Regional economy to trudge along on slow track

By Thomas Olson

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The Pittsburgh area is on track to produce about 9,400 jobs in 2007, the third consecutive year of gains but 1,000 shy of last year's increase, say projections from PNC Financial Services Group.

The trend line indicates the region is stuck on a slow track, not the fast track, toward economic expansion, say some experts. The region generated about 10,400 jobs last year and only 4,500 in 2005 -- practically all of them in service segments, such as health care or leisure and hospitality.

Why is it so difficult for the area to hit its stride for job creation? Economists and policy analysts point to several factors, including an aging population, the long transition from the region's past as a steel mecca and state taxes and laws that businesses find less than friendly.

"Believe it or not, the transition away from the heavy-industry economy that so dominated our region toward a more dynamic, service-oriented, entrepreneurial economy is still not complete yet," said Donald Smith, director of economic development for Carnegie Mellon University and the University of Pittsburgh.

"Whether it's San Diego, or Boston or Research Triangle (N.C.), it takes 20 years or more for those transitions to play out," said Smith. "Pittsburgh is more entrepreneurial than it was 20 years ago, but we're still playing catch-up."

Pittsburgh's recovery has lagged, he said, because big steel and its infrastructure was much to unwind. It took a lot of money, time and effort to...
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The number of U.S. payroll jobs increased an average annual nearly 2.5 percent in the 1970s, more than 2 percent in the 1980s and about 1.8 percent in the 1990s, said the U.S. Department of Commerce. That contrasts with the six-county Pittsburgh area's average annual 0.4 percent in the 1970s and 1980s and 1.2 percent in the 1990s.

"I expect Pittsburgh will experience improving employment this year. But by most standards, it's lackluster improvement," said Richard DeKaser, chief economist for National City Corp., Cleveland.

After the Sept. 11, 2001, terrorist attacks, the U.S. economy took about four years to climb back to pre-terrorism job levels, said PNC Chief Economist Stuart Hoffman. Pittsburgh will take at least eight years to recover, he said.

PNC expects the seven-county Pittsburgh unemployment rate to tick up to 4.9 percent this year from 4.8 percent in 2006. The higher rate will come from more job seekers than job finders.

Nearly all new jobs will be in service industries, he said. Many jobs will be connected to the $450 million Majestic Star slots casino, whose construction is expected to be completed next year. It will take almost 4,000 people to build the casino over 14 months, said Majestic Star spokesman Bob Oltmanns, and between 1,100 to 1,500 to staff it once it opens in 2008.

"Leisure and hospitality jobs don't tend to pay as well as manufacturing jobs," said Hoffman. "But let's face it, that is where much of the growth is in this region."

The casino construction will contribute to construction employment, he said, which should help offset a downturn in new home construction.

"Pittsburgh never had the housing boom, so it won't have the bust," Hoffman said.

The economist also sees the odds of a U.S. recession occurring this year as a long-shot, 1-in-4.

"I still predict that by the end of the decade, we'll climb to a new high in terms of employment in the region," Hoffman said. "But it won't happen in 2007 or 2008."

The six-county Pittsburgh area's employment reached about 1.16 million in mid-2002, the highest area jobs level in 20 years, say state Center for Workforce Information and Analysis data. Hoffman projects area employment will level this year. But the census definition for Pittsburgh since 2003 covers seven counties, including Armstrong.

The Pittsburgh area, however, has one beacon of hiring: Westinghouse Electric Co. The nuclear powerhouse in Monroeville is hiring at least 1,000 -- and maybe 2,000 -- nuclear engineers in the next eight to 10 years. A decision was pending whether to locate the workers in Monroeville or Cranberry.

"This is probably the most significant economic development decision we'll see in this region in the next 20 years," said F. Michael Langley, CEO of the Allegheny Conference on Community Development. He estimated Westinghouse suppliers and service providers could add another 1,000 to 3,000 new jobs in eight to 10 years.

"Over the long run, this may create two jobs for every one Westinghouse brings in. And 1,000 or more high-paying jobs is a very good thing," said Jake Haulk, president of the Allegheny Institute for Public Policy, a conservative think tank based in Castle Shannon.

"But we ought to be creating at least 12,000 jobs a year, and we need a broader base of job growth," Haulk said.
Local jobs are expected to be lost in the merger between Mellon Financial Corp. and The Bank of New York. About 630 of the 3,900 jobs being cut over the next three years will be in Western Pennsylvania, the banks said Dec. 4, when they agreed to merge.

However, Mellon said the merger should create at least 1,000 locals jobs in three to five years. The positions would relate to managing business customers’ cash and keeping records on stock that's sold or issued.

In addition, Mellon's headquarters will relocate to New York once the merger closes. Mellon has been headquartered in Pittsburgh since its founding in 1869.

Mellon will be the second major corporation to pull its headquarters in little more than a year. Alcoa Inc. moved its headquarters to Manhattan last February, where it established an office about six years ago. The Manhattan office has about 60 employees.

The loss of a corporate headquarters means a city loses prestige. But downsizing to a regional or divisional headquarters doesn't necessarily mean an exodus of jobs, Langley said.

The Allegheny Conference counts 90 corporations with at least $1 billion in revenue that have secondary bases in the 10-county region, and that employ about 156,000 here. For example, Cleveland-based Eaton Corp. has its electrical group based in Moon. It employs about 1,800 people locally.

Western Pennsylvania suffers from an "unfavorable business-tax climate and unfavorable union climate that dissuades businesses from coming here," Haulk said.

For instance, Pennsylvania's 9.99 percent corporate net income tax is the fourth-highest in the nation, he said. In addition, Pennsylvania's capital stock and franchise tax makes the state one of only four to impose the convoluted form of business property tax.

Another hindrance, Haulk said, is the state's $3 million cap on net operating losses that businesses can apply to future tax liabilities. The carry-forward cap hurts start-ups, which usually incur losses, and makes it hard for manufacturers to regain their footing after down years.

Pennsylvania also is less attractive than states with right-to-work laws, which mean people don't have to join a union to take a job, said Haulk. They include Texas, Virginia and the Carolinas. Plus, restrictive work rules dissuade businesses from locating in Pennsylvania, he said.

The Pittsburgh area's slow-growth economy also is interwoven with its relatively stagnant population, said experts. Unlike the nation, the number of people living in the six-county area is projected to decline, from 2,344,507 in 2002 to 2,329,886 by 2010, said a study by the University of Pittsburgh Center for Social and Urban Research.

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