June 2007

team neo

Northeast Ohio Economic Review

Welcome to the June installment of Team NEO's "Quarterly Regional Economic Review" for Northeast Ohio. Our key quarterly indicators – employment, wages and GRP – have been updated through the first quarter.

Bottom line: Our economy continues the trends of last year. Northeast Ohio continues to grow, although moderately. 2007 is expected to be the sixth consecutive year of growth in regional economic output.

In addition to our standard indicators, in this edition we look more deeply at the make-up of our economy. If you have wondered which sectors contribute most to our economy, both in terms of output and in terms of total salaries and wages, you will find it here.

We then take a deeper look at the longer-term trends in output, employment and productivity for some key sectors.

For example, the data show that while manufacturing jobs are down from the late 1990s, productivity (output per worker) has improved dramatically. Manufacturing output has been more stable than is popularly recognized and still represents 21% of our economic output. Employment has suffered certainly, but the great boost in productivity is keeping this sector globally competitive and a differentiator for the region.

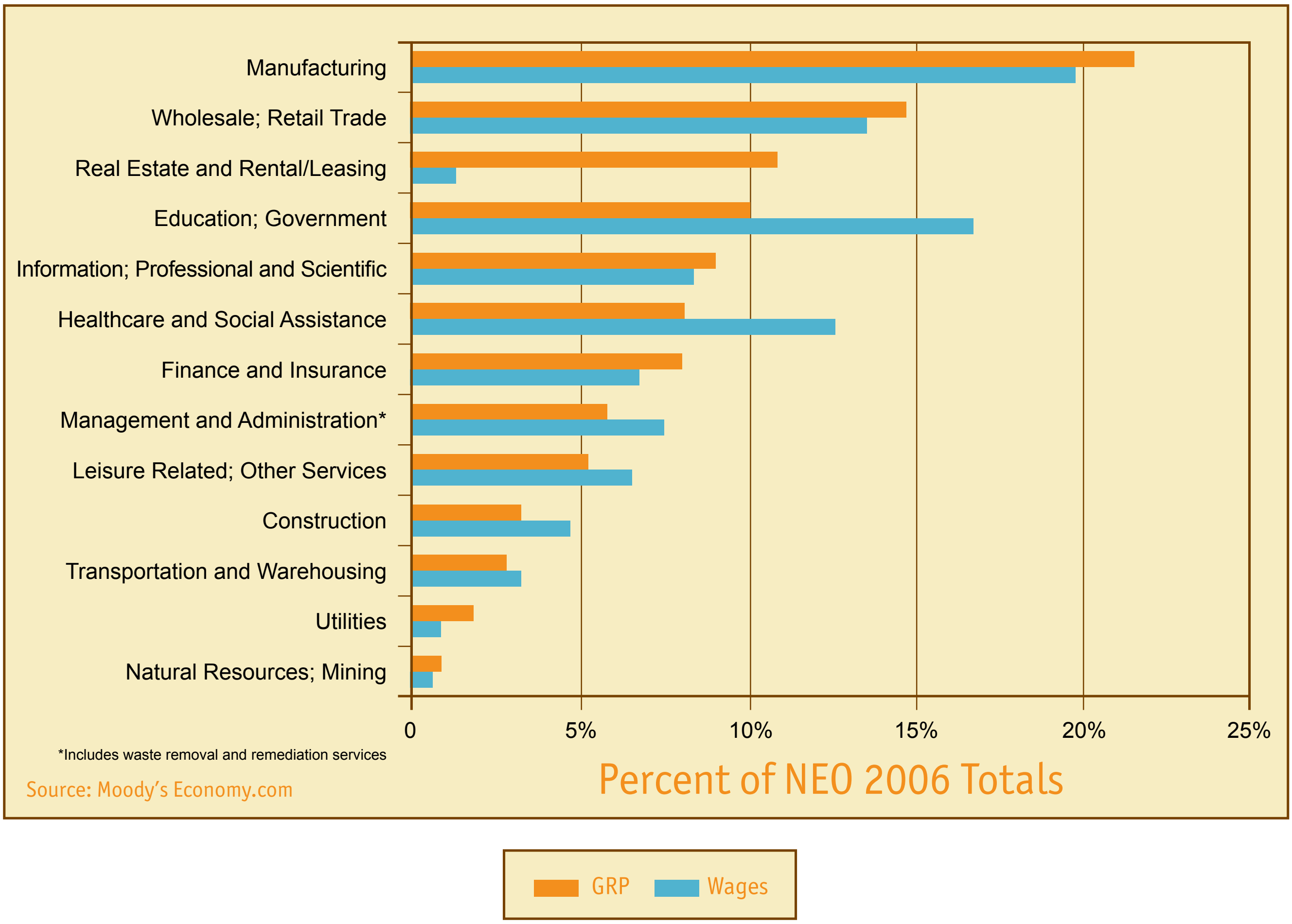
We hope you enjoy this edition as it is structured to meet your needs.

