

The Economic Developer's Guide to Impact Analysis



Use data to develop your economy.

Economic development organizations are using economic impact analysis every single day. Is yours? Consider these essentials before diving into an analysis of your own!



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Intro

We live in a data-driven world. The growing need to put things into numbers makes metrics, figures, and analytics more important than ever.

One path to such assets is economic impact analysis, and its benefits are known throughout many professional circles. Among them, economic development organizations (EDOs) frequently use economic impact analysis to quantify the value of their work, to communicate the economic benefits of their projects, and to learn more about their local economies in the interest of informed decision-making.

But as valuable as economic impact analysis is, and as widely as it's being performed and used by EDOs, the fact remains that for most...the economy is a scary thing to study. If not scary, it's at the very least, intimidating. And like many intimidating tasks, some of the fundamentals which lie at the heart of it are often lost in the shadows of the belief that it must always be difficult.

While many economic impact analyses CAN (and should) be complex, detailed, and lengthy in their development and execution, it doesn't require an expert economist, or years of effort, to perform quality analyses. More important than "putting in the hours" to produce a compelling study is understanding what economic impact analysis requires from an analyst and how to approach it correctly.

This resource is not meant to serve as a checklist to consult when performing impact analyses. It's not meant to walk you through how to improve the study you're currently conducting (though if any information presented here does prompt improvements, that's great). This is a resource to consult if you've never heard of economic impact analysis or, if you have, to consult before beginning an analysis of your own.

Background

So what is economic impact analysis anyway?

economic impact analysis

noun / ek·ə-'nām·ɪk /

'ɪm·pækt / ə'næl·ə'sɪs /



DEFINITION: A type of study which allows an analyst to examine the effects of a specific event on a given economy.

It's commonly used to measure the economic ramifications of things like sporting events being hosted in an area, the relocation of large business headquarters to a region, or even to quantify the value of a local organization's projects or efforts. Economies studied using this type of analysis can vary greatly in size: from as concentrated as a single town or city to as expansive as the entire globe.

That said, the information that economic impact analyses offer is valuable on many levels and across all industries. Unfortunately, the obvious appeal of impact analyses often lures many analysts into jump-starting the process without being fully prepared.

So what do you need to understand before diving into your analysis? Good question... The following steps are meant to get you thinking about important considerations when developing your analysis and about the types of decisions you should be prepared to make during the critical planning stages.

FIRST:

Be honest. What are you after?

If there's one habit you should adopt (and never let go of!) during the course of your economic impact analysis, it's a habit of asking questions.

And the questions you should be asking are ones to yourself about your study. For instance, the first thing you might ask is, "What is my goal?"

You need to determine your motive almost immediately, because when conducting economic impact analyses, there are several. Most analysts perform impact analyses with the goal of acquiring data that best serves their interests. Perhaps a business is looking for metrics which help it look more favorable than a competitor in the eyes of the public or of legislative policymakers? Perhaps a government organization is looking for evidence which can serve to discredit the claims of political dissenters? Regardless, it's important to know why you want to perform an impact analysis and what you're hoping to get out of it first and foremost.

SCENARIO*

Bob is an economist that works for an EDO in New York City. As part of his EDO's continued efforts to further the economic development of that region, his organization is specifically interested in attracting new businesses to the area in order to create jobs and stimulate local spending. He's decided that he wants to perform an economic impact analysis to model the impact of a large company (we'll call this company "ABC Inc.") relocating its headquarters to New York City.

As previously mentioned, Bob's first question should be, "What do I want from this study?"

In the proposed scenario, the ultimate "win" is to convince ABC Inc. to relocate to New York City. In doing so, the actual audience of any study Bob conducts will likely be government personnel or other financial benefactors with the means to offer that business incentives to choose their area over others they may be considering.

Decisions like whether or not he'll try to sell the deciding parties on the amount of spending to local business that will be stimulated by the relocation, the amount of subsequent spending by existing local businesses stimulated, the number of jobs the incoming business will create, or some other consequence of the relocation, are all important to make during these developmental phases.



As obvious as it may seem, it's important for Bob to decide what he's trying to do before he begins trying to do it.

After careful consideration, Bob's decided that the most effective way to secure the relocation of ABC Inc. to New York City is to model the number of jobs that the relocation effort could create. Then, he'll present those findings to city council to highlight the economic benefits that the greater New York City area would enjoy as a result.

Given the country's current economic climate, federal and state & local government organizations love to promote the (ideally, high) number of jobs that their area

boasts. Additionally, corporations love promoting those figures and making it known to the public how active of a role they're playing in generating jobs in their area.

With the findings from his study, Bob hopes to make a successful case to city council that might result in ABC Inc. being offered incentives to select New York City over other locations they might be considering.

