

KANSAS CITY DISTRICT PROFILE: Freight and the District's Economic Future



Global trade and new technologies continue to transform the economy, redefining the way businesses operate, challenging supply chains and transportation networks, and creating new customer opportunities for Missouri businesses in places where they were once inconceivable. Businesses and their employees are more dependent than ever on integrated, agile, and efficient transportation networks to sustain economic competitiveness, facilitate journeys to work, and connect to markets.

To compete in this global marketplace, businesses must optimize every asset—workforce skills, competitively priced products, and reliable transportation systems—to ensure their customers receive quality goods and services when they expect them. As the importance of trade and the demands of customers continue to evolve, Missouri companies often find freight an increasingly important factor in sustaining and enhancing their competitive position in the marketplace. Freight supports the domestic and international trade of Missouri businesses, and supports State and local economic development and job growth.

Kansas City Population Trends

Missouri's population is projected to grow, with the 2012 population of 6,021,988 increasing to 7,159,350 by 2040. The modest population growth experienced by the MoDOT Kansas City District from 2000 to 2012 is expected to continue, with the 2012 population of 1,273,583 projected to grow to 1,567,440 by 2040.¹ Ray and Saline Counties experienced a decline in population between 2000 and 2012, but only Saline County is projected to decrease in population between 2012 and 2040.

Platte, Clay, and Cass counties, which accounted for over 70 percent of the District's growth from 2000 to 2012, are expected to be responsible for more than 90 percent of the growth between 2012 and 2040. Modest population growth often tempers the expansion of non-traded sector businesses that are generally driven by population growth, such as local professional services (legal, accounting, and medical), local retail trade, real estate and financial services, and food service and restaurants.

Freight is an increasingly important factor in sustaining and enhancing the economic competitiveness of businesses in Missouri and in the Kansas City District.

Transportation Dependence: Missouri and the Kansas City District's Economy

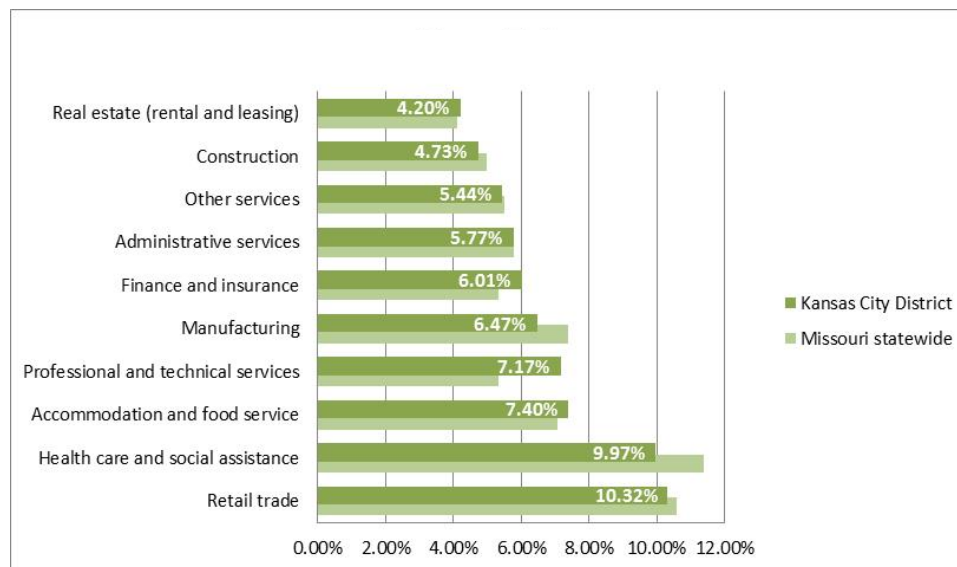
Freight transportation represents a key competitiveness factor for Kansas City District businesses. Companies today compete on more than product quality and cost. The transportation networks serving their facilities must provide reliable connections to buyers and link to a multitude of markets to ensure timely deliveries of goods and services and provide access for employees and customers. Some business sectors use transportation facilities and services more extensively than others. An industry

¹ US Census Intercensal Estimates, July 2000; US Census Annual Estimates; 2013 CEDDS by Woods and Poole Economics

sector's dependence on transportation can be measured by examining the amount a business sector spends on transportation as a share of its total output.² Transportation satellite accounts provide national data regarding the amount spent on transportation per dollar of output for various sectors.

