

State of the Economy – Chicago, IL

City of Chicago
Fiscal Years 2020-2022

City of Chicago
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The Council Office of Financial Analysis (COFA) is providing a high-level view of the State of the Economy for the Chicago Metro area (Chicago, Naperville, and Arlington Heights). The data presented is the most up to date information available. The report will discuss the U.S. Economy, Chicago Economic Indicators, Chicago Labor Markets, Chicago Real Estate Markets, and Chicago Tourism.

THE U.S. ECONOMY

The following leading indicators provide a snapshot of the state of the economy in the US.

1. The unemployment rate has remained low during 2022. The unemployment rate was 3.5% in July 2022.¹ The economy added 528,000 jobs in July 2022 above expectations contributing to the health of the economy.
2. Real gross domestic product (GDP), which measures the overall economy, fell for the second consecutive quarter in Q2 2022, dropping 0.9% in the second quarter and 1.5% in the first quarter of 2022.² The two consecutive quarter drop stoked fears of a recession but was offset by the strong employment gains.
3. Orders for durable goods like machinery and equipment decreased 2.6% in the second quarter of 2022, while nondurable goods (pharmaceuticals, food, and lodging) fell by 5.5%.³
4. In July 2022, The Federal Reserve Open Markets Committee increased interest rates by 0.75% again, with a target range of 2.25% to 2.5%.⁴
5. The Consumer Price Index remained constant from June to July 2022. Over the last twelve months, prices on all items increased by 8.5%.⁵
6. In January 2022 the S&P 500 and Nasdaq dipped significantly, and both indexes were low and erratic into March before regaining ground in April. In June the S&P 500 dipped into a bear market, 20% below its recent peak.^{6, 7}

Total nonfarm payroll employment increased by 528,000 in July, the unemployment rate dipped down to 3.5%.⁸ Both total nonfarm employment and the unemployment rate returned to their February 2020 pre-pandemic levels. The number of union workers declined by 241,000 to 14.0 million in 2021.⁹ The union membership rate was 10.3%, down from 10.8% in 2020 but the same as in 2019.¹⁰ Real average hourly earnings for all employees increased 0.5% in July 2022. The Consumer Price Index (CPI) in July was unchanged, seasonally adjusted and rose 8.5% over the last 12 months (not seasonally adjusted).¹¹ The index for all items less food and energy increased 0.3% in July, up 5.9% over the year.¹² The CPI for all Urban Consumers increased by 9.1%.¹³ The 9.1% increase in the all items index was the largest 12-month increase since the 12-month period ending November 1981.¹⁴ Some of the significant increases by category include: prices for food increased 10.4% for the 12 months ending June 2022, the largest increase since 1981, and energy prices rose 41.6% over the last year, the largest jump since 1980.¹⁵ Within the energy category motor fuel prices (includes all types of gasoline) increased 60.2%, electricity prices rose 13.7% and natural gas (piped utility gas) increased 38.4%. Prices for new vehicles rose 11.4% and used car prices increased 7.1%, while vehicle parts and equipment increased 14.9%.¹⁶ The Producer Price Index for

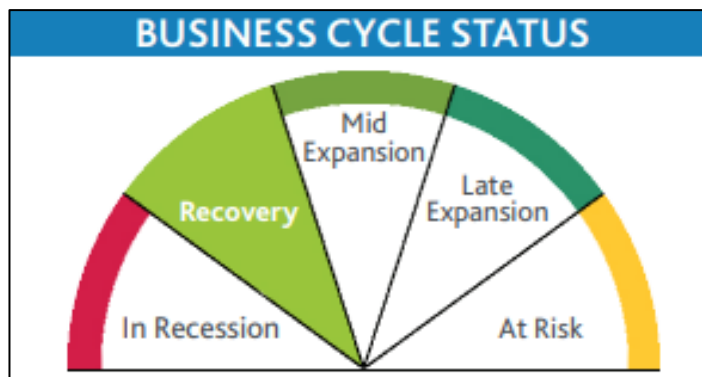
final demand fell by 0.5% in July, and prices for final demand goods declined 1.8%. Both import and export prices have increased, prices for U.S. imports rose 0.2% in June, over the year, import prices increase 10.7%, and export prices increased 18.2%.¹⁷

