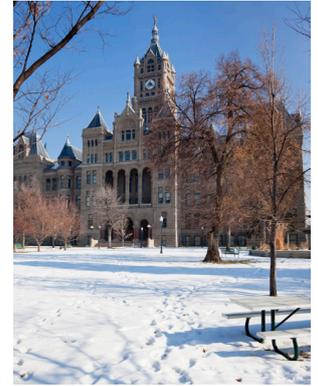


McKinsey Global Institute



April 2012

Urban America: US cities in the global economy



The McKinsey Global Institute

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MGI is led by three McKinsey & Company directors: Richard Dobbs, James Manyika, and Charles Roxburgh. Susan Lund serves as director of research. Project teams are led by a group of senior fellows and include consultants from McKinsey’s offices around the world. These teams draw on McKinsey’s global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, act as research advisers.

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Urban America: US cities in the global economy

James Manyika
Jaana Remes
Richard Dobbs
Javier Orellana
Fabian Schaer

Preface

In today's challenging economic environment, the United States needs to overcome the hangover from the Great Recession and build a platform for long-term growth. The overwhelming role that cities play not only as home to the vast majority of Americans but also as the dominant driver of the nation's economic growth and a major continuing contributor to world GDP growth argues for a keen focus on their prospects.

In this report, MGI, the business and economics research arm of McKinsey & Company, puts US urban growth prospects into a global context as part of our continuing work on global urbanization and on US growth and renewal. We compare the economic weight of US large cities with the urban centers of other developed regions, describe GDP growth patterns across US urban centers over the past few decades, and highlight the key challenges and opportunities for US urban regions as they plot their course through to economic recovery. We plan to publish an update to our March 2011 report *Urban world: Mapping the economic power of cities* in spring 2012.

Jaana Remes, MGI senior fellow based in San Francisco, led this project, with guidance from James Manyika, a director of MGI based in San Francisco, and Richard Dobbs, a director of MGI based in Seoul. The project team comprised Fabian Schaer and Javier Orellana. We are grateful for the advice and input of many McKinsey colleagues, including Shannon Bouton, David Cis, John Horn, Alex Maasry, Lenny Mendonca, Marcela Merino, Scott Nyquist, Asutosh Padhi, Michael Tavilla, Samantha Test, Jonathan Woetzel, and Marwa Joy Zohdy. The team also appreciates the contribution of Janet Bush, MGI senior editor, who provided editorial support; Rebeca Robboy, MGI external communications manager; Julie Philpot, MGI editorial production manager; and Marisa Carder, graphics specialist.

We are grateful for the invaluable guidance we received from many experts in academia, industry, and government. Our particular thanks go to Richard Cooper, Maurits C. Boas Professor of International Economics in the Department of Economics at Harvard; Michael Storper, professor of urban planning at the University of California, Los Angeles; Alan Berube and Emilia Istrate of the Metropolitan Policy Program at the Brookings Institution; Jed Kolko, chief economist at Trulia; and Doug Henton, chairman and CEO of Collaborative Economics.

This report contributes to MGI's mission to help global leaders understand the forces transforming the global economy, improve company performance, and work for better national and international policies. As with all MGI research, we would like to emphasize that this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution.

Richard Dobbs
Director, McKinsey Global Institute
Seoul

James Manyika
Director, McKinsey Global Institute
San Francisco

Charles Roxburgh
Director, McKinsey Global Institute
London

Susan Lund
Director of Research, McKinsey Global Institute
Washington, DC

April 2012

US cities ...

More than

10% of global GDP growth to 2025 will come from large US cities

80% of the US population lives in large cities,

vs. less than

60%
in Europe

Almost

85% of US GDP was generated by 259 large cities in 2010, while the large cities of Western Europe contributed less than

65%



... *in an urban world*

3/4 of the US lead in per capita GDP over Western Europe is explained by differences in the regions' large cities

Just over

255 middleweight cities are in the United States, vs. just over **180** in Europe

2nd largest city in the world in 2025 will remain New York ...

4th largest city in 2025 will be Los Angeles



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Executive summary

If the 21st century is the century of cities, as some observers characterize it, urban America begins the millennium in a strong position. Large cities in the United States—and in particular the nation’s broad swath of dynamic middleweights—dominate the economy as in no other region of the world.¹ They also loom large in the urban world. Almost one in seven of the City 600, the group of cities that is expected to contribute 60 percent of global GDP growth to 2025, is in the United States. Large US cities are expected to generate more than 10 percent of global GDP growth in the next 15 years, a larger contribution than all of the large cities of other developed countries combined. So although the burgeoning cities of Asia have seized the public imagination, US cities will remain an important part of the US and global growth story over coming decades.

But US cities face turbulent times ahead as the economy strives to recover from the Great Recession. In the next few years, many cities are likely to grapple with the dampening impact of deleveraging on economic activity as the public sector and individuals attempt to pay off high debt levels, as well as persistently high pockets of unemployment. They also face longer-term headwinds including the aging of the population, which will require even more emphasis on boosting productivity, innovation, and skills. Policy makers and businesses need to find ways through these difficulties in order to play their part in the growth and renewal of the US economy.²

In the past, the diverse pool of US cities has found many different ways to expand and become more prosperous. There has been no single recipe for success—nor is there likely to be one in the period ahead. In this report, MGI examines the importance of cities in the US economy and compares their role to the cities of other regions. The report describes urban GDP growth patterns over past decades and highlights some of the major trends facing urban America to arrive at a sense of how cities will navigate the challenges ahead.

1 Consistent with the MGI Cityscope database, we define large cities as metropolitan areas with populations of 150,000 or more. The 259 large US metropolitan areas consist of the two megacities of New York, New York and Los Angeles, California, with populations of ten million or more, and 257 “middleweight” cities with populations of between 150,000 and ten million.

2 For readers interested in MGI’s work on growth and renewal and employment in the United States, see, for example, *Growth and renewal in the United States: Retooling America’s economic engine*, February 2011; and *An economy that works: Job creation and America’s future*, June 2011 (www.mckinsey.com/mgi).

US CITIES—PARTICULARLY MIDDLEWEIGHTS—WILL CONTINUE TO DRIVE GROWTH

Today, large US cities have more weight in the US economy than do large cities in any other major region. In 2010, 259 large US cities generated almost 85 percent of US GDP. During the same period, large cities in Western Europe accounted for less than 65 percent of the region’s GDP. Among emerging regions, metropolitan China accounted for 78 percent of China’s GDP and the large cities of Latin America contributed 76 percent to regional GDP.

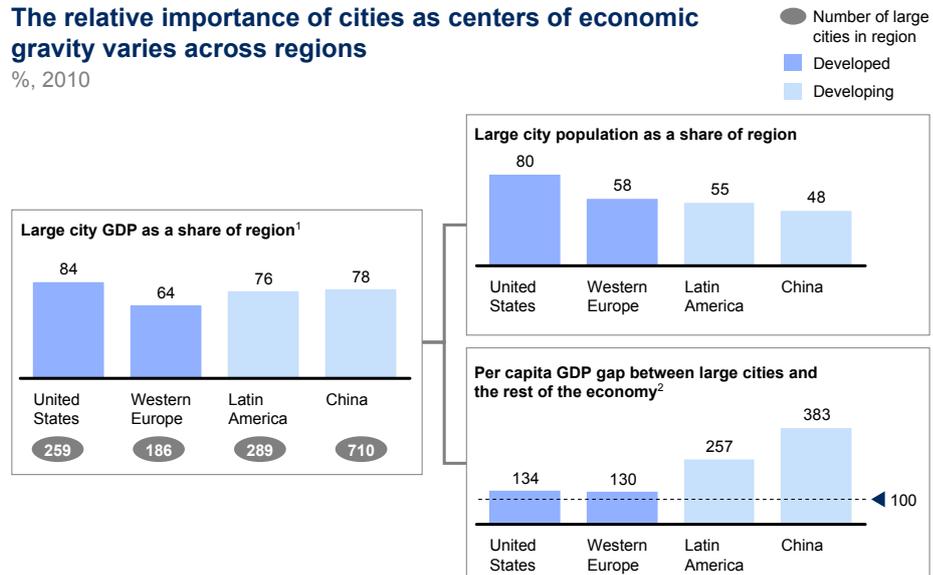
Large US cities have such relative economic weight for two reasons. First, they are home to 80 percent of the population compared with less than 60 percent in Western Europe. Second, they have a relatively high per capita GDP premium. The average per capita GDP of large US cities is almost 35 percent higher than in smaller cities and rural areas; in Western Europe, this premium is about 30 percent (Exhibit E1).

The relative weight of different regions in the world economy changes when we home in on the economic clout of their large cities. Even though Western Europe’s GDP exceeded that of the United States by nearly 10 percent in 2010, the combined GDP of large US cities exceeds that of large Western European cities by more than 20 percent.

Exhibit E1

The relative importance of cities as centers of economic gravity varies across regions

%, 2010



1 We define large cities as having 150,000 or more inhabitants in the United States, and Western Europe. In China and Latin America, we include only cities with 200,000 inhabitants plus in 2010. GDP is in PPP US dollars.

2 The rest of the economy comprises cities with fewer than 150,000 inhabitants as well as rural areas.

SOURCE: McKinsey Global Institute Cityscope 1.5; McKinsey Global Institute analysis

It is America's cities that explain why the United States continues to enjoy higher per capita GDP than Europe. The higher share of US urbanites—and the fact that they command a larger per capita GDP premium over US smaller towns and rural areas than do their European counterparts—explains three-quarters of the per capita GDP gap between the two economies.

The nation's largest and well-known megacities of New York, New York, and Los Angeles, California, will continue to prosper.³ New York is on course to remain the second-largest city by GDP in the world in 2025, and Los Angeles to rise from sixth place today to become the fourth-largest city. But the weight of these megacities in the US economy is not decisive to the overall importance of cities in the United States. London and Paris have a smaller share of the overall Western European population—6 percent, compared with the combined population of the US megacities of 10 percent of the total US population—but they enjoy a significantly higher per capita GDP premium than their US counterparts. Paris and London contribute 9 percent to Western Europe's overall GDP, compared with the 13 percent contributed by New York and Los Angeles.

Instead, the true vigor of America's urban economy comes from a broad base of dynamic middleweights and the relatively high per capita GDP they achieve. There are just over 255 middleweight cities in the United States, compared with just over 180 in Europe. And they generate more than 70 percent of US GDP today, compared with just over 50 percent in Western Europe. In fact, the top 28 US middleweights alone contribute more than 35 percent of US GDP. The dynamism of middleweights in the United States is a characteristic of today's global urban expansion, making them an interesting group to understand for both US and global growth prospects.

US CITIES HAVE VARIED WIDELY IN THEIR PERFORMANCE— THERE IS NO SINGLE BLUEPRINT FOR FUTURE SUCCESS

While the overall performance of urban America has been a strong one, the fate of individual cities has varied widely. Among middleweights in the top 30 cities, considerable changes have occurred in their rankings by GDP over the past 30 years. Cleveland, Ohio, for instance, dropped from 17th place to 27th, while Phoenix, Arizona, rose from 28th place to 13th. Five cities have dropped out of the top 30 completely and been replaced by newcomers.⁴

3 The metropolitan area of Los Angeles includes the Californian cities of Long Beach and Santa Ana, and the metropolitan area of New York includes Newark, New Jersey.

4 The metro areas that have dropped from the top 30 by GDP from 1978 to 2010 are New Orleans, Louisiana; Milwaukee, Wisconsin; Columbus, Ohio; Indianapolis, Indiana; and Buffalo, New York; and the new entrants to the top 30 are Riverside, California; Portland, Oregon; Tampa and Orlando in Florida; and Sacramento, California.

The GDP growth of a city consists of growth in its population and increases in its per capita GDP. Looking at large cities on these two dimensions, it is the diversity of their performance—not the similarity—that is striking (Exhibit E2). Four features of US urban growth over the past three decades stand out.

- **Different population growth rates explain most of the differences in GDP growth performance among US cities.** Fast-growing cities on average posted growth in their populations of two and a half times the national average even while experiencing per capita GDP growth rates nearly identical to the national average.⁵
- **A favorable mix of sectors is a factor in the fast growth of top-performing large US cities—but is less important than observers often assume.** The mix of sectors of the fastest-growing cities can explain 15 percent higher GDP growth than the average urban GDP growth rate.⁶ But in fact this group has outpaced the average by more than 45 percent, indicating that a favorable mix of sectors explains only one-third of their outperformance.
- **Broad economic trends contribute to the diversity of experience across US cities.** Changes in the economic environment help explain why some cities thrive and others don't. We have seen the rise and decline of manufacturing cities; the lift that Sun Belt cities in the South and West have received from their favorable climates; and the impact on Eastern and Western cities from a shift in global economic activity, away from Europe and toward Asia, and from the Atlantic to the Pacific.
- **The diversity of growth patterns among strongly performing US metropolitan areas suggests that there is no single path to economic success.** Cities that have outperformed their peers in GDP growth include rapidly growing “gazelles” such as Austin, Texas, and Raleigh, North Carolina, which have outperformed the US average in both per capita GDP and population growth by building on their high-tech presence and strong collaboration with local universities. Others such as Dallas, Texas; Atlanta, Georgia; and Salt Lake City, Utah—which we might call “affordable metropolises”—have outperformed the average national average GDP growth because their populations have expanded rapidly despite per capita GDP growth that was slower than average. Yet another set of large, established cities such as Boston, Massachusetts, and Washington, DC—“alpha middleweights”—outperform others with significantly above-average per capita GDP and sustain moderate growth by leveraging the strength of their existing economic base.

5 We define fastest-growing cities as those that have achieved GDP growth that is 25 percent higher than the US average between 1978 and 2010.

