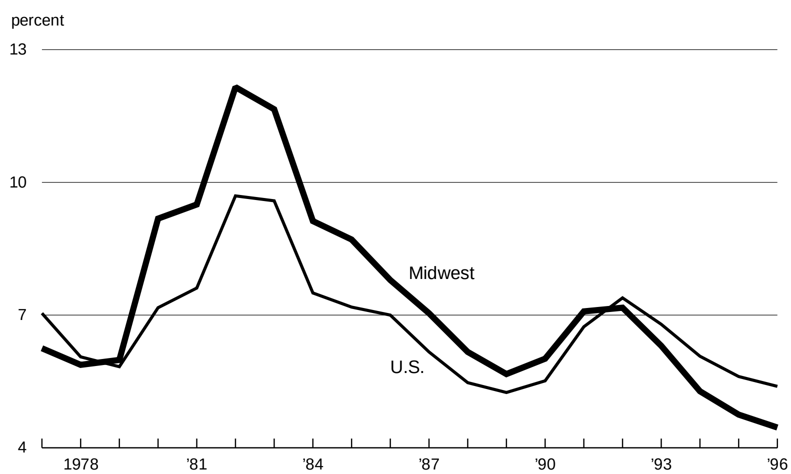
II. Documenting the Turnaround

During 1990–91, the underlying secular strength of the region's economy allowed its labor market to continue to gain on its national counterpart.

A region's economy can be represented by many diverse measures. Unemployment rates are perhaps the most widely recognized indicator of both economic progress and broad participation of the region's population in the economy. Looking at the aggregate unemployment rate for the Midwest versus the nation from the 1980s to date, two remarkable features can be seen.[1] From an average annual rate that exceeded the nation's by almost 3 percentage points in 1983, the Midwest unemployment rate had fallen to a full percentage point below the nation's by 1996 (figure 1). The same year marked the fifth consecutive year that the rate remained below the nation's. A second feature of the labor market reflected by the unemployment rate is the behavior of the Midwest economy during the most recent (1990–91) recession. In prior recessions, the highly cyclical nature of the Midwest economy, combined with the region's eroding share of national production, resulted in a more rapid rise in the region's unemployment in comparison to the nation. In contrast, during 1990–91, the underlying secular strength of the region's economy allowed its labor market to continue to gain on its national counterpart and, ultimately, to experience a more fully employed work force.

Figure 1 Unemployment Rates

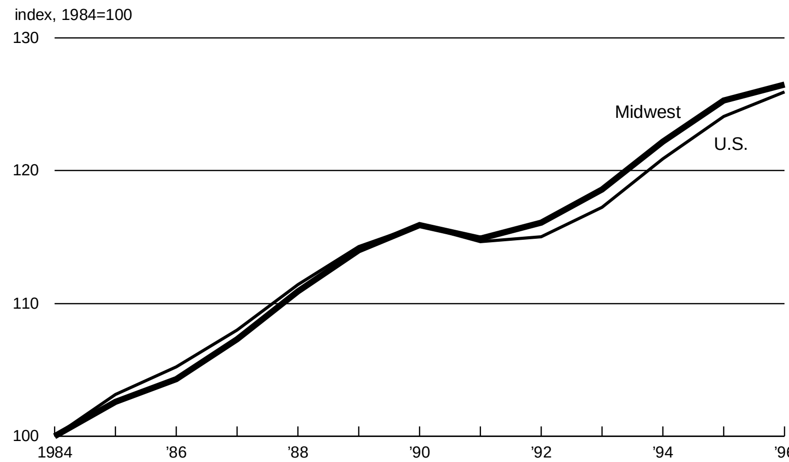


Note: Unless otherwise noted in tables and figures, Midwest refers to the states of the Seventh Federal Reserve District—Illinois, Indiana, Iowa, Michigan, and Wisconsin.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

