

# New Leading Indicators of Growth

*Finding Opportunity in a Slow-Growth Environment*

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*Finding Opportunity in a Slow-Growth Environment*

**October 30, 2008**

Terry Muñoz, VP, Retail Industry Practice Leader

Mike Mancini, VP, Data Product Management



# Finding Growth in Challenging Times

## *Seven Indicators to Evaluate Population Growth*

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# Agenda

- Our research premise
- Economic conditions
- Market classification and its significance
  - Classification “trees” by size, growth and key demographics
  - Correlation of growth to key demographics
- Key Findings
  - Space to grow and suburban lifestyles
  - Widespread affluence—the smart money
  - Ethnic transformation—diversity matters
  - Employment diversity sustains growth (and long commutes)
- Defining a strategy
  - Using projected 5Y growth and demographic scores
  - Four quadrants: Dominate, Invest, Maintain, Innovate

# Challenging Times—a SLOW Economy

*Retailers must continue growing, even in today's challenging economic times, to meet earnings estimates and achieve investor returns.*

- Domestic population growth is slowing.
- Economic downturn is widespread:
  - Consumer confidence is at the lowest in 40 years.
  - Retail vacancies are at their highest level since 1996.
  - Reported comp store sales have been flat or are in decline.
  - New store expansion plans have been scaled back.



# Terms, Definitions and Data Used

- **Core Based Statistical Areas (CBSA)** are defined by the Office of Management & Budget (OMB) as most common market definitions for government analysis purposes.
- **Growth Percent** measures a market's percent increase or decrease irrelevant to size, where as **Growth Volume** looks at the increase or decrease in absolute number of persons.
- **Census** data provides the baseline for all studies of U.S. demography and growth, Nielsen Claritas creates **Update Demographics** for small-areas in between the decennial Census (which does use the Census' annual county-level estimates as control totals).
- Markets can be **ranked** and mapped by growth percent, volume or demographic characteristic (e.g., percent Hispanic vs. Total Population).
- A **Strategy Grid** groups markets into four quadrants based on two measures (e.g., growth percent vs. demographic penetration).

