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REGIONAL
ECONOMIC BRIEFING



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RESERVE
BANK *of*
ST. LOUIS

A Perspective on Metro Growth and Prosperity:

How to Measure It?

How Does St. Louis Stack Up?

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February 21, 2018

The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

US Outlook: slow growth, low inflation, low rates

- **The data suggest that the U.S. has converged to 2 percent real GDP growth.**

GDP Forecasts: 2017: 2.5% 2018: 2.5% 2019: 2.1%

- **Job growth has been gradually slowing since 2015, Low unemployment is probably not a harbinger of higher inflation.**

Un. Rate: 2017: 4.1% 2018: 3.9% 2019: 3.9%

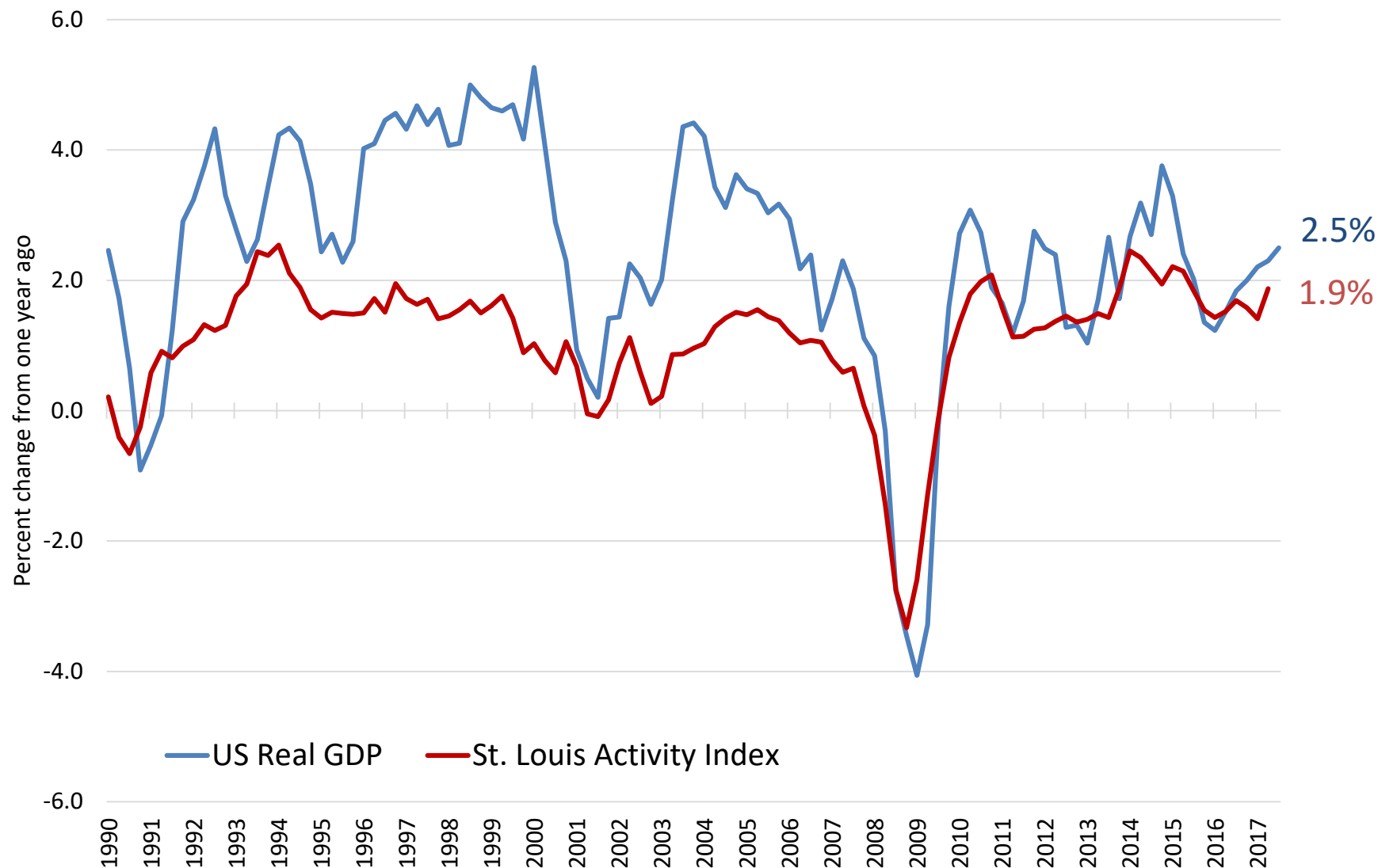
- **Inflation surprised to the downside in 2017 but expected to return toward target of 2% over medium term.**

PCE Inflation : 2017: 1.7% 2018: 1.9% 2019: 2.0%

- **Policy rate is likely to remain appropriate over the near term.**

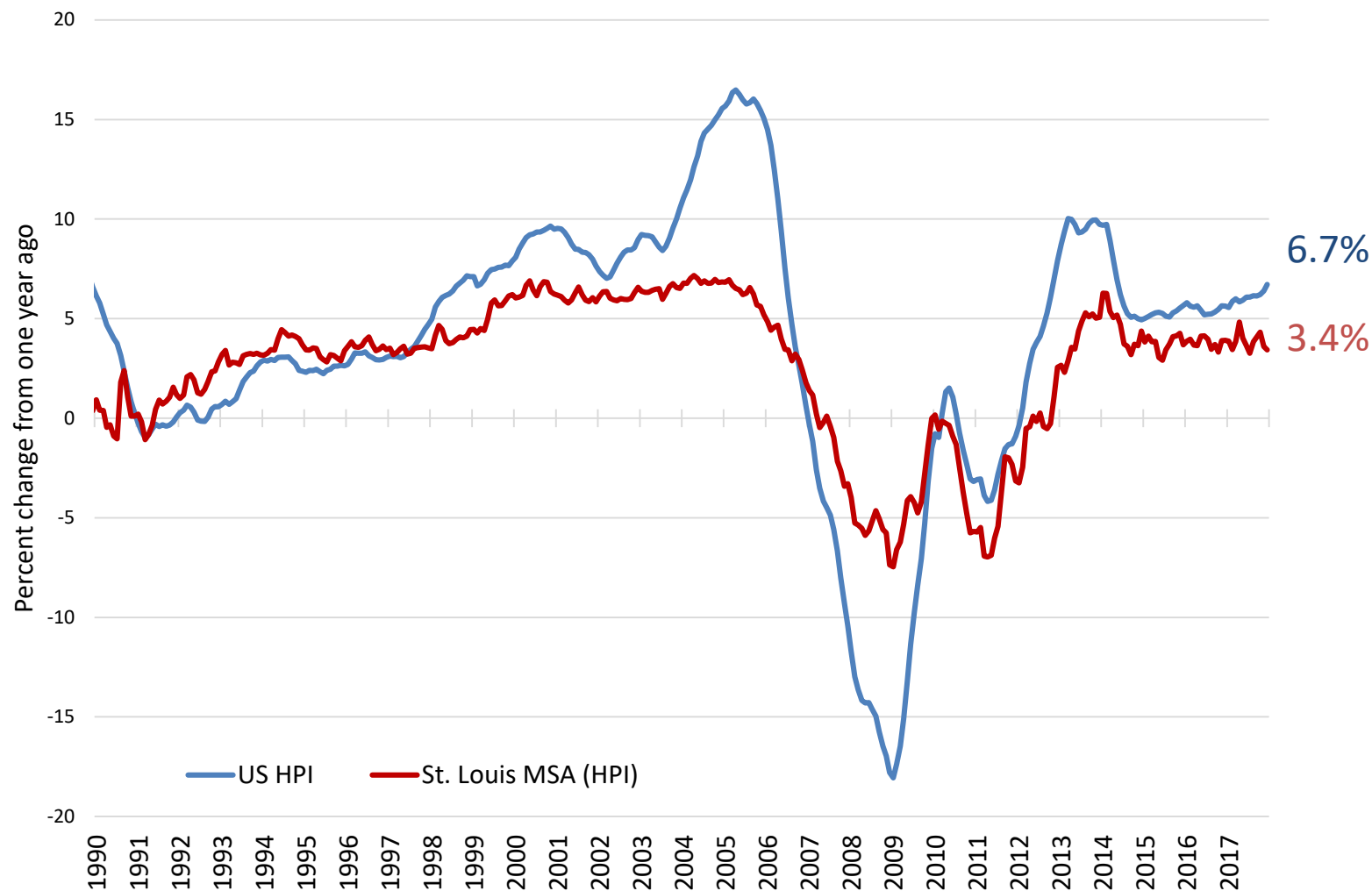
Fed Funds Rate : 2017: 1.4% 2018: 2.1% 2019: 2.7%

The St. Louis economy follows national trends.



