

THE SMITHFIELD Forecast

A Quarterly Survey of Economic & Investment Trends • Special Edition • May 2015

For Customers & Friends of
SMITHFIELD TRUST COMPANY

PERSPECTIVE OF PITTSBURGH'S ECONOMY

The latest statistics on the Pittsburgh metropolitan area's economy are a somewhat confusing mixture of positives and negatives. Looking first at the most recent data on employment, the situation can best be described as disappointing. Briefly stated, there has been no growth in nonfarm payroll employment for the past three years. Thus, in March of this year, payroll employment totaled 1,149,000, which was essentially the same as the figure of 1,148,000 and 1,151,000 reported in March of 2012 and 2013, respectively. And last year, payroll employment in the Pittsburgh metropolitan market posted a meager gain of 0.3% over the prior year, which was less than the 0.8% advance for Pennsylvania as a whole and the national increase of just under 2%. Moreover, during the first quarter of 2015 as compared with the comparable period of last year, Pittsburgh's gain of 0.7% was the lowest recorded for any of the 36 metropolitan areas with employment in excess of 750,000.

As can be seen on the following table, 2014 was a year in which the Pittsburgh metropolitan area lost jobs in the manufacturing and local government sectors, while registering gains in other major groups that were significantly smaller than those reported for the nation as a whole. One major exception to these somewhat discouraging statistics was that employment in the mining and logging category posted a solid gain of 10.3% in the Pittsburgh area as compared with a much smaller national increase of 3.8%. What these numbers illustrate, of course, is the growing importance of shale oil and gas development to the economy of Western Pennsylvania. That said, the actual employment numbers are relatively small – less than 12,000 in 2014 out of a total of 1,106,000.

Turning to employment data for the 1st quarter of 2015, the Pittsburgh metropolitan area reported a year-over-year gain of 12% in the mining and logging category, which far exceeded the nationwide increase of just 2%. Elsewhere, however, industry employment in the local area has lagged well behind the national averages. Finally, Pittsburgh's unemployment rate during the 1st quarter of 2015 fell to 5.2%, down from the national average of 5.6%, and one of the lowest recorded by any major metropolitan area.

Smithfield Trust Company
20 Stanwix Street
Suite 650
Pittsburgh, PA 15222-4801

412/261-0779
Fax: 412/261-3482
www.smithfieldtrustco.com

*Norman Robertson is Economic Advisor, Smithfield Trust Company.
He previously was Chief Economist for Mellon Bank.*

Percent Change in Industry Employment 2014 vs. 2013

	<u>Pittsburgh</u>	<u>U.S.</u>
Mining and Logging	+10.3	+3.8
Construction	+2.3	+4.8
Manufacturing	-0.4	+1.4
Trade, Transportation & Utilities	+0.6	+2.0
Professional and Business Services	+0.5	+3.1
Educational Services	0.0	+1.9
Health Care and Social Assistance	+0.7	+1.8
Local Government	-2.2	+0.3
TOTAL	+0.3	+1.9

Percent Change in Industry Employment 1st Quarter 2015 vs. 1st Quarter 2014

	<u>Pittsburgh</u>	<u>U.S.</u>
Mining and Logging	+12.2	+2.0
Construction	+2.8	+5.3
Manufacturing	+0.9	+1.7
Trade, Transportation & Utilities	+0.9	+2.3
Professional and Business Services	-0.3	+3.6
Educational Services	-0.9	+1.7
Health Care and Social Assistance	+1.7	+2.7
Local Government	-2.5	+0.4
TOTAL	+0.7	+2.3

To focus on the past three years, however, might tend to give a somewhat misleading and overly pessimistic view of employment trends in the Pittsburgh metropolitan market. One plausible explanation for the recent lack of job growth was that the 2008-2009 recession was much less severe in the Pittsburgh area than in the nation at large. As a consequence, the recovery in the area's employment has been weaker than in the country as a whole. Looking, therefore, at the change in total payroll employment between 2007 and 2014, we find that the Pittsburgh metropolitan area recorded a gain of 1.3%, which compares favorably with the nationwide increase of 0.8%. And excluding state and local government employment, private payroll employment in the Pittsburgh area was up 2.3%, which, again, exceeded the national increase of 1.3%. In recent years, Pittsburgh has scored well in the ranking of

THE SMITHFIELD Forecast

Special Edition • May 2015

▶ 3

Knowledge Jobs¹ per Manufacturing Job,² which gives considerable credence to the view that the Pittsburgh economy is now a “brain hub” as opposed to one which was heavily – and excessively – dependent on manufacturing activity. In the 1st quarter of this year, for example, the number of Knowledge Jobs per Manufacturing Job in the Pittsburgh area was 2.9, which compares favorably with the national average of 2.5.

