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Ohio's Smaller Urban and Rural Areas

The August 10 issue of *On the Money* examined the economic performance of Ohio's six largest Metropolitan Statistical Areas (MSAs) – Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo. As that discussion showed, the economic structure and performance of each of these regions is unique. This is the fundamental challenge in analyzing and understanding the Ohio economy: every region has its own focus industries and its own economic climate. A discussion of the economic performance of Ohio as a whole is thus a discussion of both everywhere and nowhere.

This point raises an important question: what about the 60 Ohio counties that are not part of these six large MSAs? These counties include 10 other MSAs that are partly or completely in Ohio and 29 "Micropolitan Statistical Areas" anchored by a city with a population of at least 10,000 but smaller than the 50,000 that would qualify its area to be designated as an MSA. Nineteen counties – primarily in the Northwest and Southeast – are part of no statistical area. Together these 60 counties are home to one-third of Ohio's population and more than one-quarter of Ohio's jobs.

For several reasons, analyzing Ohio's smaller urban and rural areas presents a much more significant challenge than the analysis of the large MSAs. Counties must be grouped together into regions to keep the analysis manageable, with the counties in each region as homogeneous as possible and neither too few nor too many regions. Data availability is also a challenge. Monthly employment totals are available for counties in the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW – also called ES-202 data from the form used to collect them). There are currently too few years available to allow the data to be seasonally adjusted, so in order to avoid distortion, only annual averages can be used. In cases where there are few employers in a specific sector, the QCEW employment total is suppressed so as not to disclose individual employment totals and another sector's employment is also suppressed to prevent the first total to be obtained by subtraction. The result is the suppression of a significant number of sectors in the smallest counties. There are methods to arrive at rough estimates of these suppressed totals, but these methods are time-consuming.

But the most serious problem is the availability of employment data in the crucial farming sector. Because the QCEW data cover only wage and salary workers, those for farming include only employees of larger farms, and omit the significant number of farm owners and family members who operate many of Ohio's smaller farms. The presence of one or two large corporate farms can thus significantly distort the comparison among regions. Workers at family-operated farms are covered in the much broader employment totals in the Regional Economic Accounts of the Bureau of Economic Analysis. Farm ownership and employment here can be ten times the QCEW totals.

Defining Ohio's Small Metro and Rural Regions

The first step in creating regions for analysis was to exclude the 28 counties that comprise the six large MSAs. Using employment concentrations primarily for farming and manufacturing, roughly similar counties were combined into regions of between five and 13 counties each. The focus on the farming concentration implicitly brought more urban counties together, although some of the regions combine one or two relatively urbanized counties with a number of more rural ones. (By the same token, MSA counties such as Brown and Morrow have much more in common with their rural neighbors than with their urban ones.) The resulting regions are shown in Exhibit 1.

