The Greater Des Moines regional economy: Outsized performance…at the crossroads

- James Chung

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A lookback slide from 2018 presentation

Chapter 1: Regional performance

Chapter 2: The challenge

Chapter 3: The region's Special Sauce

Chapter 4: Challenges to the Special Sauce

Chapter 5: Reflections for continuing strong healthy growth of the DSM region

Chapter 1: Regional performance

Outsized results on almost every measure

The real comp regions:

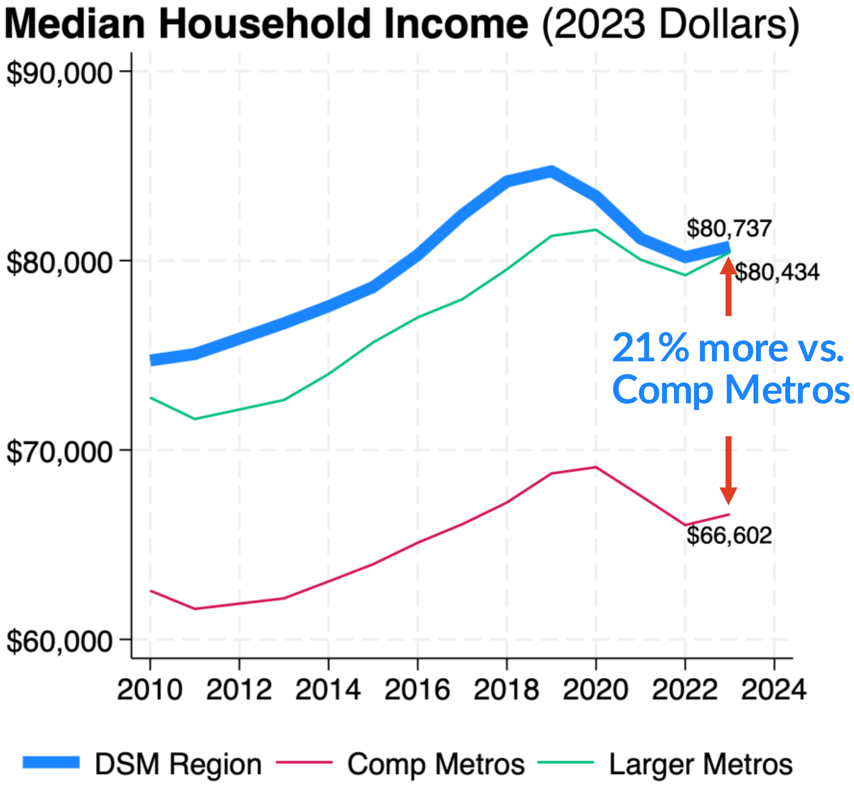
Not the obvious comps

Comparable Metro Areas

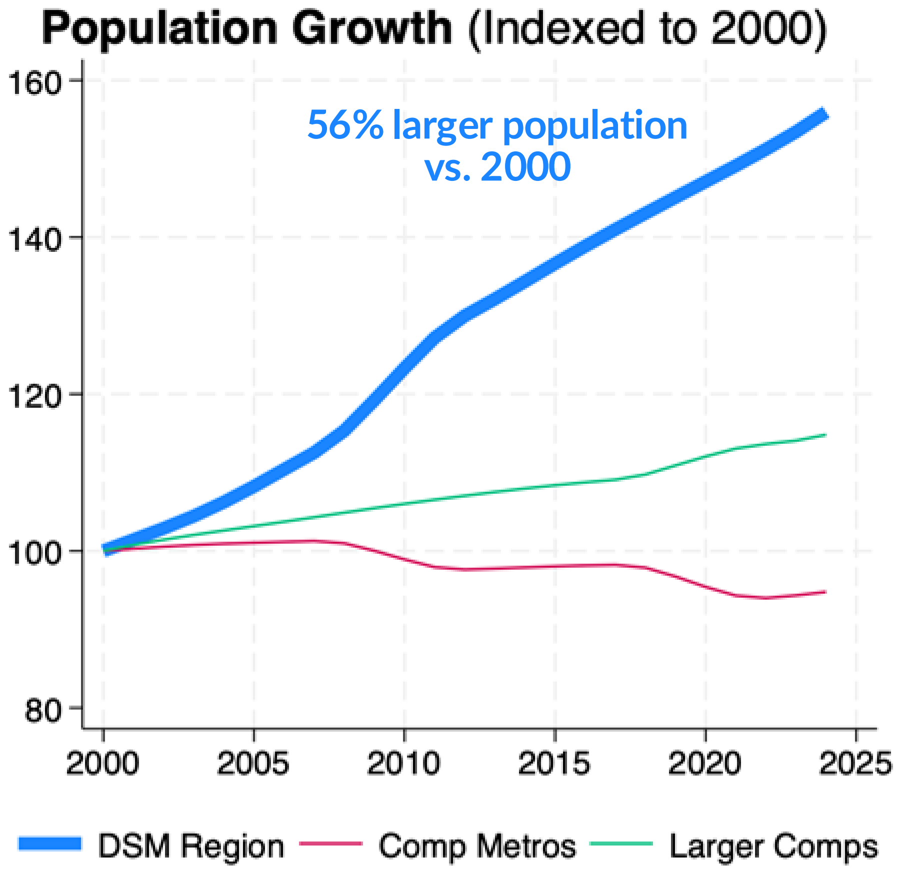
Comp Metros: Population 500,000-1,000,000; Large Metros: Population over 1,000,000

DSM Region   Larger Metros   Comp Metros

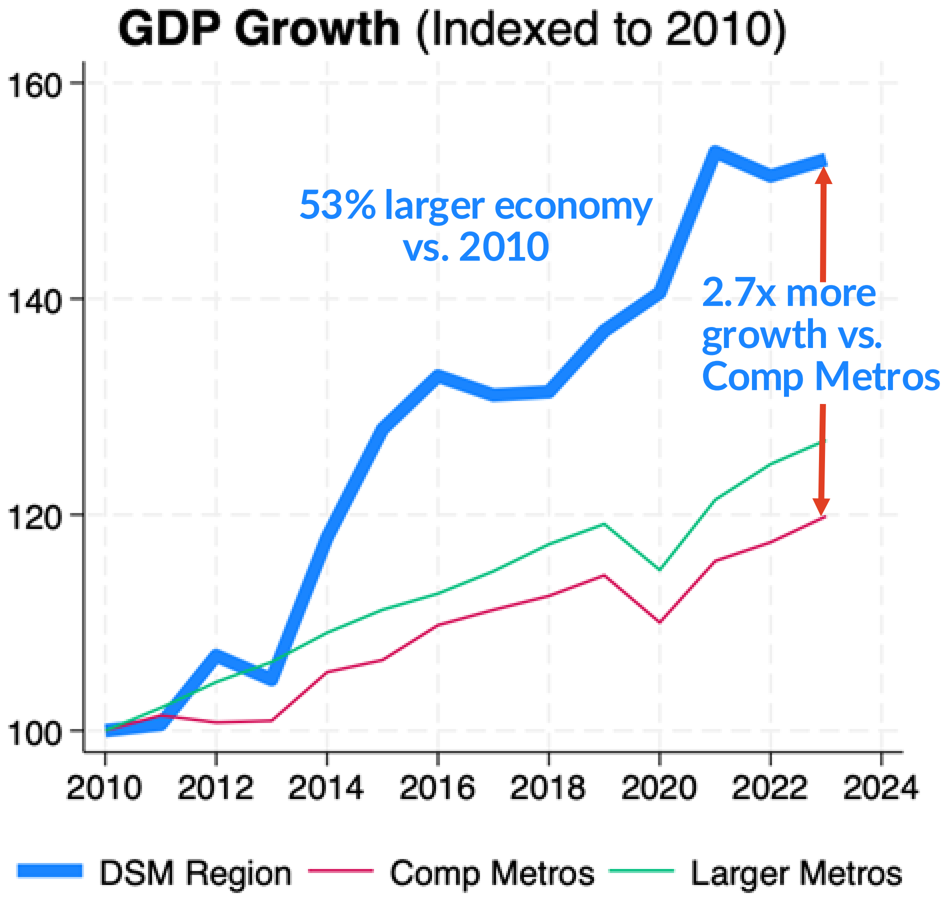
In some ways, performs like the larger comps



