

Economics Group

Special Commentary

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Misa Batcheller, Economic Analyst
misa.n.batcheller@wellsfargo.com • (704) 410-3060

Chicago Economic Update: Fall 2015

Chicago's Recovery Remains on Track

Chicago's economy continues to see steady, albeit modest, improvement. Nonfarm employment is on pace to rise 1.3 percent this year, producing a net gain of 60,000 jobs. The modest pace of job gains belies a great deal of movement within the metropolitan area, with several large employers relocating operations from the suburbs back into the city. The movement of jobs back into downtown Chicago closely follows population trends, which have seen an influx of younger workers into the city in recent years. Chicago has also seen movement of corporate and regional headquarters into the city, and most recently landed the headquarters of ConAgra, which is relocating from Omaha. Despite the successes, Chicago's economy is generally lagging behind the nation as a whole. Real GDP growth has been slower than the nation in four of the five past years, leaving Chicago's unemployment rate about a half a percentage higher than the national rate (Figure 1).

Chicago's economy continues to see steady, albeit modest, improvement.

Chicago's sluggish growth mostly reflects its older industrial base. As the hub of the Midwest, Chicago's overall growth is influenced by economic activity in surrounding areas, and, for the most part, growth has been slowing throughout much of the region. The Chicago Federal Reserve Bank's Midwest Economy Index has fallen into negative territory in recent months, indicating that the Midwest economy is growing at a slower pace than its long-run trend (Figure 2). The weakness is primarily concentrated in Illinois, Iowa and Wisconsin, which have all seen many important industries tied to the global economy, including agriculture, industrial machinery, and the production of farm, mining and construction equipment, slow considerably in recent months. Michigan and Indiana have held up somewhat better, reflecting their state's ties to the automotive sector, where demand has remained relatively strong. Demographic factors are also restraining activity in Chicago. The area's population is considerably older than the national average and has been steadily declining, reflecting fewer births relative to deaths and less in-migration. Despite these trends, the Chicago area has seen a huge influx of young people, which has boosted apartment development.

Figure 1

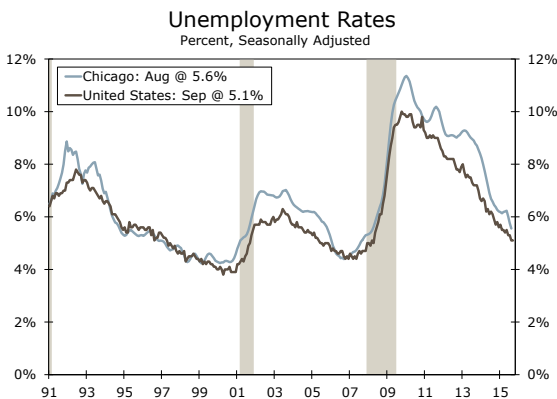
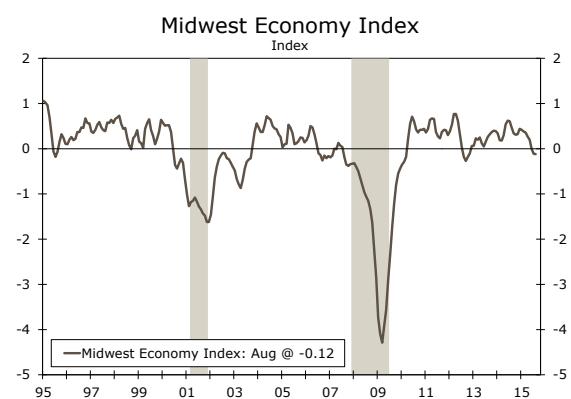


Figure 2



Source: U.S. Department of Labor, Federal Reserve Bank of Chicago and Wells Fargo Securities, LLC



Chicago continues to see strong growth in professional & business services employment.

More Growth Than Meets the Eye

Employment conditions have improved modestly. Nonfarm employment has risen just 1.2 percent over the past year (Figure 3), and the unemployment rate has fallen 1.0 percentage points to 5.6 percent. Although employment has risen at a relatively modest pace in Chicago, the area has seen consistent year-over-year employment increases since October 2010. Manufacturing and financial services are two notable weak spots. Manufacturing employment has fallen 0.7 percent over the past year, reflecting cutbacks in machinery and food manufacturing. Financial activities employment has fallen 0.9 percent over the past year, with much of the loss in activities related to commodities trading. These cutbacks reflect automation within that sector. Outside of commodity trading, employment in the financial sector has posted modest gains, reflecting growth in banking and asset management.