*The scenario and all data values referenced throughout this document are entirely fictional.

NEXT:

Search around. Choose a tool.

After you've explicitly determined the goal of your analysis, it's important to arm yourself with the correct tool to accomplish that goal.

This is a crucial step, and is one that is often tackled prematurely. Analysts who are eager to start producing often adopt an analytical tool, have a few (usually incomplete) pieces of data, and then begin their analysis with the hope that they'll figure out the rest as they go. Doing so can prove to be a huge hindrance in later stages because there are many objectives which CANNOT be met using certain tools. Analysts who commit to an analytical tool before fully understanding what they want out of their analysis run the risk of finding out (often too late) that the tool they're using is not the best fit for their study.

In selecting a tool, it's important to understand the differences between them and which methodologies are most appropriate for your purposes, as well as the pros and cons of each of the available options.

There are many economic tools to choose from so the expansive range of options won't be listed in this guide. However, it's important to recognize and consider which qualities are most important to you and which tools excel in those specific areas of emphasis.

The tool that Bob selects should be that which is the best fit for his objective. As an analyst intent on presenting his findings to city council, the things that he finds to be of the utmost importance are accuracy and practicality. Bob knows that he wants to be able to stand with confidence behind any facts or figures he presents to the city and to be able to successfully explain and reiterate any claims that he makes to them concerning the economic effects of the proposed relocation. So for this analysis, his criteria for selecting an effective tool are that its source data is accurate, reliable, and widely vetted, that it doesn't require an unreasonable amount of data in order to be used, and that it can ultimately deliver him the number of jobs that might be created by ABC Inc.'s hypothetical relocation.



Some important questions to ask when evaluating potential tools might be:

1

**WHAT IS THIS TOOL'S
DATA SOURCE?**

It's important to consider where a tool's data comes from. Is the source widely trusted? Is it known to be impartial? Is its data relevant to your study?

For instance, consider whether or not the tool's source data is recent enough for your study. A tool whose source data is 5 or 10 years old might not be an appropriate selection for an analyst looking to model an impact that will occur next year.

2

**DO I HAVE THE
INFORMATION THAT
THIS TOOL REQUIRES,
AND CAN IT DELIVER
THE INFORMATION
THAT I WANT?**

It's important to consider whether the information that a tool requires to function is reasonable for you to obtain. For instance, a tool that requires an analyst to bring a large amount of information to the table would NOT be an appropriate tool for an analyst with limited access to such information.

Additionally, even if you do have access to copious amounts of information, it's important to consider whether or not that tool can even offer the output you're seeking. Put simply, if the ultimate goal of your analysis is to obtain a specific metric, make sure that in the end, your selected tool is capable of delivering it.

3

**IS THIS TOOL
LEGITIMATE?**

Finally, it's also important to make sure that the tool is for real! Can its validity be substantiated elsewhere throughout the economics community? Is there a reasonable number of academic studies which utilize and reference it? Is there sufficient documentation and literature on its methodologies?

Be sure to do your homework before committing to a particular tool. Consult a number of different sources to make sure that its methodologies are sound and that it has a healthy standing amongst those in the community whose opinions are most trusted.

Exercise a reasonable level of caution in your search. If a tool seems too good to be true...sadly, it might not be.

THEN:

Get (the right!) data.

After you know the explicit goal of your study and have selected the correct tool with which to accomplish it, you're going to need some data. Your study will require you to research and obtain specific information regarding your scenario and the change in production that you want to model.

For instance, if you're modeling the impact of a sporting event being hosted in a particular city at a particular time, you'll need to learn how much money will be spent in direct preparation for the event.

Typically, the best place to turn for this information is the source itself. This data is usually easy to acquire from the initiators of the project, especially in instances in which the location of the proposed event is undecided. So, reach out and ask! In most cases, the appropriate parties will gladly share the cost of their project with the hope that it will generate interest amongst competing sites. In other cases, questionnaires or survey methods can also serve as an effective means of collecting valuable information.

It's also important to decide the precise setting of the impact you'd like to model. This is comprised of two pieces: time and place. If you're trying to model the economic impact of an event on the local economy, it's crucial that you overtly define both when the event is taking place and what geography you consider to be "local".

Are you interested in modeling the impact of this event on the economy of the entire United States? A specific state? Perhaps one city? Is the event you're modeling happening this year? Next year?

These are important distinctions to make because before you can begin performing your analysis, you need to first establish the overall framework of your study.

