

Economic recovery and jobs in the Seventh District

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The states of the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin) suffered employment losses of over five percent (683,000 jobs) during the economic downturn of 1981-82. This compares with a three percent national decline. During the short but sharp recession of 1980, District states' employment fell by three and one-half percent compared with one percent nationally. Between these recessions the 1980-81 national recovery never materialized in the Seventh District; Indiana alone recorded an employment increase during this period. The Seventh District endured, in effect, a single long and deep recession over the years 1980 to 1982.

The United States is now enjoying rapid economic growth, with gross national product (GNP) increasing at above average rates for this stage of a recovery, and falling unemployment rates. Due to the severity of the economic decline in the Seventh District, the extent to which the District shares in this national recovery is critical in assessing the prospects for re-employing the District's labor force. This article provides a perspective on this issue by examining employment changes in the Seventh District from 1969 to the present against the backdrop of national economic trends. The current expansion in the District states is described and compared to historical national and regional upturns to aid in assessing the outlook for job growth in the months and years ahead.

Employment growth 1969 to 1984

Although the roots of Midwestern economic decline can be traced prior to the 1970s, job growth in the older industrial heartland has only markedly lagged the nation over the last ten

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years. During the national wartime economy of the 1960s, rapid economic expansion masked a long-term decline in many older manufacturing areas, including several Seventh District states. Subsequently, slower national growth and increasing foreign competition in manufacturing revealed the long-running erosion in many basic midwestern industries. Only a surge in farm income can be identified as a significant countervailing trend to midwestern decline in the 1970s.¹

From the fourth quarter of 1969, the peak of the 1960s expansion, to the second quarter of 1984, employment in the nation grew approximately 32 percent, compared with less than 9 percent in the Seventh District (Table 1). Much of this relative decline reflects the sagging state of basic manufacturing industries nationwide (Table 2). Because manufacturing comprises a greater share of total non-agricultural employment in the District than in the United States (25.3 percent compared with 20.9 percent in 1984: II), the generally shared decline in manufacturing employment had a disproportionately greater effect on total employment in the District.

District manufacturing employment also lost ground relative to other regions of the United States, aggravating the area's employment decline. The percentage decrease in manufacturing employment in the Seventh District was 20 percent between 1969 and 1984, over seven times greater than in the United States.

Although the overall story of Seventh District employment is one of relative decline, there are notable differences among the states. Job expansion in both Iowa and Wisconsin substantially exceeded Illinois, Indiana, and Michigan over the 1969-1984 period (Figure 1). Total

¹Average yearly total net farm income in the U.S. increased nearly a quarter from the 1960s to the 1970s. To date, income in each year of the 1980s has fallen far short of the 1970s average.

Table 1

**Percent change in total nonagricultural employment in the U.S. and Seventh District states—
fourth quarter of 1969 to the second quarter of 1984 (seasonally adjusted)**

	4th quarter 1969 to 1st quarter 1980 <i>(percent change)</i>	1st quarter 1980 to 4th quarter 1982 <i>(percent change)</i>	4th quarter 1982 to 2nd quarter 1984 <i>(percent change)</i>	4th quarter 1969 to 2nd quarter 1984 <i>(percent change)</i>
Illinois	12.4	- 8.4	1.0	4.0
Indiana	16.1	- 8.4	2.4	9.0
Iowa	29.1	- 9.3	.2	17.2
Michigan	14.0	-11.9	5.1	5.5
Wisconsin	28.5	- 6.8	3.3	23.7
7th District states	16.8	- 9.2	2.5	8.6
United States	28.0	- 2.4	5.7	32.1

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.

