THE ROLE OF METRO AREAS IN THE US ECONOMY:
Employment Outlook

Prepared for:
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INTRODUCTION

As the focal points of economic activity, metropolitan areas are vital to the nation’s economic development. The concentration of people and business in metro areas creates unique economic conditions that give rise to new industries, speed the diffusion of knowledge, spur technological innovation, increase productivity, and promote growth. When metro areas struggle, however, business development slows and the national economy follows.

The economic dynamism and creativity found in metro areas enables American industries to thrive in global competition. Today, metro areas generate more than 80% of the nation’s employment, income, and production of goods and services. They drive US growth during good times, but their continued weakness has stalled the nation’s recovery since early 2002.

THE RECENT PERFORMANCE OF METROPOLITAN AREA ECONOMIES

The U.S. experienced a mild recession in 2001, followed by a mild, sluggish recovery in 2002. Though Gross Domestic Product expanded through 2002, employment gains have yet to appear. Global Insight forecasts that job gains will finally occur in 2003, with modest growth resuming in the second half of the year. Following two years of decline, though, it will take over a year of growth for most metros to reach the employment levels achieved in 2000. Indeed, as the labor force naturally expands over time, the rate of unemployment will not begin to fall until job growth reaches a 1% rate.

The jobless nature of the recovery thus far has severely tested the resources of cities and counties as for the first time in a decade they encounter increasing demands for social services for those who have remained in the ranks of the unemployed or have dropped out of the labor force altogether. At the same time, owing to the coincident timing of the stock market meltdown with the recession, state government budgets are arguably in their most dire straits since the Second World War. State budget deficits for the next fiscal year are estimated to total almost $100 billion, nearly 10% of total state spending. The budget cutbacks that must come over the next year will sharply increase the fiscal stress of the local governments that depend upon state expenditures for many services.

Cutbacks in federal and state spending on health and social services will sorely test local governments, which must deal with the increased needs of their populations in times of economic distress. But equally important for the long term economic health of metropolitan areas, and hence of the nation, are the budget-crisis induced deferrals of investments in infrastructure. These expenditures, particularly in the transportation and housing sectors, are vital investments in the long term productivity of metro area economies. This productivity is the predominant source of the real income growth for the nation. Crucial infrastructure investments to relieve congestion in transportation networks and in the provision of affordable housing are necessary to maintain the prosperity of the nation going forward.

As noted above, the outlook for metro economies includes a return to positive job growth, but the recovery will be weak: 181 of the nation’s 319 metro areas are expected to record job gains of less than 1% in 2003. In contrast, there were just 75 such metros in 2000. Overall, job growth in metro areas will average just 0.7% annually over 2001-04, down from a robust 1.7% over 1998-2001 (see appendix table 2). This slower pace will generate 3.3 million fewer jobs over 2001-04 than were recorded during 1998-2001.

Some of the hardest hit areas are the once-booming tech centers such as Boulder, Austin, and San Jose, where the outlook calls for job gains a full 3 percentage points lower than those which were achieved just a few years ago. It is not just medium-sized, specialized
Metro areas that are struggling; large, mainstream economies are as well. From 1998 to 2001, the nation’s five largest metro areas (New York, Los Angeles, Chicago, Boston, and Washington, DC) added more than 830,000 jobs. The stretch from 2001 to 2004 will yield less than 205,000.

**Metro Area Employment Conditions**

Appendix Table 1 illustrates the job losses that have afflicted metro areas in 2001 and 2002. Nearly half of the nation’s metros initially experienced net declines in 2001. With the recession hitting the manufacturing sector first and the hardest, heavy industrial areas such as Detroit suffered early. The Motor City and its surrounding suburbs saw a loss of more than 55,000 jobs in 2001, far worse than anywhere else in the country. The cuts fully took nationwide hold in 2002, with payrolls falling in 213 of the nation’s 319 metro areas, and a net metropolitan jobs loss of 646,000. Figure 1 graphically depicts the reversal of fortune.

![Figure 1: Years of Large Job Gains Have Now Become Losses](image)

The recession year of 2001 saw large employment declines in the older Midwest manufacturing centers as well as in the new high technology metropolitan clusters. In addition to Detroit, Cleveland (-19,000), Chicago (-16,000), St. Louis (-12,000), and Greensboro (-13,000) lost over 10,000 jobs each due primarily to cutbacks in the manufacturing sector. Seattle (-15,000), San Jose (-13,000), and San Francisco (-11,000), experienced similar declines as the dot.com bubble burst. The only other metro with a job decline of over 10,000 was New York, tragically, largely due to 9-11.

Despite the technical end of the recession by early 2002, the employment picture darkened in metros across the country. We estimate that six metros lost more than 40,000 jobs (New York, Chicago, Atlanta, San Jose, Boston, and Seattle). Four more lost more than 20,000 (San Francisco, Detroit, Denver, and Los Angeles). Seventeen in total lost more than 10,000 jobs in 2002, in many cases following job losses in 2001. For the year 209 of 319 metros (65%) experienced shrinking employment levels.

The latest official data details local area payrolls in November. The labor market situation has not yet shown signs of revival; indeed, national data for December indicated further retrenchment, as an additional 101,000 payroll jobs were lost. The November data show that 159 of 274 reporting areas (58%) had job levels below November 2001. On a percentage change basis, cities that declined the most over the past 12 months have been Decatur IL
(-4.0%), Flint MI (-3.6%), Boulder CO (-3.2%), followed by Albany GA, Athens GA, Binghamton NY, Elmira NY, Gary IN, Saginaw MI, San Jose CA, Seattle WA, and Wichita KS, each with losses over the past year in excess of 2.5% of their employment level.

**War with Iraq**
Further complicating the near term outlook is the increasingly likely prospect of the outbreak of hostilities in Iraq. Global Insight has simulated the effects on the economy of an Iraq invasion that is short and successful, removing Saddam Hussein from power. Nevertheless, there is a brief but significant spike in oil prices and a short-lived drop in consumer and business confidence forecast for the first quarter. These factors result in lower spending, output, and income in the first half of 2003, though the economy responds in the second half. The impact of these changes will be to reduce real gross metro product growth by 0.2 percentage points on average in the first half of the year.

**Insuring A Recovery in 2003**
As we begin the new year, the economies of metro areas across the nation have yet to turn upward and begin to reverse the losses of the recession. The employment trend at the current time is flat at best. While we expect at least a modest recovery to begin later in the year, the risks are great. A setback in Iraq, another terrorist attack, or some other shock may quickly derail the expansion. State and local governments, without relief from their budgetary crises, may be forced to take draconian tax or expenditure actions that are contractionary, reducing regional economic activity. An effective, and immediate, stimulus from Washington can provide a boost to economic activity that will more quickly restore lost jobs, achieve potential growth, and insure the recovery.

The near term outlook is for growth in most metro areas that will pale relative to that of the late 1990s. During that expansion, metro areas clearly were the centers of innovation and drivers of growth that propelled national economic growth. The turnaround of these economies in the short run is vital to insuring a robust national recovery. Strategic investment in the long-term economic health of these areas is critical to the long-term competitiveness and economic growth of the nation.

**Metro Areas Contribution**
Metro areas account for over 85% of national output, driving the economic performance of the nation as a whole. Of the 319 metro areas, 188 will have inflation-adjusted output growth in 2003 greater than the national average in 2003. Non-metro area growth will again lag metro area growth slightly in 2003, allowing metro areas to continue to gain share of national activity, even in a recession year. Over the past 10 years, metro economy output increased from $5.3 trillion to $9.1 trillion, an average annual increase of 5.6%, slightly ahead of the national average of 5.5%. Metro areas accounted for 87% of national growth over that period. The share of the nation’s output accounted for by metro economies increased from 84.6% in 1992 to 85.5% in 2002, and will increase to 85.6% in 2003. Global Insight expects the contribution of metro areas to the national economy to continue to rise over the next 25 years as metro areas remain the focal point of economic activity. Global Insight predicts that metro areas will account for 87.0% of national activity in 25 years, up 1.5 percentage points from 2002.

Metro areas will outperform non-metro areas in many other key indicators in 2003. Metro area employment in the transportation, communications, and utilities sector, one of the nation’s highest value-added industries, will expand by 0.9% in 2003. Non-metro area employment in this industry will grow by 0.5%. Metro area per capita income growth was ad-
versely affected by general corporate weakness and stock market losses. Many companies lowered or eliminated bonuses and froze wage increases in the face of the slowdown, weakening income growth. Accounting for inflation, per capita income rose 0.5% in 2002 and though it is expected to rebound a bit to 1.1% in 2003, this remains down significantly from the 2.7% average rate registered over the previous five years.

**THE ROLE OF US METROPOLITAN AREAS IN THE GLOBAL ECONOMY**

States and nations are defined by geographic and political boundaries, while metro areas are shaped by economic activity that crosses state and national borders. Trade liberalization and economic integration are further reducing the residual effect that political boundaries have on international economic activity. Consequently, metro area economies, both in the U.S. and abroad, are the true competitors in a global marketplace, not politically defined states or nations. Investment banks in New York City, for example, compete with their metro counterparts in London, Frankfurt, and Hong Kong.

Metro areas provide many competitive advantages that will allow them to become increasingly important players in the global marketplace:

- Metro areas are transportation hubs, serving as the primary point of exit for goods headed for international markets.
- Metro area transportation infrastructure acts as a gateway between the nation's non-urban areas and the global economy.
- The concentration of transportation infrastructure in metro areas also lowers transportation costs, lowering the cost of production inputs, and ultimately providing goods and services to final customers at a lower price.
- Metro areas have well-developed labor markets that are attractive to both households and businesses.
- Telecommunications infrastructure, like transportation infrastructure, is more heavily concentrated in metro areas, providing all of the same benefits.

Because of all of these advantages, metro areas are the core of new industry development. Developing such a new industry, or economic cluster, in a metro area provides many benefits to that industry and to the local economy:
Reduced operating costs of the suppliers of warehousing, transportation, communications, and utilities.

Increased knowledge and technology transfers between companies, increasing the rate of innovation, growth, and expansion of economic clusters.

Increased demand for an economic cluster's output. Part of this demand is internal, created by local businesses and consumers. A large portion is external, exports to other regions and countries.

When compared to international economies, metro areas rank among the top global economies. If metro areas were countries, 47 of the 100 largest economies would be metro areas. After several years of gaining ground on countries, however, the weak economy has curtailed the rankings rise for many metro areas. In 2003, New York will remain the 13th largest economy for the third straight year, while Los Angeles will slip from 15th in 2001 to 16th. Overall, 31 of the 47 metro areas in the top 100 will see their 2003 rankings fall or remain the same compared to 2001.

THE CONTRIBUTION OF METROPOLITAN AREAS TO THE NATIONAL ECONOMY

THE SCOPE OF METRO AREA ECONOMIES

The size of metro area economies illustrates their importance to the nation. If they were counted as a single country, the gross product in 2003 of the five largest U.S. metropolitan areas ($1.81 trillion) would rank fourth among the world’s economies, trailing only the U.S. ($10.97 trillion), Japan ($4.081 trillion), and Germany ($2.111 trillion). The importance of metro area economies can also be illustrated by their size relative to the output of U.S. states. The gross product of the 10 largest U.S. metro areas exceeds the combined output of the 31 smallest states. In the year ahead, the five largest metro areas are expected to produce more goods and services than California: $1.8 trillion compared with $1.6 trillion.

Within a particular state, a single metropolitan area often dominates the state’s economy. Sixteen metro areas account for over 50% of the output in the state in which they are located. An additional 28 metro areas individually account for over 25% of output in their respective states. For example, the Phoenix-Mesa metro area provides 70% of Arizona’s employment and 72% of gross state product. In Illinois, the Chicago metro area produces 71% of the state’s output and employs 70% of the work force. In highly urbanized states, almost all economic activity occurs in metro areas. In California, 97% of employment and output is generated within metro areas. In 31 states, the combined metro economies contribute 75% or more of the total economic output of the state.

EMPLOYMENT AND OUTPUT

As previously noted, most of the economic activity in the United States occurs within metro area cities and counties. A total of 111.5 million workers will be employed in metro areas in 2003, or 84.2% of national employment. The total value of goods and services produced in metro areas will be $9.5 trillion, 85.5% of U.S. gross domestic product. Metro areas, though geographically smaller, contribute much more to the national economy than non-metro areas. The metro area percentages of national employment and gross domestic product both exceed metro area shares of population and land area, highlighting the geographic concentration of economic activity within urban and suburban areas.
This geographic concentration of companies and people is one of the main reasons metro areas are able to make a disproportionately large contribution to the national economy. Close proximity between producers and consumers reduces the costs of business operations, allowing more goods and services to be produced per person and per acre of land.

The clustering of two of the nation’s highest value added sectors in urban locations also magnifies the metro area contribution to the national economy. Financial services and the transportation, communications, and utilities sector have more than 87% of their employment located within metropolitan areas, and both have high output levels per employee.

Financial services companies choose to locate in metro areas for proximity to major securities and commodity markets and access to highly skilled workers. Companies maximize the efficiency of their transportation and communications networks by locating hubs and distribution centers in metro areas, taking advantage of extensive road, rail, shipping, and communications infrastructure.