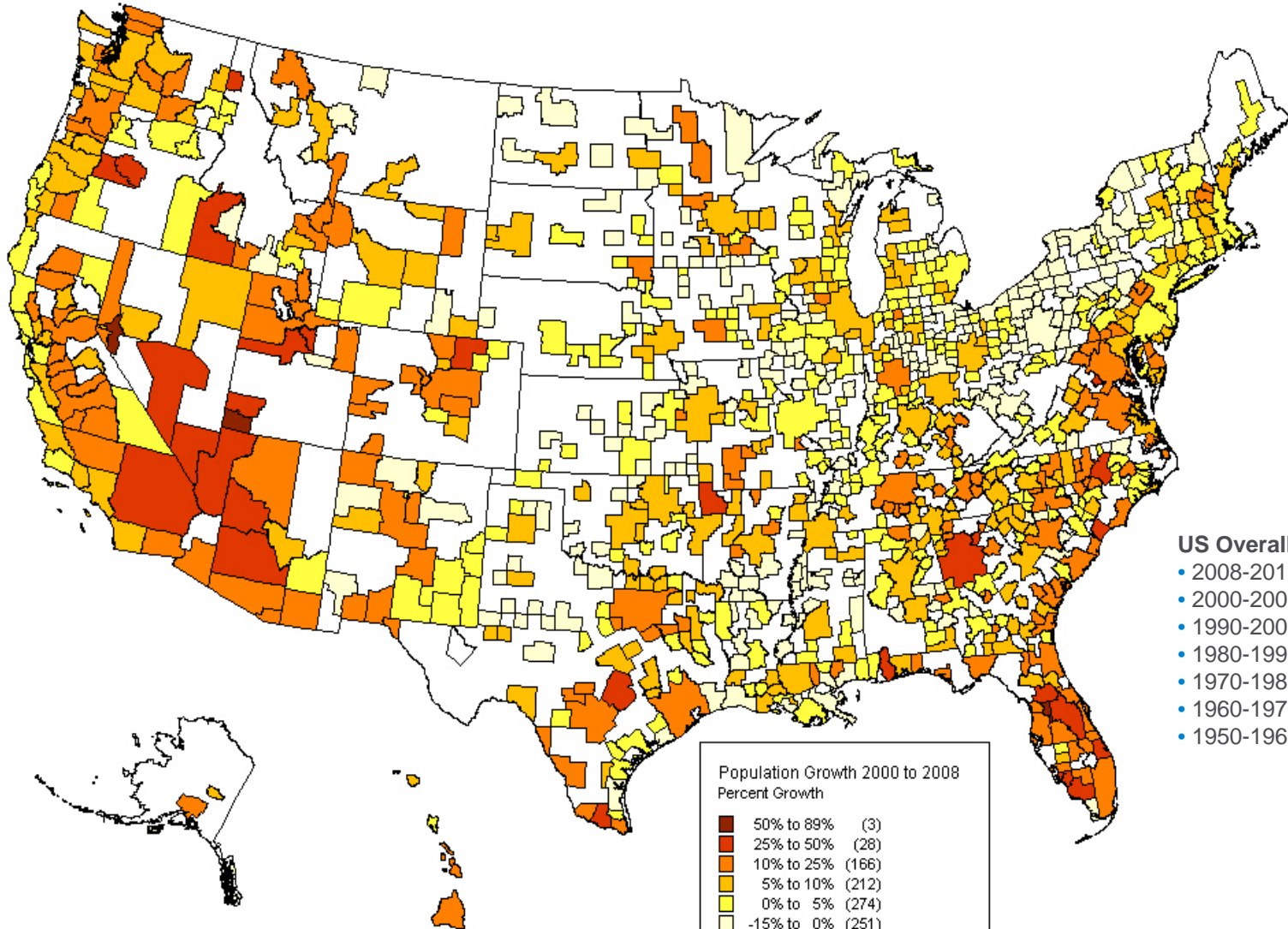
# Behind the Research—Our Approach



- Our research premise was to understand what correlates to growth in population across 936 unique (CBSA) market definitions.
- Recent economic conditions mean it is more important than ever to capitalize on more than the population growth percentage—today’s marketers need a framework to look deeper.
- Standard CBSA definitions are useful, but also challenging due to wide variation in size, density and growth—a schema was needed.
- Once identified, markets can be scored on growth and demographic “quality” to add insight as to whether such growth is more (or less) likely to occur going forward—do the demographics support the forecast?

# Growth in America: Percent Change

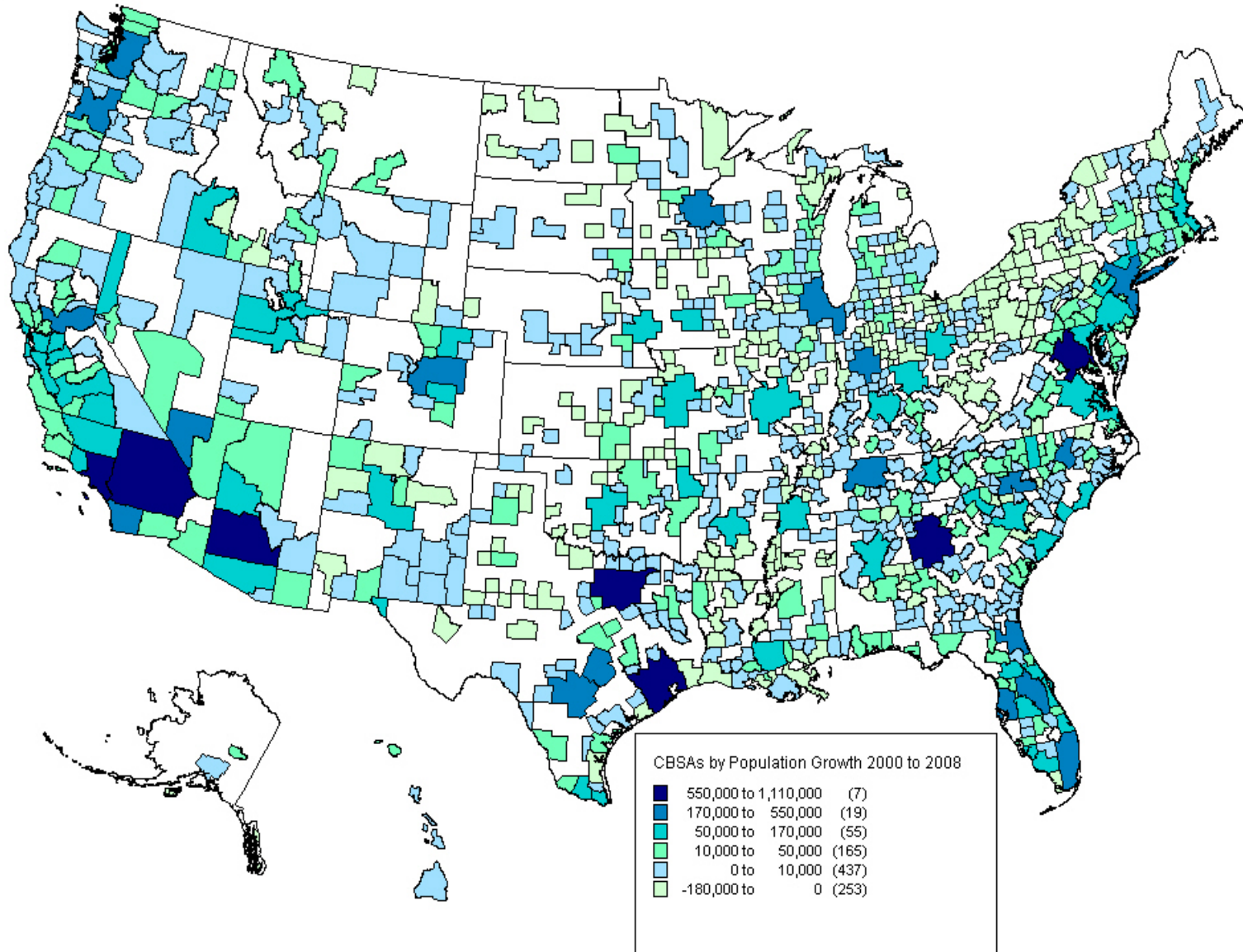
Percent Change from 2000 to 2008 for CBSA Markets



US Overall	%Growth
• 2008-2013	4.9%
• 2000-2008	8.1%
• 1990-2000	13.2%
• 1980-1990	9.8%
• 1970-1980	11.5%
• 1960-1970	13.3%
• 1950-1960	18.5%

