification and structure. This data is not available at the county level. However, statewide data shows that the largest number of establishments in the Commonwealth are organized as S-Corporations, followed by traditional corporations and sole proprietorships. Traditional corporations accounted for the largest share of payroll and employment, followed by S-corporations and non-profit organizations. The data presented here only reflects establishments with paid employees.

Establishments by Legal Form of Organization - Pennsylvania			
	Total	Annual Payroll	Paid
	Establishments	(Thousands \$)	Employees
All Establishments	297,692	\$237,620,227	5,180,805
Corporations	82,004	\$119,273,155	2,182,231
S-Corporations	112,075	\$52,146,035	1,307,359
Sole Proprietorships	43,598	\$5,141,445	189,888
Partnerships	27,435	\$19,022,565	469,429
Non-profits	31,587	\$39,471,051	991,971
Government	42	\$1,380,047	17,971
Other	951	\$1,185,929	21,956

Data Source: U.S. Census Bureau County Business Patterns

Selected Economic Indicators

Location Quotients by Industry

Location quotients are a measure of the relatively size of an industry within a region. It is a ratio comparing the share of all jobs in a region within a particular industry with the share of all jobs nationwide in a particular industry. Location quotients less than one indicate that the region has a smaller share of all its jobs in that industry. Location quotients greater than one indicate that the region has a relatively large share of its jobs within that industry compared with the United States as a whole.

The crop and animal production industry has the lowest location quotient in both counties. In Lackawanna County, the highest location quotient was in educational services. In Luzerne County, it was in utilities.

In both counties, the transportation and warehousing industry has a location quotient greater than one, and it is projected to continue growing in both counties through 2020. The location quotients for the arts, entertainment, and recreation industry in both counties, while less than one, are also projected to show growth through 2020, as is the mining, quarrying, and oil and gas extraction industry. This growth likely represents economic activity tied to the natural gas industry in other nearby counties.

Location Quotients by Industry - Lackawanna				Location Quotients by Industry - Luzerne			
	Location Quotient				Location Quotient		
	2010	2015	2020 (Projected)		2010	2015	2020 (Projected)
Crop and Animal Production	0.20	0.14	0.13	Crop and Animal Production	0.03	0.03	0.01
Mining, Quarrying, and Oil and Gas Extraction	0.12	0.17	0.19	Mining, Quarrying, and Oil and Gas Extraction	0.55	0.54	0.57
Utilities	0.22	0.18	0.16	Utilities	2.94	3.26	3.21
Construction	0.75	0.87	0.94	Construction	0.81	0.76	0.76
Manufacturing	1.19	1.08	1.02	Manufacturing	1.23	1.26	1.27
Wholesale Trade	0.84	0.89	0.93	Wholesale Trade	1.07	1.06	1.05
Retail Trade	1.15	1.21	1.16	Retail Trade	1.18	1.16	1.17
Transportation and Warehousing	1.33	1.42	1.52	Transportation and Warehousing	2.16	2.52	2.75
Information	0.88	0.80	0.82	Information	1.06	0.66	0.47
Finance and Insurance	1.16	1.08	1.08	Finance and Insurance	0.89	0.88	0.84
Real Estate and Rental and Leasing	0.57	0.42	0.43	Real Estate and Rental and Leasing	0.47	0.43	0.42
Professional, Scientific, and Technical Services	0.66	0.64	0.66	Professional, Scientific, and Technical Services	0.42	0.43	0.42
Management of Companies and Enterprises	0.83	0.78	0.80	Management of Companies and Enterprises	1.11	0.74	0.74
Administration and Support and Waste Management and Remediation Services	0.87	0.92	0.96	Administration and Support and Waste Management and Remediation Services	0.99	1.14	1.18
Educational Services	2.68	2.68	2.64	Educational Services	1.22	1.19	1.11
Health Care and Social Assistance	1.49	1.42	1.36	Health Care and Social Assistance	1.32	1.28	1.27
Arts, Entertainment, and Recreation	0.80	0.79	0.84	Arts, Entertainment, and Recreation	1.08	0.68	0.72
Accommodation and Food Services	0.87	0.89	0.90	Accommodation and Food Services	0.88	0.88	0.87
Other Services (except Public Administration)	0.90	0.93	0.90	Other Services (except Public Administration)	0.65	0.69	0.66
Government	0.65	0.66	0.66	Government	0.77	0.76	0.76

Data Source: EMSI

Selected Economic Indicators

Shift/Share Analysis by Industry

Shift/share analysis is used to show a region's competitive advantage in an industry by measuring that industry's relative growth or decline in a region after accounting for national industry trends. This is done by comparing the expected employment growth over time (if the industry in the region followed national trends) and the actual change observed. The difference is the competitive effect. Positive values indicate that the region exceeded the expected change and therefore has a higher degree of competitive advantage. Negative values indicate that the region fell short of the expected change.

In both counties, the lowest competitive effect is in health care and social assistance. Though employment growth is positive in both counties in this industry, the region's growth rate is far below national trends. Manufacturing, retail trade, and information also showed negative competitive effects, indicating that these industries show weakness in employment regionally compared to nationwide trends.

The highest competitive effect in both counties is in transportation and warehousing. As with the high location quotients in this industry, the high competitive effect shows the increasing importance of logistics on the regional economy. In Lackawanna County, the administration, support, and waste management and remediation services industry follows closely behind; it also has the second highest competitive effect in Luzerne County.

