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CENTER FOR GOVERNMENTAL STUDIES Northern Illinois University

issue: *Employment Changes in Downstate Illinois and Business Climate Perceptions*

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- ***According to overall national rankings, Illinois suffers from a poor business climate.***
- ***Compared to its neighboring states, Illinois has had difficulty responding to job market changes.***
- ***Population changes in rural Illinois do not fully explain Illinois' poor rural economic performance.***
- ***Manufacturers in rural Illinois are unable to fill job vacancies with the skills needed for on-going operations.***
- ***Illinois has not fared as well as other states in new business start-ups.***
- ***Strategies that might be pursued to improve Illinois' economy will require a concerted effort by elected officials and business leaders working together over a period of several years.***

Editor's Note: This is another in the current series of *Policy Profiles* focusing on current issues confronting Illinois' rural counties. The concerns discussed in the series include a long term reduction of the population of rural counties and the related continuing decline in both agricultural and business jobs in rural areas. These losses pose a threat to the ability of rural counties to maintain existing public service levels such as education, health care, welfare, and programs for the elderly. This threat, in turn, poses crucial questions regarding ways in which the structure of Illinois' local governments in rural counties can adjust. Norman Walzer and colleagues have discussed these issues and questions in past *Policy Profiles* and now examine employment and business climate perceptions in Illinois' rural counties. Past *Policy Profiles* may be found at on the internet at http://www.niucgs.org/portfolio/policy_profiles/index.html.

The fabled "heartland" of the United States – once known as the "breadbasket to the world" – is in trouble. Rural areas throughout the nation's Midwestern states, most notably including Illinois, have become the victims of their own success.

Increased productivity in both agriculture and manufacturing during the past several decades has contributed to a major transition in population and employment trends in the region. When combined with increased competition for manufacturing business from Mexico and off-shore locations, these trends have added to the momentum in the region toward both high unemployment and declining population.

Compared with other Midwestern states, Illinois has had difficulty responding to job market changes. It has seen the employment and economic bases of its rural communities erode, triggering further population declines as youth leave for better employment opportunities elsewhere. The 2008 recession aggravated these issues and created deeper fiscal problems for governments struggling to finance public services in rural Illinois.

The analysis examines how counties in Illinois have performed in terms of local economic factors. It also compares Illinois with surrounding states regarding entrepreneurship as measured by business starts and a variety of business climate and performance indices. These indices can serve as a basis for improving the perceptions of the business climate in Illinois. Finally, the study will offer several recommendations regarding actions that might be taken to improve conditions in rural Illinois.

How has Illinois' population been changing?

The population in non-metro Illinois has changed substantially since 2000 with a majority of the state's rural counties losing population – *a trend different from that experienced by contiguous states.*

For example, in non-metro[1] Illinois counties, population declined 4.5 percent compared with an increase of 2.1 percent in contiguous states. **See Table 1.** The changes in Illinois could adversely affect the future work force and affect the kinds of industries attracted to Illinois. Of most importance, the cohort between 18 and 44 years of age declined 12.5 percent in the past decade compared with a decline of 6.7% percent in contiguous states and 3.2 percent statewide (Table 1). This signifies an aging of the population in non-metro Illinois as well as migration to metropolitan areas with better employment opportunities.

Another possible explanation for Illinois' rural population changes is that more residents, because of aging in place, advanced into the next older cohort (45 to 64 years) than entered the 18 to 44 years group. While the older population cohort in Illinois grew by 11.6 percent, the same cohort in contiguous states increased 20.8 percent. Thus, surrounding states lost a smaller percentage of their prime work force but also gained a larger percentage in the more senior work force category.

In short, population changes in rural Illinois do not by themselves explain Illinois' poor rural economic performance.

