

R E G I O N A L
economic

RAJ SOIN
College of Business
WRIGHT STATE
UNIVERSITY

R E P O R T
December 2006

FINAL OK TO PRINT

PLEASE REVIEW PROOF CAREFULLY!
Your signature indicates your approval of this copy/layout as accurate and acceptable for your finished product.
Any cost incurred for changes after FINAL OK are the responsibility of the client.

Customer signature _____ Date _____

First Draft — 11/21/06

THE REGIONAL ECONOMY TODAY

By Thomas L. Traynor, Professor of Economics, Wright State University

Total employment in the four county Dayton Metropolitan Area (Greene, Miami, Montgomery, and Preble Counties), which currently stands at 407,900, has fallen by 27,800 jobs over the six year period ending this past September. This represents a 6.4 percent decline from the 435,900 employment total that existed in September 2000, the year of the region's employment high water mark. Nearly all of this job loss has been suffered by the manufacturing industry, which shed 23,500 of its September 2000 total 80,200 jobs over the same time period (a 29.3 percent decline). Year over year declines have occurred in each of the past six years, although they have become smaller in recent years.

It is important to note that the region's job loss statistics are slightly overstated since movement by workers to residences in northern Warren County as well as other counties outside of the federally defined four county MSA are counted as employment losses to the region even though they haven't effectively left the region. Nonetheless, such measurement errors are not large enough to substantially alter the overall picture of significant manufacturing job losses.

While the Dayton MSA has not shared in the employment growth that has occurred in the nation as a whole, where employment has risen by 4.4 percent since beginning to recover in 2003, it is not alone. Regional economies throughout the nation that are dependent on manufacturing employment as an important part of their economic base have been suffering similar persistent job losses. Employment in the manufacturing industry nationwide began an uninterrupted year over year decline from 1998 through last year. Overall, U.S. manufacturing employment was 19 percent lower in September 2006 than in September 1998. Thus, many other manufacturing based regional economies, especially in Michigan, Ohio, and Pennsylvania, have been suffering job loss patterns similar to Dayton's.

The lost manufacturing industry employment has not hurt the broader regional economy as much as it could have. Buyout payments and retirement benefits have accompanied more of the lost jobs than would normally be expected. Nonetheless, the loss of these manufacturing jobs still hurts the region because the high hourly wages and benefits packages they generated will not be replaced within region for similarly skilled workers, an impact that ripples through the rest of the region. Furthermore, the many firms that supply goods and services to local manufacturing facilities have suffered lost sales as manufacturing activity declined.

continued on page 2

Figure 1
Total Employment, Dayton MSA
(in thousands)

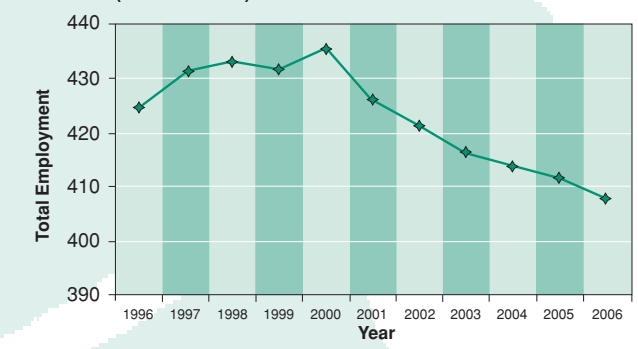
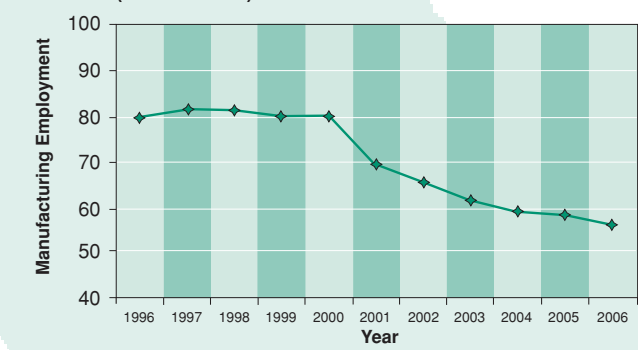


Figure 2
Manufacturing Employment, Dayton MSA
(in thousands)



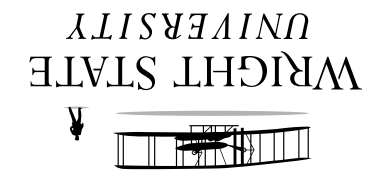
Questions or comments regarding the *Report* should be directed to Professor Thomas L. Traynor, Wright State University, Department of Economics, 3640 Colonel Glenn Hwy., Dayton, OH 45435-0001, or via e-mail to: thomas.traynor@wright.edu.

The *Wright State University Regional Economic Report* is underwritten by the Raj Soin College of Business, Wright State University, Berkwood Farmer, Dean.