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### FIGURE 3: MOST ECONOMIC ACTIVITY OCCURS IN METRO AREAS
(2003)

<table>
<thead>
<tr>
<th>Size</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (Millions)</td>
<td>234</td>
<td>56</td>
<td>290</td>
</tr>
<tr>
<td>Share of US</td>
<td>81%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Land Area (Square Miles, 000s)</td>
<td>716</td>
<td>2,780</td>
<td>3,496</td>
</tr>
<tr>
<td>Share of US</td>
<td>21%</td>
<td>79%</td>
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</tr>
</tbody>
</table>

### Jobs & Output

<table>
<thead>
<tr>
<th>Employment (Millions)</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of US</td>
<td>84%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product (Billions)</td>
<td>$9,541</td>
<td>$1,613</td>
<td>$11,155</td>
</tr>
<tr>
<td>Share of US</td>
<td>86%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

### High Value-Added Employment Sectors

<table>
<thead>
<tr>
<th>Financial Services (Thousands)</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of US</td>
<td>91%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Transportation &amp; Utilities (Thousands)</td>
<td>6,009</td>
<td>898</td>
<td>6,907</td>
</tr>
<tr>
<td>Share of US</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

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### FIGURE 4: MOST ECONOMIC GAINS ARE MADE IN METRO AREAS
(ADDITIONS TO US ECONOMY, 2003)

<table>
<thead>
<tr>
<th>Size</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (Thousands)</td>
<td>2,184</td>
<td>312</td>
<td>2,496</td>
</tr>
<tr>
<td>Share of US</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

### Jobs & Output

<table>
<thead>
<tr>
<th>Employment (Thousands)</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of US</td>
<td>86%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product (Billions)</td>
<td>456</td>
<td>76</td>
<td>532</td>
</tr>
<tr>
<td>Share of US</td>
<td>86%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

### High Value-Added Employment Sectors

<table>
<thead>
<tr>
<th>Financial Services (Thousands)</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of US</td>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Transportation &amp; Utilities (Thousands)</td>
<td>55.3</td>
<td>4.6</td>
<td>59.9</td>
</tr>
<tr>
<td>Share of US</td>
<td>92%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>
Most of the economic gains made in the United States are generated in metro areas (see Figure 4). From 1995 to 2000, the US economy added 14.6 million jobs, with 13.0 million (89%) coming in metro areas. When metros weakened, so did the national economy. Although rural areas still have smaller growth rates than metro areas, they saw less of a drop-off over the last two years. As a result, the metro share of job creation will be just 86% in 2003. As metro economies recover later in 2003 and into 2004, their share of new jobs will begin to climb towards late 1990 percentages.

**INCOME CREATION**

Most of the nation’s labor income is also generated by metro area economies. In 2003, metro area workers are expected to earn $4.69 trillion in wages and salaries, while non-metro area workers earn $576 billion. Metro area economies also create more income per person than non-metro areas, as higher wage jobs are typically located in urban areas. In the year ahead, the average metro area worker will collect $41,500 in wages, while non-metro area workers will average $27,000, a difference of $14,500 per worker. The gap between metro and non-metro area workers has grown consistently since 1985, when the difference between metro area and non-metro area earnings was only $4,700.

**FIGURE 5: METRO AREA WORKERS EARN MORE THAN NON-METRO AREA WORKERS**

In most labor markets, earnings are directly related to labor productivity—workers that are more productive receive higher wages and benefits. Figure 5, therefore, provides an indirect measure of the higher labor productivity in cities and counties within metro areas. Metro area workers are able to produce more goods and services than non-metro area workers because of the clustering of specialized industries within urban areas, access to superior training and educational facilities, and a greater degree of knowledge-transfer and interaction between companies.
EMPLOYMENT OUTLOOK FOR THE TOP 20 METROPOLITAN ECONOMIES

INTRODUCTION


The jobless nature of the recovery is similar to that of the last recession-recovery business cycle of 1990-1991. The regional pattern of activity is strikingly different however. In the prior recession the downturn was dramatically more severe in the Northeast and West Coast regions. The current cycle has been remarkably broad-based, with all regions and metro areas affected. Declines in heavy manufacturing and information technology spending beginning in 2000 were followed in 2001 by financial market distress and the events of 9/11. In 2002, business investment remained weak and the bear market in the technology sector spread to the general stock market. Metro areas weathered this slowdown to varying degrees depending on their relative concentration in these key industries. Weaknesses were acute in manufacturing-dependent metros such as in Detroit and Cleveland, in high tech in San Jose and Austin, in telecommunications in Atlanta and Dallas, in finance in New York and Charlotte, and in tourism in Las Vegas and Miami. Figure 1 illustrates the employment experience of the top 20 metro areas. While the top 20 metro areas accounted for about one-third of the nation's job gains in the late 1990s, they suffered more than half of the job losses in 2002.

The following analysis examines the economic structure and composition of employment of the top 20 metro area economies (ranked by projected 2003 gross metro product), and the expected performance of both in the recovery year of 2003.

The top 20 metro economies will generate $4 trillion in gross output in 2003, accounting for 36% of national output. These top 20 metro areas are geographically diverse and have varying economic structures. Such compositional variety will illustrate the way the struc-
ture of the economy determined in large part how well each metro area weathered the recession, and how they will recover relative to others. Total employment growth (2003) will vary in the top 20 metro economies from no growth in San Francisco, to a 1.9% gain in San Diego. Average job growth in 2003 of the top 20 metro economies will be 0.9%. With the labor force expected to grow at roughly the same rate, the unemployment rate will remain flat for most of the year.

The 2001 recession was initially concentrated in the manufacturing and high-tech industries, and these industries will also be the last to recover in 2003, essentially due to the massive over-capacity present there following the high tech boom of the late 1990’s. Therefore, metros such as San Francisco, Detroit, and Boston will see very weak activity for much of the next year. Defense-heavy San Diego and Washington, DC, on the other hand, were relatively unscathed through the recession and will continue to produce strong growth. They are benefiting from increased spending, public and private, on defense and security post 9/11. Slower, but steady gains will continue to accrue in the more diversified metros of Chicago and Philadelphia.

**FIGURE 2: 2003 GROWTH IN KEY EMPLOYMENT SECTORS**

**TOP 20 METROPOLITAN ECONOMIES**

(SORTED BY 2003 TOTAL EMPLOYMENT GROWTH)

<table>
<thead>
<tr>
<th></th>
<th>Total Emp</th>
<th>Mfg.</th>
<th>Services</th>
<th>Trade</th>
<th>TCPU</th>
<th>Finance</th>
<th>Gov’t</th>
<th>Const’n/ Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego, CA</td>
<td>1.9%</td>
<td>-0.4%</td>
<td>2.7%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>2.0%</td>
<td>1.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>1.7%</td>
<td>-0.3%</td>
<td>3.1%</td>
<td>0.9%</td>
<td>2.7%</td>
<td>1.4%</td>
<td>1.2%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Washington, DC-MD-VA-WV</td>
<td>1.5%</td>
<td>0.1%</td>
<td>1.8%</td>
<td>1.4%</td>
<td>0.0%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Minneapolis-St. Paul, MN-WI</td>
<td>1.4%</td>
<td>0.8%</td>
<td>2.2%</td>
<td>0.6%</td>
<td>1.9%</td>
<td>2.0%</td>
<td>1.7%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Phoenix-Mesa, AZ</td>
<td>1.3%</td>
<td>-2.8%</td>
<td>2.3%</td>
<td>1.8%</td>
<td>0.2%</td>
<td>1.8%</td>
<td>2.1%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>1.2%</td>
<td>-0.4%</td>
<td>2.4%</td>
<td>0.6%</td>
<td>1.5%</td>
<td>-0.3%</td>
<td>2.0%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Oakland, CA</td>
<td>0.9%</td>
<td>-0.3%</td>
<td>1.9%</td>
<td>0.8%</td>
<td>1.6%</td>
<td>1.3%</td>
<td>-0.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>0.8%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>1.0%</td>
<td>0.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Philadelphia, PA-NJ</td>
<td>0.8%</td>
<td>-0.9%</td>
<td>2.2%</td>
<td>0.3%</td>
<td>1.2%</td>
<td>0.6%</td>
<td>-0.1%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>0.8%</td>
<td>-1.6%</td>
<td>1.6%</td>
<td>0.1%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>2.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Nassau-Suffolk, NY</td>
<td>0.8%</td>
<td>-1.1%</td>
<td>1.4%</td>
<td>0.7%</td>
<td>1.6%</td>
<td>2.2%</td>
<td>-0.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>0.7%</td>
<td>-1.3%</td>
<td>1.5%</td>
<td>0.2%</td>
<td>0.6%</td>
<td>0.3%</td>
<td>2.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Orange County, CA</td>
<td>0.7%</td>
<td>-0.5%</td>
<td>2.1%</td>
<td>0.5%</td>
<td>1.2%</td>
<td>1.1%</td>
<td>-0.1%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>0.6%</td>
<td>-1.0%</td>
<td>1.2%</td>
<td>0.6%</td>
<td>0.9%</td>
<td>1.6%</td>
<td>-0.9%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Seattle-Bellevue-Everett, WA</td>
<td>0.6%</td>
<td>-1.9%</td>
<td>1.4%</td>
<td>0.5%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>1.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach, CA</td>
<td>0.5%</td>
<td>-0.8%</td>
<td>1.9%</td>
<td>0.1%</td>
<td>1.3%</td>
<td>-0.7%</td>
<td>-0.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>0.5%</td>
<td>-0.7%</td>
<td>1.9%</td>
<td>-0.3%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>-0.5%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>0.5%</td>
<td>-0.2%</td>
<td>0.6%</td>
<td>0.2%</td>
<td>0.7%</td>
<td>1.3%</td>
<td>0.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Newark, NJ</td>
<td>0.3%</td>
<td>-1.0%</td>
<td>1.0%</td>
<td>0.2%</td>
<td>0.9%</td>
<td>-0.2%</td>
<td>0.1%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>0.0%</td>
<td>-0.8%</td>
<td>0.9%</td>
<td>-0.5%</td>
<td>0.7%</td>
<td>-0.8%</td>
<td>-1.1%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

**TOP 20 Average**

|          | 0.9% | -0.6%| 1.7% | 0.5% | 1.1% | 0.9% | 0.5% | 0.7% |
### FIGURE 3: 2003 EMPLOYMENT SHARES
**TOP 20 METROPOLITAN ECONOMIES**

<table>
<thead>
<tr>
<th></th>
<th>Mfg.</th>
<th>Services</th>
<th>Trade</th>
<th>TCPU</th>
<th>Finance</th>
<th>Gov’t</th>
<th>Const’n/ Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta, GA</td>
<td>9.6%</td>
<td>32.1%</td>
<td>25.3%</td>
<td>8.4%</td>
<td>6.5%</td>
<td>12.8%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>12.2%</td>
<td>38.1%</td>
<td>21.5%</td>
<td>4.3%</td>
<td>7.4%</td>
<td>12.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>14.2%</td>
<td>33.1%</td>
<td>22.5%</td>
<td>6.1%</td>
<td>7.5%</td>
<td>12.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>11.4%</td>
<td>31.7%</td>
<td>24.5%</td>
<td>7.0%</td>
<td>7.9%</td>
<td>11.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>6.9%</td>
<td>31.8%</td>
<td>23.5%</td>
<td>8.2%</td>
<td>7.6%</td>
<td>14.1%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>19.8%</td>
<td>32.0%</td>
<td>23.1%</td>
<td>4.5%</td>
<td>5.3%</td>
<td>11.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>9.7%</td>
<td>31.5%</td>
<td>22.5%</td>
<td>6.9%</td>
<td>5.4%</td>
<td>13.1%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach, CA</td>
<td>14.2%</td>
<td>33.8%</td>
<td>22.2%</td>
<td>6.1%</td>
<td>5.7%</td>
<td>14.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Minneapolis-St. Paul, MN-WI</td>
<td>14.9%</td>
<td>30.7%</td>
<td>23.2%</td>
<td>5.2%</td>
<td>7.6%</td>
<td>13.8%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Nassau-Suffolk, NY</td>
<td>8.4%</td>
<td>34.0%</td>
<td>25.3%</td>
<td>4.8%</td>
<td>6.7%</td>
<td>15.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>6.3%</td>
<td>39.6%</td>
<td>17.5%</td>
<td>5.5%</td>
<td>11.9%</td>
<td>15.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Newark, NJ</td>
<td>11.7%</td>
<td>33.7%</td>
<td>20.3%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>14.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Oakland, CA</td>
<td>10.9%</td>
<td>31.0%</td>
<td>22.5%</td>
<td>5.9%</td>
<td>5.8%</td>
<td>17.2%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Orange County, CA</td>
<td>15.2%</td>
<td>32.2%</td>
<td>24.6%</td>
<td>3.7%</td>
<td>8.0%</td>
<td>10.8%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Philadelphia, PA-NJ</td>
<td>11.3%</td>
<td>38.1%</td>
<td>21.9%</td>
<td>4.7%</td>
<td>7.0%</td>
<td>12.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Phoenix-Mesa, AZ</td>
<td>8.8%</td>
<td>32.8%</td>
<td>24.6%</td>
<td>5.2%</td>
<td>8.0%</td>
<td>13.3%</td>
<td>7.4%</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>10.1%</td>
<td>34.0%</td>
<td>22.4%</td>
<td>4.1%</td>
<td>5.8%</td>
<td>17.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>5.8%</td>
<td>40.1%</td>
<td>20.5%</td>
<td>7.0%</td>
<td>9.8%</td>
<td>12.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Seattle-Bellevue-Everett, WA</td>
<td>12.9%</td>
<td>31.0%</td>
<td>23.2%</td>
<td>6.0%</td>
<td>6.5%</td>
<td>14.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Washington, DC-MD-VA-WV</td>
<td>3.5%</td>
<td>41.1%</td>
<td>17.8%</td>
<td>4.6%</td>
<td>5.5%</td>
<td>21.7%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

**TOP 20 AVERAGE**

<table>
<thead>
<tr>
<th></th>
<th>11.0%</th>
<th>34.7%</th>
<th>22.0%</th>
<th>5.7%</th>
<th>7.3%</th>
<th>14.1%</th>
<th>5.2%</th>
</tr>
</thead>
</table>

Global Insight
Global Insight’s Business Monitor evaluates key features related to selling and operating in a metro area and examines both structural characteristics and future economic performance. The five-star rating system allows a quick comparison of a location to other metro areas across the country. The star rating system has been statistically defined to conform to a normal distribution. In other words, the majority of metros will rank as three stars, or average, while only the top 10% or so will earn a five-star ranking. Conversely the bottom 10% or so of the metros will have a ranking of one star.

