

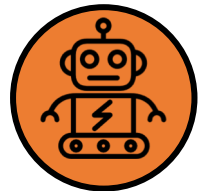
Five Trends Impacting Local Economic Development

Greek philosopher, Heraclitus said “*There is nothing permanent except change.*” He could not have imagined how fitting these words would be in describing today’s global economy. Change is everywhere, and it is increasingly difficult to keep up. Furthermore, it is difficult to even see what is changing before you can think about adjusting to it.

We cannot possibly track all the meaningful changes that are underway or are around the corner, but we have highlighted key changes.

- The rise of the idea economy
- Globalization
- Automation
- On-line retail
- The shrinking middle class

These are broad issues and our intent is not to dream up solutions to them. Instead, we believe these trends will bring about new realities that we will all have to deal with. We hope this report will aid in identifying these trends and help you steer your local economy through some uncertainty.



1. The rise of the idea economy

This is really **the** trend. All others we will discuss stem from this fundamental change in our economy.

Over the last 100 plus years, our economy went from agriculture-based, to manufacturing to service-oriented. Today, we are shifting again, to the idea economy.

One major difference we are seeing in the idea economy is we are often buying something that was not grown, manufactured or required much of another person's time. When we buy an app for our smartphone or stream a movie, we are buying an idea. The actual bits of data that are exchanged are not what we care about really, we care about having the latest app, or seeing the hottest movie. It takes a lot of skill and time to create a great idea that goes viral, but once these things are initially created, it takes little effort to get it available to the masses. This is great, and convenient, but from an economic development perspective, these ideas do not create as many jobs as more traditional goods and services would.

How will this impact my community? Many topics that are central to economic development (costs, access to transportation, a large labor force) might be less important to idea-based companies that are driving the economy today. Idea-based companies will be looking at things like a vibrant entrepreneurial environment, access to early-stage capital, access to a workforce with needed skills (often I.T. skills).



2. Globalization

Globalization is another trend that technology has enabled that is affecting local economies.

Increasingly, the world acts as one giant economy, of which, your local economy is a small part.

Communication and transportation advances make it possible to conduct business from any spot on the globe.

Globalization is a double edged sword for local economic development. Yes, being a part of a global economy can mean that some jobs (often lower skilled manufacturing and service sector jobs) can be outsourced to other countries with lower wages.

On the other hand, as globalization increases, local businesses are more able than ever to find new markets for their goods and services.

How will this impact my community? It is important to understand your communities job mix. Do you have a large number of jobs that might be susceptible to off-shoring? What pre-emptive steps could be taken to make this less likely? On the offensive side of the ball, do you have industries that could export but don't? Many businesses, especially smaller businesses, never consider being an exporter even though there may be a huge market out there for their product. Can you identify these businesses in your community and develop an export plan to help your businesses grow globally while staying home? The [Brookings Institution](#) has worked with many regions throughout the U.S. and Canada to help them think through their export opportunities.



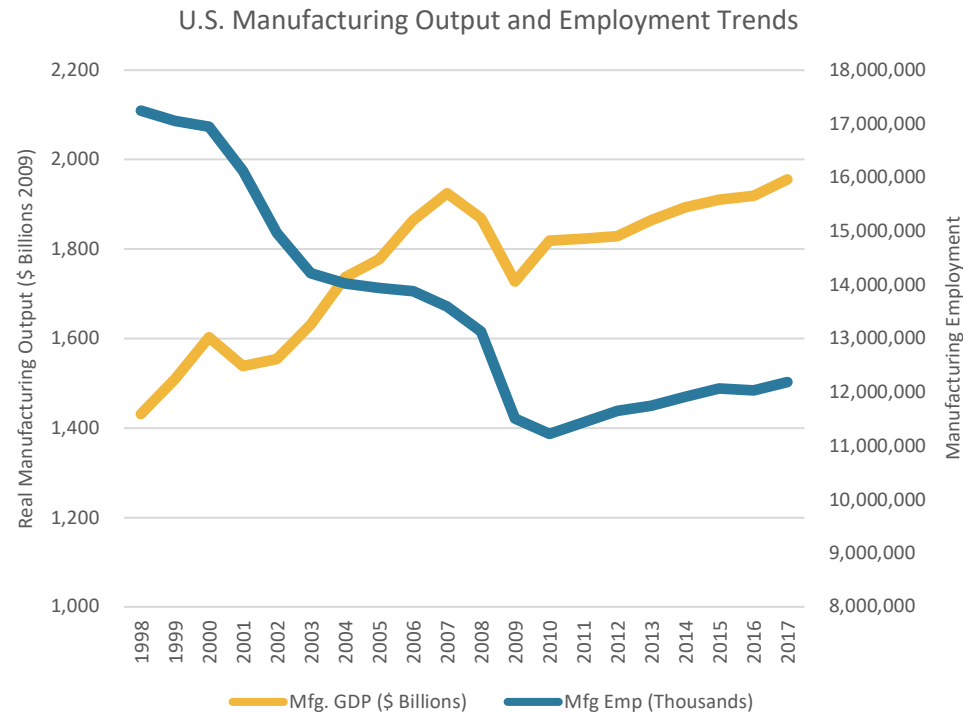
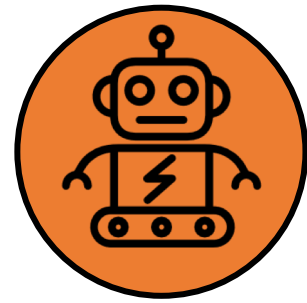
3. Automation

