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Cleveland Works: Employment Trends, 2014 to 2015

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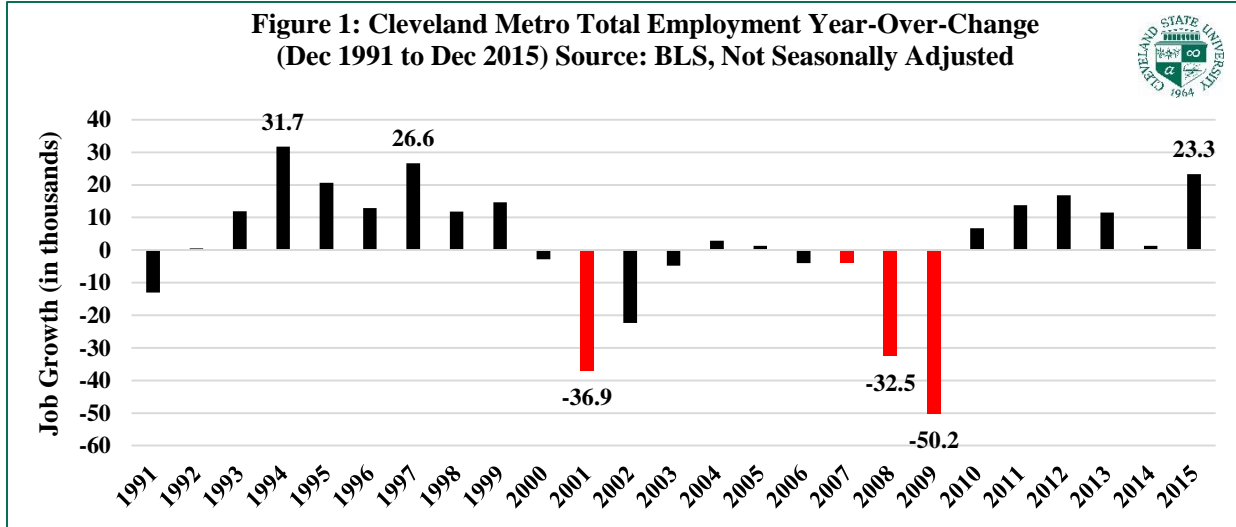


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Cleveland Works:
Employment Trends, 2014 to 2015

BY RICHEY PIIPARINEN AND JIM RUSSELL

The 2000s were unkind to Greater Cleveland¹. The recessions of 2001 and 2007-2009 were periods of economic restructuring that came with job losses (see Figure 1). Nearly 90% of the losses were due to reductions in manufacturing employment². Preliminary data from the Bureau of Labor Statistics, though, point to a recovery of sorts. Specifically, Greater Cleveland saw a gain of 23.3 thousand jobs in 2015—the largest year-over-year increase since 1997³.



Greater Cleveland’s gains compare favorably to benchmark regions (the benchmark regions were replicated from the data dashboard “Pittsburgh Today”⁴). Table 1 shows Cleveland ranked 4th out of 15 benchmark regions in the percent gain of total jobs, behind Charlotte, Indianapolis, and Baltimore.

Importantly, the rate of job growth has coincided with a decline in the region’s unemployment rate. Cleveland’s unemployment rate was 5.6% in 2014. By 2015, the percentage of unemployed Greater Clevelanders *actively seeking work* was down to 4.4% (See Table 1). This percent point decrease ranked as the 3rd largest decrease out of the 15 benchmark regions.

Table 1: Job Growth (Dec. 2014 to Dec. 2015) and Unemployment Rate (Dec. 2015). Source: BLS.