R E G I O N A L
economic
R E P O R T

NONPROFIT
ORGANIZATION
U.S. POSTAGE PAID
DAYTON, OH 45401
PERMIT NO. 551

Raj Soin College of Business
3640 Colonel Glenn Hwy.
Dayton, OH 45435-0001

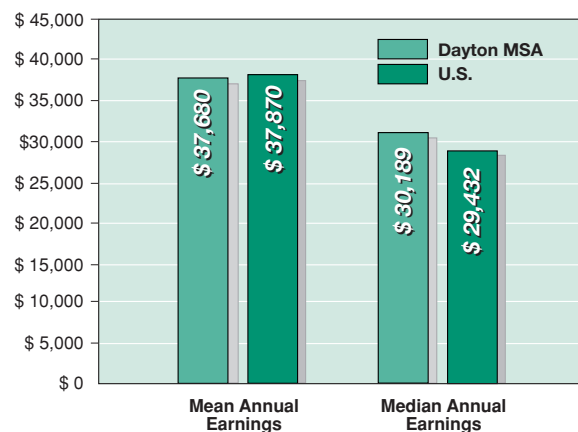


Aside from manufacturing, employment across other industries in the region has been relatively flat. Employment in the service sector fell by 1.2 percent to 334,600 employees from September 2000 to September 2006, while private service employment, which makes up the majority of jobs in the region, has fallen only 0.5 percent over the same time period. While employment growth in this sector lags far behind national trends, after considering that many local employers who provided services to the manufacturing industry were impacted by the manufacturing decline, this sector has proved fairly resilient. Many local providers of business to business services appear to have been able to offset lost demand from manufacturing by exploiting new business opportunities in other markets.

The best performing industry at generating employment for the region is health care, which has grown by 11.5 percent in the past six years (although it did flatten over the past year). Importantly, the professional and business services industry has emerged as a source of employment growth over the past year, rising by 2 percent over the twelve months ending in September 2006. This industry, which includes technology and engineering firms, may well represent the region's best prospects for future employment growth.

Earnings by the local workforce have successfully kept up with national trends. Mean annual earnings and median annual earnings, respectively, for workers in the Dayton MSA were \$37,680 and \$30,139 in the most recent Bureau of Labor Statistics Metropolitan Area Occupational Employment and Wage Estimates from May 2005. This compares with \$37,870 and \$29,432 respectively across the United States.

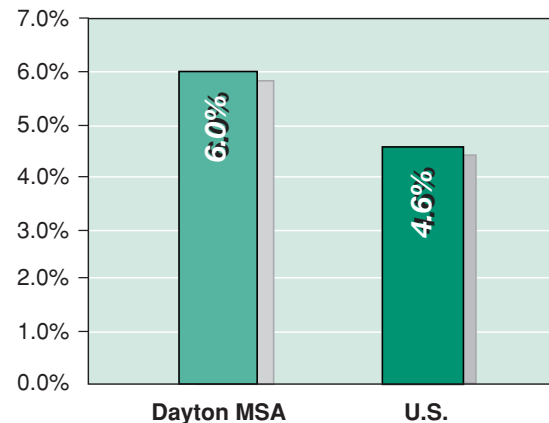
Figure 3
2005 Mean and Median Annual Earnings,
Dayton MSA vs. U.S.



Per capita personal income continued to grow in the Dayton MSA through 2004 (the most recent year available), increasing by 9.9 percent increase from the year 2000. However this was 5 percent below the national average, slipping from only 3 percent below the national average a year earlier.

This failure of local per capita income to keep up with the national pace is probably attributable to the region's loss of manufacturing jobs, leading to a higher regional unemployment rate (6.0 percent versus 4.6 percent nationally in September).

Figure 4
Dayton MSA vs. U.S. Unemployment Rate
September 2006



Finally, the Dayton area remains a relatively affordable place to live and work. Depending on the source, the cost of living in the region is between 5 percent and 9 percent below the national average.

Key Industries and the Outlook

Manufacturing and Wright-Patterson Air Force Base remain the two most important factors in the health of the local economy, primarily due to their size and role in providing significant inflows of income from outside the region. The outcome of the Base Realignment and Closure (BRAC) Commission process promises an increase in defense jobs for the area. Of course, the Department of Defense's long-standing efforts to "do more with less" will still create pressure to reduce staffing at all military facilities—including WPAFB.

Of course, demographic trends should continue to lead to employment growth in the Dayton area health care industry mirroring that of the entire nation.

The most promising area for future growth is the professional and business services industry, with a mix of many established firms and young firms that have begun to successfully expand their customer bases and add to their payrolls over the past year. Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, ACCRA, Sperling's BestPlaces.net.

