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Automation and economic disparity: A new challenge for CEOs

The automation age could widen economic disparities between high-growth cities and struggling rural areas, thus affecting where companies hire, invest, and locate.

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As intelligent machines take over a wider variety of tasks, many global companies are doubling down on workforce retraining. And rightly so—the next wave of automation technologies promises to alter the nature of work further across a range of industries. But beyond these thorny organizational challenges around what work is—and what work will become—is another, less-explored management consideration: *Where* will this work happen?

New McKinsey Global Institute research on the future of work in the United States holds some clues. Economic disparity in the United States is high, and the health and trajectory of US local economies differ sharply from place to place—meaning that the forces of automation will affect localities in vastly different ways. How local economies respond will therefore have big, long-term implications for companies in where they hire, where they locate operations, where they invest, and even where they will find their customers.

Shifting fortunes

Our new research looks at how the future of work may play out across 315 US cities and more than 3,000 US counties. The study finds that just 25 urban areas and their peripheries have accounted for a majority of the country's job growth since the Great Recession, and these areas are poised to generate 60 percent of job growth in the decade ahead (exhibit). These megacities and high-growth hubs, including Houston, Los Angeles, New York, and Seattle, are the most dynamic economies in the country, with a disproportionate share of high-growth industries and high-wage jobs. By contrast, 54 trailing cities and roughly 2,000 rural counties that are home to one-quarter of the US population have older and shrinking workforces, higher unemployment, and

lower educational attainment. These areas could be facing a decade of flat or even negative employment growth.

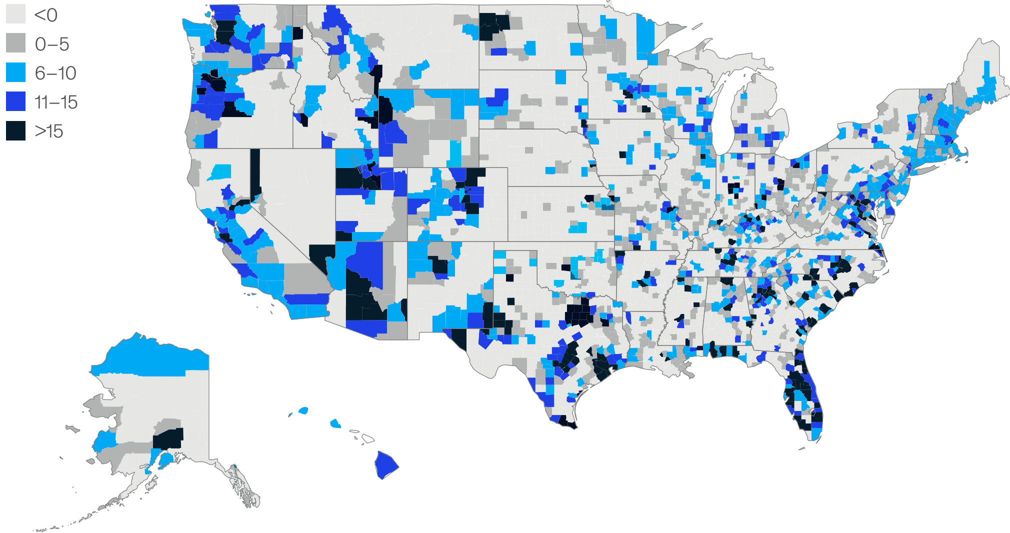
Between these extremes are some fast-growing niche cities, as well as a larger "mixed middle." Niche cities include emerging tech hubs, such as Boise, Idaho, and Provo, Utah; towns such as Chapel Hill, North Carolina, and South Bend, Indiana, that can build on the advantage of major research universities; and expanding retirement destinations, mainly in Arizona and Florida. The mixed middle comprises 180 cities that are home to one-quarter of the US population but post only modest employment growth. These include cities such as Detroit, Michigan; Providence, Rhode Island; San Diego, California; and St. Louis, Missouri; as well as manufacturing hubs, such as Grand Rapids, Michigan, and Greensboro, North Carolina. The challenge for all these places is to boost economic growth or risk falling behind.

The stark divergence across America has significant implications for where and how companies invest. For instance, the shifting fortunes of local labor markets will affect purchasing power. Consumer-facing companies in industries such as retail, food, hospitality and leisure, retail banking, healthcare, and personal services will need to understand these trends at a detailed level to see how their customer bases are evolving. These variations could prompt companies to deprioritize locations in slow-growing and distressed areas while focusing on localities where job growth is more robust. In booming markets, meanwhile, companies may want to expand, modernize, or roll out new, higher-end offerings.

Exhibit

Job growth could be highly uneven across the United States.

Projected net job growth, 2017–30, %
(midpoint-adoption scenario)



Source: McKinsey Global Institute analysis

Balancing trade-offs

Deciding where to invest is not as simple as just following the growth. Companies of all types will benefit from considering the merits of a broader set of location options. After all, megacities and high-growth hubs have issues of their own, from sky-high housing prices to congestion and pollution.

Some companies are opting out of the war for talent in the hottest job markets and expanding in lower-cost cities with more affordable housing and an attractive quality of life. Being a large employer in these locations may earn a company more employee loyalty and position it as a top choice for local graduates. In fact, it's worth remembering that 200 of the 500 largest US companies by revenue have headquarters outside of the 25 megacities and high-growth hubs. Cities such as Detroit and St. Louis, for example, have many large companies that may be attractive for B2B players focusing on enterprise clients.

Areas facing economic distress shouldn't be entirely ruled out either. As long as they have adequate internet connectivity, they may be good candidates for back-office operations. By adjusting your company's products, services, and price points offered, these markets could be attractive and have less competition. New technologies that enable remote work also mean that employees can live anywhere, which can greatly expand a company's talent pool while lowering its real-estate costs.

Bridging gaps

A key challenge for all companies, regardless of where they operate, will be bridging the gaps between their current capabilities and future needs, which include a more sophisticated set of skills—especially higher-level tech skills and socioemotional soft skills. Many companies will need to invest in adding full-fledged internal capabilities for teaching, training, and evaluating employees on a continual basis. For others, especially those outside of the high-growth places that are already magnets for talent, the solution may be to partner with local community colleges and universities to develop their own talent pipelines.

A second gap to bridge is between haves and have-nots. The automation age could widen disparities that already exist between high-growth cities and struggling rural areas—and between high-wage workers and everyone else. In booming communities, such as Seattle, for example, rising rents have coincided with marked increases in homelessness. Addressing the problem of poverty amid plenty is another place where corporate-investment choices, as well as civic engagement, can create better outcomes. The recent announcement by the 181 CEOs of the Business Roundtable that they are committing to considerations beyond shareholder value, such as workforce reskilling and environmental issues, is a sign that companies are thinking in bigger and bolder terms about the future.

While these observations are rooted in US-focused research, the issues they highlight are global in nature. Automation is a global phenomenon, high-growth cities are critical

catalysts of global economic growth, and corporate-investment decisions will both evolve in response to, and help shape the implications of, those growth disparities.

The age of automation compels CEOs in the United States and elsewhere to understand better how technological change and widening geographic disparity could influence a range of investment decisions—everything from hiring and skill development to product offerings and consideration of geographic footprint. Business leaders must also weigh the impact of their automation decisions on the localities in which they operate and, when possible, seek out opportunities to take the lead in positioning people and communities for success. Q

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