**Exhibit 1
Ohio Regions**

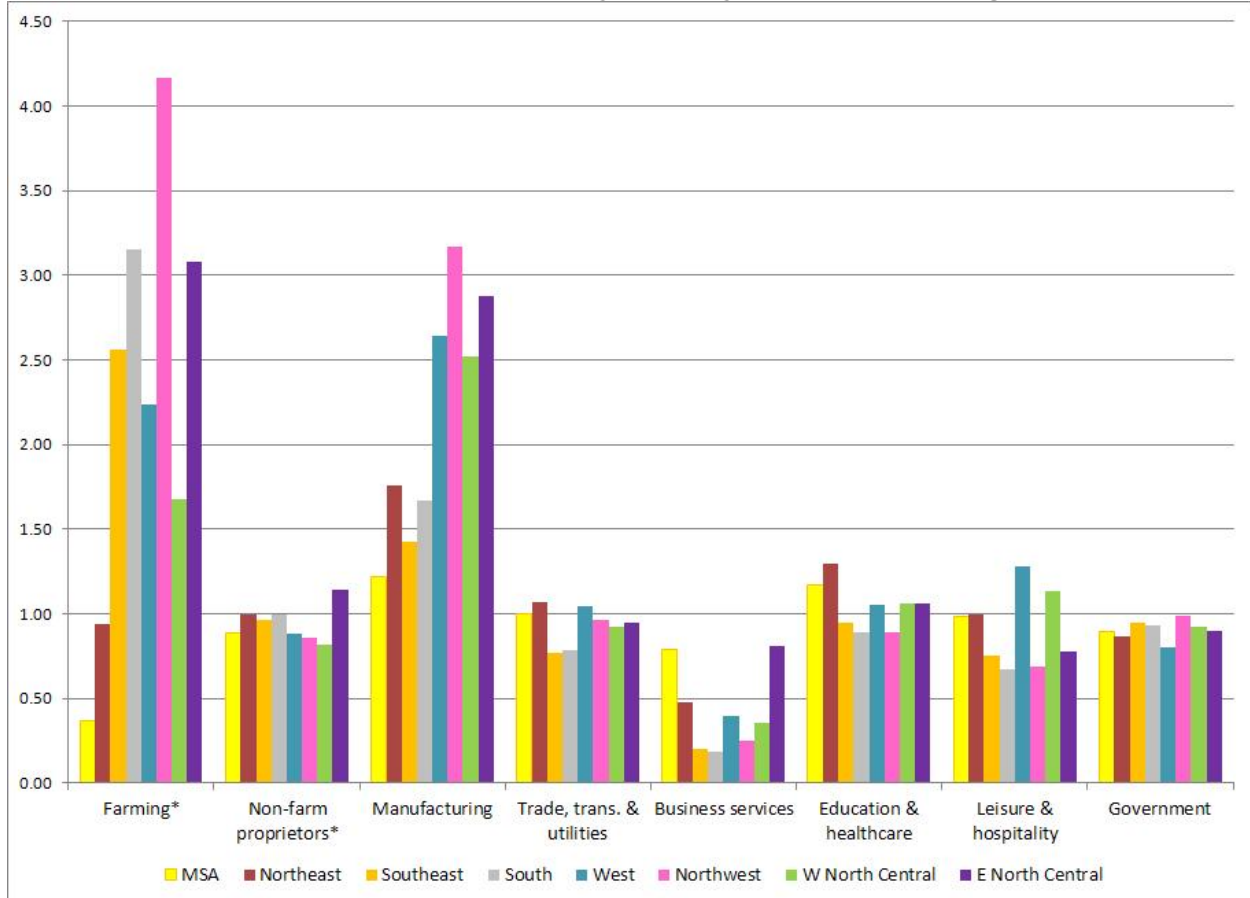


Source: Author; see text.

Economic Structure

Exhibit 2 shows the relative concentration of selected major sectors for each of the seven regions and the MSA counties as a whole. Relative concentration is the percentage of total local employment in a given sector divided by the total U.S. percentage in that sector. Thus, a relative concentration greater than 1.00 indicates a sector with a larger-than-average share of total regional employment.

Exhibit 2
Relative Concentration of Key Industry Sectors: Ohio Regions



Note: Concentrations reflect 2011 averages except *2010 averages.

Source: Calculated from U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages and *U.S. Bureau of Economic Analysis, Regional Economic Accounts, Table CA25N.

Not surprisingly, the importance of farming in total employment is well below average in the large MSA counties and generally well above average elsewhere. Employment is more than four times the national average in the Northwest, which has small population centers and good soil. It is also well above average in the South, East North Central, and Southeast. The only one of the seven regions with below-average farming employment is the Northeast.

Another statistic provided in the Regional Economic Accounts is the number of non-farm proprietors. As shown, the number of business owners is 11 percent below average in the large MSAs. The only region with an above-average number of proprietors is the East North Central region; there the concentration is 14 percent above average. While business ownership can

create greater financial risk, it can also be a source of economic dynamism, employment growth, and higher household income. Consequently, the low concentration of business proprietors is a weakness.

Manufacturing employment is proportionally far higher in most of the smaller regions than in the large MSAs. This may reflect lower land costs that support the development of large manufacturing plants and in some cases less restrictive zoning. The Northwest has manufacturing employment 3.2 times what would be expected in an economy its size. This likely includes parts suppliers for the auto manufacturing operations in Toledo and Detroit.

