

County Tracker 2013

On the Path to Recovery



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Executive Summary

As fiscal tightening continues to limit the scope of state and federal investment, it is becoming imperative for states and the federal government to work with counties to maintain the fundamentals of the U.S. economy — county economies.

An analysis of annual changes of four economic performance indicators— economic output (GDP), employment, unemployment rates and home prices — between 2012 and 2013 across the 3,069 county economies reveals that:

1 – Growth continued in 2013, but the recovery is still fragile in some parts of the country. Across all regions, county economies registered at least modest growth in economic output (GDP), jobs and home prices and drops in unemployment in 2013. About half of U.S. county economies had no recession or recovered their economic output (GDP) lost during the recession by 2013, most of them in the South. About 800 county economies, mostly in the South and Midwest, had no drops in employment over the last decade or were above their pre-recession levels in 2013. The housing sector witnessed the largest increase in recovery rates between 2012 and 2013 among all the indicators analyzed. Only 54 county economies, mostly in the Midwest, reached their pre-recession unemployment levels.

2 – Large county economies were at the core of the recession and the recovery. Only 4 percent of the 3,069 county economies, the 122 large county economies — in counties with more than 500,000 residents — delivered around 58 percent of the county economies' output (GDP) growth and a similar share of the added jobs over the recovery. Even though the recession hit these county economies the hardest, they showed the fastest rates of recovery in terms of economic output (GDP) and jobs.

3 – Employment in medium-sized county economies was more stable during the recession, but had a mixed record in 2013. About half of medium-sized county economies — in counties with populations between 50,000 and 500,000 residents — had shorter and/or shallower job recessions than the national average, more than any other group of county economies. The majority of medium-sized county economies registered job growth in 2013, but employment remained the same or declined in 23 percent of the mid-sized group.

4 – By 2013, the recovery in small county economies covered the entire scale of potential outcomes. Twenty-seven (27) small county economies — in counties with less than 50,000 residents — had no recession or fully recovered across all four indicators by 2013, the most among all groups of county economies. One small county economy managed to escape the latest U.S. recession altogether. The housing market downturn was mild in small county economies, with more than half not going through home price declines or already returned to pre-recession home price levels by 2013. Twenty-eight (28) percent of small county economies were still in recession or on the path to recovery in terms of economic output (GDP), employment, the unemployment rate and home prices.

The *County Tracker* offers a reminder that the U.S. economy happens on the ground, in the 3,069 county economies that provide the basis for county governments. As fiscal tightening continues to limit the scope of state and federal investment, it is becoming imperative for states and the federal government to work with counties to maintain the fundamentals of the U.S. economy — county economies.

Introduction

Global economic recovery remained subdued in 2013, with emerging concerns in both developed and developing countries. For the first time since the onset of the 2007 financial crisis, advanced economies picked up speed, but developing countries still accounted for the largest share of global growth.¹ For example, economic activity in the Eurozone area was on the path to stabilization, but the region had unemployment rates above 12 percent and home prices still on the decline.²

The dynamics in each county economy affect the capacity of county governments to deliver daily services to their communities.

The United States grew at a good pace in 2013. The economy gained speed at annualized growth rates of 4.1 percent in the third quarter of 2013 and added jobs faster than in the previous year, while the housing market was on the rebound with annual increases in double digits by September 2013.³ However, the recovery is still fragile. The U.S. economy did not expand fast enough to close the recessionary jobs gap and also create jobs for the people entering the labor market. By November 2013, the country was still 1.3 million jobs short of the pre-recession peak and unemployment rates remained above 7 percent.⁴

These national trends do not provide much insight on the inner workings of the U.S. economy. A granular view of the growth patterns at the county economy level not only reveals the dynamics happening in states and

regional economies, but also provides a basis for understanding the constraints on and opportunities for county governments. Further, it shows great variation in the performance of county economies in different parts of the country and thereby identifies the potential sources of growth and recovery for the nation as a whole.

Not all county economies have county governments. County economies in Connecticut, Rhode Island, some parts of Alaska, Massachusetts and Virginia do not have county governments. The 3,069 county economies represent the overwhelming majority of the United States.⁵ They contain 96 percent of the nation's population, economic output (GDP) and jobs. The dynamics in each county economy affect the capacity of county governments to deliver daily services to their communities.

This edition of the *County Tracker* is the first analysis of the performance of all 3,069 county economies. The focus of the report is on the county economy and not on the county government. While other sources keep track of the recovery of the top 100 U.S. metropolitan economies or largest metropolitan economies across the world, no similar study follows county economies' performance, the foundation of the U.S. economy.⁶ County economies are the building blocks of regional economies (metropolitan areas and micropolitan areas), states and the nation. County governments ensure the functioning of these fundamental units of the U.S. economy by building and maintaining basic infrastructure assets, keeping communities healthy and safe and providing the social safety net for those in need.⁷

This 2013 *County Tracker* assesses the performance of the 3,069 county economies in 2013 by studying annual changes in four indicators—economic output (GDP), employment, the unemployment rate and home prices—across four time periods: 2012 to 2013, recovery, recession and the pre-recession period (the “long-term” trend). The goal is to identify where county economies are on their individual recovery trajectory based on each of the four indicators.

Data and Methods

This research focuses on recent county economic dynamics, presenting data on four economic performance indicators—economic output (GDP), employment, the unemployment rate and home prices (See Key Terms on next page). Local economies are complex and their performance can be measured in several ways. These four measures capture a more comprehensive view of the dynamics within an economy, from businesses' ability to produce and hire people to labor and housing market conditions. The *County Tracker* examines county economic performance through 2013, based on forecasted data from Moody's Analytics.⁸ The goal is to get a timely perspective on recent movements in county economies, trends that underlie changes in metropolitan and state economies and affect county governments. In addition, the study analyzes the latest periods of recession and recovery, as well as long-term trends in each of the indicators, all specific to each county. Finally, the *County Tracker* identifies the drivers of growth in county economies with the help of industry level analysis and provides information on the average wages of major industries in a given county economy.

The *County Tracker* analyzes patterns for the 3,069 county economies together, grouped in Census regions, and according to population size: large (above 500,000 residents), medium-sized (between 50,000 and 500,000 people) and small (below 50,000 residents). The goal of the population groups is twofold: to allow benchmarking of county economies with their peers and to minimize "apples and oranges" comparisons.

For economic performance data for each of the 3,069 county economies and comparisons across population groups, please see the *County Tracker* interactive at www.naco.org/countyTracker.





KEY TERMS USED IN THIS COUNTY TRACKER

County: The primary legal division of most states for which the U.S. Census Bureau presents data. It can have a county government or be an unorganized area bearing county designations. In Louisiana, a county is known as parish. In Alaska, the county equivalent entities are the organized boroughs, city and boroughs, municipalities and census areas. The state of Alaska and the U.S. Census Bureau created the Alaska census areas for statistical purposes. Four states (Maryland, Missouri, Nevada and Virginia), have independent cities that the U.S. Census Bureau treats as equivalent entities for purposes of data presentation. All of the county economies in Connecticut and Rhode Island and nine county economies in Massachusetts do not have any longer county governments. The U.S. Census Bureau includes them among county economies to provide comparable geographic units at the county level for these states. There are 3,144 counties and county equivalents in the United States.⁹

County government: An organized entity with governmental character, sufficient discretion in the management of its own affairs to be an independent governmental unit and covering the area of county or county equivalent. Depending on the state, it can be known also as parish government or borough government. This study considers as county governments all the consolidated county-city entities, areas designated as metropolitan governments, cities administering functions performed by county governments and areas with certain types of county offices, but included as part of another government. There

are 3,069 county governments in the United States.¹⁰

County Economy: The economy of a county with county government.

Economic Output (gross domestic product - GDP): Total value of goods and services produced by a county economy, also known as GDP. *Data source: Moody's Analytics*

Total Jobs: Total wage and salary jobs, whether full or part-time, temporary or permanent in a county economy. It counts the number of jobs, not employed people, for all employers in a county economy, not only for the county government. *Data source: Moody's Analytics*

Median Home Sales Prices: Median sales prices of existing single-family homes. *Data source: Moody's Analytics*

Unemployment Rate: The proportion of the civilian labor force that is unemployed. Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks and are currently available for work. *Data source: Moody's Analytics*

Average Wage: Wages and salary disbursements per job. This indicator is calculated based on total wage and salary disbursements and total wage and salary jobs for each county economy and for each county major industry. *Data source: NACo analysis of Moody's Analytics data*

Population: The number of county residents in 2012. *Data source: Census Population estimates, 2012*

Large County Economies: The economies of counties with more than 500,000 residents in 2012.

