

THE SMITHFIELD Forecast

A Quarterly Survey of Economic & Investment Trends • Special Edition • August 2010

For Customers & Friends of
SMITHFIELD TRUST COMPANY

HOW GOES THE PITTSBURGH ECONOMY?

As we noted in our last report, the Pittsburgh Metropolitan market has escaped the worst of the recession that started in December 2007 and probably ended in June or July of last year. True, the latest statistics on employment show that in June 2010 non-farm payroll employment was down 1.7% from December 2007, representing a loss of 18,800 jobs. This percentage decline, however, was one of the lowest recorded in any major metropolitan area of the country. As a matter of fact, only three metropolitan areas out of a total of 36 reported a smaller percentage drop in payroll employment that was less than the decline of 1.7% reported in the Pittsburgh Metropolitan market. And looking at the first six months of 2010 as compared with the same period of 2009, the numbers show that the Pittsburgh area recorded a less than 1% drop in payroll employment which, remarkably, was the smallest percentage decline reported for any large metropolitan area, with the exceptions of Austin, TX, Washington, DC and Dallas, TX. In June 2010, moreover, the Pittsburgh area was one of the very few large metropolitan areas to record an increase in payroll employment over the same months a year ago. The increase of 0.4% – representing 4,800 jobs – while relatively small, represents a welcome reversal of the decline that started some two years ago. And, although it would be very premature to conclude that the job market has turned the corner, the June statistic does at least point to a more stable pattern of employment over the coming months.

While the latest job count places Pittsburgh in a surprisingly favorable light, it should be noted that in the years preceding the economic downturn of 2008-09, Pittsburgh did not share in the strong growth of national employment. Between 2003 and 2007, nonfarm payroll employment for the nation as a whole posted a near-6% gain, far above the slender 1% increase reported in the Pittsburgh Metropolitan market. However, the strong employment growth at the national level between 2003 and 2007 proved to be short-lived as the recession took its toll on those industries that had accounted for much of the preceding rise in jobs. Looked at another way, the strong growth in employment during the pre-recession years was evidently concentrated in those sectors of the economy which proved to be highly vulnerable to the forces of recession. And to compound the problem facing a number of metropolitan areas, it is evident that a significant percentage of recent job losses are permanent and are unlikely to return even as the economy continues to improve.

Recently released statistics provide additional insights into the remarkable transformation of the Pittsburgh economy. In 2008 – the latest period for which these statistics are available – manufacturing and construction accounted for 14.4% of nonfarm earnings in Allegheny County as compared with over 17% in the nation as a whole.

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And illustrating the relative stability of the Pittsburgh economy, the health care and professional services industries accounted for nearly 26% of personal income, significantly higher than the 20% recorded for the nation as a whole. By way of contrast, government employment, which accounted for 17% of income at the national level, represented less than 10% of income in Allegheny County.

Meantime, Pittsburgh's per capita personal income in 2009 reached \$42,216, which ranked 48th out of a total of 366 metropolitan areas in the country. This latest ranking, while down slightly from 2008, is still well above the 60th place ranking in 1999 and, as can be seen by the accompanying table, compares very favorably with other large metropolitan areas and particularly those in the industrial Midwest and Northeastern areas of the country. Notably, Pittsburgh's improvement in ranking over the past decade is in striking contrast to the declines reported by other large metropolitan areas in the Fourth Federal Reserve District.

Although the Pittsburgh market did not share in the housing boom – or bubble – of 2003-06, there has been a substantial cutback in homebuilding activity as evidenced by the slump in the number of building permits issued for residential construction from 5,633 in 2006 to 3,033 last year. We should point out, too, that the figure for 2009 is a far cry from the number of almost 7,000 recorded in 1999. Since the number of building permits issued during the first five months of this year totaled only 1,337, there is some doubt as to whether home building in 2010 will even match, let alone exceed, last year's dismal performance. While home prices are difficult, if not impossible, to predict, we doubt that homeowners will see a significant rise in house prices during 2010. In recent years, home prices in the Pittsburgh Metropolitan market have not shown the same degree of volatility as those reported for the nation as a whole. In 2005, for example, home prices in the Pittsburgh market were up just over 4% from a year earlier – far below the national increase of close to 12%. If, as we expect, the recent weakness in home building activity continues through the balance of this year, our best guess is that home prices in 2010 will show little change from those reported last year.

