

Appalachian Regional Economic Development: Opportunities & Challenges in the New Economy

Presentation

By Greg Bischak

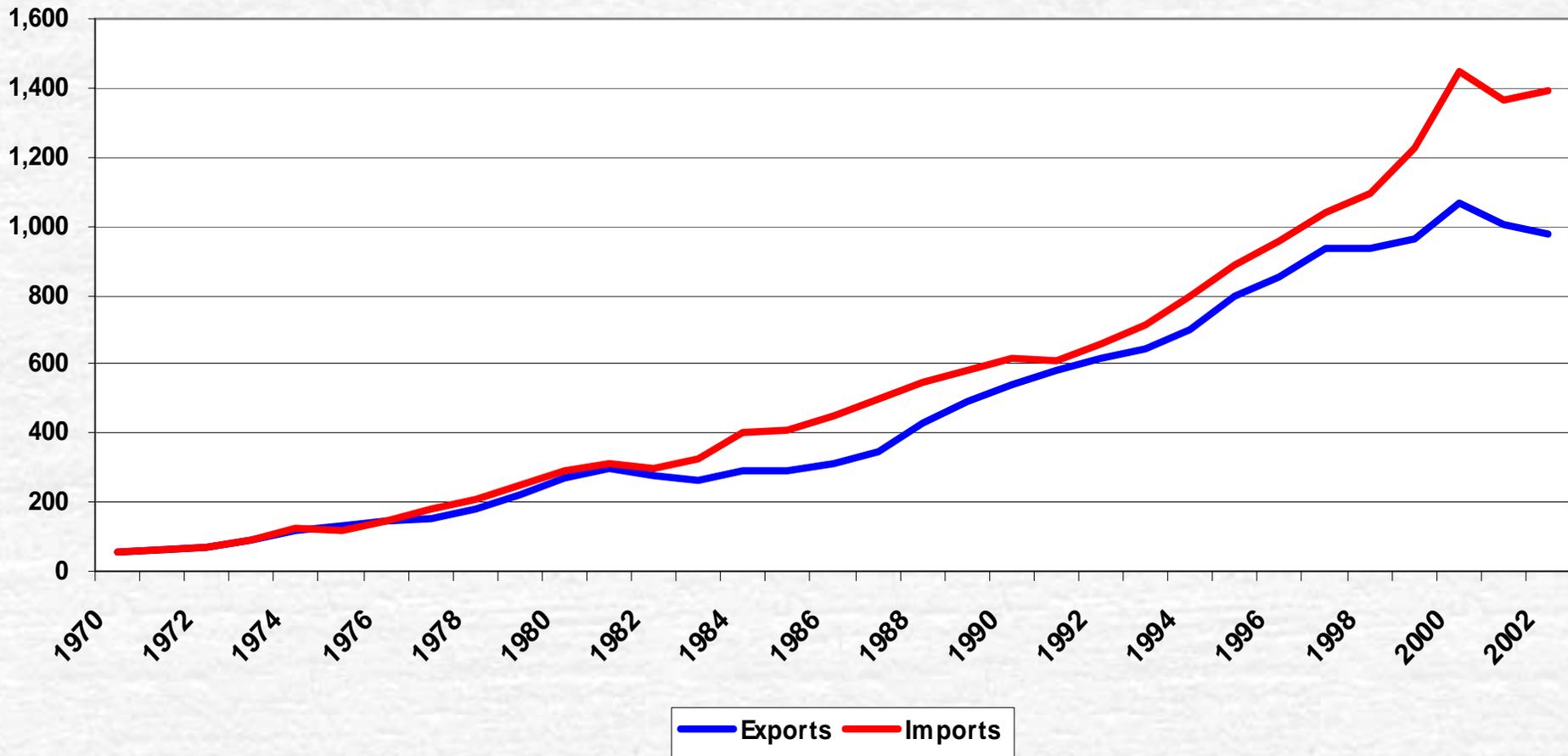
ARC Strategic Planning Field Forums

Spring 2004

Key Factors Shaping Regional Economic Growth Prospects

- Macroeconomic conditions of national economy and near-term growth prospects:
 - Current Services Account deficit totaling over -5.5% GDP is a drag on growth;
 - Fiscal deficit as temporary stimulus offsetting 4.5% of trade and current services deficit;
 - Expansionary monetary policy has added on average 2.75% to economic growth over last two years.

