

# US Regional Outlook

## Who will fare the best in the metro slowdown?

### Economist

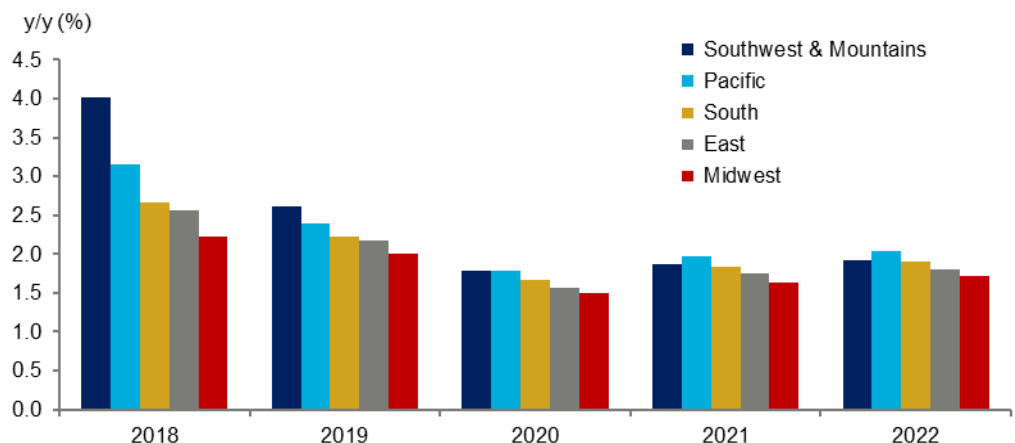
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- While the economy is strong, the benefits from fiscal stimulus are expected to gradually dissipate while the global economy moderates. Furthermore, energy costs and interest rates are trending upward. Given this backdrop, we believe most US metros will see their economic growth slow next year.
- Our estimates for 2017 metro growth are closely aligned with the latest Bureau of Economic Analysis results, substantiating our thesis that technology hubs and high-population growth cities would be the top performers.
- We expect US jobs growth to slow considerably in the next few years, thanks both to a slowdown in economic growth and a very tight labor market. Cities with sturdy population growth, especially in the South and Southwest, should outperform, while metros with considerable labor market slack today (notably inland Californian cities) will also see more hiring.
- The regional impact from the escalating trade war with China will not be spread evenly across US states. Initially, farming states have felt the brunt of the tariffs, but prolonged trade restrictions would ultimately weigh on US manufacturing, especially in those places with notable Chinese trade links.
- To provide a fuller, more granular view of the US, Oxford Economics will soon be expanding its coverage to include 382 metros and over 3,000 counties.

### Chart 1

**The pace of GDP growth is expected to slow across all US regions as the business cycle matures.**

Annual economic growth by region during the next five years



Source : Oxford Economics

# Who will fare the best in the metro slowdown?

## Latest official GDP figures closely match our 2017 metro forecasts

In September, the Bureau of Economic Analysis (BEA) released its first estimate of 2017 metro-level GDP, along with revisions to previous years. GDP was found to have increased in just over 80% of the 383 metro areas that the BEA tracks. Overall, the metropolitan portion of US GDP increased by 2.1% in 2017, with this growth generally being led by services such as professional activities, finance, and real estate. A recovery in the natural resources and mining sector also helped some smaller metros in West Texas and Appalachia.

