INTRODUCTION

As the focal points of economic activity, metropolitan areas are vital to the nation’s economic development. While states are defined by geographic and political boundaries, metro areas are shaped by economic activity, sometimes across state or national borders. 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. Today, metro areas generate more than 80% of the nation’s employment, income, and production of goods and services. When metro areas struggle, however, business development slows and the national economy follows.

THE RECENT PERFORMANCE OF METROPOLITAN AREA ECONOMIES

The U.S. experienced a mild recession in 2001, followed by a mild, sluggish, and jobless recovery in 2002, which has persisted into early 2003. Though Gross Domestic Product expanded through 2002, employment continued to fall. Global Insight forecasts that job gains will finally occur in late 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, since the labor force naturally expands over time, the rate of unemployment will not begin to fall until job growth reaches a 1% rate. Until the nation’s metro areas recover and start adding jobs, the US will not be able to escape this jobless recovery. The non-metropolitan portion of the country provides only 16% of the total employment in the US economy; this small fraction cannot jumpstart the entire nation. In 2002, the top metros lost 1.15 million jobs, 91.6% of all job losses in the nation. Until the locomotive of the US economy revives, the nation will be stalled.

Metro areas account for over 84% of national output, driving the economic performance of the nation as a whole. Of the 319 metro areas, 294 showed growth in inflation-adjusted output in 2002, but only 43% grew faster than the national average. In total, metro areas only grew by 1.8% after inflation in 2002. Non-metro area growth was faster than metro area growth in 2002, as the total economy expanded by 2.4%.

Metro areas accounted for 85.6% of production of goods and services in 2002, the same as in 2001. Over the past 10 years, metro economy output increased from $5.2 trillion to $9.1 trillion, an average annual increase of 5.6%. The share of the nation's output accounted for by metro economies increased from 84.5% in 1992 to 85.6% in 2002. 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 87.3% of national activity in 25 years, up 1.7 percentage points from 2002.
Due to the recession, the nation’s metro areas shrank in employment, down 1.0% in 2002. Aided by strong productivity, Metro area nominal Gross Metro Product (GMP) advanced by 3.1% last year, and inflation-adjusted output gained 1.8%, both of these were weaker than the national aggregation of the states economies of 3.2% and 2.1%.

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

As mentioned earlier, 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, unlike 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 also 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 of transportation infrastructure concentration.

Because of all of these advantages, metro areas are the core of new industry development. Metro areas are crucial for the rise of innovation and invention and allow for higher wages than non-urban areas. Developing 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.
- Knowledge spillovers create an environment in which ideas move from person to person and from firm to firm, improving productivity and quality of life.
- 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.

Metros are among the very highest in terms of new ideas and creativity in the United States. A Federal Reserve study determined that metro areas developed and patented far more per person than non-urban areas. The simple factor of having many people work in close proximity to one another was a significantly positive attribute, and contributed to greater innovation and higher productivity. Of the top 50 metros in patents per 10,000 persons (per year in the 1990's), San Jose, CA was first with 17.6 Patents per MSA. Seven California metros made the top 50 list, the most of any state. Metros with computer, software, or other high tech or research parks ranked high on the list. Examples of these include Boulder, CO; Rochester, MN; Austin, TX; Raleigh, NC; and Boston, MA. Manufacturing centers did as well. The automobile industry helped place Ann Arbor 9th, and two other heavy Michigan vehicle assembly centers made the top 50 as well—Seattle, WA, and Rockford, IL—as manufacturing contributed many patents for those metros.

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. When compared to international economies, metro areas rank among the top global economies. If metro areas were countries, 48 of the 100 largest economies would be metro areas. Due to the recession of 2001, several metro areas slipped in the international rankings in 2002. The New York metro area fell one spot, becoming the 14th largest economy in the world, as Brazil moved into its former place. Los Angeles-Long Beach, CA moved from the 15th to the 16th largest global economy, as the Netherlands reclaimed its 2000 rank. Chicago, and Boston, remained unchanged at 18th and 22nd, respectively. Washington, DC surpassed Argentina this year as that country’s severe recession dropped it from 21 to 57, but Washington still slipped one spot to 25th, as both Belgium and Sweden climbed past it.

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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.

Within a particular state, a single metropolitan area often dominates the state’s economy (See Table 6 in the Appendix). 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 70.0% of Arizona's employment and 72.0% of gross state product. In Illinois, the Chicago metro area produces 71% of the state’s output and employs 70% of the workforce. 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 109.7 million workers were employed in metro areas in 2002, or 84.2% of national employment. The total value of goods and services produced in metro areas last year was $9.1 trillion, 85.6% 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.

**FIGURE 2: MOST ECONOMIC ACTIVITY OCCURS IN METRO AREAS (2002)**

<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>233</td>
<td>56</td>
<td>289</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>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jobs &amp; Output</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (Millions)</td>
<td>109</td>
<td>21</td>
<td>130</td>
</tr>
<tr>
<td>Share of US</td>
<td>84%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product (Billions)</td>
<td>$9,085</td>
<td>$1,533</td>
<td>$10,618</td>
</tr>
<tr>
<td>Share of US</td>
<td>86%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>High Value-Added Employment Sectors</th>
<th>Metro Areas</th>
<th>Rest of United States</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services (Thousands)</td>
<td>6,995</td>
<td>715</td>
<td>7,710</td>
</tr>
<tr>
<td>Share of US</td>
<td>91%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Transportation &amp; Utilities (Thousands)</td>
<td>5,890</td>
<td>902</td>
<td>6,792</td>
</tr>
<tr>
<td>Share of US</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

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. In 2002, 91% of financial services employment and 87% of transportation, communications, and utilities sector employment were located within metropolitan areas. The financial services sector had the highest level of output per employee last year, $270,335. Financial services companies choose to locate in metro areas for proximity to major securities and commodity markets and
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.

Most of the economic gains made in the United States are generated in metro areas. From 1995 to 2000, the US economy added 14.6 million jobs, with 13.0 million (89%) of those 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 in 2003 will be less than it was in the late 1990s, but still accounted for the vast majority of new jobs. As metro economies recover later in 2003 and into 2004, their share of new jobs will begin to climb towards late 1990 percentages.

**Figure 3: Most Economic Gains Are Made in Metro Areas As Were Most Job Losses (Additions to US Economy, 2002)**

<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>2,790</td>
<td>272</td>
<td>3,062</td>
</tr>
<tr>
<td>Share of US</td>
<td>91%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Jobs &amp; Output</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment (Thousands)</td>
<td>-1,095</td>
<td>-162</td>
<td>-1,257</td>
</tr>
<tr>
<td>Share of US</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product (Billions)</td>
<td>276</td>
<td>51</td>
<td>327</td>
</tr>
<tr>
<td>Share of US</td>
<td>84%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>High Value Added Employment Sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Services (Thousands)</td>
<td>5.7</td>
<td>2.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Share of US</td>
<td>70%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Transportation &amp; Utilities (Thousands)</td>
<td>-221</td>
<td>14</td>
<td>-207</td>
</tr>
<tr>
<td>Share of US</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

**Income Creation**

Most of the nation’s labor income is also generated by metro area economies. In 2002, metro area workers earned $4.51 trillion in wages and salaries, while non-metro area workers earned $595 billion. Metro area economies also create more income per person than non-metro areas, as higher wage jobs are typically located in urban areas. Last year, the average metro area worker collected $40,400 in wages and benefits, while the average non-metro area worker earned $25,400, a difference of $15,000 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 $4,800. Figure 4, 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.
GENERATING NEW INDUSTRIES

With few exceptions\(^2\), most major industries in the United States started in cities, including automobile manufacturing (Detroit), television broadcasting (New York), and personal computer manufacturing (San Jose). Metro areas provide new industries with crucial amenities—a diverse and ample supply of labor, financial and physical capital, access to national and international markets, a local base of technical knowledge—that are essential for their initial development and eventual success. As an industry matures, technological advances often allow companies within that industry to move to non-urban locations. As a consequence, newer, faster-growing industries tend to cluster within metro areas, while older, slower-growing industries are less tied to urban locations.

Figure 5 shows that two of the fastest-growing segments of the U.S. economy, high-tech and business services, are almost entirely concentrated within metro areas. These two sectors of the economy contain some of the nation’s newest and most innovative industries, including computer hardware, computer software, telecommunications equipment, optical instruments, Internet publishing, and management consulting. Despite the recent dot-com bust and telecommunications slowdown, it is still desirable to have these fast-growing industries in a metro area. However, maintaining a high level of diversity will help to insulate a metro area from sector-specific slowdowns that do occur.

\(^2\) The major exceptions are resource-extraction industries (e.g., forestry, coal mining, oil drilling), which are tied to the geographic location of a particular natural resource.
THE FEDERAL TAX CUT AND STATE DEFICITS

The federal government is cutting taxes in the second half of 2003, releasing approximately $60 billion dollars into the national economy. This fiscal stimulus was included in all of our national & state forecasts. All other things being equal, the tax cut will have a stimulus effect upon the country by creating jobs. However, the individual state budgets must be balanced, too, as they are in significant deficit. In aggregate, the states' deficits are projected to top $5.9 billion in FY 2003 and $83.1 billion in FY 2004, and the proposed cutbacks in service or state tax hikes would mitigate some of the federal tax stimulus. Fortunately, the federal tax cut includes aid to the states that will ameliorate this nationwide give and take between the tax cut and state budget deficits. However, this policy action, while attempting to solve the push and pull forces at the state and federal level, is ignoring the exact same dilemma presented at the local level. The local governments are faced with the same problems as the state governments, for example, New York City is reported to be faced with a $4 billion shortfall, but no plan as yet has been drawn up to provide stimulus to the metro economies. Without any aid to the metro economies, the cutbacks in services or taxes raised will slow the national economy's progress. In order for all three branches of government to be pulling the economy in the correct direction, federal, state and local, need to be providing stimulus.
METROPOLITAN HOUSING MARKET AND INDUSTRY

METRO AREAS DOMINATE THE RESIDENTIAL HOUSING MARKET

Just as the metro economies generate the vast majority of gross output and employment in the National Economy, most housing market activity also occurs in the metro areas. Metropolitan areas are where people prefer to live and are growing more rapidly than the rest of the United States. In the mid 1990’s, 81% of residential permit and building activity occurred in metro areas, and in the last four years that share has increased to 83%.