# Growth in America: Volume Change

Volume Change from 2000 to 2008 for CBSA Markets



# The Top 20: Ranked by Growth, 2000-08

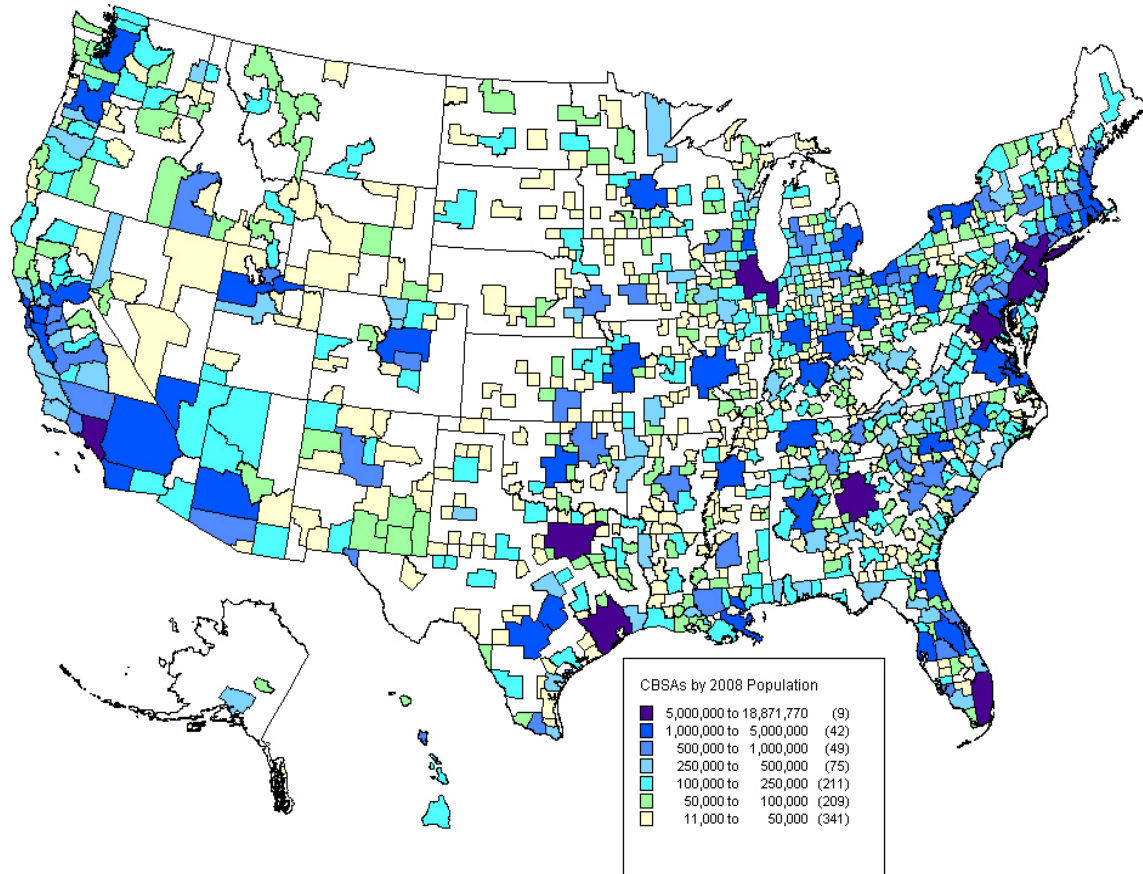
- The large metro areas dominate.
- The top 50 markets (by growth volume) account for 71% of growth, 69% of population.
- The shift from the manufacturing of the Northeast to knowledge-based markets in the South and West.
- The Sun Belt retirement centers are likely to continue growing as America ages.

<i>America's Top 20 Markets by Volume Growth: 2000-2008</i>				
	<b>CBSA Name</b>	<b>2008 Pop.</b>	<b>% Growth 2000-08</b>	<b>Pop. Growth 2000-08</b>
1	Atlanta-Sandy Springs et al, GA	5,357,017	26.1%	1,109,036
2	Dallas-Fort Worth-Arlington, TX	6,164,066	19.4%	1,002,522
3	Phoenix-Mesa-Scottsdale, AZ	4,223,725	29.9%	971,849
4	Houston-Sugar Land-Baytown, TX	5,665,312	20.1%	949,905
5	Los Angeles-Long Beach et al, CA	13,304,944	7.6%	939,317
6	Riverside et al, CA	4,170,780	28.1%	915,959
7	Washington et al, DC-VA-MD-WV	5,384,723	12.3%	588,540
8	New York et al, NY-NJ-PA	18,871,770	3.0%	548,768
9	Miami-Fort Lauderdale et al, FL	5,526,947	10.4%	519,383
10	Las Vegas-Paradise, NV	1,875,245	36.3%	499,480
11	Chicago et al, IL-IN-WI	9,584,686	5.3%	486,370
12	Orlando-Kissimmee, FL	2,078,566	26.4%	434,005
13	Tampa-St. Petersburg et al, FL	2,747,020	14.7%	351,023
14	Sacramento--Arden et al, CA	2,129,931	18.5%	333,074
15	Charlotte-Gastonia et al, NC-SC	1,653,103	24.3%	322,655
16	Austin-Round Rock, TX	1,570,097	25.6%	320,334
17	Seattle-Tacoma-Bellevue, WA	3,338,639	9.7%	294,761
18	Denver-Aurora, CO	2,464,452	13.1%	285,156
19	San Antonio, TX	1,985,591	16.0%	273,888
20	Minneapolis et al, MN-WI	3,227,334	8.7%	258,528

Source: Pop-Facts®

# Growth in America: It's Where We Live

- The vast majority (93%) live in CBSA markets.
- An even higher portion (98%) of growth occurred in the CBSA market; more concentrated.
- The Top 200 (by size) markets account for 83% of growth from 1990 to 2008; 86% from 2000 to 2008.
- The Top 50 markets account for 63% of growth, while the Top 25 captured nearly half.