6 The sector breakdown is based on a 20-sector split of the economy.

Exhibit E2

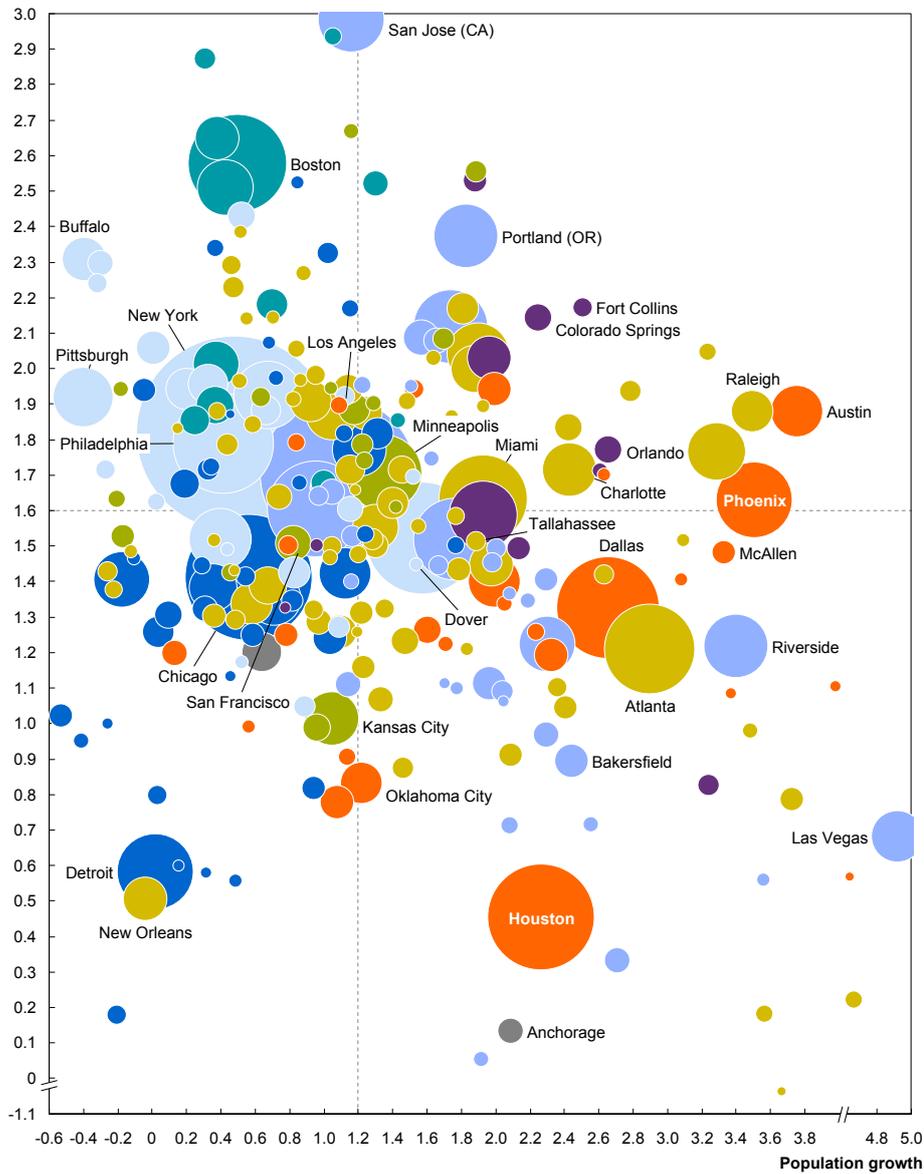
The growth patterns of individual cities have varied widely

Compound annual growth rate, 1978–2010

%



Per capita GDP growth



NOTE: For metropolitan regions, we use the first name of the region: e.g., New York for New York-Newark.
 SOURCE: Moody's Analytics; McKinsey Global Institute analysis

POLICY MAKERS AND COMPANIES NEED TO NAVIGATE DIFFICULT TIMES AHEAD

In the years ahead, US cities will face a number of strong headwinds against growth. In the short term, many urban centers will need to grapple with high unemployment and deleveraging. In the longer term, cities will need to deal with declining population growth, demographic shifts and aging, and less labor mobility than in the past. These are likely to constrain purely population-driven growth strategies and further increase the intense competition for talent.

Yet large US cities have time and again demonstrated that they collectively have the resilience and capacity to adjust to new situations. There is no reason this will not be the case in coming decades, too. As in the past, the trump card for urban America as it navigates its way toward growth and renewal will be the diversity of strategies and experiences of individual cities. While there is no single blueprint for all cities to follow, there are workable approaches that have proved effective for policy makers and businesses.

Key approaches for policy makers

- **Know thyself and tailor strategy accordingly.** Cities need to understand their strengths and weaknesses, as well as the impact of demographic and other trends on their prospects, and set their strategy accordingly. Large metropolises need to compare themselves and benchmark against an increasingly global urban landscape. Smaller cities need to prioritize to make the most of their unique strengths.
- **Excel in execution.** The way policies and strategic plans are carried out is critical to success. Involving the private sector and a broad range of stakeholders has a proven track record.
- **Be connected.** Rather than seeing other cities as competition, building connections to other US and global cities can be a source of strength and new ideas.

Key approaches for businesses

- **Be granular in the search of growth.** In a diverse US urban landscape, companies need a detailed understanding of where the growth opportunities are and need to ensure that they are sufficiently nimble to respond to changing circumstances.
- **Engage actively in the search for talent.** Skills, particularly technical ones, are going to be in increasingly short supply. Businesses need to understand which cities can offer the most attractive workforce and production assets.
- **Collaborate with cities to carve out a competitive environment.** Companies should work with cities, many of which are keen to attract business, to inform local leaders of their needs and what policies would be most conducive to a competitive urban environment.

□ □ □

Despite the severe challenges they face, US cities start from a more robust platform than their peers in other developed regions. The strength of urban America lies in its diversity and the broad swath of middleweight cities—an urban profile that we are beginning to see play out across the urban world.

Mapping the role of US cities in an evolving urban world

Amid the amassed dark clouds of the global economy, the massive wave of urbanization that is rolling across the emerging world is a welcome shot of dynamism.⁷ The most dramatic developments are unfolding in Asia, where the scale and pace of urban expansion is unprecedented. China's economic transformation is happening on 100 times the scale of the first country in the world to urbanize—the United Kingdom—and in just one-tenth of the time. By 2025, the number of urbanites in China will be triple the number in the United States.

With the unprecedented pace of growth in urban Asia grabbing the spotlight, it is easy to forget that US urban centers will continue to be economic powerhouses. Large cities in the United States are the center of gravity of the US economy, today generating almost 85 percent of US GDP. But urban America also has a vital role to play in the world economy, generating nearly 20 percent of global GDP today. Consistent with our global Cityscope database, we define large cities as metropolitan areas with populations of 150,000 or more (see Box 1, "MGI's Cityscope database"). The 259 large US metropolitan areas consist of the two megacities of New York, New York and Los Angeles, California, and 257 "middleweight" cities.⁸

We expect the 259 large US cities to contribute more to global growth than the 355 large cities of all other developed countries combined.⁹ Within the dynamic group of City 600—the 600 cities that are expected to generate more than 60 percent of global GDP growth to 2025—almost one in seven is in the United States. The 79 US cities in this dynamic group are expected to contribute more to global GDP than the other 80 cities of the developed world in the City 600.

In 2025, ranked by GDP, New York is projected to remain the second-largest city in the world, behind Tokyo, and Los Angeles is projected to become the fourth-largest city. And it is not just the very largest US cities that will continue to be globally important. It is the large number and vigor of US middleweight cities that have contributed to the nation's urban clout. How well—or poorly—the cities of the United States perform as the economy recovers is critical not only for their host nation but also for the global economy.

7 *Urban world: Mapping the economic power of cities*, McKinsey Global Institute, March 2011 (www.mckinsey.com/mgi). MGI will publish an update to its 2011 urban world work in spring 2012.

8 Cities in this report refer to Metropolitan Statistical Areas (MSA) as defined by the US Office of Management and Budget. However, in order to compare these cities with urban areas in other regions, we only include 259 MSAs in this analysis with 150,000 or more inhabitants, and exclude 115 MSAs with populations below that threshold. So when we refer to cities, we mean the broader metropolitan areas that include not just central city areas within the jurisdiction but the surrounding MSA. The two megacities of Los Angeles and New York have populations of ten million or more, and 257 "middleweight" cities have between 150,000 and ten million inhabitants.

9 Measured at expected real exchange rates.

Box 1. MGI's Cityscope database

The MGI Cityscope is a database of more than 2,600 cities around the world that allows us to understand the evolving shape of global urban economies; extract many different city rankings and groupings by region, variable, and target market; and test the growth momentum that comes from doing business in particular geographies.

The database is, to our knowledge, the largest of its kind. It can help answer a range of questions relevant for the decisions that companies and policy makers need to make: Which cities will contribute the largest number of children to the world? Where will most of the new entrants to the workforce and most senior citizens be, and which cities will experience the fastest expansion among consuming middle-class income groups?

For each city, the database includes the following data for 2010 and 2025.

- Population by age group
 - Children (below the age of 15)
 - Working-age population (aged 15 to 64)
 - Older population (aged 65 and above)
- GDP and per capita GDP
 - At market and purchasing power parity, or PPP, exchange rates
 - At predicted real exchange rate, or RER
- Number of households by income segment in four income categories defined by annual household income in PPP terms
 - Struggling (less than \$7,500)
 - Aspiring (\$7,500 to \$20,000)
 - Consuming (\$20,000 to \$70,000)
 - Global (more than \$70,000)

MGI's city-level datasets were developed as part of our previous research, from existing public survey data, selected data from external providers, and MGI's country- and region-specific models of city growth to 2025.

MGI will publish an update of its 2011 urban world report in spring 2012, with a broader set of variables included in the Cityscope database that will shed light on the diversity of urban market growth prospects across different industries. The new Cityscope metrics include a view on markets such as bank deposits by city, estimates of residential and commercial floor space, and municipal water demand.

1. Middleweight cities elevate the US urban economic weight above those of other regions

The economic weight of large cities in the United States is the highest among the major regions of the world. While the very largest cities of the United States account for part of the economic clout that urban centers have in the US economy, it is the nation's broad swath of middleweights that differentiate the US urban landscape from its peers in developed regions.¹⁰

LARGE CITIES HAVE MORE ECONOMIC WEIGHT IN THE US ECONOMY THAN IN ANY OTHER DEVELOPED REGION

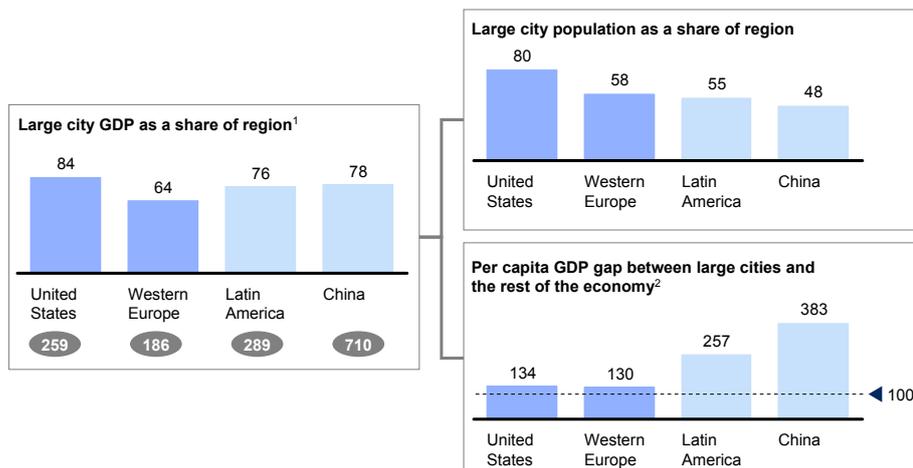
The cities of the United States punch above the weight of their very large combined populations. The 84 percent of US GDP that 259 large cities generated in 2010 compares with a share of 64 percent from large cities in Western Europe (Exhibit 1). This is roughly on a par with Japan, which has a much smaller population and where Tokyo alone represents almost one-third of the nation's economy. Among emerging regions, metropolitan areas in China accounted for 78 percent of China's GDP in 2010, and the large cities of Latin America contributed 76 percent to regional GDP.¹¹

Exhibit 1

The relative importance of cities as centers of economic gravity varies across regions

%, 2010

● Number of large cities in region
■ Developed
■ Developing



1 We define large cities as having 150,000 of more inhabitants in the United States, and Western Europe. In China and Latin America, we include only cities with 200,000 inhabitants plus in 2010. GDP is in PPP US dollars.

2 The rest of the economy comprises cities with fewer than 150,000 inhabitants as well as rural areas.

SOURCE: McKinsey Global Institute Cityscope 1.5; McKinsey Global Institute analysis

10 Middleweight cities refer to large metropolitan areas with population of 150,000 to ten million. We make a further distinction between, small, midsize, and large middleweights (up to two million inhabitants, up to five million inhabitants, and up to ten million inhabitants, respectively), recognizing that middleweights are a diverse set of cities.

11 In China and Latin America, MGI's Cityscope includes only cities with 200,000 or more inhabitants, excluding cities with populations of 150,000 to 200,000 that would make these figures fully comparable.

There are two reasons that US urban regions have such economic weight. First, cities are home to a higher share of the US population—80 percent of US citizens lives in large cities, compared with 58 percent in Europe. In the United States, the traditionally mobile population has gravitated into clusters of large cities, particularly in coastal regions.¹² In contrast, mobility has been lower within, and between, European countries.¹³ National policies aimed at reducing regional economic disparities have limited migration within individual countries, and a combination of language barriers and national borders within Europe has limited cross-border migration. European Union structural and cohesion funds have also transferred funds from richer metropolitan regions in its member states to poorer rural ones. This helps to explain why Europe has a relatively higher share of population living in small cities and rural areas.

A second reason that US metropolitan regions dominate the US economy is their relatively high per capita GDP premium. The average per capita GDP of large US cities is almost 35 percent higher than in smaller cities and rural areas in the United States, versus a premium of about 30 percent in Western Europe.¹⁴ The higher US per capita GDP premium relative to Western Europe largely reflects differences in the mix of cities—a higher share of US population lives in very large metropolitan areas that tend to have higher average per capita GDP. In addition, the share of large city populations in Europe is higher in Southern Europe, where per capita GDP tends to be lower, than in Northern Europe, which is wealthier overall.

So, not only does a big share of the population live in large cities in the United States, but the per capita GDP of those inhabitants is higher, further contributing to the large economic weight of large cities in the United States relative to Europe. Taking the population and per capita GDP of US cities together, we find that they account for around three-quarters of the overall US per capita GDP lead over Western Europe (Exhibit 2).

12 The share of population living in large US cities has risen from 75 percent in 1980 to 77 percent in 1990, 78 percent in 2000, and 80 percent in 2010. We expect migration to large cities to slow down, with the share living in large cities climbing to only 81 percent in 2025.

13 See Raven Molloy, Christopher L. Smith, and Abigail K. Wozniak, *Internal migration in the United States*, NBER, Working Paper No. 17307, August 2011. The authors find that US mobility is about twice as high as mobility in most European countries outside of Northern Europe, based on a 2005 Eurobarometer survey that allows for comparisons with US data. Data from the European Union Labor Force Survey generally confirm lower mobility rates in Europe than across in the United States. It is worth noting that cross-country comparisons of mobility rates are notoriously hard to make due to conceptual difficulties in forming a common definition of internal mobility.

