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Short and Long Term Looks at the Pittsburgh Region's Economy

Summary: Pittsburgh's seven county metro area's (MSA) economy has little to boast about for the period since 2000 in terms of job and income gains. There have been some notable bright spots, including Marcellus shale, but overall the picture is one of very slow growth. And while the latest August figures for payroll employment show some strengthening compared to 2016, the strongest pickup was in leisure and hospitality, a sector that has seen initially reported gains subsequently revised downward significantly. There was also some bounce back in hourly and weekly earnings following a big and unexpected drop in 2016. But as will be seen these latest modestly better numbers cannot mask the longer term trend of very sluggish job and income gains in the region.

The Bureau of Labor Statistics compiles data on two measures of employment. One is based on a monthly survey of households that ascertains information that is used to estimate the number of people in a market area who say they are working or, if not working, if they are looking for a job. The second is an estimate of the number of employees on payrolls obtained through a survey of businesses in a market area. Thus, the two measures of employment do not necessarily line up exactly because workers can commute to a market where they do not reside and workers can have more than one job and can therefore be counted more than once in the payroll total. For example, many workers from gas producing states came to work on Marcellus drilling rigs.

The longer term picture

Compared to August 2000 when the MSA labor force stood at 1,207,707 the August 2017 count was at 1,204,546. There was a modest rise in labor force of 31,000 recorded from 2000 through 2012 but that has been completely reversed over the last five years. Meanwhile, the number of area residents employed posted a net decline of 12,290 from 1,154,192 in 2000 to 1,141,899 in 2017. There was an increase of 14,500 employed residents from 2000 to 2007, but like the labor force pattern, that growth has been completely reversed. In sum, the Pittsburgh MSA has gone 17 years with no net growth in the number of residents working.

Meanwhile, private-sector establishment payroll jobs pushed marginally higher over the 17 years rising from 1,026,800 in August 2000 to 1,062,800 in August 2017. The 36,000 increase represents a 3.5 percent gain—or a compound annual growth rate of a mere 0.2 percent. This anemic rate represents a significant slowing from the 1990 to 2000 decade when jobs grew by one percent per year and boosted private-sector payrolls by 101,000 jobs.

And unfortunately, if history is any guide, the 2017 figure is likely to be revised downward because half of the 11,000 gain in private jobs over the last year has been in the leisure and hospitality sector that has regularly seen big revisions in years past.

In terms of major industry shifts over the last 17 years, goods producing jobs, mostly in manufacturing, are down by 48,000 since 2000 while service producing employment is up 84,000 jobs.

Meanwhile, by comparison U.S. private job growth was 11.5 percent over the 2000 to 2017 period which, like the slowing trend experienced in the MSA, was well below the 21.9 percent rise from 1990 to 2000.

During the 15 years 2000 to 2015, the latest MSA income data available, personal income (adjusted for inflation) growth was also relatively weak at 1.2 percent per year, about half the national real income increase of 2.1 percent per year. Bear in mind that both nationally and regionally, the recession of 2008-2010 produced extended periods in which real incomes remained lower than the 2008 prerecession high points. The national economy was extremely hard hit by the recession with several states taking six or seven years to recover fully. Overall, the US economy took almost three years to climb back to the income peak of May 2008, reaching it in March 2011. Pittsburgh MSA income data are not available monthly so a comparative time frame is not possible. But data show that real incomes fell from the 2008 level and remained below that level in 2009 and 2010.

Recent jobs performance

To look at a more recent performance—August 2015 to August 2017—payroll employment and real weekly earnings of private-sector employees are reviewed.

Over the two year period, the private-sector job count rose 10,600 to stand at 1.0628 million, a mere one percent pick up in two years. The long slide in goods-producing jobs was still in evidence the past two years as employment fell by 9,300 to stand at 149,500 in August 2017. Private service jobs, meanwhile, rose by 20,000 to reach 913,300 and offset the ongoing goods producing slide.

Of the 20,000 increase in service employment, 7,500 were in leisure and hospitality payroll gains—a sector that makes up about one eighth of service jobs and one tenth of all private sector employment. Food services and drinking places climbed 5,800 representing the bulk of the overall sector rise.

The 7,500 jump in leisure and hospitality is a gain of 6.1 percent. However, there are two problems with the latest jobs number. First, it is likely to be revised downward. And second, jobs in the sector are low wage with very low weekly earnings because of the average 25-hour work week. Thus, these jobs are weak contributors to income and output compared to manufacturing or professional service employment.

Health care and social assistance jobs climbed from 189,400 in 2015 to 195,200 in 2017, an increase of 5,800. Social assistance employment notched higher from 32,000 to 35,200 or 3,200 jobs (a 10 percent gain) meaning this category that represents only one sixth of the sector total accounted for well over half of the sector job gain. Health care accounted for only 2,600 new jobs.

Somewhat surprisingly, nursing home jobs decreased slightly. Modest increases in employment in doctors' offices, hospitals and ambulatory services combined to produce the rest of the health care growth.

Substantial growth was registered in the professional and business services sector which saw a 4,900 gain in employment, a 2.7 percent rise over the two years. This sector is among the highest paid service jobs and is therefore a principal contributor to earnings growth in the MSA. The financial services category (1,700 jobs) and colleges and universities (1,400) were the only other service sectors to post meaningful gains. Employment in all the other major service categories including retail, wholesale, transportation and utilities, and information was flat to slightly lower.

Earnings changes

Finally, a review of the growth in hourly and weekly earnings since 2007 (the earliest MSA data available) and since 2015. The Labor Department provides data for all private workers including data for average hours worked per week, average hourly earnings and average weekly earnings. Hourly earnings and weekly earnings were adjusted for inflation using the national Consumer Price Index.

Average hours worked per week in the MSA have been on a slowly declining trend since 2007, falling from 34.5 to 33.7 hours in 2017, a drop of 2.3 percent. Average hourly earnings rose from $19.86 in 2007 to $25.10 in 2017 (2.4 percent per year) resulting in an increase in average weekly earnings from $685.17 to $845.57, a gain of 23.4 percent (2.1 percent per year). However after adjusting for price increases, weekly earnings were up a mere 4.5 percent over the ten years, an annual growth rate of just 0.44 percent.

Over the past two years, August 2015 to August 2017, weekly earnings are up 2.7 percent or 1.35 percent per year. With prices higher by 3.0 percent, that means MSA real weekly private sector earnings are basically flat since 2015.

These very slow income growth rates for the two periods reflect in large measure the ongoing shift away from goods producing jobs to lower paying service sector employment, especially in the categories of leisure and hospitality and social assistance.

Summing up: Notwithstanding a few positive developments including Marcellus shale, the seven county Pittsburgh MSA has seen a 17-year period since 2000 in which there has been no net growth in the labor force or number of residents working. Payroll employment managed to register a paltry 3.5 percent increase over the 2000 to 2017 period, less than a third of U.S. gains.

Meanwhile, real personal income for all residents from all sources including dividends, rent, interest and transfer payments edged upward at a 1.2 percent annual rate between 2000 and 2015, half the U.S. rate. And since 2007, average weekly earnings for private-sector employees rose a skimpy 0.4 percent rate since 2007.

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