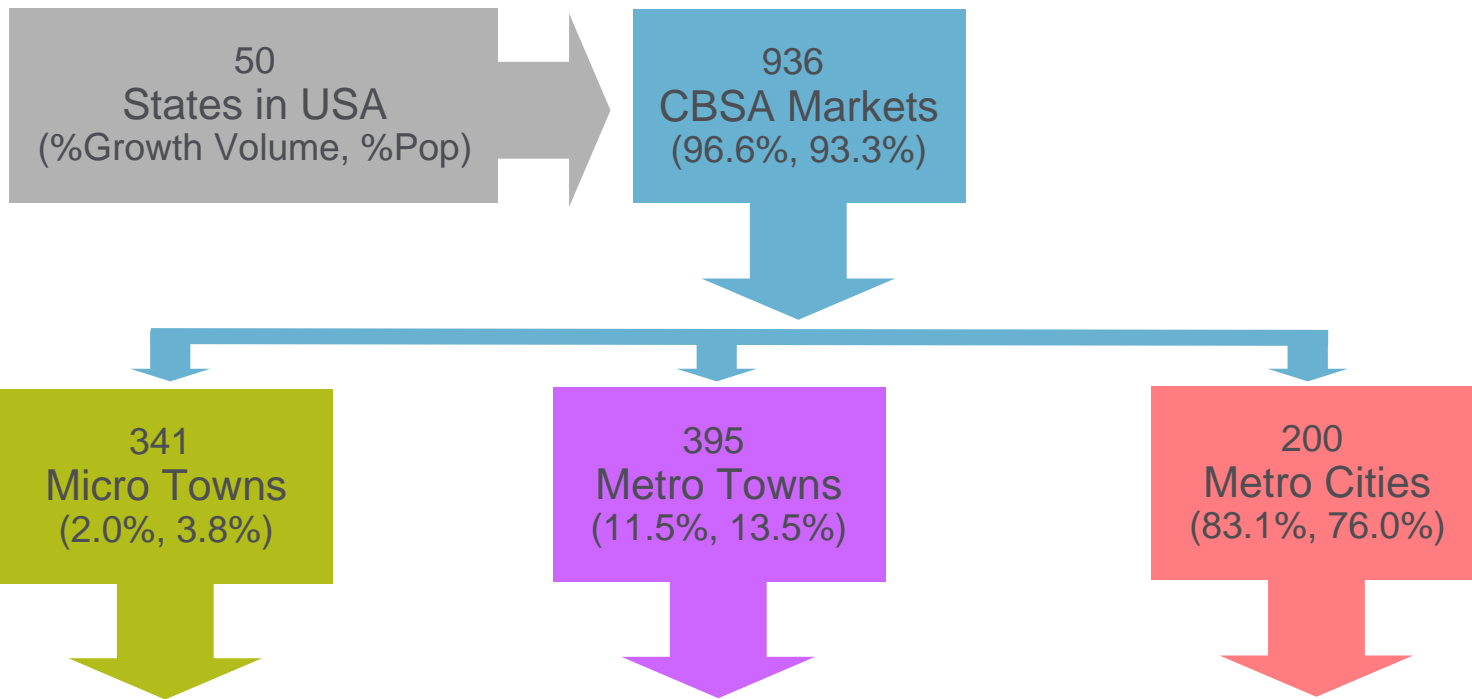
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# Analysis of Growth in America by CBSA

- Analysis of growth by percent change or volume has its limitations due to such variance in size and concentration.
- A method was needed that could first group or classify markets by size, percent growth and other factors.
- The “trees” of Nielsen Claritas’ Multi-Divisive Partitioning (CART) used in segmentation—inspired our approach.
- Correlation of market growth (percent change) to demographic and business indicators provided a basis to further split beyond size and percent growth.

# CBSA Markets: A Classification Approach



Split by %Growth

- C1** Top-Ville (170)
- C2** Growing Micros (126)
- C3** Mid-Americana (54)
- C4** Struggle-ville (-11)

\* Growth Index in (Parenthesis)