The U.S. economy contracted for a second straight quarter raising recessionary fears. Overall Americans purchased fewer goods and business investment declined. Businesses slowed the restocking of shelves shaving two points from the GDP. Home construction is feeling the impact of the Federal Reserve's interest rate increase and government spending has decreased.¹⁸ Inflation, weakening growth and a looming recession are not only affecting the U.S. but have global ramifications. The Russian invasion of Ukraine sent food and energy prices soaring and the recently strained China-US relationship may have negative implications for the Economy.

CHICAGO ECONOMIC INDICATORS

Indicators	2022	2023	2024	2025	2026	2027
Gross Metro Product	498.6	509.9	520.8	531.5	543.1	553.7
Change (%)	3.5%	2.3%	2.1%	2.1%	2.2%	2.0%
Total Employment	3,752	3,800	3,824	3,835	3,841	3,846
Change (%)	4.3%	1.3%	0.6%	0.3%	0.2%	0.1%
Unemployment Rate	1.3%	3.6%	3.8%	4.1%	4.5%	4.6%
Personal Income Growth	2.1%	4.8%	4.7%	4.2%	4.1%	3.9%
Median Household Income (Thousands)	\$82.5	\$85.6	\$88.8	\$91.9	\$95.0	\$98.2
Population (thousands)	7,195.5	7,189.4	7,176.9	7,159.6	7,146.4	7,132.8
Change (%)	-0.2%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%
Net Migration (thousands)	(36.2)	(29.6)	(35.1)	(39.1)	(34.3)	(33.8)
Single-Family Permits	8,804	11,560	11,441	10,979	10,110	9,325
Multi-Family Permits	7,794	9,774	10,252	9,764	8,649	7,521

SOURCE: Moody Analytics, Chicago-Naperville-Arlington Heights, IL



SOURCE: Moody Analytics, Chicago-Naperville-Arlington Heights, IL

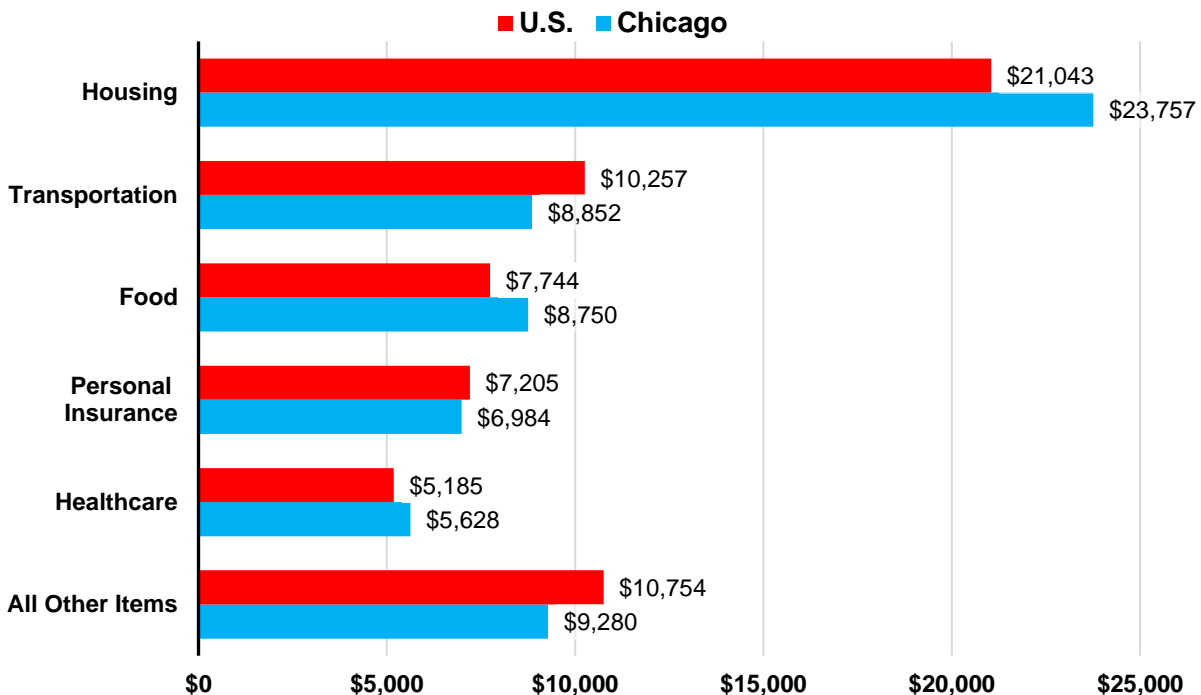
STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Major transportation and finance center Huge talent pool, educational institutions Robust tech centers 	<ul style="list-style-type: none"> Local budget pressures Weak population trends High crime rate