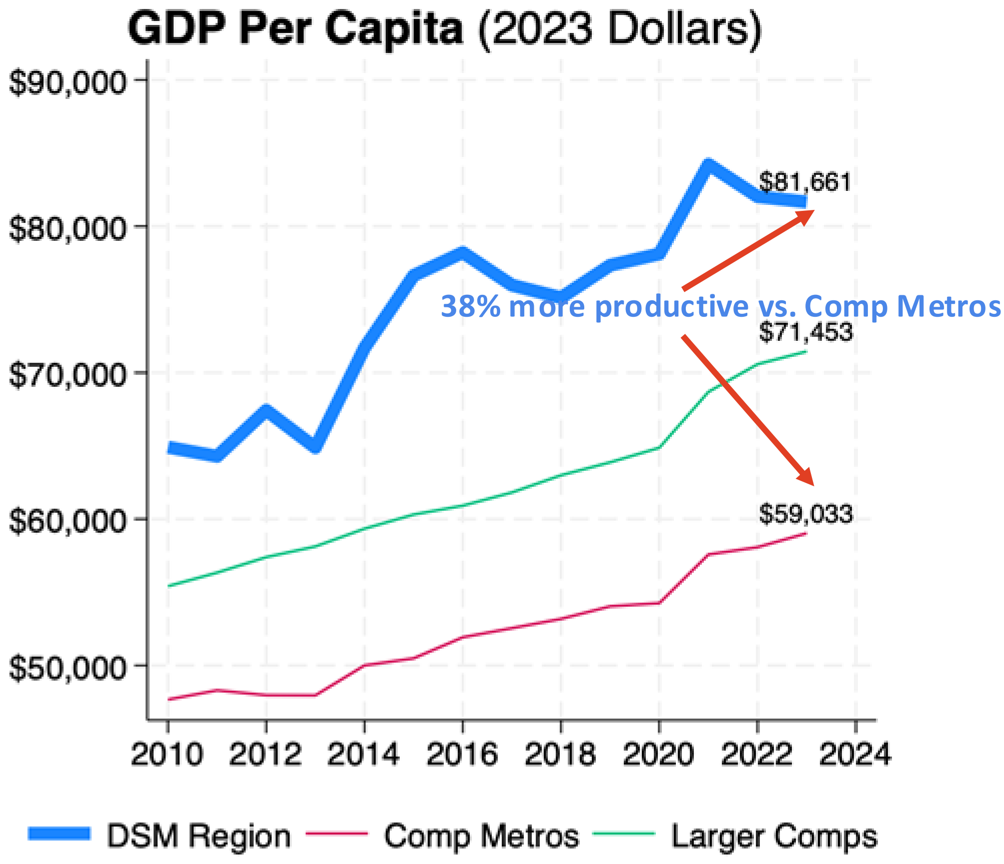
But population growth continues to outpace comps



Regional GDP grows much more than comps



DSM region productivity stronger than comps



The DSM region punching above its weight class?

Chapter 2: The challenge

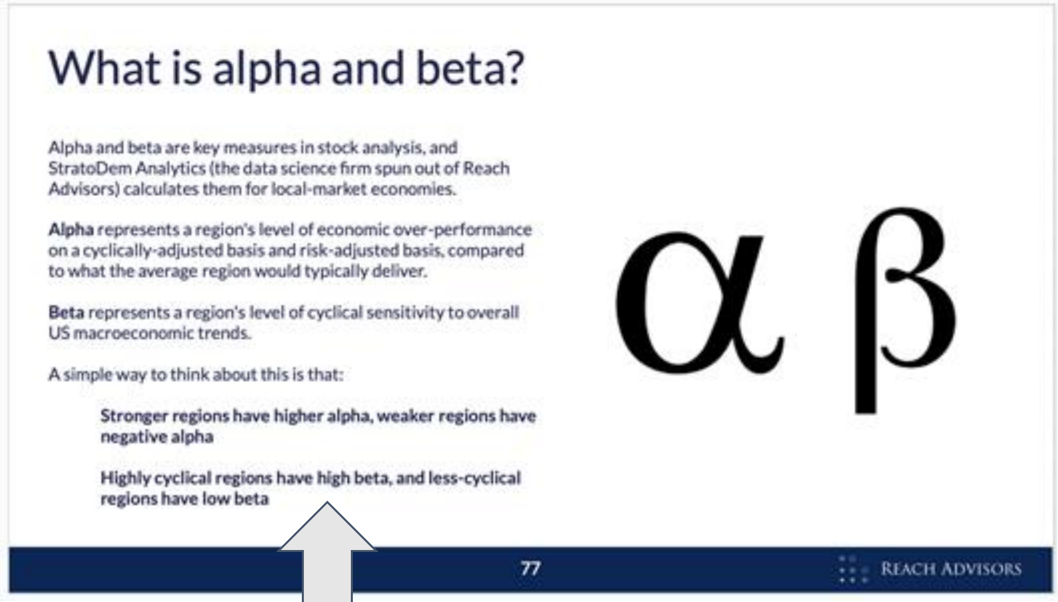
A big, nagging statistical question

Is a reversion towards the mean underway?

Revisiting the 2018 presentation

Revisiting the 2018 presentation:

What is beta?



What is alpha and beta?

Alpha and beta are key measures in stock analysis, and StratoDem Analytics (the data science firm spun out of Reach Advisors) calculates them for local-market economies.

Alpha represents a region's level of economic over-performance on a cyclically-adjusted basis and risk-adjusted basis, compared to what the average region would typically deliver.

Beta represents a region's level of cyclical sensitivity to overall US macroeconomic trends.

A simple way to think about this is that:

> **Stronger regions have higher alpha, weaker regions have negative alpha**
>
> **Highly cyclical regions have high beta, and less-cyclical regions have low beta**

α β

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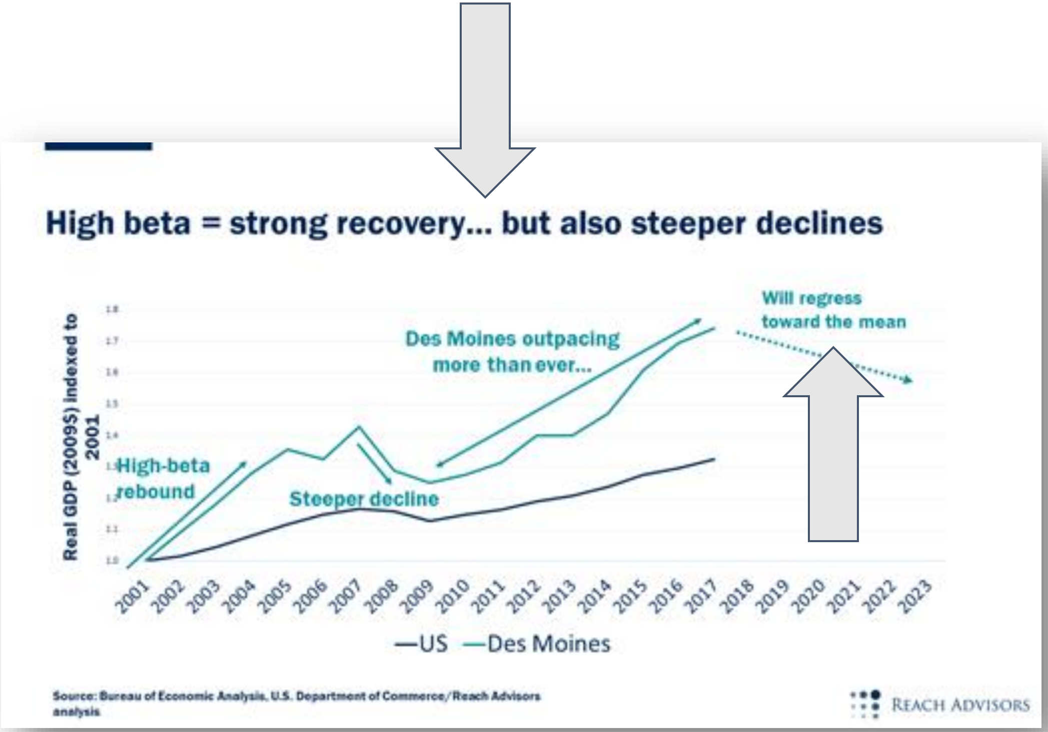
Source: Reach Advisors 2018 GDMP presentation

