Great Lakes Economic Initiative

Great Lakes Monitor

Tracking Economic Recession and Recovery in the 21 Largest Metropolitan Areas of the Great Lakes Region

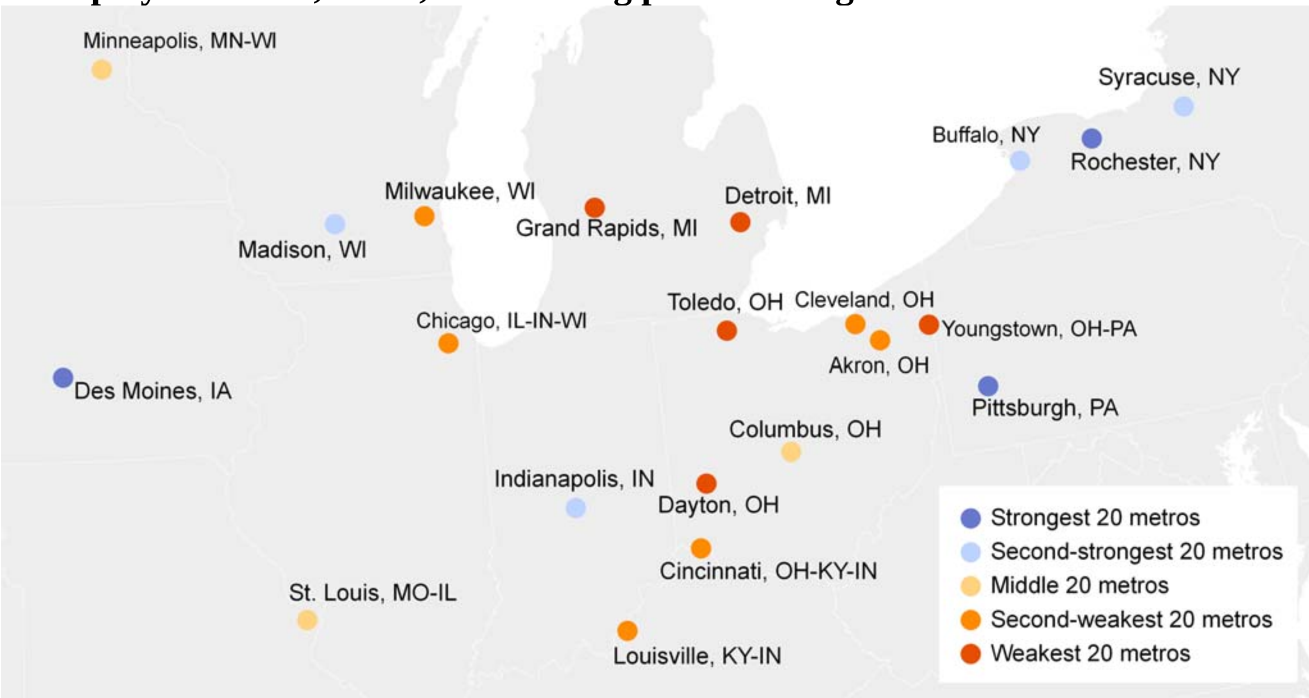
September 2009

Like a terrible storm that leaves some places devastated and others comparatively unscathed, the effects of the current economic recession are highly varied across the nation. This supplement to the *MetroMonitor* shows how current trends are playing out in the metropolitan areas where the Great Lakes economy is most concentrated—providing a sharper view of the shared challenges and important differences that characterize this large and complex area of the country.

It's certainly no great secret that the Great Lakes states are among those most impacted by the economic turmoil of the past few years. The global financial crisis, the bankruptcy of two of the Detroit three, and the overall contraction of the domestic auto industry are wreaking their own unique brand of havoc on much of the region, aggravating weaknesses that have been evident for decades. But as the findings below demonstrate, even within the region, the effects aren't uniformly felt.