Chicago continues to see strong growth in professional & business services employment, which has been fueled primarily by growth in the technology sector. The Windy City’s local tech sector is anchored by Groupon, the Internet marketing company, which employs about 2,000 people at its Chicago headquarters. The San Francisco-based online review company, Yelp, and the credit-card software company Braintree Inc., have expanded their office space in Chicago and are expected to continue to add employees over the next several years. Data from the Quarterly Census of Employment and Wages (QCEW), which provides descriptive employment data on a county level, have confirmed this recent growth trend in Chicago’s tech sector. The QCEW data reported a 3.6 percent increase in professional & technical services employment over the year in Cook County, the largest county in the Chicago area. The scientific research & development services sector showed particular strength, surging 21.1 percent over the year, which translates to an addition of 1,763 jobs. The computer systems design & related services sector also saw impressive gains, with payrolls rising 6.2 percent year over year, producing an additional 1,775 jobs.

Education & health services is another key area of growth in Chicago. Employment in education & health services added 10,800 jobs over the year, a 1.6 percent gain. The tourism and retail trade sectors have also grown solidly, as more and more travelers visit the Windy City. According to data from Choose Chicago, total visitation in 2014 was a record 50.2 million, an increase of 3.5 percent from 2013. The majority of Chicago’s visitor traffic was domestic, reaching a record 48.7 million, and 1.3 million visitors came from overseas. Construction employment is also soaring, as dozens of cranes are visible throughout the Chicago skyline. Chicago’s construction sector was one of the only major industry sectors to outpace the nation’s average growth over the year, as payrolls climbed 3.9 percent in Chicago, compared to the nation’s gain of 3.5 percent (Figure 4).

While Chicago’s overall numbers show the economy growing only modestly, the economy looks and feels much stronger on an anecdotal basis.

While Chicago’s overall numbers show the economy growing posting only modest gains and hint that the region may actually be losing momentum, the local economy looks and feels much stronger on an anecdotal basis. The discrepancy is partly due to a shift of workers and employers from the suburbs back into the city of Chicago, which has fueled demand for office space and apartments. Chicago’s important tourism and convention business has also strengthened, and the region has seen an influx of international visitors and home buyers. The national trend to move back into the city should reinforce Chicago’s recent gains, particularly with housing remaining more affordable than most other large gateway markets.

Figure 3

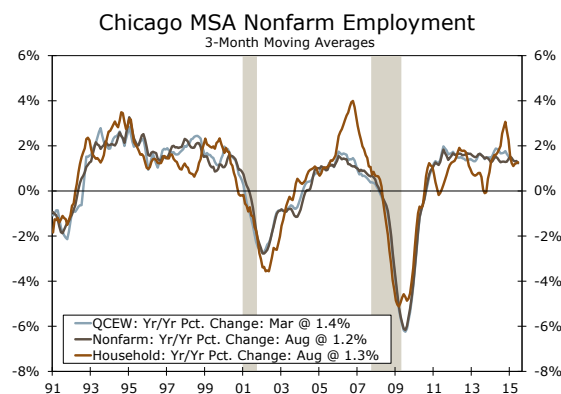
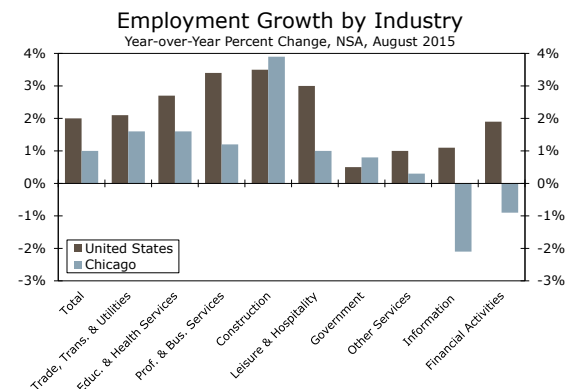