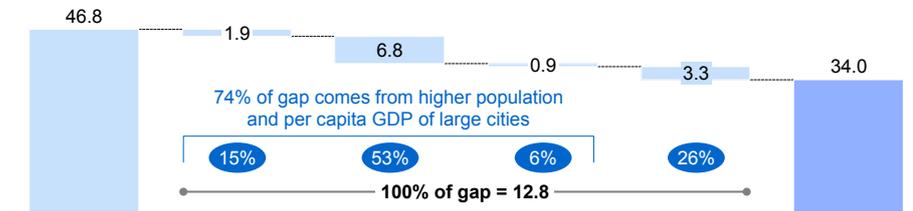
14 While large metropolitan areas have a dense urban core at their heart, they typically also encompass less dense and rural areas with commuting ties to the core. Characterizing large metropolitan areas as purely urban therefore gives an incomplete picture. For an in-depth discussion of the interdependence of rural and urban components of US metropolitan areas, see B. Dabson, *Rural-urban interdependence: Why metropolitan and rural America need each other*, Metropolitan Policy Program, Brookings Institution, November 2007.

Exhibit 2

The larger share of US cities and their higher income accounts for three-quarters of the per capita GDP gap between the United States and Europe

● % of gap

Per capita GDP, 2010
\$ thousand 2010, PPP



US average	Pure share of urban population	Pure average income in large cities	Urban population + average income	Per capita GDP in rural areas	Western Europe ¹ average
Per capita GDP	Per capita GDP premium in Europe's large cities in lower share of urban population	Per capita GDP difference between US and Western Europe large cities	Per capita GDP difference between US and Western Europe in lower share of urban areas	Per capita GDP difference between US and Western Europe rural areas	Per capita GDP

¹ Austria, Belgium, Switzerland, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, and Sweden.

SOURCE: McKinsey Global Institute Cityscope 1.5; McKinsey Global Institute analysis

A BROAD BASE OF MIDDLEWEIGHT CITIES EXPLAINS THE ECONOMIC CLOUT OF US METROPOLITAN REGIONS

When we look within the pool of large cities across regions, it is not the largest megacities but the broad base and relatively high per capita GDP of a large group of middleweight cities that differentiates the United States from other regions.

The metropolitan area of New York is the second-largest city in the world by GDP, and Los Angeles is the sixth largest.¹⁵ Yet their weight within the rest of the US economy contributes little to explaining the overall importance of cities in the United States. While London and Paris have a smaller share of the overall European population—6 percent, compared with the combined population of the two US megacities of 10 percent of the total US population—they have a significantly higher per capita GDP premium than their US counterparts. This narrows the gap between the GDP of the megacities in the two regions. Paris and London contribute 9 percent to Europe's overall GDP, compared with the 13 percent share of New York and Los Angeles (Exhibits 3 and 4).

In contrast, Tokyo, the most populous city in the world, towers above the Japanese economy. The Japanese capital alone accounts for 34 percent of the nation's GDP. Tokyo and Japan's second-largest city of Osaka together generate more than 49 percent of Japan's GDP.¹⁶

¹⁵ The metropolitan area of Los Angeles includes the Californian cities of Long Beach and Santa Ana, and the metropolitan area of New York includes Newark, New Jersey.

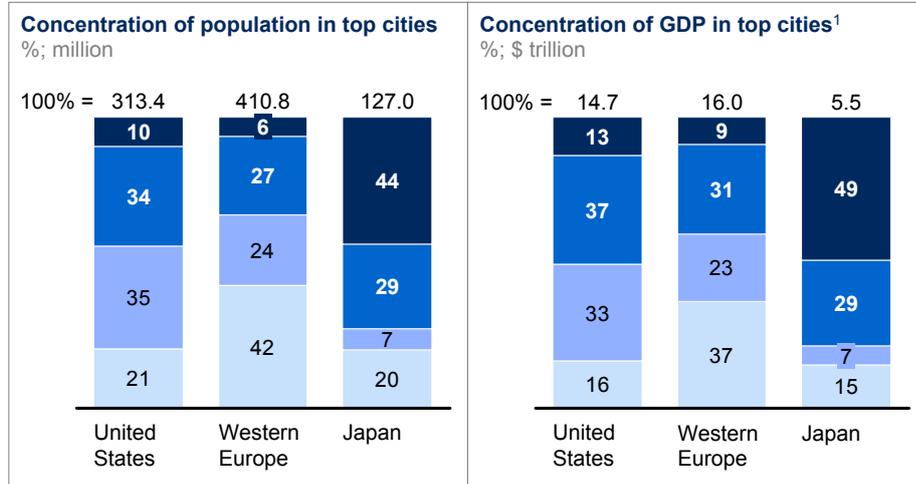
¹⁶ Part of the explanation is the smaller size of Japanese economy (\$5.5 trillion in 2010) compared with the United States (\$14.7 trillion) and Western Europe (\$16.0 trillion). In comparison, London accounts for 33 percent of UK GDP (\$2.2 trillion in 2010), and Paris 30 percent of French GDP (\$2.6 trillion).

Exhibit 3

A broad base of large cities explains the economic clout of US metropolitan regions

2010

- Top two by GDP
- Top 30 by GDP
- Other large cities
- Small cities and rural areas

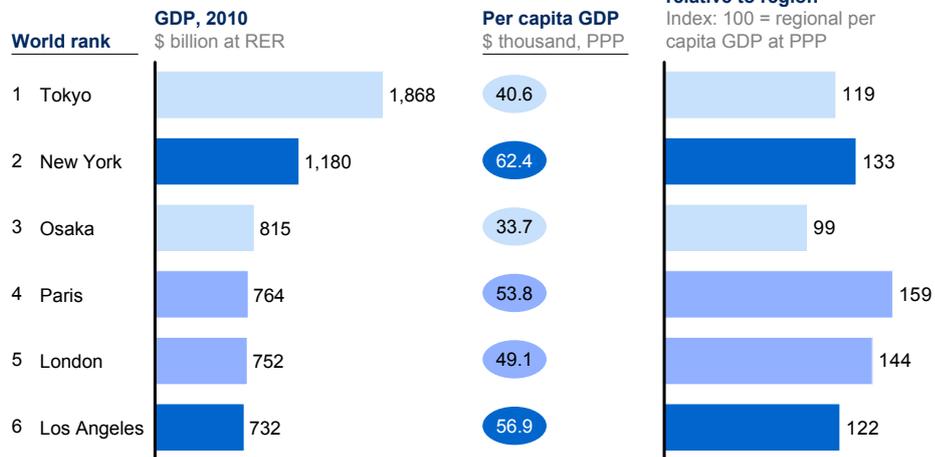


¹ GDP measured at real exchange rate (RER).
SOURCE: McKinsey Global Institute Cityscope 1.5

Exhibit 4

US cities have the highest per capita GDP among the largest cities, yet Europe's London and Paris have the highest per capita GDP premium

- United States
- Western Europe
- Japan



¹ The US average was used for New York and Los Angeles; the Western Europe average was used for London and Paris; the Japan average was used for Tokyo and Osaka.
SOURCE: McKinsey Global Institute Cityscope 1.5

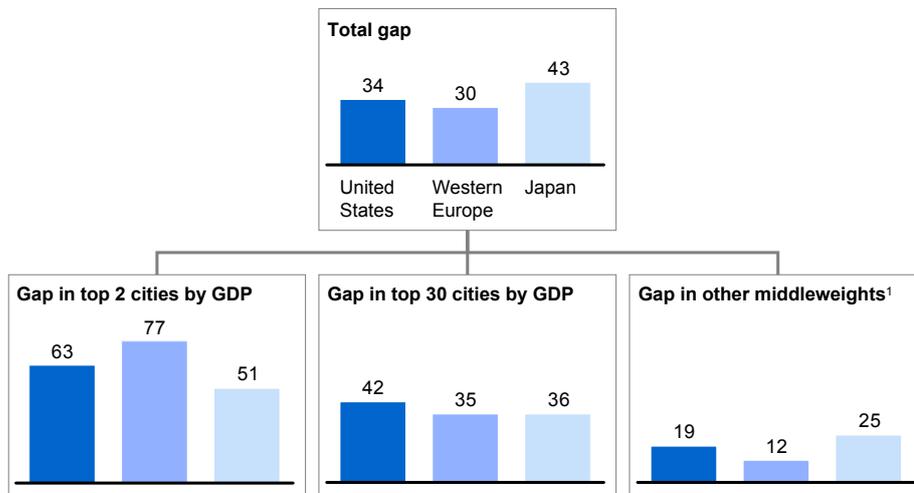
Instead, it is the strong base of middleweight cities that differentiates America's urban landscape.¹⁷ The 28 middleweights that, together with New York and Los Angeles, form the top 30 US cities are more populous than their Western European peers, home to one-third of the total US population, and responsible for 37 percent of US GDP. Among these cities are Chicago, Illinois, which is home to 3 percent of the US population; Dallas-Fort Worth, Texas, with 2 percent; Philadelphia, Pennsylvania, with 1.9 percent; and Boston, Massachusetts; Detroit, Michigan; and San Francisco-Oakland, California, each of which accounts for about 1.5 percent of the US population. These cities together command a higher per capita GDP than the top 30 cities in other regions, contributing to their economic weight (Exhibit 5).

Beyond the top 30, there are 227 other middleweight cities in the United States, compared with 183 cities of this size in Western Europe. Together, all the US middleweight cities are home to nearly 70 percent of US population and generate more than 70 percent of the nation's GDP—a share that is 20 percentage points higher than that of European middleweight cities in their region.

Exhibit 5

Middleweights drive the wide per capita GDP gap between large cities and rural areas in the United States

Per capita GDP gap between large cities and the rest of the economy, 2010
 %



¹ We include 229 cities in the United States, 156 cities in Western Europe, and 41 cities in Japan.
 SOURCE: McKinsey Global Institute Cityscope 1.5

¹⁷ There are significant differences in the role middleweight cities play across individual Western European countries. In Germany, middleweights accounted for 49 percent of the country's GDP in 2010. French middleweights, in contrast, accounted for only 31 percent of their nation's GDP, reflecting the higher concentration of economic activity in the single megacity of Paris with 30 percent of French GDP. The United Kingdom in turn is unusually dependent on greater London, which is home to one-quarter of the UK population, generates one-third of the nation's GDP, and whose inhabitants earn 44 percent more than the Western European average.

US middleweights are diverse. For instance, Hartford, Connecticut, is a city of 1.2 million that has one of the highest per capita GDP readings in the United States. Dallas, Texas, has a large population of 6.4 million and that population is growing strongly, but the city's per capita GDP is near to the national average and increasing at rates that are below average. Then take Sioux Falls, South Dakota. This small city has only 0.2 million inhabitants, but it has a disproportionately high concentration of financial institutions and its per capita GDP is 35 percent above the national average.

US METROPOLISES LOOM LARGER ON THE GLOBAL URBAN MAP THAN THE NATION'S SHARE IN THE WORLD ECONOMY

Because of the prominent role of large cities in the US economy relative to other regions, US cities loom larger on the global urban economic map than the US role in the global economy would suggest. The US share of global GDP today is 23 percent, while the share of US large cities in the contribution of all large cities globally is 27 percent. In the case of China, the share of its large cities in the global urban economy is 10 percent, just above the nation's share of global GDP at 9 percent.¹⁸ Western Europe accounts for just over 25 percent of global GDP but the region's metropolitan GDP share is somewhat lower at 22 percent.

The relative weight of different regions in the world economy also changes when we home in on the economic clout of their large cities. Western Europe's GDP (of \$16.0 trillion at market exchange rates) exceeded that of the United States (\$14.7 trillion) by 9 percent in 2010 but the combined GDP of large US cities (\$12.3 trillion) exceeds that of large European cities (\$10.1 trillion) by more than 20 percent. The population living in US large cities is also 5 percent larger than the population living in their European counterparts (249.2 million versus 237.2 million).

Comparing the distribution of average city per capita GDP across regions does not indicate that there is wider disparity among US cities than there is among cities in Western Europe. In the United States, 172 of the 259 large cities—or 66 percent—have an average per capita GDP within 20 percent of the nation's overall per capita GDP. In Western Europe, 58 percent of cities fall within this 20 percent band—108 out of the 186 cities. In the United States, 24 percent of cities have an average per capita GDP that is below 20 percent of US average, similar to 23 percent of large cities in Western Europe. But the upper tails of the distributions differ. While 10 percent of US cities have average per capita GDP more than 20 percent higher than the nation's average, the share of such cities in Western Europe is nearly double at 19 percent (Exhibit 6). US cities such as San Francisco (39 percent above average), New York (33 percent above average), and Washington, DC (49 percent above average) are among the outperformers on per capita GDP. US cities that rank significantly below average include McAllen, Texas (with per capita GDP of 49 percent below the national average) and Flint, Michigan (38 percent below the national average). In Western Europe, Sweden's Oslo (130 percent above the regional average at PPP) and Groningen in the Netherlands (56 percent above average) are two notable outperformers on per capita GDP, while Braga in Portugal (47 percent below the average) and the Italian city of Naples (45 percent below the average) figure among Europe's cities significantly below average.

