THE SMITHFIELD Forecast

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THE PITTSBURGH ECONOMY – LOOKING UP

At a time when good economic news has been in very short supply, the latest report on the employment situation has provided the first hopeful sign that, at long last, the labor market might be starting to stabilize. According to the Bureau of Labor Statistics, nonfarm payroll employment in November was just 11,000 below the previous month, marking the smallest monthly decline since the end of 2007. At the same time, the Bureau revised its earlier estimate of job losses in September and October from 409,000 to a much lower figure of 250,000. Another positive sign has been the almost steady decline in first-time claims for unemployment insurance from 650,000 last spring to the latest reading of 460,000. While these statistics are certainly encouraging, they cannot be regarded as conclusive evidence that the labor market has turned the corner. Any such conclusion will have to await several consecutive months of gains – not losses – in payroll employment.

While November employment data for the Pittsburgh metropolitan area is not yet available, the record through October continues to show that the local labor market has held up remarkably well during the deep recession of 2008-09. To be sure, the loss of some 33,000 jobs since the recession started at the end of 2007 is admittedly nothing to cheer about. But in percentage terms, the decline was appreciably smaller than those recorded for the nation as a whole and most other large metropolitan areas. Thus, since the end of 2007, Pittsburgh's nonfarm payroll employment has fallen by roughly 2.8% as compared with a drop of almost 5½% for the United States in total. In fact, Pittsburgh's decline in payroll employment has, of late, been one of the smallest reported for any major metropolitan area. Looking at the employment data for the first ten months of this year as compared with the comparable period of 2008, there were only nine large metropolitan areas out of a total of 38 that reported a percent decline in jobs that was less than the 2.4% fall recorded in the Pittsburgh region. And in a closely related development, the unemployment rate in the Pittsburgh area has averaged 7.5% through the first ten months of 2009 which again compares favorably with the national average of 9.0%.

Meanwhile, per capita personal income in the Pittsburgh metropolitan area reached $43,000 in 2008 which ranked 45th out of the 372 metropolitan areas in the country. What is remarkable is the steady improvement in Pittsburgh's ranking from 60th in 1999 to the latest reading of 45th. Other areas in the Fourth Federal Reserve District have clearly not fared as well since all have recorded significant declines in their ranking since 1998. Another factor which has also contributed to the Pittsburgh area's relatively favorable economic performance over the past couple of years has been the limited exposure of the local area to those industries that have suffered the largest job losses during the recent economic downturn. Notably, the Pittsburgh area has recorded a

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7% decline in goods-producing employment since the end of 2007 which was less than half the near-15% drop recorded in the nation as a whole. Equally significant has been the fact that employment in education and health services in the Pittsburgh area, which for all intents and purposes have been the only sectors of the economy to report growth in employment during the economic recession, has constituted 21% of the region's total employment as compared with less than 15% for the country as a whole. Similarly, education and health services represented 11.5% of the Pittsburgh metropolitan area's GDP – the key measure of economic activity – in 2008, which was significantly above the 8.2% reported for the U.S. in total.

When all is said and done, the Pittsburgh metropolitan area has escaped the worst of the 2008-09 recession and, in our view, is well positioned to participate in the national economic recovery, which is now underway. So far as the national economic outlook for 2010 is concerned, we have not changed our earlier forecast that real GDP will post a gain of about 2.5%, which would represent a subdued – as opposed to robust – period of economic expansion. True, a 3% growth rate could be within reach especially since the recovery is starting from a very low level of activity. That said, the economy, in our opinion, faces some formidable obstacles to a more rapid pace of expansion in 2010. From our standpoint, an early return to the strong pre-recession levels of consumer spending seems unlikely in the face of a weak job market, a level of household wealth which is still some $12 trillion below its 2007 peak and a limited availability of credit for a significant number of potential borrowers. And even assuming a more ample supply of credit, there is good reason to believe that a significant number of households have already reached the outer limits of their debt servicing capacity. At the same time, the likely persistence of tight credit market conditions will probably have negative implications for the ability of many small businesses to increase spending – and employment. Finally, the fiscal woes of many state and local governments seem likely to preclude much, if any, increase in outlays for goods and services in 2010.

