



Food Processing in Pennsylvania: Strengthening Regional Food Economies to Capture In-State Value

Introduction

Food processing sits at the center of Pennsylvania's agricultural economy. It converts raw agricultural products into market-ready goods and determines whether the value generated by farms remains in the commonwealth or leaves the state.

Pennsylvania's agricultural base is exceptionally diverse and regionally dense. The state's network of small and mid-sized farms, proximity to major population centers, and growing consumer demand for locally and regionally sourced food create a measurable competitive advantage. Pennsylvania ranks second nationally in direct-to-consumer agricultural sales, underscoring sustained demand for local products.¹

The constraint is not production. The constraint is processing capacity at the right scale.

Processing infrastructure requires long-term capital investment and cannot adjust as quickly as farm production. When capacity does not align with demand, it becomes a bottleneck. Livestock, grains, and oilseeds are routinely shipped out of state for processing, while Pennsylvania manufacturers and retailers import processed inputs from other regions.² The result is economic value leakage and reduced supply chain reliability.

However, expanding processing capacity is not inherently strategic. The central question is whether unmet demand exists at sufficient and sustained levels, by product and geography, to support economically viable mid-scale infrastructure. Investment must be grounded in verified buyer demand, not assumed supply gaps.

This primer evaluates mid-scale food processing as critical economic infrastructure and outlines a demand-validated framework for strategic investment.

Food Processing in Pennsylvania's Economy

Food processing is already a significant part of Pennsylvania's economy at 13% of total direct sector output, ranking third after Food & Beverage Manufacturing and Forest Products within the sector's \$95.9B total output.³ Food processing influences where food manufacturers choose to

¹ USDA, [Local Food Marketing Practices Survey](#), 2022.

² Team Pennsylvania, [Pennsylvania Agriculture Economic Analysis](#), 2025.

³ Team Pennsylvania, [Pennsylvania Agriculture Economic Analysis](#), 2025.

locate and expand, as manufacturers consistently prioritize regions with reliable supplier access, strong industry ecosystems, and cost-efficient logistics.⁴ Team Pennsylvania's 2025 Agriculture Economic Analysis identified food processing as a strategic sector due to its role in value capture and long-term competitiveness. Between 2012 and 2022, food processing employment grew by approximately 25 percent, while gross state product contributions increased by more than 50 percent to reach \$1.8 billion. These trends reflect sector strength, but also underscore the opportunity to capture additional in-state value through strategic capacity expansion.

Processing capacity determines how much value the state captures from its agricultural and food manufacturing base. Manufacturers require consistent, quality-controlled inputs at reliable volumes. Without a strong in-state processing network, supply chains anchor elsewhere, and associated investment follows. When processing aligns with demand and is located closer to production, higher-value economic activity remains local, supporting jobs, supplier networks, and reinvestment across the agricultural economy.

Challenges and Headwinds

Pennsylvania is not structurally positioned to compete on lowest cost, highest-volume commodity production. Its competitive advantage lies in serving differentiated regional markets that reward quality, traceability, and proximity to consumers. The current processing landscape does not consistently support that strategy.

Infrastructure largely serves either hyper-local markets or large national buyers. Regional, mid-scale facilities are limited, creating a structural "missing middle" in the value chain. This mid-chain vulnerability has been recognized nationally, including by USDA, following COVID-19 supply chain disruptions.⁵ Small processors often cannot meet the volume and consistency requirements of regional buyers, while large plants are optimized for multi-state sourcing models rather than differentiated regional supply chains. The result is misalignment between what Pennsylvania farms produce, the state's primary processing capacity, and the demands of one of the largest concentrations of food buyers in the country, the Northeast corridor.

Coordination challenges compound the issue. Farmers, processors, and buyers frequently make decisions without long-term visibility into supply or demand. Processors hesitate to expand without committed buyers; buyers hesitate to commit without guaranteed supply. This fragmentation discourages capital investment.

Geography and cost pressures further constrain growth. Portions of the state are closely tied to processing hubs in neighboring states. Transportation costs and thin margins make mid-scale operations difficult to sustain. When local processing is unavailable, producers default to lower-value commodity markets, limiting income potential and growth.

⁴ Global Location Strategies, [Best Places for Food Manufacturing Report](#), 2025.

⁵ United States Department of Agriculture, [Framework for Shoring Up the Food Supply Chain and Transforming the Food System to Be Fairer, More Competitive, More Resilient](#), 2022.

Market Demand Signals

Demand for locally and regionally sourced food has grown, expanding beyond direct markets, into regional grocery chains, food service providers, and institutions where supply chain transparency and credibility increasingly shape purchasing decisions.⁶ Pennsylvania's strong direct-to-consumer sales performance reinforces this trend. Several buyers have established structured, local sourcing programs, working directly with Pennsylvania farms to secure differentiated products. For example, St. Luke's University Health Network, in partnership with Rodale Institute, operates a 14-acre certified organic farm supplying produce to hospital cafeterias and an employee CSA. The "farm-to-hospital" model reflects growing institutional demand for transparent and reliable regional supply.⁷ This example demonstrates proof of concept for regional supply chains operating at scale.

The key strategic question is whether unmet demand exists at sufficient and sustained levels to support expanded mid-scale processing infrastructure at the right cost. Investment must be grounded in verified demand for the agricultural product, geography, and buyer segment.

Opportunities and Strategic Paths Forward

If demand alignment and cost-competitiveness can be confirmed, expanding mid-scale processing capacity presents a clear opportunity. Locating demand-driven facilities closer to production would allow Pennsylvania to retain more economic value, improve supply chain resilience, and expand stable market access for small and mid-sized farms. A stronger processing base would also enhance the state's competitiveness in attracting and retaining food manufacturing operations that depend on reliable inputs. Processing capacity functions as both agricultural infrastructure and a core economic growth strategy.

Success should be measured by the development of economically viable mid-scale processing anchored by verified regional demand and durable supply agreements.

The Role of Team Pennsylvania and Next Steps

Team Pennsylvania can serve as a neutral convener across agriculture and economic development stakeholders. A disciplined, demand-first process can validate market opportunities, identify priority agricultural products and regions, and clarify where coordinated public and private investment could unlock growth.

Food processing is a strategic lever for strengthening regional food economies and increasing in-state value capture. Addressing the mid-scale processing gap positions Pennsylvania to build a more competitive and resilient agricultural system for the long term.

⁶ Woods, Tim, Ali Asgari, and Jairus Rossi, [Trust Signals and Legitimacy in Local Products for Local Markets](#), 2018.

⁷ St. Luke's Health Network, [Rodale Institute Organic Farm](#), 2025.