U.S. Exports and Imports in Billions of Dollars: 1970-2002



Policies to Improve U.S. Trade Balance

- ☛ Currency adjustments;
- ☛ Eliminating unfair trade practices & barriers;
- ☛ Export promotion of goods and services;
- ☛ Intellectual property issues.

Growth of Trade and Foreign Direct Investment

- Worldwide trade volume from 1980-2002 has grown by 64 percent (source: WTO 2003)
- Foreign direct investment (FDI) has grown by more than ten fold over the last 20 years (source: OECD, June, 2003).
- Worldwide, FDI generated sales by foreign affiliates of multinational companies amounting to \$18 trillion in 2002, as compared to worldwide exports of \$8 trillion (Source: UNCTAD Sept. 2003).



Global Production and Trade

- Globalization of production has intensified the worldwide demand for transportation, e-commerce, and logistics services.
- Emergence of Asian and Latin American production centers has increased volume of trade and intensified import-competition.
- Size and diversity of U.S. market will continue to attract Foreign Direct Investment.

Economic Forecast for U.S. & Appalachian Economies: 2004-2008

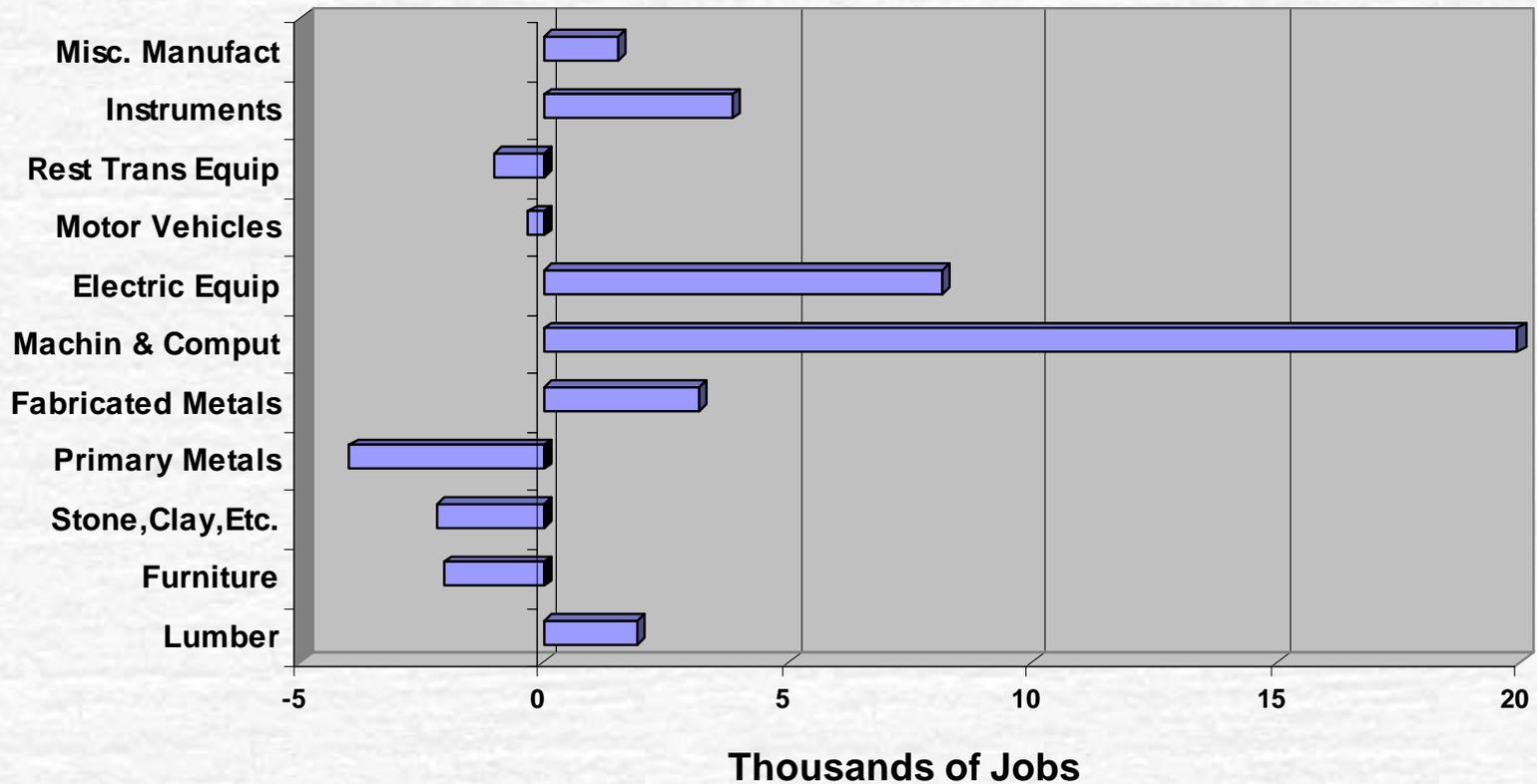
Forecast Economic Growth	U.S. Economy	Appalachia
Total Employment (% change)	5.2%	3.9%
Priv Non-Farm Employment (% change)	5.8%	4.7%
Gross Regional Product (% change)	19.7%	19.3%
Real Disp Pers Inc Per Cap (% change)	11.9%	13.3%
Population (% change)	4.6%	1.6%
<i>Source: Regional Economic Models Inc. Amherst, MA.</i>		

