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Boom Towns

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In these cities, the growth is back. America's 20 hottest job markets, and why they need you.

By Paul Kaihla, March 2004 Issue

Top 20 Boom Towns:
America's hottest job markets, and why they need you.
Full List

Until last fall, Albert Hanser was a contented, if not exactly inspired, institutional stockbroker for Deutsche Bank in New York City. It wasn't the most stimulating work -- Hanser, 30, a Minnesota-born graduate of Brown University, characterizes it as "bag carrying and blocking." But it delivered a paycheck, and a good one, at a time when many of Hanser's former colleagues had been looking for work for as long as 18 months.

Then a recruiter from ThinkEquity Partners called. ThinkEquity is one of a handful of scrappy boutique investment banks -- along with Pacific Growth Equities, W.R. Hambrecht, and JMP Securities -- arising from the ashes of San Francisco's bubble-era finance sector. The banks cater to a growing assortment of tech-bust survivors that are once again hungry for capital. When ThinkEquity offered a job, Hanser needed only a nanosecond to decide to accept. He gave notice at Deutsche Bank, packed up his Upper West Side apartment, and drove west just ahead of another East Coast blizzard. The little-followed tech stocks that Hanser has been recommending to his new clients were up 55 percent last year, and he hopes to make partner one day. "Investment banking was a great growth industry in San Francisco, but those firms are all gone," he says. "There's a whole bunch of us who believe there's a market for that again, and I see this taking off."

One person's career upgrade does not equal a nationwide job boom, of course. But Hanser's good luck sheds a pinpoint of light on what may be the most urgent economic question of the day: *Where the hell are the jobs?* The absence of new hiring has been the biggest mystery of the 28-month-old recovery -- and remains the biggest threat to its survival. In previous cycles it took just nine months for the rate of job creation to recover to prerecession levels. This time the economy continued to lose jobs even as the gross domestic product grew.

Anecdotal evidence, historical precedent, and even a glimmer of progress in labor statistics all suggest that the job machine will get cranking again soon. IBM (IBM) is hiring 5,000 in the United States this year, and Microsoft (MSFT) will add up to 3,000 by the end of June. Defense contractor SAIC right now is working to fill 2,000 openings in Washington, D.C. -- and, of course, even some reborn San Francisco investment banks are making offers too. But economists who have followed the recent evolution of the U.S. labor market warn that when the tide rises, it won't lift all boats. Far more than in previous rebounds, job demand will favor the "haves" -- the most skilled, best-educated segments of the workforce -- over the "have-nots" in low-skilled, low-impact, rote positions. So if you want to go where the elite jobs will be, follow the elite workers.

That advice is the starting point for Business 2.0's boom town ranking -- the first of its kind to measure cities by their capacity to generate high-wage jobs. Working with econometric research firm Global Insight, we compared 319 metropolitan areas in the United States and ranked the 61 with populations over 1 million using a weighted formula that includes forecast growth rates in sectors that contain the economy's 10 most skilled occupational clusters, the prevalence of college degrees in the local workforce, and median salary. We also paid particular attention to the percentage of the labor force made up of the elites that management guru Peter Drucker dubbed "knowledge workers" and that Richard Florida, a professor of regional economic development at Carnegie Mellon University, has rechristened "the creative class."

The top 20 metro areas in our ranking promise to be fertile ground for job seekers and employers alike. From No. 1 Raleigh-Durham, N.C., to No. 20 Philadelphia, they're home to fast-growing companies in the economy's most promising industries; combined, they're forecast to add 850,000 skilled jobs in the next four years. Creative-class employees make up at least 25 percent of each city's workforce, and more than a quarter of the population over age 25 have four-year college degrees or better. "Creative-class employment tends to cluster in places where employers know they can find a high-quality labor force and enjoy the efficiencies created by being near other innovative companies," says Phil Hopkins, the economist at Global Insight who compiled the ranking. "These high-tech metropolitan areas will experience above-average growth in both income and jobs." In other words, in a recovery bound to deepen the distinction between haves and have-nots, these are the cities of the haves.

The key assumption underlying our ranking is that the benefits of the job recovery will accrue disproportionately to the economy's most skilled workers. This group, as defined by Florida in his 2002 book, *The Rise of the Creative Class*, constitutes only 30 percent of the country's workforce of 138 million, yet it accounts for 50 percent of total wages. The defining characteristic of creative-class employees is that they work with ideas. Rather than physically building something on, say, an assembly line, they're the people who engineer the assembly line, design the widget running along it, and create the marketing campaign that sells the product. They hold a wide array of titles: analyst, entrepreneur, engineer, scientist, designer, account executive, senior manager, lawyer, filmmaker, banker, educator. In their hands lies the key to America's lone advantage in an increasingly competitive global economy -- our ability to invent and market new products and services. They are also responsible for essentially all the growth in the U.S. economy, especially over the past two decades.