Benchmark Regions	2014 Total Jobs	2015 Total Jobs	% Change	Unemployment Rate
Charlotte	1093.9	1130	3.3%	5.2%
Indianapolis	1015.9	1043.3	2.7%	4.3%
Baltimore	1368.4	1399.4	2.3%	5.1%
Cleveland	1044.8	1068.1	2.2%	4.4%
Detroit	1928.5	1968.1	2.1%	6.2%
Cincinnati	1055.9	1075.6	1.9%	4.6%
Minneapolis	1913.6	1947.6	1.8%	3.3%
Denver	1374	1398.2	1.8%	3.3%
Boston	2629.8	2675.6	1.7%	4.4%
Philadelphia	2831.2	2866.7	1.3%	4.7%
Pittsburgh	1172.6	1186.6	1.2%	4.8%
St. Louis	1325.7	1341.2	1.2%	4.7%
Milwaukee	849.7	856.6	0.8%	4.9%
Richmond	643.1	646.3	0.5%	4.4%
Kansas City	1040	1042.7	0.3%	4.3%

¹ Note: “Greater Cleveland” includes the counties of Cuyahoga, Lake, Geauga, Lorain, and Medina.

² Total jobs losses from Dec. 2000 to Dec. 2015 were 77.1 thousand, and 69.2 thousand in manufacturing. Source: BLS.

³ Note: December 2015 numbers are preliminary and subject to revision.

⁴ See <http://pittsburghtoday.org/home.html>.

Next, the analysis turns to what sectors are driving this change.

Over 87% of the year-over-year job growth gains in Greater Cleveland can be accounted for by four sectors: education and health services; leisure and hospitality; mining, logging, and construction; and financial activities (See Table 2).

Each sector’s growth rate ranked highly compared to the 15 benchmark regions. The 3.8% growth in education and health services jobs ranked 3rd (behind Minneapolis and St. Louis); the 5% growth in leisure and hospitality jobs ranked 3rd (behind Charlotte and Pittsburgh); the 12.6% growth in mining, logging, and construction jobs ranked 1st; and the 5.7% growth in financial activities jobs also ranked Cleveland 1st.

Table 2: Cleveland Metro Job Growth (Dec 2014 to Dec 2015) by Sector. Source: BLS.

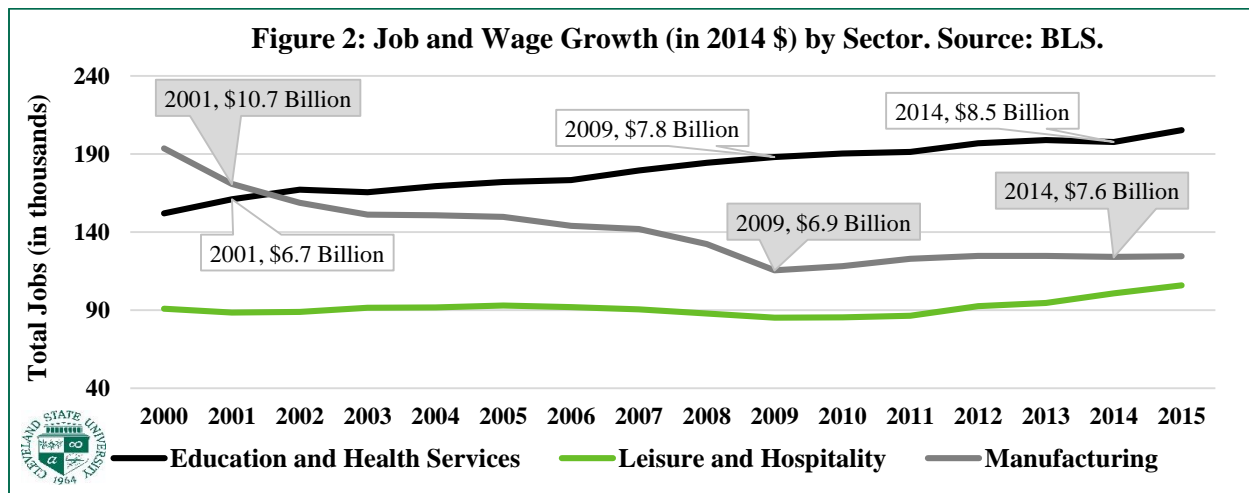
Sector	2015 Total	Total Growth	% Change
Education and Health Services	205.2	7.5	3.8%
Leisure and Hospitality	105.8	5.0	5.0%
Mining, Logging, and Construction	36.6	4.1	12.6%
Financial Activities	68.3	3.7	5.7%
Other		3.0	
Total		23.3	

Note: 2015 data are preliminary estimates.