In a competitive economy, businesses are constantly looking for an edge. This could be on the output side (i.e. delivering the best product or service) or on the input side (lowering the cost of production to maximize profit). To lower input costs, businesses are going to be looking to automate. If you can effectively replace human workers with machines or robots, you can greatly cut costs.

Automation does not typically totally replace humans. Usually the automation helps make a person more productive so one worker can replace two, or three or more. The impact of automation on employment is obvious in the manufacturing industry. Since 1998 manufacturing employment dropped 29 percent while manufacturing output increased 37 percent. Note that efforts to boost U.S. manufacturing employment have been successful since 2010, but it is unlikely that manufacturing will ever be the significant employer it was 50 years ago.

Automation is not just an issue in manufacturing. The service industry has also been greatly affected. The transportation industry is already investing heavily in automation.

How will this impact my community? You will see the impacts of automation on employment. It used to be that as businesses needed to add workforce in order to grow. That is clearly not the case anymore. A business in your community could be doing quite well while downsizing. Diversity is key here. Having strengths in multiple industries can help mitigate the impact of automation. If one sector is losing jobs, you could have other strong, growing sectors to pick up the slack.



4. On-line retail



While technology is fundamentally changing the economy, there is one area where technology is having a strong direct impact on the economy. Retail.

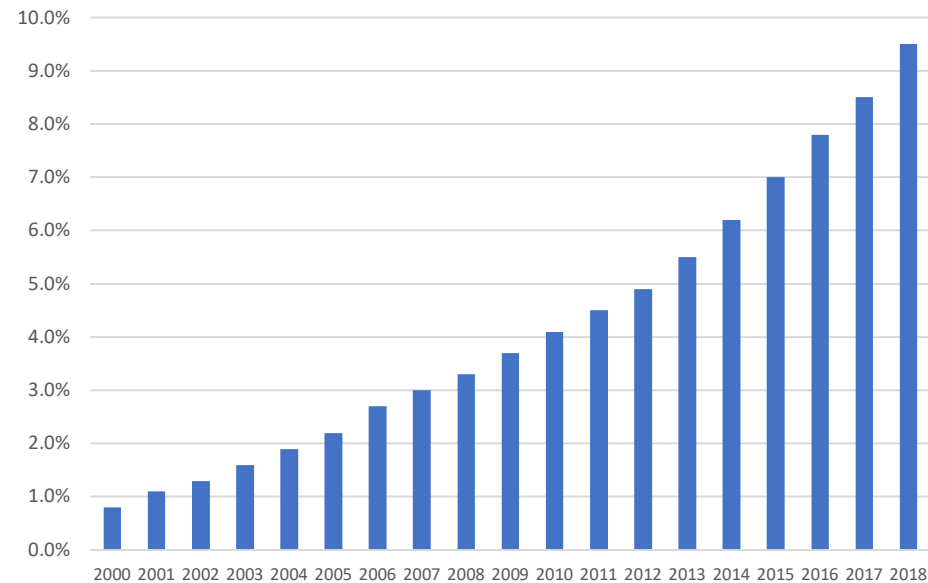
Attracting retail activity has been a focus for economic developers for several reasons. Like other industries attracting retail brings jobs. But retail also can enhance the quality of life in an area by bringing shopping and dining options closer to home for residents. And, perhaps most importantly, retail can bring sales tax revenues. The issue is, Americans are doing less and less of their shopping at brick and mortar stores. According to the Census Bureau, internet sales account for nearly 10 percent of all sales, and this share is growing.

There are efforts underway to make sure local jurisdictions get their sales taxes applied to internet sales, but if those sales taxes are collected on behalf of the city the buyer lives in, what incentive is there for cities be home of the physical store?

How will this impact my community? Many cities rely heavily on sales tax revenues and have been aggressive in pursuing retailers in their economic development plan. If this describes your community, the increase in on-line shopping has to be a concern. Pursuing even more retail to make up for the decline in sales tax revenues seems like a race to the bottom, especially if cities have to give tax breaks to attract the retailer.

Retail can be a benefit to the community in and of itself. People like having retail options available in their community. But, from a revenue perspective, cities are not going to find having retail within their borders as advantageous as they once did.

