Analytics

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RE: No Delaware double-dip

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While there are warnings from some experts about a double-dip in the nation's economy, it won't happen in Delaware. Why?

Delaware's industry structure has become less cyclically sensitive.

Just as happened during the 1973-75 recession, the recent recession has significantly reduced the proportion of business cycle sensitive industries in Delaware's economy. Durables manufacturing is extremely sensitive to swings in the economy because purchases of durables can always be delayed. As pointed out previously by CRI (http://www.caesarrodney.org/pdfs/Manufacturing_in_DE.pdf), the recent recession closed down Delaware's two automobile manufacturing plants and gutted machine manufacturing. The manufacturing industries left standing, such as computer and electronic products, have workforces concentrated in nonproduction jobs such as engineering, science, marketing, IT, and finance. This extends as well to downsized manufacturing industries such as chemicals. Cycle sensitive construction is down one-third from an expansion peak and is stabilizing.

Meanwhile, industries gaining ground in Delaware, including healthcare, leisure and hospitality, education, telecommunications, and government, are all less business cycle sensitive. Demand for healthcare remains relatively price insensitive and is propped up by an infusion of Federal funds into Medicaid and the Medicare reimbursements from a rapidly growing elderly population (see http://www.caesarrodney.org/pdfs/The_Gray_Wave.pdf). Regardless of how Federal healthcare "reform" plays out, demand for healthcare will be driven up by the aging population. Leisure and hospitality is on the rebound, with recovery in restaurants and stabilization in gaming. Demand for higher education continues to be strong as the gap in wages between college and high school graduates continues to get wider.

Delaware personal income has become less cyclically sensitive.

Since the 1973-75 recession, Delaware personal income has out-performed the nation during every recession, including the recent one. As noted by CRI, the growth area in Delaware personal income over the past decade has been transfer payments dependent (http://www.caesarrodney.org/pdfs/Shifting_Sands-Delaware_Personal_Income.pdf). Transfer payments have jumped from about 12% to almost 17% of Delaware personal income. This shift is found across the nation, but is occurring more rapidly in Delaware. The two major components of transfer payments, medical benefits and social security, have been rising considerably faster than the nation. An aging population also is driving up pension income. In the near-term these sources of income will remain steady.

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Delaware's business tax burden remains competitive.

Despite back to back increases in the gross receipts tax, Delaware has the 7th best business tax climate among all the states (http://www.caesarrodney.org/pdfs/Business_tax_climate.pdf) The FY-2011 state government budget continues the reduction in the state workforce through attrition, provides cost savings in education through administrative consolidation and transportation efficiencies, and implements other efficiencies. Most significantly, no increase is slated in state taxes. Under funded health benefit obligations will have to be addressed in the long term, but in the near term Delaware government is headed in the right direction.

Delaware's economy won't come roaring back and may even flat line for a few months, but the components for recovery are in place and the vital signs remain on the upswing. The road ahead is steep and it will take at least three years to return to the pre-recession levels of activity (http://www.caesarrodney.org/pdfs/Closing_the_gap.pdf). Nevertheless, if Congress and the President can refrain from further debt spending and changes in the rules of the game, Delaware's path will continue upward.

Dr. John E. Stapleford, Director
johnstapleford@caesarrodney.org