FIGURE 6: MOST PERMIT AND BUILDING ACTIVITY OCCURS IN METRO AREAS

Appendix Table 10 lists all the 50 states in the US and the metro areas within each state. The metros are listed in descending order according to the number of single family housing permits issued in the metro in calendar year 2002. The far right column indicates the growth (or decline) in permits from 2001 to 2002. Some of the smaller metro areas experienced very large growth in permits issued, in fact a doubling of permits occurred in three small metros—Grand Forks, Decatur, and Florence. Among the largest 100 metro areas, where normally the size of the metro tends to smooth some of the volatility seen in the smaller metros, the fastest growing was Ocala, Florida, up 95% from the year prior. Ocala was followed by Little Rock, AR (58%); Stockton, CA (41%); and Orange County, CA (38%). Orange County, one of the nation’s 20 largest metros, grew by 11,800 permits in 2002. Typically, very large metros such as Orange County are constrained by limited land availability and cannot achieve high growth rates, making this achievement all the more noteworthy. The housing market was one of the few strong performers for the national economy in 2002. Without the continued resilience of the housing sector, which was aided by low interest rates, the economy would have sunk into a significant recession. In 2002, 229 metros had higher permit levels than 2001, while 92 metros saw no growth or an outright decline in permits compared to the prior year. Of the 100 largest metros, the bottom ten performers included San Jose (-22%), Denver (-20%), and Raleigh-Durham (-17%).
**HOUSING MARKET IS A PRODUCTIVITY LEADER**

Using proprietary housing market data, Global Insight calculated that nationwide, 6.1 million persons were employed in the residential housing market in 2002. (See Definitions section of the Appendix.) The majority of these employees were in the construction market as carpenters, electricians, plumbers, painters, and other related jobs. The manufacturing of mobile homes and the prefab parts used in home building only accounted for 6% of employment, and logging was only half of one percent. The remainder of the workers were in the financial sector of the economy as real estate operators, agents, and title search firms. See Figure 7, below.

![Figure 7: Housing Market Employment in 2002 (Thousands)](image)

Of these 6.1 million workers, 5.3 million, or 86%, worked in metro areas. Most of the non-metro area employment was in low-paid positions such as the vast majority of the logging jobs. By contrast, 90% of the best jobs in terms of higher wages and dramatically safer workplaces, real estate employment, were located in metros.

Housing activity is a productivity-producing generator. The housing market is able to produce output (sales) two and a half times its relative employment. On average throughout the economy, every 1% of employment ought to produce 1% of sales in the economy. The housing market, with only 4.5% of total employment, generates 11.9% of total sales, a ratio of 2.6. Figure 8, below, illustrates this point.
Throughout the recession of 2001 and the jobless recovery of 2002, this productivity generating sector has remained one of the few pillars of the economy. Housing prices continued making gains the past two years as money was diverted from the stock market and entered the real estate sector. Additionally, low interest rates helped propel new housing starts across the nation. Without the vibrancy of the housing market, the recession of 2001, which in terms of GDP loss was a very mild recession, would have become a far more consequential recession and layoffs would have been far greater.

As illustrated in Table 10 (Appendix), a downturn in permits, and by extension residential construction activity, is in store for the nation’s metros in 2003. Global Insight’s metro forecast shows single family permits dropping by 3.4% this year, whereas the rest of the nation will have permit growth in 2003. This drop will not extend to housing prices, Global Insight’s price forecast has price acceleration only moderating. As construction activity slows, other sectors of the metro economy will have to generate additional activity to make up for the loss.
REVIEW OF THE 2002 TOP 20 METROPOLITAN ECONOMIES

The top 20 metro economies generated $3.8 trillion in gross output in 2002. This accounted for 42% of total metro area output, and 36% of national output. Output in the top 20 metro areas grew by 2.6% in 2002, as the national recession retarded growth across the entire economy.

FIGURE 10: TOP 20 METROS 2002 GMP
RANKED BY 2002 GROWTH

<table>
<thead>
<tr>
<th>Gross Metropolitan Product</th>
<th>2001</th>
<th>2002</th>
<th>% chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego, CA</td>
<td>118.5</td>
<td>125.0</td>
<td>5.5%</td>
</tr>
<tr>
<td>Phoenix-Mesa, AZ</td>
<td>119.0</td>
<td>124.9</td>
<td>4.9%</td>
</tr>
<tr>
<td>Orange County, CA</td>
<td>143.7</td>
<td>150.7</td>
<td>4.8%</td>
</tr>
<tr>
<td>Nassau-Suffolk, NY</td>
<td>108.9</td>
<td>113.7</td>
<td>4.5%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach, CA</td>
<td>395.0</td>
<td>411.0</td>
<td>4.1%</td>
</tr>
<tr>
<td>Washington, DC-MD-VA-WV</td>
<td>227.8</td>
<td>236.5</td>
<td>3.8%</td>
</tr>
<tr>
<td>Oakland, CA</td>
<td>101.8</td>
<td>105.5</td>
<td>3.7%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>179.4</td>
<td>185.4</td>
<td>3.3%</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>258.7</td>
<td>266.9</td>
<td>3.2%</td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>99.8</td>
<td>102.6</td>
<td>2.8%</td>
</tr>
<tr>
<td>Philadelphia, PA-NJ</td>
<td>187.5</td>
<td>192.3</td>
<td>2.5%</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>174.0</td>
<td>177.9</td>
<td>2.3%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>342.1</td>
<td>349.5</td>
<td>2.2%</td>
</tr>
<tr>
<td>Minneapolis-St. Paul, MN-WI</td>
<td>126.3</td>
<td>128.9</td>
<td>2.1%</td>
</tr>
<tr>
<td>Newark, NJ</td>
<td>101.1</td>
<td>103.0</td>
<td>1.8%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>159.6</td>
<td>161.7</td>
<td>1.3%</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>164.7</td>
<td>166.9</td>
<td>1.3%</td>
</tr>
<tr>
<td>Seattle-Bellevue-Everett, WA</td>
<td>119.9</td>
<td>120.9</td>
<td>0.9%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>445.5</td>
<td>448.9</td>
<td>0.8%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>113.1</td>
<td>110.6</td>
<td>-2.3%</td>
</tr>
</tbody>
</table>

Top 20 Metros                                  | 3,686 | 3,783 | 2.6%  |

The jobless nature of this 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. 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 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 illustrates the way the structure 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 in 2003 will vary in the top 20 metro economies, from six places that will continue to lose jobs compared with 2002, to a 1.6% gain in Phoenix. Average annual job growth in 2003 for the top 20 metro economies will be a scant 0.1%. This positive growth rate assumes a strong pickup in national growth during the second half of 2003, due in part to fiscal stimulus in the recent tax cut. If a strong second half recovery does not materialize (35% probability), the top 20 metros will not break even for the year. With the labor force expected to grow slightly faster, the unemployment rate will creep up in the middle of the year before coming back down to present rates.

The 2001 recession was initially concentrated in the manufacturing and high-tech industries, and these sectors will also be the last to recover, due to the massive over-capacity present there following the high tech boom of the late 1990’s. Global Insight’s forecast for the top 20 metros is for further job losses in manufacturing in 2003. Seattle will lose over 5% of its manufacturing employment in the current year as the transportation-equipment sector continues to contract. Metros such as San Francisco, Detroit, New York, and Boston will see further job erosion for much of this year due largely to manufacturing losses.

Concerns about the war in Iraq, terrorism, and SARS will lower transportation employment by 1.4%. Eighteen of the top 20 metros will lose jobs in this sector; the nation’s 20 largest metro areas are by definition transportation hubs, and many of these cities are also major hubs for the largest of the airline fleets. Tourism will suffer in all these metros, and when combined with Asian difficulties and SARS, Global Insight forecasts San Francisco’s TCPU (transportation, communications, and utilities) sector to shrink by 3.6%, the most of any of these metros.

Construction is a mixed picture. In aggregate, the sector will shrink by 0.6%, but only 13 metros will contract, while 7 others expand. Minneapolis, Detroit, San Francisco, and Philadelphia shrink by more than 2%, while Phoenix grows by more than 2%. Trade is another mixed outlook, flat for 2003 as 9 metros shrink and 11 expand. If the dollar continues to depreciate further, this could be a chance for future growth in 2004.

The federal government will stimulate the economy with its tax package and by adding federal workers to its payrolls. Total government employment in 2003 is positive, as federal jobs are being added faster than state and local jobs will be cut. In 2003, Global Insight predicts 0.9% job growth in that sector. Several metro areas are benefiting from increased spending, public and private, on defense and security post 9/11. These include Dallas and Atlanta, allowing those places to return to low but positive job growth rates. Four metros (New York, San Francisco, Los Angeles, and Boston) face extreme budgetary challenges. In these metros, the combination of state and local layoffs will more than offset the additional jobs being added on the federal level, and therefore total government employment will shrink.

Financial service is another growth sector, as the housing sector remains buoyant and interest rates remain low and even the stock market shows improvement. In 2003, 18 of the top 20 metros will experience employment gains. They will be modest, however, as the sector in aggregate will expand only 0.5%.
The US national economy is becoming increasingly dominated by the service sector. This secular trend will continue in the 2003 recovery as service employment grows more rapidly than any other industry category. In 2003, 17 metros should add service jobs and expand 1.0% across the board. In San Diego and Phoenix, a sharp rebound in growth in tourism and other service sector jobs as well as improving trade prospects for these metros as the dollar depreciates, places them as the fastest growing large metros in the country.
In the News

- Moody’s Investors Service is planning to move 130 workers from lower Manhattan to Jersey City, New Jersey. The move is largely due to a $6.9 million incentive grant from New Jersey. The spokesperson for Moody’s implied that more job relocations are possible since the company is planning to move analytical and support staff. New Jersey plans to give $45 million in relocation incentive grants to financial services and technology firms. (June 2003)
Recent Performance

The New York metro is slowly trying to rebound from a 2002 that yielded a 2.8% drop in total non-agricultural employment. Recent data show that New York employment fell 1.2% (47,500 jobs) year over year (y/y) in April. This ranked the metro 199th out of 250 reporting metros in this category. Manufacturing continued its slide with a 6.7% y/y contraction in April. Service-providing sectors contributed the most to New York's year-earlier decline, falling by 37,300 workers. Information, financial, and business services collectively did the most damage, with a 39,500 worker loss in April. The financial sector continues to struggle to get on track. Although the stock market has recently made some strides, the current status of the economy makes job losses in finance and business services a certainty. Government employment dropped by 8,400 positions (1.3%) in April. Job cuts in this sector were expected, however, since New York’s Mayor Bloomberg announced the need to close the $3.3 billion budget gap facing the city. Employment in construction and mining rose by 1.1% (1,600 workers) y/y in April. Building permits continue to record strong growth in New York. Year-to-date building permits are 22.2% higher than a year ago, buoyed by the low mortgage rates.