The four main indicators in measuring the economy are the consumer price index (CPI), gross domestic product (GDP), unemployment figures, and the price of crude oil.

THE CONSUMER PRICE INDEX

Employment figures is generally viewed as a gauge to signal an impending recession. Wage stagnation is another important factor, specifically wage depreciation caused by skyrocketing inflation. Inflation leads to adjusted personal income and less discretionary spending. If wages are constant and the price of everyday goods increase the utility of income will be less. This is the cycle many are currently experiencing; the dollars are not going as far, and choices will be made. The best way to gauge the impact of inflation on wages is by understanding the CPI. When inflation drives prices up faster than salaries increase it is a recipe for an economic downturn or a recession. Lack of discretionary income leads to less purchasing power and negatively impacts economic activity. The CPI is a measure of the average change over time in

Average Annual Expenditures (\$) 2019-2020



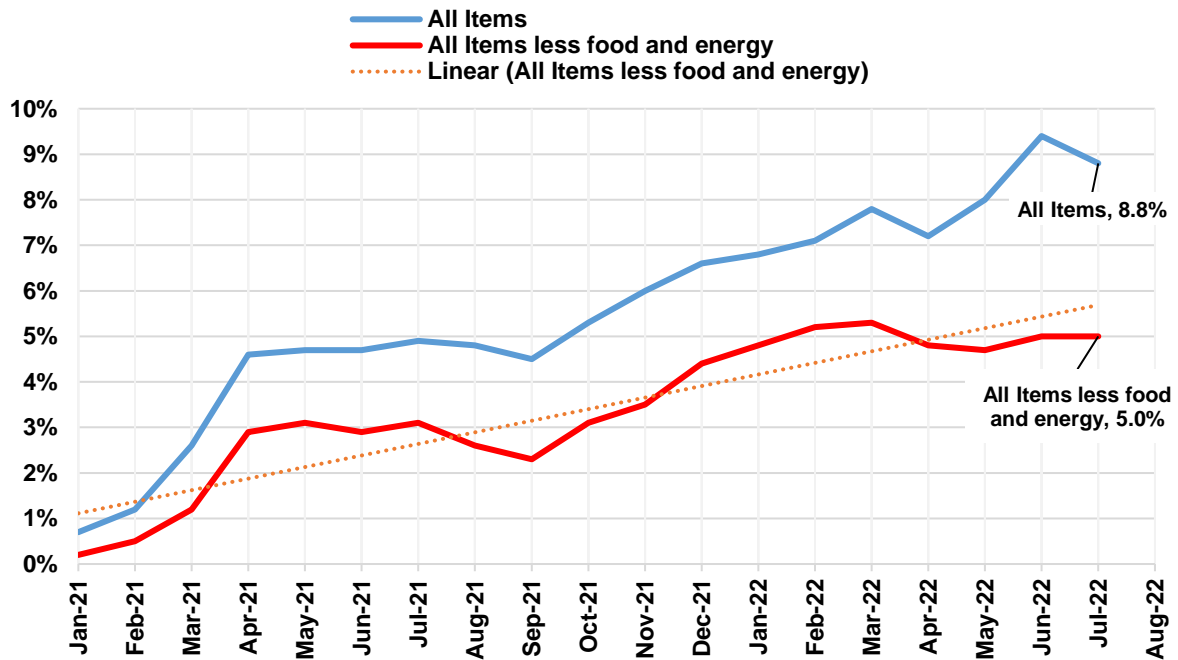
SOURCE: U.S. Bureau of Labor Statistics

the prices paid for a market basket of goods and services. The graph below highlights the average annual expenditures for a typical market basket of goods and services. It compares the U.S. to Chicago for the period 2019 – 2020.

