



MOST DYNAMIC METROPOLITANS

EXECUTIVE SUMMARY | JUNE 2019

WALTON FAMILY
FOUNDATION



HEARTLAND
FORWARD

AN INSTITUTE FOR ECONOMIC RENEWAL

ABOUT THE AUTHORS



Ross DeVol is President and CEO, Heartland Forward and a Fellow, Walton Family Foundation. Heartland Forward's goal is to promote regional innovation and entrepreneurial ecosystems that foster job creation, wage gains and economic growth for the American Heartland. Heartland Forward will pursue its mission through independent, data-driven research, action-oriented convenings, such as the Heartland Summit, and impactful policy recommendations. Heartland Forward works with universities, colleges, the business community, public policy leaders and philanthropy to analyze resources supporting the startup community and identify workforce and talent gaps. DeVol is former chief research officer for the Milken Institute where he spent nearly 20 years, an economic think tank headquartered in California. He oversaw research on international, national and comparative regional growth performance; access to capital and its role in economic growth and job creation; and health-related topics. He has been ranked among the "Superstars of Think Tank Scholars" by International Economy magazine.



Jonas Crews is a Research Associate in economics, supporting Ross DeVol, President and CEO of Heartland Forward and Walton Family Foundation Fellow. Prior to joining the foundation, Jonas was a senior research associate for the Federal Reserve Bank of St. Louis, where he conducted spatial analysis, created surveys and coauthored journal articles and blog posts on trade and the macroeconomy. Jonas holds a Bachelor of Science in economics with a focus in quantitative analysis from Auburn University.

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Shelly Wisecarver is the Communications and Program Manager supporting Ross DeVol and Heartland Forward. Prior to joining the foundation, Shelly was a multifaceted entrepreneur who has begun more than a dozen business startups across the Heartland. She graduated from the University of Arkansas Summa Cum Laude with a Bachelor of Arts in nonprofit business communication. Shelly is located in Bentonville, Arkansas.



Lauren Barry is the Art Director with The Markham Group. With a background in media arts and graphic design, she is passionate about visual communication and developing integrated campaigns. Lauren received her Bachelor of Arts degree from James Madison University in Harrisonburg, Virginia with a double major in Media Arts & Design and Theatre Arts. She is based in Richmond, Virginia.

About the Walton Family Foundation

The Walton Family Foundation is, at its core, a family-led foundation. The children and grandchildren of our founders, Sam and Helen Walton, lead the foundation and create access to opportunity for people and communities. We work in three areas: improving K-12 education, protecting rivers and oceans and the communities they support, and investing in our home region of Northwest Arkansas and the Arkansas-Mississippi Delta. In 2017, the foundation awarded more than \$535 million in grants in support of these initiatives.

EXECUTIVE SUMMARY

As the dominant economic geography of America, metropolitan statistical areas largely determine our success as a nation. These groups of counties with a large central core account for 88.6 percent of jobs, 89.1 percent of wages and 90.0 percent of Gross Domestic Product (GDP). Further, metropolitan statistical areas account for the bulk of innovation such as research and development and patenting activity. Understanding the mechanisms underpinning the growth of top-performing metropolitan areas, and sharing best practices, could assist other communities in boosting their economic fortunes. The Most Dynamic Metropolitan Index, ranking 379 metropolitan areas, seeks to provide an objective measure of the economic vibrancy of communities where the lion's share of Americans work and live.

Our Most Dynamic Metropolitan Index, and the analysis contained in this report provides objective insight into the communities providing economic opportunity for their residents, separating high performers from the low. Most Dynamic Metropolitan provides fact-based metrics on near-term and medium-term performance and prospects for long-term growth. The index allows economic development officials the ability to monitor their metro's vivacity relative to others on a national basis or within their region and state. We also look through the lens of the Heartland—the 20 states in the middle of the nation—to discern its performance and understand practices that can boost economic prospects.

While international and national economic and geopolitical factors can influence growth patterns, the index provides an objective measure of whether local development strategies have the desired effect. Additionally, Most Dynamic Metropolitan aids public-policy groups, elected officials, academics, businesses and other researchers in monitoring and assessing metropolitan dynamism across the nation.

The Most Dynamic Metropolitan rankings are generated using performance-based metrics such as job growth, average annual earnings and Gross Domestic Product (GDP) gains and a new metric, the proportion of total jobs at young firms. The young firm employment ratio influences economic growth as new firms develop new products, services and advance innovation. It encapsulates information on the capability of entrepreneurs to start businesses and scale them—critical for future job and wage gains. For example, just four metros out of the top 30 and 12 out of the top 100 have a young-firm share below the mean of all metropolitan areas.