The concepts and the intervals have been defined in the table below. A detailed discussion of some follows.

**Diversity Index.** For each metro area, Global Insight calculates the Hachman Index of structure diversity, which compares the distribution of economic activity in a metro area to the distribution of economic activity in the US economy. The index is estimated using employment data at the two-digit SIC code level. The index value is equal to the inverse of a metro area’s weighted average location quotient (LQ), where the LQ for each sector is weighted by its share of total employment. The value of the index ranges from 0 to 1; the closer it is to 1, the more similar a metro’s economic structure is to that of the US economy, and vice versa.

**High-Tech Location Quotient.** This concept measures the degree to which a metro area is a high-technology center. Metros are ranked by the ratio of their share of total employment in high technology industries to the share of total US employment in high technology sectors. High technology is based on a definition developed by the Bureau of Labor Statistics in 1999. The three-digit SIC codes that comprise the high-technology definition are: 281, 282, 283, 284, 285, 286, 287, 289, 291, 348, 351, 353, 355, 356, 357, 361, 362, 365, 366, 367, 371, 372, 376, 381, 382, 384, 386, 737, 871, 873, and 874.

**Housing Affordability.** A housing affordability measure was created for all metro areas using household income in each metro and estimating an annual mortgage payment, which is calculated using the median existing home price in that metro area.

**Relative Employment Mix.** The following sectors are included: durables manufacturing, nondurables manufacturing, services, business services, retail trade, wholesale trade, government, construction, transportation/communications/public utilities, and financial services.

### Concept Definitions for the Global Insight Monitor

<table>
<thead>
<tr>
<th>Concept Description</th>
<th>Definition</th>
<th>Interval</th>
<th>Five Star Rating Implies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Performance</td>
<td>Total Nonfarm Employment</td>
<td>Annualized Growth From 2001:3-2003:3</td>
<td>Fastest Growth</td>
</tr>
<tr>
<td>Per Capita Personal Income</td>
<td>Per Capita Personal Income</td>
<td>2002</td>
<td>Highest Level</td>
</tr>
<tr>
<td>Average Unemployment Rate</td>
<td>Unemployment Rate</td>
<td>Average Rate from 2001:3-2003:3</td>
<td>Lowest Rate</td>
</tr>
<tr>
<td>Diversity Index</td>
<td>Index of Employment Diversity</td>
<td>2002</td>
<td>Most Diverse</td>
</tr>
<tr>
<td>High Tech Location Quotient</td>
<td>High-Tech Employment Concentration Measure</td>
<td>2002</td>
<td>Highest Concentration</td>
</tr>
<tr>
<td>Housing Affordability</td>
<td>Mortgage Payment as a Share of Hshd. Inc.</td>
<td>2002</td>
<td>Most Affordable</td>
</tr>
</tbody>
</table>
In the News

- Designs for a new 7 World Trade Center have been released. The 750-foot tower will cost nearly $700 million. The tower will have reinforced concrete walls and twice the required fireproofing material of a standard building. Completion of the structure is scheduled for 2005.

Business Monitor for New York, NY

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment (Percent Change, annual rate)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York, NY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross Metro Product</th>
<th>600</th>
<th>550</th>
<th>500</th>
<th>450</th>
<th>400</th>
<th>350</th>
<th>300</th>
<th>250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billions</td>
<td>10</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>-1</td>
<td>-2</td>
</tr>
</tbody>
</table>

Relative Performance (Annual percent change, 2002:3 to 2004:3)

<table>
<thead>
<tr>
<th>Relative Employment Mix, 2001 (U.S. average=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
</tr>
</tbody>
</table>

Note: For definitions, please see appendix at back of book.
Recent Performance

September marked yet another month of negative employment growth in the New York City metro area. Total non-agricultural employment fell by 88,300 jobs (2.1%) year over year (y/y) in September. The sizable percent change in employment ranked New York City 221st out of 251 reporting metros in this category. In addition, the recent statistics show that every major employment category declined on a year-earlier basis in September. Finance, insurance, and real estate (FIRE) led the way, shrinking by 33,100 positions. Morgan Stanley Dean Witter and Merrill Lynch & Company are among the firms that have had to continue to trim positions due to persisting weak economic conditions. In the last two weeks of October, the companies laid off 1,500 workers combined. Transportation, communications, and public utilities (TCPU) fell by 15,100 workers y/y in September. Government employment declined by 2,200 workers. Expect the attrition of government jobs to continue as New York City battles its budget woes.

New York City’s unemployment rate was 0.5 percentage point higher than a year earlier, at 6.6% in September. The Bureau of Labor Statistics indicates that the number of unemployed persons rose by 24,600 people from a year earlier in September. Housing starts growth remained robust in September, growing by 15.8% y/y.

Performance Outlook

In November, New York’s Mayor Bloomberg revealed his plan to pull New York City through its worst fiscal crisis since the 1970s. The plan involves raising taxes significantly, cutting the size of the police force, closing fire companies, reducing new day-care slots for children, and shutting centers for the elderly. Bloomberg called for a 25% property tax increase and a $844 million reduction in services to help close a gap of $1.1 billion in the current fiscal year’s budget. The mayor, who said he expected the shortfall to balloon to $6.4 billion in the fiscal year that begins on July 1, also proposed reorganizing the city’s personal income tax in a way that shifts the burden from city residents to workers who commute from outside the city. Over the next year and a half, the plan calls for raising taxes by roughly $4.4 billion, cutting services by nearly $2.0 billion, and reducing the city’s workforce by 8,000 positions by June 2004, mostly through attrition but also through several hundred layoffs.

The first three quarters of 2002 have doomed New York City’s total employment growth for 2002. Global Insight indicates that New York City will contract by 1.9% in 2002. However, a gradual recovery is expected to occur in 2003, with total employment rising by 0.6%. The rebound is expected to continue with growth reaching 1.3% in 2004 and 2005. The remainder of the forecast shows total employment growth slowing to 1.0% in 2007.

FIRE sector employment suffered through a brutal year spawned by a bear market in 2002. The sector is slated to plummet by 4.9% in 2002. However, the moderate recovery of the national economy in 2003 should create more favorable market conditions. In addition, the recent employment cuts and cost-cutting measures in companies should begin to pay off and allow firms to resume hiring once the national economy begins to strengthen. FIRE sector employment is expected to rise by 1.6% in 2003 and 1.5% in 2004 and 2005. Although employment in FIRE will slow thereafter, growth will still be at 1.2% in 2007. Trade will also rebound after shrinking by 1.1% in 2002. After the drop in 2002, trade will grow by 0.5% from 2003-07. Employment in government will fall in 2003 after posting a moderate gain of 0.1% in 2002. The New York City budget woes will cause government employment to dwindle by 0.9% in 2003. After the trough in 2003, government employment will peak at 0.7% in 2005 and moderate in the remaining years.

Economic Structure

As the financial capital of the world, New York is home to the nation’s largest stock and commodity exchanges, as well as most of the leading investment and commercial banks. Finance, insurance, and real estate provided 12.4% of the metro area’s jobs in 2000, compared with just 5.8% nationally. Furthermore, its abundance of Fortune 500 companies and corporate headquarters gives it a large business-to-business services market. Many of the nation’s largest and most prestigious accounting, law, and media firms maintain their home offices in New York. The metro area is a popular tourist destination, particularly for foreign travelers.
Los Angeles, CA

In the News

- Boeing Co. announced that it may slash as many as 1,500 jobs at its satellite manufacturing operation in El Segundo, and it plans to vacate buildings and consolidate workers into under-utilized facilities. This move could topple El Segundo’s teetering commercial real-estate market, which is still trying to recover from the aerospace downturn of the 1990s and has one of the highest office vacancy rates in the region.

Business Monitor for Los Angeles, CA

<table>
<thead>
<tr>
<th>Category</th>
<th>2001:3 - 2003:3</th>
<th>2002:3 - 2004:3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Performance</td>
<td>x x x</td>
<td></td>
</tr>
<tr>
<td>Per Capita Personal Income</td>
<td>x x</td>
<td></td>
</tr>
<tr>
<td>Avg. Unemp. Rate</td>
<td>x x</td>
<td></td>
</tr>
<tr>
<td>Diversity Index</td>
<td>x x</td>
<td></td>
</tr>
<tr>
<td>High-Tech Location Quotient</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Housing Affordability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top ( x x x x x )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above Average ( x x x x )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ( x x )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below Average ( x x )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom ( x )</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: For definitions, please see appendix at back of book.
Recent Performance

Los Angeles’ economic experience in the boom years of the late 1990s was of moderate expansion. The metro did not attract the heavy concentration of Internet and dot-com companies as its neighbors to the north, or biotechnology firms as San Diego to the south, but has maintained its economic diversity. This has meant the accumulation of less relative wealth or job gains in recent years, but also meant a less precipitous fall in 2001. While state job growth fell in 2001 from 3.6% to 1.5%, the county’s growth slid from 1.7% to 0.5%. Through the third quarter of 2002, Los Angeles’ losses of 0.7% are very near California’s rate of 0.4%. Much larger swings in economic fortune were experienced in the Bay Area and Northern California.

Only the finance industry, among the major private sectors, has generated jobs this year. Manufacturing cutbacks accounted for 70% of the net job losses of 30,200 since September 2001. The aerospace sector was the largest loser in manufacturing, at 4,000 jobs. Also notably significant in the metro, though, were declines in the motion picture production industry of 6,000, following a comparable drop in 2001. This sector now employs 120,000, about 20,000 below its peak years of 1998-2000. The unemployment rate, however, improved to 6.4% by September. This is due to a slackening of labor force participation. Over the past year, the number of unemployed residents has increased by 17,000, as employed residents declined by 38,000.

Performance Outlook

The Los Angeles economy will finally see some job gains in the second quarter of 2003. Gains for the year will be 0.5%, followed by 1.0% growth through 2005. Job losses from this recession will be recouped in about a year. Then, at long last, in 2005, the county will reach its previous peak of 4.18 million employed from March 1990 (employment declined to as low as 3.67 million in November 1993). While congestion and high costs will continue to plague the region, Los Angeles’ abundance of talent in the design and marketing of ideas gives it a unique competitive advantage in Web-based entertainment and advertising—a market that should balloon in the next five years. Thus, unlike a decade earlier, when the aerospace industry abruptly collapsed, that sector is poised to benefit from the new military spending of the 21st century. Firms such as TRW, Boeing, Raytheon, Lockheed Martin, and Aerospace Corp. all have area facilities involved in high-tech military research and development projects.

Economic Structure

Los Angeles has a broad-based economy. Its economic diversity belies the impact of high concentrations of activity in entertainment, aerospace, business services, and several key nondurable goods manufacturing sectors. Business services will become a more dominant part of the economic landscape as on-line retailing continues its aggressive penetration of the business-to-business retail market. There is potential for expansion of the aerospace industry. Although national defense cutbacks led to a wave of mergers and job cuts at large local defense firms, an increase in military spending by the Bush administration could bring about resurgence.

Almost one-third of the nation’s employment in the motion picture and video-rental sectors is in Los Angeles. Furthermore, the metro area’s aircraft, guided missile, and apparel sectors each has more than 15% of the nation’s employment in its respective industry. In fact, Los Angeles is home to the nation’s largest cluster of apparel jobs, and it ranks among the top three metro areas for employment in manufacturing, trade, services, and finance, insurance, and real estate.

Southern California’s trade ties with Asia and Latin America influence the area’s transportation-services industry. Ranking first in the nation in volume, the ports of Los Angeles and Long Beach have grown to dominate trade in the Pacific Rim and on the West Coast, commanding 65% of West Coast container volume (53% of tonnage) between them. Because of its strong ties to Asia and Latin America, port activity in the Los Angeles area is greatly dependent upon growth in the Asian and Latin American economies. Therefore, the health of the transportation—services industry will rest with world economic conditions. The volume of goods handled by the two ports fuels substantial job growth in trucking, warehousing, distribution, and wholesale trade.

January 2003
In the News

- United Airlines announced a series of restructuring measures recently, one of which was cutting 9,000 jobs over the next year. The company is struggling to avoid bankruptcy, and has already cut 17,000 jobs after September 11. United has a hub at Chicago’s O’Hare airport, and it is very likely that the large number of jobs will be lost there, although the precise layoff plans are not clear yet.