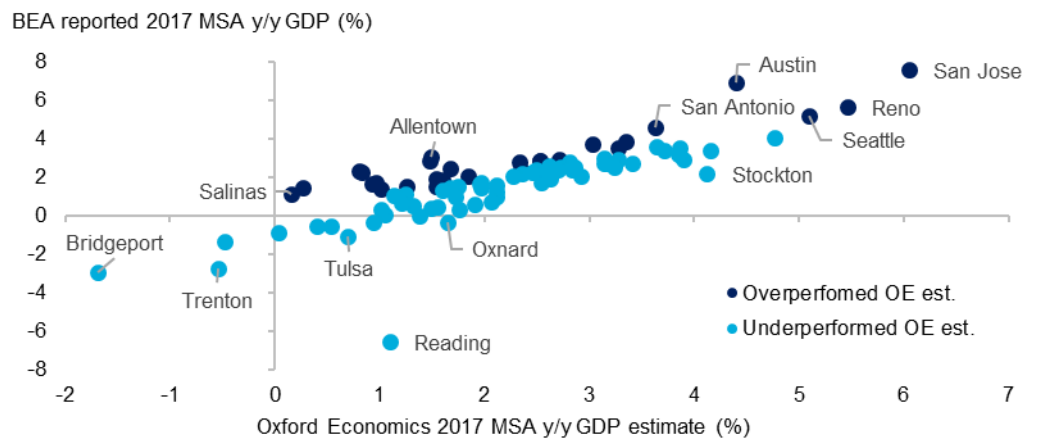
Comparing the official BEA data to Oxford Economics' estimates for 2017 from our June 2018 outlook (the last set of forecasts to be released before the official data) for the 89 metros we currently cover, indicates that we were closely aligned with the official BEA findings—substantiating our thesis that technology hubs (**San Jose, Austin, Seattle**) and high population-growth cities in the Southeast (**Nashville, Charlotte, Jacksonville**) would outperform. Our expectation of weak performance in some legacy manufacturing and agricultural hubs also aligns with the BEA's results.

Overall, the BEA and Oxford Economics estimates yield a correlation coefficient of 0.81—with the difference between our 2017 forecast and the BEA benchmark for each metro being 33 bps (see Chart 2). **Reading, Pennsylvania** shows up as a clear outlier due to a dramatic decline in the city's real estate sector, according to the BEA.

### Chart 2

**Oxford Economics' estimates for 2017 GDP growth were closely aligned with the recently released official numbers.**

### Oxford Economics' 2017 metro GDP growth estimates versus BEA benchmark figures



Source : Oxford Economics, BEA

# Who will fare the best in the metro slowdown?

## Cities with labor force growth—or slack—show best job prospects

We believe the pace of US economic growth peaked during the summer and is now slowing again because of reduced global economic growth and the fading effects of the US stimulus (i.e. the Tax Cuts and Jobs Act and the Bipartisan Budget Act), along with higher interest rates and energy costs. So, it is unlikely that many US cities will see an economic acceleration at this point: among the 89 metros Oxford Economics currently covers, we forecast aggregate GDP growth to hit 3% this year, before slowing to 2.4% in 2019.

The greatest slowdown will come in the labor market, where a variety of metrics (from the unemployment rate to the employment-to-working age population ratio) all point to reduced capacity, thus making the case for slower payroll gains.

However, the degree of variation in our metro job growth forecasts is striking (see Chart 3). Rapidly-growing cities in the South and Southwest & Mountains regions will benefit from a stronger economic base and labor force growth, explaining the positive outlook for **Austin, Dallas, Raleigh** and **Orlando**. The Pacific region should also see solid performance, as the digital economy in **Seattle** and **Portland** continue to generate jobs.

Many inland California cities, such as **Stockton** and **Riverside**, show considerable labor market slack relative to higher cost coastal California, and this also supports greater hiring. Riverside will benefit from in-migration and growth in labor-intensive industries such as construction and logistics.

