An ESRI® White Paper • June 2008

ESRI Trend Analysis: 2008/2013

ESRI 380 New York St., Redlands, CA 92373-8100 USA
TEL 909-793-2853 • FAX 909-793-5953 • E-MAIL info@esri.com • WEB www.esri.com

Copyright © 2008 ESRI
All rights reserved.
Printed in the United States of America.

The information contained in this document is the exclusive property of ESRI. This work is protected under United States copyright law and other international copyright treaties and conventions. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system, except as expressly permitted in writing by ESRI. All requests should be sent to Attention: Contracts and Legal Services Manager, ESRI, 380 New York Street, Redlands, CA 92373-8100 USA.

The information contained in this document is subject to change without notice.

ESRI, the ESRI globe logo, ArcGIS, www.esri.com, and @esri.com are trademarks, registered trademarks, or service marks of ESRI in the United States, the European Community, or certain other jurisdictions. Other companies and products mentioned herein may be trademarks or registered trademarks of their respective trademark owners.

ESRI Trend Analysis: 2008/2013

An ESRI White Paper

Contents **Page**

Current Trends 1

Future Trends and the Retirement of the Baby Boomers 4
What's New in 2008 5

Geography Changes 5

ESRI Trend Analysis: 2008/2013

Current Trends

The predominant development in 2008 is not growth but decline—the fallout from the downturn in the housing market. There are still areas of growth and pockets of prosperity to report; however, there are few areas untouched by the decline of the housing market and the ensuing credit crunch.

The fastest-growing metropolitan areas in 2008, measured by rate of growth since 2000, were also on the top of the 2007 list; however, each has experienced a slower rate of growth in the past year. Median home value in these markets has shifted from an average annual appreciation of 12 percent from 2000 through 2007 to -12 percent from 2007 to 2008. The only exception is St. George, Utah.

Metropolitan Statistical Area	Annual Rate of Population Growth				Annual Change: Home Value	
	2000–2007 %	2000–2007 Rank	2007–2008 %	2000–2008 Rank	2000–2007 %	2007–2008 %
Palm Coast, FL	10.1	1	-1.1	1	14.5	-22.2
St. George, UT	5.5	2	4.3	2	9.1	8.7
Cape Coral-Fort Myers, FL	5.1	3	4.0	3	15.0	-20.3
Las Vegas-Paradise, NV	4.5	5	3.5	4	5.4	-2.9
Greeley, CO	4.5	4	2.7	5	12.1	-15.2
Bend, OR	4.3	6	4.0	6	13.0	-3.0
Port St. Lucie, FL	3.9	8	2.1	7	14.6	-25.7
Prescott, AZ	3.7	10	3.5	8	11.2	-12.8
Average	**5.2%**		**2.9%**		**11.9%**	**-11.7%**

The depreciation in home value hit the hottest housing markets first, and hardest. From 2000 through 2007, the top 20 housing markets experienced double-digit appreciation in home value, an average of 15 percent annually. From 2007 to 2008, the change in home value for these markets dropped by an average of 23 percent. Average annual population change in these markets also fell, from an annual average of 2.9 percent between 2000 and 2007 to 1.4 percent from 2007 to 2008.

This slowdown has seeped through most of the 940 U.S. metropolitan and micropolitan areas. In the past year, home value has shifted from appreciation to loss in 73 percent of the markets; population change has decreased in 62 percent. Even nonmetropolitan counties are showing the effects of the decline in the housing market. Comparing the average annual rate of change in home value through 2007 to the rate in 2007–2008, almost half of the counties experienced a drop of 10 percentage points or more—from an average increase of 7.6 percent to an average decrease of 9.3 percent.