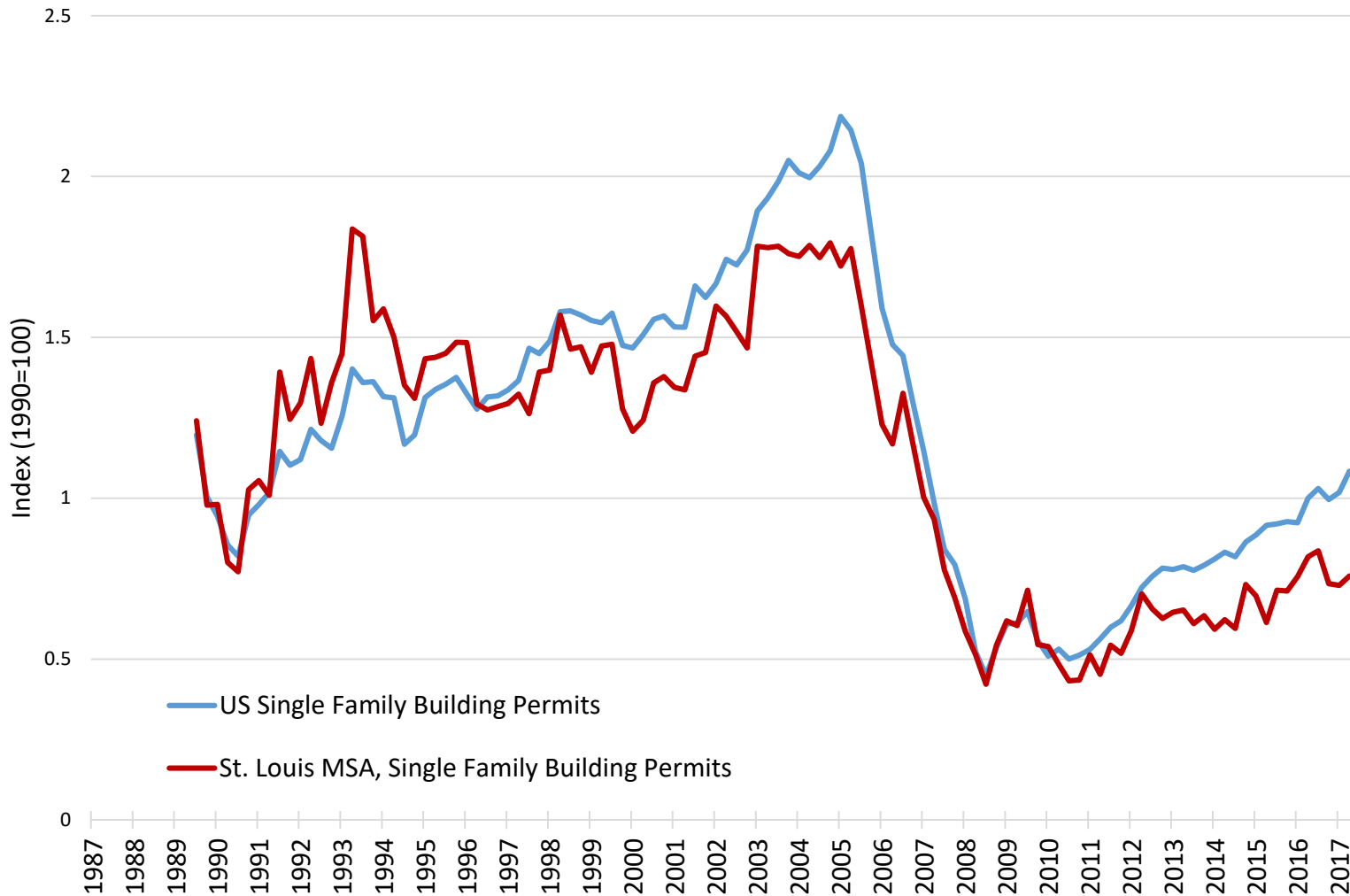
Source: BEA/ St. Louis Fed

The story is also true for the housing prices...



Source: Core Logic

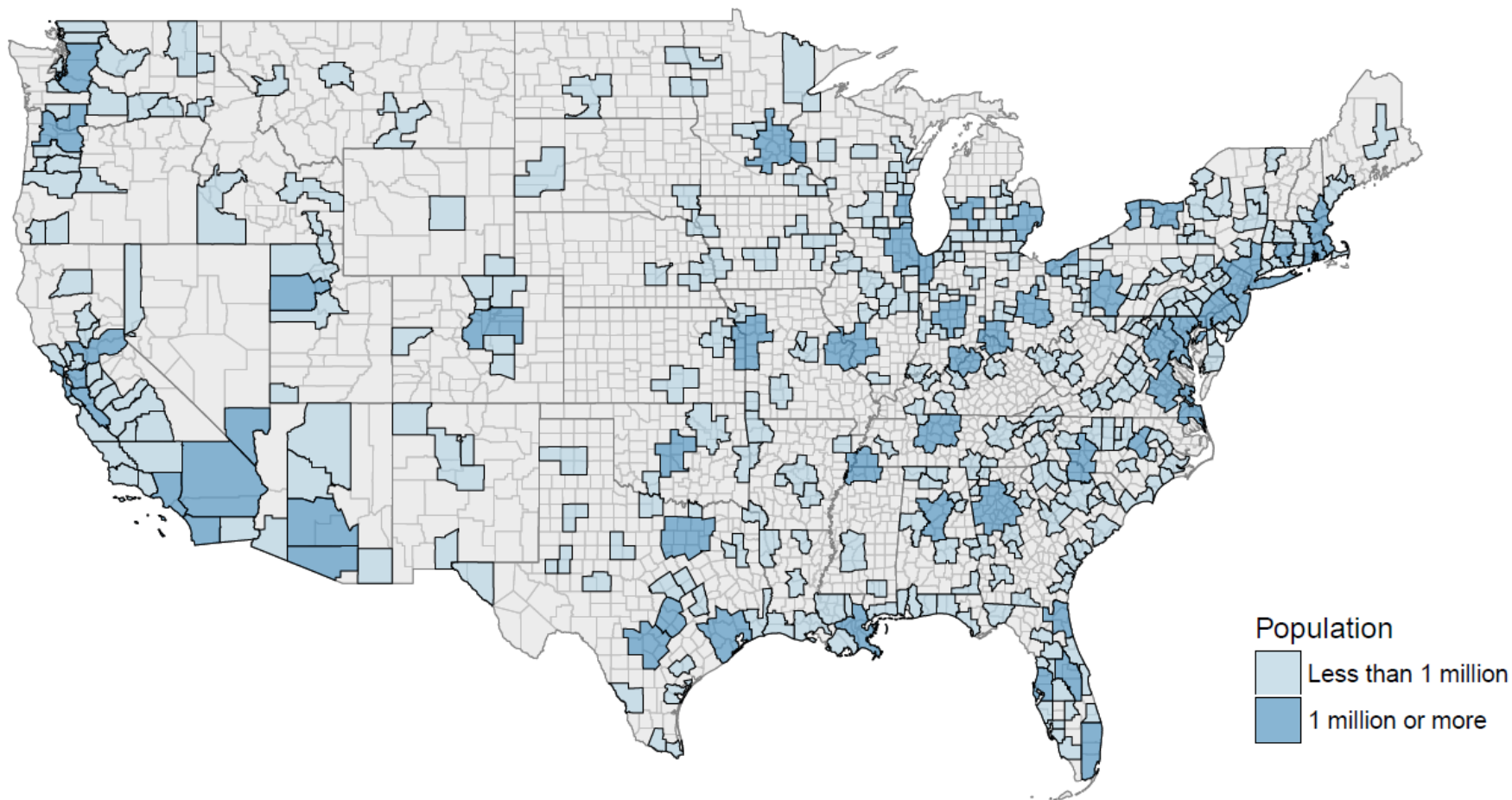
...and building permits.



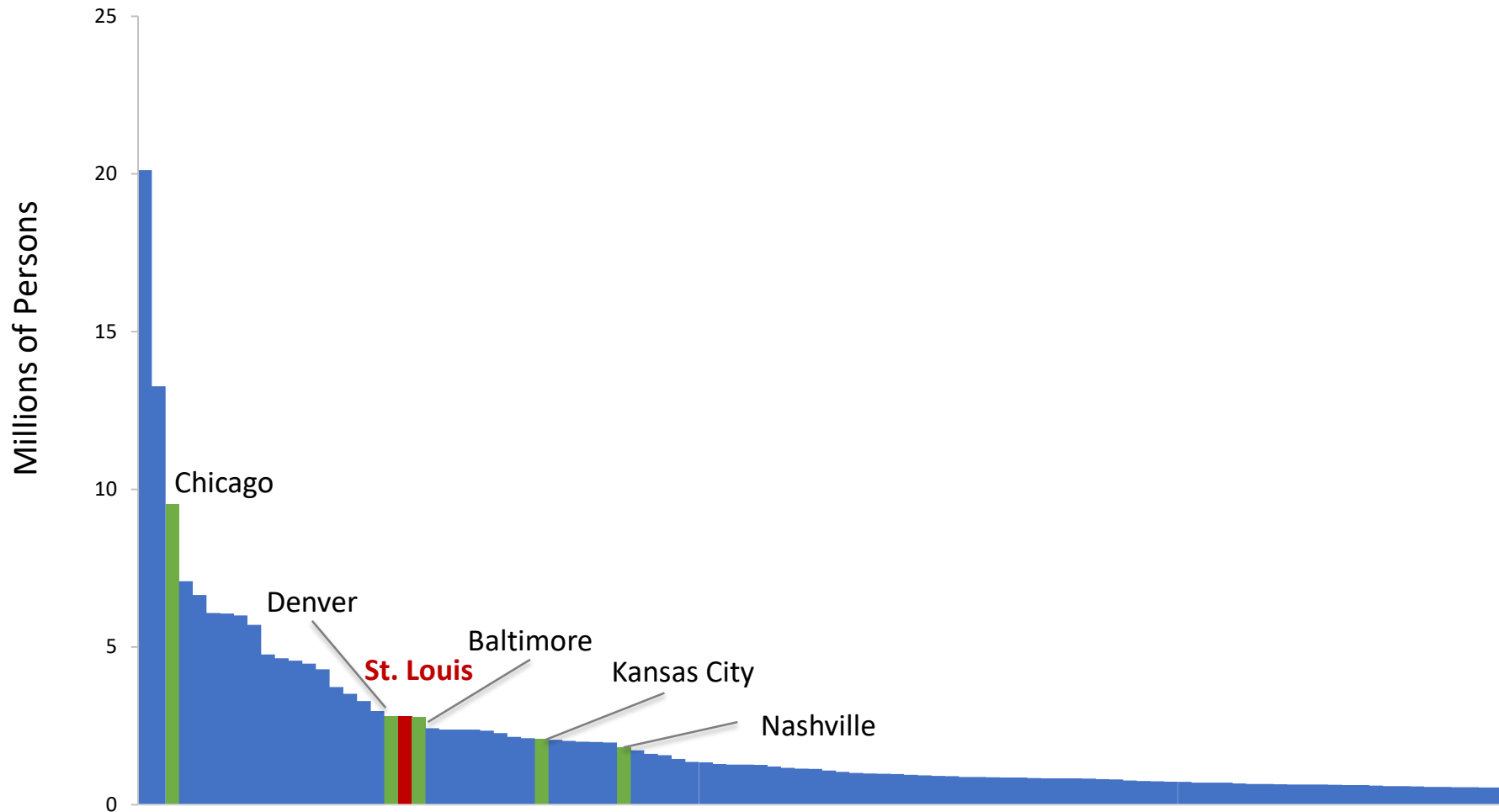
— US Single Family Building Permits
— St. Louis MSA, Single Family Building Permits