Thomas A. Waltermire, chief executive officer, Team NEO

2006 Industry Sector Salaries/Wages and GRP as Percent of NEO Totals

Manufacturing Leads NEO in Output and Payroll

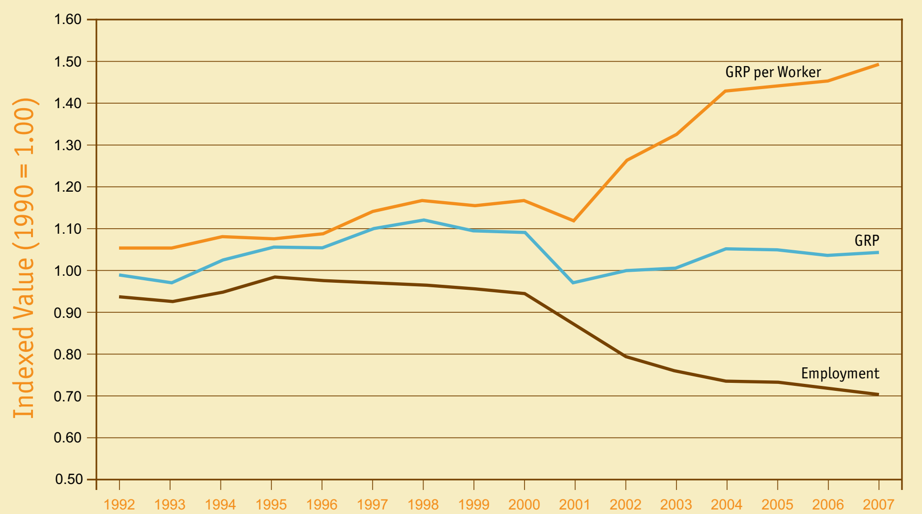
This chart shows the sectors that make up the Northeast Ohio economy.
It displays each sector's share of economic output (Gross Regional Product) and its share of the region's wages/salaries. Manufacturing continues to play the lead role in both output and wages. NEO's manufacturing sector provides 21% of our output and almost 20% of regional payroll. Wholesale and retail trade is #2 in output. Government and education is #2 in wages/salaries. The rank order of NEO's top five sectors is similar to the U.S. However, for the U.S., manufacturing is only 14% of output and the other top segments are each about 12-14% of the total economy.



A competitive region is ma

Manufacturing: 1992 - 2007

Productivity Gain Keeps Output Steady



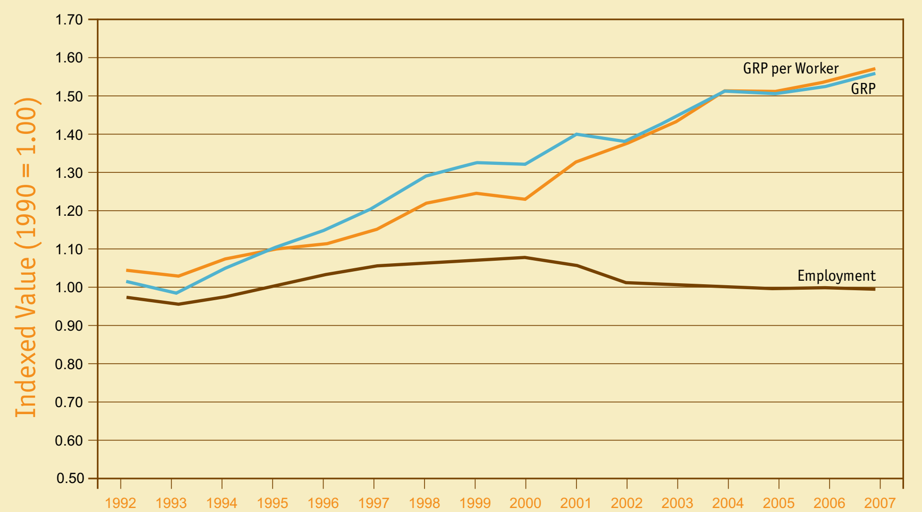
Source: Moody's Economy.com

This chart shows the 15-year trend in regional output from manufacturing, the total number of workers and the output per worker. Contrary to popular perception, manufacturing output has been relatively flat. Today it is higher than 15 years ago, but still below the late 1990s. Across the U.S. manufacturing employment has been in decline and that has also been the case in NEO with total manufacturing jobs down 25% from the late 1990s. Productivity (output per worker) has improved dramatically. This has kept NEO manufacturers globally competitive. When we measure manufacturing by employment, it is down considerably. When we measure it by output, it is nearly as strong as ever. Manufacturing continues to be a vital driver of regional wealth creation.

