Economy League Roundtable I.09:
Greater Philadelphia's Leaders on the Regional Economy

Introduction

As the national economy suffers its worst decline in 70 years, the Philadelphia metropolitan area's economy, while struggling, continues to fare better than that of most other regions. That's the consensus of more than 30 regional business and nonprofit leaders who took part in three days of candid roundtable discussions hosted by the Economy League of Greater Philadelphia.[i]

The goal was to take the pulse of our major economic sectors and to learn:
- Which areas are strong and which need attention?
- What are the threats facing our regional financial health, and what are the opportunities?
- What are the implications for local and state governments?

Also discussed were communicating to city government how the private sector is restructuring and how the City of Philadelphia could help itself – and the region – by changing the way it does business.

Overall, optimism was the undercurrent of the three 90-minute sessions: the recession has not yet impacted Greater Philadelphia as deeply as it has other regions, and smart leaders can find opportunity in this crisis. The area's strength in colleges and universities and in world-renowned teaching and research hospitals (known collectively as "eds and meds") has been key to the recession's relatively mild effects. In addition, the Philadelphia area housing market has proven resilient when compared with most other regions, especially in Center City Philadelphia where home values are still above where they were in 2003.

To be sure, the region is experiencing its share of layoffs. However, the absence of large national banks and a relatively small number of financial service jobs have meant minimal damage in that sector. And small regional banks could stand to gain.

Roundtable participants cautioned that while the region has been slow to follow the rest of the American economy into the recession, it might also be slow to recover. Consequently, they fear "fallout" from the national turmoil such that bad loans and/or trading partners and sources of capital elsewhere could adversely affect the Philadelphia region in unforeseen ways.

Participants

Steve Wray, Economy League of Greater Philadelphia (moderator)
Carolyn Adams, Temple University
Patricia Blakely, The Merchants Fund
Joanne Bursich, Nonprofit Finance Fund
John Claypool, American Institute of Architects, Philadelphia Chapter
David L. Cohen, Ben Franklin Technology Partners
Danielle Cohn, Philadelphia Convention and Visitors Bureau
Ethan Connor-Ross, Greater Philadelphia Tourism Marketing Corp.
Ed D'Alba, Urban Engineers Inc.
Jeff DeVuono, Brandywine Realty Trust
David Dickson, US Small Business Administration
Denise Earley, Greater Philadelphia Chamber of Commerce
David Elesh, Temple University
David Fair, United Way of Southeastern Pennsylvania
Varsovia Fernandez, Greater Philadelphia Hispanic Chamber of Commerce
Tony Girifalco, Delaware Valley Industrial Resource Center
Sallie Glickman, Philadelphia Workforce Investment Board
Maureen Greene, US Bureau of Labor Statistics
Patricia Hasson, Consumer Credit Counseling Service of Delaware Valley
Phil Hopkins, Select Greater Philadelphia
Debra Kahn, Delaware Valley Grantmakers
Tom Kaiden, Greater Philadelphia Cultural Alliance
Paul Levy, Central Philadelphia Development Corp., Center City District
Tom Morr, Select Greater Philadelphia
Steve Mullin, Econsult
Jason Novak, Federal Reserve Bank
Gregory J. Nowak, Pepper Hamilton LLP
Gerald Perrins, US Bureau of Labor Statistics
Andy Toy, The Enterprise Center
Christopher M. Veno, Trion
Dick Voith, Econsult
Steven Wanner, Ernst & Young
Tony Wigglesworth, Philadelphia Area Labor Management Committee

The Regional Economy – Key Sectors and Trends

"Eds & Meds"

It was nearly unanimous among participants that "eds and meds" is the sector with the most promise. The region's first line of defense against a ravaged economy, our "eds and meds" are the region's teaching hospitals, nationally recognized specialty hospitals, and universities – as opposed to biotech, medical labs, and pharmaceuticals.

"In the 12 largest metropolitan areas, the educational and health services supersector is the fastest growing in all 12 metropolitan areas, while public payrolls are growing the second fastest in six of them. Houston was the only large area to add jobs during the 12-month period from January 2008 to January 2009," said **Gerald L. Perrins, Jr, regional economist and branch chief, Economic Analysis and Information, for the US Bureau of Labor Statistics**.

"The strength of healthcare and education is a prime supporter of the strong housing market in Center City," said **Paul Levy, president and CEO of the Center City District and the Philadelphia Central Development Corp**. "Sixty percent of Center City residents work downtown, not only in office buildings, but at Thomas Jefferson University Hospital, Hahnemann University Hospital, University of the Arts, and Community College; another 18% work at the education and medical institutions in University City and at Temple University."

"Eds and meds" affect the convention and visitors trade, too, along with the hotel market. "Fortunately, 50% of our conventions are life sciences-related," said **Danielle Cohn, vice president of marketing and communications for the Philadelphia Convention and Visitors Bureau (PCVB)**. "Companies are sending fewer people ... and we are fairly flat or slightly down, but compared with other parts of the country and because of our proximity to Washington and New York, we are still getting business."