Source: Regional Economic Models Inc.

Sources of Regional Growth

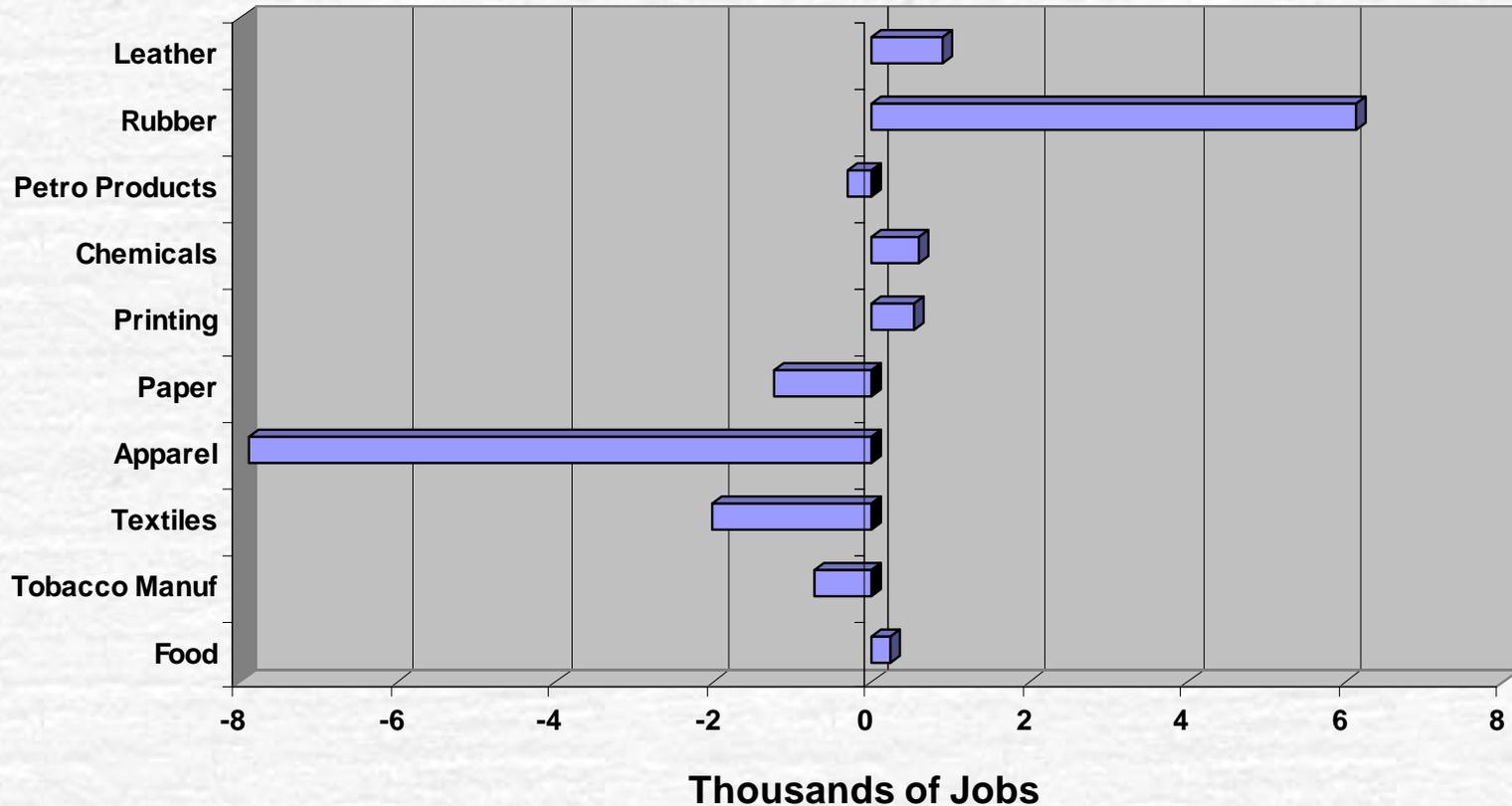
- Forecasts indicate renewed growth in both the service sectors and some manufacturing sectors over the 2004-2008 period.
- Large gains of nearly 250,000 jobs are expected in the service sector, particularly in business services, health care and professional services.
- Transportation, utilities, finance, insurance, real estate, and retail are projected to add over another 100,000 jobs.