Source: Census Bureau

Metropolitan Statistical Areas (MSAs) define economic boundaries

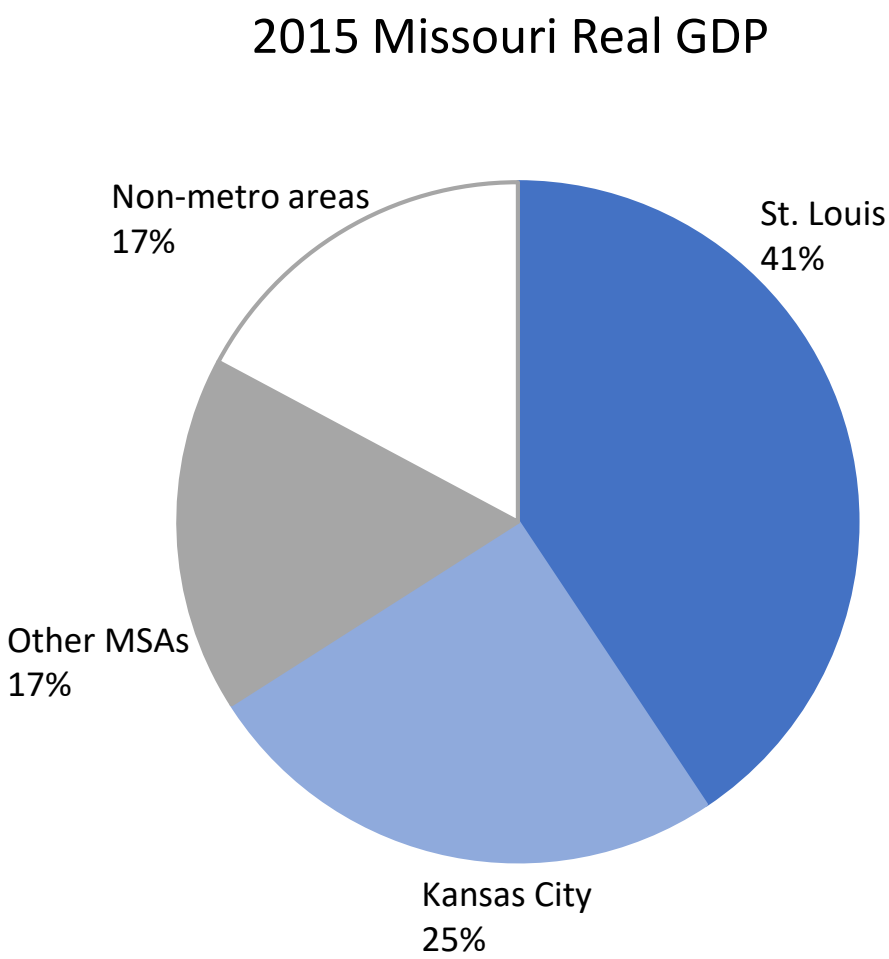
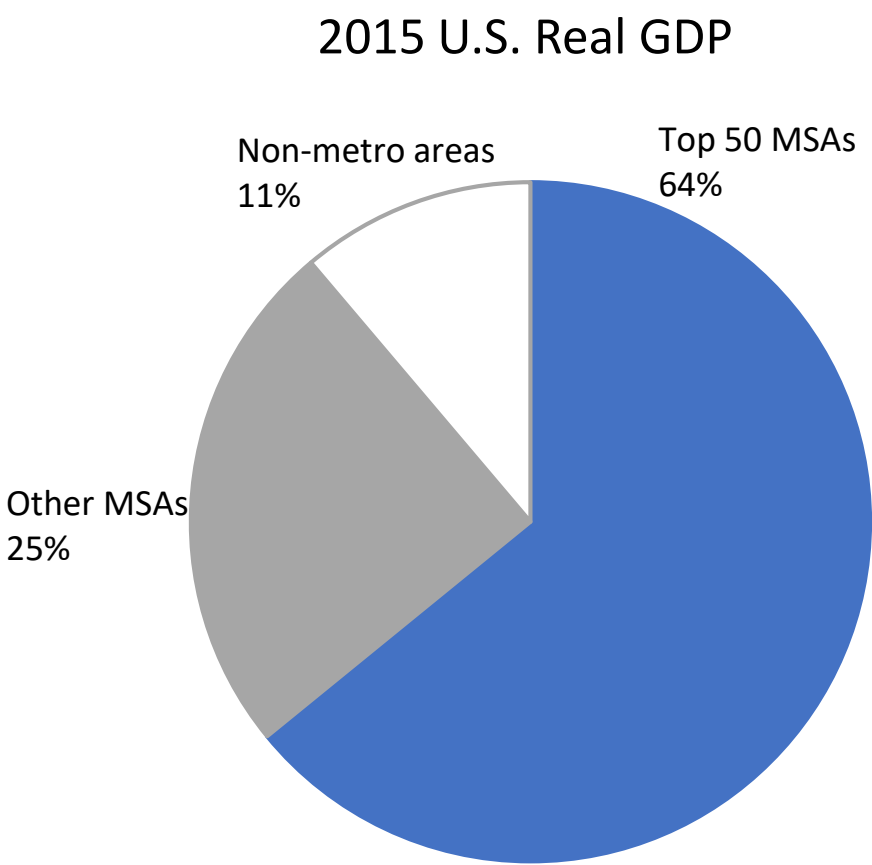


St. Louis ranks 20th in population as of 2015



Source: U.S. Census Bureau

About 90% of economic activity concentrated in metro areas



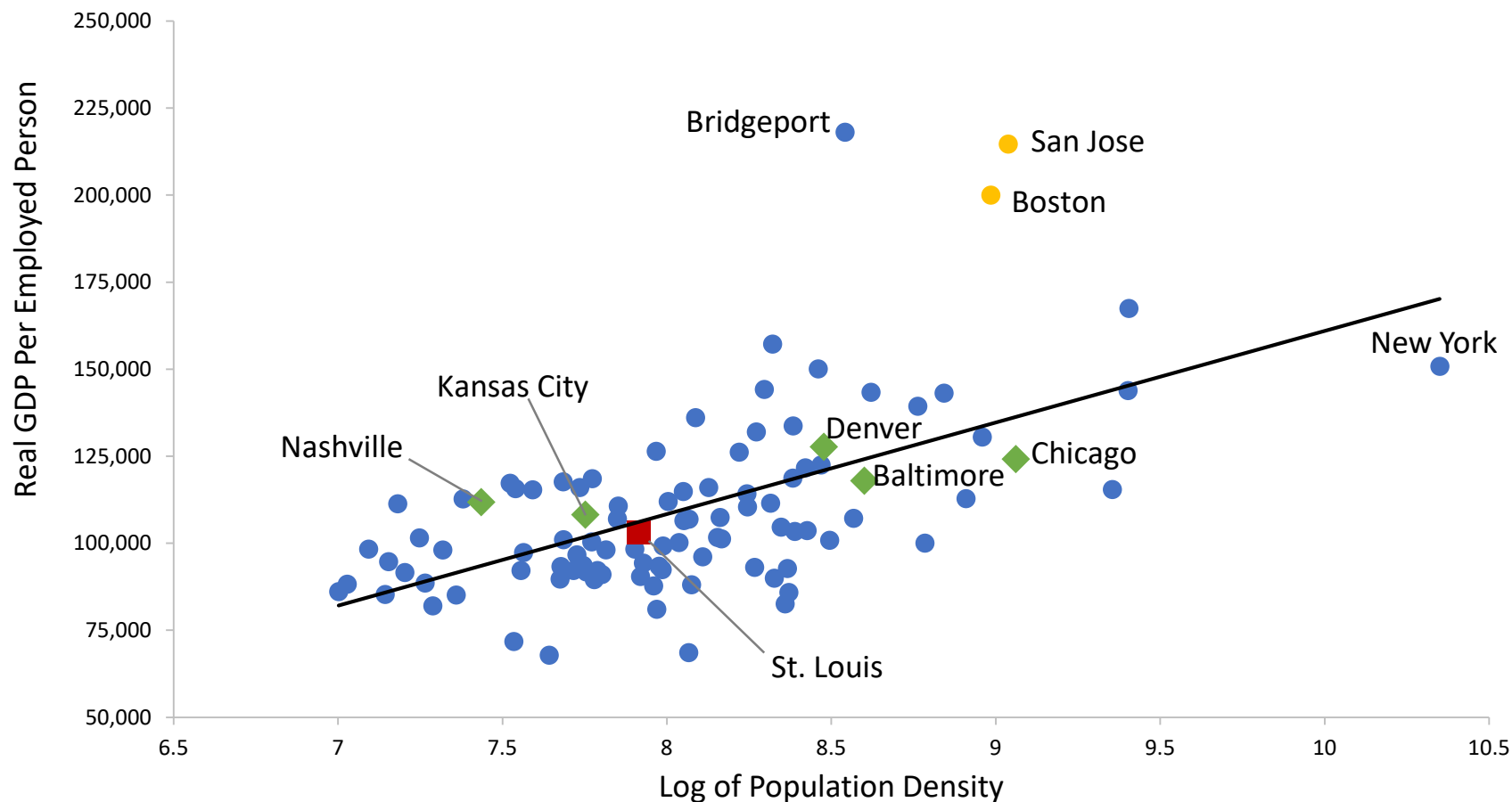
Note: St. Louis and Kansas City MSA GDP allocated to Missouri based on employment shares

Source: Bureau of Economic Analysis

Agglomeration Economics helps us understand why our economy is primarily composed of metropolitan areas.