For these reasons, we ought to market this regional strength more to attract more company relocations, "If you want to be in 'eds and meds,' this is where you need to be," said Perrins.

Carolyn Adams, **Temple University Geography and Urban Studies professor**, sounded a cautionary note. "Applications to many of the area's private colleges and universities are down for next year. Because Temple and other public universities and colleges have usually been beneficiaries in past downturns, it isn't surprising to see the number of applications to public schools holding steady and even rising. But even public institutions worry that many applications are from financially stressed families looking for a less expensive back-up school and that they may have trouble getting credit to pay tuition. It appears the involvement of the credit markets is making a difference in this downturn more than others.

"One really important message about the higher education sector is that the Mayor does what he can to prevent the cutthroat culture of competing for students or professors," Adams continued. "In times of extreme distress, this worsens things rather than pulls them together when trying to market the city nationally. The Mayor is in the best position to foster greater cooperation among these institutions."

Commercial Real Estate Development

Behind Philadelphia's respectable commercial real estate statistics are other economic indicators. Work in-hand for architects is one of them. **John Claypool**, **executive director of the Philadelphia Chapter of**

the American Institute of Architects (AIA), warned that activity is, at best, slack. “One architectural firm in our community did mostly retail and entertainment work and had about 60 people,” he related as an example. “They are now down to four. We’re seeing across-the-board cuts.”

Claypool anticipates a 15% reduction in AIA membership this year. “Firms had 18 months of work lined up a year ago. Now it’s three to five months of work.”

Phil Hopkins, **vice president of research at Select Greater Philadelphia**, though cautiously optimistic about the economic development pipeline, nevertheless said that commercial real estate looks “awful” at the moment – but mostly from his vantage point of new development or redevelopment. Access to capital is the lifeblood of large-scale projects, from a new high-rise to an expansion of space in an existing suburban complex.

Ed D’Alba, **president of Urban Engineers Inc.** said, “Developers just shut down. It will be a while before we see a return to growth in the vertical built environment.”

David Dickson, **Philadelphia district director of the US Small Business Administration**, said the credit markets have frozen out small business owners or potential small business entrepreneurs, there are more storefronts closing up shop, and hardly any loans being processed. Clearly, he said, vacancy rates among small businesses are rising.

A lack of real estate activity means profound effects on not just architects and engineers, but all of the skilled and unskilled construction trades. Commercial real estate brokerages, while not represented at the three roundtable discussions, are said to be hurting, with thinning ranks and talk of further consolidation.

Jeff DeVuono, **executive vice president and senior managing director of the Pennsylvania region for Brandywine Realty Trust**, offered the real estate investment and management perspective. “We have 1,200 companies in our buildings in Greater Philadelphia. The tone is one of anxiousness, indecision, and an inability to make long term commitments. We have not, until recently, felt that in our market. We were the only region in our company until recently that had no job losses reported. Now we’re picking up the pace while other markets are leveling off. Our business is simple, if you don’t have a job, you don’t need an office. As such, we will feel some impact.

“The risk profile is obviously in the financial and retail sectors. We know of about 67 companies of the 1,200 in our buildings that have let people go either locally or nationally. We estimate approximately 350 sf per person in the suburbs and about 250 sf in the cities. If correct, this equates to approximately 1,200 people or 360,000 sf. Locally, we estimate a 1% change in office employment in the PA suburbs equates to roughly 500,000 sf of space. As a point of reference, the overall size of the local market is roughly 58 million sf.

“Our tenant retention rate was roughly 87% last year; our normal run-rate is 70 to 75%. The industry run-rate is roughly 65%. Our tenants generally feel they have a fairly good book of business, but they are very uncomfortable about receivables and are hesitant to make long-term commitments. As such, they have a tendency to renew their leases on a short-term basis. We see this trend continuing. However, unlike previous years, not everyone will be willing to pay a premium for the flexibility of a short term commitment and some will ask/expect a reduction in rental rates.

"We're more bullish than bearish. We think it'll go beyond 2010, but we tend think it won't be as bad as many might expect, and when it bounces back it'll be fairly quick and fairly deep. It's a correction from years of over-exposure in certain areas and overbuilding. The region will most certainly come out of this and be better for it.

"This down cycle feels different from the others. In the past, you presented people with opportunities and they would say, 'We love it, but we don't have any money.' Right now, they have the money; they just don't want to spend it. As a result, we're much more optimistic going forward. There is a lot of equity on the sidelines. It's just a question as to when they will jump in."

Housing

"The region has not escaped the housing crisis, but compared with other parts of the country such as Florida, Nevada, and California, the impact here has not been as severe," said **Patricia Hasson, president of the Consumer Credit Counseling Service of Delaware Valley**. "We did not have a boom in housing prices the way other regions did and thus our region is impacted more by job loss and reduced income."

