

Foundations of Practice

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The Foundations of Practice: Community Development Core Competencies for Extension Professionals is composed of three major components:

- Understanding Communities and their Dynamics
- Developing Successful Community Initiatives
- Areas of Specialization and Emphasis

Understanding Communities and their Dynamics

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Basic Understanding of Community

- Community Demographics
- Community Economics
- Community Power Structure
- Natural Resources and Sustainability
- Community Situational Analysis
- Community Development Process

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the North Central region

Community Economics

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Bill Pinkovitz




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Bill Pinkovitz
UW Extension
Center for Community Economic Development
330 Lovell Center
610 Langdon St.
Madison, WI 53706
608/263-8255, 608/263-4889 fax
Bill.pinkovitz@ces.uw.edu

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Bill has worked for the City of Wisconsin Extension (UWCE) for over twenty years. He has held positions in both College and Extension and is continuing to work in Extension. Bill is a professor at the UWCE Center for Community Economic Development (CED). Previously, he worked as the associate dean for the UWCE Division of Continuing Education Extension and as the director of UWCE Small Business Development Center. Bill began his low income work in 1978 as County resource specialist in rural county, Wisconsin. The focus of Bill's work is business and community economic development. Current projects include:

- Community Inicators:** A series of online templates that provide easy access to a data set in an easy-to-use, user-friendly format.
- Building Community Economic Series:** Now in its third year, this web-based educational series serves a national audience of community and economic development professionals.
- Economic Snapshots:** A weekly series in the Wisconsin State Journal that includes a variety of local economic and business data.
- Big Ideas and Other Conversations:** A new online initiative that provides new insights into big issues while also teaches people how to conduct their own conversations.
- Entrepreneurship:** A long-standing program emphasis that has gained momentum to provide involvement in the Wisconsin Small Business Development Center and the UWCE Small Business Development Center.




Learning Objectives

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- Define **local economy**
- Learn how money and resources
 - flow into and out of a community
 - circulates within a community.
- Learn the meaning, and importance of a community's **basic industries**
- Learn how to use **traditional** economic analysis tools to gain insights into local economies.
- Learn how to access and use new powerful **web based tool** to analyze local economies




Learning Objectives

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- Awareness
- Understanding
- Confidence
- Readiness

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Things to Remember

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- There is NO SINGLE NUMBER
- Compare Communities
- Trend Analysis
- Reality Check
 - For the community
 - From the community
- Seldom Provides Answers

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Community Economics

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- **Defining a Community's Economy**
- How money and resources flow into and out of the local economy
- How money circulates in the local economy
- Basic industries and economic growth
- Traditional Community Economic Analysis
- Cool NEW Tools

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A Few Definitions

com-mu-ni-ty a group of people in a physical setting with geographic, political, social, and economic boundaries, and with discernable communication linkages.

Shaffer, et al

e-con-o-my a system of human activity directed toward meeting human needs and wants by the deliberate allocation of scarce resources (land, labor, raw materials, and capital).



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A Few Definitions

e-con-o-mic growth more jobs, more income, more sales, more customers.

e-con-o-mic de-vel-op-ment social, environmental, and economic change to enhance quality of life

Shaffer, et al




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Community Economics

- Defining a Community's Economy
- **How money and resources flow into and out of the local economy**
- **How money circulates in the local economy**
- Basic industries and economic growth
- Traditional Community Economic Analysis
- Cool NEW Tools

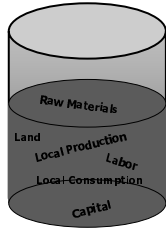


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The Local Economy

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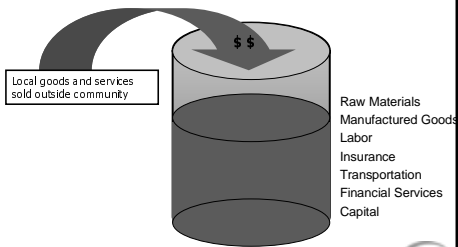
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Dollars flow into the local economy in several ways:

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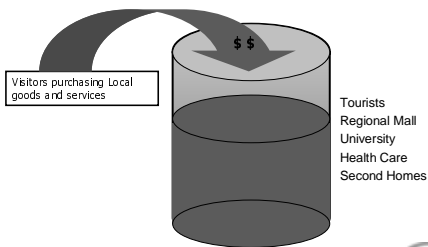
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Dollars flow into the local economy in several ways:

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Dollars flow into the local economy in several ways:

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Public dollars flowing into to community AND other "non-earned income"

Social Security
Gov. Purchases
Federal Grants
Government Offices
Military Bases
Dividends
Interest
Capital gains
Rent

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Dollars leak out of the local economy in several ways:

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Local businesses purchasing goods and services outside the community

Raw Materials
Inventory
Equipment
Labor
Capital
Professional Services
Financing
Investments

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Dollars leak out of the local economy in several ways:

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Local consumers purchasing goods and services outside the community

Regional Malls
Internet Sales
Travel
Transportation
Financial Services
Investments/Savings

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Dollars leak out of the local economy in several ways:

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Taxes and Social Security Payments

Federal/State Taxes
Social Security Taxes

Dollars leak out of the local economy in several ways:

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Waste/inefficiencies

Natural Resources
Inefficiencies
Opportunity Costs

Dollars/Goods/Services Flows

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BUSINESS	IN/OUT FLOWS
· Dairy Farm	· Raw Materials
· Local Window Manufacturer	· Sales/Customers
· Regional non-Profit Hospital	· Manufactured Goods
· Wal-Mart	· Labor
· Local Flower Shop	· Insurance
· Local Grocery Store	· Transportation
	· Financial Services
	· Capital

Dollars also circulate in the local economy:

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Community Economics

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- Defining a Community's Economy
- How money and resources flow into and out of the local economy
- How money circulates in the local economy
- **Basic industries and economic growth**
- Traditional Community Economic Analysis
- Cool NEW Tools

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How Does the Local Economy Grow?

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Increase **INFLOWS**
Decrease **OUTFLOWS**
Increase the **TRADE AREA**


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Strategies to Grow the Economy

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Attract new **basic employers**
 Improve the efficiency of **existing firms**
 Improve ability to **capture dollars**
 Encourage **business formation**
 Increase aids from broader **governments**
 Building **local capacity** *Glen Pulver*

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Growth ≠ Development

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- Growth and Development are not always synonymous
- They are not mutually exclusive
- One can occur without the other
- Both can be positive

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Equity, not just Equality

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Development means equity, not just equality
Equality means that everyone has shoes
Equity means that everyone's shoes FIT

Shaffer, et al

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Attract New Basic Employers
a.k.a Export Employers

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A basic employer is a business that brings money into the community. Businesses that sell most of their goods/services to non-local markets. A business where the inflow of dollars into the community exceeds the outflow of dollars from the community. Typically, basic employers include:

Manufacturing	Universities/Colleges
Farming	Hospitals
Mining	Insurance Companies
Tourism	Transportation

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Non-Export Businesses

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Businesses that primarily serve the needs of the local consumers are called non-export businesses.

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Why the FOCUS on Export Businesses?

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Basic (Export) businesses provide the best opportunity to create additional jobs and income in a community.

Unless a community is growing rapidly, or its trade area is expanding significantly, increasing the number of non-export businesses simply means that the pie (market) will be cut into smaller slices, or existing businesses will disappear as new ones emerge.

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Community Economics

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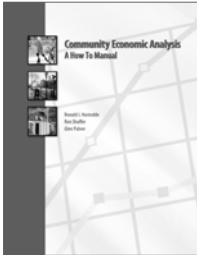
- Defining a Community's Economy
- How money and resources flow into and out of the local economy
- How money circulates in the local economy
- Basic industries and economic growth
- **Traditional Community Economic Analysis**
- Cool NEW Tools



Community Economic Analysis

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Community Economic Analysis: A How To Manual

- Defining a Community's Trade Areas
- Identifying Basic Industries (Export Businesses) in a Community
- Identifying the Competitive Sectors in a Community
- Estimating the Total Impact of Economic Activities

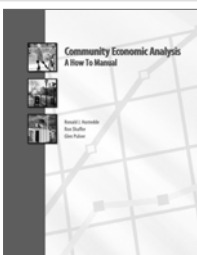
<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm>



Community Economic Analysis

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Community Economic Analysis: A How To Manual

- **Defining a Community's Trade Areas**
- Identifying Basic Industries (Export Businesses) in a Community
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<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm>



Defining Trade Areas: Traditional Methods


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Reilly's Law

Pull Factor

Surplus/Leakage

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Defining Trade Areas: Reilly's law


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Reilly's Law: Method for determining a community's retail trade area.

Based on the premises that:

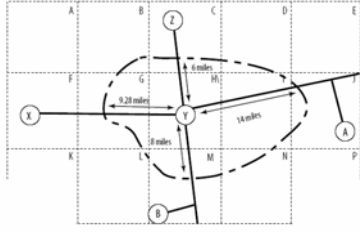
- 1) People are attracted to larger communities to shop.
- 2) People's willingness to travel to shop is influenced by time and distance.

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Defining Trade Areas Reilly's Law

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Defining Trade Areas: Reilly's law

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$$\text{Breaking Point} = \frac{\text{Distance between City X and City Y}}{1 + \sqrt{\frac{\text{Population of Larger Community}}{\text{Population of Smaller Community}}}}$$

- An adaptation of Gravity Theory
- Based on Newton's Law of Universal Gravitation
- The **Breaking Point** defines the boundary between the two cities



Gravity Model

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$$\frac{\text{population}_1 \times \text{population}_2}{\text{distance}^2}$$

- Measures the relative strength of the bond between two places
- Used to predict the movement of people, commodities and information between geographic places
- Based on Newton's Law of Gravitation
- A function of the relative size and distance between two places
- Based solely on observation

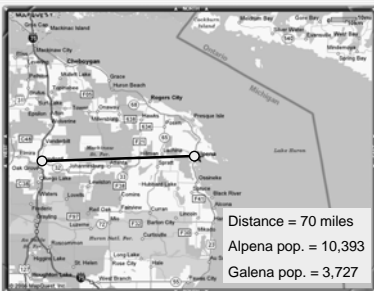


Alpena, Michigan

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Distance = 70 miles
Alpena pop. = 10,939
Galena pop. = 3,727


Reilly's Law Alpena, MI and Galena MI

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$$\text{Break Point} = \frac{\text{Distance between City X and City Y}}{1 + \sqrt{\frac{\text{Population of Larger Community}}{\text{Population of Smaller Community}}}}$$

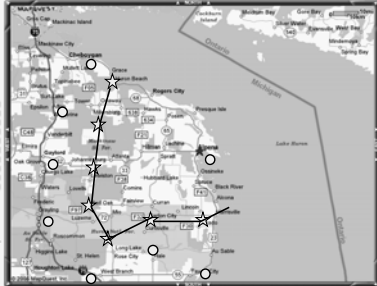

$$= \frac{70 \text{ miles}}{1 + \sqrt{\frac{10,939}{3,727}}}$$

$$= \frac{70 \text{ miles}}{1 + 1.67} = 22.2 \text{ miles}$$


Alpena, Michigan Trade Area

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Defining Trade Areas: Reilly's law: EXERCISE


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$$\text{Break Point} = \frac{\text{Distance between City A and City B}}{1 + \sqrt{\frac{\text{Population of Larger Community}}{\text{Population of Smaller Community}}}}$$

Distance between City A and City B = 26 miles

Community	Total Population (2000)
City A	4,000
City B	16,000




Defining Trade Areas: Reilly's law: EXERCISE

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$$\begin{aligned} \text{Break Point} &= \frac{26 \text{ miles}}{1 + \sqrt{\frac{16,000}{4,000}}} \\ &= \frac{26 \text{ miles}}{1 + \sqrt{4}} \\ &= \frac{26}{3} = 8.67 \text{ miles} \end{aligned}$$




Reilly's Law Some CAVEATS

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- Presumes the population in comparative communities is relatively homogeneous
- Does not work well for urban areas. Use only for rural communities
- Best when used with similar sized communities
- Assumes that everyone shops locally for locally available goods
- Some goods and services have larger trade areas




Reilly's Law Some More CAVEATS

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- Worker Flow
- Interstate highways and highway bypasses
- Regional shopping malls
- Big Boxes
- The internet
- Shopping versus convenience



Defining Trade Areas: Pull Factors

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Pull Factors: Provide a net measure of a communities ability to capture sales from local and non-local consumers for specific products or services.

$$\text{Pull Factor} = \text{actual sales} \div \text{potential sales}$$

- Sales tax records and the U.S. Census of Retail Trade are the most common sources of **Actual Sales** data
- **Projected Sales** are a function of per capita sales, population, and per capita income

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Defining Trade Areas: Pull Factors: Actual Sales

http://factfinder.census.gov/home/saff/main.html?_lang=en

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$$\text{Pull Factor} = \text{actual sales} \div \text{potential sales}$$

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2002 Economic Census
Release Date: 6/18/2005
Sector 44, Retail Trade, Geographic Area Series: Summary Statistics, 2002
NOTE: Data based on the 2002 Economic Census. For information on confidentiality protection, sampling error, non-response adjustment, etc. see the instructions to the data tables. Data in this table represent those available when this report was created; data may not be in programs. Data in this table may be subject to employment and/or sales-size minimums that vary by industry.

Geographic Area Name	NAICS code	Meaning of 2002 NAICS code	Footnote id	Year	Number of establishments	Sales (\$1,000)
Alpena County, MI	44711	Gasoline stations with convenience stores		2002	15	26,757
Alpena County, MI	447110	Gasoline stations with convenience stores		2002	15	26,757
Alpena County, MI	448	Clothing & clothing accessories stores		2002	21	18,853
Michigan	448	Clothing & clothing accessories stores		2002	4,792	4,917,700



Defining Trade Areas: Pull Factors: Potential Sales

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$$\text{Pull Factor} = \text{actual sales} \div \text{potential sales}$$

$$\text{Potential Sales} = S_k \times P_i \times Y$$

$$S_k = \text{Sales/capita}_{state} = \text{Actual sales}_{state} \div \text{Population}_{state}$$

$$P_i = \text{Population}_{local}$$

$$Y = \text{Income factor} = \frac{\text{per capita income}_{local}}{\text{per capita income}_{state}}$$

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**Defining Trade Areas:
Surplus/Leakage**

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Surplus/Leakage = Actual Sales – Potential Sales

If S/L is positive, then a Surplus and net sales are flowing into the community

If negative, then a net outflow of sales

Alpena County, Michigan


$S/L_{\text{Leaking States}} = \$18,653,000 - \$12,240,639 = \$6,412,361$



**PF and Surplus/Leakage
Some CAVEATS**

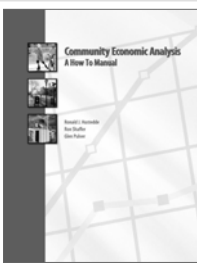
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- Should be used mainly for comparison between communities over time
- They reveal that a decline or increase occurred, but not WHY
- No definition of what constitutes a “good” or “bad” Pull Factor.



Community Economic Analysis

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Defining a Community's Trade Areas

Identifying Basic Industries (Export Businesses) in a Community

Identifying the Competitive Sectors in a Community

Estimating the Total Impact of Economic Activities

<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm>



Identifying Export Businesses

Location Quotients

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Location Quotient: A simple index that helps identify export and import industries by comparing the percentage of local employment in a specific industry to the percentage employed nationally in the same industry

$$LQ = \frac{\% \text{ of local employment in industry A}}{\% \text{ of national employment in industry A}}$$

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U.S. Department of Labor
Bureau of Labor Statistics
www.bls.gov

Quarterly Census of Employment and Wages
Search: A, Michigan

Percentage of Employment (calculated from Quarterly Census of Employment and Wages Data)

Industry	U.S. TOTAL	Alpena County, Michigan
Base Industry: Total, all industries	100.0%	100.0%
NAICS 11 Agriculture, forestry, fishing and hunting	1.0%	0.5%
NAICS 21 Mining	4.0%	1.5%
NAICS 22 Utilities	2.5%	0.7%
NAICS 31 Construction	4.0%	1.0%
NAICS 32 Manufacturing	19.0%	15.0%
NAICS 42 Wholesale trade	3.7%	4.7%
NAICS 44-48 Retail trade	10.0%	10.0%
NAICS 48-49 Transportation and warehousing	3.7%	3.7%
NAICS 51 Information	2.8%	2.0%
NAICS 52 Finance and insurance	5.2%	4.7%
NAICS 53 Real estate and rental and leasing	1.9%	1.6%
NAICS 54 Professional and technical services	4.2%	3.0%
NAICS 55 Management of companies and enterprises	5.2%	3.7%
NAICS 56 Administrative and support services	7.7%	4.7%
NAICS 61 Educational services	1.5%	0.5%
NAICS 62 Health care and social assistance	11.5%	11.5%
NAICS 71 Arts, entertainment, and recreation	1.7%	0.0%
NAICS	4.1%	4.1%
NAICS	0.0%	0.0%
NAICS	0.1%	0.1%