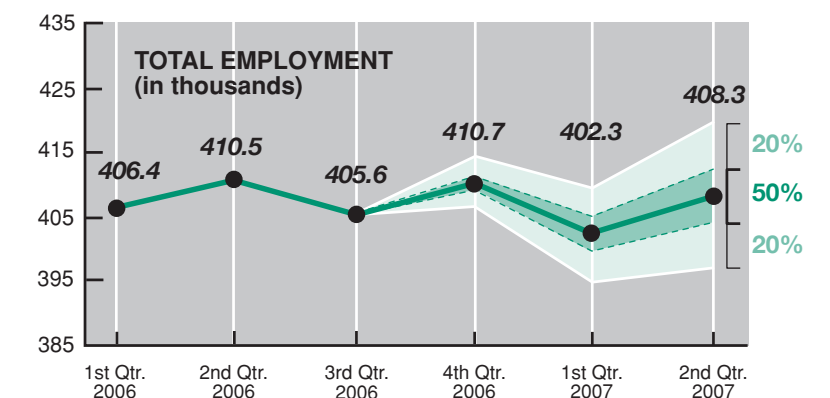
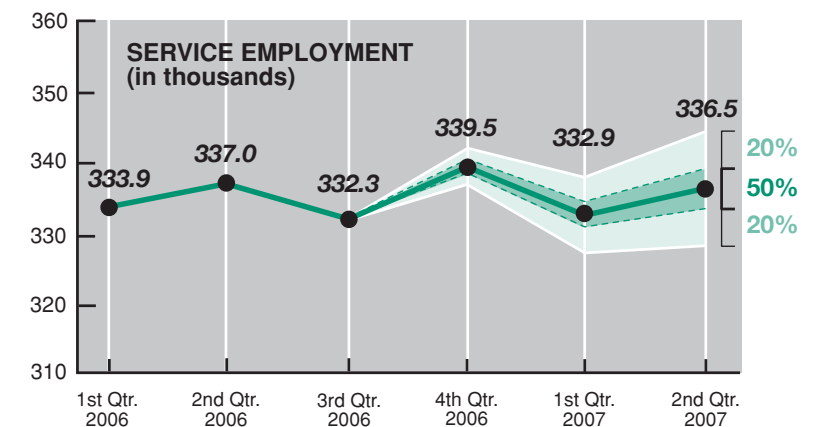
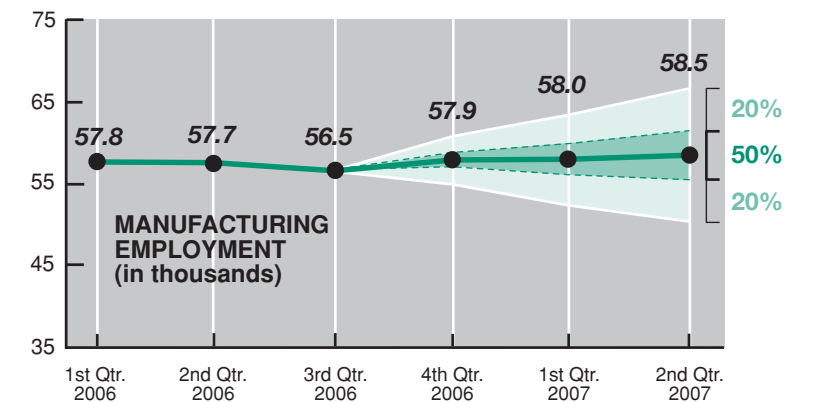
REGIONAL EMPLOYMENT FORECASTS

The forecasts presented in this issue are estimated based on econometric models of manufacturing employment, and service employment for the Dayton region.

Manufacturing Industry: Manufacturing employment is expected to remain flat in The Dayton Metropolitan Statistical Area (Greene, Miami, Montgomery, and Preble Counties) through the middle of 2007, as manufacturing employment throughout the nation continues to stabilize following a significant downward spiral that began in the late 1990s. It is anticipated that significant job losses will occur in manufacturing beyond the horizon of this forecast as the Delphi Corporation implements its bankruptcy reorganization plan in the last half of 2007.

Service Sector: Employment in the service sector is expected to follow its traditional seasonal pattern of increased holiday-related employment during the final quarter of this year, before declining back to its long-term trend after New Year's Day. Although employment in professional and business services may continue increasing, it will not do so by enough to make a large impact on the overall employment level in the service sector. By mid-year, service sector employment is forecasted to be nearly the same as this year. If this forecast proves to be accurate, service employment in the region will continue to lag behind the national trend of increased service employment.

Total Employment: Following a seasonal increase in employment during the fourth quarter and during the first quarter of 2007 (primarily due to a normal decline in construction employment), total employment is expected to return close to its current level by mid-year 2007. This represents a year over year decline attributable to significant layoffs this past summer that will not be recouped by next year.



REGIONAL economic REPORT

The Report is published biannually and provides articles and forecasts pertinent to the Dayton Metropolitan Area's economy. The Report is sent to friends of Wright State University and is available at no cost to any interested parties. To be added to the mailing list, please call (937) 775-3070.



The cone shaped portion of the graphs represent the 90 percent margins of error for the forecasts. This means that the true future values of each industry's employment level should be within these ranges nine out of 10 times. Also the shading from dark to light represents that fact that the margins of error follow the bell curve, in that employment levels near point forecasts (the black line) are more likely to occur than employment levels near the outer limits of the confidence intervals (the white lines).