"The problem is still not being solved at a national level," Hasson added. "With current automation, they could approve loans in 10 minutes. To get a loan modification or workout on your existing loan requires a great deal of paper work and one-on-one interaction with the mortgage servicer. In this day and age with technology, the process and paperwork leads to additional hurdles for consumers. In addition, the modifications being offered are not sustaining home ownership, and studies are showing there is already a high rate of default on loan modifications."

Center City District's Levy added, "President Obama was down in Fort Myers, described as the foreclosure capital of the world, with houses selling at 80% below peak value. For this region, home values are down no more than 23% from peak values. Of the major metropolitan regions, we have the lowest foreclosure rates in housing. In Center City, the decline in prices is only 1% below the market peak of 2006, with virtually no foreclosures among condos. The volume of sales is definitely down, but prices still on average are 34% higher than in 2003."

Hospitality and Tourism

The PCVB reported that the region is in good shape with international visitors. The area had the nation's fastest-growing international increase from 2006 to 2007, and even as late as November of 2008 the number of international arrivals at the airport was up 30% from the year before. British Airways saw increased traffic to Philadelphia by 21% in the third quarter 2008. Other bright spots: US Airways adding four international flights at a time when other carriers are cutting capacity, including Latin American flight increases, particularly to Brazil.

The problem in the sector is mainly with cutbacks on convention attendance. Conferences and conventions are not being cancelled, but instead most companies are sending fewer people – what Cohn of the PCVB called "the AIG effect," referring to the infamous boondoggle trip that the insurance giant took after receiving billions in taxpayer money. The Bureau is combating this with an advertising campaign aimed at Northeast corporate leaders and planners "to remind companies that there is serious value in Philadelphia," Cohn said. "Ads speak of 'serious value for serious times' and build on the fact that we are close to New York City and Washington." Another national campaign, in conjunction with the US Travel Association says cutting business meetings is a move that results in lost jobs (one of every eight jobs in the U.S. is linked to travel and tourism).

Hotel occupancy in Philadelphia is down 5%. **Ethan Conner-Ross**, **research director for Greater Philadelphia Tourism Marketing Corporation**, said that that number is affected by supply and demand. “Hotels are expanding, so demand is slightly down. Moving beyond 2010 or 2011, occupancy rates might bounce back slower than actual hotel demand because of this increase in rooms. In the five-county Pennsylvania area, occupancy was better in Center City in the past year than it was in the suburbs,” Conner-Ross said. Leisure travel was the only segment to fill more hotel room nights in Center City Philadelphia in 2008 than in 2007. And, he observed, that segment continues to hold up well in difficult times because travelers can be flexible about booking leisure stays when they want them and at the price point they are looking for.

Manufacturing and Large Businesses

Tony Girifalco, **executive vice president of the Delaware Valley Industrial Resource Center (DVIRC)**, said the manufacturing outlook is somewhat bifurcated. Companies with Department of Defense work are doing pretty well, he said, and makers of medical devices, instrumentation, and food processing are steady. In the private sector, certain companies are reporting that demand is surprisingly strong – two companies he named are looking to double their workforce, meaning thousands of new jobs, over the next 18 months. But, he emphasized, our educational system is not producing the people they need.

Because massive job losses occurred during the last down cycle, Girifalco did not expect major downsizing now. At present, 4,800 companies with about 160,000 employees are engaged in manufacturing in Philadelphia and its four collar counties. “It’s holding its own,” Girifalco said. “It’s better in the suburbs than the city for obvious reasons.” One significant problem can be found in the more advanced, technology-based firms. “They’re saying, ‘We just don’t have the people.’ Also, the poaching of skilled people continues to be a problem, especially out of the smaller companies.”

Christopher M. Veno, **a principal with benefits consulting firm Trion**, observed, “Most companies are trying to stay ahead of the downswing by tightening their expense structure and, in many cases, reducing employee count by up to 10% or curtailing hiring completely. Wage freezes are common. Corporate 401(k) contributions are being reduced or eliminated. There’s a predictable significant increase in COBRA activity, but we’ve not seen an elimination of healthcare benefits. Employers know that they still need to retain – and in cases, attract – workers. We expect acquisition-oriented business to scale up, and we see some growth there.”

Small Business

Though they create the most jobs, small businesses also lose the most during recessions. The consensus among the roundtable participants was that many laid-off workers from professional services and financial sector jobs are starting freelance careers or small firms unrelated to their former work.

“People getting laid off are looking to be more entrepreneurial, or we’ve got a new class of entrepreneurs for small businesses,” said **Andy Toy**, **director of the Retail Resource Network at The Enterprise Center**. Regarding retail activity in neighborhoods, Toy said, “I haven’t seen a great downturn on the neighborhood level from businesses providing community retail. Those businesses weren’t selling luxury or discretionary items in the first place and weren’t doing that well when the economy was on a roll.”