## Metro employment growth during the past five years, compared to our five-year forecast

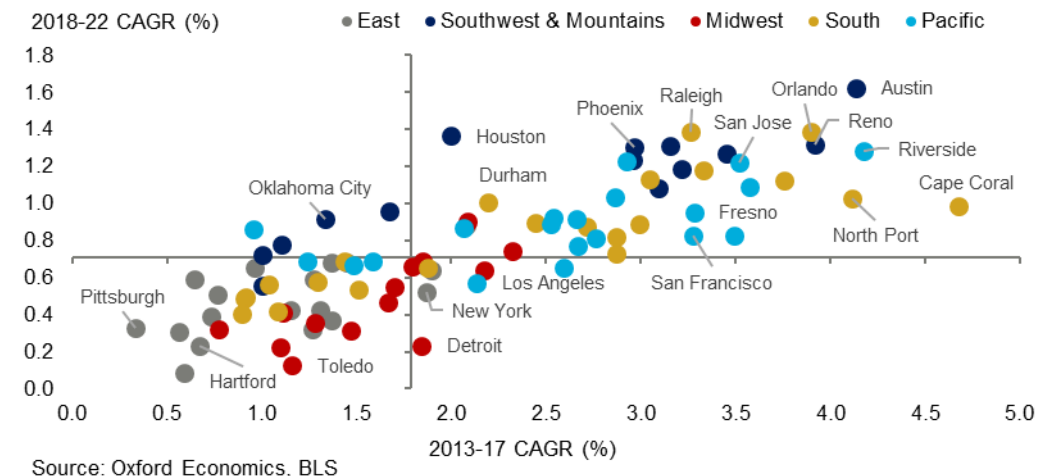


Chart 3

**The pace of job growth will slow during the next five years, but metros in the Southwest & Mountains and Pacific regions will continue to lead hiring.**

## Who will fare the best in the metro slowdown?

### US-China trade war would hit agricultural states first, then key manufacturing hubs in South and Midwest

While this is not (yet) our baseline forecast, the pain from a full-fledged trade war with China would be spread unequally among industries and states. Just as reciprocating Chinese officials intended, many of the states that would suffer the most from a long-term trade battle are those that supported President Trump in the 2016 election.

Initially, farm states would likely be hardest hit, as agricultural products account for the brunt of the tariffs already in place. States that are major exporters of soybeans, such as **Iowa**, **Illinois** and **Minnesota**, would be particularly impacted as this is the US's largest agricultural export to China. However, the blow to farmers will be softened by the US government's agreement to pay out close to \$6 billion to offset their losses (\$4.7 billion will include direct payments and \$1.2 billion will involve commodity purchases for food assistance programs).

By the end of 2020, under our trade war scenario, tariffs would have been in place on *almost all* goods and services traded with China for more than a year, and several manufacturing industries would be feeling the impact, as overall demand begins to wane. The most-impacted sectors from a trade war would be: machinery, motor vehicles and parts, electrical equipment and appliances, computer and electronic products, and primary metals.

The trade war's regional impact would be three-pronged, particularly affecting states that have an above-average reliance on exports to, and imports from, China. States can also be affected in a less-direct way if the most vulnerable industries comprise an above-average share of a state's GDP. **South Carolina** is vulnerable on all three of these fronts, and we therefore expect it to face the greatest downside risks from a prolonged trade war. Indeed, BMW exports a significant share of the cars it produces at its Greenville plant to China. Other key auto producing states, such as **Michigan** and **Kentucky**, would also be vulnerable.

### Oxford Economics' US Metro Service is growing

Economic activity in the United States is quite concentrated within its largest 10 cities, which together account for a third of all US economic output. Much of this growth is attributable to information technology, professional services, high finance, and advanced manufacturing.

At the same time, "Small Town America" is seeing several unique trends that reflect the growing importance of the United States as an oil producer. Chart 4