The Pittsburgh Metropolitan market has weathered the economic storm in better shape than most observers would have dared to predict. And in contrast to most other major metropolitan areas of the country, there are signs, albeit tentative, that a gradual improvement in the job market may be taking shape. There is little or no doubt that Pittsburgh's transformation from a heavy manufacturing-based economy to one increasingly oriented towards non-cyclical and growth oriented services has been responsible for the area's resilience during the recent severe downturn. As to the future, it would be unrealistic to expect that the coming months will see strong gains in employment, income, production and trade. Nonetheless, we see a slow, and not always steady, strengthening of the local economy which could come close to matching the growth prospects for the nation as a whole. Without minimizing the problems facing the Pittsburgh area, we believe that the area's recent performance during a particular severe economic downturn bodes well for the future. Those, who in recent years contrasted the vigorous economic gains reported in many parts of the country with Pittsburgh's slow progress, might well remember Aesop's fable of "The Tortoise and the Hare."

— Norman Robertson

The information and data used in the preparation of this report were obtained from public or private sources deemed to be reliable, but Smithfield Trust Company does not guarantee their accuracy. All opinions or predictions expressed herein are subject to change, without notice to the reader, based upon prevailing political, economic or securities markets conditions. The material in this Forecast was prepared in early August and is based on information available at that time.

NON-FARM PAYROLL EMPLOYMENT

% CHANGE JUNE 2009 - JUNE 2010

Austin-Round Rock-San Marcos, TX	1.33%
Dallas-Fort Worth-Arlington, TX	0.95%
Washington-Arlington-Alexandria, DC-VA-MD-WV	0.50%
PITTSBURGH, PA	0.42%
Cleveland-Elyria-Mentor, OH	0.41%
Boston-Cambridge-Quincy, MA-NH	0.39%
Charlotte-Gastonia-Rock Hill, NC-SC	0.20%
Baltimore-Towson, MD	0.05%
Minneapolis-St. Paul-Bloomington, MN-WI	-0.09%
St. Louis, MO-IL	-0.15%
Phoenix-Mesa-Glendale, AZ	-0.29%
Indianapolis-Carmel, IN	-0.37%
Cincinnati-Middletown, OH-KY-IN	-0.41%
San Antonio-New Braunfels, TX	-0.45%
New York-Northern New Jersey-Long Island, NY-NJ-PA	-0.51%
Orlando-Kissimmee-Sanford, FL	-0.51%
Houston-Sugar Land-Baytown, TX	-0.68%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-0.74%
San Jose-Sunnyvale-Santa Clara, CA	-0.78%
Seattle-Tacoma-Bellevue, WA	-0.97%
Atlanta-Sandy Springs-Marietta, GA	-1.01%
San Diego-Carlsbad-San Marcos, CA	-1.01%
Columbus, OH	-1.03%
Tampa-St. Petersburg-Clearwater, FL	-1.04%
Detroit-Warren-Livonia, MI	-1.07%
Kansas City, MO-KS	-1.16%
Miami-Fort Lauderdale-Pompano Beach, FL	-1.25%
Los Angeles-Long Beach-Santa Ana, CA	-1.32%
Denver-Aurora-Broomfield, CO	-1.56%
Chicago-Joliet-Naperville, IL-IN-WI	-1.75%
Portland-Vancouver-Hillsboro, OR-WA	-1.85%
Milwaukee-Waukesha-West Allis, WI	-2.22%
Sacramento--Arden-Arcade--Roseville, CA	-2.62%
San Francisco-Oakland-Fremont, CA	-2.73%
Riverside-San Bernardino-Ontario, CA	-2.81%
Las Vegas-Paradise, NV	-2.89%

