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11-1-2011

Driving the Economy Home: What Matters Most to Northeast Ohio's Economy (Dashboard of Economic Indicators 2011)

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Garr, Emily; Austrian, Ziona; and Piazza, Merissa, "Driving the Economy Home: What Matters Most to Northeast Ohio's Economy (Dashboard of Economic Indicators 2011)" (2011). *Urban Publications*. 0 1 2 3 440.
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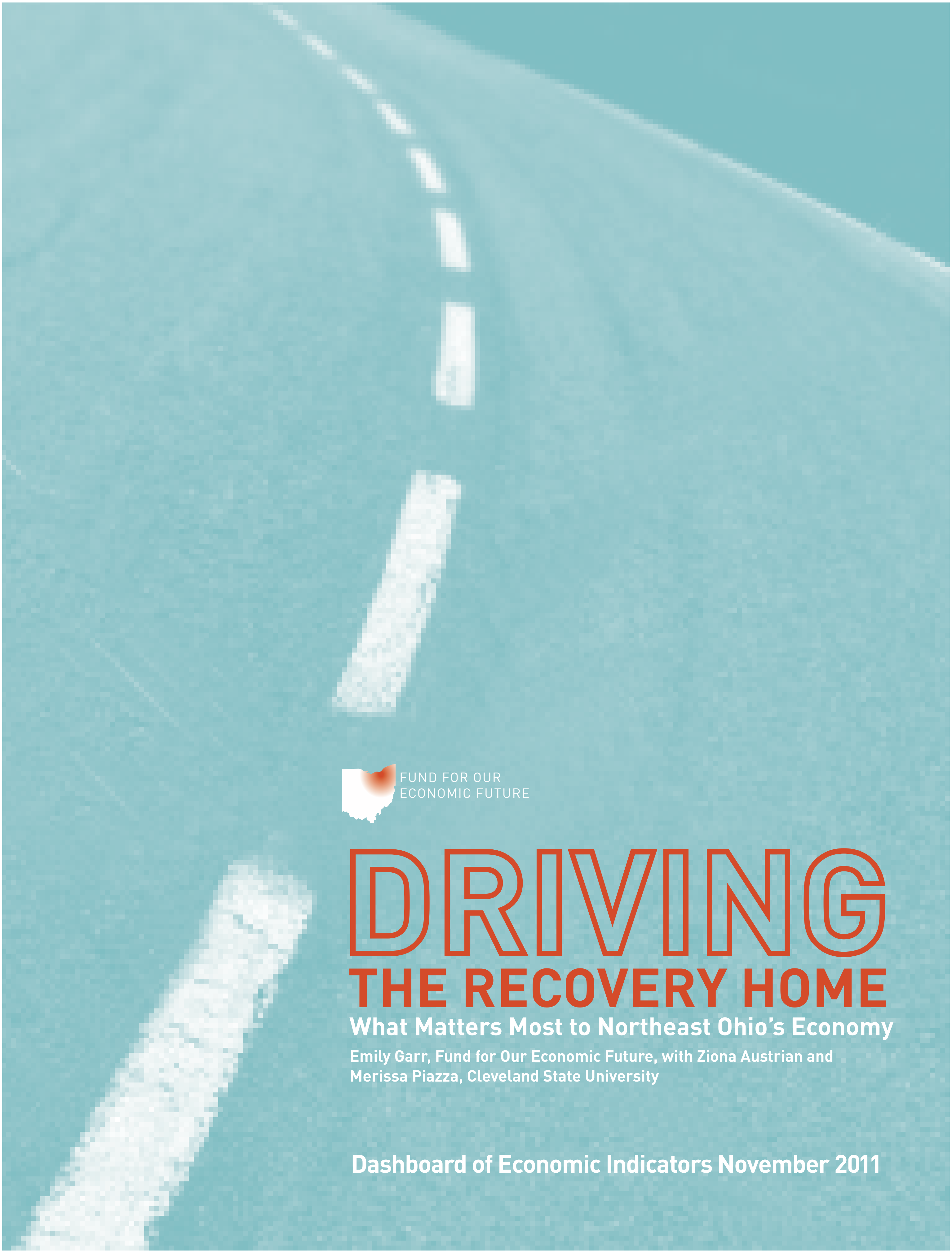


FUND FOR OUR ECONOMIC FUTURE

DRIVING THE RECOVERY HOME

What Matters Most to Northeast Ohio's Economy

Emily Garr, Fund for Our Economic Future, with Ziona Austrian and Merissa Piazza, Cleveland State University

Dashboard of Economic Indicators November 2011

INTRODUCTION + METHODOLOGY

The Dashboard of Economic Indicators ("the Dashboard") serves as a resource for identifying what matters most to regional economic competitiveness, where Northeast Ohio is or is not making progress, and how it compares to other similarly-sized metro areas across the country.[1] In this, its sixth annual iteration, the Dashboard measures the region's economic performance in the context of a slow-growth, fragile, post-recession economy.

