

THE SMITHFIELD Forecast

A Quarterly Survey of Economic & Investment Trends • Special Edition • December 2013

For Customers & Friends of
SMITHFIELD TRUST COMPANY

PITTSBURGH'S ECONOMY – A POSITIVE VIEW

While the performance of Pittsburgh's sports teams has been – and still is – the subject of extensive comment and discussion, the performance of the local economy seems to have received much less attention. To be sure, economic news is undoubtedly less exciting than reports about the local sports teams, especially those with a winning record. During the past several years, however, there has been a dramatic change for the better in the Pittsburgh region's economic situation and outlook. What has happened is that gains in overall economic activity in the Pittsburgh Metropolitan Market, which for all too many years lagged well behind the U.S. economy as a whole, are now outperforming the national economy as well as a majority of major metropolitan areas. Simply put, the Pittsburgh economy in 2013 is vastly different from what it was in earlier years when, to a significant degree, the region's economic health and prosperity were dependent on steel and heavy industry.

There is, in our view, a “new” Pittsburgh economy which is more growth oriented than its manufacturing-based predecessors. Some numbers will illustrate the change that has already taken place in the region's economic performance. Between 2007 and 2012, overall economic activity – as measured by the real gross domestic product – in the local area posted a gain of 4.6%, well above the increase of 2.5% in the metropolitan-area segment of the U.S. economy. Furthermore, in 2012 the GDP of the Pittsburgh Metropolitan Area ranked 14th out of 36 major metropolitan areas with average employment above 750,000.

During the recent recession, the Pittsburgh Metropolitan Area experienced a decline of 3.7% in nonfarm payroll employment, which was significantly less than the 5.6% decline recorded in the nation as a whole. Moreover, since the end of the last recession, employment in the Pittsburgh Area has posted a gain of 6.2%, slightly better than the 5.6% increase registered at the national level.

The Pittsburgh Metropolitan Market has also recorded significant gains in another key measure of economic activity. In 2005, the per capita personal income in the Pittsburgh area ranked a low 29th out of the 36 major metropolitan areas. But in 2011, and again in 2012, the Area's ranking jumped from 29th to 14th – just behind the Chicago Metropolitan Market.

The extent to which the Pittsburgh economy has been transformed from a near-stagnant manufacturing area to one which is based on the faster-growing service-related sector was the subject of a recent article* published by the Federal Reserve

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Bank of Cleveland. The report, which was in large part based on a 2012 book “The New Geography of Jobs” by Enrico Moretti, focused on the number of “knowledge jobs”** per manufacturing job in 2012.

*Economic Trends – *Brain Hubs and Manufacturing Centers in the Fourth District.*

Mr. Moretti introduced the concept of “brain hubs” which he defined as metropolitan areas with higher numbers of “knowledge jobs” per manufacturing job. In general, “brain hubs” have seen stronger gains in employment – and overall economic activity – than manufacturing centers. In 2012, the Pittsburgh Metropolitan Market recorded 2.91 knowledge jobs per manufacturing job, well above the 2.38 ratio registered by the U.S. in total, and placing the region in the category of a “brain hub.” As a matter of fact, the Pittsburgh region ranked just behind the San Francisco/San Jose areas, which are frequently cited as major “brain hubs.” Moreover, the Pittsburgh Metropolitan Area ranked above Chicago, Indianapolis and Minneapolis, which were the only other Midwest areas that fell in the category of “brain hubs” as measured by the number of knowledge jobs per manufacturing job. Updating the report to include data from 2013, we find that Pittsburgh still ranks above the national average of knowledge jobs per manufacturing job. Arguably, the future may resemble the past in that the economic growth will likely be concentrated in the “brain hubs” while manufacturing centers may continue to report weak gains in economic growth – and a loss of jobs.

**Defined as jobs in the following categories of employment: Information; Finance, Insurance and Real Estate; and Professional and Business Services.

