Comprehensive Economic Development Strategy Plan

for Metropolitan Kansas City

2020-2022 Recovery & Resiliency Updates

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Community Services Corporation

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2020 - 2022

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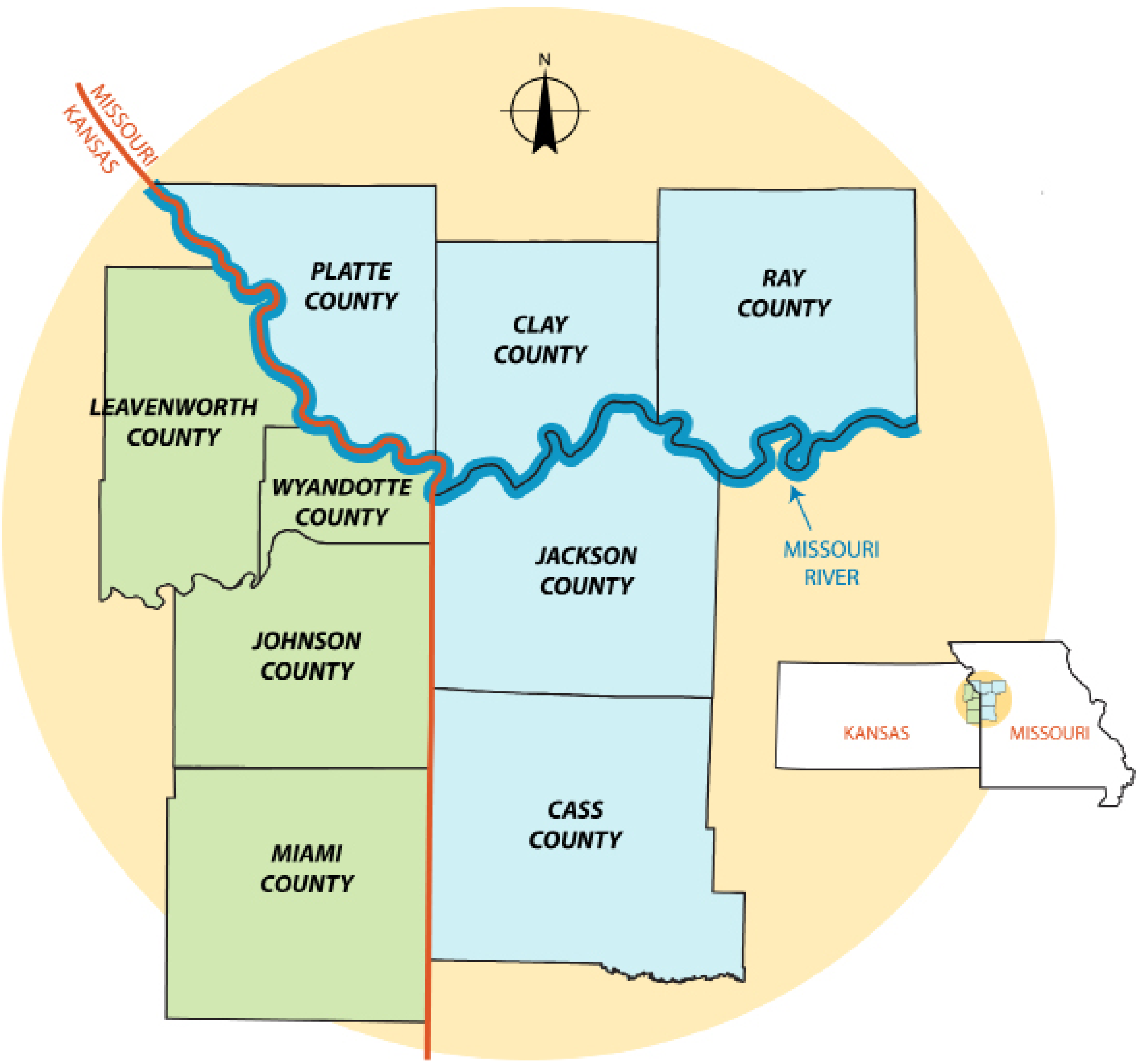
The Greater Kansas City Region



Purpose of This Plan Update

Every five years, the Mid-America Regional Council (MARC) engages the community to prepare a regional Comprehensive Economic Development Strategy Plan (CEDS). The CEDS Plan covers a nine-county region: Cass, Clay, Jackson, Platte and Ray counties in Missouri; and Johnson, Leavenworth, Miami and Wyandotte counties in Kansas. The current CEDS was completed in 2019, when the Kansas City area economy was strong — experiencing low unemployment, strong small business creation and growth, and overall business expansion and employment growth in many key industry sectors.

Like most of the country, the regional economy was hit hard by the pandemic. A decade's worth of economic gains disappeared in a matter of weeks. The region has recovered many of the jobs lost since early 2020, but the recovery has not been complete or equitable. In addition, recent events with the war in Ukraine, continued supply chain problems and unexpected significant inflationary pressures in the U.S. have created uncertainty about sustained recovery. Many of those who were at an economic disadvantage before the pandemic find themselves at a greater disadvantage now.

This plan update seeks to address three key objectives:

1. Update information about the region's economy and labor force to guide decisions about short and long-term policies and actions to support full recovery from the pandemic and its economic consequences.

2. Provide guidance to the region's local governments, economic development and workforce development organizations to ensure longer term economic resilience.

3. Increase equity as a fundamental part of the region's economic development strategy to ensure inclusive prosperity for all residents and business owners in our region.

The region's recovery from the pandemic and ongoing economic challenges and increased resiliency to withstand and recover from future events will be dependent on:

- Providing education and training that continually upskills residents where all are prepared to meet the challenges and opportunities created by a dynamic economy and could attain and maintain economic prosperity for themselves and their families.
- Supporting businesses to find the talent to stabilize and grow their operations
- Identify industries in the metro area with the potential to increase the region's competitive advantage and outline strategies to strengthen these industry sectors
- Strengthening programs and financial resources to help entrepreneurs start and grow small businesses, particularly those led by women and persons of color
- Strengthening the use of technology by businesses to operate when finding skilled labor is difficult or when emergency conditions (e.g., pandemic) require remote operations.
- Strengthening the community's planning and infrastructure investments to withstand natural hazards and other emergency events.

Policy Framework

The Kansas City metropolitan area's Comprehensive Economic Development Strategy (CEDS) plan update is intended to be fully aligned with two regional initiatives: KC Rising, a business-led effort to grow the regional economy through inclusive prosperity, and Climate Action KC, a regional community effort supporting actions to make the region more resilient with an intentional focus on equity.

KC RISING

The CEDS policy framework is aligned with KC Rising's Pillars of Prosperity. In 2015, MARC, the Civic Council of Greater Kansas City and the Kansas City Area Development Council established KC Rising. In 2020, KC Rising adopted a set of Pillars of Prosperity. These pillars relate to the CEDS goals and strategies, particularly around enterprise, industry and education. KC Rising has recently added pillars around inclusion, connectivity, culture and neighborhoods. These pillars have been incorporated into the CEDS update.

KC Rising Pillars of Prosperity

Enterprise
A robust entrepreneurial ecosystem sparks scalable business and innovation, leading to breakthroughs that can transform a region's economy.

Industry
Building on our strengths enables our region to attract, grow, and retain globally competitive businesses.

Inclusion
Economies thrive through increased participation when everyone has equitable access to opportunity.

Connectivity
Effective, accessible transportation and Internet options open doors to economic mobility.

Culture
Cultural assets are an integral component of our economy, as well as a force to unify and inspire our region.

Neighborhoods
Healthy, safe, and attainable housing options allow families to build better futures.

Education
Learners of all ages need equitable access to continuous, innovative education to meet evolving workforce needs.

In 2021, the MARC Board of Directors adopted the Kansas City Regional Climate Action Plan, which addresses economic and climate resilience, with a focus on social equity and public health. The Climate Action Plan identifies nine areas to reduce greenhouse gas emissions (GHG) and increase climate and economic resiliency. Focusing on these areas will support the region's efforts in growing the regional economy, creating greater economic opportunity and ensuring the resiliency of the economy, institutions and our population. MARC and Climate Action KC have worked to bring together broad and diverse community perspectives and technical expertise to develop a set of goals and actions that comprise the plan.

These nine areas include:

- **Collaboration and Leadership:** Create new patterns of collaboration that engage diverse interests and support leadership development and capacity building around climate action and adaptation.
- **Energy:** Replace our dependence on fossil fuels with renewable and clean energy to address climate impacts and reduce energy costs for households and for businesses.
- **Transportation:** Reduce Vehicle Miles Traveled (VMT) by encouraging a shift to other modes of travel (public transit, bicycle, pedestrian) and by locating businesses offering goods and services at key activity centers and along key transportation corridors. Reduce travel by increasing the supply of affordable housing near growing employment centers.
- **Urban Greenery:** Use green infrastructure in the design of new development and redevelopment to achieve important public health and environmental benefits.
- **Food Systems:** Strengthen local food systems to increase access to affordable healthy food.
- **Finance and Innovation:** Increase equitable opportunities for a healthy environment, digital technology adoption and green businesses and jobs.
- **Healthy and Resilient Homes and Buildings:** Support policies and programs to produce more energy-efficient homes and buildings that not only reduce GHG emissions but create healthy living and working environments. Support energy-efficient homes to reduce utility costs for low-income households.
- **Community Resiliency:** Engage organizations and people of color in the design of policies and programs that create a more inclusive, resilient region.
- **Industry and Resource Management:** Encourage waste reduction and diversion through recycling, waste diversion and reuse- that could create new economic business opportunities and reduce government, residential and business expenses. Support use of methane from landfills for energy use.

GOAL 1: Improve greater Kansas City's performance rate in overall business creation. Create a culture that supports risk and offers intensive support to enable early-stage companies to persist in their efforts.

- Build on Greater Kansas City's concentration of high-tech startups across multiple industries, which has increased faster than the national average since 1990.
- Increase networked capital for start up and early stage business growth.
- Coordinate efforts that maximize the availability, visibility, use and effectiveness of entrepreneurial support resources.
- Expand and sustain small business support resources to serve all parts of the metro area and to meet the diverse needs of entrepreneurs, including minorities and women, and those lacking English proficiency (or lack ability to obtain a Social Security number).
- Increase high-tech industry firm formation and employment.
- Increase support for small business formation and job creation in targeted industries.
- Increase climate resilience-focused firm formation and employment, with a focus on the energy, food, waste, green infrastructure and transportation sectors.

GOAL 2: Create a strong pipeline of innovation by developing flow between research institutions, entrepreneurs and corporations to connect ideas and move them toward commercialization. (The region is missing a strong pipeline with research institutions.)

- Grow technology and bioscience commercialization efforts.
- Expand research and development capabilities for area universities and research institutions to engage with area employers.
- Support cross-university research efforts, such as the Quality Value Innovation Consortium and design technical assistance programs for researchers at any area institution to take ideas to commercialization.
- Identify ways that the Government-to-University initiative could support stronger research-to-project investments to involve the region's public sector economy.
- Expand and sustain programs like the CEO Challenge sponsored by KC Rising to encourage major companies and local governments to procure goods and services from small, local firms, particularly women- and minority-owned businesses.

GOAL 3: Increase awareness of the Kansas City region as a hub for entrepreneurship,

- Position Kansas City as a hub for entrepreneurial finance in a broad region from Dallas to Minneapolis and from Chicago to Denver
- Support the expansion of alternative finance institutions like Alt-Cap to offer financial services to small, disadvantaged businesses
- Encourage corporate engagement in small business development, including increasing corporate involvement in the entrepreneurial ecosystem by offering mentors

Industry: Strengthen Regional Economy by Growing Traded Sectors, Attract New Businesses and Help Existing Businesses

GOAL 1: Increase domestic and global exports as a share of Greater Kansas City's total economy.

- Strengthen export and international trade activity from the region through the World Trade Center and increase exports as a percentage of GDP.

GOAL 2: Influence growth of Greater Kansas City's diverse set of existing traded sectors by developing more robust industry clusters or concentration of assets with a special focus on equity and resiliency.

- Through KC Global Design, position the region to be a global center of excellence for top talent in engineering, architecture and technology.
- Through Bio-Nexus KC (the KC Life Sciences Institute) and Bio Kansas, position the region to capitalize on economic growth opportunities for life sciences research, biologics, animal health, data analytics and Collaborate2Cure.
- Through KC Smart Port, continue to support growth in the logistics industry. Consider the opportunities for specialized storage and shipping capacities, such as cold storage, to offer unique assets that further distinguish the region as a center for the biologics industry.
- Through the KC Animal Health Corridor, continue to support growth in the animal health industry.
- Through the Kansas City Building Energy Exchange, support growth in the renewable energy and energy efficiency sectors.
- Continue to support growth in the manufacturing sector, particularly in those areas where the region has a competitive advantage (vehicle and food manufacturing) and areas where technology and biosciences offer opportunities to attract companies to locate and grow in the region. Support building the manufacturing industry around electric batteries, building off the recent announcement of a Panasonic plant in DeSoto, Kansas.
- Evaluate and address how changes in the nature of work (Future of Work) will affect the Kansas City region's economy, opportunities for business and job creation and growth.

GOAL 3: Identify industry clusters with the greatest opportunities for future growth.

- Maintain the Regional Workforce Investment Network as a way for the region to share and consider economic research in support of economic development.
- Evaluate national and regional data to identify changes in economic growth for industry sectors and the opportunities for the Kansas City region to increase its competitive advantage (location quotient) through various people, institutional or place investments.
- Prepare Talent-to-Industry Exchange reports and similar analyses on growing or promising industry sectors, engaging private employers and educators. Support the work of Bio Kansas and KC Rising to build the biologics industry.

Education: Create an Effective Workforce to Meet the Needs of Business and Create Economic Opportunity for Residents

GOAL 1: Support the development of an educated and skilled workforce.