INFLATION

Inflation is an increase in overall price levels. The inflation rate is tracked by calculating changes in the CPI. The CPI as mentioned above tracks changes in the cost of living and is a sound index to measure inflation. According to Crains the CPI rose 9.4% in June from the prior year, this was the biggest jump since September 1981.¹⁹ Prices in Chicago on gasoline, apartments, jet fuel and entertainment have all risen coupled with a tight job market pushing up the cost of labor. Businesses are paying suppliers more and often passing those cost to customers. Since the pandemic, labor cost has risen. Current data offers signs of relief with prices for gasoline decreasing after that June 2022 big jump in gas prices. Chicagoans are experiencing inflationary times. One of the big threats during an inflationary period is consumer confidence, if consumers pull back it threatens businesses and therefore impedes our economic livelihood.

12-Month CPI Change (%) for Chicago Area



SOURCE: U.S. Bureau of Labor Statistics

NOTES: Data is YTD July 2022. The "Chicago Area" includes Chicago-Naperville-Elgin, IL-IN-WI. Data is not seasonally adjusted.

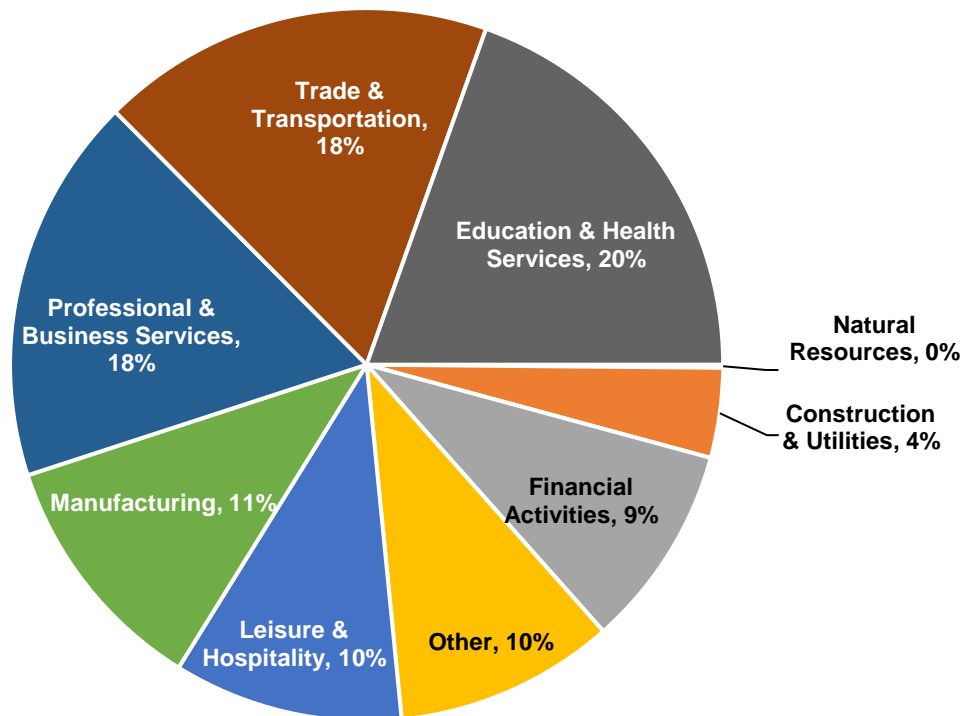
The graph above highlights the 12-month CPI percent change from January 2021 through July 2022. The 12-month CPI change in January 2021 was 0.7% for all items and 0.2% for all items less food and energy.

