Special Report
TD Economics
www.td.com/economics
March 1, 2011

HIGHLIGHTS

- **Since the recession started, the combined population growth of Florida, Georgia and the Carolinas (the South) has slowed from 2.1% to 1.0%, while it has accelerated in the Northeast (the North) from 0.1% to 0.3%.**
- **Between 1997 and 2006, the South's average annual economic growth rate was 3.7%, in the North it was 2.6%. If current population trends are sustained, the high-growth advantage of the South would be completely wiped out.**
- **We don't expect these changes in population growth to last. Recent moves are the result of slowing interstate migration into the South, and improved migration in the North. As the job market recovers these temporary changes will fade.**
- **In the long-run, we expect people's preferences to restore strong inflows into the South (around 280K) and outflows from the North (around 260K).**

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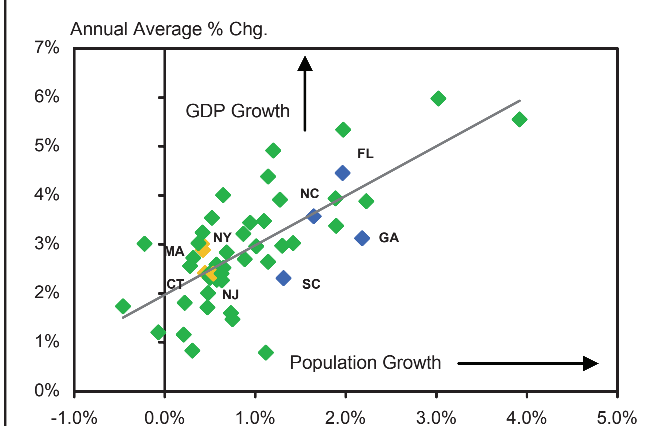
HOW THE SOUTH WILL GET ITS GROOVE BACK

Population growth in Florida has slowed to a crawl. In fact, it's the slowest pace since WWII. This phenomenon is not isolated to just Florida, as other southern states like Georgia and the Carolinas have also seen a downshift in population trends. This might seem immaterial in the grand scheme of things challenging the US economy, such as a distressed housing market, weak state and municipal finances and rapidly rising oil prices – to name a few. However, there are basically two ways to propel an economy forward and offset economic drags such as these – population growth and productivity. The Southern States have typically relied to a greater extent on the former. So, should this sleepy population pattern persist, the fast-growing economies of the South will cease to be the drivers to the national economy they once were. Rather, the economic growth pattern will start to resemble that of the Northeast, a market that has typically grown 1.1 percentage points slower than these Southern States.

STATE OUTPUT AND POPULATION GROWTH: 1997-2006



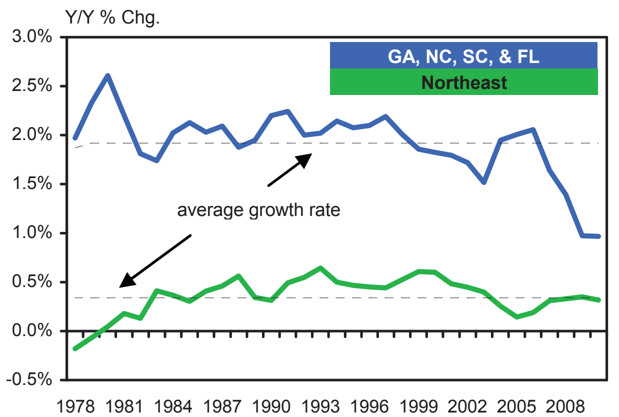
Source: BEA, Census Bureau, TD Economics
Green dots represent states

Therefore, it's important to determine if these changes are permanent or temporary. We deem it to be largely the latter – temporary. Much of the South's decline in population growth over the past few years can be ascribed to large job losses, which have slowed the inward pace of migration. In contrast, an outperformance in the Northeast job market has slowed the outward pace of its migration. These forces will not last forever though, as a strengthening economy slowly heals the job market. In the longer-run, factors like affordability and a warm climate will continue to support strong inward flows of migrants to the South and outward flows of migrants from the North, and this will restore the South's population and economic growth advantage.