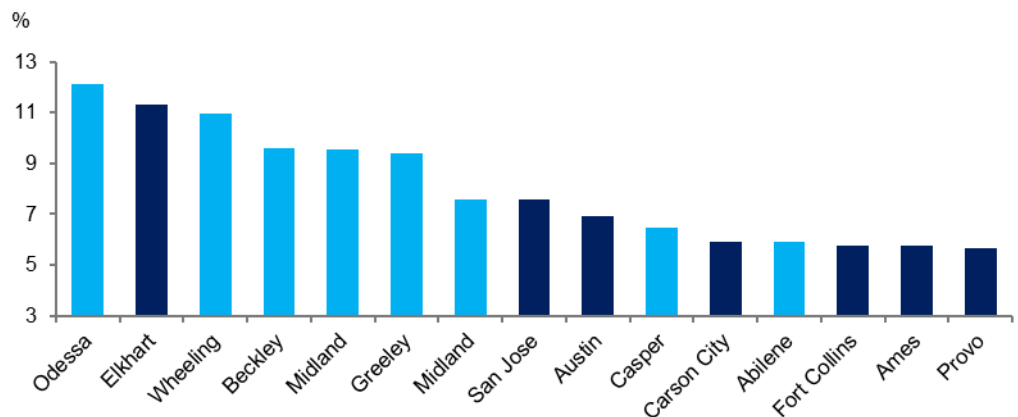
# Who will fare the best in the metro slowdown?

shows the top-15 metros for GDP growth in 2017: this list is dominated by small metros with exposure to a revived energy extraction activity, specifically oil and coal hubs in **West Texas** and **West Virginia**.

Other cities featuring in the top 15 reflect changing demographics, as many households (especially retirees) flock to metros in the Intermountain West, such as **Fort Collins** and **Carson City**. Meanwhile, some small cities that host successful manufacturing niches—such as recreational vehicles in **Elkhart**, Indiana, and chemicals in **Ames**, Iowa—have seen their growth vault ahead of the Midwestern average.

To date, Oxford Economics has been providing forecasts for 89 metros which together account for 71% of the US economy. As the above examples show, an in-depth view of the other 29% is crucial to thoroughly understanding industrial and consumer trends at the regional level. In the coming weeks, therefore, Oxford Economics will expand its United States Metro Service to include 382 metros and 3,142 counties. In so doing, we will also include forecasts of wages by industry at a US, state and metro level.

**Top-performing metros for 2017 GDP growth**



Source: Bureau of Economic Analysis, Oxford Economics  
 \*Energy-driven metros are colored in light blue

**Chart 4**

**In 2017, many of the fastest growing US metros were small cities with different industrial and demographic currents than the large US metros.**