In July 2022, the 12-month CPI change for all items was 8.8% and 5.0% for all items less food and energy. Prices in the Chicago-Naperville-Elgin area were down 0.2% in July as reported by the U.S. Bureau of Labor Statistics in July 2022. Over the last 12 months, the CPI-U increased by 8.8%, while the index for all items less food and energy advanced 5.0% year-over-year (YoY). Energy prices increased 46.7%, in large part due to the price of gasoline, food prices increased 11%.²⁰

GROSS DOMESTIC PRODUCT

The total economic output of Chicago in gross metropolitan product total \$770.7 billion in 2020, making it the third largest in the United States behind New York and Los Angeles. The total economic output of Chicago exceeds the total economic output of Switzerland. Chicago continues to be one of the world's largest and most diversified economies contributing to the strong GDP. The graph below highlights the economic composition of Chicago. The largest sector in Chicago consists of the Education and Health Services industries, which represents approximately 20% of employees in the City.²¹

Composition of Chicago's Economy

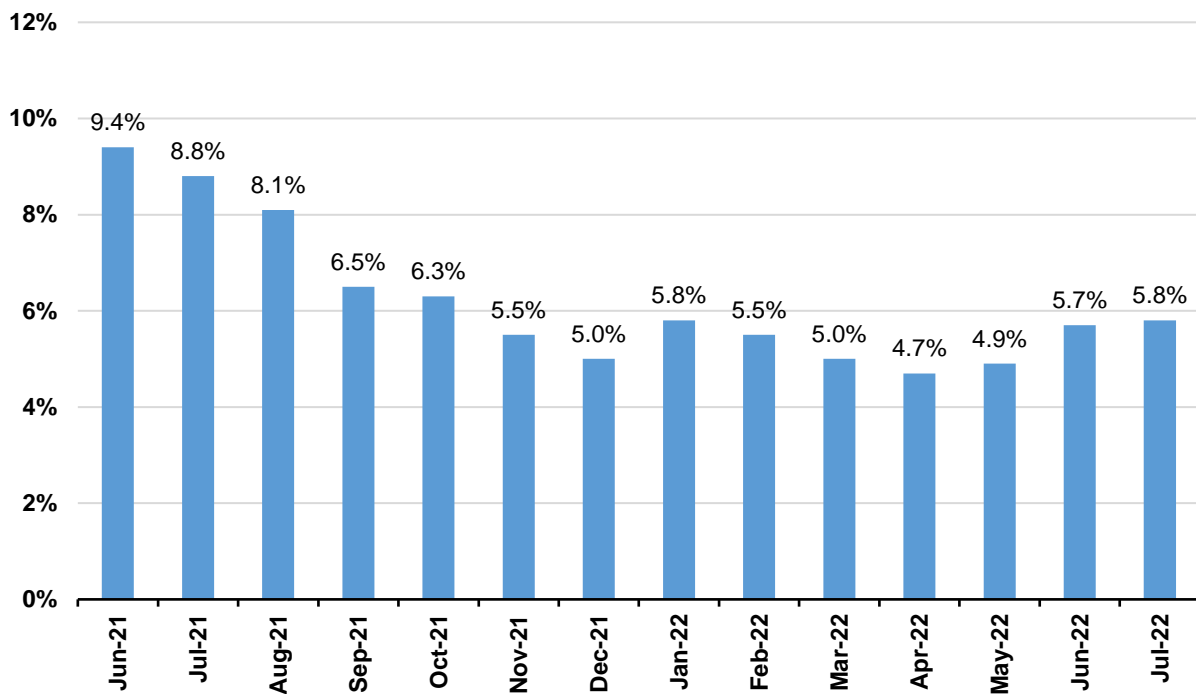


SOURCE: Metroverse, Chicago's Economic Composition

CHICAGO'S UNEMPLOYMENT RATE

The unemployment rate for the past 12 months in Chicago has fluctuated from 9.4% at the height of the pandemic to a low of 4.7% realized in April 2022. The unemployment rate appears to be trending up since April 2022, from 4.7% to the current level of 5.8% (July 2022). It is important to note that only residents in the labor force—those working or not working but actively looking for a job—are counted in the unemployment rate, discouraged workers or those who do not have a job but claim they are seeking a job is not considered part of the labor force.