NON-FARM PAYROLL EMPLOYMENT

% CHANGE JAN-JUN 2009 - JAN-JUN 2010

Austin-Round Rock-San Marcos, TX	0.07%
Washington-Arlington-Alexandria, DC-VA-MD-WV	-0.22%
Dallas-Fort Worth-Arlington, TX	-0.80%
PITTSBURGH, PA	-0.89%
San Antonio-New Braunfels, TX	-1.26%
Boston-Cambridge-Quincy, MA-NH	-1.29%
Baltimore-Towson, MD	-1.39%
St. Louis, MO-IL	-1.42%
New York-Northern New Jersey-Long Island, NY-NJ-PA	-1.52%
Charlotte-Gastonia-Rock Hill, NC-SC	-1.70%
Cincinnati-Middletown, OH-KY-IN	-1.85%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-1.95%
Indianapolis-Carmel, IN	-1.98%
Columbus, OH	-2.00%
Minneapolis-St. Paul-Bloomington, MN-WI	-2.01%
Cleveland-Elyria-Mentor, OH	-2.01%
Houston-Sugar Land-Baytown, TX	-2.03%
Kansas City, MO-KS	-2.16%
San Diego-Carlsbad-San Marcos, CA	-2.25%
Tampa-St. Petersburg-Clearwater, FL	-2.26%
Orlando-Kissimmee-Sanford, FL	-2.44%
Miami-Fort Lauderdale-Pompano Beach, FL	-2.46%
Phoenix-Mesa-Glendale, AZ	-2.56%
San Jose-Sunnyvale-Santa Clara, CA	-2.56%
Los Angeles-Long Beach-Santa Ana, CA	-2.62%
Atlanta-Sandy Springs-Marietta, GA	-2.65%
Seattle-Tacoma-Bellevue, WA	-2.66%
Denver-Aurora-Broomfield, CO	-2.78%
Chicago-Joliet-Naperville, IL-IN-WI	-2.78%
Portland-Vancouver-Hillsboro, OR-WA	-2.90%
Milwaukee-Waukesha-West Allis, WI	-3.11%
Sacramento--Arden-Arcade--Roseville, CA	-3.31%
Detroit-Warren-Livonia, MI	-3.61%
San Francisco-Oakland-Fremont, CA	-3.78%
Riverside-San Bernardino-Ontario, CA	-4.20%
Las Vegas-Paradise, NV	-5.04%

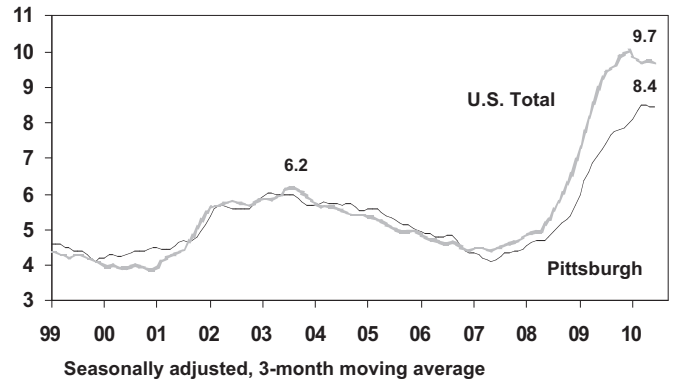
NON-FARM PAYROLL EMPLOYMENT
% CHANGE DECEMBER 2007* - JUNE 2010

Austin-Round Rock-San Marcos, TX	-0.27%
Washington-Arlington-Alexandria, DC-VA-MD-WV	-1.28%
San Antonio-New Braunfels, TX	-1.62%
PITTSBURGH, PA	-1.69%
Houston-Sugar Land-Baytown, TX	-3.30%
Baltimore-Towson, MD	-3.56%
Dallas-Fort Worth-Arlington, TX	-3.62%
Boston-Cambridge-Quincy, MA-NH	-3.69%
Kansas City, MO-KS	-4.14%
New York-Northern New Jersey-Long Island, NY-NJ-PA	-4.69%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-4.92%
St. Louis, MO-IL	-4.93%
Minneapolis-St. Paul-Bloomington, MN-WI	-4.93%
Denver-Aurora-Broomfield, CO	-5.53%
Columbus, OH	-5.55%
Cincinnati-Middletown, OH-KY-IN	-5.87%
Seattle-Tacoma-Bellevue, WA	-6.03%
Cleveland-Elyria-Mentor, OH	-6.11%
Indianapolis-Carmel, IN	-6.28%
Milwaukee-Waukesha-West Allis, WI	-7.28%
San Diego-Carlsbad-San Marcos, CA	-7.38%
Chicago-Joliet-Naperville, IL-IN-WI	-7.56%
San Jose-Sunnyvale-Santa Clara, CA	-7.87%
Charlotte-Gastonia-Rock Hill, NC-SC	-7.93%
Atlanta-Sandy Springs-Marietta, GA	-8.44%
Portland-Vancouver-Hillsboro, OR-WA	-9.04%
Sacramento--Arden-Arcade--Roseville, CA	-9.61%
Los Angeles-Long Beach-Santa Ana, CA	-9.66%
San Francisco-Oakland-Fremont, CA	-9.90%
Orlando-Kissimmee-Sanford, FL	-10.22%
Tampa-St. Petersburg-Clearwater, FL	-10.70%
Miami-Fort Lauderdale-Pompano Beach, FL	-12.34%
Detroit-Warren-Livonia, MI	-12.74%
Phoenix-Mesa-Glendale, AZ	-13.35%
Riverside-San Bernardino-Ontario, CA	-13.56%
Las Vegas-Paradise, NV	-14.55%