Meanwhile, the shale gas revolution is also having a positive economic impact on the Pittsburgh region. However, the magnitude of this impact is still very uncertain, especially in light of environmental concerns and costs. To be sure, shale formation developments have been associated with an increase in employment. But their number is still small as a percentage of total employment. Thus, jobs in the mining and logging category of employment in the Pittsburgh area, while posting a gain of close to 6,000 over the past four years, still represents less than 1% of the area’s total nonfarm payroll employment. The energy sector is one of the most capital intensive in the economy and, as a consequence, employment gains from increased production and development activity may be relatively small and could well be limited in duration.

Needless to say, past results should not be interpreted as an indicator of future performance. To a degree, future progress will depend on economic developments at the national level. But the region can help itself by developing and implementing pro-growth strategies and programs that will attract new businesses to the Area and retain those that are already here. There is also a need to create an environment that will improve Pittsburgh’s standing and reputation as an area that welcomes and fosters entrepreneurship. Often overlooked is the fact that a growing economy can provide the resources that will help pay for improvements in education, health care and housing that are still needed in many of the Area’s neighborhoods. To help our neighborhoods, therefore, we need to sustain the forward momentum in economic activity that has developed over the past several years.

— Norman Robertson

The information and data used in the preparation of this report were obtained from public or private sources deemed to be reliable, but Smithfield Trust Company does not guarantee their accuracy. All opinions or predictions expressed herein are subject to change, without notice to the reader, based upon prevailing political, economic or securities markets conditions. The material in this Forecast was prepared in early December and is based on information available at that time.

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Percentage Change in Metro Area Segment of U.S. Economy	2.5
Ranking of GDP Percentage Change from 2007 to 2012 for the 36 Metro Areas with Annual Average Employment Levels Above 750,000	
Portland, OR	23.6
Austin	21.7
San Jose	15.3
Houston	12.3
San Antonio	11.2
Dallas	9.4
Seattle	9.0
Baltimore	8.2
Washington	8.0
Boston	7.6
Denver	6.6
Minneapolis	6.1
Indianapolis	5.3
Pittsburgh	4.6
Charlotte	4.5
Kansas City	3.9
San Francisco	3.7
Columbus	2.2
New York	1.9
Philadelphia	1.9
Cincinnati	1.3
Milwaukee	0.3
Chicago	0.2
St. Louis	0.2
Atlanta	-0.5
San Diego	-1.0
Cleveland	-1.9
Los Angeles	-2.5
Tampa	-3.4
Miami	-4.3
Phoenix	-4.5
Orlando	-5.7
Detroit	-6.0
Sacramento	-6.0
Riverside	-9.0
Las Vegas	-10.4

