Indicators for a World-Class Business Climate

Measuring Progress in the Milwaukee Region
2009

Prepared by:
Bret J. Mayborne
Economic Research Director
Metropolitan Milwaukee Association of Commerce
414-287-4122

MMAC

Metropolitan Milwaukee
Association of Commerce

Table of contents

Executive Summary i-iii
Methodology & Changes iv-v
Comparable Metros - An Overview vi
Scorecard vii-viii

Business Growth p. 1
a. Gross metropolitan product per capita p. 2
b. Number of business establishments p. 3
c. Value of manufactured exports p. 4
d. State & local government taxes p. 5
e. Corporate license & income taxes p. 6
f. Fortune 500 headquarters p. 7

Infrastructure Support for Business p. 8
a. Electric rates p. 9
b. Water & wastewater costs p. 10
b. Domestic destinations served nonstop p. 11
c. Air freight activity p. 12
d. Commute times p. 13

Minority Business Participation p. 14
a. Black unemployment rate p. 15
b. Minority officials & managers p. 16
c. Women officials & managers p. 17
d. Number of minority owned businesses p. 18
e. Sales/receipts in minority owned businesses p. 19

Prosperity for All p. 20
a. Total personal income p. 21
b. Per-capita personal income p. 22
c. Median household income p. 23
d. Poverty rate p. 24
e. Average annual pay P. 25

Quality of Life p. 26
a. Net population migration p. 27
b. Crime rate p. 28
c. Housing costs p. 29
d. Cost-of-living index p. 30
e. State & local tax intensity p. 31
f. Performing arts groups p. 32
g. Air quality index p. 33

Ready to Learn p. 34
a. Student-teacher ratio p. 35
b. Current expenditures per student p. 36
c. High school completion rate p. 37
d. Births to teenage mothers p. 38

continued

Ready to Work p. 39
a. Nonfarm employment p. 40
b. Unemployment rate p. 41
c. Educational attainment p. 42
d. Post secondary degrees p. 43

Return on Tourism & Conventions p. 44
a. Traveler expenditures p. 45
b. Convention room nights p. 46
c. Hotel & motel rooms p. 47

Startup & Growth Capital p. 48
a. Employer firm births p. 49
b. Venture capital investments p. 50
c. Academic research expenditures p. 51

Sources p. 52

Executive Summary

An airline cockpit has scores of instruments available to the pilots to monitor during flight. The pilots periodically scan these indicators to see whether the airplane is operating properly, but in-flight the pilots rely on a few key instruments as their guide.

The pilot instrument metaphor illustrates how to look at the indicators in this third version of the "Indicators for a World Class Business Climate". This summary discusses the results using a full scan of the 42 indicators in this effort, but also examines the performance of five "dashboard indicators" which encapsulate the present direction of the local business climate.

A scan done of the benchmark indicators in aggregate reveals 21 of 37, or 57%, of the indicators trended in a positive direction over time in the Milwaukee area. This percentage roughly matches the performance of the indicators in the 2005 study (58%) but is markedly lower than the 86% observed in the 2001 tabulation.

The slide in Milwaukee's absolute performance in the two most recent studies may be attributed in part to the time frame in which these studies were conducted. Research for the first benchmark study occurred when the manufacturing sector was in a period of relative strength and growth. Conversely, the subsequent two benchmarking reports have dovetailed with a marked slide in the manufacturing sector.

When considered relative to the 20 other benchmark metros, the Milwaukee area performed at or above the comparables group's median in 17 of 40 indicators, or 43%. The current level somewhat exceeds the 34% registered in 2005 but ranked similar to the 42% in 2001. These results suggest that, relative to other metros, things have not changed much, particularly over the past four years.

Among the 21 comparable metros, the percentage of indicators above median for the group ranged from 68% (Minneapolis) to 26% (Cincinnati). Milwaukee, with its 43%, ranked in the lower third of the group, tied at fifth lowest (with St. Louis). In this peer group, Milwaukee's performance does not match up well with the top performing areas.

Areas that fared worse in the relative performance across indicators largely fell in the upper Midwest (Detroit, Cincinnati, Cleveland, St. Louis). Yet if one assumes that poor performance is inevitable due to our geographic position, then the relative success of areas like Minneapolis, Indianapolis and Columbus must be accounted for. High performance in the upper Midwest is possible.

