US POPULATION MIGRATION CONTRIBUTES TO REVITALIZATION OF PERIPHERAL STATES

— RAISING THE RATIO OF IN-OFFICE WORKERS AS THE STARTING POINT FOR FUTURE CHANGE —

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SUMMARY

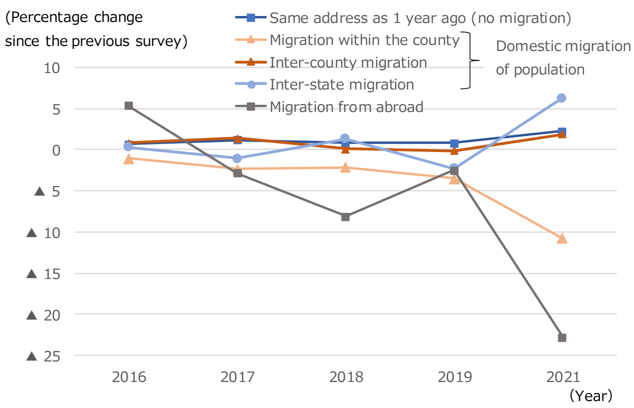
- Population migration across county and state has increased during the COVID-19 pandemic, with populations declining in states with large metropolitan areas and increasing in peripheral states. The flow of mid-to-high income, highly educated people into peripheral states is driven by the increasing popularity of telecommuting.
- This population migration into the periphery has produced an upsurge in real consumer spending. There has also been an uptick in restaurant activity as well as an increase in demand for housing in states experiencing population growth. While the role of automobiles in commuting has diminished, leisure time usage is on the rise.
- The ratio of telecommuting is not expected to increase significantly in the future, and it is difficult to imagine that population migration into the periphery will accelerate. At the same time, some companies are considering increasing the ratio of in-office work. If this trend gains momentum, it will likely trigger a return to urban centers.

1. WHERE HAVE POPULATIONS INCREASED DURING THE COVID-19 PANDEMIC, AND WHAT ARE THE REGIONAL CHARACTERISTICS?

1-1. Populations declining in states with large metropolitan areas while increasing in peripheral states

Population migration patterns in the US can be divided into three categories: migration within the same county, migration to a different county within the same state (inter-county migration), and migration to a different state (inter-state migration).[1] During the COVID-19 pandemic,[2] inter-state migration increased by nearly 6%, the highest rate compared to the previous survey, and inter-county migration increased by nearly 2% (Figure 1). At the same time, the percentage of people who remained at the same address also increased by roughly 2%.

Figure 1: Percentage change by pattern of population migration



Note: The 2020 survey was not published due to COVID-19.
Source: Compiled by MGSSI based on the US Census Bureau data

[1] American Community Survey conducted by the U.S. Census Bureau within the U.S. Department of Commerce https://www.census.gov/programs-surveys/acs
[2] This report primarily compares changes that occurred during the COVID-19 pandemic for the years 2019 and 2021.

Population migration resulted in some states with large metropolitan areas (California; Washington, D.C.; and Illinois) experiencing a decline in population. At the same time, populations increased in some peripheral areas (Idaho, Vermont, and New Jersey).

Even at the county level, populations tended to decline in central areas and increase on the periphery. When dividing US counties into five levels by population scale from large central metro areas located in the middle of metropolitan areas (Category 1) to micropolitan areas (Category 5) based on criteria set by the US Department of Health and Human Services,[3] it is clear that, while populations in counties located in large central metro areas experienced very little change in population ratios on average, those in peripheral areas showed an average increase of roughly 2% to 4% (Figure 2).

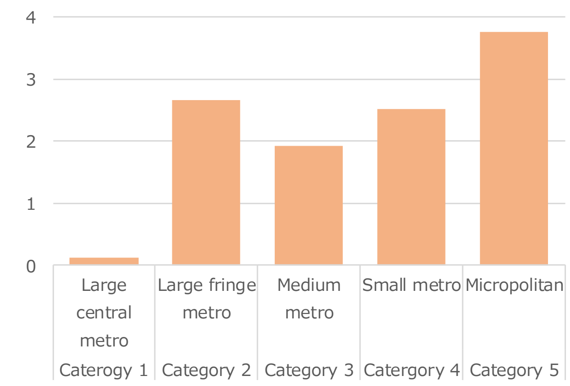
Notably, among the large central metro areas in Category 1, San Francisco County and Washington, D.C., experienced population declines of 7.5% and 5.1%, respectively. Even in New York State, where the statewide population increased, the population of New York County, a large Category 1 central metro area, decreased by 3.2%. In Texas, where the statewide population similarly increased, the population of Dallas County, another large central metro area, decreased by 1.9%, revealing declines in population in central areas at the county level.

