



The Regional Economies of Illinois

Will the jobs return? When?

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By Geoffrey J.D. Hewings and Rafael Angel Vera

Introduction

In much the same way that analysts tend to view countries as homogenous and thus overlook the significant sub-national variations in economic performance and structure, there is a similar tendency to assume that state economies are similarly homogenous. For more than a decade, the Regional Economics Applications Laboratory (REAL), a unit within the Institute of Government and Public Affairs, has maintained the Chicago Business Activity Index (CBAI), an amalgam of economic indicators that mimics the Conference Board's Index of Leading Indicators. In contrast to most macroeconomic models that provide annual forecasts, the CBAI provides monthly assessments of the economy and a forecast horizon that extends one to 24 months into the future. REAL has been providing a monthly assessment of the employment picture at the metropolitan level and in terms of two other geographical divisions of the state (the metropolitan Chicago economy versus downstate, and metropolitan versus non-metropolitan Illinois) but, until recently, no attempt has been made to consider leading indicators for the other metropolitan economies of Illinois.

State of the State

Illinois tends to enter recessions three to six months later than the U.S. as a whole and to exit one to four years later. The current recession presents a further challenge; in employment terms, Illinois has never regained the peak nonfarm payroll employment reached in November 2000. The nation, on the other hand, reclaimed the prior 2000 peak in February 2005. Through the end of October 2009, Illinois was 423,800 jobs below the 2000 peak and

had lost 358,100 jobs since December 2007. Illinois has enjoyed only three years since 1980 when its employment rate exceeded that for the U.S. and all three were prior to 1990. Currently, of the 10 macro sectors (see Table 1 on page 30), five (manufacturing, information, construction, trade, transportation and utilities, and financial activities) have current employment levels below those recorded in 1990. In employment terms, Illinois had never experienced a downturn-recovery cycle longer than eight years between 1945 and the current recession. Considering that employment additions of greater than 50,000 jobs per year have been experienced only once since 2000, the prospects of an "employment recession" extending for more than 15 years in the state look increasingly likely.

The state's economic performance is all the more surprising given the fact that its economic structure (at the level of aggregation shown in Table 1 mirrors that of the nation. However, from 1990 through October 2009, the state added only 35 jobs for every 100 added in the nation as a whole. The question remains whether there is greater heterogeneity in the structure of the sub-state economies – especially those in the metropolitan regions (MSAs).¹ Table 1 describes the employment structure of the metropolitan economies based on a 10-fold classification of economic activities.

While the perception persists that Illinois is a state still dominated by manufacturing, the data in the table reveal that only 10 percent of the state's employment is accounted for by this sector. However, there is considerable variation across metropolitan areas; Rockford, Peoria, Decatur, and Davenport-Rock Island-Moline all have manufacturing employment from



¹ The metropolitan regions usually comprise one or more counties; this area is referred to as a Metropolitan Statistical Area.



All of the MSAs have lost employment at rates lower than the state as a whole; although the absolute job losses are much higher in the MSAs in the last 12 months.

Table 1
The Employment Structure of the Illinois Metropolitan Economies, October 2009