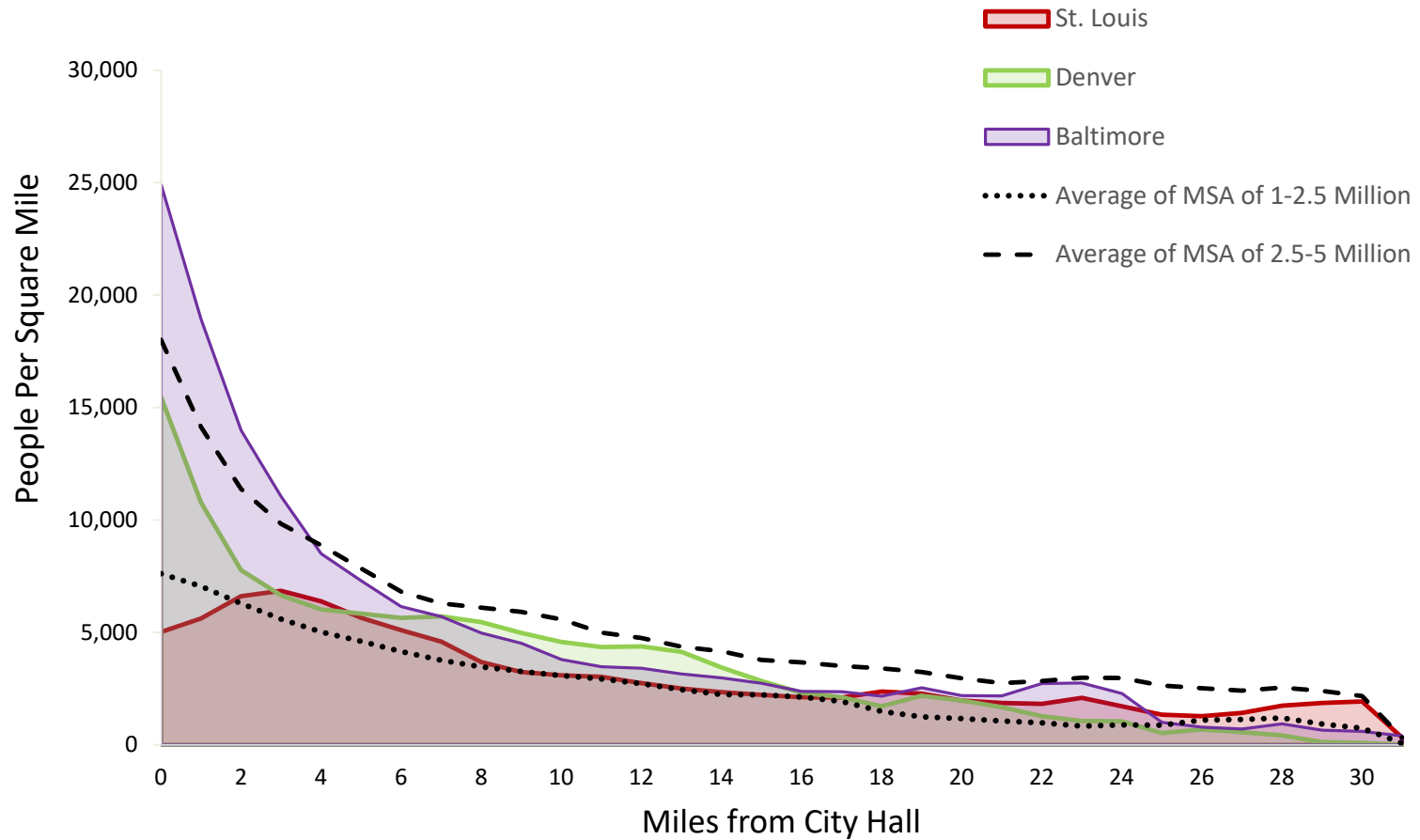
There are benefits that come when firms and people locate near one another in cities.

Positive relationship between population density and worker productivity



Source: U.S. Census Bureau/Bureau of Economic Analysis

St. Louis has a profile of a smaller metro area



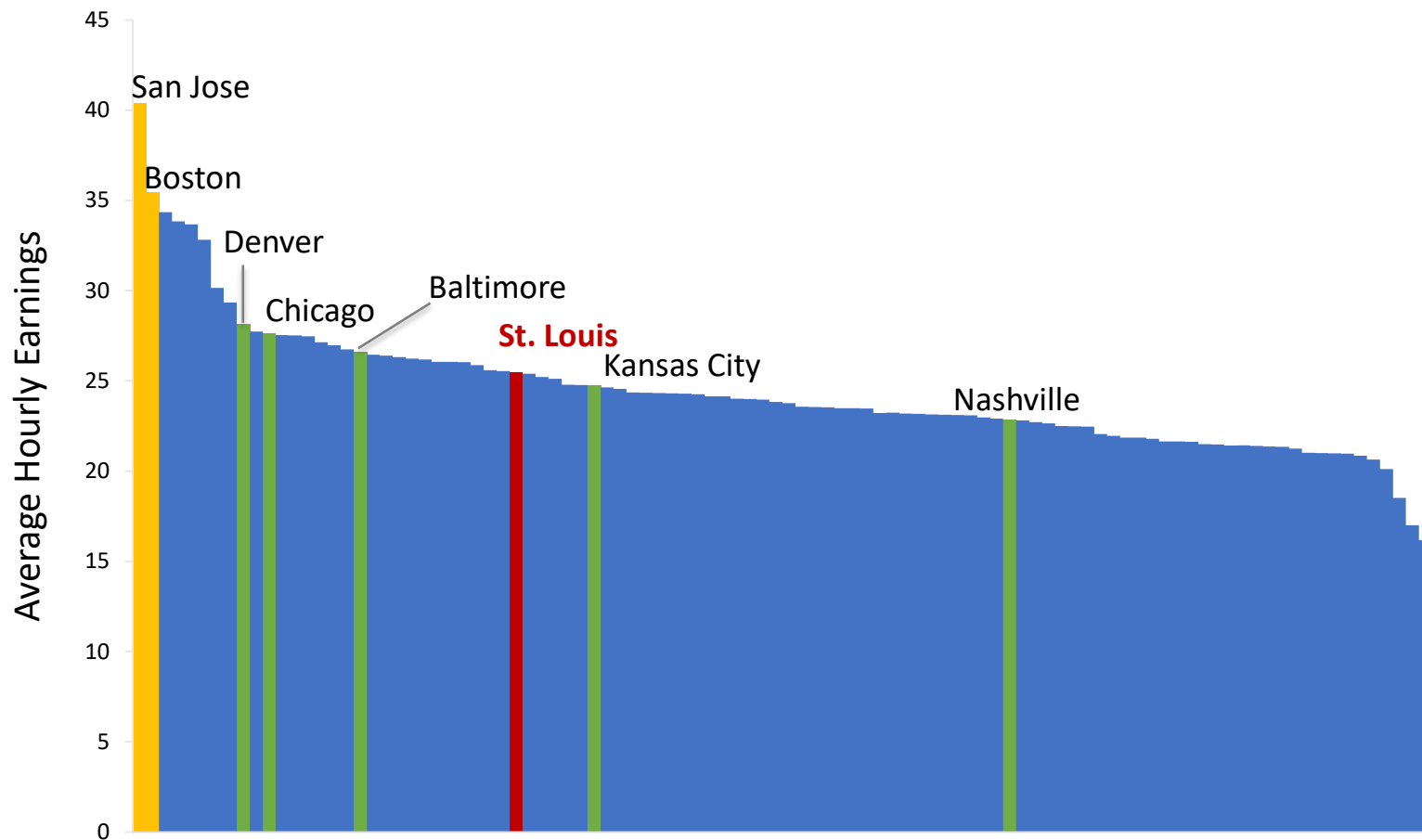
Source: U.S. Census Bureau

“If a place is doing well, then employers should be **willing to pay more for workers in that area**, people should be willing to pay more for access to that place, and more people should move to that area.”

-Edward L. Glaeser

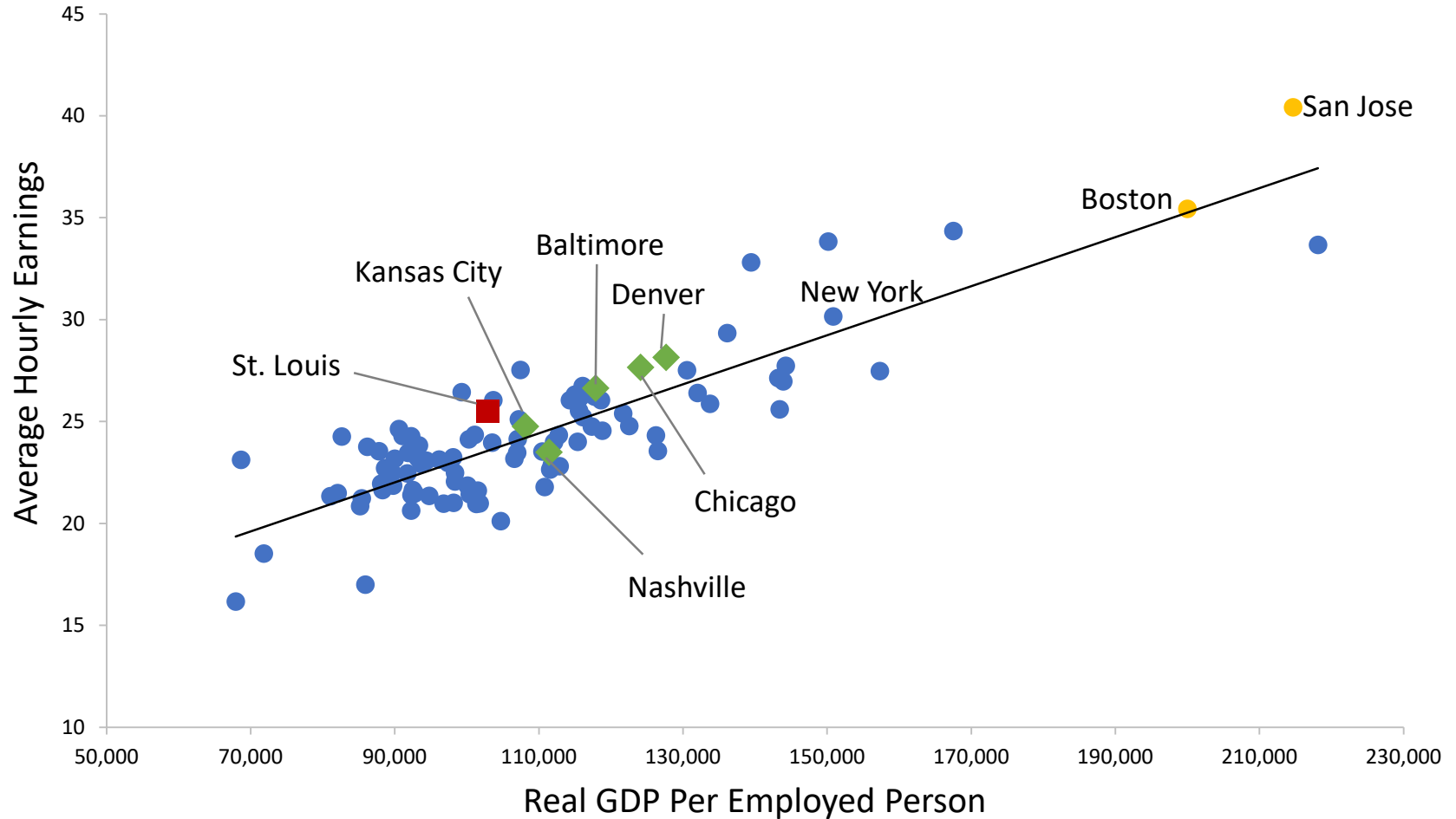
Agglomeration Economics (2010), University of Chicago Press

Wages cluster around \$25/hour



Source: Bureau of Labor Statistics

Differences in productivity explain much of the variation in wages across metros.