- Develop effective training programs for high-growth occupation areas: information technology, construction, health care, manufacturing and skilled trades, logistics, and engineering.
- Expand experiential learning opportunities including internships for high school students and adults. Expand opportunities for teachers to engage with employers to better understand skill requirements.
- Increase pre-apprenticeships and apprenticeships to serve youth and adults.
- Increase the percentage of students with market-value assets, including college credit, work-based and entrepreneurial experiences; postsecondary credentials; and degrees in the metro area achieved by region youth and adults.
- Create stackable credentials and define career pathways that enable youth and adults to consider and pursue careers leading to good-paying jobs.
- Support STEAM learning for young children, school-age children and older youth.
- Expand scholarship opportunities through KC Scholars for youth and adults to pursue post-secondary education and credentials.
- Expand career exploration tools, such as the Agility Profiler, to help youth and adults consider their skills and interests in selecting career pathways.
- Build a stronger regional workforce system that provides supportive services, including strong career coaching/navigation, wrap-around support to remove barriers to education and employment, and stronger connections with employers to understand job skills needed and expanded experiential learning opportunities.

GOAL 2: Attract highly skilled individuals to locate in the Kansas City region.

- Promote Kansas City as a vibrant place to live with high-quality careers.
- Support initiatives like the KC Tech Council to attract workers to technology apprenticeship opportunities.
- Support efforts by area colleges and universities to attract foreign students to study and efforts by the Greater Kansas City Chamber of Commerce and others to be a welcoming place for new arrivals to the U.S.

GOAL 3: Retain highly qualified individuals to see the Kansas City region as a home for themselves and their families over the long-term.

- Integrate new residents into the workforce and ensure that employers and communities are welcoming and culturally competent.
- Ensure child care options are available for workers.
- Increase relationships between industry and education so students stay or return to the metro area for employment.

GOAL 1: Create a region that increases economic opportunity by improving access to jobs.

- Improve public transportation for residents to access jobs in employment hubs.
- Create 15-minute neighborhoods (walkable, accessible to amenities with 15 minutes — nodes and activity centers) to link job creation with inclusive, sustainable neighborhood development.
- Expand the availability of high-speed broadband infrastructure and support digital equity to enable all households in the region to have access to high-speed broadband subscriptions, computer devices and digital literacy training.

GOAL 2: Create a region that supports a quality, durable and resilient infrastructure.

- Create and maintain a robust multimodal transportation system to serve the region's economy and make Kansas City more attractive to potential talent.
- Support investments in quality infrastructure for business development and expansion.
- Invest in technology to support economic activity at key sites and buildings to increase attractiveness to companies.
- Use technology to foster inclusive and innovative education and workforce development. Support additional broadband infrastructure and household adoption and services to enable all persons throughout the region to have access to quality, affordable broadband and related technology.
- Integrate advanced technologies into the region's transportation system.
- Invest in water and wastewater systems to support reinvestment in urban core areas as well as new suburban areas.
- Conserve, protect and restore green infrastructure throughout the region to protect air and water quality, protect wildlife habitat, reduce flooding, protect public health, reduce heat islands and facilitate active transportation.

GOAL 3: Create a region that supports greater housing choices and focuses development along key corridors and older built-up neighborhoods.

- Protect the natural environment and utilize existing infrastructure.
- Support the development of a variety of healthy, energy-efficient, affordable housing options for owners and renters to meet the needs of a diverse population.
- Promote residential and commercial development along key transportation corridors and at key activity centers.
- Support targeted investment in disadvantaged areas that offer the opportunity for business development and an increase in household wealth.

Inclusion: Strengthen Local Governments and Other Public Institutions Throughout the Kansas City Region to Address Racial Equity, Economic Resiliency and Climate Resiliency

GOAL 1: The region will be more interconnected. Local governments will work collaboratively with regional and local government partners, business, nonprofit, community and educational organizations.

- Identify and pursue shared services among local governments and with community partners.
- Improve transportation and communications systems to improve access to jobs, goods and services — connecting people to opportunity.

GOAL 2: The region will strive to become more equitable.

- Provide training and technical assistance to public institutions to implement more inclusive community engagement to ensure equity in decision-making and public investments.
- Review employment policies and practices to ensure that all public institutions encourage, select and support a diverse employee base.
- Evaluate public investments to ensure support for the region's most vulnerable residents.

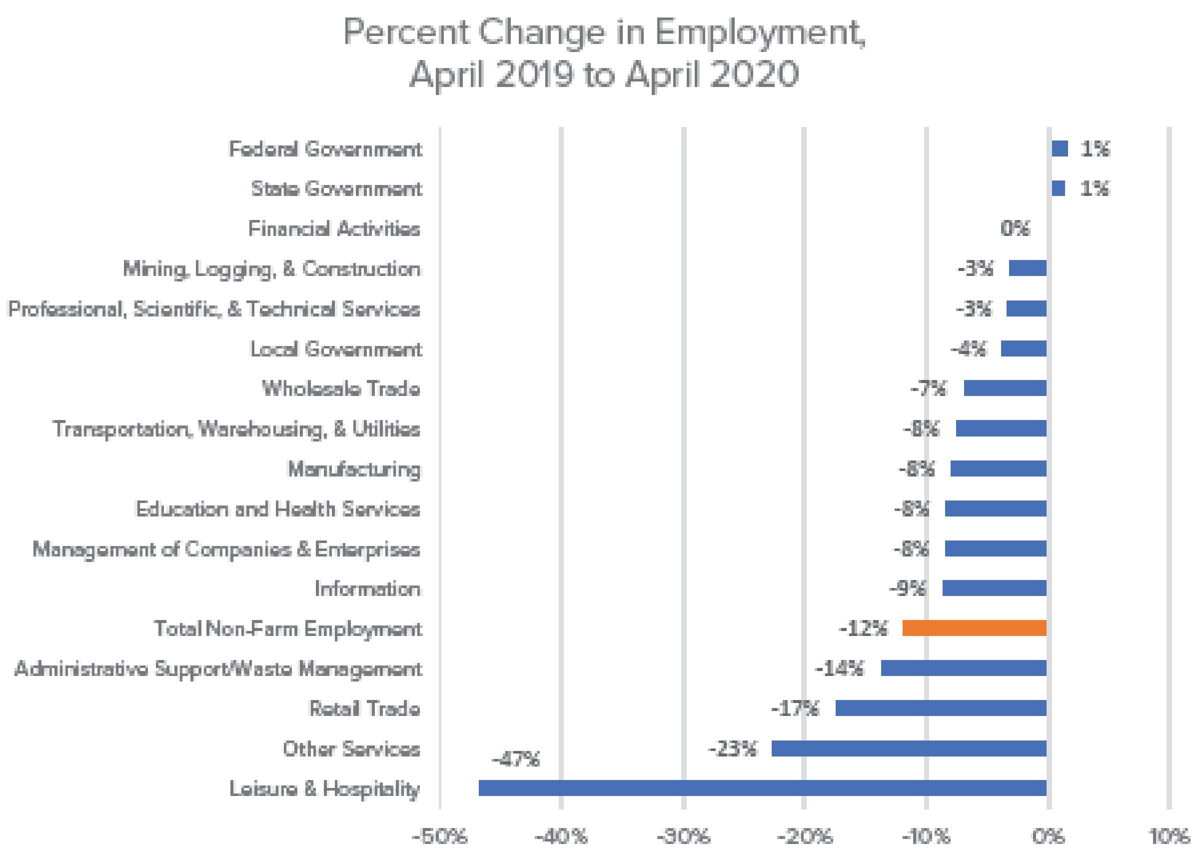
GOAL 3: The region will strive to become more resilient, with the increased institutional and infrastructure capacity to withstand public health, weather, economic and other adverse events through increased collaboration and strategic investments.

- Expand training for public sector employees to use data to understand the status of the region and local communities and set metrics to measure progress.
- Expand training and exercises for public sector elected officials and administration staff to understand the Kansas City Metropolitan Area Regional Coordination Guide for all hazards facing the region.

Economic Review — Impact of the Pandemic and Recovery

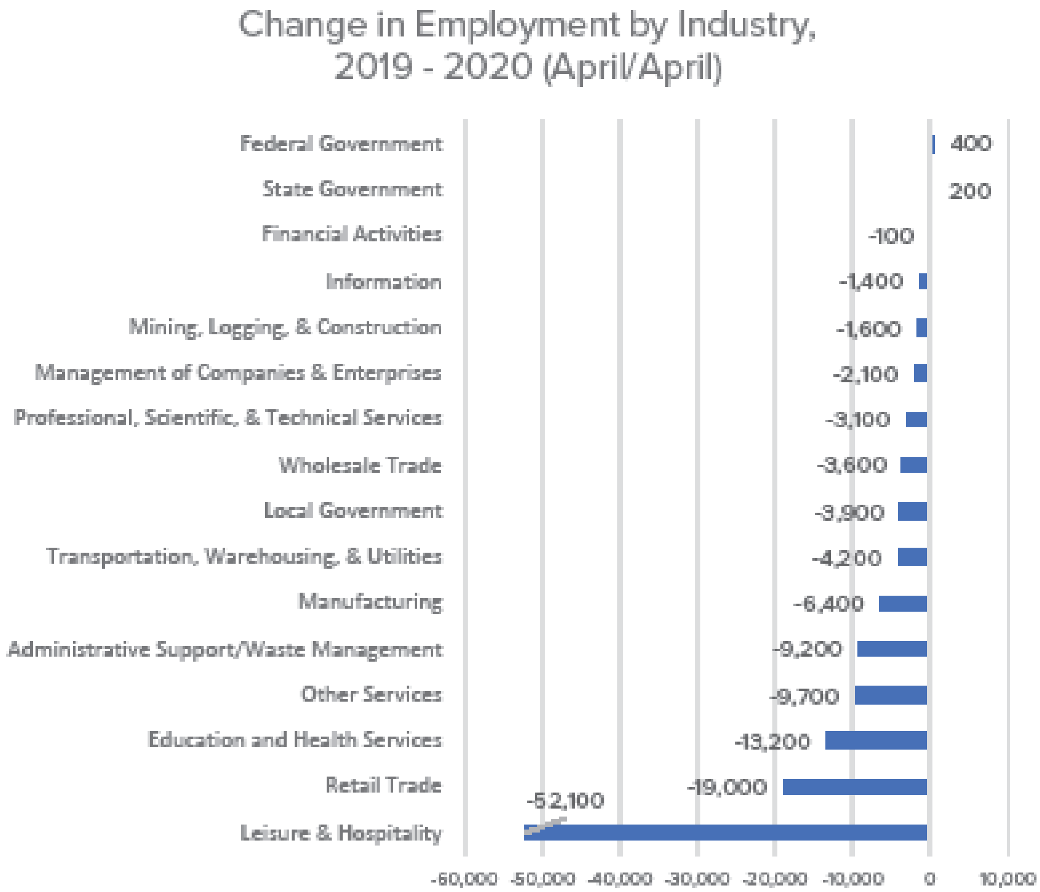
Early Impact of the Pandemic, March 2020 to early 2021

The early months of the pandemic saw many businesses send employees home and close operations. Leisure and entertainment, including hotel, restaurant and convention businesses, saw the largest percentage declines in employment followed by other services and retail trade. Administrative support jobs also declined at a faster rate than the regional average for total employment.



Source: Bureau of Labor Statistics current employment statistics. Because data is not seasonally adjusted, change must be computed from the same month in the prior year.

Looking at where the largest number of jobs were lost shifts the story somewhat. Education and health services lost the third highest number of jobs at the peak of the pandemic, and manufacturing jobs also declined, making it one of six sectors that lost more than 5,000 jobs.



Source: Bureau of Labor Statistics current employment statistics

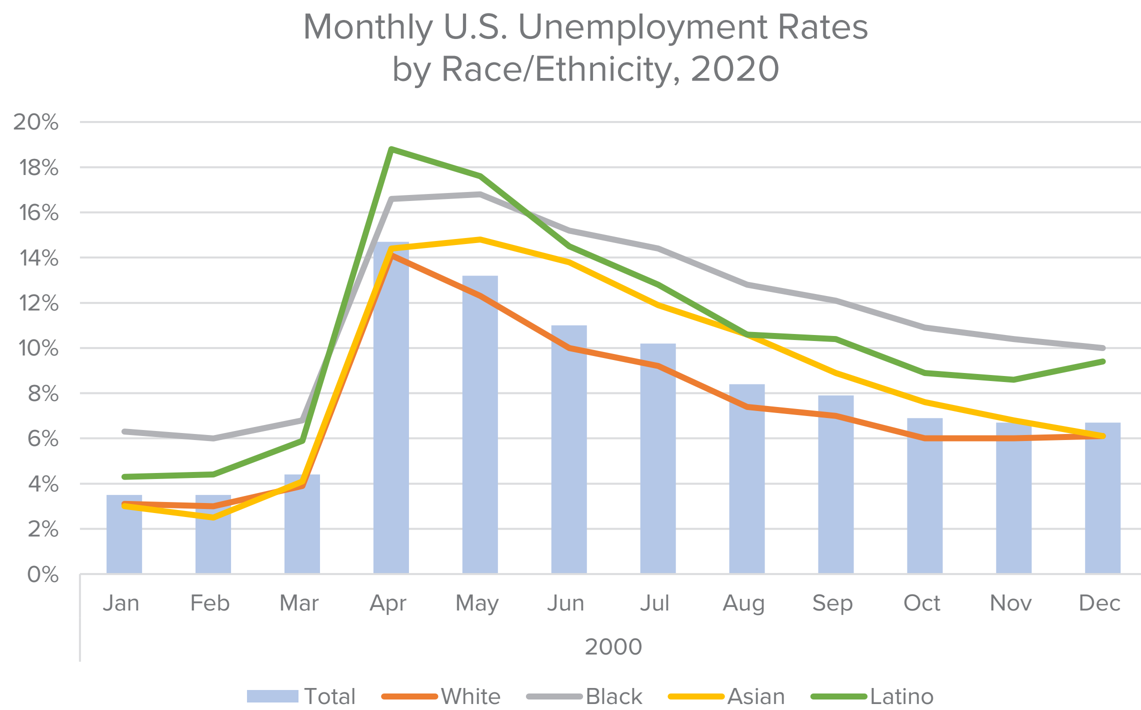
Because data by industry is not seasonally adjusted, change is calculated from the same month the year prior to April 2020 when the impact of the shutdowns was at its peak. Many of workers in these industries have below average wages and above average representation by women and people of color.

