First Mover Advantage: A Portfolio Perspective of the State’s Industries

at University of Delaware
June 25, 2013

Paul R. Flora, Elif Sen, and Mike Trebing
Economic Analysts

FEDERAL RESERVE BANK OF PHILADELPHIA
Disclaimer

Our remarks today reflect our own views, not the views of the Federal Reserve, nor others in the Federal Reserve.
First Mover Advantage: A Portfolio Perspective of the State’s Industries

ECONOMIC OVERVIEW

Paul R. Flora
Senior Economic Analyst

FEDERAL RESERVE BANK OF PHILADELPHIA
An Early First Mover

One of Delaware’s early first movers has had an out-sized impact on the state’s economy.

[Brochure printed in 1910]
Farming With Dynamite

SAVES
MONEY
TIME
LABOR

REMOVES
STUMPS
BOULDERS
HARD-PAN

ENSURES
NEW, RICH SOIL
INCREASED ACREAGE
EASY PLOWING
BIGGER YIELDS

E. I. DU PONT DE NEMOURS POWDER CO.
WILMINGTON, DEL.

What Is Dynamite?

Some farmers have a wrong idea about dynamite.

They know it is a powerful explosive, and believe it is dangerous to handle.

Dynamite is very powerful, much more so than gunpowder, but is actually safer to handle.

After more than a hundred years' experience in making and using explosives, we can truthfully state that by following simple directions with ordinary care, anyone can use our "Red Cross" Dynamite without harm.

The purpose of this booklet is to tell you the wonderful value of the use of "Red Cross" Dynamite on the farm.

If it interests you, as it surely will, and if you are progressive and ambitious, write for a copy of our "Handbook of Explosives for Farmers, Planters and Ranchers," which will be sent free of charge and which tells just how to use "Red Cross" Dynamite safely and easily, and make it the greatest aid to profitable farming.

We will be glad to correspond with you about any special requirements of your farm, or give you any information you want. Write our nearest office (see last page) and your letter will receive prompt, personal attention.
Delaware was largely agrarian at the start of the Great Depression

Delaware Location Quotients: 1929

Source: Bureau of Economic Analysis
Job growth in Delaware in the 40s and 50s outpaced the nation’s and neighboring states’

Total nonfarm payroll jobs indexed to 1939 = 100

Source: Bureau of Labor Statistics
Delaware grew apace into the early 70s, then stagnated relative to Maryland and the nation.

Total nonfarm payroll jobs indexed to 1959 = 100

Source: Bureau of Labor Statistics
Delaware’s fiscal practices were inadequate to cope with the economic stress of the 70s.

Moody’s G.O. Bond Ratings: 1973 to Present

New Jersey  Maryland  Delaware

Aaa  Aa1  Aa2  Aa3  A1  A2  A3  Baa1  Baa2  Baa3  Below Investment Grade


Note: Rating changes are date specific, but plotted monthly.

Rating refinements occurred in 1997-98; recalibrations occurred in 2010.

Source: www.Moody’s.com (accessed June 14, 2013)
Relative job growth in the 80s and 90s mirrored the 40s and 50s

Total nonfarm payroll jobs indexed to 1979 = 100

Source: Bureau of Labor Statistics
Delaware kept pace with the nation into the 2000s but has lagged in recent years.

Total nonfarm payroll jobs indexed to 1999 = 100

Source: Bureau of Labor Statistics
Impact of 1990 to 1991 Recession on Delaware

Jobs gained/lost from March 1990 to August 1991

Thousands of Jobs

<table>
<thead>
<tr>
<th>Category</th>
<th>Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logging, Mining &amp; Construction</td>
<td>-10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-5</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5</td>
</tr>
<tr>
<td>Transport, Warehousing &amp; Util.</td>
<td>10</td>
</tr>
<tr>
<td>Information</td>
<td>15</td>
</tr>
<tr>
<td>Finance, Insurance &amp; Real Estate</td>
<td>20</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td></td>
</tr>
<tr>
<td>Educational Services</td>
<td></td>
</tr>
<tr>
<td>Health Services</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td></td>
</tr>
<tr>
<td>Total Government</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Impact of 1991 to 2001 Expansion on Delaware

Jobs gained/lost from August 1991 to March 2001; cumulative change shown in wide bars

Thousands of Jobs

-10 -5 0 5 10 15 20

- Logging, Mining & Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transport, Warehousing & Util.
- Information
- Finance, Insurance & Real Estate
- Professional & Business Services
- Educational Services
- Health Services
- Leisure & Hospitality
- Other Services
- Total Government

Source: Bureau of Labor Statistics
Impact of 2001 Recession on Delaware

Jobs gained/lost from March 2001 to March 2003 – extends through jobless recovery

Thousands of Jobs

-15 -10 -5 0 5 10 15 20

Logging, Mining & Construction
Manufacturing
Wholesale Trade
Retail Trade
Transport, Warehousing & Util.
Information
Finance, Insurance & Real Estate
Professional & Business Services
Educational Services
Health Services
Leisure & Hospitality
Other Services
Total Government

Source: Bureau of Labor Statistics
Impact of 2001 to 2007 Expansion on Delaware

Jobs gained/lost from March 2003 to February 2008; cumulative change shown in wide bars

Source: Bureau of Labor Statistics
Impact of 2007 to 2009 Recession on Delaware

Jobs gained/lost from February 2008 to February 2010 and cumulative since March 2001

