

Closing the Gap

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GDP, EXPLAINED

Along with unemployment, household income and the stock market, gross domestic product (GDP) has long been seen as a key indicator of the overall health of an economy.

High GDP means a higher value for the goods and services being produced within an economy's borders, which often translates to more income, better exports and a healthier flow of value between individuals and businesses.

When GDP drops, it's a sign that less value is being created.

"GDP tells us whether the economy is expanding because it's producing more goods and services, or it's contracting because it has less output," says Dr. Usha Haley, director of the Center for International Business Advancement at Wichita State University's Barton School of Business and chair of the World Trade Council of Wichita. "So GDP basically gives you some information about the size of the economy and how the economy is performing."

In isolation, GDP doesn't actually give us a lot of useful information — it's just a number, Haley says. But as this number changes over time, it allows us to track the performance of the economy and gives us the ability to compare economies around the world or at a more local level.

These comparisons are particularly useful during times of economic hardship — such as during a recession or the more recent slowdown caused by the COVID-19 pandemic.

But GDP is what Haley calls a lagging indicator, meaning the effects of traumatic events like a pandemic likely won't be reflected by GDP for years to come.

"It's like looking up at the night sky, and you see all the stars in the sky," she says. "Are you actually seeing the stars as they are currently, or are you seeing them as when the light emanated from them, sometimes literally thousands of years ago?"

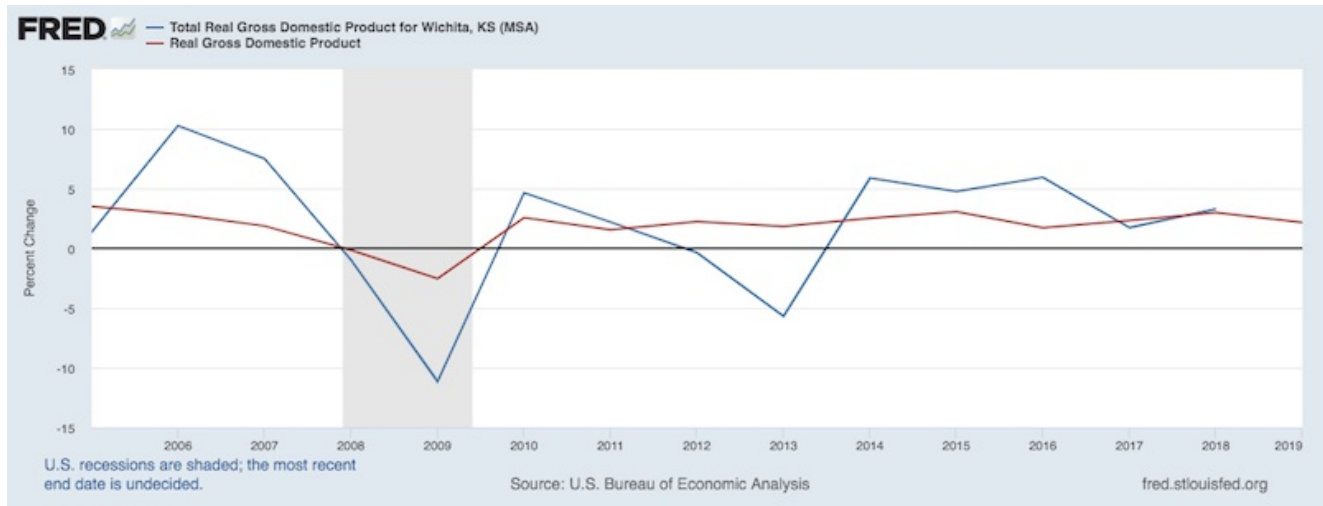
GDP is the result of investments that were already made, exports that have already found a market and industries that have already been scaled up.

So the relevant question is not what GDP looks like now, but what it will look like in the future because of the work we put in today.

PREPARING FOR WHAT'S NEXT

While we cannot yet fully understand the effects of COVID-19 on GDP, Wichita is highly likely to experience a deep hit due to its economic dependence on the aerospace industry.

When Reach Advisors analyst James Chung gave his initial presentations for Focus Forward, he pointed out a longstanding GDP gap between Wichita and the U.S. During the 2008 recession, Wichita fell harder and recovered slower than the U.S. economy at large, partially due to a heavy reliance on the volatile aerospace industry.



Haley says relying too much on aerospace will likely hurt recovery following the COVID-19 pandemic, as well.

"The aircraft industry doesn't just exist in a vacuum, it exists in a web," she says. "And that web includes not just government, which is purchasing aircraft from Boeing and Airbus, but also consumers willing to travel, at the other end. And COVID has impacted all of that."

Haley says we haven't seen the full effect of these changes yet. Aerospace manufacturers have more of a buffer than more consumer-facing industries like airlines or hotels. But it is expected to eventually have a big impact on the companies that make the planes.

"That could happen next year or the year after," Haley says. "But the ripples would probably be felt for another couple of years or so."

Haley says every city or metropolitan area has its emphasis. Pittsburg has the coal industry, Detroit has automobiles and Wichita has aerospace. But just how heavily aerospace is emphasized in our economy is somewhat unique, she says.

Wichita's total GDP, as of 2018, is \$33 billion, about \$3.3 billion of which is exported. Of those exports, \$2.3 billion is from the aerospace industry, making up a huge majority of Wichita's exports and about 20 percent of the state's.

"We're not diversified enough, I think we can safely say that," Haley says. Economic diversity is something Chung emphasized — and it still dominates conversations with local economists and business leaders today, including in the local entrepreneurship network. But how to diversify without fundamentally changing Wichita's emphasis on aviation is a tougher topic.

"You don't want to axe what we're good at," Haley says. "Maintaining the aerospace sector, which has contributed so much, but also diversifying into other sectors."

Finding related sectors — and future-focused companies to play a role in those sectors — should be a priority for improving Wichita's future economic performance.

DIVERSIFYING MORE THAN JUST INDUSTRY

When it comes to exports, Wichita — and the larger Kansas economy — don't have a ton of players. Haley says in 2019, there were about 24 total exporters in Kansas. Of those, 18 were small businesses, one was minority-owned, zero were women-owned and none fell in the renewable energy sector.

Haley says this time of economic uncertainty — combined with a shift in political priorities toward renewable energy — could be an excellent opportunity to make this list more diverse.

"So here might be the opportunity, not just for the next one or two years, but for the foreseeable future, maybe five to 10 years, would be to get into more things like renewable energy and things that are environmentally beneficial," Haley says. "You could use pretty much the same [aerospace manufacturing] parts if you say, for example, get into wind turbines. So something that's related — not completely unrelated — and then start exploring more diverse export markets."

This call to diversify our economy is also an opportunity to diversify the voices and minds represented in Wichita trade. With more collisions with more people from different sectors and walks of life, this drastically increases the opportunity for innovation and entrepreneurship.

"One of the great things about the United States is its capacity to continually innovate and keep the [research and development] going," Haley says. "Get people who think outside the box and are willing to implement those ideas, take the risks for those ideas. And I think that's the way to go."

NEXT STEPS:

For a simple look at the perception challenge, check out this short video

Learn more about the Four Challenges

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