13.88% → 21.63%

$$LQ = \frac{\% \text{ of local employment in industry A}}{\% \text{ of national employment in industry A}}$$

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Location Quotients

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$$LQ = \frac{\% \text{ of local employment in retail trade}}{\% \text{ of national employment in retail trade}}$$

$$= \frac{21.6\%}{13.9\%} = 1.56$$

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Interpreting LQs

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LQ > 1.25	Export Industry
LQ < .75	Import Industry
LQ > .75 and < 1.25	Self Sufficiency

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Location Quotients
A simple tool to help identify local:

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- Export and import industries
- Existing and potential industry clusters
- Economic strengths
- Development prospects

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Location Quotients
A few caveats:

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- Local productivity ≠ national productivity
- Sector-wide LQs may hide some winners
- LQ only an indicator, not an answer


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Community Economic Analysis

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Defining a Community's Trade Areas
Identifying Basic Industries (Export Businesses) in a Community
Identifying the Competitive Sectors in a Community
Estimating the Total Impact of Economic Activities

<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm>



Why employment changes

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Growth or decline in the **national** economy
Growth or decline in the **industry** sector
Relative strength of the **local** industry/economy




Shift Share Analysis

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Shift Share Analysis provides an estimate of the impact of these three factors by separating the increase or decrease in local employment in specific industry sectors into three components:

1. National Growth Share
2. Industrial Mix Share
3. Local Share



Shift Share Analysis

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National Growth Share: The increase or decrease in local employment that is attributable to the growth or decline in the **national economy**.

Industrial Mix Share: The increase or decrease in local employment that is attributable to the growth or decline in a specific **industry sector**.

Local Share: The increase or decrease in local employment that is attributable to the relative strength or weakness of the **local industry/economy**.



Calculating Growth Shares National Growth Rate (Alpena Co)

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local employment in *industry A* year 1
x national *total employment* growth rate for period

Sector	Employment (1994)	Employment (2004)	Change	% Change Alpena Co.	% Change U.S.
Education and Health	1001	3281	2,280	22.78	25.2
Manufacturing	2,406	1,831	-575	-2.39	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employees	10,388	11,310	922	8.8	14.9

$$NGS = 1,001 \times .149 = 149 \text{ jobs}$$



Calculating Growth Shares Industry Mix Share (Alpena Co)

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local employment in *industry A* in year 1
x (national *industry* growth rate - national *average* growth rate)

Sector	Employment (1994)	Employment (2004)	Change	% Change Alpena Co.	% Change U.S.
Education and Health	1001	3281	2,280	22.78	25.2
Manufacturing	2,406	1,831	-575	-2.39	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employees	10,388	11,310	922	8.8	14.9

$$IMS = 1,001 \times (.252 - .149) = 1,001 \times .103 = 103 \text{ jobs}$$




Calculating Growth Shares Local Share (Alpena Co)

SLIDE **67**

local employment in *industry A* in year 1
 x (local *industry* growth rate – national *industry* growth rate)

Sector	Employment (1994)	Employment (2004)	Change	% Change Alpena Co.	% Change U.S.
Education and Health	1,001	3,281	2,280	22.78	2.52
Manufacturing	2,406	1,831	-575	-2.39	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	2.54
Total Employment	10,388	11,310	922	8.8	14.9

LS = 1,001 x (2.278 - 2.52) = 1,001 x 2.026 = 2,028 jobs




Calculating Growth Shares Shift Share (Alpena Co)

SLIDE **68**

SS = National Share + Industry Share + Local Share

Sector	Employment (1994)	Employment (2004)	Change	% Change Alpena Co.	% Change U.S.
Education and Health	1,001	3,281	2,280	22.78	2.52
Manufacturing	2,406	1,831	-575	-2.39	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	2.54
Total Employment	10,388	11,310	922	8.8	14.9

SS = 149 + 103 + 2,028 = 2,280




Shift Share Caveats

SLIDE **69**

Shift Share is:

- Descriptive, not diagnostic
 - Does not tell you WHY
 - Does not identify comparative advantages
- Minimizes the impact of business cycles




Community Economic Analysis

SLIDE **70**

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Defining a Community's Trade Areas

Identifying Export Businesses in a Community

Identifying the Competitive Sectors in a Community

Estimating the Total Impact of Economic Activities

<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm> 

Multiplier Effect


SLIDE **71**

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Q: Why is the arrival of a new export business or the expansion of an existing export business a welcome event in most communities?