Medium-sized County Economies: The economies of counties with populations between 50,000 and 500,000 people in 2012.

Small County Economies: The economies of counties with less than 50,000 residents in 2012.

Annualized Growth Rate: Year-over-year growth rate of an indicator (economic output (GDP), jobs or home prices) over a specified period of time, showing how much an indicator would have grown annually if it increased at a steady rate over a certain period. The growth rates of county economic output (GDP) are inflation-adjusted.

Average Annual Unemployment Rate:

The average of the county economy annual unemployment rates over a specified number of years.

Peak: The highest annual value of a county economy indicator (the lowest for the unemployment rate) between 2002 and 2009. 2002 marks the first year after the end of the previous U.S. recession. 2009 marks the end of the latest U.S. recession. The National Bureau of Economic Research (NBER) determines the end of U.S. economic recessions.

Trough: The lowest annual value of a county economy indicator (the highest for the unemployment rate) between the peak and 2013.

Recovery Rate: Share of the losses in a specific indicator suffered during the recession that the county recuperated during the recovery. It shows the county's progress on the trajectory of recovery according to a specific indicator.

The analyzed time period covers 1990 to 2013 to capture county economic performance evolution before and since the latest U.S. recession and it is individualized to each county indicator:

- **Long-term:** 1990 to the pre-recession peak year for an indicator for a county. This provides a benchmark to compare the current growth rates in a county.
- **Recession:** Pre-recession peak to the year with the trough value for an indicator for a county during the latest U.S. economic downturn. The difference between the pre-recession peak and the trough value has to be larger than one percent of the peak value for a recession to be counted. It is possible that no recession occurred for an indicator in a given county.
- **Recovery:** Trough year to 2013 for an indicator for a county. If the county had no recession, the recovery period is from peak to 2013. It is possible that a county has not yet entered the recovery period based on an indicator.
- **2012-2013:** Growth rate (change for the unemployment rate) over the most recent year, based on annual estimates.

Findings

1. Growth continued in 2013, but the recovery is still fragile in some parts of the country.

2013 was a year of growth for county economies. In aggregate, the economic output (GDP) of the 3,069 county economies grew by 2.3 percent, while jobs expanded at a 1.7 percent annual rate (See Table 1). The housing market was on the rebound, with median home prices gains soaring above 11 percent in 2013. This was more than double the long-term rates, which indicated a strong pace of the housing market recovery. The labor force started to grow at higher rates in 2013 than in the previous years, leading to slowly declining unemployment rates.

TABLE 1. The Performance of the 3,069 U.S. County Economies in 2013, Recession and Recovery

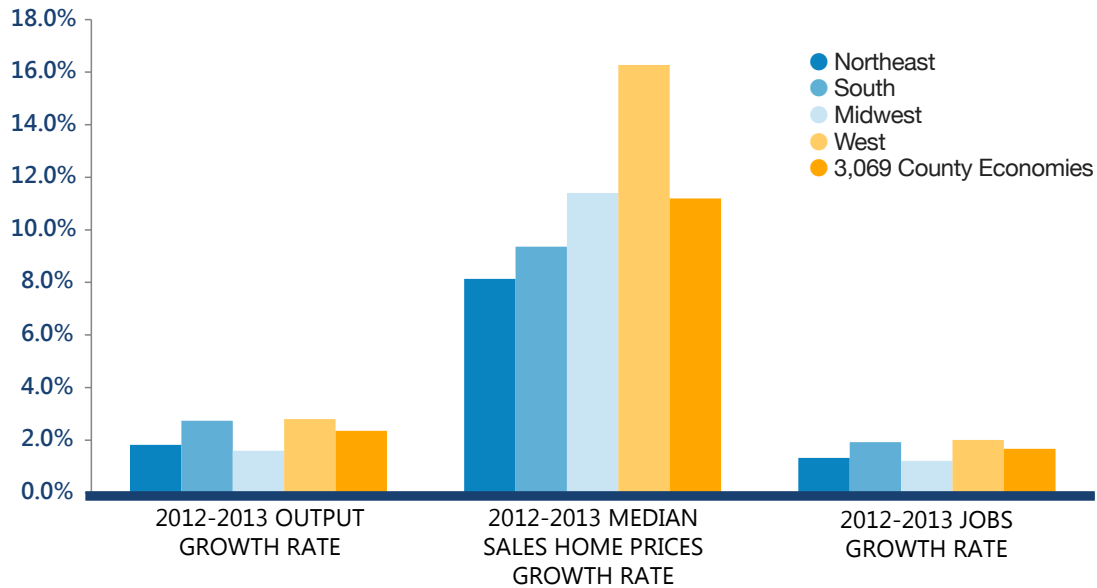
Economic Indicator	2012–2013 Change	2013 Value	Peak Year	Trough Year	Annualized Growth Rate, Recovery	Annualized Growth Rate, Recession
Economic output (GDP)	2.3%	\$13.2 (TRILLIONS)	2007	2009	2.2%	-2.0%
Jobs	1.7%	136.2 (MILLIONS)	2007	2010	1.5%	-1.7%
Median Home Sale Prices, average	11.2%	\$125 (THOUSANDS)	2007	2011	8.0%	-4.6%
Unemployment Rate, average	-0.5 pps	7.2%	2007	2010	-.7 pps	1.4 pps

Notes: Annualized growth rates represent annual average changes for unemployment rates.

Source: NACo analysis of Moody's Analytics Data

Across all regions, county economies registered at least modest growth in economic output (GDP), jobs and home prices and drops in the unemployment rate in 2013 (See Figure 1).¹¹ In aggregate, Western county economies had the best economic performance across regions in 2013. Not only did they achieve the highest economic output (GDP) rates (2.8 percent) and job increases (2.0 percent), but also they recorded soaring home prices (at 16 percent growth) and the largest decline in unemployment rates (lost 0.85 percentage points).

FIGURE 1. Regional Aggregates of County Economies, Growth Rates, 2012-2013

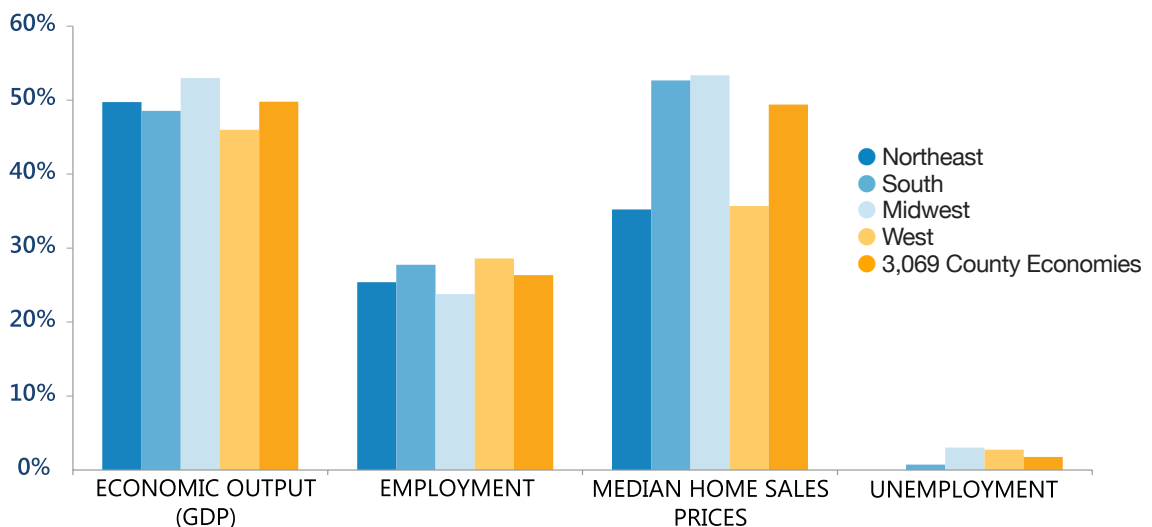


Note: Changes in the unemployment rate are not displayed in this graph as they are measured in a different scale (in percentage points) than growth rates.

Source: NACo analysis of Moody's Analytics data

The recovery rates improved in 2013, but the recovery is still fragile. County economies had different starting points for growth that affected the length of their recovery. Economic output (GDP) and the housing market had better recovery rates across county economies by 2013, and jobs and unemployment were struggling to recover in the majority of county economies (See Figure 2).

