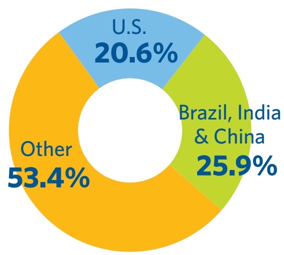
Prosperity at a Crossroads: Targeting Drivers of Economic Growth in Greater Kansas City

EXECUTIVE SUMMARY

Several years ago, a number of business, civic and community leaders raised the need for a more informed discussion about the economic future of Greater Kansas City. This included the desire for more sound research and rigorous analysis that can help residents and decision-makers alike better understand the economic performance of the region and begin a discussion about the future direction of the region's economy. This report demonstrates the value of such an approach. It contains four key findings.

1 Greater Kansas City, like other U.S. metropolitan areas, is confronting global and political forces that require renewed attention on the core drivers of economic growth and prosperity.

Economic Globalization: Nearly 80 percent of global economic growth will come from other countries between 2013 and 2018. While this means increased competition for U.S. firms and workers, it also creates expanding markets for the goods and services they produce.



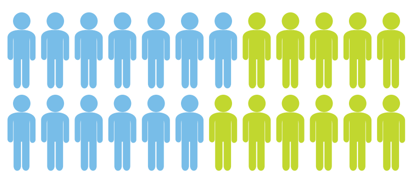
Global Economic Growth, 2013–2018

Disruptive Technologies: New technologies, such as cloud computing, big data, digital communications and 3-D printing are estimated to add $33 trillion to the world economy every year, equivalent to the economic output of the United States, China, Germany and Japan combined. At the same time, however, some 47 percent of jobs are at risk of being automated by 2033.

Demographic Revolution: Increased workforce diversity will create opportunities, but many minorities have historically faced barriers to education that leave them unprepared to fully participate in a growing knowledge-based economy.

25%
of today's workforce will reach retirement age by 2030

54%
of the workforce will be minority workers by 2038



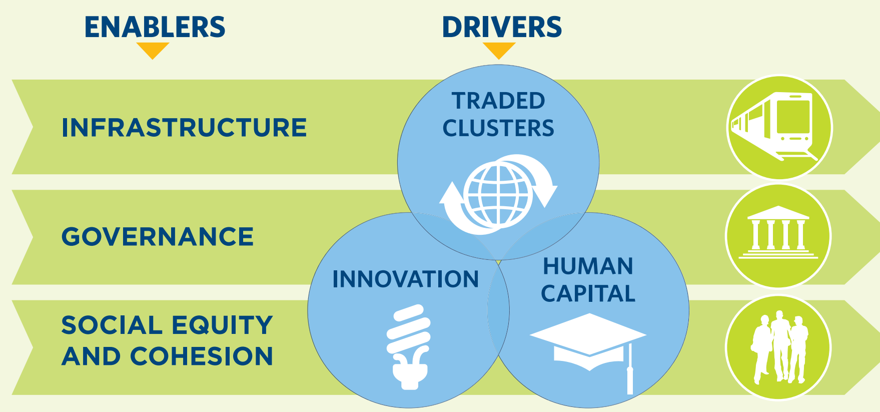
Sources for charts above include the International Monetary Fund and U.S. Census Bureau

Regions are adapting to global forces, working to create stronger, more enduring economies in the wake of the recession. With spending constrained at federal and state levels, and with metropolitan areas accounting for three-quarters of jobs and four-fifths of economic output, the United States is at the threshold of a "Metropolitan Revolution." Leaders in regions throughout the country are now charting their own path to economic recovery by strengthening the core drivers of their economies: **traded clusters**, **innovation** and **human capital**.

A Framework for Regional Prosperity

Globally relevant traded clusters, innovation capacity and human capital are the primary **drivers** of a strong regional economy, generating overall productivity, job growth and income growth.

Economic drivers are supported by strong infrastructure systems, sound governance policies and equitable social systems that undergird and **enable** robust economies. Together, these six highly inter-related drivers and enablers produce inclusive prosperity.