Meanwhile, other statistics on the Pittsburgh area’s economic performance are considerably more positive – and encouraging – than many of those related to employment. In 1999, the per capita personal income of the Pittsburgh metropolitan area was \$29,000, which ranked 29th out of the 36 metropolitan areas with employment levels above 750,000. In 2013 – the latest year for which data is available – the per capita income figure had jumped to over \$49,000, which placed the Pittsburgh metropolitan market in 14th place. This increase in the rankings from 29th to 14th was the largest reported for any of the 36 metropolitan areas.

Even assuming that Pittsburgh’s slow-growing population accounts for some part of this improvement in per capita income, the magnitude of the change suggests a considerable strengthening of the region’s economy over the past several years. In support of this view, the latest statistics on GDP – the most comprehensive measure of overall economic activity – shows that, in 2013, the Pittsburgh area ranked 21st out of the 36 large metropolitan areas. Another encouraging statistic is that, between 2007 and 2013, real GDP in the Pittsburgh area gained about 7% compared with the 4.5% advance recorded for the metropolitan area segment of the U.S. economy. This gain between 2007 and 2013 placed Pittsburgh 12th out of the 36 large metropolitan areas.

Based on the area’s recent GDP growth and gains in personal per capita income, the Pittsburgh area has, in

our view, finally shed its image as an area still struggling to recover from the decline in its manufacturing sector. While the area’s recent lack of employment growth is a matter of considerable concern, we believe that, on balance, the Pittsburgh area is well positioned to keep pace with the nation’s economic growth rate, as well as those of many large – and competitive – metropolitan areas.

¹ Knowledge jobs include information, finance, insurance, real estate and professional and business services.

² This analysis is based on Joel Elvery’s (2013) “Brain Hubs and Manufacturing Centers in the Fourth District,” Federal Reserve Bank of Cleveland, *Economic Trends*.

- 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 May 2015 and is based on information available at that time.

**Percentage Change in Payroll Employment
U.S. and All Large Metropolitan Areas Over 750,000
1st Quarter 2015 vs 1st Quarter 2014**

	% Change
U.S.	+2.3
San Jose	+5.4
San Francisco	+4.6
Orlando	+4.5
Dallas	+4.4
Riverside	+4.3
Atlanta	+4.0
Denver	+3.9
Miami	+3.7
Charlotte	+3.6
San Antonio	+3.6
Seattle	+3.4
Houston	+3.3
Las Vegas	+3.2
Indianapolis	+3.1
Kansas City	+3.1
Phoenix	+3.1
Portland, OR	+3.0
Austin	+2.9
Sacramento	+2.9
San Diego	+2.9
Tampa	+2.8
Columbus, OH	+2.4
Los Angeles	+2.3
New York	+2.1
Philadelphia	+2.1
Minneapolis	+2.0
Detroit	+1.9
Baltimore	+1.6
Chicago	+1.6
Cincinnati	+1.6
Washington, DC	+1.6
Boston	+1.5
Cleveland	+1.3
St. Louis	+0.9
Milwaukee	+0.8
Pittsburgh	+0.7

Knowledge Jobs Per Manufacturing Job 1st Quarter 2015

Washington, DC	23.2
New York	9.1
Raleigh	5.0
Austin	3.9
Columbus, OH	3.8
San Francisco/San Jose	3.6
Chicago	3.5
Pittsburgh	2.9
Indianapolis	2.5
Seattle	2.4
Cincinnati	2.3
Minneapolis	2.0
Dayton	1.9
Cleveland	1.8
Akron	1.7
Lexington	1.7
Toledo	1.0
Canton	0.9
Erie	0.8
Elkhart	0.2