Against this backdrop, we look for a gradual strengthening of economic activity in the Pittsburgh area during 2010. The area's increased allocation of labor to the health, education and high technology services sectors bodes well for the resumption of monthly job gains – rather than losses – in 2010. Over the longer term, moreover, it might be noted that according to the latest projections of employment growth over the next decade developed by the Bureau of Labor Statistics, the fastest growing segments of job growth will be health care and related services, as well as professional and business services.

Although we look for the resumption of modest gains in the area's payroll employment in 2010, we are concerned that the job increases over the coming year may not be large enough to make a significant dent in the present day unemployment rate. Meanwhile, most retailers should see a return of year-over-year gains in sales, which although on a modest scale, would nonetheless represent a welcome reversal of recent year-on-year declines in activity. Finally, homebuilding activity – which in 2009 will fall to its lowest level in recent memory – should at the very least stabilize and move slowly forward during the coming year.

Without ignoring – or seeking to minimize – the fiscal and other assorted problems facing the Pittsburgh area, we believe that the region – which has emerged from the recession in considerably better shape than most other major metropolitan areas – is headed for renewed growth in 2010.

We wish all of our readers good health and good fortune in 2010.

— Norman Robertson

NON-FARM PAYROLL EMPLOYMENT
% CHANGE JAN-OCT '09 VS. JAN-OCT '08

Detroit	-7.7%
Phoenix	-7.4%
Riverside - San Bernardino - Ontario	-6.1%
Las Vegas	-5.9%
Charlotte	-5.7%
Atlanta	-5.3%
Cleveland	-5.0%
Milwaukee	-5.0%
Orlando	-5.0%
Portland (O)	-4.9%
Sacremento	-4.9%
Tampa – St. Petersburg	-4.4%
San Francisco	-4.2%
San Jose	-4.2%
Chicago	-4.1%
Los Angeles	-4.1%
Denver	-3.9%
Nashville	-3.9%
Miami	-3.8%
Indianapolis	-3.7%
San Diego	-3.7%
Cincinnati	-3.6%
Minneapolis	-3.5%
Seattle	-3.4%
Philadelphia	-3.0%
St. Louis	-3.0%
Baltimore	-2.6%
Boston	-2.6%
PITTSBURGH	**-2.4%**
New York City	-2.3%
Houston	-2.0%
Columbus	-1.9%
Kansas City	-1.9%
Dallas	-1.7%
Virginia Beach	-0.9%
Washington, DC	-0.9%
San Antonio	-0.5%
Austin	-0.3%

Source: Bureau of Labor Statistics

AVERAGE UNEMPLOYMENT RATE
JANUARY-OCTOBER 2009

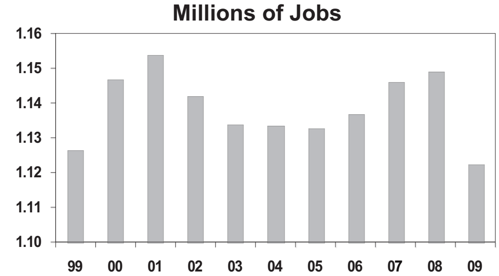
Detroit	15.5%
Riverside - San Bernardino - Ontario	13.5%
Charlotte	11.8%
Las Vegas	11.8%
Sacremento	11.4%
San Jose	11.3%
Portland (O)	11.1%
Los Angeles	11.0%
Orlando	10.6%
Chicago	9.9%
San Francisco	9.9%
Tampa – St. Petersburg	9.9%
Atlanta	9.8%
San Diego	9.8%
Miami	9.7%
St. Louis	9.4%
Nashville	9.1%
Cleveland	9.0%
Milwaukee	8.8%
Seattle	8.6%
Cincinnati	8.5%
New York City	8.5%
Columbus	8.4%
Indianapolis	8.4%
Baltimore	8.3%
Philadelphia	8.3%
Boston	7.9%
Minneapolis	7.8%
Phoenix	7.8%
Dallas	7.6%
Kansas City	7.6%
Houston	7.5%
PITTSBURGH	**7.5%**
Denver	6.9%
Virginia Beach	6.8%
Austin	6.7%
San Antonio	6.5%
Washington, DC	6.1%