Figure 4

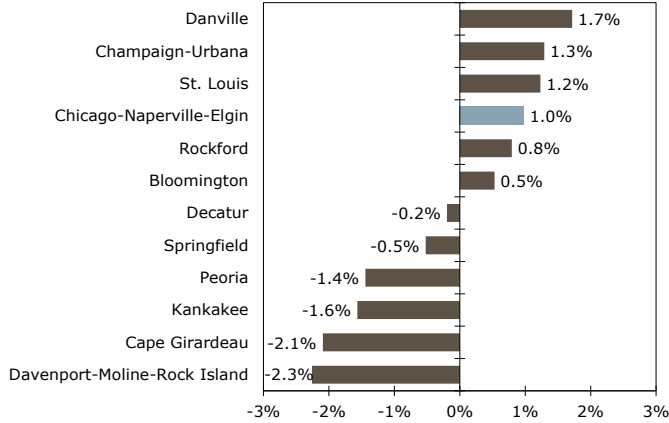


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Chicago Employment Conditions

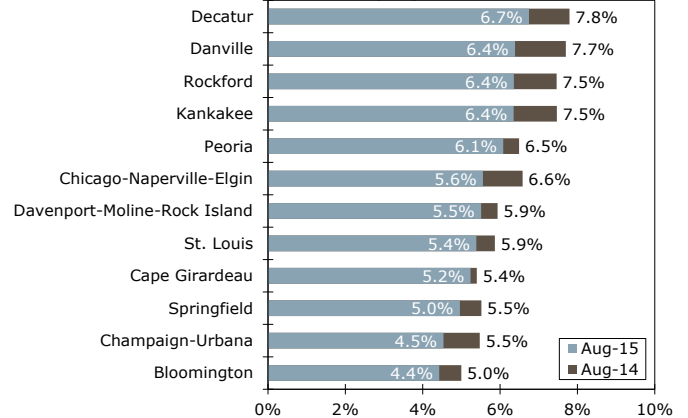
Illinois Employment Growth by MSA

Year-over-Year Percent Change, NSA, August 2015



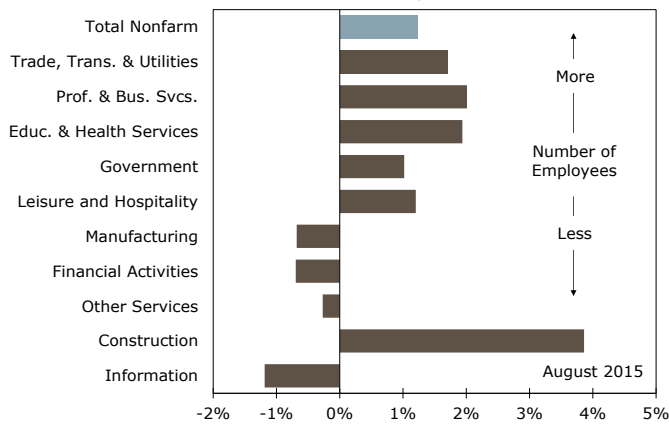
Illinois Unemployment Rates by MSA

Percent, Seasonally Adjusted



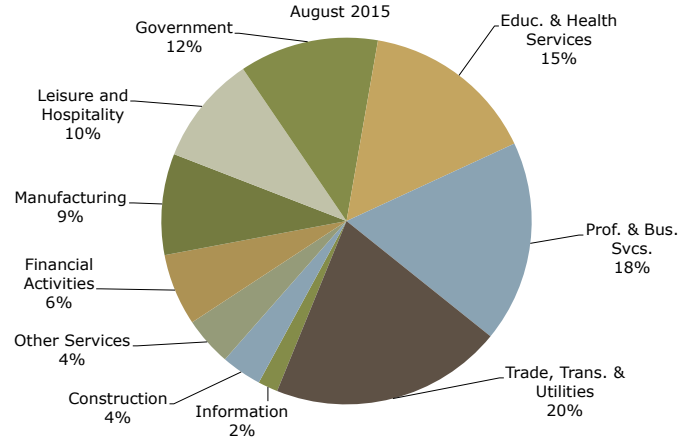
Chicago MSA Employment Growth By Industry