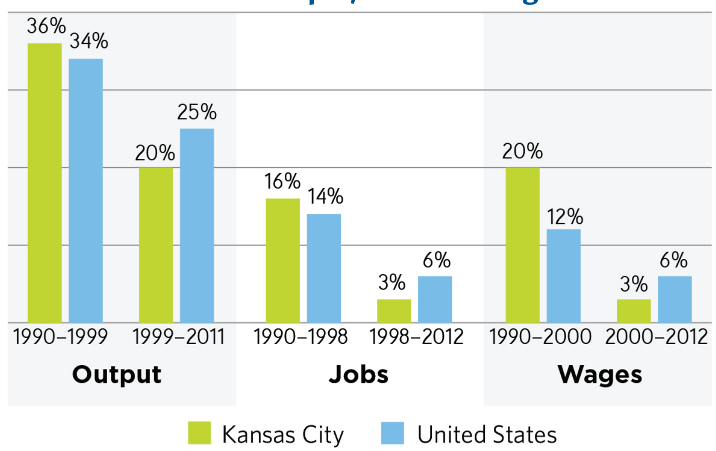


The Kansas City region has worked hard to improve its infrastructure, governance and social equity in order to create a high quality of life that is attractive to individuals, families and firms. But it can do more to improve the drivers of economic prosperity to better respond to today's global challenges and opportunities.

2 Overall, Greater Kansas City's economy has held steady, but there are troubling indicators in the region's productivity and competitiveness.

Over the last two decades, the Greater Kansas City region generally kept pace with the nation's growth. In recent years, however, the region's growth has slowed. Some troubling indicators stand out when examining recent trends.

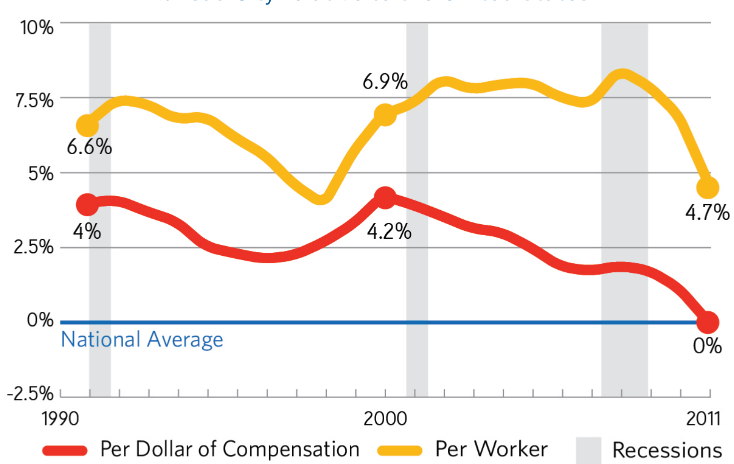
Growth in Output, Jobs and Wages



Greater Kansas City's economy grew faster than the nation in terms of output, jobs and wages into the late 1990s, but since 2000 the opposite is true. The region's productivity advantage — the net value of goods and services produced per worker or per labor compensation dollar — has also declined. In fact, the region's advantage has effectively disappeared in terms of output per dollar.

Economic Output Per Input

Kansas City relative to the United States



As a result, the region has fallen behind the majority of its peer metros in several key areas, especially the strength of its recovery from the Great Recession and the average wage of its workers.

Rank	10-Yr. Job Growth	Recession Recovery	GMP 10-yr. Change	Unemployment Rate Since 2007	Change in Real Average Wage
1	Austin	Charlotte	Portland	Columbus	Nashville
2	Raleigh	Austin	Austin	Minneapolis	Austin
3	San Antonio	Indianapolis	Pittsburgh	Austin	Pittsburgh
4	Nashville	Nashville	Nashville	Pittsburgh	Charlotte
5	Charlotte	San Antonio	Milwaukee	San Antonio	Portland
6	Portland	Raleigh	Minneapolis	Milwaukee	Minneapolis
7	Indianapolis	Denver	San Antonio	Nashville	San Antonio
8	Denver	Columbus	Louisville	Indianapolis	Denver
9	Louisville	Minneapolis	**Kansas City**	**Kansas City**	Columbus
10	Minneapolis	Portland	Indianapolis	Portland	Louisville
11	Columbus	Pittsburgh	Denver	Raleigh	Indianapolis
12	**Kansas City**	Louisville	St. Louis	Charlotte	St. Louis
13	Pittsburgh	**Kansas City**	Raleigh	Louisville	**Kansas City**
14	Milwaukee	Milwaukee	Charlotte	St. Louis	Milwaukee
15	St. Louis	St. Louis	Columbus	Denver	Raleigh

3 While Greater Kansas City exhibits strengths in the key drivers of growth and productivity, the region's overall economic engine is not fueling high performance.

