The Greater MSP Region: A Leader in Affordability

Greater MSP has a lower cost of living than many of the top-30 U.S. metros

Overall, Greater MSP’s cost of living is 78% of the average total composite for top-30 U.S. metros.

Greater MSP’s relative housing costs are 74% of the average for the top-30 U.S. metros, tied with Houston and Dallas.

That raises the question of why managers love Minnesota. Affordability has got to be one factor: Minnesota regularly ranks high on lists that measure income relative to the local cost of living. Bloomberg, 2018

According to the Center for Housing Policy, low-income families can rent a home and commute to work more affordably in Minneapolis-Saint Paul than in all but one other major metro area. The Atlantic, 2015

In 2017, Greater MSP’s Consumer Price Index was 239.239, lower than the U.S. average


The most recent Price Parity Index, the Bureau of Economic Analysis’ measure of relative goods & service prices across the U.S., ranks Greater MSP 15th highest among major U.S. metros.

Source: U.S. Bureau of Economic Analysis, Regional Price Parity, 2015

Good schools, a relatively low cost of living and high median household income offer native residents and transplants alike ample opportunity for work and economic advancement in Minnesota, ranking the state second for opportunity.

U.S. News & World Report

MAJOR EXPENSES

Practically speaking, housing and transportation account for the majority of household spending among those in major U.S. metros. How does Greater MSP stack up against our peers?

On average, Greater MSP residents spend the lowest percentage of their income on housing plus transportation among peer regions

Austin: 52%
Charlotte: 52%
Portland: 52%
Atlanta: 52%
Chicago: 51%
Dallas: 49%
Pittsburgh: 49%
Seattle: 49%
San Francisco: 48%
Boston: 47%
Denver: 47%
Greater MSP: 45%


Inflation: Prices are stable in Greater MSP, and inflation trails the U.S. average

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BACKGROUND
In March 2018, The Economist released an updated “Worldwide Cost of Living 2018” report. The report, which identified Greater MSP as having the 3rd highest cost of living in North America, was picked up by local media outlets, sparking intense debate, and surprising regional leaders for whom the MSP region’s relative affordability has always been a strength.

GREATER MSP contacted the Economist to understand the report, its methodology and conclusions. Much of the data has not been made available, or is only available at significant expense. However we learned enough about the study to question its value to the region as a strong indicator of affordability.

FINDINGS
The study is designed to provide multi-national corporations with benchmarking information to use when posting senior-level executives in cities around the world. It is designed to provide independent 3rd party insight into compensation adjustments for these executives. The analysis is done by developing a “market basket” of goods likely to be consumed or used by senior-level executives. Examples include food, drink, clothing, household supplies and personal care items, home rents, transport, utility bills, private schools, domestic help and recreational costs. Many of these are not relevant for living in the MSP region.

The market basket includes luxury apartment rentals rather than home ownership because these executives tend to be on short-term assignments, and because many large global cities don’t have affordable housing stock for purchase. Affordability of home-ownership is a unique asset in Minneapolis-Saint Paul.

Other things included in the market basket are things like private schools, and domestic help, which may not be required in Minneapolis-Saint Paul.

The study benchmarks the individual cities data using New York City as a base, and results are impacted significantly based on currency fluctuations. Given these two factors, the study is less useful for domestic comparisons.

CONCLUSION
The Economist study shouldn’t be used as a reference to gauge regions’ affordability, except in very specific circumstances:

• It is developed for a specific upscale audience and not the general public
• It evaluates a market basket of goods that isn’t reflective of general public spending
• It doesn’t include home purchase options which would be sought by general public
• It is best used to compare international markets rather than domestic markets due to currency fluctuations.

There are more credible sources to use to compare cost-of-living such as The Bureau of Labor Statistics, and the Council for Community and Economic Research. These sources show that the MSP region indexes well below the average for the Top 30 Markets (ranked on population) with an index of 78. Residents in MSP pay a significantly smaller portion of their income for housing plus transportation than peer region. A complete analysis is on the back of this page.

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