Table 1. Population Change by Age Group 2000-2010

	Illinois			Surrounding states: Indiana, Iowa, Kentucky, Missouri, and Wisconsin		
Population	Nonmetro	Metro	State	Nonmetro	Metro	Region
Under 18 years of age	-11.5%	-2.5%	-3.6%	-4.8%	2.8%	0.4%
18 to 44	-12.5	-1.8	-3.2	-6.7	1.1	-1.2
45 to 64	11.6	23.0	21.2	20.8	27.4	25.2
65 to 84	-0.9	5.9	4.7	5.4	8.6	7.4
85 and older	4.9	24.9	20.4	7.9	22.2	16.7
Total Population	-4.5	4.4	3.2	2.1	8.4	6.4

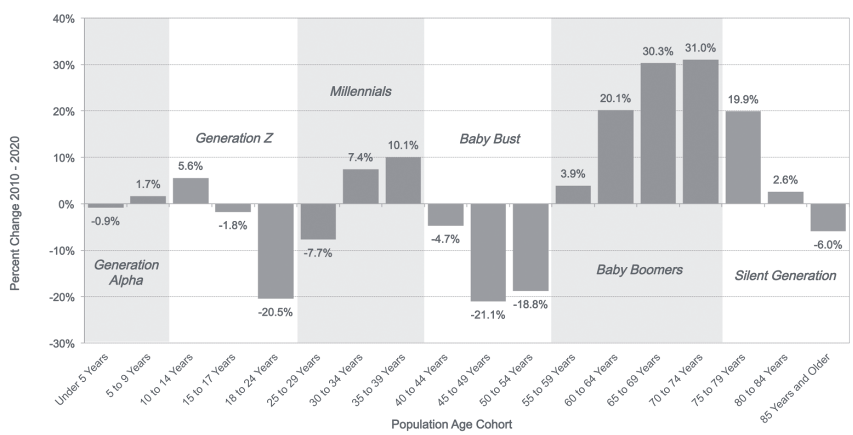
Data source: U.S. Census Bureau; EASI Analytics, Inc., 2011

What could this mean for the future?

Population forecasts by age cohort for 2010 to 2020 in non-metro Illinois reveal potentially difficult times ahead for attracting and retaining a workforce suited for business expansions. For instance, as Baby Boomers move into their later careers, the growth in the 60 years plus age group will be substantial while the proportion represented by the 45 to 59 years age group will shrink. **See Figure 1.** The 35 to 44 year old group (Millennial generation) shows some increase. While the Baby Boomers may work past traditional retirement dates,[2] replacing them with younger workers will be difficult without major migration into non-metro Illinois counties.

Not included in Figure 1 is the impact of the growing wage disparity between non-metro and metro areas in Illinois. As employers in metro areas hire additional workers during an economic recovery, the wage differential between rural and metro will widen, causing young adults to pursue careers in metro areas in search of the higher wages. While this trend is not new, it is likely to increase in the future and, without jobs at competitive pay rates, rural areas will have more difficulty attracting young adults back in their later careers. This is disappointing since a recent issue of the Illinois Rural Life Poll shows that young adults would like to live in rural Illinois if suitable employment opportunities were available.[3]

Figure 1. Projected Population Trends
Downstate Non-Metropolitan Counties, Illinois 2010-2020



Data source: Woods & Poole Economics, Inc., 2012

So how have jobs changed in Illinois?

Manufacturing has long provided some of the highest-paying jobs in rural Illinois and employment trends in manufacturing were reported in a previous *Rural Research Report.*[4] The past decade, however, has shown a 35.3 percent decline in manufacturing jobs in non-metro Illinois compared with a 30.0 percent decrease in contiguous states. **See Table 2.** *Surrounding states lost manufacturing, but Illinois seems to have been hit harder.*

Routine manufacturing jobs have been especially hard hit by competition from Mexico and off-shore locations. Many of these jobs are in rural locations because of lower wages. At the same time, the jobs currently in demand require specialized knowledge and adaptability to managing sophisticated machines.[5] What this means is that many workers who have made a competitive wage in the past have now been displaced by plant closings and are unable to compete effectively for other positions.