Now, let's look more closely at the five dashboard indicators – those indicators that are perhaps most critical in monitoring the area's economic performance.

Gross metropolitan product per capita – Metro Milwaukee ranks seventh highest among the comparables group of 21 (including Milwaukee) in 2008. Also, its growth rate in this measure over the 2003 to 2008 period was higher than consumer inflation and higher than the median growth among the comparables. This likely represents the best result among the five dashboard indicators and suggests that the area has a good economic base of quality, value-added business activity. The key question is whether this will continue in the future.

Median household income – Growth in median household income failed to keep pace with inflation over the 1999 to 2008 period (18.3% vs. 29.2%), suggesting that in the absolute sense, metro area households have lost ground. Yet relatively speaking, the level of income stood at the mid-point of the comparables group.

Household income is a bottom-line measure of the economic health of a base unit of the economy, the household. The fact that metro Milwaukee trended downward over time and that the area only reached the mid-point suggests that this indicator may be on the slide, in part due to lost manufacturing jobs, which have helped hold up household incomes in the past.

Net population migration – Over the 2000 to 2008 period there was a net outflow of 49,512 people from the metro Milwaukee area, or 3.3% of the 2000 population. Metro Milwaukee ranked fifth worst among the comparables in this measure.

People are voting with their feet by moving out of the area on net. Why? Perhaps cold weather, taxes, manufacturing base, lack of job opportunities, but as mentioned earlier other areas in the upper Midwest - Minneapolis, Indianapolis, Columbus - with similar environments have positive migration flows. It can be done.

Nonfarm employment – The metro area saw a gain of 2.6% over the 2003 to 2008 period, a gain of 21,800 jobs. Job growth trailed the median posted among the comparables group (+5.1%).

In some respects this result is an artifact of demographic trends (although whether people follow jobs or jobs follow people is up for discussion). The sluggishness is perhaps indicative of the negative trend in manufacturing. Early signs for 2009 suggest Milwaukee maintained a similar relative position (toward the bottom) among the comparables in the downturn.

Educational attainment – The percentage of the metro population age 25 and older who have graduated with a bachelor's degree or higher increased over the 2000 to 2008 period, from 27% to 30.9%. The 2008 percentage matches the mid-point of the comparables group.

To the extent the metro area needs to transition from manufacturing to knowledge-based jobs, this measure is critical in maintaining and attracting such employment. The up-trend is a good sign, but the fact that the Milwaukee area is just average fails to give the area a positive edge.

The metro area failed to distinguish itself in any of the dashboard indicators mentioned above with the possible exception of gross metro product. In most cases Milwaukee just reached the median or mid-point among these five indicators. This may in many respects keep us in the ball game, but it is not a position that will set us apart competitively from other areas.

The reality is that the margin of error is small between making ground and losing ground. Our relatively small job growth and low unemployment rates combined with net migration outflows suggest that the Milwaukee area can not afford to waste resources. The low relative graduation rates in Milwaukee Public Schools, high African American unemployment rates and low management rates for both women and minorities indicate that Milwaukee as a region is not fully utilizing the resources it has available. High population growth, high net migration areas may be able to afford being resource inefficient, but metro Milwaukee can not.

The regional growth model has shifted over the years from one emphasizing low input costs to one based more on the quality and quantity of knowledge based assets. This paradigm puts an emphasis on smart and sustainable growth vs. fast growth. The key question becomes whether the area has the tools to transition from its traditional manufacturing core to an economy where manufacturing is balanced with knowledge-based, high value-added services. Milwaukee certainly has a nice base in this regard – insurance, money management, information technology and data processing. Over time this transition will be critical to maintaining the relatively strong position the area maintains on most prosperity measures.

At the secondary education level the Milwaukee area fares well in indicators that reflect on its knowledge assets, ranking at the median in educational attainment, degrees awarded per capita and academic research expenditures per capita. Milwaukee does not fare as well at the primary level with lower than median ready-to-learn indicators – student/teacher ratios and high school completion rates for MPS, as well as the metro area's high rate of births to teenage mothers. The ready-to-learn indicators largely drive the ready-to-work indicators. A failure to improve Milwaukee's relative position in this area is likely to make any sort of knowledge-based transition all the more difficult.