THIS ANALYSIS OF THE DASHBOARD DATA:

> Tracks the four leading indicators of the economic health of Northeast Ohio over the recession and (tentative) recovery periods
> Revisits what issues most affect these indicators
> Situates Northeast Ohio in the context of the other U.S. metropolitan areas
> Identifies areas for future research, so that we can continue to provide strategic guidance in the areas that matter most to the economic health of Northeast Ohio

This report describes trends which occur between 2007 and 2010, the most recent year for which data are available. The essay distinguishes between those that take place in the "recession period" (from the peak of the economic cycle in 2007 to the start of economic recovery in 2009) and the "recovery period" (from 2009 to 2010).[2]

[1] Northeast Ohio refers to the four Metropolitan Statistical Areas (MSAs) located within a 16-county region: Akron, Canton-Massillon, Cleveland-Elyria-Mentor, and Youngstown-Warren-Boardman. Consistent with past Dashboard reports, these MSAs are compared to 132 other U.S. MSAs that had a population between 300,000 and 3.5 million in 2005. For further methodology used in the analysis, please refer to The Dashboard of Economic Indicators (2007 and 2009), www.futurefundneo.org/en/Research

[2] Data from 2010 are based on the most recent estimates and projections at the time of writing.

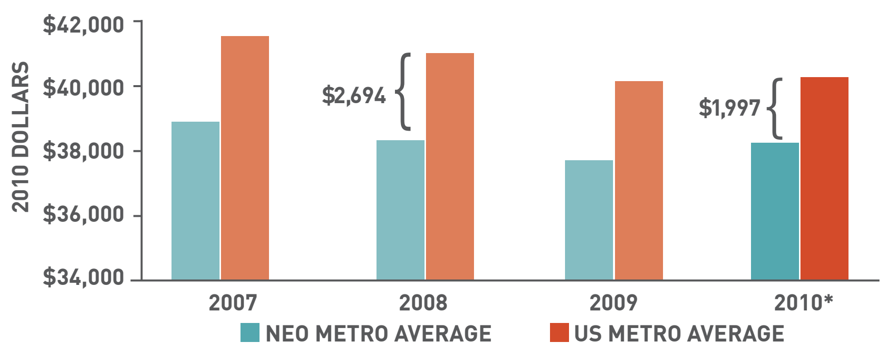
INDICATORS OF ECONOMIC GROWTH

By some measures, Northeast Ohio is outpacing other metro areas in its recovery from the Great Recession, but it still has considerable ground to make up for the severe losses incurred since 2007. Setbacks, such as income and job loss, may have looked and felt like just another hard, long bump in the road for Northeast Ohio, but in fact – and as suggested throughout – they are likely indicators of a shifting socioeconomic landscape. Regional economic growth is measured here by changes in four leading indicators: per capita income, employment, gross metropolitan product (GMP) and productivity. Between 2007 and 2010, the analysis finds that:

PER CAPITA INCOME (or PCI) is an approximation of the standard of living of people in a given place. It is calculated by dividing the total personal income of an area's residents by its total population. It is not an indicator of the distribution of income within an area.

> **PER CAPITA INCOME** Income not only declined less than other metro areas during the recession, but it is also rebounding faster. The average income for Northeast Ohioans increased 1.5 percent between 2009 and 2010, far exceeding the 0.2 percent income growth in the average U.S. metro. This was not a just contribution of one or two places in the region; Akron, Canton, Cleveland and Youngstown metro areas each posted a higher per capita income in 2010 than in 2009. And although per capita income in Northeast Ohio is still lower than other metro areas ($38,293 versus $40,290), the gap has narrowed since 2008 *(see Figure 1).*

