



## Pennsylvania and U.S. Economies: A Comparison of Recent Performance

**Summary:** Overall, Pennsylvania's economic growth has fallen short of the national pace over the past year. Particularly troubling is the vast difference in the growth (or lack of) in the state's manufacturing employment. Service sector job gains, while trailing the national pace, are not far behind in terms of percentage gains. The ramifications of the state's struggling economy will be felt not only in employment, but state tax revenues as well.

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How did Pennsylvania's economy fare as the national economy picked up considerable speed in 2017? With real Gross Domestic Product (GDP) growth over 3 percent at an annualized rate in the second and third quarters and forecasters calling for near 4 percent for the fourth quarter, the U.S. economic expansion has certainly moved to a much faster pace than in the past several years. Certainly a better business environment, substantial deregulation and the promise of major business tax cuts (in effect as of Jan. 1) have played a major role in the 2017 acceleration.

Interestingly, the stronger GDP growth in 2017 was not due to faster growth in overall employment. Indeed, the cumulative private sector payroll employment gain through November 2017 is only 15,000 more than the 11-month increase in 2016 (1,889,000 over 1,874,000 and probably not statistically different). The flat private-sector-employment gain is attributable to nearly offsetting performances in goods-producing jobs and private service-sector jobs. Cumulative service employment year-to-date through November 2017 is 1,469,000 (1.4 percent) compared to 1,847,000 (1.8 percent) in the November year-to-date figure in 2016—representing 388,000 fewer added service jobs in 2017.

Several service sectors had smaller employment gains in 2017 compared to 2016 including health care, finance, along with leisure and hospitality while retail trade jobs fell by 36,000 through November after a 190,000 rise in 2016 and information sector employment plunged by 65,000 in the first 11 months of 2017.

Meanwhile, goods-producing jobs accelerated substantially in 2017, gaining 405,000 cumulatively through November 2017 compared to just 32,000 in the same period of 2016—which means goods jobs added 373,000 more employees through November of 2017 than the year earlier. Thus, the cumulative total private sector (goods +373,000 and services -388,000) increase through November is roughly the same for 2016 and 2017.

But, there are implications for GDP growth in the jobs numbers. Goods jobs on the whole create more added value than service jobs—not all services of course, but many. Then, too, productivity gains are typically much faster in goods-producing industries, especially in manufacturing, where a loss of 34,000 jobs through November 2016 was replaced by a gain of 171,000 in the first 11 months of 2017. Likewise, mining turned a 76,000 job loss in 2016 into a 63,000 job gain in 2017. Note that mining employment had fallen by stunning 225,000 jobs from December 2014 to December 2016. No doubt this played a role in the slow GDP growth in the period prior to 2017.

Rising goods production also has higher multiplier effects for the regions where the gains are occurring and nationally for goods exported abroad. It is reasonable to conclude that the strong upturn in real GDP growth in 2017 can be attributed in large part to the huge swing from falling employment to solid gains in mining and manufacturing. Construction jobs also grew faster in 2017 but not nearly as dramatically as the other two goods-producing sectors.

#### *How does PA compare to the U.S. performance?*

Like the nation, Pennsylvania's goods-producing jobs took a big hit during the downturn that began in late 2007 and slipped into rapid decline in 2009 when the 12-month employment average dipped from 942,400 in 2007 to 820,200. The slide continued through the first half of 2010 followed by a very slow recovery in the second half. Nonetheless the annual average for 2010 fell to 801,500. A muted upturn was sustained through early 2015 which lifted the monthly average for that year to 836,800—a rise of 35,000 (4.4 percent) since the 2010 low point. By the second half of 2015, goods jobs had started to fall again, a slide that continued through the first half of 2017. In the July to November 2017 period, goods employment began rising again both month-to-month and compared to the year-earlier readings.

During the first 11 months of 2016, goods employment in Pennsylvania fell a cumulative 16,000 jobs from the December 2015 reading. Through November 2017, goods employment had managed a cumulative rise of 3,700 (0.45 percent). It is important to note that the gain in 2017 is due to the 8,600 increase in construction jobs and the 800 pickup in mining. Unfortunately, manufacturing employment continued its decline losing 6,000 jobs from the December 2016 level through November 2017 to go with the 9,000 loss in 2016. The sector has lost 103,000 jobs since 2007.

Compared to the U.S. goods-employment performance in 2017, Pennsylvania's growth is very anemic. Nationally goods employment climbed two percent through November while the commonwealth's 0.45 percent gain is less than a fourth of the national increase. And more importantly, the U.S. goods upturn reflects a strong gain in manufacturing and made the national gains far less dependent on construction than Pennsylvania for goods producing jobs growth. The robust rise in manufacturing in the U.S., and the loss of manufacturing in Pennsylvania, has significant implications for differences in GDP growth between the state and nation as well as for tax revenue.

Pennsylvania's private service employment fared better than the goods sector in 2017. Through November, Pennsylvania's service jobs rose a cumulative 58,900 or 1.3 percent after a 1.4 percent gain through November 2016. Compared to the national performance Pennsylvania's 2017 growth closely matches the 1.4 percent posted by U.S. private services.

Although it should be noted that U.S. service job increases have slowed significantly from the 1.8 percent gain registered in 2016.

Another important gauge of economic activity is the aggregate hours worked by all workers in each sector. Nationally, in 2016 private service hours worked rose a cumulative 1.8 percent during the 11-month period through November and in the same period in 2017 climbed a slightly diminished 1.7 percent. Pennsylvania's cumulative service hours worked posted a 1.1 percent expansion through November 2016 and a 1.5 percent gain in 2017, which puts the 2017 gain fairly close to the national growth rate.

For goods-producing employment, the story is quite different. Nationally, cumulative hours worked through November of 2016 managed a slender 0.45 percent Increase but in the same 11-month period in 2017 it jumped by 1.7 percent. And the increase accelerated from May to November climbing 2.2 percent compared to the same period of 2016.

Pennsylvania's goods hours worked through November 2016 fell 2.1 percent compared to the previous year. In 2017 the hours worked were up a tiny 0.2 percent through November. In both 2016 and 2017, the goods sector performed well below the national. What's worse, the much stronger national manufacturing gains in 2017 have not been able to lift Pennsylvania's factory jobs.

In sum, the Pennsylvania economy still lags behind the U.S. although its service sector has been able to stay fairly close in terms of percentage growth in jobs. However, recent goods producing jobs and hours worked have trailed U.S. growth badly, especially in 2017. Losses in manufacturing are especially worrisome in light of the sector's significant gains nationally.

This puts even more pressure on the state government not to damage the natural gas-producing industry which can and should be a major driver of economic growth in the commonwealth.

It also means overall growth and tax revenue will remain subdued until the state adopts a far friendlier business climate and addresses the hobbling effects of public sector unions.

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