Global Insight

Business Monitor for Chicago, IL

Job Performance (2001:3 - 2003:3)  x x
Per Capita Personal Income (2002)  x x x x
Avg. Unemp. Rate (2001:3 - 2003:3)  x x
Diversity Index (2002)  x x x x x
High-Tech Location Quotient (2002)  x
Housing Affordability (2002)  x x x
Top ( x x x x x )
Above Average ( x x x )
Average ( x x )
Below Average ( x x )
Bottom ( x )

Note: For definitions, please see appendix at back of book.
Recent Performance
After a promising second quarter, the recovery seems to be postponed for the next year. The problems in manufacturing, retailing, aviation industry, and financial services have led to a further decline in Chicago’s total employment during the third quarter. For the 12 months ending in September, total employment decreased by 62,900, or 1.5%. Unlike most of the metro areas in the North East Region, Chicago has a relatively low share of manufacturing employment; currently at 14%, it is only slightly above the national average, which implies that the renewed manufacturing difficulties will have relatively mild effects on the city’s economy. At the same time, most of the non-manufacturing sectors are experiencing difficulties, with the notable exception of construction. For the 12 months to September, the services sector has lost 27,300 jobs, transportation lost almost 12,000, and finance lost some as well. Probably the softest spot right now is retailing, though, with 9,500 jobs lost out of more than 6,000 lost only in September. Construction was the only sector with employment consistently above last year’s levels throughout 2002, but it was not nearly sufficient to make up for the losses elsewhere. Due to a shrinking labor force, unemployment is stable, at around 6.4%.

Performance Outlook
The expected strong economic recovery will have to be postponed for the summer of the next year. After posting a negative employment growth in 2002, the metro’s economy will start to add jobs early next year, but a real recovery will not materialize before the third quarter. Overall for 2003, Global Insight expects total employment growth of more than 1.4%. Although later, this pace will slow down little, Chicago should post a robust 1.0% annual employment growth over the next five years. In the short term, a serious boost will come from the manufacturing sector, which should eventually come out of recession, adding 1.0% more jobs next year. This growth will be for a short time, though, after which manufacturing employment should stabilize for few years at its 2003 levels. Even though many traditional durable goods industries are restructuring, relocating, or closing and will be a far less important component of Chicago’s economy in the 21st century, newcomers will limit what otherwise could have been a much stronger decline. Nonmanufacturing employment is expected to recover faster than manufacturing, but again, this probably will not happen before the beginning of 2003. Services should grow by 1.6% next year, after a very weak 2002, and the sector will post an average annual growth of almost 1.4% over the next five years. The leading sub-sector here is going to be business services with annual growth of 1.75% through 2008. Recently announced layoffs at United Airlines may significantly reduce the expected growth for the transportation sector, although the medium-term prospects remain good.

Economic Structure
Surpassed in size among U.S. urban centers only by New York and Los Angeles, Chicago is a nationally and globally important business center. It is the headquarters for 36 Fortune 500 corporations, and hosts the world’s largest futures and options market. Its large and diverse financial sector—encompassing investment banks, mutual fund companies, venture capital firms, and insurance companies, among others—is regionally dominant, and an important player nationally and internationally. This enterprise cluster could hold the key to renewed dynamism in near term, following a period of consolidation now unfolding. Manufacturing, long vital to the area economy, is a less auspicious element in Chicago’s economic configuration. The metro area’s manufacturing array is susceptible to cyclical weakness, and various traditional durable goods producers face significant structural challenges. Important manufacturing industries include electrical equipment manufacturing (anchored by Motorola, the metro area’s largest employer), metal stamping and machine tooling, and printing and publishing. Chicago is a mammoth consumer market, a transport hub, and a noteworthy cultural center and tourist magnet.
In the News

- The near-term economic prospects for Boston’s hotel and tourism industry received a boost with news that the MacWorld convention is returning to the Bay State in 2004. The computer trade show, which left Boston for New York in 1998, attracted more than 50,000 Macintosh devotees in 1997.

Global Insight
Boston, MA
Business Monitor for Boston, MA
Job Performance (2001:3 - 2003:3) x x x
Per Capita Personal Income (2002) x x x x
Avg. Unemp. Rate (2001:3 - 2003:3) x x x
Diversity Index (2002) x x x
High-Tech Location Quotient (2002) x x x
Housing Affordability (2002) x x x
Top ( x x x x )
Above Average ( x x x )
Average ( x x )
Below Average ( x x )
Bottom ( x )
Note: For definitions, please see appendix at back of book.
Recent Performance

Despite indications that the national economy was improving, the Greater Boston economy showed little signs of life in early 2002. Still suffering from the effects of the 2001 recession and terrorist attacks, the metro’s economy continued to contract in the early part of the year, a trend that began in late 2001. Following a decline of 1.9% in the first quarter of 2002, total non-farm employment declined by 1.7% in the second quarter of 2002, compared with the same period a year earlier. The metro area’s continued economic struggles are due, in large part, to its reliance on the high-tech and telecommunications sectors, which are still reeling from over-capacity and a dearth of new venture capital funding. Indeed, the difficulties facing new high-tech ventures in the Boston area are highlighted by a recent report compiled by PricewaterhouseCoopers, Venture Economics, and the National Venture Capital Association, which indicates that venture capital investment in New England start-ups was down by around 50% in the second quarter of 2002 year over year (y/y).

The MSA’s manufacturing firms continued to reel under the depressed economic conditions and unrelenting foreign competition. Manufacturing employment fell by 5.2% y/y in the second quarter of 2002 and has declined continuously for five straight quarters, with a loss of around 28,000 jobs. In addition, the usually robust services sector has been unable to offer help. With a struggling tourist industry and falling demand for business services, total services employment fell by 1.7% y/y in the second quarter of 2002, the fourth quarter in a row with declines. Furthermore, the transportation, public utilities, and communications sector saw continued job losses in the early part of 2002, while the FIRE and retail sectors also saw employment declines. With the economy continuing to struggle, the metro area’s unemployment rate remained well above 4% in the first half of the year, considerably above the low of 2.5% in 2000. (November 2002)

Performance Outlook

Constrained by weakness in high-tech, telecommunications, and financial services, the Boston metro area’s economy will remain stagnant through the end of the year. Total non-farm employment is expected to decline by 1.5% in 2002. By mid-2003, local economic activity is expected to show signs of improvement, in synch with the expected national recovery. Driven by the increase in economic activity and growing confidence in the robustness of the recovery, total employment growth in 2003 is forecasted to register a modest 0.5%. Employment growth will be led by the services sector, which will see payrolls gain 1.9% in 2003 as the demand for outside business services (such as temporary workers) increases. In addition, demand for nurses and support staff at hospitals will also continue to be a source of robust employment growth. While employment in the FIRE sector will continue to increase, growth will be tempered by the ongoing tribulations of the stock market. Likewise, job growth in the transportation, utilities and communications sector will be limited by the over-capacity currently working its way through the telecommunications market. While the MSA’s manufacturing sector will continue to struggle, primarily due to the high-cost of doing business relative to other locations around the globe, the sector is likely to see slight employment growth toward the end of 2003 as demand improves due to strengthening U.S. and global markets.

Over the next five years, employment growth in the metro area is forecasted to average 1% annually, compared with 2.3% in the five years following the last recession at the beginning of the 1990s. The metro area’s weak job growth will cause the unemployment rate to hover close to 5.3% annually through 2007.

Economic Structure

High-technology industries, as well as financial, educational, health-care, construction, and transportation services drive the Boston-area economy. Boston is home to nearly 3,000 software and Internet companies and to a high-technology workforce of nearly 328,000 workers. The availability of venture capital, the high concentration of research facilities, and a talented workforce that is prime for recruiting, make the region a key location for emerging industries, notably, biotechnology, software, and communications equipment. Meanwhile, manufacturing employment fell by 34% from 1984 to 1995 due to reductions in federal defense contracting and the decline of the minicomputer industry. During the past five years, manufacturing employment has continued to decline, despite seeing gains in the electrical equipment, printing and publishing, and biopharmaceuticals industries.

January 2003
In the News

- America Online Inc. laid off about 90 people from its advertising sales force in November, as senior officials presented a plan to AOL Time Warner Inc.’s board of directors to overhaul the under-performing unit.

Business Monitor for Washington, DC

<table>
<thead>
<tr>
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Note: For definitions, please see appendix at back of book.

Global Insight
Recent Performance
The DC metro economy has, to a large extent, recovered from the sharp declines immediately following the September 11, 2001, terrorist attacks. However, after a promising start during the first part of 2002, in recent months, the region’s economy has fallen back somewhat, as the year-on-year (y/y) declines have increased, mirroring the sluggish growth in the U.S. economy. In recent months, the performance of the metro DC economy has trailed that of the U.S. economy, and it remains uniquely vulnerable to another terrorist attack. The region was badly shaken by the sniper attacks that occurred in October 2002, and economic activity suffered to some extent, as residents were reluctant to venture outside until the suspects were finally caught near the end of October. We expect increased federal defense and homeland security expenditures to benefit the regional economy, as defense firms, who are among the region’s largest employers, experience an increase in demand.

During the first half of the year, the DC metro area’s economy out-performed those of Maryland, Virginia, and the United States; however, since then, the situation has reversed. Total non-agricultural employment in the PMSA during September 2002 was down 0.5% y/y, ranking 148th among the 251 largest MSAs. The year-on-year changes in metro DC’s seasonally adjusted employment turned negative in June 2002, and have been increasing since. The most recent information for October 2002 shows an year-on-year decline in employment of 0.7% for the DC metro area. By comparison, October 2002 total employment in Maryland, Virginia, and the United States were down 0.1%, 0.4%, and 0.4%, respectively.

Looking at individual sectors, employment in the PMSA’s transportation, communications, and public utilities (TCPU) sector showed the sharpest fall-off, with October employment down -6.1%, while employment in manufacturing and construction were down 3.6% and 2.9%, respectively; ominously, the year-on-year changes in construction employment have been falling continuously since the middle of last year. By contrast, October employment in the trade and services sectors were down only 0.6% and 0.5%, respectively, while finance, insurance, and real estate employment was down 0.7%. During the last 12 months (October 2001–October 2002), total non-employment in the Washington PMSA decreased by 19,220 jobs, with most of this decline occurring in the construction and TCPU sectors.

In spite of the recent slowdown in employment growth, the metro DC region’s labor market remains strong, as the seasonally adjusted unemployment rate in September 2002 was well below average at 3.3%, ranking 35th among the 292 largest MSAs. The metro area’s unemployment rate has fallen steadily since the start of the year, indicating that many persons may have left the labor market, especially less skilled workers who have decided to wait it out until companies begin hiring again. By comparison, the September unemployment rates in Maryland, Virginia, and the United States were 4.0%, 3.9%, and 5.4%, respectively.

Performance Outlook
We forecast that by most measures, the DC metro area’s economy will continue to outperform the Maryland, Virginia, and U.S. economies. Global Insight forecasts that the metro area’s total non-agricultural employment in 2002 will increase by only 0.2%, well below the increases of 4.3% and 1.3% during 2000 and 2001. Looking forward, we forecast that non-agricultural employment will rise 1.5% in 2003, above the forecast increase for the United States of 1.1%. The largest employment increases will be in construction, up 2.4%, and services, up 1.4%.

Over the long term, we forecast that the metro area’s non-agricultural employment will grow at an annual rate of 1.9% through 2007, again well above the U.S. growth rate of 1.4% over the same period. The region’s large federal government sector has a stabilizing, counter-cyclical effect on regional employment (during high growth periods, federal government employment does not increase as fast as private sector employment, while during recessions, it does not decline as fast and may even grow as programs to stimulate the U.S. economy are implemented). We forecast that the highest annual employment growth rates in 2002–07 will be in services (2.6%), finance, insurance, and real estate (FIRE) (2.2%), and construction (2.0%); while employment in the trade and transportation, communications, and public utilities sectors will grow at 1.6% and 1.7%, respectively. The high growth rates in services and FIRE employment will be due to continued strong growth in regional demand for these services, a slow recovery in
the region’s high technology and information technology companies, and higher federal spending on defense. Finally, we forecast that the region’s manufacturing employment, which is a source of high-paying jobs in the durable industries, will grow at 0.8% annually; however, the manufacturing sector accounted for only 3.5% of the region’s total non-agricultural employment in October 2002, compared with just fewer than 13.0% in the United States.

Global Insight forecasts that total personal income in the region will rise only 3.8% during 2002, down from the high increases during the preceding two years of 8.8% and 5.7% in 2000 and 2001, and then increase by 5.0% in 2003. By comparison, we forecast total U.S. personal income to increase 3.1% in 2002 and 4.7% in 2003. Looking further out, we forecast that the District’s personal income will grow at an annual rate of 5.8% in 2002–07, with wages and salary income growing at 6.1% annually. Real per capita personal income will grow at an average annual rate of 2.1% in 2002–07, fueling, in part, the growth in trade and service sector employment. Finally, total housing permits issued annually will decline from the recent high rates to just under 38,000 units authorized in 2002, and then rise gradually to 41,800 units by 2007, as population growth remains steady and as income growth recovers. However, the high cost of living in the region will keep the housing affordability index high. Finally, we forecast the region’s population will grow at an annual rate of just under 1.3% over the next five years.