Population drives growth in the south

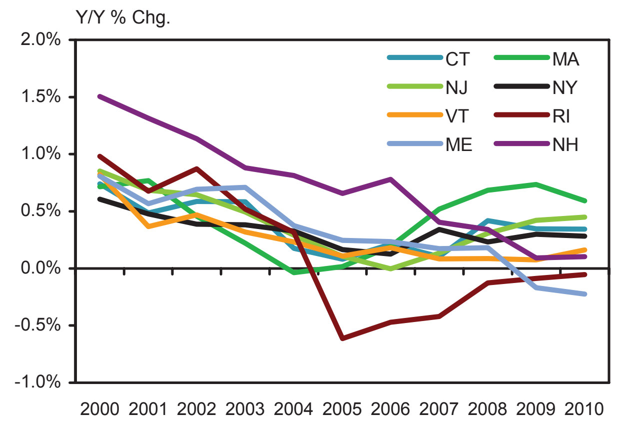
Growth in productivity and the labor force determine the economy's long-run growth rate. As productivity improves, existing workers create more goods and services. As the labor force grows, it brings new people and talent that can start or grow businesses. Population growth matters because in the long run, the labor force can't grow without it. Over the past ten years, population growth has ac-

POPULATION GROWTH RATES



Source: Census Bureau Population Estimates.

POPULATION GROWTH



Source: Census Bureau

counted for about half of U.S. economic growth.

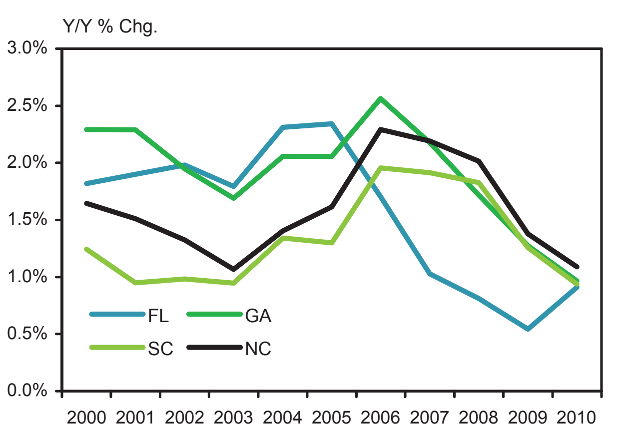
Two major demographic shifts have occurred on the East Coast since the recession started. The biggest change has been a slump in the population growth rate of the South Atlantic's four southern most states – Florida, Georgia, South Carolina, and North Carolina (here on in referred to as the south). In these states, population growth has slowed from an average of 1.9% between 1997 and 2006 to just 1.0% in 2010. A second, less marked change has taken hold in the Northeast (here on in referred to as the North), where population growth started to speed up in 2006.

In the South, the Sunshine and Peach States have driven most of the region's population growth during the last ten years. This is not surprising, because these two states account for 67% of the South's population. In the early part of the decade, Florida and Georgia grew at a blistering 2.0% pace while the Carolinas lagged until 2006, when growth surged – in part because of out migrants from Louisiana after Hurricane Katrina. Although Florida led the region's slowing population growth in 2006 as the housing market slumped, with time, the recession caused the other states to follow. Florida's population growth showed signs of firming in 2010 but remains a shadow of its former self.

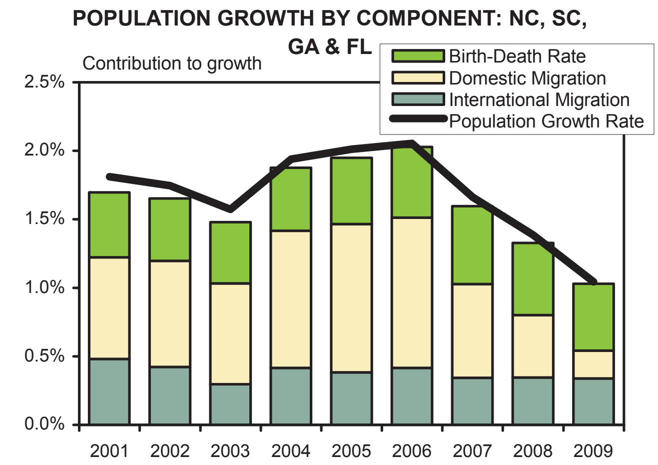
Meanwhile, the opposite dynamics are at work in the North. In 2006, New York's population grew at a measly 0.1%; by 2010 this number had nearly tripled to 0.3% (increasing from 24K to 55K). This may seem like a small bump, but the Empire State accounts for 35% of the region's population. Other notable accelerations since 2006 have occurred in Connecticut (6% of region's population), Massachusetts (12%), New Jersey (16%), and Rhode Island (2%). But, after a few years of improving, growth has started to level off in all these states. Also, in contrast to the South, the improvement in population growth has not been uniform across the region; Maine (2%), Pennsylvania (22%), and New Hampshire (2.4%) have seen their population growth slow.