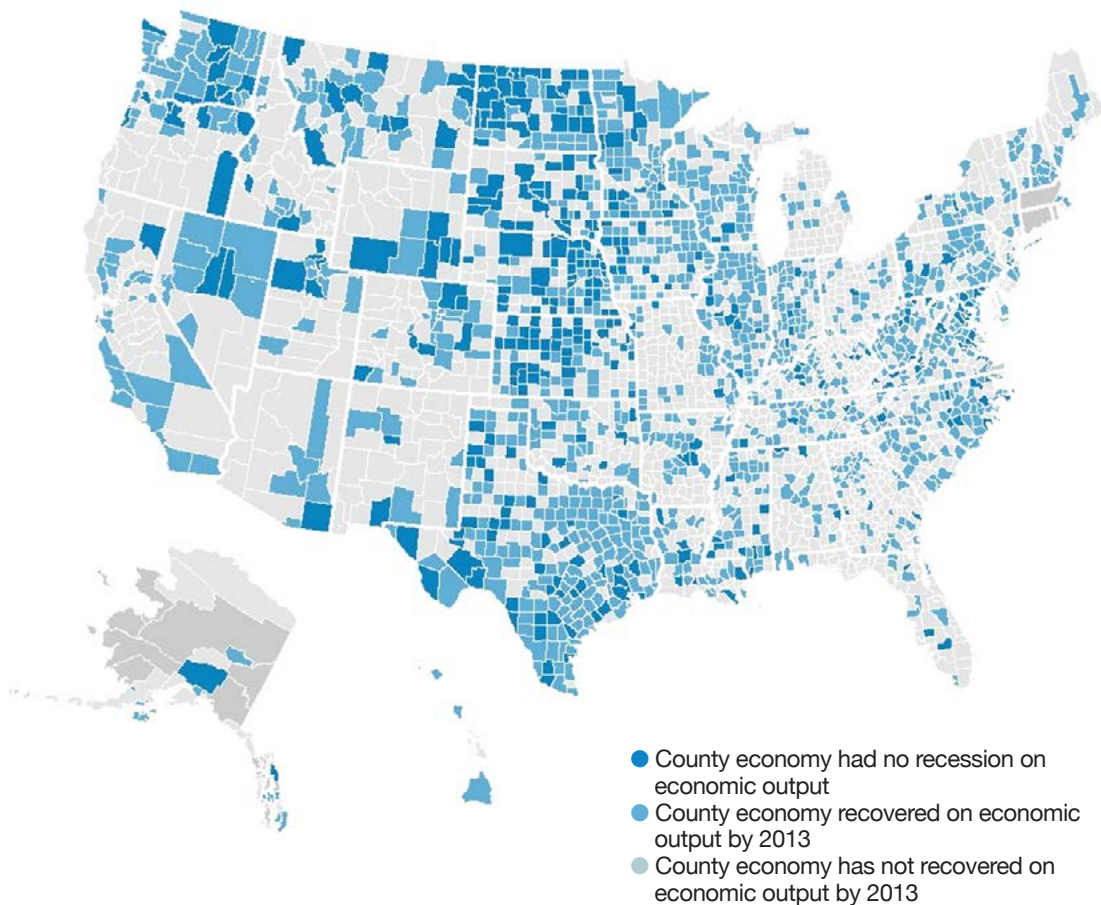
FIGURE 2. Share of County Economies Recovered on Each Indicator, by Region, 2013



Source: NACo analysis of Moody's Analytics data

About half of U.S. county economies had no recession or recovered their economic output (GDP) lost during the recession by 2013 (See Map 1). Among them, almost 400 witnessed no declines in economic output (GDP), a large share being small Midwestern county economies. Southern county economies represented 44 percent of the county economies with no recession or recovered economies, followed by Midwestern county economies.

MAP 1. Economic Output (GDP) Recovery Rates in County Economies, 2013

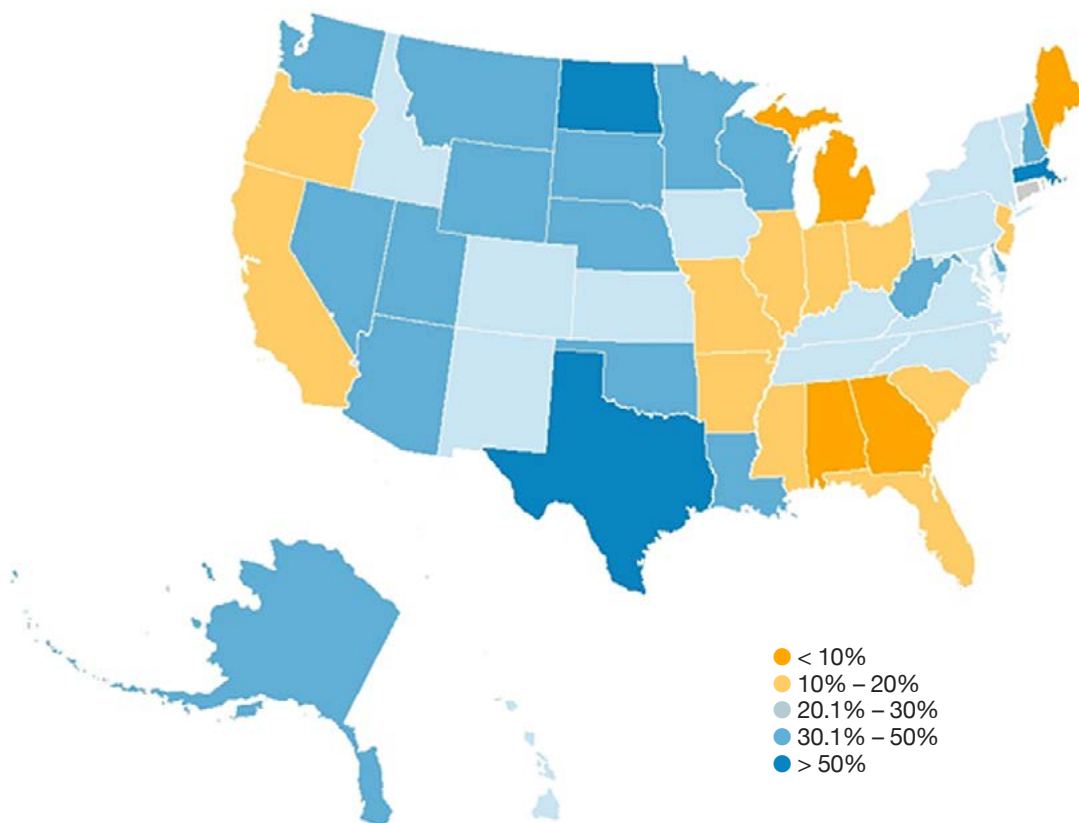


Note: The dark grey areas in Conn., R.I., parts of Alaska, Mass. and Va. are counties without county governments.

Source: NACo analysis of Moody's Analytics Data

The job recovery continued in 2013, but it had not reached the majority of county economies. About 800 county economies, mostly in the South and Midwest, had no drops in employment over the last decade or were above their pre-recession levels in 2013. This was an improvement from 2012, when only 621 managed to close their job gap. Texas claimed the top spot among states in terms of the number of county economies out of the job gap. Sixty-three (63) percent of Texas county economies had more jobs in 2013 than before the recession (See Map 2). Tarrant County, Texas, provides an example of the dynamics occurring in these Texas county economies (See Sidebar: Tarrant County, Texas next page).

MAP 2. Job Recovery Rates in County Economies by State, 2013



Notes: The county job recovery rate by state is calculated as the share of the number of the state's county economies that recovered to their pre-recession employment peaks out of the number of all the state's county economies. This includes only the 3,069 county economies with county governments.

Source: NACo analysis of Moody's Analytics Data



TARRANT COUNTY, TEXAS

ADDING JOBS IN THE SOUTH

Tarrant County, with a population of 1.9 million, is an integral part of the Dallas - Fort Worth - Arlington metro area, one of the largest and fastest growing metropolitan areas in the country.¹² As the third largest county economy in the state, Tarrant County is an important economic driver for not only North Texas, but also for Texas as a whole, accounting for almost 7 percent of the state's economic output (GDP). As with most Texas county economies, Tarrant County's economy experienced a mild recession and rebounded quickly over the recovery and into 2013.

Tarrant County enjoys a highly diversified economy, spread over a range of manufacturing, mining, service and defense industries. As with many large economies, the service sector represents the largest share of Tarrant's local economy, providing two thirds of its economic output (GDP) and 70 percent of local jobs. Real estate, business services and banking are the top service industries powering the local economy, while food services, administrative services and health care are among the largest county service employers. Powered by the economic engine of the Dallas/Fort Worth airport, as well as commercial and defense aviation manufacturing, aviation plays an important role in Tarrant County's economy.

The recession affected Tarrant County's economy less than most of its peers around the country. Economic output (GDP) dropped in only one year, a mild decline of 1.2 percent. The growth in oil and gas, coupled with continued expansion of the banking industry, cushioned drops in the manufacturing sector. Government and raw materials sectors added jobs during the recession, while services, construction and manufacturing shared equally in the job losses. The housing market experienced a 7 percent decline, well below the 17 percent drop for the 3,069 county economies' average.

