

R E G I O N A L economic

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A SNAPSHOT OF THE DAYTON REGIONAL ECONOMY

This time, let's begin with the good news. Several industries in the Dayton Metropolitan Statistical Area (Greene, Miami, Montgomery, and Preble counties) generated notable job growth last year. The largest employment increase occurred in the leisure services industry (restaurants, hotels, sports, and entertainment) which reversed a two year decline and added 1,300 new jobs this past year. The health care industry continued its long term pattern of slow steady job growth by adding another 400 jobs to the region. Employment in the professional and business services industry (business to business services) increased by roughly 400 workers over last year following several years of decline.

Per capita income rose 3.1 percent from 2004-2005 (the most recent year available) to \$31,792, the largest increase since 2000. This contributed to increases in county sales tax collections by over 10 percent over the past year in each of the Dayton MSA's four counties, a clear indication that consumer spending is rising. Additionally, local hourly wages in the manufacturing industry remain well above the U.S. average (\$20.30 vs. \$16.80). The region remains a very affordable place to live. The cost of living in the region remains between 5 percent and 8 percent below the national average (depending on the source) and

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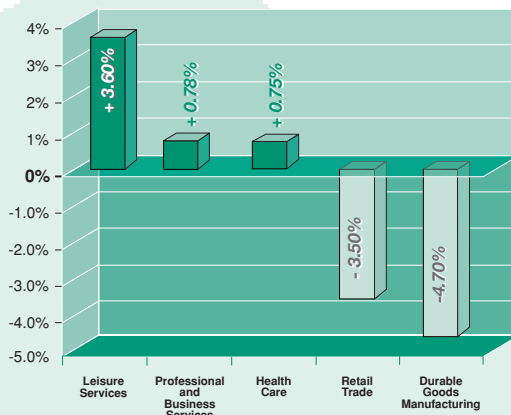
is also between 3 percent and 7 percent below that of nearby metropolitan areas such as Cincinnati, Columbus, and Indianapolis.

Despite this good news, total employment in the Dayton Metropolitan Area (Greene, Miami, Montgomery, and Preble counties) fell by slightly over 2,000 jobs from the first quarter of 2006 through the first quarter of this year. This is the seventh consecutive year that year-over-year employment totals have fallen. The region's employment level now stands at 402,570. The durable goods manufacturing industry once again lead the way with 2,000 lost jobs, mostly through several large layoffs this past summer. Over the past ten years, the region has lost one third of its durable goods manufacturing jobs, from just over 60,000 in 1997 to just over 40,000 in the first quarter of this year. The only other industry that experienced a notable employment decline last year was the retail sales industry, which lost about 1,500 jobs to its current level of 41,200 workers. The region's unemployment rate was 5.5 percent in March, which is equal to Ohio's unemployment rate of 5.5 percent and above the national unemployment rate of 4.4 percent.

Using the latest information available, any job cuts that occur as a result of Delphi Corporation's bankruptcy reorganization will primarily occur at the very end of 2007. At this time it is still too early to speculate on

"Per capita income rose 3.1 percent from 2004-2005 to \$31,792, the largest increase since 2000"

Figure 1
Dayton Employment: Notable Industry Gains and Losses 2006-2007

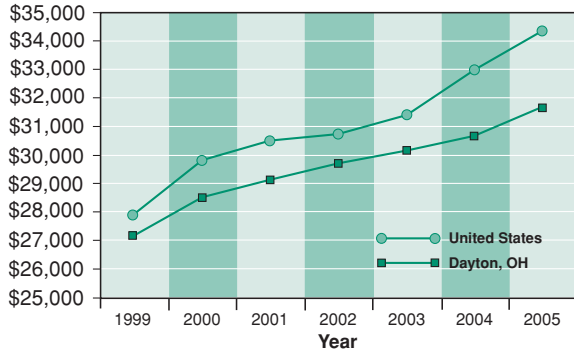


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Figure 2
Per Capita Income 1999 - 2005

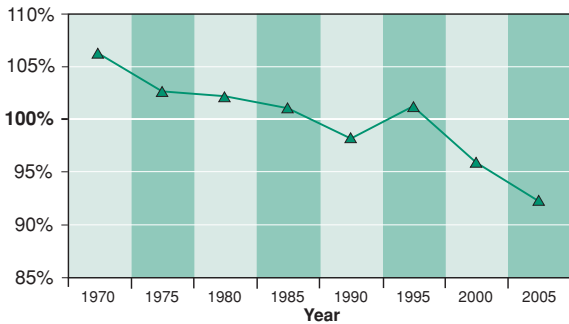


just how many of these jobs will be lost or how much employee incomes will be impacted by the reorganization. Of course, this looms as the largest problem facing the region in the foreseeable future.