Year-over-Year Percent Change, 3-MMA



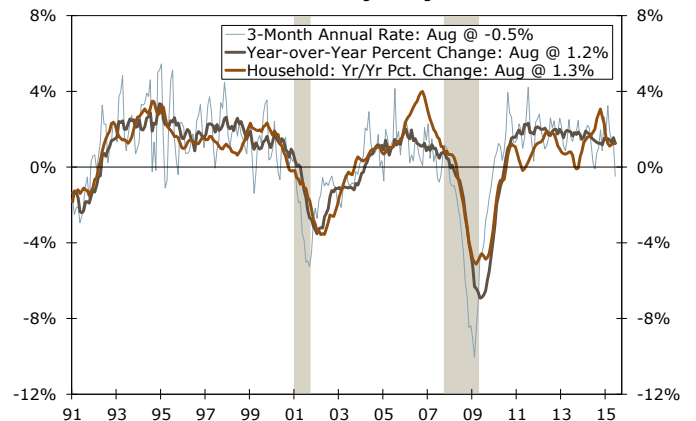
Chicago MSA Employment Composition

August 2015



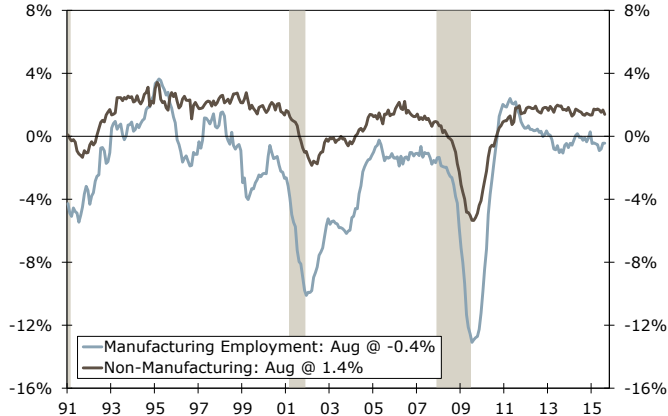
Chicago MSA Private Employment

3-Month Moving Averages



Chicago MSA Nonfarm Employment

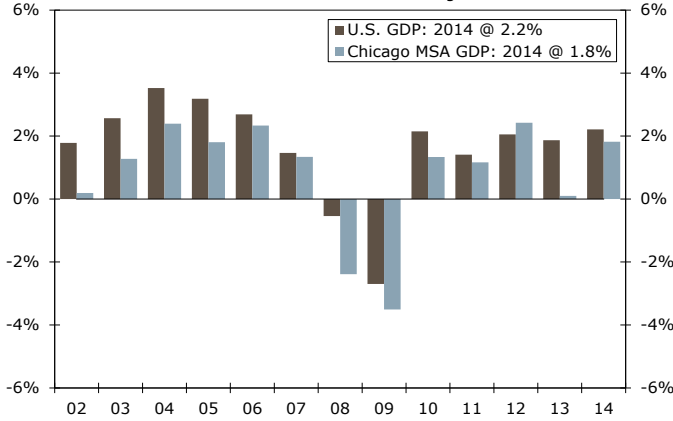
Year-over-Year Percent Change, SA



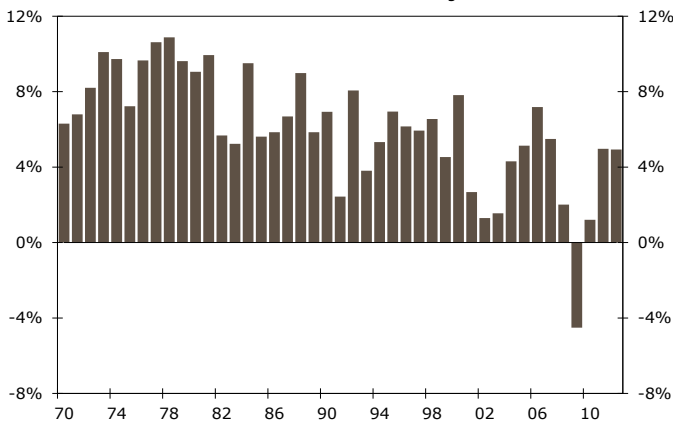
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Chicago Economic Conditions

