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ECONOMIC DEVELOPMENT TARGETING DATA BASE

by Jerome A. Deichert

Introduction

Local and state economic development practitioners recently have begun to realize that programs and activities must be targeted. A major problem facing communities and other organizations working on economic development is determining how to use limited resources to ensure the highest return in reaching local economic development goals. A targeted program focuses on the economic activities that are most likely to be successful for an area. Targeting can help stretch limited staff, time, and money.

How should economic development efforts be targeted? Ideally, targeting should be driven by information on industry and business performance trends, local and state competitive advantages, and local and regional economic development goals. A set of high-performance industries (high-performance could be defined in many ways) should be screened for compatibility with local competitive advantages, available resources, and goals. These industries and business areas that make it through the screening process become candidates for various economic development programs, including recruitment of new businesses, retention and expansion of existing businesses, or start-up of new businesses.

The Targeting Data Base

The Center for Applied Urban Research at the University of Nebraska at Omaha has developed an Economic Development Targeting Data Base to assist Nebraska’s local and regional development groups in targeting their economic development efforts. The data base is founded upon one indicator of industry performance—employment growth. An examination of local growth trends is insufficient to assess industry performance. The long-term prospects of any local industry are influenced by the economic well-being of that industry nationally. Therefore, this study also considers national and regional trends to better assess industry performance.

Data are provided for the United States, the West North Central Region (comprised of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota), and Nebraska individually. The data base draws from two sources. The source for data about national and regional employment is County Business Patterns. Although County Business Patterns provides comparable data that are easy to obtain, data about many industries in Nebraska are suppressed because of the small number of firms. Therefore, Nebraska’s employment data were obtained from the Nebraska Department of Labor.

Employment totals generally were reported for all four-digit Standard Industrial Classification (SIC) codes, although

About the Author

Jerry Deichert is a senior research associate at CAUR and a member of the governor’s Economic Forecasting Advisory Board. His interest in economic and demographic issues in Nebraska has resulted in numerous published articles.
sometimes it was necessary to report data at the three-digit level to retain consistency between the two sources.

County Business Patterns does not include all employment for the elephants government employees, railroad employees, and self-employed persons. In addition, agricultural services, forestry, and fisheries; mining; construction firms; and certain service areas of transportation and public utilities were excluded selectively from the state base. It should be emphasized that the data in these tables represent private employment.

Therefore, data on employment in industries that contain both public and private employment (predominantly service industries) consist only of private employment. This especially is true for schools and educational services, social services, hospitals, and some other health services.

Contents of the Data Base

The data base consists of six main files (tables), each containing the same information but sorted differently. Only industries that added employment at all three levels between 1977 and 1984 are included in the files. The files are available on diskette or in printed form. This article describes the targeting data base by examining portions of two tables.

The first column of each table contains the SIC code, followed by a brief description of the industry. The third column consists of a three letter abbreviation of the broad industrial category. The next three columns present the percentage changes in employment between September 1977 and September 1984 for the United States, West North Central Region, and Nebraska. If an industry had no employees in 1977 but reported employees in 1984, the industry is listed as being added employment.

The seventh column indicates the size of the industry in Nebraska in 1984. Nebraska’s location quotient is represented by letters corresponding to a region’s employment, to prevent disclosure of any confidential information.

The last two columns contain location quotients for Nebraska. Location quotients can be used to identify communities’ possible competitive advantage. Industry targeting involves more than performance assessment; it should identify the industries that will take advantage of a community’s competitive advantage.

A location quotient compares an industry’s share of total employment in Nebraska with that industry’s share of either national or regional employment. Location quotients can be used to identify industries that bring dollars and jobs into an area. When an industry’s local share exceeds the national average, that industry’s employment may be considered export employment and may indicate a comparative advantage that should be exploited. When an industry’s local share falls below the national average, that industry may rely on imports into the state, and it is a potential candidate for import substitution.

Location quotients are calculated by dividing the percentage of individuals employed locally in a particular industry by the percentage of employees nationally in the same industry. For example, if an industry represents 1 percent of Nebraska’s employment and 2 percent of U.S. employment, the location quotient is 0.5 (1/2). On the other hand, if an industry represents 2 percent of Nebraska’s employment and 1 percent of national employment, the location quotient becomes 2.0 (2/1).

If the location quotient is larger than 1, the industry is considered to have local potential; but, if the location quotient is smaller than one, the industry most likely is underrepresented in Nebraska and is not meeting local needs. Obvious, the location quotient lacks sufficient precision to say that a value of 1 is a clear dividing line. Other authors have suggested that a location quotient should exceed 1.25 to indicate export activity. They also suggest a value of .75 to indicate that an industry is not meeting local needs.

Table 1 lists 25 industries with the fastest rates of employment growth nationally. The following example will show how to use the data in this table.

Look at SIC code 7392, management and public relations services. Table 1 shows that this is a service industry that has increased 93.0 percent nationally, 52.5 percent regionally, and 101.3 percent in Nebraska. The size category (H) means that the industry employs less than one hundred workers. 1.28 and 1.49 suggest that Nebraska exports management and public relations services to the United States and the region.