Table 2

**Percent change in manufacturing employment in the U.S. and Seventh District states—
fourth quarter of 1969 to the second quarter of 1984 (seasonally adjusted)**

	4th quarter 1969 to 1st quarter 1980 <i>(percent change)</i>	1st quarter 1980 to 4th quarter 1982 <i>(percent change)</i>	4th quarter 1982 to 2nd quarter 1984 <i>(percent change)</i>	4th quarter 1969 to 2nd quarter 1984 <i>(percent change)</i>
Illinois	-10.1	-25.1	4.3	-29.7
Indiana	- 7.9	-18.6	8.3	-18.8
Iowa	15.8	-22.3	3.6	- 7.1
Michigan	- 9.3	-23.5	14.0	-20.9
Wisconsin	13.3	-18.5	5.4	- 2.7
7th District states	- 5.0	-22.3	7.8	-20.5
United States	3.7	-13.2	8.1	- 2.7

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.

employment increased by over 17 percent in Iowa and by over 23 percent in Wisconsin compared with the District average of 8.6 percent. In fact, below-average employment growth in Iowa and Wisconsin, relative to the United States, dates only from the first quarter of 1980. Until then, employment growth in these states had matched or exceeded the national rate.²

Manufacturing employment in District states exhibits a similar pattern. Manufacturing jobs over the 1969-1984 period decreased much less in Iowa and Wisconsin than in the remaining District states (Figure 2). Once again, Iowa's and Wisconsin's trouble dates from the first quarter of 1980. Between 1969 and 1980, manufacturing employment grew more in Iowa and Wis-

²One factor in this favorable performance was the strength of the farm economy during the 1970s. Industries such as food processing and farm equipment are important sectors of Iowa's and Wisconsin's economies.

consin than in the United States. In sharp contrast, manufacturing employment declined in the District states of Michigan, Illinois, and Indiana from 1969 onward, increasingly falling behind manufacturing employment in the United States.

**Employment change and the business cycle:
1969 to 1984**

Another perspective on the Seventh District's relative long-term employment decline is provided by examining its percentage change in employment relative to the nation in periods of national expansion and contraction. Total employment losses have been greater in the District than in the United States during every recession between 1969 and 1984 (Table 3). This has also been true for every state in the District in every recession, except for Iowa in 1969-70 and Iowa

The Chicago Fed's Contribution

The economies of the states that make up the Seventh Federal Reserve District are in transition. Once proudly referred to as the "industrial heartland" of America, these states have more recently been characterized as the nation's "Rust Belt." Now after a sustained period of economic adversity within the region, efforts are underway within the District to devise policies to halt or reverse what is perceived to be an unacceptable course of economic events—the continued relative decline of the Midwest economy.

Public and private sector studies dealing with Midwestern economic troubles have largely focused upon describing and understanding the nature and causes of economic change within the region. The studies frequently cite the following problems: high wages, declines in productivity, unionization, foreign competition, high energy prices, low levels of federal spending, and weaknesses in the farm economy. Based on these findings, economic development groups on both state and local levels are beginning to formulate programs and policies intended to bring about a revitalization in state and local economies.

The Federal Reserve Bank of Chicago has intensified its own involvement in regional economic programs. For example, the Chicago Fed has been playing an active role in two economic development projects within the District—the Commercial Club of Chicago's study of the Chicago metropolitan economy and the Wisconsin Strategic Development Commission's study of the Wisconsin state economy. The role of the Chicago Fed has been primarily directed toward the development of a regional economic data base to support these efforts and the analysis of data to aid decisionmakers in their policy formulation.

While reflecting a higher degree of concern and interest in regional economic development than in previous years, such a focus is in no way new, for the Federal Reserve System from its inception in 1913 was established as a regionally decentralized institution. Because of this regional structure, individual Reserve Banks are in a unique position to monitor and evaluate regional economic developments. Because they often help to spot early developments not yet reflected in statistical series at the national level, summaries by the Reserve Banks of regional economic conditions and trends have historically proved to be useful in interpreting overall economic trends and are used in the System's process of formulating monetary policy. In addition, reports by Reserve Bank presidents reflect a special knowledge about banking and economic conditions within the region.

Regional economic development efforts raise a number of interesting and important issues concerning the impact and appropriateness of sub-national economic development efforts. Debates over such topics are nothing new; examples may be found early in America's economic history. In the Jefferson administration in the early 1800s, the Secretary of the Treasury issued a "Report on Public Roads and Canals" that was intended as a national plan for integrating the far-flung regions of a then young nation. This plan generated extensive and continuing debate about the overall merits of planning, and disagreements as to national versus sub-national economic development planning. In future issues of *Economic Perspectives* and elsewhere, Chicago Fed researchers will deal in more detail with such policy topics and related issues relevant to economic trends and developments in the Seventh District.

and Wisconsin in 1973-75.