The main worry for small businesses is the unavailability of credit. With decreasing amounts of capital, they cannot remain in business. “When you combine that with residential and commercial real estate values being down ... it’s a huge problem,” said Dickson of the US SBA. “In 2007 we did about 110,000 loans nationally. In 2008 we were down 13%, and in eastern Pennsylvania we’re down about 6%. Banks have reduced the ‘credit box’ drastically. Lending in the last four months is down more than 50%.”

“What’s worse,” Dickson said, “is even though the small- or medium-sized regional banks (Univest, Harleysville, First Republic, etc.) are lending more than they ever have, they do not have the capacity to make up for the lack of lending from the big guys.” We have tons of businesses out there not getting the working capital they are accustomed to. It’s going to get worse.”

For minorities out of work, the situation is very serious, said **Varsovia Fernandez**, **president and CEO of the Greater Philadelphia Hispanic Chamber of Commerce**.“Last year we placed 62 people in jobs,” she said. “In the last half of 2008, barely anyone. I really think that we don’t provide resources to small businesses in the city.”

Patricia Blakely, **executive director of The Merchants Fund**, an organization providing financial assistance to Philadelphia merchants, observed, “There is money to be had, no matter how small – but standards have been tightened. It’s the old ‘Philadelphia banker’ paradigm of good loans and quality product. It’s come back too late, but it is a good thing. I know a light industry company in the city’s Tacony section that makes emergency medical gear. He has 10 employees and thinks he’ll have 30 in five years. He’s got a tiger by the tail.”

“Another phenomenon I am observing,” Blakely continued, “is the push of real estate on the bottom line of small companies. There is a noticeable vacancy rate in places like Manayunk and Chestnut Hill but also on a smaller scale all over the city. Real estate brokers and developers are renting at very high rates and pushing retail out. It didn't start with the slowdown but it feels like it is gaining momentum.”

“We need to work with the businesses and make them stronger,” Dickson agreed. “The number of small businesses in Philadelphia is only about two-thirds what it should be, per capita.”

David L. Cohen, **manager of Program Analysis Development at Ben Franklin Technology Partners – Southeastern Pennsylvania (BFTP)**, said, “Some of the problems we’ve had include the availability of seed money to get these concepts to germinate. There’s also been less for early-stage money. More is going toward mezzanine funding for later stages of efforts. We’re looking at Ben Franklin’s technology budget being cut by the state by 21%. There will be ramifications for helping people to develop companies, but also less investment in general, due to low funding availability. There’s less discretionary money to develop new ideas, and people are more risk-averse.”

While BFTP is looking at next generation, technology- or science-based entrepreneurship, Girifalco added that “the typical start-up is a company capitalized with about $25,000 of the founder’s savings that operates in retail or personal services…Odds are pretty good that it is a home-based business, and the founder aspires to generate around $100,000 in revenue in five years.”

Nonprofits and Human Services

“Fluid” is the watchword for funders and nonprofits, according to **Debra Kahn**, **executive director for Delaware Valley Grantmakers**. “Our membership of private and public foundations and corporate giving programs has seen their assets reduced so there is some cause for alarm. The situation is forcing funders to re-evaluate their actions as they try to maintain giving levels. For example, few are making multi-year grants. As for human services – the safety net, real hardcore assets such as food and shelter – the need is increasing."

"I've never seen an increase like this in need for 'safety net' stuff," added **David Fair**, **senior vice president of the United Way of Southeastern Pennsylvania**. "One ripple effect is the city is very dependent on federal and state money. The City of Philadelphia has largely gotten out of funding human services directly since the early 1990s and is more and more dependent on federal and state funds. Federal and state money has consistently dropped since 2000, and as the city reduces services and lays people off it ripples out to nonprofits that have to lay off people while trying to respond to greater demand."

Fair said philanthropic giving in the area is down 4 or 5% – but contrasted to a city like San Francisco (where nonprofit giving is down 20%), it's another situation where the Philadelphia region has not yet felt the pinch that other areas have.

Some nonprofits may consider merging and forming other alliances, Kahn and Fair agreed, often caused by smaller organizations that don't have marketing departments and need a partner, or organizations losing their executive director with nobody to replace him or her.

Shortly after the roundtable discussions, the Philadelphia Foundation announced that it had awarded $330,000 to 28 nonprofits in the region from its new Basic Human Needs Fund. The organizations receiving grants will provide shelter and housing, food assistance, energy bill subsidies, and transportation assistance. This is one of many responses to the economic downturn being made by grantmakers across the region.