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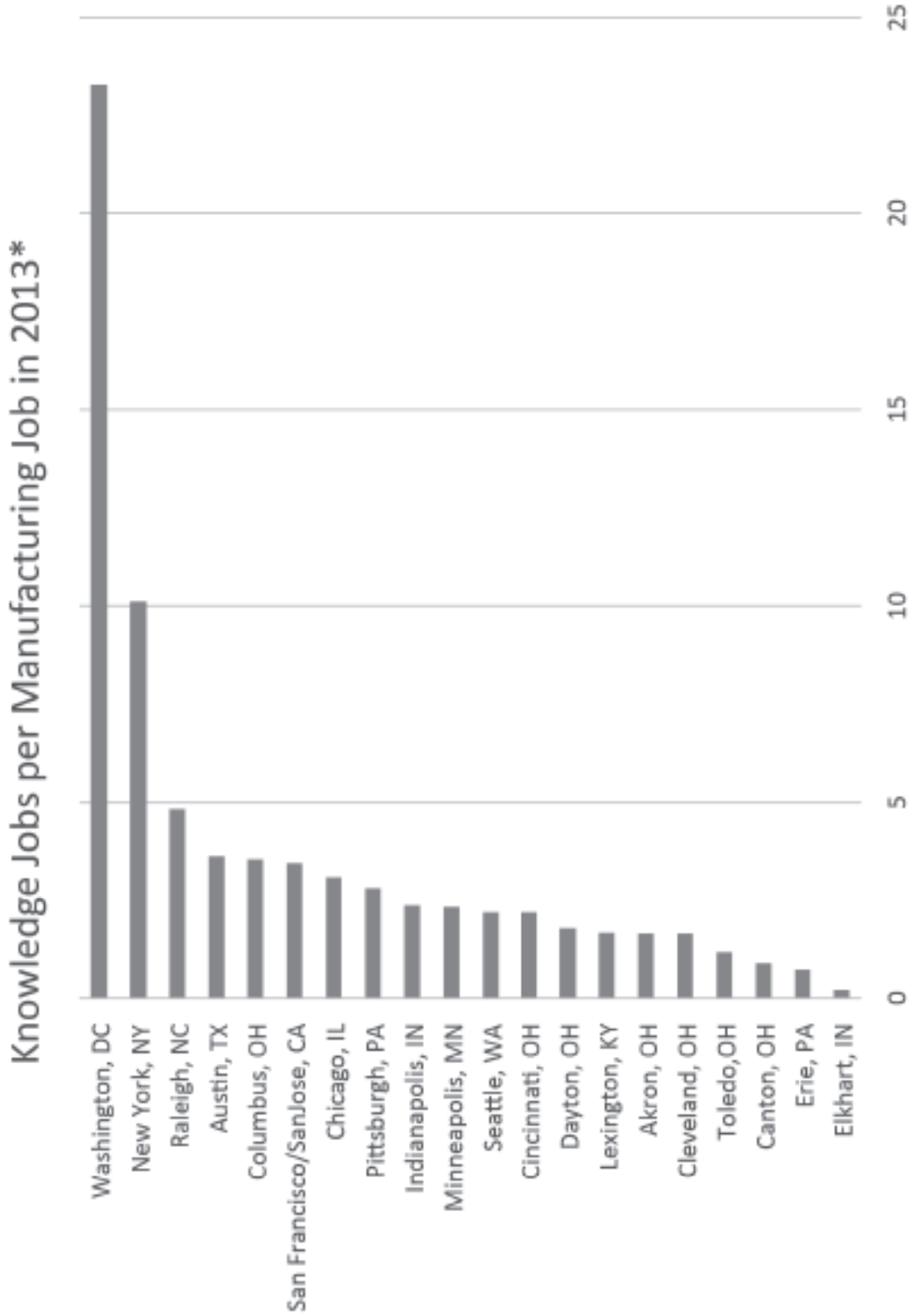
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PER CAPITA PERSONAL INCOME RANK FOR THE 36 METROPOLITAN AREAS WITH ANNUAL AVERAGE EMPLOYMENT LEVELS ABOVE 750,000

<u>CITY</u>	<u>2005</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
San Francisco	1	1	1	1
San Jose	2	3	2	2
Washington	3	2	3	3
Boston	4	4	4	4
New York	5	5	5	5
Denver	6	9	8	10
Seattle	7	7	7	7
Minneapolis	8	10	10	11
Baltimore	9	6	6	6
San Diego	10	11	12	12
Philadelphia	11	8	9	8
Chicago	12	12	13	13
Houston	13	13	11	9
Los Angeles	14	14	16	16
Miami	15	17	18	22
Dallas	16	20	17	17
Milwaukee	17	15	15	15
Atlanta	18	28	30	29
Charlotte	19	25	27	31
Las Vegas	20	33	34	34
Detroit	21	30	29	28
Sacramento	22	22	24	20
St. Louis	23	19	20	21
Kansas City	24	18	19	19
Indianapolis	25	26	25	27
Cincinnati	26	24	23	23
Portland (OR)	27	23	22	24
Cleveland, OH	28	21	21	18
Pittsburgh	29	16	14	14
Columbus	30	29	28	26
Austin	31	27	26	25
Phoenix	32	32	32	33
Tampa	33	31	31	30
Orlando	34	35	35	35
San Antonio	35	34	33	32
Riverside	36	36	36	36

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*First eight months.