October 2009 MSA Employment by sectors (000s) *

Market Area	Construction	Manufacturing	Trade, Transportation & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health	Leisure & Hospitality	Other Services	Government
Bloomington-Normal	2.96 (3.3%)	5.24 (5.8%)	13.68 (15.1%)	1.00 (1.1%)	12.22 (13.5%)	17.5 (19.3%)	9.64 (10.6%)	9.92 (10.9%)	3.27 (3.6%)	15.35 (16.9%)
Champaign-Urbana	4.43 (3.9%)	9.67 (8.5%)	18.59 (16.4%)	2.44 (2.2%)	4.6 (4.1%)	8.34 (7.4%)	13.30 (11.7%)	10.63 (9.4%)	3.34 (2.9%)	37.94 (33.5%)
Chicago	154.45 (3.8%)	386.99 (9.6%)	821.46 (20.4%)	80.74 (2%)	284.83 (7.1%)	665.41 (16.5%)	566.95 (14.1%)	360.2 (8.9%)	181.41 (4.5%)	526 (13.1%)
Davenport-Rock Island-Moline	9.11 (4.9%)	25.47 (13.6%)	39.4 (21.1%)	2.99 (1.6%)	8.44 (4.5%)	23.21 (12.4%)	25.31 (13.5%)	18.3 (9.8%)	7.10 (3.8%)	27.66 (14.8%)
Decatur	3.62 (6.9%)	10.48 (19.9%)	10.86 (20.6%)	0.80 (1.5%)	1.99 (3.8%)	3.10 (5.9%)	8.13 (15.4%)	4.92 (9.3%)	2.75 (5.2%)	6.04 (11.5%)
Kankakee	1.62 (3.8%)	4.75 (11.2%)	10.46 (24.5%)	0.49 (1.2%)	1.90 (4.5%)	3.04 (7.1%)	8.03 (18.8%)	3.66 (8.6%)	1.82 (4.3%)	6.9 (16.2%)
Peoria	9.18 (5.0%)	28.02 (15.2%)	34.03 (18.5%)	2.41 (1.3%)	8.69 (4.7%)	22.39 (12.2%)	32.47 (17.6%)	17.85 (9.7%)	7.66 (4.2%)	21.38 (11.6%)
Rockford	6.46 (4.2%)	30.56 (19.9%)	28.54 (18.6%)	2.11 (1.4%)	6.42 (4.2%)	18.07 (11.8%)	22.86 (14.9%)	12.44 (8.1%)	9.41 (6.1%)	17.24 (11.2%)
Springfield	4.79 (4.3%)	3.25 (2.9%)	17.59 (16%)	2.55 (2.3%)	7.14 (6.5%)	10.86 (9.8%)	17.16 (15.6%)	10.56 (9.6%)	6.50 (5.9%)	29.91 (27.1%)
Illinois	220.68 (3.9%)	574.59 (10.2%)	1144.09 (20.3%)	106.42 (1.9%)	368.68 (6.5%)	783.47 (13.9%)	799.4 (14.2%)	518.9 (9.2%)	257.45 (4.6%)	856.32 (15.2%)

* The Illinois Department of Employment Security does not collect sector employment data for Metro-East.
Source: Illinois Department of Employment Security

three to almost 10 percentage points higher than the state average. Kankakee and Chicago are close to the state average while the remaining MSAs have manufacturing employment percentages below the state average. There is considerable heterogeneity in the composition of non-manufacturing employment; Bloomington-Normal is dominated by professional and business services, while government dominates in Champaign-Urbana and Springfield.

Table 2 presents a summary of the economic performance (in employment terms) of the state's MSAs through the end of October 2009. One important finding that is apparent from the table is the fact that all of the MSAs have lost employment at rates lower than the state as a whole; although the absolute job losses are much higher in the MSAs in the last 12 months (206,700 out of the state total of 286,300), non-metro Illinois has lost jobs at a much higher rate (-15.61 percent compared to the



Table 2
State MSA Economic Performance

Market Area	Total non-farm employment Seasonally adjusted unless noted Oct 2009 Number of Jobs	Sep 2009 – Oct 2009			Last 12 months	
		Growth compared to Illinois	Growth Rate %	Number of Jobs	Growth Rate %	Number of Jobs
Bloomington-Normal (B-N)	90,800	+	0.15	100	-0.92	-800
Champaign-Urbana (C-U-Rantoul)	113,400	-	-0.11	-100	-1.49	-1,700
Chicago	4,029,300	-	-0.12	-4,900	-4.45	-187,800
Davenport-Rock Island-Moline (D-R-M)	187,100	+	-0.01	0	-1.85	-3,500
Decatur	52,700	+	0.03	0	-4.48	-2,500
Kankakee	42,600	+	0.24	100	-3.13	-1,400
Peoria	184,000	+	-0.05	-100	-3.27	-6,200
Rockford	153,700	+	0.01	0	-2.76	-4,400
Springfield	110,300	-	-0.47	-500	-1.91	-2,100
Metro-East Illinois	241,500	-	-0.14	-300	1.58	3,800
			-0.06	-3,200	-4.83	-286,300

Source: Regional Economics Applications Laboratory, University of Illinois

Non-metro Illinois has lost jobs at a much higher rate (-15.61 percent compared to the MSA rate of -3.82 percent).