To better understand the role freight and goods movement play in the Kansas City District and the contribution of multimodal transportation to the economic vitality of the region's key industry sectors, the project team evaluated the importance of these key industrial sectors based on the non-government employment concentrations in the District. Almost 70 percent of the District's non-government employment is concentrated in 10 sectors: retail and wholesale trade, health care and social services, accommodation and food service, professional and technical services, finance and insurance, administrative services, other services, construction, and real estate.³ **Figure 1** shows the breakdown of these employment sectors for the Kansas City District, by percentage, and for the State as a whole.

Figure 1: Top Ten Non-Government Employment Sectors for the Kansas City District



As noted in **Figure 1**, the importance of transportation to these key industry sectors can be measured by the amount each sector spent on transportation as a share of its total output.

The project team evaluated several primary industry sectors and identified the corresponding industrial classification codes for each key sector in order to compare the applicable transportation costs per dollar of product output using the transportation satellite accounts research. Key business sectors for the Kansas City District are shown in **Table 1**.

Table 1: North American Industrial Classifications for Key Industrial Sectors in the Kansas City District

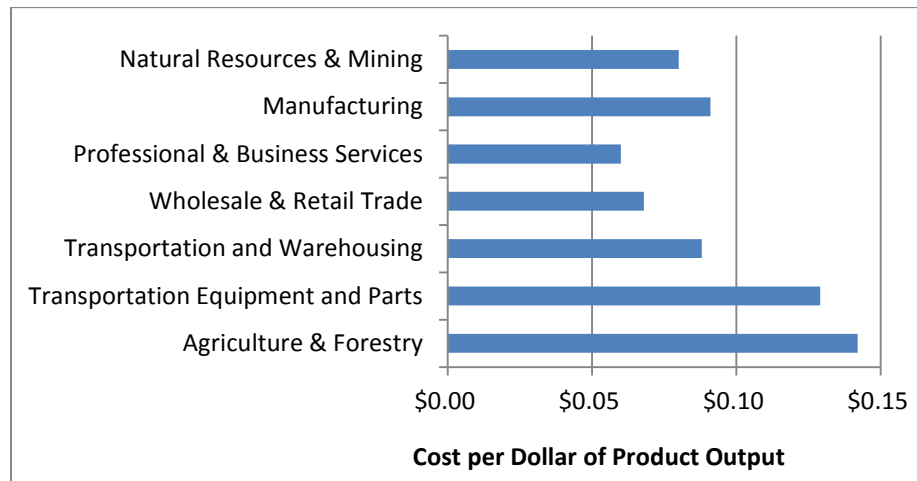
Industrial Sectors	North American Industrial Classification Sector
Transportation Equipment	Manufacturing
Metal Fabrication	Manufacturing
Retail and Wholesale Trade	Retail and Wholesale Trade
Transportation and Warehousing	Transportation and Warehousing
Professional and Technical Services	Professional, Scientific, and Technical Services

² "Transportation Satellite Accounts: A Look at Transportation's Role in the Economy," U.S. DOT Research and Innovative Technology Administration

³ Bureau of Labor Statistics, US Census 2012, County Business Patterns

Figure 2 below shows the transportation cost per dollar of product output for several important existing industry sectors in the Kansas City District based on their North American Industrial Classification System (NAICS) code. Improvements in transportation costs and services would have a significant effect on the profitability of companies in these industries, as lower transportation costs and more reliable service help reduce the cost of materials, resulting in lower overall production costs. Reliable delivery of materials can enhance productivity, and reducing distribution costs to the consumer may also improve competitiveness.

*Figure 2: Transportation Cost as a Share of Sector Output.
(Transportation cost per \$ of product value)*



*Source: Transportation Satellite Accounts database, Bureau of Transportation Statistics,
Research and Innovation Technology Administration*

The Kansas City District has been successful in retaining and attracting transportation-dependent businesses in several significant economic sectors as described in **Table 2**:

Table 2: Economic Sectors the Kansas City District has retained and attracted transportation-dependent businesses

Manufacturing and Advanced Manufacturing	Transportation, Logistics and Freight	Chemical Manufacturing
Ford Motor Company	Walmart	Bayer Crop Science
Harley Davidson	Kohl's	Sanofi-Aventis U.S.
Honeywell	FreightQuote	TNEMEC Company, Inc.
ATK	QC Supply	Silka Corporation
Peterson	O'Reilly Auto Parts	The Valspar Corporation
Maxion Wheels	Ditzfield Transfer	Procter & Gamble

