

Vice President's Conversation on the Future

Trend Research: Economic and Employment Growth

Descriptor Definition

This descriptor white paper focuses on economic and employment growth trends in Ohio. It reviews recently published economic and employment growth trends and rankings that help explain how the overall economy is performing. It considers Ohio's relative strength in manufacturing as an economic driver including proportion of major sectors by gross domestic product (GDP). Employment growth is also discussed including employment by sector and recent unemployment statistics. The paper concludes with a summary of trends and the author's assessment of priorities.

Author Insights¹: Descriptor Relevance

The economic and employment growth in Ohio is often the primary issue on the minds of Ohioans and is almost always a top issue in local and statewide elections. The general public looks at a healthy growing economy as a reflection of well-being and prosperity. Both optimistic and pessimistic views of Ohio's economy and its trajectory are rampant in an election year. Opinions about how an economy is doing can vary greatly based on how data is measured, which indicators are used, measured over what time period. The issue of the economy and employment growth is nonetheless important and relevant because of the myriad of socioeconomic implications affecting overall quality of life for Ohioans.

Economy

Ohio's GDP, the broadest measure of economic health, totaled almost \$551.8 billion in 2012, ranking the state seventh largest in the nation. Despite the size of the state's economy, "economic performance" was ranked only forty-ninth for the ten year period (2002-2012) in the 2014 ALEC-Laffer State Economic Outlook Rankings, an annual report that ranks states on economic competitiveness. The ranking is based on three criteria: state gross domestic product, absolute domestic migration and non-farm payroll.

The report also gives Ohio a ranking of twenty-third for "economic outlook" using 15 state policy variables weighted equally to measure potential for growth (Laffer, Moore & Williams, 2014). This 2014 ranking moved Ohio from forty-seventh in 2008 to twenty-third in 2014, largely due to the change in the tax code eliminating the estate tax, reducing the corporate income tax and reducing personal income tax. An article in the *Business Insider* published in September 2014 "The 50 US State Economies From Worst to Best", agrees with the assessment that the Ohio economy, although improving and "poised for better economic times in the near future with shale energy discoveries and a return of manufacturing", is still middle of the pack in most indicators. This report ranks Ohio thirty-fifth based on seven economic measures.

Ohio has a regionally diverse economy. According to JobsOhio, the state is comprised of six geographic regions with specific industry strengths and resources. Figure 1 is a map that illustrates the six regions; Southeast, Southwest, Central, West, Northwest and Northeast, which also correspond and are anchored by the metropolitan areas of Nelsonville, Cincinnati, Columbus, Dayton,