MSA rate of -3.82 percent). Another surprise is the employment growth in Metro East (the Illinois counties that comprise the St. Louis metropolitan area) over the past year.

In order to explore these potential sources of explanation for the state's economic performance, REAL has constructed a set of leading indicator indices for the remaining (i.e., other than Chicago) metropolitan areas. While a formal analysis of the role that the heterogeneity in the metropolitan economies may play in generating the growth mechanisms for the state remains to be completed, the initial presentation of the MSA indices suggests the existence of potential significant variation in economic performance.

The Metropolitan Indices

The Illinois metropolitan statistical area indices developed by REAL capture the local economic activity for seven of Illinois' metropolitan statistical areas: Bloomington-Normal, Champaign-Urbana, Davenport-Rock Island-Moline, Decatur, Peoria-Pekin, Rockford, and Springfield.

Each individual index is obtained through the use of a national activity indicator and local economic indicators from which local and dynamic factors are extracted in such a way as to extract the maximum information about the behavior of each local economy. A brief overview of the data used accompanies this chapter. Because many of the data series used in the construction of the indices are released at different times, the indices presented are for September 2009.

In the figures that follow, the index for each MSA is presented as a series of bar graphs. The composite indices for all the other MSAs and for Chicago are shown as line graphs; the addition of these graphs will facilitate the visual comparison of each MSA with the other MSAs and Chicago – both historically and for the year ahead. Preceding the graph for each MSA is a summary table that presents the current value and a comparison with historical (forecast) values for one month, three months and 12 months previously (ahead). This provides a rapid assessment of the path of the index over a 24-month period.



Brief Description of the MSA Indices

The process of making these indices involves two major steps.

Step 1: Data Collection

In order to construct the Illinois MSA Indices we collect the following data:

- **Chicago Fed National Activity Index (CFNAI):** A monthly index that measures the total U.S. economic activity. This index is a weighted average of 85 existing monthly indicators of national activity and it is constructed to have an average value of zero and standard deviation of one. Hence a positive reading of this index is interpreted as a growth of the economy above the trend while a negative index would mean a growth below the trend. CFNAI is produced by the Federal Reserve Bank of Chicago and monthly data is available at http://www.chicagofed.org/economic_research_and_data/cfnai.cfm
- **Chicago Fed Midwest Manufacturing Index (CFMMI):** A monthly index by major industry manufacturing output in the states of Illinois, Indiana, Iowa, Michigan, and Wisconsin. This index is a composite of 15 manufacturing industries that uses hours worked data to measure monthly changes in regional activity. CFMMI is produced by the Federal Reserve Bank of Chicago and monthly data is available at: http://www.chicagofed.org/economic_research_and_data/cfmmi.cfm
- **MSA Employment data:** To capture the local dynamics of the metropolitan areas, employment data of each MSA is collected for the ten aggregated sectors shown in Table 1: <http://lmi.ides.state.il.us/cesfiles/cesavear.htm>
- **Housing Prices:** To capture the local dynamics we also use housing closing prices as an indicator of economic activity. Houses are considered to be an essential good for households so when prices tend to go up, it could be sign of economic prosperity while a drop in

prices would be sign of an economy that is slowing down. Monthly Housing Closing Prices data for each Illinois MSA are released monthly by the Illinois Association of Realtors.