The 7.8% May unemployment figure for New York places the metro 256th out of 291 metros. The current unemployment rate is 0.3 point higher than the April 2002 figure. The number of unemployed persons rose by 12,400 people while the labor force contracted by 33,800. The declining labor force could be evidence of an increased amount of discouraged workers that have stopped searching for employment.

Performance Outlook

The Global Insight forecast indicates that the New York metro will see its total non-agricultural employment decline once again in 2003. Total non-agricultural employment is expected to decline by 0.4% in 2003. After recording a 1.2% drop in the first quarter, however, non-agricultural employment will make gradual improvements throughout 2003 ending with a 0.5% increase in the fourth quarter. The employment rebound will continue in 2004, and peak at 1.4% in 2005. After slowing in 2006 and 2007, total employment is forecasted to surge again at 1.2% y/y in 2008. Services will be a large part of the New York rebound. After a 1.6% contraction in 2002, services is projected to log a 0.3% gain in 2003, and average 1.5% annual growth from 2003 to 2008. Business services will rebound in the latter half of 2003 and carry that momentum into the rest of the forecast period. In addition, health services is expected to benefit from increased wages caused by a shortage in the employment sector. Signing bonuses and increased wages should lure workers into health services and keep the sector growing throughout the forecast period.

Manufacturing employment, meanwhile, is expected to improve in the first half of the forecast period. After quarter upon quarter of negative growth, manufacturing is projected to bottom out in 2003, shrinking by 3.3%. In 2004 and 2005, however, manufacturing is forecasted to see 0.5% increases. The projected gains will be due to a stronger economy in conjunction with a bottoming out in the sector's employment, which may slow wages enough to spur hiring. The remainder of the forecast period is expected to feature a slowing economy that, coupled with increasing manufacturing wages, will cause the sector to once again dwindle. Manufacturing will end the forecast period with a 0.8% drop in 2008.

Government employment will suffer through a 2003 that is expected to produce a 1.5% year-on-year drop, or 9,750 workers. Government employment will gradually increase and reach its 1.2% pinnacle in 2005. The sector's growth will moderate after that, to just 0.5% in 2008. Falling tax revenues and elevated expenditures caused the budget woes.

July 2003
and subsequent government job cuts in New York. Relatively slow personal income growth will limit the metro’s tax revenues this year. Personal income will rebound thereafter, however, climbing at a 4.7% compounded annual rate during 2003-08.

**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-Long Beach, CA**

**In the News**
- The County Board of Supervisors approved a long-awaited, long-debated, Newhall Ranch development plan. The proposed new community would ultimately include up to 20,000 housing units north of Los Angeles. The Board’s approval is a major step in the process, but other local permit and environmental regulatory obstacles still need to be overcome. At best, construction would begin in 2006. (June 2003)

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**Business Monitor for Los Angeles-Long Beach, CA**

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

Los Angeles-Long Beach experienced a mild dip into negative employment growth last year with an annual 1% contraction. During this recent recession, the metro benefited from its economic diversity—no reliance here on Internet and dot-com companies like its neighbors to the north, or on biotechnology firms as San Diego to the south. Yet this same diversity has meant the accumulation of less relative wealth and job gains in recent years, and it also means that Los Angeles-Long Beach is without an economic engine with which to jumpstart growth. The first quarter of 2003, which was a recovery period for most metros, was economically weak for LA. In March, the metro posted -0.6% unseasonally adjusted job growth, ranking it 176th out of the 250 largest metro areas. The unemployment rate has also remained quite high, at 6.3% in May.

The manufacturing sector has been a major source of weakness for Los Angeles-Long Beach, as elsewhere. The construction industries are being hurt by a decline in commercial construction as builders wait until the economy improves, although public building projects have kept the sector from completely slumping—particularly a local highway project. The service-producing sectors have not picked up much of the slack; the transportation sector is scrambling to recover from airline industry troubles, and the services sectors have provided only minimal gains. Health services, and leisure and “other” services have been the source of most job gains recently.

Performance Outlook

The Los Angeles-Long Beach economy will finally clamber back to job growth in the third quarter of 2003. Gains for the year will be essentially flat, however, as the metro works its way slowly back to economic health. By 2004, Los Angeles-Long Beach will be in a more stable position, although over the next five years annual job gains will only average 0.7%. While congestion and high costs will continue to plague the region, Los Angeles-Long Beach’ 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. Unlike a decade earlier, when it abruptly collapsed, the aerospace industry 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. Services is the linchpin of the LA economy, and that sector will carry the metro with its growth over the forecast period.

Economic Structure

The Los Angeles-Long Beach metro area 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-Long Beach. 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-Long Beach 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-Long Beach 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.
In the News

- Low-fare carrier AirTran Airways placed an order for as many as 110 new Boeing narrow-body jets, a big win for the commercial aircraft manufacturer during the ongoing slump in the sector. AirTran placed an additional order for up to ten Boeing 717 aircraft, adding stability to a production line that was in danger of closing down due to low demand after the September 11, 2001 attacks. (July 2003)

Global Insight

Business Monitor for Chicago, IL

Job Performance (2002:1 - 2004:1) x x x
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Note: For definitions, please see appendix at back of book.
Recent Performance

Chicago’s economy has been sending mixed signals recently. After posting positive employment gains in January it started losing jobs again for the next three months. The problems in manufacturing, retailing, aviation industry, and financial services continued during the first four months of the year, and have led to a further decline in Chicago’s total employment over the period. For the 12 months ending in April, total employment decreased by 25,800, or 0.6%. Manufacturing continued to be the weakest sector, shedding 19,700 jobs over the period, a 3.9% decline. One could argue, though, that there is some moderation in the job losses in the sector, especially compared with the 6-7% declines of last year. The latest reading of Chicago purchasing managers’ index was positive, too, rising from 47.6 in April to 52.2 in May. The number above 50 indicates growth in the manufacturing sector, and it may be an early indication of a reversal in the negative trend. Because Chicago has a diversified economy with manufacturing providing only 13% of total employment (roughly at the national average), the difficulties in manufacturing are having relatively mild effects on the city’s economy.

For the 12 months to April, the services-providing sector lost 3,100 jobs, but this was mostly due to the weakness from last year. The sector’s employment in April was the highest since the end of last year. Most of the segments within this sector posted losses of 2,000 to 3,000 jobs over the year to April, except for education and health services, which grew by 7,400 jobs. Government employment shrank by 2,900 over the period, reflecting the shaky state of state and local finances. The unemployment rate was 6.1% in May.

Performance Outlook

Chicago’s economic growth is slowly gaining momentum. After a weak 2002, the situation should improve significantly this year, especially during the second half of the year. The May reading of the Chicago purchasing managers’ index was an indication that the manufacturing sector may be turning around, and the labor market developments before the war in Iraq are saying the same thing for the overall metro economy. Global Insight expects a steady, albeit not very strong, rebound of total employment this year, posting growth of 1.3% by year-end, with virtually all sectors’ employment increasing, except for manufacturing. Services are expected to expand by 1.8% in 2003, while the manufacturing will continue to lose jobs, but a much slower pace than before. Manufacturing employment is expected to decline by about 1%. Over the next five years, services will continue to drive the economy, with average annual employment growth of 1.6% for 2003-08. Manufacturing employment is not expected to ever recover its pre-recession levels of early 2000. Instead, the sector will stop bleeding jobs some time next year and will stagnate (in terms of employment, not output) over the five-year period, reaching a job growth of -0.16%. 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.

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

- Switzerland-based steamship line The Mediterranean Shipping Company is expanding its weekly service to Boston. The additional ships will travel from Boston to New York; Baltimore; Charleston; Savannah; Freeport, Bahamas; Spain; and Italy before returning to Boston. The company is targeting importers and exporters in New England—companies that currently ship cargo to South America, South Africa, Mexico, Australia, and the Caribbean may now use the Port of Boston. (June 2003)
Recent Performance

Although it rode high on the boom of the late 1990s, 2002 was a dismal year for Boston—the worst in over a decade. The metro area economy contracted 2.5% last year, with job losses spanning all sectors. The first quarter of 2003 was better in that the contraction in total employment was not as deep as in the fourth quarter of 2002. 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 overcapacity and a dearth of new venture capital funding. The MSA’s manufacturing firms are still shouldering the burden of depressed economic conditions and unrelenting foreign competition. Manufacturing employment fell by more than 10% in 2002 and continued to contract deeply in the first quarter of 2003. 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 1.6% in 2002, the sector’s first annual decline since 1991. In fact, with nearly every sector in decline last year, Boston faces a difficult climb back to economic health in 2003.

Performance Outlook

Growth in the second, third, and fourth quarters of this year will tug Boston’s annual employment number back towards zero. Although the metro will not experience a net employment gain in 2003, this year will bring economic recovery in the form of job growth led almost entirely by the services sector. The metro will still be constrained by weakness in high-tech, telecommunications, transportation, and manufacturing. The services sector will see payrolls increase, but by less than 1% this year, as the demand for outside business services (such as temporary workers) slowly increases. Employment in the finance, insurance, and real estate (FIRE) sector will also grow modestly, tempered by the ongoing tribulations of the stock market. Job growth in the transportation, utilities, and communications sector will be limited by the overcapacity currently working its way through the telecommunications market, while weak global markets will continue to depress activity among the metro's manufacturing firms, with employment in this sector expected to decline by 3.6% in 2003. Employment growth in the robust construction sector has cooled significantly, although the local real estate market remains strong.

The slow recovery that is underway this year will be in full swing by 2004, and Boston can look forward to two years of solid, if not spectacular employment gains. Overall, employment growth in the metro area is forecasted to average only 0.8% annually from 2003-07, compared with 2.3% in the five years following the last recession at the beginning of the 1990s.

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.
In the News

- As parent firm WorldCom proceeds with its attempt to emerge from scandal and bankruptcy, Ashburn, Virginia-based MCI recently announced it will hire 400 sales representatives specializing in marketing telecommunications services to small businesses in the Mid-Atlantic states and the Midwest. Although many of these new hires will operate from outside the DC metro area, some will be based in Virginia and Maryland. (April 2003)
Recent Performance

The DC metro area added 27,100 net jobs over a year ago, as of April, for a 1.0% gain, and the economy shows signs of mild acceleration from its pace in the latter months of last year. Even its 1% year-on-year employment growth places Greater DC well within the top one-third of U.S. metro areas. (The only two MSAs with an employment base of one million or more currently outperforming DC are Miami and Riverside-San Bernardino, both posting marginally better annual job creation rates of 1.1%.)

The general pattern of economic activity in the metro area since the September 11, 2001 terrorist attacks was a sharp decline immediately following the attacks, signs of recovery in the first half of 2002, another setback later last year, and now renewed growth. Indeed, at this point, the national focus on terrorism and the U.S. engagement in military action play a role in the metro area’s revival. Defense procurement and security-related contracting and consulting have thrown a lifeline to recently struggling technology firms and other enterprises.