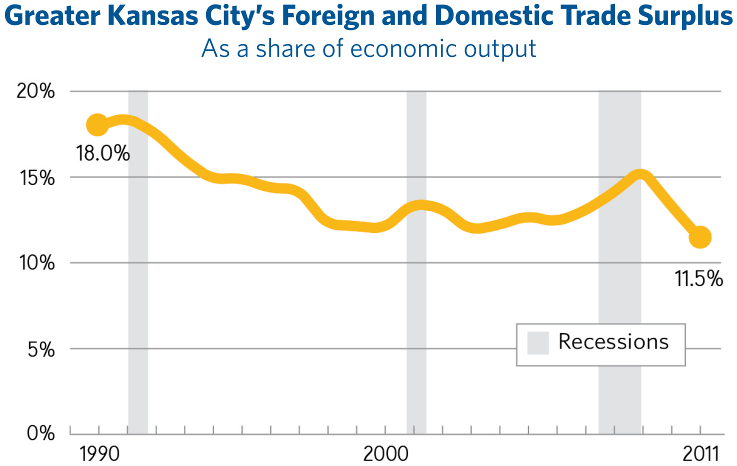
Traded Sectors: Greater Kansas City's six largest traded sectors account for half its total economic output and 80 percent of its exports. However, when evaluated on whether they are growing, increasing their share of the U.S. market, and improving their productivity and average wage relative to the nation, only one of these sectors is firing on all cylinders — professional, technical and scientific services.

Traded Sector	Growth		Market Share		Productivity	Prosperity
	Output	Employment	Output	Employment	Relative Output/Job	Relative Compensation
Finance & Insurance	▲	▲	▼	◆	▼	▼
Manufacturing	▲	▼	▲	▲	▼	▼
Professional Services	▲	▲	▲	▲	▲	▲
Wholesale Trade	▲	◆	▼	▼	▼	▼
Information	▲	▼	▼	▼	▲	▲
Transportation & Warehousing	▲	▲	▼	▼	▲	▼

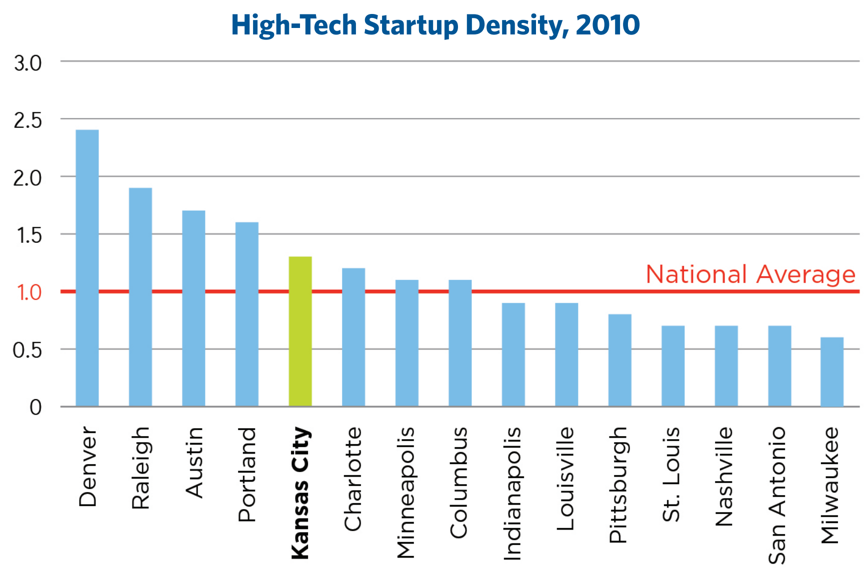
▲ Growing ▼ Declining ◆ Steady

Sources for charts on this page include Regional Economic Models Inc. (REMI), Moody's Analytics, Bureau of Labor Statistics and the Bureau of Economic Analysis

