

Fall 2007

Wright State University Regional Economic Report, Fall 2007

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R E P O R T
Fall 2007

A SNAPSHOT OF THE DAYTON REGIONAL ECONOMY

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

After seven consecutive years of declines, employment in the Dayton MSA (Greene, Miami, Montgomery, and Preble Counties) is showing signs of leveling off. Average employment for the third quarter of 2007 was estimated to be 405,400 which is roughly 500 workers below the level of employment for the same period in 2006, and far smaller than the 2000 to 4000 annual employment declines suffered by the region over the previous four years. If the geographic region that makes up the Dayton MSA is broadened beyond the Census Bureau's definition to include Clark County (which has added about 600 jobs in the last year), and northern Warren County (which added between 500 and 1500 jobs, depending on the debatable subject of which communities should be included as part of the Dayton), regional employment actually grew over the past year.

Figure 1
Dayton MSA Manufacturing Employment
(in thousands)

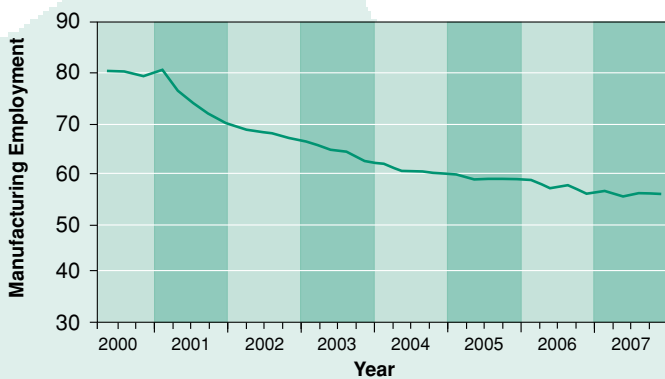


Figure 2
Dayton MSA Employment Excluding Manufacturing
(in thousands)



Separating the manufacturing industry from all other industries reveals that since early 2003, as Figures 1 and 2 illustrate, the trend of manufacturing job losses was nearly equal to that of total employment while employment excluding manufacturing in the Dayton MSA has remained flat. The stability of nonmanufacturing employment represents a fair degree of resiliency on the part of most businesses in these other industries, many of which served the manufacturing industry and have since found new markets for their products.

Table 1 (on page 2) presents the region's industry employment growth rates since the beginning of the decade. In addition to the 30 percent drop in manufacturing employment, retail employment also fell by more than 10 percent since 2000. Note that although federal government employment fell more than nine percent in the last seven years, many of those jobs have simply transferred to the

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private sector in the Dayton area as the Department of Defense has become increasingly reliant on defense contractors. The financial services industry has proved to be the region's fastest growing source of employment, adding 3,300 jobs

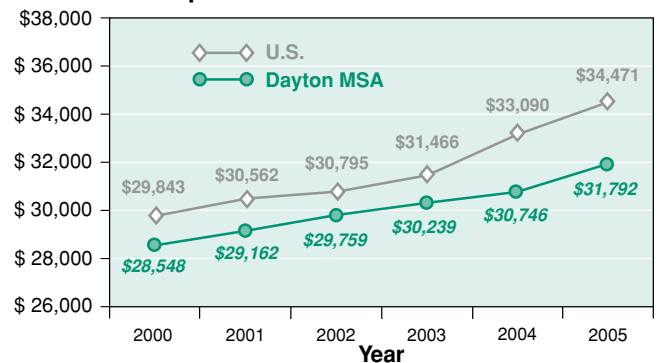
Table 1
Percentage Changes in Employment by Industry, Dayton MSA, 2000 - 2007

Industry	Employment Change
Manufacturing	-30.00%
Retail Trade	-17.54%
Federal Government	-9.84%
Construction	-6.82%
Total Employment	-6.39%
Transportation & Warehouse	-4.12%
Education	-0.87%
Professional & Business Services	-0.82%
Information	+3.61%
Leisure & Hospitality	+4.77%
Health Care	+12.17%
Financial Activities	+19.42%

since 2000. The health care industry continues to be a steady generator of employment growth in the region as is the case throughout the United States.

Per capita personal income in the Dayton MSA (not adjusted for inflation) continued to grow through 2005 (the last year for which regional income data is available). However, both the income levels, as displayed in Figure 3, and the income growth rate lag

Figure 3
U.S. and Dayton MSA Per Capita Personal Income



behind those of the U.S. overall. In particular, from 2003 to 2005, per capita personal income fell from 96 percent to 92 percent of the national level. This is partially mitigated by the fact that the cost of living in the region remains four percent to eight percent below the U.S. average, but still represents a drop in the region's purchasing power.

In the coming year, the final layoffs resulting from Delphi's restructuring will hit the area. However, these losses will be assuaged by notable increases in defense contracting employment should begin to arrive by the end of the year as the region continues to work through its transition to a service based economy.

VIEWES FROM THE PRIVATE SECTOR—PERSPECTIVES OF WRIGHT STATE UNIVERSITY ECONOMICS ALUMNI

Jessica Livingston

As the Dayton Metropolitan Area continues to experience sluggish economic performance, the Wright State University *Regional Economic Report* contacted several local graduates from WSU's undergraduate and graduate programs in economics to tap into the insight that can be provided by a group with a common economic education but diverse occupational perspectives.