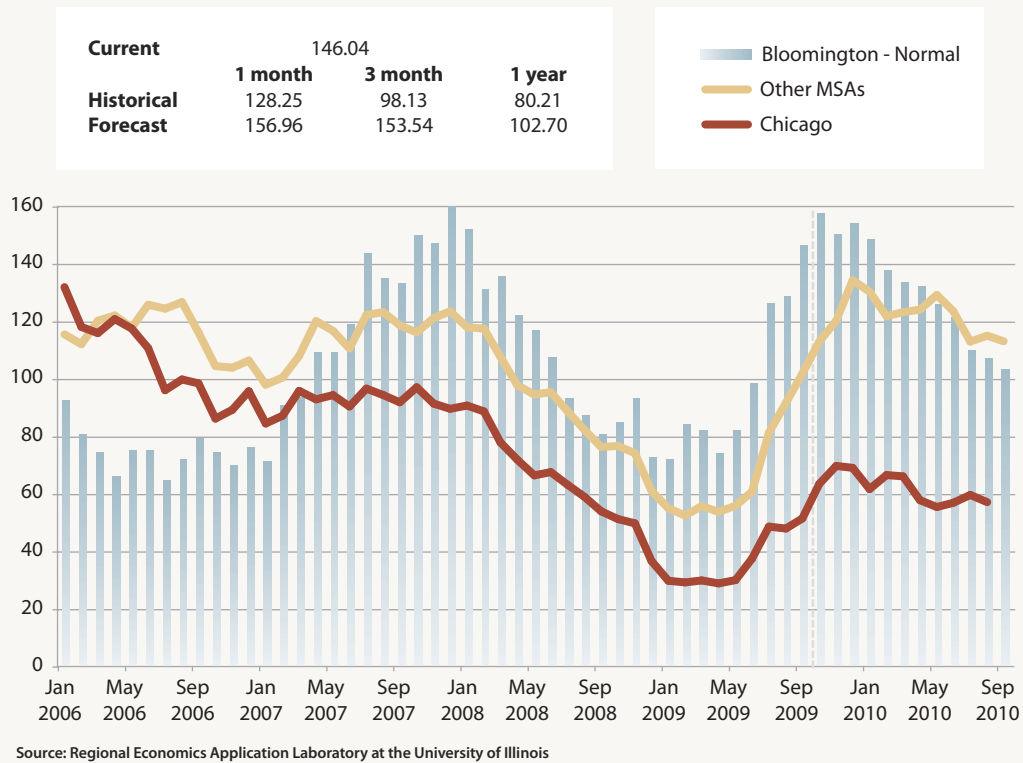
- **Sales and Related Taxes:** Another indicator is the disbursement of sales and other related taxes, which provides a picture of how businesses are performing in the economy in the sense that higher collection of sales taxes would be a sign of economic prosperity while a reduction in tax collection would represent a slowing economy. Disbursement data for sales and related taxes for Illinois are available monthly (disclosed at the municipal and township level) from the Illinois Department of Revenue: <http://www.revenue.state.il.us/LocalGovernment/Disbursements/sales.htm>

Step 2: Data Preparation

Before developing the indices for each MSA, some data clearing is required. The process for the CFMMI, Housing Prices and Sales and Related Taxes variables is described as follows:

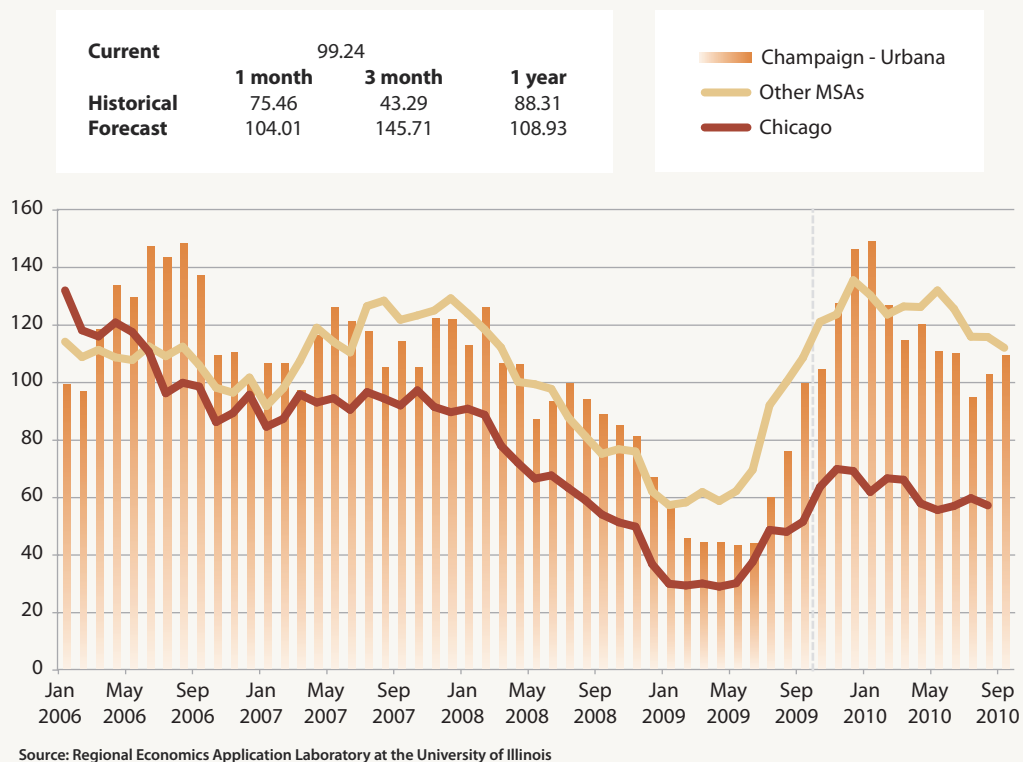
- **CFMMI:** The base year of the CFMMI index data series must be moved to July 2004 so that it can be consistent with the period of analysis and the rest of the variables of the model. The original series come with a base year of 2002=100.
- **Housing Prices:** The dataset must be converted to monetary values expressed in real terms in order to be comparable over time, so here we adjust the dataset to a base year of 2004, using the consumer price index for deflecting the series. Consumer price indices for houses are available on a monthly basis from the Census Bureau.
- **Sales and Related Taxes:** The data is collapsed from townships and municipalities to Metropolitan Statistical Areas, after that the dataset is adjusted to real values with a base year of 2004 using the general consumer price index available at the Census Bureau.