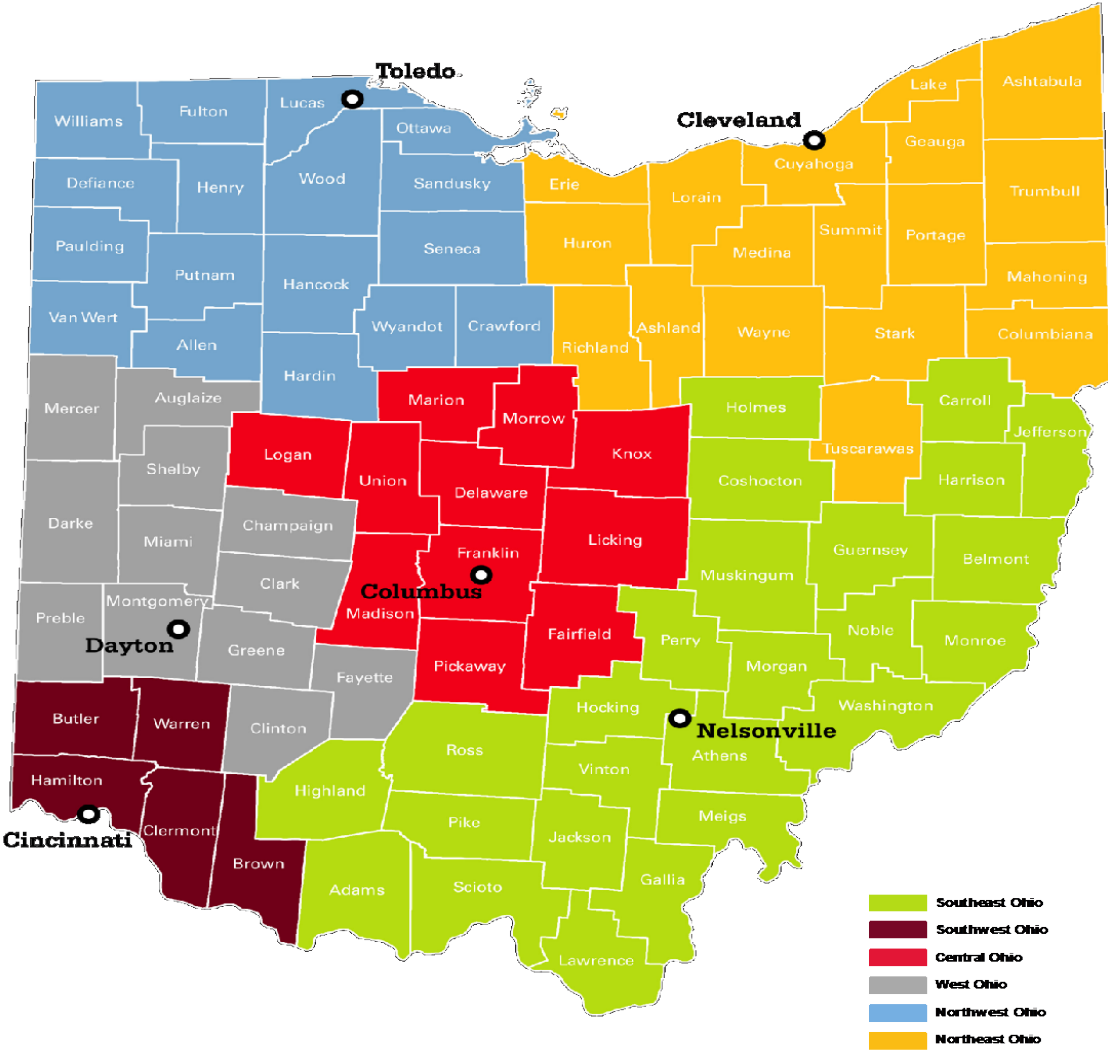


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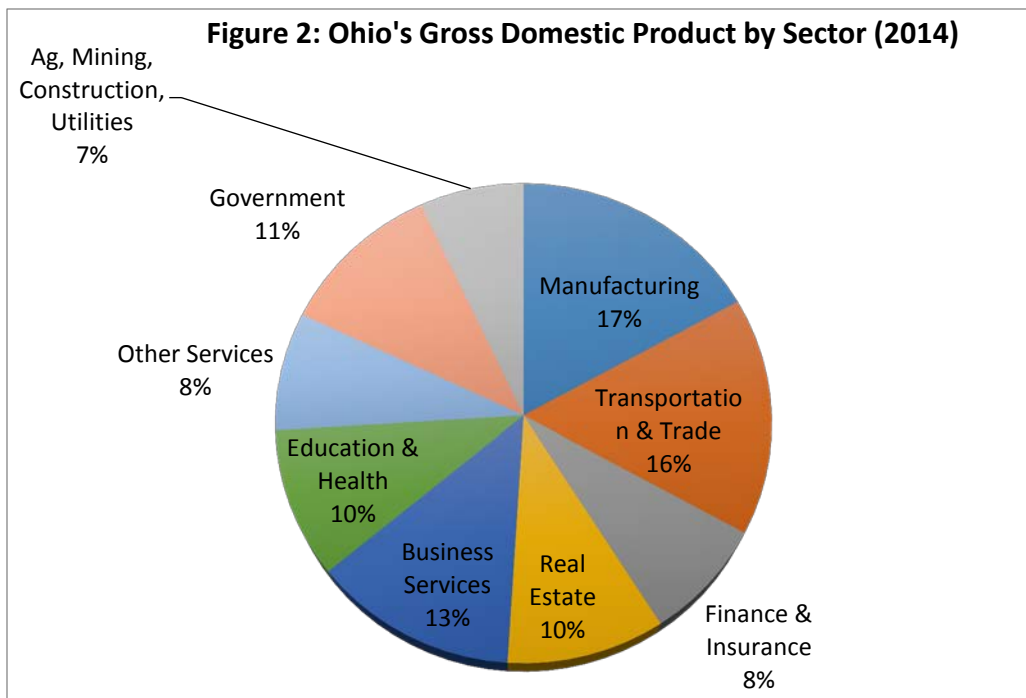
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Toledo, and Cleveland. The regions are quite distinct demographically, politically and economically. For instance, while the Northwest boasts easy access to Great Lakes seaports, the Southeast region has access to major Marcellus and Utica shale resources. All six regions share strengths in manufacturing, one of Ohio's primary competitive advantages.