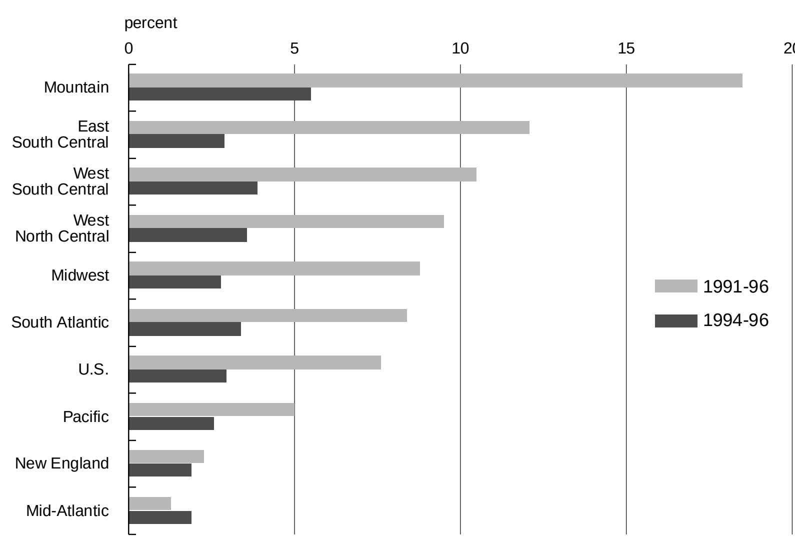
Despite the Midwest's tight labor markets, its employment and population growth are not, in general, exceeding the nation's (figures 2 and 3). The Midwest turnaround is characterized by a convergence of the pace of employment growth in the Midwest with that of the nation. Job growth in the early 1990s was especially strong relative to the nation, but has now probably eased to a pace that is on par with the nation. Because the region's work force is approximately at full capacity, any further supranational employment growth cannot reasonably be expected unless population growth increases sharply. Recent Midwest employment gains have, in fact, been accompanied by a quickening of population growth and by a turnaround from a net population outflow during the 1980s to a net inflow during the 1990s (figure 4). Nonetheless, population growth continues to lag that of other regions (especially most Sun Belt regions), as evidenced by the Midwest's steady decline in share of U.S. population (figure 5).

Figure 2 Total Employment



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Figure 3 Employment Growth by Region



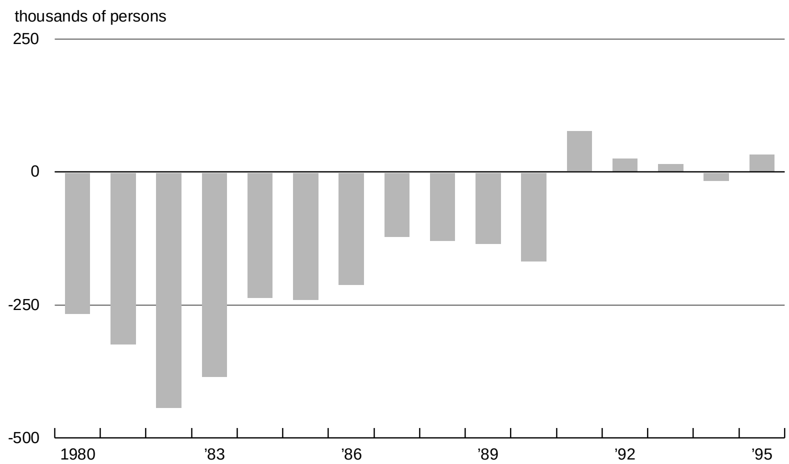
Note: The regions are defined as follows: Mountain—AZ, CO, ID, MT, NV, NM, UT, WY; East South Central—AL, KY, MS, TN; West South Central—AR, LA, OK, TX; West North Central—IA, KS, MN, MO, NE, ND, SD; Midwest (East North Central)—IL, IN, MI, OH, WI; South Atlantic—DE, MD, DC, VA, WVA, NC, SC, GA, FL; Pacific—AK, CA, HI, OR, WA; New England—CT, ME, MA, NH, RI, VT; Mid-Atlantic: NY, NJ, PA.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

This combination of strong employment growth and lagging population growth accounts for the marked improvement in labor force participation in comparison to the rest of the nation (figure 6). Following the region's deficit position during the 1980s, its ratio of employed, aged 16 and above, to population now surpasses the nation's.

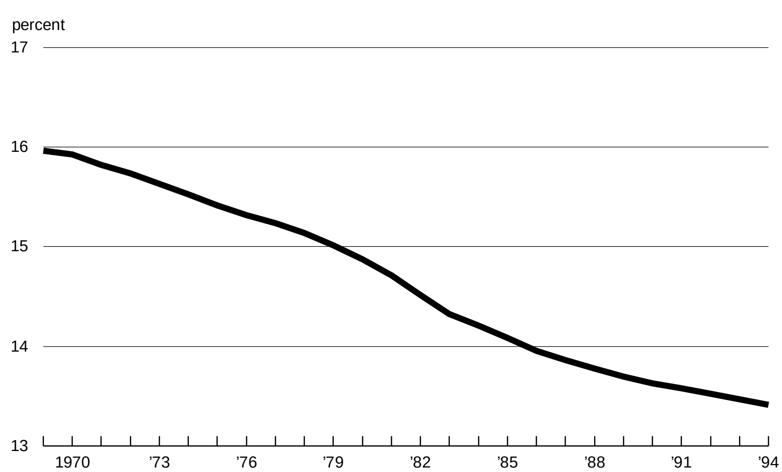
Heightened work force participation appears to be reviving the incomes of Midwest residents. Per capita income relative to the nation dipped sharply from a superior position in the late 1970s to an inferior position by 1983 (figure 7). However, the region's relative position began to rise in 1991, and was slightly above the national average in 1994 and in 1995, the latest year available. Median household income, measured in constant purchasing power, largely parallels this pattern (figure 8). After dipping to parity with the nation from 1980 to 1983, Midwest income continued on par with the nation through 1994, and is now showing preliminary signs of strength in comparison to the nation.

Figure 4 Net Migration to the Midwest



Source: Diane Swonk, "The Great Lakes Economy Revisited," *Assessing the Midwest Economy Working Paper Series,* No. SP-2, Federal Reserve Bank of Chicago, 1996.

Figure 5 Midwest's Population Share



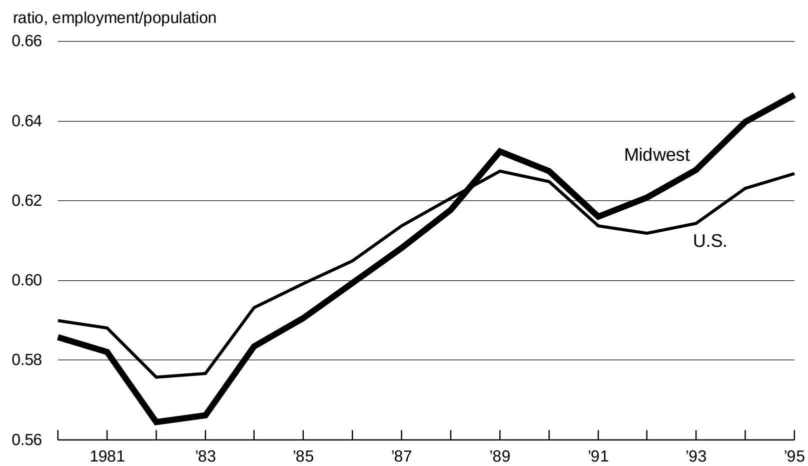
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The revival in the Midwest's job growth and production growth has been led by the region's mainstay industries—manufacturing and agriculture.

Midwest income continues to flow from the region's traditional industries. The Midwest remains markedly more concentrated than the nation in its mainstay industries—durable goods manufacturing and agriculture (figure 9). Examining industry composition at a finer level of detail does little to alter this conclusion.

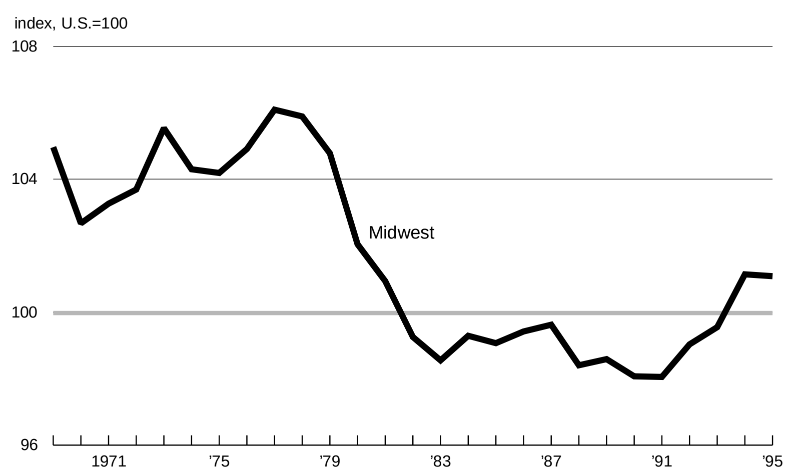
It is not surprising, then, to find that the revival in the Midwest's job growth and production growth has been led by the region's mainstay industries—manufacturing and agriculture. The Midwest lost 2.5 percentage points in its share of the nation's manufacturing employment from 1977 to 1983. It has since regained 2 percentage points, and the rate of gain has accelerated in the 1990s (figure 10). Manufacturing industries such as autos and steel have reconcentrated in the Midwest. For example, 31 auto plants could be found in the region in 1996 in comparison to 27 in 1979. The interim period of upheaval witnessed nine auto plant closings in the region from 1979 to 1996, and yet 13 plants were opened (table 1).

Figure 6 Labor Force Participation



Source: U.S. Department of Commerce, Bureau of Economic Analysis; and U.S. Department of Labor, Bureau of Labor Statistics.

Figure 7 Per Capita Income

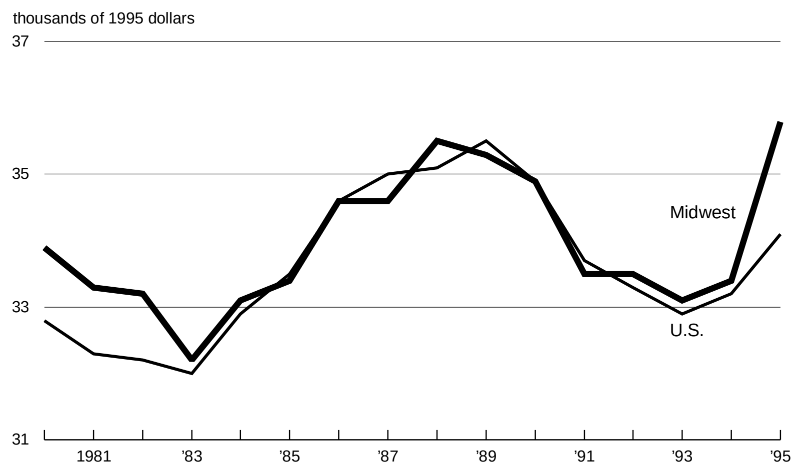


Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Rural areas have experienced both the rising manufacturing tide and the recovery of production agriculture.

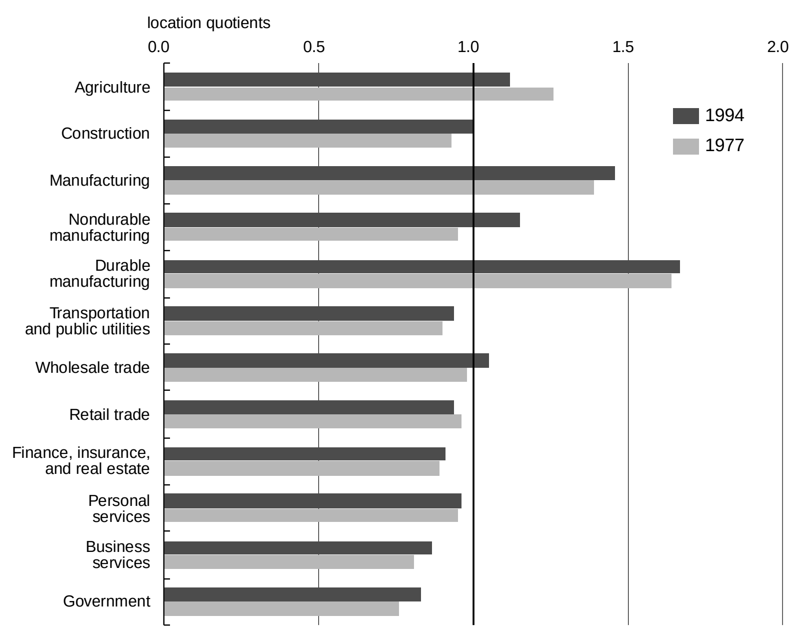
Rural areas have experienced both the rising manufacturing tide and the recovery of production agriculture. Over the past 15 years, rural growth rates in manufacturing jobs have outpaced metropolitan areas (figure 11). Meanwhile, the recovery of the farm sector from debt overhang and sagging markets of the late 1970s and early 1980s has lifted farmland prices since 1986 (figure 12). Grain prices are high by historical standards. In addition, led by the promise of growth in newly developed and developing countries, world markets for grains, meat products, and some processed foods have buoyed expectations that strong agricultural markets can be sustained.

