

The Illinois Economy

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The decline suffered by the Illinois economy during the late 1970s and the 1980s has essentially ended during the last two years; dominant downward trends have halted. There is even some evidence of a reversal in the decline in the manufacturing sector.

One way of viewing changes in a regional economy such as that of Illinois is to focus on comparisons with the nation. If the behavior of a regional economy bears a consistent relationship with the national economy, it is possible to form judgments regarding future regional

developments on the basis of national forecasts. This article examines recent changes in the relationship between economic developments in Illinois and those in the nation as a whole.

At the outset, it is worth noting that changes in trends have been identified on the basis of very little data. Hence, in the fullness of time there is a reasonably high probability that specific conclusions stated in this analysis will turn out to be wrong. The shift of these trends, however, is of sufficient interest and importance to be followed closely.

Trends Prior to 1985 and Since

For an extended period prior to 1985, the Illinois economy was declining relative to that of the nation as a whole. As a consequence, Illinois grew more slowly during periods when the US economy was expanding, and declined more rapidly during periods of national recession. These trends are revealed in statistics relating to gross state product, employment, and personal income.

Gross state product (GSP) is a measure of the value added to the market price of goods and services by economic activity

Figure 1: Ratio of GSP to GNP

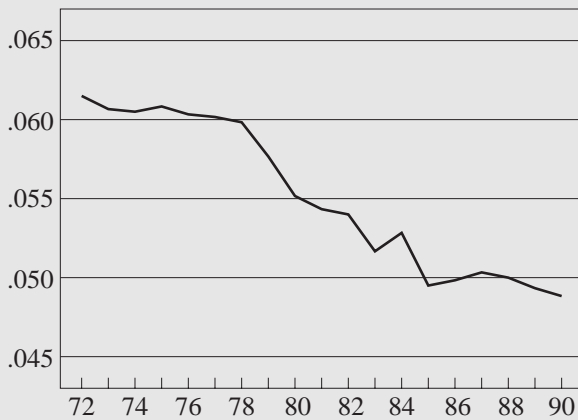


Figure 2: Ratio of Illinois Employment to U.S.

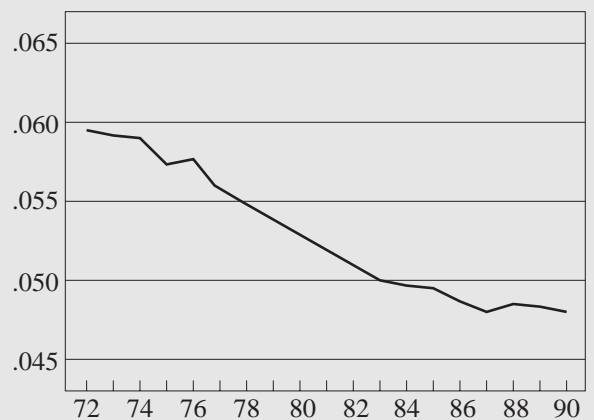


Figure 3: Ratio of Illinois Personal Income to U.S.

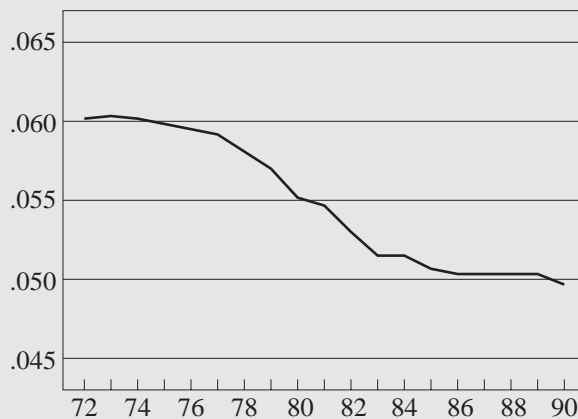
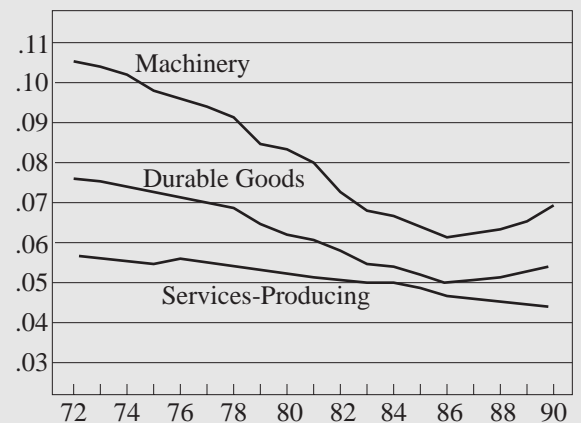