FIGURE 1: **PER CAPITA INCOME**
NEO NARROWS THE GAP IN RECOVERY



**Preliminary estimate*
Source: Bureau of Economic Analysis, U.S. Dept. of Commerce

INDICATORS OF ECONOMIC GROWTH

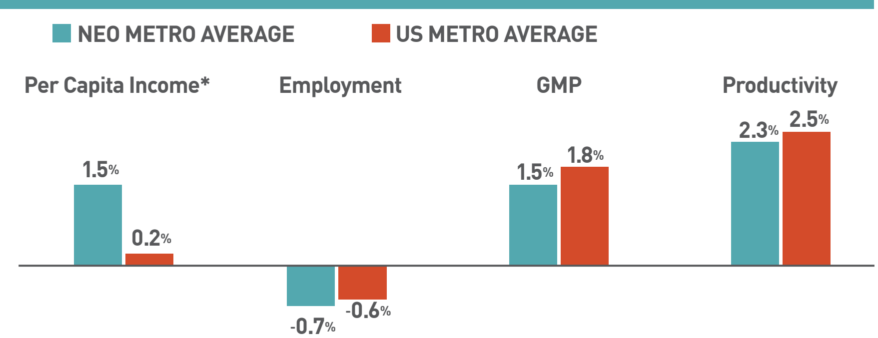
> EMPLOYMENT Northeast Ohio's recovery remains jobless. Even while regional output continues to grow, jobs remain scarce. Between 2007 and 2010, employment has declined 8 percent, a pace 1.5 times that of the average metro. The bulk of these losses occurred between 2008 and 2009, when the region shed more than 100,000 jobs -- a result of weak consumer confidence, population loss, low employer demand and delayed hiring. As is usually the case coming out of recession (and more so in recent ones), a full jobs recovery occurs years after the official recovery has begun. Only one metro area in Northeast Ohio, Youngstown, posted modest employment gains between 2009 and 2010. Importantly by 2010, the region's rate of employment change was back in line with other metro areas in the nation: -0.7 and -0.6 respectively *(see Figure 2).*

> GROSS METROPOLITAN PRODUCT. The region's economic output shrank a dramatic 4.5 percent between 2007 and 2010, compared to less than 1 percent in all U.S. metro areas studied. Nevertheless, Northeast Ohio is gaining traction in the recovery. Between 2009 and 2010, output increased 1.5 percent in Northeast Ohio compared to 1.8 percent in the average metro area *(see Figure 2).* And of the $10 billion in output lost over the four-year period, the region had recaptured about a quarter of the dollars lost ($2.4 billion) by 2010. In order to compete nationally and globally, however, the region will need to continue to improve its pace of production– be it in auto or electronics manufacturing, health service provision or education. Output is increasing modestly in other metro areas around the country as well, and at a slightly faster pace.

> PRODUCTIVITY Regional productivity increased the second year in a row, and is generally on par with other metro areas in the recovery: 2.3 percent in Northeast Ohio versus 2.5 percent in other metro areas *(see Figure 2).* However, productivity gains do not always translate into shared prosperity. Businesses tend to operate more efficiently in a downturn, but these adjustments may or may not lead to increased investment, sustained employment or better wages for the majority of workers.

Thus far in the recovery, Northeast Ohio has exceeded or lagged slightly behind the growth experienced by its national counterparts on each of the four economic indicators listed above. Considering the heavy losses throughout the 2000s, these gains offer evidence of both improvement and promise.

FIGURE 2: PERCENT CHANGE IN THE RECOVERY, 2009-10
NEO ABOVE OR ON PAR WITH OTHER METRO AREAS



*Preliminary estimate
Source: Moody's economy.com and Bureau of Economic Analysis, U.S. Dept. of Commerce

EMPLOYMENT is the total number of persons employed full or part time, as reported by the establishment where they work.

GROSS PRODUCT is a comprehensive measure of overall economic activity. While gross domestic product (GDP) refers to the output of goods and services produced in the United States, gross metropolitan product (GMP), or gross regional product, refer to the output of goods and services produced in the selected metropolitan areas.

PRODUCTIVITY is a measure of economic efficiency, defined here as total output per employee.

REVISITING WHAT MATTERS MOST

What might affect these four measures to give Northeast Ohio the needed boost? Beyond simply tracking the health of the region's economy, the Dashboard identifies key factors that "matter most" to (i.e. are associated with) these outcomes over time. Given that Northeast Ohio must make up for recent losses in three of the four areas -- employment, GMP and productivity -- past analysis suggests that three factors in particular matter most to this recovery:

1) Northeast Ohio's legacy of place;
2) A skilled workforce and a strong research environment; and
3) Strong business dynamics.[3]

THE DASHBOARD FINDS:

> **THE FABRIC OF OUR REGION IS CHANGING.** Northeast Ohio's "legacy of place" is rightly characterized by what has set the region apart from many other U.S. metro areas: a stubbornly high concentration of city poverty; prevalence of traditional, commodity manufacturing; and an abundance of governmental entities -- all of which are connected to the region's employment, output and productivity growth. But there are signs that change is under way. While the city-metro poverty ratio remains about 2-to-1, it has edged downward over the past decade, in part due to the dispersion of lower income households and ethnic minorities throughout the metro areas. Manufacturing no longer represents one of every five jobs but is trending toward one in ten, as we pursue more specialized opportunities such as higher-skilled, advanced manufacturing driven by innovation (see "The Road Ahead," page 6). And although the ratio of governments-to-residents is higher than it was a decade ago, momentum is building around government collaboration and efficiency.[4] While there are no quick fixes, sustained and patient intervention can address such deeply rooted issues.

