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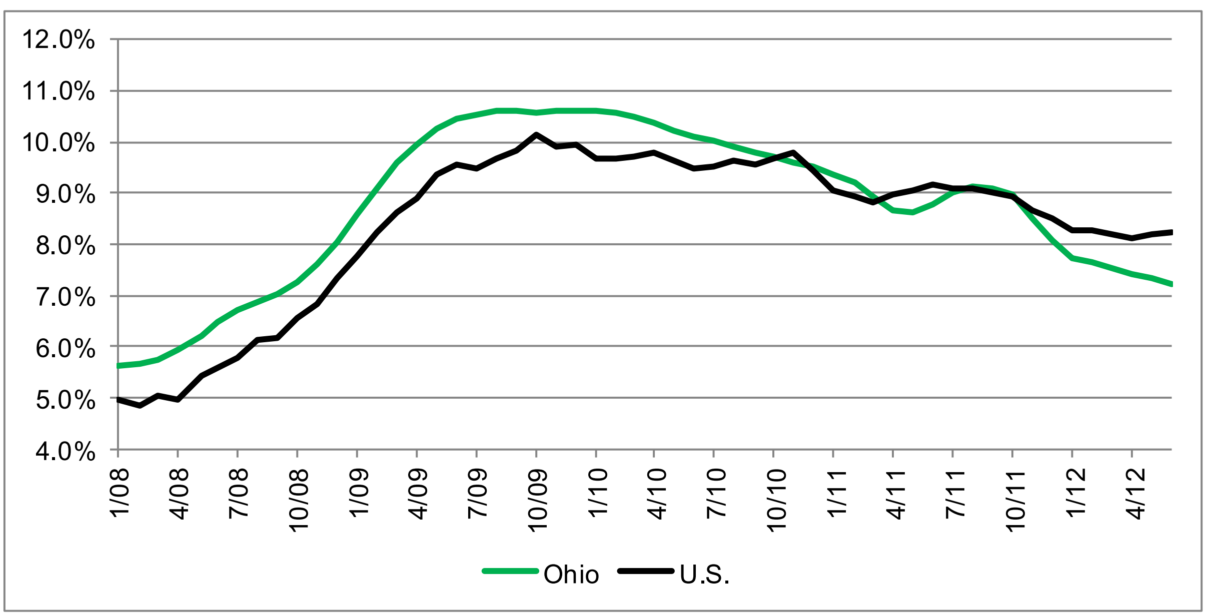
Ohio Employment Growth in the Recovery

This is a new bimonthly feature of On the Money *focusing on issues relating to the Ohio economy – an issue critically affecting the state's budget. It is prepared by Bill LaFayette, PhD, owner of Regionomics, a Columbus-based regional economics and workforce strategy firm. This first column will discuss Ohio employment growth in the two and a half years since growth became positive.*

Statewide Employment

Commentators often focus first (or exclusively) on the unemployment rate when assessing the labor market. By this measure, Ohio has been doing comparatively well. As Exhibit 1 shows, Ohio began the recession with the unemployment rate above the national average (5.6 percent vs. 5.0 percent). Ohio's rate peaked at 10.6 percent, where it remained from August 2009 through February 2010. This was half a point above the October 2009 U.S. peak of 10.1 percent. But Ohio's rate has fallen faster than average subsequently, and stood in June 2012 at 7.2 percent, a full point below the national average.

