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By Geoffrey J.D. Hewings

The combination of rising oil prices, the sub-prime mortgage market meltdown and indications of a slowing national economy have combined to create some uncertainty about the prospects for growth in the Illinois economy. Although its economy has a structure that closely resembles that of the nation, Illinois often moves through the business cycle somewhat out of phase with the nation.

The State's Economy

Illinois added 64,900 jobs in 2006, after gaining 61,300 in 2005. More impressive was the fact that the 2006 gains were larger than the 55,800 jobs added in the Rest of the Midwest (RMW).[1] For the first nine months of 2007, Illinois outperformed the RMW but had added only 37,701 jobs, with a monthly average of 4,189 compared to 5,342 in 2006. From September 2006 through September 2007, Illinois has added 43,600 jobs (see Table 1) – again, outperforming the RMW in terms of growth rate and number of jobs.

Table 1
Employment Changes in Illinois, RMW and US

	Last 12 months	
Total non-farm employment	**Growth Rate%**	**Number of Jobs**
Nation	+1.19	+1,629,000
RMW	+0.16	+31,300
Illinois	+0.73	+43,600

However, job growth in Illinois still lags behind both the RMW and the whole United States, growing at about half the rate of the U.S. since 1990 (see Figure 1). While Illinois' growth since the beginning of 2006 has narrowed the gap between the state and the RMW, the gap with the nation has increased. Table 2 reveals that there has been significant variation in economic performance by sub-regions within the state.

The Regional Picture

The 12 months from September 2006 through September 2007 generated a different pattern of growth within the state (see Table 2). Non-metro Illinois has lost jobs. On the other hand, metropolitan Illinois has grown at an

[1] Iowa, Wisconsin, Indiana, Michigan, Ohio and Missouri

Figure 1
Employment Growth Rates, Illinois, Rest of the Midwest and US (1990 = 100)

Total non-farm employment growth rate Jan 1990 – Sept 2007

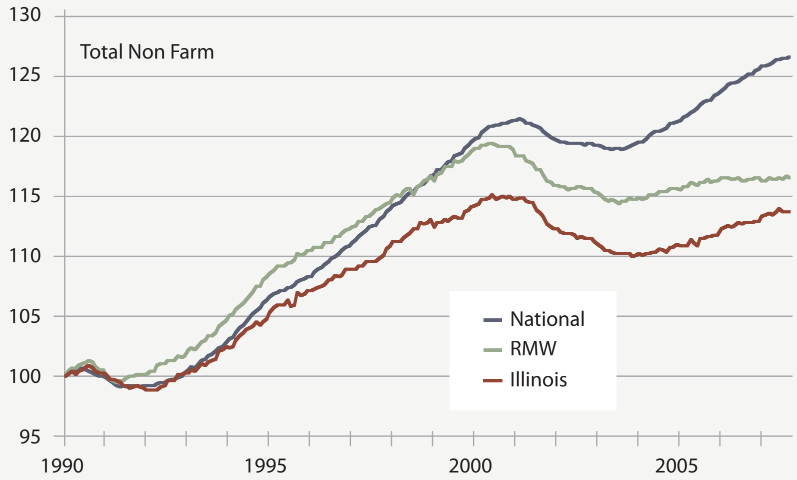


Table 2
Employment Change by Sub-Regions

	Last 12 months	
Total non-farm employment	**Growth Rate%**	**Number of Jobs**
Illinois non-Metro (Rural)	- 0.39	- 2,000
Illinois non-Chicago (Downstate)	+0.38	+6,500
Illinois Metro	+0.90	+48,900
Illinois	+0.79	+46,900
Rest of Midwest (RMW)	+0.24	+47,300
Nation	+1.17	+1,599,000

Table 3
Metro Performance

Total non-farm employment
Seasonally adjusted unless noted*

Market Area	Last 12 months Growth Rate %	Number of Jobs
Bloomington-Normal	0.89	800
Champaign-Urbana	- 0.90	- 1,000
Chicago	0.95	40,400
Davenport-Rock Island-Moline	- 0.27	- 500
Decatur	0.37	200
Kankakee	0.00	0
Peoria	1.09	2,000
Rockford	1.02	1,200
Springfield	0.76	200
Metro-East	0.18	5,000
Illinois	2.10	46,900