The DC metro area has a number of competitive advantages suggesting that its economic recovery may precede that for the U.S. economy. One significant asset is a highly educated, technical labor force; others include the stabilizing influence of the large federal government sector, including major defense contractors; a small manufacturing sector; and critical masses of labor and infrastructure required by the information technology and high technology sectors. High wage and housing costs, however, continue to make it hard for the region’s employers to find skilled workers. Another concern is the degree to which the continuing slow growth in the U.S. economy, especially in the high-tech sectors, will be concentrated largely within the District of Columbia itself, while economies in the adjacent counties of Maryland and Virginia are less affected. Fortunately, the increase in federal defense spending this year and next will have a positive effect on the region’s economy, as its major defense contractors experience an increase in demand.

Economic Structure

The Washington DC metro area’s economic structure is unique in that it is largely devoid of a manufacturing sector. Instead, as one would expect from its role as the nation’s capital, it is a government-dominated region with most jobs directly or indirectly connected to the federal sector. Three sectors—services, finance, insurance, and real estate, and the government—accounted for 68.4% of the total non-agricultural employment in the region in October 2002, with services alone accounting for 40.9%; by comparison, the U.S. share of employment in the service sector was 31%. The region’s manufacturing sector is quite small, accounting for only 3.5% of total employment, compared with 13.0% in the United States. Finally, trade (retail and wholesale) comprised 17.8% of the metro’s total non-agricultural employment in October 2002, compared with 22.9% for the United States, while construction accounted for 5.7% of the total. Over the long term, the DC metro area’s economic structure, especially the concentration of employment in the government, defense, high technology, and biomedical sectors will work to its advantage, enabling it to maintain above average growth rates in employment and personal income.
In the News

- Mayor John Street announced plans to cut 2,500 jobs, or 10% of the municipal workforce, over the next several years. The cuts will help close a cumulative budget deficit that is projected to reach $856 million by 2008. The deficit would have been even worse, however, without $290 million in budget savings already identified. The city’s budget is balanced this year and next. For more information, see Recent Performance.

Global Insight

Philadelphia, PA

Business Monitor for Philadelphia, PA-NJ

Job Performance (2001:3 - 2003:3)  x x x
Per Capita Personal Income (2002)    x x x x
Avg. Unemp. Rate (2001:3 - 2003:3)  x x x
Diversity Index (2002)               x x x x
High-Tech Location Quotient (2002)  x
Housing Affordability (2002)         x x x
Top ( x x x x )
Above Average ( x x x )
Average ( x x x )
Below Average ( x x x )
Bottom ( x )
Note: For definitions, please see appendix at back of book.
Recent Performance

This city could use some love. Philadelphia is struggling to stay afloat in the midst of the national recession, a manufacturing sector that is hemorrhaging jobs, and its worst fiscal crisis in a decade. The City of Brotherly Love gave up almost 15,000 jobs in the first nine months of this year and there are more on the way. In November, Mayor John Street announced plans to cut 2,500 jobs, or 10% of the municipal workforce, over the next several years. The cuts will be achieved through attrition and layoffs to help close a cumulative budget deficit that is projected to reach $856 million by 2008. The deficit would have been even worse, however, without $290 million in budget savings already identified, including a 5% cut this year in all departmental budgets except police and fire. The city's budget is balanced this year and next. The mayor said he will also consider privatizing jobs, selling assets, and cutting programs to help restore fiscal balance, hearkening back to the early 1990s, when Philadelphia almost went bankrupt, but then-Mayor Ed Rendell slashed city spending, turned over public jobs to private contractors, and forced the municipal unions to accept a wage freeze.

The good news for Philadelphia is that despite the recession, some sectors, such as services and transportation, have remained fairly stable. These sectors also both managed to add jobs in September. Trade, meanwhile, has shown signs of recovery, and the construction sector remains relatively buoyant, thanks to low interest rates.

Performance Outlook

It’s no surprise that this year, Philadelphia will post negative annual employment growth. Fortunately, 2003 will bring a resumption of modest job gains, as nearly all sectors return to positive territory, and the manufacturing sector is able to climb nearly out of its hole. Growth in services will drive the recovery, aided by a strong performance in transportation. Still, over the next five years, the region’s high business costs and dearth of skilled workers will limit its expansion, as will high business costs, especially labor. While rising worker productivity can compensate for high costs, the area must improve public education and the quality of life to attract and retain highly skilled workers. To combat this problem, acting Governor Mark Schweiker is continuing former Governor Tom Ridge’s “Brain Gain” initiative, aimed at keeping young people and college graduates within the state. Coupled with rising interest rates, depleted demand for construction will limit gains in what was one of the metro’s hottest sectors in recent years. The manufacturing sector, while it will finally see the light of day, will make no real job gains over the next five years.

Economic Structure

The Philadelphia metropolitan area consists of nine counties in Pennsylvania, New Jersey, and Delaware. A well-developed transportation system and proximity to some of the nation’s largest urban markets make Philadelphia, the nation’s fifth-largest city, an attractive site for consumer- and business-oriented services companies. A large number of universities and research centers provide local companies with a steady supply of highly skilled workers. With two of the nation’s busiest seaports—Philadelphia and Camden—the metro area is well placed to take advantage of increasing import and export activity.

Philadelphia’s economy is among the most diversified in the nation, with large components in health-care services, pharmaceutical manufacturing, aerospace manufacturing, education services, and transportation services. This diversity is also a weakness, though, since many of the sectors that form its economic base are growing slowly, and, like an unfocused gardener, the metro has failed to heavily cultivate one or two specific sectors, but rather scattered its resources among the many. As a result, despite a national economic boom, Philadelphia’s employment growth peaked in 1998 at 2.5%, its highest level in over a decade. The area’s other weaknesses include relatively high business costs, large numbers of poorly educated workers, high tax rates, and traffic congestion.
In the News

- Former Enron suitor Dynegy has had its own financial troubles since the energy fallout. The company eliminated 600 jobs in Houston and 180 elsewhere as part of a restructuring plan. Dynegy is closing trading operations and selling off assets to pay creditors.

Global Insight

Houston, TX

Business Monitor for Houston, TX

Job Performance (2001:3 - 2003:3) x x x
Per Capita Personal Income (2002) x x x
Avg. Unemp. Rate (2001:3 - 2003:3) x x
Diversity Index (2002) x x
High-Tech Location Quotient (2002) x
Housing Affordability (2002) x x x x
Top ( x x x x )
Above Average ( x x x x )
Average ( x x x )
Below Average ( x x )
Bottom ( x )
Note: For definitions, please see appendix at back of book.
Recent Performance

Houston’s economy remained remarkably resilient through the turbulence of 2001. Total employment turned slightly negative in the second and third quarters of 2002. The metro lost just 500 jobs year over year (y/y) in the third quarter, a remarkable feat, when compared with the more than 30,000 jobs lost y/y in the state. Houston can base its relative strength on a small manufacturing sector, strong residential construction growth, and an economy diverse enough to avoid the major hits that struck the technology and telecom industries. Combined, the services and trade sectors added more than 6,400 jobs y/y in the third quarter. The service sector stumbled in the first quarter of 2002, but rebounded and posted 0.7% year-on-year growth in the third quarter. Construction employment growth has been strong due to soaring new home construction.

Gains in service, trade, and construction jobs nearly offset declines in manufacturing, mining, and transportation, communications, and public utilities (TCPU). Reeling from airline layoffs and the effects of the telecom meltdown, the number of TCPU jobs reached its lowest point in four years, falling 5.7% y/y in the third quarter. Manufacturing employment fell by 1.7%.

Energy-trading firms hit hard times in 2002, as trading volumes plummeted amid scandals of illegal accounting and trading practices. UBS Warburg Energy, which purchased Enron’s trading unit, is closing up shop in Houston and consolidating its energy trading staff in Stamford, CT. Reliant Resources plans to reduce its trading workforce, which includes traders, support staff, and information technology professionals, by 134 jobs. Williams Cos., TXU, El Paso Corp, and Aquilla have all cut staff in their energy trading units.

Performance Outlook

Houston is expected to recover to positive employment growth in 2003, but the rebound will be a slow one. Employment gains are forecast to grow only 0.7% next year, and average 1.3% annually in 2003–07. Service employment growth will lead the charge, averaging 2.2% annually over the next five years. Construction employment growth will slow, as an expected oversupply of residential and commercial units will curtail activity in the sector. TCPU is not expected to experience positive employment growth until second-quarter 2003, averaging less than 1% annual gains through 2007. The size of Houston’s mining workforce should stabilize, and growth in the sector is expected to remain flat through the forecast horizon. A war with Iraq or a double-dip recession, however, could affect these fundamentals, causing a sharp swing in prices and employment.

Economic Structure

Its port, which directly accesses the Gulf of Mexico through the Houston Ship Channel, and its proximity to Mexico have helped the metro area develop into a distribution hub. Warehousing and distribution activities around the Port of Houston give the combined transportation, communications, and utilities sector a relatively large share of total employment. Houston’s health-care services and biotechnology research have risen to national prominence. The prestigious Medical Center at the University of Texas is one of the city’s largest employers, as well as the nation’s biggest medical complex. The metro area is also a major corporate center, with the headquarters of 17 Fortune 500 companies, including Shell, Exxon, and Continental Airlines. The relatively low costs of living and doing business in the metro area are major attractions for corporations. Houston’s economy has diversified since the 1980s oil bust. Nevertheless, the energy sector remains an important force in the local economy, with much of manufacturing dependent on the oil and gas industry. Natural gas is an increasingly important commodity to the Houston energy industry. Gas currently makes up about 80–85% of the domestic drilling activity in the United States. The chemical industry remains focused on petrochemicals, and machinery manufacturing is still largely tied to drilling-tool production, employing thousands of workers.

Houston is one of the major trade centers of the Southwest. The metro area is served by a number of rail systems, including Burlington Northern Santa Fe. Air transportation is provided through two airports, George Bush Intercontinental Airport, and the smaller William P. Hobby Airport. Water transit is available through the Houston ship channel.
In the News

- Nearly three years after imposing a moratorium on new development in north Fulton because of insufficient sewer capacity, the state Environmental Protection Division has lifted the ban. Thanks to expansion and improvements, the system can now handle more users, and the end of the restrictions is expected to spur development, although the weak economy will limit growth in the near term.

Global Insight

Business Monitor for Atlanta, GA

Job Performance (2001:3 - 2003:3)  x  x
Per Capita Personal Income (2002)  x  x  x  x
Avg. Unemp. Rate (2001:3 - 2003:3)  x  x  x
Diversity Index (2002)  x  x  x  x
High-Tech Location Quotient (2002)  x
Housing Affordability (2002)  x  x
Top ( x  x  x  x  x  )
Above Average ( x  x  x  x  )
Average ( x  x  x  )
Below Average ( x  x  )
Bottom ( x  )
Note: For definitions, please see appendix at back of book.
Recent Performance

After three quarters of negative growth, Atlanta’s total employment leaped forward into positive territory in the second quarter of this year. That gain was short-lived, however, as the tenacity of the recession began to drain consumer confidence and weigh down the metro’s job creation. The resurgence was fueled by a temporary recovery in both the manufacturing and service sectors, and aided by less-steep declines in trade and transportation, communications, and public utilities (TCPU). The third quarter, however, brought a return to negative growth rates in nearly every sector. One particularly notable decline has been in Atlanta’s construction sector, which boomed during 2000 and early 2001, but has since struggled desperately, despite the persistence of favorable interest rates. The sector has lost jobs nearly every month this year, as a saturated market keeps demand down in both commercial and residential construction.

Atlanta’s year-over-year employment figures are also weak; in September, the metro’s -2.6% year-over-year growth rate placed it 233 out of the nation’s 251 largest metro areas. That month witnessed a 1.8% year-over-year decline in the manufacturing sector, as well as job losses in the construction and transportation sectors. Slight gains in the services, trade, and finance sectors were not enough to keep the private service-producing sectors from a 2.3% year-over-year employment decline. Atlanta’s unemployment rate in September was 4.8%.

Performance Outlook

With so many sectors in decline, Atlanta will experience a 2.4% employment contraction this year, for a loss of more than 50,000 jobs. The metro area has entered that vicious cycle of mounting job losses, leading to slower consumer spending, further weakening services, construction, and trade, causing to even more layoffs. The TCPU sector will struggle with the nationwide trend of decreased air travel, while the manufacturing sector will only slightly ease the tide of job losses. In the short term, local company Lockheed will likely benefit from increased defense spending, but transportation companies, notably airlines, are still weak.

From its low point this year, however, Atlanta should rebound in 2003, and grow solidly through the end of the forecast period. It will not match the stellar job gains of previous years, though, peaking at 2.9% employment growth in 2004. Strong recoveries in services, trade, and TCPU in 2003 will help carry lagging sectors, such as construction and manufacturing, but with slower employment growth and a steady influx of new residents, unemployment will remain at or above 4.4% during the forecast period.

