

# THE SMITHFIELD Forecast

*A Quarterly Survey of Economic & Investment Trends • Special Edition • January 2012*

*For Customers & Friends of*  
SMITHFIELD TRUST COMPANY

## **THE PITTSBURGH ECONOMY – SOME GOOD NEWS**

While the Pittsburgh Steelers' loss to the Denver Broncos on January 8 was a bitter blow, some comfort can be taken from a different set of statistics, notably, those relating to the local economy. The performance of the Pittsburgh economy during the recent recession and subsequent recovery has been very different from what past experience might have suggested. In the past, recessions in the local area were considerably worse – and recoveries a good deal weaker – than in the nation. But on this occasion, the recession in Pittsburgh was much less severe than in the nation while the recovery – as measured by employment – has been a good deal stronger than in the country as a whole.

Looking first at developments during the recession, the Pittsburgh Metropolitan Market lost less than 3% of its payroll employment which compares with a near 6% decline at the national level. And since the recession ended in June 2009, nonfarm payroll employment in the Pittsburgh area has posted a 3% gain, whereas in the U.S., employment is up less than 1% over this same time period. Furthermore, employment in the U.S. is still some 4% below its pre-recession level, while the Pittsburgh area has fully recovered the jobs lost during the economic downturn. As a consequence, Pittsburgh is one of the very few large metropolitan areas recording a level of employment that now exceeds pre-recession levels.

To a significant degree, Pittsburgh's relatively robust economic performance can be attributed to the fact that employment in a number of key industry groups either grew more rapidly or declined less than at the national level or in most other major metropolitan areas. For example, as can be seen on the following table, employment in the construction industry declined more than 23% in the U.S., far above the 1.7% decline registered in the Pittsburgh Metropolitan Market. Likewise, employment in the education and health categories posted a 1% gain in the Pittsburgh area as compared with the nationwide decline of 3.3%.

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Percent Change in Industry Employment – Dec. 2007* - Nov.2011		
	U.S.	Pittsburgh
Construction	-23.4%	-1.7%
Manufacturing	-14.3%	-10.9%
Financial	-7.5%	-8.4%
Professional & Business	+8.9%	+9.2%
Education & Health	-3.3%	+1.0%
Government	-1.2%	+0.2%

\*Beginning of 2007-09 recession.  
Source: Bureau of Labor Statistics – U.S. Department. of Labor.

On a less positive note, the housing market in the Pittsburgh area has not yet recovered from the downturn that started in 2002. Even though the nationwide housing boom of 2003-2006 bypassed the Pittsburgh area, the magnitude of the subsequent decline has closely approximated the slump in activity reported for the nation as a whole. Thus, the number of building permits issued has fallen from 6,869 in 2002 to 3,615 in 2010 and an estimated 3,100 in 2011. While the housing market should slowly improve during 2012, we doubt whether new residential construction in the Pittsburgh area will exceed the dismally low number reported in 2010.

Turning to a broader measure of economic growth – Real Gross Domestic Product – the Pittsburgh Metropolitan Area recorded a gain of 4.1% in 2010 – the latest year for which data is available. This robust increase surpassed the gain of 2.5% reported for the U.S. and was, with few exceptions, the largest advance recorded by any major metropolitan market. In 2009, moreover, the Pittsburgh area posted a year-over-year decline in GDP of 1.9%, which was less than the drop of 2.5% for the nation and one of the smallest experienced by any large metropolitan area.

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Real GDP % Change from Prior Year		
	<u>2009</u>	<u>2010</u>
U.S. (Metro Area Portion)	-2.5	+2.5
<b>PITTSBURGH</b>	<b>-1.9</b>	<b>+4.1</b>
Atlanta	-4.9	+1.6
Boston	-2.9	+4.8
Charlotte	-3.0	+2.6
Chicago	-3.3	+1.9
Cincinnati	-3.3	+2.1
Cleveland	-4.4	+2.2
Columbus	-2.0	+2.4
Dallas	-1.1	+2.5
Denver	+0.5	+1.3
Detroit	-6.6	+2.6
Indianapolis	-1.8	+3.6
Kansas City	-2.6	+1.5
Los Angeles	-4.4	+1.7
Milwaukee	-2.9	+1.4
Minneapolis	-2.7	+3.4
Philadelphia	-1.0	+2.3
San Francisco	-4.0	+0.5
St. Louis	-4.2	+1.5
Source: Bureau of Economic Analysis – U.S. Department of Commerce.		