Tarrant County's economy recovered quickly from the recession. Over the recovery, the county economic output (GDP) grew more than 4 percent annually, more than a full percentage point above the average county economy. The manufacturing sector (especially aircraft and aircrafts parts)

rebounded significantly, delivering a third of the economic output (GDP) growth. Job growth did not lag either, with the county economy gaining employment at a 3.2 percent rate annually, more than double the rate for the 3,069 county economies. The county economy added over 75,000 jobs during the recovery, an almost one-tenth increase in employment. Administrative services, food services and health care contributed the most to the job gains. Not only did the housing market regain the losses suffered during the recession, but the increase in home prices added twice as much value as they lost during the downturn. Though an influx of new residents to the area and the ensuing increase in the local labor force slowed the decrease in the unemployment rate somewhat, Tarrant County's economy had a 6.1 percent average unemployment rate in 2013, much lower than the average U.S. county economy.

2013 was a good year for Tarrant County's economy. Job growth rate accelerated relative to the entire recovery, as did home price growth. In 2013, home prices grew at double the recovery growth rate and more than triple their long-term trend. This will lead to increased tax revenue for the county government, as it reassesses the value of property on January 1 of each year.¹³

In the future, Tarrant County must continue to meet the challenges of further expanding its economy and adding new jobs for its burgeoning labor force. The influx of new businesses and the projected population increase will require transportation and infrastructure improvements. The economic growth and recovery in Tarrant County provides stability to the local economy, the opportunity to maintain quality services for residents and the possibility of a social safety net to help the area's less fortunate citizens.

The housing sector witnessed the largest increase in recovery rates between 2012 and 2013 among all the indicators analyzed. The housing market rebounded in about half of all county economies in 2013, including 230 county economies with no declines in housing prices over the last decade. This is almost double the number of county economies with recovered housing markets in 2012. The recovery rates vary across the county, reflecting the depth of the housing downturn. For example, 252 out of the 254 Texas county economies had no housing downturn or regained their home value losses. In the same time, county economies in states such as Nevada and Florida were still below their housing boom prices.

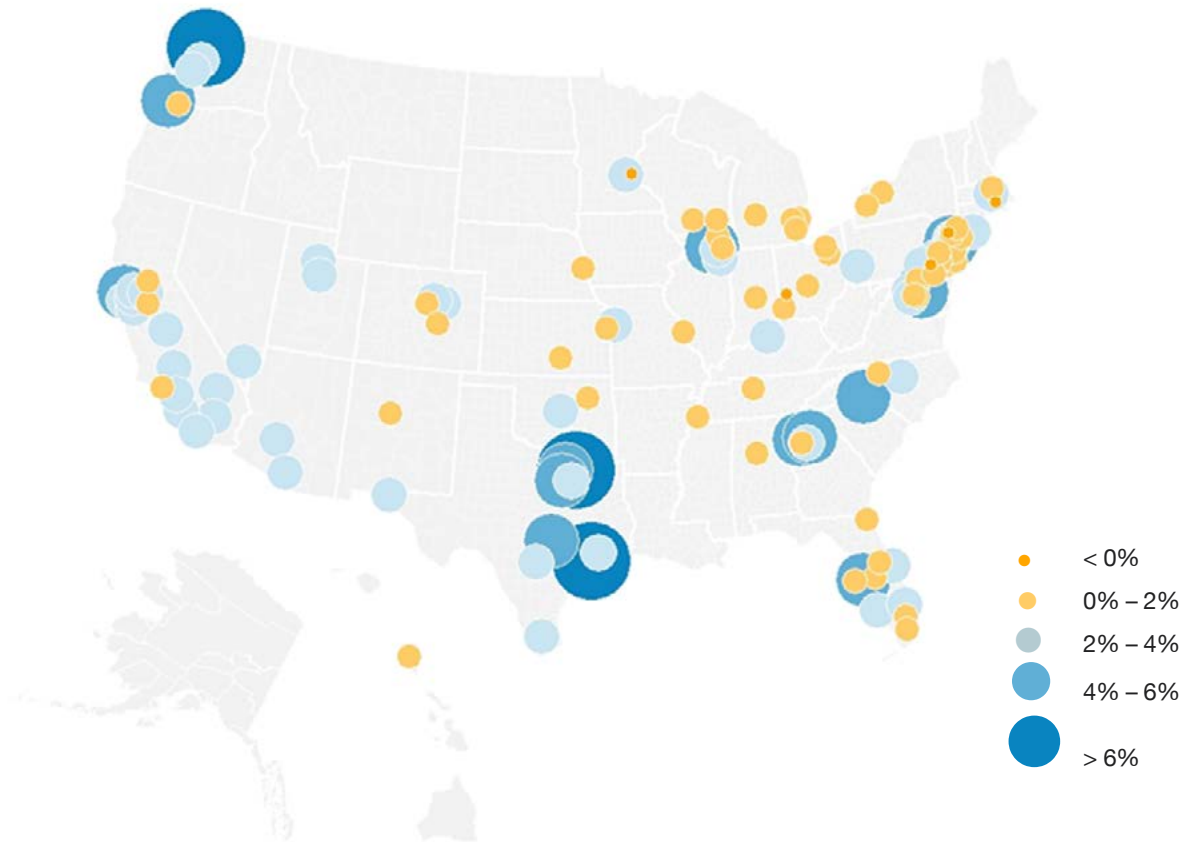
The economic output (GDP), jobs and housing market recovery added to the factors affecting movements in the unemployment rate. The number of unemployed people dropped more rapidly in county economies with fast-growing industries such as oil and gas (for example, Alaska, North Dakota and Texas). While most regions saw growth in the labor force over the recovery, some Midwestern county economies had shrinking labor markets. A combination of these two factors helped 32 small Midwestern county economies to get back to their previous unemployment rate levels, along with 12 county economies in the West and 10 county economies in the South.

The number of unemployed people dropped more rapidly in county economies with fast-growing industries such as oil and gas.

2. Large county economies were at the core of the national recession and recovery.

The 122 large county economies — in counties with more than 500,000 residents — anchor their state and metropolitan economies. Only 4 percent of all the 3,069 county economies, they represent more than half of all jobs and concentrate 57 percent of county economies' output (GDP). Thirty-four (34) states have large county economies, with California holding the top spot (16 large county economies), followed by Texas and Florida with 10 large county economies each. They are the centers of some of the largest 100 metro areas in the country. The New York metro area alone includes 12 large county economies in the states of New York and New Jersey, besides nine other medium-sized county economies.

MAP 3. Economic Output (GDP) Growth Rates for the 122 Large County Economies, 2013



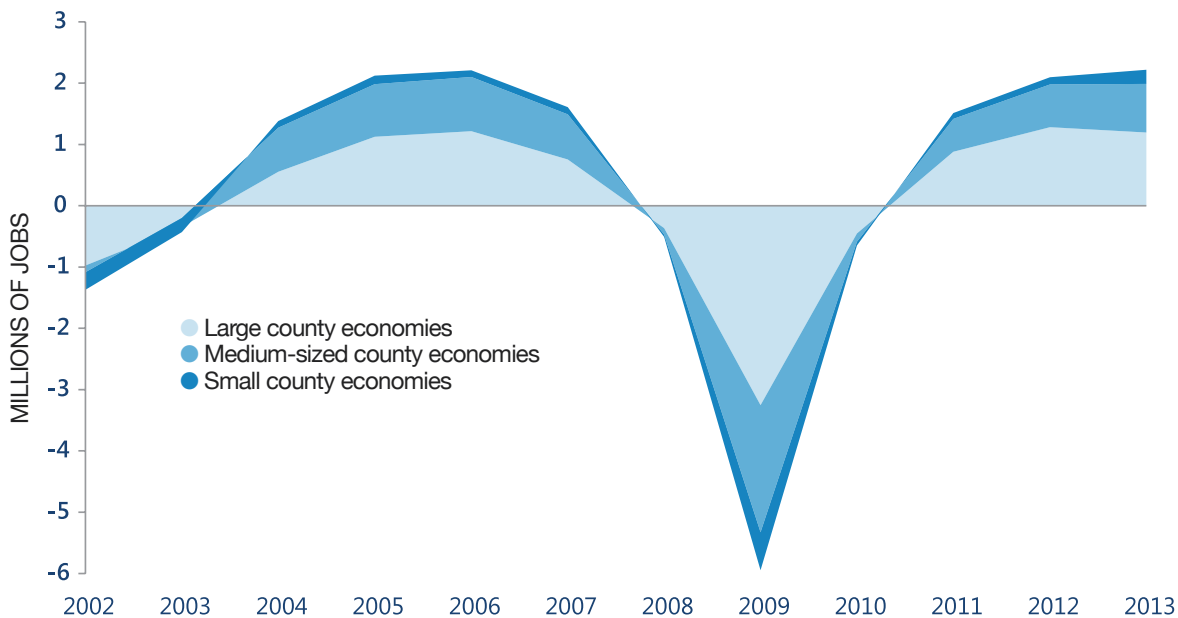
Note: Large county economies are economies of counties with more than 500,000 residents.