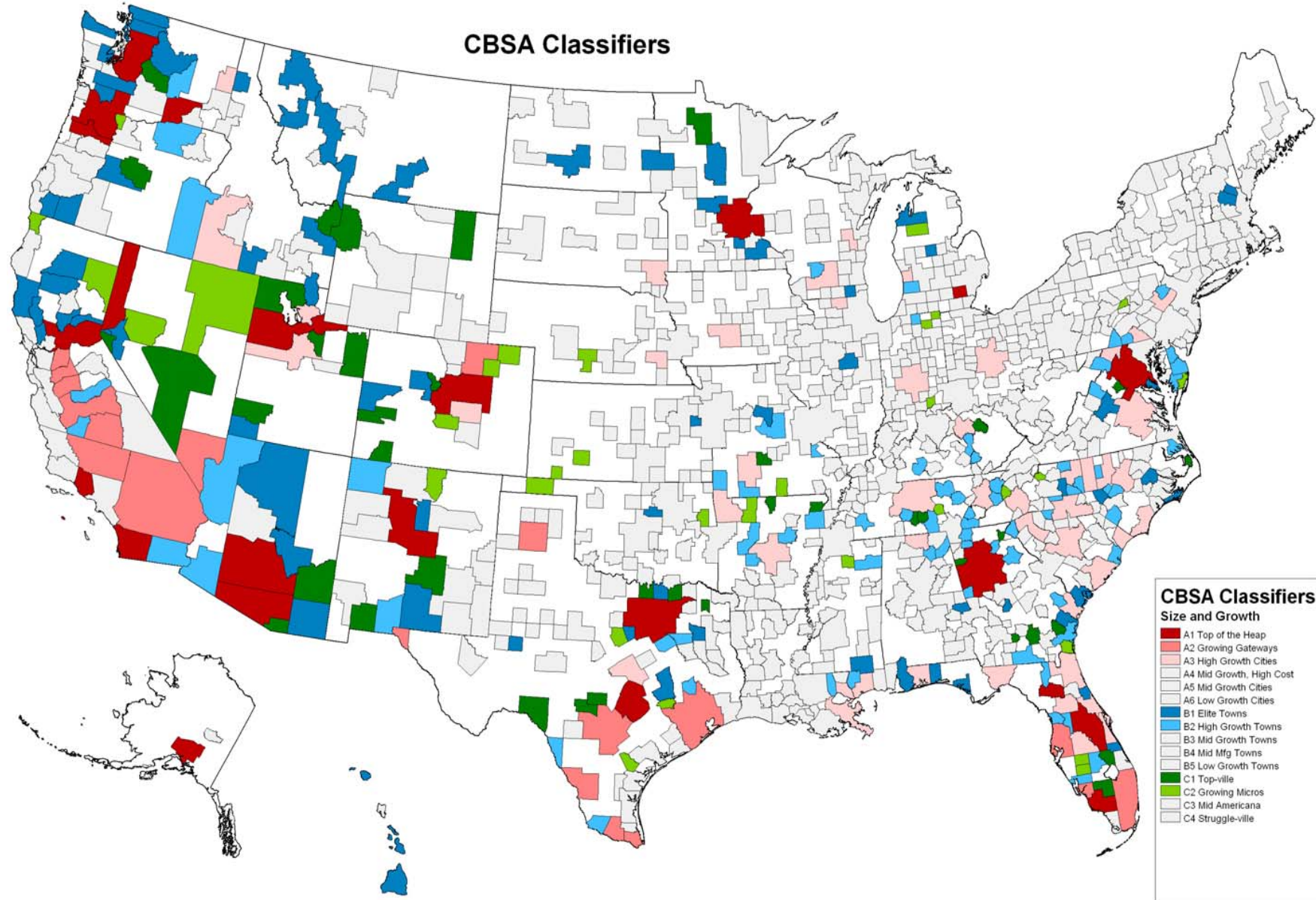
%Growth, Mfg, Educ

- B1** Elite Towns (155)
- B2** High-Growth Towns (157)
- B3** Mid-Growth Towns (60)
- B4** Manufacturing Towns (64)
- B5** Low-Growth Towns (-7)

%Growth, Educ, HVal, Hisp, Asian

- A1** Top of the Heap (177)
- A2** Growing Gateways (183)
- A3** High-Growth Cities (143)
- A4** Mid-Growth, High Cost (68)
- A5** Mid-Growth Cities (75)
- A5** Low-Growth Cities (4)

# CBSA Markets by Growth Classifier



# Market Growth: 15 Groups in 3 Classes

*Markets were segmented into three primary classifications which were then further differentiated based on percent growth and key demographics that correlate with growth.*

- A research exercise that shows promise for applied market analysis.
- Provides a means to prioritize and structure lower analysis.
- Leverages correlation of key demographics.

<i>Three Classifications, 15 Groups of CBSA Markets</i>		
<b>CBSA Market Groups</b>	<b>Characteristics</b>	<b>Growth Index 2000-08</b>
<b><u>Metro Cities (A Markets)</u></b> 200,000+ population		
A1 Top of the Heap	high growth, high diversity and high education	177
A2 Growing Gateways	high growth and above-average diversity	183
A3 High Growth Cities	high growth	143
A4 Mid Growth, High Cost	below-average growth, high home values	68
A5 Mid Growth Cities	below-average growth, high home values	75
A6 Low Growth Cities	low growth	4
<b><u>Metro Towns (B Markets)</u></b> 50,000-200,000 population		
B1 Elite Towns	high growth and above-average education	155
B2 High Growth Towns	high growth, average education	157
B3 Mid Growth Towns	below-average growth, below-average manufacturing	60
B4 Mid-Mfg Towns	below-average growth, high manufacturing	64
B5 Low Growth Towns	declining populations	-7
<b><u>Micro Towns (C Markets)</u></b> <50,000 population		
C1 Top-ville	high growth	170
C2 Growing Micros	above-average growth	126
C3 Mid-Americana	below-average growth	54
C4 Struggle-ville	declining populations	-11

*Pop-Facts; Index of 100 = US Average or 8.5 percent*

# Growth Indicators

- Lots of (preferably cheap) available land to support new development in suburban lifestyles (and longer commutes).
- Broad-based affluence, education and employment diversity support healthy growth.
- Growth and diversity go together and the Hispanic market is leading the way.
- New “Lifestyle Centers” are found only in well-established retail markets.

Population Growth Indicators	
Market Drivers	Correlation
<b>1. Space to Grow</b>	
Large Land Areas	0.27
<b>2. Booming Suburban Rings</b>	
The Affluentials PRIZM Households	0.20
Middleburbs PRIZM Households	0.23
<b>3. Widespread Affluence</b>	
<b>Household Income</b>	
\$75,000-\$100,000	0.26
\$100,000+	0.28
\$150,000+	0.26
<b>Education Attainment</b>	
Some College, No Degree	0.28
Some College & Associate Degree	0.24
Bachelor Degree	0.22
<b>Home Value</b>	
\$300,000-\$750,000	0.36
<b>4. Increasing Ethnicity</b>	
Hispanic Households	0.32
<b>5. Diversified Employment</b>	
<b>Industry of Employment</b>	
Construction	0.50
Retail	0.24
<b>Business Establishments</b>	
Finance, Insurance & Real Estate	0.38
Credit Agencies, Not Banks	0.28
Furniture & Home Furnishings	0.40
Business Services	0.49
Engineering & Management Services	0.42
Amusement & Recreation Services	0.23
<b>6. Long Commutes</b>	
30-60 Minutes	0.25
>60 Minutes	0.21
<b>7. High-End Shopping Centers</b>	
Lifestyle Centers	0.28

Source: Pop-Facts; Index of 100 = U.S. average or 1,170 square miles

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# Space to Grow and Suburban Lifestyles

- Big markets grew 23% faster than the national average.
- Large markets account for 28% of total population; mostly found in the Western states.
- Two PRIZM Social Groups, *The Affluentials* and *Middleburbs* correlate to growth.
- Higher energy prices, stressed infrastructure and depressed housing demand—will likely impact this trend.