For example, food preparation workers are the largest category of workers in the Leisure and Hospitality industry. They are over-represented by women and people of color while earning a median wage that is roughly 60% the metro average ($26,000 compared versus $43,400 annually). Similarly, production workers are the largest category of workers in the Manufacturing industry and are over-represented by people of color with a median wage that 95% of the area median.

	Median Wage	Percent Black	Percent Hispanic	Percent Female
Food Preparation	$26,000	14%	14%	56%
Retail Salespersons	$28,100	11%	9%	47%
Childcare	$24,100	13%	11%	94%
Material Moving	$32,700	19%	13%	29%
Production	$41,200	16%	13%	32%
Metro Average	**$43,400**	**12%**	**9%**	**48%**

Source: JobsEQ

This showed up nationally in the impacts on unemployment and labor force participation by race, ethnicity and gender.

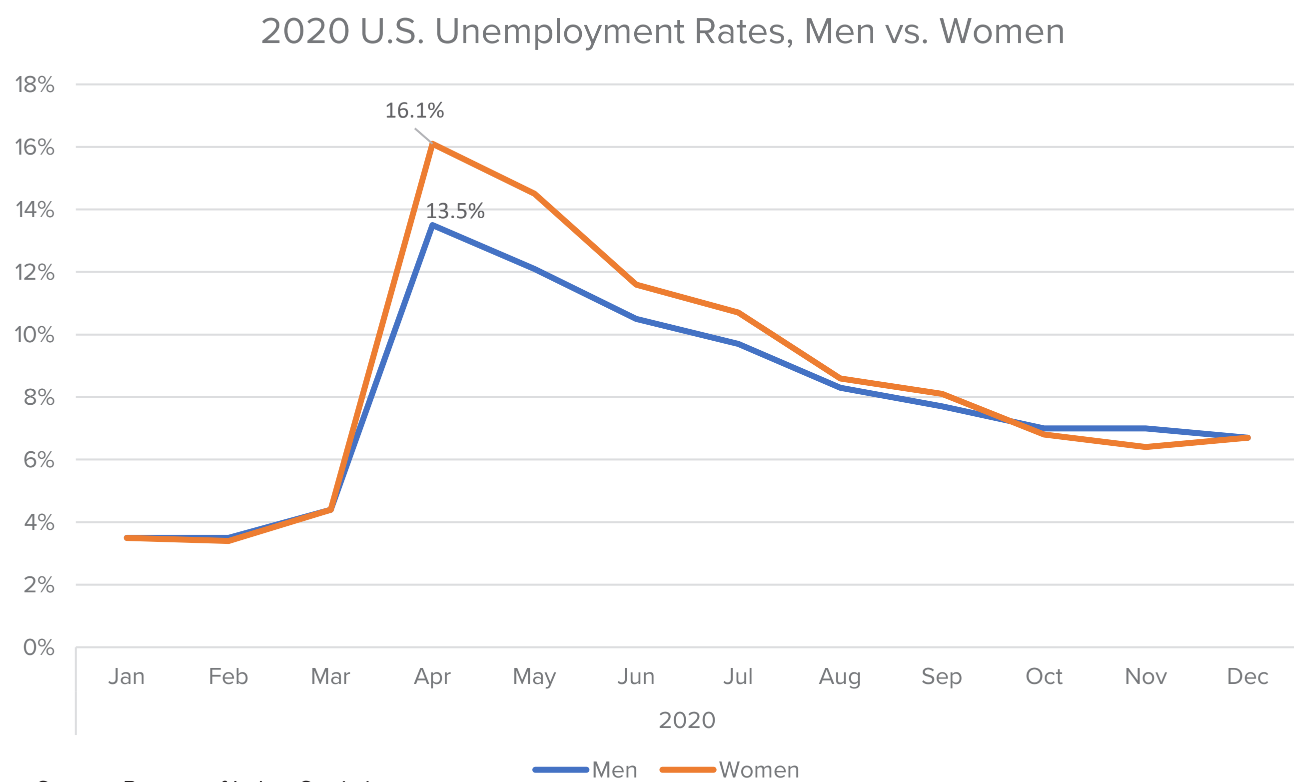


Source: Bureau of Labor Statistics

Unemployment rates soared for all groups. Latino workers were hurt worst, initially, with their unemployment rate jumping to nearly 19% in April 2020. Black workers saw their unemployment rates jump as well to nearly 17%. White and Asian workers also saw large spikes in unemployment rates — to nearly 14% and about 15%, respectively.

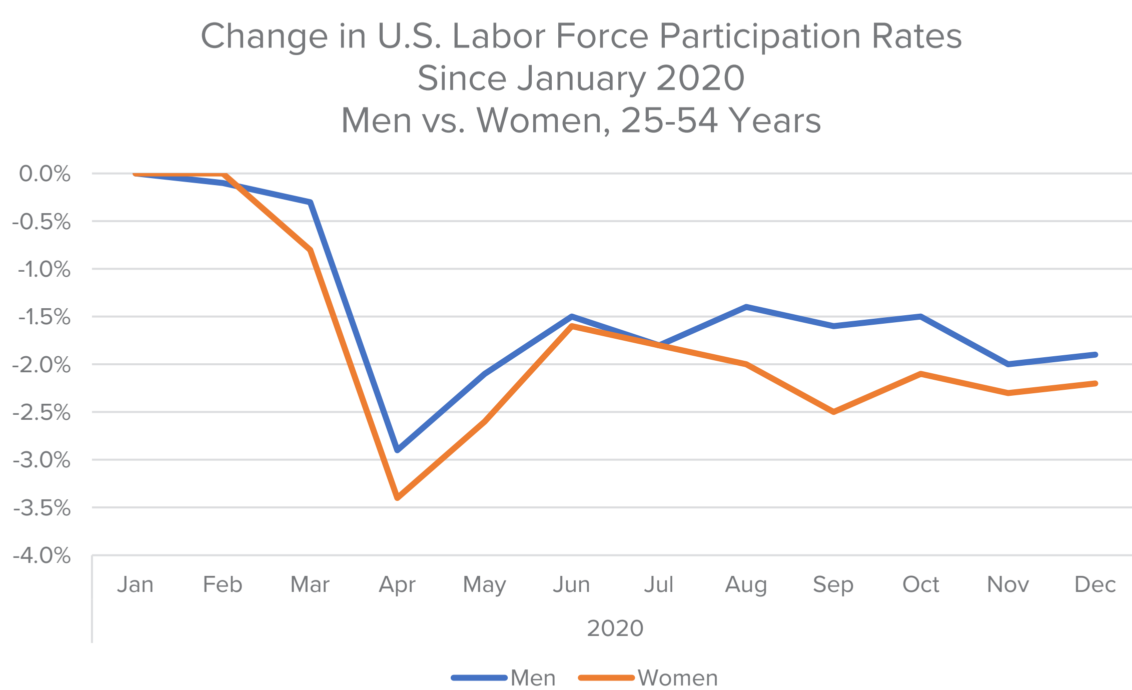
Because all groups were impacted, racial disparities in unemployment shrank in relative terms at the beginning of the pandemic. Before the pandemic, the unemployment rate for Black workers was about twice that of white workers, and the unemployment rate for Latino workers was nearly 40% larger. These rates diminished to 17% and 33%, respectively, at the peak of the pandemic-induced recession. But, rapidly, the old disparities began to reassert themselves so that by the end of the year, the unemployment rate for Black workers was about two-thirds higher than that for white workers, while Latino workers experienced unemployment rates that were more than 50% higher.

Historically, men have been more likely to be laid off during a recession than women. However, due the fact the pandemic hit hardest industries that have high proportions of women – retail, leisure and hospitality, education and health services, for example – the female unemployment rate peaked more than 2.5% higher than the male unemployment rate.



Source: Bureau of Labor Statistics

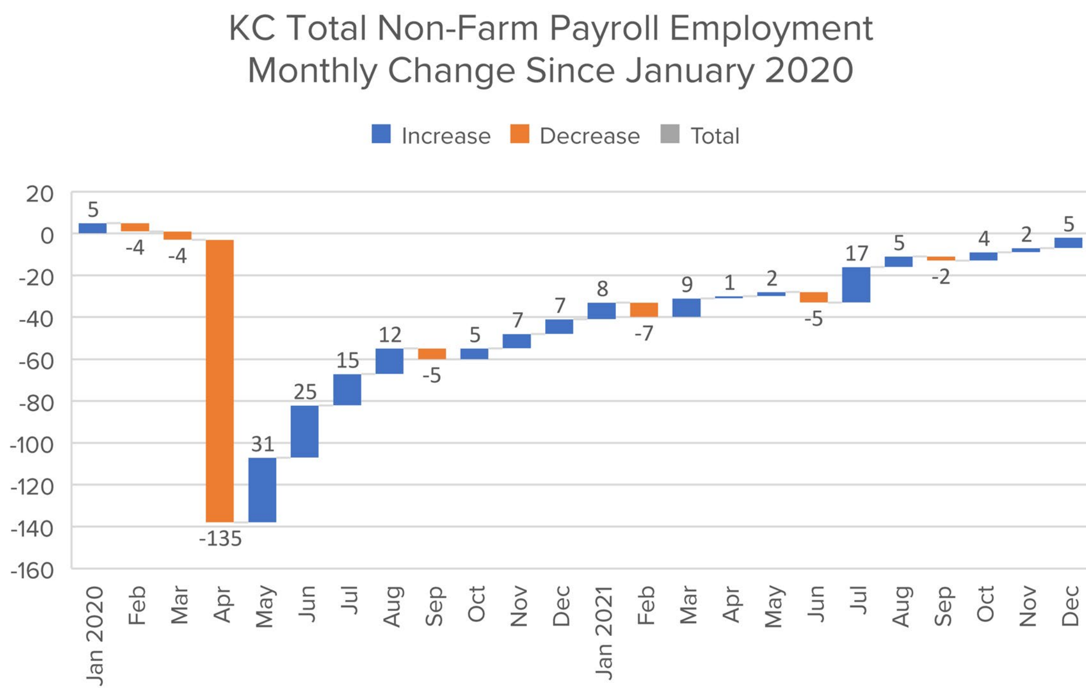
Though women's unemployment rate rebounded to equal men's by the end of 2020, this was in part because a higher proportion of women dropped completely out of the labor force and were no longer counted in the official unemployment statistics. This is largely because women still carry more of the responsibilities for caring for families and the combination of challenges created by the pandemic — children home from school, family members sick or recovering from COVID-19, significantly reduced child care options — kept women from being able to rejoin the workforce as quickly as men, even for those in their prime working years (ages 25-54).



Source: Bureau of Labor Statistics

Building Confidence by Mid-2021

In mid-2021, confidence was building that the Kansas City region's economy would recover jobs lost in due to the pandemic and be poised for further growth. Based on the figures available at the time (December 2021), it appeared the region had recovered 141,000 of the 143,000 jobs lost in early 2020, or 99%.



Source: Bureau of Labor Statistics

Based on this data, forecasts projected that the region would recover all the jobs it lost as a result of the pandemic in first quarter of 2022.

The region benchmarks the performance of its economy against 10 other metros roughly comparable to it in size and against which it typically competes for economic development projects. This rate of recovery would have ranked Kansas City fourth out of the 11 benchmark metros, behind only Austin, Nashville and Raleigh, a performance significantly better than historical trends.

Peer Metros

- Austin, Texas
- Charlotte, North Carolina
- Cincinnati, Ohio
- Columbus, Ohio
- Denver, Colorado
- Indianapolis, Indiana
- Minneapolis, Minnesota
- Nashville, Tennessee
- Portland, Oregon
- Raleigh, North Carolina

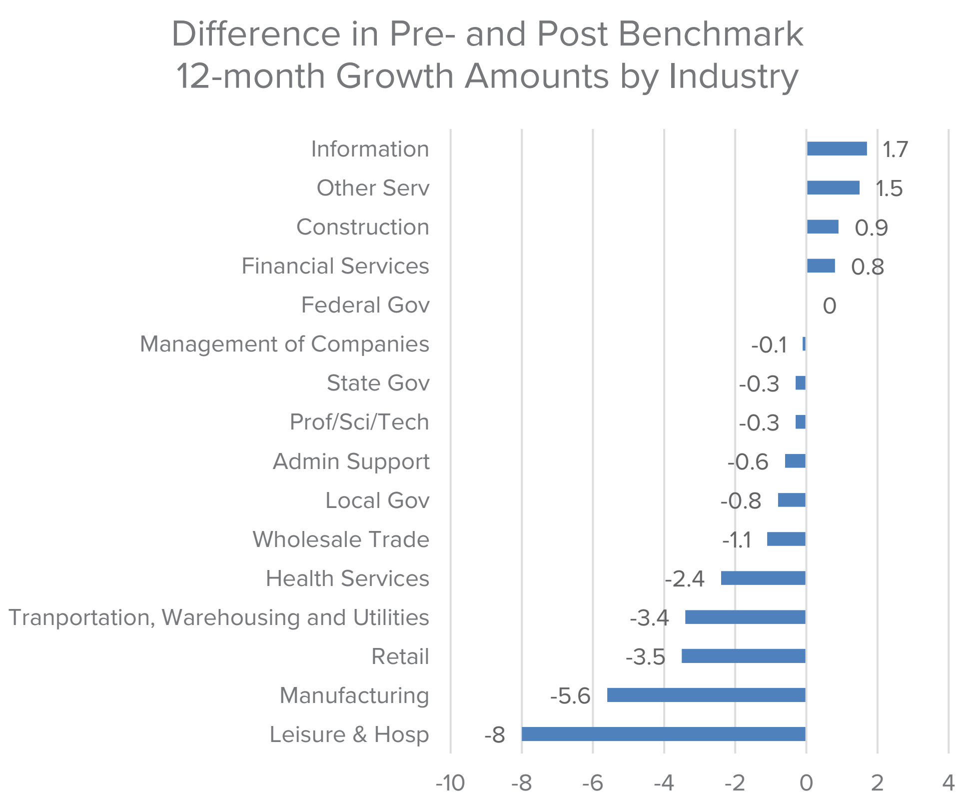
Events Now Challenging Recovery, 2022

However, new data suggests the recovery has been slower and is more concerning than originally estimated.