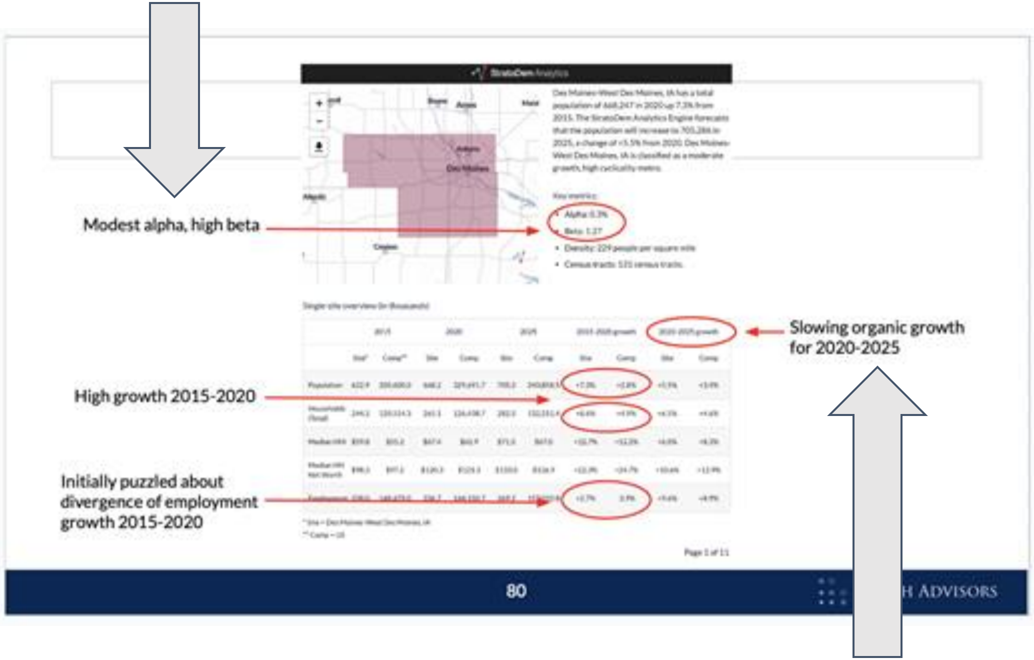
Revisiting the 2018 presentation:

How beta plays out in the DSM metro

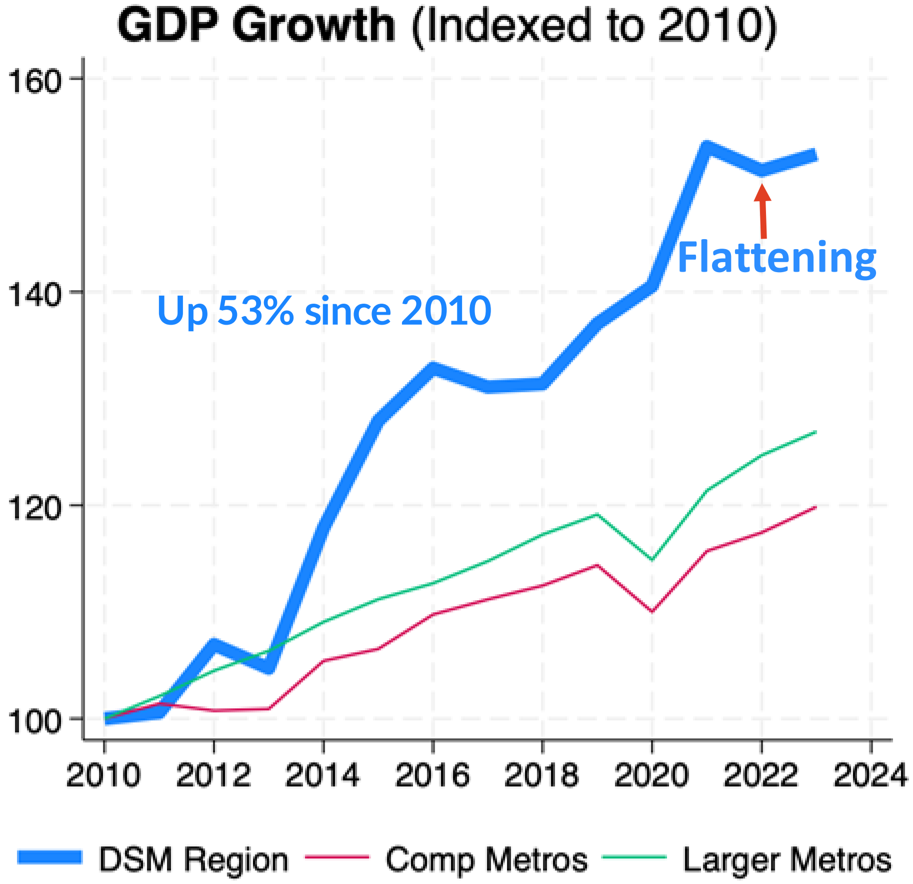


Update from the 2020 presentation:

Headwinds forecast for 2020-2025

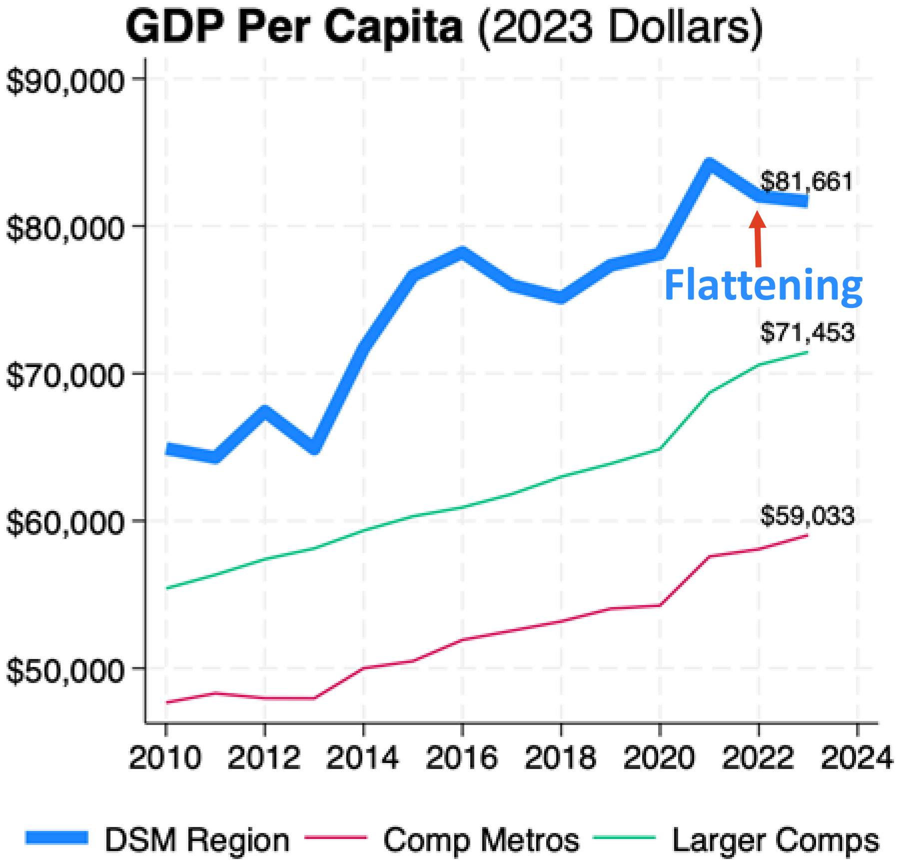


Revisiting GDP growth



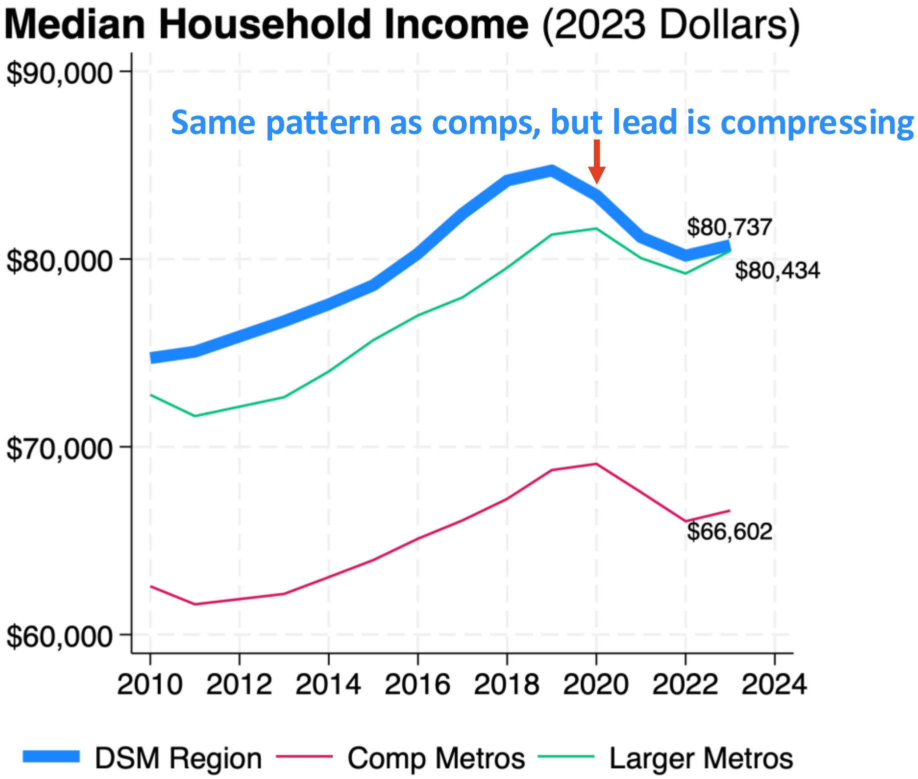
Source: U.S. Bureau of Economic Analysis

Revisiting GDP per capita



Source: U.S. Bureau of Economic Analysis; US Census Bureau, Population Estimates Program

Revisiting household income



But why accept a reversion towards the mean?