Shift/Share Analysis - Lackawanna				Shift/Share Analysis - Luzerne			
	2005 - 2015 Shift Share Analysis				2005 - 2015 Shift Share Analysis		
	Expected Change	Actual Change	Competitive Effect		Expected Change	Actual Change	Competitive Effect
Crop and Animal Production	17	-68	-84	Crop and Animal Production	10	-93	-103
Mining, Quarrying, and Oil and Gas Extraction	45	15	-31	Mining, Quarrying, and Oil and Gas Extraction	159	147	-11
Utilities	2	-139	-141	Utilities	17	272	255
Construction	-510	231	741	Construction	-757	-667	90
Manufacturing	-1,755	-3,822	-2,066	Manufacturing	-2,488	-3,204	-716
Wholesale Trade	94	337	243	Wholesale Trade	182	-298	-480
Retail Trade	321	-1,357	-1,678	Retail Trade	391	299	-93
Transportation and Warehousing	304	1,660	1,357	Transportation and Warehousing	760	4,188	3,428
Information	-192	-544	-352	Information	-356	-2,128	-1,772
Finance and Insurance	-69	-631	-562	Finance and Insurance	-82	-929	-846
Real Estate and Rental and Leasing	-18	-184	-165	Real Estate and Rental and Leasing	-26	-266	-240
Professional, Scientific, and Technical Services	713	456	-257	Professional, Scientific, and Technical Services	776	13	-762
Management of Companies and Enterprises	180	490	309	Management of Companies and Enterprises	326	333	7
Administration and Support and Waste Management and Remediation Services	365	1,673	1,308	Administration and Support and Waste Management and Remediation Services	790	1,290	500
Educational Services	1,396	952	-444	Educational Services	913	461	-451
Health Care and Social Assistance	4,681	1,283	-3,397	Health Care and Social Assistance	5,817	2,249	-3,569
Arts, Entertainment, and Recreation	118	351	233	Arts, Entertainment, and Recreation	169	262	94
Accommodation and Food Services	1,417	480	-936	Accommodation and Food Services	2,125	-83	-2,207
Other Services (except Public Administration)	-12	-707	-695	Other Services (except Public Administration)	-13	-1,271	-1,257
Government	159	-1,015	-1,173	Government	251	-1,117	-1,369

Data Source: EMSI Analyst

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Underwriter



The Willary Foundation is a family foundation dedicated to developing ideas and projects that are interesting, creative and imaginative and which benefit communities in Northeastern Pennsylvania. Willary seeks to foster groups with unique, innovative or unusual ideas and efforts.

The Foundation is disposed to leveraging the impact of its grants by encouraging efforts that could have a ripple effect in the community or by supporting projects in conjunctions with other sources of funding. The Foundation wishes to promote the special qualities of the people of Northeastern Pennsylvania. Willary is particularly interested in projects that support leadership and the development of leadership in business, the economy, education, human services, government, the arts, media, and research.

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A partnership among Keystone College, King's College, Lackawanna College, Luzerne County Community College, Marywood University, Misericordia University, Penn State Wilkes-Barre, The Commonwealth Medical College, University of Scranton & Wilkes University

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In all its publications, The Institute uses the most current data available.

Labor Market at a Glance

According to preliminary figures from BLS, in June 2015, the unemployment rate in Lackawanna County was six percent, and in Luzerne County, it was 6.5 percent. Both counties experienced some recovery in their unemployment rates from 2013 to 2014, and this trend continued into the through the first half of 2015. Unemployment in both counties remained higher than the statewide rate, which stood at 5.5 percent in June, matching the nationwide rate for that month.

Total employment in both counties has shown growth, though to a lesser degree than the drop in the unemployment rate might suggest. Still, total employment in both counties was higher in 2014 than any year since 2008, indicating that the region is finally seeing a tangible labor market recovery. Total employment in both counties is now near pre-recession levels. ♦

Unemployment Rate (Not Seasonally Adjusted)				
	Lackawanna	Luzerne	Pennsylvania	United States
2007	4.8	5.0	4.4	4.6
2008	5.8	6.2	5.3	5.8
2009	8.2	9.0	8.0	9.3
2010	9.0	10.0	8.5	9.6
2011	8.9	9.6	7.9	8.9
2012	8.9	9.8	7.9	8.1
2013	8.4	9.4	7.4	7.4
2014	6.6	7.3	5.8	6.2
April 2015	5.3	5.9	4.7	5.1
May 2015	5.9	6.5	5.4	5.3
June 2015*	6.0	6.5	5.5	5.5

*June 2015 figures are preliminary. Prior figures have been adjusted.
Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics*

Labor Force & Employment				
	Lackawanna County		Luzerne County	
	Labor Force	Employment	Labor Force	Employment
2007	106,909	101,792	159,118	151,181
2008	108,526	102,231	161,744	151,642
2009	107,192	98,396	161,298	146,781
2010	106,987	97,402	159,759	143,859
2011	107,292	97,796	159,797	144,474
2012	107,692	98,106	160,883	145,082
2013	107,674	98,648	160,789	145,600
2014	106,676	99,688	158,634	147,126
April 2015	107,401	101,664	159,443	150,028
May 2015	107,926	101,576	160,366	149,894
June 2015*	108,518	102,058	161,146	150,617

*June 2015 figures are preliminary. Prior figures have been adjusted.
Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics*