Great Lakes Monitor

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

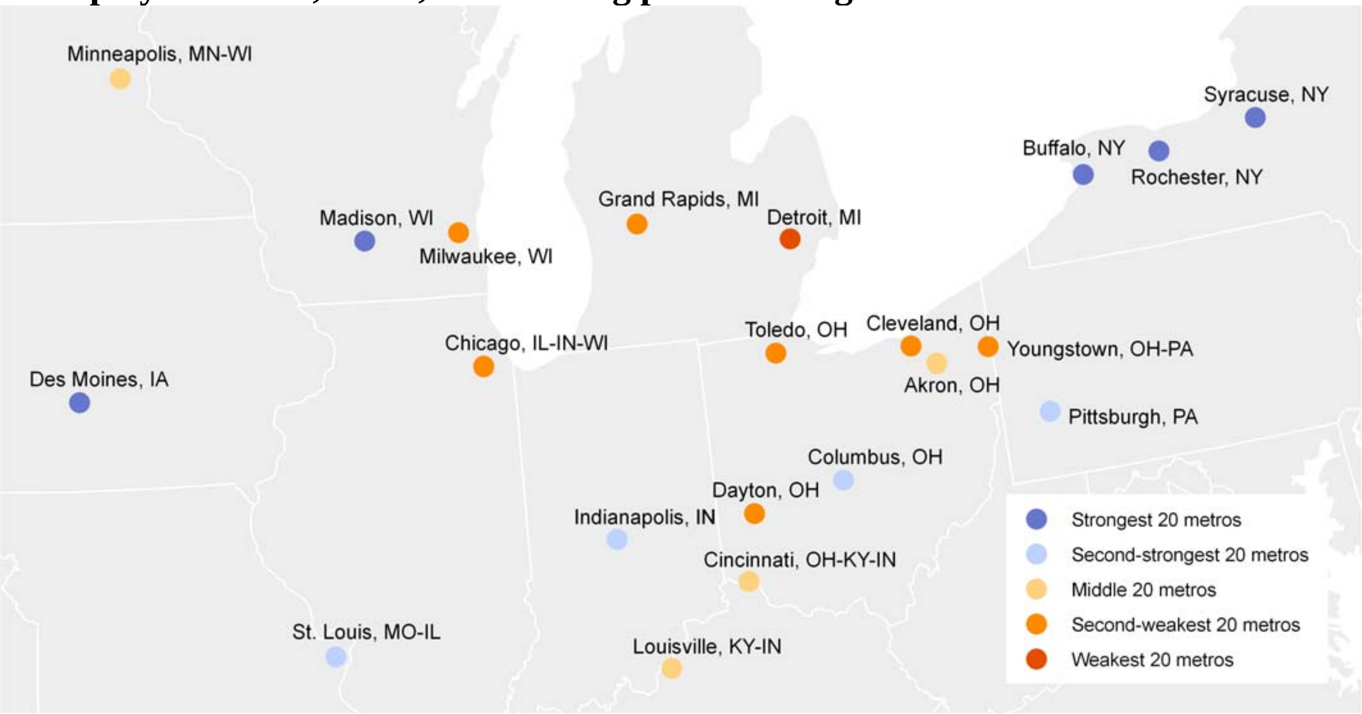
December 2009

Increases in real U.S. gross domestic product (GDP), rising home prices, and decelerating rates of job loss have led most economists to conclude that the national recession is over. Recovery is fragile, however, and trends vary substantially across the country. This supplement to the *MetroMonitor* shows how they 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.

The recession has not been kind to much of the Great Lakes region, where the global financial crisis, the bankruptcy of two of the Detroit Big Three, and the overall contraction of the manufacturing sector have wreaked their own unique brand of havoc on communities already struggling to remain relevant in a changing economy. But as the findings below demonstrate, even within the region, the effects haven't been uniformly felt. From June to September, many Great Lakes metros saw sharp improvements in output, or gross metropolitan product (GMP); home prices rose across most of the region; and a few metros appear to have pulled out of the recession, if barely. But others, particularly the auto communities in the region's geographic center, remained battered by high unemployment, and continued to shed jobs even as their output numbers increased.

The second edition in 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 third quarter of 2009 (ending in September).[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 employment change, metro peak to 2009Q3	Rank*	Change in unemployment rate, Sep. 2008 to Sep. 2009	Rank	Percent real GMP change, metro peak to 2009Q3	Rank	Percent change in the real HPI, 2008Q3 to 2009Q3	Rank
Akron, OH	-4.8%	58	3.2%	47	-4.1%	68	0.8%	38
Buffalo, NY	-2.8%	24	2.5%	24	-1.4%	24	4.3%	5
Chicago, IL-IN-WI	-5.4%	66	3.9%	67	-3.5%	58	-4.8%	74
Cincinnati, OH-KY-IN	-4.9%	59	3.2%	45	-4.2%	69	0.7%	40
Cleveland, OH	-7.2%	83	1.9%	7	-7.2%	96	0.8%	36
Columbus, OH	-2.3%	19	2.4%	19	-4.4%	71	1.8%	24
Dayton, OH	-7.5%	88	3.5%	59	-8.2%	97	0.9%	34
Des Moines, IA	-1.8%	10	2.2%	12	-3.2%	49	2.6%	19
Detroit, MI	-14.9%	98	8.4%	100	-15.2%	99	-7.1%	81
Grand Rapids, MI	-6.8%	78	4.3%	77	-4.9%	77	-2.4%	61
Indianapolis, IN	-4.4%	51	2.8%	34	-1.8%	32	1.5%	30
Louisville, KY-IN	-4.4%	52	3.3%	52	-4.9%	79	2.5%	21
Madison, WI	-2.5%	21	2.3%	16	-1.5%	26	1.7%	26
Milwaukee, WI	-6.4%	75	3.9%	66	-3.5%	57	0.2%	48
Minneapolis, MN-WI	-4.4%	49	2.0%	8	-2.6%	41	-3.9%	70
Pittsburgh, PA	-2.9%	25	2.7%	31	-4.4%	72	4.1%	6
Rochester, NY	-2.1%	15	2.3%	15	-0.5%	16	4.3%	3
St. Louis, MO-IL	-3.8%	37	3.2%	44	-0.6%	17	0.4%	46
Syracuse, NY	-1.8%	9	2.4%	21	-1.4%	25	4.3%	4
Toledo, OH	-10.2%	94	3.6%	61	-9.3%	98	0.5%	43
Youngstown, OH-PA	-9.9%	92	5.1%	94	-6.1%	89	2.8%	18
Great Lakes Metros	-5.0%		3.6%		-3.5%		-1.1%	
100 Largest Metros	-4.3%		3.6%		-2.4%		-3.0%	
United States	-4.6%		3.5%		-2.5%		-1.3%	

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

- **The recession continued to have highly varied impacts across metropolitan areas in the Great Lakes region, though the overall performance of most improved.** Of the 21 Great Lakes metros, only Detroit remained among the 20 weakest in the country, ranking dead last among its peers nationwide. Four metros (Dayton, Grand Rapids, Toledo, and Youngstown) moved from the weakest to second weakest quintile over the quarter, joining Chicago, Cincinnati, Cleveland, and Milwaukee. At the other end of the spectrum, Des Moines, Madison, and the three Upstate New York metros (Buffalo, Rochester, and Syracuse) were among the nation's top 20 highest performers. A decline in output dropped Pittsburgh out of the top 20 during the quarter, so that it joined the ranks of Columbus, Indianapolis, and St. Louis in the next highest quintile. The remaining three Great Lakes metros fell in the middle of the "top 100 metro" pack.

- **Unemployment remained most acute in Great Lakes metro areas that depend heavily on the auto industry and its supply chain**. Six of the seven Great Lakes metros with a September unemployment rate over 10 percent (Dayton, Detroit, Grand Rapids, Louisville, Toledo, and Youngstown) have a high degree of specialization in auto and auto parts production, reflecting the massive job losses in that sector. However, only two of those metros (Detroit and Youngstown) ranked among the 10 metros nationwide with the highest unemployment rates.[2] On the (relative) upside, over half (12) of the Great Lakes metros had September unemployment rates below the U.S. average of 9.5 percent. Des Moines (6.1 percent) and Madison (5.6 percent) had among the lowest unemployment rates in the nation, which is primarily due to their concentration in industries that to date have been less affected by the recession, including government and insurance.

- **Employment continued to fall in nearly all Great Lakes metro areas, though the pace of job loss decelerated.** Madison and Syracuse were the only Great Lakes metros among 13 nationwide that experienced job growth over the quarter. While Syracuse lost jobs during the previous quarter, this was the second consecutive three-month stretch of job growth for Madison; employment in Buffalo, meanwhile, again held steady. With the exception of Akron, Dayton, and Des Moines, where job losses accelerated (albeit only slightly in the latter two), all the other metros in the region lost jobs at a slower rate than during the previous quarter. After seeing a small bump in employment during the second quarter of 2009, Akron's fortunes actually reversed during the third quarter, putting it, along with Cleveland and Youngstown, among the 10 metros nationwide experiencing the largest declines.