Chapter 3: The region's Special Sauce

Special Sauce:

Creating outsized economic performance out of the ordinary

The Special Sauce behind the region's outsized growth

Re-creating factor attribution analysis to identify why the DSM region overperforms…

Five ingredients had the biggest impact

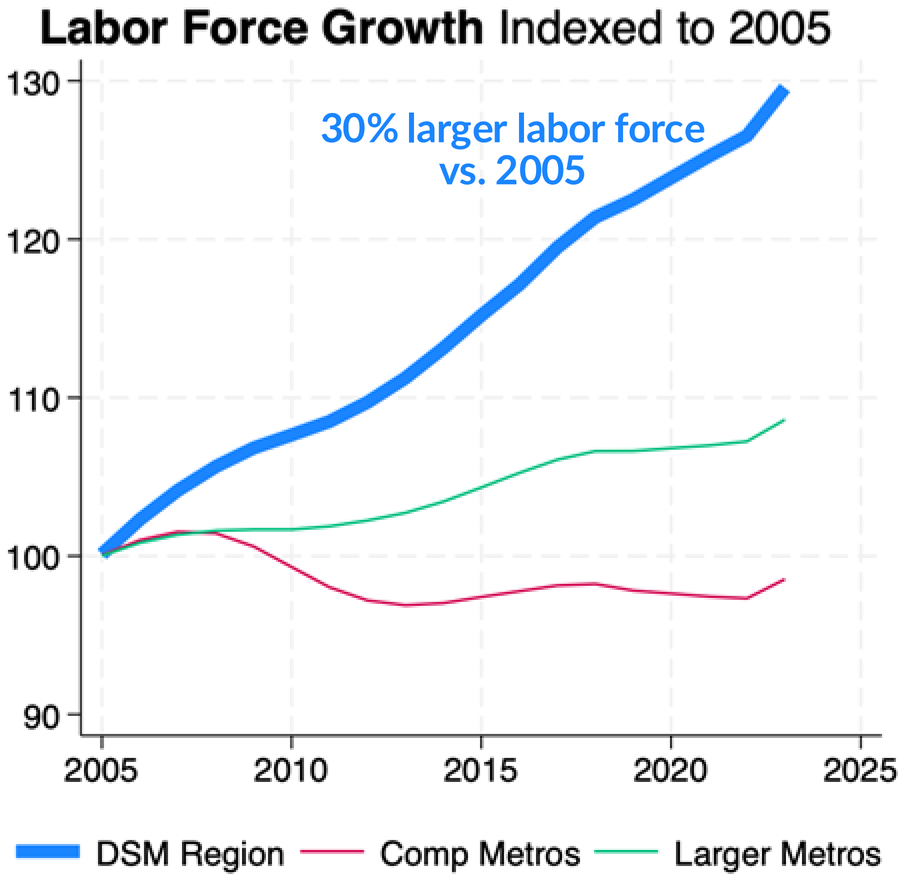
The five ingredients driving outsized growth

1) Workforce composition
2) Workforce capacity to serve powerhouse businesses
3) Outsized capital investment
4) High-beta recovery and growth
5) An unexpected social dynamic

