



Major Industries in Pennsylvania Update



THIRD QUARTER 2009 ECONOMIC UPDATE FOR MAJOR INDUSTRIES

This information is provided to you by Schneider Downs & Co., Inc. utilizing information from First Research.

THE BIG PICTURE

Pennsylvania job creation has been spurred by stimulus funds for transportation and water projects; job loss rate slows while foreclosures increase in Q3 2009; fiscal stress ratings indicate that the state has not hit recessionary bottom.

- **State job growth** fell 3.3% in August 2009 from a year ago; national job growth fell 4.4%.
- **State unemployment** averaged 8.6% in August 2009; the national average was 9.7%
- **Personal income** fell 1.0% to \$496 billion in Q2 2009 from a year ago.
- **Tax revenue** fell 13.4% in Q2 2009 from the previous year.
- **Exports** fell 20.7% to \$18.5 billion in the first seven months of 2009 from a year ago.
- **Venture capital investment** in PA fell 25% to \$127 million in Q2 2009 from a year ago.

MAJOR INDUSTRY UPDATE

Mining

The PA mining industry includes about 886 companies with combined annual revenue of \$3.4 billion. The mining industry employs approximately 16,100 people, and has an annual payroll of \$711 million. Large mining sub-sectors include coal and nonmetallic minerals (valued at \$2.5 billion); oil and gas extraction (\$583 million); and support activities for industry (\$332 million). The industry contributes \$4.2 billion to Pennsylvania's gross state product, representing 0.8% of the state's total gross state product. Issues impacting the mining industry include obtaining permits; safety, land and pollution regulations; environmental lawsuits; fluctuations in commodity prices; and taxes on mined products. PA mining industry annual exports total about \$995 million.

- **Coal Production Declines** – Pennsylvania mines produced 15 million tons of coal in Q2 2009, down 7.2% from a year earlier. Total US production dropped 7.7%.

Construction and Real Estate

PA construction and real estate industries include about 34,400 companies with combined annual revenue of \$53 billion. Construction and real estate employ about 317,400 people, and have an annual payroll of \$11 billion. Large sub-sectors include residential construction (valued at \$8 billion); commercial (\$10 billion); heavy and civil (\$7 billion); and real estate services (\$6 billion). These industries contribute \$87.2 billion to Pennsylvania's gross state product, representing 16% of the state's total gross state product. Issues impacting the construction and real estate industries include material, equipment, insurance and

Schneider Downs' Manufacturing and Distribution Industry Group

Our manufacturing and distribution industry group includes professionals from our audit, tax, technology, wealth management, and advisory practice disciplines. Our professionals have a wide range of experience in manufacturing environments, and such diversity delivers exceptional value to clients by offering different perspectives and thoughtful consideration of how today's environment has changed the playing field for manufacturers and distributors. We provide valuable insight into what companies are doing to navigate this new environment.

labor costs; land planning and acquisition; environmental regulations and building codes; worker safety; cash flow and liquidity management; property obsolescence; and interest rate changes.

- **Fewer Residential Properties Sold** – The number of single-family houses, condos and co-ops sold in Pennsylvania in Q2 2009 fell 15.1% from a year earlier. The US average declined 2.9%.

Manufacturing

The PA manufacturing industry includes about 16,700 companies with combined annual revenue of \$181 billion. Manufacturing employs about 715,500 people, and has an annual payroll of \$28 billion. Major manufacturing sub-sectors include chemicals (\$31 billion); food products (\$22 billion); primary metals (\$14.3 billion); and fabricated metal products (\$14.1 billion). Manufacturing contributes \$75.5 billion to the gross state product, representing 14% of Pennsylvania's total gross state product. Issues impacting manufacturers include raw material, labor and energy costs; foreign competition; labor, pollution and foreign trade regulations; supplier and customer consolidation; capital equipment and facility expenses; quality control; and labor relations. PA manufacturing industry annual exports total about \$32 billion.