This report focuses on inter-state migration, which increased due to the COVID-19 pandemic, and examines the attributes of those who migrated across state lines, how this migration affected the peripheral states, as well as potential changes in the future.

1-2. The characteristics and backgrounds of those who migrated to states experiencing population growth

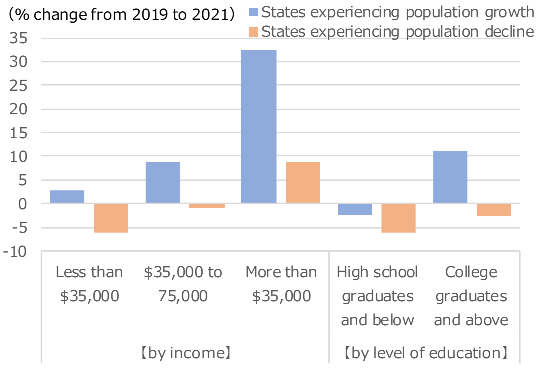
Looking at changes in inter-state migration in states experiencing population growth by attribute based on the US Census Bureau survey, the pace of migration increased among the middle class with annual incomes between USD 35,000 and USD 75,000 as well as among those in the high-income bracket with annual earnings of USD 75,000 or more. In terms of the highest level of education attained, the pace of migration among high school graduates and below slowed, while the pace among college graduates and above picked up (Figure 3). Overall, in states experiencing population growth, the pace of migration among those in the mid-to-high-income brackets as well as those with a higher level of education accelerated during the COVID-19 pandemic.

Figure 2: Percentage change in population by county category



Source: Compiled by MGSSI based on the US Census Bureau data

Figure3: Percentage change by attributes of those who migrated between states



Source: Compiled by MGSSI based on the US Census Bureau data

[3] U.S. Department of Health and Human Services, "2013 NCHS Urban-Rural Classification Scheme for Counties"

This uptick in pace among mid-to-high-income earners and the highly educated can be attributed to the proliferation of telecommuting. The number of telecommuters in the US increased by a factor of 3.5, from 8 million in 2019 to 28 million in 2021. According to Consumer Expenditure Surveys conducted by the US Department of Labor,[4] the percentage of people who are able to telecommute (a.k.a. "teleworkability") increases among those with higher levels of education. When viewed by occupation, teleworkability tends to increase in industries with higher average incomes, such as financial services and information services. As telecommuting becomes more commonplace, it is assumed that people with higher levels of education, higher annual incomes, and higher teleworkability have migrated into peripheral areas, where they have access to larger living spaces at lower costs, in order to be able to work in a more relaxed atmosphere at home.

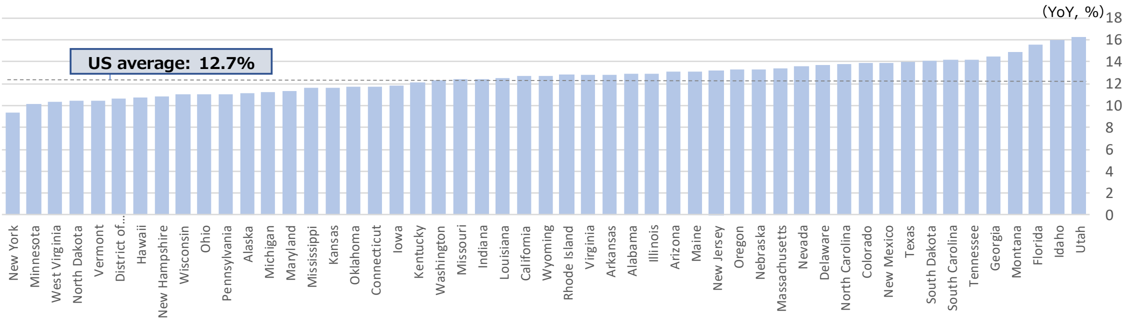
2. BOOMING ACTIVITY IN PERIPHARY STATES RESULTING FROM POPULATION MIGRATION

2-1. Real consumer spending on the rise in states experiencing population growth

The first consideration is the impact of population migration on consumption. Recent growth in real consumer spending[5] in states experiencing population growth surpasses the US average and that of states with declining populations. Real consumer spending in the US in 2021 grew by 12.7%, rebounding from the slump in consumption caused by the COVID-19 pandemic in 2020, and states with rates of high population growth, such as Idaho, Utah, and Montana, exceeded the national average with growth rates of 16.0%, 16.3%, and 14.9%, respectively (Figure 4).

