

Executive summary

As regions and cities aim to recoup losses from the COVID-19 pandemic, sharply higher energy prices and shocks to gas supply pose new challenges for OECD economies. Despite the robust and widespread economic recovery in most OECD regions over the last two years, these shocks are affecting regions and cities differently. Many businesses now face higher costs of production, especially in energy-intensive industries and regions that rely on natural gas and fuel imports. For households, those living in cold regions will spend more on heating this winter and poorer households will experience relatively greater disruptions from rising energy prices. Finding affordable housing is also proving increasingly difficult in many places, but especially in large metropolitan areas, where housing demand is shifting towards more suburban locations. Policy makers need granular and timely evidence to understand patterns and trends in their regions and cities in order to respond effectively to people's needs.

This edition of *OECD Regions and Cities at a Glance* sheds light on the territorial impacts of recent economic developments across regions and cities in OECD members and partner countries. The COVID-19 pandemic had especially sizeable and widespread effects on economies, the health of people and their livelihoods. Some effects were transitory and their patterns reversed as regions recovered; others persisted well beyond the initial phases of the crisis. Between 2019 and 2020, the median region in the OECD saw a 5% decline in GDP per capita, but one-fifth of regions experienced declines of 10% or more. By combining official statistics with indicators from less conventional data sources, the report highlights territorial differences in economic growth and environmental progress along with social trends such as income inequality, housing affordability and demographic change at detailed geographical breakdowns.

Regional economic disparities remain large by historical standards. However, contrary to widespread belief, regional economic disparities did not increase in most countries during the first year of the crisis (2020); if anything, they slightly narrowed in a situation of widespread economic decline. Remote regions and those far from cities continue to lag behind metropolitan regions in terms of GDP per capita levels and growth. Foreign direct investment in OECD economies remains concentrated geographically, mostly favouring high-GDP regions. Similarly, cultural and creative sectors tend to concentrate in cities and capitals, with shares of creative jobs in some capital regions twice the country average. Moreover, productivity in the top regions remains nearly double that of the least productive regions within the same country.

Lockdowns and restrictions from the pandemic also led to unprecedented reductions in global greenhouse gas (GHG) emissions in 2020, although emissions rebounded strongly when these restraints were lifted. While most OECD countries aim for climate neutrality by 2050, progress is uneven and most regions and countries will need to do more to achieve their ambitious goals. Challenges in reducing the emissions from electricity production differ by region because energy sources and infrastructure for electricity generation vary substantially across places. For example, more than 50 regions across the OECD rely primarily on coal (a heavy pollutant) for electricity generation. Similarly, 50 European regions use mostly natural gas, a cleaner source, but one that

depends on imports and eventually also needs to be phased out. Aside from coal-intensive regions, remote regions tend to use cleaner sources of power (e.g. renewables) than metropolitan regions.

Ongoing urbanisation and ageing trends also contributed to keep regional economic disparities stark and persistent over the last two decades. In OECD countries, the share of population living in cities has increased by 3 percentage points (pp) since 2000, reaching 49%, a trend expected to continue in the foreseeable future. Cities continue to attract most foreign-born people, as well as young migrants from other parts of the country. Even though ageing is ubiquitous, it typically is much stronger in rural and remote regions. This further challenges the provision of services. For example, adjusting for population, hospital bed rates are almost 50% lower in regions far from metropolitan areas compared to metropolitan areas and this gap has been increasing over time.

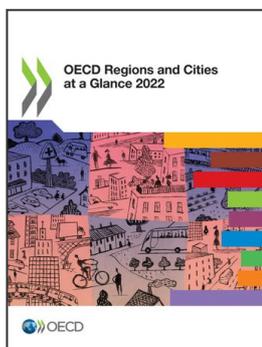
The growth of cities and metropolitan areas – as well as their advantages in terms of productivity and wages – typically comes with some costs, including lower housing affordability. For example, households in some regions of the Finland, Germany, Israel, the Netherlands and the United Kingdom spend on average 30% or more of their income on housing. Across metropolitan areas, buying a house in the city centre is 30% more expensive than in a suburban location, on average.

As noticeable from geographical changes in the housing demand, the sudden rise of remote working has changed the spatial reach of labour markets. While house prices in all locations have been rising over the last decade, prices in large metropolitan areas have started to grow faster in suburbs relative to central neighbourhoods after the start of the pandemic. Cities and metropolitan areas were also able to adapt faster to remote working due to the type of jobs located there, as well as generally better digital infrastructure. Across Europe, between 2019 and 2020, the share of remote workers increased by 70% in rural areas but it almost tripled in cities.

High-quality digital infrastructure is important for regions and cities to thrive in the current circumstances. Although the investment in digital infrastructure is contributing to closing some of the regional digital divides, many regions are still lagging. In some regions of Chile, Costa Rica, Israel, Japan, Mexico and the United States, one-fourth or more of the population lacks access to broadband Internet. Even when the Internet is available, its speed is still 40% lower outside metropolitan areas than within them. For example, two-thirds of OECD countries have Internet speed below the OECD average in regions far from metropolitan areas.

In 2021, a broad-based recovery followed the widespread economic decline of regions in the preceding year. By June 2022, half of the OECD regions had reached pre-pandemic employment levels. Still, women and youth struggle more in the labour market compared to other demographic groups, especially in regions with high unemployment rates. As of 2021, the median gap in unemployment rates between youth and the entire working-age population was approximately 11 pp across OECD regions, 2 pp higher than before the pandemic. Similarly, the employment rate among women was 12 pp lower than among men in the median region. Lower participation rates account for a significant share of the shortfall in women's employment, especially for female immigrants.

The pandemic has posed great societal challenges but it has also led to experimentation with digitalisation and new modes of working. Recent shocks to gas supply underscore the importance of pursuing an effective green transition, with regions and cities contributing according to their respective assets. Cities and regions that are balanced and diverse across economic sectors and demographics will likely be more resilient to future shocks, whether local or global.



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