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Downtown Cleveland's Economic Base, 1989-1996: Executive Summary

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Downtown Cleveland's Economic Base, 1989-1996

Executive Summary

Prepared for:

*Cleveland Tomorrow
and
The Greater Cleveland Growth Association*

by:

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and

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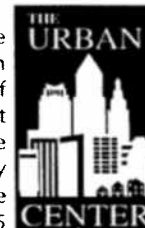
Economic Development Program

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EXECUTIVE SUMMARY

This report describes the results of a study of Downtown Cleveland's economic base. The study measures changes in employment and payroll per capita that occurred between 1989 and 1996 and compares Downtown trends to changes in Cuyahoga County and the Cleveland Metropolitan Area. The Cleveland Metropolitan Area consists of six counties including Cuyahoga, Geauga, Lake, Lorain, Medina, and Ashtabula. Downtown Cleveland is defined as the geographic area covered by zip code numbers 44113, 44114, and 44115 (Map 1).

A unique longitudinal database was developed for this project with quarterly information on each company's name, address, zip code, city, county, industrial classification, employment, and payroll. Confidentiality rules protect company-level information and restrict data presentation.

MAJOR FINDINGS

- Businesses and other employers located in Downtown Cleveland provide jobs for almost 138,000 people. Downtown employment rose by 4.8%, or 6,269, from 131,711 in 1989:Q1 to 137,979 in 1996:Q1 (Table 1).
- The Downtown employment growth rate (4.8%) was similar to that in the Cleveland Metropolitan Area (5%), but much faster than the 0.9% job growth in Cuyahoga County over the same period (Table 1).
- Downtown employment accounted for almost 13% of the Cleveland Metropolitan Area jobs in both 1989 and 1996. However, Downtown jobs as a proportion of Cuyahoga County jobs grew from 17.1% in 1989:Q1 to 17.9% in 1996:Q1 (Figure 1).

- The Services sector accounted for more than four out of ten jobs in Downtown Cleveland (41%) in 1996:Q1. The Services sector includes a diverse group of industries such as hotels, business services, auto repair and parking, amusement and recreation, health services, legal services, educational services, social services, membership organizations, and engineering and management services (Figure 2).
- The Finance, Insurance, and Real Estate (FIRE) sector was the second largest in the Downtown economy in 1996:Q1, accounting for 16% of all jobs, while Government was the third largest employer in Downtown Cleveland.
- All the growth in Downtown employment occurred in four major sectors: Services (which added 7,824 jobs), FIRE (2,920), Government (1,941), and Retail Trade (1,486) (Table 2). Growth rates in Downtown Retail Trade and Services jobs were significantly higher than those in the County and the Metropolitan Area. Employment growth rates in Government and FIRE jobs were similar in the Downtown, County, and Metropolitan Area economies.
- Downtown, Cuyahoga County, and the Cleveland Metropolitan Area all lost employment in Durable and Nondurable Manufacturing and in Transportation, Communication, and Public Utilities (TCPU), although the rates of decline were larger in Downtown (Figure 5). Job losses in Communication and Public Utilities were mainly due to well-publicized relocations and downsizing at Ohio Bell, Cleveland Electric Illuminating Company, and East Ohio Gas, consistent with nationwide restructuring in these industries during the period. Wholesale Trade declined by the same rate in Downtown and the County, but rose in the Metropolitan Area.
- Analysis of more detailed industries reveals that four industries added more than 1,000 jobs each to the Downtown economy between 1989:Q1 and 1996:Q1. These

include Business Services¹ (+5,506); Commercial Banks and Savings Institutions (+2,334); Educational Services (1,644); and Administration of Human Resources, including educational, public health, social, and veterans' programs (1,056). Two industries lost more than 1,000 employees each: Communications (-1,242) and Electric, Gas, and Sanitary Services (-1,169).

- In Downtown Cleveland, as in the broader economy, the majority of businesses are small. In 1996:Q1, 77% of establishments located Downtown had fewer than 20 employees. The major part of total employment, however, is accounted for by larger establishments. Businesses with at least 100 employees accounted for 67% of Downtown jobs, although they accounted for only 6% of all establishments.
- Downtown has a higher concentration of large establishments than do Cuyahoga County and the Cleveland Metropolitan Area. In the Downtown area, large establishments with more than 500 employees account for 1.3% of all establishments and 40% of all jobs. In the Metropolitan Area as a whole, large establishments account for only 0.4% of all establishments and a quarter of all jobs. In the County, they account for only 0.5% of establishments and 29% of employment.
- Analysis of Downtown employment trends for every year between 1989 and 1996 reveals that employment declined in the early 1990s and began to increase again between 1993 and 1994. More specifically, employment declined by 2.6% between 1990:Q1 and 1991:Q1, remained stable for the next year, fell slightly more between 1992:1Q and 1993:Q1, then increased every year until 1996:Q1, the latest data available. Some of these trends can be attributed to the recession.