The metro area’s employment gains in recent months are entirely on the service-producing side, as its modest-sized manufacturing sector shows a drop of 3,900 jobs from a year ago, a full 5.0% decline, while construction employment has also slipped, although by only 0.8%. Total service-producing employment grew 32,400, or 1.3%, in the year through April. While most broad categories of services show either a modest rise in employment or a flattening out of payroll levels, after a sequence of previous job losses, a few subsectors remain seriously weak. Airline employment in the metro area stood at 13,900 this April, down a full 3,000 jobs from its peak in summer 2001. Telecommunications jobs have dropped from a high of 50,200 in early 2001 to 37,300 in the latest data, although the monthly totals for 2003 actually show a small uptrend. The important subsector of business and professional services employed 585,500 persons as of April, accounting for 20.8% of total payroll positions in metropolitan DC (This number reflects a redefinition of the business services segment under the new NAICS methodology, which categorizes employment by actual job function; thus, the half-million-plus figure includes a substantial number of government employees. Under the newly adopted NAICS rubric, government jobholders whose roles are in administrative work, finance, utilities, engineering, and so forth are counted within the corresponding categories alongside their private-sector counterparts.) In the 12 months through April, business and professional services employment rose by 1.4%, nearly one and a half times the pace of overall job growth in the MSA, while employment at all levels of government rose by an even stronger 2.1%.

That differential in rates shows that, for now, government activity is leading greater DC’s economic recovery. But various mainly private-enterprise sectors have also posted encouraging recent employment data. Financial activities expanded payrolls by 1.4% in the year through April. Employment in retail trade—and in wholesale trade as well, albeit at a softer pace—shows at least preliminary indication of turning the corner from retrenchment to expansion. Of the four newly redefined major categories of service-producing enterprise under the NAICS, the best-performing during the 12 months through April were leisure and hospitality, and education and health services, which added 8,100 and 6,400 jobs, respectively, for a 2.1% increase.

The comparatively good condition of the MSA economy is also observable in unemployment and labor force statistics. The unemployment rate has ticked upward from 3.4% since last November, but returned to 3.4% in May. However, this trend lines up with continuous, and lately strengthening, labor force growth over the same period. In any case, the metro area’s jobless rate remains nearly two and a half per-
percentage points below the U.S. average, which registered 5.8% in May

Performance Outlook

The DC metro area should continue to be one of the nation’s strongest and steadiest nodes of economic activity. The MSA will be a leading driver for both Maryland and Virginia, surpassing the state economies of which it is a significant component in both employment and population growth. In general, our forecast is premised on the current sluggishness giving way to more normal rates of demand growth and job gains by late this year, with full recovery in 2004 and comparatively moderate expansion for the rest of the forecast period. Thus, the 2003 forecast is muted—we project employment in the MSA rising by just 0.7%, equal to the 2002 outcome—but 2004 looks much stronger: with MSA-wide job gains projected at 58,900, or 2.1%. This rate will ease to slightly below 2% in the following years. The personal income performance will roughly parallel the pattern of employment gains. After two soft years in 2002 and 2003, real personal income will increase by just under 4% annually through 2005, and in the mid-to-upper 3% range for the rest of the decade. The income base is already high, too, although adjusted for high business and living costs, Greater DC’s income edge over the nation as a whole and many other metro areas does not necessarily confer a relative advantage. Real per capita yearly income in the MSA is forecast to cross the $50,000 threshold by 2007.

Government will remain a net generator of jobs; but the accelerated expansion in federal payrolls that largely reflected the post-9/11 response is already dwindling. The private rather than public sector will provide most of the hiring momentum in coming years. No individual sector enjoys a stellar outlook; instead, all the major categories should recover, to some degree, from their present or recent troughs. The two sectors in the most tenuous condition are manufacturing and transportation, and even they are projected gain jobs over the forecast period. They will be the slowest to resume expansion, however, and when they begin adding jobs again will do so at a weak rate. Employment gains in trade and finance are projected to track closely the MSA’s overall job growth. The broad services category will be the chief engine of job creation.

Global Insight projects the number of local service sector jobs climbing by 2.8% in 2004, and maintaining annual increases above 2% nearly throughout the forecast period. The other sector in which job growth is forecast to outperform the area’s average by an appreciable margin, both next year and thereafter, is construction. Jobs in services massively outnumber those in construction, however, so services’ role in expanding the employment base is dominant. Between 2003 and 2009, according to the current forecast, construction employment will rise by some 25,000 jobs, while services employment will burgeon by more than 167,000. (The forecast does not yet incorporate the reclassification to NAICS categories. The numbers will differ after an upcoming conversion of the data to conform to the new methodology.)

The DC metro area has a number of sectoral and demographic features that put it in a good competitive position vis-à-vis the average performance projected for the national economy. Among these are a highly educated, technically savvy labor force; the stabilizing influence of the large federal government sector, including major defense contractors; and only minor dependence on the volatile manufacturing sector. As noted above, however, high wage and housing costs act as a deterrent to expansion by some enterprises. Strains on infrastructure—including traffic jams rivaling those in Los Angeles—are a physical and fiscal legacy from recent growth that makes for another potential detriment to the mostly bullish forecast.

Economic Structure

The metro area’s economic structure is unique in that it is largely devoid of a manufacturing sector, although semiconductor fabrication in Northern Virginia, much of which has lately retrenched, did boost the sector near the end of the 1990s. 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. Under the new NAICS (North American Industry Classification System) categories, the broad service-producing segments—information, finance, and business services; education and health services; and leisure and hospitality—together with metro DC’s large government sector, account for more than three-quarters of the MSA's
nonfarm employment. The comparable share for the United States as a whole is slightly over 60%. In general, the NAICS mode of classification revises upward the employment share and economic importance of services-related enterprises, compared with the SIC (Standard Industrial Classification) system it supplanted. Among various aspects of the restructured categorization, employees are classified according to the job tasks they actually perform, rather than under a single sector identified as categorizing the firm they work for. Analysts regard the new methodology as better reflecting the increasing services orientation of modernized (a.k.a. “post-industrial”) economies.

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

- The suburb of Lansdale will lose 195 jobs as Danaher Corp., a gasoline pump manufacturer, consolidates its operations in North Carolina. (June 2003)
**Recent Performance**

Philadelphia has finally begun to climb back out of the economic spiral fueled by the national recession. In 2002, annual employment growth was only slightly negative, at -0.05%. In the first quarter of 2003, year-over-year employment growth held steadily near zero, and the metro seemed to at last be moving towards stable positive growth. In March, Philadelphia’s non-seasonally adjusted -0.1% year-over-year employment growth earned it a ranking of 131 out of the 250 largest MSAs.

The metro’s recovery has been led by its service-providing sectors, which overall, have been gaining jobs since the beginning of the year. Information, finance, and business services steadily gained jobs in the first quarter, as did leisure, hospitality, and other services. The government sector has also been a contributor to job gains in 2003, though still not at the level of last year. The manufacturing sector has ceased rapidly shedding jobs, and is now struggling towards stability. Two previously strong sectors that have slowed are transportation and construction. The metro’s unemployment rate in May was 5.6%.

**Performance Outlook**

This year will bring a resumption of modest job gains, though not enough to boost Philadelphia into a rebound. That rebound will come in 2004, after the metro has achieved several quarters of solid positive growth. Still hindering the metro economy this year is the manufacturing sector, which will continue to shed jobs, though at a slower pace than before. The transportation sector is also struggling, dragged down by ongoing problems in the airline industry. Growth in services will aid the metro’s recovery, and the nascent technology sector—particularly biotech—holds much promise for the state in coming years. 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. Depleted demand for construction will limit gains in what was one of the metro’s hottest sectors in recent years, and while job losses in the manufacturing sector will be limited from 2004 through 2007, the sector will not be a contributor to economic growth.

**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.
**In the News**

- Pharmacy giant Walgreens is closing a Houston distribution center and cutting approximately 500 jobs as a result of size constraints. Work at the center, which was opened in 1967 and became obsolete for the growing chain’s operations, will be shifted to centers in Waxahachie, Texas and Mount Vernon, Illinois. (May 2003)

**Business Monitor for Houston, TX**

Per Capita Personal Income (2002)  
Diversity Index (2002)  
High-Tech Location Quotient (2002)  
Housing Affordability (2002)  
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

Between February 2002 and April 2003, Houston’s economy lost jobs on a year-over-year basis every month. The losses have been steady, but not severe, with a 0.4% year-on-year decline in 2002 and 0.5% in April 2003. Unemployment climbed to 6.7% in May. The lion’s share of the job losses came from the manufacturing; trade, transportation, and utilities (TTU); and information sectors. As in other metros across the country, weakness in the technology, telecom, and airline industries has been a major factor in Houston’s job woes. In addition, the takeover of Houston’s Compaq Computer by rival Hewlett-Packard (HP) last year caused an upheaval of the area’s technology industry. HP continues to integrate both companies while reducing overall business costs, and Houston looks to be in a good position to take advantage of its competitive labor and business costs. A manufacturing plant that produces servers and data storage systems is being relocated from California to Houston. So far, the company has reduced its payroll by 16,600 workers worldwide. More cuts are planned, as are new hires by the end of this year when the entire workforce is expected to number 137,800.

Gains were reported in educational and health services, leisure and hospitality, and “other” services. In April 2003, educational and health services employment increased by 4.2% y/y, and leisure and hospitality jobs increased by 2.6% y/y. The other services sector added 700 jobs y/y in April.

Performance Outlook

Employment in Houston is expected to return to positive growth in the second half of this year, but strong expansion is not expected until 2004-05. Employment gains are forecasted to advance only 0.1% this year, and average 1.0% annually in 2003–07. Service employment growth will lead the recovery, averaging 1.8% annually over the next five years. No gains are expected in the manufacturing sector; declines in employment will average 1.5% per year through 2007. Transportation, communications, and public utilities (TCPU) is not expected to experience positive employment growth until the fourth quarter of this year, averaging less than 1% annual gains through the five-year forecast horizon. The size of Houston’s mining workforce is forecasted to decline by 1,100 jobs by the end of 2007, as Houston’s economy continues to shift away from its energy roots.