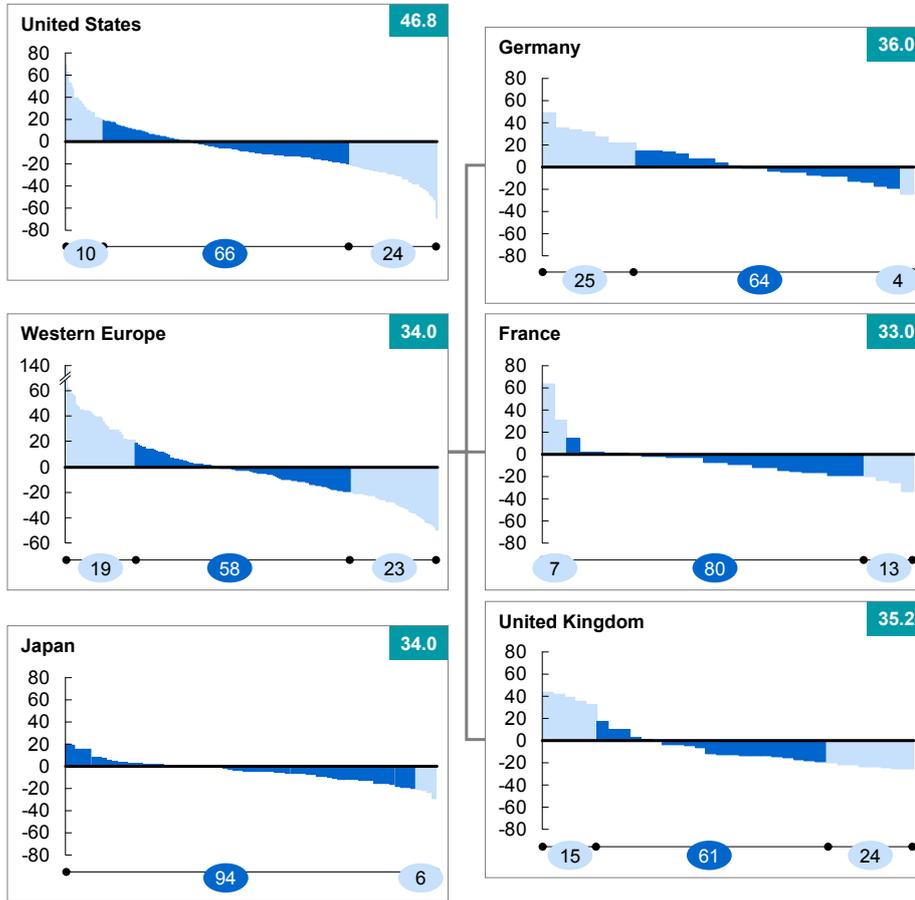
¹⁸ In China, the share of the population living in large cities remains at 48 percent, but average income in large cities is 383 percent higher than in the rest of the economy.

Exhibit 6

The disparity in per capita GDP of US cities relative to the average is no higher than in Western European cities

City per capita GDP deviation from regional average, % PPP

■ Regional per capita GDP (\$ thousand)
 ● % of cities
 ■ Within 20% of regional average
 ■ Beyond 20% of regional average



SOURCE: McKinsey Global Institute Cityscope 1.5

When we compare US metropolitan economies with those of China, we find that the relatively higher weight of US cities also holds, although Chinese urban areas have made substantial gains over the past few years. While China's GDP at market exchange rates today amounts to two-fifths of total US GDP, the GDP level of Chinese large cities is slightly lower at 37 percent of the level of the US large cities. Yet this gap has narrowed dramatically in the past three years. In 2007, the GDP of large Chinese cities amounted to only 20 percent of the value of their US counterparts. This change reflects the continuing urbanization and rapid per capita GDP growth in China during the years when the United States was in recession, as well as the appreciation of the renminbi against the dollar. The per capita GDP in PPP terms in China's large cities is about one-quarter that of the level in US cities, while China's overall per capita GDP is only one-sixth that of the United States—and has risen from around one-fifth in 2007 (see Box 2, "Patterns of urban growth in China and India").

In the so-called century of cities, the United States is in a strong initial position. But how sustainable will the clout of US cities prove to be in the future? In the next two chapters, we will first look at the past to understand patterns of growth among US metropolitan areas, and then discuss prospects for the future.

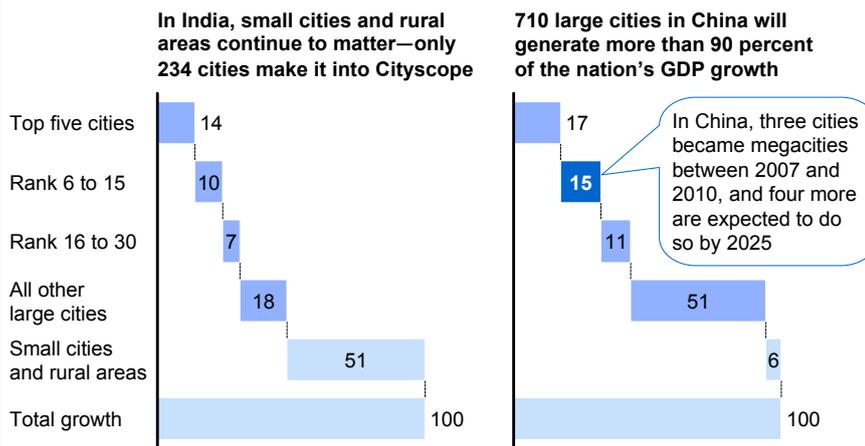
Box 2. Patterns of urban growth in China and India

The patterns of urban growth vary widely between the two largest Asian nations. While China is already in the middle of a rapid wave of urbanization, India is at a much earlier stage of this process (Exhibit 7).

Exhibit 7

While India is still at an early stage of urbanization, China will continue to see rapid growth across cities of all sizes including rising megacities

Contribution to country GDP growth, 2010–25
%



SOURCE: McKinsey Global Institute Cityscope 1.5

China is experiencing a period of massive urbanization, on a scale never before witnessed.¹ The portion of the population living in cities has grown from 36 to 50 percent over the past decade, with the greatest growth occurring in clusters of cities located along the eastern coast. China's population in large cities is expected to expand from approximately 650 million in 2010 to about 890 million in 2025. This increase is almost equivalent to the current population of large cities in the United States. MGI expects large cities to account for more than 90 percent of China's GDP growth in the next 15 years. Since 2007, Tianjin, Guangzhou, and Shenzhen have joined Shanghai, Beijing, and Chongqing as megacities, and in the period to 2025, we estimate that four more Chinese cities will join their ranks. During this period, nearly three-quarters of China's growth is expected to come from rapidly growing middleweight cities.

In comparison with China, India is still at relatively early stages of urbanization. Only 20 percent of the population lives in large cities, of which there are only 234. MGI estimates that large cities, scattered across the nation, will generate nearly 50 percent of the nation's GDP by 2025.² In India, it appears that state borders are limiting mobility, leading to an urban economic concentration in state hubs rather than city clusters across the nation. Moreover, India's economic development policies have traditionally favored small-scale production and discouraged larger-scale operations in cities. This is another factor slowing Indian urbanization that stands in contrast to both the United States and China where more mobile populations have moved in search of better jobs and other economic opportunities.

¹ *Preparing for China's urban billion*, McKinsey Global Institute, March 2009 (www.mckinsey.com/mgi).

² *India's urban awakening: Building inclusive cities, sustaining economic growth*, McKinsey Global Institute, April 2010 (www.mckinsey.com/mgi).

2. There is no single path to rapid growth among US large cities

Given their weight, the performance of large cities in the United States has largely determined the growth trajectory of the entire economy. The 259 large US cities have contributed almost 85 percent of US growth since 1978.¹⁹ The largest 30 metropolitan areas contributed roughly half of US growth between 1978 and 2010, with the remaining 229 middleweight cities contributing a third. Discerning how these cities have grown in the past can be a useful basis for assessing their future prospects.

THE GROWTH OF US CITIES HAS VARIED WIDELY OVER THE PAST THREE DECADES

The GDP growth of a city consists of growth in its population and increases in its per capita GDP. When looking at large cities on these two dimensions, it is the diversity of their performance—not the similarity—that is striking (Exhibit 8). Houston, Texas, for instance, sustained its growth between 1978 and 2010 through robust population expansion at a compound annual growth rate of more than 2 percent over that period. Yet the city's per capita GDP growth, at an annual rate of 0.5 percent, has been only one-third of the US average. In contrast, San Jose, California, has experienced relatively modest growth in its population at just over 1 percent a year, but its per capita GDP has grown at an impressive compound annual growth rate of around 3 percent. Detroit, Michigan, and New Orleans, Louisiana, have the same population today as they had 30 years ago—and have experienced per capita GDP growth as slow as that of Houston.²⁰

19 We use the longest comparable MSA GDP and population time series from Moody's Analytics. The uninterrupted GDP time series is available for all large cities starting in 1978. Furthermore, we use 2010 GDP data to reflect city performance up until the recent past. Nevertheless, it is worth noting that 2010 urban GDP is still likely below the long-run trend of potential output.

20 It is important to note that the evolution of per capita GDP, which is the variable we focus on in this report, can differ from the development of per capita income. However, the broad patterns of per capita GDP evolution do not differ from those of per capita income. For a more detailed discussion on the determinants of sub-national income growth, see P. Bauer et al., "Knowledge matters: The long-run determinants of state income growth," *Journal of Regional Science*, 2011; also see Michael Storper, *Why does a city grow? Specialization, human capital, or institutions?* Institut d'Etudes Politiques de Paris and London School of Economics, July 2008.

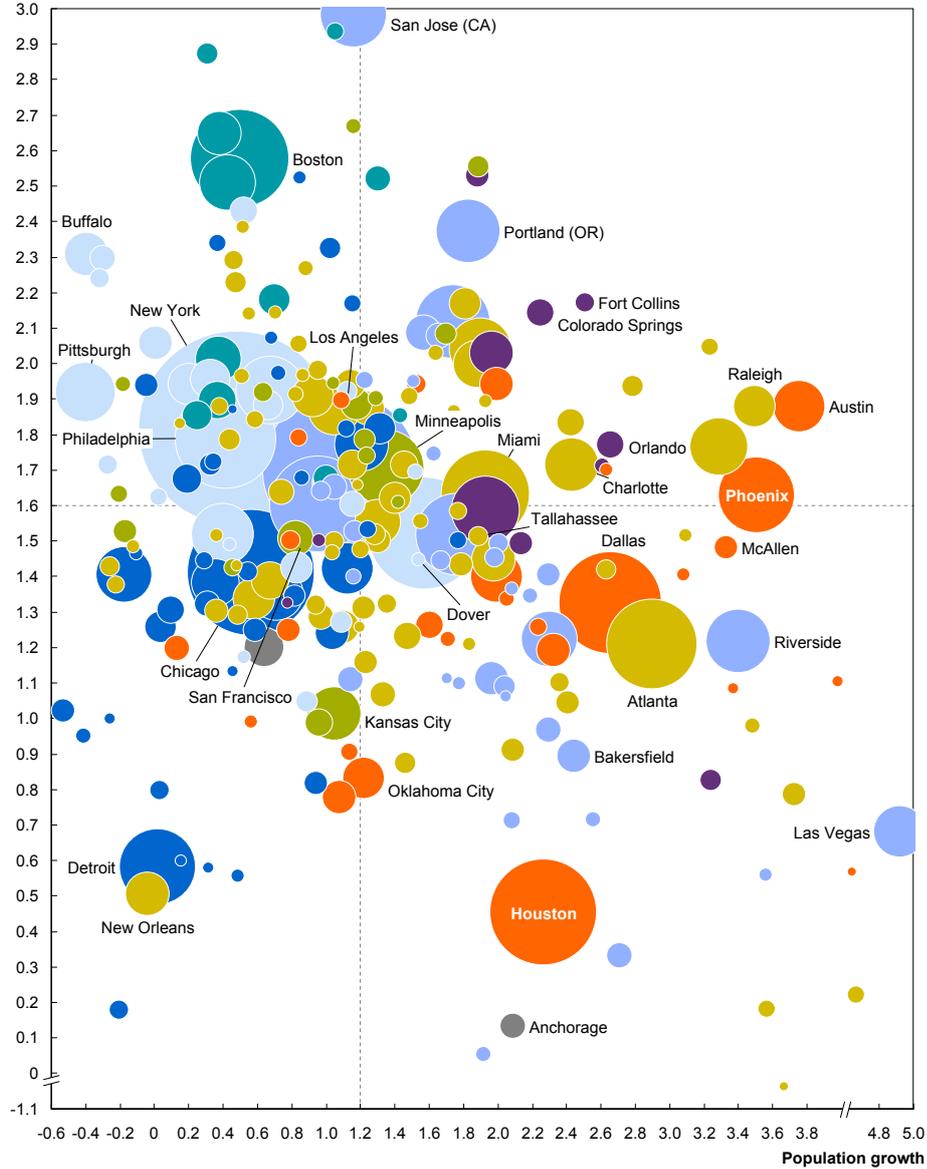
Exhibit 8

The growth patterns of individual cities have varied widely

Compound annual growth rate, 1978–2010



Per capita GDP growth



NOTE: For metropolitan regions, we use the first name of the region: e.g., New York for New York-Newark.

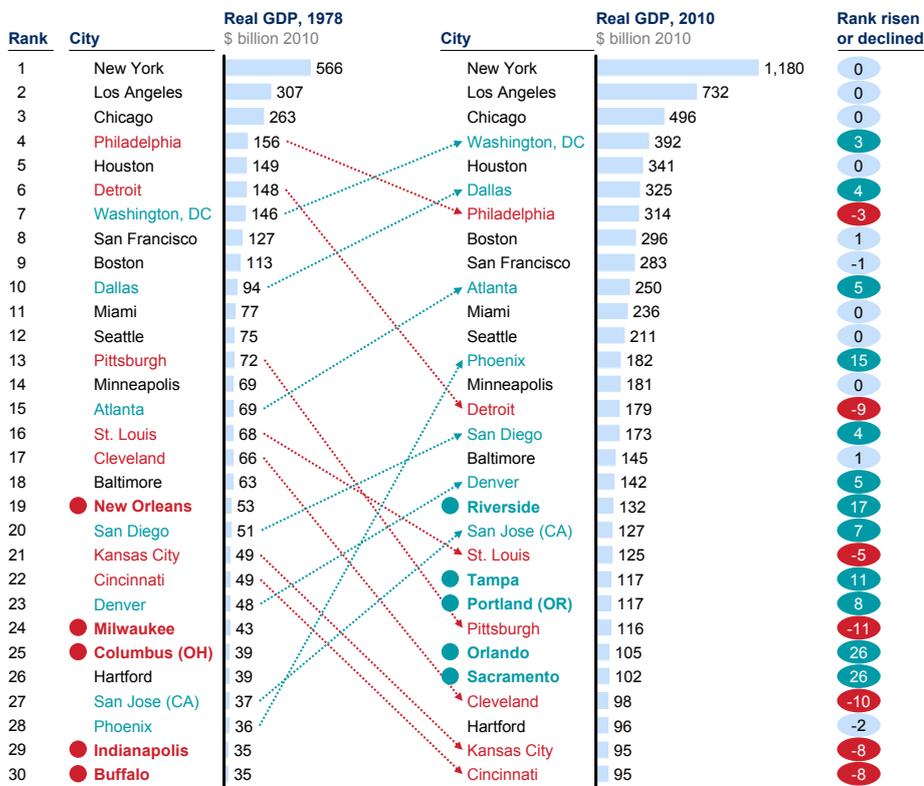
SOURCE: Moody's Analytics; McKinsey Global Institute analysis

The diversity of economic performance of cities in the United States is evident when we look at rankings within its top 30 cities (Exhibit 9). US megacities have continued to tower above all others in terms of their populations and their economic clout. The megacities of New York and Los Angeles maintained their first and second positions between 1978 and 2010, and Chicago, Illinois, which is expected to cross the ten million population threshold and become a megacity by 2025, held on to its third spot. Even though the growth rates of these three cities have been quite different, their strong starting positions helped to maintain their rank.

