

The Economy and Construction

A look ahead for contractors written by Morton J. Marcus, Executive Director, Indiana Business Research Center, Kelley School of Business, Indiana University
for the Lake County Contractors Association

January, 2005

The long-term view of Illinois' economy

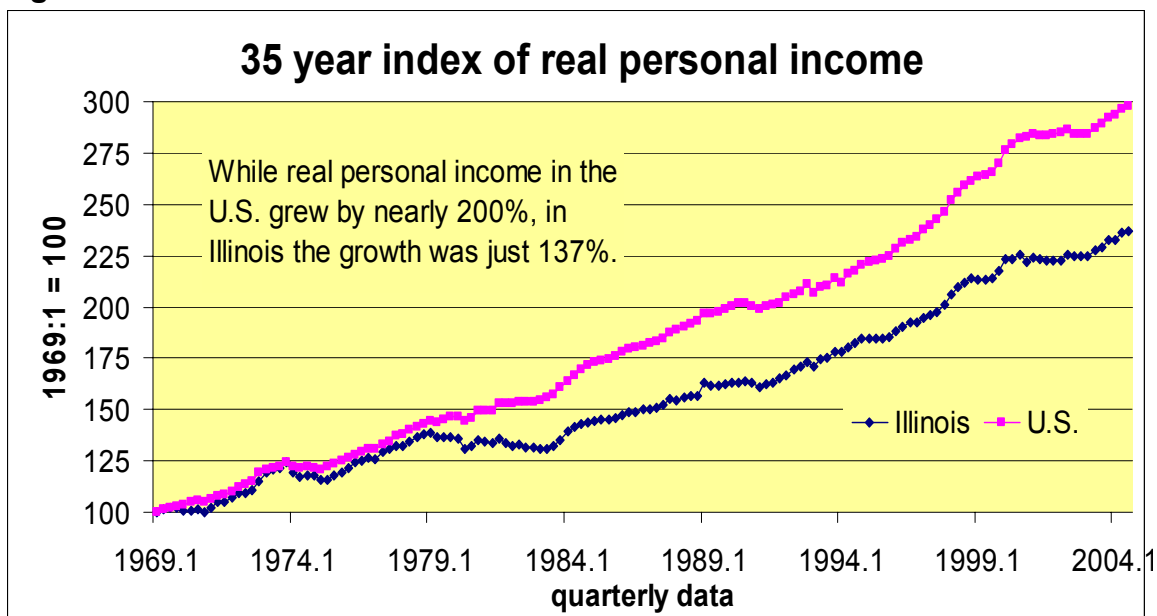
It is easy to recline comfortably on a winter day in Lake County and reflect on all that is good. Business for the construction industry has been just fine for so long that we forget the essential truth of Illinois' economy.

Yet there are those on-going pressures on state and local government revenues while the demand for the services of governments rise. Although business in some parts of the Chicago area looks good, it is far from healthy elsewhere. How can things be so good and so bad at the same time?

Let us sit back and look at the record of the past 35 years. Our measure of economic performance is the most basic data: real personal income, that is, the total money the people of Illinois make as a result of working for themselves or someone else, plus all the dividends, interest and rent they collect, plus any Social Security, unemployment compensation or other payments from the federal government. When we say real, we mean adjusted for price changes to year 2000 levels.

Figure 1 compares Illinois' record of growth in real personal income with that of the U.S. Both economies are set equal to 100 in the first quarter of 1969 and then the chart follows them through for 143 quarters to the third quarter of 2004.

Figure 1



Illinois kept pace with the U.S. economy until 1978 and then began to slip. The gap between the two grew. By the third quarter of 2004, the latest data we have, the nation had grown by nearly 200% from 1969, but Illinois had advanced by only 137%. What does this mean in dollars? In the third quarter of 2004, the citizens of Illinois had real personal income of \$220 billion which was \$45 billion (20%) below what they would have had if they had just kept pace with the nation over the past 35 years. **What would it mean to your business if the market was 20% larger?**

Illinois' economy has led the nation in growth rates in only 57 of the past 142-quarter, or 40% of the time. But when Illinois is ahead of the nation, the average growth differential is 2% and when Illinois



