



### **PA Labor Market Develops Signs of Weakness**

March's employment news for the Commonwealth was quite unwelcome. Both the household survey and the establishment payroll survey brought signs of marked weakness in employment.

People reporting themselves as working fell by 14,000 in March after a 6,200 decline in February and a slight 1,000 drop in January. In short, the entire first quarter exhibited a pattern of steady weakening in the number of people working. Meanwhile, private payroll employment at establishments fell by 6,500 in March, sliding below the January level and up by a mere 1,000 compared to a March 2012. Indeed, private payroll jobs are still 40,000 below the March 2008 number, the high watermark for a March job count, and just before the effects of the national recession pummeled the state's labor market.

Misguidedly, the headline about the labor market situation was the unemployment rate dip from 8.1 percent in February to 7.9 percent in March. But in light of the fact that the number of people working tumbled by 14,000, it is reasonable to ask; how could the unemployment rate fall? It fell because the labor force plunged by 33,000. That is to say, an additional 33,000 people in the non-institutional population old enough to work chose not to seek work. While this is a startling number it does mirror the massive half million decline in the nation's labor force in March. As a result of the 33,000 plunge in the number of people not looking for work, the number of unemployed went down 19,000, mathematically lowering the percentage unemployed. In sum, the apparent good news of an unemployment rate decline hid the bad news of a significant drop in the number working along with a substantial decrease in the labor force.

Why the recent Pennsylvania weakness? Based on the national employment situation in March, there has been a similar abrupt slowing countrywide. Apparently, the state has not been able to sidestep the impacts of the forces restraining the national economy—Obamacare effects, the tax hike in January and the regulatory onslaught coming from the DC governing apparatus.

Looking back over the three years of the recovery so far, what was the pattern of job gains and what have been the sources of strength—and recent weakness?

From January 2003 to January 2008, private sector employment rose at an average annual rate of 0.8 percent to reach 5,074,400 jobs. Nationally, private employment climbed at a 1.2 percent annual rate over the same period with several states enjoying well above national rates of job gains. With the steep national recession hitting in 2008, Pennsylvania employment fell to a low of 4,810,100 jobs in February 2010 before starting to rebound. Over the next twelve months, the job count had risen by 110,000, reaching 4,919,000 in February 2011. Between February 2011 and February 2012 jobs grew by 85,000 bringing the two year increase since the recovery began in March 2010 to 195,000. Unfortunately, the solid gain between February 2011 and 2012 marked the end of the good employment growth period. As noted above, from March 2012 to March 2013, private employment managed a statistically insignificant uptick of only 1,000 jobs.

The question that arises is: Which sectors accounted for the two years of fairly good gains and which have led the slowdown?

Surprisingly to some perhaps, the professional and business services sector posted the largest pickup in employment from March 2010 to March 2012 registering a gain of 51,200. But for those who follow the data closely it is not a surprise. Over the period 2003 to 2008, this sector actually grew more jobs than the larger and rapidly growing health sector. Rebounding from the recession it recovered all lost employment and added to the pre-recession peak level. Over the past year (March 2012 to March 2013), the sector managed another 3,900 increase—a far cry from the year earlier pace but still a positive contribution to the Commonwealth's employment count.

Health care and social assistance, the largest individual private sector in terms of employment, supplied 31,200 of the 195,000 total net gain in private employment over the first two years of expansion and was the second largest contributor to the rise. The good news is this sector appears to be recession proof and added another 13,000 jobs over the March 2012 to March 2013 period continuing its decade long upward trend.

Close behind health care in job growth, the leisure and hospitality sector (led by accommodations and food service) added 31,100 to payrolls over the first two year period of recovery and rebound from the recession. That strength has not continued, however, as jobs slipped a bit over the last twelve months.

The remainder of the 80 thousand or so increase in private employment from 2010 to 2012 was spread over several sectors each of which experienced gains between 10 thousand and 17 thousand. This list includes construction (+17,000), mining and logging (+14,300), transportation and utilities (+13,000), retail (+10,000), education (+8,700) and manufacturing (+10,100).

Of these sectors that contributed to the burst of solid overall employment gains from 2010 to 2012, only transportation and utilities managed to eke out a modest gain over the last year. Many sectors including mining and logging, construction, retail, finance, leisure and hospitality and the information sector saw employment levels decline during the last twelve months. These declines largely offset the rise in health, professional and business

services and transportation and utilities resulting in the slim 1,000 uptick in total private jobs.

In short, employment growth at the major job drivers has slowed dramatically while the slower growing sectors have stopped expanding or even slipped into negative territory. This is not a healthy position for the Commonwealth. Unfortunately, there is little the state can do in the short run to boost employment expansion. The weakness in Pennsylvania stems principally from national policies that are restraining the economy. Policies that deter investment and punish savings, budget deficits that threaten the national fisc together with continuous calls for higher taxes and reams of new regulations daily are having a smothering effect on the economy. Pennsylvania has been fortunate to have had the substantial boost from Marcellus Shell gas operations but that by itself is not enough to overcome the dead weight of the anchor Washington has attached to the economy.

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