Every year with the release of January data, the U.S. Bureau of Labor Statistics benchmarks its monthly employment data for metropolitan areas against the Quarterly Census of Employment and Wages, or QCEW. While the monthly data is derived from a survey of a sample of firms, the QCEW is a tabulation of the reports that all employers must submit each quarter for unemployment insurance purposes. The data is benchmarked to QCEW in March of the prior year (2021, in this case), resulting in revisions to data from the preceding benchmark (March 2020, in this case) through the present. Typically, this benchmarking process results in minor adjustments.

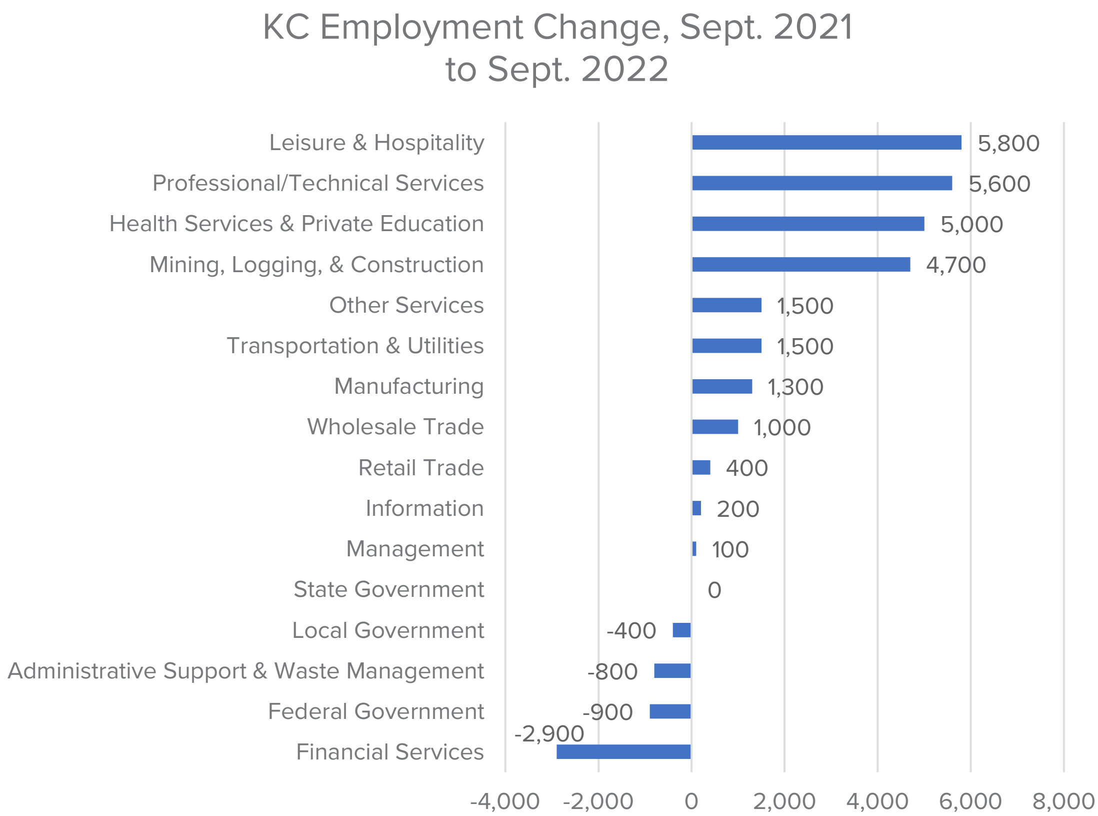
In 2022, the U.S. Bureau of Labor Statistics data revisions were substantial, and they changed the picture of how well the Kansas City area economy is recovering from the pandemic-induced recession. The loss of jobs during the pandemic was now estimated to be slightly less severe – 139,300 instead of 143,000. However, as of September 2022, preliminary data show the region gaining back only 123,800 of the jobs lost, putting the level of job recovery at just 89%. The Kansas City area economy is now estimated to have added 21,600 jobs during the past 12 months, with 15,500 more needed to return to pre-pandemic levels. At the current rate of job creation, full recovery of the jobs lost would be delayed until the second half of 2023 instead of the first quarter of 2022, as had been previously anticipated.

Examining the 12-month change in employment before and after the data revision shows that growth in Leisure and Hospitality saw the biggest downgrade, with growth cut by 8,000 jobs. Other segments of the economy most affected by the revisions include Manufacturing, whose 12-month growth was reduced by 5,600 jobs; Retail and Transportation and Warehousing, each with a reduction of job growth of about 3,500 jobs; Health Services, which saw a 2,400 reduction in growth; and Wholesale Trade, whose estimated growth was reduced by over 1,000 jobs. On the other hand, Information, Other Services, Construction and Financial Services all saw significant upward revisions to their growth estimates.



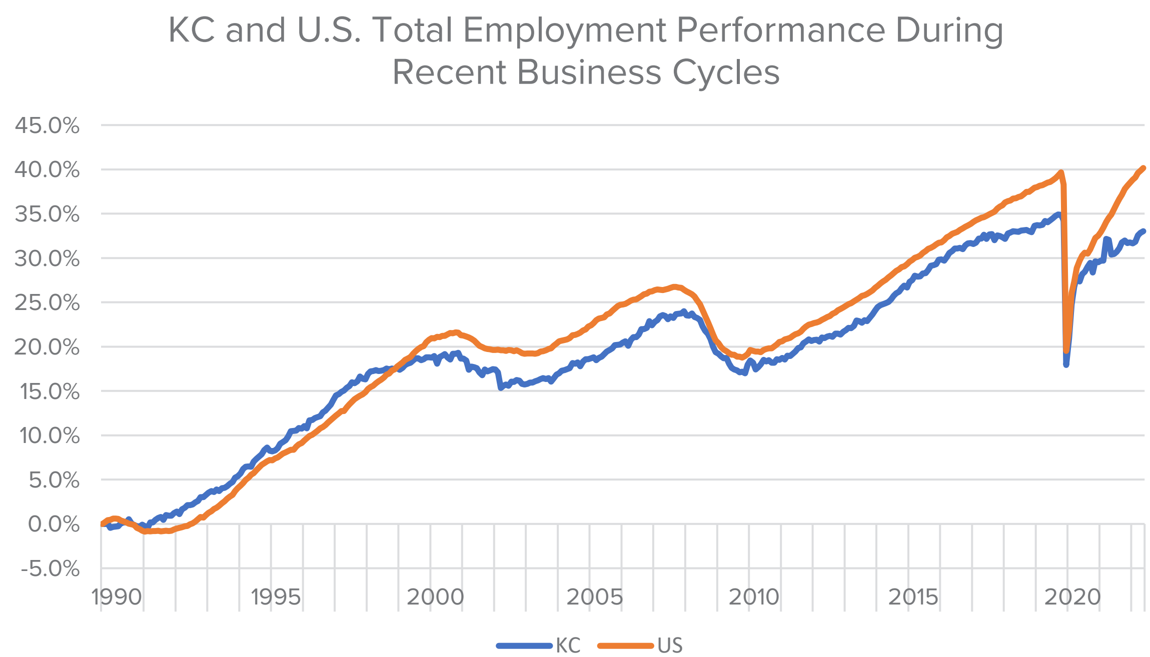
Source: Bureau of Labor Statistics. Because data is not seasonally adjusted, change must be computed from the same month in the prior year.

Though hardest hit by the downward revision, Leisure and Hospitality still grew the most over the past 12 months, with employment increasing by 5,800 jobs from September 2021 to September 2022. Other industries with large gains in employment include Professional/Technical Services, up 5,600 jobs; Health Services and Private Education, up 5,000 jobs; and Mining, Logging and Construction, up 4,700 jobs. Industries that have lost employment over the 12-month period include Financial Services, down 2,900 jobs; Federal Government, down 900 jobs; and Administrative Support and Waste Management, down 800 jobs.



Source: Bureau of Labor Statistics. Because data is not seasonally adjusted, change must be computed from the same month in the prior year.

Sluggish job growth relative to other parts of the nation is continuation of a long-term issue. Historically, the Kansas City area economy does not bust as low during recessions, but it also does not boom as high. The problem is recovery periods last much longer than recession periods and so the region's growth gradually ratchets down relative to the nation.



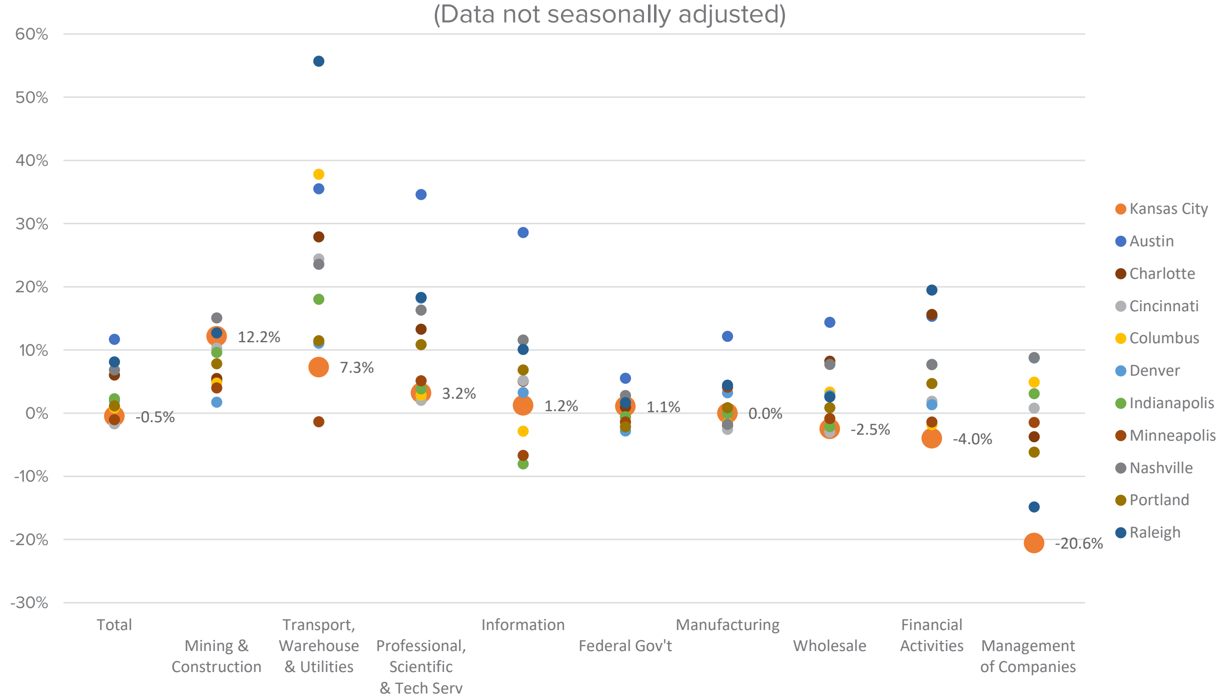
Source: Bureau of Labor Statistics

Nationally, total non-farm employment recovered to its pre-pandemic level of employment in August 2022 in just over 2.5 years from when employment began to drop. This was more than twice as fast as it took to fully recover the jobs lost during the Great Recession. Kansas City's employment recovery is also occurring faster than during the Great Recession, but only about 1.5 times faster.

The region's relative sluggishness affects virtually all of its traded sectors. While most exporting industries have recovered to pre-pandemic levels, generally, their pace of recovery ranks near the bottom of metropolitan areas used to benchmark the Kansas City region's progress. Currently, only one Kansas City area exporting industry is growing at rates that make it a leader: Construction. This is largely due to the region's new Kansas City International Airport terminal, the Buck O'Neil bridge replacement project and other major infrastructure projects, such as a new wastewater plant in Johnson County, against a backdrop of increased demand for industrial space.

All the other traded sectors grew either at or below the peer average:

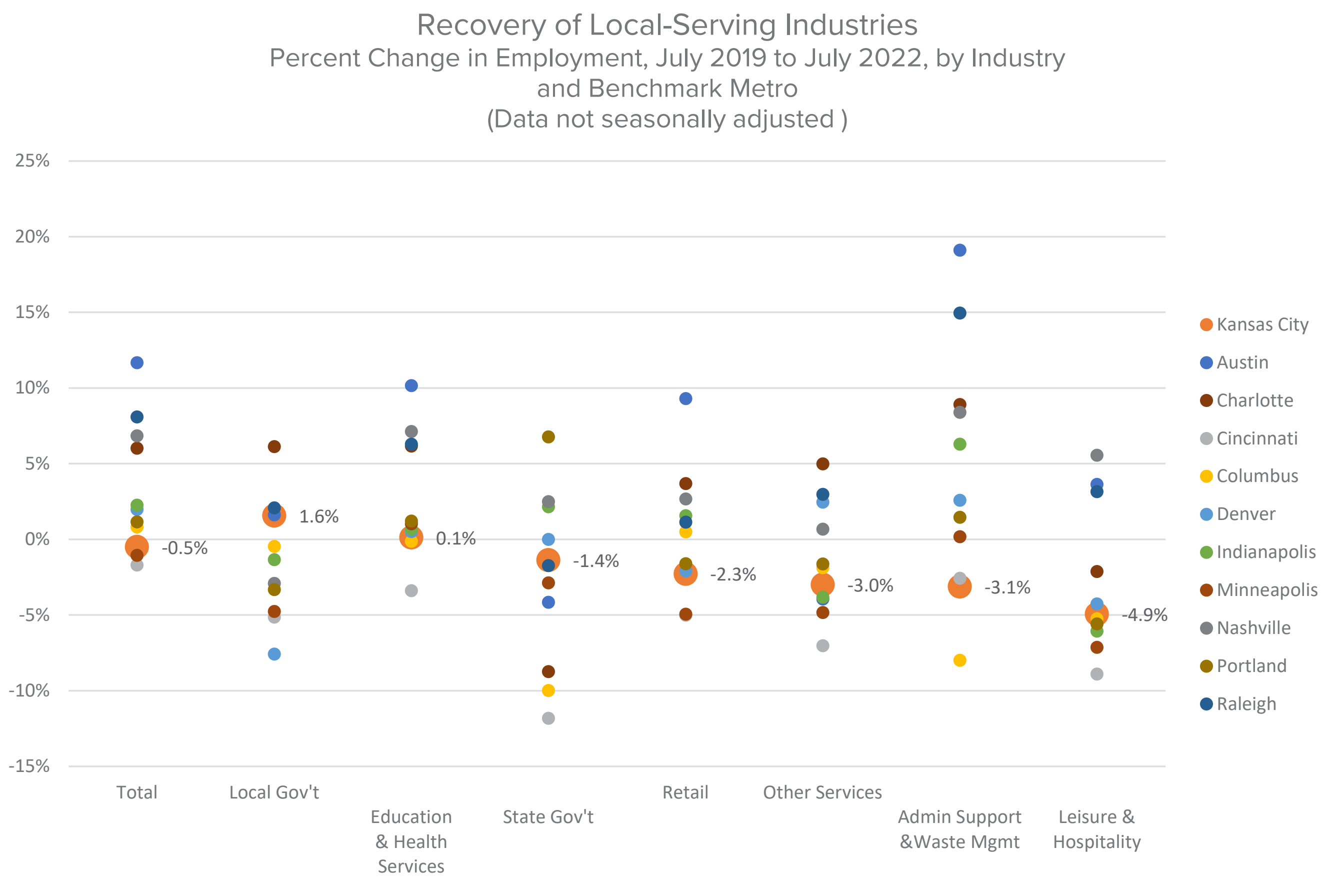
Recovery of Exporting Industries Percent Change in Employment,
July 2019 to July 2022, by Industry and Benchmark Metro
(Data not seasonally adjusted)



Source: Bureau of Labor Statistics. Because data is not seasonally adjusted, change must be computed from the same month from prior years. To measure growth relative to pre-pandemic, growth is therefore measured from July 2019 to July 2022, rather than February 2020 to July 2022.