Figure 8 Median Household Income



Source: U.S. Department of Commerce, Bureau of the Census.

Figure 9 Personal Income by Industry, Midwest/U.S.



Note: A quotient of 1.0 indicates the same relative importance of an industry for the Midwest as for the U.S. as a whole.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Revival of these goods-producing industries in rural areas—especially manufacturing—has translated into an improvement in population growth and a turnaround from net out-migration to net in-migration.[2] In Midwest rural counties, population declined by 2.2% from 1980 to 1990, when 70% of individual counties experienced absolute declines in population (table 2). From 1990 to 1994, nearly 75% of rural Midwest counties recorded population gains that, overall, wiped out the losses of the earlier period.[3]

Figure 10 Midwest Share of Total Manufacturing Employment

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 1 Distribution of Auto Assembly Plants over Time, by Region

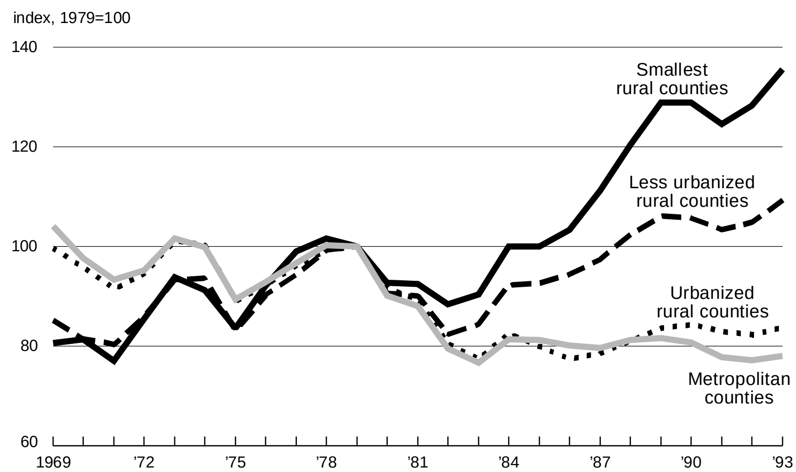
	Status of Plant			
Region	**Open in 1979**	**Closed 1979–96**	**Opened 1979–96**	**Open in '96**
Midwest	27	9	13	31
Southeast	6	1	8	13
West	14	8	3	9
Northeast	9	4	0	5
Total	**56**	**22**	**24**	**58**
I-65/I-75 corridor	27	8	20	39
Other	29	14	4	19

Note: The Midwest includes IL, IN, MI, OH, and WI. The Southeast includes AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, TX, VA, and WVA. The Northeast includes CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, and VT. The West includes all others.

Source: James Rubenstein, "The Evolving Geography of Production—Is Manufacturing Activity Moving Out of the Midwest? Evidence from the Auto Industry," *Assessing the Midwest Economy Working Paper Series,* No. SP-3, Federal Reserve Bank of Chicago, 1996.

Despite the dramatic swings in rural fortunes, the Midwest's and nation's population continues to shift to metropolitan areas, much as it has done throughout this century, one exception being the 1970s, which were characterized by growing markets for agriculture and natural resource products. By 1994, metropolitan areas' share of population was approaching 80% in the nation and 76% in the Midwest (figure 13). However, the pace of this shift appears to be slowing considerably in the 1990s, harkening back to the "rural–urban turnaround" of the 1970s.[4] In contrast to rural counties, natural population increase continues to dominate in-migration to metropolitan areas in the Midwest. In fact, midwestern metropolitan areas experienced a modest out-migration from 1990 to 1994, even while employment and population continued to grow.

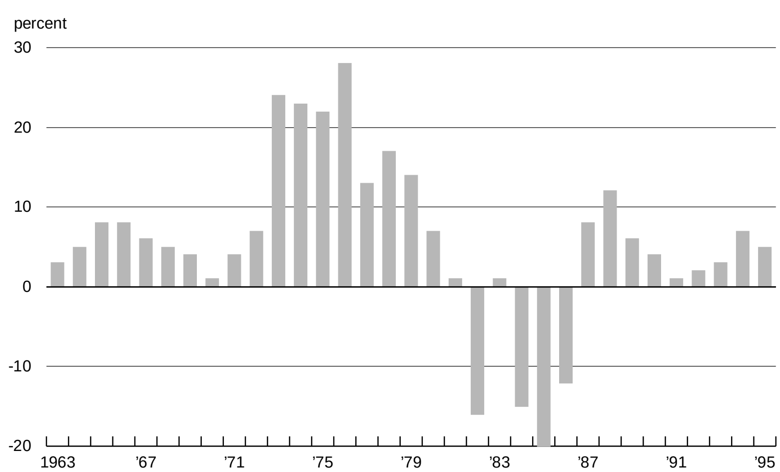
Figure 11 Smaller Rural Counties Have Witnessed Most of the Growth in Rural Manufacturing Jobs in the Midwest