This situation is especially difficult for workers with relatively few years left in their working career. The costs associated with returning to school or going through an extended training program, if they could, are difficult to recover during a relatively short remaining working career. This leaves manufacturers, especially in rural areas, in a quandary since they have available jobs that pay a living wage but are unable to fill vacancies with the skill levels needed for ongoing operations or to reach new markets.[6]

Table 2. Industry Employment Trends 2000-2010

	Illinois			Indiana, Iowa, Kentucky, Missouri, and Wisconsin		
Industry	Nonmetro	Metro	State	Nonmetro	Metro	Region
Total Employment						
Numeric Change	-60,251	-52,080	-112,331	-103,180	58,700	-44,480
Percent Change	-6.7	-0.8	-1.5	-2.5	0.6	-0.3
Farming						
Numeric Change	-15,793	-8,487	-24,280	-67,096	-35,475	-102,571
Percent Change	-25.1	-22.5	-24.1	-19.7	-19.1	-19.5
Change in Share of Total Employment	-1.4	-0.1	-0.3	-1.5	-0.3	-0.7
Manufacturing						
Numeric Change	-44,377	-266,620	-310,997	-223,570	-448,540	-673,622
Percent Change	-35.3	-35.4	-35.4	-30	-30.4	-30.3
Change in Share of Total Employment	-4.3	-4.1	-4.1	-5.1	-4.3	-4.5
Wholesale and Retail Trade						
Numeric Change	-8,570	-102,658	-111,228	-34,297	-134,800	-169,067
Percent Change	-6.4	-10.6	-10.1	-5.6	-8.1	-7.4
Change in Share of Total Employment	0.1	-1.5	-1.3	-0.5	-1.3	-1.1
Services						
Numeric Change	7,739	322,515	330,254	166,093	580,342	746,435
Percent Change	2.9	12.7	11.8	14.4	15.2	15
Change in Share of Total Employment	3.1	5.4	5.2	4.8	5.2	5.2

Data Source: Woods & Poole Economics, Inc., 2012

Counties in rural Illinois experienced a sharper decline in farming employment than counties in adjacent states (25.1 percent versus 19.7 percent). This trend may reflect more farm consolidations and increased use of larger, automated machinery, creating less demand for farm workers.

While manufacturing jobs have declined, the number of service jobs has increased. However, rural areas are less likely to attract professional and business service firms in such fields as accounting, legal, and engineering. Instead, rural areas have more personal services such as fast food, dry cleaning, and similar jobs that pay substantially less than business services.

Thus, replacing a manufacturing job with a service job in a rural area often has a negative economic impact based on the pay differential.

Nevertheless, service employment is important given the range of skill levels available among the population. However, non-metro Illinois increased only 2.9 percent in service employment compared with a 14.4 percent increase in adjacent states and a 12.7 percent increase in metro areas. Even the metro areas in Illinois lagged behind their counterparts in other states.

What is the status of business start-ups in Illinois?

Economic expansion in non-metro Illinois in the future must depend more heavily on new businesses to make up for losses in manufacturing employment. *During the past decade, however, Illinois has not fared as well as other states in entrepreneurial activity.* According to the Kauffmann Index of Entrepreneurship, Illinois ranked 46th from the top. The Kauffmann Index is based on surveys of residents asking whether they began owning a business as their primary job and worked more than 15 hours a week.[7]

From another angle, comparing the percentage increase in business starts between 2000 and 2007 (the pre-recession years) shows that both Illinois as a state and non-metro Illinois counties lagged behind surrounding states except for Iowa. **See Table 3.** Extending the comparison to 2009 (not shown) and incorporating the early effects of the recession places Illinois on the same level as Iowa (33 percent increase) and well behind other states.

Could the loss in manufacturing jobs reflect slow-growing industries?

The industrial structure within a state affects long-term employment changes and how the employment base fluctuates during a recession. The Shift-Share[8] technique allocates employment changes into the impacts of changes in the national economy (National Share), the presence of industries in Illinois that are growing or declining at the national level (Industry Mix); and other factors unique to Illinois. This third effect, called the Competitive Share Component, includes characteristics or conditions in Illinois that help or limit employment growth but does not specifically identify those factors.

The study being reported in this *Policy Profiles* compared manufacturing employment in six Midwestern states between 2000 and 2011 to determine whether such employment changes occur mainly because Illinois has industries that are growing more slowly than the average of all industries nationally. In fact, a decline of 52,846 manufacturing jobs in Illinois can be attributed to industries in this category, suggesting that a substantial part of Illinois' manufacturing decline results from the slow growth of Illinois' industrial base. **See Table 4 on the next page.**