America's Top Markets by Land Area			
		2008 Pop	Land Area Index
<b>Metro Cities - A Markets</b>			
A2	Riverside et al, CA	4,170,780	1560
A1	Anchorage, AK	368,701	1510
A1	Phoenix-Mesa-Scottsdale, AZ	4,223,725	834
A3	Boise City-Nampa, ID	594,998	675
A1	Salt Lake City, UT	1,092,618	546
<b>Metro Towns - B Markets</b>			
B1	Flagstaff, AZ	130,370	1066
B2	Lake Havasu City-Kingman, AZ	203,337	762
B2	Ontario, OR-ID	54,800	589
B3	Fairbanks, AK	88,088	422
B1	Alamogordo, NM	62,739	379
<b>Micro Towns - C Markets</b>			
C2	Elko, NV	49,536	1222
C1	Pahrump, NV	45,598	1039
C3	Rock Springs, WY	39,444	597
C3	Bishop, CA	18,200	584
C3	Riverton, WY	37,684	526

Source: Pop-Facts; Index of 100 = U.S. average or 1,170 square miles

# Widespread Affluence—and, Smart Money

- Growing affluent markets tend towards a western skew.
- Migration of knowledge workers leaving manufacturing centers in the Northeast to high-tech job centers in the South and West.
- Markets with high levels of educational attainment generate ideas which attract investment and jobs then housing, retail.
- Income doesn't always = Growth.

<i>America's Top Markets by Affluence</i>			
		2008 Pop	Affluence Index
<b>Metro Cities - A Markets</b>			
A4	San Jose-Sunnyvale et al, CA	1,833,625	164
A1	Washington et al, DC-VA-MD-WV	5,384,723	163
A1	Oxnard-Thousand Oaks-Ventura, CA	820,716	161
A4	Bridgeport-Stamford-Norwalk, CT	901,429	157
A4	San Francisco-Oakland et al, CA	4,281,491	155
<b>Metro Towns - B Markets</b>			
B1	Edwards, CO	59,428	150
B1	Napa, CA	136,092	147
B1	Truckee-Grass Valley, CA	101,146	143
B1	Kahului-Wailuku, HI	144,043	137
B1	Lexington Park, MD	101,831	135
<b>Micro Towns - C Markets</b>			
C3	Los Alamos, NM	19,258	174
C1	Silverthorne, CO	27,334	152
C1	Jackson, WY-ID	27,816	143
C3	Juneau, AK	30,704	140
C1	Gardnerville Ranchos, NV	47,589	137

Sources: Pop-Facts and PRIZM; Index of 100=U.S. average of indices of household income, educational achievement and home values.

# Ethnic Transformation—Diversity Matters

- America's melting pot transforms the landscape.
- Foreign born immigrants establish larger households.
- Hispanics lead—growing at 3 times the national average.
- Cities along the Southern border are changing the fastest.
- Will continue as new immigrants seek friends and family living in self-sustaining communities.

<i>America's Top Markets by Hispanic Population</i>			
		2008 Pop	% Hispanic
<b>Metro Cities - A Markets</b>			
A2	Laredo, TX	241,078	94.9%
A2	McAllen-Edinburg-Mission, TX	728,091	89.6%
A2	Brownsville-Harlingen, TX	397,924	86.4%
A2	El Paso, TX	750,291	81.9%
A2	Visalia-Porterville, CA	434,172	56.7%
<b>Metro Towns - B Markets</b>			
B2	Rio Grande City-Roma, TX	63,816	97.4%
B2	Eagle Pass, TX	53,317	94.9%
B2	El Centro, CA	169,463	76.3%
B2	Las Cruces, NM	199,411	65.3%
B2	Yuma, AZ	198,120	56.9%
<b>Micro Towns - C Markets</b>			
C3	Raymondville, TX	20,848	86.7%
C1	Nogales, AZ	45,234	80.6%
C1	Del Rio, TX	48,545	79.1%
C3	Alice, TX	41,322	77.1%
C4	Las Vegas, NM	29,220	76.5%

Sources: Pop-Facts and PRIZM; U.S. average=15.9% Hispanic

# Employment Diversity Sustains Growth

- “People follow jobs and retailers follow people” is still true, people do not follow all jobs equally.
- Fastest growing markets tend to have an abundance of jobs in two industries—construction and retail.
- Finance, engineering, business services occupations are critical.
- Diversified Growth—nourished by vibrant, well-educated workforces.
- Resort cities attract construction and retail; Baby Boomers search for affordable, relaxed lifestyles.

