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white paper

Five Questions to Ask When Fact-Checking an Economic Impact Analysis

Why Impact Analysis?

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. Economic impact analysis is commonly used to measure the financial effects of things like sporting events being hosted in an area, the relocation of large business headquarters to a region, or 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.

Today, the obvious appeal of impact analyses has prompted many to commission studies to help arm their groups with such metrics.

So You Got Your Study... Now Be Critical!

When you commission a study, the report you receive should be one that you understand and support. There are many assumptions made in every economic impact analysis; make sure the ones used are yours. But as valuable as economic impact analysis is, and as widely as it's being performed, the fact remains that for most...economic studies are intimidating. But they don't have to be!

The highest level of accuracy is an important, albeit obvious, expectation to have when commissioning an impact analysis because the study's results will likely be your flagship piece of supporting evidence when making claims about the contributions that your group or its efforts make to your local economy.

Using economic impact analysis can be extremely effective in evaluating and promoting the benefits of your group's efforts, but be sure to properly evaluate your analysis before promoting its results.



REPORTING RESULTS GONE WRONG

Imagine that you've used the results of an economic impact analysis you've hired a consultant to perform in order to secure more funding for your business (either from the government or from private donors) by promoting the dollars of local spending that a new program will stimulate and the number of jobs it will create.

Now...fast-forward to the end of that year and imagine that your program has NOT stimulated the amount of local spending nor created the number of jobs that your analysis suggested—in fact, it's not even close.

Suddenly, your funding is gone, and public support for your business is waning thanks to the perceived "empty promises" that your group was unable to deliver on.

Evaluating Your Study

So how do you know if the results of your study are valid?

Well, without becoming an expert economist (or repeating the work that you contracted for in the first place!), there are a few simple elements of your study that you can review in order to perform some quick validations.

1 Check your study's framework

Given that economic impact analyses examine the financial effects of changes in production on local economies, there are three fundamental components at the heart of every analysis: study area, industry, and input.

So, the very first step to take when performing a preliminary assessment of a study's results is to simply confirm the accuracy of these components.

A. CONFIRM THE STUDY AREA

The study area is simply the borders within which you are examining economic activity. A study area may be limited to a single zip code or be as broad as an entire country.

These borders can dramatically affect the results of your study because people may work inside your study area but spend their earnings elsewhere—in which case, if you're trying to account for all workers' spending, you may want the study area to include all environs in which they work, live, and shop.

B. CONFIRM THE INDUSTRY

'Industry' refers to the category to which a business belongs based on what it does and represents the spending pattern that like businesses share. While a very simple study may recognize just one industry (e.g. a construction industry while modeling the impact of a construction project), much more commonly, studies will identify several separate, but interrelated, industries (i.e. construction industries, manufacturing industries, etc.) to paint a more thorough picture.

C. CONFIRM THE INPUT

Thirdly, in order to assess the effects of a change in production on a local economy, the study must define the change itself. If a study is examining the economic impacts of the construction of a new hotel on a local economy, it must clearly define how much money is expected to be spent (i.e. how much money will be spent on site preparation, paving, materials, insurance, architect's fees, etc.) or how many jobs that project is expected to create or support.

2 Check your study's assumptions

An “assumption” within the context of an economic impact analysis is an existing condition of the hypothetical scenario your study is modeling, which may or may not prove true in the real-world scenario.

Assumptions in an economic impact analysis are important to understand and disclose because if assumptions are altered or not true-to-life, the results of the impact analysis can change dramatically or, while hypothetically accurate, may not prove to be practically accurate.

Sample assumptions:

Industry Technology Assumption	No Supply Constraints	Commodity Technology Assumption
An industry will always produce the same mix of commodities regardless of the level of production. In other words, an industry will not increase the output of one product without proportionately increasing the output of all its other products. Industry by-product coefficients are constant.	I-O assumes there are no restrictions to raw materials and assumes there is enough to produce an unlimited amount of product. It is up to the user to decide whether this is a reasonable assumption for their study area and analysis, especially when dealing with large-scale impacts.	The commodity technology assumption comes into play when data are collected on an industry-by-commodity basis and then converted to industry-by-industry matrices. It assumes that an industry uses the same technology to produce each of its products. In other words, an industry's production function is a weighted average of the inputs required for the production of the primary product and each of the by-products.

Check your study's methodologies

After reviewing and approving your study's framework and the assumptions it makes, it's important to assess its methodologies.

These are important elements to consider because if you plan to promote the results of your study in order to further your business or support a specific cause, you'll want to understand exactly how they were obtained and why they should be trusted.

A.

What type of tool was used to perform this study (e.g. spreadsheets, internet database, other)?

B.

How were the results of this study calculated (e.g., manually by the analyst, with an analytical software program, or otherwise)?

C.

Are the methodologies that were used proven and accepted?

D.

Have other reputable studies used this tool and these methods?

4 Check the source of your study's base data

After reviewing and approving your study's framework, the assumptions it makes, and its methodologies, it's important to assess its data sources.

Data sources are an extremely important element of any economic impact analysis because if your study uses inferior (outdated, incomplete, unsubstantiable, inflated, etc.) base data, then the validity of your study's results is compromised before the analysis even truly begins.

If you plan to promote the results of your study to stakeholders or other important parties, you don't want the power of your metrics to be diminished due to a failure to ensure that your study was built upon fundamentally sound data

Data sources include:

- Bureau of Economic Analysis
- United States Department of Labor
- Bureau of Labor Statistics
- National Center for Education Statistics
- Railroad Retirement Board
- United States Census
- Oak Ridge National Laboratory
- United States Department of Agriculture
- National Oceanic and Atmospheric Administration
- Energy Information Administration
- National Renewable Energy Laboratory
- International Energy Agency

If you're still not sure... get a second opinion

After reviewing and approving your study's framework, the assumptions it makes, its methodologies, and its data sources, basically exhausting all avenues of personal review, if you're still not quite convinced of your study's accuracy or have questions about its execution, you might consult a third party for some additional help.

The most critical audience of economic impact analyses will almost always be economists and/or academics who study and teach economics. So, for the most thorough assessment (and subsequent explanation) of your study and its accuracy, try to get an economist or academic to review it.

The Takeaway

If there's one thing to take away from this document and begin practicing right now, it's simply to be critical of economic impact analyses.

Check facts, ask important questions, and get to the bottom of what your study really says and how it arrived at those claims!

You don't need to be an expert economist to understand when a study is strong and when it could use improvement. More importantly than that, you don't need to be an expert economist to understand when to endorse a study's metrics and when not to.

Don't run the risk of making "empty promises", having your funding reduced, losing support from the public, damaging your credibility, or more, simple because you didn't ask the right questions. Instead, use economic impact results with confidence, certainty, and assurance to help propel your business, not hinder it.



Take the first step now!

To start performing economic impact analysis today, visit [IMPLAN.com](https://implan.com).

To request a free demonstration of the IMPLAN platform, schedule online by visiting implan.com/demo-request/.

