

Economic Base Analysis

Objectives:

- Identify Basic Employment (BE)
- Forecast Change (+,-) in (BE)
- Forecast Change (+,-) in Total Employment (TE) and Total Population (TP)

Data Needed

- Total Population (TP) in Study Area
- Total Employment (TE) in Study Area
- Total Basic Employment (BE) in Study Area
- Forecast Basic Employment (FBE) in Study Area

Identifying Basic Employment

Two Methods to Identify Basic Employment:

- Interview Method: Develop list of Major Employers in Study Area, Interview key personnel, identify good and or service, estimate impact on the study area, and forecast potential change (very time consuming).
- Location Quotient: Compare Employment in the Study Area to Employment Nationally to identify industries which are over represented in the Study Area. e.g. The Technology industry in Santa Clara County compared to the National Technology Industry (%of workers in each area)

Location Quotient

Comparing Study Area Employment to National Employment

Data Necessary

- Total Employment in the Study Area
- Employment Information by “Industrial Code” in Study Area
- Total Employment in the Nation
- Employment Information by “Industrial Code” in Nation

Industrial Codes: SIC or NAICS

Location Quotient Formula

Local Employment in Industrial Code = % Employment
in
Total Local Employment Industry Locally

National Employment in Industrial Code = %
Employment in
Total National Employment industry
Nationally

LQ = Local % Employment in Industry
National % Employment in Industry

BE by Location Quotient

$$\text{LQ} = \frac{\text{Local \% Employment in Industry}}{\text{National \% Employment in Industry}}$$

$\text{LQ} > 1 = \text{Basic Industry}$

Location Quotient Example

Study Area Employment
TE = 100,000

National Employment
TE = 1,000,000

Industry X = 20,000
(20%)

Industry X = 100,000
(10%)

Industry Y = 10,000
(10%)

Industry Y = 130,000
(13%)

LQ per Industry =

Industry X = $20\% / 10\% =$

Industry Y = $10\% / 13\% =$

Using Economic Base Analysis

➤ Establish Economic Base Multiplier (EBm)
Total Employment (TE) / Basic Employment (BE)

➤ Establish Population / Employment Ratio (P/Er)

Total Population (TP) / Total Employment (TE)

➤ Forecast Change in Economic Base to forecast change in Total Population

➤ Jobs = People = Demand

Economic Base Analysis Formula

Forecast Basic Employment (FBE)

X

EBm (TE/BE in Study Area)

X

P/Er (TP/TE in Study Area)

=

Forecast Total Population