On-Line Sales as a Share of Total Sales



5. Shrinking Middle-Class



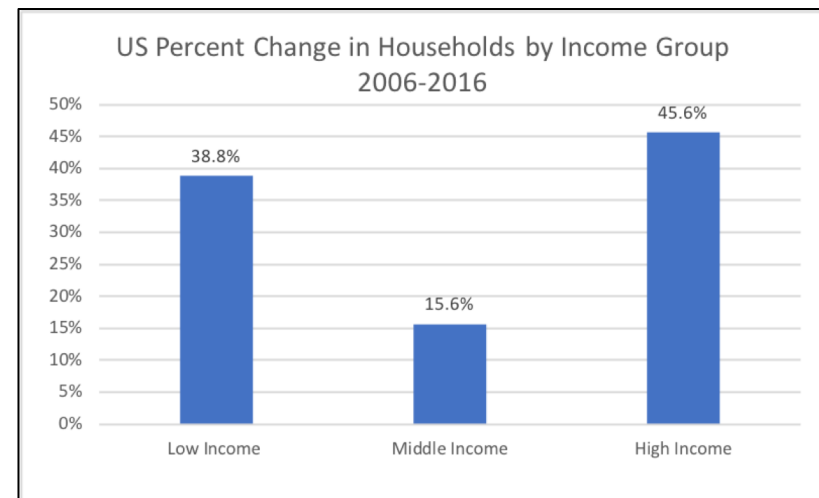
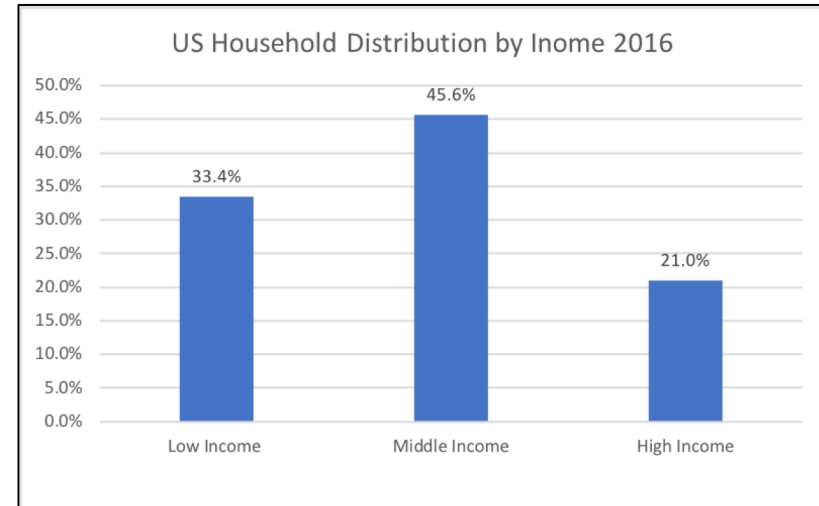
A strong and growing middle class has long provided the backbone of the American economy. A middle class that was growing in number and affluence drove consumption and provides consistent demand for goods and services.

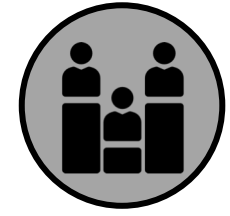
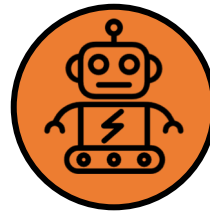
The middle class is still strong in the U.S. as 46 percent of all households are in this category (defined as household income between two-thirds and two times the national median). However, there are signs that this strength may be eroding. When we look at the change in households between 2006 and 2016 we see middle class growth is lagging, accounting for just 16 percent of the growth over that period.

This national trend does not hold across the entire country however. Several metros [have bucked this trend](#) and have an economy that continues to grow the middle class.

How will this impact my community? This issue is huge and national/global in scope. As such it is not going to be resolved at the local level. However, one place where it often appears is in housing. In many region's the dream of home ownership is getting further and further from reality for middle class families. Nationally, the ratio between the median home value and median income is about 3.5 to 1. If your ratio is much higher than this, your community might not be affordable for middle class residents.

A good, life-long learning system in your community could also help. Part of the decline in the middle class is due to the loss of traditional middle-class jobs (through globalization and automation). An effective system where workers could gain new, employable skills may help keep them in a middle class job where they can take care of their families and grow your economy.





As we have seen, the economy is changing. Guiding your community through this change can be a daunting task, but you can begin preparing your community by:

- **Knowing your local economy.** What industries drive your local economy? What are your strengths and where might you be vulnerable to these changes?
- **Know your workforce.** How skilled is your workforce? Are you able to attract talent to your community? Do you have strong educational assets that can be leveraged to make your community more competitive?
- **Monitor these economic changes.** Familiarize yourself with these and other topics. Are automated vehicles around the corner or a long way off? Will this fledgling manufacturing resurgence last? Will the current trade war discussion lead to a recession or pave the way for more favorable trade agreements? You can find ample articles written on both sides of all of these topics. You don't always need to know the answer, but you should be able to know the latest thinking on these and other issues that will impact your local economy.

At MetroInsight we can help you understand your communities role in this new economy. Our Economic and Demographic Snapshot pulls together data from a variety of government sources to give you a good sense of your communities economic strengths and opportunities. A free sample is available on our website.

Our Metro Insider newsletter tracks national economic data and monitors the trends we just discussed. [Sign up](#) today. It's free!