Unemployment Rate
Percent

	1999	2006	2007	2008	2009
Pittsburgh, PA	4.5	4.7	4.3	5.1	7.5
Lexington, KY	2.1	4.6	4.2	5.0	8.4
Columbus, OH	2.7	4.7	4.7	5.5	8.4
United States	4.3	4.6	4.6	5.8	9.5
Cleveland, OH	4.2	5.4	5.9	6.6	8.6
Cincinnati, OH	3.5	5.2	5.0	5.8	9.6
Dayton, OH	3.8	5.7	5.9	7.1	11.0
Toledo, OH	5.0	6.0	6.4	8.0	11.4

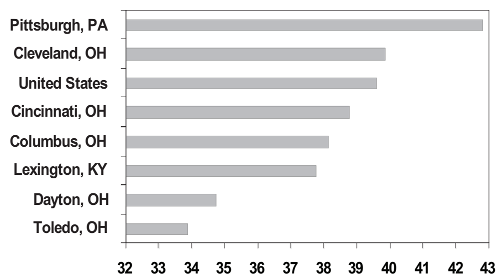
Annual data, 2009 based on January-October data

Nonfarm Employment - Pittsburgh
Millions of Jobs

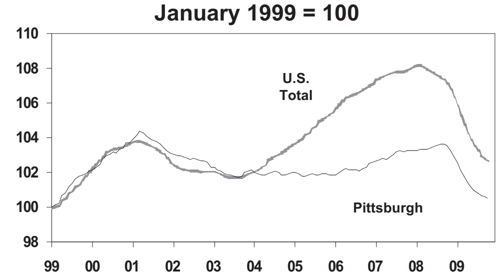


Annual data, 2009 estimate based on January-October data

Per Capita Personal Income - 2008
Thousands of Dollars



Payroll Employment
January 1999 = 100

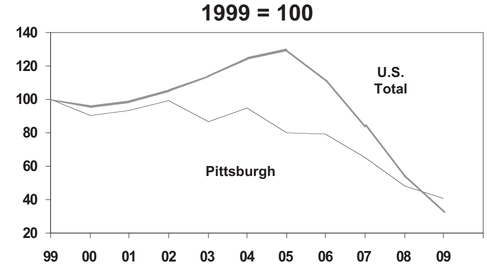


Based on number of jobs, 3-month moving average

Per Capita Personal Income
Rank in United States

	1999	2005	2006	2007	2008
Pittsburgh, PA	60	54	48	50	45
Cleveland, OH	57	61	74	65	69
Cincinnati, OH	42	63	78	79	86
Columbus, OH	59	68	80	88	98
Lexington, KY	70	90	102	95	109
Dayton, OH	103	124	143	156	172
Toledo, OH	113	144	169	171	196

Housing Permits
1999 = 100

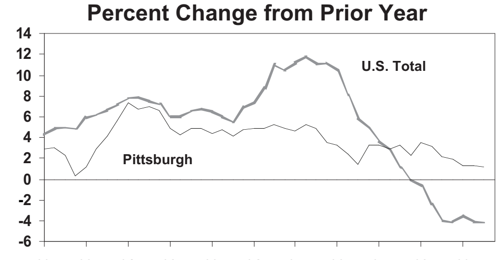


Annual data, 2009 based on January-October data

Population and Income Growth
Average Annual Percent Change 1998 - 2008

	Total Personal Income	Population	Per Capita Personal Income
Pittsburgh, PA	4.1	-0.4	4.5
United States	4.9	1.0	3.9
Cincinnati, OH	4.1	0.8	3.3
Columbus, OH	4.5	1.2	3.3
Lexington, KY	4.6	1.3	3.3
Cleveland, OH	2.9	-0.3	3.2
Dayton, OH	2.5	-0.2	2.8
Toledo, OH	2.6	-0.2	2.7

House Price Index
Percent Change from Prior Year



Source: Federal Housing Finance Agency