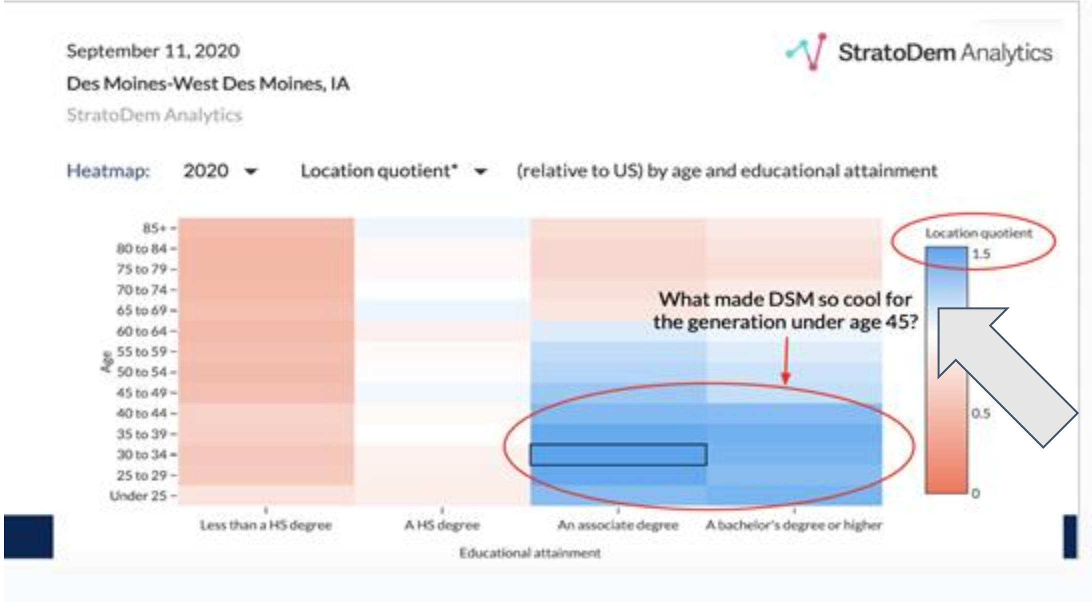
The Special Sauce

Ingredient #1: Workforce composition

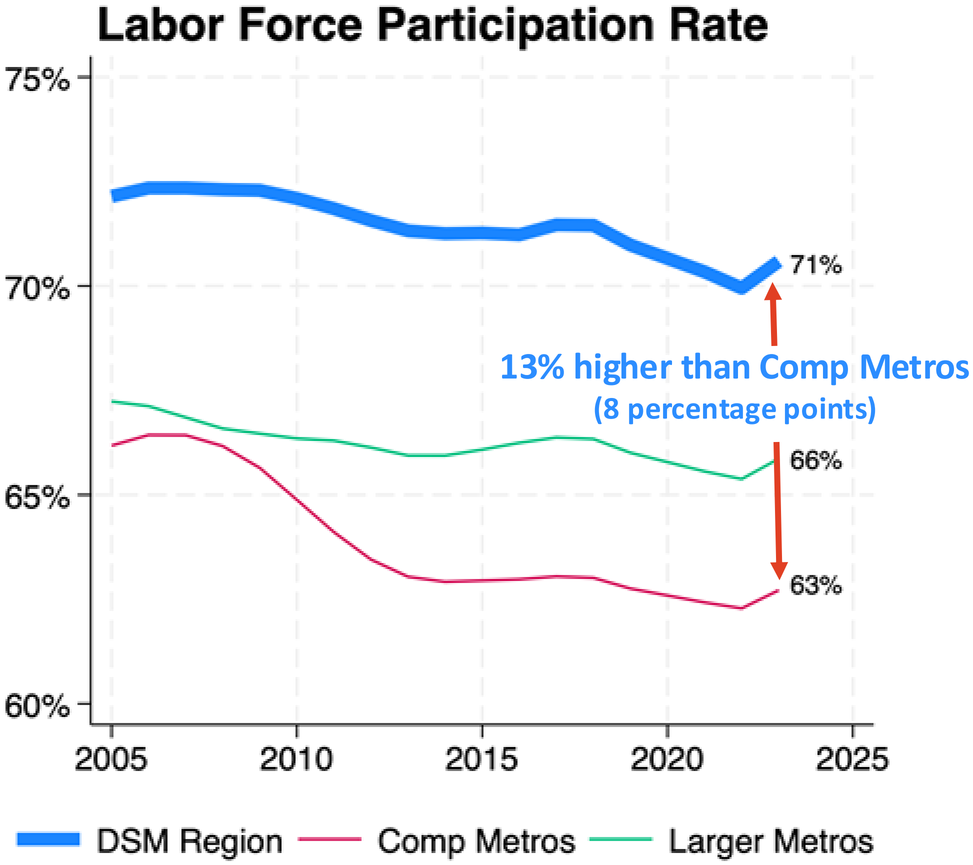
A more dynamic labor force



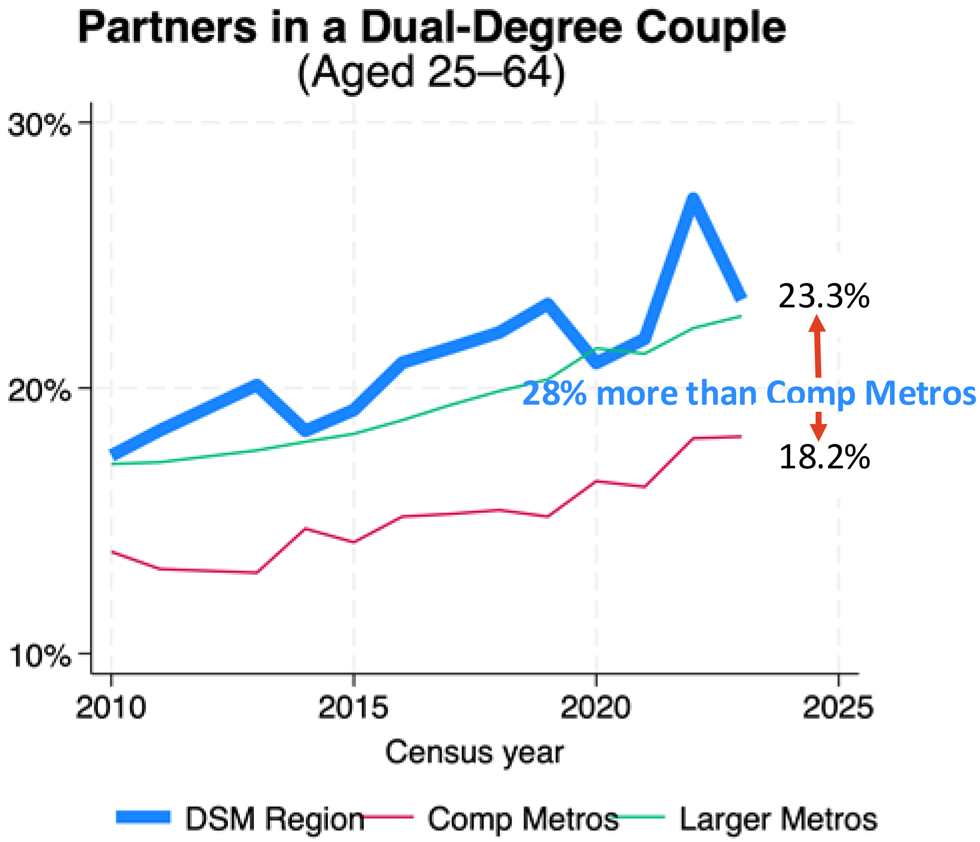
From the 2020 presentation: The sweet spot



Another reason the region handles a larger economy than comp metros



An even sweeter spot for the region: Skilled couples



An even sweeter spot for the region: Skilled couples

Metropolitan growth and the mobility and immobility of skilled and creative couples across the life course

Thomas J. Cooke*

Department of Geography, University of Connecticut, 215 Glenbrook Road, U-4148, Storrs, CT 06269-4148, USA

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The human capital and creative class hypotheses argue that the agglomeration of skilled and creative people is key to economic growth. Migration is assumed to play an important role in forming these agglomerations. However, the results of this study indicate that while younger cohorts of skilled and creative individuals are highly mobile, skilled and creative couples are highly immobile. This research hypothesizes that it is these relatively immobile skilled and creative couples that are behind the link between urban growth and concentrations of skill and creativity. Indeed, this analysis finds a strong empirical link between concentrations of skilled couples, but not creative class couples, and economic growth. Public policies designed to increase the size of the skilled population should be directed at retaining younger cohorts long enough for them to develop the local networks upon which spillover effects rely.

Keywords: creative class; human capital; migration; convergence models

Introduction

Immobility, disadvantage, and spatial patterns of poverty are closely intertwined in United States cities (e.g., Clark & Whiteman, 1983; Harvey, 1985). For example, the spatial mismatch hypothesis posits that central city poverty is exacerbated by the relative immobility of African Americans, which hinders their ability to find suburban employment (Kain, 1968; Wilson, 1996). However, immobility is not always associated with socioeconomic disadvantage and may in fact be associated with spatial patterns of affluence. In particular, highly skilled singles are more likely to live in large cities, in part because such cities offer the greatest returns to human capital investment (Glaeser & Gottlieb, 2009). These concentrations of skilled singles provide the effective "marriage markets" portrayed in urban economic and sociological theory (Gautier, Svarer, & Teulings, 2010), and as a result large cities also have a disproportionate concentration of skilled couples (Compton & Pollak, 2007; Cooke, 2011b).[1] However, once coupled, skilled partners become relatively immobile in part because a migration intention on the part of one partner would, under many circumstances, require the other to find a new job (DaVanzo, 1976; Mincer, 1978; Sandell, 1977). This spatially "trapped" population of skilled couples may then positively affect economic growth in large cities through higher levels of productivity and spillover effects. Hence, in this case, immobility may be associated with advantage and spatial patterns of affluence in urban areas.

The skilled couple sweet spot

From the research:
Metropolitan growth and mobility and immobility among skilled and creative couples across the lifecourse (Cooke)

- More committed to civic well-being
- More rooted
- More likely to build social and economic networks to create spillover effects
- Generates stronger metropolitan growth

The skilled couple sweet spot

From the Cooke analysis (2013) and updated analysis in 2025:

We estimate that the DSM region's success as a magnet for skilled couples has increased regional GDP by apx. 2.0%-2.2%

The Special Sauce

Ingredient #2: Workforce capacity to serve powerhouse businesses

Quality workforce for quality jobs

Example 1 in DSM region: Jobs in the Financial / Insurance / Real Estate sector

In the typical year, that sector powers:

- ~20% of regional jobs
- ~30% of private-sector wages
- ~35-40% of regional GDP

Quality workforce for quality jobs

Example 2 in DSM region: Opportunity Jobs

Jobs that don't require BA degrees but pay above median wage

- Typically ~35% in most years
- Compare to 30% requiring BA degrees in most years

The Special Sauce

Ingredient #3: Outsized regional capital investment

Revisiting the 2018 presentation:

Outsized regional capital investment

Outsized regional corporate capital investment

$1 billion/year average over past 10 years

- $100MM typical for Comp Metros, up to $400MM (only in unusual years)…
- $1BB target more typical for metros 3-5x larger

Outsized regional civic capital investment

Far deeper level of civic and public/private investment vs. comp regions…

Comp Metros simply don't invest in themselves anywhere near what the DSM region does, which fuels far-greater economic output vs. comps

Examples of creating capacity for sustained regional out-performance

Flying higher than comp regions

- Versus closest Comp Metro:

  DSM Intl. Airport serves more than a million more passengers (76% difference)…

- Serves close to the same # of passengers as a fairly similar comp region that's 50% larger

The Special Sauce

Ingredient #4: High-beta recovery and growth

High beta-driven recovery and growth

DSM regional growth has steeper slowdowns than the US and comp regions (i.e., 2013, 2017/18, 2022/23)…

But those ‘breaks’ have lead to far-stronger growth afterwards

Why?

From the 2020 presentation:

A high-beta economy

From the 2020 presentation:

A high-beta economy

2020: New realizations

DSM's high beta due to
vast outperformance in expansion cycles...