Source: NACo analysis of Moody's Analytics Data

Most large county economies registered improvement across the four indicators analyzed in this report in 2013. The overwhelming majority witnessed economic output (GDP) expansion, with large increases in county economies such as Collin County, Texas, Snohomish County, Wash. and Fort Bend County, Texas (See Map 3). Manufacturing drove the growth in these three county economies, mainly computer and electronics but also aircraft and aircraft parts in the Snohomish County, Wash. More than 1.2 million jobs were added in large county economies in 2013. Housing prices in large county economies rose strongly in 2013, especially in some of the areas most affected by the housing downturn such as in California and Nevada. Unemployment rates also dropped the most in large county economies rebounding from the housing market recession in California and Florida.

The recession hit large county economies harder than the rest of the country. Economic output (GDP) declined by about 4 percent on average for large county economies, with some county economies suffering double digit drops. More than half of the jobs lost during the recession were in large county economies (See Figure 3). For some large economies, the declines in employment started long before the national recession. For example, employment was on decline in large county economies part of the Detroit metropolitan area since 2002, showing long-term challenges. The housing bust struck all large county economies, with homes losing about a quarter of their value during the recession. As a result, unemployment rates skyrocketed in some places by double digits.

FIGURE 3. Changes in Employment across County Economies by Population Size, 2002-2013



Notes: Large county economies are economies of counties with more than 500,000 residents. Medium-sized county economies represent economies of counties with county governments that have between 50,000 and 500,000 residents. Small economies of counties represent county economies with county governments that have less than 50,000 residents.

Source: NACo analysis of Moody's Analytics Data



LOS ANGELES COUNTY, CALIF.

LEADING THE RECOVERY

Los Angeles County, Calif., is the most populous county in the United States, with 10 million residents. The county economy contributes more than one-fourth of the economic output (GDP) for the entire state of California and is the economic engine of the Los Angeles-Long Beach-Anaheim metropolitan economy. Similar to most large county economies across the nation, the economy of Los Angeles County was hit particularly hard by the recession, with unemployment rates soaring from 4.8 percent in 2006 to 12.6 percent in 2010. Los Angeles County's economy has been a major contributor to the recovery both in California and for the nation, creating over 180,000 jobs since it got back on track.

Services dominate Los Angeles County's economy, with almost three-quarters of the county economy's workforce employed in this sector. While the food services industry is the largest service employer in the county economy, the real estate industry and business services (such as consulting, accounting, or architecture services) deliver almost a third of the county's economic output (GDP). Reflecting the location of the county and long traditions in the area, the county economy has a range of industry specializations from the movies and music industries to port enterprises. Los Angeles County includes the nation's largest seaport complex which is a gateway for international trade, especially with Asia.

The economy of Los Angeles County, like California as a whole, went through a deep recession. The county economy lost over \$28 billion in economic output (GDP) between 2007 and 2009, almost a 6 percent drop. Construction and wholesale trade industries contributed more than a quarter to these losses. The entire state of California experienced a crash in the housing market, including Los Angeles County. In addition, 8 percent of jobs disappeared during the recession, with almost 40 percent of the jobs lost concentrated in construction and manufacturing.

During the recovery, Los Angeles County's economy, along with other large county economies, helped drive state and national economic growth. The county's gained economic output (GDP) and jobs contributed almost a quarter to California's economic and employment growth. In 2013, economic output (GDP) surpassed pre-recession levels, with industries such as business services, telecom services and broadcasting contributing disproportionately to this result. The

county economy's unemployment rate dropped from 13.1 percent in August 2010 to 10.2 percent by August 2013.¹⁴ The service sector alone created almost 75,000 jobs in 2013. The housing market has also shown signs of improvement, with housing prices rising by 30 percent during the recovery.

There are positive signs that the county economy is on its way to a full recovery. The growth of the service sector, which represents three-fourths of the county economy's workforce, is a positive sign. Some of the largest and fastest-growing sectors such as business services have been creating well-paying jobs, above the county economy's average wages. The housing market has been on the rebound.

The Los Angeles County government managed to weather the recession without any service reductions, layoffs, or furloughs.¹⁵ As an organization, the County of Los Angeles is one of the largest municipal agencies in the United States, and one of the largest employers in California, with 103,678 employees in 2013. The county's budget for Fiscal Year 2013-14 is \$26.1 billion, which is also the first time in the past five fiscal years without budget cuts or a deficit.¹⁶ In 2012, Los Angeles County received its highest credit rating from Standard and Poor's (S&P), with the credit agency praising the county's budget reserve levels and strong financial management.¹⁷ However, the housing market recovery will not have the same impact on the county coffers as for other counties across the country due to California's Proposition 13. This law allows property values be reassessed for taxation purposes only when they are sold or they are newly built. As a result, property bought while home prices were at their lowest will generate less county revenue for as long as it does not change ownership, even long after the property increases in value.¹⁸

Some of the largest and fastest-growing sectors such as business services have been creating well-paying jobs, above the county economy's average wages.

The deep recession was followed by a strong comeback. Two-thirds of large county economies regained their economic output (GDP) losses and one third managed full employment recovery by 2013. Southern large county economies outperformed their peers, with almost three-quarters producing at levels above pre-recession peaks and almost half hiring more people than before the recession. The large county housing markets are coming back, with 51 of them growing faster than the average county economy in 2013. While not back to pre-recession unemployment rates, unemployment rates dropped faster in 2013 than in 2012 in 43 percent of large county economies.

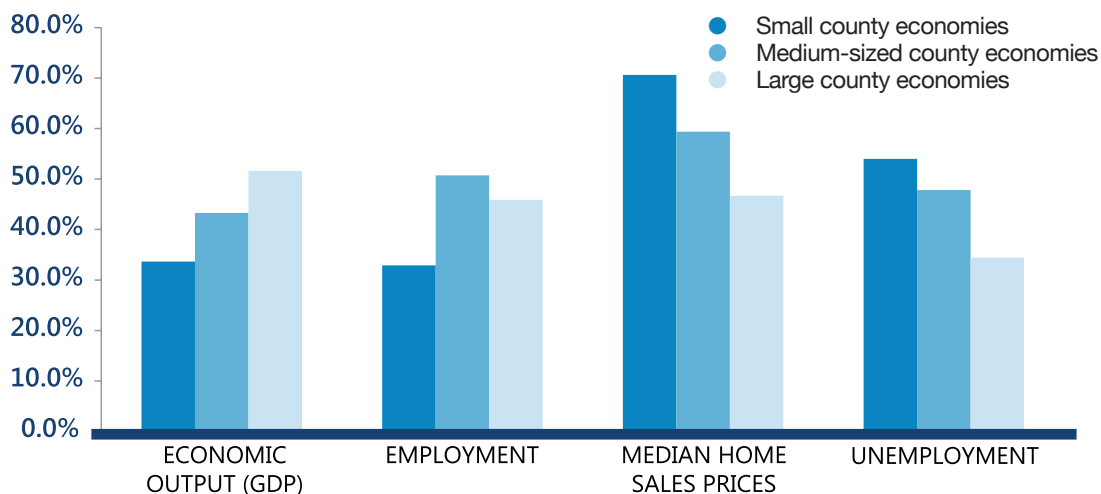
The strong recovery of large county economies helped the growth across the 3,069 county economies. Large county economies delivered around 58 percent of county economic output (GDP) growth and added jobs over the entire recovery (See Figure 3). The top 10 county economies alone contributed a fifth of all the jobs created during the recovery in the 3,069 county economies. Los Angeles, Calif., is part of this group (See Sidebar: Los Angeles, County, Calif.).

3. Employment in medium-sized county economies was more stable during the recession, but had a mixed record in 2013.

The 820 medium-sized county economies — in counties with population between 50,000 and 500,000 — represent one of the most varied groups of county economies. Thirty-nine (39) percent of all county residents live in a medium-sized county and three quarters of all these counties are in metropolitan areas. They are in every state with county governments and in 22 states they dominate the state economy. The bulk of U.S. manufacturing jobs, about 43 percent, are found in medium-sized county economies.