J-9732

Counties with the Largest Decrease in Home Value*	N	Annual Population Change		Annual Change: Median Home Value		
		2000–2007 %	2007–2008 %	2000–2007 %	2007–2008 %	Difference (pct points)
Metropolitan	427	1.5	0.8	9.3	-9.8	-19.0
Micropolitan	349	0.6	0.2	7.1	-9.0	-16.1
Nonmetropolitan	677	0.2	-0.4	6.8	-9.2	-16.0
Total Counties	**1,453**	**0.6**	0.1	**7.6**	**-9.3**	**-16.9**

** The drop in home value rates of change from 2000–2007 to 2007–2008 ≥ 10 percentage points*

Home value is declining; population growth is contracting. Vacancy rates are increasing from foreclosures on owner-occupied homes, and the rate of homeownership has declined. These changes are pervasive, not limited to the hottest markets or the most rapidly growing areas. What other effects are evident from the downturn in the housing market?

The U.S. economy has fallen flat. The past two downturns were brief enough to create a sense of near economic infallibility. The current outlook is less sanguine. Today, the ubiquitous footnote accompanying every financial prospectus or retirement statement has never been more apropos: "Past performance is no guarantee of future results."

Real gross domestic production (GDP), or the inflation-adjusted dollar value of all goods and services produced in the economy, slowed to an annualized rate of 0.6 percent in the fourth quarter of 2007 and continued at 0.6 percent in the first quarter of 2008. Although 2007 began at the same slow rate, economic activity increased in the second and third quarters of 2007, at 3.8 and 4.9 percent, respectively. What is causing anxiety now and a belief that the worst is yet to come?

First, the bad news continues in the slumping housing sector and credit markets. Foreclosures increased by 112 percent in the first quarter of 2008 compared to the first quarter of 2007. As the volume of defaults, delinquencies, and foreclosures increases, banks are responding by slowing the extension of credit—not only for mortgages but also for small businesses in industries unrelated to the housing sector. Business loans, if granted, are being offered under less favorable lending terms.

On the consumer side, home equity lines of credit have dried up as a reliable source for funds with the decrease in home value. Many cash-strapped households are turning to credit cards for everyday expenses, not just big-ticket purchases. But card issuers have begun to raise rates, reduce credit availability, or both. As the banking sector rediscovers the virtue of credit quality instead of quantity, the federal government has taken a number of measures, some unprecedented, to shore up the stability of financial markets.

After keeping short-term rates at 5.25 percent for a year, the Federal Reserve Board decided to lower rates toward the end of 2007. Its goal was to infuse additional liquidity into the system as well as ease the pain many homeowners were feeling as their monthly payments climbed from their adjustable rate mortgages. Next, the Federal Reserve decided to cut its discount rates on short-term loans to banks and, for the first time in history, to extend this credit to Wall Street investment firms.

However, the most extraordinary move came when the Federal Reserve and the Treasury Department orchestrated a bailout plan for J.P. Morgan Chase to buy out Bear Stearns. Bear Stearns was the smallest of the nation's five largest investment firms—and the most leveraged with subprime debt obligations. The government took this action to prevent additional hemorrhaging that could have placed the whole financial system at risk.

Adding to consumer uneasiness are record-setting increases in gasoline prices from the continuing rise in the price of crude oil. With the aggressive steps taken by the Federal Reserve to drop interest rates, a renewed fear of inflation has emerged. Consumers are experiencing higher prices at the pump, in home heating costs, and at the grocery store. Although the data does not show inflation rising yet, higher prices are surfacing globally. The value of the dollar is dropping, and commodities such as gold, which is considered an insurance policy against future inflation, are trading at record prices.

As inflation and tightening credit erode the buying power of consumers, the slowdown in economic activity is beginning to filter to the labor market. ESRI projects total employment to reach only 142.2 million by July 2008. This represents a gain of only 582,000 jobs compared to employment growth of 2.4 million last year. Although the sluggish pace of job creation affects all regions of the country, states in the South and Midwest are affected more. The unemployment rate has also increased to 6.9 percent, and the labor force participation rate, which measures the proportion of the working-age population who are employed or actively seeking work, has shrunk to 62.8 percent.

The effects of the economy on the job market are recent. In 2008, expect the fallout to cause downward pressure on wages and salaries. ESRI's 2008 updates represent income received in the calendar year 2007. Median household income has maintained a 3.2 percent rate of annual growth since 2000, but growth in average household income has slowed from 3.6 to 3.3 percent a year. Median household income is $54,800 in 2008, and average household income is $73,800. Per capita income rose by $235 to $28,151.