Wholesale/Retail Trade: 1992 - 2007

Output Growth Fueled by Productivity Gains

Output from wholesale/retail trade has grown steadily the last 15 years. Employment growth has been minimal, declining after Sept. 11, and has been flat since 2002. Productivity gains in this sector have been just as impressive as for manufacturing. Innovations in service methods, logistics (the Wal-Mart business model) and information systems have fueled this productivity boom. The benefit has largely gone to consumers in the form of lower or stable prices for most consumer goods.

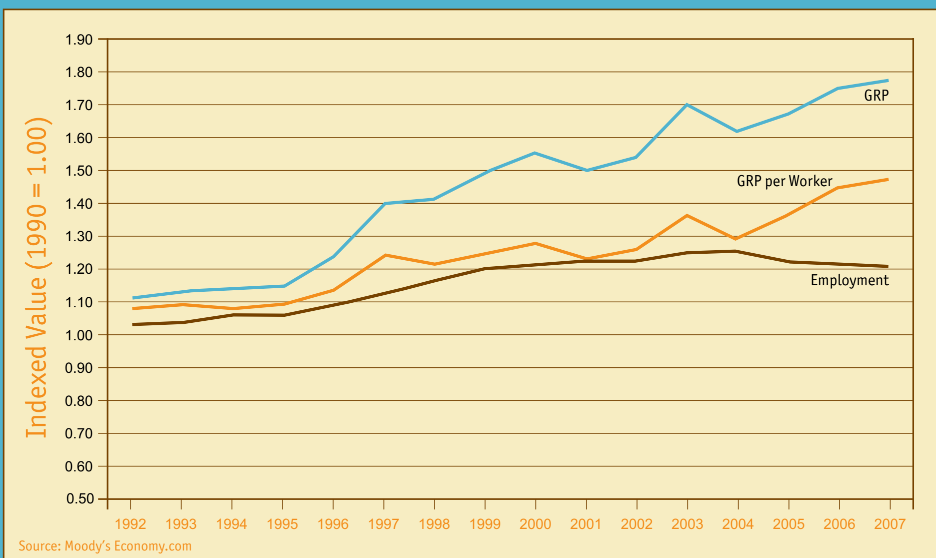


Source: Moody's Economy.com

de of competitive industries.

Finance/Insurance: 1992 - 2007

Strong Growth Sector

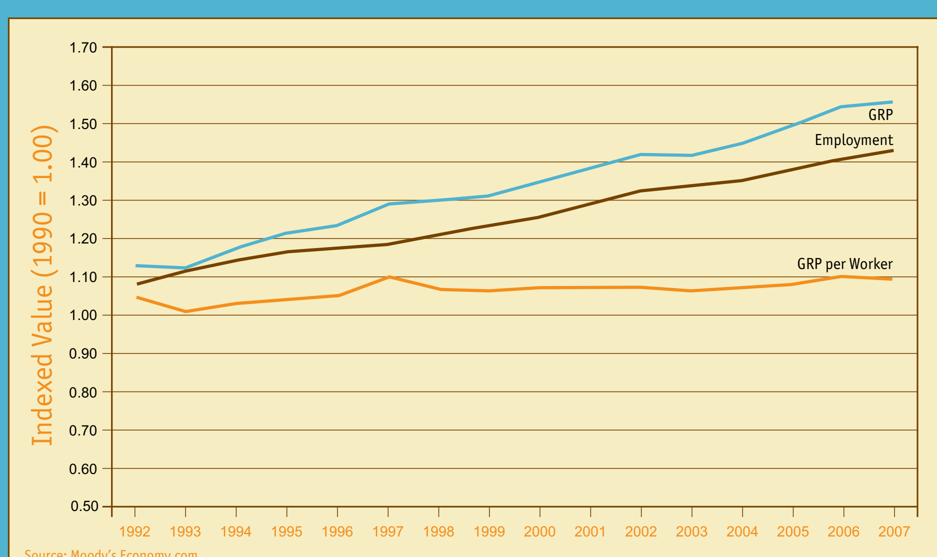


The finance and insurance sector has been a source of strong growth for the region, up nearly 80%. Total workers grew steadily during most of this period and productivity gains have been regularly achieved. More recently output has continued to grow and productivity has jumped, allowing that growth to be achieved with slightly fewer workers. If productivity continues to improve at these rates, this could be another sector with limited employment gains longer term.