In terms of durable goods consumption, these states experienced roughly 30% growth in the category of recreational goods and vehicles, which primarily covers computer equipment and software,[6] trending much higher than the national average of roughly 23%. Teleworkability and the influx of highly educated, mid-to-high income earners appear to have boosted the consumption of durable goods, contributing to higher levels of real consumer spending.

Figure 4: Real personal spending by state in 2021 (YoY)



Source: Compiled by MGSSI based on the US Census Bureau data

2-2. The trend of sluggishness in central areas and booming activity on the periphery is also evident in the consumption of services (e.g., restaurants)

The slump in consumption in central areas as well as the boom in activity on the periphery are also evident in changes in restaurant business volume. According to OpenTable,[7] a provider for online restaurant reservations, compared to the same period in 2019 prior to the COVID-19 outbreak, states experiencing population growth saw a 0.4% increase in restaurant visits, while states with declining populations saw a decrease of 7.7%. In

4 U.S. Department of Labor, Consumer Expenditure Surveys https://www.bls.gov/cex/
5 U.S. Department of Commerce, Personal Consumption Expenditures by State https://www.bea.gov/data/consumer-spending/state
6 Computer equipment and software have relatively shorter service lives than furniture and other durable goods.
7 OpenTable "State of the Industry" https://www.opentable.com/state-of-industry

addition, according to the aforementioned surveys on consumer expenditures conducted by the US Department of Labor, annual per capita restaurant expenditures fell from USD 3,526 in 2019 to USD 3,030 in 2021, a decrease of 14%. The increase in the number of restaurant visits in states experiencing population growth, even as restaurant spending declined, suggests booming activity on the periphery.

Store closings and reduced hours of operation are also evidence of stagnation in central areas and booming activity on the periphery. According to Datassential,[8] a market research firm specializing in food and beverage industry analyses, population migration and the drop in the number of people working in urban areas due to telecommuting have resulted in a higher percentage of store closings and significant reductions in operating hours in many urban and central business districts in comparison to the periphery. For example, Mixt, a salad specialty restaurant, has closed its downtown locations and opened new locations in suburban California and Arizona due to the blow in business performance in urban areas dealt by the COVID-19 pandemic.[9]

2-3. Population growth in regions with lower homeownership costs and hikes in housing prices on the periphery

According to surveys conducted by the US Census Bureau, median housing prices in states with declining populations are roughly 22% higher than in states where populations are on the rise. In other words, the COVID-19 pandemic has caused populations to move from regions with high homeownership costs to those with lower costs. In states experiencing population growth, the ratio of people purchasing and moving into a new home in the process of inter-state migration increased by 25.8%, with particularly steep increases in Vermont, Connecticut, and New Jersey with rates of 113.6%, 88.1%, and 53.3%, respectively. At the same time, while the ratio of people purchasing and moving into a new home in states with declining populations increased by 18.2%, this is a lower rate of growth than in states with increasing populations, and the rate even dropped in some states with large metropolitan areas such as California and Washington, D.C., which showed decreases of 5.6% and 17.7%, respectively. In addition, while the ratio of people moving into rental housing dropped by 2% nationwide, it increased in some states with population growth, such as Idaho, Utah, and Vermont.

Against the backdrop of this influx of people from other states, between 2019 and 2021, while housing prices in states with declining populations rose by 14.4%, prices rose by an even greater 17.2% in states experiencing population growth.[10] In Washington, D.C., which has experienced a significant drop in population, home sales prices increased by only 3.6%. In California as well, prices only increased by 14%, whereas in both Idaho and Utah, which are experiencing population booms, prices rose significantly higher to 45% and 28%, respectively.