For example, both the transportation and warehousing industry and the professional, scientific and technical services industry are top performers in terms of how much they have grown since the pandemic began. Both have employment levels that are currently significantly above their pre-pandemic levels. Yet, despite this strength relative to the rest of the regional economy, when compared to the same industries' performance in the benchmark metros, their growth rates still rank near the bottom. Wholesale trade, financial activities and management of companies also rank at or near the bottom in terms of relative growth rate. In addition, these groups still have employment that is 2.5% to 20.6% below their pre-pandemic levels. Other than construction, only the information, federal government and manufacturing industries have managed to recover all their lost jobs and grow at rates that put them more in the middle of the pack.

With under-performing traded sectors being the norm, it is not surprising that the region's local-serving industries also are underperforming relative to the benchmark metros. Slower recoveries in these industries disproportionately hurts workers of color given they are disproportionately represented in these lower-paid industries.

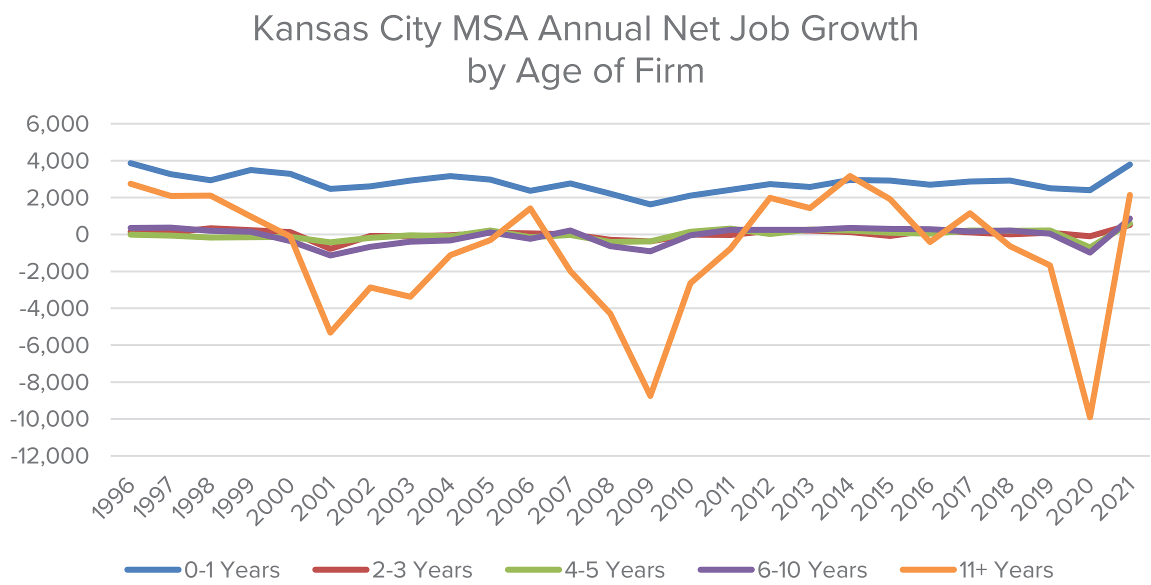


Source: Bureau of Labor Statistics. Because data is not seasonally adjusted, change must be computed from the same month from prior years. To measure growth relative to pre-pandemic, growth is therefore measured from July 2019 to July 2022, rather than February 2020 to July 2022.

In contrast to the region's exporting industries, most local-serving industries have not recovered to their pre-pandemic levels. This is the case in most benchmark metros, however. As a result, the growth rates of the region's local-serving industries are not generally ranked at or near the bottom of the region's benchmark metros as often the region's traded industries. Surprisingly, local government is performing best — its employment is above its pre-pandemic level and its growth rate is above average compared to the benchmark metros. As collected by the U.S. Bureau of Labor Statistics, local government includes public schools and exhibits strong seasonality, making a July/July comparison untrustworthy.

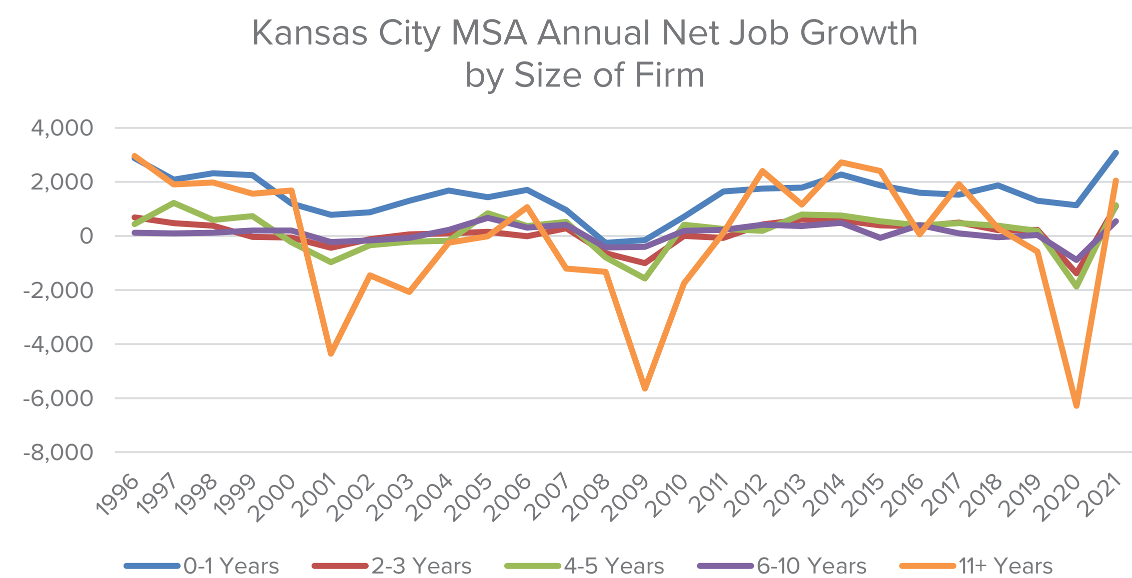
The other local-serving industry that has reached parity with pre-pandemic levels of employment is education and health services. With public schools included in local government, the schools in the education and health services industry are private schools. The number of private schools in the region is small, however, making it likely that trends in the education and health services industry primarily represent changes in health services. Historically, this sector has added the most jobs of any industry, but job losses from burnout during the pandemic mean it has taken until mid-2022 to recover to pre-pandemic levels. All the other local-serving industries remain well below their employment levels before the pandemic began.

Missing from the discussion of which industries were most affected is a key insight that the losses from the pandemic mostly reflect the fortunes of older, larger firms — and that young firms, basically startups 1 year old and younger, continued to add jobs. In fact, no matter the time period, it is young firms that consistently generate most of the region's net job growth.



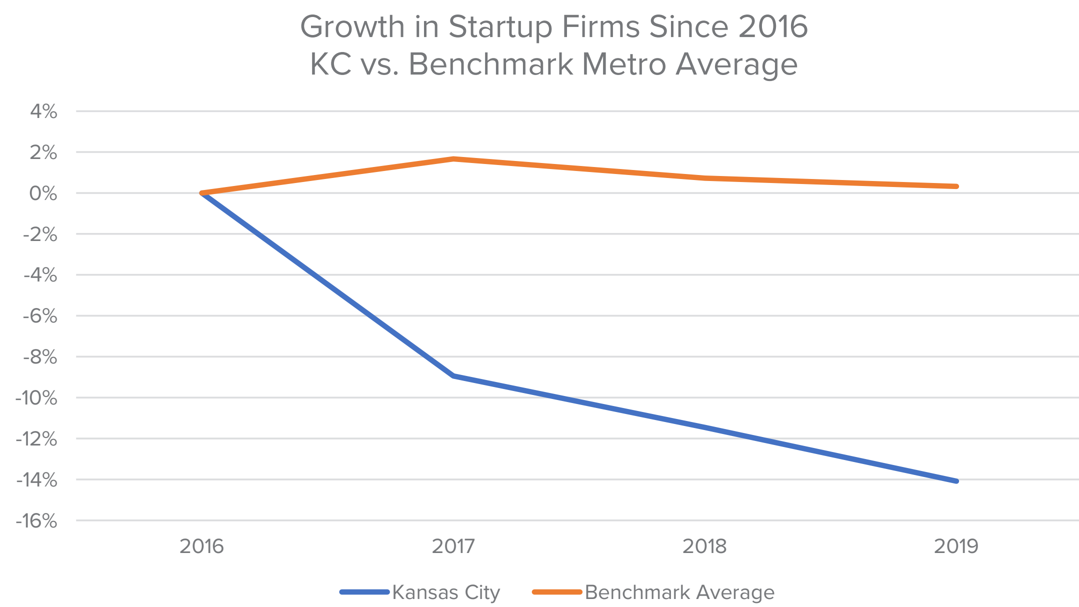
Source: Quarterly Workforce Indicators

Given that young firms are also generally small, it can also be said that small firms are responsible for most of the region's job growth. The only time period in which small firms did not add net new jobs was during the depths of the Great Recession.



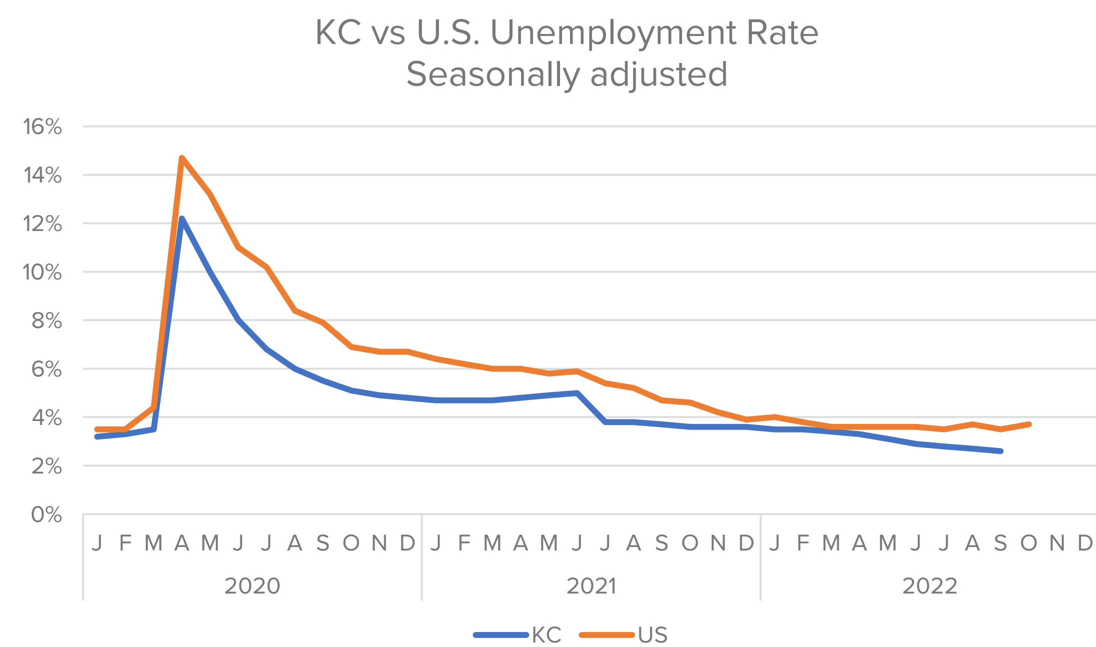
Source: Quarterly Workforce Indicators

It is concerning, then, that the region's ability to generate startups declined in the years leading up to the pandemic and was substantially below the average for its peer metros. Given the difficulties young, small firms had in surviving the pandemic, there is little reason to suspect the region's performance has improved.