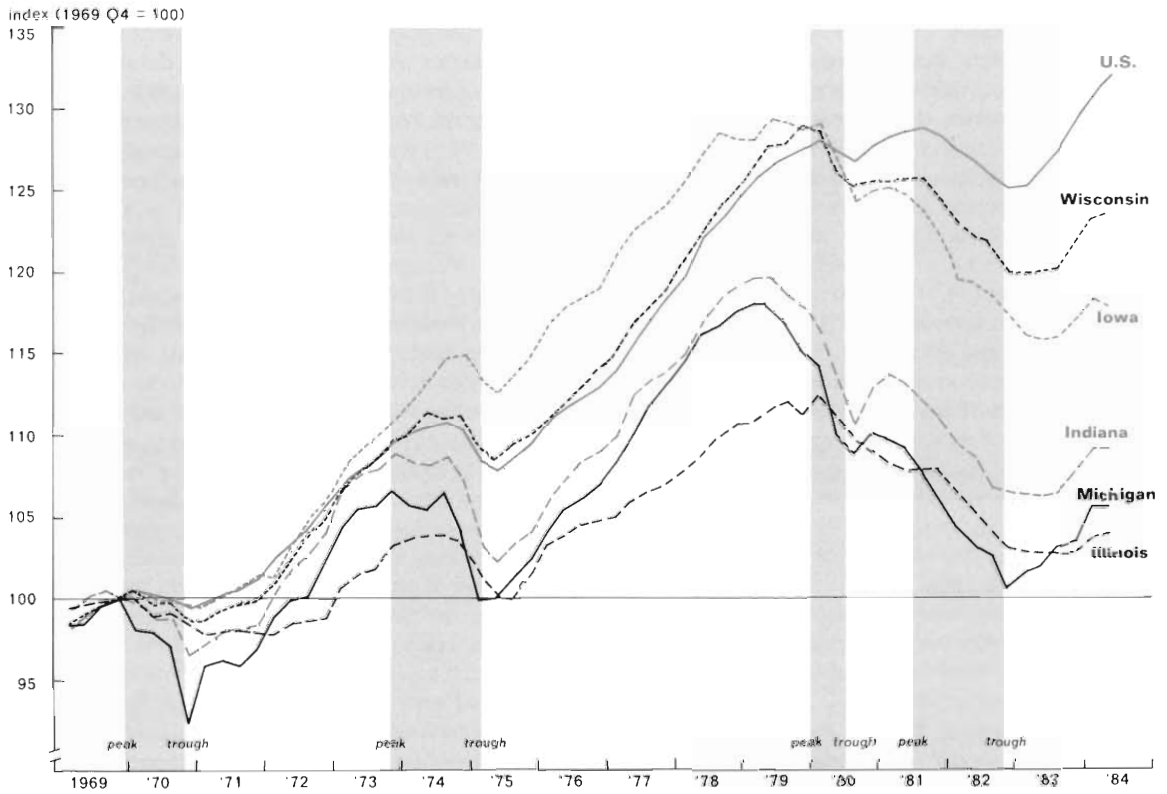
A greater-than-national drop in employment during a recession will not result in a region's long-term decline if cyclical downturns are offset by greater-than-national employment gains during expansions. Unfortunately, this has not been the case in the District in recent years. During the expansion of 1970-73 employment growth in every District state except Illinois exceeded the nation. But in the recovery period

from 1975 to 1980, employment grew less in every District state than in the nation, although Wisconsin almost equaled the national rate.

This poor performance worsened in the early 1980s. During the short-lived national recovery of 1980-81, not only did the rate of national employment gain exceed the rate in every District state, but every state except Indiana actually *continued to lose* employment.