Per Capita Personal Income Rank in United States

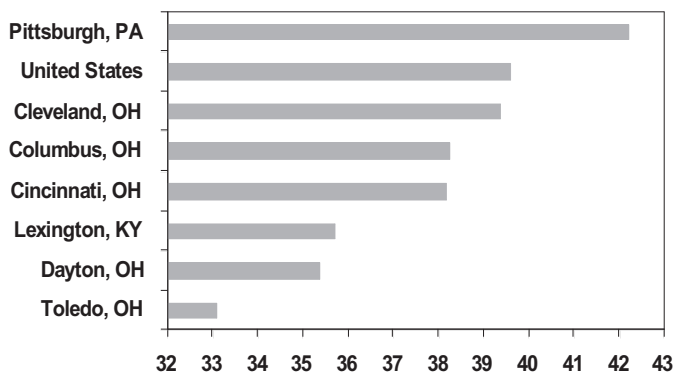
	1999	2005	2007	2009
Pittsburgh, PA	60	54	50	48
St. Louis, MO	53	63	63	61
Kansas City, MO	47	70	69	69
Cleveland, OH	57	61	65	75
Indianapolis, IN	48	62	85	93
Columbus, OH	59	68	88	97
Cincinnati, OH	42	63	79	100
Detroit, MI	30	61	90	114
Lexington, KY	70	90	95	150
Dayton, OH	103	124	156	161
Toledo, OH	113	144	171	230

Unemployment Rate Percent



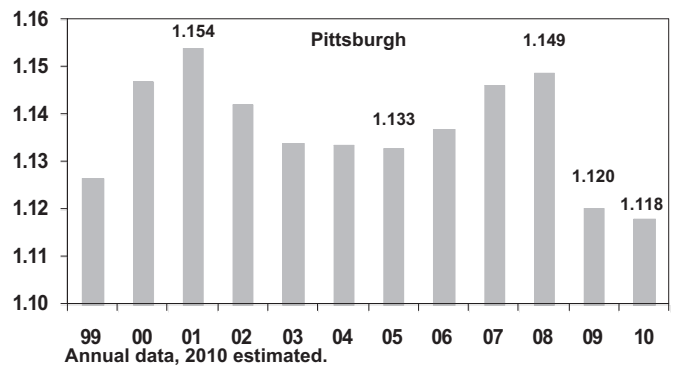
Per Capita Personal Income - 2009

Thousands of Dollars

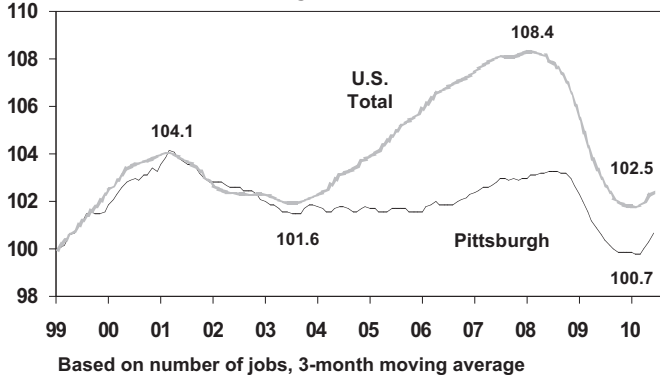


Nonfarm Payroll Employment

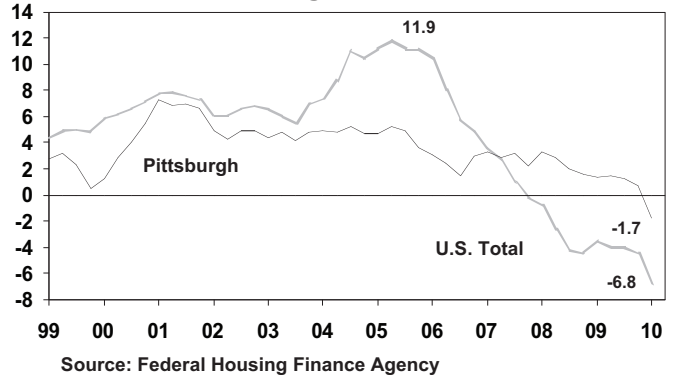
Millions of Jobs



Nonfarm Payroll Employment January 1999 = 100



House Price Index Percent Change from Prior Year



Housing Permits 1999 = 100