Table 4
The Metro League Table: Change over the Last 12 Months

Rank	August 2006	Rank	August 2007
1	Metro-East (2.02%)	1	Metro-East (2.10%)
2	Chicago (1.09%)	2	Peoria (1.09%)
3	Rockford (1.02%)	3	Chicago (0.95%)
4	Peoria (0.98%)	4	Bloomington-Normal (0.89%)
5	Bloomington-Normal (0.89%)	5	Rockford (0.76%)
6	Springfield (0.27%)	6	Decatur (0.37%)
7	Decatur (0%)	7	Davenport-Rock Island-Moline (0.27%)
8	Champaign-Urbana (-0.18%)	8	Kankakee (0%)
9	Kankakee (-0.23%)	9	Springfield (-0.18%)
10	Davenport-Rock Island-Moline (-0.42%)	10	Champaign-Urbana (-0.90%)

impressive rate and has added more jobs than the RMW. However, the performance of the metropolitan areas has not been uniform. Table 3 reveals that seven of the 10 recorded positive changes in employment, while Champaign-Urbana and Davenport-Rock Island-Moline declined over the period and Kankakee's employment level remained the same. Over the same 12 months, Metro East (the Illinois suburbs of St. Louis) has retained its position as the league leader (see Table 4) and Peoria, Decatur, Bloomington-Normal, Davenport-Rock Island-Moline and Kankakee all increased their ranking.

The Next Year

One continuing challenge to the Illinois economy is that it has failed to recover its prior employment peak of November 2000. Over the last seven years, the population and labor force have grown, generating what is essentially a moving target. Table 5 provides an assessment of the time to recover the prior employment peak; note that some metropolitan areas declined ahead of others (e.g., Decatur's prior peak was March 2000) while others began their decline after the state (e.g., Bloomington-Normal in February 2002). Peoria has recovered. The United States as a whole reached its prior peak in February 2001 and recovered it in February 2005. Estimates are that Illinois will need another 18 months to achieve this target. If the target is not reached before November 2008, the gap between peak and recovery will be the longest in the post-World War II era. The number of jobs required to achieve this peak is 72,200 – more than a year's growth at current levels.

However, the population and labor force have grown over the last seven years. Assuming average labor force participation rates for the period 1990-2004, Illinois would need to add an additional 10,945 jobs to provide a comparable jobs number (assuming the current unemployment rate prevails). Hence, the "recovery target" may be considered equivalent to between two and three years' annual job growth.

Current estimates suggest growth of 30,000-40,000 jobs over the next year. The forces that will determine the final outcome make it difficult to assess their resultant economic impact. For instance, the sub-prime mortgage meltdown will certainly exert a drag as the ripple effect of the housing construction slowdown penetrates the economy in early 2008. A slowing national economy also will dampen growth prospects and, because the majority of Illinois' domestic (interstate) trade is with the RMW, the poor performance of this region will not help the state's economy. On the other hand, a weaker U.S. dollar has certainly helped the state's international exports. They have not only increased from $26.5 billion in 2003 to $42.1 billion in 2006 (Table 6), but Illinois has managed to increase its share of total exports from 3.7 to 4.1 percent over the same time. This is in contrast to Illinois' share of Gross Domestic Product which fell from 4.7 percent to 4.5 percent between 2003 and 2006 (30 years ago, Illinois accounted for 6 percent of GDP). Table 7 reveals the geography of export sales – almost 40 percent are concentrated in Canada and Mexico, due to the North American Free Trade Agreement.

There has been a slight tendency over the last few years for the percentage of exports concentrated in the top 25 countries to decline, but not by much. The dependence on Canada and Mexico for international exports is paralleled by a similar dependency (40 percent) of interstate exports on the RMW. Unfortunately, data on international imports by state are not available.

Not only do Illinois' international exports generate a large number of direct and indirect jobs in the state, but a significant portion of Illinois' inter-regional trade ends up in product value chains of commodities that are exported from other states. Further, the data in Table 6 and Table 7 (pg. 22) only highlight commodities. Trade in services is also likely to be significant.

Table 5

Catch-up Scenario* of Previous Peak Job Index in Illinois

	Previous Peak	Current	Catch-up	Periods for Catch-up
IL	115.08 (Nov-2000)	113.70 (Sep -2007)	115.14 (Mar -2009)	18 months
RMW	119.47 (Jun-2000)	116.62 (Sep -2007)	119.47 (Jul 2016)	106 months
Nation	121.45 (Feb-2001)	126.47 (Sep -2007)	121.58 (Feb-2005)	31 months ago
Metro Areas:**				
Bloomington Normal	141.81 (Feb 2002)	138.59 (Aug 2007)	141.83 (Oct 2010)	31 months
Champaign Urbana	116.11 (Sep 2006)	111.45 (Aug 2007)	Negative growth	N/A
Chicago	114.67 (Nov 2000)	113.98 (Aug 2007)	114.70 (Feb 2008)	8 months
Devonport-Rock Island-Moline	114.73 (Nov 1999)	113.59 (Aug 2007)	114.74 (May 2011)	45 Months
Decatur	112.41 (Mar 2000)	101.67 (Aug 2007)	Zero Growth	N/A
Kankakee	124.58 (Apr 2000)	122.79 (Aug 2007)	124.58 (Oct 2034)	1151 Months
Peoria	118.99 (Nov 2006)	119.24 (Aug 2007)	Reached (July 2007)	Reached (July 2007)
Rockford	123.23 (Jul 2000)	117.88 (Aug 2007)	123.23 (Jun 2013)	70 months
Springfield	110.36 (Aug 2000)	104.80 (Aug 2007)	Negative growth	N/A
Metro-East	114.73 (Jun 2001)	112.52 (Aug 2007)	114.89 (Aug 2008)	12 Months