Figure 1
Bloomington-Normal MSA (Reference Month – September 2009)



Bloomington-Normal has mirrored its peers in 2008-2009 and is forecast to grow a little more rapidly in 2010.

Figure 2
Champaign-Urbana MSA (Reference Month – September 2009)





Chicago under-performed the other composite index for the MSAs for all but the first few months of 2006 and is expected to continue to do so in 2010.

Figure 3
Davenport - Rock Island - Moline MSA (Reference Month – September 2009)

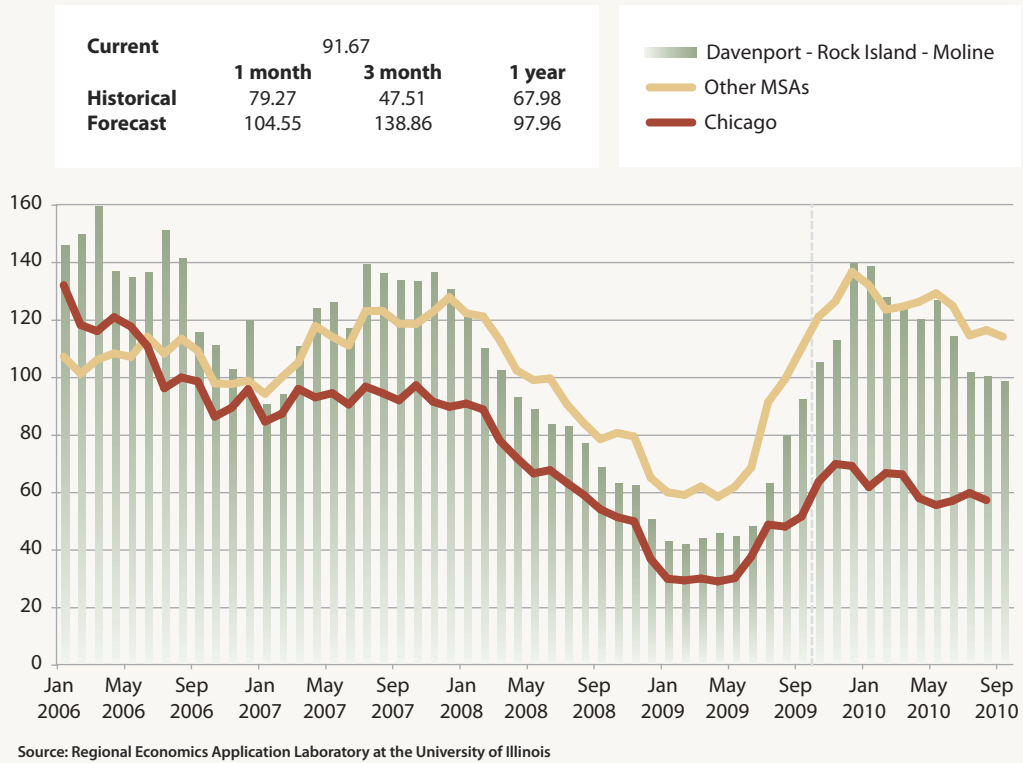


Figure 4
Decatur MSA (Reference Month – September 2009)