Source: U.S. Census Bureau Business Dynamics Statistics

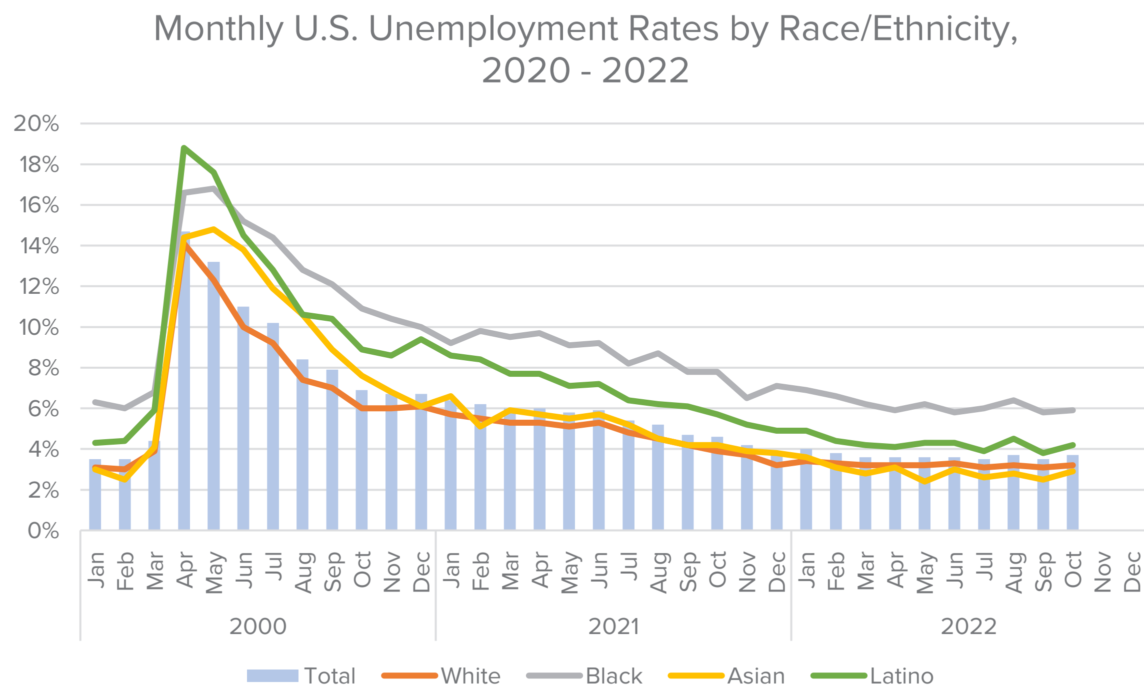
Despite the region's relatively slow job growth, the unemployment rate remains quite low. As of September 2022, it was more than 0.5% below its pre-pandemic level, which was already at or near record lows. It was also nearly a full percentage point below the U.S. level of 3.5%, which matched its pre-pandemic low.



Source: Bureau of Labor Statistics

As a result, the direction of causality may be reversed: Lack of labor availability may be one of the key contributors to the region's slow job growth. This argument is bolstered by the fact that compared to its benchmark metros, the Kansas City region's unemployment rate is currently the second lowest, behind only Minneapolis.

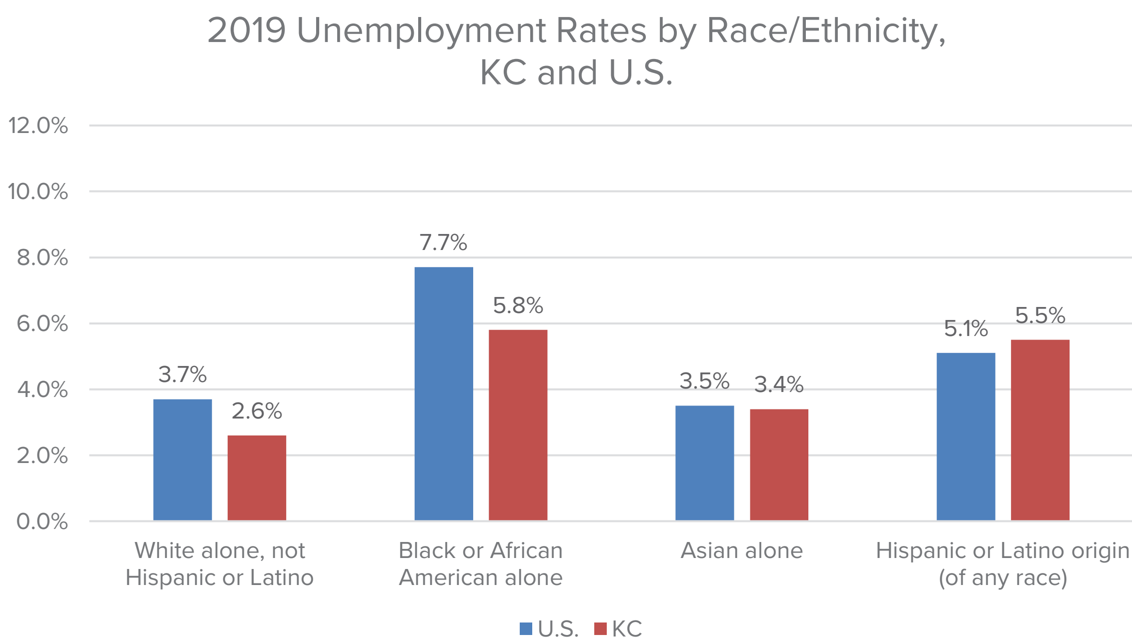
Nationally, unemployment rates for each racial/ethnic group are back to pre-pandemic levels too. However, Black and Latino workers continue to experience much higher unemployment rates than white and Asian workers. As of October 2022, the unemployment rate for Black workers in the U.S. was nearly 90% higher than that for white workers while for Hispanic workers, it was nearly 25% higher. Asian workers, on the other hand experienced unemployment at rates that were 10% below white workers.



Source: Bureau of Labor Statistics

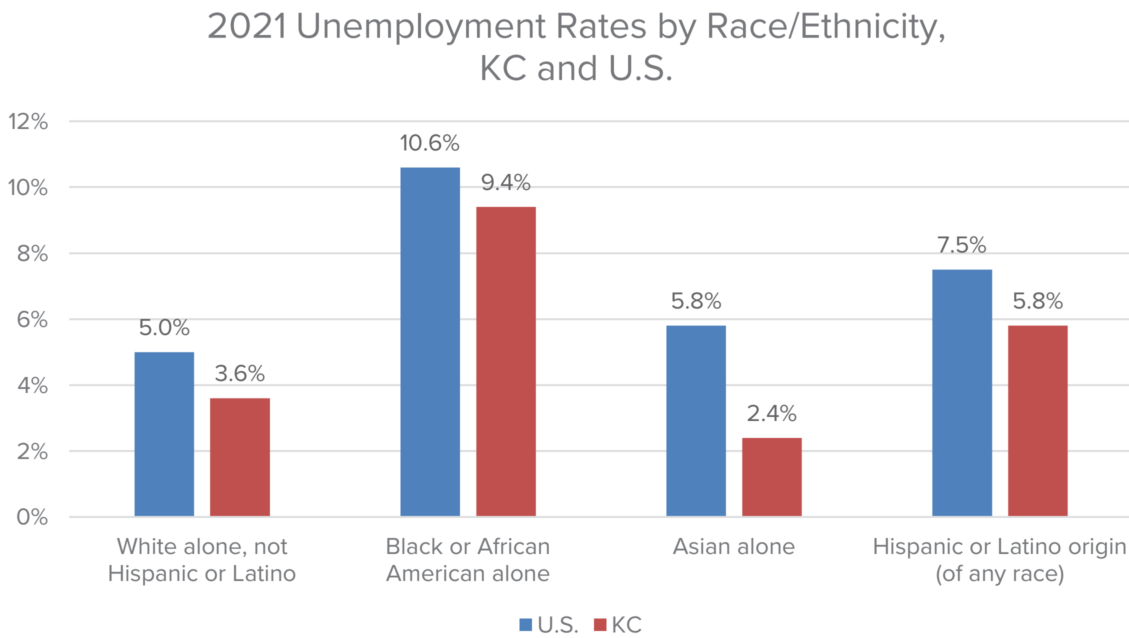
Unfortunately, it is impossible to assess the 2022 extent of racial disparities in unemployment in the Kansas City region because the only source for this data is the American Community Survey, which is published annually, not monthly like the data from the U.S. Bureau of Labor Statistics. The latest data, published in September 2022, covers the year 2021. Additionally, no data for 2020 was published due to data collection difficulties during the pandemic. The only analysis possible is to compare where the region started in 2019 relative to the nation and how that comparison changed by 2021. This essentially covers the period from before the pandemic through when vaccines became widely available.

In 2019, this data shows that — just as the Kansas City region's overall unemployment rate is lower than nation's — it is also lower for most racial and ethnic groups. However, the degree of racial disparity is somewhat larger than the nation, especially for Latino workers. Before the pandemic, the Kansas City metropolitan area's unemployment rate for Black workers was more than double (125% higher) that of white workers, while it was roughly double (108% higher) nationally. Unemployment rates for Latino workers in the Kansas City region were 112% higher than for white workers, compared to 46% nationally.



Source: 2021 American Community Survey, one-year data

These disparities worsened for the region's Black workers in 2021, as their unemployment rate rose to 2.6 times that of white workers. The local disparity in unemployment rates for Latino workers fell, however, to essentially match the U.S. disparity of about 50% higher than that of white workers.

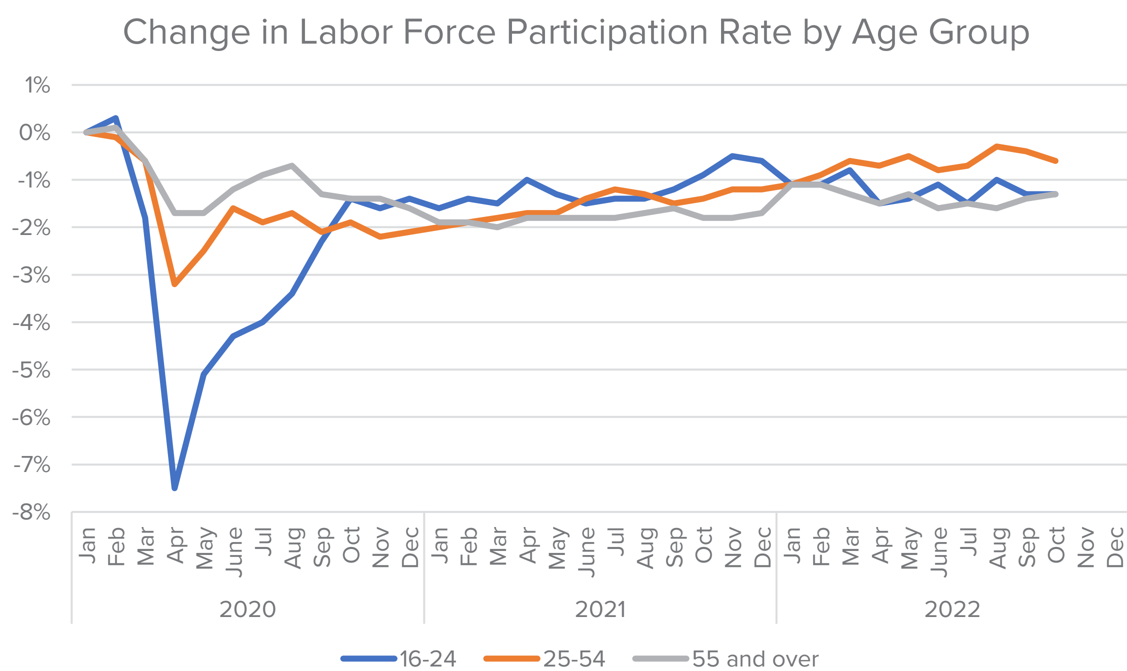


Source: 2021 American Community Survey, one-year data

These figures suggest the 2022 data, when released, may reveal that the region continued to experience relatively larger difficulty finding jobs for Black workers than elsewhere in the nation.

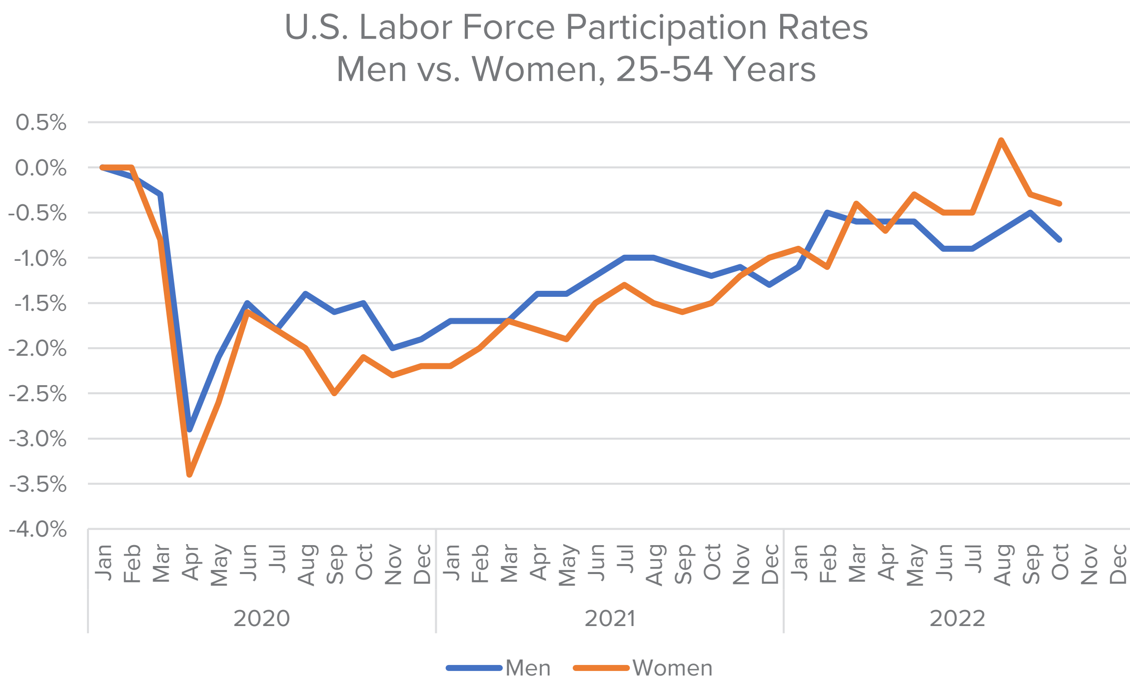
Despite the racial disparities that continue to exist, unemployment rates have returned to pre-pandemic levels. This indicates that significant progress has been made in re-employing those who lost their jobs. But because the official unemployment rate can decline if more people simply drop out of the labor force and are no longer counted as unemployed, we must also look at labor force participation rates. There, the story is still generally positive but more mixed.