Economic Development Trends

Professional and Technical Services

This sector accounted for 12 percent of the new businesses formed in Missouri in 2013, continuing a three-year growth trend. Much of this growth took place in the metro areas, including the Kansas City District. The sector was responsible for 7.1 percent of all jobs in the Kansas City region in 2011, significantly higher than the 5.3 percent for the state as a whole. This is not surprising given the area's role as a state and regional business and economic center. Twelve Fortune 1000 companies are headquartered in the Kansas City region including H&R Block, Garmin International, Sprint, and Hallmark, and over 50 Fortune 500 companies have a presence here. And the sector is growing: in August 2014 Cerner Corporation announced plans to acquire Siemens Health Systems, and Aspen Contracting in Lee's Summit recently announced plans to add 300 jobs in sales, production, and project management.

Transportation Equipment and Metal Manufacturing

Nearly 6.5 percent of all jobs in the region were in manufacturing. Two manufacturing subsectors, metal fabrication and transportation equipment manufacturing, are particularly significant and continue to expand. Ford announced in 2013 it would expand production to a third shift at its Claycomo plant, adding 900 employees to the production line for F-150 trucks. This follows a \$1.1 billion expansion in 2011 to add 1,600 jobs producing the F-150 pickup and Transit commercial van models. Grupo Antolin, which makes headliners for the Transit van, opened a new manufacturing facility in May 2014, bringing 118 new jobs to the area. Adrian Steel, which makes commercial van interiors, will invest in a new manufacturing facility in Kansas City. Yanfeng USA, a maker of automotive trim and interior components, is building a new \$45 million manufacturing facility in Riverside and LMV Automotive has a new \$42 million production facility in Liberty. Harley-Davidson has a manufacturing plant in Kansas City, and American Performance Technologies makes MotoVox motor scooters and mini bikes in the area. Demand for cars, light trucks, and other vehicles are predicted to remain strong both domestically and internationally as the global economy recovers from the recent recession.

Metal fabrication is the third largest manufacturing employment sector for the State, and it ranks sixth in statewide manufacturing exports.⁴ Employers in the region include Bratton Corporation, which specializes in structural steel fabrication, and R&D Leverage, which employs 275 at its headquarters and tool, die, and molding plant in Lee's Summit. The metal fabrication industry is part of the machine manufacturing sector, which is projected to see overall growth of 6.3 percent in 2014—more than double the 2.9 percent increase seen in 2013—and between five and six percent between 2014 and 2018.⁵

Transportation and Warehousing

Another key business sector for the Kansas City District is transportation and warehousing. The multiple interstates (I-35, I-49, I-70, I-435, I-470, I-635, and I-670) and highways including US-24, US-40, US-50, US-56, US-65, US-69, and US-169 that cross the region make it one of the major trucking hubs in the U.S., and it is the second largest rail hub in the nation in terms of tonnage. Rail access is provided by five Class I rail lines (Burlington Northern Santa Fe, Union Pacific, Canadian Pacific, Norfolk Southern, and Kansas City Southern) as well as regional and short line carriers. Rail is becoming more important as it reduces the number of trucks on increasingly congested roadways. The major railroads all operate intermodal yards, switching yards, transload facilities, and other operations in the Kansas City area. BNSF Railway's new state-of-the-art Logistics Park Kansas City, just across the State line in Edgerton, Kansas, will offer an annual unit capacity of 1.5 million at full build-out and will significantly benefit the Kansas City, Missouri region's freight industry. The Kansas City Port Authority operates a port where the Missouri and Kansas rivers meet that is served by Union Pacific rail. The Kansas City International Airport and multiple Foreign Trade Zones round out the area's freight infrastructure.

Logistics providers Ditzfield Transfer, Exel, FreightQuote, OHL, Murphy Warehouse Co., and Bender Group have located or will locate in the area and Hallmark, Kohl's, Johnson Controls, Inc., Musician's Friend, Toys R Us, Walmart, and O'Reilly Auto Parts have major distribution centers. Trucking companies include Jack Cooper Transit and OrTran Inc. The outlook for the industry is good as investment in transportation and logistics should correlate with growth in the U.S. economy, and the Kansas City District is well-placed to take advantage of increased goods movement resulting from growing national and international demand.