Note: Rural counties broken down by population: < 2,500 = the smallest rural counties, 2,500 to 19,999 = less urbanized rural counties, > 20,000 = urbanized rural counties.

Source: G. Andrew Bernat, "Manufacturing and the Midwest Rural Economy: Recent Trends and Implications for the Future," paper presented at the workshop "The Changing Rural Economy of the Midwest," held at the Federal Reserve Bank of Chicago, March 8, 1996.

Figure 12 Annual Change in Midwest Farmland Values



Source: Federal Reserve Bank of Chicago.

Many midwestern metropolitan areas are successfully transforming from manufacturing centers to service centers.

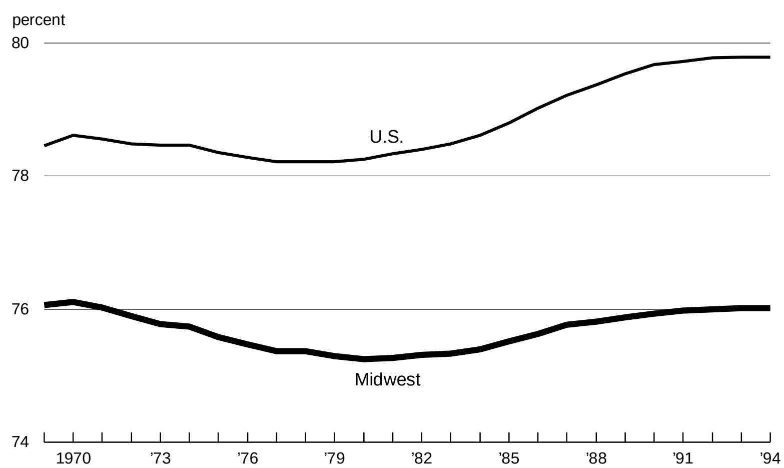
Metro areas continue to be magnets for jobs, but the nature of jobs is changing: Many midwestern metropolitan areas are successfully transforming from manufacturing centers to service centers.[5] The economies of small, medium, and large metropolitan areas are increasingly specializing in business services (table 3). Important industries of the "service and information economy" of the 1990s include producer services such as management consulting, advertising, accounting, business, and legal, as well as trade, travel, and financial services. Metropolitan areas in the Midwest have been very successful in hosting these industries, and in some cases fashioning specialized service industry niches, such as sports-oriented travel centers (Indianapolis), convention tourism (Appleton–Oshkosh), health services and insurance (Peoria), air freight/air maintenance centers (Indianapolis), financial services/insurance (Des Moines), R&D centers in automotive (Detroit), and convention-business meeting centers (Chicago).

Table 2 Population Growth

	% Change in Population			% of Counties with Population Gains	
	Rural	Urban	Total	Rural	Urban
United States					
1980–90	2.7	11.8	9.8	45	81
1990–94	3.9	4.9	4.7	74	91
Midwest					
1980–90	–2.2	1.3	0.4	30	67
1990–94	2.4	3.0	2.9	74	92

Source: Kenneth M. Johnson, "Recent Nonmetropolitan Demographic Trends in the Midwest," *Assessing the Midwest Economy Working Paper Series,* No. RE-1, Federal Reserve Bank of Chicago, 1996.