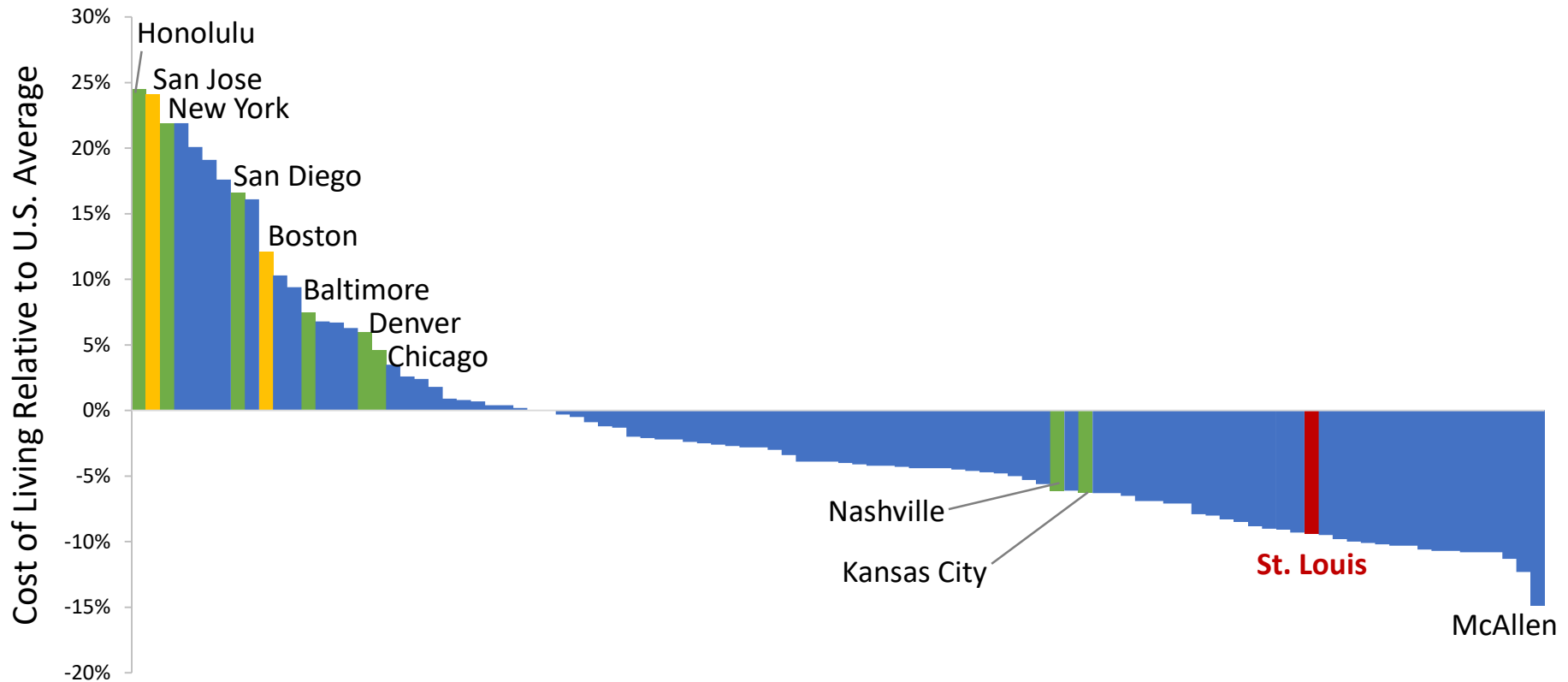
Source: Bureau of Economic Analysis/Bureau of Labor Statistics

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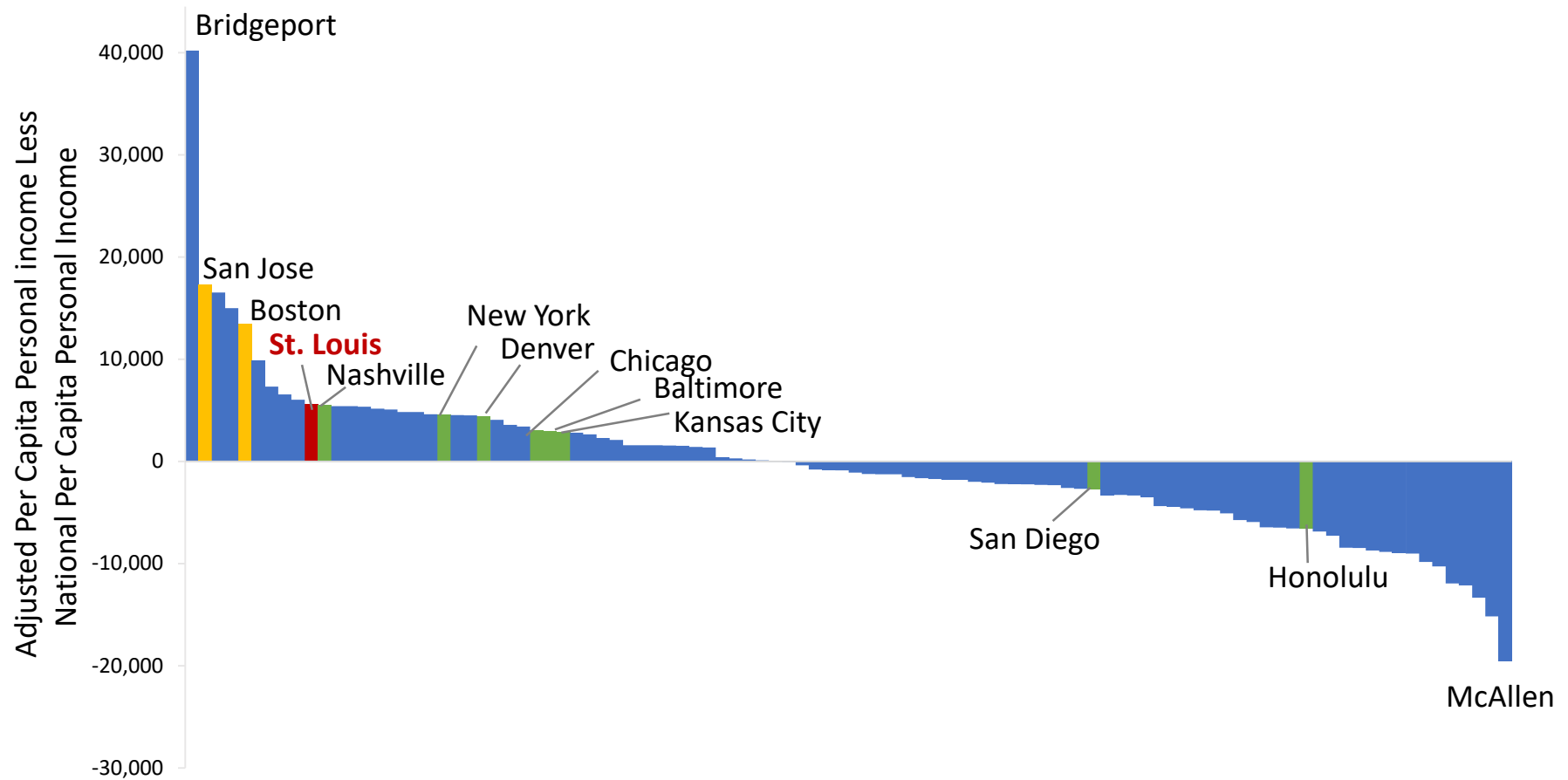
Agglomeration Economics (2010), University of Chicago Press

Cost of living in St. Louis is nearly 10% below U.S. Average



Source: Bureau of Economic Analysis

Where are living standards higher than the U.S. average?



