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Commercial Construction Tracks Economic Shifts

Manufacturing jobs in Pennsylvania have been on the decline for many years while private service producing jobs have been on the rise. In 1995, manufacturing provided 877,000 jobs; by 2003 that number decreased to approximately 727,500—a reduction of 17 percent in just eight years. Services industry employment grew 12 percent during the period to more than 4.6 million.

The trend in the Pittsburgh region since 1994 has followed the statewide trend; manufacturing jobs have decreased and service sector jobs have increased. According to the Bureau of Labor Statistics, the number of manufacturing jobs in the Pittsburgh MSA in 1994 was 118,400, and after rising to 126,300 in 1998, fell to 109,200 in 2003—a net drop of nearly 8 percent over nine years. Meanwhile, the number of employees in retail trade rose to a peak of 138,700 in 2000, before falling to 133,500 by 2003—a net increase of 4 percent from 1994.

As would be expected based on the jobs data, the square footage of manufacturing construction lagged well behind the construction of store and restaurant square footage in the Pittsburgh area. Analyzing commercial construction projects in six local counties—Allegheny, Armstrong, Beaver, Butler, Washington, and Westmoreland—since 1998, we found that the square footage and the value of retail store and restaurant construction was more than three times larger than manufacturing plant and warehouse construction. Store and restaurant construction during this time was 13.7 million square feet with a value of nearly $950 million while manufacturing construction amounted to only 4.4 million square feet with a value of $283 million.

The value of store and restaurant construction climbed in the region by 50 percent 1998 to 2003. At the same time, store construction nationally showed a modest 2 percent increase over the five years. It is important to note that store construction across the nation has dropped 8 percent over the last three years. That is quite different from the local pattern, which shows a big jump in store construction over the last three years. This is not surprising considering the recent trend toward the use of large government subsidies to support retail development.

The national and local trends of manufacturing construction values closely mirror each other. From 1998 to 2003, national value of manufacturing projects fell 66 percent. In the region, manufacturing building fell 86 percent from an already low $29 per capita in 1998 to just $4 in 2003. In effect, new manufacturing plant construction has dried up--not too surprising in view of the big decline in employment and the difficulty the region has in attracting manufacturing companies to relocate or expand.

Also of major concern is the large decrease in the value of office and bank building construction in the six-county area in recent years. From 1998 to 2003 the value of office and bank construction fell by 49 percent. Similarly, the value of office and bank construction across the nation plunged 40 percent between 1998 and 2003. These declines have come despite very low interest rates, which would normally support stronger building activity. All this suggests high vacancy rates and slow growth in the jobs that typically utilize office buildings.

The six counties studied offer some interesting comparisons in construction activity. For example, only two of the six counties, Armstrong and Beaver, had higher per capita values for manufacturing plant construction than total store and restaurant value per capita ($66 vs. $18 and $460 vs. $218, respectively). Relatively fast growing Butler County had the highest per capita value of both store and restaurant construction and manufacturing construction.

The decline in the square footage and value of manufacturing projects along side the growth of store and restaurant projects underscores the changing nature of the local economy. Once heavily dominated by manufacturing and its well-paying jobs, the Southwest Pennsylvania economy is now heavily and increasingly dependent on services and retail jobs.

If the region wants to reverse this trend, it will need to develop and implement sound economic policies. Policies that would begin to turn the tide include; lowering the cost of government, reducing taxes and making the area more business friendly. The region would greatly benefit from legislative actions at the state level. Businesses would gain from the elimination of the capital stock and franchise tax and stifling business regulations. A good place to start would be to enact Right to Work legislation.

Relearning the importance of relying on the market place and giving up the heavy reliance on government driven and subsidized development will be the hallmark of a real turnaround in the region.

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