If there is a bright spot to be found among the many manufacturing jobs that have been lost to the region since 2000, it has been the ability of business to business service companies who relied on manufacturers as important customers to identify new clients, either in other industries or in other regions. This resulted in a fairly stable employment level for an industry that could have been hit hard in recent years.

Despite the above mentioned 3.1 percent rise in per

Figure 3
Dayton MSA Per Capita Income as a Percentage of U.S. Per Capita Income 1970 - 2005



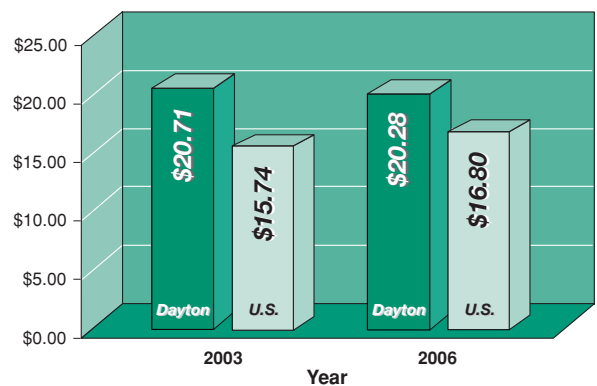
capita income from 2004 to 2005 in the Dayton MSA incomes continued to lag even further behind the national average, which grew 5.2 percent over the same period. Per capita income in the Dayton MSA is now 7.8 percent below the U.S. average of \$34,471, the lowest it has been relative to the national average since the Bureau of Economic Analysis began producing the current MSA estimates in 1969. This is most likely due to the effects of the lost high hourly wage manufacturing employment over the past seven years. In fact, the \$5.00 gap that existed between regional and national manufacturing wages in 2003 has rapidly slipped to just a \$3.50 gap today.

Wright-Patterson Air Force Base (WPAFB) is by far

the single most important factor in the regional economy. The impact of the BRAC Commission recommendations, are expected to bring well over 1,000 new high-pay Department of Defense (DOD) jobs to the area as well as many more support positions to the area. This is the brightest spot on the region's horizon. These changes should further solidify the importance of WPAFB to the federal government and provide new opportunities for local entrepreneurs who wish to work with the DOD. It is nonetheless important to point out that the DOD is still interested in improving efficiency via, among other things, reduced personnel costs. So the expected gains from BRAC related increases will be at least partially offset by ongoing efficiency related cuts at WPAFB.

Regarding the local real estate market, the region did

Figure 4
Average Hourly Manufacturing Wages - Dayton MSA vs. U.S.



“Per capita income in the Dayton MSA is now 7.8 percent below the U.S. average of \$34,471, the lowest it has been relative to the national average since the Bureau of Economic Analysis began producing the current MSA estimates in 1969”

not experience a speculation based run-up of property values as occurred in some other parts of the U.S. Nonetheless as mentioned above, the key economic factors underlying the regional real estate market—employment and income—have been in decline for several consecutive years. The housing market has begun to experience larger than historically average numbers of foreclosures, larger than average numbers of properties on the market, longer average periods in which properties remain on the market, and fewer sales per month. This has led to declining real estate prices. The average sale price of single family homes in the Dayton area fell 0.3 percent from 2005 to 2006, and the year-over-year monthly average sale price of homes in six months from September 2006 to February 2007 averaged almost 3 percent below those of a year earlier.

Sources: Bureau of Economic Analysis
Bureau of Labor Statistics
Dayton Area Board of Realtors

REGIONAL EMPLOYMENT FORECASTS

The forecasts presented in this issue are estimated based on an econometric model of employment by major sector for the Dayton region.

Total Employment (Figure 1)—Total employment for the region is forecasted to remain approximately 2000 employees below 2006 levels for the remainder of the year. This is due to the expected decline in manufacturing employment and a decline in residential construction activity. The seasonal pattern is expected to hold, with a rise in employment during the second quarter, a slight drop during the third quarter, and the year's highest employment level of over 407,000 in the final quarter of the year.