Figure 13 Percentage of Population Living in Metro Areas, 1969–94



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 3 Personal Income Derived from Labor and Proprietor Earnings (Indexes of Concentration)

	Midwest/U.S.			
	1969	1977	1985	1994
Manufacturing				
Large MSAs	1.31	1.35	1.29	1.30
Core Counties	1.28	1.34	1.22	1.20
Medium MSAs	1.52	1.63	1.70	1.70
Small MSAs	1.41	1.48	1.55	1.68
Nonmetro	1.10	1.19	1.34	1.62
FIRE				
Large MSAs	1.00	1.09	1.14	1.15
Core Counties	1.12	1.22	1.37	1.32
Medium MSAs	0.70	0.71	0.70	0.78
Small MSAs	0.71	0.73	0.71	0.72
Nonmetro	0.60	0.62	0.51	0.47
Business Services				
Large MSAs	1.06	1.07	1.16	1.13
Core Counties	1.13	1.02	1.01	0.97
Medium MSAs	0.52	0.58	0.63	0.75
Small MSAs	0.43	0.51	0.54	0.61
Nonmetro	0.49	0.53	0.44	0.40

Note: An index value of 1 signals the same importance of an industry for the Midwest as for the U.S. That is, an index value of 2.0 could be obtained from a 40% share of manufacturing in Midwest metro areas divided by a 20% share of manufacturing in U.S. metro areas.

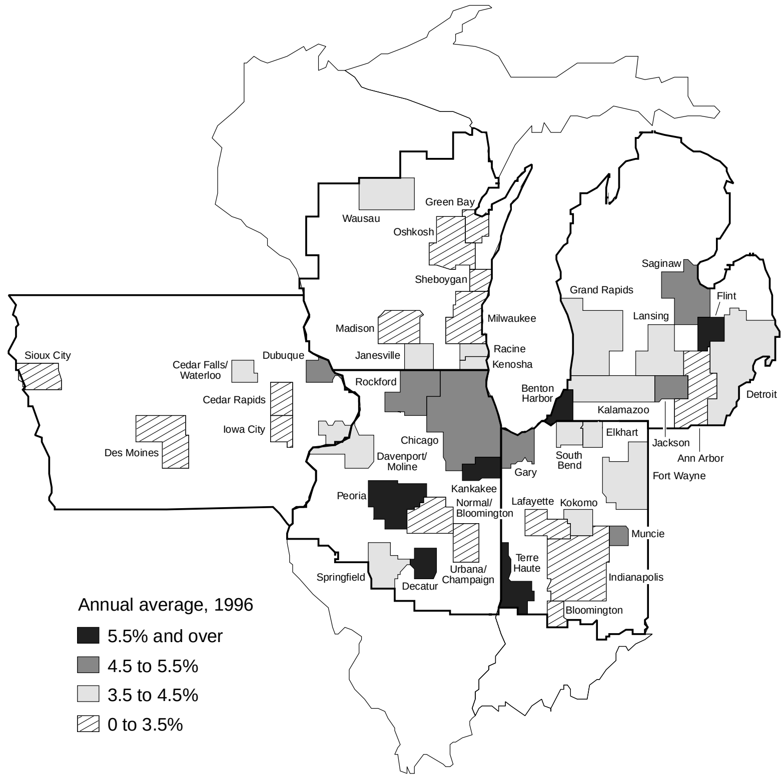
Source: U.S. Department Of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

Industrial restructuring has differed by size of metro area, with large metro areas tending to transform to a greater degree away from manufacturing and toward business and financial services.[6] Unlike in many smaller metropolitan areas, manufacturing concentrations in large metro areas, especially in their core counties, have fallen. Nonetheless, large metropolitan areas in the Midwest have continued to grow and to contribute to the Midwest turnaround by shifting to service industries, as shown by the growth of services, i.e., both business and personal services. Smaller metro areas have also done so, but to a lesser degree. As a result, the recovery in the Midwest as reflected by relatively low unemployment rates has been both striking and pervasive across metropolitan areas (figure 14).

Recap

All in all, the Midwest's turnaround can be characterized as being led by a dramatic improvement in work force participation rates. This has been realized through a rise to national parity in the pace of job growth and lagging, but improving, population growth. Income growth has been pulled upward, but as yet falls short of the region's earlier superior relationship to the nation. The region's recovery and turnaround have been led by its continued mainstay industries—manufacturing and agriculture. As a result, both urban and rural areas alike have experienced an economic recovery. Nonetheless, some notable changes in the geography of industry specialization have taken place. Nonmetropolitan counties continue to add manufacturing to their specialization in agriculture. At the same time, metropolitan areas, most commonly the largest ones, continue to shed manufacturing while sharpening their specialization in business and financial services.

Figure 14 Unemployment Rates in Metropolitan Areas of the Seventh District



Notes: All rates are subject to revision. The U.S. average unemployment rate for 1996 was 5.4%.

Source: U.S. Department of Labor, Bureau of Labor Statistics.