Employment in mid-sized county economies was more stable during the recession than in other county economies. While containing 37 percent of all jobs in the 3,069 county economies, mid-sized county economies were responsible for only 33 percent of the job gap during the recession, although declines in manufacturing and construction jobs had a bigger effect on them than on other county economies. Government jobs played a counter-cyclical role and shored up the losses from the other sectors. As a result, employment in about half of mid-sized county economies had a shorter and/or shallower recession than the 3,069 county economies' average, more than in large or small county economies (See Figure 4). Many of these county economies were located in the South, in states such as Texas, Louisiana and North Carolina.

FIGURE 4. Share of County Economies with Shorter and/or Shallower Recession than the Average for the 3,069 County Economies, 2013



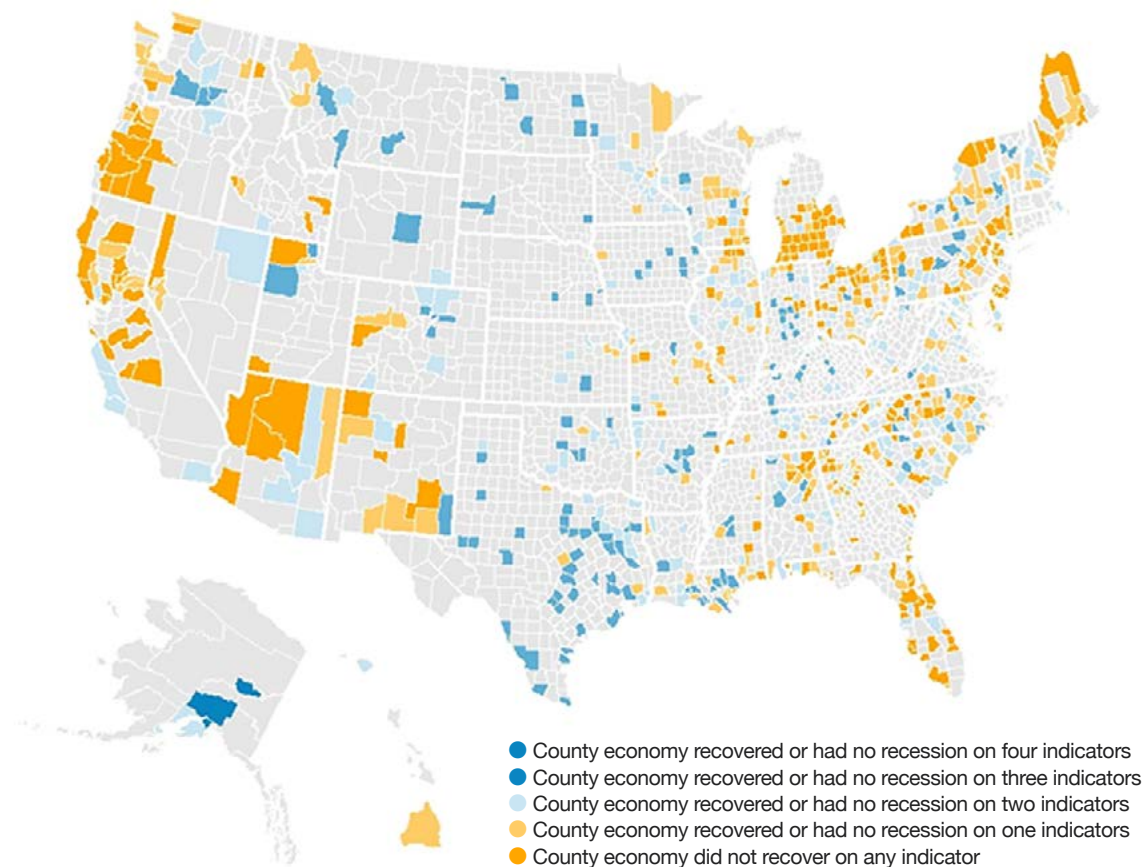
Notes: Large county economies are economies of counties with more than 500,000 residents. Medium-sized county economies represent economies of counties with county governments that have between 50,000 and 500,000 residents. Small county economies represent economies of counties with county governments that have less than 50,000 residents.

Source: NACo analysis of Moody's Analytics Data

Mid-sized county economies had the highest rates of job recovery in 2013. Thirty-five (35) percent of this group recovered the number of jobs lost during recession (such as county economies in Alaska, Nebraska and Wyoming). Almost two-thirds closed the gap on economic output (GDP) (especially in North Dakota, South Dakota, Nebraska, New Hampshire and West Virginia) and about 40 percent are back to pre-recession home prices (all the medium-sized county economies in Iowa, Oklahoma and Texas).

In 2013, employment in medium-sized county economies grew slightly slower than the 3,069 county economies' average. Jobs expanded in three-quarters of the group, but employment was stagnant or declined in about 23 percent of them. Most of these county economies were in the South and Midwest, in states such as Ohio, Michigan and Alabama. The housing market expanded in almost all mid-sized county economies, with more than half registering home price growth rates in double digits. Unemployment rates dropped in most medium-sized county economies, particularly in some of the California medium-sized county economies.

MAP 4. Medium- Sized County Economies by the Number of Economic Indicators Recovered, 2013



Note: Medium-sized county economies represent economies of counties with county governments that have between 50,000 and 500,000 residents.

Source: NACo analysis of Moody's Analytics Data

A number of medium-sized county economies were close to full recovery in 2013. Three boroughs in Alaska (Anchorage, Matanuska-Susitna and Fairbanks) had no recession or recovered on all four indicators. Another 146 county economies across the country (especially in Texas, South Dakota, North Dakota and Iowa) enjoyed returns to pre-recession peaks in terms of economic output (GDP), jobs and the housing market (See Map 4). Unemployment rates were still above pre-recession levels in most mid-sized county economies, as in the rest of the country. Linn County, Iowa was one of many county economies to get close to full recovery (See Sidebar: Linn County, Iowa, next page).



LINN COUNTY, IOWA

SHORT RECESSION, SLOW JOB GROWTH IN 2013

Linn County, in eastern Iowa, contains the urban core of the Cedar Rapids metro area. A medium-sized county, with a population around 215,000, Linn County's economy delivers about 10 percent of the state's economic output (GDP). As with most of its peers, Linn County's economy suffered declines in output (GDP) and employment and rises in the unemployment rate during the recession. By 2013, county economic output (GDP) and employment exceeded their pre-recession peaks.

The service sector dominates the county economy, producing about three-quarters of the county economic output (GDP) and securing 68 percent of all jobs. Real estate and insurance services are the top two industries in the county economy. The manufacturing sector accounts for 15 percent of economic output (GDP), mostly computer and electronics and food manufacturing. The county economy is strongly specialized in computer and electronics products. Local government is the largest industry employer with 9 percent of employees working for government entities within the county economy. Food services, administrative services and truck transportation are the largest service employers.

The recession was short for Linn County's economy. The county economy suffered a one-year dip in economic output (GDP), losing more than \$400 million, mainly in the insurance and real estate industries between 2007 and 2008. On the employment side, the manufacturing sector was responsible for three quarters of losses during the two years of decline (2009 and 2010). Jobs added during the rebuilding after the 2008 floods, the worst in Linn County's history, helped cushion the employment decline.¹⁹ Overall, Linn County's economy performed well relative to the state, losing jobs at half the rate suffered across the state. Further, home prices continue to climb throughout, with only a slight decline between 2008 and 2009.

The county economy recovered on economic output (GDP) and jobs. Economic output (GDP) grew moderately during recovery, at a 2.4 percent rate annually, driven by the county's two largest industries: real estate and insurance. Together they were responsible for half of the county economic output (GDP) growth since the recession. Jobs grew at 0.7 percent annually since 2010, driven by job gains in truck transportation, fabricated metal products and management and consulting. As a result, the unemployment rate has been on a downward trend since 2010.

In 2013, the county economy witnessed faster growth in economic output (GDP) and home prices, but a slowdown in job expansion and unemployment in comparison with 2012. Economic output (GDP) increased at a 2 percent rate, faster than in 2012. Real estate, insurance and truck transportation contributed the majority of added economic output (GDP). Jobs remained the same in 2013. The reorganization of the mental health facilities from a county-based system to regional centers might have contributed to this result. The unemployment rate reached 4.8 percent in 2013, much lower than the 7.2 percent national average. The almost 9 percent increase in home prices should help county property tax revenue in 2014 when the next property tax reassessment will occur.²⁰

4. By 2013, the recovery in small county economies covered the entire scale of potential outcomes.

Almost 70 percent of U.S. county economies are in counties with less than 50,000 residents. These small counties are spread around the country and about a fifth of them are part of metropolitan areas and another 21 percent are in micropolitan areas. Three states have more than 100 small counties (Texas, Georgia and Kentucky) and more than 90 percent of counties in some Midwestern states (South Dakota, Nebraska, North Dakota and Wyoming) have less than 50,000 people. Almost half of all jobs in agriculture (48 percent) are found in small county economies.