Trade, transportation, and utilities concentrations are close to average everywhere but the Southeast and South, where they are about 20 percent below average. This sector is important because it generally accounts for roughly 20 percent of total employment, but its largest component by far is usually retail trade. Because retail serves primarily a local market, its growth potential is limited, as is the potential for the sector to achieve an above-average concentration. This is less true of the other components of this sector – wholesale trade, transportation and warehousing, and utilities – so the growth potential of these industries is greater. The high concentrations of these subsectors in some places (including the Columbus MSA) are not sufficient to create high concentrations for the overall sector.

Business services include professional offices (other than those of healthcare providers) research and development, information technology, marketing and public relations, corporate managing offices, administrative support, and waste services. These businesses often cluster in urban areas to be close to larger numbers of customers, so the employment concentration is higher in the large MSAs than in the other regions, although it is also relatively high in the less urbanized East North Central region.

Education and health services include private educational institutions, but healthcare and private social assistance providers account for 87 percent of sector employment statewide. Here again, employment tends to be higher in the large MSAs, which are home to large regional medical centers and support services such as medical labs. Employment is also greater than average in the somewhat more urbanized Northeast.

Leisure and hospitality – including arts, entertainment, recreation, lodging and food services – is relatively highest in the West and West North Central (which is home to Cedar Point). Finally, government employment is at or below average in all regions.

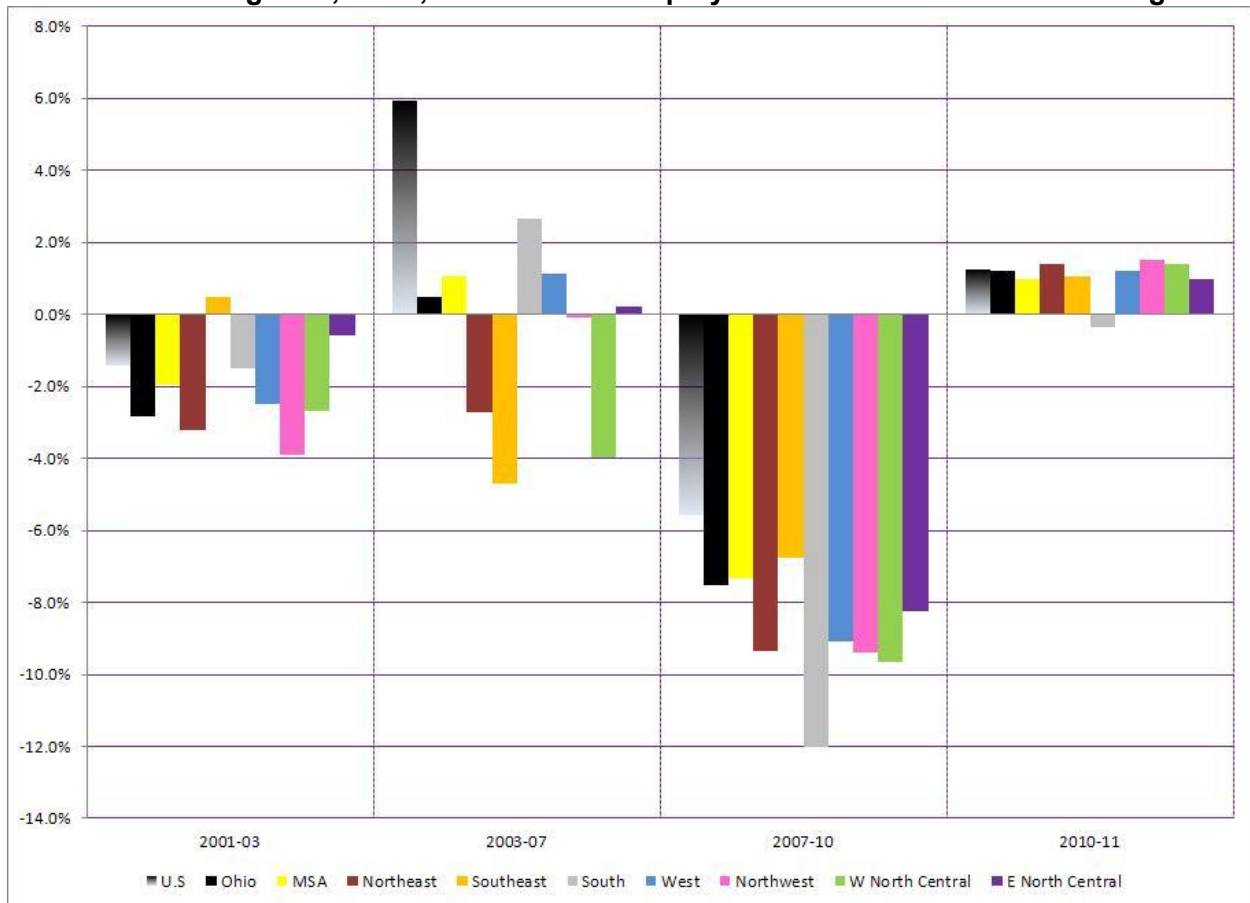
Economic Performance of Ohio's Regions over the Past Decade