Tom Kaiden, **COO for the Greater Philadelphia Cultural Alliance**, discussed ***TempCheck**,* their quarterly survey of the impact of the economic climate on the region's nonprofit arts and culture organizations. "Our findings are mixed," said Kaiden. "Earned income is holding up pretty well. The problem is the contributed side, particularly with corporate and individual giving. The impact on foundation giving is tempered in the near term, because most use rolling averages; however, the longer term is a real risk. Because cultural organizations on average receive half of their income from contributions, you can't make it all up in volume [of ticket sales].

"Philly Fun Guide [the regional events guide] was down for the first time – about 10% over the last three or four months, and the Alliance had been used to 20% annual increases. Our FunSavers [the last-minute e-ticket service] is steady.

"We do know that there is still some denial going on – people are looking at this as cyclical, not structural. Over the next six months, 65% of our organizations report that they don't expect to reduce staff. However, one in three organizations is looking at consolidations or mergers.

"We're calling this a 'repression' – a blend of 'recession' and 'depression.' We believe that no sector will be immune. Even Greater Philadelphia's strongest sectors including eds, meds, tourism and culture will see winners and losers. As a region, we will need to count on the strong and well-managed firms within each sector to lead us out of this economic valley. "

Economic Development

Tom Morr, **president and CEO of the regional business attraction and retention group Select Greater Philadelphia**, said he was “pleasantly surprised” that inquiries from companies seeking information about relocating to the Philadelphia region have not fallen off in this difficult economic environment. In fact, the size of the projects are bigger – perhaps the result of consolidations, not new growth. “We have 11 large projects,” Morr said, with between 100 and 1,000 jobs. “We could see all of them, or none.”

A major factor is costs. “Philadelphia can’t compete with, say, Houston strictly on the costs of doing business (city taxes, home prices, cost of living, etc.). All are higher here,” Morr said. “But if a deal hinges on costs and the company must be in the Northeast or serves an industry here, the Greater Philadelphia area is a good value, especially in ‘eds and meds,’” he said, and with other incentives, such as the Keystone Opportunity Zones, for tax breaks.

Working in our favor (and against conventional wisdom) is Philadelphia’s location in the middle of the Boston-Washington corridor – a competitive advantage in this unprecedented scenario, said Select’s Hopkins. Most companies, though, “are waiting this thing out, sitting on the sidelines. There may be some more interest in manufacturing, but deal flow is down. One advantage in this region is that our financial services sector is pretty diverse. Professional services (law firms, accounting, etc.) are holding on, but those tied to the real estate sector are cutting staff. The life sciences have kept going. There is continuing interest in alternative energy, but this is a small, emerging cluster, so I’m less optimistic about its near term prospects, especially given the recent declines in the price of oil, but over the long term, it is likely to be a source of regional growth.”

Gregory J. Nowak, **a partner specializing in securities law with Pepper Hamilton LLP**, observed, “Our firm is very evenly balanced between services. Mergers and acquisitions and corporate transactions are holding their own. Bankruptcies are booming. Lending is way down. With our regulatory practice, our motto this year is ‘Embrace regulation.’”

Speaking to the state of his finance clients, he added, “You have to be schizophrenic. Asset management firms are trimming employees rapidly. You’ve given back your last eight years of growth. If your money is still there, the positive spin is that with deflation, it’s worth more! But, he added, “litigation is up.”

“There’s been a recycling of managers – new people are saying, ‘Everything is cheap.’ We’re seeing a lot of people leaving with big severance checks and setting up hedge funds. Last year, for the first time in recent memory in the City of Philadelphia, I saw a client moving to the Navy Yard from New Jersey – paying wage taxes yet cutting their overall tax bill by more than twice that sum. We’re looking for that outreach into Philly since there is no tax on hedge funds. So, Philadelphia has gotten to par with the rest of Pennsylvania, except for wage taxes, and remains much more favorable than New Jersey. We’re also seeking New Yorkers looking to make a move.”

Will the Stimulus Help?

Transportation and Infrastructure

Among the highlights of the $787 billion federal stimulus package is funding for a new airstrip and other major improvements to Philadelphia International Airport.

Other long-term projects remain questionable for now. “Railroads are making some serious investments, putting capital into their facilities, but overall, there is limited vision for transportation policies,” said D’Alba of Urban Engineers. “Transportation programs are multi-decades from concept to completion. Stimulus projects that are required to be ‘shovel ready’ in six months and completed in two years means nothing new, nothing exciting, and no glimpse of what ‘could be.’”

A recent Economy League policy brief shows that Greater Philadelphia will receive about $631 million from the stimulus package. About 70% of that total will go to highways. A transportation reauthorization package will be included in federal highway and transit bills due to surface in Congress in late 2009 or early 2010. In the meantime, SEPTA will receive $193 million from the stimulus for “shovel-ready” projects.

“With transportation, our leadership at the policy level has failed – we’re not ready,” said Morr, of Select Greater Philadelphia. “Our planning and transportation folks say the easiest way *not* to fund these things is not to plan them. We’re missing the opportunity to have game-changers.”