In summary, the Milwaukee region has the assets to compete in a global marketplace for investment and talent. Our ability to maintain and grow this standard is dependent on our ability to significantly improve these indicators, especially those that reflect on the skills and education of our population. Success will not be without its costs, but with a more effective use of resources, we can reduce our cost structure and raise our quality of life.

If we don't know where we stand, it is difficult to mark a path to our destination. This report can serve as both a benchmark of our progress and a measure of where we need to be.

For more information

Please contact Bret Mayborne, MMAC Economic Research Director, at 414-287-4122 or bmayborne@mmac.org.

Methodology

Forty-two indicators were used in this benchmarking study, spanning nine categories. A number of indicators were suggested for inclusion and evaluated. Those included were selected based on an indicator's relevancy, availability and timeliness.

Milwaukee's performance regarding these indicators was benchmarked in two ways. First, did the measured indicator improve in the Milwaukee area itself over a specified time period. An upward pointing arrow was designated for those indicators that had shown improvement. Second, how did an indicator's value or its trend do in Milwaukee vs. the median among the group of comparable areas (including Milwaukee). An upward pointing arrow was given for those indicators where Milwaukee matched or outperformed the median point of this group.

In many cases, an indicator's comparables performance was measured based on the indicator's percentage change over a five-year time frame. The five-year time span used was generally the most recent five-year period available. In other cases, an indicator's comparables ranking was based on the absolute value of an indicator for the most recent year available. Which method was used in measuring an indicator's performance was based on a judgement of what was the most relevant and revealing view of the data.

Metro area data was used wherever possible in that a metropolitan area largely defines the geographic extent of an area's dominant economic, cultural and social influence. If data aggregated at the metro area level was not readily available, data for the metro area's dominant city was used. If no data was available at either the metro or city level, state level information was used for states in the region and states in which benchmark comparables were located.

This year’s benchmark study includes an expanded list of comparables. The list includes all major metro areas (1 million or more persons) in the Great Lakes region, as well as other metros of similar size (metro or media size) or status. The total number of metro areas included numbers 21 (including Milwaukee) vs. 16 in previous versions. All metros but one are included in both lists. Sacramento is excluded from the current group largely because of its lack of comparability on industry structure grounds.

Changes

A number of changes were made to the benchmark indicators since the previous version (2005), with a net addition of three indicators. These changes are discussed below.

As mentioned in the Methodology section, the number of metropolitan areas in the benchmark group increased from 16 (including Milwaukee) to 21. Only one metropolitan area in previous studies was dropped from the expanded list (Sacramento) while six were added (Baltimore, Chicago, Cleveland, Detroit, St. Louis and San Jose). The metropolitan areas used are from the 2003 set of metropolitan areas as defined by the U.S. Office of Management & Budget (OMB). In some limited cases, the 1999 set of metro definitions was used when data based on the newer definition was unavailable.

In previous versions of the benchmarking study, Milwaukee's performance was compared to the average of the benchmark metros. In this version, comparison is made to the median of the comparables group (including Milwaukee).

Four indictors were added to the list of benchmark indicators since 2005 while one was dropped, for a net addition of three indicators. In the Business Growth section, gross metropolitan product per capita was included. In addition, net population migration was added to the Quality of Life section and educational attainment to the Ready to Work section. In the Startup and Growth Capital section the patent activity index was dropped due to lack of current information, while the academic research expenditures (per 100,000 population) figure was added as a replacement.

In addition, changes were made to selected indicators. The electric rate indicator now reflects a localized figure for commercial/industrial customers vs. an all inclusive statewide measure for all customers. Median household income has replaced the median family income used previously. A high school completion rate (averaged freshmen graduation rate), replaces the high school dropout rate.