The majority of small county economies grew in 2013, but a significant share saw stagnant or declining economic output (GDP) and jobs. Two-thirds of this category registered expanding economic output (GDP) and jobs and almost all of them had rising home prices. However, economic output (GDP) declined in 27 percent of small county economies, more than in any other county economy group. In addition, economic output (GDP) was stagnant in another 10 percent of them. The decline in employment was less pronounced, with only 13 percent of small county economies losing jobs, but this share was still larger than the 3,069 average.

This diversity of growth rates was found also in the recovery landscape across small county economies. Twenty-seven out of the 30 county economies that had no recession or fully recovered by 2013 across the four indicators studied were small county economies (See Map 5 next page). Two-thirds were from Midwestern states (Iowa, Kansas, Nebraska, North Dakota and South Dakota). Another seven Southern county economies (from Oklahoma and Texas) and one Western county (Mineral County, Co.) completed the list. One county in particular, Mountrail County, N.D. was untouched by the latest U.S. recession (See Sidebar: Mountrail County, N.D. next page).

Oil and gas fueled the growth of the majority of these county economies, which helped them recover their recessionary losses more quickly than many other county economies. Starting the recession from relatively low unemployment rates — often half of the 3,069 county economies' average — these 27 county economies also returned to pre-recession unemployment levels faster than their counterparts across the country.

Almost half of all jobs in agriculture (48 percent) are located in small county economies.





MOUNTRAIL COUNTY, N.D.

THRIVING WITH A NEW ECONOMIC BASE

Mountrail County is a small county in northwestern part of North Dakota, with just under 9,000 residents. The county economy is the only one in the country that experienced no signs of the recession. Due to the expansion of the hydraulic fracturing industry, the county economy experienced growth across all four indicators studied in this report (economic output- GDP, jobs, the unemployment rate and home prices) over the last five years. While home prices were tumbling in many parts of the country between 2006 and 2011, Mountrail County's economy witnessed uninterrupted growth in home values, as did other small county economies across the country.

The county economy has been going through structural changes. Raw materials, mainly oil and gas, grew to nearly 40 percent of the county's economic output (GDP) and 20 percent of all jobs in the county economy in 2013. Due to significant exposure to the Bakken Formation, the county is in a prime location for oil drilling and the industry is booming in Mountrail and nearby county economies. For example, Mountrail County and McKenzie County together produced 14,146,218 barrels of oil in August 2013, more than the entire state of Alaska.²¹ Agriculture has traditionally been a significant industry in the county economy. The agriculture sector employs almost one tenth of the workforce, and is still adding jobs, even as the raw materials sector continues to dominate the local economy.

The housing downturn and the overall recession did not touch the economy of Mountrail County. The recession affected North Dakota as a whole less than every other state, and the economy of Mountrail County outperformed the state in every measure. The state saw a small drop in home prices between 2007 and 2009, while at the same time, homes in Mountrail County gained almost 2 percent in value. The county's economic output (GDP) increased every year throughout the U.S recession, soaring by 72 percent in just two years. The unemployment rate dropped to 4 percent from 5.7 percent over the same period. By 2013, the unemployment rate in Mountrail was a mere 1.9 percent.

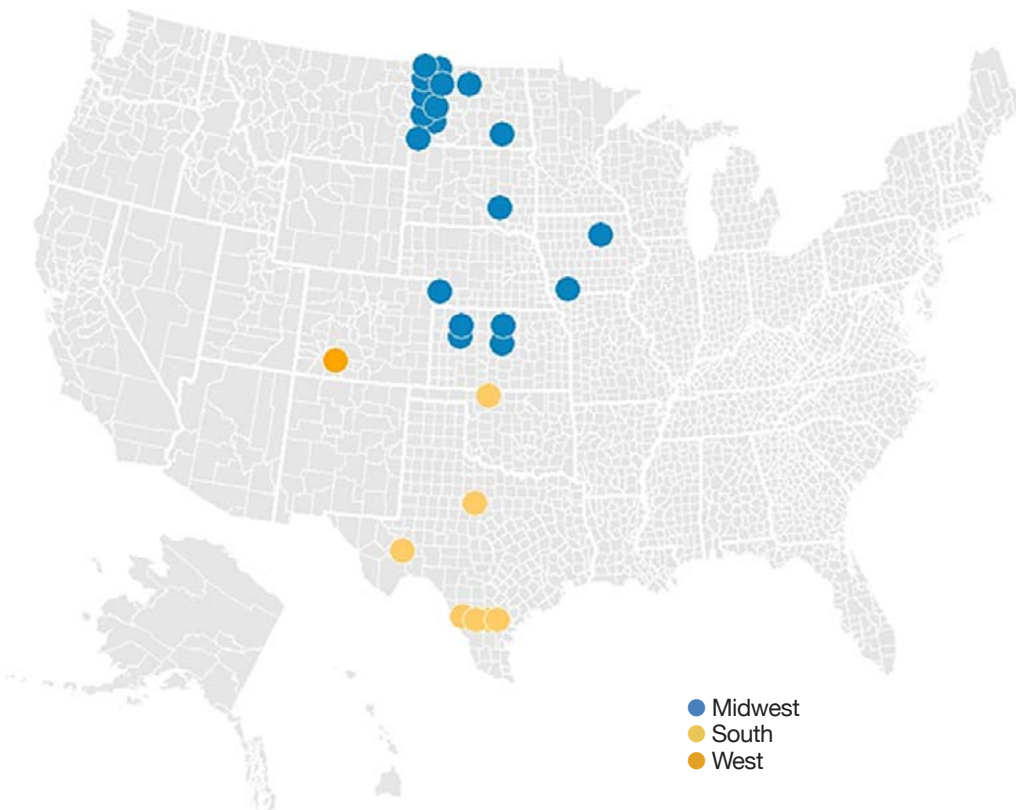
The rapid growth of the hydraulic fracturing industry in Mountrail County's economy led to a rapid increase in economic output (GDP) and jobs in the past several years. The county economy boasted almost 10 percent growth rate in economic output (GDP) in 2013 and was adding jobs at over half

that rate. Home prices rose by more than 11 percent in 2013 and have increased by almost 50 percent since 2009. The county government will likely benefit from this rise in home prices if the county maintains the current rate for property taxes.

This very fast growth comes with its challenges. The rapid expansion of the oil industry placed severe strains on the county's infrastructure, driving up the labor costs and leading to a labor shortage that affects the timeline of completing the county's contracted projects. In the same time, the state shares only 25 percent of the oil tax revenue with county economies, much less than the neighboring states such as Montana, which shares 47.36 percent.²² As the state legislature meets every two years, the county has a hard time keeping up with the fast increase in costs in between the years of state allocations.

Thanks to the rapid rise of the energy industry, Mountrail County's economy was able to avoid the recession and instead experience unprecedented growth.

MAP 5. 27 Small County Economies that Had no Recession or Fully Recovered Across the Four Indicators by 2013

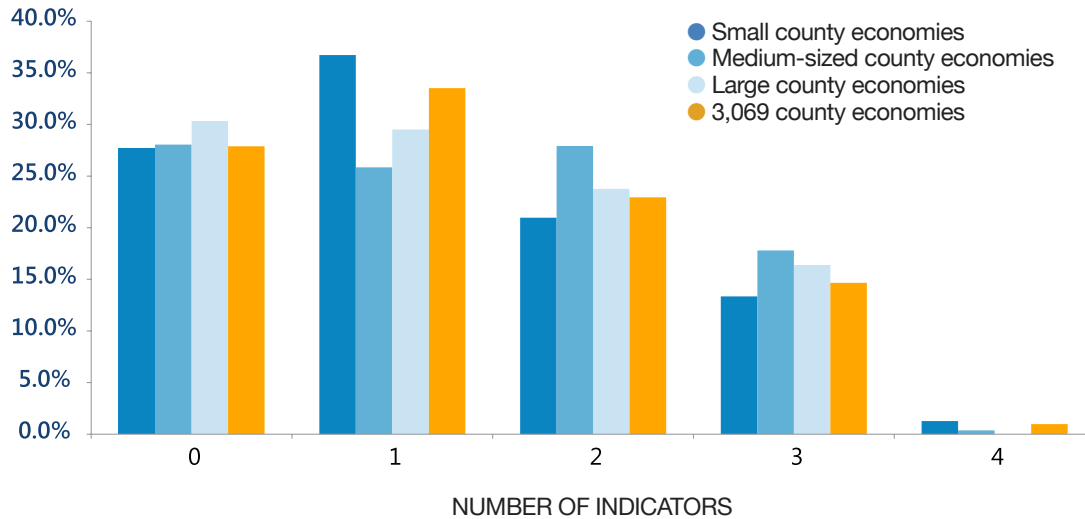


Note: Small county economies represent economies of counties with county governments that have less than 50,000 residents.