**Per Capita Personal Income Rank for the 36 Metropolitan Areas
With Annual Average Employment Levels Above 750,000**

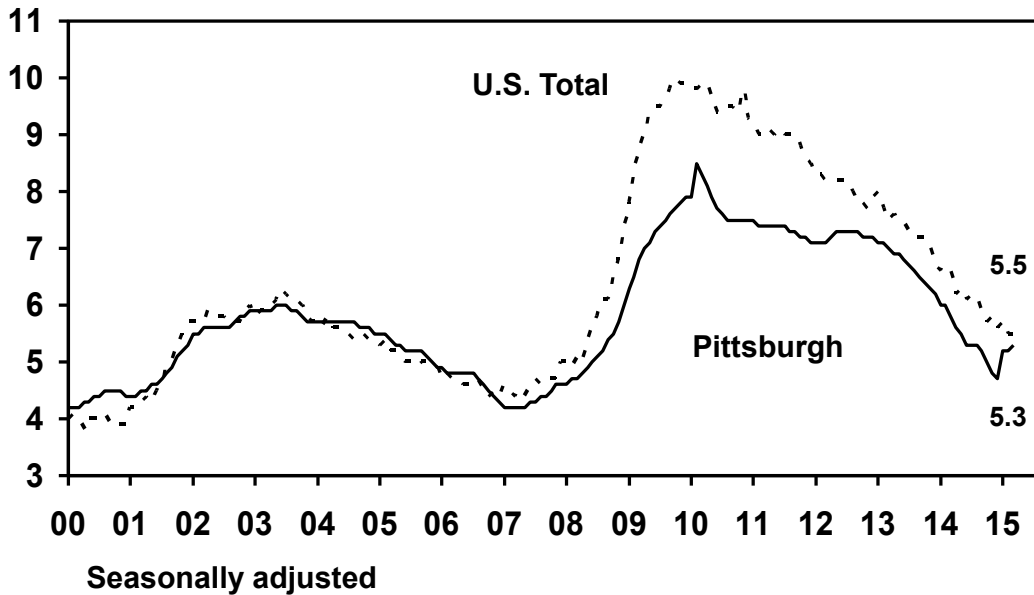
City	1999	2005	2007	2010	2013
San Jose	1	3	2	3	1
San Francisco	2	1	1	1	2
Boston	4	4	4	4	3
Washington, DC	3	2	3	2	4
New York	5	5	5	5	5
Seattle	6	6	6	7	6
Baltimore	11	7	7	6	7
Philadelphia	10	11	10	8	8
Denver	7	8	8	9	9
Houston	18	13	14	12	10
San Diego	16	10	11	11	11
Minneapolis	8	9	9	10	12
Chicago	9	12	12	13	13
Pittsburgh	29	23	17	14	14
Los Angeles	25	15	15	16	15
Milwaukee	13	16	16	15	16
Dallas	17	18	18	18	17
Sacramento	26	17	19	21	18
St. Louis	23	21	20	20	19
Cleveland	21	26	23	22	20
Kansas City	19	24	21	19	21
Miami	24	14	13	17	22
Austin	15	30	32	25	23
Cincinnati	27	25	27	24	24
Columbus, OH	31	31	33	26	25
Portland, OR	22	28	24	23	26
Detroit	12	22	26	29	27
Indianapolis	20	27	28	27	28
Charlotte	28	29	31	31	29
Atlanta	14	20	22	30	30
Tampa	32	32	30	28	31
San Antonio	35	35	35	32	32
Phoenix	33	33	29	34	33
Las Vegas	30	19	25	33	34
Orlando	34	34	34	35	35
Riverside	36	36	36	36	36