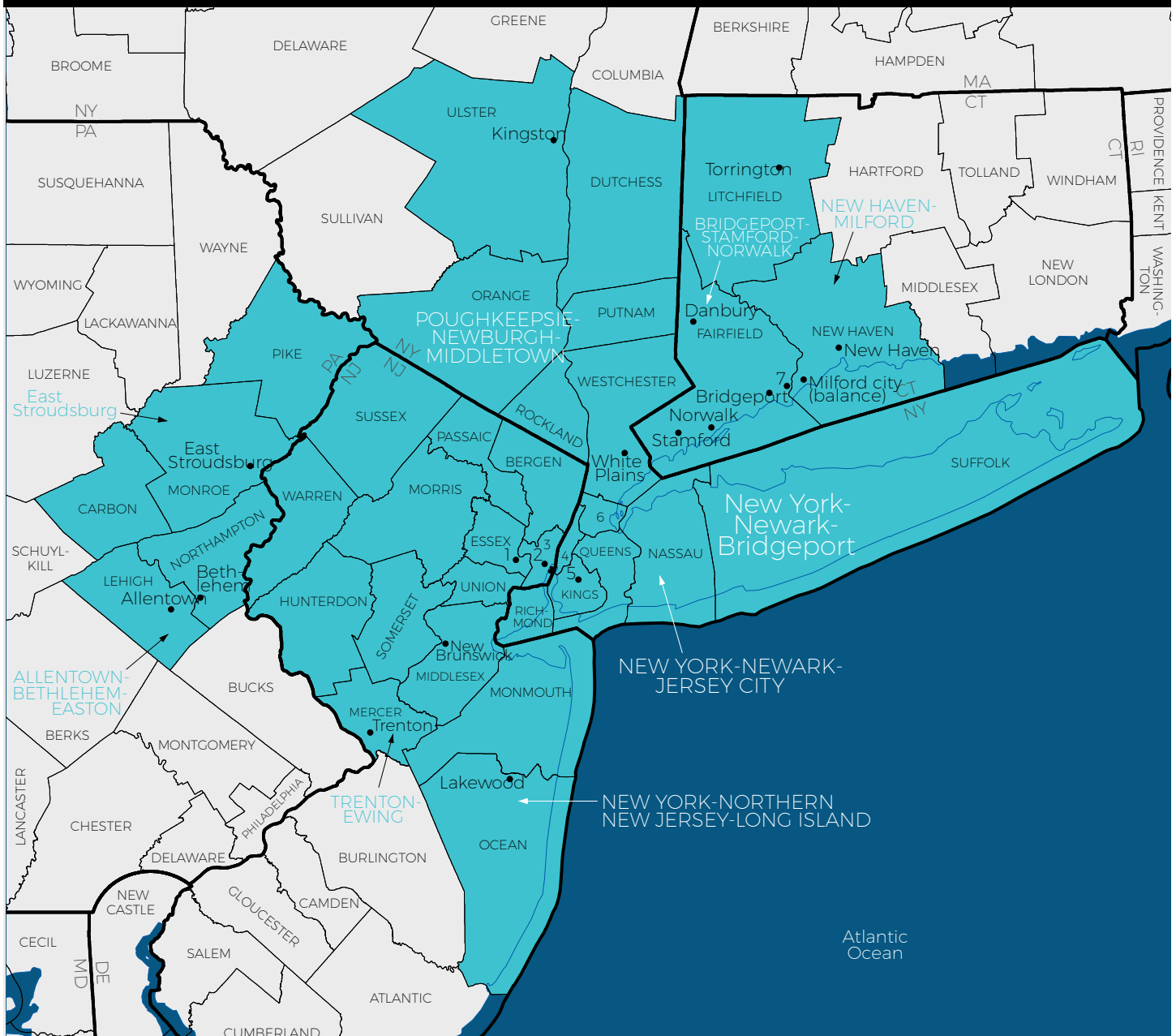
After contacting ABC Inc. for data on their potential relocation costs, they've shared with Bob that, should they relocate to New York City, they expect the effort to cost \$10 million and to take place in 2017.

With this information, he can establish the overall framework of his study: he'll be modeling the impact of a \$10 million relocation effort to New York City by ABC Inc. in 2017 on the New York-Newark-Bridgeport, NY, NJ, CT, PA Metropolitan Statistical Area.

NJ, CT, PA Metropolitan Statistical Area.

In this instance, he's defined the "greater New York City area" as the New York-Newark-Bridgeport, NY, NJ, CT, PA Metropolitan Statistical Area; an aggregated geography which includes all five boroughs of New York City, as well as a selection of additional counties throughout the states of New York, New Jersey, Connecticut, and Pennsylvania.

BOB'S STUDY REGION REACHES FAR BEYOND ABC'S RELOCATION SITE



THE HARD PART:

Know your stuff. Use the tool.