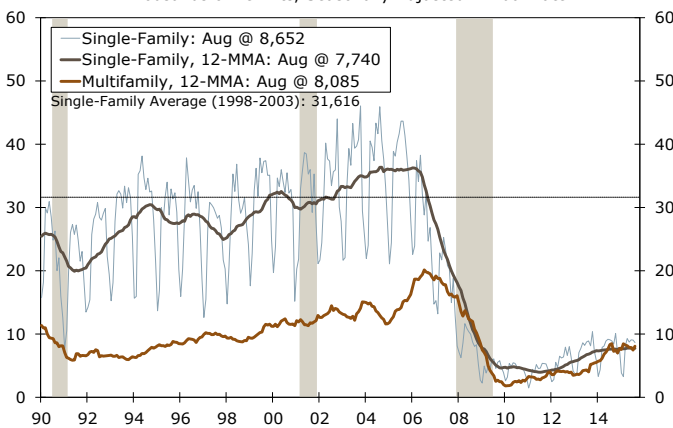
Chicago MSA Gross State Product & U.S. GDP
 Year-over-Year Percent Change



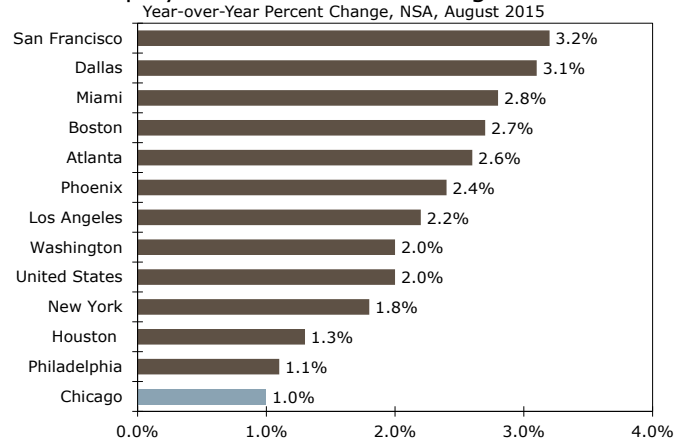
Chicago MSA Personal Income
 Year-over-Year Percent Change



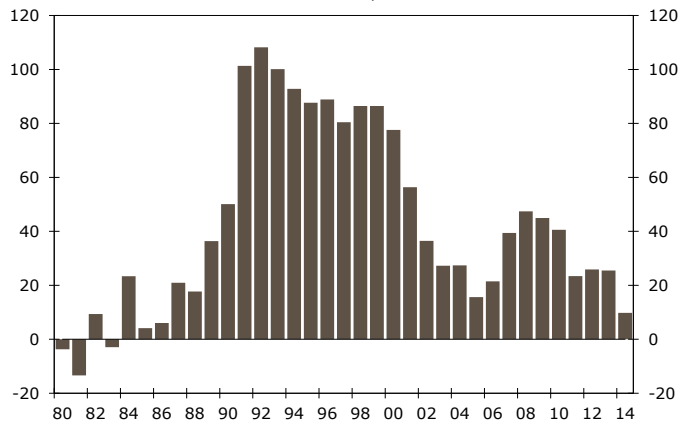
Chicago MSA Housing Permits
 Thousands of Permits, Seasonally Adjusted Annual Rate



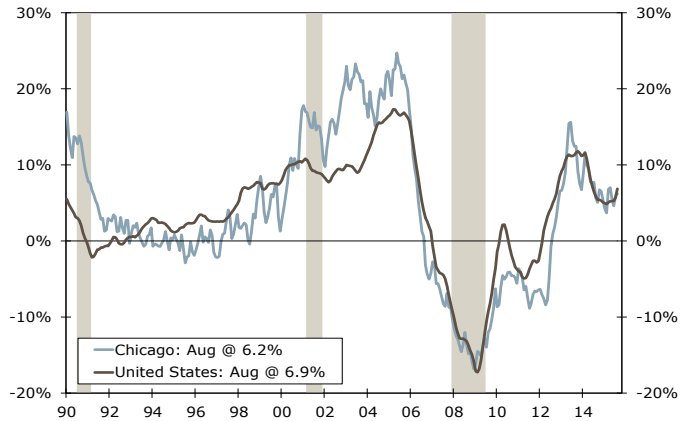
Employment Growth in 12 Largest MSAs



Chicago MSA Population Growth
 In Thousands, 2014



CoreLogic HPI: Chicago vs. US
 Year-over-Year Percent Change



Source: U.S. Dept. of Labor, U.S. Dept. of Commerce, CoreLogic and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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