Figure 1. Map of JobsOhio Regions



Ohio is frequently cited as being a relatively strong manufacturing state. The 24/7 Wall Street's August 2014 report, "10 States Where Manufacturing Still Matters", ranked Ohio ninth in share of



manufacturing output, at 17.7 percent of GDP, compared to 12 percent for the U.S. Figure 2 illustrates Ohio's current share of GDP by sector. With almost 18 percent of output in 2013 coming from manufacturing, the article points out that no other industry accounted for a greater share of the Ohio's GDP.

According to the Ohio Development Services Agency (DSA), Ohio's strength in manufacturing lies primarily in the production of plastics and rubber, fabricated metals, and electrical equipment and appliances. Ohio is also a leading producer of steel, autos, and trucks. Transportation equipment and fabricated metals are Ohio's two largest manufacturing industries and are closely identified with a number of nationally recognized firms including General Electric, Honda, Ford, AK Steel, Timken, and Whirlpool, although Wal-Mart is still the single largest private sector employer with 49,700 Ohio employees.

The manufacturing and agriculture sectors contribute to Ohio's relatively strong export economy. Ohio ships products to 210 countries, with Ohio's exports accounting for about 3.1 percent of the U.S. export total. The state's two leading export commodities according to the DSA are motor vehicles and machinery. Ohio is also a leader in the production and export of soybeans and corn, is a leading producer of hogs, and is fifth in egg-producing states. Manufacturers add value to raw products and the food processing sector is targeted by JobsOhio as a key cluster industry with potential for growth. In August 2014, 24/7 Wall Street ranked Ohio fourth for exports from manufacturing, which have been growing at an average rate of 12 percent from 2009-2012.

Interspersed within the manufacturing, agriculture and service sectors are many small businesses that help to make up the economic strengths of these sectors. Eight Small Business Development Centers (SBDC's) are located throughout Ohio to assist entrepreneurs and small established businesses to grow and thrive. Since 1985, the SBDC program has fostered small business growth with many local community partners including college and universities, economic development agencies, chambers of commerce, and other community organizations (DSA 2014). Although the assistance and resources

are widely available, Ohio still lags behind the U.S. in measures of innovation and entrepreneurship with an index of 94.7 on a 100-point scale, according to the “Innovation Index”. This is an index project funded by the U.S. Department of Commerce Economic Development Administration and developed by Purdue University that measures innovation based on input and output characteristics to determine level of resources available to entrepreneurs and businesses (statsamerica.org 2015).

Author Insights

Despite the recent recession, Ohio remains a strong and well-diversified manufacturing and agricultural state and ranks among the top ten economies in the nation. With economic strengths anchored in basic export industries, Ohio has a greater propensity for growth and prosperity than other states with relatively weak manufacturing and/or agricultural economies. Conversely, Ohio is harder hit by economic downturns since basic sectors are always the first to slow sales and reduce employment and the last to ratchet up once the economy stabilizes. This up and down pattern is one that is typical for producer-oriented economies. Ohio’s economy is currently on an upswing, in large part due to pent up demand and increased consumer confidence. Ohio is well positioned for growth given the diversity of its’ six regions with concentrated strengths in manufacturing and agriculture in addition to robust health care, insurance and other key service sectors. To secure a sustainable economic future, continued concentration should be given at the state, regional and local levels to assist entrepreneurs and small businesses to start-up, grow and thrive in Ohio’s multilayered, diverse economy.