A mix of slower growth across the South and faster growth in the North has narrowed the population growth gap between these regions to its lowest level since the 1960s. If this lasts, it will have a big impact on regional economic growth. Between 1997 and 2006, the South's average annual growth rate was 3.7%, in the North it was 2.6%. If current population trends are sustained, the high-growth advantage of the South would be completely wiped out as these numbers could look more like 2.8% and 2.6%, respectively, in ten years.

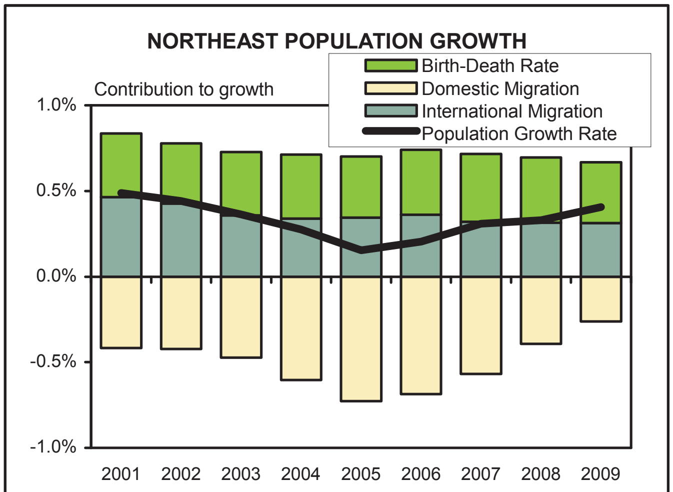
POPULATION GROWTH



Source: Census Bureau



Source: Census Bureau Population Estimates. * Population growth rates do not match those implied by sources of growth perfectly.



Source: Census Bureau Population Estimates. * Population growth rates do not match those implied by sources of growth perfectly.

The main ingredient – domestic migration

To understand why population growth has changed, we can break the shift into three parts – natural, immigration and domestic migration. The first two effects are inherently stable. Births and deaths drive the natural effect, which has not change since the recession started. It is worth noting that the birth-death ratio has contributed slightly less to population growth in the North (0.4 percentage points) than in the south (0.5 percentage points) over the past ten years, owed in part to the South's younger demographics. Immigration varies more than the birth-death ratio, but has not changed much this business cycle.

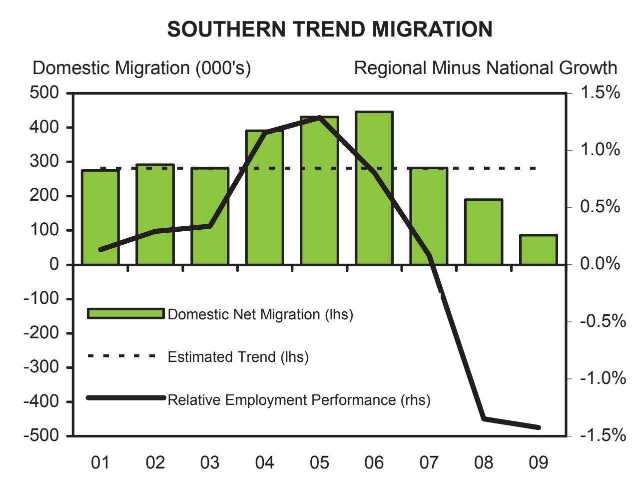
The third part of population growth is domestic migration. Migration is the most fickle element of population growth and accounts for most of the difference in the growth rates of the North and South. Migration has slowed the North's population growth on average by more than half a percentage point each year this last decade. In the South, by contrast, domestic migration added more than three-quarters of a percentage point to growth over the last ten years.