# Who will fare the best in the metro slowdown?

Table 1

Forecasts for the US and 89 metros								
Annual % change	GDP				Total non-farm payrolls			
	2017	2018	2019	2018-22	2017	2018	2019	2018-22
<b>United States</b>	<b>2.2</b>	<b>2.9</b>	<b>2.3</b>	<b>2.1</b>	<b>1.6</b>	<b>1.6</b>	<b>1.1</b>	<b>0.7</b>
Albany	1.1	1.6	2.0	1.7	1.2	0.8	0.6	0.3
Albuquerque	-0.4	2.1	1.9	1.7	0.9	1.4	0.9	0.6
Allentown	3.1	2.7	2.2	2.0	1.4	1.2	1.2	0.7
Ann Arbor	2.5	2.8	1.4	1.5	2.0	1.2	0.8	0.5
Atlanta	3.0	2.5	2.4	2.1	2.4	1.7	1.3	0.9
Austin	7.3	5.9	3.3	3.3	3.4	3.2	1.9	1.6
Bakersfield	-2.0	3.1	2.4	2.1	1.0	1.5	1.3	0.9
Baltimore	1.1	2.7	2.2	2.1	1.2	1.4	1.1	0.6
Birmingham	1.5	1.4	1.9	1.6	0.8	1.4	0.8	0.5
Boston	2.8	2.7	2.5	2.2	1.5	1.4	1.2	0.6
Bridgeport	-2.9	2.4	2.2	1.9	-0.6	0.4	0.6	0.1
Buffalo	0.4	1.7	2.1	1.7	0.9	1.1	0.7	0.4
Burlington	2.5	1.2	2.2	1.8	0.8	0.6	1.1	0.5
Cape Coral	1.5	2.7	2.4	2.2	2.2	1.3	1.6	1.0
Charlotte	3.6	3.1	2.7	2.5	3.1	2.4	1.5	1.2
Chicago	1.5	2.4	2.1	1.9	1.0	0.7	0.8	0.3
Cincinnati	2.5	3.0	2.1	2.0	1.4	0.8	1.0	0.5
Cleveland	3.2	2.6	2.1	1.8	0.5	1.1	0.8	0.3
Columbus	2.1	2.3	2.2	2.0	2.1	1.2	1.3	0.7
Dallas	4.1	4.5	2.9	2.8	2.8	2.9	1.7	1.3
Dayton	0.7	2.2	1.6	1.4	1.2	1.1	0.5	0.2
Denver	3.5	4.4	2.6	2.6	2.1	2.6	1.5	1.2
Detroit	2.7	2.0	1.8	1.6	1.8	0.9	0.7	0.2
Durham	0.1	1.3	2.7	2.2	1.8	1.7	1.5	1.0
El Paso	0.4	1.9	2.0	1.7	1.4	1.6	1.4	1.0
Fresno	0.3	2.9	2.2	2.1	2.8	2.4	1.2	1.0
Greensboro	1.6	1.7	2.3	1.9	0.5	1.1	1.1	0.6
Greenville	2.6	2.6	2.3	2.2	1.6	2.0	1.2	0.9
Harrisburg	2.0	2.3	1.9	1.8	1.3	0.7	0.9	0.4
Hartford	1.4	3.0	2.1	2.0	0.6	1.0	0.5	0.2
Honolulu	1.7	2.3	2.1	1.9	1.0	1.8	1.0	0.7
Houston	-0.4	4.3	3.0	2.7	1.1	2.9	1.8	1.4
Indianapolis	2.5	1.7	2.3	1.9	1.6	1.8	1.3	0.9
Jacksonville	3.6	3.7	2.4	2.4	3.4	2.8	1.5	1.1
Kansas City	1.2	2.4	2.2	2.0	1.8	1.4	1.1	0.7
Knoxville	1.7	2.4	2.1	1.9	1.1	0.7	1.0	0.5
Lancaster	1.8	3.4	2.3	2.2	1.6	1.4	1.1	0.7
Las Vegas	2.8	3.3	2.4	2.3	3.1	2.6	1.6	1.3
Lebanon	2.0	2.1	2.1	1.9	1.5	0.8	1.1	0.6
Los Angeles	2.7	2.4	2.3	2.1	1.6	1.1	1.1	0.6
Louisville	1.5	2.1	2.2	1.9	1.3	1.0	1.2	0.6
Memphis	0.4	2.9	1.8	1.8	0.9	1.5	0.9	0.6
Miami	2.3	2.5	2.4	2.1	1.9	1.4	1.2	0.7
Milwaukee	1.2	3.6	2.1	2.1	0.5	1.1	0.8	0.4
Minneapolis-St. Paul	2.2	2.1	2.2	1.9	1.8	1.2	1.1	0.7

Source : Oxford Economics, BEA, BLS

# Who will fare the best in the metro slowdown?

Table 1 (continued)