First, for those in their prime working ages of 25 to 54 years, labor force participation has gradually returned to near pre-pandemic levels and, in October 2022, was only about half a percentage point below the prior peak. This is good news. However, significant proportions of both older and younger workers still appear to be missing from the labor force as their gap between prior and current labor force participation is more than twice that of prime-age workers. Younger workers were hurt the worst early in the pandemic as the industries in which large numbers of them are employed, such as retail, leisure and hospitality, were impacted. That these sectors are still in the process of rebounding mostly explains why participation in the labor force for young workers remains so far below pre-pandemic levels. Older workers, on the other hand, didn't see as much of a hit early in the pandemic but have also seen virtually no recovery. It appears that many older workers have re-evaluated their circumstances and decided to retire in greater numbers.



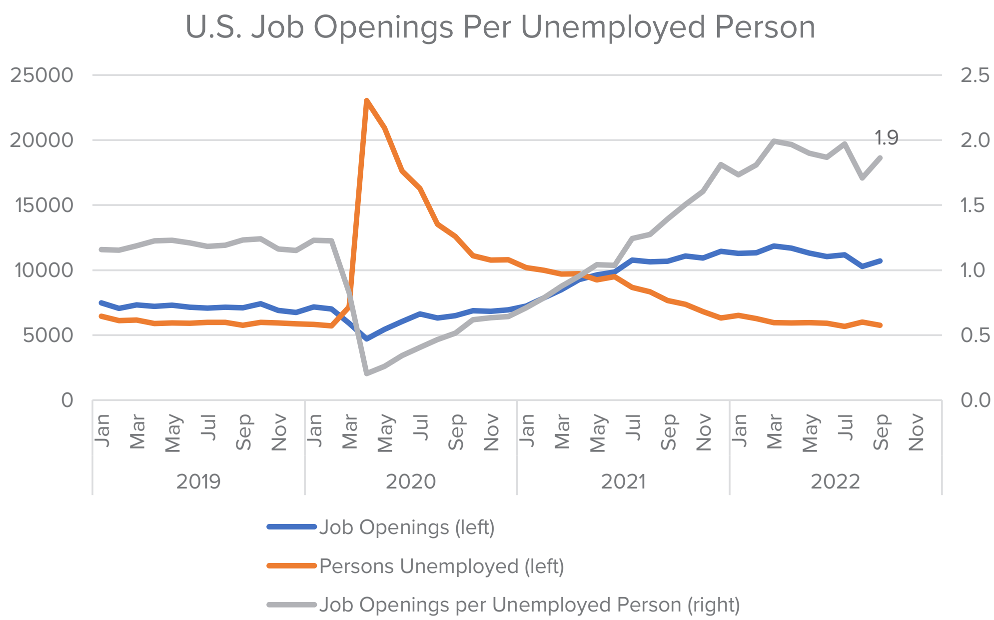
Source: Bureau of Labor Statistics

Also in the "good news" category is that, despite continued issues finding child care, the recovery of women's participation has picked up. In fact, the labor force participation rate of women ages 25 to 54 exceeded pre-pandemic levels in August 2022 before falling back to about a half a percentage point below in September and October. Additionally, after lagging the increases in men's labor force participation for most of the recovery period, women's improvement in participation now exceeds men's. For reasons not entirely clear, the growth in labor participation for men in their prime working years appears to have stalled out in 2022 and remains close to a full percentage point below pre-pandemic levels.



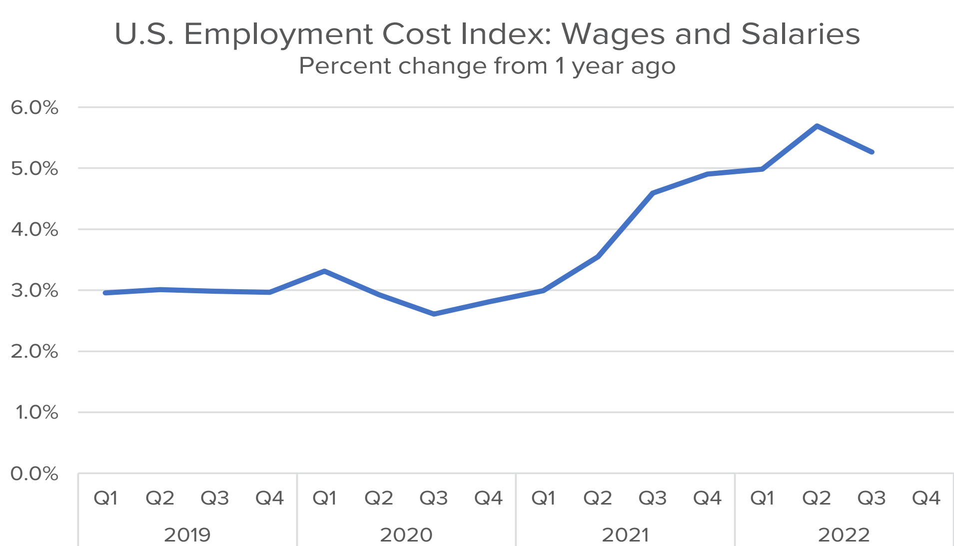
Source: Bureau of Labor Statistics

Yet, though there has been progress in restoring workers to the labor force, this has not been quick enough for employers. Once vaccines became available, consumer demand for goods and services snapped back and, with it, employer demand for workers. But there simply weren't enough workers available to meet the demand. Workers who had been laid off could not simply be called back as many had moved on to other jobs. Care issues for both children and those recovering from COVID-19, as well as workers who themselves were struggling to recover from illness, still limit the number of people who can work. Many older workers retired earlier than expected and this further lowered the availability of skilled and experienced labor. As a result, job openings reached record levels and the number of unemployed persons per opening reached historic lows, with nearly two jobs open for each person who was officially unemployed.



Source: Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis

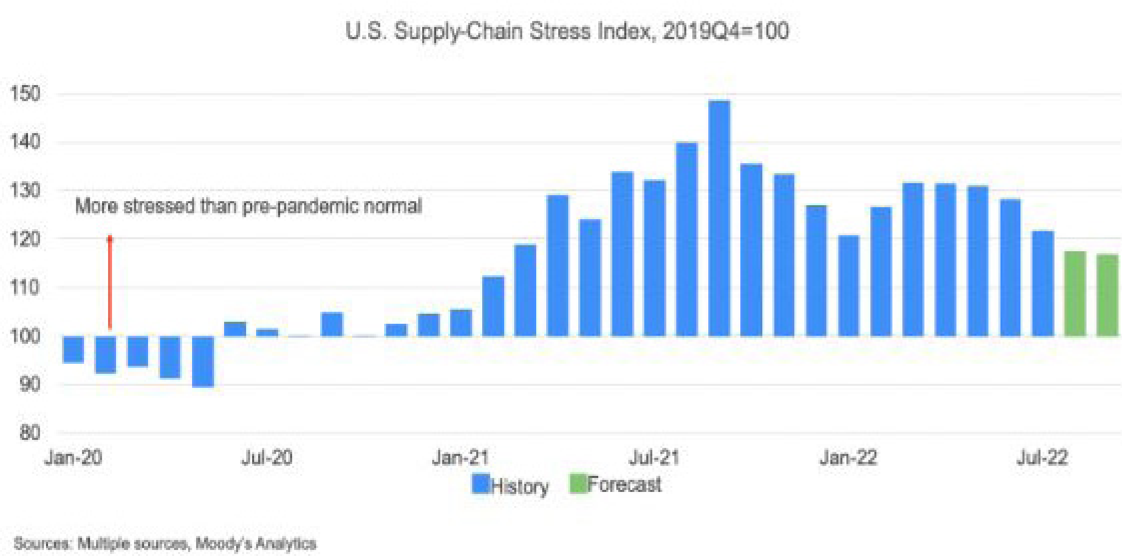
As the number of openings began to exceed the number of unemployed persons, wages and salaries began to accelerate. By the second quarter of 2022, wages were nearly rising twice as fast as they were pre-pandemic. The combination of higher employment and higher pay stoked the demand side of the economy.



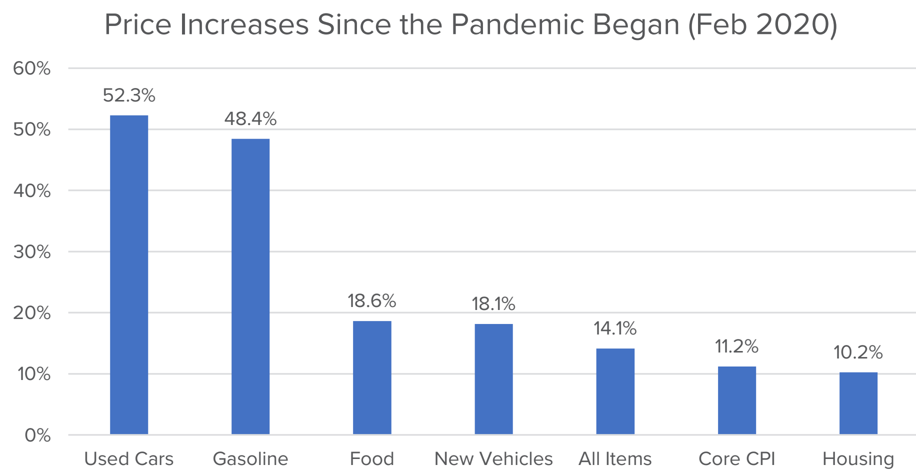
Source: Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis

At the same time, the supply chains that were broken by the pandemic were not fully repaired. Factories in China were repeatedly shut down, as were ports. Huge bottlenecks developed and the price of shipping a container of goods jumped 10 times or more. Decades-long trends in increasing off-shore production suddenly stopped and interest in on-shoring — bringing production back to the U.S. — began to rise.

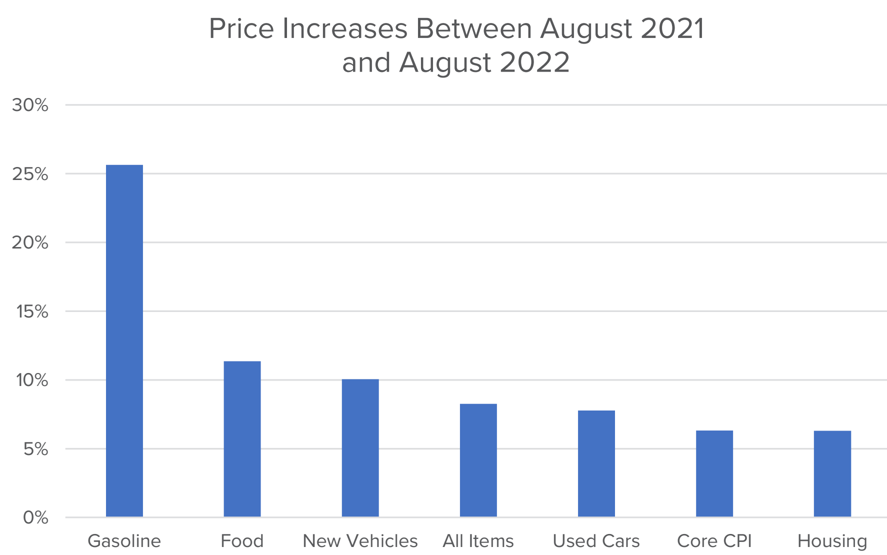
So long as the pandemic suppressed spending, supply chains had a chance to recover. But once vaccines became widely available in early 2021, consumer demand snapped back, partly fueled by pandemic relief funds that had been distributed to keep businesses and households solvent. Supply chains could not keep up. Though the stress on U.S. supply chains peaked in mid- to late-2021, they remain substantially above pre-pandemic levels.



Rising demand plus restricted supply is a recipe for inflation. Whereas the unemployment caused by the pandemic affected a minority of the population, the inflation that resulted from the rapid economic rebound is affecting everyone. Inflation has risen to levels not seen since the 1970s and 1980s. Used cars, gasoline and food, which are up 52%, 48% and 18%, respectively, have been especially affected since the beginning of the pandemic. It is estimated that the average household is now spending around $400 more per month to achieve the same standard of living as pre-pandemic.



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

Nationally, all eyes are on the Federal Open Market Committee of the Federal Reserve Board as it tries to rein in inflation that resulted from a surge of post-pandemic spending and supply chains that could not keep up. The war in Ukraine only exacerbated these supply chain issues, especially for necessities like food and gasoline. Inflation rates of 8% to 9% have reduced real incomes and hurt the poorest families the most, given demand for food and gasoline is relatively inelastic.

The Federal Open Market Committee is in the process of raising short-term interest rates from near 0% to near 5% in the span of one year, a pace not seen since the early 1980s. The Federal Reserve Board still seeks to achieve a “soft landing” — slowing the economy enough to reduce inflation to tolerable levels without significantly increasing the unemployment rate.

Some Successes

Despite all the economic turmoil, the region has realized several successes; some over the past decade, and some during and immediately following the 2020 pandemic.