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 chemi-
cal 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. Part of the Port of Houston, the 52-mile inland waterway, facilitates service from Houston to over 250 ports worldwide. Nine common carriers offer low-cost barge transportation between Houston and 8,000 miles of mid-continental river system, including the Mississippi River and its tributaries.
In the News

- The Census Bureau reports that the Atlanta metro area picked up 183,143 new residents in 2001, an average of 502 per day. The metro had the fifth-highest number of total in-migrants among the nation’s large metro areas. (June 2003)
Recent Performance

Recovery is already well underway in Atlanta, a mark of the metro’s relative strength. Although 2002 ended on a weak note, with two quarters of contraction and an annual employment decline of 0.7%, 2003 has so far been a better year. Year-over-year employment growth was positive in both February and March; in fact March’s 0.4% gain ranked the metro 97th out of the nation’s 250 largest metro areas. The turnaround is due to the service-providing sectors, especially information and business services, health services, and leisure and “other” services. Metro employment has also been boosted by the government sector, despite the recent budget troubles that have plagued Atlanta and most other metro areas. Atlanta’s construction sector has struggled despite the persistence of favorable interest rates, largely because of a falloff in commercial construction, although metro housing permits also declined in April. The transportation sector is also mired in contraction; as the home of Delta Airlines, Atlanta is feeling the pinch of the airline industry downturn. Despite a second federal bailout, the industry’s short-term future remains pretty bleak. Delta reported that its total system traffic dropped 9.4% in May 2003. The metro’s manufacturing sector is in no better shape; it continues to shed jobs, though at a slower rate than in 2002.

Fortunately, a weak economy has not damaged Atlanta’s image as a prime business center. Level 3 Communications, which bought most of bankrupt Internet-company Genuity in February, will move about 400–500 jobs from the Boston area to Atlanta in early 2004. It is not clear whether these will be new positions or relocated ones. Newell Rubbermaid also announced early this year that it will move its headquarters from Illinois to Atlanta by early 2006. The company is planning a 300,000-square-foot complex in north Fulton County that will initially employ 50–60 executives. The company’s current headquarters have a staff of 350. With the Newell move, metro Atlanta will boast 13 Fortune 500 firms, third in the nation behind New York and Houston.

Performance Outlook

With its upswing already underway, Atlanta will move back into positive territory when it comes to employment growth this year. The metro will have a bumpy ride in 2003 as it grasps for steady gains, and finish the year posting a modest 0.6% total job gain. The transportation and manufacturing sectors will be the biggest drags on growth this year. They will be countered, though, by strong gains in services and finance. Next year will bring the major rebound, and Atlanta will grow solidly through the end of the forecast period. It will not match the stellar job gains of previous years, of course, peaking at 2.2% employment growth in 2005. That year will finally see the recovery of both manufacturing and transportation.

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

- Grocery distributor Fleming, now in Chapter 11 bankruptcy, has trimmed another 100 corporate and administrative positions from its Lewisville headquarters, as well as 100 similar jobs from its branch in Oklahoma City. These cuts are in addition to the company’s recently announced elimination of some 800 line positions, now taking place in conjunction with the closure of five wholesale divisions. (June 2003)
Recent Performance

Monthly employment totals in the Dallas metro area continued to post declines in the beginning of 2003. As of April, the net year-on-year job loss in the MSA stood at 19,000. Nevertheless, the 12-month rate of contraction, at 1.0%, actually moved closer to zero than it had been at any time since September 2001. Dallas’ employment base has been shrinking ever since May 2001, and in the months from late 2001 through the first half of last year, the 12-month rate of decline exceeded 3%. In the latest data, manufacturing posted a year-ago loss of 7,800 jobs, a 3.6% drop; construction employment declined by 3,400 jobs, or 3.3%; and the large aggregation of service-producing enterprises shed 7,500 payroll positions on net, for a 12-month dip of 0.5%. Three of the four newly defined broad classifications of services-related activity under the NAICS (North American Industry Classification System) lost jobs. The education and health services category was the only gainer, adding 5,900 employees over the past year, for a 3.3% increase. On the downside, trade, transport, and utilities employment dropped by 5,400, or 1.3%; information, financial, and business services, by 11,100, or 2.1%; and leisure and hospitality services by 5,400, or 2.2%.

Dallas’ economy is still caught in the “perfect storm,” buffeted by adversity affecting all its key sectors: telecommunications, travel and lodging, and distribution. The telecommunications sector—at the turn of the century the linchpin of Dallas’ high-growth economy—has eliminated nearly 12,000 jobs during the past two years. Business and professional services, hotels, and retail trade, although less deeply struck, are also retrenchment. The demographically driven need for education and medical care supplies are almost the only areas of employment growth in Dallas.

While the government sector still shows up as a net job creator over the past year, at an impressive 3.7% rate, the increase has come almost entirely at the local government level. The fiscal outlook at all levels of government does not bode well for further expansion. The state of Texas is attempting to patch up a $10-billion deficit, and local jurisdictions are vulnerable both to cuts in disbursements from the state and to sales tax receipts coming in lower than the projections in budgetary revenue estimates.

Not surprisingly, a higher unemployment rate accompanies the loss of jobs. In May, joblessness was 7.0%, and it has hovered in that range since the beginning of 2002. Labor force growth was fairly flat late last year and early this year—at least for an area with quite robust population growth that shows few signs of moderating. The Bureau of Labor Statistics’ estimate of the area’s total labor force for April 2003, however, was 1.4% above the corresponding year-earlier figure, enough of an increase to be reflected in a higher unemployment rate.

Performance Outlook

Global Insight believes that a long-awaited return to positive employment growth on a year-ago basis is still possible during the third quarter of this year. However, the improvement will be marginal and consolidation of a vigorous recovery will be slow in coming. Indeed, by historical standards—Dallas reeled off a string of 4%-plus annual employment gains in the mid-to-late 1990s—the recovery will not approach the vigorous entire forecast period. Dallas’ overhang in excess telecommunications capacity, as well as circumspect prospects for its important transportation and distribution industries, pose stiff obstacles to a buoyant rebound. Multi-sectoral retrenchment has wrung much of the redundancy out of the job base, and still the MSA remains one of the most demographically vibrant locations in the U.S. and one of the state’s higher-income areas. Employment should begin tracking upward in the near future, but yearly job growth for the rest of the decade is likely to settle onto a steady, unspectacular expansion.
track between 1% and 2%. This is several tenths of a percent below the projected rate of annual population growth, so Dallas appears locked into a comparatively high unemployment rate as well.

Jobs in manufacturing are expected to be cut on net throughout the forecast period. The negative outlook stems primarily from the crash in demand, relative to production capacity, in telecommunications equipment and other high-tech and electronic components. Military avionics production will pick up some of the slack; but for these enterprises the pick-up in defense procurement will mostly just offset a prolonged dismal stretch for civilian aerospace orders. On the services side, the picture is brighter, but some weakness will linger in IT- and telecom-related services activity. The financial and health care-biomedical sectors figure to be the most reliable sources of stability and growth. Biotechnology and nanotechnology are an upside “wild card” for Dallas. In a best-case scenario, clusters in these innovative fields could coalesce to form a strong base for a revitalized, largely transformed Telecom Corridor. Such an outcome is not unrealistic in the long term, but our assessment is that such developments will not reach sufficient scale during the next several years to drive Dallas’ overall economic expansion beyond the modest rates projected in our forecast.

**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 had become less important to the Dallas economy following the military spending cuts of the past decade; but as military action has returned to prominence in U.S. policy, defense contractors are once again a key force contributing to the area’s economic growth. The metro area is home to numerous high-tech and telecommunications firms, including MCI, Ericsson, Fujitsu, Rockwell International, and Nortel Networks—although the impact on employment from this sector has been decidedly negative since 2001.
In the News

- Farmington Hills-based technology company Covansys, in an effort to cut costs, is reducing its U.S. workforce by another 150 employees and is outsourcing its functions to India. (April 2003)
Recent Performance

Detroit is the largest metro area in Michigan, and it is hard to over-emphasize its importance to the state’s economy. At the end of 2002, Detroit had 44% of Michigan’s population, supplied 47% of its jobs, and accounted for just over 50% of its total personal income. Reflecting the fact that the Big Three automakers are headquartered in the metro area, manufacturing, especially manufacturing of transportation equipment, has a strong presence in Detroit. Manufacturing accounts for one-fifth of the metro’s total employment, a slightly higher share than the state’s 19%. Transportation equipment manufacturing employs 7% of the metro’s total workers, translating into 57% of the state’s employment in this sector. The share of jobs in transportation equipment manufacturing in Detroit is six times higher than the U.S. metro area average. In addition to auto manufacturing, fabricated metal production (a closely related industry) accounts for an additional 2.5% of the metro’s total employment.

The local job loss situation since the start of the recession has been much worse for the Detroit metro area than for the state as a whole. Detroit’s peak-to-trough job loss has been 206,500 jobs, or 9.2%; its percentage loss is the highest among the 20 largest metro areas in the nation. The strong presence of manufacturing has its advantages as it provides a significant number of high-paying jobs (according to the Bureau of Labor Statistics, Detroit’s average annual wage in 2001 was $42,613, 19th highest in the country); but the recent manufacturing recession highlighted the dangers of relying on traditional sectors with limited growth prospects. Although manufacturing will remain an important employer in the region, it is in a secular decline in terms of employment. As a result, both the state in general and Detroit in particular should increase their efforts to attract new industries to the region.

Because of the local concentration of high-paying jobs in the automobile sector, along with related high-tech employment, per capita income in the Detroit metro area has remained relatively high, even with the decline in manufacturing. Personal income in 2002 was estimated at an average $34,300, ranking 41st in the nation. By contrast, per capita personal income in Ann Arbor was $35,400 (36th) and Flint $25,700 (204th).

Performance Outlook

Detroit’s recent economic performance has been lackluster. Total employment declined throughout 2002, with the trend continuing during the first quarter of 2003. Nonseasonally adjusted total employment in March was 39,000 less than a year earlier, for a decline of 1.9%. Manufacturing obviously was one of the serious sources of trouble. The sector lost a staggering 7.8% of its workforce by the middle of last year, and while the decline has since slowed, the sector still lost 9,600 jobs from March 2002 to March 2003 on a nonseasonally adjusted basis. After a year of record auto sales, numbers for 2002 and the beginning of 2003 have been much more modest than those for 2001. This, combined with the need to retool plants for the new model year, led to a marked decline in the sector’s employment.

Service-providing industries were also down, losing almost 1.6% of their workforce by March 2003. Although the percentage decline was smaller than that in manufacturing, the larger size of the sector led to more job losses.

Detroit’s strong ties to automotive manufacturing make its economy vulnerable to industry disruptions and cyclical fluctuations. Surging new car sales, bolstered by dealership incentive programs, were a boon for the local economy in the 1998–2000 period. More recently, beginning in late 2001, the car industry’s widespread adoption of 0% financing to lure customers helped stimulate sales and, therefore, production. But even at these generous terms, excess
demand will eventually be satisfied, and flagging sales figures in some recent months suggest that this juncture could be fast approaching. Moreover, constant reliance on these incentives is not compatible with adequate profitability for the industry. Considerable restructuring, including job cuts and plant closings, has already taken place in the automotive sector, but more is yet to come. On the positive side, the auto industry will remain a linchpin of metropolitan Detroit’s economy, maintaining a large and well-paid employment base.