Table 3. Business Startups in Illinois and Surrounding States, 2000-2007

	Establishments		Startups	
	2000	**2007**	**Number**	**Percent**
Illinois	562,313	787,634	225,321	40%
Nonmetro	129,750	155,157	25,407	20%
Indiana	278,266	409,011	130,745	47%
Nonmetro	135,736	189,245	53,509	39%
Iowa	199,535	266,992	67,457	34%
Nonmetro	127,960	162,036	34,076	27%
Kentucky	178,285	307,987	129,702	73%
Nonmetro	100,564	173,614	73,050	73%
Missouri	282,313	408,450	126,137	45%
Nonmetro	193,746	282,648	88,902	46%
Wisconsin	268,642	405,631	136,989	51%
Nonmetro	125,168	192,884	67,716	54%

Source: Walls & Associates, Inc., National Establishments Time Series

Table 4. Manufacturing Employment Trends 2000-2011

State	Total Change	National Share	Industry Mix	Competitive Share	Competitive Share (Percent)
Illinois	-274,748	42,717	-52,846	-8,507	-0.97%
Indiana	-229,863	32,719	-40,477	-25,940	-3.85%
Iowa	-41,810	12,415	-15,359	35,569	13.91%
Kentucky	-111,373	15,284	-18,908	-16,112	-5.12%
Missouri	-111,858	18,110	-22,403	1,012	0.27%
Wisconsin	-137,324	29,335	-36,291	45,513	7.53%

Source: Woods & Poole Economics, Inc.

The Competitive Share Component (CSC) for this period in Illinois shows a decline of 8,507 manufacturing jobs. Iowa and Wisconsin, among other states, report high positive employment changes in the CSC category. This means that their policies, business climate, and other factors have promoted growth in manufacturing jobs. Illinois did not fare as poorly as Kentucky or Indiana, but those states had disadvantages in manufacturing compared to other neighboring states. According to the CSC, Kentucky lost 5.1 percent of its manufacturing jobs and Indiana lost 3.8 percent due to factors specific to their states, even after considering the decrease in manufacturing employment nationwide.

Reasons for employment declines due to CSC may reflect local conditions as well as state policies. For instance, a rural county with a large manufacturing plant that has done well because of local management decisions will have a high CSC figure. This is a possible explanation for counties in west central and central Illinois where businesses have outpaced their national industry counterparts. A high CSC number may also reflect state or local government support and assistance. Documenting specific reasons for a positive CSC requires additional and more detailed information and work is currently underway on this issue.

Table 5. Summary of State Business Climate Rankings

(Lowest Number is the Highest Rank)

State	CNBC	Forbes	Tax Fndn	Info Tech & Innov Fndn*	Beacon Hill	Kauffman Foundation Institute	Chief Exec.
Iowa	12	10	41	38	8	37	22
Illinois	26	41	28	15	44	46	48
Indiana	14	34	11	35	43	47	5
Kentucky	36	25	22	44	46	11	25
Missouri	27	31	15	33	33	6	24
Wisconsin	17	40	43	29	22	43	20

*Information Technology and Innovation Foundation

Does the business climate in Illinois need to change?

Perception of a poor business climate has plagued Illinois for many years.[9] Illinois is often seen as a high wage, unionized state with a reputation for costly workers' compensation settlements.[10] While these issues are certainly important, identifying or quantifying overall business climate is difficult because industry employment and needs vary. Thus, states can score high or low on published business climate indices depending on the issues examined in the index and the types of industries being considered.

Since each business climate ranking focuses on specific issues, this study examined seven published, commonly-used rankings that cover costs of doing business or labor quality to see how Illinois compares with surrounding states on these measures. As one might expect, in some instances Illinois is competitive while in other cases it is not. These business climate indices were selected arbitrarily, and they offer only a broad perspective on how Illinois, as a state, ranks. The comparisons of the indices used here are shown in **Table 5.**

Among the indices compared, Illinois ranked highest (15) on the Information Technology and Innovation Foundation's New Economy index which considers responsiveness to a global knowledge economy. By this index, Illinois was surpassed only by Minnesota among the six Midwestern states. Illinois ranks high in preparation for the digital economy when measured by high-speed internet access, use of IT for state government service delivery, and the percentage of farmers using computers that also have internet access.

Illinois also ranked high on the New Economy index for creating knowledge jobs as measured by educational attainment of recent immigrants and employment in IT occupations in non-IT sectors. Illinois was average with other states in economic dynamism as measured by the number and valuation of initial public offerings by companies based in the state.

