

Some Cities Will Be Safer in a Recession

Cities with a strong presence in health care, education, law, energy, and the government will feel the impact of a downturn less

By Prashant Gopal

Oct. 13's 937-point surge in the Dow notwithstanding, the economic crisis has left Americans—even those with no obvious connection to Wall Street—wondering about their own future. The 401(k)s of many Americans are still on shaky ground, foreclosures are spiking, and employers in big cities and small towns alike are struggling to adapt to a new environment of tight credit and feeble consumer spending.

Government leaders are working to avoid a depression—or at least a late-1970s-level recession—but if things get really bad, some places will suffer more: states such as California, Florida, and Nevada that are buried under a growing mass of foreclosures, cities like New York and Chicago that have large numbers of financial sector jobs, and manufacturing towns that are already suffering from weak sales of cars and other durable goods.

Other local economies, those dominated by stable industries, could be relatively well-cushioned. BusinessWeek.com worked with data from PolicyMap.com, a demographics and data site run by Philadelphia's Reinvestment Fund, to identify the best places to live during a recession. We looked at places where large portions of the population worked in anticyclical industries such as government, health care, education, agriculture, and legal services.

Secure in the Capital

Topping our list was Arlington, Va., a highly educated urban community just across the Potomac River from Washington, followed by the District of Columbia itself, where many residents work in government or related services. The federal government employs thousands of residents, keeps lawyers, lobbyists, accountants, and journalists busy, and pumps money into the region through outsourcing jobs and multimillion-dollar contracts to companies such as Bethesda (Md.) aerospace contractor Lockheed Martin (LMT).

While D.C. didn't enjoy Manhattan's Wall Street-driven growth during the past couple of decades, it's now in an enviable position. The capital has become a hub for companies that do defense and homeland security work in the wake of the Sept. 11, 2001, attacks.

"We don't have a Wall Street," said Stephen Fuller, director of the Center for Regional Analysis at George Mason University. "When there's a crisis like this, the Fed goes out and hires a bunch of people to help out. I suspect they'll bring Wall Street guys to Washington and put them up in hotels or empty office buildings and put them to work."

Government towns tend to be relatively stable because—even though budgets are slashed—the public sector still must pay the salaries of politicians, building inspectors, police officers, military personnel, and tax-authority employees. Cities that we think might benefit from government employment include Chesapeake, Va., near the massive Norfolk Naval base, and the state capitals of Baton Rouge, La.; Lincoln, Neb.; and Madison, Wis.

College Cushion

Madison has a second recession buffer: the University of Wisconsin. More than 17% of the working-age population works in education, according to PolicyMap. Colleges don't necessarily flourish in bad times, but they don't go out of business either. People tend to go back to school to learn marketable skills when unemployment is high, but alumni donations and state grants do tend to dwindle during recessions. University towns dominated the ranking—from Durham, N.C., home of Duke University, to Irvine, Calif., with its University of California campus. Major

cities with multiple college campuses such as Baltimore, Boston, Philadelphia, and Seattle also appear high on the list.

Towns with many residents working in health care, such as Buffalo; Durham, N.C.; Lubbock, Tex.; Philadelphia; and Pittsburgh will also have a solid layer of protection. Even doctors and nurses feel the pinch in a recession because people without jobs or insurance tend to put off medical visits until it's absolutely necessary. But medical care is in demand in good times and bad.

Farms and grocery stores tend to be relatively stable because even though people might not be able to afford restaurant food, they still need to eat. Lawyers also can find stable work in a recession, although their success has a lot to do with their particular field (commercial litigators and bankruptcy lawyers might be busy while real estate lawyers might not be).

We had hoped to include energy in our analysis despite the recent decline in oil prices, because gasoline and natural gas prices are still relatively high, and energy-producing states such as Alaska, Colorado, Louisiana, New Mexico, Oklahoma, Texas, and Wyoming are benefiting. We weren't able to collect town-level data on energy jobs, but some of the places that came up on our list—such as Anchorage, Alaska; Baton Rouge, La.; and Lubbock, Tex., are located in energy centers. Baton Rouge and New Orleans have energy-related jobs, but the main strength of their economies is a post-Katrina construction boom.

Flatness in Houston

If energy were factored in, Houston might have shot up to the top of the ranking.

"Texas is buffered, but it's not insulated," said Edward Friedman, an economist who covers Texas for Moody's Economist.com (MCO). "It's definitely not going to keep on growing the way it is. While the rest of country is in significant decline, you'll have flatness in Houston."

Boston, which came in fifth on our list, doesn't have as much protection as Houston or Washington. But it is surrounded by major universities such as Harvard, Massachusetts Institute of Technology, and Tufts. It's also a medical hub, with some of the best hospitals in the country. But it also has a substantial number of employees working at mutual funds and banks, which will continue to get hit in the financial crisis.

Philadelphia might even have a stronger hand: Like Boston, it has hospitals and major universities such as the University of Pennsylvania. It does not, however, have so many employees in the financial-services sector. About 26% of the population is either in health care or education.

The city is also perfectly positioned close to the population centers of the District of Columbia, Maryland, New Jersey, and New York, and is likely to attract nearby visitors who want to avoid the expense of long-distance travel, said Moody's Economy.com senior economist Ryan Sweet.

Black Eye for Gotham

The recession is "going to leave New York with a black eye, but Philadelphia will escape only bruised," Sweet said. "Philadelphia was never an outperformer during the expansion, and that's why we expect a short and shallow recession here."

It might be impossible to escape the recession entirely because the crisis is tied to the credit markets. Businesses, which often have lumpy revenues month to month, need short-term credit to make payroll and long-term credit to invest in future growth. And consumers use credit to buy houses and iPods.

"This will be a consumer-led downturn: It affects whatever the consumer touches. So all those [businesses] in the pipeline leading to the consumer are going to feel the pinch," said Alan Beaulieu, principal at the Institute for Trend Research, a private economic consulting firm. "It becomes so that there's very little that's not impacted."