Note: Catch-up estimates could not be provided for metro areas with negative growth rates.

* Catch-up scenarios are based on average monthly growth rate over the previous 12 months. Nation already passed its previous peak at February 2005.

** Due to lag of data release schedule there is one month of time lag in the catch-up scenario for metro areas.

Table 6

Change in Illinois International Exports, 2003-2006

Description	2003 Value	2004 Value	2005 Value	2006 Value	2003 % Share	2004 % Share	2005 % Share	2006 %Share	% Change 2005-2006
Total Ilinois Exports and % Share of U.S. Total	26,473	30,214	35,868	42,085	3.7	3.7	4.0	4.1	17.3

Source: Foreign Trade Statistics, US Bureau of the Census, 2007

Illinois had a per capita income of $38,297, well above the U.S. figure of $36,629.

Table 7
Primary Destinations for Illinois Exports, 2003-2006

Description	2003 Value	2004 Value	2005 Value	2006 Value	2003 % Share	2004 % Share	2005 % Share	2006 %Share	% Change 2005-2006
Total Ilinois Exports and % Share of U.S. Total	26,473	30,214	35,868	42,085	3.7	3.7	4.0	4.1	17.3
Total Top 25 Countries and % Share of State Total	23,863	26,948	32,042	37,466	90.1	89.2	89.3	89.0	16.9
Canada	8,559	9,282	10,865	12,333	32.3	30.7	30.3	29.3	13.5
Mexico	2,153	2,417	2,884	3,408	8.1	8.0	8.0	8.1	18.1
United Kingdom	1,544	1,859	1,851	2,284	5.8	6.2	5.2	5.4	23.4
Japan	1,964	1,856	2,001	2,113	7.4	6.1	5.6	5.0	5.6
Australia	925	1,325	1,551	2,029	3.5	4.4	4.3	4.8	30.8
Germany	1,209	1,420	1,781	2,028	4.6	4.7	5.0	4.8	13.8
China	794	923	1,196	1,522	3.0	3.1	3.3	3.6	27.2
Belgium	825	931	1,313	1,510	3.1	3.1	3.7	3.6	15.0
Netherlands	786	1,025	1,236	1,333	3.0	3.4	3.4	3.2	7.8
Brazil	697	811	1,108	1,300	2.6	2.7	3.1	3.1	17.3

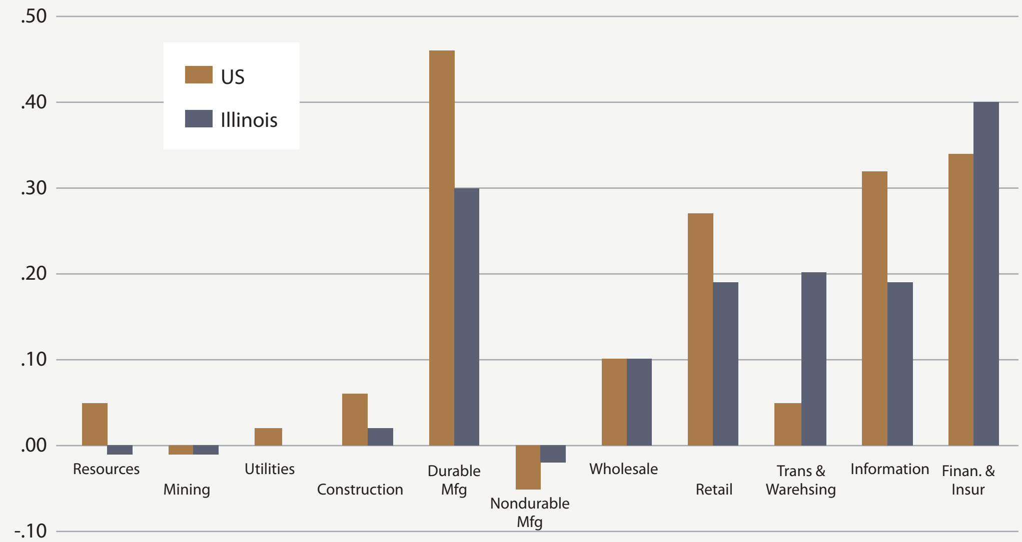
Source: Foreign Trade Statistics, US Bureau of the Census, 2007