Forecasts for the US and 89 metros (continued)								
Annual % change	GDP				Total non-farm payrolls			
	2017	2018	2019	2018-22	2017	2018	2019	2018-22
<b>United States</b>	<b>2.2</b>	<b>2.9</b>	<b>2.3</b>	<b>2.1</b>	<b>1.6</b>	<b>1.6</b>	<b>1.1</b>	<b>0.7</b>
Modesto	-0.8	2.7	2.1	2.0	1.9	2.1	1.3	0.9
Napa	2.8	1.0	2.3	1.8	2.3	0.7	1.3	0.7
Nashville	4.1	3.3	2.7	2.6	3.4	2.0	1.5	1.1
New Haven	1.7	2.8	1.9	1.8	0.8	1.1	0.8	0.3
New Orleans	-1.3	1.5	2.0	1.7	0.0	1.1	0.9	0.4
New York	1.3	2.2	2.3	2.0	1.8	1.2	0.9	0.5
North Port	2.1	3.6	2.5	2.4	2.5	2.4	1.4	1.0
Oklahoma City	2.6	3.6	2.5	2.1	1.0	2.0	1.3	0.9
Orlando	1.9	4.3	2.8	2.7	3.4	3.3	1.6	1.4
Oxnard	-0.4	1.9	2.5	2.0	1.4	1.5	1.2	0.7
Philadelphia	1.4	2.6	2.3	2.1	1.7	1.1	0.9	0.4
Phoenix	3.4	4.2	2.5	2.6	3.0	2.7	1.6	1.3
Pittsburgh	4.1	3.9	2.5	2.3	1.2	1.0	0.7	0.3
Portland	3.1	3.2	3.1	2.7	2.7	2.1	1.5	1.0
Providence	1.7	2.9	2.0	1.9	1.2	1.3	0.9	0.4
Raleigh	2.8	3.7	2.8	2.7	2.8	2.7	1.8	1.4
Reading	-6.3	1.8	2.0	1.8	0.7	1.6	1.1	0.7
Reno	5.6	3.9	2.2	2.3	5.2	3.6	1.5	1.3
Richmond	2.6	2.6	2.2	2.1	1.4	0.9	1.2	0.7
Riverside	3.0	3.0	2.2	2.1	3.8	2.8	1.6	1.3
Sacramento	2.3	3.1	2.0	2.0	2.3	1.7	1.1	0.8
Salinas	1.3	3.4	1.9	2.1	2.0	2.8	1.0	0.9
Salt Lake City	2.5	3.2	2.5	2.4	2.5	2.5	1.6	1.2
San Antonio	5.2	5.4	3.1	2.9	2.4	1.8	1.4	1.1
San Diego	2.3	2.6	2.3	2.1	2.2	1.9	1.4	0.9
San Francisco	3.3	3.7	2.8	2.6	2.4	1.8	1.2	0.8
San Jose	7.4	5.2	3.4	3.4	2.6	2.9	1.6	1.2
Santa Cruz	0.2	2.5	1.9	1.9	1.8	2.6	1.1	0.9
Santa Maria	1.6	2.7	2.2	2.0	1.4	1.4	1.1	0.7
Santa Rosa	3.1	2.2	2.3	2.0	2.3	1.9	1.2	0.8
Scranton	0.4	2.1	1.9	1.6	1.3	1.5	0.9	0.5
Seattle	5.2	4.1	2.6	2.7	2.8	2.9	1.5	1.2
St. Louis	0.5	2.2	1.9	1.7	1.2	0.9	0.8	0.4
Stockton	1.9	3.1	2.0	2.1	4.1	2.8	1.3	1.1
Tampa	1.8	3.7	2.6	2.5	2.3	2.1	1.1	0.8
Toledo	-0.7	1.2	1.7	1.4	-0.3	0.0	0.7	0.1
Trenton	-2.7	2.1	2.1	1.8	1.5	2.3	1.0	0.9
Tucson	3.0	2.9	2.0	1.9	1.7	1.2	1.2	0.7
Tulsa	-1.3	1.6	2.6	1.8	0.8	2.0	1.2	0.8
Vallejo	2.4	2.2	2.5	2.1	1.8	1.4	1.2	0.8
Virginia Beach	1.1	1.3	1.8	1.5	1.1	0.5	1.0	0.4
Washington	2.1	3.4	2.3	2.2	1.8	1.4	1.1	0.7
Wilmington	2.8	1.5	2.4	2.0	2.2	1.2	1.3	0.9
Winston	2.4	1.8	2.1	1.7	0.7	1.6	1.2	0.7

Source : Oxford Economics, BEA, BLS



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