Unemployment Rate - Chicago

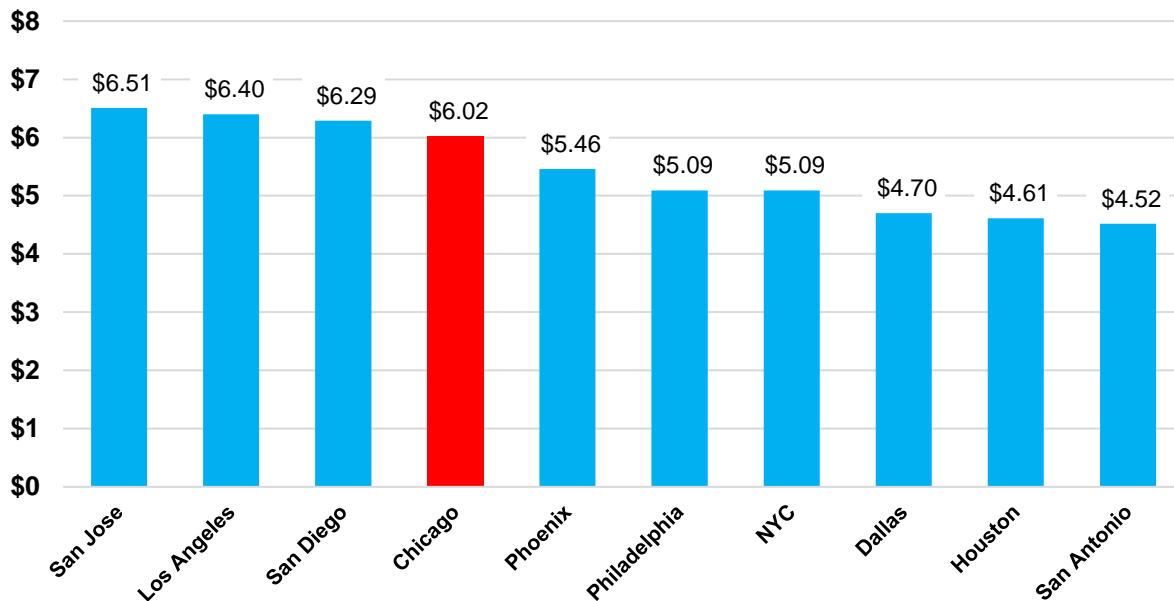


SOURCE: YCharts

OIL PRICES

Oil prices are critical and have a direct correlation to economic activity. As the price of oil increases it increase the risk of inflation and reduce economic growth. Oil prices directly impact the prices of goods made with petroleum products as well as impacting transportation, manufacturing, and heating cost. Higher energy prices contribute to increased cost of all goods and services fueling inflationary expectations. The war in Ukraine is further fueling supply fears which contributes to rising inflation and concerns about an economic recovery. The uncertainty and supply issues only exacerbate the problem in Chicago, with the several layers of taxes Chicagoans pay more at the pump. In June the gas prices soared to the fourth highest among the ten largest cities in the nation setting a record for gas prices at the pump (see chart below):

Average Gas Prices of 10 Largest U.S. Cities



SOURCE: Illinois Policy Institute

NOTE: Data as of June 7, 2022

CHICAGO LABOR MARKETS

- Chicago had 4,685,000 jobs in Chicago in May 2022 according to the Current Employment Statistics (CES) survey of employers; Chicago added 14,800 jobs for the same period of May 2022 according to the CES survey.^{22 23} The 14,800 jobs added in May 2022 outpaced the -1,400 April results and exceeded expectations.²⁴
- Most of the industries showed gains YoY with the largest gains being in Leisure and hospitality (up 14.6%), Information (up 6.4%), Construction (up 5.4%) and Professional and business services (up 5.2%). Financial activities were the only sector showing a decline with -0.8% YoY. (See Table 1)
- The Occupation and Wage statistics mirror the job reports. All sectors increased except for Financial Activities which showed a 12-month percentage change of -0.7 (see Table 2).