¹Business Services include industries such as Advertising, Credit Reporting and Collection; Mailing, Reproduction, and Commercial Art; Employment Agencies; and Computer and Data Processing Services.

- Average annual payroll per capita in Downtown Cleveland was \$35,998 in 1996. Total payroll reached nearly \$5 billion. Downtown payroll per capita was consistently higher during the study period than that of Cuyahoga County (\$30,526 in 1996) or the Cleveland Metropolitan Area (\$28,943 in 1996).
- Payroll per capita in Downtown Cleveland between 1989 and 1996 increased 2.2% (adjusted for inflation and measured in real terms). Payroll per capita increased 1.0% in Cuyahoga County and 1.9% in the Cleveland Metropolitan Area.
- Downtown payroll per capita rose in five major sectors including Durable Manufacturing (25.3%), FIRE (19.2%), Government (13.1%), Non-Durable Manufacturing (10.9%), and Wholesale Trade (6.9%). The sizable increases in the two Manufacturing sectors are interesting, given that both showed large employment losses over the period. One explanation is that some large manufacturers laid off employees or moved employment out of the Downtown area and kept a portion of the higher-paying jobs Downtown. Another possible explanation is that the establishments that closed or left Downtown had lower payroll on average.
- Downtown payroll per capita in two growing sectors, Retail Trade and Services, declined over the period by 6.5% and 2.5%, respectively. In other words, employment in these two sectors increased by a greater percentage than did total payroll, resulting in declining payroll per capita over the period. For Retail Trade, this may indicate an increase in part-time employment relative to full-time employment. For Services, the decline in payroll per capita is most likely due to a substantial increase in temporary employment, which tends to be lower-wage and/or part-time employment. Nationally, both the Retail and Services sectors are characterized by high percentages of part-time workers; part-time workers account for 35% of all Retail Trade workers and 23% of all jobs in the Services sector.

- Government and FIRE are the two major sectors that increased both employment and payroll per capita over the period. In other words, total payroll increased by a much higher percentage than did total employment, resulting in increased payroll per capita. Payroll per capita rose by 19.2% in FIRE and by 13.1% in Government between 1989 and 1996, measured in real terms.

CONCLUSIONS

The various employment and payroll trends over the past seven years lead to the following conclusions:

1. Downtown Cleveland's economy is based primarily on service-producing industries. This is not surprising, but the results underscore the extent to which the Downtown area is a center for these industries. All of the employment growth over the study period occurred in major service sectors (Services, FIRE, Government, and Retail Trade). These employment gains more than offset job losses in all goods-producing industries and in TCPU and Wholesale Trade.²
2. Downtown employment growth was the main contributor to Cuyahoga County's job growth. The addition of close to 6,300 jobs in Downtown accounted for 90% of the net job growth in the County as a whole.
3. Downtown has a greater proportion of large establishments than Cuyahoga County and the Cleveland Metropolitan Area, reflecting the large presence of corporate headquarters and divisions of nonlocal companies located in Downtown Cleveland. This may imply that policy makers should pay attention to large establishments

² Goods-producing industries include the Construction and Manufacturing sectors, while service-producing industries consist of the following sectors: Transportation, Communication, and Public Utilities; Wholesale Trade; Retail Trade; Finance, Insurance, and Real Estate; Services; and Government.