Healthcare/Social Services: 1992 - 2007

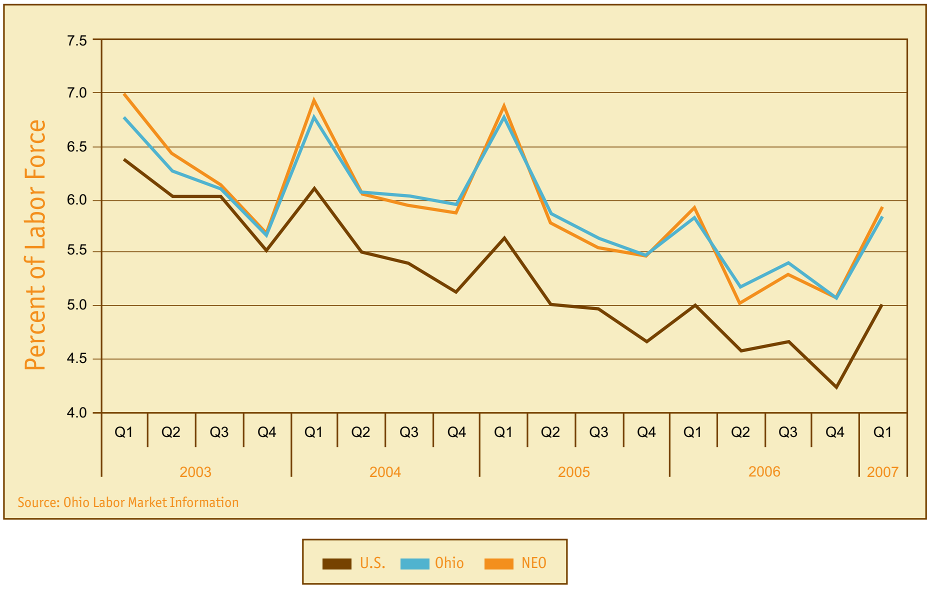
Strong Employment Growth; Productivity Gains Modest

Healthcare and social services contribute significantly to the Region's GRP (8% of GRP for NEO versus 6.5% for the U.S.). Output has been steadily climbing with little volatility. In contrast to the other sectors, there has been only modest improvement in output per worker. So, as output or demand grows, employment grows with it. This has been one of the strongest sectors for employment in NEO and nationally. National data actually show a decline in output per worker with employment growing faster than output. Limited productivity gains translate into faster rising costs.



Unemployment Tracks Normal Seasonal Trends

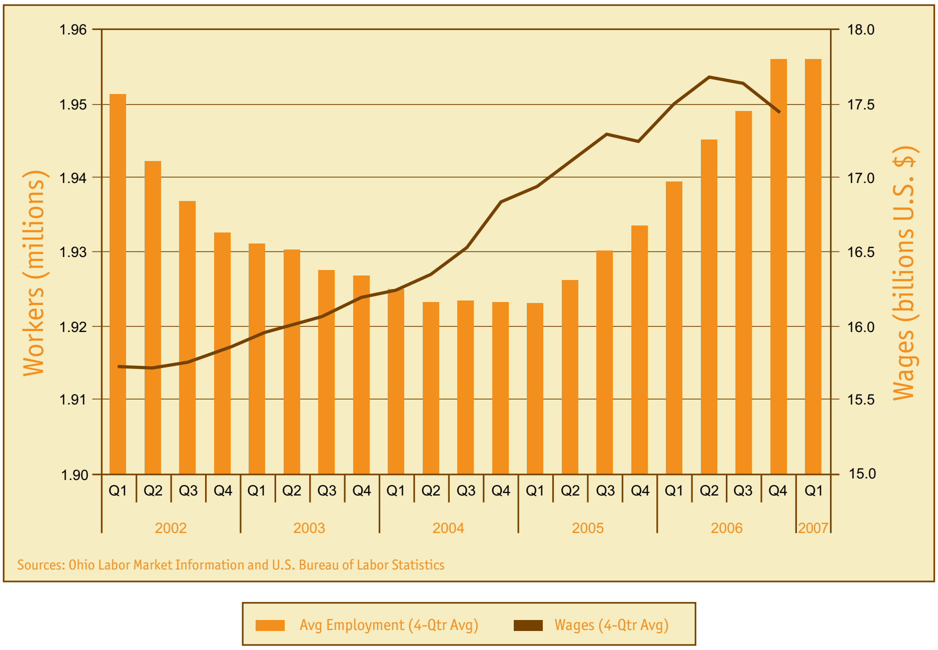
The increase in unemployment from Q4 06 to Q1 07 is a typical seasonal event, due to post-holiday layoffs and seasonal industries such as construction. Note the Q1 increases in prior years. NEO (and Ohio) unemployment rates are similar to last year and also remain about three quarters of a point higher than the U.S. The unemployment rate is defined as the proportion of people in the workforce who are not working and are actively looking for work or awaiting recall. The NEO average rate of roughly 5.4% for the last four quarters is relatively low by historical standards.