> **NORTHEAST OHIO'S TALENT POOL IS EXPANDING, BUT NOT FAST ENOUGH TO KEEP UP WITH SIMILARLY-SIZED METRO AREAS.** Skilled workforce, a factor that matters to the region's per capita income and productivity growth, has performed well over the course of the decade, with the share of the population in professional occupations and with bachelor's degrees increasing. However, the region still falls short relative to other metro areas, even when compared to other Midwest metros like Pittsburgh, Milwaukee, Minneapolis, Columbus and Cincinnati. While dollars spent per employee in industry and university research and development, as well as the number of small business technology and research awards continue to trend upward, Northeast Ohio's workforce must continue acquiring the skills necessary to meet employer demand.

> **BUSINESS GROWTH IS STAGNANT.** Business dynamics, measured by the ratio of business openings to closings, matter to the region's GMP and employment growth. Although firms experienced an uptick earlier in the decade (2003-2004), the number of openings has since fallen back below the number of closings. As of 2007, there were 0.95 business openings for every closing compared to 1.14 for the average metro area—ultimately ranking Northeast Ohio in the bottom quartile of the 136 metro areas analyzed even before the recession had taken root.

Past Dashboard research associates the health of the region's economy with an additional six factors, aside from those mentioned above: racial and economic inclusion, technology commercialization, urban assimilation, entrepreneurship, locational amenities and the relationship between central cities and their surrounding metro areas. Together, these nine factors provide the underpinnings for a stable and resilient metro economy. While year-to-year volatility of the data makes it difficult to reach specific conclusions, outside research suggests that the region is making headway in other core areas. In particular, technology commercialization and entrepreneurship seem to be trending upward, with investment capital up 137 percent in Northeast Ohio in 2010, compared to 19 percent nationally.[5] And although racial and economic inclusion – the only factor associated with every measure of economic growth, showed little to no change over the past decade (2000 to 2010), regional economic development organizations have now joined together to identify and address obstacles to minority participation in emerging high-tech industries.[6]

[3] See Austrian, Yamoah and Clouse, Dashboard of Economic Indicators (2009), for a list of factors and their relationship to each of the four economic growth measures.

[4] See "Opportunity Abounds" (April 2011): www.efficientgovnetwork.org/FileUploads/Opportunity%20Abounds.pdf

[5] Cleveland Plus: Venture Capital Report (2010).

[6] Industries to be included in the analysis include Advanced Energy; Advanced Materials; Instruments, Controls and Electronics; Power and Propulsion and the Bio-Sciences. Forthcoming (2012) by PolicyBridge and Cleveland State University's Center for Economic Development.

THE ROAD AHEAD

Signs point in a positive direction for Northeast Ohio's economy. Despite population loss and business slowdowns, the region remains an important hub for the nation's population and economy, contributing more than $160 billion annually to the national economy. The Cleveland metro area alone has higher levels of export intensity (exports as share of GMP) and clean, low carbon jobs than its largest U.S. counterparts. Its concentrations in smart grid, fuel cells and battery technologies are also a particular boon for the region, with concentrations up to ten times as high as the national average.[7]

HOW WE COMPARE

In general, Midwest metropolitan areas are enjoying a strong recovery relative to the nation, and even the world.[8] But similar to Cleveland; Akron, Youngstown and Canton metro areas have yet to see employment return to 2007 levels. They may be on their way; since the 2010 annual data was released for the Dashboard, we have seen Midwest metros continue a modest recovery into 2011.[9]

One obstacle, as noted above, is that Northeast Ohio is far behind other metropolitan areas regarding the education and skill of its workforce, even among its Midwest peers. As the region continues a shift to more technology-based industries, intellectual capital will become an increasingly critical component to income growth in the region -- and to its growing system of colleges, universities, hospitals and advanced technology clusters.

