

# The Philadelphia Inquirer

## Phila.'s economy still lagging



By Mark Zandi, January 25, 2015

What's wrong with the Philadelphia economy? It's come a long way since the dark days of the financial crisis, but its recovery is subpar. Growth is slow, much slower than in most of the rest of the nation.

The disappointing performance is clearest in the job market. Employment in the metropolitan area, which includes the city and surrounding suburbs, has gained back only about half the jobs lost during the downturn. At that pace, we won't get back all the jobs lost during the recession for two more years. Nationwide, employment is already well above its prerecession peak.

The Philadelphia suburbs are also lagging badly. Indeed, of the 60,000 shortfall in jobs from the employment peak, half are in the suburbs.

The lackluster economy is also evident in the housing market. House prices didn't fall as much during the housing crash as they did elsewhere, but they have gone almost nowhere in the recovery. In many other parts of the country, prices have risen strongly and are closing in on their previous highs.

It shouldn't be this way. Philadelphia's economy has a lot going for it. It has one of the most diversified mixes of industries of any metro area in the country. This means it won't boom, but it also won't bust. That can be painful. Watch what happens to the Texas economy this year given the collapse in oil prices.

The Philadelphia economy is a bit heavy on health care and educational institutions, and financial and professional-services firms, but this should be a plus. Members of the large baby boom generation will need to save more and get lots of financial advice as they approach retirement, and will require lots of health care.

The boomers' children, the millennials, will need to significantly raise their educational attainment and skills if they are to compete in the global economy. Philadelphia's topflight universities and colleges are in a great position to help with that.

Philadelphia is also a very affordable place to live and work. New Yorkers salivate at our low house prices and how little we pay at the gasoline pump. D.C. businesses can't believe the rents our companies pay for office and warehouse space. Our workers also appear to be a bargain when comparing their pay with their productivity.

Moody's Analytics, my employer, has operations around the world and is constantly making decisions about where to locate and expand its operations. To support these decisions, my economists regularly study where it makes the most sense for a financial-services firm like ours to operate.

Ten years ago, the answer was unquestionably India. The country has an enormous number of highly skilled English-speaking workers. But wages there have risen rapidly compared with worker productivity in recent years, particularly vis-à-vis workers in Philadelphia. Today, it is tough to find a better place for Moody's to expand than our office in West Chester.

So, what's going on? Why is the Philadelphia economy seemingly stuck in the mud?

Part of it may be that our economy isn't lagging quite as badly as the data suggest. Employment could be picking up in small and midsize companies but has yet to be captured by the numbers. It is tough to measure what is happening at these firms, at least quickly. And Philadelphia does have a disproportionate number of these companies.

However, even new data won't be enough to revise away our economy's poor performance.

Without doubt there is a crisis in the city's K-12 school system. It is critically underfunded and lacks the most basic books and other materials. Students aren't acquiring the education needed to work in almost any job, especially those being created today. It is hard to see how the region's economy will ever flourish with so many children lacking the skills needed to land a job.

We are also not investing in basic infrastructure, which includes everything from roads and bridges to telecommunications. This problem isn't unique to Philadelphia; we are underinvesting as a nation, but it seems particularly acute here. The city's subway system and airport don't stack up against those almost everywhere else.

Perhaps the most serious constraint on growth is our own seeming ambivalence about growing. In other parts of the country, civic and business leaders generally speak with a single voice. They have a common vision and work together to make sure their companies stay put, and to attract new companies from around the nation and the world. That's not happening here.

This ambivalence isn't new, but it matters more. The world is an increasingly competitive place and companies and jobs are increasingly footloose. We need leaders who can change this; otherwise, our economy will continue to disappoint us.

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