We include new data on regional price parities from the Bureau of Economic Analysis (BEA). These regional price parities are indexes indicating whether goods and services are generally more or less expensive than the national average. We use the indexes to adjust income measures for varying inflation rates and differences in purchasing power across metropolitan areas. Per-capita personal income reflects these adjustments and can be viewed as a measure of longer-term economic development because it is the stock of all prior welfare improvements.



BELOW ARE KEY FINDINGS FROM MOST DYNAMIC METROPOLITANS

Positioned first in Most Dynamic Metropolitans is **Midland, Texas**. Located in the American Heartland, Midland held several top positions and had four other metrics where it was among the top 10. Midland is the capital of the Permian Basin that produces one in five barrels of oil in the U.S. The explosion in shale oil exploration activity is driving the economy and the Tall City is the most reliant on oil activity in the nation.

San Jose-Sunnyvale-Santa Clara, California, (Silicon Valley) is second overall. Its unparalleled technology innovation ecosystem placed it tops among metros with a population above 1 million. Its biggest challenge in the future will be high housing costs, thereby making it difficult to retain talent. The median housing price is \$1.25 million and rents are astronomical.

Midland, Michigan, ranked third, is home to the new Dow—the collection of material science and engineering assets from Dupont, Dow Chemical and Dow Corning. Midland has the highest per capita figure of engineers and chemists in the nation.

Next, at fourth, is **Elkhart-Goshen, Indiana**, where a rapid expansion in travel, tourism and recreation has fueled its growth: it is the recreational vehicle production capital of the world. Three of the top four metro's hail from the Heartland. Coming in fifth, is **Bend-Redmond, Oregon**. It owes much of its lofty position to travel, tourism and recreation. It has the highest proportion of workforce telecommuting in the nation—many to Silicon Valley.

St. George, Utah, is sixth, home to Zion National Park, world-class outdoor recreation options, and arguably the preeminent mountain biking event worldwide, Red Bull Rampage. **Austin, Texas**, is seventh overall. It has acquired well-deserved international recognition as an economic development model worthy of study. Austin has the 11th highest concentration of high-tech industries in the nation.

Greeley, Colorado, is eighth, and has a mix of food, fracking, wind turbines and several corporate facilities. By many measures, the economy of **San Francisco-Oakland-Haywood, California**, (ninth overall) has experienced more rapid tech-fueled growth over the past five years than its neighbor down the peninsula, Silicon Valley. The surge in economic growth in the **Seattle-Tacoma-Bellevue, Washington** metro area (10th overall) continues unabated as it is among the most innovative places in the world.

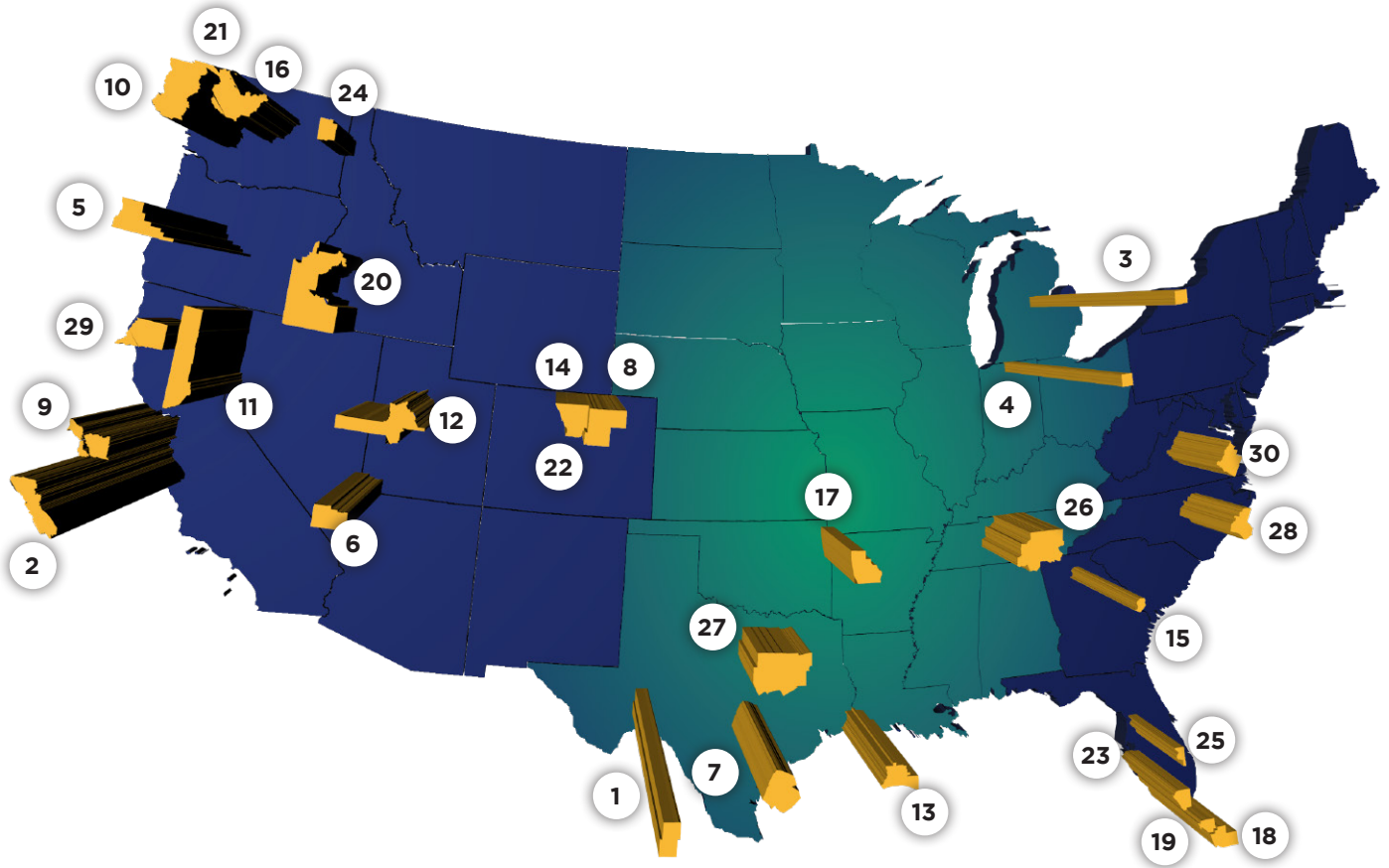
Reno, Nevada, is 11th, followed by **Provo, Utah**, at 12th, (but first among medium metropolitan areas) has been one of the hottest economies in the nation over the past decade. Next are **Lake Charles, Louisiana**, (13th), **Fort Collins, Colorado**, (14th), and **Gainesville, Georgia**, (15th).