Finally, in contrast to the decline in the nation's real GDP between 2007 and 2010, the Pittsburgh area's real GDP in 2010 was 2.7% above what it was in the pre-recession year of 2007. As a consequence, Pittsburgh's overall economic growth since 2007 has exceeded the majority of other large metropolitan areas.

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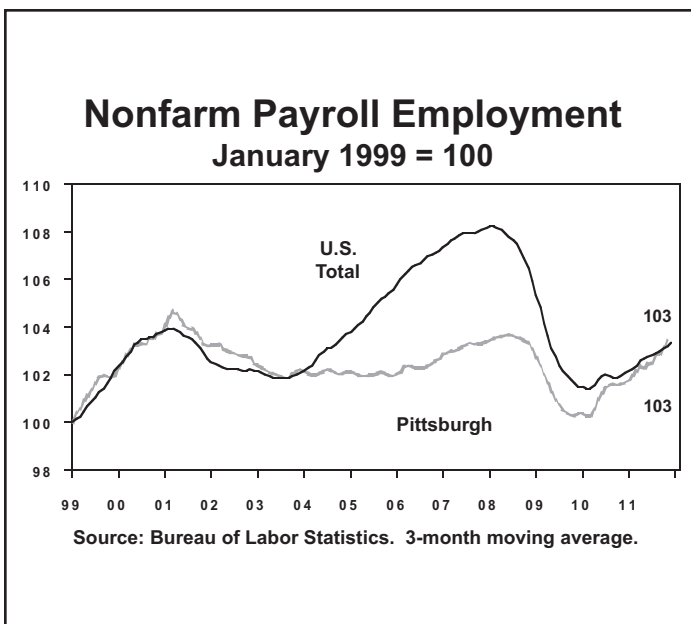
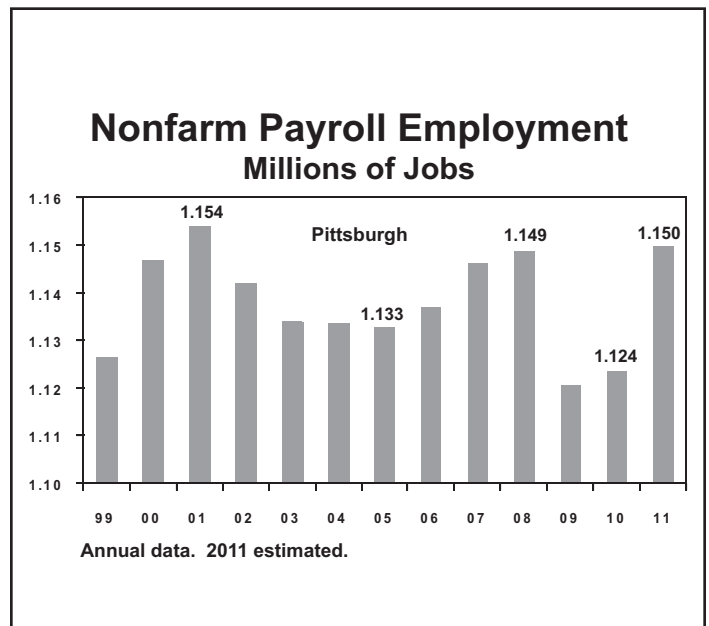
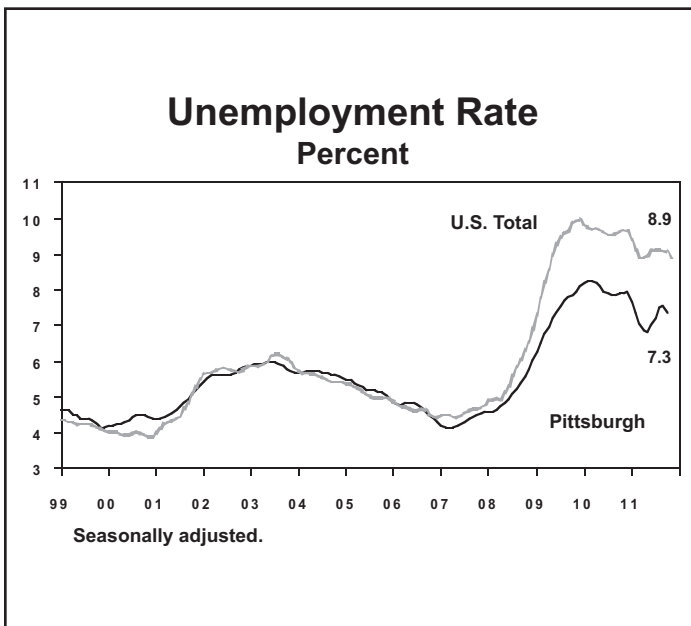
Real GDP % Change 2007-2010	
U.S. (Metro Area Portion)	-0.4%
<b>PITTSBURGH</b>	+2.7%
Atlanta	-4.3%
Boston	+3.2%
Charlotte	-1.2%
Chicago	-2.8%
Cincinnati	-2.0%
Cleveland	-3.4%
Columbus	-0.7%
Dallas	+1.9%
Denver	+4.0%
Detroit	-8.4%
Indianapolis	+2.7%
Kansas City	No Change
Los Angeles	-3.0%
Milwaukee	-1.4%
Minneapolis	+1.2%
Philadelphia	+1.2%
San Francisco	-1.4%
St. Louis	-0.8%
Source: Bureau of Economic Analysis – U.S. Department of Commerce.	

