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Wright State University Regional Economic Report, Spring 2008

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EMPLOYMENT

Employment levels in the Dayton region continued to follow a path that differed from those of the national economy over the past year—this time in a positive manner. U.S. employment levels turned downward, local employment showed signs of an upturn. While the Bureau of Labor Statistics (BLS) reported that total nonagricultural employment in the Dayton Metropolitan Statistical Area (Greene, Miami, Montgomery, and Preble counties) averaged 398,030 over the first three months of this year, down slightly from 399,400 a year earlier, but it is very important to note that if not for the temporary shut downs of two large production facilities, the region’s employment level would have risen for the first time since 2001. These temporary layoffs at the GM Moraine Assembly and DMAX engine plants, as well as slowdowns at any local suppliers they have, were due to a strike at an out-of-town upstream production facility (American Axle & Manufacturing). Many of these jobs have since returned now that the strike has ended.

Adjusting regional employment trends for the temporary nature of these layoffs indicates that employment is tracking upward. A particularly striking feature of these recent trends is that local employment is leveling off and actually gaining some slight positive momentum at the same time that national employment has begun to wane. In fact the first four months of 2008 have been marked by the first decline in total U.S. employment since 2003.

THE MANUFACTURING INDUSTRY

As mentioned in prior issues of this newsletter, the manufacturing industry has been particularly important to the region over the past century. Although manufacturing was a vital source of
economic growth for many regions in the U.S. over that time, it was particularly important to the Dayton area. This is because (among other reasons) it made up a larger share of local employment than was the case for most regions nationally, it provided a significant flow of funds to the region from outside the region, it provided higher median earnings to hourly production workers than was the case for production workers in other regions, and it served as a significant source of demand for local business to business service providers. This resulted in many years in which average as well as median income in the region was at or above the national average while the cost of living was below the national average.

As is evident to anyone who has observed the region for a while, manufacturing employment has suffered from very dramatic swings in which large layoffs have been a regular part of the local economic scene for decades. For the past few decades the overriding trends are that while manufacturing output has retained roughly the same share of region’s total economic output, manufacturing employment and its relatively high pay levels has made up a progressively smaller share of the region’s total employment. These long-term trends should continue. Any increases in manufacturing employment that might occur in the near future will probably be short-term reprieves from the downward long-term trend.

In reviewing the economic factors that are leading indicators of the region’s manufacturing industry over the next six to 18 months, there are a series of mixed signals.

Positive factors include:
- The declining value of the dollar putting upward pressure on demand for domestic manufactured goods, including those made in Dayton;
- recent and forthcoming relocations of Air Force activities to the Dayton area drawing more defense related manufacturing industry employees (although not necessarily production employees) to the region;
- the recent increase in average weekly hours of manufacturing production workers to over 42 hours per week, suggesting increases in employment among manufacturing production workers may be forthcoming.

Negative factors include:
- The general slowdown in the U.S. economy, hindering demand for manufactured goods;
- the continued long-term transition to less labor intensive (more capital intensive) manufacturing processes;
- the continued commoditization of many manufactured goods, making more markets for manufactured goods increasingly competitive, therefore providing lower earnings for owners and workers alike.

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MORE NOTEWORTHY TRENDS—HEALTH CARE, BUSINESS SERVICES, AND CONSTRUCTION

A closer examination of local employment on an industry specific basis employment revealed noteworthy employment gains for the health care industry as well as the scientific and technical services industry. Due to a variety of factors, the health care industry promises to experience continued increases in demand while remaining relatively labor intensive. This should cause it to be a source of regional and national employment growth for a wide array of health care and management related occupations. Employment in this industry rose by 1100 to nearly 55,000 workers, continuing a lengthy upward trend that has generally not been subject to the foibles of the business cycle and making it one of the largest employment sectors in the region.

Additionally, the professional, scientific, and technical services industry began to fulfill its promise as an industry that the Dayton region has a particular strength in by adding 400 jobs over the past year to 22,500 employees, a 2 percent increase. Employment in the other sectors of the professional and business services industry remained steady (Management of Companies and Enterprises and Administrative, Support, Waste Management, and Remediation Services). However, this trend remains behind the growth the industry has experienced nationally, which stands at 4 percent over the last year. This continues to be somewhat disappointing given the region’s traditional strength in this industry, the industry’s national growth rate over the past decade, and the apparent local entrepreneurial activity.