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From the 2020 presentation:

A high-beta economy

2020: New realizations

…vast outperformance driven by unusually large investments (for midsize cities) early in recovery cycles…

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Source: Reach Advisors 2020 GDMP presentation

From the 2020 presentation:

A high-beta economy

A high-beta economy

High-alpha regions start with unusually fortunate circumstances, then ride those waves well…

Most regions are not high-alpha (including the DSM region)…

Most regions can merely accept whatever the future holds

A high-beta economy

But two things becoming clear in the numbers:

1) The DSM metro highly sensitive to economic shifts (the good and less-good shifts)…

Likely in part because it's playing a 'bigger game' than regions of similar size

A high-beta economy

Two things becoming clear in the numbers:

2) When conditions for acceleration return, the region tends to kick into gear more than other regions do

A high-beta economy

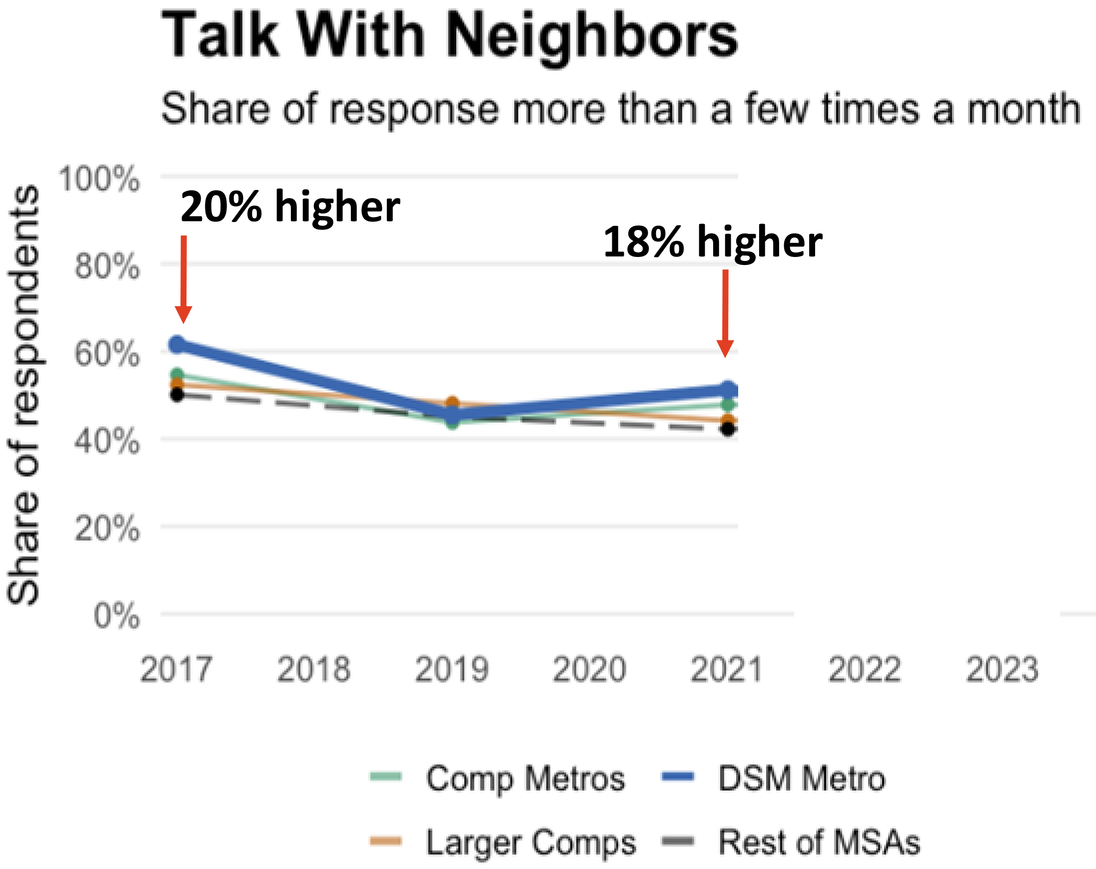
The DSM region may have never thought of itself as high beta, but it has been doing exactly what it takes to win in a high-beta environment:

- Understanding that outsized growth doesn't just come automatically…
- It's more about smart coordination that drives an ongoing flow of capital investment, which fuels the next accelerated growth period

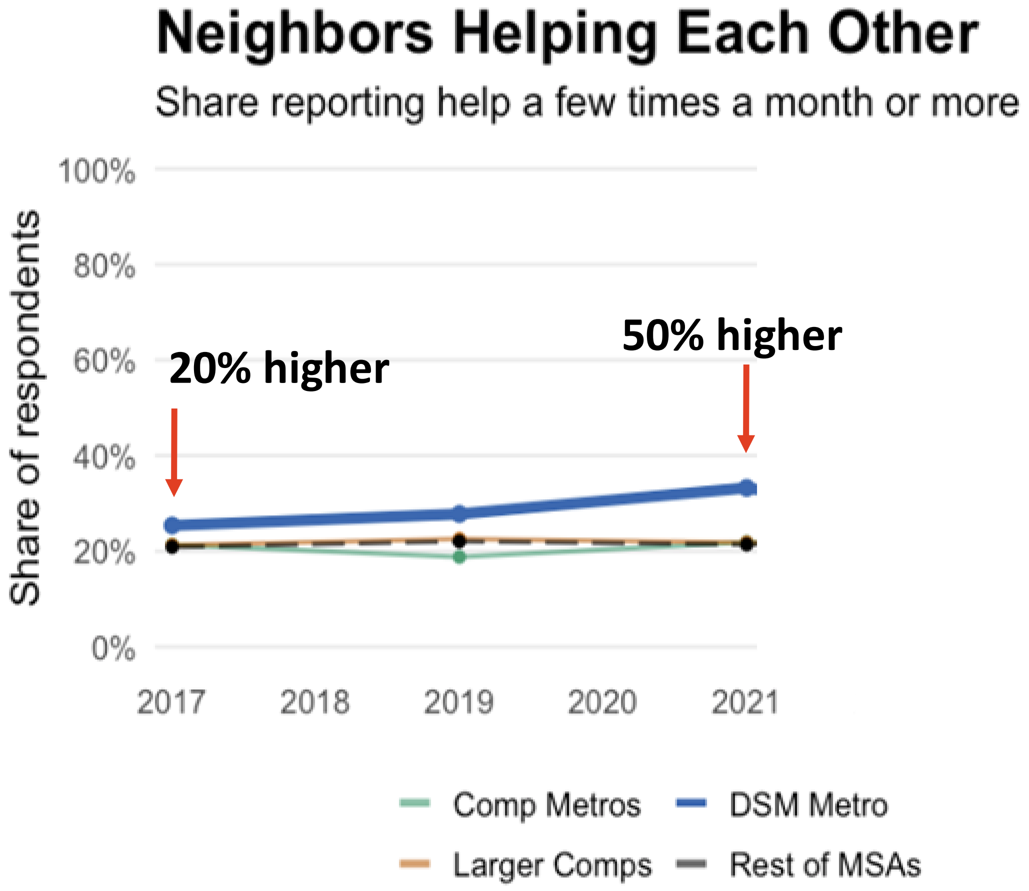
The Special Sauce

Ingredient #5: An unusual social dynamic

An unusual social dynamic



An unusual social dynamic



An unusual social dynamic

Overall, the DSM region has displayed a social dynamic quantitatively stronger than comp regions (and the US)

The Special Sauce behind the region's outsized growth

And those five ingredients have the biggest predictable impact on whether the region jumps back to disproportionate growth…

Or simply reverts towards the mean

Chapter 4:

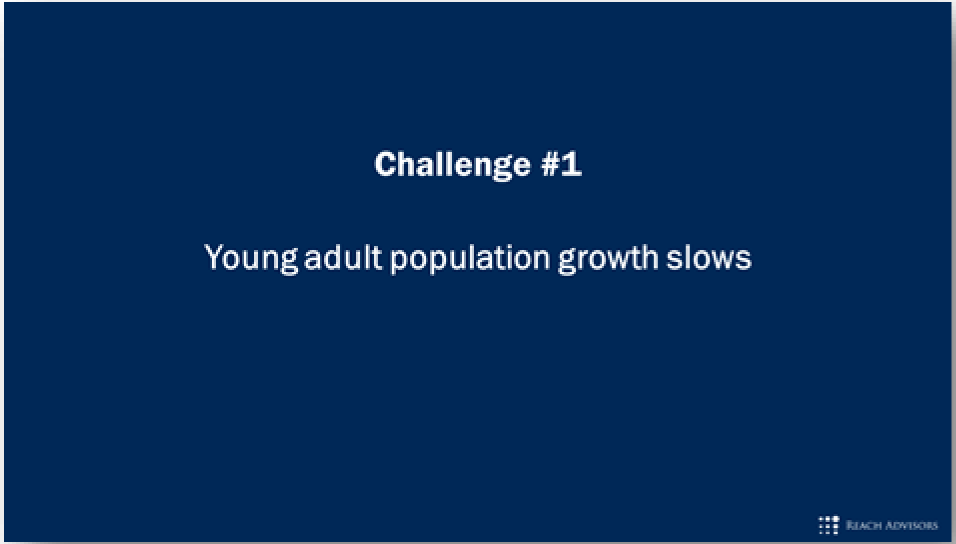
Challenges to the Special Sauce

The five ingredients driving outsized growth

1) Workforce composition
2) Workforce capacity to serve powerhouse businesses
3) Outsized capital investment
4) High-beta recovery and growth
5) An unexpected social dynamic