That said, “One of the huge competitive strengths of the city has to do with existing transit and the concept of ‘walkable urbanity,’” said Levy. “The denser, more compact, walkable areas are holding up well. And SEPTA’s significant increase in ridership has remained even after gas prices went back down. People have changed that habit, and so long as the governor can fix SEPTA funding at the state level, we can build on that strength.”

Even better, because of the success of the state’s Act 44, SEPTA is one of the few major transit systems in the country that is not currently cutting services or jobs, or otherwise experiencing major financial difficulties.

Labor, Unemployment, “Green Jobs” and the Labor Gap

“We’re seeing much higher unemployment, obviously,” said **Tony Wigglesworth**, **executive director of the Philadelphia Area Labor Management Committee**. “First in the civil trades, then the base building trades, then the interior/mechanical trades. Five of our 17 unions are not doing apprenticeships in 2009.”

And **Sallie Glickman**, **founder and CEO of the Philadelphia Workforce Investment Board (PWIB)**, said traffic at Philadelphia’s five one-stop centers (PA CareerLink) is already up nearly 30 percent from a year ago. “There is a huge challenge with trying to get people back into the labor force,” Glickman said. “There are about 540,000 working adults qualified for about 200,000 jobs (numbers due to be updated downward). There will be some opportunity, but our people have a huge literacy and skills gap. We estimate we’re going to see a doubling of our appropriations (via the stimulus package), but none of the new money is addressing the literacy gap in our labor force.”

“We have an extremely inefficient labor market exchange,” said DVIRC’s Girifalco. “Education systems are not producing people with the education and skill set for the jobs that we really need.” The Philadelphia School District has 167,000 students and a 50% drop out rate. Some progress has been made, and there is promise ahead with Dr. Ackerman at the helm. But getting it done – how fast is fast enough?”

The unemployment discussion led to the topic of “green jobs,” which many labor leaders say translates as “blue collar jobs.” But those attending the roundtable said it was not an easy transition. “In general there’s been a lack of approach as far as ‘green’ jobs and sustainability,” said Wigglesworth. “For some trades, when you’ve got ‘green buildings’ to work on, there is 50% more plumbing and electrical time and expense, and 40% more wiring.”

Girifalco added, “I think the region has the potential to be a center for power and energy given the mix of industries involved – power generation and distribution, transportation (ships, helicopters, rail cars), chemical production and processing, fuel cell research and production, the Navy’s NAVSEA complex at the Navy Yard, the regional SMART Energy Industry Partnership, nanotechnology-based efficiencies and breakthroughs, and a strong university-based research component.”

“Green is here to stay.” D’Alba concurred. “In this market, we have a distinct advantage because of the great bones of our transportation network, a ‘walkable’ downtown, and our beloved Fairmount Park. It does not take long for people to realize we have good green assets that are attractive to companies, employees, and families.”

Addressing city labor contracts is a different story.

City Government vs. City Economy

There was considerable discussion about the staggering budget hole – up to $2 billion over the next five years – announced by Philadelphia Mayor Michael Nutter over the winter. Though serious, there was a general opinion, held by a few participants much more strongly than others, that the overwhelmingly negative media coverage of the municipal fiscal crisis belies the overall strength of the Philadelphia economy in general. City Hall is not representative of the health of the city or region, they say.

Philadelphia-based **Econsult**, which works with the city as well as with private clients, was represented by **senior vice presidents Dick Voith** and **Steve Mullin** at the discussions. Their view is that while the city has improved dramatically, so have many other downtowns across the country with whom we compete.

“We have a budget problem with the pensions, the tax structure, and construction costs,” said Voith. “We do things counterproductively. We could be really well positioned if we fix things like labor contracts, tax structure, and competitive contracts with the construction trades – we really have to re-work the cost of doing business. Our city deficit is not that big, comparatively.”

Others agreed with the concept that city government budgetary problems, caused by the legally mandated five-year plan, are a drag on the city’s reputation – which often stands in for the whole region when viewed from other markets. No one was more adamant than the Center City District’s Paul Levy on this point. He said: “You have a city government that has a real financial crisis. But the obligation from the state oversight board that requires them to do a five-year plan also causes them to project a number that is devastatingly scary compared with other cities, which are only projecting one year deficits. Appropriately, the Mayor needs to prepare the public for service cuts or tax increases by painting a gloomy picture. But from an investor-marketing perspective, that's a real challenge, especially when the economy of the city is relatively good.

"This is demonstrated by the fact that wage tax revenues, the number one source of tax revenues for the city, were actually up, year-end [2008]. Property tax revenues were also slightly up. A prime driver of the municipal fiscal crisis is the city's health and pension package which is completely out of line with the benefits packages of 85% of Philadelphia residents who work in the private sector. But over the last eight years, the city used the short-term infusion of transfer tax revenues that came from the real estate boom to paper over the problem rather than deal with it. Now when those and the spike in business taxes come to an end, the cliff is much, much steeper. It would be much more effective to focus first on reducing the cost of delivering city services before talking about laying off city workers.