For the most part, first quarter 1980 through

Figure 1
Index of quarterly employment in the U.S. and Seventh District States



fourth quarter 1982 comprised a single long, deep recession in the District. Job losses in Seventh District states ranged from 6.8 percent in Wisconsin to 11.9 percent in Michigan, while employment in the nation declined by only 2.4 percent. By November of 1982, the recession's trough, unemployment measured 13 percent in the District compared with 10.4 percent in the United States. State unemployment rates in the District ranged from 8.5 percent in Iowa to 16.4 percent in Michigan—the highest in the nation.

Economic recovery 1982-1984

Beginning in the fourth quarter of 1982, economic recovery began to pull national employment out of its slide. By the second quarter of 1984, employment in the United States stood 5.7 percent above its level at the recession's trough.

However, among Seventh District states, only Michigan's employment recovery coincided with the nation's recovery with every other state lagging the national recovery (Figure 3).³ Employment continued its slide for two quarters into the national recovery in Indiana and Iowa and three quarters in Illinois.

Districtwide employment is now up 2.5 percent after six quarters of recovery but this is less than one-half the national growth for the same period. Among District states, only Michigan's employment gain of 5.1 percent approaches the nation's gain of 5.7 percent. Employment

³The state and U.S. mean historical employment indices were constructed by averaging the individual index levels over the 1970-73, 1975-80, and 1980-81 national recoveries. Note that the 1980-81 recovery was truncated after 4 quarters so that, beyond this point, the mean historical recovery represents averages of the 1970-73 and the 1975-80 recoveries

Figure 2
Index of quarterly manufacturing employment in the U.S. and Seventh District states