Table 1 compares the rate of growth in both the national and regional employment. Industries in which Nebraska’s share exceeds the national average are represented by the nation’s fastest growing industries. Location quotients of less than 1 outnumber those greater than 1 by a margin of 2 to 1. When compared to the region, a similar 2 to 1 margin emerges. Several of the 25 fastest growing industries nationally also stand out in Nebraska. Nebraska’s location quotient of 3.54 for direct mail advertising services is the nation’s highest for the top five industries: Computer related services, not elsewhere classified; computer programming and software services; and communications equipment, not elsewhere classified. In all three industries, Nebraska significantly outpaced the United States, and, in two of the industries, Nebraska appears to be an exporter to the United States. Nebraska appears to be importing computer programming and software services, with a location quotient of .75; mail order houses, with a location quotient of 1.10; and photographic equipment with a location quotient of 1.05. For example, Nebraska is one of Nebraska’s most important exporters, with a location quotient of 3.54 when compared to the nation and 3.33 when compared to the region. Montana had no export to both the national and regional rates. Using criteria described below, direct mail advertising would be a candidate for additional screening.

Table 2, which was also extracted from the database, contains information similar to that presented in table 1 but it is arranged differently. Data in table 2 are ranked by added employment size of the industry. Since six classes, they are sorted by percentage change in Nebraska employment. Table 2 contains information for industries with 2,500 to 49,599 employees.

In general, the state’s largest industries are not among the fastest growing industries nationally, regionally, or at the state level. Furthermore, table 2 illustrates that rates of change in Nebraska’s largest sectors typically are below the national rates. Three major exceptions are data processing services (20 percent); management and public relations services (147.5 percent); and business services, not elsewhere classified (73.0 percent). These are probably exporters with location quotients exceeding 1.25.
Table 2  Fastest Growing Industries in Nebraska, 1977-84

<table>
<thead>
<tr>
<th></th>
<th>Broad Industry Category</th>
<th>Percentage Change in Employees 1977-84</th>
<th>Industry Size for 1980 U.S.</th>
<th>Location Quotient 1984 Nebraska to U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5810</td>
<td>Eating and drinking places</td>
<td>26.8</td>
<td>19.2</td>
<td>11.8</td>
</tr>
<tr>
<td>8000</td>
<td>Nursing personal care facilities</td>
<td>7.0</td>
<td>5.2</td>
<td>2.5</td>
</tr>
<tr>
<td>5860</td>
<td>Hospitals</td>
<td>20.7</td>
<td>17.1</td>
<td>14.0</td>
</tr>
<tr>
<td>6020</td>
<td>Commercial and other services</td>
<td>20.1</td>
<td>15.2</td>
<td>12.8</td>
</tr>
<tr>
<td>5410</td>
<td>Grocery stores</td>
<td>20.0</td>
<td>13.6</td>
<td>12.8</td>
</tr>
<tr>
<td>4210</td>
<td>Tracking, local and long distance</td>
<td>19.0</td>
<td>15.2</td>
<td>14.8</td>
</tr>
<tr>
<td>8250</td>
<td>Colleges and universities</td>
<td>18.2</td>
<td>16.3</td>
<td>16.3</td>
</tr>
<tr>
<td>7110</td>
<td>Police and fire protection services</td>
<td>18.0</td>
<td>14.8</td>
<td>14.8</td>
</tr>
<tr>
<td>7349</td>
<td>Building maintenance services, n.e.c.</td>
<td>17.0</td>
<td>13.8</td>
<td>13.8</td>
</tr>
<tr>
<td>3310</td>
<td>Communications transmission/telegraph</td>
<td>16.0</td>
<td>12.7</td>
<td>12.7</td>
</tr>
<tr>
<td>7419</td>
<td>Building finishing contractors</td>
<td>15.5</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>4120</td>
<td>Wholesale trade</td>
<td>14.3</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>7360</td>
<td>Public relations</td>
<td>14.0</td>
<td>11.2</td>
<td>11.2</td>
</tr>
<tr>
<td>7210</td>
<td>Wholesale trade</td>
<td>13.0</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>7250</td>
<td>Retail trade</td>
<td>13.0</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>7360</td>
<td>Public relations</td>
<td>13.0</td>
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<td>10.6</td>
</tr>
</tbody>
</table>

Summary

The previous examples and tables are suggested ways of using the data base. The files (tables) in the data base are few of many possible ways the data base could be arranged. Users who obtain the data base on diskette will be able to manipulate the files easily.

It should be emphasized that the Economic Development Targeting Data Base, by itself, will not provide all of the information needed for targeting local or regional economic development efforts. Employment trend data and particularly job training will aid in the identification of high-performance industries—industries that might be best bets for development efforts.

No attempt was made to screen industries for compatibility with the competitive advantages and goals of the state. Furthermore, industries selected are not ranked for compatibility with the local area or region.

Because two sources of data were used, as stated earlier, there may be inconsistencies in reporting rates and procedures. In addition, data for the states comprising the West North Central Region were suppressed frequently, resulting in estimation of some employment counts. Consequently, caution should be used when comparing national, regional, and state data. The data is not intended to provide the final solution, but is intended to help narrow the field of feasible industries.

Because an industry has grown in the past, does not guarantee that it will grow in the future. Therefore, the targeting data base should be augmented with employment projections. A report prepared by the U. S. Department of Labor contains projections for three-digit SIC codes for the years through 1995 and would be an excellent supplement to the economic development data base.

For more information about this data base call the author at 554-8311.

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