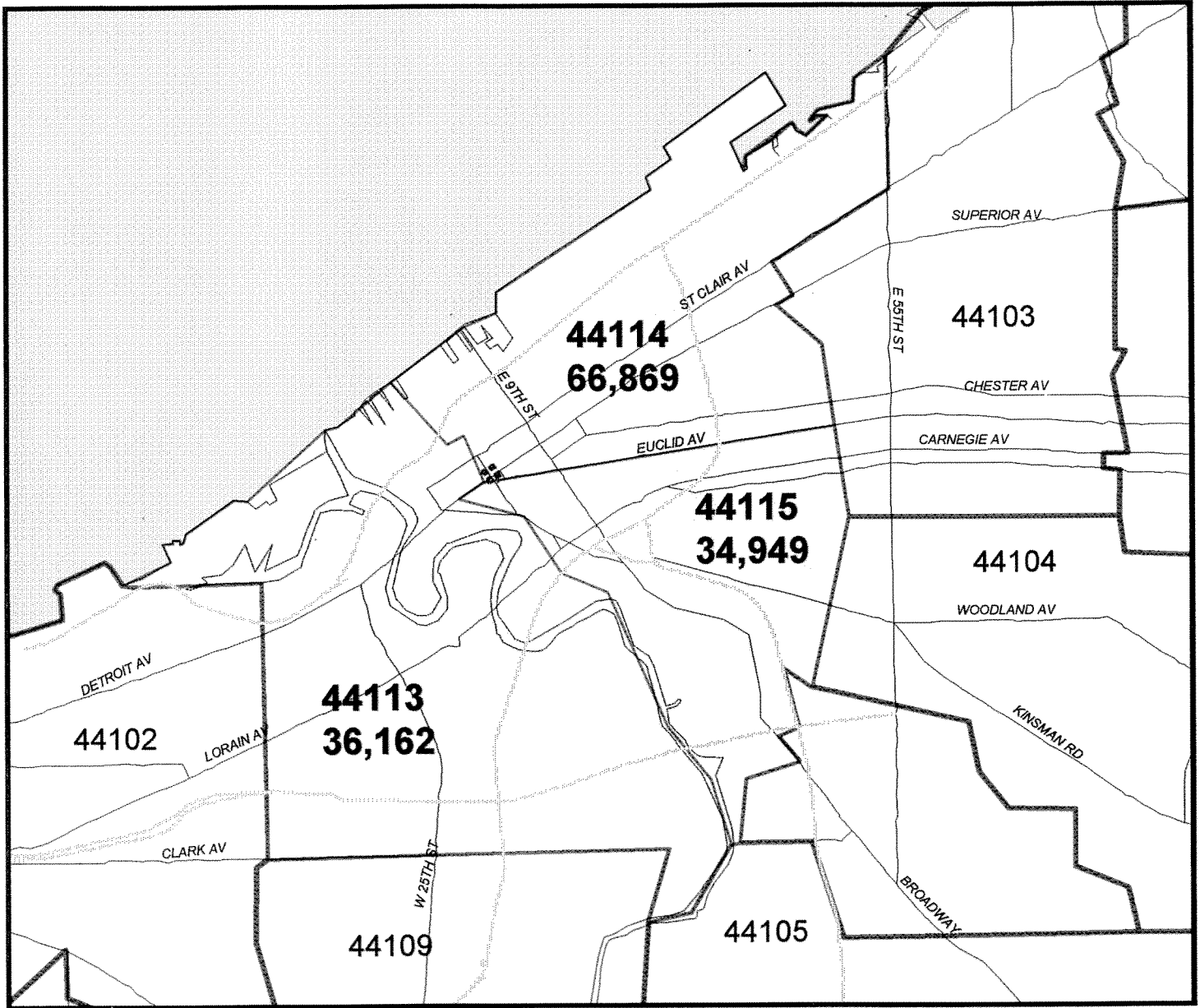
because the successful retention or unfortunate loss of a single large establishment could significantly affect Downtown Cleveland's economic base.

4. Downtown Cleveland has benefitted thus far from mergers and consolidations in the banking sector. For example, the merger of Society Bank with KeyCorp brought the combined company headquarters into Society's new building in Downtown Cleveland. However, with strong expectations for continued consolidations in the banking industry, the concentration of banks Downtown may be a vulnerability; in future consolidations, local banks could be acquired by banks outside the Cleveland area, which might consolidate their operations elsewhere.

5. Payroll per capita in Downtown Cleveland is higher than payroll per capita in Cuyahoga County and in the Cleveland Metropolitan Area. This suggests that Downtown jobs are, on average, higher paying jobs, which means that Downtown companies are an important source of tax revenues to the City of Cleveland.

Map 1

Downtown Cleveland Employment by Zip Code, 1996:Q1



Prepared by:
Northern Ohio Data & Information Service
The Urban Center
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Table 1				
Total Employment in the Cleveland Area				
Region	1989:Q1	1996:Q1	Change	% Change
Downtown Cleveland	131,711	137,979	6,269	4.8
Cuyahoga County	766,036	773,045	7,009	0.9
Cleveland PMSA	1,019,422	1,070,544	51,122	5.0
Note: Downtown Cleveland includes Zip Codes 44113, 44114, & 44115.				
Source: Ohio Bureau of Employment Services' Covered Employment and Payroll Data, edited by The Urban Center.				