Another development worth mentioning relates to the construction industry. Despite a national decline in construction of nearly 4 percent from a year ago, regional employment was able to remain relatively steady on a year over year basis. Increases in construction activity were the result of expansion with regards to commercial activity—particularly for the retail trade industry, increased activity around Wright-Patterson Air Force Base, as well as several large construction projects for local school districts. This allowed for the construction industry to offset a sharp decline in residential construction.

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PRICES AND EARNINGS

The cost of living for the Dayton MSA remains relatively low. It currently stands between 5 percent and 8 percent below the national average, depending on the source. This represents a roughly 1 percent to 3 percent decline in our region’s cost of living relative to the national level since one year ago.

According to the National Compensation Survey, average annual earnings averaged $41,278 for full-time workers in 2007, up nominally from $40,354 in 2006. However, median earnings for full-time workers fell slightly from $34,362 in 2006 to $34,320 in 2007. The increase in average earnings coinciding with a slight decrease in median earnings is consistent with recent national trends suggesting that average workers had not been experiencing the benefits of recent expansions in the U.S. economy. Average hourly earnings for all workers (full-time and part-time) were up $.72, averaging $18.80 per hour last year (a 4 percent increase). Additionally, median hourly earnings for all workers were $15.00 in 2007, which was also an increase of $.11 from a year earlier.

The Occupational Employment Statistics Survey, which uses a slightly different method for its estimates but has been updated sufficiently to allow a comparison of local and national earnings, lists mean annual earnings in 2007 for the Dayton MSA as $39,840 based on hourly earnings of $19.15. However, median hourly earnings for the Dayton MSA were $15.19, which was above the national median of $15.10. Overall, these statistics indicate that local incomes are probably slightly less widely dispersed than is typically the case in the rest of the U.S.

HOUSING MARKET

Finally, average property sale prices are an imperfect measure of housing values, yet they represent one of the best indicators available of local housing prices. For the second consecutive year average sale prices of homes in the Dayton area declined, falling slightly less than 1 percent in 2007. It is important to note that this decline is significantly smaller than the decline in home sales prices nationally, which fell nearly 8 percent last year.

Sources: Bureau of Labor Statistics and Dayton Area Board of Realtors.

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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.

**Total Employment**—Total employment for the region consists of manufacturing, service, and construction employment. It is forecasted to remain very similar to 2007 levels for the remainder of 2008. The quarterly seasonal pattern is expected to hold following service industry employment levels in declining during the summer months before increasing to meet seasonal demands at the end of the year. Although projecting a flat employment pattern for the year, if it proves to be accurate, regional employment trends in 2008 will be improved from those of recent years and will be better than the national employment trend, which is forecasted to decline over the same period.

**Manufacturing Industry Employment**—Once again, employment is expected to continue declining steadily through the remainder of the year, finishing the year with roughly 900 fewer workers. The econometric model used to generate this forecast indicates that this expected decline is primarily attributable to ongoing sluggishness in the national economy. As mentioned elsewhere in this newsletter, there are a mix of positive and negative factors that will influence employment in the manufacturing industry going forward, including continued devaluations in the dollar may help mitigate the extent of job losses in this industry, a growing presence of defense manufacturers, as well as continued shifts toward more capital intensive manufacturing processes.

**Service Sector**—Dayton area service industry employment is forecasted to finish the year with nearly 600 additional workers. Over the remainder of the year, service employment is expected to follow a typical seasonal pattern in which it rises in the second quarter and falls during the third quarter before rising in the fourth quarter. The third quarter decline is primarily attributable to summer time declines in education employment, while fourth quarter employment typically rises as schools open in the fall and the retail trade industry gears up for the holiday season.

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**NOTE:** The cone shaped dark green and light green portions of the figures represent a 90 percent margin of error for the forecasts. The darker green areas are most likely to occur.
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