After you've decided the goal of your study, selected an analytical tool, and collected necessary data...the real work begins.

At this point in the process, it's time to start familiarizing yourself with the data you've collected before using your analytical tool to perform the impact analysis. Familiarizing yourself with the data you've collected is an extremely important element of maintaining accuracy and reliability in your study. This entails understanding exactly what your data represents in real-world terms.

With regards to his direct spending figure, there are some important questions for Bob to ask. For instance, he knows that the relocation effort is expected to cost \$10 million...but what will that \$10 million be spent on specifically? Materials? Labor?

It's important to understand exactly where individual portions of your direct spending will be spent because what that money buys can tell you a lot about which local industries might experience an increase in production as a result of the project. These are important elements to track during your analysis because with that information, your study will capture a more complete picture of the impact.

At this stage, it may prove necessary to engage in further research to find these details, or to reach back out to the appropriate parties to obtain it directly.

After intensive review of what he's gathered, it's clear that Bob needs a little bit more detail in order to get a satisfactory picture of the true economic impact which might result from the proposed relocation. He's reached back out to ABC Inc. for additional information and they've elaborated: of the roughly \$10 million of expected direct spending, approximately 25% (\$2.5 million) would be spent on labor, and the remaining approximate 75% (\$7.5 million) would be spent on materials. Even more specifically, of that approximate \$7.5 million, roughly \$3 million would be spent on concrete, while an estimated \$4.5 million would be spent on steel.



With a firm understanding of what your data really represents, it's time to begin using your analytical tool and performing your analysis. What your actual analytical process looks like will depend on the tool you've selected and could vary noticeably from one method to the next.

As was stated previously, there are many economic tools to choose from and executing an impact

analysis will look different depending upon the selected tool, so the specific details of those processes will not be explored in this guide. However, regardless of the chosen tool, an analyst's job will always be made easier during the execution phase if the steps outlined thus far have been thoroughly satisfied during the stages of preparation.

FINALLY: Review and report... But only your results!

You've reached the defining moment. It's time to report your results.

You've done so much hard work to effectively plan and execute your analysis that it would be a tragedy to trip at the finish line. To avoid doing so, the number one thing to remember at this stage is to report "only your results".

As tempting as it might be, avoid using any unnecessary language when sharing your findings. Do not make any statements or claims which can be argued against by somebody reviewing your figures, because there's almost certainly somebody out there that wants to do just that. Don't leave them the room to do it!

Keep your sentences short and concise. Keep your written diction quantitatively objective (USE words or phrases like "more", "less", "greater than", or "less than") and not qualitatively subjective (NEVER USE words or phrases like, "good", "bad", "better than", or "worse than").

And most of all, do NOT write anything that your data does not say. As obvious as this sounds, it is imperative to the credibility of your study that you do not report anything in words that is not backed up objectively and supported unconditionally by your numbers.

Less is so much more. Stick to the facts!

The findings of Bob's analysis are that the proposed relocation of ABC Inc. to the New York-Newark-Bridgeport, NY, NJ, CT, PA Metropolitan Statistical Area in 2017 could create 116.03 local jobs in total employment and generate \$23,073,155 of total local output.

Familiarizing yourself with your results with the same rigor and discipline you devoted to understanding your base data is perhaps the most crucial step in your entire analysis.

Whether you fall victim to making a claim which is untrue, or fail to report valuable information which supports your objective, there are many ways to misuse your new-found data thanks to a fundamental misunderstanding of what your results really say.

Only AFTER you've completed your analysis and thoroughly reviewed (and understand!) the results of your impact, should you begin sharing numbers with your intended audience.



The goal of Bob's analysis was to convince city council to offer ABC Inc. incentives to relocate to New York City based on the potential benefits of its relocation effort to the local economy of the greater New York City area. Now, with quantifiable evidence of said claimed benefits, he can inform the council that the proposed relocation effort has the potential to create nearly 120 local jobs and stimulate almost \$25 million of local output.

Additionally, depending on the scope of his study (the entirety of which is not discussed in this guide), Bob might also be able to report to the council which local industries he expects to experience an increase in production and by how much. He might even be

able to report how much induced spending by segments of the local workforce could reasonably expect to be observed. Again, depending on an analyst's selected tool, some pieces of information might or might not fall within the scope of their results.

With your results in hand and your objective in mind, you can now discuss the economic effects of events in a manner which work in the interest of your goal without ever compromising the integrity of your analysis by making claims which are unsubstantiated by objective data. And it's all thanks to a designed, considerate, and smart approach to economic impact analysis from the ground up!

Take the first step now! To start performing economic impact analysis today visit IMPLAN.com.

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