Manufacturing’s dominant role in the sectoral configuration adds to economic volatility, but is also manifested in relatively high wage rates. According to the Bureau of Labor Statistics, the average wage per job in the Detroit metro area in 2001 was the 19th highest among U.S. metro areas, more than 10% above the national average.

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 2003, 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 early next year. By the fourth quarter of this year, employment is expected to be down another 0.3% year over year. Overall, for the next five years, the average annual employment growth is expected to be a tepid 0.1%, 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 nearly 1% annually in the long term.

Economic Structure

Despite the continued influence of the automotive sector in Detroit, diversification efforts and consolidation in the auto industry have lessened Detroit’s reliance on its manufacturing base. 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 California High-Speed Rail Authority Board has decided not to run rail alignments in Orange County along the beach at San Clemente and through the historic district in San Juan Capistrano, and along the Del Mar Bluffs in San Diego County. The controversial routes were part of a plan to connect San Diego and Orange Counties to the state’s proposed 700-mile high-speed train system through Union Station in Los Angeles. The board’s decision to move the rail lines farther inland was due in part to residents and public officials raising concern that the plans for beachfront rail lines would intrude on the land. (June 2003)
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.

Orange and San Diego counties in California showed some of the largest gains in businesses, jobs, and payrolls between 2000 and 2001, according to a report released in April by the Census Bureau. They were the only counties among the nation’s largest with gains in all three categories. According to the 2001 County Business Patterns report, Orange and San Diego counties each added about 30,000 jobs. Orange County showed a net gain of almost 1,400 businesses; in San Diego, the increase was more than 1,100. The annual payroll in Orange went up $2.3 billion, while that in San Diego climbed $2.0 billion. Santa Clara County, California, led all counties in employment gains, adding 43,500 jobs.

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

- New Brighton, Minneapolis-based Compex Technologies Inc. has announced plans to acquire BMR Neurotech for $3.3 million. Compex Technologies designs and produces electromedical products for rehabilitation and sports training; BMR Neurotech produces electromedical products as well. The BMR Neurotech acquisition will allow Compex technologies to expand sales to general medical practitioners instead of being restricted solely to physical therapy labs. (June 2003)
Recent Performance

Minneapolis is showing signs of rebounding from a 2002 that saw total nonagricultural employment decline by 1.8% year over year (y/y). April statistics report a 0.4% decline over the April 2002 number. Several of Minneapolis’ sectors failed to post job gains, thus contributing to the year-on-year loss. Manufacturing fell by 8,000 workers (3.8%) in April, although this was the smallest monthly decline since May 2001. Government employment fell by 1,300 workers on a year-earlier basis. Many metros have reduced the number of government employees as fiscal hardships intensify. Service-providing sectors, on the other hand, added 3,400 workers, while education and health services collectively recorded an increase of 9,600 positions in April. Minneapolis has the advantage of being able to offer a higher wage relative to many neighboring metros and states in education and health services. This allows the metro to attract more workers relative to other metros. Trade, transportation, and utilities (TTU) continue to struggle. TTU employment shrank by 2,900 y/y as Northwest Airlines and others continue to find difficulty with current economic conditions.

Performance Outlook

The coming year is expected to be the start of the gradual economic recovery in Minneapolis. The metro is forecasted to produce average annual total non-agricultural employment growth of 1.2% from 2003 to 2008. Manufacturing employment is expected to recover nicely in the Global Insight forecast. After shrinking by 3.6% year on year (y/y) in 2003, manufacturing will limit its losses to 1.0% in 2004. The sector is projected to generate slightly better than 0.0% average annual growth during 2003-08. Services employment will power the Minneapolis metro through the forecast period. It is expected to rebound with 0.5% growth in 2003, maintaining the trend in 2004, and peak in 2005 at 3.3%. Services growth will moderate after that, reaching 1.8% in 2008.

Housing permits are expected to fall from their recent record highs in the quarters to come. The 2002 total of 27,714 permits is projected to fall to 24,329 permits in 2003. A resurgent economy will produce some concerns about inflation, which will cause interest rates to increase. This will result in higher mortgage rates and slower housing activity. Housing permits in 2004 will shrink to 22,747. Continuing prosperity in the economy should keep incomes rising and make home-buying more attractive, however. In 2008, housing permits will reach 25,319 units.

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 others.
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, Minneapolis ranks in the top decile on Global Insight’s Composite Business Cost Index. Electricity, labor, and real estate costs have risen faster than the national pace in the 1990s.

Historically, Minneapolis has had high income taxes, but state legislation has proposed new tax laws in the last couple of years. In August 1999, all Minnesota residents received a sales tax rebate check, and the first reduction in income tax rates in a long time. In mid-2000, the state legislation approved cuts in personal income taxes, workers compensation charges, and license tab fees. The state will be continuing its efforts toward reforms in property taxes.
In the News

- Progressive Insurance announced that it plans on hiring 400 positions to fill its future customer service center in Phoenix. The center will be ready in early 2004, but will begin hiring immediately and continue hiring on an ongoing basis after the facility is open. (June 2003)
**Recent Performance**

The Phoenix metropolitan area registered a year-on-year employment increase of 0.9% in March 2003, ranking it at 72 among 250 metropolitan areas. Monthly year-on-year job growth rates began slowing in early 2001. That September, employment advanced just 0.3% year on year (y/y), and each month thereafter through September 2002 saw contraction in jobs. Since then through March 2003, each month has seen employment growth of 1.1% or less. Employment losses in the goods-producing sector, which includes manufacturing, construction, and natural resources and mining, have been significant, but are ebbing slowly. The monthly losses reached a peak in March 2002, when the sector lost close to 22,000 jobs from a year earlier. In March 2003, the year-over-year loss was 8,500 jobs. Manufacturing is the most to blame for the job losses; payrolls there declined from 160,000 at the end of 2000 to near 130,000 in March 2003. Employment growth in construction declined by 2.3% in 2002, after rising more than 4.0% in 2000 and 2001. Through the first three months of 2003, the construction sector has added employment in each month compared with a year earlier. In March, nearly 1,000 jobs were added, for growth of 0.7%. The natural resources and mining sector has been flat since mid-2000, and employment levels have remained virtually unchanged.

The service-producing sector, on the other hand, has generated the jobs for the Phoenix economy, adding more than 2,200 y/y in March 2003, a growth rate of 1.7%. The largest number of jobs, 9,000, was added in the educational and health services sector, which also posted the highest y/y growth rate of all the sectors in the month of March, at 6.0%. This sector has been steadily increasing over the last few years, as growth has gone from 1.6% in 2000 to 6.3% in 2002. The trade, transportation, and utilities sector saw employment increase by 5,000 over the year, as employment is nearing its early 2001 levels. Both government, and leisure and hospitality added 4,000 new jobs in March. The government sector has been growing at rates near 4% per year through the last few years. Leisure and hospitality employment, which includes accommodations as well as eating and drinking establishments, lost employment after the terror attacks in 2001, but has been on the rebound since the end of 2002, and has seen growth of better than 2.2% in each of the first three months of 2003. The information sector lost close to 3,500 jobs y/y in March, continuing a downward trend that began early in 2001. Employment in information has gone from 42,400 in February 2001 to 36,600 in March 2003.

The unemployment rate in the Phoenix metropolitan area reached 5.1% in May 2003. Arizona posted an unemployment rate of 5.8% in May, while Tucson was at 4.3%.

**Performance Outlook**

Employment in the Phoenix metropolitan area declined by 0.4% in 2002 after increasing at a sluggish 1.2% in 2001. The economy will begin its rebound in 2003, expanding 1.6%, and growth will reach 2.7% in 2004. During 2002-07, the economy will grow at an average annual rate of 2.2%. The three sectors that will lead the rebound are construction, government, and services, which will all grow at rates above 2.4% in 2003 and in 2004. The strongest sector will be services, which is expected to post growth of 3.0% in 2003 and an even healthier 4.6% in 2004. Between 2002 and 2007, this sector will expand at an average annual rate of 3.6%. The government and construction sectors will post average annual rates over the same period of 2.5% and 2.0%, respectively.

The unemployment rate in the Phoenix area is expected to fall from 5.4% in 2002 to 4.7% in 2003, and it will reach 4.2% by 2007.
Economic Structure

The Phoenix-Mesa metropolitan area includes Maricopa and Pinal counties. With about 3 million residents, it is ranked as the 12th most populous metro area in the nation, just ahead of Minneapolis-St. Paul and San Diego. The region has more than four times the national average of industrial concentration in copper mining, semiconductors, and aircraft and parts. Several large computer-chip and related-equipment manufacturing plants have established local facilities, fueling strong growth in manufacturing employment. Motorola, AlliedSignal, Intel, Honeywell, and Boeing anchor the high-tech sector. Many of Phoenix’s manufacturers, large and small, retain a defense component in their final sales.
In the News

- The retail top market in the country is Washington, D.C., followed by Orange County, and San Diego at third, according to Marcus & Millichap’s National Retail Index. The index uses employment growth, vacancies in the retail sectors, personal income, new home construction, and rent growth to determine each city’s ranking. San Francisco is the sixth-ranked market and Sacramento is tenth. (June 2003)
Recent Performance

San Diego’s economy continues to outperform the nation and most other metro areas. With a job gain of 0.8% in 2002, San Diego stayed solidly in positive employment territory, while most metros slipped into contraction. The first quarter of 2003 was also promising, with strengthening employment gains, thanks to a slight increase in construction activity and accelerating growth in the service-providing sectors. One main area of weakness is the newly re-classified (by NAICS) information, finance, and business services sector, which is still struggling to regain its footing in the wake of the dot-com bust. Another drag on the economy is the manufacturing sector, which has considerably fewer jobs year over year than in 2002, but the sector at least seems to be stabilizing. Toppan Electronics closed its area factory in the first quarter of 2003, eliminating 250 jobs. Production will be shifted to Asia. The good news is that employment in the electronics sector did stabilize, for the most part, in San Diego in the second half of 2002 at just under 22,000, down 3,500 from its peak of two years ago. The unemployment rate has remained relatively moderate, at 4.1% in May, well below the U.S. rate of 5.8%.