Table 2				
Downtown Employment by Major Sector				
Sorted by Total Change				
	1989:Q1	1996:Q1	Change	% Change
Services	48,794	56,618	7,824	16.0
FIRE	18,983	21,903	2,920	15.4
Government	15,374	17,316	1,941	12.6
Retail Trade	7,383	8,869	1,486	20.1
Agriculture & Mining	176	81	-95	-54.0
Wholesale Trade	8,234	7,977	-257	-3.1
Construction	2,715	2,450	-265	-9.8
TCPU	12,104	10,028	-2,076	-17.0
Durable Manufacturing	8,458	6,024	-2,435	-29.0
Non-Durable Manufacturing	9,473	6,612	-2,861	-30.0
Notes: Downtown Cleveland includes Zip Codes 44113, 44114, & 44115.				
Sum of major sectors does not equal Downtown employment total since some establishments are not classified by SIC.				
Source: Ohio Bureau of Employment Services' Covered Employment and Payroll Data, edited by The Urban Center.				

Figure 1

Employment in the Cleveland Area 1996: Q1

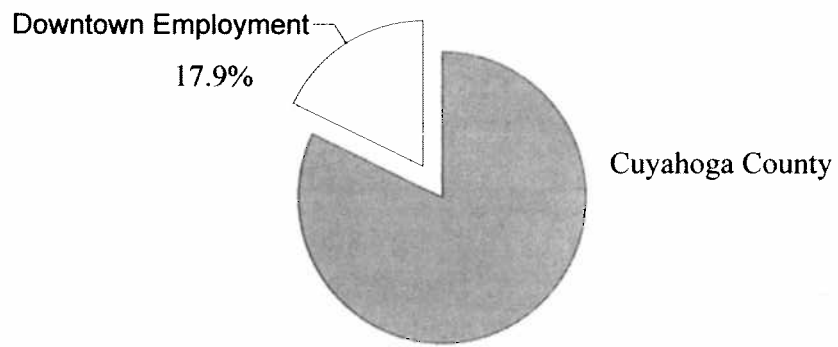
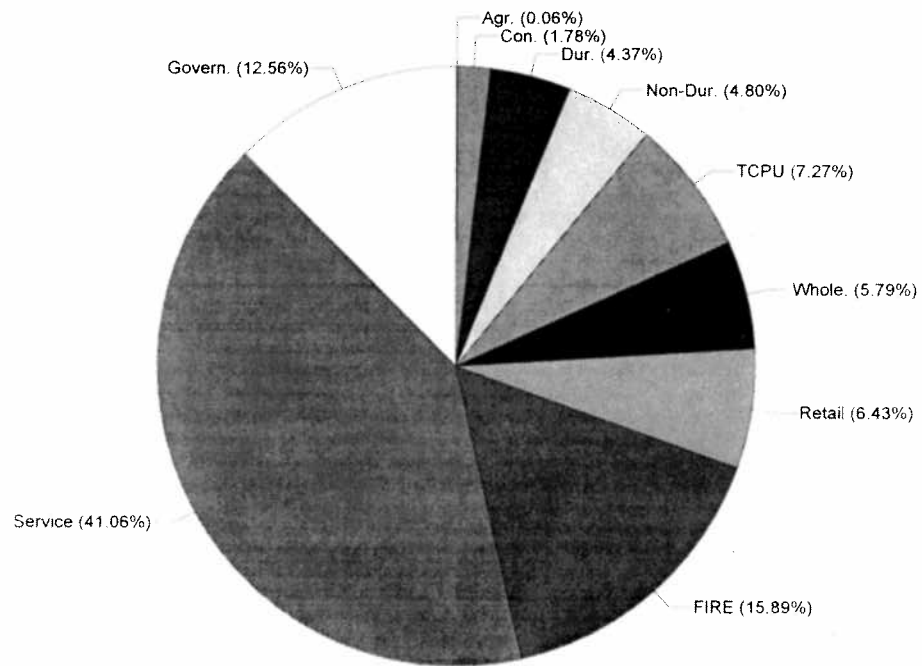


Figure 2

Downtown Employment by Major Sector 1996: Q1



Total Downtown Employment = 137,979