Exhibit 9

There have been significant shifts in the economic weight of the top US cities over a long period

- Entered top 30
- Dropped from top 30
- ➔ Rose at least 3 spots
- ➔ Declined at least 3 spots



SOURCE: Moody's Analytics; McKinsey Global Institute analysis

But we are seeing dynamic change among US middleweights. The rest of the top 30 cities in terms of their GDP have shifted around over the past three decades, evidence that the fortunes of established cities can change in just a few decades. Of the top 30 cities, five dropped out of the group—New Orleans, Louisiana; Milwaukee, Wisconsin; Columbus, Ohio; Indianapolis, Indiana; and Buffalo, New York—and were replaced by Riverside, California; Portland, Oregon; Tampa and Orlando in Florida; and Sacramento, California. Even within the top 30, rankings have shifted. Cleveland, Ohio, for instance, dropped from 17th place to 27th, while Phoenix, Arizona, rose by 15 places, from 28th to 13th.

FOUR FEATURES OF US URBAN GROWTH STAND OUT

Given the diversity, are there any longer-term patterns that could help shed light on the growth prospects for US cities as they come out of the Great Recession? Or are there lessons to be drawn that can help us to understand the likely evolution of rising emerging market middleweights? We have observed four features that stand out.

Differences in population growth, not in per capita GDP growth, explain most of GDP growth performance differences across US cities

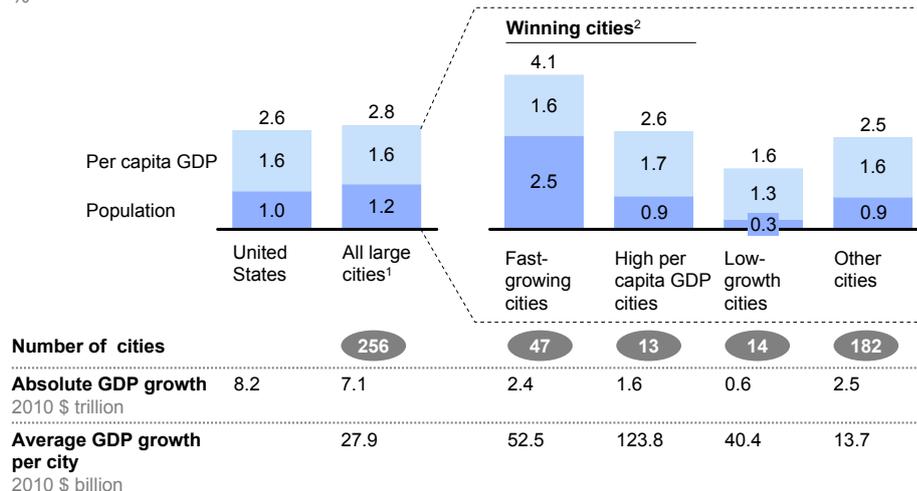
We find that differences in the growth of populations were responsible for the lion's share of the differences in the GDP growth performance of individual cities in the United States from 1978 to 2010 (Exhibit 10). Cities that have successfully attracted and accommodated expanding populations have thrived economically. US cities that achieved GDP growth rates of 25 percent or more above the US average did not, on average, experience higher growth in per capita GDP—in fact, both groups of cities posted identical average 1.6 percent increases in per capita GDP. Instead, the population of rapidly growing cities grew significantly faster. These cities had about 2.5 percent average population growth, more than two and a half times the 0.9 percent achieved by other large cities. In addition to Houston, which we have already mentioned, Dallas, Texas; Atlanta, Georgia; and Phoenix, Arizona, are among the middleweight cities that have benefited from rapidly expanding populations. Conversely, the slowest-growing cities in the United States had average population growth of only one-quarter the urban average although, at the same time, their per capita GDP grew.²¹

Exhibit 10

Differences in GDP growth are linked to differences in population growth

Compound annual growth rate, 1978–2010

%



¹ US Metropolitan Statistical Areas with more than 150,000 inhabitants, excluding three Puerto Rican cities due to lack of data.

² Cities outperforming US GDP compound annual growth or per capita GDP level by at least 25 percent.

³ Cities underperforming US GDP compound annual growth by at least 25 percent.

SOURCE: Moody's Analytics; McKinsey Global Institute analysis.

²¹ Population growth translates into GDP growth when accompanied by employment growth or rising productivity.

Although cities have taken diverse development paths and there are cities with different growth decompositions within each category, the evidence suggests that expanding population has been a key component of overall GDP growth in US cities in the past. There are many objectives that cities may have for their development efforts, but for those cities that seek GDP growth, factors that impact population growth are among the most critical ones to address.²²

A favorable sector mix contributes to the fast growth of top-performing cities—but much less than observers often expect

The most successful cities have excelled at making the most of their economic situation and have achieved growth above and beyond the underlying growth trends of the sectors in their local economy. On the contrary, underperforming cities grew less than what we would expect based on the composition of their local economy. The sector mix of cities has some predictive power for explaining the increase in their GDP levels. The fastest-growing cities—those that achieved GDP growth rates 25 percent higher than the US average between 1978 and 2010—were expected to experience 15 percent higher growth rates on average than large cities overall due to their favorable sector mix (3.2 percent annual compound growth rate versus 2.8 percent annual compound growth rate). Yet this group of cities outpaced the average growth rate of large cities by more than 45 percent (4.1 percent compound annual rate versus 2.8 percent), indicating that a large share of growth for the fastest-growing cities did not come only from a favorable sector mix. On the basis of their sector mix, the worst-performing cities in terms of GDP growth rates over the same period would have been expected to grow at a rate 10 percent below the average US city (2.5 percent annual compound rate versus 2.8 annual compound growth rate). But these cities actually lagged behind the average by more than 40 percent (1.6 percent annual compound rate versus 2.8 annual compound rate) (Exhibit 11). So cities that outperform their peers do not do so only because they have a favorable mix of fast-growing sectors but because they also have faster-than-average growth within their sectors.²³

The degree of industry specialization or diversification—another indicator of the composition of the local economy—does not appear to be a precondition for growth or the stability of growth (Exhibit 12). It would be easy to point to a concentration in a single industry for the rise and fall of Detroit, Michigan, and its big three US automotive companies, or the dramatic shifts in the fortunes of the gambling and entertainment center of Las Vegas, Nevada, as evidence that overspecialization leaves cities vulnerable. But over long periods, fast-growing cities do not seem to differ in the degree of concentration of their industry. Nor is there a significant correlation between the degree of economic diversity in a city and its growth rate and the volatility of that growth. Not even the size of a city explains differences in GDP growth.

22 See, for example, Edward Glaeser, Joseph Gyourko, and Raven E. Saks, “Urban growth and housing supply,” *Journal of Economic Geography* 6, No. 1 (Jan. 2006):71-89.

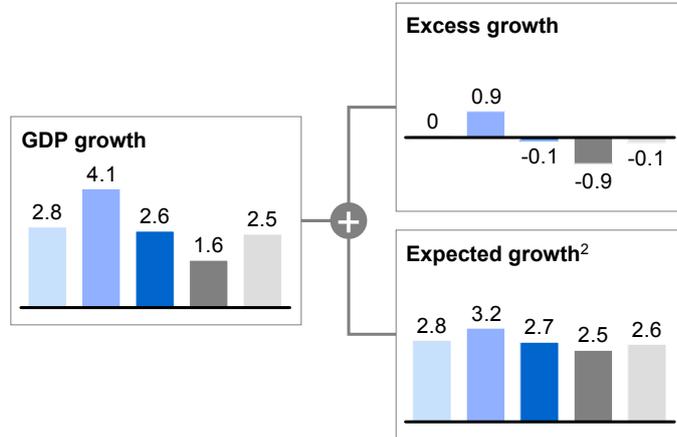
23 This finding differs from the patterns that emerge when we compare national growth across developed economies. See *How to compete and grow: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi). The finding is closer to those at state level in Jed Kolko, David Neumark, and Marisol Cuellar Mejia, *Public policy, state business climates, and economic growth*, NBER, Working Paper No. 16968, 2011.

Exhibit 11

The success of fast-growing cities is not explained by their sector mix alone

GDP growth rate per city category, 1978–2010
Compound annual growth rate, %

All large US cities ¹	256
Fast-growing cities	47
High per capita GDP cities	13
Slow-growth cities	14
Other cities	182



1 US Metropolitan Statistical Areas with more than 150,000 inhabitants, excluding three Puerto Rican cities due to lack of data.
2 Expected growth based on city's initial sector mix and US average sector GDP compound annual growth rate; rolling five-year periods to account for the mix change. Sector break-down is based on 20-sector split of the economy.
SOURCE: Moody's Analytics; McKinsey Global Institute analysis

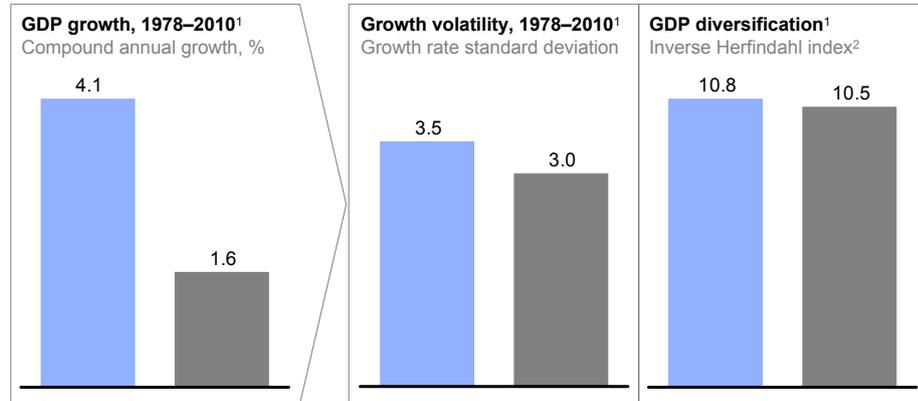
Exhibit 12

Industry diversification is not a precondition for GDP growth or low-growth volatility

Fast-growing cities ³	47
Slow-growth cities ³	14

Although there is significant variation in the growth of cities . . .

. . . there is no meaningful difference in the industry diversification or growth rate volatility between groups



1 Simple average across cities of the metric.
2 Inverse Herfindahl concentration index across non-agricultural sectors. A higher value indicates more diversification. US average index is 11.9.
3 Fast-growing cities outperform US GDP compound annual growth by at least 25 percent. Low-growth cities underperform US GDP compound annual growth by at least 25 percent.
SOURCE: Moody's Analytics; McKinsey Global Institute analysis

Broad economic trends contribute to the diversity of experience across US cities

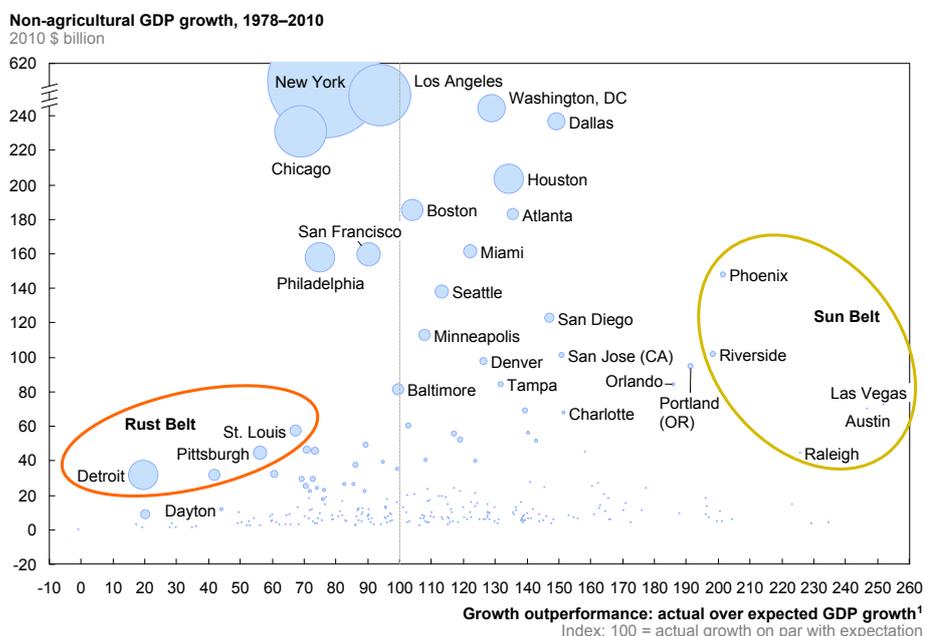
Industries rise and decline. Cities that have thrived for many years on the back of a particular economic activity can find themselves stranded. Economic tectonic shifts affect not only countries, but also the weight of regions within them. US industrialization and the subsequent transition to a service-oriented economy over the past century go a long way toward explaining the rise of formidable manufacturing—or Iron Belt—cities such as Detroit, Michigan, and Pittsburgh, Pennsylvania, in the first half of the 20th century and their subsequent decline over the past 40 years into what is now called the Rust Belt. The United States has undergone the emergence of a wave of rapidly growing middleweight cities in Southern and Western states—the Sun Belt—that originally benefited from an abundance of cheap land and technical advances in air conditioning and have since found different ways of prospering. In the Western United States, cities have also benefited from a shift in the global economic balance away from Europe and the Atlantic and toward Asia and the Pacific. For example, trade has moved to the West Coast, with container shipping growing at a 3.9 percent compound annual growth rate in the ports of the West Coast from 1980 to 2010, compared with only 2.4 percent on the East Coast.²⁴

Such shifts are evident when we compare the actual growth rate of cities with predictions based on their industry mix (Exhibit 13).²⁵

Exhibit 13

Some cities have grown significantly more strongly than the composition of their sectors might suggest

Size of bubble = non-agricultural GDP, 2010



1 Expected non-agricultural GDP growth computed by applying US GDP growth rate at sector level (1978–2010) to each sector at city level, using five-year intervals to account for changes in the city sector mix.

SOURCE: Moody's Analytics; McKinsey Global Institute analysis

24 Container traffic historical data from Drewry Shipping Consultants.

25 Edward Glaeser, Jose Scheinkman, and Andrei Shleifer, "Economic growth in a cross-section of cities," *Journal of Monetary Economics*, Vol. 36, No. 1 (August 1995): 117–43.