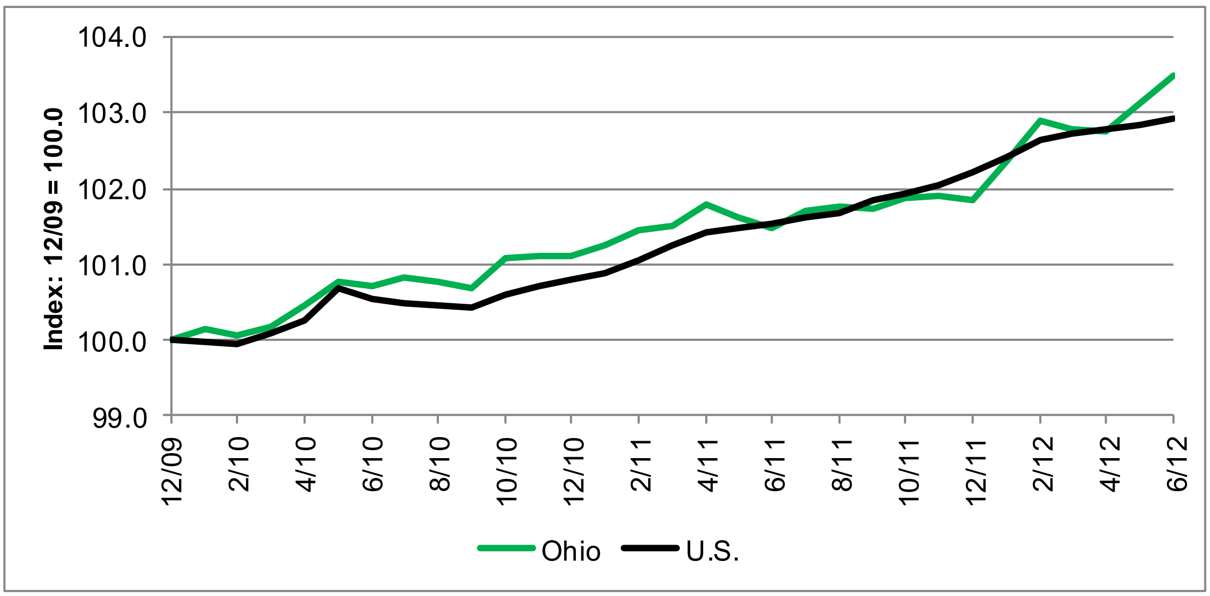
Exhibit 1
Ohio and U.S. Unemployment Rates, Jan. 2008-June 2012



Source: U.S. Bureau of Labor Statistics, Current Population Survey and Local Area Unemployment Statistics.

It is unfortunate, however, that the unemployment rate gets all the attention because it is a warped yardstick at best and often tends to lead to inaccurate conclusions regarding the health of the labor market. The rapid decline in Ohio's unemployment rate may suggest that the state's labor market is doing far better than average. But as Exhibit 2 shows, Ohio's employment growth has generally tracked the national average fairly closely during the recovery. Ohio employment reached bottom in December 2009 and has grown 3.5 percent since then – thanks in part to a massive increase of 18,400 jobs in June, which may be reduced somewhat when revised statistics are released later this month. U.S. employment reached its trough two months later than Ohio and has since grown 3.0 percent. This is not bad news: the last time Ohio employment growth exceeded the national average was 2000, and it has not consistently done so since the early 1990s.

Exhibit 2
Ohio and U.S. Employment Growth, Dec. 2009-June 2012



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

The unemployment rate is a faulty measure of the health of the labor market because two forces drive changes in the rate: changes in the number of people working and changes in the number of people looking for work. Had tens of thousands of Ohio workers – and millions nationally – not left the labor market in discouragement during the recession, the unemployment rate would have risen far more than it did. Those individuals are beginning to trickle back in now; their reentry over time will keep the unemployment rate elevated, making labor market conditions seem worse than they are. But the key factor in the larger decline in Ohio's unemployment rate is our slow population growth rate. Because there are fewer adults newly entering working age, an increase in Ohio's employment will have a larger impact on the unemployment rate than a comparable increase at the national level. For these reasons, I tend to pay far more attention to the changes in payroll employment in Exhibit 2 than I do to the changes in the unemployment rate in Exhibit 1. Employment changes are more closely linked to underlying economic growth.

The single largest reason for the improvement in Ohio's relative employment performance is manufacturing employment growth during the recovery. Manufacturing employment has been growing statewide and nationally for the first time since the early 1990s – not coincidentally, the last time Ohio's employment growth matched the national average. Ohio's manufacturing growth is one sector in which growth has been greater than average: 8.0 percent compared to 4.4 percent nationally since the trough. Because of the much larger-than-average concentration of manufacturing, this strong performance has a large impact on overall employment growth.