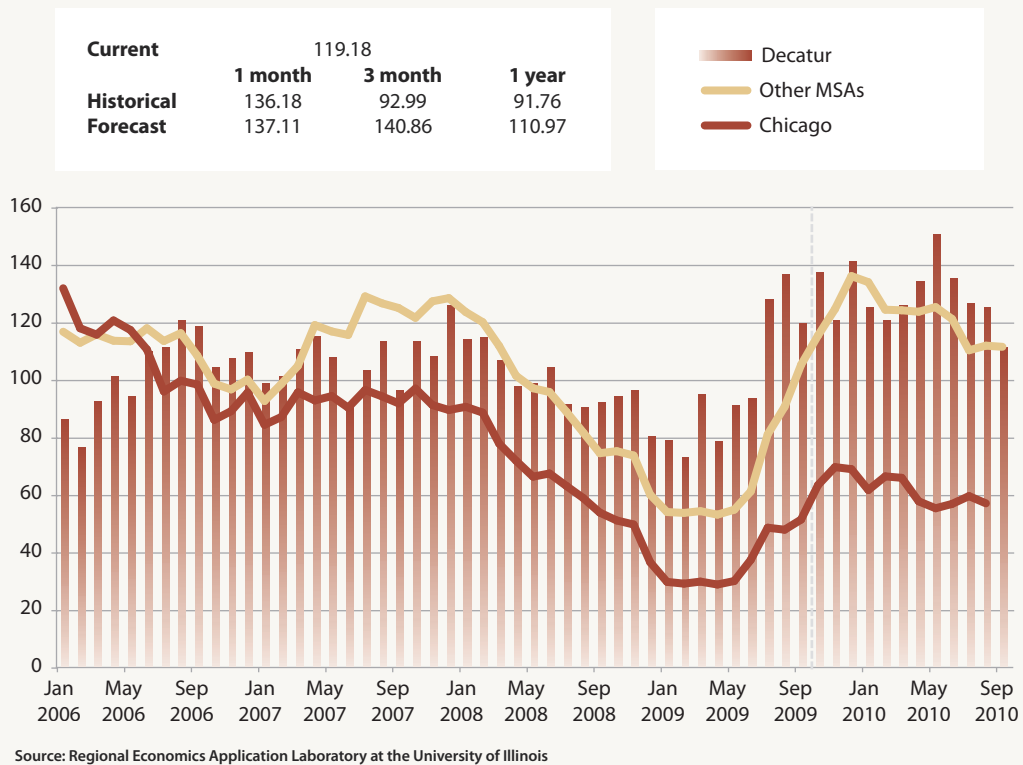
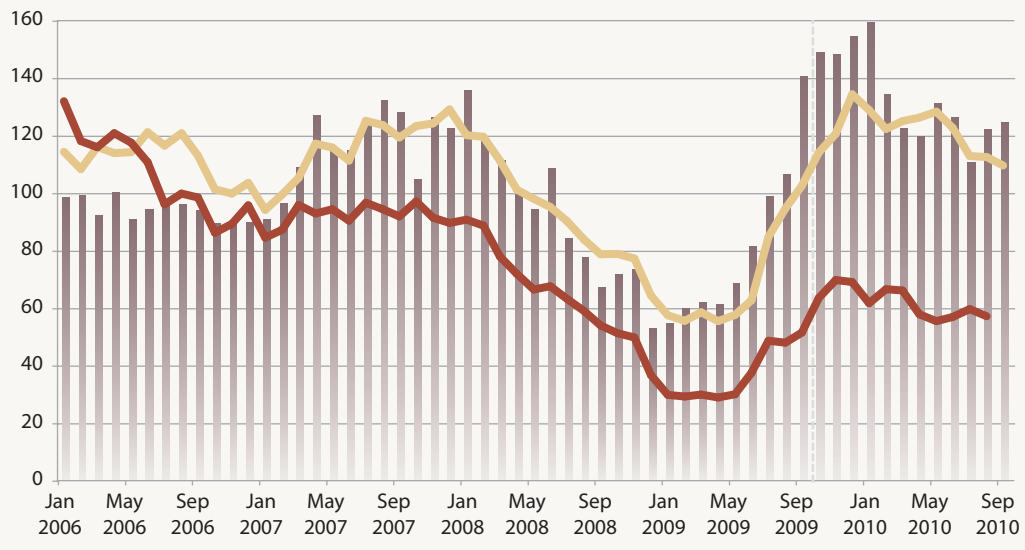