The inaugural edition of what will be a quarterly series, this *Great Lakes Monitor* examines the 21 largest metros in the region, looking closely at how they are faring relative both to each other and to their peers across the nation in the areas of employment, unemployment, output, home prices, and foreclosure rates, analyzed through the second quarter of 2009 (ending in June).[1] It finds that:

Overall performance in Great Lakes metros based on change in employment, unemployment rate, GMP, and housing prices during the recession



Great Lakes metro performance on four key economic indicators

Metro	Percent change in employment, peak to 2009Q2	Rank*	Percentage point change in the unemployment rate, June 2008 to June 2009	Rank	Percent change in real GMP, peak to 2009Q2	Rank	Percent change in real house prices, 2008Q2 to 2009Q2	Rank
Akron, OH	-3.3%	38	4.4	66	-7.6%	92	-0.7%	46
Buffalo, NY	-2.8%	31	3.3	39	-4.1%	48	3.7%	4
Chicago, IL-IN-WI	-4.6%	67	4.3	62	-5.8%	77	-4.5%	68
Cincinnati, OH-KY-IN	-4.2%	63	4.1	59	-6.3%	84	0.4%	42
Cleveland, OH	-6.1%	79	3.2	36	-8.5%	98	-0.9%	47
Columbus, OH	-2.0%	14	3.3	39	-6.9%	86	1.0%	36
Dayton, OH	-7.3%	89	5.1	81	-7.3%	90	-0.6%	45
Des Moines, IA	-1.5%	9	1.8	3	-5.9%	79	1.9%	24
Detroit, MI	-14.5%	98	8.1	100	-14.5%	100	-7.8%	77
Grand Rapids, MI	-6.6%	85	5.5	88	-8.2%	97	-3.4%	63
Indianapolis, IN	-4.1%	60	3.6	50	-3.2%	29	1.2%	33
Louisville, KY-IN	-4.1%	59	4.3	62	-7.1%	88	1.5%	28
Madison, WI	-2.7%	29	2.9	24	-3.9%	43	1.2%	32
Milwaukee, WI	-5.5%	73	4.8	76	-7.3%	89	-0.2%	44
Minneapolis, MN-WI	-3.9%	55	3.4	43	-4.0%	47	-2.9%	59
Pittsburgh, PA	-2.6%	27	2.6	16	-4.5%	58	3.7%	5
Rochester, NY	-1.6%	10	3.1	32	-5.0%	67	3.1%	9
St. Louis, MO-IL	-3.4%	42	3.4	43	-6.1%	82	0.7%	39
Syracuse, NY	-1.8%	12	3.2	36	-6.4%	85	3.4%	7
Toledo, OH	-10.2%	96	6.6	98	-7.6%	93	-0.9%	48
Youngstown, OH-PA	-8.9%	91	7.1	99	-9.0%	99	1.6%	26
Great Lakes Metros	-4.5%		4.3		-6.0%		-1.5%	
100 Largest Metros	-3.8%		4.0		-3.7%		-4.4%	
United States	-4.1%		4.0		-2.8%		-1.7%	

*Rankings refer to each metro's place among the 100 largest metro areas

- **The recession has had highly varied impacts across metropolitan areas in the Great Lakes region, with 11 metros falling in the bottom tiers of metros based on their performance, and seven standing toward the top.** The overall performance of over half of Great Lakes metros has been fairly dismal: Five of the 21 large metros in the region—Dayton, Detroit, Grand Rapids, Toledo, and Youngstown—rank among the 20 weakest in the country, and an additional six rank among the second 20 weakest. At the other end of the spectrum, Des Moines, Pittsburgh, and Rochester are among the nation's top 20 highest performers, while Buffalo, Indianapolis, Madison, and Syracuse are in the next highest quintile; the remaining three Great Lakes metros fall in the middle of the pack.