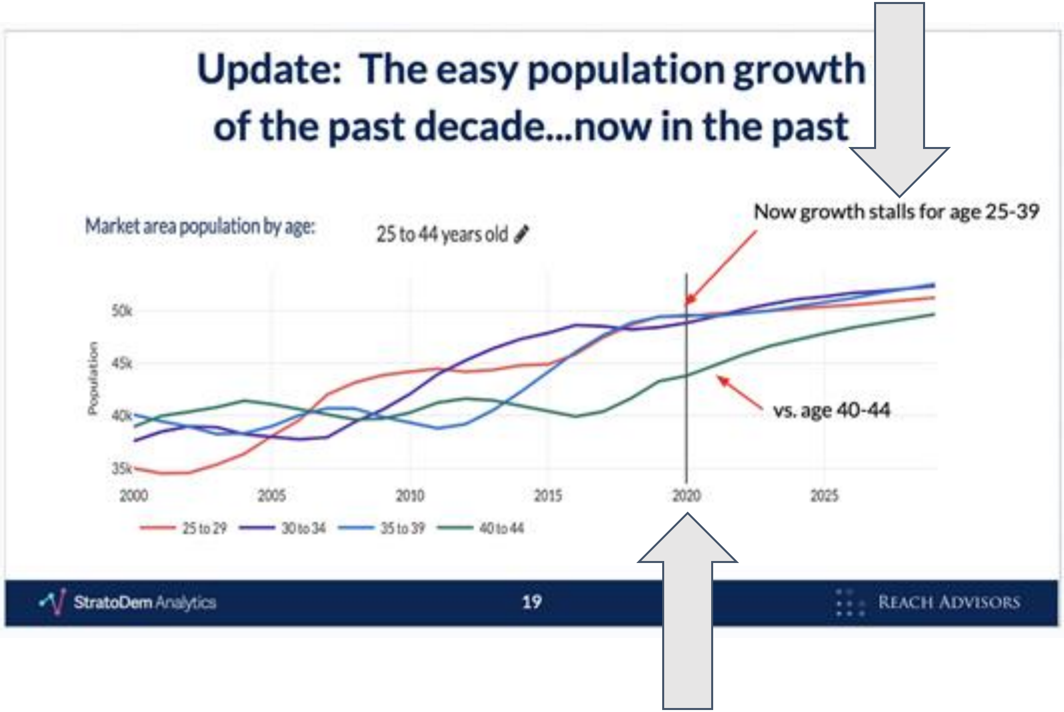
Challenges to the workforce composition advantage:

Revisiting the 2018 presentation



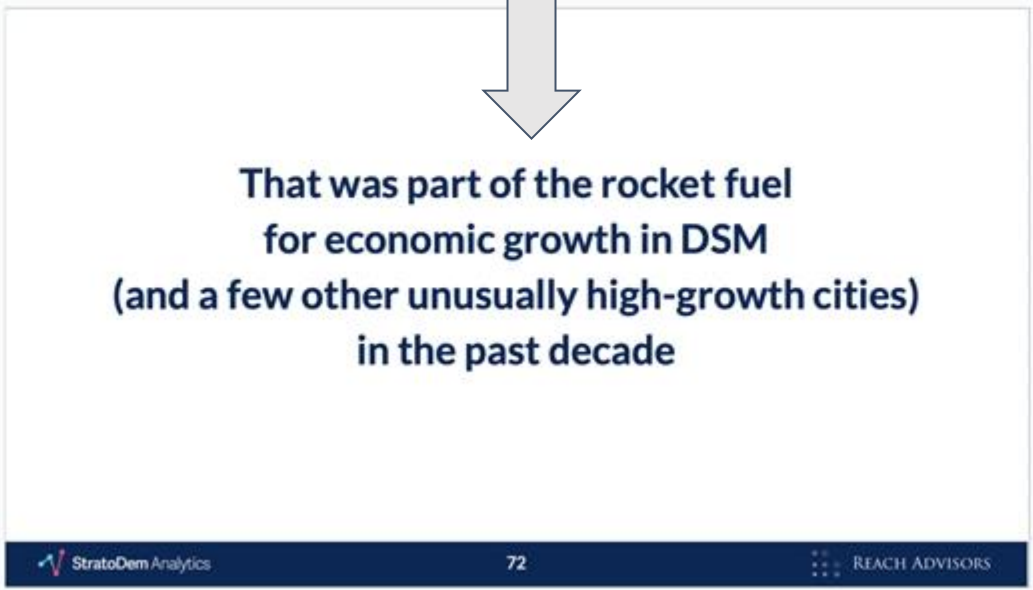
Update from the 2020 presentation:

That growth will slow



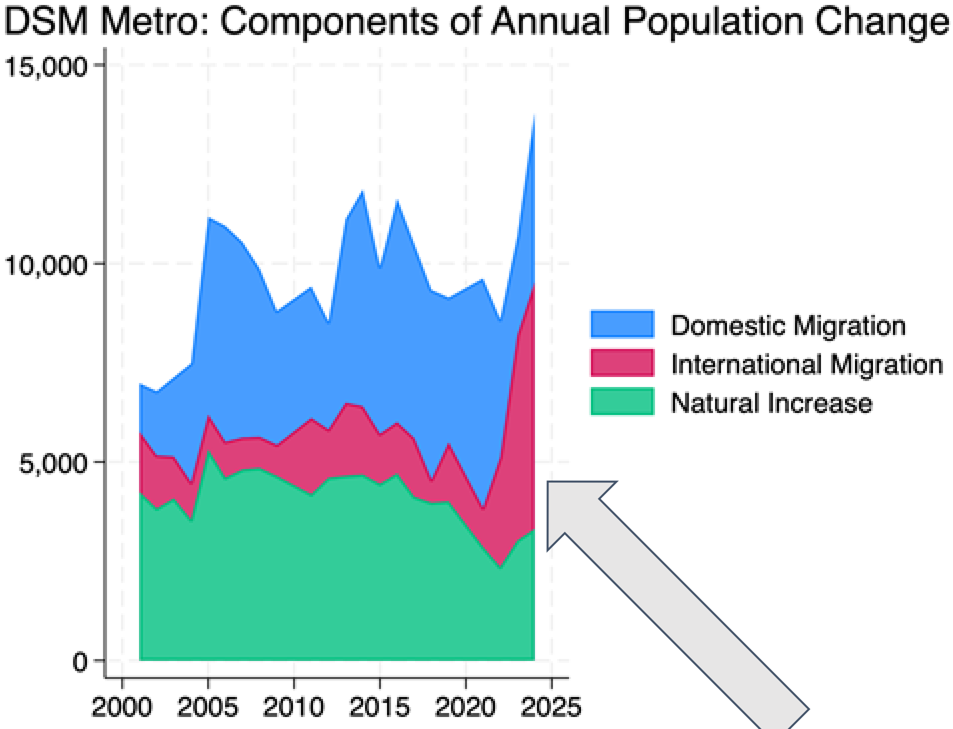
Update from the 2020 presentation:

Taking some of the wind out of the sails



Challenges to the workforce composition advantage:

The other big shift



The source of population growth has shifted… Less-skilled migration backfilling the growth demands, not the high-skilled migration that drove the growth

Challenge to workforce capacity advantage:

Revisiting 2020 presentation

Source: Reach Advisors 2020 GDMP presentation

Challenge to workforce capacity advantage

Financial-related job growth rate runs about ½ the rate of growth for good-producing jobs or service jobs…

and that growth rate likely to drop further as technology advances

Challenge to outsized capital investment advantage

Current level of external investment heavily weighted to data center construction…