Appalachian Durable Goods Forecast: 2004-2008



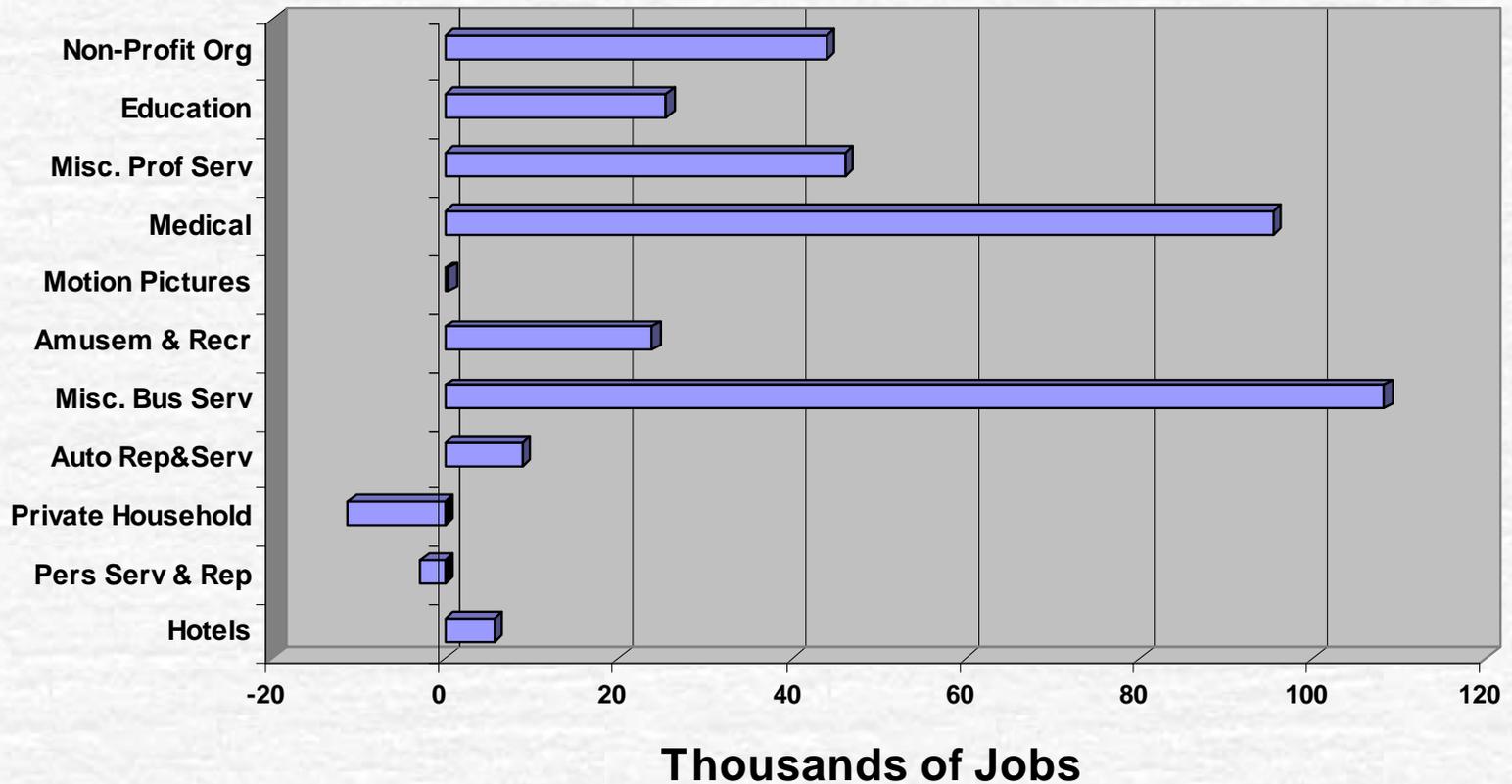
Source: Regional Economic Models Inc.