Driven by job opportunities and income potential, U.S. population growth in metropolitan areas is three times the rate of growth in nonmetropolitan areas. Today, median household income in metropolitan areas and micropolitan areas is approximately $18,000 higher than the median income of $38,500 in nonmetropolitan areas. As metropolitan areas expand and new micropolitan areas are defined, annual income growth in metropolitan areas outpaces nonmetropolitan areas by more than 0.5 percent a year. More than 95 percent of the U.S aggregate personal income is earned in metropolitan areas.

Douglas County, Colorado, continues to grow in population and prosperity, with median household income now reaching $115,000. Households in this county have accrued a median net worth of $390,000. Loudoun and Fairfax counties and Falls Church City in Virginia; Hunterdon, Somerset, and Morris counties in New Jersey; and Los Alamos County in New Mexico continue to have median household incomes of more than $100,000. Households in Nassau and Putnam counties, New York; Howard County, Maryland; and Santa Clara County, California, now have median household incomes of more than $100,000.

In the current economic environment, media attention is focused on consumer spending and foreclosure activity. A household's disposable income is the bottom line to making ends meet. Median disposable income is $43,000 in 2008; average disposable income stands at $58,000.

Effects of the housing market downturn and tightening of credit are pervasive and growing—just now beginning to show in the labor market. Coupled with rising food and fuel costs, the economic fallout is likely to continue through 2008. What are the long-range prospects for the U.S. household? Is this the beginning of a long-term slowdown or a market correction?

Most analysts expect the housing market to begin recovering in 2009. However, that expectation is predicated on the actions of Congress and the Federal Reserve Board to stabilize the financial sector and the reactions of consumers to changes like rising fuel costs. The forecast must be tempered with demographic and generational changes.

Future Trends and the Retirement of the Baby Boomers

The first of the baby boomers reach age 62 in 2008—and qualify for Social Security. The question is whether the baby boomers will head for retirement quickly or ease into it. What are the likely effects on the economy, the labor market, the housing market—and future growth prospects? For years, the baby boom has been likened to a pig in a python as it moves through its life cycle. From its impact on schools in the 1950s and 1960s to its stimulus to housing growth in the 1970s, it's difficult to discount the effect of this generation. Today, however, it has become the 800-pound gorilla that few analysts or politicians are inclined to acknowledge. Let's begin with what we know about this generation.

- From 1946–1964, the baby boom included more than 76 million births.
- In 2008, baby boomers comprise more than 25 percent of the U.S. population. Their median age is 52.6 years.
- Approximately 38 percent of the working-age population in 2008 is baby boomers. The ratio of seniors to the working-age population will increase by more than 10 percent in the next five years.
- Baby boomers owned more than 45 percent of all owner-occupied housing in 2000.
- In 2008, baby boomers' household income is more than 45 percent of U.S. aggregate household income.
- In 2008, the baby boom cohort's net worth represents approximately 60 percent of U.S. net worth.

Clearly, the baby boom cohort is still a force in the U.S. economy. What happens if they choose to retire on schedule? Without intervention, Social Security will go into the red in 2013 and be totally broke in 2041—an estimated shortfall of $15 trillion. Medicare will be in trouble in 2013 and broke in 2019.[1] The effect of withdrawals from the baby boomers' 401(k)s and IRAs on the financial market is equally staggering.

The retirement of the baby boomers will also impact the labor force. A contraction in labor supply will strain labor markets. Not only will this increase the rate of job vacancies, but it can also reduce overall economic output. The baby boom was the most educated generation ever when it hit the labor market in the 1970s. Add almost 40 years of experience, and the loss of knowledge alone can slow productivity and contribute toward a drop in economic activity.

[1] Dana Milbank, "Smile—You're on Social Security," *Washington Post*, October 16, 2007.

J-9732

Finally, the possible effects of retirement on the baby boomers' lifestyles and choice of housing are other subjects for speculation by housing analysts. The demographic force that fueled housing demand for the past three decades could provoke another downturn in the housing market—*if* they decide to sell their current homes in favor of retirement communities or apartments.