Migration explains almost all of the changes in population growth since 2007. In 2006, one percentage point of the South's growth came from interstate migration; by 2009 this had fallen to 0.2 percentage points. Meanwhile, in the North, domestic migration slowed population growth by 0.7 percentage points in 2006, compared to 0.2 in 2009. If this migration trend persists, it will have dire consequences on the South's economy, shaving close to one percentage point off of the South's long-run economic growth.

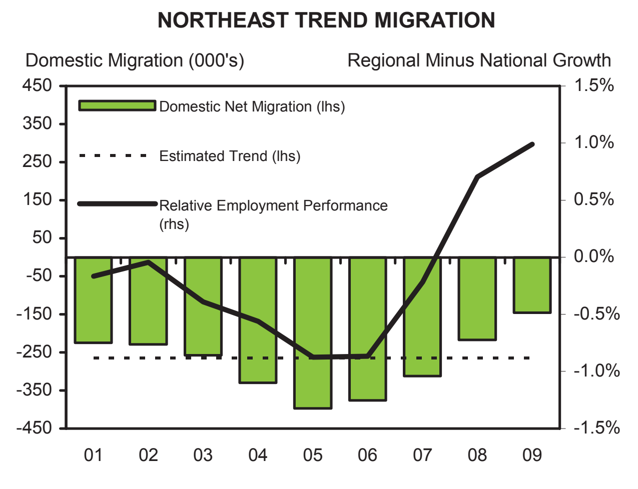
Current migration trend won't last

However, the current pace of migration will probably not last. The Carolinas, Georgia and Florida are places Americans want to live for reasons other than work, including: climate, retirement and the cost of living. Before the recession, these preferences for the South mixed with a strong job market to attract large inward migration flows. Once the recession started, the South's job market slumped, and migration followed suit. Almost the opposite happened in the North. For a few of reasons – including cold winters, a high cost of living and population density – households have typically poured out of the region. But, when the recession started, the North's job market outperformed the country, and these outflows slowed. With time, these temporary effects from employment will wane, and the South's strong inward flows will return, as the North's outward migration flows will speed up again.

We can frame the argument simply as migration is de-



Source: Census Bureau, TD Economics



Source: Census Bureau, TD Economics

pendent on two broad influences: a state's job market and its attractiveness as a place to live. Attractiveness sets the long-run pace, or trend – the migration one would expect if jobs were not a factor. In expensive states with cold winters, this trend tends to be negative; whereas in affordable states with warm weather, this trend tends to be positive. Conditions in a state's job market causes migration to move around its trend from one year to the next. The south, for example, has a positive migration trend of roughly 280,000.

In the long-run migration follows trend

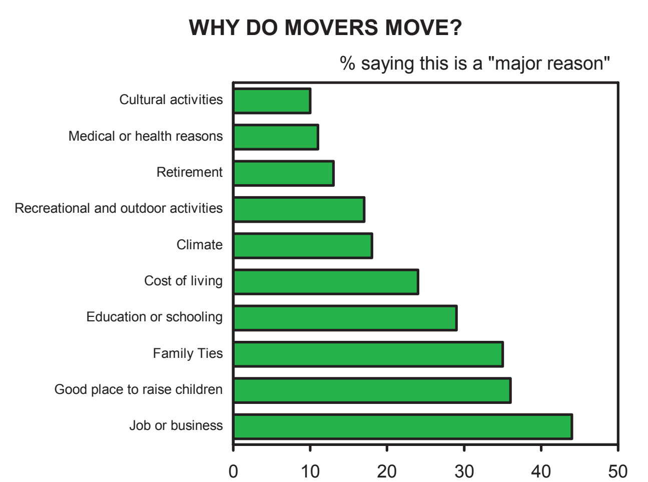
Attractiveness of a state depends on things like climate, recreation and culture. While these variables may be hard to measure, they matter; just ask a New Yorker how they feel about this winter's weather. Another factor that influences attractiveness is the cost of living, and the PewCenter has found that affordability influences nearly one in three movers.