⁴ MERIC Missouri Economic Indicator Brief: Manufacturing Industries, October 2013

⁵ Cassell, Jonathan. IHS Technology. "Rise of the Machines: Industrial Machinery Market Growth to Double in 2014." April 16, 2014

Importance of Freight to the Economic Development Future of the Kansas City District

Manufacturing and Exports

Manufacturing continues to be a vital part of Missouri's economy, and exports of Missouri manufactured goods continue to increase. Missouri businesses exported over \$3 billion in goods by the close of the first quarter of 2014, and nearly \$13 billion in 2013.^{6,7} Four primary industries in the manufacturing sector accounted for over 62 percent of Missouri exports: transportation equipment, chemicals, food and kindred products, and machinery related businesses. These industries exported over \$8 billion in products in 2013.⁸ Agricultural products, fabricated metal products, electrical equipment, minerals and ores, primary metal manufacturing, and computer and electronic products round out the top ten exports from the state in 2013. Over 6,100 businesses in Missouri exported products and services in 2012, and 89.5 percent of Missouri's exports are manufactured goods produced in communities around the State. Manufacturing exports support nearly 107,000 jobs in the state, and 85 percent of the companies engaged in exporting goods and services are small businesses.⁹

Manufacturing matters in Missouri because:

- Employees in manufacturing firms earn an average of \$77,060 annually in pay and benefits, while average workers in all industries earn \$60,168. This means manufacturing jobs pay, on average, 19.9 percent more than non-manufacturing jobs.¹⁰
- Manufacturing firms account for nearly two-thirds of all research and development in the U.S. and are a leading user of new technologies and processes.¹¹
- Manufacturing has the highest multiplier effect of any economic sector. For every dollar spent in manufacturing another \$1.48 is added to the economy, helping to stimulate economic growth.
- Missouri's economy is intrinsically linked to its ability to move people, materials, components, and finished goods within the State and to national and international destinations.
- Missouri's principal trading partners are Canada, Mexico, China, Japan, and Korea.¹² The five industries with the most significant job dependence on exports include grain farming, oilseed farming, wholesale trade, and aircraft manufacturing.
- Export products are intrinsically dependent on multimodal freight transportation.

Conclusion

The Kansas City District has developed a diverse economy, and it is thriving. Major corporations have chosen this location in the center of the U.S. as their headquarters, and many other national firms have a significant presence here. Professional and technical services have been and will remain a significant growth sector, and will help drive population growth from just over six million in 2012 to over 7.1 million by 2040. Manufacturing—led by growth industries such as transportation equipment and component manufacturing and metal fabrication—will also contribute to strong population and economic growth.

Area manufacturers as well as the numerous firms that ship agriculture and food products and other goods by river ports, air, highways, and rail through the Kansas City District depend on a reliable and efficient freight network. The burgeoning transportation, freight, and logistics industry has developed in this strategic location at the heart of the country, and it is ideally situated to handle the increasing freight flows across the country and to and from Canada and Mexico. Strong highway and rail connections link Kansas City with international ports such as Los Angeles and Long Beach, and these will continue to grow in importance as global trade expands.

⁶ WISER Export Trade data, 2014

⁷ U.S. Census Freight Trade State Exports, Missouri

⁸ Missouri Economic Research and Information Center, Missouri Department of Economic Development, March 2013

⁹ U.S. Department of Commerce, International Trade Administration, National Association of Manufacturing, 2013

¹⁰ Bureau of Economic Analysis, Industry Economic Accounts, 2011

¹¹ Brookings Institute, Metropolitan Policy Program, "Why Does Manufacturing Matter?" February 2012

¹² US Census, State Exports, Foreign Trade, 2013

Missouri's annual freight flow is anticipated to grow from more than 600 million tons in 2011 to an astounding one billion tons by 2040, and much of it will travel through the Kansas City District. As freight movement to, from, and within the District continues to increase, its infrastructure must keep pace. Research shows that investment in physical infrastructure reduces costs and improves efficiencies in doing business, boosts job creation, and fosters growth cycles within countries.¹³ Based on this research, maintaining the existing freight network and expanding both its capacity and connectivity in ways that increase reliability and lower transportation costs for producers, shippers, and consumers will be crucial to the future prosperity of the Kansas City District and the State of Missouri.

¹³ Deloitte LLP and the Council on Competitiveness, "2013 Global Manufacturing Competitiveness Index"