Illinois scored low on the Kauffman Foundation Index of Entrepreneurial Activity (46th), the Chief Executive Magazine's survey of CEOs (48th), the Beacon Hill Institute's Competitiveness Index (44th), and the Forbes Best States for Business report (41st). The Kauffman Index covers time spent on entrepreneurial experiences so a low score could signify needed changes in policies or climate for entrepreneurship. Illinois might be well advised to invest time in determining which of the various components within an index could be improved, but Illinois may still score high on specific items important to a particular company.

Whatever the use or value, if any, of ranking high on one or more of the published business climate indices, it is desirable not to score low for several reasons. First, a chief executive of a company considering relocation may be initially discouraged by a low overall ranking and focus more on a state with more positive rankings. One low ranking may not be critical, but it can contribute to a perception of the business climate.

Second, state agencies competing for companies find it useful to emphasize low rankings in other states. Perceptions of a bad business climate can persist for many years even when the policies or other causes have been rectified. Thus, it makes sense to improve the visibility of attractive features in a state. Working to correct widely-publicized rankings should be part of that effort.

Third, prospective companies can use a low ranking as leverage in discussions with state or local development practitioners to obtain additional incentives or policies. This setting fosters a costly bidding environment among states to lure businesses to their area.

The above comparisons offer several insights. The loss of manufacturing jobs in Illinois as reported on the Competitive Share Component for Illinois, while not large, is substantially more than in other states, some of which have a positive CSC. Based on only the several business climate indices reviewed here, *Illinois scored relatively high on the Information Technology and Innovation Foundation index but below most surrounding states on other rankings.* These findings should be a cue for more research to identify weaknesses in Illinois and to resolve some of the issues.

So, what is next?

The previous analysis suggests several clear conclusions. First, the Midwestern economy has not performed as well as other regions of the country, but the states adjacent to Illinois have done a better job than Illinois in adapting to population changes and evolving trends in business employment. Of special concern to Illinois at this point in time are expected losses in the state's prime work force age groups in the next decade. Illinois work force projections through 2020 suggest a significant decline especially in the state's 44-65 year cohort of available workers. This could, and probably will, lead to difficulties in attracting labor intensive businesses to Illinois. The non-metro areas will be especially affected by the growing wage differential between non-metro and metro areas that will attract workers to higher-paying metro areas.

Second, a substantial portion of Illinois' decline in manufacturing employment can be attributed to industries in Illinois that are growing less rapidly or declining nationally, but some of the decline can also be attributed to factors unique to Illinois.

Third, according to overall national rankings, Illinois suffers from a poor business climate. However, these rankings are often ambiguous and Illinois ranks relatively higher on indices relating to technology and global businesses even though it ranks low on general business climate and entrepreneurship indices. These latter rankings make marketing the state to prospective businesses more difficult.

Several strategies might be pursued. The current unstable fiscal climate at the state level hampers the potential to attract businesses unsure of future taxes, charges, or other costs. Bringing the fiscal conditions into balance will require a concerted effort involving agreement from elected officials as well as business leaders working over several years.

Also important is aggressively marketing Illinois to potential businesses in a unified and consistent fashion, including highlighting economic gains when they occur. Such a marketing strategy could build on the *Grow Illinois Alliance* launched by the statewide Illinois Development Council and other groups.[11] The initiative must build on fundamental changes being made and it must call attention to statewide and local programs that promote business creation.

Endnotes

[1]The term "non-metro" as used in this study includes counties not in a Metropolitan Statistical Area as defined by the U.S. Bureau of the Census in 2003 (http://www.census.gov/population/estimates/metro-city/0312msa.txt). This *Policy Profiles* uses the terms "non-metro" and "rural" interchangeably, recognizing the differences in definitions.

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[7]Fairlie, R. (2012) Kauffman Index of Entrepreneurial Activity 1996-2011. Retrieved from http://www.kauffman.org/uploadedfiles/kiea_2012_report.pdf

[8]For additional information on Shift-Share approaches, see www.georgiastats.uga.edu/sshare1.html

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[11]For additional information on the *Grow Illinois Alliance,* see http://growillinois.net/

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