



ECONOMIC VITALITY

ECONOMIC VITALITY focuses on capital, incentives, and other economic and financial tools to assist new and existing businesses, catalyze property development, and create a supportive environment for entrepreneurs and innovators that drive local economies.

The Local Multiplier Effect

Definition of Local Multiplier Effect:

The local multiplier effect refers **to additional economic benefit accrued to an area from money being spent in the local economy**. The term has been taken up by advocates for “spend local” campaigns in addition to more formal treatments in the area of Regional Economic Development.

The local multiplier effect refers to the spillover effect the presence of a particular type of job has on additional local economic activity. A theory of this is that whenever **a new job is created, there is a chance that additional jobs may also be created via increased demand for local goods and services**.

Three elements of the multiplier:

1. **Direct Impact** is spending done by a business in the local economy to operate the business, including inventory, utilities, equipment and pay to employees.
2. **Indirect Impact** happens as dollars the local businesses spent at other area businesses re-circulate.
3. **Induced Impact** refers to the additional consumer spending that happens as employees, business owners and others spend their income in the local economy.

Fun Fact:

On average, 48% of each purchase at local independent businesses was recirculated locally, compared to less than 14% of purchases at chain stores.

Consider, jobs per \$10 million in sales in the US:

- Independent Retailers: 110
- Chain Retailers: 50
- Amazon: 14

Relating the Multiplier Effect to Downtown:

Locally owned businesses & buying from locally owned businesses

- Recirculate a greater share of every dollar in the local economy as they create locally owned supply chain & invest in their employees
- Employ more people per unit of sales, and retail employs more people during economic downturns, while big-box retailers decrease the number of retail jobs in a region
- Strengthens the social & civic well-being of the community in ways ranging from increased voter turnout to greater participation in civic associations
- Generate more tax revenue for cities, with less cost, than sprawling shopping centers
- ◆ Various studies indicate that for every \$100 spent locally \$45 stays in the community as opposed to \$13 when spent at a chain/big-box store
- ◆ Your money circulates three times longer in the local economy



The Local Multiplier Effect

Sources:

- https://en.wikipedia.org/wiki/Local_multiplier_effect
- <https://www.amiba.net/resources/multiplier-effect>
- <https://ilsr.org/anticompetitive-conditions-are-impacting-independent-businesses-says-letter-to-sen-klobuchar>
- Kimber Lanning, Local First Arizona
- <https://ilsr.org/key-studies-why-local-matters>
- <https://forum.savingplaces.org/blogs/forum-online/2014/05/15/older-smaller-better-new-research-from-the-preservation-green-lab>



This document was created to assist designated NC Main Street Communities and any other community that would like to develop best practices for downtown economic development.