To be sure, all these statistics relate to the past. And needless to say, past performances cannot necessarily be viewed as a guide to what will happen down the road. Furthermore, it can – and will – be argued that the recent ranking of the Pittsburgh Metropolitan Market in terms of employment and GDP growth since 2007 partially reflects the region’s slow growth in the years preceding 2007. That said, much of the growth in the nation’s real GDP between 2002 and 2007 reflected the debt-fueled housing boom which subsequently collapsed and, in so doing, played a significant role in sparking the 2007-2009 recession. The fact that the housing boom missed the Pittsburgh area, coupled with the steady growth of the education, health care and energy-related sectors, accounts for the recent strength of Pittsburgh’s economy relative to that of the nation as a whole and other large metropolitan areas.

Without minimizing the challenges that lie ahead, we are optimistic about Pittsburgh’s economic future. While economic forecasting is, to say the least, a humbling experience, we believe that, with strong forward-looking political leadership, the diversified – and even revitalized – Pittsburgh economy is now well positioned to match, and even exceed, the economic growth rate for the U.S. in total. Thus, we see a good chance that the Pittsburgh area’s rate of real GDP growth in 2012 will equal or surpass the nation’s expected gain of about 2.5%. Of greater interest, perhaps, than projections of GDP growth – which, to much of mainstreet America, is viewed as a somewhat abstract

and academic concept – is our expectation that, in 2012, payroll employment in the Pittsburgh Metropolitan Market could be in the neighborhood of 1,170,000 – the highest level in at least 20 years. What we are suggesting is that the job market in Pittsburgh during 2012 should continue to show modest to moderate improvement.