Performance Outlook

The short-term outlook for San Diego is quite positive; the metro’s economy will rebound this year and next, reaching a 2.2% annual employment gain in 2004. Over the outer years of the forecast period, growth will moderate slightly, but remain consistent. San Diego will benefit from its specialization in two industries with at least a decade of strong growth ahead of them: biotechnology and wireless communications. The services sector will, as usual, be a major generator of job gains, and after a strong rebound in 2004, so will the transportation sector. With an upturn in the local and national economy, construction gains will resume, as developers restart plans, which are currently on the back burner. After 2004, the manufacturing sector will cease to be a major source of job losses, but it will not contribute positively to the economy before 2007. The region’s traditional manufacturing industries will continue to be phased out and moved overseas, and while San Diego has a major technology cluster, its area of specialty is currently skewed more towards research and development than manufacturing and production.

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 economic 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, software, and biotechnology—an emergence in which the presence 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 development of a biotech community some 240 firms large, giving the metro area the third-highest concentration in the nation, behind San Francisco and Boston. Tourism, agriculture, and health-care services also drive San Diego’s economy. 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

- Boeing, Seattle’s manufacturing giant, recently closed a deal to sell 100 767s to the Air Force. This is a $13-15 billion program, and gives a major boost to the anemic 767 program, which has seen sales virtually halt since the terrorist attacks in 2001. The bidding war surrounding this deal will have ripple effects on the local economy, since it alerted Seattle that the city is no longer the automatic location for new airplane manufacture. As a result, the state government is marshalling its resources to make Seattle more attractive to Boeing and other companies. (June 2003)
Recent Performance

Seattle lost more than 15,000 jobs in 2001, and 44,400 jobs in 2002. Total non-agricultural employment for April 2003 was down 10,800 from a year earlier and well below the 2002 year-end level. Total seasonally adjusted employment in the Seattle MSA in April 2003 was down 0.8% year over year (y/y). Indeed, the only positive trend in the recent data is that the monthly employment numbers added a few jobs over the last two months, indicating that the very recent trend is finally headed in a positive direction. It is no surprise that of the economic sectors, manufacturing has been the hardest hit; among the largest 20 metros in the United States, Seattle’s manufacturing employment prospects are the lowest. Layoffs at Boeing’s Puget Sound operations contributed a large share to that number, although 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 improving in the metro’s private service-producing sectors, however. The last four months have seen year-over-year employment gains, as financial services and education, health, and “other” services have added to their payrolls. Total government employment continues to grow as well. The federal government has been rapidly adding employees over the past six months, and although employment gains have been shrinking at the state level, the local level is taking up the slack and continuing to hire. The unemployment rate has crept up from 6.1% in February to 6.7% in May.

Performance Outlook

It is no surprise that this will be a difficult year for the Seattle economy. We forecast that Seattle’s total seasonally adjusted employment will remain unchanged at 0.0% during 2003. Of the top 20 metros in the United States, Seattle’s manufacturing sector will shrink by the greatest amount, down 5.3%. The transportation industry remains beset by external events that hurt air travel, and in turn much of Seattle’s manufacturing base. Terrorism, the Iraq war, and most recently SARS have combined to depress business travel and tourism. In addition, Seattle’s manufacturing base will not rebound until 2005. Transportation services will see continued job losses in 2003, declining 1.0%. Trade will fall by 0.1% for the year as the sector is helped by a falling dollar, leading to some job recovery. Employment trends will be most favorable in the government sector, with a year-over-year increase of 2.3% during 2003. Longer term, this trend will become an unsustainable burden on the Seattle economy. In 2000, only 13% of total employment was in government jobs; currently, this ratio has grown to 15%. Among the private sector, finance will be the fastest growing sector at 1.2% as it continues to benefit from the housing sector’s record growth. Services, the fastest growing industry among the top 20 metros, will see 1.0% job gains as Seattle exits the recession. Construction, primarily because of by business structure contraction, will advance a mere 0.2% in 2003.

Although the short-term outlook for the metro area is dim and the metro needs to rein in government growth, 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 1.1% as strong growth resumes in 2004 and 2005. Over the next five years, we forecast the highest annual employment growth rates in the Seattle
metro to be in services (1.9%). Over the forecast horizon to 2007, manufacturing employment will not exceed its previous high. Indeed, it will contract at an annual rate of 1.2%, as total manufacturing employment of just over 164,000 workers in the fourth quarter of 2007 will still be far less than the total of 169,400 workers at the end of 2002, and a fraction of the peak of 229,000 during 1998.

Although we forecast Seattle’s total nominal personal income to increase by only 3.8% during 2003, it will recover by 2004, rising 5.6%. In fact, between 2002 and 2007, we forecast personal income in the Seattle MSA to grow at an average annual rate of 4.7%.

**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 populous 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 air craft 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

- The Census Bureau reports that five of the top ten cities with the highest percentage of $1 million-plus homes are in California. Los Angeles ranked fourth, with 3.8% of its homes topping the $1 million mark. Pasadena, with 4.7% ranked third. San Francisco ranked second, with 7% of its homes costing $1 million or more. Only Cambridge, Massachusetts, with 11.6%, was higher. The Census report focuses on cities with 100,000 or more residents. (June 2003)
Recent Performance

Last year was a dismal one for the San Francisco economy. In two years the metro went from an annual employment gain of 4% in 2000 to a contraction of 6.2% in 2002. Over 65,000 local workers lost their jobs last year, and the economy remains weak. In March 2003, San Francisco’s job growth was still negative, although at -2.5%, it had edged closer to zero (in September 2002, it was -4.8%).

The manufacturing sector, which includes both high-tech and traditional manufacturers, is still well below year-over-year employment levels, but it has stopped shedding jobs at the rapid rate of 2002. The services sectors are also very weak, but most showed signs of stability in the first quarter of this year, especially finance and business services and leisure and “other” services. The health services sector is emerging as the leading contender for the quickest recovery, showing signs of growth in the first few months of 2003. The unemployment rate dropped to 5.5% in May, from 5.9% in February and March.

Performance Outlook

Annual employment growth will not return to positive territory in San Francisco until 2004. Job gains will turn upward in the second half of 2003, but not enough to pull the region out of the hole. Over the rest of the forecast period, the metro area can look forward to mild or sluggish growth, as its economy slowly shifts back into a higher gear. The metro area’s 2000 job level will not even be attained again by 2007. On the upside, San Francisco will achieve some economic stability over the next five years, driven largely by its services, construction, and transportation sectors, as before. Beginning in 2004, manufacturing at least will not exert much of a drag on the economy; and its job growth will remain at or slightly below zero through 2007.

Economic Structure

The San Francisco metropolitan area is the centerpiece of the Greater Bay Area. 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 workforce. San Mateo and San Francisco counties are part of Silicon Valley.
In the News

- Cablevision Systems Corp. is planning a spin-off satellite television service. The Bethpage, NY-based cable company will contribute $450 million in order to finance the new enterprise. The new television satellite service is expected to be available to customers by the end of the year. (June 2003)

Business Monitor for Nassau, NY

Job Performance (2002:1 - 2004:1) x x x
Per Capita Personal Income (2002) x x x x x
Avg. Unemp. Rate (2002:1 - 2004:1) x x x
Diversity Index (2002) x x x x x
High-Tech Location Quotient (2002) x x
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Note: For definitions, please see appendix at back of book.
Recent Performance

Nassau-Suffolk has suffered much less from the recession than most metro areas in the state. The area recorded a 0.1% year-over-year (y/y) increase in total nonagricultural employment in April, and services rose by 6,800 positions, while trade, transportation, and utilities (TTU) logged a 1,000-worker increase. The rise in the latter is especially impressive considering the hardships encountered by many airlines and the Metropolitan Transportation Authority (MTA). Information, finance, and business services lost a total of 1,400 positions (year over year). Although the stock market has been making gains, its stability has not yet led to new hires. Meanwhile, manufacturing employment dropped by 5,100 workers in April. Monthly declines in manufacturing have been steadily shrinking since January 2002, possibly signaling a rebound in the sector. The 3.8% unemployment rate in May is quite low, especially compared to the 5.8% national rate.

Performance Outlook

Global Insight projects that the Nassau-Suffolk economy will rebound this year. After shrinking by 0.6% in 2002, total nonagricultural employment is forecast to increase by 0.2% in 2003. The gradual recovery is expected to continue, with total employment growth peaking at 1.4% in 2005. Although the next couple of years will bring some moderation, total employment growth is projected to again reach 1.4% in 2008. Government employment is forecast to slow from its robust 2.4% growth in 2000 and 2001. We expect shrinking fiscal budgets to limit growth in the government sector. Government employment is expected to grow by an annual average of 0.9% during 2003-08. Services employment should power the Nassau-Suffolk economy throughout the forecast period. Services employment is forecast to grow by an annual average 1.6% from 2003 to 2008. Strong employment growth should also lead to strong personal income growth. Personal income in Nassau-Suffolk is forecast to grow at a compounded annual rate of 4.5% during 2003-08.

The population in Nassau-Suffolk is forecast to grow, but at a decreasing rate. Population is projected to increase by 0.5% in 2003. However, in 2008 that growth will have moderated slightly, to 0.4%. We expect Nassau-Suffolk labor force growth to decline over the forecast period as well. Labor force growth in 2003 is projected to fall 0.6%, with discouraged workers leaving the labor market. The recovering economy should bolster the optimism of discouraged workers, though. Labor force growth in 2004 is expected to be 1.1%. The slowing population growth will affect the labor force growth as well. In 2008, the Nassau-Suffolk labor force is forecast to increase by 0.7%.

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 Oakland metropolitan area fell from an eighth ranking among the top retail markets in the country to number 14, mostly due to a poor forecast for employment growth in 2003, according to Marcus & Millichap's National Retail Index. However, the annual report said there is still a strong demand for space among retailers, and says asking rents are projected to climb 1.5% this year, reaching a market average of $25 per square foot. (June 2003)
Recent Performance

Oakland’s economy contracted last year, with negative annual job growth of 1.2%. The beginning of 2003 has been much better, though, with positive year-over-year job gains every month through April. The manufacturing sector continues to be a weak point, but the services sectors have been picking up the slack, particularly health services, which is growing steadily. The finance and insurance industries have also been holding up fairly well; indeed, several banks are starting up or expanding in the Oakland region this spring and summer. Banks sprouting in the East Bay area include Diablo Valley Bank, which is planning to open with offices in Danville and Pleasanton; Bay Business Bank, which is planning to launch an office in Walnut Creek; and Scott Valley Bank of Yreka, which is hiring for its expansion into the Oakland-Alameda area. More established players Bank of America, Wells Fargo, and City National Bank recently added branches, made key hires, or expanded offices to take advantage of growth opportunities in the East Bay. The metro’s unemployment rate remains high, however, at 6.1% in May. It rose one-tenth of a percentage point each of the first four months of the year.