Wenatchee, Washington, is 16th, followed by **Fayetteville-Springdale-Rogers, Arkansas**, (Northwest Arkansas), which was second among medium metros (population of 500,000 to 999,999). Northwest Arkansas is a corporate, college and cultural center. **Naples-Immokalee-Marco Island, Florida**, (18th), **Cape Coral-Fort Myers, Florida**, (19th), and **Boise City, Idaho**, (20th), round out the top 20.

Other striking features of the findings include that only one large metro is in the bottom quartile, 23 are in the top quartile. Eleven out of 13 large Western metros are in the top quartile. The Heartland had eight metros among the top 30, substantially below its proportionate share.

Figure 1: Top 30 Metropolitans

Height Of Each Metro Reflects The Index Value



| Rank | Index Value | Metro | Rank | Index Value | Metro |
|------|-------------|------------------------------------|------|-------------|---|
| 1 | 2.9795 | Midland, TX | 17 | 1.0965 | Fayetteville-Springdale-Rogers, AR-MO |
| 2 | 2.5132 | San Jose-Sunnyvale-Santa Clara, CA | 18 | 1.0567 | Naples-Immokalee-Marco Island, FL |
| 3 | 2.4351 | Midland, MI | 19 | 1.0241 | Cape Coral-Fort Myers, FL |
| 4 | 2.1555 | Elkhart-Goshen, IN | 20 | 0.9299 | Boise City, ID |
| 5 | 1.9654 | Bend-Redmond, OR | 21 | 0.9182 | Mount Vernon-Anacortes, WA |
| 6 | 1.7048 | St. George, UT | 22 | 0.9048 | Boulder, CO |
| 7 | 1.6149 | Austin-Round Rock, TX | 23 | 0.8959 | North Port-Sarasota-Bradenton, FL |
| 8 | 1.6085 | Greeley, CO | 24 | 0.8870 | Coeur d'Alene, ID |
| 9 | 1.4944 | San Francisco-Oakland-Hayward, CA | 25 | 0.8387 | The Villages, FL |
| 10 | 1.4283 | Seattle-Tacoma-Bellevue, WA | 26 | 0.8372 | Nashville-Davidson--Murfreesboro-Franklin, TN |
| 11 | 1.3911 | Reno, NV | 27 | 0.8301 | Dallas-Fort Worth-Arlington, TX |
| 12 | 1.3892 | Provo-Orem, UT | 28 | 0.8268 | Raleigh, NC |
| 13 | 1.3178 | Lake Charles, LA | 29 | 0.8234 | Redding, CA |
| 14 | 1.3141 | Fort Collins, CO | 30 | 0.8233 | Charlottesville, VA |
| 15 | 1.2092 | Gainesville, GA | | | |
| 16 | 1.1081 | Wenatchee, WA | | | |



Industry Characteristics

Common industry and structural characteristics separate top-performing metropolitan areas from lower performers over the evaluation period. Metropolitan areas with thriving professional, scientific and technical services were among the leaders. Categories such as scientific research services, engineering services, accounting and business management consulting services are in this mix. These sectors have been among the fastest-growing industries since 2012. Another group of industries boosting growth in many metropolitan areas are information and communication services, data processing services and hosting services, cloud-based software, data visualization software, computer systems design, AI and machine learning, mobile applications, web design, internet publishing, social media, digital media and gaming software.