- **International Shipments Decline** – Pennsylvania manufacturers exported \$12.6 billion of goods in the first half of 2009, down 21% from the previous year; shipments of chemicals dropped 2.4% to \$2.7 billion.

Wholesale and Retail

PA wholesale and retail industries include about 64,000 companies with combined annual revenue of \$314 billion. Wholesale and retail industries in the state employ approximately 895,900 people, and have an annual payroll of \$23 billion. Large wholesale and retail sub-sectors include motor vehicle and parts wholesalers and dealers (valued at \$15 billion, \$33 billion); general merchandise retailers (\$17 billion); professional and commercial equipment wholesalers (\$13 billion); drug wholesalers (\$27 billion); food and beverage retailers (\$21 billion); and grocery wholesalers (\$23 billion). Wholesale and retail industries contribute \$66.4 billion to the gross state product, representing 12% of Pennsylvania's total gross state product. Issues impacting the wholesale and retail industries include transportation costs, truck driver shortages, logistics, merchandising, inventory management, store advertising and promotions, consumer and business spending, interest rates, and technology use (shipment tracking, GPS, point-of-sale and inventory control software, and credit card processing).

- **Sales Tax Revenue Falls** – Pennsylvania sales tax revenue, an indicator of retail sales, declined 7.9% in Q2 2009 from the previous year. The US total fell 9.5%.

Transportation and Warehousing

PA transportation and warehousing industries include about 7,500 companies with combined annual revenue of \$14 billion. Transportation and warehousing industries employ approximately 172,300 people, and have an annual payroll of \$4.9 billion. Trucking is the largest transportation and warehousing sub-sector, valued at \$6.7 billion. Transportation and warehousing industries contribute \$17.8 billion to the gross state product, representing 3% of Pennsylvania's total gross state product. Issues impacting the transportation and warehousing industries include fuel, equipment and building costs; port traffic and shipment flows; heightened security and vehicle pollution regulations; driver shortages and licensing; technology for logistics, shipment tracking, and vehicle maintenance.

- **Proposed Philadelphia Port Terminal Gets Support** – Governor Rendell has promised up to \$25 million for preconstruction work on a proposed Southport Marine Terminal south of the Walt Whitman Bridge in Philadelphia.

Information

The PA information industry includes about 5,100 companies, employs approximately 143,900 people, and has an annual payroll

of \$6.4 billion. Large information industry sub-sectors include publishing (valued at \$10 billion); Internet service providers (\$2.1 billion); broadcasting (\$1.8 billion); and telecommunications. The PA information industry contributes \$20.1 billion to the gross state product, representing 4% of Pennsylvania's total gross state product. Issues impacting the information industry include government regulations; industry consolidation; advertising revenue; viewership and readership; business, education and consumer spending; technology and infrastructure shifts.

- **Pittsburgh Residents to Get More Cable TV Options** – Verizon Pennsylvania received a 10-year cable franchise in Pittsburgh in September 2009, and will make FiOS TV available throughout the city within six years.

Finance and Insurance

PA finance and insurance industries include about 18,200 companies, employ approximately 310,500 people, and have an annual payroll of \$15.2 billion. Aside from banks and credit unions, top finance and insurance sub-sectors include nondepository credit intermediation (valued at \$12.8 billion); securities intermediation and related activities (\$9 billion); and insurance agencies, brokerages and related activities (\$5.2 billion). Finance and insurance contribute \$40.3 billion to the gross state product, representing 7% of Pennsylvania's total gross state product. Issues impacting the finance and insurance industries include consumer income and investing, weather-related property damage claims, negotiating reimbursement costs and payments to healthcare providers, government regulations and codes, interest rates, industry consolidation, technology use, service differentiation and client base expansion.

- **Net Interest Income Declines** – Pennsylvania financial institutions reported net interest income of \$5.4 billion, down 5.4% in the first half of 2009 from a year ago; net interest expense fell 35.1% to \$3.1 billion.