AT ANOTHER CROSSROADS, THIS TIME WITH A MAP

In the early 1980s, the shift to a non-commodity manufacturing base begged the description of Greater Cleveland as "a deeply troubled region with a basically stagnant economy."[10] Thirty years and three recessions later, Northeast Ohio finds itself at a similar crossroads, but this time with a finely-tuned understanding of the region's economic geography and its assets.

Manufacturing, for example, is now seen as an integral part of the region's future rather than its past, as new innovations emerge in areas where the region already enjoys a competitive advantage -- areas such as chemicals, machinery, medical devices, transportation and electrical equipment. Manufacturing, therefore, has the potential to be part of a more specialized, high-skilled bundle of industry clusters that helps propel Northeast Ohio -- Akron, Canton, Cleveland and Youngstown -- forward in the 21st century global economy. In fact, a recent study projects that the region's manufacturing output will grow by 27 percent by 2015, outpacing the nation by almost 10 percentage points.[11] To support these efforts, regional partners have joined together to develop and implement a regional business plan, part of which will help small and mid-size manufacturers identify new markets, bolster sluggish industries with innovative new ideas and increase exports.[12]

The regional economy must also adapt to changing demographic and geographic realities.[13] Northeast Ohio's economic agenda must continue to be informed by up-to-date research that identifies which communities are affected by changes in the economy, and how they might adapt to and manage these changes responsibly. Fortunately, data sources like the annual American Community Survey (ACS), in conjunction with the 2010 Census population counts and the Quarterly Census of Employment and Wages, allow the research community to explore these trends annually, and track the region's progress against other metropolitan areas.

Ultimately, the Great Recession presented Northeast Ohio a collective challenge to separate the road behind with the road ahead. A full, long-term recovery will require a continued, cross-sector, regional response to the roadblocks mentioned above -- one that has been captured in Advanced Northeast Ohio, the region's economic competitiveness agenda. That agenda which espouses the priorities of business growth, racial and economic inclusion, talent development, and government collaboration and efficiency, continues to provide a sound regional roadmap for moving forward in a particularly challenging and volatile economic climate.

[7] "Ohio: Global Cities Initiative Regional Profile" (2011): http://www.brookings.edu/~/media/Files/Programs/Metro/global_cities/GlobalCitiesInitiative_Ohio_Profile.pdf

[8] Based on income and employment growth in 150 of the largest metropolitan areas globally, the Cleveland metro are ranked #49 in the pace of its recovery. See Berube (2010), The Global Metro Monitor. http://globalmetrosummit.net/media/GlobalMetroMonitor.pdf.

[9] Great Lakes Monitor (September 2011): www.brookings.edu/reports/2011/0622_great_lakes_monitor.aspx

[10] Gurwitz and Kingsley (1982), The Cleveland Metropolitan Economy.

[11] Team NEO and Cleveland Plus: Plus Review of Quarterly Economic Indicators (2011, Q3): www.clevelandplusbusiness.com/Data-Library/~/media/3Q2011QER-FINAL.ashx

[12] See "A Regional Agenda to Advance Northeast Ohio" (April 2011): www.theplus.us/en/Advance/~/media/AdvanceNortheastOhio/Business%20Plans/NEO%20Business%20Plan%20May%202011.ashx

[13] See metro area typology and trends in State of Metropolitan America (2010): www.brookings.edu/metro/StateOfMetroAmerica/Map.aspx

ACKNOWLEDGEMENTS

The authors wish to thank Bradley Whitehead and Robert Jaquay for their support, strategic guidance and thoughtful critique throughout the preparation of this report.

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ADVANCE NORTHEAST OHIO

ABOUT ADVANCE NORTHEAST OHIO
Advance Northeast Ohio is a regional agenda shaped in part by public outreach conducted through the Voices and Choices program in 2007 and the economic research of the Dashboard of Economic Indicators. Advance Northeast Ohio aims to develop and implement regional strategies that address four key priority areas: business growth and attraction, talent development, racial and economic inclusion, and government collaboration and efficiency.

ABOUT THE FUND FOR OUR ECONOMIC FUTURE
The Fund for Our Economic Future is a collaboration of philanthropic organizations and individuals that have united to strengthen the economic competitiveness of Northeast Ohio through grantmaking, research and civic engagement.Begun in 2004, the mission of the Fund is to encourage and advance a regional competitiveness agenda, which will lead to long-term economic revitalization that strengthens our region's core cities, encourages inclusion and enhances the region's quality of life.

ABOUT THE COUNCIL OF REGIONAL ECONOMIC POLICY ADVISORS
The Council of Regional Economic Policy Advisors counsels the Fund for Our Economic Future and the region on how to best address what matters most to achieve improved economic outcomes.