THE SMITHFIELD Forecast

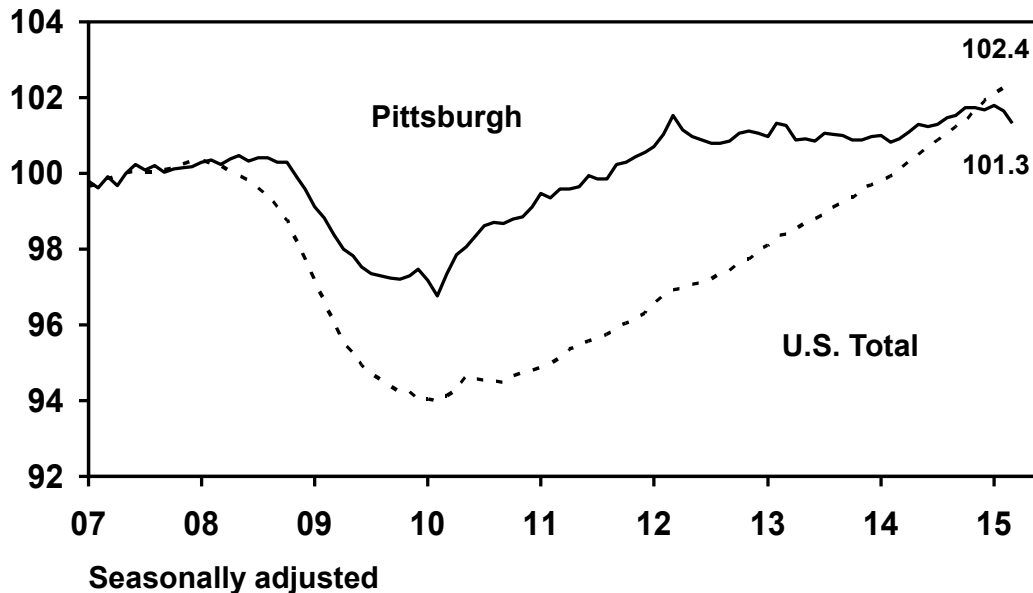
Special Edition • May 2015

Percent Change in Metro Area Segment of U.S. Economy	4.5
Ranking of Real GDP Percentage Change from 2007 to 2013 for the 36 Metro Areas with Annual Average Employment Levels Above 750,000	
City	Ranking
Portland, OR	31.3
Austin	23.1
San Jose	21.2
San Antonio	15.6
Dallas	14.4
Denver	11.8
Seattle	10.3
Columbus, OH	10.1
Boston	8.3
Baltimore	7.1
Washington, DC	7.0
Pittsburgh	6.9
Minneapolis	6.4
San Francisco	6.3
Indianapolis	6.0
Charlotte	5.6
Cincinnati	5.6
Kansas City	5.0
New York	4.6
Philadelphia	3.6
San Diego	3.1
Cleveland	2.3
Houston	2.1
St. Louis	2.1
Milwaukee	1.5
Los Angeles	-0.5
Chicago	-0.6
Atlanta	-0.9
Sacramento	-1.4
Phoenix	-3.2
Tampa	-3.5
Riverside	-4.0
Detroit	-4.2
Miami	-5.5
Orlando	-5.6
Las Vegas	-11.7