Manufacturing deserves a detailed focus in a future column because of its importance to the Ohio economy. For now, suffice it to say that the key driver of the sharp decline in manufacturing employment during the 2000s was not the movement of jobs to other countries, but rather their disappearance altogether as producers substituted machines and technology for labor. U.S. manufacturing employment declined 15.6 percent between 2001 and 2007, but manufacturing output rose 27.6 percent over that period. The output increase coupled with the employment decline led to a 51.3 percent increase in the output produced by a typical manufacturing worker over those six years. (Offshoring certainly did occur over the period, but if this had been the driving force in the employment decline, output would have stagnated or declined rather than increasing by a greater-than-average amount.) This productivity increase is unusually and unsustainably large. It may be that manufacturers are hiring now because they have coaxed all the production out of their technology that they can – at least for the time being.

Performance of Individual Sectors and Metro Areas

The discussion above is necessary but not sufficient for an understanding of the current status of the Ohio economy. An important fact about the state economy is that individual regions of Ohio have a significantly different economic makeup and thus typically perform very differently. Consequently, we turn next to an overview of the performance of Ohio's six largest Metropolitan Statistical Areas (MSAs) including comparisons of those areas' performance since the labor market recovery began in total and by individual sector. This is not to downplay the importance of Ohio's smaller MSAs and rural areas; these too are unique and play their own role in the state's economic growth. Thus, they will be the subject of a future column.

The largest MSA economy in terms of its Ohio employment is the five-county Cleveland-Elyria-Mentor area with average 2011 employment of 992,700. The 15-county Cincinnati-Middletown MSA is approximately the same total employment size (989,400) but the Bureau of Labor Statistics' county-level employment data reveal that 18.3 percent of the region's total jobs were in Kentucky counties in 2011 and 2.1 percent were in Indiana. This leaves roughly 787,600 jobs in the five Ohio counties and places Cincinnati well behind the eight-county Columbus MSA's 916,900. The three smaller areas are the four counties of the Dayton MSA (376,100), the two counties of the Akron MSA (318,400), and the four counties of the Toledo MSA (300,200). Together these six areas are home to 73 percent of all jobs statewide; Cincinnati, Cleveland, and Columbus alone account for 53 percent.

The significant differences among these six regions are made clear in Exhibit 3. This table presents "relative concentrations" of the major sectors in each MSA. This is the percentage of total local employment in a given sector divided by the total U.S. percentage in that sector times 100. Thus, a relative concentration greater than 100 indicates a sector with a larger-than-average share of total regional or state employment. Sectors are shown in order of their total statewide employment, so the sectors in the top rows are the most consequential for total employment growth. Note the differences in the relative concentrations from one region to the next – including those between Cleveland and Akron, which are adjacent. The manufacturing concentration in all MSAs except Toledo is below the state average, suggesting that the higher manufacturing concentrations are in smaller areas.

Exhibit 3
Relative Employment Concentrations in Large MSAs, 2011

	Ohio	Akron	Cincinnati	Cleveland	Columbus	Dayton	Toledo
Education/healthcare	110.5	105.2	99.9	124.8	93.6	122.8	113.6
Government	89.6	87.9	75.7	80.3	100.5	103.3	92.4
Prof. & bus. svcs.	96.5	115.9	117.0	104.8	123.5	97.3	84.6
Manufacturing	140.6	137.5	120.1	134.9	79.2	119.4	146.6
Retail trade	97.7	98.3	91.8	90.1	95.7	93.3	100.7
Leisure & hospitality	92.7	89.5	104.8	84.7	95.0	97.0	106.4
Financial activities	93.6	73.0	108.2	110.9	131.5	77.3	63.2
Wholesale trade	100.9	130.5	131.4	114.1	96.5	77.8	84.1
Other services	101.6	101.9	100.2	101.6	94.1	98.7	107.3
Construction/mining	76.3	73.5	79.8	65.9	64.9	61.7	78.6
Transport & utilities	97.5	81.7	106.0	80.0	128.0	78.5	121.9
Information	74.3	59.0	69.4	75.6	90.5	128.7	56.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