Economic Structure

As a thriving regional transportation node, Atlanta has among the highest concentrations of workers in wholesale trade and transportation services in the country. Overall, the economy is highly diversified, with local operations for over 450 of the Fortune 500 companies. In fact, the metro area is home to the headquarters of more than 20 of these companies. Located at the intersection of several major interstates and railroad lines, Atlanta is a major regional transportation and distribution center. Hartsfield International Airport is now the world’s busiest airport (surpassing longtime leader Chicago O’Hare), serving 78 million passengers in 1999. Plans are under way for the construction of a fifth runway at the airport, and further expansion is being actively considered. These improvements should solidify Atlanta’s position as one of the nation’s centers for international commerce.
In the News

• The ongoing cost-cutting by Alcatel, the French telecommunications equipment maker, has further reduced the size of its Plano workforce. Another 325 were let go from that location in early November. By the end of next year, the company’s worldwide staff will number 60,000, whittled down from the more than 100,000 working at the end of 2001. So far, Alcatel’s Plano workforce has been cut by more than half to 2,850 since the layoffs started.
Recent Performance

Negative total employment growth has lasted in the Dallas MSA from the third quarter of 2001 through the third quarter of this year. Total nonagricultural employment fell by more than 11,000 jobs year over year (y/y) in the third quarter. Third-quarter 2002 job losses were felt across the board, as all sectors but mining reported negative employment growth. Trade employment reported year-over-year declines in the most recent four quarters, as major retailer Kmart closed up shop and consumer confidence has waned. Service sector employment was at its lowest level of 2002 in the third quarter. In a cost-cutting effort, Xerox plans to consolidate call center operations in St. Petersburg, FL, to Lewisville, TX, and close an Irving, TX, call center, moving operations to a Nova Scotia location. It is unknown what the net employment effect in the Dallas metro will be.

Payrolls in transportation, communications, and public utilities (TCPU) fell by 2.1% in the third quarter of 2002, following three consecutive quarters of 2.0% y/y job losses. TCPU employment is especially vulnerable to sharp job losses given Dallas’ high concentration of telecom businesses.

Manufacturing employment continued to dive through 2002, with employment levels in the sector at their lowest level since 1995. Technology and telecom equipment makers are feeling the effects of the slumping markets that have persisted in the industry for nearly two years. Alcatel, EDS, i2 Technologies, and Chorum Technologies all announced further job cuts for late 2002 and early 2003.

Performance Outlook

Dallas is expected to exhibit a recovery in total job growth in the first half of 2003, but gains are not expected to reach pre-recession levels during the forecast period. Over the next five years, local employment growth will average 1.5% per year. The service sector’s strong recovery will fuel the rebound. Service employment is forecasted to increase 1.6% in 2003 and 2.5% per year over the five-year forecast horizon. Manufacturing’s downturn will further stem Dallas’ growth potential. The sector will lose employment throughout the forecast period, showing the strongest declines in the near term. Retail trade will slowly rebound late next year, spurring positive growth in trade employment beyond 2003. Following negative growth in early 2003, TCPU employment will recover and average 1.5% annual growth through 2007.

Economic Structure

This historically oil-dependent economy has successfully diversified. The Dallas metro area is now a center for corporate headquarters and financial services, accounting for almost one-third of the state’s finance, insurance, and real estate (FIRE) employment. Also, following an expansion of its trade and services industries, Dallas has become the Southwest’s largest wholesale trade center, and one of the region’s major retail hubs. As a result, the transportation sector plays a large role in the economy. The defense industry has become less important to the Dallas economy following the military spending cuts of the past decade. The metro area is currently home to numerous high-tech and telecommunications firms, including MCI, Ericsson, Fujitsu, Rockwell International, and Nortel Networks.
In the News

- Ford Motor Co. is moving its Lincoln Mercury division from California back to the headquarters in Dearborn. The division was moved to Irvine, CA, in 1998 to join the rest of the Premier Automotive Group located there. Then it was thought that the only way the brand could make a comeback was by moving the marketing department close to the huge Californian luxury-vehicle market. Apparently this view has been changed now, and after the end of the school year, about 90 employees will be moved back to Michigan.

Business Monitor for Detroit, MI

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Note: For definitions, please see appendix at back of book.
Recent Performance
Detroit’s economy is still struggling, and recent weaknesses in manufacturing in general and automotive industry in particular are going to weaken the economy for some more time to come. Total employment has been declining through the year, and for the last 12 months ending in September, it declined 29,400 jobs, which is 1.4% of the labor force. Manufacturing obviously was one of the serious sources of trouble. The sector lost 6,700 jobs over the period, or 1.6% of the employed. After a year of record auto sales, numbers for September and October have been much more modest than the ones last year. This, combined with the need to retool plants for the new model year, led to a marked decline in the sector’s employment in August and September. As a nominal source of job losses, though the trade and services were the main contributors, together losing more than 22,000 jobs over the period. The only major sectors adding jobs were construction and finance. The unemployment rate, at 5.9%, was lower than the maximum levels achieved in midyear. Unfortunately, all of the decrease can be attributed to the shrinkage of the labor force, not to the creation of new jobs.

Performance Outlook
Detroit’s economy will have a delayed recovery due to the renewed weakness in the manufacturing sector. Global Insight expects some improvements in the service-based sectors through the end of 2002, but the real recovery should start early next year. Employment will most probably need more time before it starts growing, that is why we expect the real improvements in the labor market to happen some time after the middle of next year. Total employment is expected to grow 1.15% next year, and with a decreasing speed afterwards. Overall, for the next five years, the average annual employment growth is not likely to exceed 0.6%, as Detroit’s economy slowly reduces its reliance on manufacturing and services slowly absorb the labor eliminated from manufacturing. The winner will be the services sector, which should start recovering by midyear, and then it has the potential to grow by more than 1.1% annually in long term.

Economic Structure
Manufacturing accounted for 20.6% of the metro area’s total employment last year, the ninth-highest concentration among Global Insight’s Top 114 metro areas. The Motor City is home to the nation’s three largest automotive manufacturers—General Motors, Ford, and DaimlerChrysler. Furthermore, a dozen assembly plants and countless auto parts suppliers are located here. Manufacturing’s dominance is manifested in the metro area’s high wage rates, which stood about 16% higher than the national average. Diversification efforts and consolidation in the auto industry have lessened Detroit’s reliance on its manufacturing base, however. A large population and high incomes sustain vibrant trade and services sectors. Situated between two of the Great Lakes, Detroit is also a regional center for the transportation, distribution, and warehousing industries.
In the News

- The high-tech spending slump will cost Orange County another 300 jobs, as components manufacturer Celestica Inc. closes its factory here. The electronic equipment industry in Orange County has seen its payrolls reduced by 5,200 jobs since its peak of 42,000 jobs in early 2001.

Business Monitor for Orange County, CA

- Job Performance (2001:3 - 2003:3) x x x
- Per Capita Personal Income (2002) x x x x
- Avg. Unemp. Rate (2001:3 - 2003:3) x x x x
- Diversity Index (2002) x x x x
- High-Tech Location Quotient (2002) x x x x
- Housing Affordability (2002) x

Note: For definitions, please see appendix at back of book.
Recent Performance

Once a commuting suburb of Los Angeles, Orange County has emerged as a business and population center in its own right. The county’s job growth was 3.4% in 2000 and 2.1% in 2001, paced by exceptional gains in business services, construction, and transportation, communications, and utilities. But 2002 brought job reductions to Orange County, as it has to the rest of the country. Although continuing to perform ahead of the state, the county has lost over 10,000 jobs this year, split evenly between manufacturing and services. The manufacturing cutbacks occurred in the communications equipment and other electronics industries. The unemployment rate remains below 4%, although this is partially attributable to a lack of labor force expansion.

Faced with a budget shortfall, Orange County officials announced in September a plan to offer early retirement packages to more than 1,000 workers and ask county departments to identify possible cuts in services. The county must slash $57 million from its operating budget because of sagging tax revenue and reduced funding from the state. A major contributor to that shortfall is a $55-million deficit in the county’s annual payroll because of rising employee pension costs. The county expected that the pension system’s investments would yield an 8% gain last year, but the system instead saw a 3% loss, and the county government must make up the difference.

Performance Outlook

Orange County will continue to show annual job growth, but less than 1% for 2002 and 2003, before accelerating to near 2% in 2004 to 2007. Income growth will stay just above 3% in this year as last. Weakness in the computer and electronics industries will keep manufacturing employment negative this year. Trade and transportation, communications, and utilities (TCPU) will also soften this year due to the effects of the mild but ongoing national recession, but the metro’s other sectors will buoy employment growth, particularly business services, which will bounce back this year.

Economic Structure

With more than 2.8 million residents, Orange County is the second-largest metro area in California in population and employment levels. The metro area originated as a bedroom community to Los Angeles in the 1970s and 1980s, but since then has emerged as a diverse and robust independent economy with a large manufacturing base.

Many of the nation’s major defense contractors have local divisions, including Rockwell International and C&D Aerospace. The aerospace industry has fostered the development of numerous innovative companies that manufacture computer components, industrial machinery, medical equipment, and scientific instruments.

Of late, the region has emerged as a hub of semiconductor and communications equipment manufacturing. Abundant and cheaper land and building areas, relative to Los Angeles and its northern regions, such as Ventura, have driven this rapid expansion in Orange County’s “new economy.” Computer manufacturers such as Gateway and Toshiba are an integral part of the Orange County economy.

The metro area is also a popular tourism and convention destination. Beaches, major theme parks (Disneyland and Knott’s Berry Farm), and proximity to Los Angeles are strong draws. The expansion of the Disneyland resort has strengthened the competitive position of Orange County as a tourist attraction.

With its desirable climate, Orange County is a natural setting for amusement parks and entertainment services. As more land becomes available for development, the potential for agglomeration economies is great. This should further solidify the position of the entertainment services industry in Orange County’s economic infrastructure.

Computer manufacturers should continue to play a dominant role in the Orange County economy. Although the computer manufacturing industry has been retrenching lately, the long-run outlook is positive. Beyond 2001, communication equipment manufacturers will have an expanding role in the metro area’s economy. With the increasing appetite for wireless technology, there will be robust increases in the demand for web-connected cell phones and personal digital assistants.
In the News

- Minneapolis, MN-based retailer Target Corp. reported an earnings increase of 50% in its third quarter of 2002 earnings statement. The year-over-year earnings comparison is slightly biased because of a one-time charge that Target Corp. had to pay in the third quarter of 2001.

Business Monitor for Minneapolis, MN-WI

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<th>Measure</th>
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<td>Housing Affordability</td>
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Note: For definitions, please see appendix at back of book.
Recent Performance

The fourth quarter of 2001 put an exclamation point on a year that was marked by steadily declining total employment growth in every consecutive month in Minneapolis. The declining trend of total employment continued into 2002, with total employment falling 1.4% year over year (y/y) in January. However, 2002 has been characterized by a steady but slow recovery. Monthly year-on-year losses have been gradually declining since the beginning of the year. Recent statistics indicate that total employment declined by 1,900 workers (0.1%) y/y in October. Government posted the largest gain in October, increasing by 3,200 workers on a year-ago basis. Services was right behind government, rising by 3,000 positions. Finance, insurance, and real estate (FIRE) rose by 0.9% in Minneapolis. Robust housing activity has kept real estate employment high. In addition, finance firms like The Principal and Wells Fargo have managed to post impressive quarterly gains due to shrewd investment tactics. Trade, the metro’s second-largest employment sector, fell by 3,400 workers. The slow economy continues to damper retail and wholesale trade. Manufacturing contracted 1.6% in October. The encouraging news is that losses in manufacturing have been steadily declining all year for Minneapolis. It is possible that this could be a turning point for the embattled sector.

Unemployment in Minneapolis (3.5%) remained well below the national average (5.5%), according to the most recent data. The tight labor market in the Midwest has allowed Minneapolis to post an unemployment rate that is ranked 39th out of 292 reporting metros. The number of unemployed increased by 7,900 persons from a year ago.

Performance Outlook

The harsh economic conditions will yield a contraction in total employment of 0.7% in 2002. Minneapolis’ economy is expected to rebound in 2003 and peak in 2004, with a 2.1% year-on-year increase in total employment. Total employment will slow in the remainder of the forecast, posting a 1.5% change in 2007. Services will post a modest 0.3% gain in 2002, before posting a strong rebound in the rest of the forecast duration. Global Insight forecasts that services will grow 2.5% per year in 2003–07. Transportation, communications, and public utilities (TCP) will recover after shrinking sharply by 5.6% in 2002. The current year saw Northwest Airlines face employment cuts due to reduced travel by fliers. The resurgent economy will lead to increased travel after the lull in 2002. In fact, employment in TCP is projected in grow by 1.8% a year in 2003–07. The strong growth in the major employment sectors will fuel robust personal income growth. Personal income is forecast to grow at a 4.7% compounded annual rate in 2003–07.

Economic Structure

Today, key manufacturing industries include printing and publishing, computers, medical instruments, measuring and control instruments, as well as its traditional food products. The metro area is also the headquarters for 3M, its largest manufacturing employer, and Andersen Windows, Cargill, Pillsbury, and General Mills.

Higher wages and high-tech job opportunities have attracted residents from across the Midwest. Excellent schools and colleges have produced a well-educated local work force. The metro area also provides surrounding communities with health-care, business, and financial services. U.S. Bancorp and The St. Paul Companies are headquartered in the Twin Cities, while American Express and Wells Fargo have major operations there.

The Twin Cities metro area of Minneapolis and St. Paul encompasses 10 counties in Minnesota and one in Wisconsin, and is home to more than 2.9 million residents. The area has easy access to northern markets via Duluth on Lake Superior and southern markets via the Mississippi River. Its proximity to the Midwest’s agricultural production and its distribution advantages have attracted large food-processing companies, including Pillsbury, General Mills, and Cargill, earning Minneapolis the nickname “Mill City.” In all, the metro area represents 65% of Minnesota’s economic activity and 60% of its total population. St. Paul also serves as the state capital.

