Manufacturing and the Midwest: Cause for Concern?

William A. Testa
Federal Reserve Bank of Chicago
September 30, 2003
Where are we? Where are we going?
Basics--The Midwest is a manufacturing region
Manufacturing concentration vs. U.S.

Location Quotients: Index of Concentration relative to US

- Midwest
- Wisconsin
- Ohio
- Michigan
- Iowa
- Indiana
- Illinois

Index 1979 1989 2001
Great Lakes Region (MW)--Manufacturing jobs 1969-2002

Great Lakes Manufacturing Employment 1969-2002

Source: Bureau of Labor Statistics and...
The recent spell of job declines
• Manufacturing jobs on the skids over the past 4-5 years--here and across the nation
Mfg. Job Decline in MW states


- Illinois
- Michigan
- Ohio
- Minnesota
- Wisconsin
- Indiana
- Iowa
- United States

The chart shows the percent decline in manufacturing employment in Midwest states from 2003 to 1998. Illinois experiences the greatest decline, while Iowa experiences the least decline among the states listed.
Long term perspectives ......
Much like the nation, Midwest mfg. output climbs with little or no growth in labor.
Midwest incomes derive from the mfg. sector to a greater extent than the nation.
Manufacturing is concentrated in the Midwest. Manufacturing job share shrinks over time; is the Midwest “above trend”?

[Diagram showing the share of non-farm employment in manufacturing for the Midwest and the United States over time, with the Midwest's share consistently higher than the United States']

Source: Bureau of Labor Statistics
Midwest share of U.S. manufacturing shrinks; Has the region’s structural change passed by?

Midwest Manufacturing Employment as a share of Rest of U.S. Mfg Employment

Source: Bureau of Labor Statistics
Manufacturing job levels are volatile; downturns often stretch longer than recessions

Source: Bureau of Labor Statistics
Perspectives on the recent experience with job decline
The recessionary period saw MW revival evaporate: Unemployment rose sooner & faster
The U.S. in mfg. decline; for production workers, it is severe and extended.
10-15 years ago, mfg. did not feel a sharp “recession” (!especially in the Midwest!)

![Diagram showing Manufacturing Employment Index 1989-1995: Midwest vs Rest of US](chart)

**Source:** Bureau of Labor Statistics
....unlike the early 1980s!!!
Sudden and extended loss of manufacturing jobs has historically been hard on the region.
Midwest incomes revived, but are now falling back.

Per capita personal income

US avg=100

1979 81 83 85 87 89 91 93 95 97 99 2001
Baseline issues

- Nothing out of the ordinary (long term structural shifts in the economy/regions)
- Investment overhang, business confidence (transitory)
- International (transitory/structural)
- Regional shifts in automotive (structural)
- Regional shifts (structural)
<table>
<thead>
<tr>
<th>Project Workshops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline issues</td>
</tr>
<tr>
<td>Automotive</td>
</tr>
<tr>
<td>International</td>
</tr>
<tr>
<td>Technology</td>
</tr>
<tr>
<td>Others t.b.d.</td>
</tr>
</tbody>
</table>