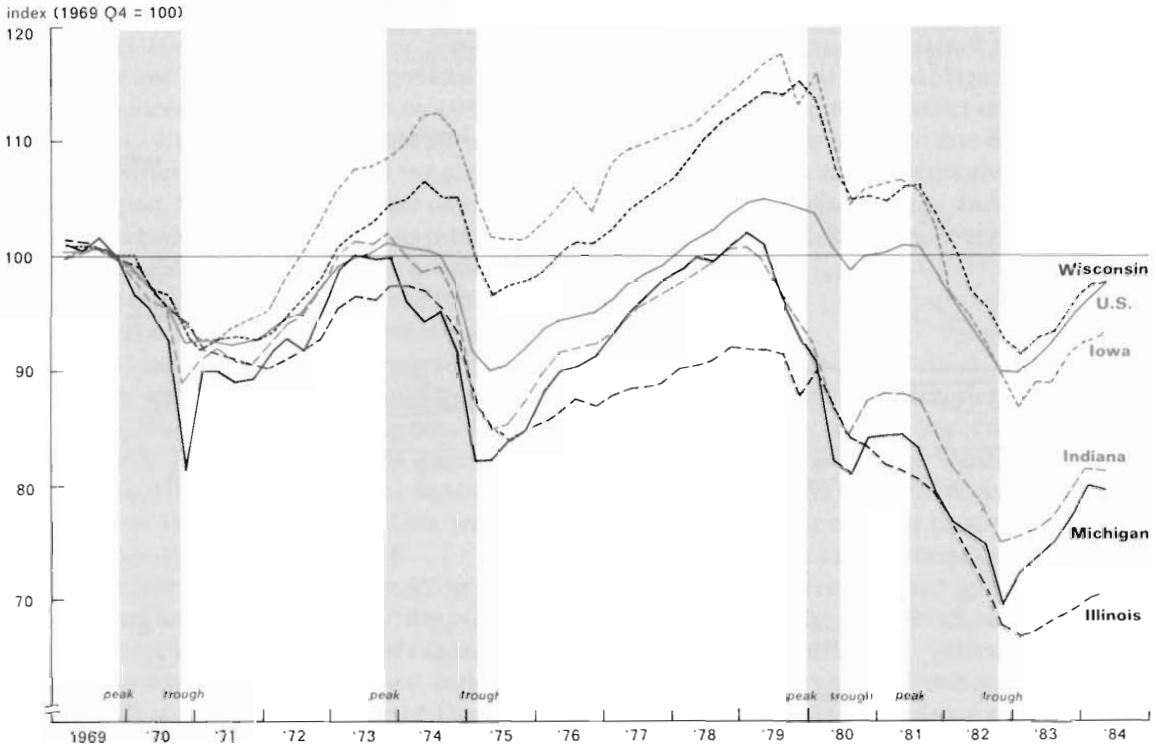


Table 3

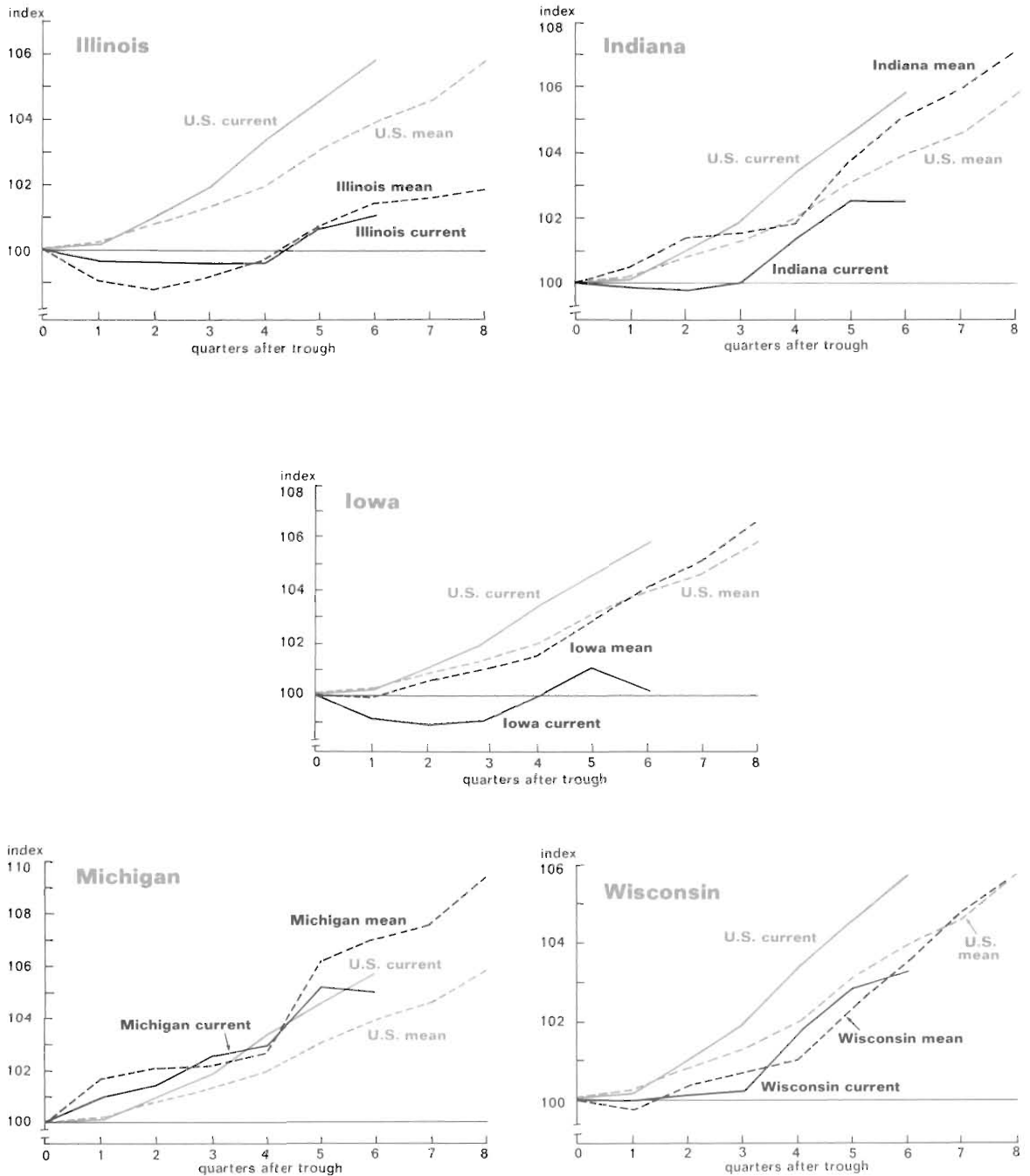
Percentage change in total employment during national cyclical swings—
Seventh District states, 1969-1984 (seasonally adjusted)

