

# **Dashboard Indicators for the Northeast Ohio Economy**

Prepared for  
The Fund for Our Economic Future

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## Table of Contents

I. Introduction	2
II. The Importance of Regional Competitiveness	8
A. Regional Economic Development and Economic Growth	8
B. Snapshot of NEO's Economy	8
C. A Brief Description of the Analytical Approach	9
D. Performance of Northeast Ohio's Traditional Industries	11
E. Growth Patterns of Successful and Comparison Cities	13
F. Emerging Industries	24
III. Constructing the Regional Economic Framework	28
A. Overview of the Process	28
B. Pre-selected Regional Growth Concepts	30
C. Factor Analysis	33
D. Description of the Factors	35
IV. Measures of Regional Growth	39
V. Contributions of the Factors to Regional Growth	44
VI. Rankings of Metropolitan Areas According to Factor Scores	46
A. Skilled Workforce	46
B. Assimilation/International Centers	49
C. Racial Inclusion	51
D. Legacy of Place	53
E. Income Equality	55
F. Locational Amenities	57
G. Business Dynamics	58
H. Urban/Metro Structure	61
VII. Constructing the Dashboard Indicators	63
VIII. Lessons for the NEO Economy	66
IX. Conclusion	69
Appendix A: Brief Description of the Long Term Forecasts in the Competitiveness Analysis	71
Appendix B: Primary Source Data Behind the Variables Used for Component Analysis	72

## I. Introduction

The Fund for Our Economic Future (The Fund) has embarked on an unprecedented multi-year collaborative effort “to encourage and advance a common and highly focused regional economic development agenda that can lead to a long-term economic transformation” of the Northeast Ohio (NEO) economy. The effort brings together a host of partners, including the 60 some foundations comprising the fund, key civic, business, and academic leaders, and the region’s economic development and workforce development professionals to focus on creating “a shared regional vision and action agenda.”

The Fund’s initiative to foster regional collaboration and spur economic growth is comprised of four critical elements:

1. Identifying key interventions through the stakeholder dialogue,
2. Creating and implementing effective initiatives,
3. Tracking the progress and effectiveness of the initiatives, and
4. Forming and communicating realistic expectations regarding the impacts of the initiatives on the regional economy.

This report presents both the methodology used in developing the Dashboard Indicators and the list of indicators that were designed to track the progress of the NEO economy. It is expected that in the future additional indicators may be considered to track new economic initiatives that have been and will be created to help promote its growth.

Many organizations concerned about the economic development of their region have established a set of indicators that measure the economic vitality of their region. However, many of these efforts share common pitfalls in that they attempt to include too many indicators, which can be confusing and misleading to stakeholders and decision-makers. Too often, indicators that are “interesting” and seemingly useful are assembled into a dashboard system with the idea that the user can “pick and choose.” The approach ignores whether or not the indicators have a meaningful relationship with the underlying regional or local economy. In developing Dashboard Indicators for Northeast Ohio, we adopted the adage that “less is more.” Like the dashboard of a car, a regional dashboard should display only critical indicators necessary to properly operate and maintain the vehicle. We constructed eight indicators based on 40 economic, demographic, and social variables that we demonstrate through empirical analysis are necessary in understanding and monitoring regional growth.

Our first step in this effort was to conduct a statistical analysis of the economic competitiveness of the NEO region compared with other metropolitan areas. Several of the comparison areas may be considered “too far of a reach” for NEO region, while others share similar characteristics and have followed similar historical economic development trends. The findings of this analysis are summarized in this report with a more detailed description included in the appendix.

The second step was the development of a framework for understanding the economic growth dynamics of the region. A regional framework provides a way of prioritizing economic factors—such as the percentage of adults holding graduates degrees—according to the extent to which they are correlated with economic growth measures. Variables that are shown to contribute the most to growth should be given top consideration for inclusion in the Dashboard.

Therefore, before identifying key regional indicators, one must first develop a framework from which to select meaningful indicators and to understand how these indicators are related to the factors that influence regional growth.

As the NEO region embarks upon this major grassroots effort to conceptualize a new strategy for the region's economic future, one of the roles of the dashboard project is to provide a framework for understanding the important determinants of economic growth. Because of the multi-dimensional nature of the regional growth process, it is important that the construction of the dashboard indicators be based on sound empirical evidence.