Before inferring any economic rationale as to why these activities were the highest-growth sectors—that is, does their growth “hang together” in any way?—it is important to sketch out how a regional economy works.

“Urban economists like to divide a regional economy into two sectors: tradable and nontradable,” explains the Cleveland Fed⁵. “The tradable sector produces goods and services that are sold outside of the region; the nontradable sector produces goods and services for use in the region. The long-term growth trends of regions are closely tied to the fate of their tradable sectors.”

Historically, Greater Cleveland’s tradable economy was driven by manufacturing. The aggregate wages from manufacturing made for a robust nontradable economy—ranging from home construction to leisure and hospitality. As shown in Figure 2, total jobs and aggregate wages in manufacturing have declined across time, with wages decreasing from \$10.7 billion in 2001 to \$7.6 billion in 2014. Not coincidentally, the large contraction in employment and pay has hurt the local economy, as evidenced by a flatlining in leisure and hospitality jobs between 2000 and 2011.



⁵ See: Elvery, J. 2013. “Brain Hubs and Manufacturing Centers in the Fourth District.” Cleveland Fed.



Countering the job losses in manufacturing has been a steady increase in job and wage growth in education and health services sector. The sector's expansion included a gain of 53.2 thousand jobs since 2000, with an associated increase of \$1.9 billion in total wages (See Figure 2).

While “eds and meds” is traditionally thought of as being a local sector, the region's healthcare industry is increasingly tradable, involving the export of healthcare and related professional services to both national and international outposts; as well as the import of patients, medical trainees, and research and development expenditures into Cleveland. Moreover, the healthcare industry is prone to economies of scale. Here, the push to efficiency can reward those regional health clusters that excel in healthcare quality and innovation in healthcare delivery.

“[T]he same forces that led other industries to cluster in specific regions (think technology in Silicon Valley or banking in New York) are now sweeping through education and health care,” explains former White House economist Aaron Chatterji in the *New York Times* recently⁶. Chatterji envisions an emerging “eds and meds” geography that “sees the same dynamic of winners and losers observed in other industrial sectors, as top universities and hospitals become larger and absorb most of the increase in students and patients from across the nation.”

A simple way to chart the extent Cleveland is clustering “eds and meds” employment is by examining the sector's concentration relative to overall labor market, and then comparing that to benchmark regions. Table 3 shows that 19.2% of Cleveland's labor market is made up of education and health services, ranking the region tied for 5th.

Delineating further, when looking at the location quotient (LQ) of skilled healthcare workers⁷—an “LQ” is a way to quantify how concentrated a particular occupation is in a region as compared to the nation—Greater Cleveland not only has the largest concentration of skilled healthcare workers in the benchmark regions (LQ = 1.29), but also a largest concentration in the nation's top 50 job markets.

Now, how does an increase in “eds and meds” employment and wages help bring about a more robust local economy?

Simply, a rebound in total regional wages brings with it disposable income, with a growth in the local service sector the result. For instance, economist

Table 3: Concentration of "Eds and Meds" Employment in Benchmark Regions.

Sources: BLS, OES.