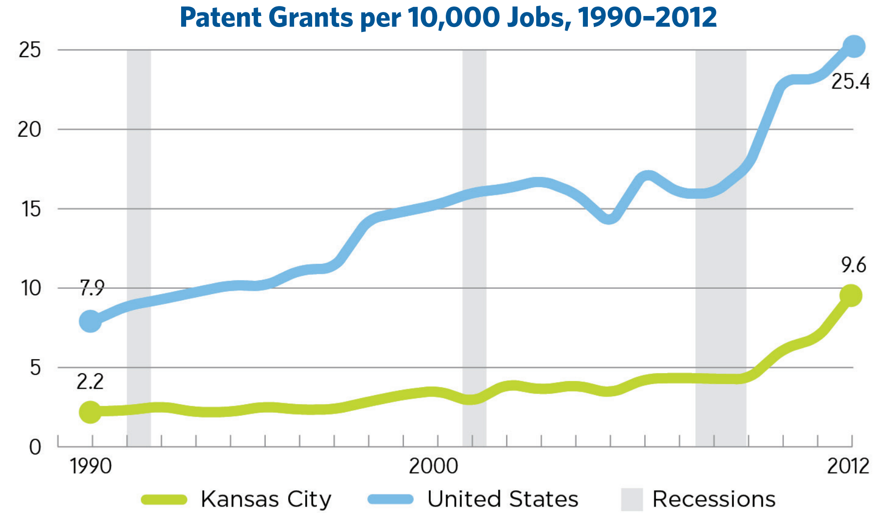
Greater Kansas City exports more goods and services to the rest of the country and world than it imports, generating a trade surplus that brings net income to the region. But this surplus is declining as a share of economic output, implying its traded sectors are not taking full advantage of more rapidly growing domestic and international markets.



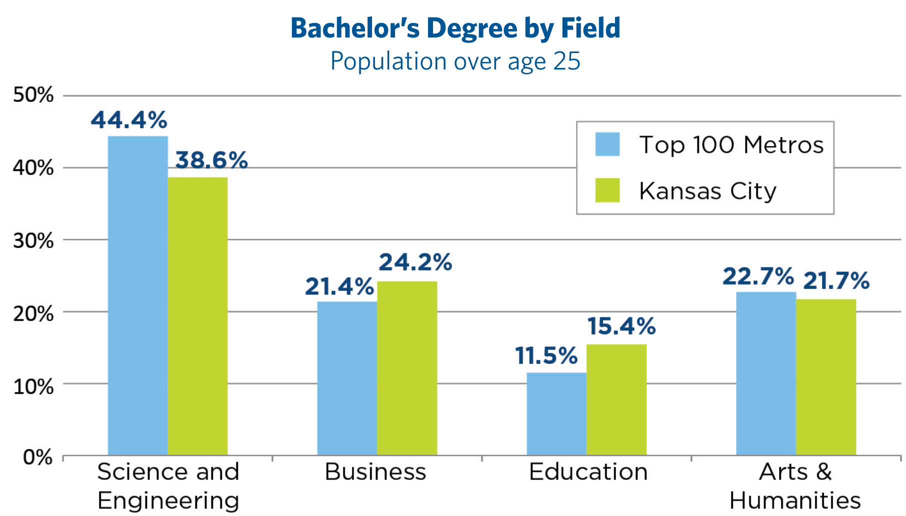
Innovation: In 2010, Greater Kansas City ranked fifth among its peers and exceeded the national average in the density of high-tech business startups. This indicates the region has a strong capacity to innovate by launching firms in STEM-driven fields (science, technology, engineering and math). However, the region's rate of overall business creation still lags that of its peers.