<i>America's Top Markets by Diversified Employment</i>			
		2008 Pop.	Diversified Employment Index
<b>Metro Cities - A Markets</b>			
A2	Las Vegas-Paradise, NV	1,875,245	130
A1	Naples-Marco Island, FL	333,295	129
A2	Cape Coral-Fort Myers, FL	608,182	126
A3	Provo-Orem, UT	495,921	123
A3	Spokane, WA	453,400	119
<b>Metro Towns - B Markets</b>			
B5	Key West, FL	76,322	127
B1	Hilton Head Island-Beaufort, SC	169,612	125
B1	Truckee-Grass Valley, CA	101,146	125
B1	Bozeman, MT	84,398	121
B1	Carson City, NV	55,550	121
<b>Micro Towns - C Markets</b>			
C1	Heber, UT	21,562	143
C1	Jackson, WY-ID	27,816	131
C1	Kill Devil Hills, NC	34,521	127
C1	Montrose, CO	39,620	124
C1	Gardnerville Ranchos, NV	47,589	123

Sources: Pop-Facts and Business-Facts; Index of 100=U.S. average score of eight employment categories with high correlations to growing markets

# Long Commutes

- Developed suburban fringe fuel fast-growing markets but also lengthened commutes.
- Markets grew faster than the infrastructure—especially from satellite cities and exurbs.
- Infrastructure like airports, light rail and carpool lanes can be a catalyst for growth—interurban.
- Vibrancy and more sustainable growth occurs around mass transit stations or hubs.

<i>America's Top Markets for Long Commutes</i>			
		2008 Pop	>30 Min Commute Index
<b>Metro Cities - A Markets</b>			
A4	New York et al, NY-NJ-PA	18,871,770	182
A1	Washington et al, DC-VA-MD-WV	5,384,723	163
A4	Bremerton-Silverdale, WA	244,382	162
A4	Vallejo-Fairfield, CA	421,678	158
A4	Poughkeepsie-Newburgh et al, NY	679,838	149
<b>Metro Towns - B Markets</b>			
B2	East Stroudsburg, PA	171,184	174
B2	Picayune, MS	57,241	173
B2	Athens, TX	81,248	173
B1	Granbury, TX	58,925	160
B1	Oak Harbor, WA	81,252	156
<b>Micro Towns - C Markets</b>			
C1	Culpeper, VA	46,776	191
C1	Pahrump, NV	45,598	170
C3	Walterboro, SC	39,658	163
C3	La Follette, TN	41,179	141
C1	Bonham, TX	34,172	141

*Source: Pop-Facts; Index of 100=U.S. average of those with commutes over 30 minute and those with commutes 30-60 minutes*



# High-End Shopping Centers

- Growing communities attract retail investment—and new concepts.
- Quaint village experience and a sense of community for “quality of life” attributes.
- Require a relatively large and affluent population base to thrive due to niche-orientation.
- Incorporate higher-density housing; often on transit.

<i>America's Top Markets by Lifestyle Shopping Centers</i>			
		2008 Pop	Lifestyle Centers Index
<b>Metro Cities - A Markets</b>			
A5	Yakima, WA	235,661	1049
A3	Sioux Falls, SD	219,419	858
A2	Greeley, CO	247,702	590
A1	Ann Arbor, MI	347,834	572
A3	Boise City-Nampa, ID	594,998	464
<b>Metro Towns - B Markets</b>			
B1	Bend, OR	159,560	1716
B1	Brainerd, MN	91,205	1348
B1	Bozeman, MT	84,398	1180
B1	St. George, UT	138,103	1049
B1	Panama City-Lynn Haven, FL	167,152	1011

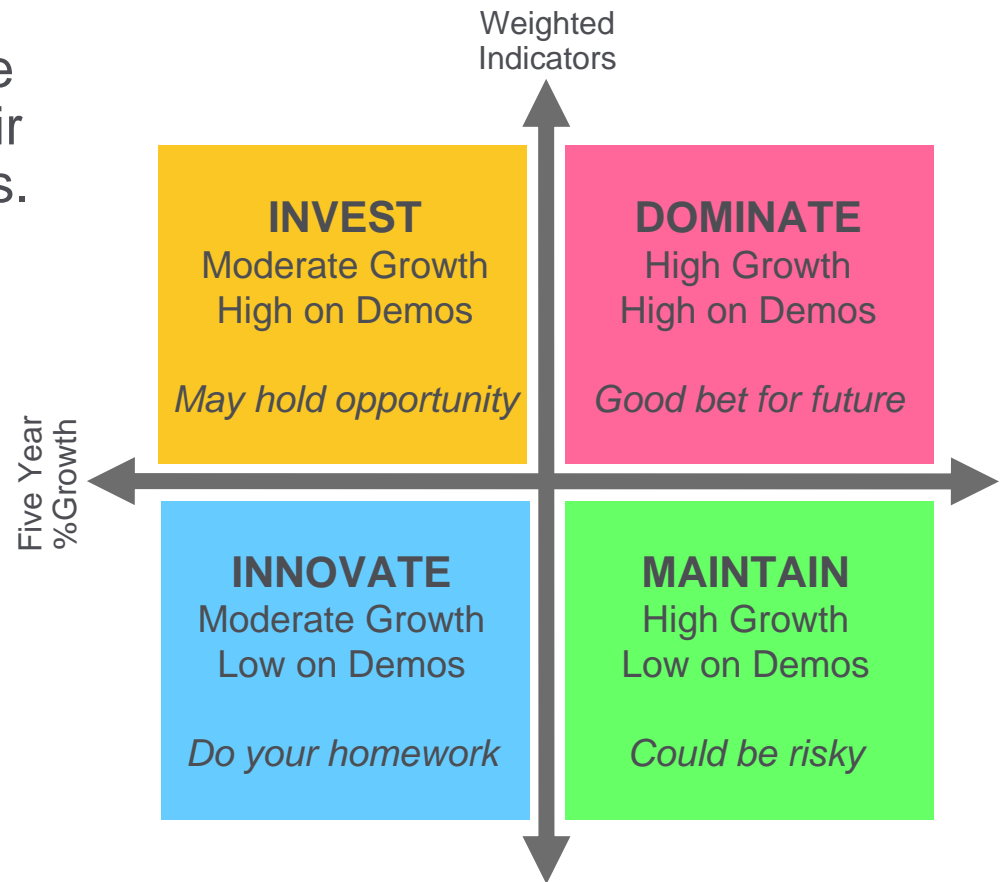
*Sources: Pop-Facts and the Shopping Center Database; Index of 100=U.S. average of proportion of lifestyle centers to total shopping centers in market; there are no lifestyle centers in C Markets.*

