

Manufacturing and Distribution Update

June 2009



FIRST QUARTER 2009 ECONOMIC UPDATE FOR STATE OF PENNSYLVANIA

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

OVERALL PICTURE

- Pennsylvania expects about \$16 billion in federal stimulus funds; officials use gaming revenues to provide a second year of tax reductions for property owners; tax revenue collections fall below expectations; budget deficit is lower than projected.
- State job growth fell 2.2% in March 2009 from a year ago; national job growth fell 3.6%.
- State unemployment averaged 8.2% in March 2009; the national average was 8.5%.
- Personal income rose 4.0% to \$501 billion in 2008 from a year ago.
- Tax revenue fell 3.6% in Q4 2008 from the previous year.
- Exports rose 16.6% in 2008 but fell 13.7% in the first two months of 2009 from a year ago.
- Venture capital investment in PA rose 60% to \$166 million in Q4 2008 from a year ago.

ECONOMIC INFO AND WAGES

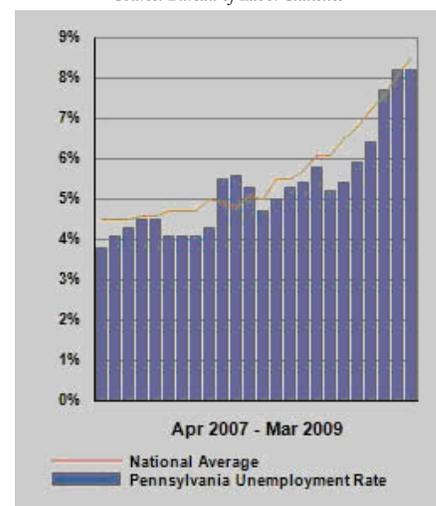
Minimum wage of \$7.15 well exceeds the \$6.55 national rate.

PA UNEMPLOYMENT AND JOB GROWTH RATES - March 2009

	Unemployment Rate	Job Growth Rate
US	8.5%	-3.6%
Allentown	8.7%	-2.8%
Altoona	7.7%	-1.7%
Erie	8.8%	-2.5%
Harrisburg	7.2%	-2.6%
Johnstown	8.9%	-2.9%
Lancaster	7.3%	N/A
Lebanon	6.9%	-2.8%
Philadelphia	8.1%	-1.8%
Pittsburgh	7.6%	-3.2%
Reading	8.8%	-2.5%
Scranton	9.2%	-1.5%
State College	5.8%	-3.9%
Williamsport	9.4%	-2.3%
York	8.1%	-4.3%

PA Unemployment Rate vs. National Average

Source: Bureau of Labor Statistics



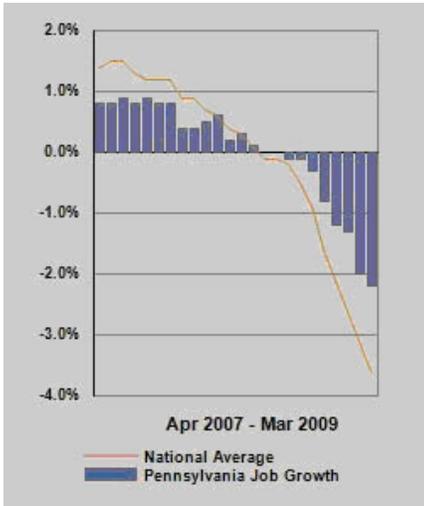
Source: Bureau of Labor Statistics

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.

PA Job Growth Rates vs. National Average

Source: Bureau of Labor Statistics



MAJOR INDUSTRIES 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 with 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 billion to Pennsylvania’s gross state product, representing 0.7% 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 \$997 million.

Coal Production Climbs – Pennsylvania mines produced 65.3 million tons of coal in 2008, up 0.4% from the previous year. Total US production dropped 24%.

Construction & 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 with 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 \$80 billion to Pennsylvania’s gross state product, representing 15% of the state’s total gross state product. Issues impacting the construction and real estate industries include material, equipment, insurance, and 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 2008 fell 18.4% from a year earlier. The US average declined 13.1%.

Manufacturing

The PA manufacturing industry includes about 16,700 companies with combined annual revenue of \$181 billion. Manufacturing employs about 715,500 with 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 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 \$31.8 billion.

International Shipments Rise – Pennsylvania manufacturers exported \$31.8 billion of goods in 2008, up 15.9% from the previous year; shipments of primary metals increased 19.3% to \$4.2 billion.

PA Industry Growth Rates March 2009

Source: Bureau of Labor Statistics

Industry	Job Growth Mar 08 to Mar 09
All Employment	-2.20%
Mining	7.40%
Construction	-8.30%
Manufacturing	-9.60%
Wood Products	-23.70%
Mineral Products	-12.70%
Primary Metals	-9.30%
Metal Products	-10.50%
Machinery	-6.70%
Computers & Electronics	-9.90%
Electrical Equipment	-7.00%
Transportation Equipment	-8.40%
Food Products	-4.00%
Printing	-10.30%
Chemicals	-6.10%
Plastics Products	-7.90%
Wholesale Trade	-1.60%
Retail Trade	-2.80%
Cars & Auto Parts	-6.50%
Building Materials	-0.80%
Food Stores	-1.10%
Clothing Stores	-5.80%
Transportation, Utilities	-2.60%
Trucking	-1.80%
Telecommunications	-3.40%
Finance	-2.90%
Banks	-5.70%
Business Services	-3.40%
Healthcare & Education	2.30%
Hospitals	0.60%
Hotels	-8.10%
Restaurants	-0.10%
Government	0.70%
Local Government	0.80%

Wholesale & 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 with 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 \$65 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 3.7% in Q4 2008 from the previous year. The US total fell 5.9%.

Transportation & 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 with 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 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.

Information

The PA information industry includes about 5,100 companies and employs approximately 143,900 with 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 \$21 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.

Bill Creates Broadband Map - A bill in the Pennsylvania legislature in early 2009 requires the state to maintain a broadband and advanced services inventory map to help identify penetration levels, use state programs to deploy broadband services in underserved areas, and assess deployment in terms of total households with broadband availability.



Finance & Insurance

PA finance and insurance industries include about 18,200 companies, and employ approximately 310,500 with an annual payroll of \$15.2 billion. Aside from banks and credit unions, top finance and insurance sub-sectors include non-depository 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 billion to the gross state product, representing 8% 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.

Deposits Weaken – Pennsylvania financial institutions reported \$281 billion in total deposits in 2008, down 12.7% from a year ago; interest-bearing deposits represented 82% of total deposits.

Philadelphia Is a Biotechnology Leader – The Philadelphia region ranked 9th in 2008 in Ernst & Young's report on US areas with the largest concentration of publicly traded biotech companies.

Health Care

The PA healthcare industry includes about 32,700 companies with combined annual revenue of \$59 billion. The healthcare industry employs approximately 785,500 with 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 \$51 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 10% of PA residents lack health insurance.

Critics Assail Proposed Tax on Health Insurers - Critics of a proposal by the Pennsylvania governor to place a 2% assessment on health insurers say that some insurers will either see the assessment as a tax that will drive them out of the state or they will simply pass assessment costs on to consumers.

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