Exhibit 4 shows total percentage employment changes by sector since the employment trough in each MSA. For most MSAs this is January 2010, but it is one or two months earlier in Ohio and Akron, and a month later nationally. In order to compute these changes meaningfully, the employment totals must be seasonally adjusted. The Bureau of Labor Statistics does not provide seasonally-adjusted totals at the sector level for MSAs, so these are seasonally adjusted by Regionomics. The blue-shaded cells represent employment growth greater than the U.S. average or a less-than-average decline. Of the six MSAs, only Columbus has outperformed the state average in total employment growth, and only Columbus and Cincinnati have outperformed the U.S. Cleveland's growth of less than half the U.S. average is particularly worrisome. The large government declines are clearly one factor negatively impacting growth.

Exhibit 4
Employment Change by Sector to June 2012

	U.S.	Ohio	Akron	Cincinnati	Cleveland	Columbus	Dayton	Toledo
Trough	2/10	12/09	11/09	1/10	1/10	1/10	1/10	1/10
Education/health	4.6%	4.1%	3.9%	3.5%	2.1%	13.8%	3.5%	-0.6%
Government	-2.3%	-2.2%	-6.2%	-3.7%	-8.2%	-4.3%	-2.8%	-9.6%
Prof. & bus. svcs.	8.2%	8.0%	7.5%	8.7%	5.7%	6.7%	6.6%	10.5%
Manufacturing	4.4%	8.0%	13.3%	9.0%	7.7%	-0.6%	6.8%	6.5%
Retail trade	2.5%	3.2%	0.2%	2.2%	4.3%	6.5%	0.4%	3.8%
Leisure/hospitality	5.2%	1.7%	-2.7%	6.6%	-1.2%	8.3%	7.1%	7.4%
Financial activities	1.0%	0.3%	2.3%	0.4%	1.4%	3.7%	2.8%	-1.4%
Wholesale trade	3.4%	3.7%	8.5%	3.2%	6.7%	10.2%	7.1%	1.1%
Other services	1.0%	2.5%	-1.5%	-4.1%	-0.5%	9.3%	1.5%	0.9%
Constr./mining	2.4%	5.2%	9.3%	2.8%	-2.1%	5.8%	-2.6%	12.4%
Transport/utilities	5.0%	3.4%	-2.3%	2.0%	-0.7%	1.4%	0.5%	6.7%
Information	-3.9%	-1.8%	-11.1%	-3.6%	-8.0%	0.7%	-9.5%	3.2%
Total employmt.	**3.0%**	**3.5%**	**2.7%**	**3.3%**	**1.4%**	**5.0%**	**2.5%**	**2.2%**
Total chng. (000)	**3,844**	**174.3**	**2.6**	**32.6**	**13.7**	**44.5**	**9.1**	**6.5**

Blue-shaded cells represent growth greater than or decline less than the national average.
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics; seasonal adjustment of MSA employment by Regionomics.

Future Prospects

National economic forecasts suggest that the coming months will be somewhat challenging. The *Wall Street Journal* Economic Forecasting Survey calls for slight improvement in gross domestic product growth in the second half, but growth of only two percent for the year as a whole – equal to the 2011 rate. This suggests that hiring is likely to remain fairly modest. Households (70 percent of the economy) may not be much help: the Thomson Reuters/University of Michigan Consumer Sentiment Index dropped sharply in June after nine months of gains, and fell further in July. Beyond this, households are continuing to get their balance sheets back in order, which also puts a damper on spending. The economic weakness in Europe is affecting demand for American-made goods as well.

At the state level, we are likely at some point to see deceleration in manufacturing employment growth as production efficiencies begin to grow again. It will be important to remember, though, that the slower employment growth when it arrives will not necessarily imply slower output growth. The growth in output will still sustain jobs in supplier companies and elsewhere in the economy.

The regional diversity of the Ohio economy also provides an opportunity. Given the differences among these economies, there should be strengths in one region that can address needs in another. If these strengths and needs could be identified in detail and coordinated, opportunities may present themselves for targeted industries in different regions to do business with one another. If contracts can be sent from Columbus to Dayton rather than from Columbus to Dallas, the state's economy would be better off.