Figure 5
Peoria MSA (Reference Month – September 2009)

Current	140.23		
Historical	1 month	3 month	1 year
	106.16	81.10	66.61
Forecast	148.32	153.96	124.14

■ Peoria
■ Other MSAs
■ Chicago



Source: Regional Economics Application Laboratory at the University of Illinois

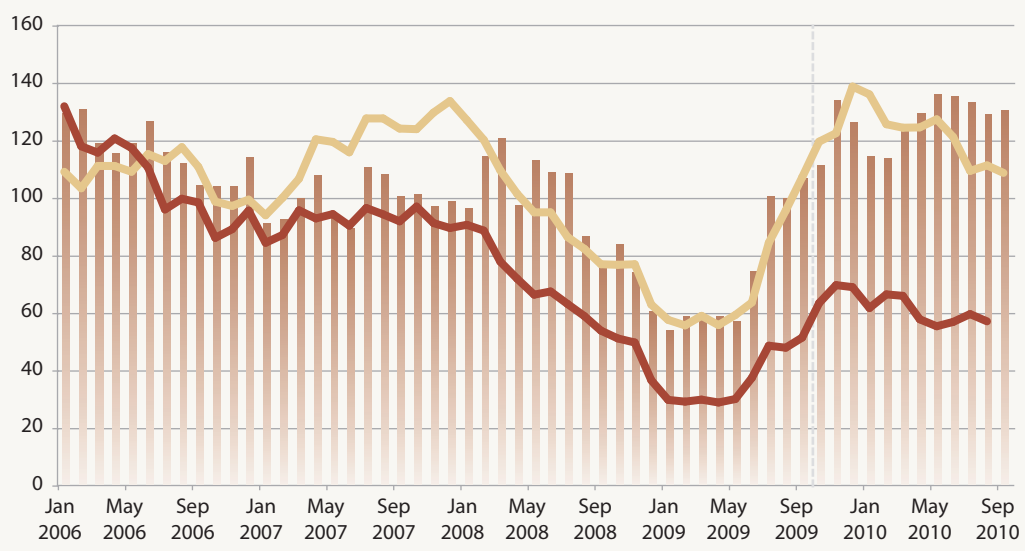


Rockford outperformed its peers throughout 2008 but is expected to underperform them in 2010.

Figure 6
Rockford MSA (Reference Month – September 2009)

Current	106.49		
Historical	1 month	3 month	1 year
	99.29	73.93	75.83
Forecast	110.97	125.78	129.90