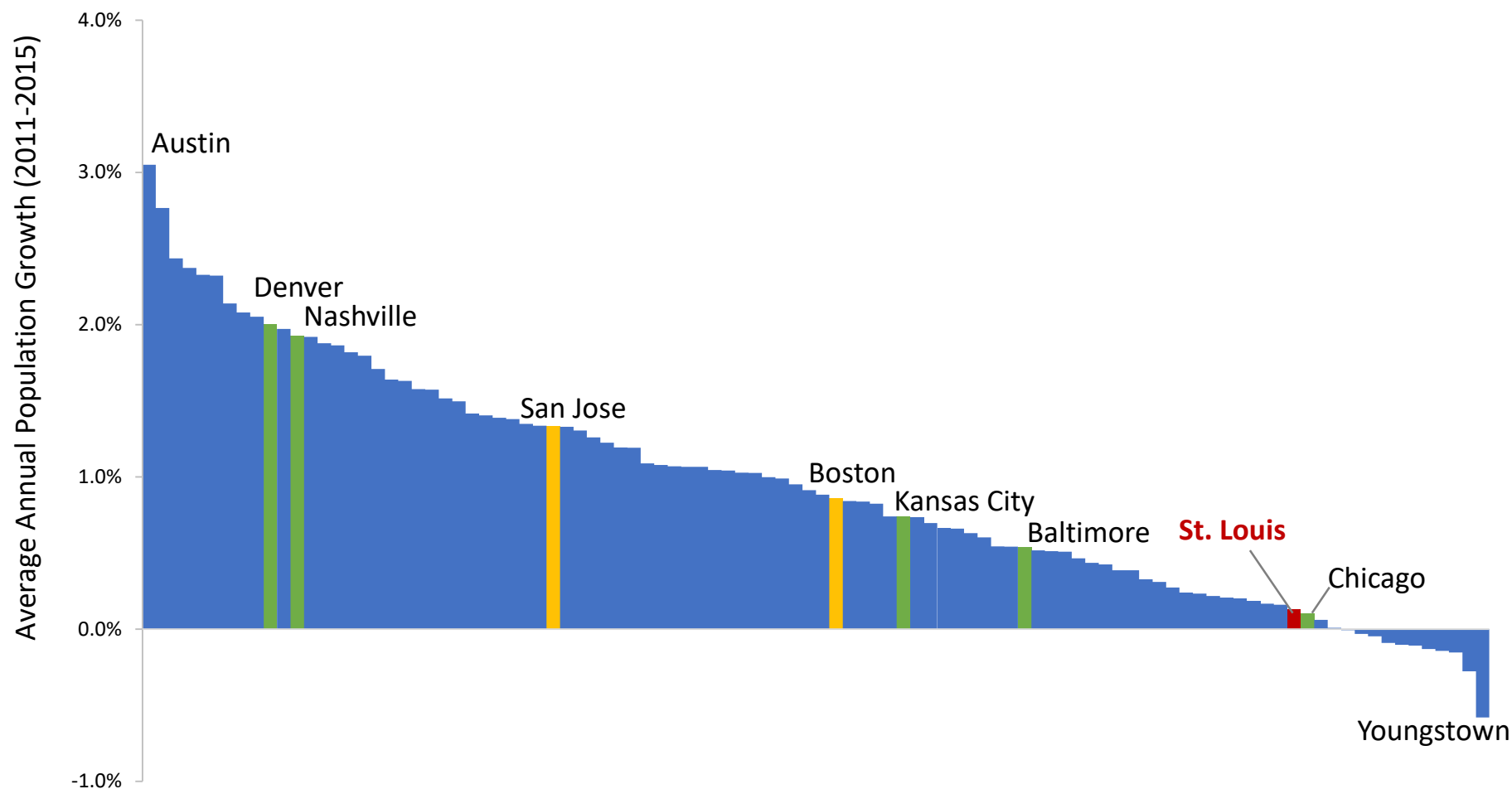
Source: Bureau of Economic Analysis

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Austin, Texas has been the fastest-growing metro



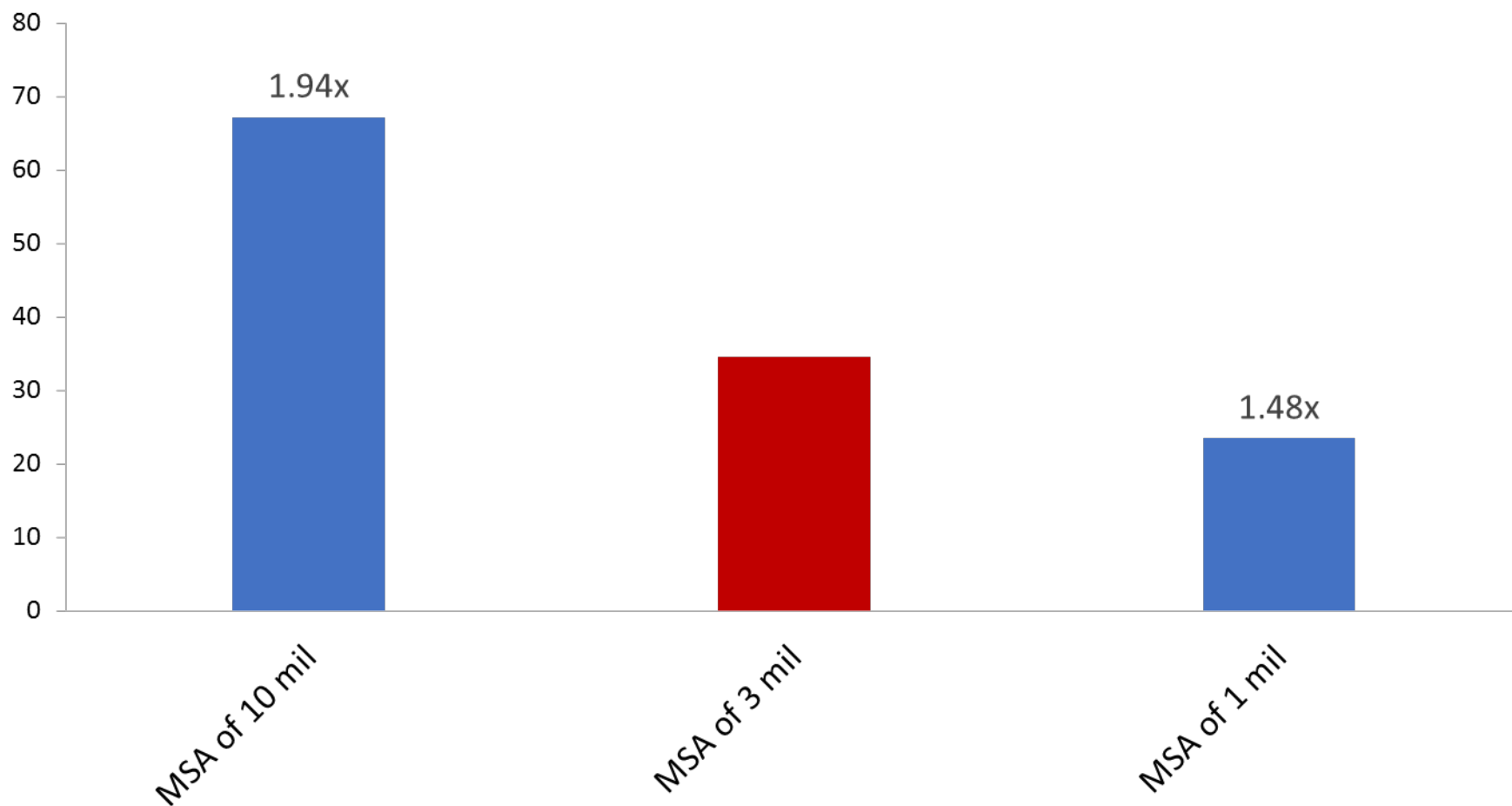
Source: U.S. Census Bureau

Growth is not without costs

- Pollution
- Congestion
- Inequality
- Affordability

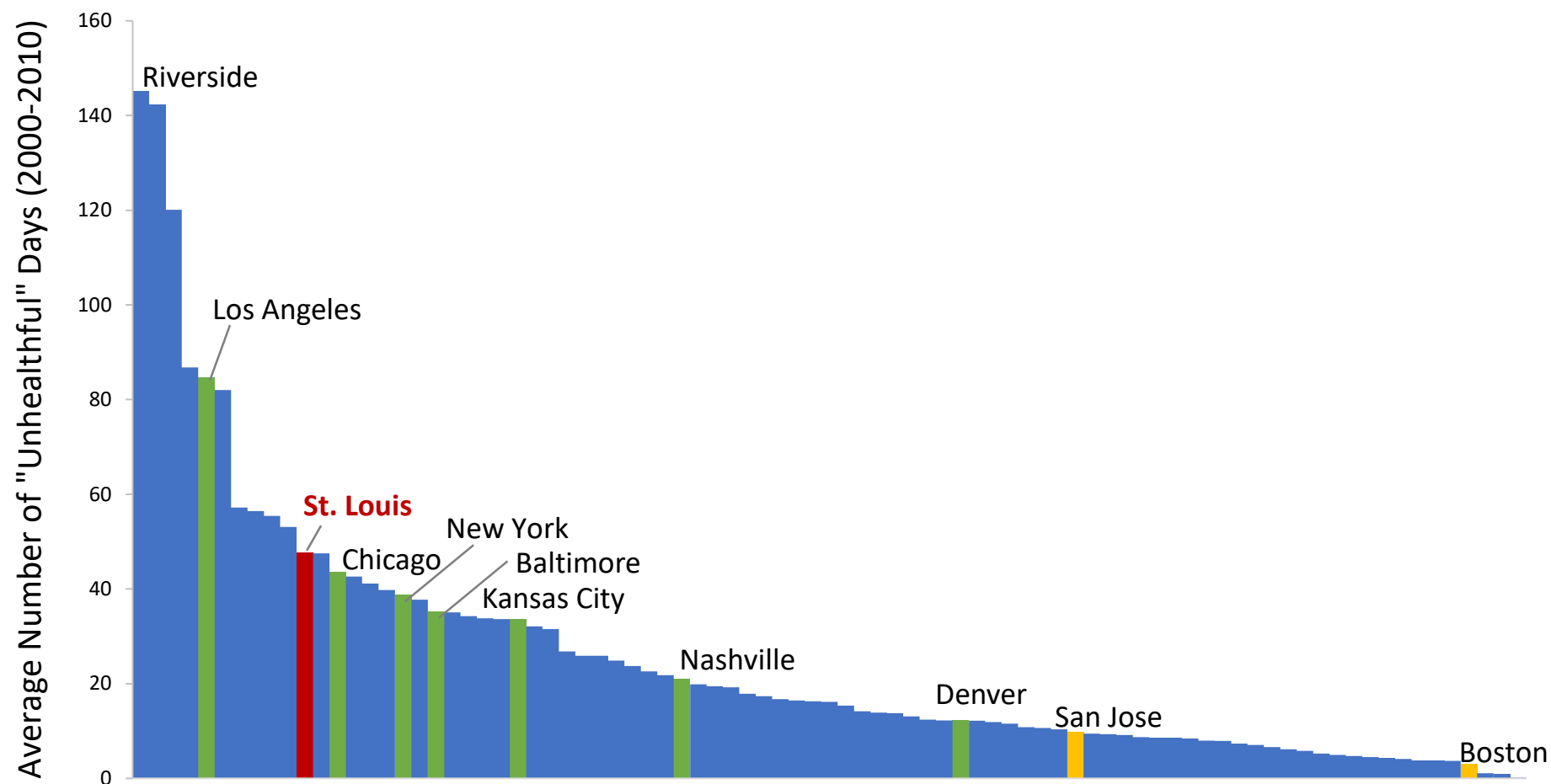
Population and pollution are positively correlated