Establishing the proper framework for regional growth is important for the success of this overall initiative for several reasons:

1. Regional economic growth is dictated by powerful market forces. Appropriate and effective intervention must be based on an understanding of how to nudge these forces in the direction that the region prefers and how to turn the local assets “into the wind,” so to speak, so that market forces can carry the region forward. Attempting to stand against the current is futile and foolish. Therefore, it is critical that participants of the initiative understand which forces drive the regional economy, the direction they are pushing the local economy, and how to use these forces to their advantage.
2. Understanding these forces helps the region's stakeholders to envision its possible future courses. Wishing to become another region, which has evolved from an entirely different resource base and subject to different historical circumstances, contributes little to a concrete strategy for the future. Rather, understanding the possible contributors to future growth and taking stock of the region's assets are important steps in pursuing a viable economic development strategy.
3. Economic development is a never-ending process, and constituents must continue to monitor and discuss their region's progress while charting their future course. The purpose of developing a set of local economic development indicators is to extract ideas from the complex phenomenon of local economic development and provide a basis for ongoing policy discussion and planning. A regional framework along with a proper set of key indicators provides such a basis to assess progress.

There is considerable experience from which to better understand the factors that contribute to regional growth. Each of the more than 300 metropolitan areas in the country has pursued economic development efforts for decades and continues to respond to its specific circumstances in line with its own aspirations for level and quality of growth. Each metropolitan area obviously has unique attributes and challenges, but it is safe to say that there are more similarities than differences in the challenges they face and the measures take to address them. While it is beneficial for a region to set its own agenda, the process of setting regional strategies can benefit from the rich set of experiences taking place in the hundreds of regional economic development “laboratories” across the country. Understanding which metropolitan areas excel and which lag behind with respect to specific factors that affect growth can help local leaders hone in on policies that have been successful in some areas and that might prove appropriate for the NEO region.

In our approach, we developed a regional framework based upon rigorous empirical analysis. The analysis identifies broad factors, or themes, that are associated with the economic growth of metropolitan areas. We then constructed indicators that best represent these broad factors from variables that are statistically associated with these factors. We based our final selection of variables on 1) their connection to the specific economic area we wish to monitor, 2) their reliability, 3) their timeliness (the data should be available with a lag of two years or less), and 4) their availability (most data should be available on an annual basis and be reasonably inexpensive to acquire). However, for several of the factors found to be associated with economic growth, timely economic variables are not available.

The regional framework is developed in several steps. The initial steps were underway before we were engaged to develop the dashboard indicators, namely the selection of factors or themes that the organizing committees wanted included in the community discussions, which have come to be referred to as Voices and Choices. We, therefore, incorporate this initial step into the development of the regional framework, as reflected in the six steps list below.

1. The organizing committees of the Fund for Our Economic Future selected five concepts that comprise elements of regional growth that they wished to include in the regional economic growth framework and that could serve as the basis for discussion at the Voices and Choices town meetings and other dialogue sessions.
2. We compiled variables reflecting the attributes of these five pre-selected factors—40 in total for 118 metropolitan areas in the country of similar size to the four metropolitan areas in the NEO region—Cleveland, Akron, Canton and Youngstown.<sup>1 2</sup> Other variables were included that reflected additional concepts not articulated in step one, but which past research has identified as important factors affecting economic growth.
3. The statistical analysis technique we used groups these variables into eight factors, based upon how these 40 variables cluster together in the metropolitan areas included in the factor analysis.
4. The eight factors gleaned from the empirical analysis are related back to the five pre-selected factors chosen by organizing committees. Some of the derived factors substantiated several of the concepts stated in step one and introduced new concepts.
5. We analyzed the relative importance of these eight factors in explaining the variation across metropolitan areas of key measures of regional economic growth--employment, per capita income, output, and productivity.
6. We also ranked the set of metropolitan areas according to each of these themes, as a way to gain a better understanding of how to interpret these themes (and not to establish a set of comparison metropolitan areas).

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<sup>1</sup> Only metropolitan areas that are between 200,000 and 3 million in population were included in the study.

<sup>2</sup> In an earlier version of this report “Building a Set of Dashboard Indicators for the Northeast Ohio Economy,” we included 43 variables for 157 metro areas. The reduction in the number of metro areas examined is due to the non-availability of current statistics for 49 of these metro areas.

The analysis supports the five factors pre-selected by the organizing committees, but it also offers a more in-depth set of factors. The additional factors help to enrich the understanding of what drives a regional economy and to expand the possible factors included in the Dashboard.

The eight factors derived from the analysis include:

- Skilled workforce
- Assimilation/international centers
- Racial inclusion
- Legacy of place
- Urban/metro structure
- Locational amenities
- Business dynamics
- Income equality.<sup>3</sup>

Once the regional framework was constructed and the relationship between the factors and regional growth estimated, the final step was the construction of the eight dashboard indicators to track the area's relative performance. These indicators are weighted indexes based on the variables that cluster around each of the identified factors. The eight indicators and the variables that characterize them are shown in table 1.

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<sup>3</sup> In our previous report, *Building a Set of Dashboard Indicators for the Northeast Ohio Economy*, we reported a ninth indicator – working age adults. This factor is now part of the skilled workforce indicator.