- **Output in all but two Great Lakes metro areas grew over the quarter, a stark reversal from the previous quarter**. By the third quarter of 2009, 15 of the region's 21 metros had experienced a decline in gross metropolitan product (GMP) from their pre-recession peaks that exceeded the US average. Five of these metros (Cleveland, Dayton, Detroit, Toledo, and Youngstown) rank among the 20 metros nationwide with the greatest long-run GMP decline. But in line with the national trend, these metros' performance improved markedly over the third quarter, during which GMP grew in every Great Lakes metro but Pittsburgh and Chicago—after having dropped in all the region's metros during the previous three months. The region also boasts three of the 10 metros nationwide (Cincinnati, Cleveland, and Columbus) with the greatest growth in GMP during the period.

- **The "cash-for-clunkers" program probably accounted for the improved performance of auto and auto parts production-specialized metro areas in the region.** Of the eight Great Lakes metros that specialize most strongly in auto and auto parts production, three (Detroit, Louisville, and Toledo) saw an uptick in manufacturing jobs during the third quarter, while another four (Dayton, Grand Rapids, Indianapolis, and Youngstown) experienced a slower rate of job loss in the sector than in previous months; the pace of decline accelerated slightly in Columbus. Meanwhile, a more granular look at GMP numbers reveals that auto and transportation equipment output grew at a faster rate in the third quarter than in the second in five of the region's "auto" communities (Columbus, Dayton, Indianapolis, Toledo, and Youngstown) and fell at a slower rate in the third quarter than in the previous one in the other three (Detroit, Grand Rapids, and Louisville).[3] These trends likely resulted from the "cash-for-clunkers" program, and perhaps from some inventory replenishment that might have occurred anyway.

- **Seventeen of the 21 Great Lakes metro areas experienced an increase in home prices over the past year, even as prices nationwide dipped an average 1.3 percent.** Pittsburgh and the metro areas of upstate New York each saw an increase in home values over 4 percent, putting them among the top 10 metros nationwide; Des Moines (up 2.6 percent) and Youngstown (up 2.8 percent) are in the top 20. Detroit (down 7.0 percent), Chicago (down 4.8 percent), Minneapolis (down 3.9 percent), and Grand Rapids (down 2.4 percent) experienced the only price drops in the region, aligning with their high rates of foreclosure (see below). Still, trends in the region are largely positive, and provide a measure of vindication for metros that were largely left out of the pre-recession price boom experienced elsewhere in the country.

- **The foreclosure crisis has hit several Great Lakes metro areas quite hard and others barely at all.** By the end of September, only six Great Lakes metros (Chicago, Columbus, Detroit, Grand Rapids, Indianapolis, and Minneapolis) had rates of real estate-owned properties (REOs) that exceeded the national average, with the problem being particularly severe in Detroit, Grand Rapids, and Minneapolis. The overall REO rate rose across Great Lakes metros between June and September, though by a slightly smaller margin than the national average. On the upside, Grand Rapids is one of only two metros in the region—the other being Milwaukee—where the REO rate actually declined over the quarter, suggesting the crisis could be abating there. Though their foreclosure rates continue to creep upward, it's safe to say that Madison, Pittsburgh, and the metros in Upstate New York have for the most part escaped the housing crisis—Syracuse has the lowest rate in the country, in fact. Having largely missed the housing bubble, and now experiencing relatively moderate unemployment, housing markets in these metros are much more stable than those in Florida and the inland West.

- **The recession may be over or near over in a small handful of Great Lakes metros.** With increases in job growth, GMP, and housing prices, the worst of the recession may be behind both Madison and Syracuse. Steady, if not yet growing, employment and increasing output, along with rising home prices, provides some indication that Buffalo, too, could be on the road to recovery. If fourth quarter job numbers show signs of improvement, it's hopeful that some other Great Lakes metros might join these metros in the months to come. But caution should accompany optimism: Massive state budget deficits could begin to weaken the government sector in Madison and other state capital metros such as Columbus, Des Moines, Indianapolis, and Minneapolis, while the diminishing effects of temporary federal programs like "cash for clunkers" and the first-time homebuyer credit might temper some of the encouraging trends described above.

This second 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 the varied "stories within 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 to the most recent quarter, measuring the extent to which employment has recovered from the recession's impact. Peaks are defined as the highest employment level attained since the first quarter of 2004; in some metro areas where this peak occurred in the most recent quarter, the peak was defined as the highest level attained between 2004 and its most recent quarter of employment losses. Percentage change in employment 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 (defined in the same way as the peak employment quarter, described above) 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 3rd quarter 2009
- Percentage point change in unemployment rate from September 2008 to September 2009
- Percent GMP change from peak quarter to 3rd quarter 2009
- Percent change in House Price Index from 3rd quarter 2008 to 3rd 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.
[3] Auto and transportation equipment manufacturing includes the following sub-industries: motor vehicle manufacturing, motor vehicle body and trailer manufacturing, motor vehicle parts manufacturing, railroad rolling stock manufacturing, and other transportation equipment manufacturing.