It is no secret that the past decade was not kind to Ohio's economy. This was one of only a handful of states with fewer jobs at the end of the expansion in December 2007 than at the end of the previous expansion in March 2001. The culprit was the decline in manufacturing employment caused by a tremendous increase in worker productivity over the decade. So it follows that the economic performance of the more manufacturing-dependent small MSAs and rural areas during the expansion should have been worse than that of the somewhat less manufacturing-dependent large MSAs. This was generally the case.

Exhibit 3 reveals the peak-to-trough contraction and the trough-to-peak expansion in employment for the U.S., Ohio, and each region during each of the labor market cycles since 2001. The 2001 recession was also more damaging than average to the state and most regions

except for the East North Central and the Southeast – which actually managed a tiny net increase. The performance of all regions during the 2003-2007 expansion significantly lagged the national average, with the Northeast, West North Central, and Southeast off between 2.7 and 4.7 percent during this growth phase. The job loss during the recession was severe in all regions, especially the South, which lost 12 percent of its employment. However, a significant share of this loss was due to the loss of DHL operations in Clinton County. If Clinton’s employment is removed from the totals, the South’s loss is reduced to 6.7 percent – worse than the U.S., but better than any other region. The job growth in the early stages of the recovery was far closer to average, except in the South once again, where employment fell 0.4 percent between 2010 and 2011 – and was unchanged if Clinton County is excluded.

Exhibit 3
Growth of Regional, State, and National Employment between Peaks and Troughs