Thousands of Jobs

- Logging, Mining & Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transport, Warehousing & Util.
- Information
- Finance, Insurance & Real Estate
- Professional & Business Services
- Educational Services
- Health Services
- Leisure & Hospitality
- Other Services
- Total Government

Source: Bureau of Labor Statistics
Impact of Current Recovery on Delaware

Jobs gained/lost from February 2010 to April 2013 and cumulative since March 2001

Thousands of Jobs

-15  -10  -5   0   5   10  15   20

- Logging, Mining & Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transport, Warehousing & Util.
- Information
- Finance, Insurance & Real Estate
- Professional & Business Services
- Educational Services
- Health Services
- Leisure & Hospitality
- Other Services
- Total Government

Source: Bureau of Labor Statistics
Payroll jobs are growing in most metro areas; April 2012 to April 2013

Source: Bureau of Labor Statistics
Note: U.S. and Dover payroll job growth was 1.6 percent; Wilmington was 0.7 percent.
Unemployment rates are edging down; still far from the low rates of the roaring 90’s

Source: Bureau of Labor Statistics
Unemployment rates in Delaware’s metro areas closely matched the nation’s rate in April 2013

Source: Bureau of Labor Statistics
Note: U.S. unemployment rate was 7.5 percent, Wilmington 7.6 percent; Dover 7.7 percent
Labor force participation is below the level that would be predicted by aging of the population.

Source: Bureau of Labor Statistics
Extent of seriously delinquent mortgages remains at historic levels

Percent of mortgages in foreclosure, or past due 90+ days

Source: Mortgage Bankers Association
Data are quarterly, last quarter plotted: 2013:Q1
House prices appear to have stabilized

**Source:** Federal Housing Finance Agency

Data are quarterly, all transactions, last point plotted: 2013:Q1
House prices are improving along urban corridor; Change from 2012 Q1 to 2013 Q1

Source: Federal Housing Finance Agency
A recovery in home building has emerged and appears sustainable

(Total Housing Permits)

Source: U.S. Census Bureau
Data are a three-month moving average, last month plotted: April
First Mover Advantage: A Portfolio Perspective of the State’s Industries

WHITHER MANUFACTURING?

Mike Trebing
Senior Economic Analyst

FEDERAL RESERVE BANK OF PHILADELPHIA
U.S. manufacturing output and employment

Source: Bureau of Labor Statistics and Federal Reserve Board
Auto production has led growth

Monthly data: Last point plotted is May 2013
Manufacturing boosts employment most prominently in the Midwest.

The manufacturing sector has accounted for approx. 14 percent of total job growth since the trough of February 2010.

Source: Haver Analytics
Manufacturing employment shares

Percent of total payroll employment

Source: Bureau of Labor Statistics

Source: Bureau of Labor Statistics
Delaware manufacturing output by major industry

Real Output, Millions of 1985 dollars

Chemical output tends to influence State output.

Source: BEA, Haver
Delaware manufacturing output by major industry

Real Output, Millions of 1985 dollars

Source: BEA, Haver
Delaware manufacturing gross state product by industry (NAICS) from 1997-2011

Source: Bureau of Economic Analysis (BEA)
Finance and insurance vs. manufacturing

Share of Delaware’s quarterly personal income by sector (%)

Source: Bureau of Economic Analysis
First Mover Advantage: A Portfolio Perspective of the State’s Industries

A FIDUCIARY FOUNDATION

Elif Sen
Economic Analyst

FEDERAL RESERVE BANK OF PHILADELPHIA
Finance, insurance, and real estate employment set Delaware apart over the 80s and 90s

Note: SIC Industries
Source: Bureau of Economic Analysis
Credit institutions employment led the way

Relative to the U.S. = 100

Note: SIC Industries
Source: Bureau of Economic Analysis
Despite recent losses, Delaware remains a financial center.

Note: NAICS Industries
Source: BEA, Haver
New sources of strength in health and recreation?

Relative to the U.S. = 100

- Management of Companies & Enterprises
- Arts, Entertainment, and Recreation
- Finance, Insurance, and Real Estate
- Health Services
- Professional and Technical Services
- Education Services

Source: BEA, Haver
Education and health services has helped prop up Delaware employment in recent years.
First Mover Advantage: A Portfolio Perspective of the State’s Industries

CONCLUDING REMARKS

Paul R. Flora
Senior Economic Analyst

Federal Reserve Bank of Philadelphia
Delaware’s current portfolio of industries will help determine the state’s future rate of growth.

Delaware Location Quotients: 2012

Source: Covered Employment and Wages, Bureau of Labor Statistics
Summary of Delaware’s Strengths

- An entrepreneurial spirit celebrates first-mover feats but excels at trumping others with second-mover acts
- The Court of Chancery underlies over 200 years of innovation in corporate and financial law
- A culture of pragmatic, bipartisan governance fosters a predictable business climate and healthy finances
- An envied portfolio of generally high-wage industries stands to grow as the U.S. economy improves
Contact Information

Paul R. Flora
Senior Economic Analyst
(215) 574-6649
paul.flora@phil.frb.org

Elif Sen
Economic Analyst
(215) 574-6424
elif.sen@phil.frb.org

Mike Trebing
Senior Economic Analyst
(215) 574-6426
mike.trebing@phil.frb.org

For online access to our latest data and research, go to:
http://www.philadelphiafed.org/research-and-data/
First Mover Advantage: A Portfolio Perspective of the State’s Industries

at University of Delaware
June 25, 2013

Paul R. Flora, Elif Sen, and Mike Trebing
Economic Analysts

FEDERAL RESERVE BANK OF PHILADELPHIA