Source: NACo analysis of Moody's Analytics Data

There were fewer small county economies that recovered on two or three indicators than the national average. About a third of small county economies recovered on two or three indicators in comparison with 38 percent nationally (See Figure 5). Almost all of them were either in Midwest or in the South, in states such as Nebraska, Texas, South Dakota, North Dakota, Iowa and Kansas.

FIGURE 5. Share of County Economies by the Number of Economic Indicators Recovered, 2013



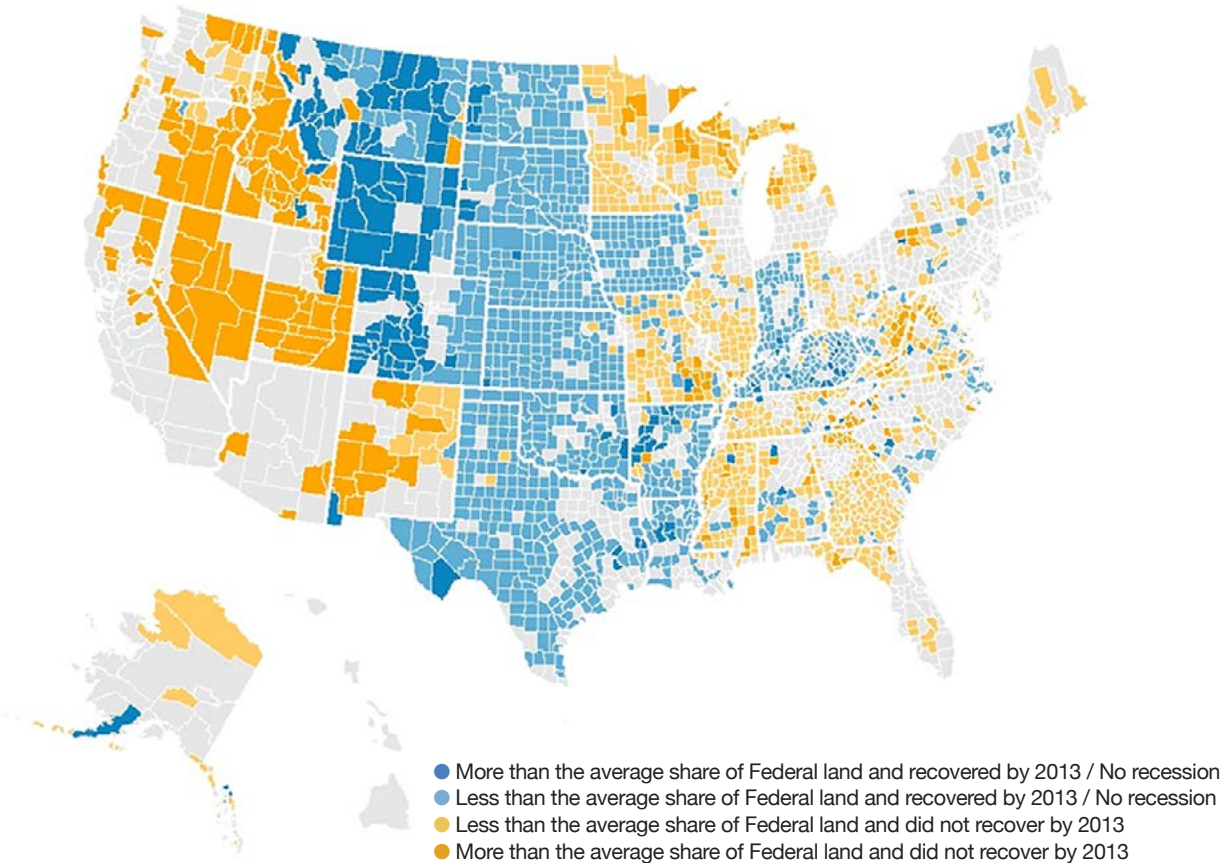
Notes: Large county economies are economies of counties with more than 500,000 residents. Medium-sized county economies represent economies of counties with county governments that have between 50,000 and 500,000 residents. Small county economies represent economies of counties with county governments that have less than 50,000 residents.

Source: NACo analysis of Moody's Analytics Data

Another 37 percent of small county economies recovered on only one economic indicator, most often home prices.

The housing boom and bust affected small county economies to a lesser extent than the rest of the country. While the downturn in home prices lasted four years on average across the 3,069 county economies, about a third of small county economies suffered no drops in home prices or underwent downturns lasting two years or less. By 2013, more than half of small county economies had no housing market recessions or already returned to pre-recession home price levels (See Map 5). Texas county economies, together with small county economies in states predominantly rural (South Dakota, North Dakota, Nebraska and Wyoming) were more likely to have recovering housing markets.

A worrying trend was the lack of housing market recovery in many small economies in counties with large shares of federal land within their jurisdiction. County governments can not tax federal land; therefore, the property base for taxation diminishes dramatically if the federal land covers a sizable portion of the county. The housing market did not recover in many small Western county economies with above average federal land shares, such as in California, Nevada, Utah, Idaho, Oregon and Washington (See Map 6).

MAP 6. Housing Market Recovery Rates by Federal Land Shares of County Area, 2013

Note: Small county economies represent economies of counties with county governments that have less than 50,000 residents. The average share of Federal land for a county was 13.2 percent of the county area in 2013.

Source: NACo analysis of Moody's Analytics Data and U.S. Department of Interior Federal land Data

None of the economic indicators analyzed in this report recovered in almost 600 small county economies by 2013. Most of them were in the South and Midwest, in states such as Georgia, Missouri and Michigan. For some of these county economies, the problems were not recent, but had been around for more than a decade. Economic output (GDP) has been on a downward trend since 2002 or 2003 in 23 small county economies and jobs shrank for more than a decade in about 100 small county economies. With few exceptions, these county economies are located in the South and Midwest.

Conclusion

This analysis of the performance of the 3,069 county economies shows a diverse landscape of recovery. Growth continued in 2013, but at varying degrees across the country leading to differences in economic recovery. Economic output (GDP) and the housing market had better recovery rates across county economies by 2013, but jobs and unemployment were struggling to return in the majority of county economies. About half of U.S. county economies had no recession or recovered their economic output (GDP) lost during the recession by 2013, particularly in the South. The housing market was on the upswing, with half of county economies back to their pre-recession levels. Jobs closed the recessionary gap in only a quarter of county economies, at higher rates in the West. Only 54 county economies, mostly in the Midwest, reached their pre-recession unemployment levels.

The recession and recovery affected county economies of all sizes, but disparities remain across the country, reflecting differences in the severity of the recession, length of the recovery and industrial structure. Large county economies were at the heart of the recession and recovery. Hard hit by the recession, they were rebounding strongly by 2013. Medium-sized economies proved more stable during recession, at least in terms of employment. However, some of them were losing jobs in 2013. Small county economies ranged from the only county economy in the country that had no recession to almost 600 of them that were still struggling to recover in 2013 on at least one of the indicators studied in this report.

This uneven recovery added to the woes of county governments across the country. Many of them were struggling with their budgets to provide essential services and meet financial obligations. Further, they face a triple threat under the federal policy agenda, from entitlement reform, to tax reform and appropriation cuts. For example, many small Western county economies with above average federal land shares had weak recoveries in the housing market, which shrank further the county tax revenue. 2013 was the last year of mandatory federal Payment in Lieu of Taxes (PILT) funding for county economies.²³ Without the federal PILT dollars, some of these small counties will have a hard time meeting their obligations to residents.

The *County Tracker* offers a reminder that the U.S. economy happens on the ground, in the 3,069 county economies that provide the basis for county governments. As fiscal tightening continues to limit the scope of state and federal investment, it is becoming imperative for states and the federal government to work with counties to maintain the fundamentals of the U.S. economy — county economies.

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County Tracker 2013

On the Path to Recovery

ABOUT NACo

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo assists America's 3,069 counties in pursuing excellence in public service to produce healthy, vibrant, safe and resilient counties. NACo promotes sound public policies, fosters county solutions and innovation, promotes intergovernmental and public-private collaboration and provides value-added services to save counties and taxpayers money. For more information about NACo, visit www.naco.org.



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