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- **Industry diversification for the Southwest Florida region decreased for the 4th quarter of 2015. However, Southwest Florida remained ranked 10th out of all 24 workforce regions.**
- **The Cape Coral-Fort Myers and Punta Gorda MSAs remained the same ranking from the previous quarter, while the Naples-Immokalee-Marco Island MSA dropped from 4th to 7th, out of 22 total MSAs in Florida.**
- **Industry diversification for the state of Florida decreased, dropping to 8.482 for the 4th quarter of 2015. Despite the drop, Florida increased in ranking, moving to 26th out of all 50 states.**
- **The numbers reported herein reflect the most recent data release of the Quarterly Census of Employment and Wages. Therefore, they approximate conditions observed in the 4th quarter of 2015 (October, November, and December). For more information, see [lutgert.fgcu.edu/idp](http://lutgert.fgcu.edu/idp).**

### Southwest Florida

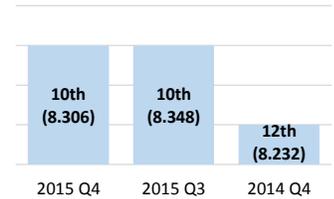
The *FGCU Industry Diversification Index* for the Southwest Florida workforce region—comprising Charlotte, Collier, Glades, Hendry, and Lee counties—fell slightly in the fourth quarter of 2015, indicating a decrease in workforce diversification for that time period. The workforce region's *IDI* was measured at 8.306, which was lower than the 3rd quarter of 2015 (measured at 8.348). However, the *IDI* was higher than the 4th quarter of 2014 (measured at 8.232). Southwest Florida remained ranked as the 10th most diversified workforce region in the state, out of 24 total regions. The Index can register between 0 and 10, with 0 being the least diversified, and 10 being the most diversified.

Industry diversification measures for Southwest Florida typically reflect the region's seasonality, resulting on higher Index measures during quarters spanning April through September, and lower Index measures during quarters spanning October through March. During those times of the year during which the region is characterized by an influx of tourists and seasonal residents, industry concentration tends to increase as the leisure and hospitality, retail, and other service sectors expand to meet seasonal demand. However, as those industries cut back during the late spring and summer months, the region's workforce tends to become diversified when those sectors cut back operations.

### MSAs

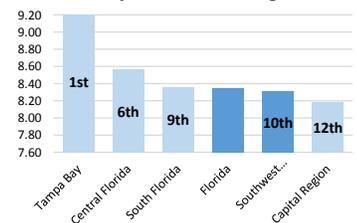
Beginning in the 2nd quarter of 2016, the FGCU Industry Diversification Index has begun to track the *Industry Diversification Index* for all the Metropolitan Statistical Areas (MSAs) in the state of Florida. The MSAs located in the Southwest Florida region are Cape Coral-Fort Myers, Naples-Immokalee-Marco Island, and Punta Gorda.

Southwest Florida Rankings

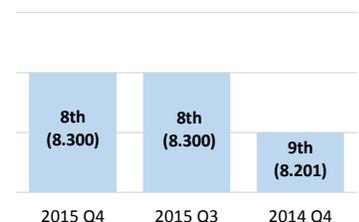


Note: FGCU Industry Diversification Index in parenthesis.

Major Workforce Regions



Cape Coral-Fort Myers Rankings



Note: FGCU Industry Diversification Index in parenthesis.

The Cape Coral-Fort Myers *IDI* showed no change in the 4th quarter of 2015, registering at 8.300, an increase from the 4th quarter of 2014 (measured at 8.201). The Cape Coral-Fort Myers MSA remained ranked as the 8th most diversified MSA in the state, out of 22 total MSAs in the state of Florida.

The Naples-Immokalee-Marco Island *IDI* decreased in the 4th quarter of 2015, with an *IDI* of 8.462—lower than 3rd quarter 2015 (measured at 8.586) but higher than 4th quarter 2014 (measured at 8.352). As a result of the change, the Naples-Immokalee-Marco Island MSA saw a decrease in the rankings, dropping to the 7th most diversified (down from 4th in the 3rd quarter of 2015).

The Punta Gorda *IDI* decreased slightly in the 4th quarter of 2015, measured at 7.517. Although lower than the 3rd quarter 2015 measure (7.525), it reflected an increase from the 4th quarter of 2014 (measured at 7.412). The Punta Gorda MSA saw no change in the rankings, remaining as the 16th most diversified MSA in the state of Florida, out of 22 total MSAs.

### Florida

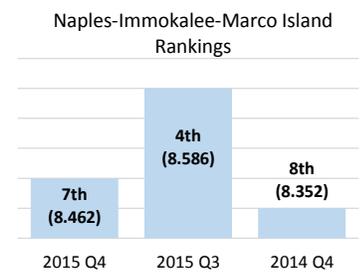
The state of Florida’s workforce experienced a slight decrease in industry diversification in the 4th quarter of 2015, despite moving up in the rankings. Florida’s *IDI* was measured at 8.482—a decrease from the 3rd quarter of 2015 (measured at 8.501) but an increase from the 4th quarter of 2014 (measured at 8.451). Florida also ranked as the 26th most diverse state workforce in the country, behind Missouri (8.504) and ahead of Nebraska (8.481). This ranking marks an improvement from the 3rd quarter of 2015 (29th) and the 4th quarter of 2014 (29th). The state of Florida nonetheless continues to rank in the bottom of the Southeast Region of the United States, where 5 of the 7 states are more economically diversified than the U.S. average.