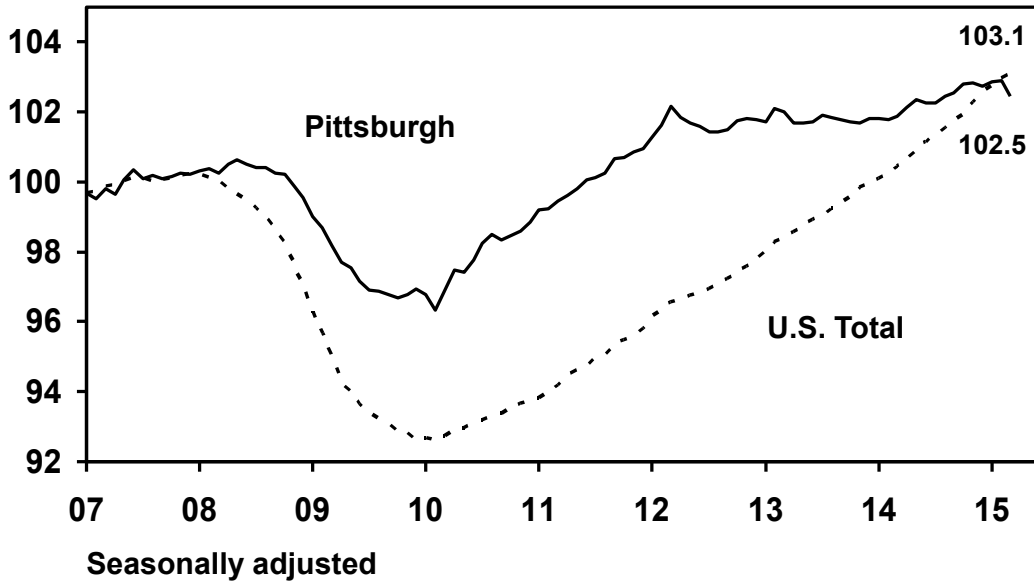
Unemployment Rate Percent



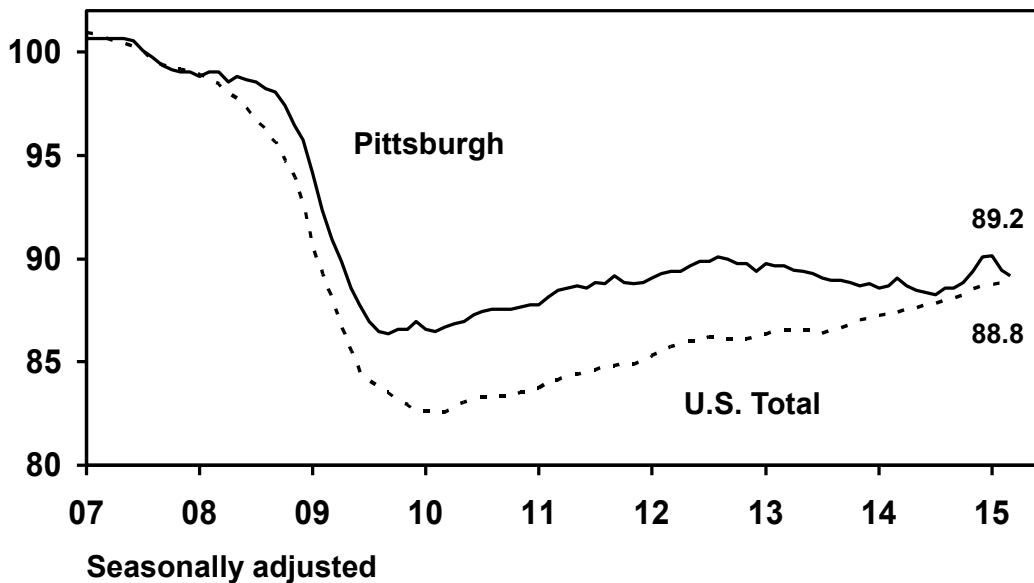
Nonfarm Payroll Employment 2007 = 100



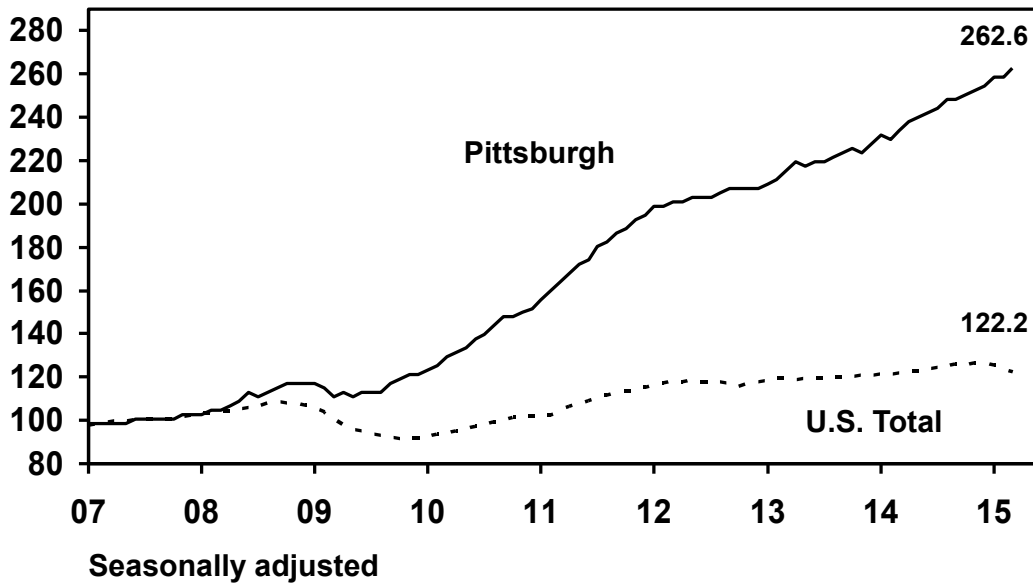