A professionally diverse group of alumni, each was asked to provide their own assessment of the region's economy. They are:

“Wright-Patt has maintained a degree of economic stability to the area during times of downturns.”

–Tom Jenkins

- Tom Jenkins earned both a M.S. in Social and Applied Economics and an M.B.A. at WSU in 1974. After retiring as the Vice President and Treasurer at Dayton Power & Light, he now works at Wilmington College as the Vice President of Business and Finance and teaches economics courses as a part of Wright State University’s adjunct faculty.
- Carla Lakatos graduated in 1979 with an M.S. in Social and Applied Economics. After holding various executive positions in the public transportation industry. Carla is currently a Senior Consultant and Managing Partner for the transportation consulting firm she co-owns, The Lakatos Group.
- Brian Pedtke graduated in 1994 with a B.A. in Economics and since has gone on to own several small businesses. His primary business venture is the North Dayton franchise of ServPro, a water and fire cleanup and restoration company.
- Christina Howard earned her B.A. in Economics in 1974 and later earned her M.S. in Social and Applied Economics in 1980. She is currently the vice president of entrepreneurial development at the Dayton Development Coalition.

The overall consensus of these graduates was that the Dayton Region is in a state of transition, and that there are reasons to be hopeful the economy will eventually recover and offer a variety of new jobs to those who have the appropriate skill

sets. Those who have been working in the area for a while noted the shift from an economy dominated by three major employers, (NCR, Wright-Patterson Air Force Base, and GM), to an economy that, while WPAFB remains a significant source of employment, has a larger variety of smaller employers providing a wider range of occupations. Unanimously, the interviewees highlighted the increasingly significant role the region’s colleges will play in providing Dayton with the trained workforce necessary for filling tomorrow’s jobs. The ability of Dayton to transform its workforce to match new industry demands will be vital to future success. Wright-Patterson Air Force Base (WPAFB) was recognized by the interviewees as a stabilizing force in the region and the probably the single most significant factor in shaping the future of the regional economy.

“The loss in personal income through manufacturing layoffs has put an additional strain on small businesses.”

–Brian Pedtke

According to Tom Jenkins, throughout the years WPAFB has served as an anchor for the regional economy. “Wright-Patt has maintained a degree of economic stability to the area during times of downturns.” He feels the Dayton metropolitan area is undergoing a natural process of transition. As the national economy becomes more service oriented, a requisite for regional economic success will be the development of a higher level of skill sets. Jenkins stated that the business sector has managed to remain resilient in the face many obstacles and expects this trend to continue.

In her work as a transportation consultant, Carla Lakatos noted that economic development in areas further from the center of the region, such

as along Interstate 75 from Dayton to Cincinnati in Warren and Butler counties, has expanded over the last several years. This has generated many new entry level jobs that are a challenge to fill due to a lack of mobility by those in the labor force likely to take those jobs. The regional economy will be helped by finding innovative and efficient means to fill these holes by providing public transportation routes that simultaneously fit the needs of the regions' workforce and employers. She believes the expanding economies of Warren and Butler counties are indicative of Cincinnati's growing economic significance to the Dayton region. As this growth continues she expects the two economies will fuse together and form one large economic region.

Brian Pedtke described the loss in personal income through manufacturing layoffs as putting additional strain on small businesses that rely on the strength of the local economic base. This has also hampered local community development efforts. He stated that greater state involvement in coordinating local economic development efforts would help the region's economy.

While sympathetic to those who are caught in the middle of the transition, Christina Howard is more optimistic about the economy's potential investment opportunities than she has been in her 30 years of involvement in economic development. She states that this new investment will be instrumental in allowing the region to capitalize on the growth and innovations expected to take place at WPAFB. Due to the outcome of the Base Realignment and Closure (BRAC) process, the Dayton Development Coalition estimates a net gain of 3,000 government and contractor jobs to the region, acting as the catalyst needed to spark a wave of small business ventures that will play

supportive roles in research and development. Due to the congressionally-approved recommendations of the BRAC Commission, the Dayton MSA will become the military's center for aerospace medicine research, development, training, and education. Howard identified four areas in which the Dayton region will have a competitive advantage and believes these key industries will play a major part in Dayton's transition. These are aerospace research and development, information technologies, advanced

materials manufacturing, as well as aerospace medicine and human sciences. Howard stated that the key to long term regional success will be the ability of local governments and businesses to work with WPAFB to identify ways to cause economic growth to spill over into the local economy, something that has been lacking in the past.

For example, Wright State University's Boonshoft School of Medicine has collaborated with WPAFB and the affiliation between these institutions is only expected become stronger. These, as well as other synergetic relationships between local businesses, colleges, governments, and military, will provide the region with opportunities for economic growth.

"This new investment will be instrumental in allowing the region to capitalize on the growth and innovations expected to take place at WPAFB."