Employment Growth

An annual *Columbus Dispatch* review of key Ohio economic indicators released in February 2014 shows that the past three years have been among Ohio’s best job-growth periods in more than two decades. And yet 2013 was one of the state’s worst years for jobs and unemployment since the recovery from the Great Recession began (Vardon). According to the September, 2014 *Business Insider*, Ohio lost 12,400 jobs in July alone, the worst performance in the country. On the heels of this news, the Ohio Department of Job and Family Services (ODJFS) projected weak employment growth or declines in the coming months.

According to the DSA, there is reason to be positive about the employment growth outlook. This agency predicts that employment will increase 9.3 percent over the 10-year period between 2010-2020, a projected gain of 498,100 jobs. Also, during the past three years, Ohio added 143,500 jobs according to the latest figures released by the U.S. Bureau of Labor Statistics (BLS), reducing the number of unemployed by 122,780 and trimming 2 percentage points off its unemployment rate (Vardon, 2014). In August 2014, Ohio’s total labor force was just over 5.7 million with 5.4 million people employed and another 323,800 unemployed, for an unemployment rate of 5.7%. This compares to the national rate of 6.2% in July 2014.

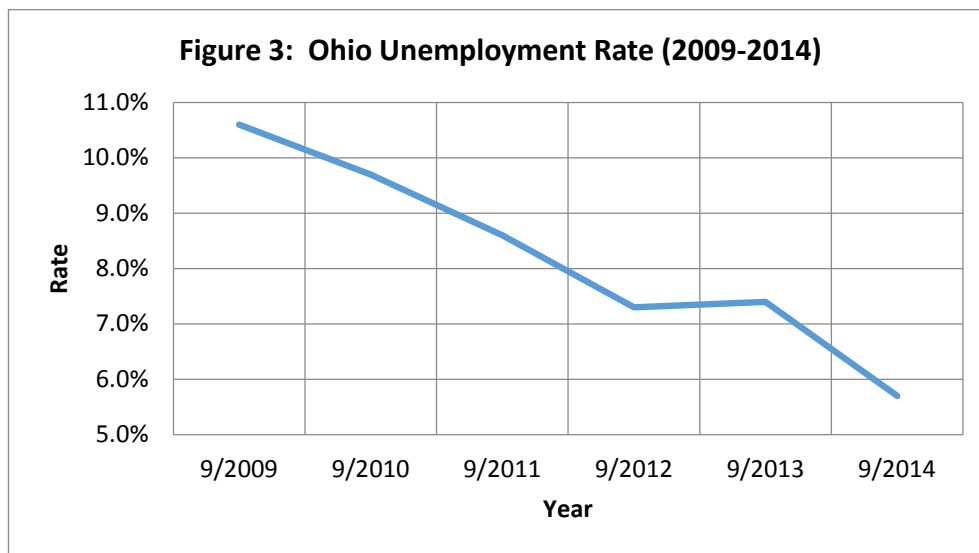
Table 1: Wage and Salary Employment (July 2014)		
Industry	Employment (000’s)	Percent
Total Ohio	5,288	100.0%
Mining	13	0.2%
Construction	188	3.7%
Manufacturing	674	12.7%

Trade/Trans/Utilities	990	18.6%
Information	73	1.4%
Financial Services	279	5.3%
Prof/Tech Services	705	13.3%
Health/Education	880	16.7%
Leisure/Hospitality	517	9.8%
Other Services	216	4.1%
Government	753	14.2%

Source: Ohio DSA

Also according to the BLS, employment is growing quickly in sectors but is either stagnant or falling in others. The fastest growing sectors during the past 12 months according to the BLS included: 1) Mining and logging with an increase of 6.5 percent, 2) Professional and business services with an increase of 2 percent, and 3) Manufacturing with an increase of 1.9 percent. Table 1 shows employment by general sector and proportion of the economy in July 2014.

During the same 12 months, in 2013, Ohio's unemployment rate rose from 6.7 percent to 7.2 percent – higher than the national rate of 6.6 percent and the highest year-to-year increase in the U.S. Nearly 31,000 people were added to the unemployment rolls (Vardon 2014). Annual unemployment rates, from September 2009 to September 2014 are illustrated in Figure 3 below.



Another factor in employment growth are average wages. With elections on the horizon, politicians and think tanks are hotly debating whether an increased minimum wage will affect employment growth or not. But the fact remains that the Ohio average wage lags behind the U.S. The U.S. average wage grew 3.8% between March 2013 and March 2014, growing to \$1,027 in the first quarter of 2014. In Ohio, wages increased by 2.8 percent for an average weekly wage of \$909 (Gnau).