Other key industries differentiating the top from the bottom performers are biomedical and the life sciences. The need for disease cures, effective treatment options and monitoring ongoing chronic conditions are powering research into drugs, diagnostics and a range of medical devices. High-tech and advanced manufacturing output has rallied since the Great Recession thrusting many metropolitan economies forward. High-tech manufacturing includes semiconductors, electronic instruments, computers, communications hardware such as routers and switches, energy-related cleantech, aerospace and aircraft, automotive, battery manufacturing, industrial control systems and material sciences.

Travel and tourism, recreation and lifestyle activities have advanced at a strong pace in recent years. Consumers postponed travel and tourism purchases during the Great Recession of 2007-2009. Pent-up demand for travel and tourism was unleashed when the economy improved. Tourism-destination locations, where visitors travel long distances to enjoy their amenities, benefited the most. Metropolitan areas with highly productive shale deposits or those located close to them prospered.

A negative factor for economic growth across a swath of metropolitans was a high dependence on mining activity, principally coal mining. A combination of natural gas and renewables gaining share in the electricity generation industry has caused coal's share of the energy portfolio to plummet. Metropolitan areas with adjacent communities dependent on agricultural crop production have witnessed slower economic growth. Prices of agricultural products dropped since 2014, harming economic fortunes of agricultural-based communities—most of whom reside in the American Heartland.

The escalation in tariffs to 25 percent on \$200 billion of Chinese imported goods imposed by the Trump administration, and China's retaliation of 25 percent on \$60 billion of U.S. goods, threatens to disrupt supply chains and increase the prices of intermediate and final business and consumer goods. Many metropolitan areas will witness substantial dislocations to their economic performance. Heartland communities will bear a double-burden—to manufacturing exports, and exports of agricultural commodities such as soybeans. It is in the best interest of both China and the U.S. to reach a compromise agreement. Otherwise, Chinese and U.S. communities will pay a hefty price.

Structural Characteristics

Structural characteristics of metropolitan areas differentiate top performers from the rest of the pack. Metropolitan areas with leading research universities and four-year colleges embedded within their business milieu recorded exemplary economic gains, holding other factors constant. Research universities are increasingly critical to metropolitan performance as their fundamental output—knowledge—is central to an economy driven by innovative endeavors.

A strong culture of entrepreneurship, buttressed by numerous public and private groups, boosted the performance of the overall metropolitan leaders. Metropolitan areas that support the expansion of entrepreneurs and small businesses are more dynamic and resilient in the face of structural change. Incubators, accelerators and a variety of spaces that provide services to new or recently established firms are important. Supporting this conclusion is that just four metros among the top 30, and 12 out of the top 100 have a young firm share below the average of all metropolitan areas.

Providing early-stage finance such as crowdfunding, angel investors and venture capital fuels startup activity and scale-up. Angel investors, and venture capitalists in particular, provide not mere money, but smart money. They bring expertise in management, product development and marketing. Moreover, they provide partnering opportunities. Metropolitan areas with a portfolio approach to economic development perform better over the long term.

Metropolitan areas with multiple community colleges developing curriculum geared to requirements of local employers gain a competitive advantage. Smaller metropolitan areas located closest to large metropolitan areas that are exhibiting stronger economic growth share in that prosperity. Stronger economic linkages create a spillover effect. The arts, cultural, recreational and lifestyle amenities provide substantial advantages for metropolitan areas. They retain more residents who might otherwise seek career opportunities in other locations.

Heartland Implications

While the Heartland has several metropolitan areas among the top performers, most metropolitan areas need to participate more fully in the knowledge-based economy. Technology sectors are underrepresented, too many economic development resources are devoted to smokestack chasing (heavy manufacturing recruitment), and too little emphasis is placed on supporting entrepreneurs. Financiers must become comfortable investing in early-stage firms in non-traditional sectors and more research universities need to embrace and pursue commercialization as a key component of their mission. The educational attainment and skills of residents must advance. A compelling narrative over the advantages of Heartland locations such as lower housing costs needs to be developed and conveyed for retaining and recruiting talent.



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