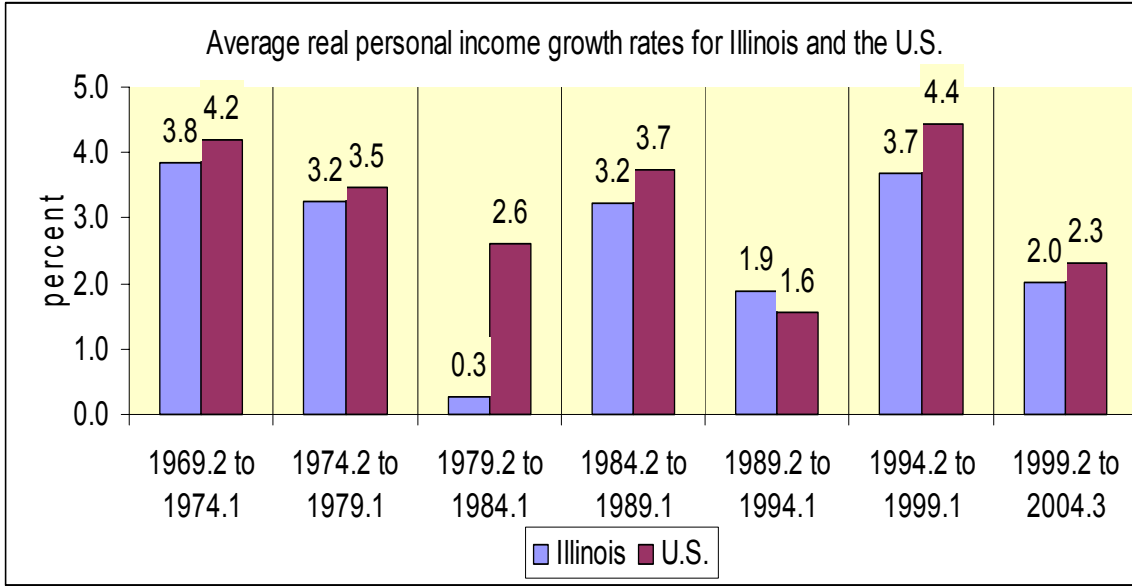
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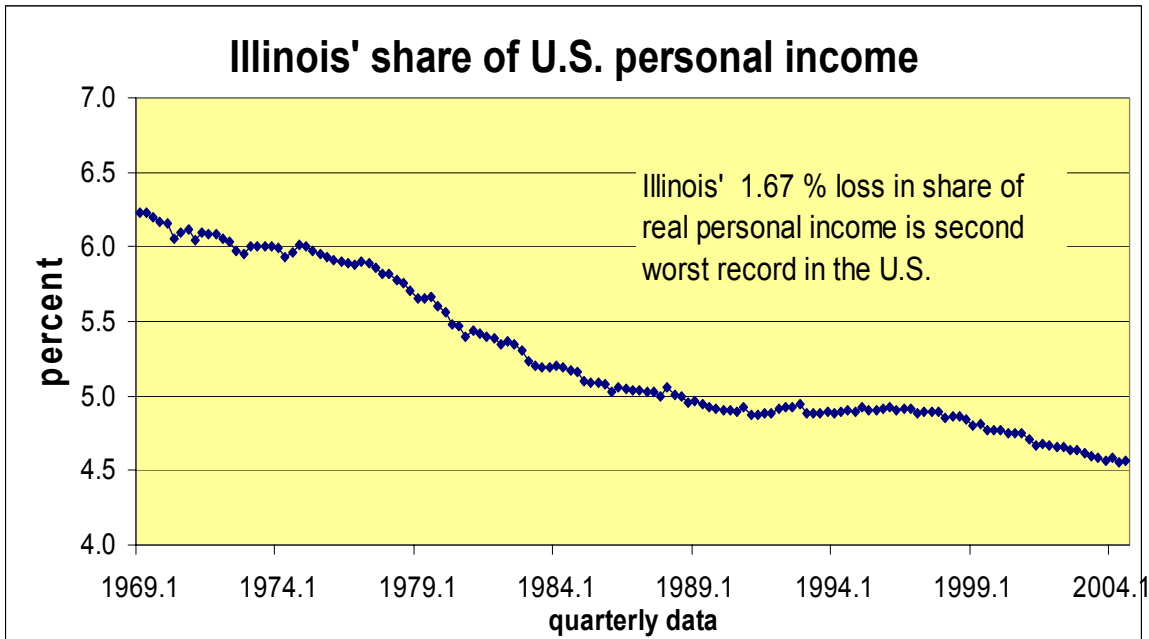
lags the nation the average is -2.3%. The result is shown in Figure 2 where it is seen that Illinois has led the nation in only one of the five year periods shown.

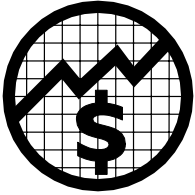
Figure 2



The only period when Illinois led the nation was between 1989 and 1994, the slowest period of growth in the U.S. economy. The result of these slower growth rates has been a declining share of U.S. personal income as shown in Figure 3.

Figure 3





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At the start of 1969, Illinois ranked as the third largest economy in the U.S. behind only California and New York. By the third quarter of 2004, Illinois ranked fifth in the nation, passed by Texas and Florida. The state's share of the nation's personal income slipped from 6.2% to 4.6%. This drop was the second worst record in the country, exceeded only by New York's dramatic decline.

These long-term numbers are what drive economic development efforts in the state. When a state fails to keep pace with the nation year-after-year, it indicates an erosion of interest by businesses and citizens in being part of the state's growth. It signifies the loss of energy, imagination, and creativity that characterizes growing places.

Lake County homebuilders and construction firms can not expect to remain isolated from these trends. They need to become an integral part of regional and statewide efforts to reinvigorate the state's economy.