A mild recession will include the Pittsburgh area by this year's end, an expert says

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In May, the Pittsburgh area clocked its lowest unemployment rate in 47 years as jobs in the city and surrounding seven-county area grew by 21,900 compared to a year ago.

But the good news masks troubling fundamentals in the region's economy that continue to frustrate policymakers. What's more, an economic downturn forecast for the U.S. later this year will pull Western Pennsylvania down with it, dinging job growth, raising interest rates and dampening consumer spending, according to Stuart Hoffman, senior vice president and senior economic adviser at Downtown-based PNC Financial Services Group.

"Right now, things are good," Mr. Hoffman said. "Second quarter job growth, economic output, consumer spending, we're still looking pretty good."

But the luster will fade by the end of 2023 with the start of a mild recession that may continue into the second quarter of 2024 as inflationary pressures and Federal Reserve rate hikes curb consumer spending, which makes up 70% of the economy, he said. Despite a string of interest rate hikes, which increase the cost of everything from home mortgages to credit cards, inflation is still running at about twice the Fed's target rate of 2% after reaching 9.1% a year ago.

"We still think a mild recession is likely to occur later this year and into the first half of next year," Mr. Hoffman said. "No region is going to be immune to the national trends. We also think the Fed is not done raising interest rates."

Speaking at a June 29 meeting before the Spanish central bank in Madrid, Federal Reserve Chair Jerome Powell said domestic interest rates would continue to rise, possibly as early as the central banks' policy meeting of July 25-26.

"Inflation pressures continue to run high and the process of getting them back down to 2% has a long way to go," he said.

At the same time, weaknesses in Western Pennsylvania's economy — starting with a declining population — will continue to restrain the region's economic growth.

The population of the seven-county Pittsburgh region dipped .9% between April 1, 2020 and July 1, 2022, according to new census estimates. Most troubling to business leaders trying to fill jobs in a tight labor market was that the largest groups in the region losing population, ages 45 to 65, includes prime working years.

"Strategically, Pittsburgh is still suffering from outmigration or population decline, which reduces the size of the labor force," Mr. Hoffman said. "I'm sure a lot of that is the aging workforce factor."

The end result is a labor market that is keeping a lid on the jobless rate because it's tightening, but also hobbling the economy because there simply aren't enough people to fill job openings.

“When you have an older average age population, the participation rate is naturally going to be lower,” he said. “What you hope offsets that over time is an increase in attracting younger people,” which hasn’t happened.

Equally telling about the region, all groups under the age of 20 fell over the 27-month period.

Some notable exceptions: The region’s Hispanic population grew by 7.8% while the Asian-alone population increased by 4.7%, according to census estimates.

The numbers paint a picture of a population that is declining and hitting the prime working age groups hardest, even as the region becomes more racially diverse. The picture is supported by the Federal Reserve Bank of St. Louis in Missouri, which found Pittsburgh’s civilian workforce participation rate in May was 62%, the same as it was in November 1988 and the same as the Pennsylvania rate.

The U.S. workforce participation rate in May was 62.6%.

At the same time, Western Pennsylvania’s recovery from the COVID-19 shutdown of businesses and schools has been slower than the state overall and the U.S., Mr. Hoffman said.

“We’ve had no recovery in the size of our labor force,” he said. “Jobs, yes, but no recovery in our labor force.”

The size of the Pittsburgh area workforce idled at 1.17 million in May, the lowest since May 1991 when it was 1.15 million, according to the St. Louis Fed.

Meanwhile, the region’s economic engine, is struggling with fallout from the boom in online shopping and a COVID-19 hangover, which emptied offices and restaurants and shuttered entertainment venues, said Matthew Yanni, principal at Yanni & Associates Investment Advisors LLC in Franklin Park. Some of the city’s big employers have begun to require a return to the office for workers, but the return is happening after the economic downturn accompanying COVID-19 decimated Downtown’s hospitality and restaurant industries.

The latest state Department of Labor & Industry figures suggest things are on the mend in those areas: jobs in the leisure and hospitality industries grew by a robust 4,400 in May.

In addition, a spike in crime prompted some businesses and residents to leave Downtown for the suburbs, he said, a trend helped by the rise of remote working and online shopping.

“Big businesses are moving away from urban areas,” he said. “Downtown is definitely struggling to attract tenants.”

One concern: there was an increase in negative overall absorption for the second quarter in Pittsburgh of 1.03 million square feet, continuing a negative occupancy trend that began in the fourth quarter of 2022 of square feet of office space that is occupied minus the space that became vacant, according to diversified professional services outfit Colliers, which has offices Downtown.

From New York to Los Angeles, turmoil in the U.S. office market has caused missed loan payments and foreclosure warnings, but Pittsburgh’s commercial metrics for the second quarter showed strength, with an overall vacancy rate of 14.6% for the three months ending June 30, down from 15.3% during the first quarter, according to Colliers.

The decline was an “indication that positive strides are being made despite the recovery challenges the office market currently faces,” Colliers wrote in a second quarter report. Moreover, the overall asking average lease rates bumped up during the latest three months to $23.35 from $22.16 a square foot in the first quarter.

Still, the struggle to fill storefronts and offices Downtown may continue for a few more years before market forces correct the imbalance, Mr. Yanni said.

“Eventually office rents will go down,” he said. “We’re a few short years away from Downtown correcting itself.”

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