Patents indicate the extent to which technological advances are being developed and applied. Greater Kansas City's number of patent grants per job increased more than fourfold from 1990 through 2012. Despite this recent growth, the region's patent rate remains roughly one-third that of the U.S. Moreover, relatively few local firms are generating patents, as 50 percent of the regions patents were granted to only four companies in 2011 — Sprint, Embarq, Cerner and Garmin.



Human Capital: The region's workforce is more educated than the nation's and slightly better educated than its peers. However, the fields in which people are educated don't match up well with the growing demand from businesses for STEM skills.

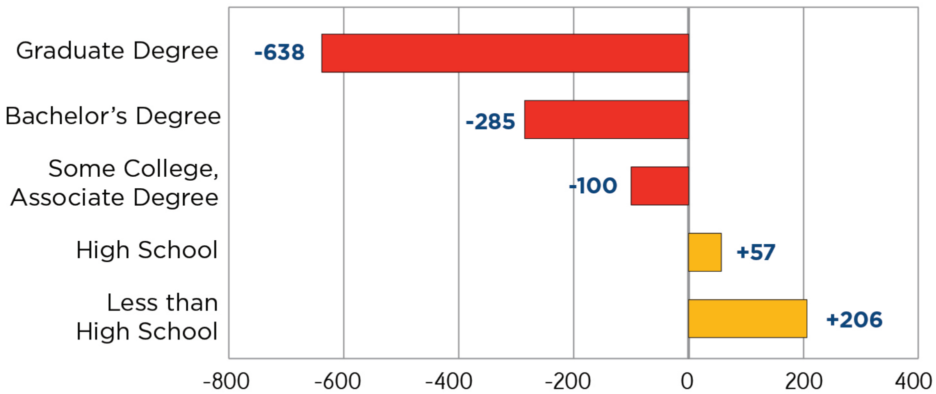


Sources for charts on this page include REMI, Kauffman Foundation, Brookings Institution and the U.S. Census Bureau

Migration between large counties in the United States from 2007 to 2011 resulted in Greater Kansas City losing an average of 1,000 more people per year with postsecondary education than it gained. Talented, mobile workers seem to be moving to metropolitan areas with more dynamic economies, suggesting the region may be experiencing a "brain drain."

Greater Kansas City Net Migration by Educational Attainment

Annual average 2007–2011, population 25 years of age and older



Source: U.S. Census American Community Survey

4 Greater Kansas City's leaders now face an important opportunity to more strategically bolster its drivers of economic growth so the region can compete and prosper, generating lasting opportunity for all.

The Kansas City metro area is home to a robust network of business, civic, government and philanthropic leaders who are working together to better the community. Various efforts are underway, both across the region and within each county, to address some of the key drivers of economic growth, especially around education and skills development, innovation and entrepreneurship, and the built environment. Could these efforts be better aligned, scaled and prioritized to substantially improve the economic course of the region?

Like Greater Kansas City, many metro areas across the country are re-evaluating their economic development strategies post-recession and adopting new approaches that focus on economic drivers. Based on its observations from working with regions across the country and across the globe, Brookings has identified four characteristics shared by metros that are well-positioned to excel in the next economy:

- **Leading metros are working from a common set of objectives.** Successful regions are pursuing a shared economic agenda or a common set of priorities.
- **Leading metros focus on the market fundamentals.** More and more regions are going back to the market fundamentals of trade, innovation and human capital — and their intersection — to drive new sources of growth that will directly benefit firms, workers and communities.
- **Leading metros organize for success.** The pioneering regions are pursuing broader, more inclusive engagement and enhanced market analysis to drive the design and execution of regional plans and strategies.
- **Leading metros are aligned with their states.** Metropolitan areas with strong regional economic strategies are often more able to effectively shape and inform state policies and investments in ways that align with regional priorities.

Kansas City now stands at a crossroads.

The region's economy has been reliable, predictable and steady. But over the last decade, we have seen our competitive advantage slip as we face new global economic forces.

The region has a strong base to build on — not only industry, but also civic capacity to steer our economy in the direction of continued prosperity and resiliency.

With a clear understanding of the framework for regional prosperity and the fundamental drivers and enablers of the regional economy, we can work together to position the Kansas City region for continued prosperity.

Download the full report at www.marc.org/prosperity

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