Trend migration strengthens population growth in the South, while slowing it in the North. Since the South is more affordable, a popular retirement destination and has warmer winters, this is hardly surprising. We have estimated that migration flows into the four Southern States are roughly 280,000, while outflows from the north are 260,000. These numbers conform well to history, but we caution that these only serve as guides because the estimation procedure is subject to a bias. The large states of Florida (+100K) and New York (-180K) represent significant shares of these flows.

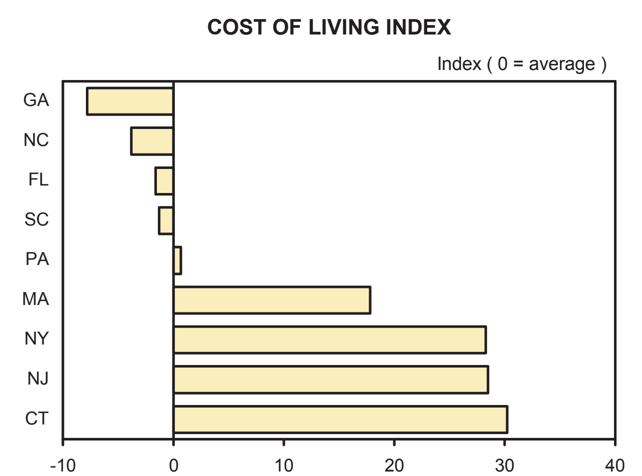
Fallout from the recession will not drastically affect trend migration. The downturn has not changed the North's aging population, or the South's climate. One area where the recession could have an impact is through the affordability channel, because of the fall in home prices. Florida's inward migration flows could benefit in the long run from this, given the state's much improved housing affordability. In the other Southern States, however, home prices fell less than average, causing relative affordability to fall slightly. That said, the cost of a house is still much lower in Georgia, and the Carolinas than in the North, and the South's lower cost of living spreads well beyond housing. Thus, the trend remains the South's friend, and any variability is really caused by the job market.

Jobs cause most year to year changes in migration

Swings in the job market explain a lot of the year to year changes in migration. A PewCenter survey found jobs and business opportunities were the biggest reasons people move. But this component is volatile, leading migration to change from one year to the next. Data and statistics show that moves in the unemployment rate are constantly in step



Source: PewResearchCenter
American Mobility: Who Moves? Who Stays Put? Where's Home?



Source: Missouri Economic Research & Information Center with changing migration. When a state's unemployment rate falls, migration accelerates. When the jobs leave, so do the people.

Before the recession, job markets in the South outperformed the country. Likewise, migration in the Southern States grew quickly and surpassed trend. Meanwhile, slower growing job markets in the North caused these states to lag. That changed in 2008. Ruthless job cuts took the country by storm and the South was hit particularly hard. In Florida, nearly 11% of jobs were lost. Georgia (-8%), and the Carolina's (-7%) fared little better. Among these Southern States, declines in migration mirrored these job losses. Migration suffered the most in Florida. The losses, in fact, were so bad that the state experienced 32K in outflows during in 2009, despite an estimated trend inflow of 100K. Migration also fell in Georgia and the Carolinas, but since the job markets fared a little better, migration was not pulled as far from trend. Meanwhile, in the North, the job market managed to outperform a bit during the downturn. As the national unemployment rate soared from 4.4% in 2007 to 10.1% in 2009, the North's jobless rate only rose from 4.3% to 9.0% in the North. This helped support an improvement in the North's migration (see charts). With time, however, these temporary over and under performances in the job market will fade, causing migration to revert towards trend in both regions.