Gross Product and Income

Although Illinois has been significantly underperforming the U.S. economy in terms of employment growth, the picture brightens when attention is directed to aggregate measures of the health of the economy. Illinois' 3 percent growth in gross product was only slightly below the 3.4 percent growth for the U.S., but was significantly above the 1.2 percent growth in the RMW – although the decline in gross product in Michigan pulled down the whole region. A similar pattern emerges for income, although here the performance of the RMW was much better. Illinois' income grew 5.9 percent, while the RMW grew 4.5 percent and the U.S. grew 6.6 percent.

Figure 2 examines the sectoral composition of changes in gross product in Illinois and the U.S. between 2005 and 2006. Recall that the sectoral composition of both areas is similar; however, there were some important differences in the contributions to change. Durable manufacturing contributed at a higher rate for the U.S. than Illinois (0.48 percent compared to 0.3 percent) and a similar disparity can be seen for retail and information. On the other hand, transportation and warehousing and finance and insurance contributed at a higher rate in Illinois than for the nation as a whole.

Figure 2
Sectoral Composition to Changes in GDP for Illinois and the US, 2005-2006



Given these changes, how has the state fared over the past decade in comparison to the whole United States? Per capita income is one of many measures that could be presented. In 2006, Illinois had a per capita income of $38,297, well above the U.S. figure of $36,629. But that gap has narrowed over the past decade from 9 percent to 4.5 percent. Several factors have accounted for this decline. In particular, middle income jobs, which are most often associated with the manufacturing sector, have disappeared from Illinois at a rate about 6 percentage points higher than for the nation. Out-migration has resulted in an income exchange that has been negative – the average income of those leaving the state has been higher than the average income of those coming to Illinois. These factors in manufacturing and the slower growth rates in other sectors compared to the nation have caused Illinois to lose some of its relative position in terms of per capita income.

Summary Assessment

The state's economy continues to underperform, and the extensive period of recovery from the 2000 downturn suggests that there is little expectation of a significant turnaround in the next year. The consequences of slow economic growth for the state government's fiscal condition have become clear in the contentious nature of discussion about proposals to address major funding priorities, including infrastructure, education, pensions and health care. The concern here is the degree to which these discussions have created some pause in decisions by the private sector about investment and re-investment in the Illinois economy. There are many alternative locations and the perception of a state's attitude toward business can play a major role in these decisions. Nonetheless, Illinois is still centrally located in a large, important market (the Midwest) and has enormous potential to exploit this competitive position and to assume a hegemonic role in rethinking the development priorities for the Midwest as a whole.

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However, in addition to the structural changes that challenge the future of the state's economy, there are important demographic issues that present both opportunities and longer-term concerns. In the short-run, the Illinois economy appears to have benefited from immigration; for the country as a whole, the aging of the population absent immigration would likely result in increased pressure on social security funding options. The expansion of both population and the labor force has provided an important endogenous source of growth; this has been particularly true for the Chicago metropolitan region where the levels of immigration have been of the order of 0.6 percent of the base population (about 40,000) per year over the last decade.

But in the longer run, there is justifiable concern about the skills acquisition of the second generation; only 8 percent of the nation's teens are foreign born, but nearly 25 percent of teen school dropouts were born outside the United States, according to a Pew Hispanic Center analysis of data from the 2000 U.S. Census. Chicago Public Schools had a 12.7 percent Hispanic dropout rate in its high schools during 2004-2005, according to a survey released in December 2007 by the Illinois State Board of Education. The state's average for Hispanics was 8.3 percent; the national average was 8.8 percent. The higher rates in Chicago have now persisted for more than a decade.

If this problem is not addressed, the prospect of a growing segment of low-skilled workers will provide a major challenge to the state's ability to compete both regionally as well as nationally and internationally.

Geoffrey J.D. Hewings joined the Institute of Government and Public Affairs in 2005. He is a professor of economics and has been on the faculty at the University of Illinois at Urbana-Champaign since 1974. Professor Hewings is appointed in the departments of Geography, Economics and Urban and Regional Planning. His major research interests lie in the field of urban and regional economic analysis with a focus on the design, implementation and application of regional economic models. He also is director of the Regional Economic Applications Laboratory on the Urbana-Champaign campus.