The diversity of growth patterns among strongly performing metropolitan areas suggests that there is no single path to economic success

When looking more closely at the group of US cities whose economic performance has outstripped that of their peers, the diversity in the city characteristics is almost as striking as for all large cities. We define top-performing as cities that have either grown their GDP at least 25 percent faster than US average growth between 1978 and 2010 or cities where per capita GDP in 2010 is at least 25 percent higher than the US average. These cities vary widely in the growth mix of per capita GDP and population that has driven their growth since the late 1970s (Exhibit 14).

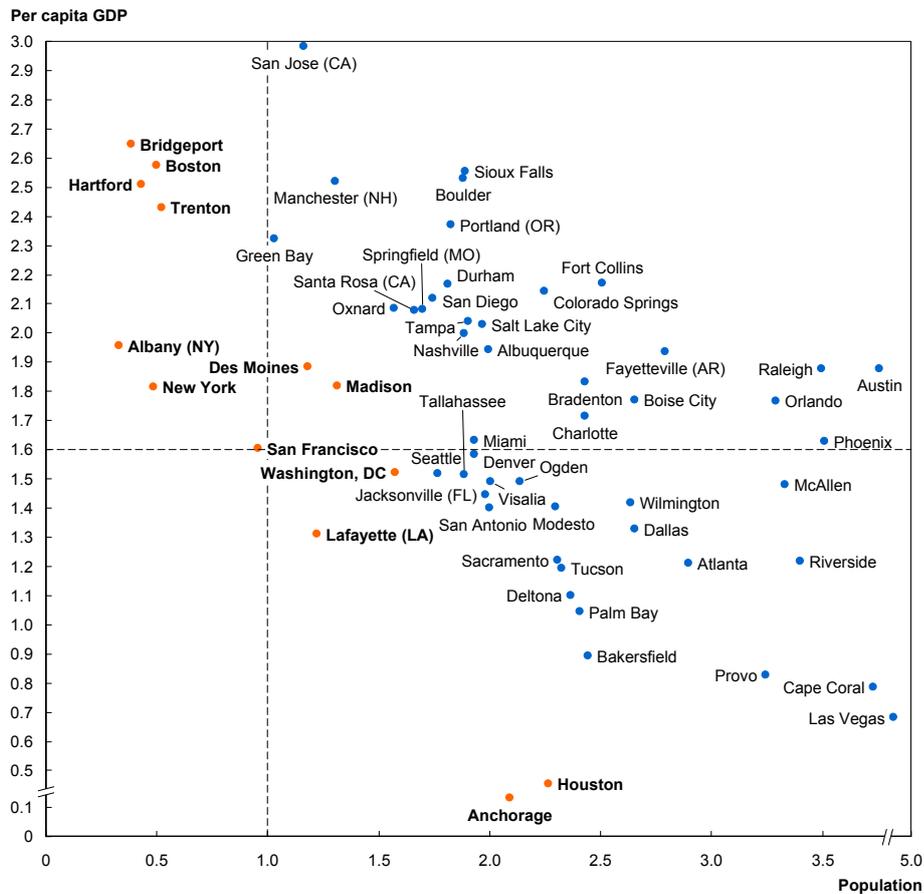
This group includes large, established—or alpha middleweight—cities such as Boston, Massachusetts, and Washington, DC, that already enjoy a per capita GDP that is higher than average and tend to continue growing at moderate rates by leveraging their established economic base.

Exhibit 14

The most successful cities over the past three decades have diverse profiles, showing there is no single path to success

- Outperformed US per capita GDP level by at least 25 percent in 2010
- US average

Sample of cities outperforming US GDP compound annual growth or per capita GDP level by 25 percent, 1978–2010
Compound annual growth rate (%)



SOURCE: Moody's Analytics; McKinsey Global Institute analysis

Also among the top performers are cities that we dub “gazelles”—cities that have been able to increase their per capita GDP and populations significantly faster than the US average by building on their strong university and research presence in growing tech industries. Many of these cities are located in the Sun Belt, and include Austin, Texas. Raleigh, North Carolina is another gazelle.

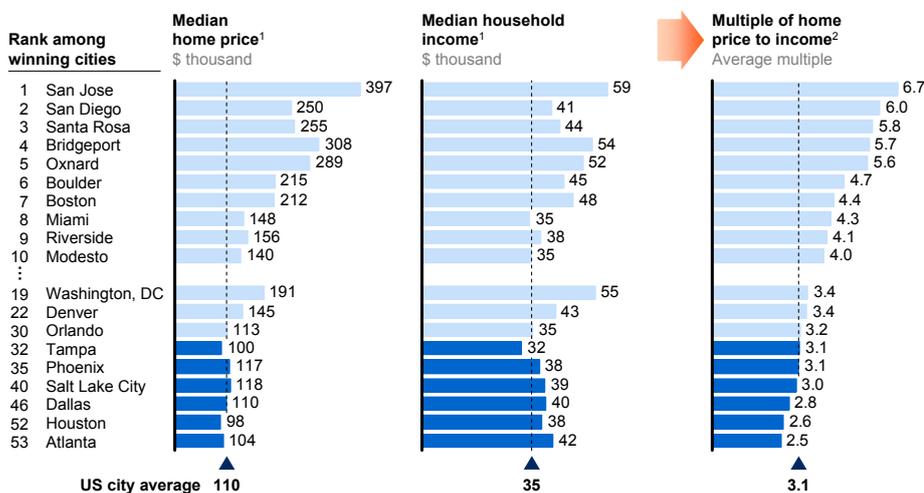
Cities such as Dallas, Atlanta, and Salt Lake City, Utah—which we might call “affordable metropolises”—have outperformed national average GDP growth, despite slower-than-average growth in their per capita GDP, because their populations have expanded rapidly. This has reflected housing development policies that have kept the cost of housing relatively affordable (Exhibit 15).

Exhibit 15

Affordable metropolises offer an attractive trade-off between the cost of living and working opportunities

1979–2010

Affordable relative to US average



1 Simple average for 1979–2010.
 2 Calculated on average values for 1979–2010.
 NOTE: Not to scale.
 SOURCE: Moody’s Analytics; McKinsey Global Institute analysis

Some metropolitan areas have been able to grow rapidly within a broader geographic economic agglomeration. One example of such a city is Bridgeport-Stamford in Connecticut, which has built a major financial services sector close to the city of New York but outside New York State’s tax jurisdiction. Another example is Boulder, Colorado, a relatively small city that benefits both from a high quality of life but also from being close to the larger city of Denver, Colorado. Yet another example is San Jose, California, which is integrated into Silicon Valley and whose GDP and per capita GDP have both grown faster than the nation’s. Smaller cities can prioritize to make the most of any unique strengths they may have. Portland, Oregon’s selling point, for example, has been its high quality of life.

Patterns of urban growth over past decades show that there is no single path to growth for US cities. Even the US cities that have grown most rapidly over a long period do not share a single strategy or approach. The cities that outperform their peers simply find ways to make the most of the economic opportunities they face, get lucky, or both.

3. To regain growth momentum, US cities need to navigate choppy waters

US cities will continue to be an important contributor to the global economy, but they will need to navigate some choppy economic waters as the economy recovers from the Great Recession and then brace themselves to cope with some major trends that will continue to hinder growth and that will vary in their severity from city to city.

We expect the collective GDP of the large cities of the United States to rise by almost \$5.7 trillion—generating more than 10 percent of global GDP growth to 2025.²⁶ The top 30 US cities alone are likely to contribute 7 percent to global GDP growth during this period.

The two US megacities are expected to grow strongly from 2010 to 2025—but even so US middleweights will outpace them. On their current growth trajectories, New York is poised to maintain its position as the second-largest city by GDP in the world, behind Tokyo. Los Angeles is projected to become the fourth-largest city by GDP in 2025. While New York and Los Angeles combined are expected to post 2.1 percent GDP compound annual growth rates to 2025, the top 30 US middleweights are expected to grow on average at compound growth rates of 2.6 percent, above the overall expected US compound growth rate of 2.5 percent. However, not all US cities, including middleweights, will be able to keep up with the rapid growth of many rising cities in emerging markets. Both Beijing and Shanghai are expected to overtake Chicago, the third-largest US city, in terms of their GDP over the next 15 years. Within the United States, Miami, Florida, is expected to drop out of the top 30 cities globally measured by GDP.

In the near term, the major challenges facing cities will be deleveraging and persistent unemployment. In the longer term, a number of broad trends including aging and the increasing power of fast-growing cities in developing countries will continue to shape the opportunities and challenges facing US cities. In the face of multiple potential pressures on their growth and prosperity, cities need to think about how to make the most of their advantages and how to mitigate their weaknesses.

²⁶ Projections from MGI's Cityscope 1.5 database.

THE DEBT AND UNEMPLOYMENT HANGOVER FROM THE GREAT RECESSION POSES A NEAR-TERM CHALLENGE FOR US CITIES

The debt and unemployment hangover from the Great Recession is a national near-term challenge for the United States. Some cities have felt a greater impact than others and will find recovery more challenging. We are already witnessing significant differences in the rate of recovery of different cities, even in similar geographic regions, underlining the need for businesses to identify and capture pockets of growth within the urban landscape. There are very significant differences even between cities that are located relatively close to each other. In Northern California, for instance, the Greater Sacramento metropolitan area registered marginal real output growth in 2010 of only 0.1 percent and is expected to recover the ground lost during the recession and return to 2007 levels of output by 2014. In contrast, the San Jose-Sunnyvale-Santa Clara metropolitan area posted output growth of 3.5 percent in 2010, a year in which this urban Silicon Valley area surpassed its 2007 GDP level.²⁷

The process of national deleveraging could be prolonged.²⁸ The impact will vary significantly among US regions and individual cities. Cities that have experienced real-estate booms and busts will find the recovery particularly hard going (Exhibit 16). Many of these cities have a large share of mortgage owners holding negative equity on their house—in Orlando, Florida, and Phoenix, Arizona, more than half of mortgage holders are in this position. In Las Vegas, Nevada, two out of every three mortgage holders are in negative equity. Despite the fact that publicly available data on municipal debt in individual cities are limited, the evidence suggests that metro areas vary dramatically in their debt burden and financial sustainability.²⁹

Unemployment varies widely among cities and counties, with a high concentration of joblessness in manufacturing centers and regions that have been particularly hard hit by the housing bust (Exhibit 17). Two-thirds of all the jobs lost during the downturn were in states that accounted for only 45 percent of the US population. Cities that are facing the combination of high unemployment and accumulated debt find themselves in very difficult starting positions as they navigate their way toward recovery. Others are well on the way to recovery. Houston and Dallas in Texas had already recovered their pre-crisis GDP in 2010 and were the two US cities among the top 40 global growth cities from 2010 to 2011 in the Brookings Institution's Global MetroMonitor.³⁰ This suggests that, in the near term, the uneven performance of cities is likely to continue.

27 For more on the different rates of recovery among US metropolitan areas, see Howard Wial, Siddharth Kulkarni, and Richard Shearer, *Metro Monitor: Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas*, Metropolitan Policy Program, Brookings Institution, December 2011.

28 See *Debt and deleveraging: The global credit bubble and its economic consequences*, McKinsey Global Institute, January 2010, and *Debt and deleveraging: Uneven progress on the path to growth*, McKinsey Global Institute, January 2012. Both are available to download at www.mckinsey.com/mgi.

29 Michael Lewis illustrates diverse city financial conditions and their implications by looking at the different experiences of San Jose and Vallejo in the San Francisco Bay Area. See Michael Lewis, "California and bust," *Vanity Fair*, November 2011 (<http://www.vanityfair.com/business/features/2011/11/michael-lewis-201111>).

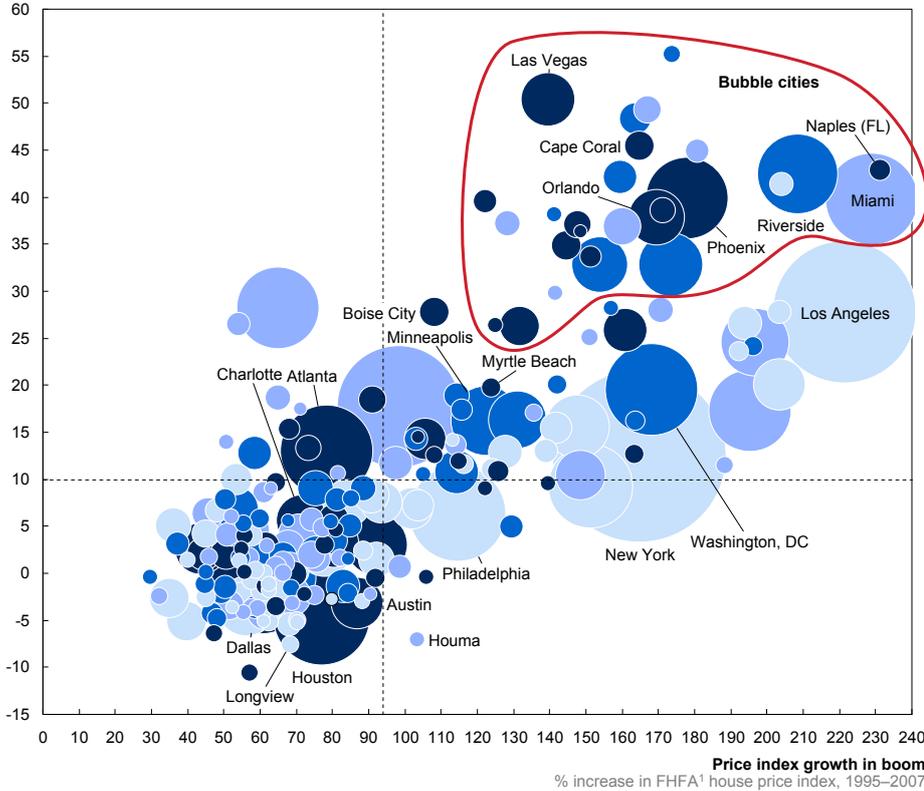
30 Emilia Istrate, Alan Berube, and Carey Anne Nadeau, *Global Metro Monitor 2011: Volatility, Growth, and Recovery*, Metropolitan Policy Program, Brookings Institution, 2011.