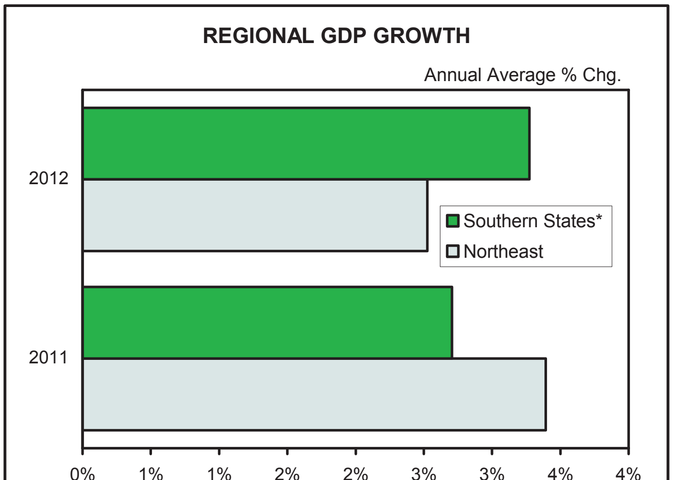
In 2011, we expect job growth in the North to outpace the South (for details on our state outlook please see). This strong performance stems from the industrial composition of these states, which are geared towards the business services and high-tech manufacturing that should perform well at this point in the recovery. A faster pace of recovery in the North this year, suggests that the region will sustain its recent migration momentum. In the South, we are forecasting below average job growth in Florida, Georgia and North Carolina in 2011, as housing continues to drag. While job growth will improve a lot relative to 2010 in the South, its underperformance on a national basis will continue to temper inward migration. Job growth should perform better in South Carolina, given the state's high concentration in manufacturing and tourism. That said, South Carolina's flows are only a small part of the South's (around 38K a year) and may not rebound strongly because of the slow recovery in surrounding states. All together, the current pace of migration – and hence population growth – should look very similar across the North and South in 2011 as it did in 2010.

In 2012, however, the dynamic will shift, with economic growth in the South outpacing the North. In particular, we are forecasting big rebounds in Florida and Georgia, as their troubled housing markets start to turn. As the jobless rate gradually declines, improvement in population growth will be strongest for those states that were dragged farthest from their trends, with Florida seeing the biggest rebound. Indeed, some early signs of this may be showing, as Florida's population growth appeared to firm in 2010. Likewise, Georgia is in store for a big bounce as the recovery matures. In the Carolinas, where the declines in migration were not as far from trend, the bounce back will not be as dramatic. That said, a stronger 2012 job market will boost migration for every state in the South. In the North, a slowing pace of economic growth in 2012 will pull outward migration back towards the region's long run trend of 280,000.

As a final note, some have argued that the housing downturn has slowed mobility because homeowners underwater on their mortgages, have been unable to sell their homes and move. Our analysis, however, has not uncovered evidence of this. Research from the Minneapolis Fed also supports this result. Greg Kaplan and Sam Schulhofer-Wohl[1] point out that a change in methodology used in the Current Population Survey can account for 90% of the reported decline in interstate migration between 2005 and 2006 – the year national migration rates declined the most. Also, Mr. Schulhofer-Wohl[2] has found evidence that households underwater on their mortgages are actually more likely to move than those who are not.

Conclusions

Population growth rates have undergone dramatic shifts since the recession started. In the South, states have seen



Source: TD Economics, * Includes FL, GA, SC, NC.

their population growth rates decline sharply, while in the North, population growth has accelerated modestly. This matters because population growth is an important part of economic growth, and if these trends are sustained, they could change the traditional dynamics of regional economic growth. We, however, don't think these changes will last because they were driven by cyclical forces marked by enormous job losses in the South and less severe job losses in the North. That said, the current rates of population growth should last through 2011, as the South's economy continues to underperform, and the North's outperform.

By 2012, the South's job market will become a frontrunner again, and population growth in the South will gradually accelerate. Likewise, a slowing job market in the North will start to weigh down regional migration. Beyond 2012, population growth will mirror history allowing the South to be re-instated as an economic growth leader. Meanwhile, the growth potential of the North will continue lag the South, and rely more on innovation and productivity.

Endnotes

1 "Interstate Migration Has Fallen Less Than You Think: Consequences of Hot Deck Imputation in the Current Population Survey." Greg Kaplan and Sam Schulhofer-Wohl. Federal Reserve Bank of Minneapolis.

2 "Negative Equity Does Not Reduce Homeowners' Mobility." Sam Schulhofer-Wohl. Federal Reserve Bank of Minneapolis.