Comparable Metros - An Overview

Comparable Metro	Land Area Sq. Miles	Population 2008	Business estab-lishments 2007	Total Personal Income (000) 2008
Baltimore-Towson, MD	2,609	2,667,117	68,564	$126,241,805
Buffalo-Niagara, NY	1,567	1,124,309	27,131	40,933,556
Charlotte-Gastonia-Concord, NC-SC	3,098	1,701,799	45,830	66,305,113
Chicago-Naperville-Joliet, IL-IN-WI	7,212	9,569,624	244,860	433,773,910
Cincinnati-Middletown, OH-KY-IN	4,398	2,155,137	49,050	83,545,878
Cleveland-Elyria-Mentor, OH	2,004	2,088,291	55,842	83,232,594
Columbus, OH	3,984	1,773,120	41,077	67,607,244
Detroit-Warren-Livonia, MI	3,914	4,425,110	104,767	176,145,568
Indianapolis-Carmel, IN	3,863	1,715,459	44,191	67,449,258
Kansas City, MO-KS	7,857	2,002,047	52,752	80,817,123
Milwaukee-Waukesha-West Allis, WI	**1,460**	**1,549,308**	**40,322**	**66,684,848**
Minneapolis-St. Paul-Bloomington, MN-WI	6,062	3,229,878	93,894	154,593,103
Nashville-Davidson-Murfreesboro, TN	5,688	1,550,733	38,790	60,983,014
Orlando-Kissimmee, FL	3,491	2,054,574	59,005	71,371,457
Pittsburgh, PA	5,280	2,351,192	60,980	100,674,640
Portland-Vancouver-Beaverton, OR-WA	6,683	2,207,462	64,534	87,052,644
Raleigh-Cary, NC	2,116	1,088,765	29,272	42,722,031
Salt Lake City, UT	9,543	1,115,692	33,058	40,547,780
San Antonio, TX	7,339	2,031,445	40,635	70,823,559
San Jose-Sunnyvale-Santa Clara, CA	2,680	1,819,198	46,622	106,972,807
St. Louis, MO-IL	8,648	2,816,710	72,647	116,394,484
Median	3,984	2,031,445	49,050	80,817,123

Scorecard (alphabetical order):

Business Growth	Direction (1)	Comparables (2)
a. Gross metropolitan product per capita	▲	▲
b. Number of business establishments	▽	▽
c. Value of manufactured exports	▲	▽
d. State & local government taxes	▽	▽
e. State corporate license & income taxes	▽	▲
f. Fortune 500 headquarters	▽	▲
Infrastructure Support for Business		
a. Electric rates	N.A.	▲
b. Water & wastewater costs	N.A.	▲
c. Domestic destinations served nonstop	▽	▽
d. Air freight activity	▽	▲
e. Commute times	▽	▲
Minority Business Participation		
a. Black unemployment rate	▲	▽
b. Minority officials & managers	▲	▽
c. Women officials & managers	▲	▽
d. Number of minority owned businesses	N.A.	▽
e. Sales/receipts in minority owned businesses	N.A.	▽
Prosperity for All		
a. Total personal income	▲	▽
b. Per-capita personal income	▲	▲
c. Median household income	▽	▲
d. Poverty rate	▽	▽
e. Average annual pay	▲	▲
Quality of Life		
a: Net population migration	▽	▽
b. Crime rate (city)	▽	▽
c. Housing costs	▽	▽
d. Cost-of-living index	N.A.	▽
e. State & local tax intensity	▲	▽
f. Performing arts groups	▽	▲
g. Air quality index	▲	▲
Ready to Learn		
a. Student-teacher ratio	▽	▽
b. Current expenditures per student	▲	▲
c. High school completion rate	▲	▽
d. Births to teenage mothers	▲	▽
Ready to Work		
a. Nonfarm employment	▲	▽
b. Unemployment rate	▲	▲
c. Educational attainment	▲	▲
d. Post secondary degrees	▲	▲

Return on Tourism & Conventions	Direction (1)	Comparables (2)
a. Traveler expenditures	▽	N.A.
b. Convention room nights	▽	N.A.
c. Hotel & motel rooms	▲	▽

Startup & Growth Capital		
a. Employer establishment births	▲	▽
b. Venture capital investments	▲	▽
c. Academic research expenditures	▲	▲

Summary	Direction (1)	Comparables (2)
Number of positives/total indicators	21/37	17/40
Percent positive	57%	43%

(1) An upward pointing arrow is given an indicator if it is improving over time in the metro Milwaukee area.

(2) An upward pointing arrow is given an indicator if the value or the trend in the value for metro Milwaukee is higher or more positive than the median among all comparable metro areas.