Figure 4: Ratio of IL Employment by Sector to U.S.



performed within Illinois. From 1972 through 1985, clearly there was a decline in the state's share of gross national product, or GNP (see Figure 1), though the 1972-1978 interval showed a less pronounced decline than did the later years in the period. Since 1985, Illinois' share of GNP has stabilized on balance. However, the identification of a change in direction of movement in the Illinois economy may be premature. It could be argued that only 1986 and 1987 were counter to the long term trend, and that adverse forces reasserted themselves in 1988, after which the trend appears similar to that of the early 1970s.

Illinois' employment has declined as a portion of national employment for 1972-1990 as a whole. As with GSP/GNP, the pace of decline has slowed since 1985 (see Figure 2), and the graph of the most recent years appears similar to that of the early 1970s, so again it may be premature to conclude that trends have changed. If future months' data show stability or increases, it will appear that 1985 marked the end of Illinois' relative weakness in employment growth. If they show continued declines, the 1985-1988 period will appear to have been a flash in the pan.

Reflecting experience relating to employment, income growth in Illinois has strengthened. Though the state's portion of total personal income in the nation has declined since 1972 (see Figure 3), the declines were most rapid in the period ending in 1983. Since 1984, the pace of relative decline has slowed.

New Sources of Strength

While the service sector is said to be the most rapidly expanding area of the Illinois economy, it turns out that the

state's service sector is growing more slowly than that of the US. Consequently, Illinois' share of employment in services-producing industries has continued to drift lower. Surprisingly, the recent sources of economic strength in Illinois are its chief sources of weakness in years past: durable manufacturing, machinery in particular. Although there were sharp declines in Illinois' share of 1972-1983 employment related to machinery production, the declines reversed during the next few years (see Figure 4). Since 1986, the state's share of employment in machinery production and other durable goods industries has actually moved higher.

Recent Developments

GSP continued to decline relatively more than GNP during the recent recession. However, the recent trend appears more like that of the early 1970s than that of the early 1980s. The decline in employment has been even greater than the decline in real GSP, though durable goods production has been a surprising sector of recent relative growth.

There may be additional reasons for optimism concerning the Illinois economy, and the real estate sector in particular. Household spending has held up reasonably well in recent months. Purchases of durables rebounded in the first quarter, with automobile sales and expenditures on housing leading the way, and a moderate expansion in retail spending is expect-

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Readers Respond to Winter Issue

In "Privatization of Public Housing in the US," (*ORER Letter*, Winter 1991), Peter Colwell and Michelle Mahue defend privatization as a solution to many problems typically associated with public housing. Some readers, however, disputed the authors' view of Kenilworth-Parkside as a privatization success story. One critic stated that privatizing Kenilworth-Parkside was much more costly than originally had been estimated, but that tenant ownership is a focal point of Secretary Kemp's housing policy, so HUD could not allow such a highly visible project to appear to have failed.

Expenditures for kitchen and bath improvements, for example, have been roughly twice those of other renovated public housing facilities. Moreover, continuing rent subsidies and a management contract with the District of Columbia, coupled with potential property tax abatements and reduced utility fees, will add to the cost of privatizing the project. Privatization opponents in Congress, such as Rep. William Clay (D-MO), claim that the cost overruns cast doubt on the feasibility of public housing privatization programs in general.

While the authors do not deny these excesses, they counter that some of the costs reflect efforts to comply with HUD regulations, and others would have been incurred regardless of whether the project had been sold. They view the problems as an indictment of excessive regulation, not as evidence that privatization is infeasible. As the article suggests, these regulations and their accompanying high costs are unnecessary; an equity stake, coupled with unrestricted transferability on resale, is enough to assure the success of privatization.

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