Table 1: Employment by Major Industry Sector in Chicago Area

Sector Area	Jun 1, 2022	12-Month Change	
		Number	Percent
Total Nonfarm Payrolls	4,749.2	201.8	4.2%
Mining and logging	1.9	0.0	0.0%
Construction	192.5	10.4	5.4%
Manufacturing	413.2	10.5	2.5%
Trade, transportation, and utilities	962.2	34.3	3.6%
Information	79.5	5.1	6.4%
Financial activities	314.6	(2.5)	-0.8%
Professional and business services	857.2	44.4	5.2%
Education and health services	725.3	15.4	2.1%
Leisure and hospitality	484.7	70.7	14.6%
Other services	189.0	6.4	3.4%
Government	529.1	7.1	1.3%

SOURCE: U.S. Bureau of Labor Statistics, Current Employment Statistics
Numbers in Thousands

The Chicago labor market is in a recovery but remains below pre-COVID levels.

Table 2: Nonfarm Wage and Salary Employment - Chicago-Naperville-Arlington Heights, IL

Sector Area	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Total Nonfarm	3,661.7	3,685.0	3,711.5	3,746.1	3,795.7
12-month % change	5.4%	5.1%	4.5%	4.9%	4.9%
Mining and Logging	1.3	1.3	1.3	1.4	1.4
12-month % change	30.0%	18.2%	0.0%	7.7%	0.0%
Construction	115.9	119.9	129.5	135.9	142.9
12-month % change	5.3%	1.3%	0.9%	3.4%	5.9%
Manufacturing	273.5	275.9	277.5	277.1	279.1
12-month % change	1.5%	2.0%	2.2%	4.7%	2.2%
Trade, transportation, and Utilities	749.8	748.1	746.1	749.2	756.5
12-month % change	4.6%	4.4%	4.3%	4.2%	4.1%
Information	70.6	70.8	71.2	71.5	72.9
12-month % change	7.8%	7.4%	7.1%	6.6%	7.2%
Financial Activities	270.9	273.4	270.2	270.7	272.1
12-month % change	0.1%	0.8%	-0.3%	-0.2%	-0.7%
Professional and Business Services	699.6	704.3	703.8	708.4	720.7
12-month % change	4.8%	5.4%	4.7%	5.0%	5.8%
Education and Health Services	598.3	600.0	602.4	602.3	599.1
12-month % change	1.9%	1.5%	1.5%	1.9%	2.1%
Leisure and Hospitality	321.9	329.0	344.4	362.2	385.0
12-month % change	28.9%	24.2%	21.0%	20.4%	20.3%
Other Services	153.1	153.4	154.3	154.8	156.4
12-month % change	5.2%	4.4%	3.9%	3.6%	3.9%
Government	406.8	408.9	410.8	412.6	409.6
12-month % change	4.5%	4.2%	3.5%	3.4%	1.7%

SOURCE: U.S. Bureau of Labor Statistics, Economy at a Glance
Numbers in Thousands

CHICAGO REAL ESTATE MARKETS

- Home prices increased by 5.2% from July 2021 to July 2022.
- The Chicago market is a strong seller's market
- Chicago housing market forecast: Home prices will likely increase in 2022
- Market time: Homes that closed in July took 9 days to sell
- Interest rates: With the recent Fed interest rate increases it is projected to slow home price appreciation and reduce the number of homes sold
- Condos: The Chicago condo market has experienced less of a drop in demand over the past 12 months than single family homes
- Rental Market: Chicago area rents went up by 10.5% YoY.²⁵

Downtown Commercial Space Vacancies

The vacancy rate for the City of Chicago's central business district is 21.2%, the second largest in the country as of March 31, 2022, according to CBRE data. That rate crept up from 19.7% on January 1 and beats the previous historic high of 20% set in the third quarter of last year. The vacancy rate was in part driven by new supply hitting the market rather than tenants pulling out of offices.²⁸ An example was the 1.5 million square foot BMO tower by Union Station completed at only half capacity. Other new developments that are not near capacity are the office building at 400 North Aberdeen Street, 1045 West Fulton Street, and 609 West Randolph Street.²⁶ Leasing activity was active with businesses like Avant doubling its downtown office space with an 80,000 square foot lease at the Merchandise Mart and Stripe leasing a 45,000 square feet space at 350 North Orleans. Supply is just outpacing demand. Prior to the pandemic, the central business district's (CBD) vacancy rate was 13.8% and new records have been set with increased vacancy rates in the past five quarters.²⁷ The low office utilization feeds into the vacancy rates because companies are more likely to reduce office space if they expect fewer workers to work on site. Data from the Survey of Working Arrangements and Attitudes showed that as of May 2022, Americans are working remotely more than 31% of the time.²⁸ The hybrid schedule many workers are adopting are depleting businesses of revenue and the emptying of downtown offices pose a threat to many small businesses as well as foregone revenue for municipalities.