Rapid expansion and low unemployment have driven up business costs in Minneapolis, in a region where metropolitan business costs are generally at or below average.

January 2003
In the News

- The Pfizer La Jolla pharmaceutical research center has opened in California. Three of the center’s eight buildings are already occupied, and the others will be completed by 2004, eventually totaling around 800,000 square feet. In the past two years, Pfizer has invested $155 million at La Jolla, and employs a total of 1,500 people.

Global Insight

San Diego, CA

Business Monitor for San Diego, CA

Job Performance (2001:3 - 2003:3)  x x x x
Per Capita Personal Income (2002)  x x x x
Avg. Unemp. Rate (2001:3 - 2003:3)  x x x x
Diversity Index (2002)  x x x x
High-Tech Location Quotient (2002)  x x
Housing Affordability (2002)  x
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Above Average ( x x x x )
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Note: For definitions, please see appendix at back of book.
Recent Performance

San Diego continues to outperform the state and the nation. With job gains of 21,900—1.8%, over the last year—rank- ing it near the top ten among metro areas in the United States, you might never have known that there was a reces- sion if you lived in San Diego. The economic environment in California has changed dramatically with the dot-com bust and 2001 recession. The growth center has shifted sharply from the Bay Area and Northern California to the South.

In San Diego, of all major non-manufacturing sectors, only air transportation contracted in the aftermath of September 11. The manufacturing sector, particularly in high-tech- nology, has been weak, however. September layoff announce- ments include: Tyco International Limited/Mallinckrodt in Carlsbad will lay off 125 medical equipment production workers; Ericsson is consolidating its San Diego operations, laying off 200 telecommunications workers; and Remec, Inc., a wireless systems manufacturer, will cut 200 jobs this year.

In the public sector, after gains of 5,000 jobs over the past year, the San Diego County government may lose up to $24 million and possibly as many as 150 jobs because of the new state budget, according to preliminary estimates. The cuts will not result in any reduced subsidies to recipients in county programs, but will affect the administration of those programs. The county may use attrition and eliminate vacant positions to make up for the 150 jobs that could be affected. Governor Gray Davis recently signed a $98.9-bil- lion budget that attempted to narrow the state’s budget gap without major cuts or tax increases.

Performance Outlook

The medium-term outlook for San Diego remains positive, given its specialization in two industries with at least a decade of strong growth ahead of them: biotechnology and wireless communications. Indeed, the San Diego region is the most concentrated wireless area in California, according to a report by the San Diego Regional Technology Alliance, and is experiencing the fastest growth among California’s regions. Job growth will stay near 2.0% through 2005, before moderating to 1.6%.

Economic Structure

The San Diego metropolitan area (San Diego County) stretches 70 miles along the Pacific Ocean, 120 miles south of Los Angeles, bordering Mexico to the south, Orange and Riverside Counties to the north, and Imperial County to the east. Expected to exceed three million residents this year, this culturally diverse metro area is the third most populous in California and the 14th most populous in the nation.

During the late 1980s, San Diego’s considerable prosperity was somewhat narrowly based, with a large component of defense industry activity. By the end of that decade, federal policy was committed to streamlining and downsizing defense procurement, and military spending was substantially reduced. However, by nearly all measures, the eco- nomic reconfiguration of San Diego has outpaced the transition process in most of the rest of Southern California. As the home port for Pacific U.S. Naval operations, the metro receives more than $10 million a year in defense revenues. In addition, San Diego has become a leader in telecommunications, electronics, computers, soft- ware, and biotechnology—an emergence in which the pres- ence of the educated, high-tech-ready labor force that originally located in the area to work in defense-related industries has played a leading role.

San Diego’s bioscience cluster is anchored by world- renowned research facilities, including the Scripps Research Institution, the Salk Institute, the University of California at San Diego, and the La Jolla Cancer Research Center. These institutions are vital sources of skilled labor and technological innovation. They have fostered the develop- ment of a biotech community some 240 firms large, giv- ing the metro area the third-highest concentration in the nation, behind San Francisco and Boston. Tourism, agricul- ture, and health-care services also drive San Diego’s econ- omy. More than 14 million tourists each year visit the area’s attractions, including Sea World, the Wild Animal Park, the San Diego Zoo, Mission Bay, and Cabrillo National Monument.
In the News

- Seattle area voters rejected Referendum 51, which would have raised money for regional transportation projects, while narrowly approving a measure to increase the motor vehicle excise tax to fund a regional monorail system. The business community strongly supported Referendum 51. Its failure will put pressure on the Regional Transportation Investment District to raise money through a regional transportation package voters will consider in May 2003.

Business Monitor for Seattle, WA

Job Performance (2001:3 - 2003:3)  x
Per Capita Personal Income (2002)  x x x x
Avg. Unemp. Rate (2001:3 - 2003:3)  x x
Diversity Index (2002)  x x
High-Tech Location Quotient (2002)  x x
Housing Affordability (2002)  x x
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Below Average ( x x )
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Note: For definitions, please see appendix at back of book.
Recent Performance

Seattle lost over 15,000 jobs in 2001, and this year has been even worse. Total non-agricultural employment dropped by another 53,300 jobs (on a non-seasonally adjusted basis) between January and October 2002. Total seasonally adjusted employment in the Seattle MSA in September 2002 was down y 3.2% year over year (y/y), a decrease of 38,783 jobs. In fact, Seattle’s year-over-year decrease in seasonally adjusted employment in September 2002 was 243rd among the 251 largest MSAs. It is no surprise that of the economic sectors, manufacturing has been the hardest hit, shedding over 12,000 jobs through September. Layoffs at Boeing’s Puget Sound operations contributed a large share to that number, though all of the regions’ manufacturers are struggling. Employment in Seattle’s manufacturing sector has declined at an average annual rate of just over 5% during the last five years.

Things have been just as bad in the metro’s private service-producing sectors, which have pink-slipped over 13,000 workers. Falling personal incomes and rising unemployment have hurt the services and trade sectors; trade in particular has shown no sign of impending recovery. The transportation and finance sectors have been on a slow wane, and recent data indicate they may soon stabilize. After a fall-off this summer, construction activity has picked up again slightly, boosted by unflaggingly low interest rates, raising that sector’s employment figures. The unemployment rate, which hit 6.9% in January, retreated midyear, but returned to that figure in September.

Performance Outlook

It is no surprise that this will be a difficult year for the Seattle economy. We forecast Seattle’s total seasonally adjusted employment will decline by 2.9% during 2002, and then increase by only 0.6% in 2003. We forecast Seattle’s non-manufacturing employment will decline by 2.1% in 2002, but then rise by 1.0% during 2003. Employment trends will be most favorable in the FIRE sector, with a year-over-year increase of 0.5% during 2002. All other sectors will experience year-over-year employment declines in 2002. During 2003, the services sector will lead the recovery with an employment increase of 1.4%, with trade and FIRE sectors showing higher growth starting in 2004. Manufacturing employment will fall sharply by 8.1% during 2002, well above the 3.1% decline in 2001, as the combination of the spreading effects of Boeing’s layoffs and declining aircraft orders, along with sluggish business investment at the U.S. level and reluctance by employers to hire new workers, causes this sector to contract further.

Although the short-term outlook for the metro area is dim, Seattle can take heart in a fairly positive long-term forecast. In the last decade in particular, Seattle has moved away from its dependence on Boeing’s operations, thanks to the growing technology and trade industries. Jobs related directly or indirectly to Boeing are now estimated to account for only 12.4% of the region’s workforce, down from nearly 40.0% in the late 1960s. Moreover, a new generation of profit-making Internet companies will likely sprout up in place of the current, wilting crop when the nation’s economic climate improves.

Over the forecast horizon to 2007, Seattle’s total non-agricultural seasonally adjusted employment is expected to grow at an annual rate of 1.6% as strong growth resumes in 2004 and 2005. Over the next five years, we forecast the highest annual employment growth rates in the Seattle PMSA to be in services (2.5%), FIRE (1.9%), and TCPU (1.9%). Over the forecast horizon to 2007, manufacturing employment will grow at an annual rate of 0.7%, although total manufacturing employment of just over 183,000 workers in the fourth quarter of 2007 will still be less than the total of 184,400 workers during the second quarter of 2002.

Although we forecast Seattle’s total nominal personal income to increase by only 1.6% during 2002, it will rise by 4.8% in 2003. In fact, between 2002 and 2007, we forecast personal income in the Seattle MSA to grow at an average annual rate of 5.7%, above the forecast statewide growth rate of 5.4%. Total wage and salary income will grow at 6.0% annually in 2002–07, driven by the recovery in employment growth and wages, which comprise 67.6% of Seattle’s total personal income.

Economic Structure

The Seattle metropolitan area, consisting of King, Snohomish, and Island counties, is located on the eastern side of Puget Sound, about 100 miles from the Canadian border. With a population of 2.4 million, it is the most-pop-
ulous urban area in the Pacific Northwest, and accounts for 41% of the state’s population and 52% of its employment base. The metro area benefits from a high quality of life and strong entrepreneurial culture, and is a major manufacturing, distribution, and commercial center. It is home to nationally renowned firms, including Boeing, Microsoft, Starbucks, Amazon.com, Nordstrom, Paccar, and Weyerhaeuser. Key industries are high-tech manufacturing, aerospace, software development, health-care services, and financial services. The metro area’s diversified manufacturing base also includes food processing, printing and publishing, fabricated metals, industrial machinery, and textiles and apparel. The Boeing Company is Seattle’s largest private employer and leading exporter. International trade is a major component of the metro area’s economy. Aircraft, lumber, and wood products are the area’s largest commodities. On the downside, Seattle’s high exposure to volatile, cyclic industries such as aircraft manufacturing, shipping, and computer manufacturing leave it vulnerable to recessions at home, and to weak international economic growth.

Home to the nation’s fifth-largest container port (with 1.5 million 20-foot equivalent units in containerized cargo in 2000), Seattle serves as the receiving point for Alaskan import-export traffic and trade between the United States and Pacific Rim nations. The metro area has extensive infrastructure capabilities, including sophisticated trucking and rail networks, access to an international airport (Sea-Tac), and the Port of Seattle.
In the News

- California State University at Hayward is expanding its business incubator program, thanks to a $6.44-million grant from the U.S. Department of Commerce’s Economic Development Administration. The program, Advancing California’s Emerging Technologies, is looking at several sites for the expansion—making it one of the largest business incubator facilities in the country—including the formal Alameda Naval Air Station. Since 1998, the incubator has assisted 90 companies and netted over $200 million in venture capital.

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Global Insight

San Francisco, CA

Business Monitor for San Francisco, CA

Job Performance (2001:3 - 2003:3)  x
Per Capita Personal Income (2002)  x x x x
Avg. Unemp. Rate (2001:3 - 2003:3)  x
Diversity Index (2002)  x x
High-Tech Location Quotient (2002)  x x
Housing Affordability (2002)  x
Top ( x x x x x )
Above Average ( x x x x )
Average ( x x )
Below Average ( x x )
Bottom ( x )
Note: For definitions, please see appendix at back of book.

Relative Performance
(Annual percent change, 2002:3 to 2004:3)

Relative Employment Mix, 2001
(U.S. average=100)

Global Insight
Recent Performance

“What goes up, must come down,” has certainly been true for the San Francisco economy. For more than two decades, San Francisco has been a full partner with the San Jose area in fostering the birth of emerging technologies in communications and biosciences. The metro’s strong performance in 2000 carried it to a solid first-quarter 2001, but could not generate enough momentum for the rest of the year, as wave after wave of tech layoffs and bankruptcies emptied its office buildings, limited local spending, and caused the miniscule unemployment rate to rise.

Unemployment in San Francisco was 2.1% in December 2000, but just a year later had climbed to 5.3%. At the same time, annual employment growth made a striking reversal from a 4.0% gain in 2000 to a 1.0% contraction in 2001. Every sector was hurting, especially manufacturing, which declined 7.2%, and business services, which went from a 20.0% employment gain in 2000 to a 4.4% decline in 2001.

In fact, growth in the services sector was flat last year, kept from contraction only by the surprising strength of “other” services. This year has brought some respite for San Francisco; in the first quarter, manufacturing contracted only 1.8%, compared with 8.5% in the fourth quarter of 2000, and the services sector, which contracted 2.2% in the fourth quarter, declined 1.6%. Even better news came from the trade sector, pushing its way back into solidly positive territory. Total employment declined 1.4% in the first quarter, compared with 4.6% in the previous one.

Performance Outlook

San Francisco’s fall from the peak to the nadir of economic strength has been well documented, but what is less well known is what its recovery will look like. Unfortunately, the short term will not bring a reprieve from economic woes, but the longer-term outlook is significantly better.

Employment growth will weaken even further this year and remain negative. Labor-supply constraints and wage pressures have been eased by the current slowdown, but the metro has now gone to the other end of the spectrum: high unemployment (5.5% in March).

The construction sector will contract this year, as vacancies rise and developers shelve projects until a recovery is more certain. Although the sector will bounce back in 2003, a shortage of buildable land will limit job gains during the next five years. Meanwhile, the services sector will struggle to post positive growth, while manufacturing, trade, and transportation, communications, and utilities are distinctly negative.