Private Payroll Employment 2007 = 100



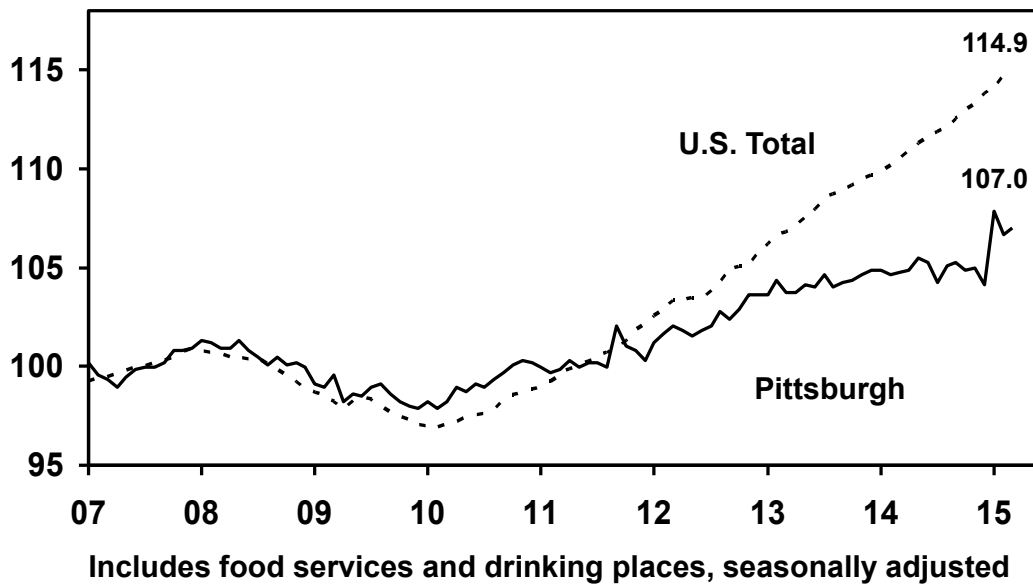
Manufacturing Employment 2007 = 100



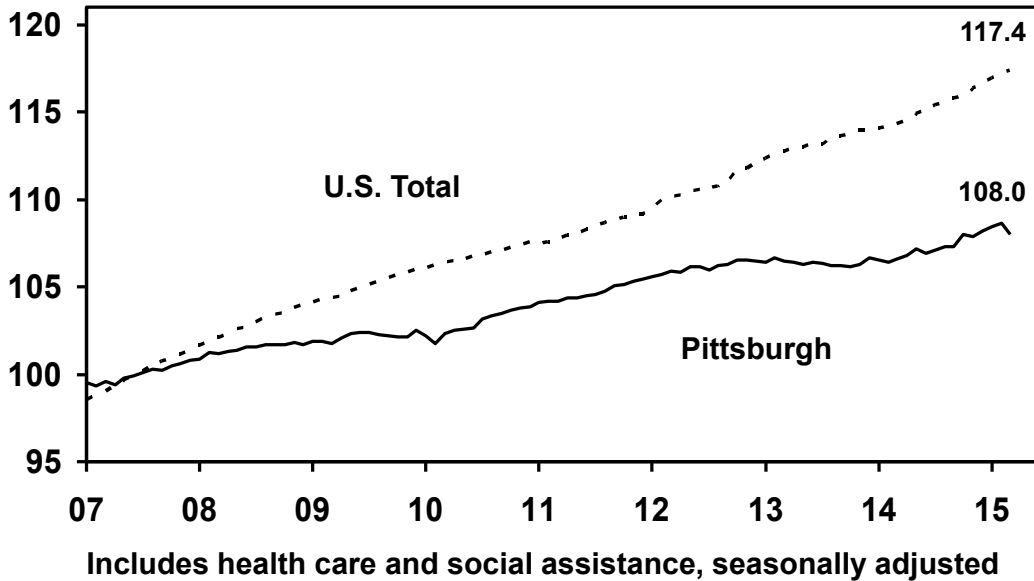
Mining and Logging Employment 2007 = 100