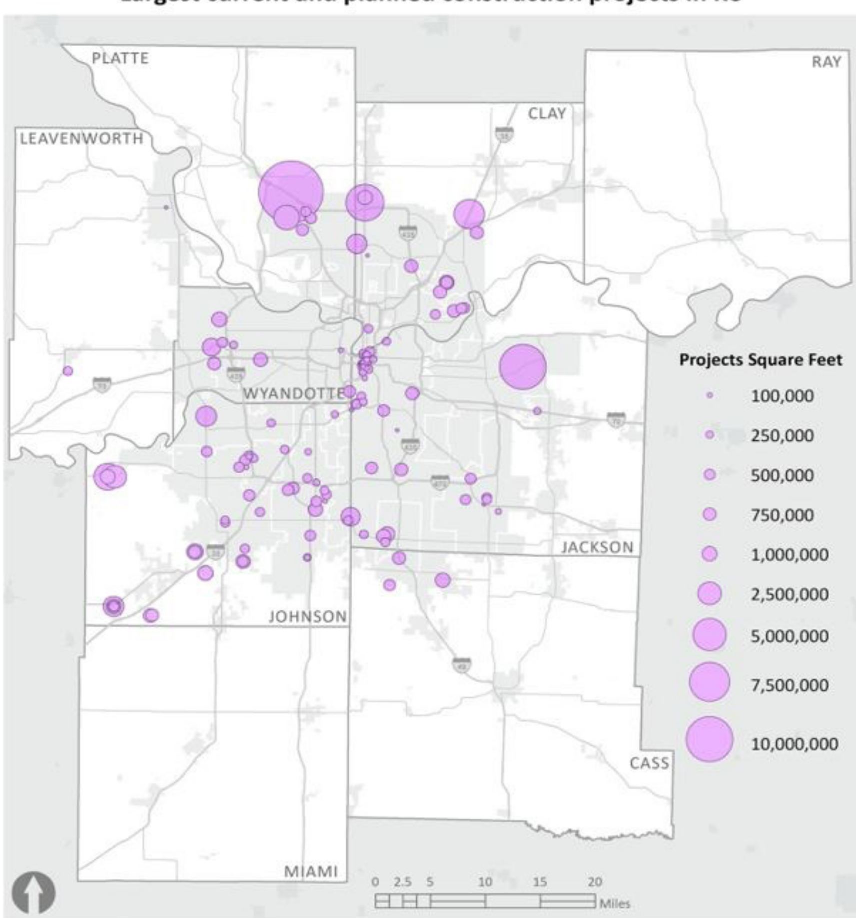
The region's growth patterns have shifted from continued outward expansion to reinvestment, with increased density in the urban and close-in suburbs. This changing physical development has been coupled with greater diversity of the region's population by race and ethnicity.

The 2020 Census data shows that:

- The Kansas City region is becoming more racially and ethnically diverse.
- Though white, non-Hispanic residents remained a substantial majority of the population at 68%, the increase in the number of residents of color between 2010 and 2020 accounted for 92% of the region's overall population growth.
- The increase in population diversity contributed to a dramatic shift in how the region is growing, from one where all the growth is focused on the edges of the region while the center declines, to one where all areas are now growing.

Additionally, the region has recorded some substantial economic development wins in 2022, including announcements of a substantial Panasonic electric vehicle battery plant in DeSoto, Kansas; a large Urban Outfitters warehouse in Kansas City, Kansas; a Meta data center in the northland; and a large logistics center in eastern Independence.

Largest current and planned construction projects in KC



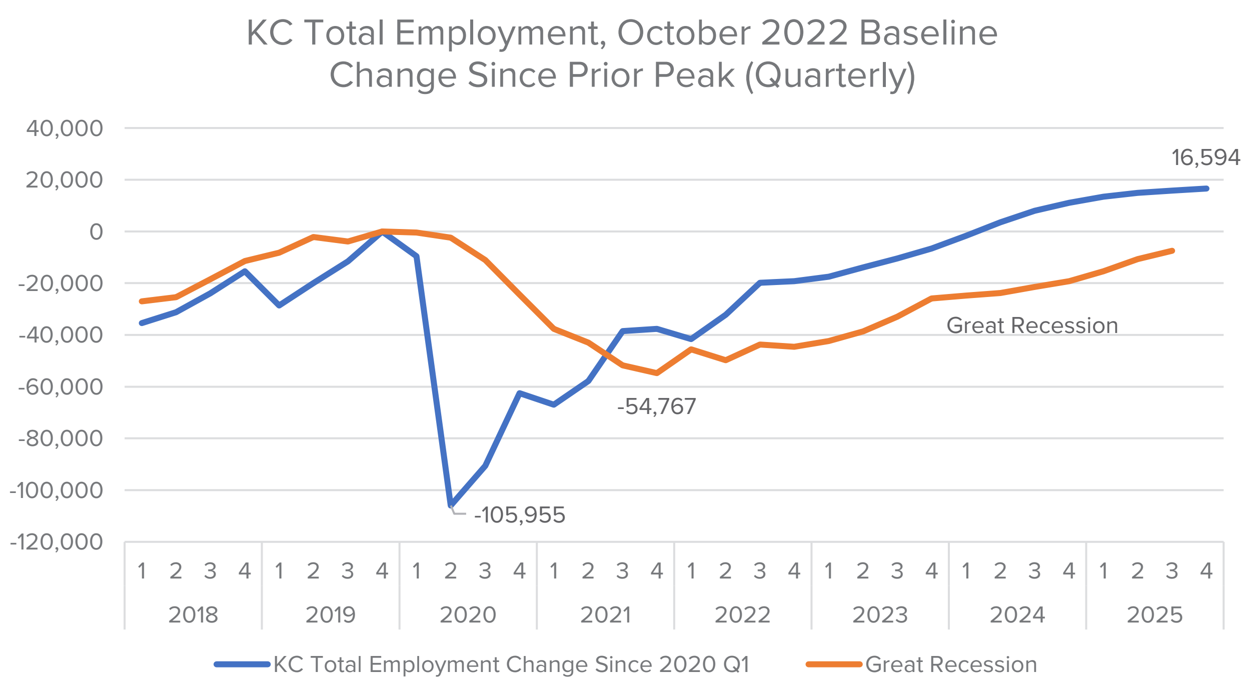
Source: Dodge Data and Analytics, MARC

These mostly industrial expansions reflect the region's advantages being located in the heart of the continental U.S., connected to population centers throughout the country through efficient multi-modal transportation systems and able to provide access to large quantities of high-quality labor. This sets up the region to participate in an increasingly e-commerce-driven economy where distribution of goods is increasingly important and there is a rising demand to increase the on-shoring of production to minimize the potential for supply disruptions.

But these successes do not overcome the fact that the region is experiencing slower-than-average economic growth with lower-than-desired equity in who benefits from that growth. In fact, the location of large development projects, mostly on the edges of the region's urbanized area, has the potential to exacerbate equity and resilience issues by shifting resources away from where low-income workers live while minimizing the region's ability to use transit to increase job access.

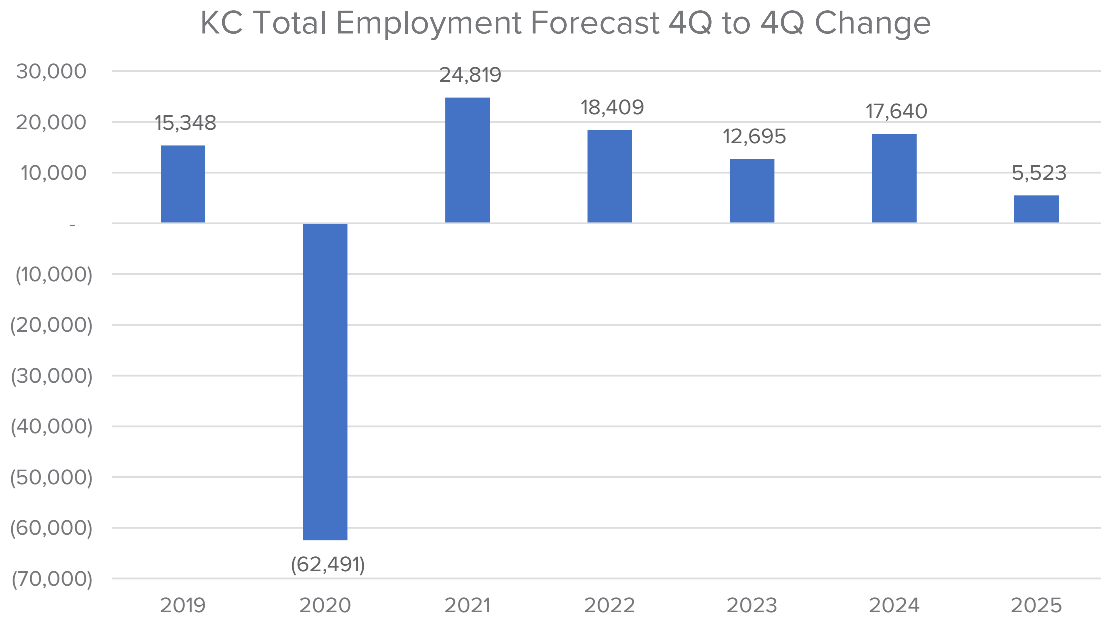
What's Ahead for the Kansas City Regional Economy

Combining all of these trends, along with a national forecast that assumes a recession will be avoided, it is forecast that the region will not recover all the jobs lost during the pandemic until the second quarter of 2024 — nearly two years after the nation. Should the aggressive increases in interest rates instead push the nation into a recession in 2023, it will not be until sometime in 2025 that the region regains all the lost jobs.



Source: MARC

Measured on a fourth-quarter to fourth-quarter basis, job growth in 2022 is expected to be less than in 2021 — declining from nearly 25,000 a year ago to 18,400 this year. Growth is expected to be even lower in 2023 at 12,700 as the national economy barely skirts a recession and employment growth flattens. This flatter growth should reduce inflation pressures. The region's employment growth rate during this period, though slower than the year before, is still likely to be above average, given the regional economy is typically more resilient than the national economy when growth slows. In 2024, as fading inflationary pressures allow interest rates to come down and national economic growth picks back up, it is then that the region's ability to rebound as fast as other parts of the country will again be tested. At this point, the Kansas City area economy is expected to experience a rebound sufficient to add 17,600 jobs in 2024.



Source: MARC

Beyond that, though, the economic growth is likely to be constrained by the rate of growth in the working-age population. As Baby Boomers age and immigration continues to be relatively low, labor shortages are likely to again constrict potential employment growth during this period. As a result, by 2025, employment growth is projected to fall to only about 5,500 jobs annually.

In short, the pandemic exacerbated pre-existing inequities and spotlighted the region's lack of economic competitiveness as a separate but contributing factor. Growth will continue to be challenged in 2022 and beyond, given rising interest rates, tight labor markets, high inflation, continued supply chain issues, and the uncertainty and higher costs created by the Russian invasion of Ukraine and resulting sanctions regime. In the absence of effective strategic initiatives, the forecast is for sluggish economic growth relative to the nation and to benchmark metros to continue.

On the other hand, COVID-19 disruptions have receded to levels that should allow the region to make stronger progress toward economic recovery. However, uncertainty about the return of the pandemic or a surge in influenza or other health or economic factors make future disruptions more likely. These times make clear that regions that succeed in investing to create more resilient workers and businesses will be the ones that weather these and future economic storms the best.

Lessons Learned

- Trust in institutions has been eroded to the point where basic public health messages were routinely dismissed by significant portions of the population. This bodes ill in a world where climate change, a war between Russia and Ukraine, supply chain disruptions, and high inflation combine to create great uncertainty — and both clarity and trust will be needed to navigate unexpected events.
- Remote work, education and telehealth are possible and productive on a wider scale than previously thought imaginable, but these are no way universally accessible. Those in service-oriented occupations or with low incomes or other barriers to broadband computing and communications cannot participate fully digitally, aggravating existing fault-lines of disparity and creating new ones.
- In a world where significant portions of highly compensated workers can choose to live anywhere with a broadband connection while working for any company with a broadband connection, and where retail sales are attributed to the home rather than the place of purchase, the quality of life in an area becomes increasingly important relative to proximity to business or business attraction efforts.

What Actions Are Needed to Support the Region's Growth and Resiliency?

The region's recovery from the pandemic and ongoing economic challenges and potential for increased resiliency to withstand and recover from future events will be dependent on:

Enterprise

- Stronger programs and greater financial resources to help entrepreneurs start and grow small businesses, particularly those led by women and persons of color
- Expanded and sustained support programs like the CEO Challenge sponsored by KC Rising to encourage major companies and local governments to procure goods and services from small, local firms
- Expanded or established small business support services to serve all parts of the metro area and to meet the diverse needs of entrepreneurs, including those lacking English proficiency

Industry

- Continued focus on traded industry sectors that bring resources into the region through the purchase of regionally produced goods or services
- Identification and focus on those industries in the metro area with the potential to increase the region's competitive advantage with strategies to grow or strengthen these industry sectors (e.g., biologics/life sciences, advanced technology/EV for motor vehicle manufacturing)
- Services or guidance for businesses to find the talent they need to stabilize and grow their operations
- Strengthened use of technology by businesses to be able to operate when finding skilled labor is difficult or when emergency conditions (e.g., pandemic) require remote operations. (Make sure those employed in low skill, low wage jobs have opportunities for re-skilling).

Inclusion

- Intentional public policy and public and private investments to address systemic racism and past policies and practices that have resulted in disparities in educational attainment and access, income and wealth, and homeownership and business formation.
- The long-term impacts of racism need to be identified, understood and addressed.

Education

- Education and training programs designed to create a skilled workforce and support providing all residents of the community the opportunities for economic prosperity
- A stronger regional workforce system that provides supportive services, including strong career coaching/navigation, wrap-around support to remove barriers to education and employment, and stronger connections with employers to understand job skills needed and expanded experiential learning opportunities.

Connectivity

- Expanded high quality public transportation and active transportation systems to enable residents and visitors to travel to destinations throughout the region for employment, education, health care and recreation/entertainment
- Expanded high-quality, low-cost internet access for all households and businesses
- Use transportation infrastructure investments to increase equitable access to opportunity, with an aim to accelerate job growth in low-job areas and encourage workforce housing development in job-rich areas.

Culture

- Expanded cultural assets are integrated into the design and development of residential and commercial areas throughout the region
- Cultural assets designed to recognize and celebrate the region's diversity

Neighborhood

- Creating and sustaining neighborhoods and communities that are safe, offer diverse quality housing options and access to educational and recreational opportunities
- Address affordable housing challenges for many households in our region
- Recognize that concentrated poverty does not occur without concentrated affluence and seek to create mixed-income neighborhoods in more parts of the region.
- Reduce crime, particularly violent crime, that creates concerns over public safety and limits opportunities for investments in many parts of the region
- Design or retrofit the built environment and neighborhoods to mitigate risks from flooding, wildfires, high winds, severe winter weather