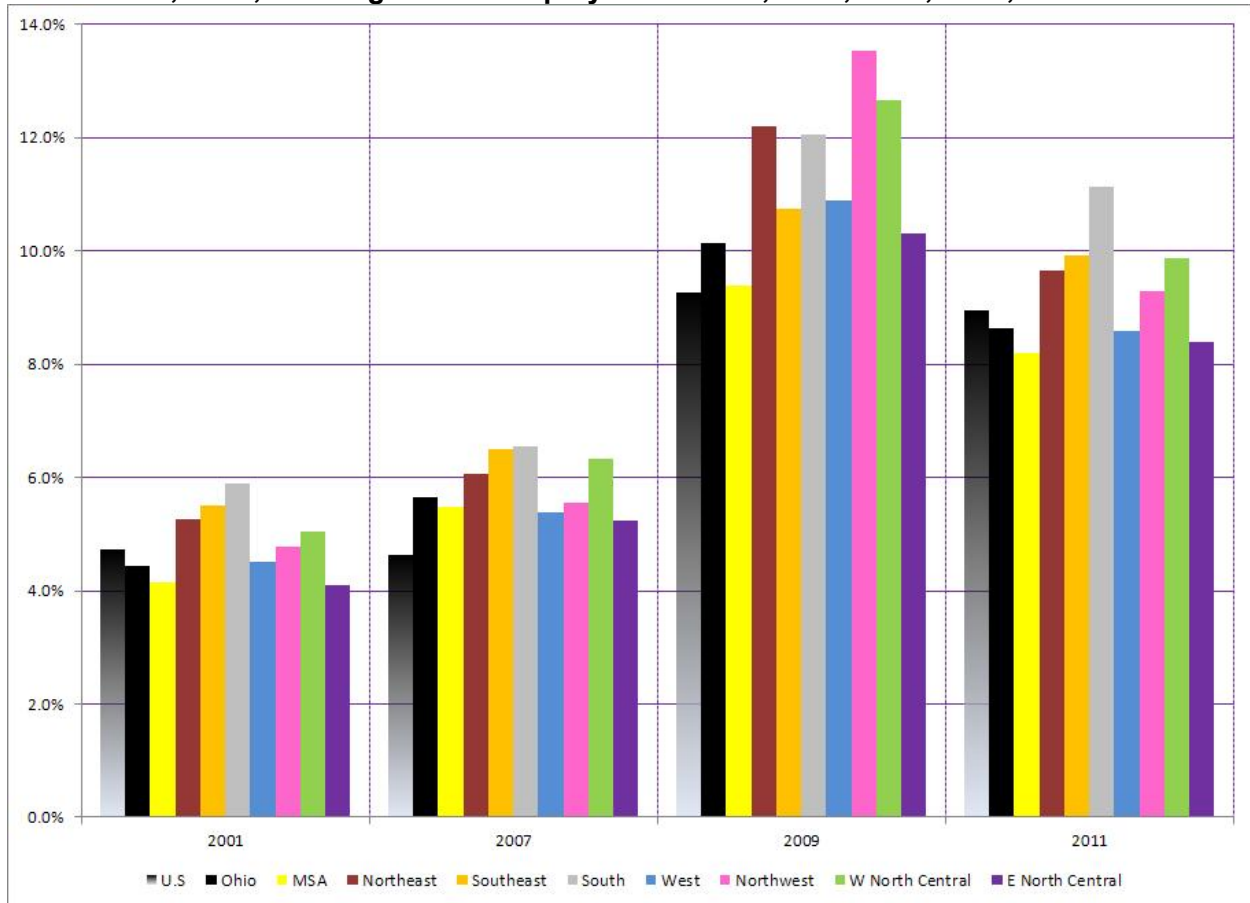


Source: Calculated from U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

Exhibit 4 shows the annual average unemployment rate for each region at the labor market inflection points – 2001, 2007, and 2009 – along with the rate for 2011. The August 10 edition of *On the Money* included a detailed discussion of the limitations of the unemployment rate as a barometer of the health of the labor market. Essentially, the unemployment rate is driven by changes in both employment and in the number of active job-seekers. As job-seekers exit the labor market during economic downturns, the unemployment rate is depressed, while their return when conditions improve keeps the rate elevated. The Ohio unemployment rate has fallen much further than average from its peak despite employment growth only slightly better than average. This is because the lack of reentry of discouraged workers into the Ohio labor

force and a much slower-than average population growth rate has resulted in a continuing decline in the state's labor force.

Exhibit 4
U.S., Ohio, and Regional Unemployment Rates, 2001, 2007, 2009, and 2011



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.

