MARTIN Prosperity Insights

Rotman School of Management
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Did Population Growth Make Metro Areas More Vulnerable to the Downturn?

For the past two decades, the Sunbelt has been praised for its rapid population growth. While the economic crisis and the bursting of the housing bubble has stalled the region's once propulsive growth, there remains a staunch belief—a widely accepted conventional wisdom in urban and regional economic development circles that population growth essentially equals economic growth. But is that actually the case? To get at this we take a data-driven look at the connection between population growth in US metro regions and income, the most basic measure of underlying economic development.

Our measure of income comes from the Commerce Department's Bureau of Economic Analysis (BEA) recently released data for metropolitan *per capita personal income (PCPI)* for the year 2009 making it possible to measure the percent change in average personal wealth experienced by residents of metro areas from between 2007 to 2009. Personal income is the income that is received by individuals from all sources: wages, proprietors' rental, dividend and interest income, and transfer payments. PCPI is calculated as the personal income of the residents of a given area divided by the resident population of the area. Using the BEA's metropolitan population data we also calculate the percent change in population experienced by urban areas between 1980 and 2005, the 25 years which gave rise to the Sun Belt.[1]

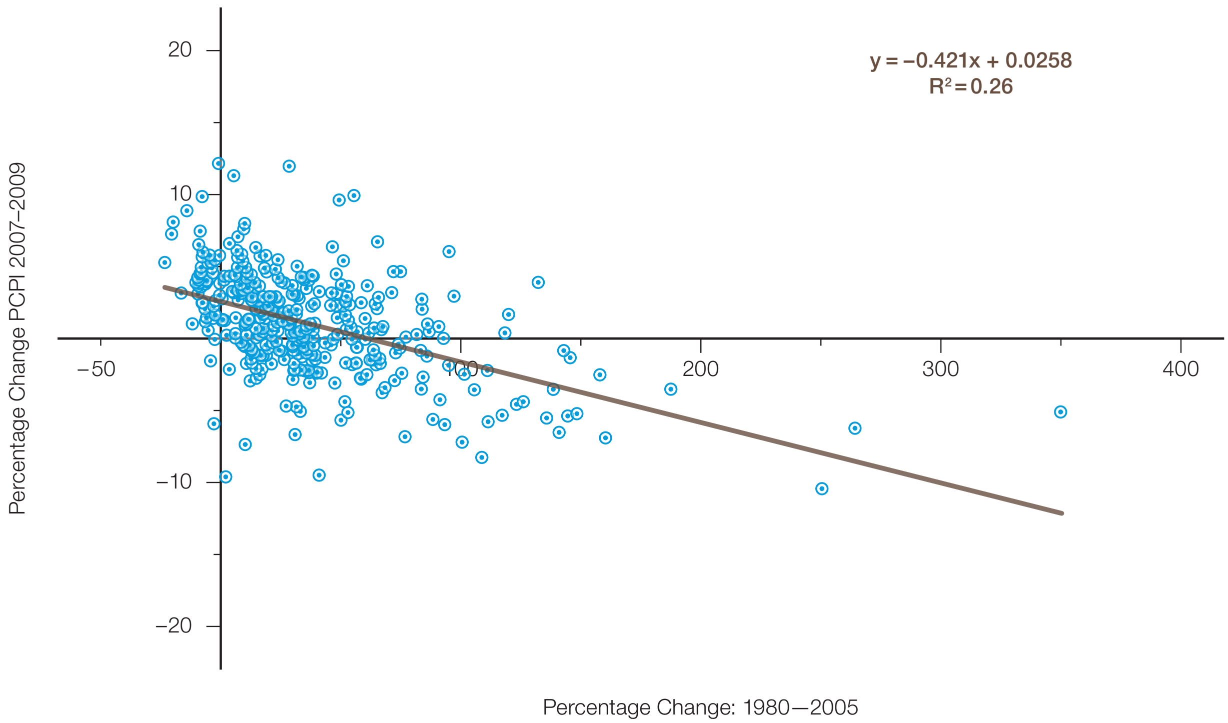
The scatter plot below displays population change in the *x*-axis and the change in per capita personal income (adjusted for inflation) in the *y*-axis for all 363 continental metro areas of the United States. A downward slope is clearly discernible (albeit with a lot of noise): population change alone accounts for 25% of the variability in *PCPI* across metropolitan areas. The usual caveat of course applies with regards to jumping from association to causality, but in this case the landing is cushioned by the data in the *y* axis being measured for a period subsequent to that during which the data in the *x* axis is measured.

The effects of the recession have been felt across all of the metropolitan U.S., and especially in the real estate powered metros of the SunBelt like Las Vegas (–6.2%) Phoenix (–6.5% decline). But the data does indicate that vertiginous population growth made for a sharper decline in economic fortune once the recession set in. Whether having experienced fast-paced population growth will make it harder or easier to get out of the slump, remains to be seen.

[1] The BEA's population and income data is available at www.bea.gov/regional/reis/default.cfm?selTable=CA1-3&section=2.

Population percentage change (1980–2005) and percentage change in per capita personal income (2007–2009)

Exhibit 1



The Martin Prosperity Institute at the University of Toronto's Rotman School of Management is the world's leading think-tank on the role of sub-national factors—location, place and city-regions—in global economic prosperity. Led by Director Richard Florida, we take an integrated view of prosperity, looking beyond economic measures to include the importance of quality of place and the development of people's creative potential.