— Norman Robertson

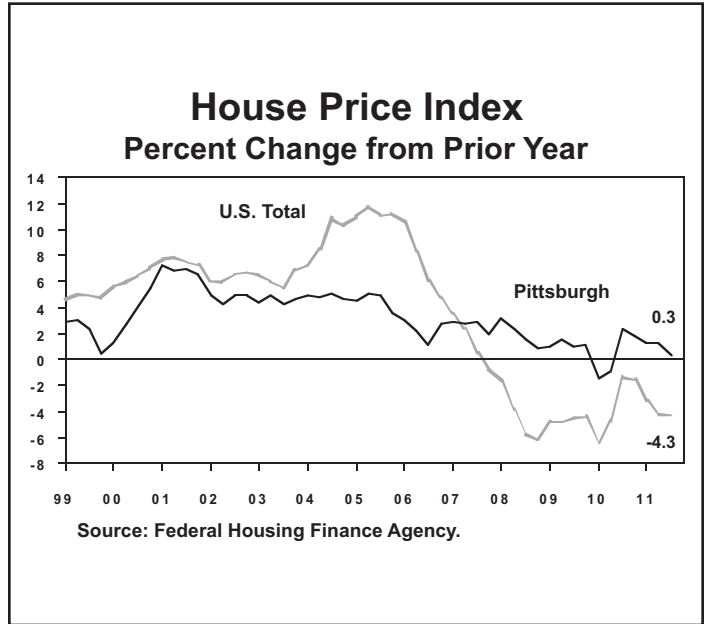
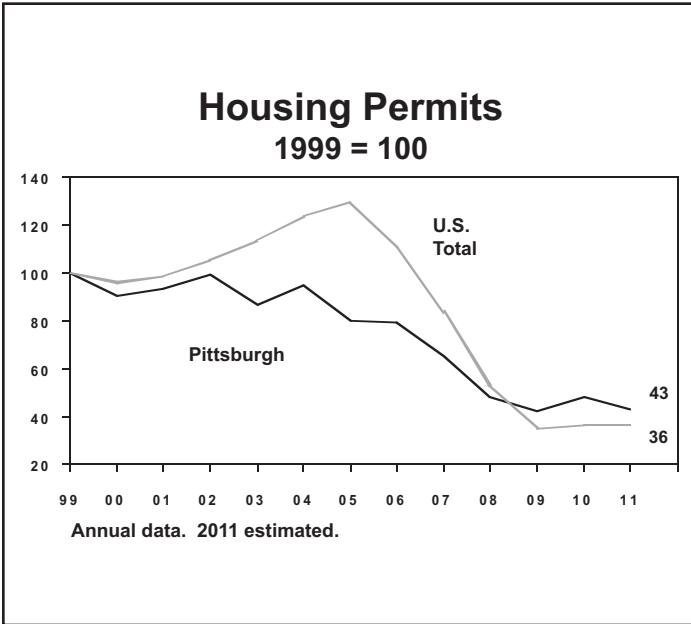


### Per Capita Personal Income Rank in United States

	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

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*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 January and is based on information available at that time.*

## SMITHFIELD TRUST COMPANY BOOK REVIEWS

### Overdosing on the Civil War, or It's Nice to be Retired

Having been on my book list for years, I finally got to the *Personal Memoirs of U.S. Grant*. As is well known (and the subject of a recent book), Grant finished writing his memoirs (with the help of Mark Twain) just before he died. Proceeds from the book reversed the Grant family fortunes for it was a best seller in 1885-1886. I have not met anyone who has not liked this book (though written in two volumes, the 1894 printing I read combines “two volumes in one”).

I certainly enjoyed Grant's autobiography, though it was a bit tedious in parts – most notably, the Vicksburg campaign. I would characterize Grant's style of writing as under-stated. Early on, he didn't have much good to say about his superior General Halleck, but he didn't criticize him either. Indeed, he rarely criticized any of his fellow officers, either on his side or the other (Confederate General Braxton Bragg being the exception). This is the way he described the Battle of the Crater before Petersburg: “The effort was a stupendous failure. It cost us about four thousand men, mostly, however, captured (I'm not sure that's factually correct.); and all due to inefficiency on the part of the corps commander (Burnside, I believe) and incompetency of the division commander who was sent to lead the assault.” He could have written a lot more, such as his basically kicking Burnside out of the war as a result of his (another) failure.

Or, how about these comments regarding Sherman's march through Georgia: “I was in favor of Sherman's plan from the time it was first submitted to me. My chief of staff, however, was very bitterly opposed to it and, as I learned subsequently, finding he could not move me, he appealed to the authorities at Washington to stop it.” I wonder what happened to that chief of staff.

While reading this book, I stumbled across an internet offering (Open Yale Courses) of Yale Professor David W. Blight's course “The Civil War and the Reconstruction Era 1845-1877.” Blight's 27 lectures (dealing with the causes, course and consequences of the war) were incredible to me, for I thought I understood this war and its legacies. Peppared with his reading poems and portions of essays, Blight describes this war (nay this era) from the “small” people's (both black and white) perspectives. From his lectures, I received new insights into the 1850s and our slide into war. His narrative of the war itself was pretty standard fare, but his treatment of the post-war period was eye-opening, like I've rarely experienced. I never really understood that Reconstruction was the failure that it was, why that came about and the white supremacy legacy – in both the South and the North – that it spawned. Now, I understand how deadly the Lost Cause really was.

And, since Blight recommended to his students that they watch Ken Burns 1990 series, “*The Civil War*,” I went looking for that series as well (it's truly amazing what one can find on the internet!). I don't believe I watched all 9 episodes back in 1990 when it came out, but I did this time. That is indeed a marvelous documentary, certainly worthy of a re-watch if you haven't seen it lately (each episode lasts roughly an hour).

— Tim Merrill

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