Creative-class workers aren't exempt from the economy's ups and downs, of course, but they tend to be prime beneficiaries of the ups. Many industries they populate -- including software, advertising, and finance -- were battered during the recession along with traditional cyclical fields like manufacturing. But if history is any guide, they stand to win as the current rebound unfolds. In the expansions of the 1980s and 1990s, for example, they added 10 million jobs each decade and accounted for most of the wage growth. By 2010, Florida projects, the creative class will earn 60 percent of national wages as the group's ranks swell by another 12 million.

This is elementary economics at work. In a global labor market, those with commodity skills will always be vulnerable to lower-priced competition. But the elite of the workforce possess skills so critical, or so culturally specific, or so dependent on close collaboration that they can't be offshored.

But aren't creative-class jobs moving offshore too? After all, Indian and Chinese knowledge workers grow more capable by the day -- and at wages that remain a fifth of those in the United States. Among many skilled workers, there's a palpable fear that their jobs will be the next to disappear.

While the anxiety is understandable, it represents a fundamental misunderstanding of America's competitive advantage. Think of the U.S. economy as a kind of giant incubator. By creating innovative products, business processes, fashions, and cultural styles -- and then stress-testing them in America's highly competitive domestic market -- the United States excels at pioneering new ways of doing business and purveying new ways of living. That's where real wealth is created. Typically, as these innovations mature, they become commodities -- at which point production often moves overseas. It happened with microwaves, TVs, and textiles. Now it's also happening with back-office functions like manning the phones at call centers and writing basic software code.

The higher you go in the food chain of the U.S. economy, however, the more collaboration is required. Creative-class workers specialize in managing complex processes in environments where lines of authority overlap and blur. The task of designing genes -- or blue jeans, for that matter -- crosses interdisciplinary lines. Face-to-face interaction is essential, which makes it difficult, if not impossible, to move such jobs offshore. Ken Kannappan is CEO of Plantronics, a $300 million maker of wireless telephone headsets that is growing by double digits (and hiring!). The firm employs about 2,000 at a manufacturing plant in Mexico, but Kannappan can't imagine outsourcing the 600 professionals who work at the company's Silicon Valley headquarters. "We have people who can observe what customers want, because they're immersed in this culture," he says. "If you don't keep all those people with your product development group, you're going to end up a clone maker."

Lakshmi Narayanan, CEO of Cognizant Technology Solutions -- one of India's largest outsourcing contractors -- looks at offshoring from the other side, but he reaches the same conclusion. He predicts that routine, commoditized tasks will occupy 90 percent of offshoring volume for the foreseeable future. "Designing products, financing products, marketing products -- these are high-touch functions that can only take place in the U.S.," he says.

If America's elite jobs aren't being offshored, however, why don't we see more of them opening up on these shores? Blame a remarkable leap in the U.S. economy's productivity -- and by extension, the talent of the American workforce. Fueled by advanced technology and improved management techniques, productivity growth accelerated to a brisk 2.5 percent during the late 1990s -- enough to prompt one new-economy magazine to prophesy 25 years of prosperity. In just the past two years, however, productivity gains nearly doubled *again*, and spiked to 9.5 percent last fall. Employers' reaction has been predictable. If they can produce more goods with dramatically fewer workers, they will.

Eventually, however, the productivity revolution will peter out and employers will have to start hiring. Says Erica Groshen, an economist at the Federal Reserve Bank of New York and author of the most talked-about study on the so-far-jobless recovery, "The productivity numbers are so high, it's very hard to believe they can be sustained." (Indeed, productivity growth receded to 2.7 percent in the fourth quarter.) Previous productivity booms, in the 1960s and mid-1990s, went hand in hand with high employment growth. "That old relationship is bound to come back," she says.

In many of our boom towns, the comeback has already begun. In Raleigh-Durham, the unemployment rate dropped to 3.9 percent, according to the most recent Bureau of Labor Statistics report. Atlanta gained 68,000 jobs in the past year, lowering its unemployment rate more than a point to 4.0 percent. Even in recession-tossed San Jose, the jobless rate plunged 1.9 percentage points to 6.4. The national numbers remain disappointing, however. Unemployment across the country stands at 5.6 percent. In January, nonfarm payroll increased by 112,000 jobs; while that's a major increase from December's 16,000 new jobs, it remains far sho of robust.

Still, one early indicator is flashing -- at least for creative-class workers. Last year the Department of Labor recorded sharp wage increases for employees in a category it calls "information," which includes everyone from IT workers and telecom employees to Hollywood and broadcast media. In 2002, when the labor market was at its worst, these workers enjoyed pay hikes of 2.2 percent. In 2003 their raises almost doubled to 4.3 percent -- a growth rate that exceeds even the peak of the late 1990s. (For comparison, the same figure in wholesale and retail trade was 2.2 percent.) James Franklin, who oversaw the BLS's new occupational projections, says this kind of pay jump often precedes a hiring surge. That's because bosses, still unsure that the recovery will stick, tend to work current staffers longer (and pay them more) rather than hire new ones. As corporate profits recover, however, employers gain confidence that it's safe to add headcount. "There's demand pressure for employees in the information sector," Franklin says. "The fact that wages are increasing at this rate indicates we're at an inflection point."