Having stepped off the dot-com roller coaster, San Francisco will find itself economically in the middle of the road over the next five years, posting 1.4% average annual employment growth, a far cry from its recent heyday. A rebound next year will bring a return to solid, if more modest growth, as the metro capitalizes on its remaining technology and business base.

Economic Structure

The San Francisco metropolitan area is the centerpiece of the Greater Bay Area, the fourth largest regional economy in the nation. Approximately 1.7 million people reside in Marin, San Francisco, and San Mateo counties, which make up the metro area. San Francisco is the West Coast finance and business-services hub. The area is home to the largest cluster of venture capitalists in the nation, and has a vibrant tourist industry. San Mateo County includes the San Francisco International Airport, the Bay Area’s primary air terminal. The bedroom communities of San Mateo and Marin, along with the Oakland metro area, supply a large portion of San Francisco’s work force. San Mateo and San Francisco counties are part of Silicon Valley.
In the News

- Bethpage, NY-based Cablevision Systems Corporation announced a rate hike that will start in 2003. The 5.3% average increase will affect the company’s 3 million customers in the New York City metro. The cable company is trying to eradicate a gap that is estimated at nearly $1 billion. This is the latest move that the company has tried. The company has laid off 7% of its workforce since June 2002.

Global Insight

Nassau, NY

Business Monitor for Nassau, NY

- Job Performance (2001:3 - 2003:3) x x x x
- Per Capita Personal Income (2002) x x x x x
- Avg. Unemp. Rate (2001:3 - 2003:3) x x x x x
- Diversity Index (2002) x x x x x
- High-Tech Location Quotient (2002) x
- Housing Affordability (2002) x x
- Top (x x x x x)
- Above Average (x x x)
- Average (x x)
- Below Average (x x)
- Bottom (x)

Note: For definitions, please see appendix at back of book.
Recent Performance
While most of the downstate economy has floundered, the Nassau-Suffolk metro area has been able to post positive year-over-year (y/y) employment gains in every month of 2002. Recent data report that Nassau-Suffolk increased by 3,500 workers (0.3%) y/y in October. Manufacturing posted the largest loss in Nassau-Suffolk, dropping by 4,600 people on a year-ago basis. Services, however, swamped the decline in the manufacturing sector, with a 4,700 worker gain. Finance, insurance, and real estate posted a 1,300-person increase in October. Housing permits fell in October by 1.8%. Housing activity, fueled by low interest rates, have finally succumbed to the weak economy. Construction and mining employment logged a marginal decline of 200 workers in October. The September unemployment rate in Nassau-Suffolk was 0.4 percentage point higher than a year earlier.

Performance Outlook
Slow overall economic conditions have taken their toll on Nassau-Suffolk’s total employment growth in 2002. The robust growth that the metro experienced before 2001 is a distant memory, as the metro is expected to post a 0.4% total employment gain in 2002. The rest of the forecast shows a recovery, as total employment reaches peaks in 2004 and 2005 of 1.5%, before moderating to 1.2% year-on-year growth in 2007. The services sector will power the metro’s rebound throughout the forecast. The sector will grow by 1.3% in 2002, before exhibiting burgeoning growth thereafter. In fact, Global Insight projects that services will grow 2.0% per year in 2003–07. Population in the Nassau-Suffolk metro will steadily increase in the Global Insight forecast. After posting 0.3% year-on-year growth in 2002, the metro will see gradual population growth throughout the forecast duration, rising 0.4% in 2007. The red-hot housing market is expected to cool in the first part of the forecast. After totaling 7,528 units in 2003, housing permits will contract to 7,248 units in 2004. The resurgent economy and steady population growth will fuel the growth in housing permits. In 2007, housing permits will total 8,080 units.

Economic Structure
Nassau has historically been a center for defense-related manufacturing; consequently, durable goods manufacturing formed the base of its economy. The prominence of durables manufacturing has decreased, however, and recent defense-related cutbacks have accelerated the erosion in durables manufacturing employment. While the aerospace and defense industries contracted, though, biotechnology, communications, electronics, computer software, and other high-tech industries boomed, increasing the diversity of the metro area’s manufacturing sector. About 84,000 metro-area workers were employed in high-tech industries in 2000, accounting for 6.9% of payroll employment.
In the News

- The state’s Employment Development Department and Contra Costa Times reports the following mass layoff actions for the fourth quarter: Pacific Sun Industries will shut a food processing factory in Hayward, eliminating over 400 jobs; Wakuesha Electric Systems reduced jobs by 400 in Milpitas; Smart Modular Technologies will cut over 200 jobs in Fremont; and Untleigh USA will cut 200 airport security jobs.

Business Monitor for Oakland, CA

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Note: For definitions, please see appendix at back of book.
Recent Performance

Oakland’s job losses, 0.6% in September 2002 versus a year ago, were slightly greater (worse) than the state’s 0.4%, and ranked 151 of 251 nationwide metro areas. The metro has lost 11,000 jobs since the beginning of 2002, with all sectors, save finance and government, contracting. The city this year managed to avoid layoffs or a furlough of city workers. Instead, the city froze 137 vacant positions, and will raise fees for garbage pickup, library programs, and other city services. The city council also adopted a plan to force workers earning more than $50,000 a year to take six to eight unpaid days off, but some union representatives have said that employees may refuse to comply.

Oakland participated in the Bay Area’s recently booming economy, as capacity constraints and rising costs in San Francisco and San Jose prompted growing companies to consider long-neglected urban centers in the East Bay. As a later subscriber to the dot-com frenzy, Oakland did not enjoy the skyrocketing economic gains of some if its neighbors, but it is also better insulated now that the giddy gains have turned to woes. Total employment growth did not turn negative until the fourth quarter of 2001. The manufacturing sector took a big hit from the downturn in high-tech manufacturing in 2001, contracting by almost 10,000 jobs, but has stabilized in 2002. The biggest loser in 2001 was business services, which reversed its 11.1% employment gain in 2000 to decline 5.8%. Job losses have continued this year, but at only a 3% rate.

Performance Outlook

Employment growth will rise to 0.9% this year, but rebound in 2003 and reach 2.0% in 2004. For the longer term, Oakland will not bounce back as high as before; average annual gains will be limited to 1.5% in 2005. Oakland’s continued role as a cheaper alternative to San Francisco will help the city when growth begins to revive again.

Economic Structure

Located on the eastern side of San Francisco Bay, the Oakland metropolitan area includes Alameda and Contra Costa counties. Often referred to as the “East Bay,” the Oakland metro area is an important link in the Bay Area economy. Its industrial base ranks as one of the most diverse in the nation, with high concentrations of employment in magnetic- and optical-recording media, chemicals, petroleum products, containers, and medical instruments. Alameda has transformed itself from a military town into “Silicon Island,” with a fruitful mix of software, biotech, and telecommunications companies.

Wholesale trade and distribution activities are significant in the Oakland metro area, reflecting its extensive port, rail, trucking, and airport facilities. As an emerging intermodal transportation mecca, the Port of Oakland serves more than 9.8 million passengers and handles more than 950 million pounds of cargo annually. It is ranked eighth in the United States, and annually handles 12% of West Coast cargo.
In the News

- The stalled plan to build a new stadium in Newark for the New Jersey Nets and Devils sports teams may have received a shot in the arm from Newark's City Council, which has approved a measure creating a new lease with the Port Authority of New York and New Jersey for the city's airport. Besides annual lease payments, the deal gives the city $265 million to help pay for its share of the costs for the arena.

Business Monitor for Newark, NJ

Job Performance (2001:3 - 2003:3) x x
Per Capita Personal Income (2002) xxxx x
Avg. Unemp. Rate (2001:3 - 2003:3) xx xx
Diversity Index (2002) x x
High-Tech Location Quotient (2002) x x
Housing Affordability (2002) x
Top ( x x x x x )
Average ( x x x )
Below Average ( x x )
Bottom ( x )

Note: For definitions, please see appendix at back of book.
Recent Performance
A city already struggling towards solid footing in the best of times, Newark could not help but be deeply affected by the national economic downturn. But the metro’s growth in recent years has left it better able to cope with recession. Newark’s relatively low-cost environment has been a catalyst in getting the local economy back on track; boosted by a strong national economy, construction, pharmaceuticals, telecommunications, and financial services became major industries of growth, and increasing investment in high-tech sectors buoyed support for research and development—especially in the fast-growing Morris County area. For its part, the core city of Newark has finally begun to shed its rundown, crime-ridden image, and is emerging as a less-expensive alternative to New York City.

The result of those developments is a modest stability: the services, trade, and finance sectors remained very stable in the first nine months of this year, and services and trade had even managed to add some jobs by September. The transportation sector has been hurt by the crisis in the airline industry because Newark International Airport is a major employer, but the continuing strength of the metro’s thriving port boosted this sector. The government sector has also been a good source of job growth this year, despite the state and metro’s budget troubles. A major source of job losses, not surprisingly, is the manufacturing sector, which is suffering in nearly all of its component industries. Close to 4,000 workers were laid off in manufacturing alone in the first nine months of the year.

Performance Outlook
This year, Newark will suffer its first annual employment decline since 1993. The metro economy will be weighed down by a steep 7.3% contraction in manufacturing employment, and though growth in services, trade, and construction, and finance is stable, that strength is not enough to counterbalance manufacturing’s decline. Newark will return to employment growth in 2003, though, as a rebound in personal income drives gains in services, and recovery in the national economy begins to revive the manufacturing sector. Newark’s lower office rents and proximity to New York City will sustain an influx of new businesses into the area over the next few years. The metro’s rebound will peak in 2004, and thereafter, employment growth will taper off into smaller but measurable gains. Unfortunately, the metro area still faces several challenges, such as sluggish population increases that will keep growth in check, and a lack of qualified workers that could force potential employers to look elsewhere for expansion.

Economic Structure
Employment in Newark is heavily concentrated in the services and transportation industries. Newark International Airport and the ports of Elizabeth and Newark anchor the transportation sector. Manufacturing and trade constitute a smaller portion of the local economy than the national average. Much of the metro area’s retail-trade activity is lost to the Bergen-Passaic metropolitan area, which is widely recognized for its numerous malls and retail areas. While Newark’s infrastructure could easily accommodate higher trade employment, it cannot compete with neighboring Bergen-Passaic’s well-established retail industry. As a result, Newark has the fourth-smallest proportion of retail-trade employment (13.8% in 2000) among Global Insight’s Top 114 metro areas.
In the News

- Autoliv, Inc. of Sweden is closing its airbag manufacturing facility in Aurora by the end of next year, eliminating 500 jobs. Production of airbag components will be shifted to operations in Utah.
Recent Performance

The combination of negative effects from the national recession, the technology bust, declines in tourism, and job losses in the transportation sector pushed Denver’s once-thriving economy into a sudden decline. Since the terrorist attacks on September 11, 2001, local employment has declined in every month through October 2002. Total non-agricultural employment declined by 1.3% year over year (y/y) in October 2002.

Since manufacturing jobs account for a smaller-than-average share of Denver’s employment, the job losses that have taken place have been centralized in the private service producing sectors. Nearly 5,000 jobs were cut from the metro’s service sector in the year ending in October. The hard-hit travel industry, which has hubs in Denver, and the beleaguered communications industry accounted for a 5.5% y/y decline in transportation, communications, and public utilities (TCPU) jobs in October. United Airlines recently announce an additional 9,000 job cuts, which could further affect the company’s employment levels in Denver.

Manufacturing employment continued to dive through 2002, with employment levels in the sector at an all-time low. Technology and telecom equipment makers are feeling the effects of the slumping markets that have persisted in the industry for nearly two years. Auto parts maker Autoliv is closing a plant in the metro by the end of next year, shifting the work to Utah.

Performance Outlook

Denver’s employment decline is expected to last through 2002, after which the economy should grow modestly in 2003 with 1.2% growth for the year. The metro is expected to post average annual employment gains of 1.5% in the five-year forecast period between 2003 and 2007. Manufacturing employment will flounder throughout the forecast horizon as the sector’s importance in the metro economy wanes. Service sector job expansion will be the strongest impetus to future employment growth, offsetting sluggish TCPU, finance, and trade employment growth. Construction employment will not see positive year-on-year employment growth until the second half of next year due to an over-supply in both residential and commercial real estate. Infrastructure will provide the only outlet to stem near-term job losses in the sector. From 2003 to 2007, employment in the construction sector is forecasted to grow just 0.8% annually.

Economic Structure

Denver is a major regional center for business services, finance, transportation, and energy. The metro area’s well-educated workforce provides labor for concentrations of computer software, engineering, architecture, and management consulting firms. Furthermore, the value of assets managed by Denver-based mutual-fund companies ranks third in the nation (after Boston and New York).

Denver has been at the center of the synergistic development of high-tech manufacturing, software, telecommunications, and cable-television industries along Colorado’s Front Range, which stretches from Fort Collins in the north to Colorado Springs in the south. Dubbed “Communications Valley,” this cluster of industries has replaced oil and gas as one of the driving force in the local economy.

Manufacturing accounts for only 7.9% of total local employment (versus 14.4% nationally), and is split between non-durable goods—printing, food processing, rubber, and plastics—and high-tech, defense-related durable goods. More than 7,000 local workers are employed in the production of guided missiles and space vehicles, over 15% of national employment in this sector. Denver also has large concentrations of telecommunications, electromedical, and X-ray equipment manufacturers.