- **Economic pain is most acute in Great Lakes metro areas that depend heavily on the auto industry and its supply chain**. Not so surprisingly, economic performance breaks down to a large extent along industry lines. Six of the 10 Great Lakes metros with a June unemployment rate over 10 percent have a high degree of specialization in auto and auto parts production, with four of those—Detroit, Grand Rapids, Toledo and Youngstown—ranking among the 10 metros nationwide with the highest rate. The economies of another two of the 10 Great Lakes metros with unemployment over 10 percent—Akron and Cleveland—are largely based on other types of manufacturing, leaving Chicago and Cincinnati as the only two of the group without a heavy concentration in goods production.[2] Job losses have been more modest in most of the metros in Upstate New York, in Columbus and Madison, which are both state capitals and major university centers, and in some of the other metros who economies are less dependant on manufacturing.

- **Still, output in most Great Lakes metro areas has fallen steeply**. By the end of June, every metro in the region had experienced a decline in GMP since their peak that exceeded the US average, and Great Lakes metro areas represent 13 of the 20 metros nationwide with the greatest drop. And their comparative performance hasn't gotten any better in recent months: GMP in the 21 Great Lakes metros fell an average of 0.8 percent in the second quarter, compared to a decline of 0.2 nationally, and nine of the 10 metros with the steepest drops in GMP during this period (Detroit, St. Louis, and all seven large metros in Ohio) were located in the region. These trends suggest that—even in areas where employment trends are less dire—inflation adjusted wages may have fallen.

- **The pace of economic decline slowed in most Great Lakes metro areas, but none have fully recovered.** Akron actually saw a small bump in employment during the second quarter of 2009, while it held steady in both Buffalo and Madison; another 13 metros in the region continued to lose jobs, but at a slower rate than during the previous quarter. Further, though no Great Lakes metro saw an increase in its GMP over the quarter—and the average decline in GMP in the region was still comparatively high—decreases in output were more moderate compared to the prior three month period. Unfortunately, quarter over quarter declines in employment actually increased in Chicago, Cincinnati, Milwaukee, Rochester, and Syracuse, though unemployment in the latter two metros remains below the national average. None of the metro areas in the region have yet returned to their pre-recession levels of employment or output.

- **The foreclosure crisis has hit several Great Lakes metro areas quite hard and others barely at all.** By the end of June, only five Great Lakes metros—Chicago, Detroit, Grand Rapids, Indianapolis, and Minneapolis—had REO rates that exceeded the national average, with the problem being particularly severe in Detroit, Grand Rapids, and Minneapolis. The metros in Upstate New York have for the most part escaped the housing crisis, however, as have Madison and Pittsburgh. Having largely missed the housing bubble, and now experiencing relatively low unemployment, housing markets in these communities are more stable than those of many of their peers, particularly in the South and West.

- **Twelve of the 21 Great Lakes metro areas experienced an increase in home prices over the past year, even as prices nationwide dipped an average 1.7 percent.** In fact, as a group, metro areas in the Great Lakes outperformed their peers on this indicator, experiencing an average price decline of just 1.5 percent, compared to an average 4.4 percent drop in the top 100 metros overall. Pittsburgh and the metro areas of upstate New York each saw an increase in home values over 3 percent, putting them among the top 10 metros nationwide. Detroit (down 7.8 percent), Chicago (down 4.5 percent), and Grand Rapids (down 3.4 percent) experienced the largest drops. The relative stability of prices in the region reflects their more moderate growth in the run-up to the recession, and has helped to soften the blow of job losses in many of its metropolitan areas.

- **Pittsburgh, the site of the G-20 meetings on September 24 and 25, 2009, ranks among the U.S. metropolitan areas least affected by the recession.** Pittsburgh's specializations in higher education and health care, and its steady housing market over the course of the decade, shielded it from the worst effects of the recession. In addition, its specialization in supplying machinery and services to the global steel industry also helped make its economic downturn less severe than the one affecting auto industry-focused metro areas. Its employment decline over the course of the downturn (2.6 percent) and in the last quarter (0.8 percent), along with its unemployment rate (7.7 percent), house price change over the past 12 months (up 3.7 percent), and rate of REO properties (1.06 per 1,000) all outperform national averages.