However, some of these changes remain speculative. Based on historical trends compiled by the Current Population Survey, labor force participation rates for older workers have been on the rise. The workforce aged 55 and older has proportionally increased its participation in the labor market since the early 1990s. From a low of 29.4 percent in 1993, the labor force participation rate for these workers has climbed to 38.6 percent in 2007. The first wave of baby boomers turned 55 years old in 2001. Since then, the growth in participation rates within this age-group has been much higher, suggesting that baby boomers are deciding to work beyond the customary retirement milestone.

Although baby boomers are critical to the changing demographic landscape, their children, the echo boom or Generation Y, rival them closely. This cohort is 77 million strong in 2008. By 2013, echo boomers will outnumber the baby boomers by nearly two million. This generation ranges from college age to mid-30s. They are more ethnically diverse than their parents, and their housing preferences and needs are also likely to diverge from those of their parents. Although the focus in housing research and the media has been centered on the baby boomers, it is equally important to account for the echo boomers and their choices. Their ability to purchase a home may greatly affect the viability of the future housing market.

Hispanics will also play a key role in this demographic landscape. The Hispanic population now stands at 47.6 million, more than 15 percent of the total U.S. population. It is a younger population—two-thirds of Hispanics are younger than 35 years of age—and growing. With growth rates of 3.7 percent a year since 2000 and a projected total of 56.6 million by 2013, Hispanics' influence on American culture is increasing. Asian and non-Hispanic multiracial populations are following Hispanic trends closely, with growth rates of 3.5 percent and 3.1 percent respectively, although they are smaller population groups. The non-Hispanic white population in the country is declining proportionately by 0.5 percentage points a year.

What's New in 2008

The 2008/2013 updates contain new data variables plus enhanced site analysis for users of ESRI® ArcGIS® Business Analyst products. New data includes current-year updates of educational attainment for the population aged 25 and older and marital status for the population aged 15 and older. For time series fans, new data also includes quarterly updates of population and households. Finally, for data users who prefer to define their own trade areas, ESRI has developed a *current* database of the block weights used to retrieve information for user-defined polygons. Polygons are preferred over standard geography by data users focusing on select areas. To date, the options available to estimate site profiles have been limited to the latest census data for the blocks that comprise the site. Since that data is now eight years old, it can limit estimates for areas that are changing rapidly. ESRI has enhanced site analysis by updating the data that is critical to capturing current information for sites that are experiencing change.

Geography Changes

Change is inevitable with any geographic area—political or statistical. Identifying the changes in the areas for which data is tabulated and reported is critical to the analysis of trends. In the past year, there have been minor changes to metropolitan areas by the Office of Management and Budget, boundary revisions for designated market areas

(DMAs) by Nielsen Media Research, and the usual adjustment of ZIP Codes by the U.S. Postal Service.

Metropolitan changes include the latest revisions to core-based statistical areas (CBSAs), released in November 2007. Changes include (a) one new micropolitan statistical area: Show Low, Arizona (Navajo County); (b) three name and code revisions: Bradenton-Sarasota-Venice, Florida, metropolitan statistical area (CBSA Code 14600, formerly 42260); Helena-West Helena, Arkansas, micropolitan statistical area (CBSA Code 25760, formerly 48340); and Washington Court House, Ohio, micropolitan statistical area (CBSA Code 47920, formerly 47860); and (c) five other name changes. There are now 940 core-based statistical areas, 363 metropolitan areas, and 577 micropolitan areas.

DMAs represent the 2007–2008 markets as defined by Nielsen Media Research. Most DMAs correspond to whole counties; however, there are a few exceptions where counties are split into different DMAs. There are few name changes to DMAs, but nine counties were assigned to different DMAs. Finally, ZIP Codes, which are defined solely to expedite mail delivery, are updated to reflect the U.S. Postal Service's November 2007 inventory.