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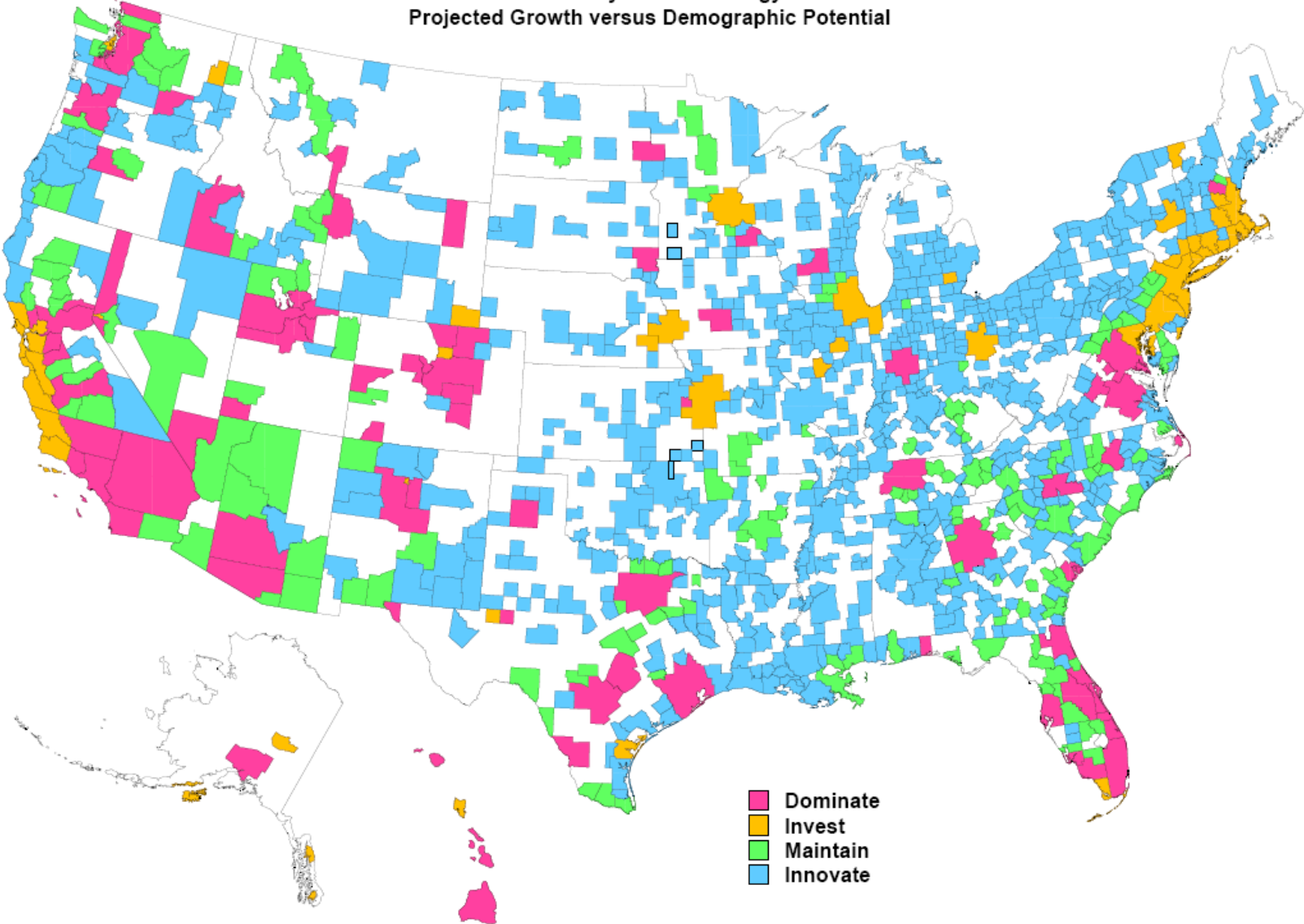
# Scoring CBSA Markets into Strategy Grid

- Once identified markets can be scored and categorized by their “aggregate index” on indicators.
- Five-year growth is already projected via Pop-Facts®.
- An X-axis for %Growth is arrayed against a Y-axis for demographic “quality.”
- An aid to marketers to go beyond the projected growth rate—which is heavily skewed to historical performance.



# CBSA Markets by Strategy Grid

CBSAs by Market Strategy  
Projected Growth versus Demographic Potential



# In conclusion...

- Population doesn't grow in a linear fashion and therefore historical growth doesn't necessarily predict future growth—marketers need more.
- Nielsen Claritas estimates population growth for 2008-2013 to average 4.9% versus 8.1% for 2000-2008, whereas growth between 1990-2000 was 13.2%.
- Dominate: Markets with high educational attainment, diversified employment base and high ethnic diversity will lead the way.
- Invest: Take a second look at markets with lower projected growth but good “quality” indicators—be wary of those without.
- Knowledge worker havens like Los Alamos, San Jose and Boulder should experience growth. Select college towns, artistic centers and/or resort locations will lead growth as Baby Boomers head for retirement.
- Know what demographics matter to your business—track them.



# THANK YOU!

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