Appalachian Non-Durable Goods Forecast: 2004-2008



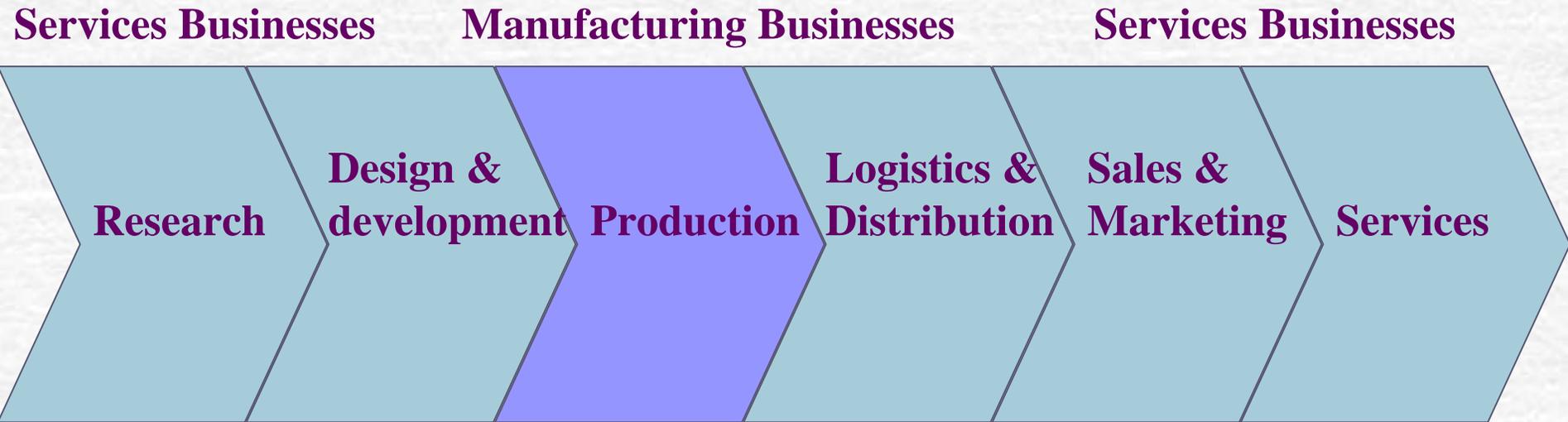
Source: Regional Economic Models Inc.