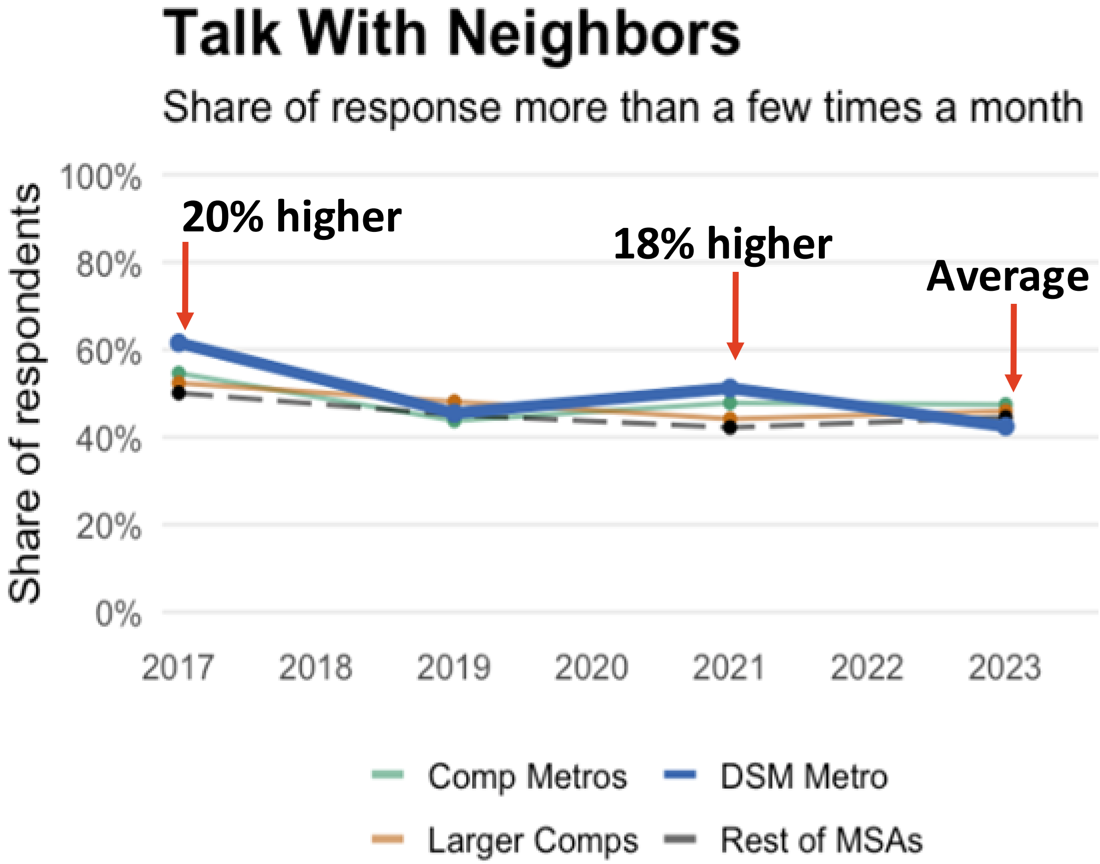
Can the DSM region continue to drive civic, public/private and new corporate capital investment?

Challenge to the strong high-beta recovery/growth pattern

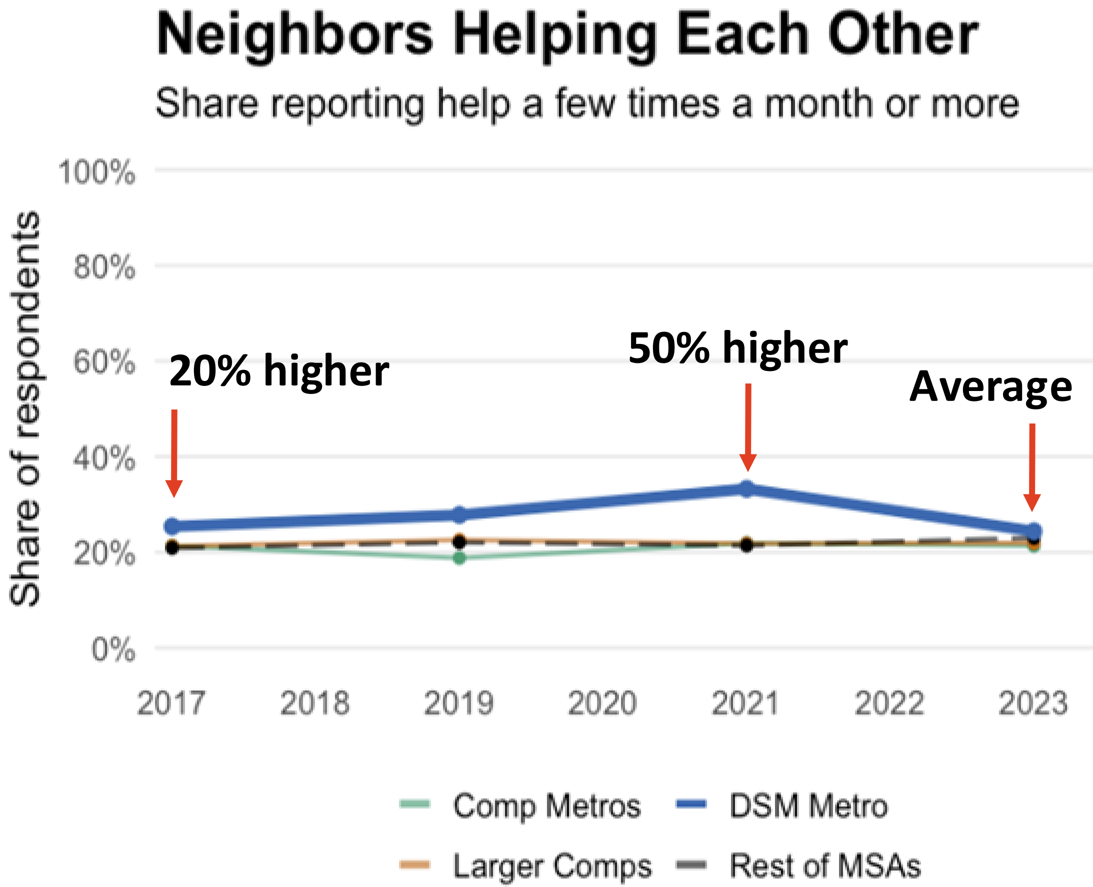
Solid capital investment in the future of the DSM region drives terrific high-beta growth…

But can the region create more alpha?

Challenge to the social dynamic advantage



Challenge to the social dynamic advantage



Headwinds…

but why settle for a reversion towards the mean?

Chapter 5:

Recap for securing continued level of outsized growth

Takeaways

Remarkable characteristics that comp regions would kill to have

Takeaways

These characteristics have driven outsized regional performance

Takeaways

But the economic data and Special Sauce indicators are currently flattening…

Takeaways

A reversion towards the mean?

Or a breather while the region sets up for another super-strong growth cycle?

Takeaways

If the region lets the Special Sauce ingredients slip…

…it’s likely a reversion towards the mean

Takeaways

If the region doubles down on the Special Sauce that has made the region work…

…outsized gains likely to steam ahead

The harsh reality

Most regions that grow beyond the norm typically get a 10-20 year run

Very few extend that to 3-5 decades

The ask of the audience:

Which Special Sauce ingredient(s) can you help accelerate?

1) Workforce composition
2) Workforce capacity to serve powerhouse businesses
3) Outsized capital investment
4) High-beta recovery and growth
5) An unexpected social dynamic

Examples of questions to ask to drive outsized regional growth…

1) Workforce composition
2) Workforce capacity to serve powerhouse businesses
3) Outsized capital investment
4) High-beta recovery and growth
5) An unexpected social dynamic

The ask of the audience:

Workforce composition

Who is involved in activities that can help get the region back to serving as a disproportionate magnet for high-skill couples (in many cases, returning to Iowa)?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

Workforce capacity

Who is involved in activities that can help the region thrive in an increasingly AI-driven economy?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

Outsized capital investment

Who is involved in activities that drive collaboration that attracts greater levels of corporate capital investment than would otherwise occur?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

Outsized capital investment

Who is involved in activities that drive collaboration on civic investment that attracts/retains the level of talent that drives the DSM region?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

High-beta recovery and growth

Who is involved in activities that keep high-skill talent in the region when there's inevitable creative destruction of jobs/businesses in a dynamic economy?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

High-beta recovery and growth

Who is involved in activities that increase the likelihood of creating more 'alpha' in the DSM region economy?

(Or…how can you help strengthen their efforts?)

The ask of the audience:

An unusual social dynamic

Who is involved in activities that shapes how the community cares for, and collaborates with each other at unusually effective levels?

(Or…how can you help strengthen their efforts?)

The ask of the audience

Outsized growth in DSM region:

- A product of the region's ability to attract and connect an unusually strong community…
- And that community working together to deliver something remarkable

What's your role in helping secure a strong ride for the next 25 years?

It’s the region’s time to decide

Thank you!

James Chung
617.851.8697
james@reachadvisors.com