Region	% Regional Labor Market "Eds and Meds"	Location Quotient (LQ) Skilled Healthcare Workers
Philadelphia	21.2%	1.11
Pittsburgh	21.1%	1.21
Boston	21.1%	1.23
Milwaukee	19.3%	1.06
Cleveland	19.2%	1.29
Baltimore	19.2%	1.13
St. Louis	17.8%	1.17
Minneapolis	16.4%	0.91
Detroit	15.9%	1.17
United States	15.7%	
Cincinnati	14.9%	1.13
Richmond	14.7%	1.09
Indianapolis	14.5%	1.20
Kansas City	14.0%	1.05
Denver	12.9%	0.90
Charlotte	10.1%	0.89

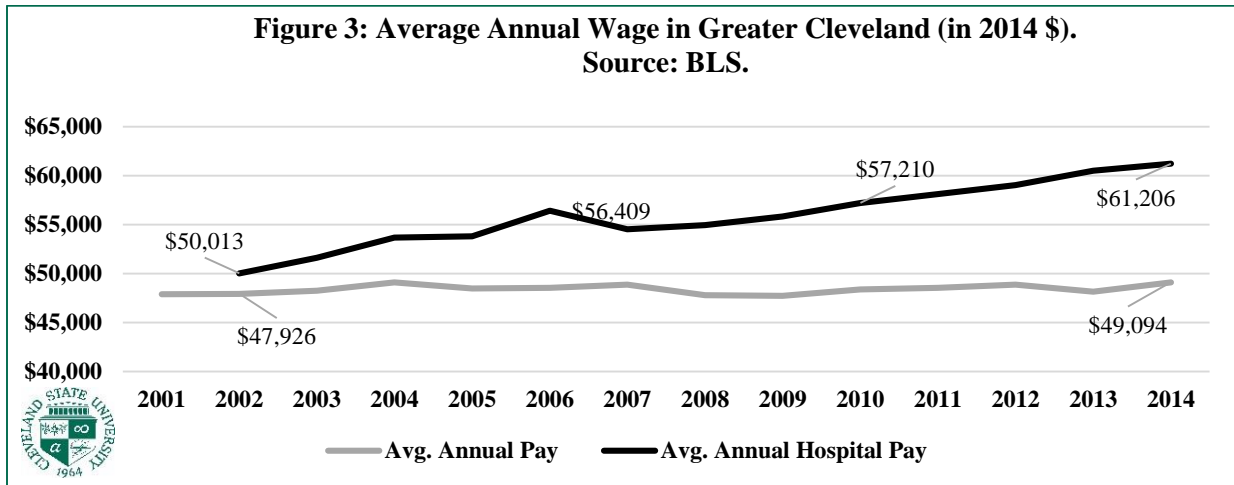
⁶Chatterji, A. 2013. “The Bad News for Local Job Markets.” *New York Times*.

⁷ Note: “Skilled Health Care Workers” are defined as those in the “Healthcare Practitioner and Technical Occupations” category in the Occupational Employment Statistics (OES) survey. In 2014, Greater Cleveland had approximately 76,000 skilled healthcare workers, up from 63,000 in 2001.



Enrico Moretti detailed that for every high-tech job created in a regional economy, an additional 5 jobs are created in the local economy.

In Greater Cleveland, such a wage divergence can be found in the region’s hospital sector (nearly half of Cleveland’s “eds and meds” jobs are in hospitals). Local hospital wages grew from \$50,013 in 2002 to \$61,206 in 2014, or by approximately \$11,200 (2002 wages adjusted for inflation). Nearly 36% of that growth occurred over the last 4 years alone. It is possible that the increasing wages in the region’s globalizing healthcare sector is paying off in local sector job growth, particularly leisure and hospitality and construction.



This is not, however, to say that the region’s other tradable sectors do not play a part in local economy growth—in fact the average annual wage in manufacturing is \$61,058, above the pay in 2001 (\$59,449)⁸—it is simply meant to acknowledge the ever-increasing role Cleveland’s healthcare industry is playing in driving regional economic restructuring.

That said, given the growing prominence healthcare will play in U.S. policy going forward, strategic thinking must be given as to how the region’s tradable professional services can begin specializing in “know-how” related to the healthcare sector—be it legal, finance, education, and technology. This occurred in the growth of Cleveland’s “white collar” workforce on the backs of heavy industry. It can occur on the back of the region’s “white coat” industry as well. By accelerating broader growth on the region’s competitive tradable sectors, more jobs will be created in the local economy.

⁸ Source: BLS.

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