ESRI's Data Development Team

Led by chief demographer Lynn Wombold, ESRI's data development team has a 30-year history of excellence in market intelligence. The combined expertise of the team's economists, statisticians, demographers, geographers, and analysts totals nearly a century of data and segmentation development experience. The team has crafted data methodologies, such as the demographic update, segmentation, the diversity index, and the Retail MarketPlace database, that are now industry benchmarks.

ESRI
380 New York Street
Redlands, California
92373-8100 USA

Phone: 909-793-2853
Fax: 909-793-5953
E-mail: info@esri.com

For more than 35 years, ESRI has been helping people make better decisions through management and analysis of geographic information. A full-service GIS company, ESRI offers a framework for implementing GIS technology and business logic in any organization from personal GIS on the desktop to enterprise-wide GIS servers (including the Web) and mobile devices. ESRI GIS solutions are flexible and can be customized to meet the needs of our users.

For More Information

1-800-GIS-XPRT (1-800-447-9778)

www.esri.com

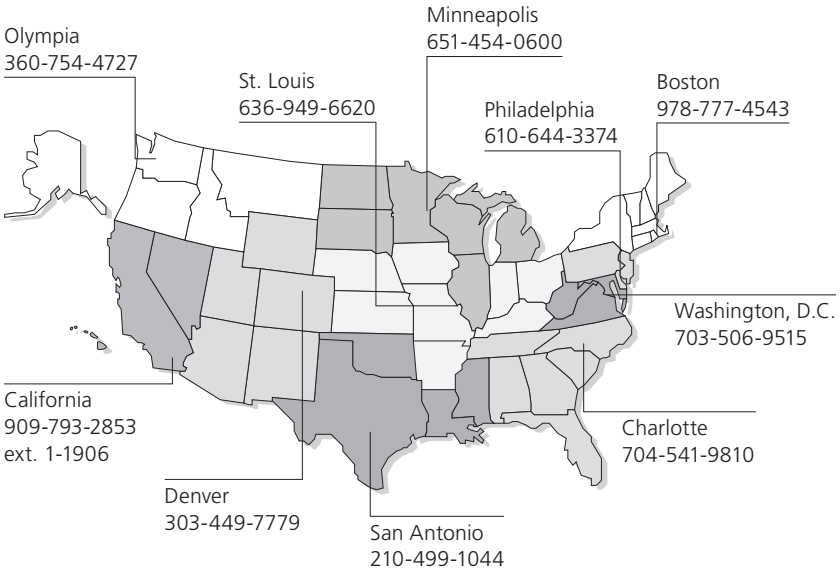
Locate an ESRI value-added reseller near you at

www.esri.com/resellers

Outside the United States, contact your local ESRI distributor. For the number of your distributor, call ESRI at 909-793-2853, ext. 1-1235, or visit our Web site at

www.esri.com/distributors

ESRI Regional Offices



ESRI International Offices

Australia
www.esriaustralia.com.au

Belgium/Luxembourg
www.esribelux.com

Bulgaria
www.esribulgaria.com

Canada
www.esricanada.com

Chile
www.esri-chile.com

China (Beijing)
www.esrichina-bj.cn

China (Hong Kong)
www.esrichina-hk.com

Finland
www.esri-finland.com

France
www.esrifrance.fr

Germany/Switzerland
www.esri-germany.de
www.esri-suisse.ch

Hungary
www.esrihu.hu

India
www.esriindia.com

Indonesia
www.esrisa.com.my

Italy
www.esriitalia.it

Japan
www.esrij.com

Korea
www.esrikr.co.kr

Malaysia
www.esrisa.com.my

Netherlands
www.esrinl.com

Northeast Africa
202-516-7485

Poland
www.esripolska.com.pl

Portugal
www.esri-portugal.pt

Romania
www.esriro.ro

Singapore
www.esrisa.com

Spain
www.esri-es.com

Sweden
www.esri-sgroup.se

Thailand
www.esrith.com

Turkey
www.esriturkey.com.tr

United Kingdom
www.esriuk.com

Venezuela
www.esriven.com

GSA Federal Supply Schedule
No. GS-35F-5086H

Printed in USA