Exhibit 16

Several cities with exuberant construction booms have experienced the steepest price declines during the downturn

Price index decline in downturn
 % decline in FHFA¹ house price index, 2007–10

Size of bubble = non-agricultural GDP, 2010
 Building activity²
 ● Highest quartile
 ● Third quartile
 ● Second quartile
 ● Lowest quartile
 - - - - - Sample average



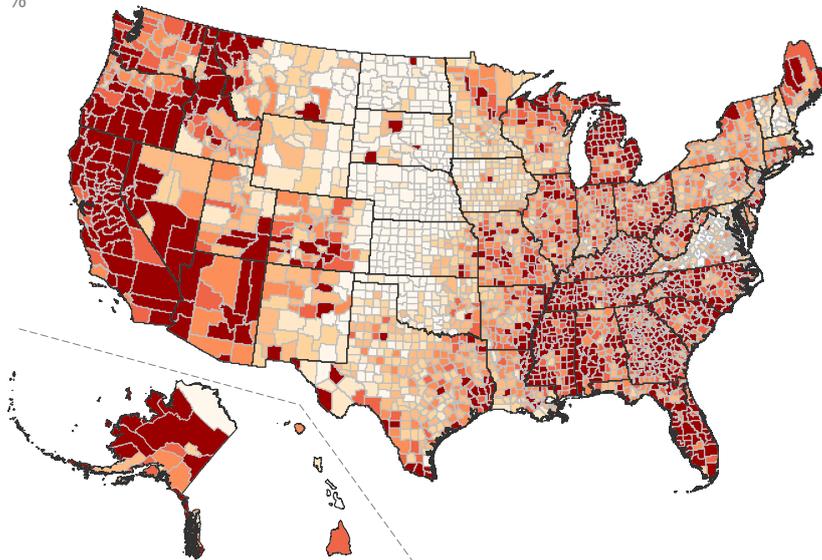
1 Federal Housing Finance Agency.
 2 Building activity quartiles defined as cumulative building permits granted between 1995 and 2010 per inhabitant in 1995. A higher quartile indicates higher building activity during the period.
 SOURCE: US Census Bureau, Federal Housing Financing Agency, Moody's Analytics, McKinsey Global Institute analysis

Exhibit 17

Unemployment rates vary widely across the United States

US unemployment, December 2011
 %

■ >10%
 ■ 9–10%
 ■ 8–9%
 ■ 7–8%
 ■ 6–7%
 ■ 5–6%
 ■ < 5%



SOURCE: US Bureau of Labor Statistics: Household Survey (CPS); Moody's Analytics; McKinsey Global Institute analysis

US CITIES WILL NEED TO NEGOTIATE A PATH THROUGH EVOLVING LONGER-TERM TRENDS

As well as carving their path through the near-term stresses of the recovery, US cities will need to grapple with a number of key long-term trends that will, to a greater or lesser extent depending on the city, affect their growth prospects.

Relying on population as a source of growth will be increasingly challenging

Demographic trends suggest that expanding through population growth may not be as easy for cities in the future as it has been in the past. The US working-age population is not growing as fast as it was, labor mobility is slowing, and the population is aging. Cities that manage to attract incomers and migrants will be in a stronger position for growth than those that don't.

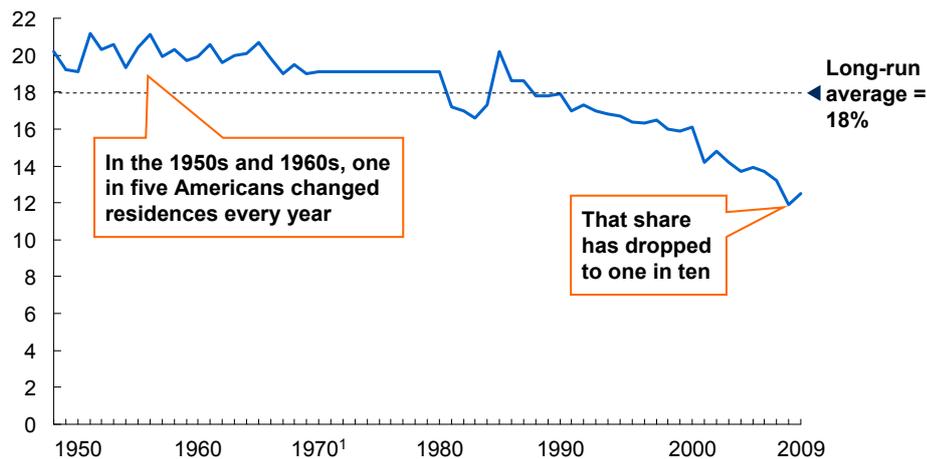
The US working-age population grew at around 1.0 percent per annum over the past three decades and is expected to expand by around 0.5 percentage points annually over the next 15 years.³¹ Boosting population growth through attracting migrants to jobs is thus likely to be harder. There is evidence that the traditionally mobile population of the United States is becoming less so (Exhibit 18). In the 1950s and 1960s, one in five Americans changed residences every year; today, that has dropped to one in ten. Short-distance moves have been falling since 1990 and long-distance moves either across county lines within a particular state or from one state to another declined sharply in the past decade. And mobility has declined among people at all levels of education.

Exhibit 18

Mobility in the United States has been declining since 1990 and is now at a 50-year low

Annual domestic migration rate, 1948–2009

% of residents who have changed addresses during the past year



¹ 1970–1981 data are interpolated due to data constraints.

SOURCE: US Bureau of Labor Statistics; McKinsey Global Institute analysis

³¹ Historical growth of the working-age population, aged 15 to 64, is based on Moody's Analytics, with data from the US Bureau of the Census and US Bureau of Economic Analysis. It is worth noting that while the US population is aging rapidly, other nations share this phenomenon. In France, for example, the population aged over 65 is expected to grow 3.7 times as fast as the population as a whole. In China, this segment of the population is expected to grow 3.1 times as fast. In the United States, the corresponding growth rate is 2.7 times.

US cities are aging and the share of working-age population is declining, and these factors are likely to prove a significant headwind to growth in the economy overall. One in six people will be aged over 65 by 2025, and the share of working-age adults in the total population is projected to decline from 67 percent of the overall population to 63 percent.³²

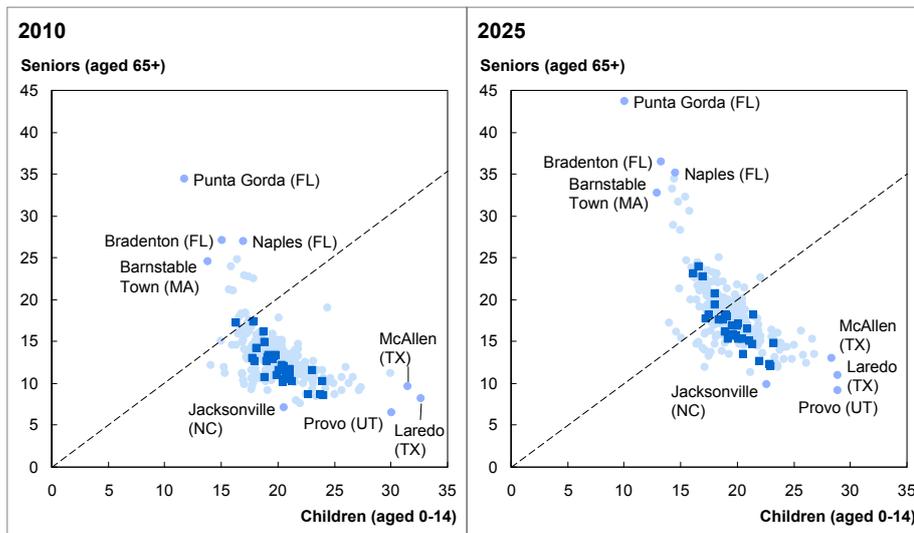
Beyond slower population growth, the demographic composition of many cities' populations will shift, and therefore the mix of demand for local services will shift as well. Today, seniors outnumber children in only one of every 20 cities—by 2025, one-third of cities will have more seniors than children (Exhibit 19). In Miami, Florida, which already has a relatively high share of seniors at 16 percent, this proportion will rise to 23 percent. And in the old industrial city of Pittsburgh, Pennsylvania, the share of people over 65 will rise from 17 percent to 23 percent by 2025.³³ In contrast, 30 percent of the population of Brownsville and Laredo, both in Texas, is expected to be aged below 15—that's twice the share of the 65-plus age group in Brownsville and three times that share in Laredo. In most cities, policy makers will need to ensure that services from local school systems to those used by older citizens adjust to changing demand.

Exhibit 19

One in 20 US cities has more seniors than children today—by 2025, this will be the case in one in three cities

% of population

----- Share of children = share of seniors
 ■ Top 30 cities by 2010 GDP



SOURCE: McKinsey Global Institute Cityscope v 1.5

32 For a discussion of the aging of the US baby-boom generation, see *Talkin' 'bout my generation: The economic impact of aging baby boomers*, McKinsey Global Institute, June 2008 (www.mckinsey.com/mgi).

33 For more on the demographic transition in large US metro areas, see *The State of Metropolitan America*, Brookings Institution, 2010.

The industries fueling growth will continue to evolve

Over the past decade leading up to the Great Recession, the financial and real-estate sectors were major sources of growth for many cities, yet these industries are likely to take some time to recover. Looking forward, we should expect the types of industries that thrive and grow the fastest in the years ahead to continue to shift in response to new innovations and consumer trends, as well as broad global economic shifts.

US cities that can take advantage of the rising wave of middle-class urbanites in emerging economies are likely to benefit. The rising economic power of emerging cities in Asia and Latin America is expected to continue to favor Southern and Western US cities. Companies from infrastructure suppliers to consumer goods suppliers are increasingly looking at emerging economies not just for lower production costs but as an alternative to slower-growing consumer markets in the United States. Urban centers that have good connections or build those connections to global growth hubs—whether physical connections such as airport hubs and ports, business connections (e.g., some electronics value chains), or personal connections (e.g., cities with universities that attract foreign students)—will be in a better position to take advantage of the growing emerging market opportunity.

With service sectors accounting for more than 80 percent of GDP and nearly all of net job growth, a strong performance in those sectors will continue to be critical for growth in all US cities. We can expect broad-based service sectors such as retail, hotels, and restaurants to fuel growth as demand returns.³⁴ With an aging trend, demand for health care will continue its upward growth trajectory, as will other services to retirees. Some cities, such as Naples, Florida, have succeeded in growing by attracting mobile retirees to their communities. The role of manufacturing in metropolitan growth is likely to continue to vary widely across cities.³⁵

34 *Growth and renewal in the United States: Retooling America's economic engine*, McKinsey Global Institute, February 2011 (www.mckinsey.com/mgi).

35 The role of manufacturing in the US economy is subject to extensive debate today. See, for example, Helper, S., et al., *Why does manufacturing matter? Which manufacturing matters? A policy framework*, Metropolitan Policy Program at the Brookings Institution, February 2012.

Increasing global competition among cities for investment and skilled workforce

The shifting economic balance toward emerging markets and the rising profile of a broader range of middleweight cities will mean more competition for US cities of all sizes in attracting both inhabitants and businesses. One example of this trend we are already seeing is that some US baby boomers choose to relocate to places like Mexico to take advantage of the country's lower cost of living and elderly assistance.

Many cities and states across the United States already work hard to attract new businesses to their jurisdictions. International competition comes not only from rapidly growing emerging markets, with the advantage of their relatively low wages, but also from developed markets that are able to create tailored value propositions. The Dutch Innovation Platform has brought together the government, key business leaders, and other leading representatives of society to develop an explicit plan for how to attract 50 significant international businesses to the Netherlands. France has an Ambassador for International Investment who reports annually on jobs created. And for decades now, Singapore and Ireland have set the bar for effective agencies attracting foreign direct investment. Both countries have built capable organizations that have many of the hallmarks of high-performing, private-sector sales forces. To succeed in the increasingly competitive global arena, cities need to look beyond their US peers and have a good understanding of the specific priorities among cutting-edge firms in their target sectors and the capacity to offer a competitive business environment for these businesses.

Recent MGI analysis found that there could be a shortage of up to 1.5 million workers with bachelor's degrees or higher in 2020, while nearly 6 million Americans without a high school diploma are likely to be without a job.³⁶ Demand will be particularly strong in technical and analytic skills—needed, for example, to handle the rising volume of big data—meaning that cities with young and technically educated workers will have an advantage.³⁷

³⁶ *An economy that works: Job creation and America's future*, McKinsey Global Institute, June 2011 (www.mckinsey.com/mgi).

³⁷ *Big data: The next frontier for innovation, competition, and productivity*, McKinsey Global Institute, May 2011 (www.mckinsey.com/mgi).

A CITY SCORECARD: HOW PREPARED ARE US CITIES FOR GROWTH AND RENEWAL?

Cities that build their strategies on an informed understanding of their starting point, set targets grounded on that fact base, and are effective in executing strategy are those that are likely to outperform their peers over the next 15 years. So what do we know about how prepared cities are for growth?

Each of the top 30 cities that contributed half of US GDP growth over the past three decades faces different prospects for short-term recovery and long-term prosperity. In fact, the top 30 cities have different underlying strengths and challenges to future growth. Our city scorecard maps how these cities—critical economic engines of the past and future—are positioned to address the prevailing short-term and long-term trends facing the US economy (Exhibit 20).

Exhibit 20

Each city will leverage different strengths and face different challenges to regain growth

%

■ >20% better than reference
 ■ Within 20% of reference
 ■ >20% worse than reference

Top 30 cities ranked by 2010 GDP	Recovery index 2010 GDP/ pre-crisis peak, 2006–08	Homes in negative equity, 2011	Unemployment, 2011	Net migration, 2010 Net migration/ city population	Education attainment, 2010 People aged 25+ with bachelor's degree or higher	Senior population, 2010 Population aged 65+
New York	101	10	8.4	0.1	35.6	13.1
Los Angeles	98	24	11.4	-0.2	30.6	11.1
Chicago	97	25	9.5	-0.2	33.4	11.4
Washington, DC	103	29	5.8	1.2	47.1	10.0
Houston	104	11	8.4	1.0	28.4	8.6
Dallas	100	12	8.1	0.8	30.9	8.8
Philadelphia	100	8	8.6	0.2	32.3	13.3
Boston	101	16	6.8	0.3	42.1	13.1
San Francisco	97	10	9.6	0.4	43.5	12.7
Atlanta	96	35	10.0	0.3	34.4	9.0
Miami	94	47	11.0	1.0	28.7	16.0
Seattle	99	16	8.8	0.4	36.9	10.9
Phoenix	93	55	8.4	0.5	28.1	12.3
Minneapolis	100	17	6.5	0.0	37.5	10.7
Detroit	91	42	11.8	-0.8	27.0	13.2
San Diego	98	29	10.0	0.6	34.1	11.4
Baltimore	103	19	7.4	0.2	34.6	12.7
Denver	102	22	8.7	0.9	37.7	10.1
Riverside	92	47	13.7	1.0	19.5	10.4
San Jose	102	18	10.1	0.3	44.5	11.1
St Louis	99	17	9.0	0.0	29.2	13.4
Tampa	94	48	11.0	0.7	25.9	17.3
Portland	98	18	9.2	0.6	33.4	11.4
Pittsburgh	103	6	7.2	0.2	28.3	17.3
Orlando	97	54	10.4	0.7	28.0	12.4
Sacramento	93	42	12.0	0.3	30.0	12.1
Cleveland	96	27	8.0	-0.4	27.0	15.2
Hartford	109	Not available	8.8	0.0	34.2	14.4
Kansas City	98	14	8.4	0.3	32.2	12.0
Cincinnati	99	22	8.9	-0.1	28.5	12.3
Reference	100¹	22.7¹	9.0¹	0.3²	27.9¹	13.1¹

1 Reference is US average.

2 Reference is average across all MSAs.

SOURCE: Moody's Analytics, Core Logic, American Community Survey (US Census Bureau), McKinsey Global Institute analysis

4. Implications for policy makers and companies

Large US cities have time and again demonstrated that they collectively have the resilience and capacity to adjust to new situations. There is no reason that this will not be the case in coming decades. Although the challenges urban America faces appear to be severe, US cities actually have a stronger starting position than their counterparts in other developed economies.³⁸ The strong, diverse pool of metropolitan areas in the United States is another advantage.