Appalachian Service Sector Forecast: 2004-2008



Source: Regional Economic Models Inc.

Linkages Between Manufacturing & Services



Know How	Processes	Assets
Skills/Talent Reputation/brand Network/Relationships Tacit/Codified Knowledge	Manufacturing processes	People, Plant, Equipment and Capital

Top Ten Declining Sectors: Five-Year Projected Job Losses & Payrolls

Sectors	Job losses	Ave. Wage	Payrolls
Mining	-11,717	41,827	-490,089,302
Private Household	-11,134	11,265	-125,422,283
Apparel	-7,895	22,557	-178,089,094
Construction	-6,590	24,386	-160,706,376
Wholesale Trade	-4,070	43,453	-176,852,082
Primary Metals	-3,954	56,562	-223,644,566
Pers Serv & Rep	-2,869	11,194	-32,115,586
Stone,Clay,Etc.	-2,194	48,773	-107,008,840
Furniture	-2,045	29,402	-60,127,499
Textiles	-2,024	34,463	-69,752,707

Top Ten Expanding Sectors: Five-Year Projected Jobs Gains

Sectors	Job Gains	Ave. Wages	Payrolls
Machinery & Computers	19,931	47,251	941,759,681
Amuse. & Recreation	23,895	11,802	281,999,232
Education	25,467	21,911	558,002,344
Fin&Ins&Real Est	26,259	25,355	665,807,449
Trans.&Public Util.	30,259	38,369	1,161,007,571
Non-Profit Org	43,959	19,157	842,113,771
Misc. Professional Serv.	46,115	32,813	1,513,162,272
Retail Trade	50,468	17,158	865,909,757
Medical	95,482	34,853	3,327,834,146
Misc. Business Serv	108,185	23,530	2,545,549,776

Diversification of the Regional Economy

- Diversification of the Region's economy becomes essential to provide new employment opportunities for laid off workers and affected communities.
- Traditional sectors of the Region's economy are projected to contract further, especially mining, construction and wholesale trade and steel.
- Build on local strengths and address adjustment issues of restructuring.

Regional Strategic Assessments

Current Conditions

Economy

- Performance
- Gaps/Threats
- Opportunities

Capacity

- Facilities
- Workforce
- Services



Local Policy Options

Intervention

- Fix Critical Constraints
 - Infrastructure
 - Education
 - Training
- Entrepreneurship/Recruitment

Action Plans

Diversification Agenda

- Needs of Emerging & Growth Sectors
- Adjustment Strategies

Key Findings

- ✔ Size and diversity of national economy will foster near-term growth—although slower than late 1990s (3–3.5% per year vs. 4.5%).
- ✔ Improving labor force participation rates through education will be key to fostering more rapid growth.
- ✔ Smaller non-metro communities confronting large-scale restructuring and diversification need:
 - Advance planning for communities vulnerable to import-competition;
 - Expanded assistance for local diversification efforts;
 - Better calibrated retraining and assistance for displaced workers;
 - Entrepreneurial support for new business formation.