CHICAGO TOURISM

One segment of the economy in Chicago that is booming is tourism. Compared to 2020 there was an 86% increase in tourism in Chicago.²⁹ Despite travel bans and COVID-surges, Chicago is roaring back with tourism-related employment returning to 60% of pre-pandemic level, generating an estimated \$1.3 billion in tourism tax revenue.³⁰

According to the Office of the Mayor with the City of Chicago the lodging industry is in full recovery mode with performance indicators for 2021:

- 1.13 billion in hotel revenue
- \$127.2 million in local hotel tax revenue, 163% higher than 2020

- Average occupancy rate in 2021 was 43%, a 63% increase over 2020
- Average daily room rate ending the year at 90% of pre-pandemic levels

CONCLUSION

In the past few years Chicago like many cities dealt with the devastation from the pandemic. As the City is in a recovery it is important to stay abreast of factors that may impact our economic recovery. The indicators for the Chicago area point to a recovery. Crime and the escalation seen in Chicago may stall that progress. Carjacking, shooting, and the business-scale shoplifting has now come into the most upscale areas. Michigan Avenue has seen significant closures, and a few large organizations have announced their departure from the region. In addition, Chicago is suffering from out-migration, where people are leaving for various reason including safety, schools, and affordability. And although the headlines are bleak Chicago has a lot going for it.

Chicago's top-ranked universities provide linkage to the highly educated workforce. The city has a diverse economy and remains the home of many major corporations. In addition, the city is a center of professional services such as accounting, law, and consulting. The CME Group, the world's largest financial exchange is in Chicago and O'Hare International remains a key hub. Economic assets include Northwestern University and the University of Chicago. The city also boasts physical beauty with the beautiful lakefront, downtown skyline, extensive transit, and mixed-use neighborhoods. Chicago has a lot to offer but also have hurdles to overcome; pension funding, crime, sustainability beyond federal funding, inequality, affordable housing, and quality education to name a few.

DEFINITIONS

Chicago Metropolitan Region – Chicago – Naperville – Elgin, IN-WI MSA. Includes 14 counties (Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry, Will, Jasper, Lake, IN, Newton, IN, Porter, IN and Kenosha, WI)

CBD - Central Business District

CES - Current Employment Statistics (CES) is an employment measure of businesses and government establishments, results collected for the Bureau of Labor Statistics by the U.S. Census Bureau.

CPS – Employment household survey, results collected for the Bureau of Labor Statistics by the U.S. Census Bureau.

CPI – the measure of the average change in the prices paid by consumers for a market basket of consumer goods

GMP – Gross Metropolitan Product is one of several measures used to measure the size of the economy of a metropolitan area. It is similar to Gross domestic product (GDP) and is defined as the market value of all final goods and services produced within the metropolitan areas in a specific period.

GRP – Gross Regional Product is the sum of total industry earnings, taxes on production & imports, and profits, less subsidies or GDP (Gross Domestic Product) for a specific region

International Price Program (IPP) – produces import/export price indexes (MXP) for the changes in prices for nonmilitary goods and services traded between the U.S. and the rest of the world

MSAs – Metropolitan Statistical Area (MSA), a region that consists of a city and linked surrounding communities.

Producer Price Index (PPI) – measures the average change over time in selling prices received by domestic producers for their output; prices are from the first commercial transaction for products and services

Real Gross National Product (GNP) – the total value of all finished goods and services produced by the specific region (GNP)

WTI crude – West Texas Intermediate – serves as one of the main oil benchmarks

YoY – Year-over-Year

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