Professional Services

The PA professional services industry includes about 28,400 companies with combined annual revenue of \$37 billion. The professional services industry employs approximately 306,000 people, and has an annual payroll of \$17 billion. Large professional services sub-sectors include computer system design (valued at \$8 billion); legal (\$7 billion); architecture and engineering (\$7 billion); accounting (\$3 billion); and management consulting (\$4 billion). The industry contributes \$43.6 billion to the gross state product, representing 8% of Pennsylvania's total gross state product. Issues impacting the professional services industry include government regulations and codes, industry consolidation and business divestiture, corporate spending, technology use, service differentiation, client base expansion, corporate in-sourcing, and international clients servicing.

- **Law Firm Takes on Fewer New Associates** – Philadelphia-based law firm Morgan Lewis & Bockius has offered full-time jobs to just 28% of its summer associates, and those getting offers will be deferred until fall 2011.

Healthcare

The PA healthcare industry includes about 32,700 companies with combined annual revenue of \$59 billion. The healthcare industry employs approximately 785,500 people, and has an annual payroll of \$25 billion. The largest healthcare sub-sectors include ambulatory services (valued at \$22 billion) and hospitals (\$24 billion). The industry contributes \$53.6 billion to the gross state product, representing 10% of Pennsylvania's total gross state product. Issues impacting the healthcare industry include government regulation of Medicare/Medicaid, doctor/nurse shortages, medical malpractice suits, and care for uninsured patients. Annual state healthcare expenditures are around \$75 billion, representing 5% of the US total. About 12% of PA residents lack health insurance.

- **Online Vaccine Registry Launched** – The Pennsylvania Department of Health has launched the Pennsylvania Statewide Immunization Information System, a website through which healthcare providers may preregister to receive H1N1 influenza vaccines and supplies when those materials become available.

Tourism

The PA tourism industry includes about 7,200 companies with combined annual revenue of \$9 billion. PA tourism employs about 132,800 people, and has an annual payroll of \$3 billion. Large tourism sub-sectors include arts, entertainment and recreation (valued at \$5 billion); accommodations (\$3 billion); and travel arrangement services (\$680 million). Tourism contributes \$16.9 billion to the gross state product, representing 3% of Pennsylvania's total gross state product. Issues impacting the tourism industry include visitor numbers, hotel occupancy, international visitors' needs, tourism advertising funds, visitor traffic and revenue fluctuations due to airline industry restructuring, and real estate prices to buy hotels and land.

- **Hotel Tax Revenue Declines Along with Tourism** – Revenue from Erie's hotel tax declined 7% year-over-year in Q2 2009.

Agriculture

The PA agriculture industry includes 63,163 farms with combined annual revenue of \$6 billion and an average per farm size of 124 acres. PA is a leading producer of milk and other dairy products (\$1.9 billion); poultry and eggs (\$1 billion); nursery and floriculture products (\$892 million); and cattle (\$556 million). Expenses average 81% of the agriculture industry's total income. Issues impacting the agriculture industry include volatile market prices, equipment costs, animal and plant diseases and pests, droughts and water restrictions, and changes in government regulation and aid. Annual industry exports total about \$330 million.

- **Mushroom Growers Are Nation's Most Productive** – Pennsylvania mushroom growers were the most productive in the US in 2009, growing 6.49 pounds per square foot, compared with the national average of 5.98.

WEBSITE RESOURCES

State of Pennsylvania

<http://www.state.pa.us>

Pennsylvania Bureau of Procurement

<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=1271&mode=2>

Pennsylvania Department of State

<http://www.dos.state.pa.us/dos>

Pennsylvania State Data Center

<http://www.pasdc.hbg.psu.edu>

Pennsylvania Labor Market Information

<http://www.dli.state.pa.us>

Philadelphia Business Journal

<http://philadelphia.bizjournals.com/philadelphia>

Pittsburgh Business Times

<http://pittsburgh.bizjournals.com/pittsburgh>

FDIC Statistics on Banking - Pennsylvania

<http://www2.fdic.gov/SDI/SOB/>