Source: Ohio Labor Market Information

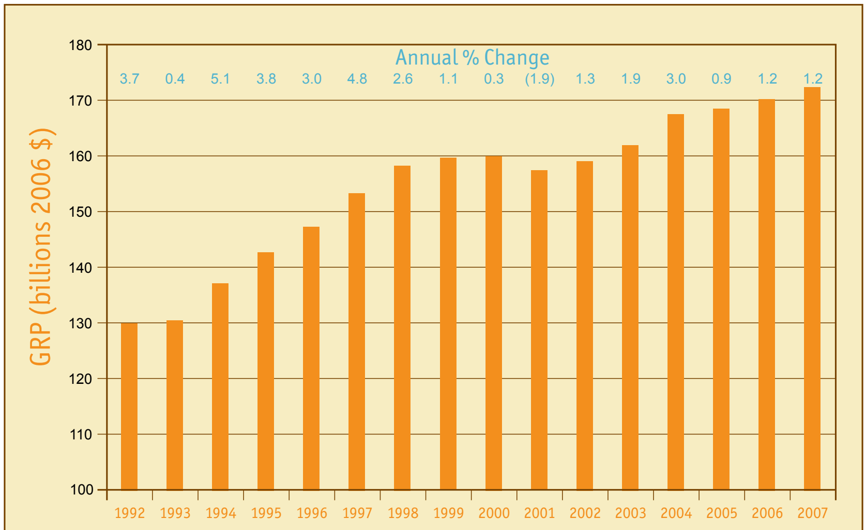
Employment at Highest Level in Five Years

Total regional employment remained at a level higher than any time in the last five years. Total jobs are up about 2% from the trough two years ago. Total real wages and salaries ($17.5 billion per quarter) declined slightly in the fourth quarter of 2006. Real wages/salaries (after subtracting inflation) have been rising at about 2.7% per year the last five years. This is a good indicator that our region's wealth is improving.



Sources: Ohio Labor Market Information and U.S. Bureau of Labor Statistics

NEO Economy Continues to Expand



Source: Moody's Economy.com; 2007 data are estimated

Despite the many challenges the Northeast Ohio economy has faced, our economic output is now 32% higher than 15 years ago. 2007 is expected to be the sixth consecutive year of growth in gross regional product. However, growth has been slow, averaging only about 1% the last two years compared with the U.S. growth rate of 3.3% during 2005-6. 2007 is currently estimated to continue to grow slowly at 1.2%, but this could be revised still lower based on recent downward revisions in growth estimates for the U.S. as a whole.

Data Sources

Team NEO uses a number of data sources for the Regional Economic Review. One of the primary sources is Moody's Economy.com (www.economy.com) regional modeling system. This firm is a leading independent provider of economic, financial, and industry research and data that specializes in national and metropolitan economic growth forecasts. Moody's Economy.com county level output, employment and payroll historical data are estimated from several publicly available sources and are summarized into the Team NEO regional footprint. It is important to understand that data provided by Economy.com are estimates of economic activity.

Team NEO also uses data from federal and state sources as part of the report. As with Economy.com, the information for the Team NEO footprint are derived from data reported at either the county or metropolitan level. We rely heavily on data from the U.S. Bureau of Labor Statistics (www.bls.gov) and Ohio's Labor Market Information (lmi.state.oh.us) for information on wages, unemployment and both general and industry-specific employment. In addition, Team NEO uses data from the Census (www.census.gov) to track housing-related activity including the number of single and multi-family permits, as well as their values.

Charter One Foundation

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