A: Jobs and Income



Multiplier Effect


SLIDE **72**

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More GOOD NEWS: A new **export** business or business expansion usually creates more jobs and generates more additional spending and income than the jobs, spending, and wages directly attributable to the business.

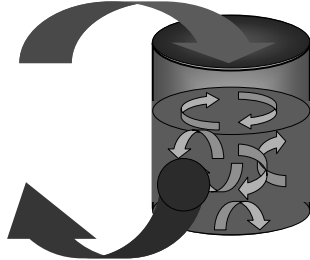
This is called the *Multiplier Effect*



Dollars also circulate in the local economy:

SLIDE 73

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Multiplier Effect

SLIDE 74

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The Multiplier Effect is comprised of three components:

1. **Direct Effects:** Labor, goods and services purchased by the business
2. **Indirect Effects:** Increase in local spending by firms that supply the business
3. **Induced Effects:** Increase in local spending by employees of the business

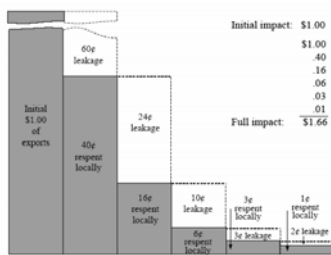
Total Impact = Direct + Indirect + Induced



Multiplier Effect

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Source: We stern Rural Deve lopment Ce nter



Multiplier Effect

SLIDE **76**


In its simplest form,

$$\text{Multiplier} = \frac{\text{Total Change}}{\text{Direct Change}}$$

$$= \frac{\$1.66}{\$1.00}$$

$$= \mathbf{1.66}$$

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Multiplier Effect


Which has the larger multiplier?

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Wal-Mart Supercenter with annual sales of \$81 million that employs 400 people

A cheese factory that employs 20 people and has annual sales of \$20 million

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Multiplier Effect


Wal-Mart or a Cheese Factory

SLIDE **78**

What does each buy locally?

- Inventory
- Labor
- Transportation
- Supplies
- Utilities
- Accounting services
- Marketing
- Financing
- Repairs
- Maintenance
- Legal Services

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Multiplier Effect Wal-Mart or a Cheese Factory

SLIDE **79**

What do the **suppliers** to each buy locally?

- Inventory
- Labor
- Transportation
- Supplies
- Utilities
- Accounting services
- Marketing
- Financing
- Repairs
- Maintenance
- Legal Services

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Community Economics

SLIDE **80**

- Defining a Community's Economy
- How money and resources flow into and out of the local economy
- How money circulates in the local economy
- Basic industries and economic growth
- Traditional Community Economic Analysis
- **Cool NEW Tools**

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Defining Trade Areas: Using GIS

SLIDE **81**

Trade Area Analyst LT: An easy-to-use application utilizing Geographic Information Systems (GIS) software that enables users to easily map variety of markets by ZIP Code.

- Customers
- Employees
- Patients
- Visitors

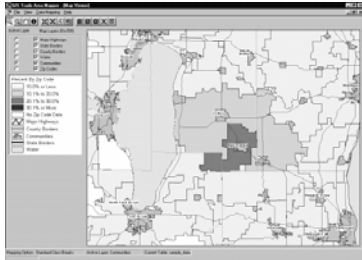
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Trade Area Analyst LT

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Calculating LQs The Good News

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U.S. Department of Labor
Bureau of Labor Statistics
Quarterly Census of Employment and Wages



SETA



U.S. Department of Labor Bureau of Labor Statistics

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Location Quotient Calculator

YEAR-BASED ESTIMATION OTHER DATA CHARACTERISTICS

Year: 2004
Data Period: Annual Average
Data Type: All Employees
Ownership: Private
Establishment Size: All establishment sizes

STEP 2 - AREA SELECTION (possible choices: U.S. total, States, counties, and metropolitan areas)
Select the Base Area: Select up to 3 Analysis Areas:

- U.S. TOTAL (must select at least one area)
- Michigan - Statewide (optional)
- Select an Analysis Area (optional)

http://data.bls.gov/LOCATION_QUOTIENT/servelet/qc.ControllerServlet



Next Session



Janet Ayres

SLIDE 97

Community Power Structure

October 25, 2005
1:30 to 3 p.m. CST

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The ability to identify who the decision makers are in the community, the resources they affect, and the power structure is crucial in gaining access to a community, gaining trust and credibility, and being effective in educational programs.