



## **Recent Weakness in Jobs and Earnings in the Pittsburgh MSA**

Of late, the news regarding the Pittsburgh region's labor market statistics has not been encouraging. Following the 2011 rebound to the 2008 prerecession peak of 1,120,000 private sector payroll jobs, employment rose by 16,000 in 2012 but has slowed to much smaller increases of 1,600 in 2013, 3,500 in 2014, 3,300 in 2015 and is on pace to fall short of 3,000 in 2016 based on the jobs count through August of this year. Interestingly and of concern, the Department of Labor and Industry report for August shows that, on a seasonally adjusted basis, nonfarm jobs in the MSA were 8,300 lower in August of 2016 than in August 2015.

Meanwhile, August 2016 data from the household survey shows no gain in the number of area residents reporting they were working while the labor force rose from a year earlier. As a result, the unemployment rate was up by almost a full percentage point from August 2015 to stand at 5.9 percent. Only Allegheny County and Butler County were below six percent. The two highest seasonally adjusted unemployment rates were posted in Fayette (8.5 percent) and Armstrong (7.9 percent).

The latest weakness in payroll jobs reflects a declining trend in monthly employee count compared to the same month a year earlier in the goods producing industries. This pattern began in early 2015. In August 2016, goods producing jobs were down 4,100 from August of 2015 while service jobs climbed by 2,100 resulting in a net loss of 2,000 private sector jobs compared to a year earlier. In the service producing sector, jobs have continued to rise but have slowed dramatically since the post-recession jump of 11,000 jobs from 2011 to 2012.

From 2000 to 2015, goods producing employment slumped by 39,500 jobs. A rise of 65,000 in service employment led to an overall increase of 25,500 private jobs during the 15 year period—an average gain of 1,700 per year. Compare this to the 105,000 gain in private employment from 1990 to 2000 or 10,500 per year, led almost entirely by service sector growth. The slowing of service job gains from 10,000 a year to just over 4,000 per year since 2000 has been a major contributor to very weak overall gains during the last 15 years. This longer term weakness in total private employment growth has occurred despite three brief spurts of growth including the 2006 to 2008 period, the two years after the recession trough in 2009, and a short lived boost related to the Marcellus Shale gas drilling from 2011 to 2014.

Accompanying the slowing in private employment gains and the smaller share of relatively high paying goods producing employment and the greater share of lower paying service jobs,

there has been a decline—albeit unevenly—in average weekly earnings in the region over the last 24 months beginning in August 2014. The yearly average of weekly earnings in 2015 stood at \$814.17, a decline from \$829.40 in 2014. Through August of 2016, earnings continued to fall reaching \$791.21, a drop of \$22 or 3.8 percent from the August 2015 reading of \$823.20.

Data for average weekly earnings is available only back to 2007 when the yearly average stood at \$687.90. By 2015 the yearly average weekly income was \$814.17. Thus, over the eight years from 2007 to 2015, weekly earnings climbed 18.4 percent. But, as pointed out above, earnings have continued their nearly two year slide in 2016 and are now only 15.3 percent above the 2007 level. Unfortunately, from 2007 through the first half of 2016, consumer prices have climbed 21.7 percent. That means the August 2016 real average weekly earnings in the Pittsburgh MSA were almost six percent below the 2007 level.

Obviously, there are major differences in employee earnings throughout the region and even within each county. There are areas of relative prosperity and areas that remained depressed—and some in between. It is also true that nationwide real wages have stagnated and real GDP growth has been very anemic compared to other periods following recessions. This is largely a reflection of the fact that nationally aggregate hours worked in manufacturing are 14 percent lower than in August 2006. Contrast that with the 49 percent surge in aggregate hours in the leisure and hospitality sector over the last 10 years.

Manufacturing jobs nationally paid average weekly wages of \$1,054 in August 2016 while leisure and hospitality weekly earnings were only \$324. Wages represent productivity levels, so for every manufacturing job lost, there would have to be three or more leisure and hospitality jobs added just to hold total output constant. Moreover, leisure and hospitality jobs have a much lower export component and thus do not have a significant multiplier effect.

There can be little doubt that national, state and regional policies have made growth in mining and manufacturing tougher to achieve in the US and the Pittsburgh MSA. The result is weakened GDP expansion, falling real incomes and woefully inadequate high paying job opportunities. If this trend is to be reversed there must be a major shift in policies toward business and the labor markets. Lower taxes, less regulation, replacing the job strangling, expensive and ineffectual Affordable Care Act and a genuine commitment to promoting the engines of growth—especially new business startups—are critical to getting the country and region back on a prosperous growth track.

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