Average Air Quality, 2000-2010



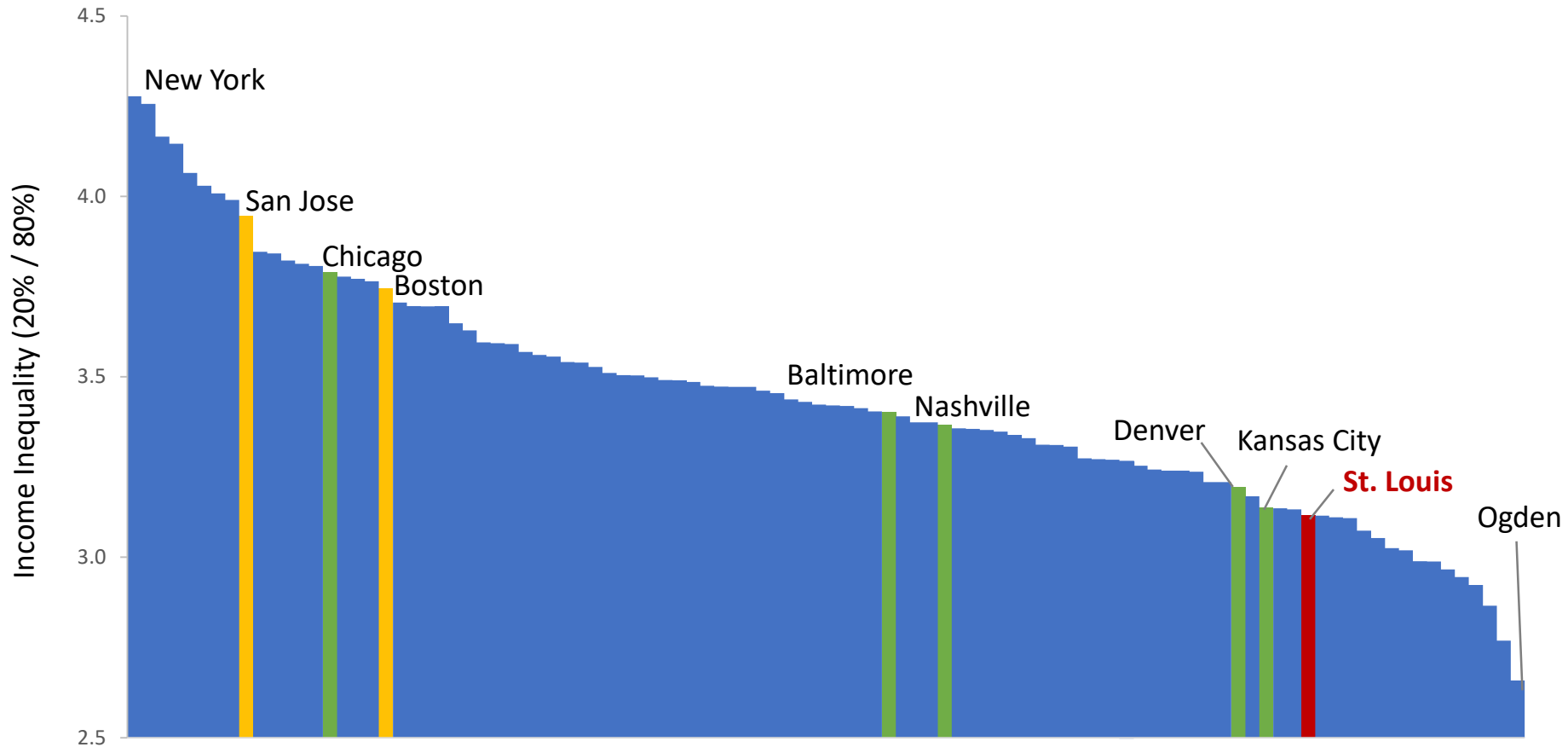
Source: Environmental Protection Agency

Air quality mediocre in St. Louis



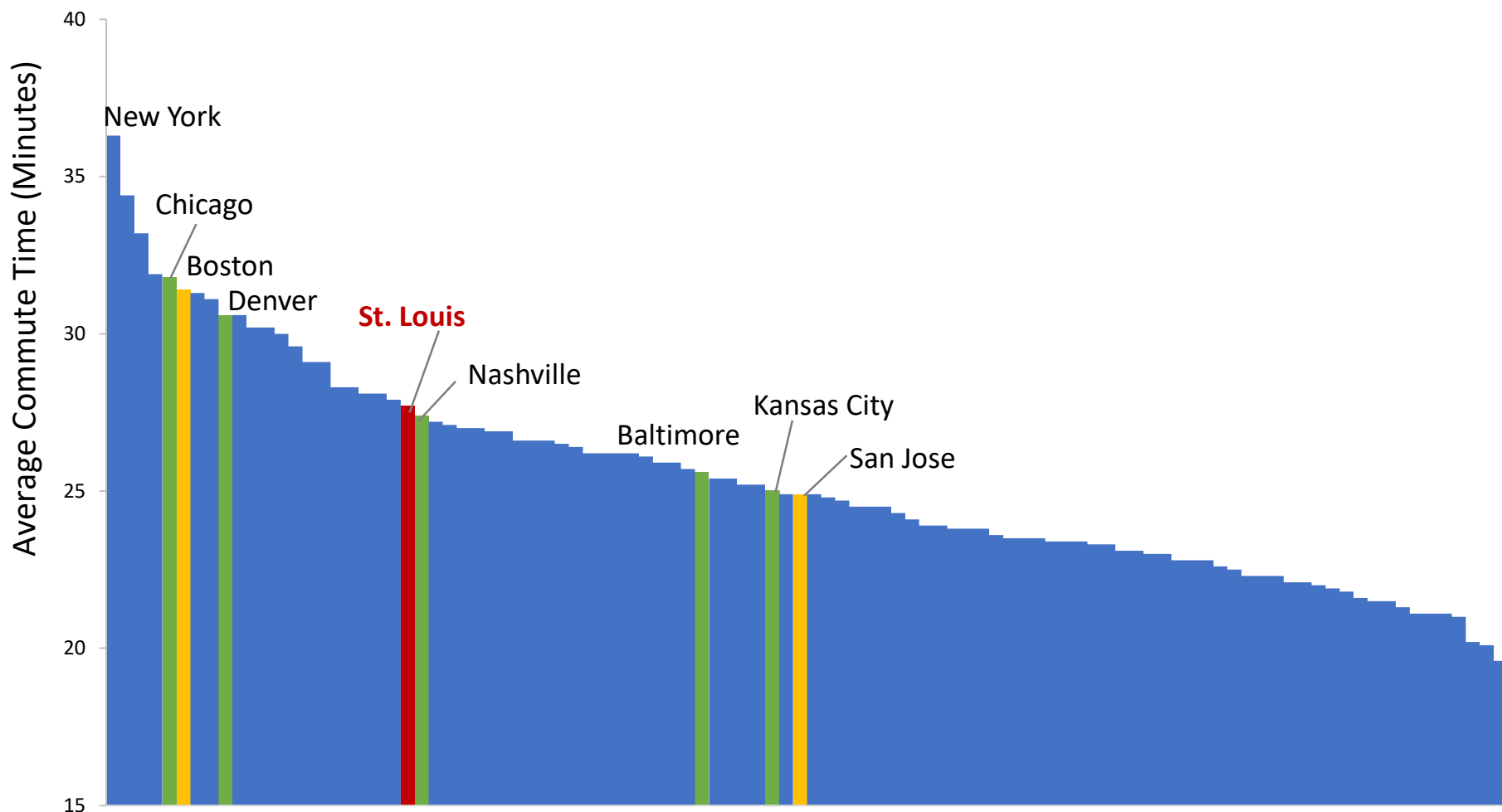
Source: Environmental Protection Agency

Inequality generally higher in larger MSAs



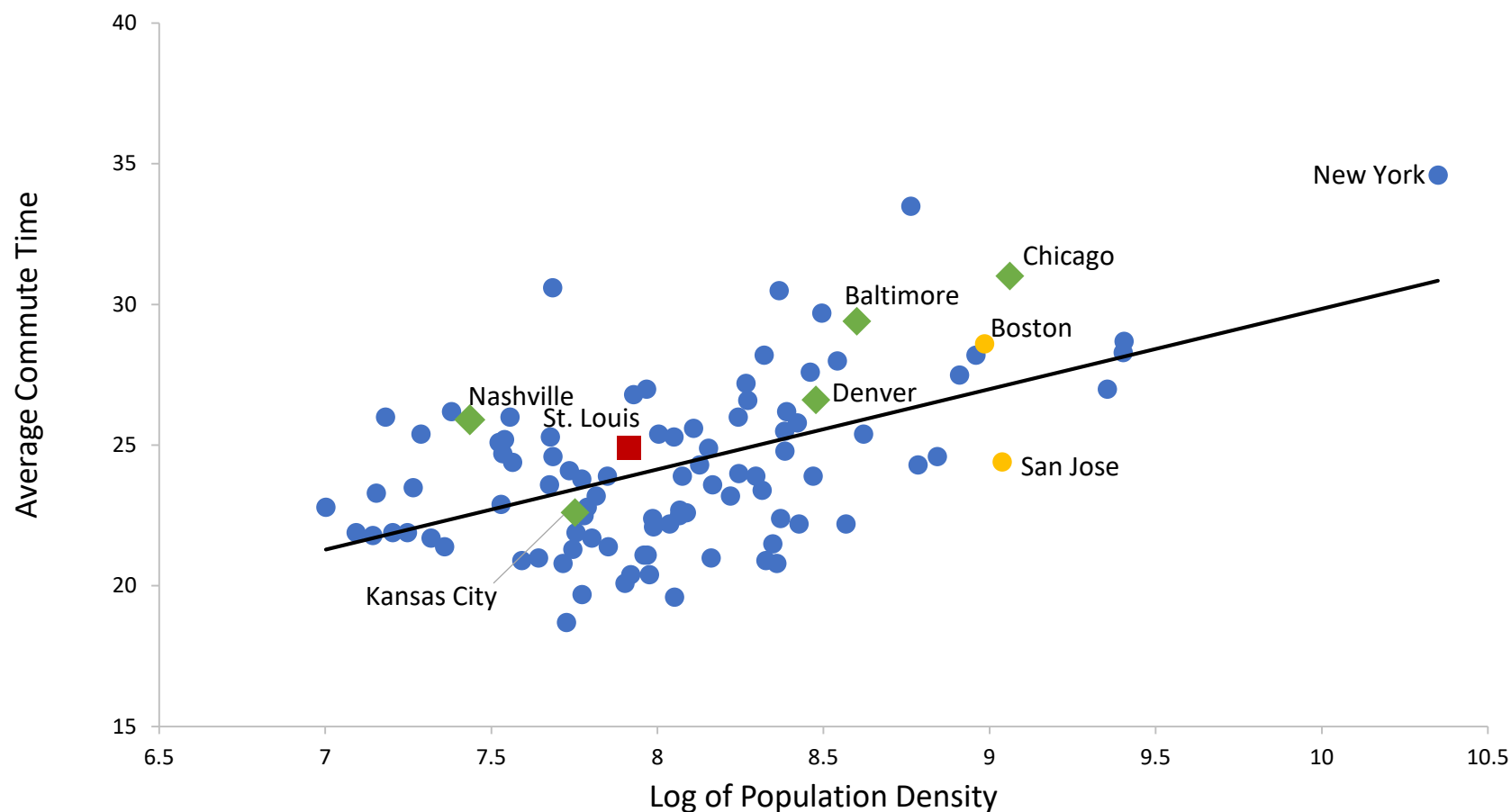
Source: Glassman (2016)