—Christina Howard

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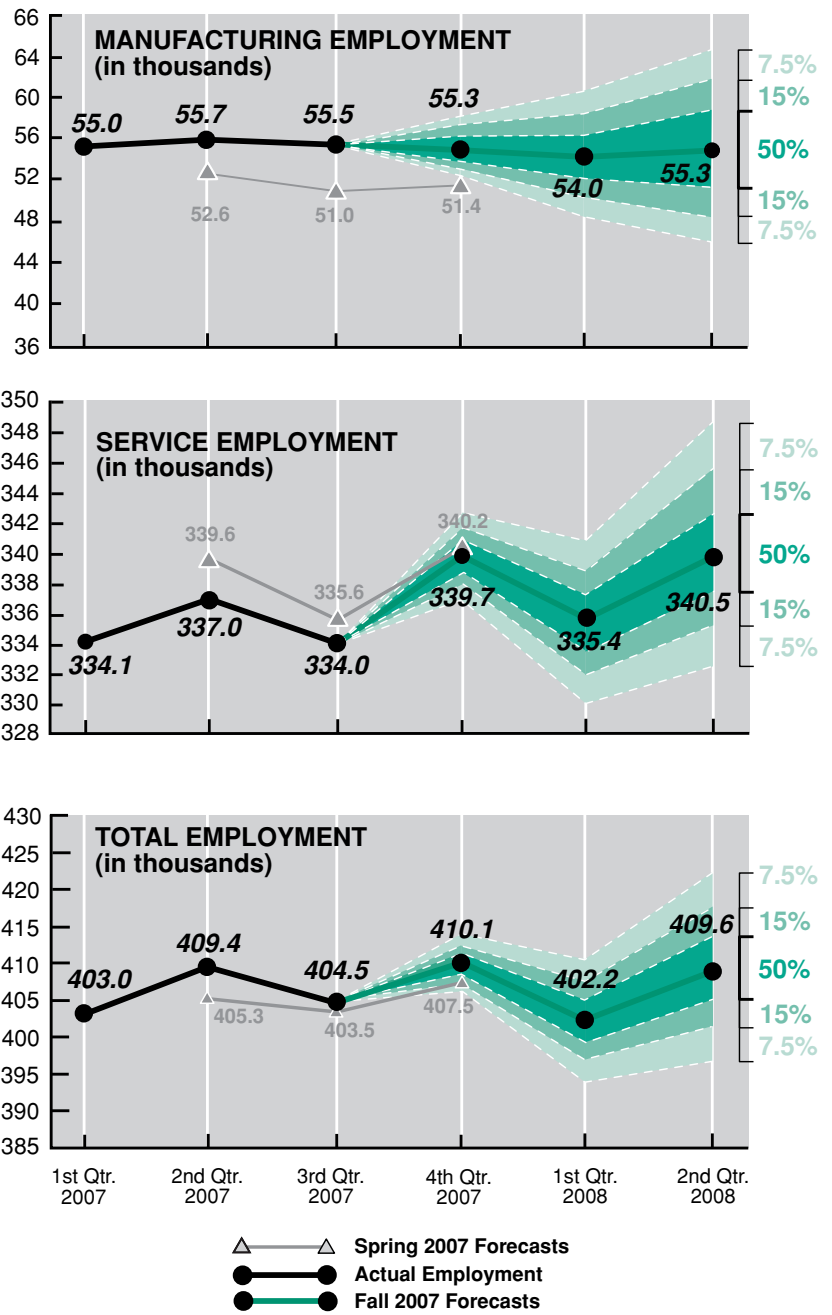
REGIONAL EMPLOYMENT FORECASTS

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

Manufacturing Industry Employment—After several instances of overly optimistic forecasts which failed to predict the full extent to which manufacturing employment would actually decline in the Dayton MSA, the *Report's* forecast this past spring erred in the opposite direction. So I am happy to say that regional manufacturing employment was higher than forecasted over the past half year. The forecast for the remainder of 2007 through the midpoint of 2008 begins with a moderate decline in manufacturing employment through the first quarter of next year as the final Delphi layoffs ripple through the area. The econometric model used to generate the forecasts indicates that manufacturing employment will recover by the June 2008.

Service Sector—The Spring issue of the *Report* forecasted service sector employment fairly accurately, as illustrated in Figure 2 on this page. Employment in the service sector forecasted to remain near year its year earlier level of just under 350,000 jobs at the end of this year before beginning to show year over year increases in 2008. First quarter service employment is forecasted to fall due to seasonal factors to a level (335,400) that is about 1,000 employees above the first quarter 2007 level. Service employment during the second quarter is expected to rise to more than 340,000 employees or 3,500 more than midyear 2007.

Total Employment—The previous issue of the *Regional Economic Report* underpredicted total employment for the second quarter of this year (primarily attributable to the underprediction of manufacturing employment), and predicted third quarter employment more accurately. Total employment for the region is forecasted to remain near 2006 levels for the final quarter of the year. This is due to a decline in residential construction activity that offsets gains in manufacturing. The seasonal pattern is expected to continue, and total employment will fall during the first quarter before recovering by the middle of 2008.



NOTE: The cone shaped dark green and light green portions of the figures represent 50 percent, 80 percent, and 95 percent margins of error respectively for the forecasts.



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