"It is important to distinguish between the public enterprise called 'the City of Philadelphia' and the private sector economy operative in the place called Philadelphia. The city government is fiscally challenged but the economy has held up pretty well."

Carolyn Adams of Temple University added, "I do think there are opportunities to close things. But what must be considered also is what level of access do you have to the remaining facilities? What kind of plan is in place with transportation?

John Claypool of the AIA: "When you say 'city,' it is not just the city but the region. The city doesn't internalize that very well."

Conclusion: The Philly "Lag"

The Philly tendency to lag behind national economic upheaval was much discussed. On the upside, the region never gets too low. It also never gets too high. The long-term effect from recent bubbles (stocks in the late 1980s, tech and internet start-ups in the late 1990s, and the recent housing boom) has been limited. But most participants agreed that this recession is no mere bubble.

Jason Novak, **senior economic analyst with the Federal Reserve Bank of Philadelphia**, noted that "Leading [employment] indices from Pennsylvania, New Jersey, and Delaware are expected to be down for the entire year. Nationally, Pennsylvania is right in the middle – maybe a bit better."

Some companies are cutting drastically, but there is also an element of "simply because they can," said **David Elesh**, **sociology professor at Temple University**, who has been studying the trends. They are trimming or cutting departments that had been targeted before the recession, because they now have a good excuse to do so. Novak added that some employers may be trimming "preemptively because of concerns about future credit availability and a need for cash reserves."

Yet there's an incentive to keep people on, too. If a firm's ability to get credit in the future is based on capacity, it is best to have more employees for the turnaround. There was no discussion of rolling furloughs, slashed salaries, or forced part-time work among the participants.

“Philadelphia has great distribution assets, and Center City continues to be a very good sell,” said Hopkins of Select Greater Philadelphia. “The Navy Yard is now seen as edgier, more attractive. The tax issue is always a difficult one, but logistically the city has advantages, and we are affordable compared with other large northeast cities. The region hasn’t declined as much as almost any aspect of the US economy. So, the question going forward is whether we will lag behind and eventually catch up as in the past, or are we are fundamentally different and will not decline as much as the U.S. economy?”

Evidence of regional lag came in early March, when Prudential Fox & Roach reported the eight-county Philadelphia area experienced a 16.4% drop in pending home sales in January from December – more than twice the national decline from the same period.

For Philadelphia, particularly within the city itself, the unemployment rate during recessions historically lags behind recovery by two years, said Perrins of US Bureau of Labor Statistics.

“Are we buffered from the storm and about to go down a little bit and come back up, or are we just way back in the caboose so the worst hasn’t gotten here yet?” asked Levy. Regarding indicators such as office occupancy in Center City, he was again upbeat. “We ended 2008 with the highest occupancy rate ever. Unlike the recession of the early 1990s, there wasn’t over-building this time and were not falling prey to the wave of mergers and acquisitions that hit us last time. I’m not saying we won’t have problems, but we much better positioned now.”

During this period, suggested Temple’s Carolyn Adams, “Let’s not intensify competition between city and suburbs, or within sectors.”

Kaiden of the Cultural Alliance ended this way, “What Philadelphia’s strength is 10 years from now is as important to think about as tomorrow or next month.”

What the Numbers Say

A month after the roundtables were convened, the Bureau of Labor Statistics issued its quarterly figures. They show that shrinking employment and rising unemployment has weakened the region’s economic picture significantly over the past twelve months. Total non-farm employment in the City of Philadelphia fell by 0.4%, while regional non-farm employment fell 1.7% in 2008.

Comparison of employment changes by major economic sector

Sector	City of Philadelphia			US		
	Level - Jan '09	Y/Y Change	Y/Y % Change	Level - Jan '09	Y/Y Change	Y/Y % Change
Natural Resources, Mining, and Construction	11.30	-1.10	-8.87%	7,508	-729.0	-8.85%
Manufacturing	26.00	-2.00	-7.14%	12,645	-1,099.0	-8.00%
Trade, Transportation, and Utilities	87.10	-0.20	-0.23%	25,739	-978.0	-3.66%
Information	12.10	-0.20	-1.63%	2,921	-101.0	-3.34%
Financial Activities	45.80	-0.40	-0.87%	7,958	-271.0	-3.29%
Professional & Business Services	82.70	-4.50	-5.16%	17,222	-847.0	-4.69%
Education and Health Services	202.20	3.70	1.86%	19,123	510.0	2.74%
Leisure and Hospitality Services	57.80	1.10	1.94%	13,275	-259.0	-1.91%
Other Servcies	28.20	0.50	1.81%	5,465	-59.0	-1.07%
Government	105.10	0.60	0.57%	22,563	172.0	0.77%
Total Non-Farm	658.30	-2.50	-0.38%	134,419	-3,661.0	-2.65%
Private	553.20	-3.10	-0.56%	111,856	-3,833.0	-3.31%
Goods-producing	37.30	-3.10	-7.67%	20,153	-1,828.0	-8.32%
Private, Services-Providing	515.90	0.00	0.00%	91,703	-2,005.0	-2.14%