As in the past, the trump card for urban America as it navigates toward growth and renewal will be the diversity of strategies and experiences of individual cities. There is no single blueprint for all cities to follow. So how can all cities seek to make the most of the hands that they have been dealt, and what should companies be doing to make a contribution?

KEY APPROACHES FOR POLICY MAKERS

- **Know thyself and tailor strategy accordingly.** Cities need to understand their strengths and weaknesses, as well as the impact of demographic and other trends on their prospects, and set their strategy accordingly. For the largest metropolises, it is no longer sufficient to provide national or regional comparisons and benchmarks. To understand growth prospects in an increasingly global urban landscape, cities need to assess how they fare against their global peers. Toronto is an example of a city where the local Board of Trade tracks the city's evolving strengths and weaknesses against 24 global metropolitan areas in an annual report.³⁹ Over the past year, Chicago has launched a major effort to compile a fact-based profile of the city's strengths and weaknesses as the basis for a new growth strategy (see Box 3, "Identifying opportunities for economic growth: The Chicago example").

38 A number of recent MGI reports, all available at www.mckinsey.com/mgi, provide more detail. On differences in the hangover of the recession in different economies, see *Debt and deleveraging: The global credit bubble and its economic consequences*, January 2010; *Debt and deleveraging: Uneven progress on the path to growth*, January 2012; and *An economy that works: Job creation and America's future*, June 2011. On the longer-term impact of aging on growth prospects, see James Manyika, David Hunt, Scott Nyquist, Jaana Remes, Vikram Malhotra, Lenny Mendonca, Byron Auguste, and Samantha Test, "Growth: The possible dream," *Milken Institute Review*, second quarter 2011; also see MGI reports *Beyond austerity: A path to growth and renewal in Europe*, October 2010, and *European growth and renewal: The path from crisis to recovery*, July 2011. In addition, MGI will publish *French employment 2020: Five priorities for action*, a report on France's labor market, later in spring 2012.

39 The fourth edition of the Toronto scorecard was published in 2012. See Toronto Board of Trade, *Toronto as a global city: Scorecard on prosperity—2012*, 2012.

Box 3. Identifying opportunities for economic growth: The Chicago example

If the Chicago metropolitan area were a nation, it would have the 20th-largest economy in the world. This third-largest city in the United States is the only city in the developed world that is projected to become a new megacity by 2025. But the city's growth has been slowing over the past decade.

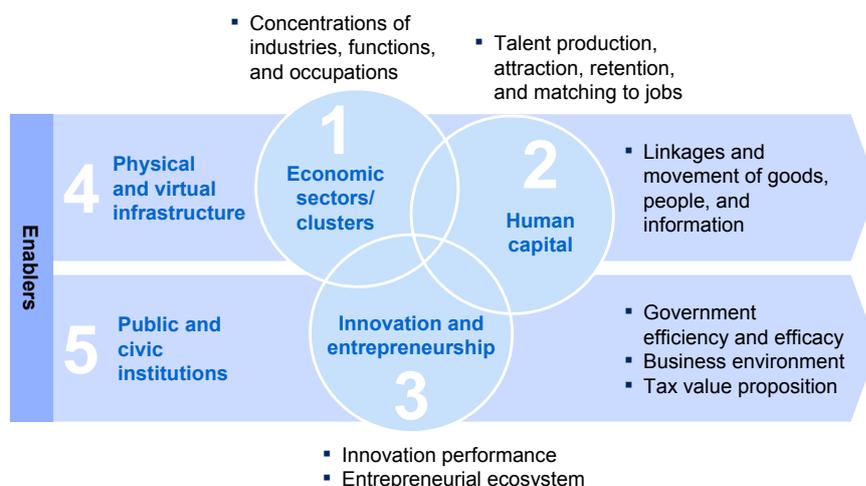
It was in this context that the organization World Business Chicago convened a steering committee of 14 economic development leaders around the region, including representation from labor, community groups, the chamber of commerce, and many others.¹

Three elements of the program were important:

- **Producing a fact-based analysis.** An inventory of Chicago's assets and weaknesses was compiled based on data, and nearly 200 stakeholders were interviewed to understand and align priorities. This fact base contrasted the position of Chicago relative to other metropolitan areas using indicators including growth in GDP, growth in per capita GDP, and employment.
- **Defining strategies—beyond the fact base—to respond to future trends.** The fact base helped to identify the areas of concern and opportunity for the city, organized around a unified framework that covers the full range of priorities for the city (Exhibit 21).
- **Engaging a broad set of stakeholders.** Public, private, and civic sector stakeholders from all sectors were engaged early and often to garner critical insights that can help to define the way forward and to build consensus that will make strategies successful.

Exhibit 21

Five levers provide a common architecture to identify opportunities for economic growth



SOURCE: World Business Chicago, *A Plan for Economic Growth and Jobs*, March 2012; *Metropolitan Policy Program*, Brookings Institution

1 McKinsey & Company and the Brookings Institution supported Chicago's effort.

- Excel in execution.** The way policies and strategic plans are carried out is a critical success factor for national, regional, and local economic development plans.⁴⁰ Cities typically have a range of options for how to address specific challenges. The right approach is likely to differ depending not only on the issue that is being addressed but also the preferences and capabilities of the local government (Exhibit 22).

Exhibit 22

Governments can pursue different levels of intervention

ILLUSTRATIVE

Trends facing cities	Degree of intervention			
	Low			High
	Setting ground rules/direction	Building enablers	Tilting the playing field	Government as principal actor
Deleveraging	Long-term planning for expansion at sustainable rates and public finances	Invest in financial education for homeowners	Devise tax breaks for households with negative equity on their homes	Destroy excess housing stock
Uneven job growth	Reduce regulatory red tape to set up new businesses	Invest in quality education and infrastructure (physical and communications); aggressive marketing to revitalize city brand, enhance livability	Offer financial incentives to attract businesses	Increase government share of jobs
Change in sector mix dynamism	Reduce regulatory red tape to set up new businesses	Set publicly funded centers of innovation; raise skills of city immigrants	Collaborate with other cities to create standards and create scale for target industries	Invest in enterprises in target sectors
Aging of population	Ensure stable and transparent policies to encourage private investment in service provision for seniors	Ensure city has service infrastructure to cater to senior population (e.g., accessible facilities)	Invest in housing for senior communities	Manage provision of health care services for seniors

SOURCE: McKinsey Global Institute analysis

Often as important as the right policy is the capacity to involve the private sector and the community more broadly so that everyone pulls in the same direction. The private sector can provide much-needed expertise in identifying the most binding constraints that limit companies' growth, and exploring the range of possible ways to address them.

One of the execution challenges facing many cities is the fragmentation of local governments that makes coordinated solutions hard to resolve. For example, the broad San Francisco Bay Area region consists of nine counties and more than 100 cities, and this has made regional planning and coordination a challenge.⁴¹ Nevertheless, coordination does not need to happen through creating another layer of regional government—it can vary in form depending on the function and purpose (Exhibit 23). To take one example, consolidating and sharing services among cities and between cities and counties can free up badly needed funds. In the San Francisco Bay Area region, the Bay Area Council Economic Institute estimates that most shared services result in saving of 5 to 10 percent on average. In that region,

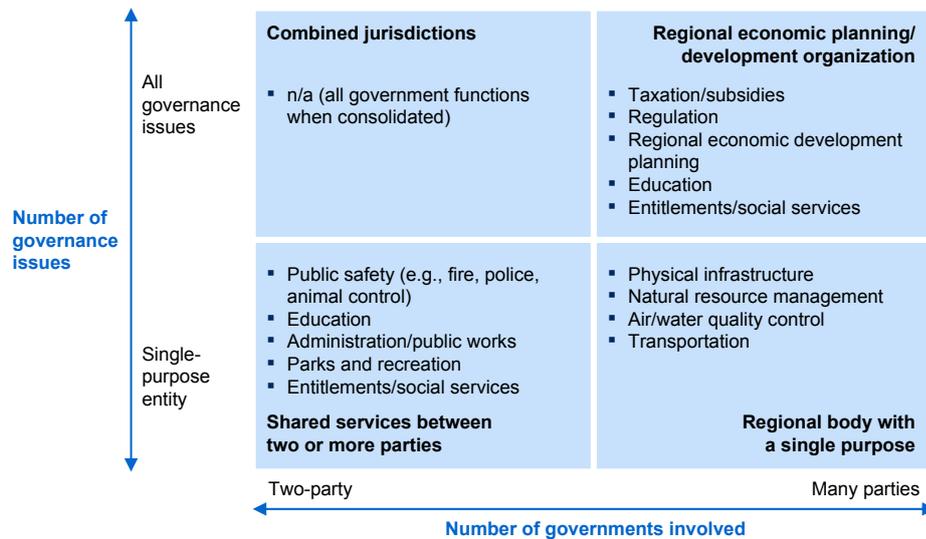
⁴⁰ *How to compete and grow: A sector approach to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

⁴¹ See Bay Area Council Economic Institute, *Innovation and investment: Building tomorrow's economy in the Bay Area*, March 2012. The report argues that an improved regional focus and coordination among Bay Area cities as well as between the public and private sectors will be vital (<http://www.bayareaeconomy.org/media/files/pdf/BayAreaEconomicProfile2012Web.pdf>).

\$6.3 billion is spent on functions across finance, government, public safety, and justice that could be shared. If this potential to share were taken up to the maximum, it could net savings of \$300 billion to \$600 billion a year. There is even scope to share services in education and social programs.

Exhibit 23

Different government services tend to fall naturally into one of these four quadrants



SOURCE: Bay Area Council Economic Institute, *Innovation and investment: Building tomorrow's economy in the Bay Area*, March 2012; McKinsey Global Institute analysis

- **Be connected.** Rather than seeing each other city as competition, building strong connections to other cities can become a collective strength. Thinking of global networks is one approach used by rising cities in China that actively search for connections, building relationships either to grow local businesses (e.g., Guangdong with leading wind-energy expertise in Denmark) or with regions with abundant natural resources. Being connected also allows cities to learn from proven best practices. Around the world, cities are designing innovative new approaches to their management, and others are emulating such best practice. There are potentially large benefits from being able to tap into the experience of other cities.

KEY APPROACHES FOR BUSINESSES

For businesses to thrive in America's difficult economic environment, they need to be agile in adjusting to the shifting pockets of urban growth and take advantage of opportunities to work with cities that are open to innovative collaborations. We see three broad approaches that businesses should consider.

- **Be granular in the search of growth.** The landscape of urban America is already highly diverse and will continue to be so. Clearly, business strategists that are operating in US cities need to pay close attention to where the growth opportunities are—and are not—and ensure that they have the agility to respond to changing conditions. Marketers, for instance, will need to continue to adapt to match shifts in population and wealth. Companies will need to devise strategies for expanding or contracting facilities. And companies should not forget about cities as customers. Many cities will be looking to upgrade their infrastructure to meet the demands of the 21st century and establish IT-enabled services that can reduce costs and improve user satisfaction at the same time.
- **Engage actively in the search for talent.** Skills—particularly technical ones—are going to be in increasingly short supply without an education and training revolution in the United States. And competition for talent will only intensify as the population ages. Businesses will need to understand which locations provide access to the most attractive workforce and production assets.
- **Collaborate with cities to carve out a competitive environment.** Many cities are keen to attract businesses and companies and should work with local leaders to inform them of their needs and what policy approaches would be most conducive to their competitiveness in the urban environment. Collaborating with cities in developing talent is one clear opportunity. Another is working together to develop the infrastructure that will increase access and connectedness.



The well-being and economic performance of US cities is of overwhelming importance to the US economy and of significant interest to the global economy. To maintain their edge, US cities will need to arm themselves with detailed intelligence about their strengths and weaknesses, and to design strategy on that basis; connect and collaborate with each other and the wider world; and reach out to the private sector to build a deep understanding of how to create an environment that is conducive to the investment companies can bring and the jobs they can create.

Urban America is a rich and diverse landscape of cities that have plowed their own furrows in search of growth and prosperity. There is no single right strategy for success. Yet time and again, US cities, as a group, have demonstrated their resilience, flexibility, and ability to reinvent themselves. Despite the severe challenges they face, they start from a more robust platform than their peers in other developed regions and have the potential to lead the way for middleweights across the globe.

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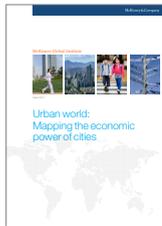
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India has a young and rapidly growing population—a potential demographic dividend. But India needs thriving cities if that dividend is to pay out. New MGI research estimates that cities could generate 70 percent of net new jobs created to 2030, produce around 70 percent of Indian GDP, and drive a near fourfold increase in per capita incomes across the nation.



Preparing for China's urban billion (March 2009)

The scale and pace of China's urbanization continues at an unprecedented rate. If current trends hold, China's urban population will hit the one billion mark by 2030. In 20 years, China's cities will have added 350 million people, more than the entire population of the United States today. By 2025, China will have 221 cities with over one million inhabitants—compared with 35 cities of this size in Europe today—and 23 cities with more than five million. For companies in China and around the world, the scale of China's urbanization promises substantial new markets and investment opportunities.

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McKinsey Global Institute
April 2012
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