This first edition of the *Great Lakes Monitor* helps provide a more fine grained look at how local economic structure and housing dynamics have led to varied performance across the Great Lakes during the recession. It illustrates that, although the older industrial metros in the region have for decades shared in the struggle to retool their economies, the economic and housing crisis has set some communities—particularly those in Ohio and Michigan—further back in this process than others. By more precisely describing this 'story behind the story,' it shows where and how policy makers and regional stakeholders need to focus their energies to help ensure that recovery comes—if slowly—to all parts of the country.

Methodology

This supplement to the Monitor tracks quarterly indicators of economic recession and recovery in the 21 largest metropolitan areas of the Great Lakes region, which Brookings defines as being comprised of Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, West Virginia, Wisconsin, western New York, and western Pennsylvania. These indicators include:

- **Employment**: Total wage and salary jobs, seasonally adjusted. Percentage change in employment is shown from each metro area's peak employment quarter (since the first quarter of 2004) to the most recent quarter, measuring the extent to which employment has recovered from the recession's impact. It is also shown from the previous quarter to the most recent quarter, measuring the extent to which employment is moving toward recovery. Source: Moody's Economy.com

- **Unemployment rate**: Percentage of the labor force that is currently employed, not seasonally adjusted, last month of quarter. Because the data are not seasonally adjusted, change in the unemployment rate is shown from the same month in previous year. Source: Bureau of Labor Statistics.

- **Gross metropolitan product (GMP)**: Total value of goods and services produced within a metro area. The percentage change in GMP is shown from each metro area's peak GMP quarter (since the first quarter of 2004) to the most recent quarter, and from the previous quarter to the most recent quarter. Source: Moody's Economy.com.

- **Housing prices**: Prices of single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac, not seasonally adjusted. Because the data are not seasonally adjusted, the percentage change in housing prices is shown from the same quarter in the previous year to the most recent quarter. Source: Federal Housing Finance Agency House Price Index.

- **Real estate-owned (REO) properties**: Foreclosed properties that fail to sell at auction and thus become owned by the lending institution. Shown as the share of all mortgageable properties in each metro area in the last month of the most recent quarter, and change in share from last month in previous quarter. Source: McDash Analytics.

This *Great Lakes Monitor*'s Overall Performance index combines metropolitan rankings on four key indicators:

- Percent employment change from peak quarter to 2nd quarter 2009
- Percentage point change in unemployment rate from June 2008 to June 2009
- Percent GMP change from peak quarter to 2nd quarter 2009
- Percent change in House Price Index from 2nd quarter 2008 to 2nd quarter 2009

Metropolitan areas are then grouped into quintiles (groups of 20) based on their average ranking across all four indicators, among the 100 largest metro areas.

Great Lakes Monitor maps, underlying indicator data, and one-page profiles of each of the 21 largest metro areas in the Great Lakes are also available at www.brookings.edu/metromonitor

About the Metropolitan Policy Program at the Brookings Institution

Created in 1996, the Brookings Institution's Metropolitan Policy Program provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of cities and metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: www.brookings.edu/metro

The Great Lakes Economic Initiative

Launched in 2005, the Great Lakes Economic Initiative (GLEI) is part of the Metropolitan Policy Program's Blueprint for American Prosperity (Blueprint), which focuses on how federal policy can advance the economic vitality of the nation's metros. As part of the Blueprint, the GLEI pays particular attention to the unique challenges and opportunities faced by communities within the Great Lakes/Industrial Midwest region. Over the next several years, GLEI research and policy activities will closely align with the shifting economic and fiscal trends, environmental imperatives, and political opportunities affecting the region, focusing particularly on the older industrial metros most impacted by the transition of the auto industry. By doing so, we hope to help create a new era of productive, inclusive, and sustainable growth for Great Lakes communities and their residents. Learn more at www.brookings.edu/projects/great-lakes.aspx

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[1] The 21 largest metros in the Great Lakes region have populations of at least 500k, and thus rank among the 100 largest metro areas in the nation.
[2] For this analysis, we defined auto and auto parts-specialized metro areas as those that have employment location quotients (LQs) in these industries of at least 2.0. Other manufacturing-specialized metro areas are not specialized in auto and auto parts, but have manufacturing employment LQs of at least 1.2.