When the job market finally crosses that inflection point, not all cities will benefit equally. The workforce in Louisville, Ky., for example, is expected to grow by just 11,000 jobs over the next two years. By contrast, Washington, No. 3 in our boom town rankings, already boasts the lowest unemployment rate of the country's large metro areas -- 3 percent -- and figures to add more than 130,000 jobs this year and next, according to Stephen Fuller, a professor of public policy at George Mason University. Roughly half of those jobs will go to creative-class workers.

A fast-growing metro area wouldn't make our top 20, though, if it is creating the wrong kinds of work. Las Vegas, for example, is projected to add more than 150,000 jobs by 2006 and is often cited as the nation's No. 1 hot spot for employment. However, the openings there will be among the worst jobs in America. Most will be filled by workers with minimal skills and education -- construction, administrative support, food preparation, cleaning, and, of course, blackjack dealing. Creative-class employees make up less than a sixth of the workforce in Vegas, compared with more than a third in hubs like No. 4 Austin, No. 7 San Francisco, and No. 10 Boston.

New York and Los Angeles are two other glaring omissions from our list, though unlike Las Vegas, neither can be accused of lacking creative-class industries. In fact, both cities are in a league of their own -- there's only one Wall Street and one Hollywood, after all. Both metropolises, however, fall victim to the law of large numbers. The 6,500 new biotech jobs the Scripps Research Institute will bring to No. 6 West Palm Beach, Fla., may represent a boom for that metro area, but it would be a drop in the bucket for the Big Apple or Tinseltown. Even so, the economic engines of New York and Los Angeles extend powerfully into their surrounding "edge cities." No. 15 New Haven-Stamford, Conn., for example, continues to draw finance jobs away from Manhattan; UBS recently built a $100 million trading floor, the world's largest, in its Stamford office. Nearby Greenwich is a hotbed for fast-growing hedge funds.

The metro areas that *did* make our list share a number of cardinal virtues. No city could rank high without a vibrant, diversified economy, an expectation of rapid job growth, and a large population of highly educated creative-class workers. But the top 20 areas also resemble one another in ways we didn't screen for. Virtually al have strong local universities, populations that readily embrace immigrants, and sophisticated cultural amenities like opera houses and five-star restaurants.

None of this is a coincidence. World-class universities, for example, create a pipeline for high-quality labor and ideas that can be spun off into the kinds of businesses that favor creative-class talent. MIT graduates have founded more than 5,000 companies in the history of the institution, over 1,000 of which stayed in Massachusetts. Stanford has recently taken equity stakes in 122 startups (including Google) that use technologies devised on its campus.

Indeed, Raleigh-Durham owes its No. 1 position in large part to the halo from Duke University and two other heavyweight colleges. Thanks to them, the region is studded with little startups like Biolex, a biotech incubated in 1998 from a recombinant protein technology discovered at North Carolina State. The VC-backed firm plans to roughly double its payroll of 45 researchers in the next three years. To do so, though, it will have to compete for talent with pharmaceutical giant Merck (MRK), which plans to open a vaccine plant there that will be staffed with 600 people. Merck CEO Raymond Gilmartin calls Raleigh-Durham one of the country's several "clusters of innovation." Like other such metro areas, Gilmartin says, its "economic success is not just limited to its core industry. It spills over into the rest of the regional economy."

The top cities' ethnic and cultural diversity, meanwhile, is not simply a product of open-mindedness. In a global economy, it's virtually a prerequisite for world-class economic vitality. In the San Jose metro area alone, Indian and Chinese entrepreneurs ran 3,755 companies in 2000, accounting for $23.1 billion in revenues and more than 88,000 jobs, according to AnnaLee Saxenian, a UC Berkeley professor and a guru of regional economic development. Richard Florida takes the diversity connection a step further, suggesting that the size of a city's gay population is a predictor of a region's strength in advanced technology. Five of the nation's top 10 gay centers, he notes, rank among the nation's top 10 high-tech hubs. "It's not a causal relationship," Florida says, "but people who are strongly creative and individualistic tend to cluster together, whether they're computer geeks or gay fashion designers."

Where they choose to concentrate will matter tremendously in the hiring rebound ahead. There's a certain irony in this. Even as American corporations outsource their routine work all across the globe, they want their best thinkers to work close by in collaborative clusters. They want to launch new ventures in cities where they can count on a deep, educated labor force. For employees too, it will be more important than ever to be in the right place at the right time. The right time, it appears, is coming. As for the place -- well, one of these towns should do the trick. ✦

Additional reporting by Matthew Maier.

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