POLICY BRIEF

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Recession Comes to Pittsburgh

After a valiant struggle through most of 2008 to elude the clutches of the recession that has hammered the nation's economy, the Pittsburgh region now appears to have fallen victim to full fledged recession as well. According to data recently posted by the Bureau of Labor Statistics, February's private payroll employment was 18,500 below the year earlier figure—matching the worst twelve month decline since the 2001-2002 downturn. Moreover, revisions to 2007 and 2008 figures show that job losses in November and December were larger than initially reported making the start of serious recession a little earlier than previously thought. Not surprising in light of the rapid descent in the U.S. economy in the second half of 2008.

After briefly reaching 2001 pre-recession job totals in May and October last year, February's reading came in a stunning 32,000 below the February 2001 level. Sectors recording a February gain were limited to health, education and the group called "management of companies and enterprises." Obviously, they were not sufficient to offset the losses piled up in every other major industry component. Indeed, several sectors lost substantial numbers of jobs led by sharp drops in manufacturing, leisure and hospitality, retail trade, and administrative and support services. Manufacturing's employment fell by 6,300 jobs to 92,100, the lowest reading in decades. It is important to note that, since February 2000, the region's factories have shed 37,000 jobs (30 percent) of 2000's employee count.

Along with the big plunge in payroll employment there has undoubtedly been an accompanying major income slide in the region, hence the dip in retail and restaurant jobs. It is clear that we have reached the point where modest pickups in health and education can no longer offset the impact of a staggeringly weak global economy. The only sectors that have been able to withstand the onslaught of weaker demand and grow employment significantly are those whose revenue depends heavily on spending by Federal, and to a lesser extent, state and local governments. And, it appears the Federal stimulus package will bring more of that.

The dramatic increase in the pace of job losses has forecasters predicting a fairly tough rest of 2009 with some arguing that unemployment will climb to 8.5 percent with accompanying job losses for the year rising to 20,000 or greater. Certainly, the February payroll employment data provide supporting evidence for that forecast. On the positive side, the absence of a housing or commercial building boom during the last few years and the ongoing large projects are helping to keep the region's construction sector from suffering the types of losses experienced in other parts of the country.

Still, anecdotal evidence regarding firms and non-profit organizations having serious problems continues to pile up. Many of these operations are imposing unpaid leave, cutting salaries and benefits as ways to minimize layoffs. But clearly a lot of workers have been receiving pink slips in the past few months.

Unfortunately in the short run, there is little local governments can do to counter the downdraft caused by a severe national recession. The one thing local governments and school boards should not do is to make the local problems worse by raising taxes to fill budget gaps. If spending cuts need to be made, they must make them. There can be no sacred cows in an environment this demanding. Of course, the problem is that labor contracts and legacy costs along with "untouchable" expenditure categories now make up such a large part of total spending that it is virtually impossible to make meaningful budget cuts. Management flexibility to impose unpaid leave or to reduce pay or benefits are off the table for government workers covered by bargaining agreements. Thus, the only savings to be had are through layoffs and drastic service reductions.

There has to be recognition at some point that just being a government worker in a union does not confer "special privilege" status as compared to other workers and income earners.

Jake Haulk, Ph.D., President

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www.alleghenyinstitute.org

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org