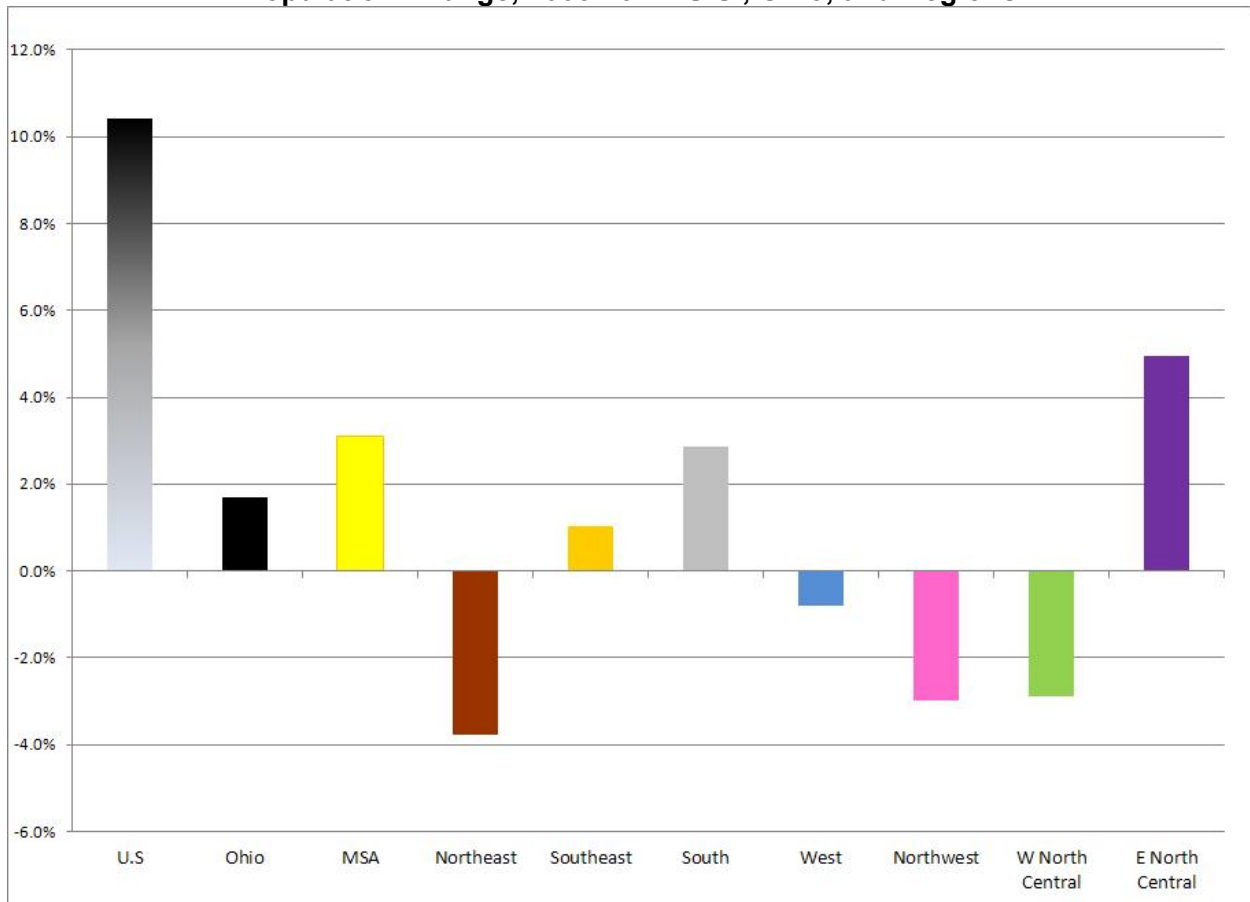
The 2009 unemployment rates represent the recession peak in most regions, but not all. The Southeast's rate rose from 10.7 percent in 2009 to 11.2 in 2010, while the South's rate was 12 percent in 2009 and 12.6 percent in 2010 (12.2 percent omitting Clinton). The point to note in Exhibit 4 is that unemployment rates the large MSAs (as a whole) peaked at a lower rate than in any other region and remained below the unemployment rates of the other regions in 2011. Changes in these rates are driven by the interplay of employment change, population change, the population age distribution, and the optimism (or lack thereof) of the unemployed.

Population Change

Because demographic factors impact labor markets, demographics are important in understanding the opportunities and challenges facing these regions. Important factors include population growth, age distribution, income, school enrollment and educational attainment, industry and occupation of employment, and others. This analysis is a suitable subject for a future article, but population change can be introduced now. The percentage change in population for the U.S., Ohio, and each region between 2000 and 2011 is shown in Exhibit 5.

Population growth in Ohio's large MSAs is stronger than the remainder of the state as a whole – primarily because of growth in the Columbus MSA. This was the one region of the state with growth greater than the national average, at 15.2 percent. But population growth in the East North Central region exceeded the all-MSA average, and growth in the South nearly tied it (2.9 percent compared to MSA growth of 3.1 percent). Conversely, the Northeast lost 3.8 percent and the Northwest lost 3.0 percent.

Exhibit 5
Population Change, 2000-2011: U.S., Ohio, and Regions



Source: Calculated from U.S. Census Bureau, 2000 Census and 2011 Population Estimates.

Conclusion

The one message that emerges from this analysis is the amazing diversity of Ohio's economy. Even within the relatively more homogeneous regions are microclimates that make one county's economic structure and performance significantly different from that of its neighbors. It is certainly not correct to assume that the economy of a smaller metro or rural county is similar to that of a nearby large MSA. Rather, it is incumbent upon local civic leaders, economic developers, and workforce officials to understand the economic forces driving their individual county and the communities within it. This is a topic with much potential for further exploration in these articles.