Author Insights

As a practitioner and educator in the field of community economic development in Ohio during the past 15 years, the author has observed that employment growth can be limited not only by available jobs, but by workforce readiness constraints as well. Employment growth aligns not only with growth in the economy but also with changing demographics and workforce dynamics. Ohio's workforce continues

to get older and technological advances are quickly replacing traditional employee skills. Planning for the replacement of critical management and layman positions within key Ohio companies will be necessary to ensure increased employment growth. The workforce system will need to anticipate and prepare new or existing workers for emerging or future job opportunities.

Since it seems clear that population growth is not necessarily the pool from which businesses will be able to recruit, existing unemployed, underemployed or graduating youth seem the most likely prospects for filling job openings that are created or vacated by retiring baby boomers. Companies report that job openings frequently go unfilled and work is sent to out-of-state plants as a result. To combat the problem, in February 2012, Governor Kasich issued Executive Order 2012-02K, creating the Governor's Office of Workforce Transformation (OWT). A survey conducted in 2014 by the OWT of over 1,900 Ohio businesses in all nine JobsOhio sectors found that employers anticipate needing to hire over 90,000 workers in almost 200 demand occupations within the next 1-5 years.

Overall Summary of Trend Information

When considering longer term (five years) trend data, it would appear that both the Ohio economy and employment growth have improved considerably, with unemployment dropping to below 6 percent from a high of almost 11 percent in September 2009. But a shorter-term snapshot shows that the economy and employment seem to have stalled somewhat, lagging behind the U.S. and most other states. Trend projections are much rosier. The literature review provides strong reason to believe that Ohio's economy and employment growth are on an upward trajectory based on a strong export economy and that the economy should continue on this path for the longer term.

Possible Trends for the Future

Looking out to the year 2035, there are three likely outcomes for the trend in Ohio's economy and employment growth including *a priori* probabilities of occurrence. Probabilities of occurrence are estimations (given the information available and knowing it will likely change) that provide a starting point for conversations about the future. They can be illustrated as: (1) best outcomes possible or trends that go one direction; (2) the status quo are maintained; or (3) trends go a different/opposite direction (Millett).

1. Ohio's economy and employment growth will continue to improve due to increased manufacturing, agriculture and energy development and associated in Ohio. Several of the diverse resources retrieved for this article point to Ohio's strength in manufacturing as a reason why the economy is expected to improve. Since Ohio is a net export state (one of the top exporter states in the nation), this also bodes very well for an increase in economic and employment growth. Workforce development including preparation and access to labor is and will become a major issue for employers as they continue to ramp up and increase employment. Based on 2014 trend information, this outcome has a *a priori* probability of .50.
2. Ohio's economy and employment growth will stagnate based on the most recent data that shows a slowing of growth. Trends from July, August and September 2014 are showing slowed economic and employment growth in Ohio. This could be explained by adjustments in seasonal data or other statistical anomaly or this could be a longer-term trend. Based on other indicators that show strength in the economy, on changes in the tax code and other policy adjustments geared towards workforce development this scenario is less likely. Based on trend information, this outcome has a *a priori* probability of .30.

3. The economy and employment growth will decline in Ohio. This scenario, although unlikely due to a lack of supporting trend data, is nevertheless possible. Ohio has experienced peaks and valleys in the economy and employment in the past, most recently, the great recession of 2008-2009. Past history tells us that these events do occur infrequently. Since the Ohio (and U.S.) economy just experienced a major shock within the past decade, it is expected that the economy will improve, not decline. Based on trend information, this outcome has a *priori* probability of .20.

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¹ Along with the research-based data and statistics included in this document, is information provided by the research paper author(s). Although these author insights are not directly cited with research references, they reflect research, observation, logic, intuition, and well-considered expectations compiled by the author(s). The Author Insights sections of this paper are offered for discussion and to help provide a wider perspective for incorporating the descriptor data into the possible future trends. These conclusions are drawn by the author(s) using their knowledge of the scholarly references and their years of professional experience related to the descriptor, and are provided to help the reader more effectively envision the future impact and effects of the descriptor.

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