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What Happened to Pittsburgh Area Jobs Strength?

The Department of Labor and Industry recently released preliminary employment data for February. Unfortunately, the latest numbers for the Pittsburgh metro area are not very good, especially coming on the heels of last month's release of revised 2013 employment counts that basically wiped out all the gains initially reported for the year. Further, based on the updated data set, February's numbers showed both total nonfarm and total private employment falling from their year earlier readings for the third consecutive month.

To be sure, many will cheer the ongoing decline in the unemployment rate that slipped from a seasonally adjusted 6.3 percent in December 2013 to 6.0 percent in January and was down again to 5.8 percent in February. That's the apparent good news. Sadly however, the principal reason for the rate decline reflects the slide in the labor force rather than it does people finding jobs. Note that the number unemployed in February fell by 22,900 from February 2013's count. At the same time, the number claiming to be employed increased only 4,000—an almost negligible and perhaps not even statistically significant amount considering there are more than 1.17 million people employed in the area. Meanwhile, the number in the labor force plummeted by 18,900. Thus, more than 80 percent of the reduction in the number unemployed is due to shrinkage of the labor force. Not a ringing endorsement of the area's labor market strength.

This weakness is corroborated by the employer survey. The preliminary count of total nonfarm jobs in February dipped 5,000 below the year earlier posting. Private employment was short of last year's total by 2,900 jobs. This continues the trend begun in December's report, wherein the revised data showed a 2,900 drop in the year-over-year nonfarm jobs and private jobs down by 1,500. January's final numbers likewise revealed a year-over-year loss of 3,900 nonfarm jobs and 3,300 private jobs.

Job losses were widespread throughout both the goods producing and service providing super sectors. In the goods producing super sector the only area of growth is in mining and logging, posting year-over-year gains of a couple hundred jobs for the last three months. In fact that component has not experienced a year-over-year decline since midway through 2007. Keep in mind that this sector, a beneficiary of the Marcellus Shale drilling boom, only accounts for a small percentage of the area's job market—less than one percent of total nonfarm jobs. Although spin off jobs in other related sectors as a result of drilling activity are almost certainly contributing significantly to the area's jobs total. Or said another way, absent the Marcellus activity, the jobs picture would be even weaker.

Finally, it is worth nothing that both the construction and manufacturing sectors have been sliding over the last three months with manufacturing's streak stretching back to August 2013.

Perhaps the biggest surprise of all has been the sudden falloff in the growth of jobs in the education and health sector. Long a strong contributor to employment growth in the Pittsburgh region, the preliminary February data show no growth from the year earlier count. This sector saw its year-over-year job numbers decline for the entirety of 2013 and into January 2014.

For the first two months of 2014 the sector displaying the most robust job gains has been leisure and hospitality with year-over-year increases of more than 1,000 in each month. This growth pattern extends back through all of 2013 as well. Oddly enough the largest subsector, accommodation and food services, has recently not been a source of growth as they were for quite some time. The latest data reveals a distinct weakening as it posted year to year job losses.

What is truly shocking is that since accommodation and food services accounts for 80 percent of leisure and hospitality jobs, all the gains in leisure and hospitality come from the group that makes up the other 20 percent. The growth in arts, recreation and entertainment is so strong that it not only offsets losses in the accommodation and food services component it lifts the leisure and hospitality sector jobs total. Unfortunately, breakdowns by subcomponent are not available to reveal where the exceedingly robust gains are coming. And that always creates a problem in trying to understand what is driving regional employment. That is to say, if one does not know which subcomponents are growing rapidly it is extremely difficult to say whether that trend is likely to continue or whether it is a short lived phenomenon.

To sum up, the February jobs report for the Pittsburgh area must be viewed as a disappointment. This is showing up in both the household data, despite the falling unemployment rate, and the employer survey, with falling total nonfarm and private jobs numbers. The Pittsburgh area may be a victim of a lack of economic vigor in the national and state economies. It might be that a much more lively national economy will be necessary to renew the much better trend in employment the region enjoyed a couple of years ago. In the meantime, regional political leaders should do all they can to make the area more business friendly through lower tax rates and a less obstructive regulatory environment.

The state can help as well by dealing with the problems that cause spending to be higher than it ought to be and tax burdens higher than they ought to be. Recently published results from the Tax Foundation show the Commonwealth ranking very low on indicators of business tax burdens such as corporate taxes and property taxes. There is plenty of room for improvement at both the state and regional level. Now is the time to get moving with initiatives aimed at boosting the business climate and a free market driven economy. Top down, crony capitalism is not going to produce the lasting, long term strength the area and state need.

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