



Foundations of Practice


Community Development
Core Competencies for
Extension Professionals in
the North Central region

Community Economics

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Bill Pinkovitz




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Bill Pinkovitz
2005 Award of
Community Economic Development
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Bill has worked for the University of Wisconsin Extension (UWEX) for over twenty years. He has held positions in both Cooperative Extension and Continuing Education Extension. Bill is a professor at the UWEX Center for Community Economic Development, ECCED, in Madison. He has worked as the associate dean of the UWEX Division of Continuing Education Extension and as state director, UWEX Small Business Development Center. Bill began his involvement in the 1970s as a county extension agent, and at the University of Wisconsin. The focus of Bill's work is business and community economic development. Current projects include:

- **Community Indicators:** A series of online modules that provide easy access to online data in a user-friendly, user-friendly format.
- **Building Committee Education at Series:** He works with you (this web-based educational series) to serve 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.
- **Highways and Other Connections:** A newsletter that provides new insights into highway-related issues and teaches people how to reduce the downsides of highway intelligence.
- **Entrepreneurship:** A regional program emphasis that has again focused on the top thought leadership in the Wisconsin Agricultural and Forestry Center and the UWEX Entrepreneurship Network.




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




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




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




SLIDE 7

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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SLIDE 8

A Few Definitions

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

e-con-o-mic devel-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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Dollars flow into the local economy in several ways:

SLIDE 11

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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:

SLIDE 13

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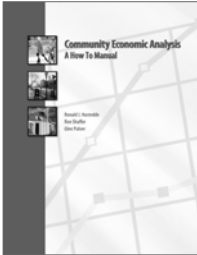
- Defining a Community's Economy
- How money and resources flow into and out of the local economy
- How money circulates in the local economy
- Basic industries and economic growth
- **Traditional Community Economic Analysis**
- Cool NEW Tools



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

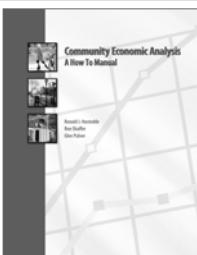
<http://www.ag.iastate.edu/centers/rdev/pubs/title.htm>



Community Economic Analysis

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Community Economic Analysis: A How To Manual

- Defining a Community's Trade Areas**
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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:

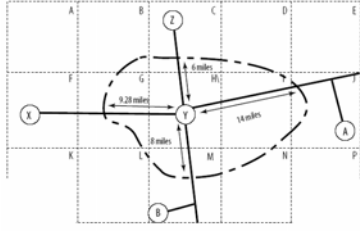
- 1) People are attracted to larger communities to shop.
- 2) People's willingness to travel to shop is influenced by time and distance.

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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

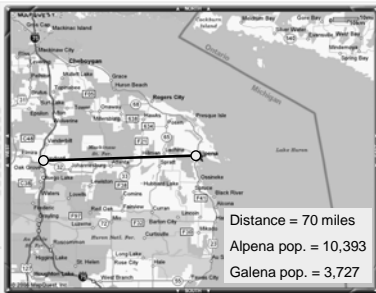


Alpena, Michigan

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Distance = 70 miles
Alpena pop. = 10,393
Galena pop. = 3,727

Reilly's Law


Alpena, MI and Galena MI

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



$$= \frac{70 \text{ miles}}{1 + \sqrt{\frac{10,393}{3,727}}}$$

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


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.

- Pull Factor = actual sales ÷ 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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Pull Factor = actual sales ÷ potential sales

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Defining Trade Areas: Pull Factors: Potential Sales

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

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

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

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

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

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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**

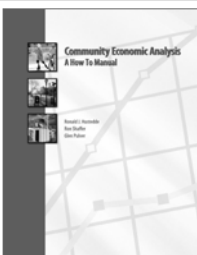
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- Should be used mainly for comparison between communities over time
- They reveal that a decline or increase occurred, but not WHY
- No definition of what constitutes a “good” or “bad” Pull Factor.



**Community Economic
Analysis**

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Defining a Community's Trade Area

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>




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
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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.
Educational Health	1,001	3,281	2,280	227.8	252
Manufacturing	2,406	1,831	-575	-23.9	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employment	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.
Educational Health	1,001	3,281	2,280	227.8	252
Manufacturing	2,406	1,831	-575	-23.9	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employment	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)

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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.
Educational and Health	1,001	3,281	2,280	227.8	252
Manufacturing	2,406	1,831	-575	-23.9	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employers	10,388	11,310	922	8.8	14.9

LS = 1,001 x (2.278 - .252) = 1,001 x 2.026 = 2,028 jobs




Calculating Growth Shares Shift Share (Alpena Co)

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SS = National Share + Industry Share + Local Share

Sector	Employment (1994)	Employment (2004)	Change	% Change Alpena Co.	% Change U.S.
Educational and Health	1,001	3,281	2,280	227.8	252
Manufacturing	2,406	1,831	-575	-23.9	-16.1
Construction	608	561	-47	-7.7	37.2
Leisure/Hospitality	1,215	988	-227	-18.7	25.4
Total Employers	10,388	11,310	922	8.8	14.9

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




Shift Share Caveats

SLIDE **66**


Shift Share is:

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




Community Economic Analysis

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Defining a Community's Trade Areas

Identifying Export Businesses in a Community

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



Multiplier Effect


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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


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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*

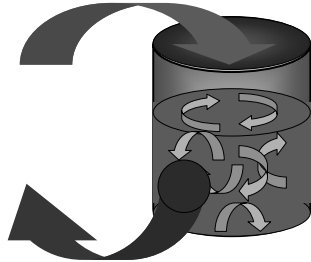


Dollars also circulate in the local economy:

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Multiplier Effect

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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

$$\text{Total Impact} = \text{Direct} + \text{Indirect} + \text{Induced}$$

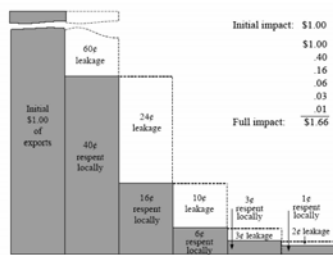


Multiplier Effect

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Source: Western Rural Development Center



Multiplier Effect

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In its simplest form,

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

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

= **1.66**

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Multiplier Effect


Which has the larger multiplier?

SLIDE **74**

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 **75**

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 **76**

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 **77**

- 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 **78**

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

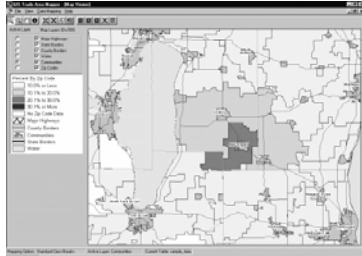
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Trade Area Analyst LT

SLIDE 79

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Calculating LQs The Good News

SLIDE 80

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SLIDE 81

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Location Quotient Calculator

YEAR-BASED ESTIMATES 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:

Alpena County, Michigan

Select up to 3 Analysis Areas:

US TOTAL (must select at least one area)

Michigan - Statewide (optional)

Select an Analysis Area (optional)

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



Next Session

SLIDE **94**

Community Power Structure

October 9 and 10, 2007
1:30 to 3 p.m. CST



Janet Ayres

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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.