■ Rockford
■ Other MSAs
■ Chicago

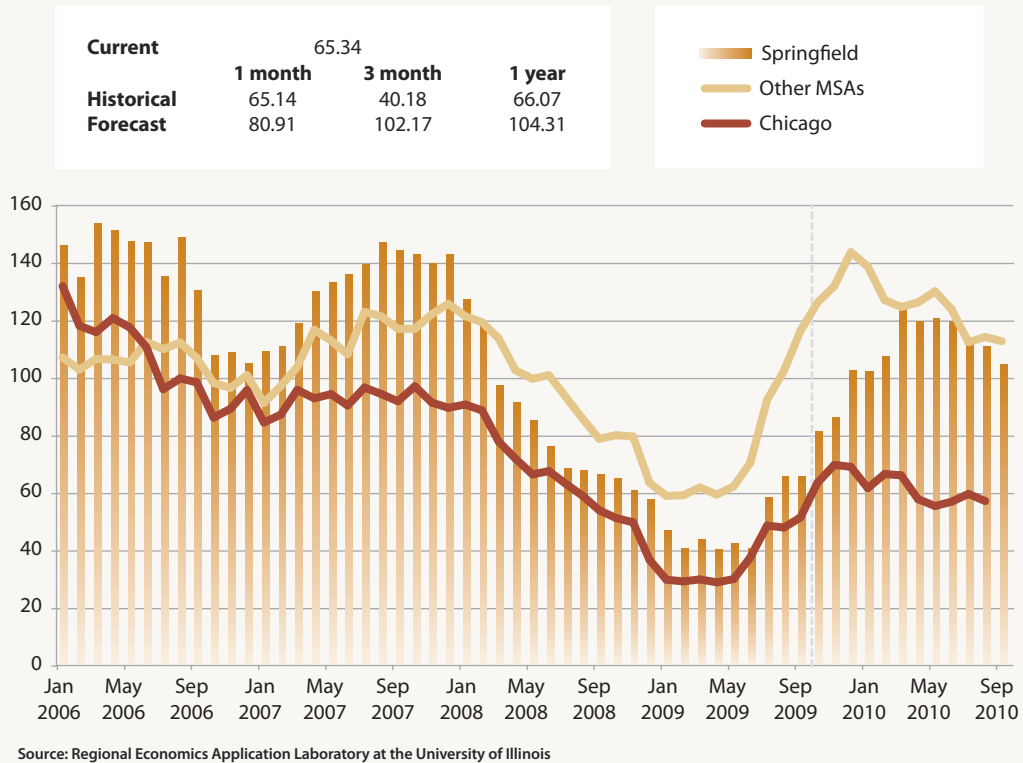


Source: Regional Economics Application Laboratory at the University of Illinois



Illinois has not yet invested enough effort into gaining an understanding of the challenges the economy faces, both in terms of recovery from the current recession and in building a framework to encourage more innovative economic activity with the potential for sustaining job creation over the next several decades.

Figure 6
Springfield MSA (Reference Month – September 2009)



Summary

The historical economic performance of a MSA and future trajectories are not necessarily linked. Consider Bloomington-Normal and Springfield. Both MSAs outperformed their peers in 2007 but Springfield’s index declined more rapidly than the others in 2008, and is forecast to recover more slowly than its peers in 2010. In contrast, Bloomington-Normal has mirrored its peers in 2008-2009 and is forecast to grow a little more rapidly in 2010. Champaign-Urbana seems to be more variable – periods during which it outperforms its peers (2006), and then underperforms (2007), while in 2008 the month-to-month performance oscillates – sometimes outperforming and sometimes underperforming its peers. A similar pattern is forecast for 2010. Davenport-Rock Island-Moline

has slightly underperformed its peers in the last two years and the forecast suggests a continuation of that trend although the “distance” between this MSA and its peers will be smaller in 2010. Decatur and Peoria, in contrast, are expected to grow a little more rapidly than their peers in 2010. Rockford outperformed its peers throughout 2008 but is expected to underperform them in 2010. Note that Chicago underperformed the other composite index for the MSAs for all but the first few months of 2006 and is expected to continue to do so in 2010. There appears to be a slight upward trend in Chicago’s index while that for the other MSAs trends upward in the latter part of 2009 before declining through the second quarter of 2010.

Future research will attempt to explore the role of industrial composition in condition-



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The Illinois economy shares a similar economic structure to the nation, yet job growth has lagged the rest of the country across all major sectors since 1990.

ing the movements of the individual MSA indices. Further, those MSAs with strong manufacturing activity are likely to experience more difficulties in effecting a recovery. While export data for each one are not known, the state export data reveal that there is a significant dependence on the rest of the Midwest (Iowa, Missouri, Wisconsin, Indiana, Ohio and Michigan). This region, and Ohio and Michigan in particular, has experienced downturns that are even greater than Illinois; hence recovery for Illinois and its MSAs will be heavily dependent on the success that the states in the rest of the Midwest have in re-growing their economies. In the last two decades, states have become both more competitive and more inter-dependent, posing significant challenges for individ-

ual states to generate independent development strategies.

Illinois has not yet invested enough effort into gaining an understanding of the challenges the economy faces, both in terms of recovery from the current recession and in building a framework to encourage more innovative economic activity with the potential for sustaining job creation over the next several decades. The Illinois economy shares a similar economic structure to the nation, yet job growth has lagged the rest of the country across all major sectors since 1990. Understanding why this has happened will require some intensive research. Without this understanding, the success of any economic development policy is likely to be very limited.