Performance Outlook

The economic rebound already underway will pull Oakland out of negative territory this year; the metro will post a 0.7% annual employment gain for 2003. Next year will be the big rebound, and for the rest of the forecast period (2005–07), Oakland will achieve an average 1.5% annual gain. The metro’s continued role as a cheaper alternative to San Francisco will remain a big plus. The services sector will be a major driver of growth over the next five years, and after 2004, so will the transportation and construction sectors.

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 Archdiocese of Newark announced that it would close Bishop Francis Essex Catholic Regional High School at the end of June because of the school’s straitened finances. The decision was a sharp turnaround for the archdiocese, which last year pledged a decreasing subsidy of $500,000 to the school over three years, with the understanding that the school would find a way to become self-sufficient by the 2005–06 academic year. However, the archdiocese now says the school’s bills for the current academic year already exceed the $500,000 intended for three years. (June 2003)

Business Monitor for Newark, NJ

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

Newark has now struggled through two years of negative annual employment growth, but the recession was not as bad as it could have been. Total annual employment in 2002 was only slightly negative, at -0.5%, and Newark’s relatively low-cost environment has been a catalyst in getting the local economy back on track. The first quarter of 2003 was weak, as the metro re-adjusted to a surge in growth in the fourth quarter of 2002, and March’s -0.3% year-over-year job growth ranked it a modest 160 out of the nation’s 250 largest metro areas. Newark’s unemployment rate continues to be fairly high—5.6% in May.

Still, there is good news. Overall, the metro’s service-providing sectors have been adding jobs at a fairly steady pace over the past few quarters, particularly thanks to health services. The government sector has also been a good source of job growth, despite the state and metro’s budget troubles. The transportation sector, not surprisingly, has been hurt by the crisis in the airline industry because Newark International Airport is a major employer and revenue source. The manufacturing sector is still hurting, though the rate of job losses has decreased. That sector is finally moving towards stabilization, though positive job growth is quite far away. The construction industry, a major source of growth over the past year due to low interest rates, is coming down from its high now that the rush to purchase, refinance, or build has cooled.

Performance Outlook

This year, Newark will pull itself up by its bootstraps. The metro economy will manage to eke out slightly positive annual employment growth, mostly on the strength of its services and trade sectors. Despite troubles in the airline industry, Newark’s transportation sector will be buoyed by its thriving port. Lower office rents and proximity to New York City will continue to bring new businesses into the area, though the weakness of the New York City economy has pushed rents down and made staying there more feasible for some companies. The metro’s rebound will peak in 2004 and 2005. In fact, by 2005, even the manufacturing sector will be eking out slight job gains, thanks largely to the state’s high-tech and pharmaceutical manufacturing industries. In the outer years of the forecast period, 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.

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.

Boosted by a strong national economy in the late 1990s, construction, pharmaceuticals, telecommunications, and financial services became major industries of local 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.
In the News

- Sports equipment manufacturer Head USA, a leading maker of skis and snowboards, announced plans to consolidate its East Coast distribution operations in Pasadena, Anne Arundel County. The reorganization will create 60 new jobs in the local area. (June 2003)
Recent Performance

This spring, the Baltimore metro area has shown an encouraging pickup in economic activity. Total payroll employment—which in its best periods last year, mustered only sputtering growth, and closed 2002 with a net annual job loss of 0.6%—bottomed out this January and has rebounded reasonably well since then. On a month-to-month basis, greater Baltimore added 3,000 jobs in February, 8,900 in March, and 7,100 in April. By April, the recovery was sufficient to show up as positive year-on-year job growth: these latest data put the MSA 6,500 jobs, or 0.5%, ahead of the corresponding total for the same month last year.

While a job gain of 0.5% is no big leap, it matches exactly the current statewide rate of increase, which historically Baltimore has usually lagged. Moreover, the metro area’s most recently posted net year-ago increase of 6,500 jobs actually accounts for a majority of Maryland’s corresponding net increase of 12,700. The state, in tandem with the MSA, has just turned the corner from year-ago job losses to re-establish at least a tentative trend of rising employment.

Above all, Baltimore has an appreciable edge over many similar-sized or larger MSAs in comparable locations of the U.S. Eastern Seaboard, in terms of lower business and housing costs. This differential, which is particular striking vis-à-vis the nearby Washington MSA, is inducing a number of enterprises to site operations in Baltimore. Baltimore also tends to have a looser labor market than many other metropolitan jurisdictions in the general region, although the skills profile of the available workforce remains somewhat unprepossessing. Usually, the MSA unemployment rate is at least a few tenths of a percentage point higher than Maryland’s statewide rate. However, in an indication of the firming trend now characterizing Baltimore’s labor market, this gap has been narrowing lately. The Baltimore metro area’s average jobless ratio in the first quarter of 2003 was 4.5%, compared with 4.3% for Maryland overall.

Baltimore’s net job increase comes despite the loss of 4,100 manufacturing jobs in the year through April, a decline of 4.7%. Construction employment also fell, by 1,500 jobs or 2.1%. More than offsetting this, the broad services sector (under the Bureau of Labor Statistics’ just-implemented new classification methodology, the North American Industry Classification System) added 12,100 jobs over the past year, a 1.1% rise, while government employment expanded by 2,800 or 1.3%. Note that under the NAICS, which tallies job classification by the actual type of work an employee performs rather than uniformly grouping all members of a given organization into a single sector, the service-producing category now also includes most public sector employees.

Of the four principal sub-aggregates of service-producing activity under the NAICS, only one—trade, transportation, and utilities—posted a 12-month decline in employment in the latest data release. This category shed 3,800 jobs—a 1.6% retrenchment. The weakness was concentrated in transportation—airlines cut 1,400 Baltimore area jobs over the past year, while trucking and distribution firms have also trimmed employment significantly. Retail trade jobs have ticked up modestly lately: an increase of 500 positions or 0.4% in the year through April. The other three broad divisions of services-oriented activity under the NAICS—information, financial, and business services; education and health services; and leisure and hospitality services—are all now on an upswing in greater Baltimore, employment-wise. Continued decimation of the telecommunications sector drops the net gain for the first of those three categories to just 1,100 positions or 0.4%, despite the addition of 2,500 jobs in business services and another 500 in finance. Year-on-year expansion of education- and health-related employment by 2,200 and 3,900 positions, respectively, sufficed for a fairly impressive 3.2% overall increase in the education and health services
category. The leisure and hospitality employment nexus also seems to have moved onto a solid recovery track, adding 6,100 jobs in the 12 months through April, for a 3.7% increase.

Performance Outlook

Under the assumption that regional and national economic conditions are slowly taking a turn for the better, Baltimore should record modestly positive employment growth for 2003 as whole. Our forecast is for an increase of 0.8% in the MSA’s job base this year, strengthening to a 1.7% rise in 2004. While services-producing activity will decisively drive this moderate anticipated expansion, even the manufacturing sector is likely to bottom out soon and return to a weak rate of expansion for at least part of the forecast period. Baltimore’s overall performance is still dampened by the continued decline of traditional “smokestack” industries that face a questionable future in the United States. However, the validity of this generalization carries less force than it did a decade, let alone a generation, ago, since Baltimore is gaining a toehold in exciting new fields such as biotech-based products and medical devices, as well as an arguably viable range of medium-skilled light manufacturing. In any case, Baltimore, belying the image many retain of it, has become a substantially “post-industrial” metro area. Manufacturing now accounts for only 6.6% of the job base, far below the U.S. average of 11.3%. Today, the number of workers in the Baltimore area employed by manufacturers barely exceeds the number employed by financial firms and institutions.

Business and professional services, health services, finance, and, to a lower degree, recreation and tourism are the segments of enterprise expected to acquire increasing importance in the Baltimore area’s sectoral configuration in the coming years. Retailers should find the business environment favorable enough to keep adding new employees throughout the forecast period, but their rate of net hiring is likely to lag the MSA’s overall rate of job growth. Transportation and communications activity is probably the biggest question mark for the immediate future. The recent and to some extent still ongoing meltdowns in airline travel, telecom, and merchant utilities have had a palpably adverse effect on Baltimore, as in many other locations. Our forecast puts the inflection point for most of these industries in the relatively near future, and projects them to contribute positively to employment, income, and overall growth from 2004 on. However, the timing of this posted turnaround is far from certain. Baltimore’s location and infrastructure are well suited for a range of travel, transport and distribution, and communications enterprises. So if these currently floundering segments of activity do regain surer capability for doing profitable business, their recovery could factor a noteworthy upside into the metro area’s general economic performance.

Economic Structure

Traditionally, Baltimore’s proximity to Washington, DC, has made it a competitive location for defense-related industries. Reflecting this fact, Baltimore’s government sector accounted for 17.7% of total seasonally adjusted employment in October 2002, above the U.S. share of 16.54%. The end of the Cold War led to massive reductions in defense budgets, costing the area thousands of well-paying jobs, particularly in Anne Arundel and Baltimore counties. However, the infrastructure and labor skills generated by the high-tech defense employment positioned Baltimore to compete well for jobs in the high-technology sectors. Nevertheless, its performance in recent years in attracting high-tech employment has trailed that seen near Washington, DC, especially in the high technology clusters of Montgomery County, Maryland, and northern Virginia. A Global Insight analysis estimated that the high-tech sector accounted for 6.8% of the Baltimore MSA’s employment in 2000, well below the average share of 9.6% for all U.S. MSAs with total employment of more than 1 million. Employment in Baltimore’s high-tech sector grew at an annual rate of only 0.9% in 1990–2000, again well below the average growth rate of 1.7% for the other large MSAs.

As the structure of the metro economy has changed, manufacturing has become less important, accounting for only 7.5% of total non-agricultural employment in October 2002, compared with the U.S. share of just under 13%. On the other hand, employment in the private, services-producing sectors (i.e., transportation, communications, and public utilities, trade, finance, insurance, and real estate, and services) accounted for 68.8% of Baltimore’s total non-agricultural employment in October 2002, compared with the U.S. share of 65.2%. The service sector alone account-
ed for just under 35.7% of Baltimore's total employment in October 2002, compared with the U.S. share of 31.1%.

Situated along the Chesapeake Bay, the metro area boasts the nation's third largest—and one of the busiest—deepwater ports on the East Coast. The port is attractive to many Midwestern exporters because of its rail accessibility and proximity, as it is located almost 200 miles further inland than any other Atlantic port. A 50-foot deep channel also serves the port, giving it a competitive advantage over such competing ports as Philadelphia and Wilmington. These advantages have made Baltimore an attractive location for transportation industries, while robust growth in trade in recent years has led to a significant increase in shipping volume.