Sector	Philadelphia and Trenton MSAs				US		
	Level - Jan '08	Y/Y Change	Y/Y % Change	Above US?	Level - Jan '08	Y/Y Change	Y/Y % Change
Natural Resources, Mining, and Construction	120.9	-13.5	-10.04%	N	7,508	-729.0	-8.85%
Manufacturing	218.6	-9.8	-4.29%	Y	12,645	-1,099.0	-8.00%
Trade, Transportation, and Utilities	541.6	-22.2	-3.94%	N	25,739	-978.0	-3.66%
Information	62.1	-2.2	-3.42%	N	2,921	-101.0	-3.34%
Financial Activities	230.8	-4.8	-2.04%	Y	7,958	-271.0	-3.29%
Professional & Business Services	456.5	-16.4	-3.47%	Y	17,222	-847.0	-4.69%
Education and Health Services	589.9	15.9	2.77%	Y	19,123	510.0	2.74%
Leisure and Hospitality Services	235.4	-1.1	-0.47%	Y	13,275	-259.0	-1.91%
Other Servcies	133.1	0.6	0.45%	Y	5,465	-59.0	-1.07%
Government	422.0	2.2	0.52%	N	22,563	172.0	0.77%
Total Non-Farm	3,010.9	-51.4	-1.68%	Y	134,419	-3,661.0	-2.65%
Private	2,588.9	-53.50	-2.02%	Y	111,856	-3,833.0	-3.31%
Goods-producing	339.5	-23.30	-6.42%	Y	20,153	-1,828.0	-8.32%
Private, Services-Providing	2,249.4	-30.20	-1.32%	Y	91,703	-2,005.0	-2.14%

Source: Bureau of Labor Statistics, Current Employment Statistics, and the Philadelphia Federal Reserve Bank
http://www.philadelphiafed.org/research-and-data/regional-economy/historical-data/
Employment figures in thousands of jobs by place of work, seasonally adjusted data

The Philadelphia and Trenton Metropolitan Statistical Areas (MSAs) include the following counties: In Pennsylvania, Philadelphia, Bucks, Chester, Delaware, and Montgomery; In New Jersey, Camden, Burlington, Gloucester, Mercer, and Salem; and in Delaware, New Castle and parts of Cecil County, Maryland.

On the whole, however, both regional and city employment trends indicate better performance than national averages. Over the past year in particular for the region, education and health services, government, and other services have shown small increases in employment. The region's manufacturing, financial activities, professional and business services, education and health services, leisure and hospitality services, and other services sectors outperformed national trends.

In the City of Philadelphia**,** education and health services, leisure and hospitality services, and other services and government all show slight increases on an annual basis since January of 2008. Also, manufacturing, trade and transportation, information, financial activities, leisure and hospitality services, and other services outperformed the national averages.

What do the numbers and trends mean? Consider that this recession has been driven by collapses in the housing and financial services industries. Unlike such regions as the West, the Philadelphia region did not experience extreme growth and speculation in housing and finance and as a result, we have not seen contraction as severe as in regions heavily dependent on those sectors. By contrast, our strength in such historically counter-cyclical sectors as education and health has helped to bolster our performance, although education and health care in Philadelphia have been growing at a slower pace than in the region as a whole and nationally.

Also possible is that the arrival of the worst is just delayed. In other words, we might experience the downturn most acutely later than others, and as a result we might also emerge from it later. In recent weeks, cutbacks at law firms, hospitals, and colleges and universities have begun, and job losses or wage cutbacks appear likely in state and local governments. Also, such key industries as banking and pharmaceuticals are restructuring, and it is unclear how this will affect our region. In addition, hospitals are facing greater fiscal stress as unemployment rises and benefits run out, and how the failing economy will impact our higher education institutions remains uncertain.

Tell the Economy League What *You* Think

Although well-informed, the roundtables comprised a snapshot of perspectives on the regional economy. We would like your input on the trends you are seeing, when you think the economy will (or has) turned around, and your outlook for the city and the region over the next year or so. If you'd like to complete a short survey on the regional economic outlook, please go to http://economyleague.org/econsurvey to take a five minute survey on regional economic conditions. We will report on the findings in a future economy briefing.

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[i] Roundtables took place on February 11, 12, and 13, 2009. Each participant reviewed his/her comments and revised at the end of March according to new information/events.