Manufacturing Industry Employment (Figure 2)—Once again, employment is expected to continue declining by about 800 workers per quarter through the third quarter before recovering slightly to 51,400 employees during the final quarter of 2007. This expected decline is primarily attributable to the current sluggishness in the national economy. As of mid-May 2007, any significant job losses resulting from the reorganization of Delphi Corporation will most likely occur either at the very end of the December 2007 horizon of the forecasting model or soon afterwards. Therefore, they are not included in this forecast.

Service Sector (Figure 3)—Dayton area service sector employment is forecasted to continue along its general seasonal pattern for the remainder of 2007 with a slight year-over-year up-tick of 1000 employees in the final quarter of the year. This seasonal pattern begins with service employment rising by 5000 during the second quarter as spring through fall seasonal services see increased demand. Service employment then falls in the third quarter by 4000 as education employment declines during the summer. Finally, fourth quarter employment is forecasted to rise by 3600 in the service sector, mostly due to seasonal increases in retail trade employment. Although service sector employment has remained fairly constant thus far in this decade, it has lagged significantly behind national trends.

NOTE: The cone shaped dark green and light green portions of the figures represent 50 percent and 95 percent margins of error, respectively, for the forecasts.

Figure 1

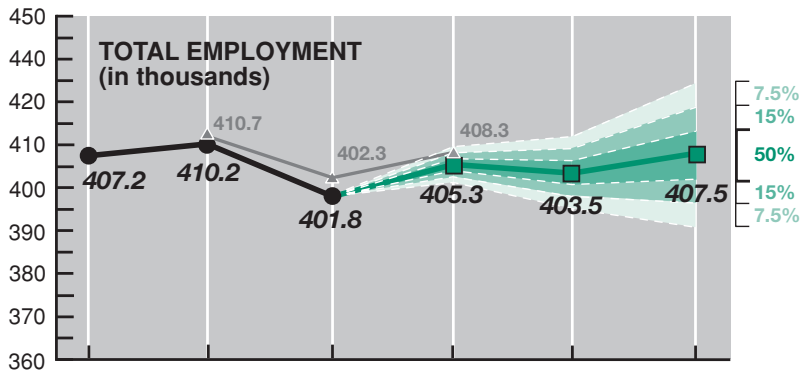


Figure 2

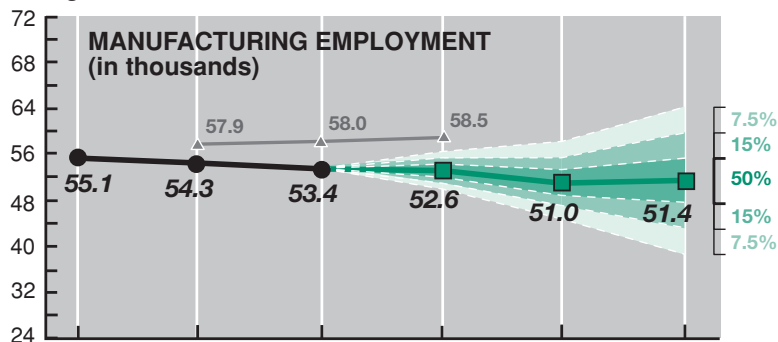
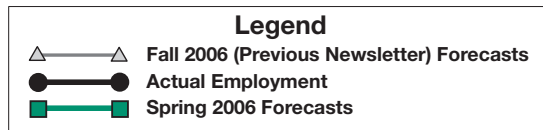
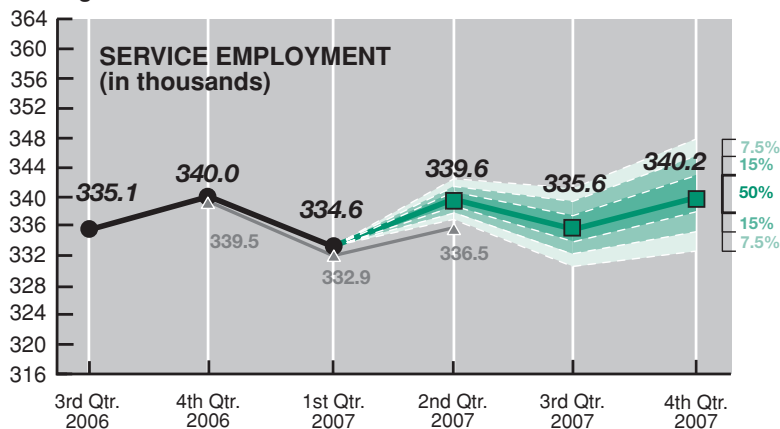


Figure 3





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