	contraction		expansion	
	1969: 4th quarter to 1970: 4th quarter	1970: 4th quarter to 1973: 4th quarter	1973: 4th quarter to 1975: 1st quarter	1975: 1st quarter to 1980: 1st quarter
U.S.	- .8	10.4	-1.3	18.4
Illinois	-1.6	4.9	-1.6	10.7
Indiana	-3.7	12.9	-4.9	12.4
Iowa	- .7	11.4	2.4	13.9
Michigan	-7.6	15.3	-6.3	14.2
Wisconsin	-1.3	11.0	- .4	17.8
7th District states	-3.4	10.1	-2.9	13.1

	contraction		expansion	
	1980: 1st quarter to 1980: 3rd quarter	1980: 3rd quarter to 1981: 3rd quarter	1981: 3rd quarter to 1982: 4th quarter	1982: 4th quarter to 1984: 2nd quarter
U.S.	-1.1	1.7	-2.9	5.7
Illinois	-2.3	-1.9	-4.4	1.0
Indiana	-4.9	1.2	-4.9	2.4
Iowa	-3.8	- .5	-5.3	.2
Michigan	-4.7	-1.1	-6.7	5.1
Wisconsin	-2.7	- .4	-4.6	3.3
7th District states	-3.5	- .7	-5.2	2.5

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.

Figure 3
Total employment: Recovery patterns in the Seventh District states and the U.S. Historical recovery (1970, 1975, 1980*) vs. current recovery



Index: Employment in each trough = 100.

*Recovery from 1980 trough lasted four quarters. Mean after four quarters does not include post-1980.

growth in Iowa and Illinois, .2 percent and 1 percent, respectively, has been especially weak.

Because current employment growth in most District states has been slower than the national rate and because employment loss was more pronounced in the Midwest from 1980 to 1982, expansion time needed to regain previous levels of District employment will be greater than in the past. By the fourth quarter of 1983, the national economy had surpassed its previous employment peak (91.4 million jobs), which it had reached during the third quarter of 1981. In contrast, if the Seventh District employment growth continues at the average quarterly pace of the fourth quarter 1982 to second quarter 1984, the third quarter 1981 employment level will not be regained until after the first quarter of 1986. The level of employment recorded in the first quarter of 1980, 13.78 million jobs, would not be reached until the end of 1988.

Despite the weak rates of employment growth during the current recovery, the historical pattern of economic recovery and expansion in the region suggests that continued national recovery will accelerate the pace of District employment growth relative to the U.S.⁴ With the exception of Illinois, the average employ-

⁴Of course, no two recoveries can be expected to be identical because many other conditions such as trade policies, secular industry trends and government support programs greatly differ from time to time. Still, national cyclical behavior and its regional components display some fairly consistent behavior. For example, capital goods industries tend to "kick in" to national recovery after the first year as manufacturing firms begin to invest in plant and equipment. This has accounted for late-recovery employment acceleration in states with large capital goods industries such as Wisconsin.

ment growth rate in each District state over the 1970-73, 1975-80, and 1980-81 national expansions reveals some modest gain on the national rate of growth as expansion extends into the fifth and sixth quarters and beyond (Figure 3). While it is unlikely that previous District employment levels will be quickly regained due to this acceleration, the current rate of economic recovery in the states of Indiana, Iowa, and Wisconsin probably understates the near-term employment outlook.

Conclusions

Led by a faltering manufacturing sector, the Seventh District economy has continued to decline relative to the nation over the 1969-84 period. In recent years, weak employment growth in the region during national economic expansion gives evidence of an acceleration of regional decline. Regional employment growth trailed the nation during the 1975-80 expansion and it continues to lag during the current recovery. Meanwhile, recovery in this District never materialized during the short-lived national recovery in 1981-1982 so that District employment declines from 1980 to 1982 are staggering. A continuation of economic expansion in the District at the current pace would not regain these jobs until 1988. The economies of every District state, except Illinois, have displayed a modest historical tendency to accelerate relative to the nation as the expansion extends into the second year. However, the District's employment growth rate would have to substantially exceed the national rate if job losses of the early 1980s are to be recouped in the near future.