Nationally, the most diversified states in the country were Wyoming, Tennessee, and South Carolina, and the least diverse states were Maine, West Virginia, and Nevada. The *IDI* for the United States was 8.670.

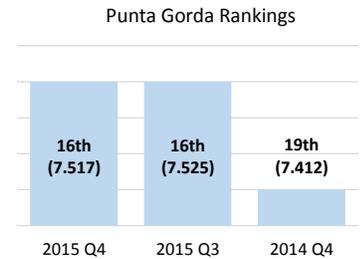
The complete rankings for the *FGCU Industry Diversification Index* by state, Florida workforce region, and Florida MSA are available on the FGCU Industry Diversification Project website (<http://lutgert.fgcu.edu/idp/>), with results dating back to the 1st quarter of 2000.

### What is the FGCU Industry Diversification Index?

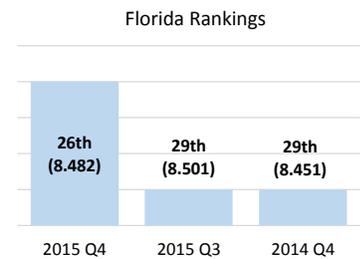
Beginning in the first quarter of 2016, the Regional Economic Research Institute designed the *FGCU Industry Diversification Index*. The goal of the *IDI* is to measure industry diversification and, by extension, that of the workforce, in each of Florida’s 24 workforce regions, the state of Florida, and the remaining 49 states. The index measure is computed quarterly, soon after the release of workforce data from the Florida Department of Economic Opportunity’s Quarterly Census of Employment and Wages. It spans from 0 to 10, with 0 signifying no diversification (or an economy characterized by a single industry), and 10 signifying perfect diversification (no concentration).



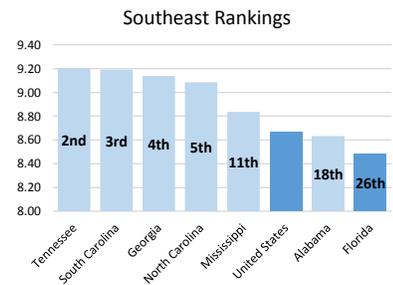
Note: FGCU Industry Diversification Index in parenthesis.



Note: FGCU Industry Diversification Index in parenthesis.



Note: FGCU Economic Diversity index in parenthesis.



## Why is industry diversification important?

A diversified economy provides many advantages to both producers and consumers who comprise it. In particular, states and regions with diversified economies can weather business cycle downturns and unanticipated supply and demand shocks more easily. An example often cited in the economics literature is that of Texas, which, following the decline in oil prices in 1986, fell into a deep, state-wide recession that underscored the need for economic diversification. Since then, Texas' economy has undergone significant sectoral shifts making it less dependent on the oil industry, which nonetheless remains an important contributor to gross state product. For more information, see Yücel, Mine K., and Thies, Jackson, "Oil and Gas Rises Again in a Diversified Texas," *Southwest Economy* (Dallas: Federal Reserve Bank of Dallas, 2011, pp. 10-13).

Arguably, industry diversification is as much an issue for the Florida economy as it was in Texas 30 years ago. Florida's comparative advantages as an economic region make it especially amenable to industries serving the retirement and tourist sectors. However, dependence on these sectors can cause it to overheat during periods of business cycle boom and overcorrect during times of business cycle bust.

Industry diversification also suggests (i) more employment options for workers and (ii) available types of skilled labor for employers.

## How is the FGCU Industry Diversification Index calculated?

The index is calculated each quarter using employment data collected from the Quarterly Census of Employment and Wages. The employment data is used to calculate the share of employment from each of the 21 2-digit NAICS industry sectors. The top 5 shares from each region and state are used to calculate the *FGCU Industry Diversification Index*, using the following formula:

$$FGCU \text{ Industry Diversification Index} = -10 * \left[ 1 - \left( 1 + \frac{1}{N} - \left( \frac{2}{N^2 \bar{a}} \right) \left( \sum_{i=1}^N i a_{(i)} \right) \right) \right]$$

Where  $a_{(i)}$  represents the  $i^{\text{th}}$  largest industry share for the region/state,  $N$  represents the number of industries used to calculate the index (in this case,  $N = 5$ ), and  $\bar{a}$  represents the average of the industry shares. The *FGCU Industry Diversification Index* is designed to take a value between 0 and 10, where the former would indicate a completely specialized economy and the latter would indicate an economy that is not concentrated in a particular industry. Furthermore, the higher a state or region is ranked in terms of the *FGCU Industry Diversification Index*, the less specialized the state or region.

### INDUSTRY DIVERSIFICATION REPORT A Publication of the Regional Economic Research Institute

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