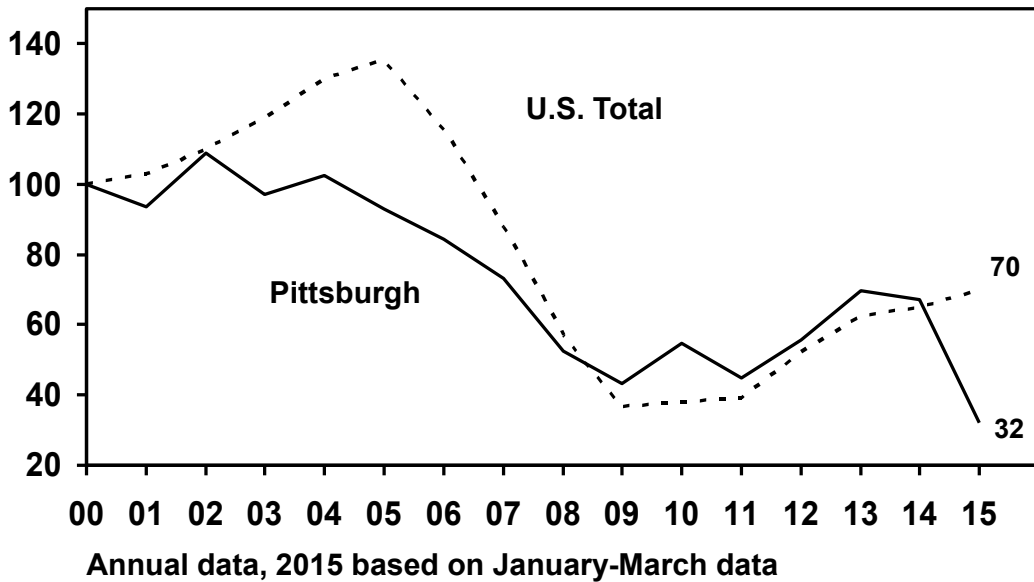
Food Services Employment 2007 = 100



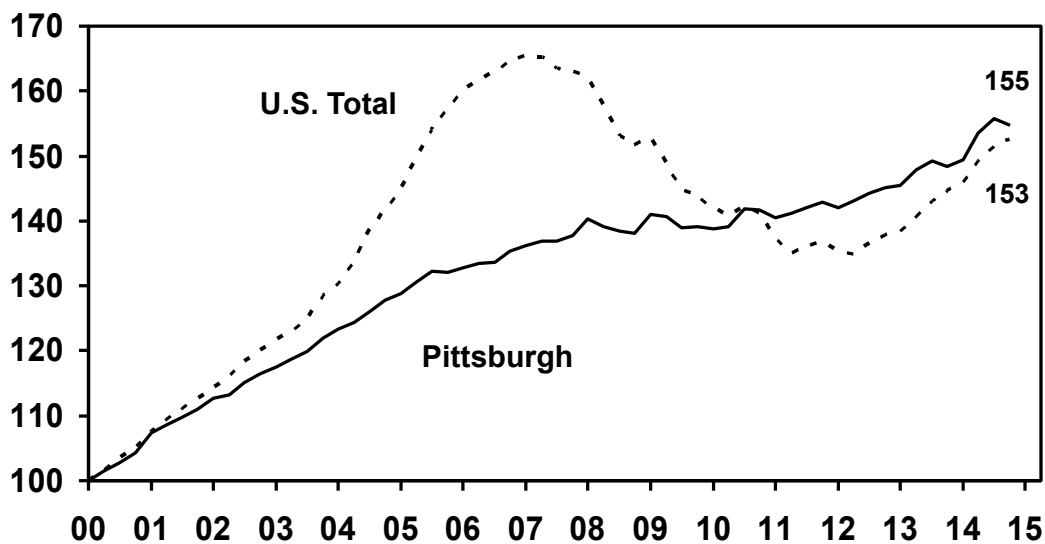
Health Services Employment 2007 = 100



Housing Permits 2000 = 100



House Price Index 2000 = 100



Source: Federal Housing Finance Agency