2-4. While the role of automobiles in commuting has diminished, usage for non-work purposes is on the rise

Population migration during the COVID-19 pandemic has also affected the number of automobiles owned. According to a survey conducted by the US Census Bureau, the number of people in households with two or more automobiles declined by roughly 2% to 115.17 million people, down from 117.46 million prior to the pandemic. The number of people in the US who commute via automobile decreased by 12% in comparison to prior to the COVID-19 pandemic. Telecommuting and the resulting lack of a need to commute by automobile may have contributed to the decline in the number of cars owned. The number of people without an automobile

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8 https://blog.datassential.com/post-covid-migration-patterns-how-to-be-ready
https://blog.datassential.com/reduced-restaurant-hours

9 The New York Times, 20 December 2022 "What Comes Next for San Francisco's Emptied Downtown"
https://whatnowsf.com/mixt-to-open-its-first-marin-location/
https://www.abc15.com/entertainment/events/new-stores-restaurant-coming-to-scottsdale-quarter-mixt-gorjana-paige-vineyard-vines

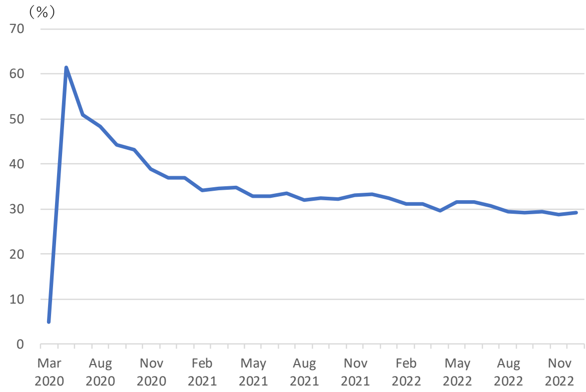
10 In addition to population migration into the periphery as seen in this report, nationwide hikes in housing prices in the US were also due to the fact that interest rate cuts during the COVID-19 pandemic made it easier to purchase homes as well as to shortages in the number of marketable homes caused by a lack of raw materials. Although the gap in housing prices narrowed slightly due to the fact that hikes in housing prices in states with growing populations outpaced those in states with declining populations, housing prices in 2021 in states with declining populations were still nearly 18% higher than those in states experiencing population growth.

fell roughly 6%, from 6.71 million in 2019 prior to the COVID-19 pandemic to 6.3 million in 2021, likely due to the migration of people from central areas, where public transportation is well developed, to the periphery.

On the other hand, it appears that opportunities to use automobiles for non-work purposes have increased. According to a survey conducted by Bluedot,[11] a location information service provider, while less than half of all respondents reported using drive-through stores prior to the pandemic, 90% reported using such stores in a survey conducted after the pandemic. Some companies are seeing this as an opportunity to open drive-through stores in suburban areas. For example, Shake Shack, a leading fast casual restaurant company, has shifted its focus to suburban areas due to poor business performance in urban areas immediately following the COVID-19 outbreak, and opened its first drive-through store in Minnesota in December 2021.[12] The company has continued to open drive-through stores, and by the end of 2023, it is expected to be operating 25 stores in this format.[13]

3. COMPANIES MOVE TO INCREASE RATIO OF IN-OFFICE WORK, PROMPTING A RETURN TO CENTRAL AREAS

Figure 5: Ratio of telecommuting to total work hours



Source: Compiled by MGSSI ased on Survey of Working Arrangements and Attitudes

To examine whether the slump in consumption in central areas and the booming activity on the periphery will continue, it is first necessary to observe trends in telecommuting. According to a sample survey conducted by a Stanford University professor, the ratio of telecommuting rose to account for roughly 60% of all hours worked in May 2020 but dropped to nearly 30% around 2022, where the ratio has remained stable for about a year (Figure 5).[14] Based on these findings, telecommuting will likely remain to some degree for the foreseeable future. Around June 2020, when the spread of COVID-19 began to reach pandemic levels, telecommuting rapidly became commonplace, even though it had hardly been allowed before, and this change triggered the migration of people from central areas to the periphery. Unless the rate of telecommuting changes significantly in the future, it is unlikely to be a driving force that further accelerates the migration of people from central areas to the periphery.

On the other hand, there will likely be a migratory trend from the periphery back into central areas. For example, some well-known companies such as Apple, Google, Goldman Sachs, and JP Morgan Chase & Co. are currently indicating the intention to increase their ratios of in-office work. If this trend gains momentum, it is expected that some people will move back into central areas. In particular, since it is considered less stressful to move from rental housing than out of a home that one has purchased, there will— depending on the conditions—also likely be a higher number of those who moved into rental housing returning to central areas.

[11] The State of What Feeds Us https://bluedot.io/library/state-of-what-feeds-us-restaurants-covid-19/
[12] https://www.qsrmagazine.com/fast-casual/shake-shacks-first-drive-thru-reflects-new-era
[13] https://www.restaurantdive.com/news/shake-shack-drive-thru-expansion-2023/628876/
[14] Survey of Working Arrangements and Attitudes https://wfhresearch.com/data/