We spend an average of 25 minutes commuting to work



Source: U.S. Census Bureau

Commuting times increase with population density



Source: Glassman (2016)

Final Report Card



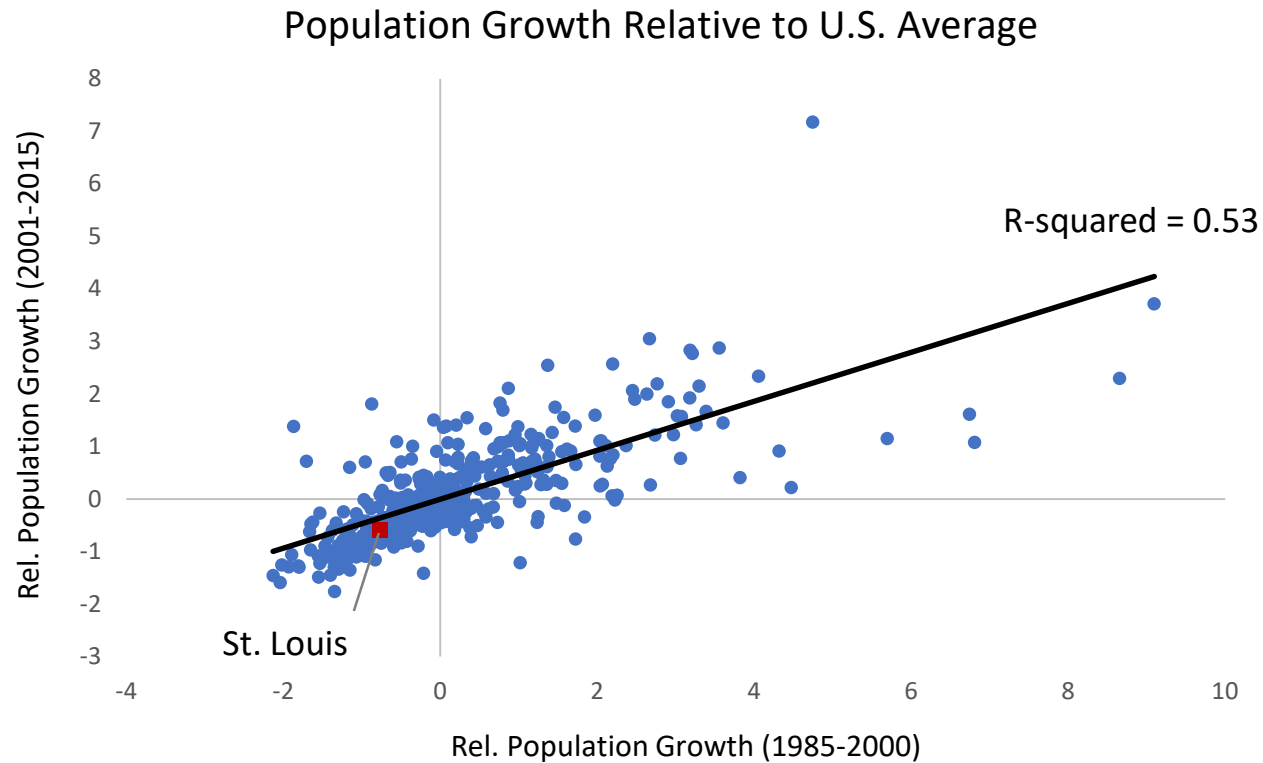
Metric	Grade
Avg. Hourly Earnings (Wages)	B-
Cost of Living	C-
Population Growth (2011-2015)	C
Adj. Per Capita Income	B
Productivity (GDP/Worker)	C+
Population Density	D
Commute Times	B-
Inequality (80%/20%)	B+

Data are for 2015 unless noted

LOOKING AHEAD

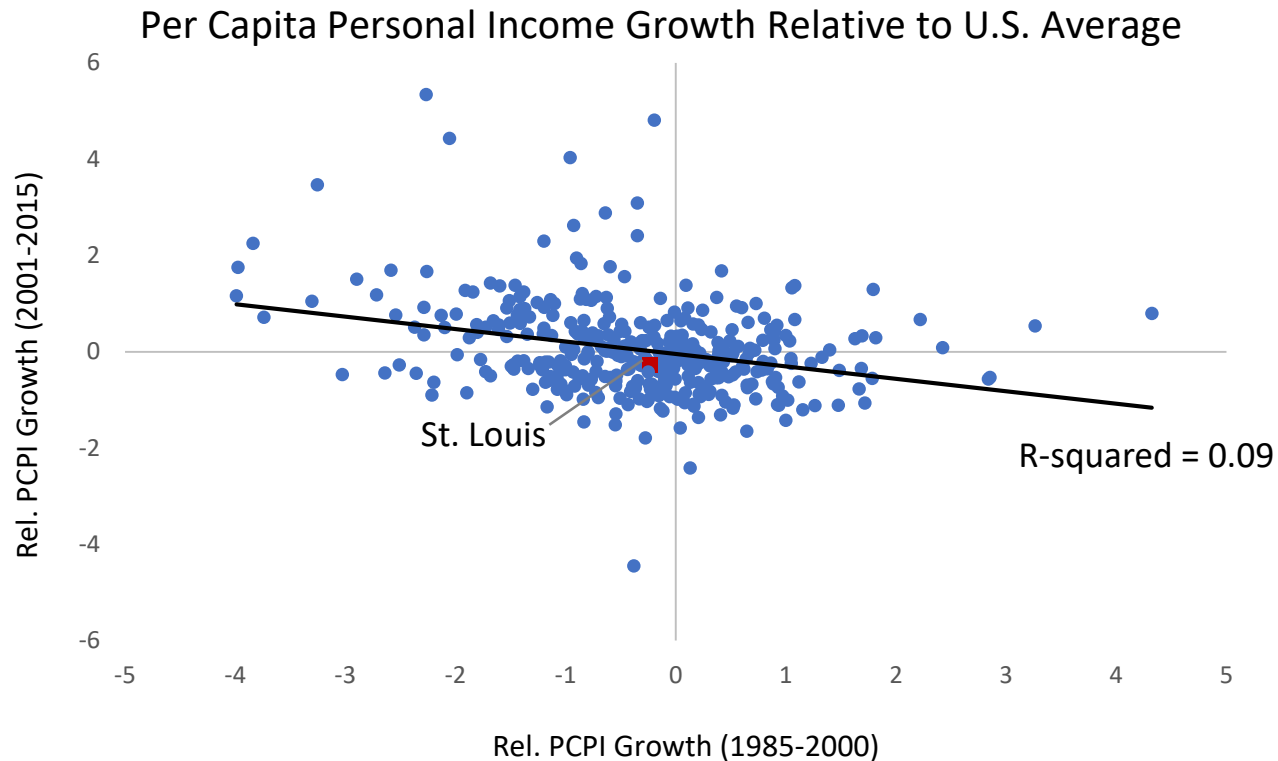
BCIs currently
potential to
callon and

Population growth is persistent...



Source: Bureau of Economic Analysis

...growth in living standards is not.



Source: Bureau of Economic Analysis

Final Thoughts

With a few exceptions, major metros are more similar than different.

There are challenges to population growth that metros must manage in order to improve well being.

MSAs can increase output from adding workers or increasing productivity.

Increasing educational attainment and population density may increase productivity.

Attracting workers to a low-cost of living area may require paying high-cost wages.

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stlouisfed.org/regional

The screenshot shows the 'ECONOMIC RESEARCH' section of the Federal Reserve Bank of St. Louis website. The header includes the bank's logo, navigation links (FRED, Economic Data, Information Services, Publications, Working Papers, Economists, About), and a search bar. The main content area is titled 'Regional Research' and features three primary articles:

- Living Standards in St. Louis and the Eighth Federal Reserve District: Let's Get Real**
A review article discussing living standards in the St. Louis MSA. It notes that despite slow economic growth, living standards are relatively high. For example, the St. Louis MSA ranks in the top 6 percent of MSAs based on real per capita personal income and in the top 16 percent based on real median household income. *Last updated: 10-09-2017*
- How Precise Are Local Unemployment Rates?**
A regional research article discussing the health of local labor markets based on the difference between local and national unemployment rates. It notes that these rates, statistically speaking, often could be the same. *Last updated: 09-20-2017*
- The Evolution of St. Louis's Wage Distribution**
An economic synopsis article by Rebecca Cowin and Charles Gascon, finding that there is less wage inequality in the St. Louis MSA than in the nation. *Last updated: 09-20-2017*

Additional visual elements include a map of the St. Louis region, a line graph titled 'Figure 1: St. Louis MSA and U.S. 90-10 Wage Ratio' showing the ratio from 2001 to 2015, and a map of the United States.

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