

Tailwinds emerge for the Windy City economy

Chicago economic update

Regional commentary

December 5, 2024

Summary

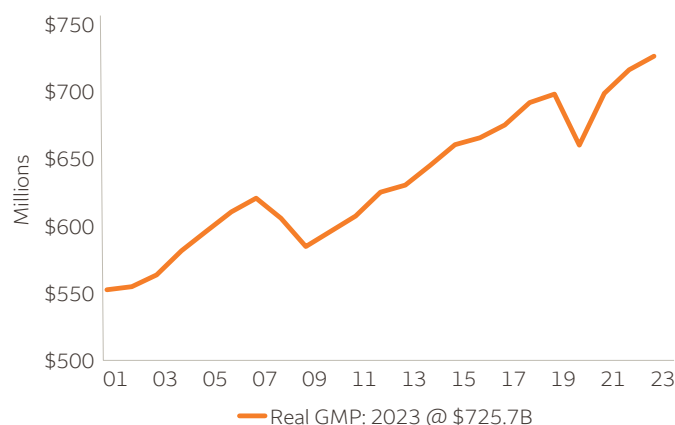
Chicago has endured no shortage of headwinds in the aftermath of the pandemic. Like most other large metropolitan areas, the knock-on effects of COVID weighed on population growth, constrained the labor market recovery, and jarred local real estate conditions.

Encouragingly, however, the negative impacts of the pandemic era are subsiding, and the path forward for the Chicago economy is coming into focus. Less-restrictive monetary policy should promote a stronger pace of employment growth, especially in the influential professional services and finance industries where hiring has been stunted by increased capital costs.

In addition, Chicago's high-caliber research universities and stock of affordable and centrally-located real estate presents a compelling opportunity to attract outside residents and businesses. Meanwhile, the region's dense manufacturing, freight, and logistics ecosystem is poised to flourish in an era of new industrial policy and supply chain reshoring. Near-term challenges are certain to remain as national economic growth slows and weak demographic fundamentals persist; however, tailwinds appear to be emerging for the Windy City economy.

Chicago MSA Real Gross Metro Product

Billions of 2017 chained dollars



Source: U.S. Department of Commerce and Wells Fargo Economics

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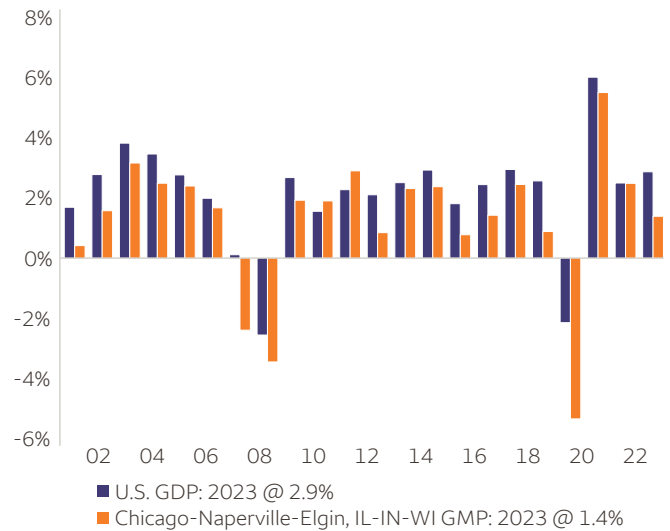
Chicago's economy returning to form

- The Chicago-Naperville-Elgin metro is the third largest economy in the nation, sitting behind New York and Los Angeles in terms of annual real gross metro product (GMP). Like many other large metros, Chicago was disproportionately impacted by the effects of the pandemic. Encouragingly, however, the local economy finally appears to be returning to form. Real GMP in Chicago rose 1.4% during 2023 as a whole, bringing real output to 4.0% above the level recorded in 2019.



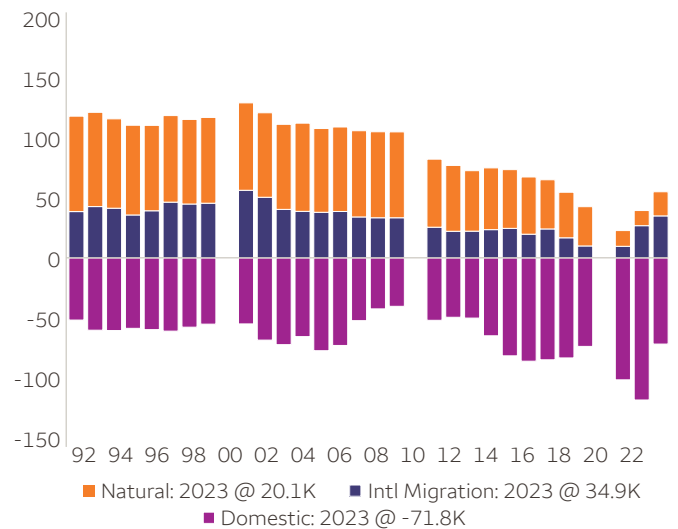
- Population trends appear to be normalizing as the lingering effects of COVID subside. After declining by 0.8% in both 2021 and 2022, population growth improved somewhat and fell by only 0.2% in 2023.
- During 2023, Chicago's population received a boost from natural causes and the largest increase in international migration since 2006. Net domestic migration remained in negative territory, but resident outflows thinned to the lowest total since 2014.

Chicago MSA Gross Metro Product & U.S. GDP
Year-over-year percent change



Source: U.S. Department of Commerce and Wells Fargo Economics

Chicago MSA Population Growth
In thousands



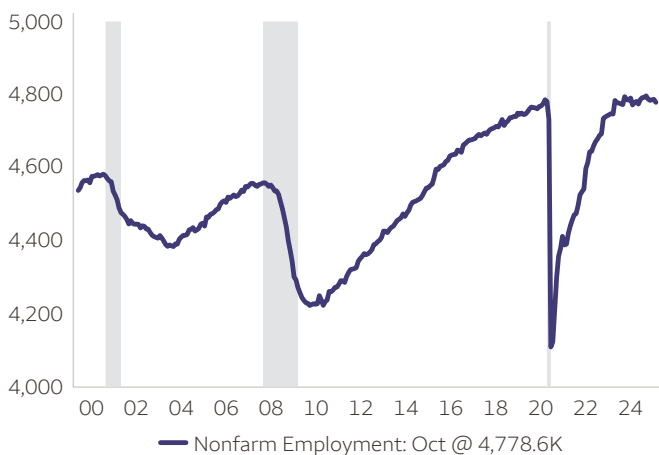
Source: U.S. Department of Commerce and Wells Fargo Economics

High interest rates cool Chicago's labor market

- Industry employment has returned to its pre-COVID peak. After growing strongly over the past several years, however, the pace of hiring has slowed, and payrolls were up a modest 0.1% on a year-over-year basis in October.
- The cooler pace of hiring appears mostly owed to a retrenchment in the metro's influential professional & business services and financial services sectors. The pullback in these two sectors, which together represent about 27% of total employment, has coincided with the Federal Reserve's efforts to curb inflation by raising the fed funds target rate. Hiring in these industries should be supported by easier monetary policy in the years ahead.
- Leisure & hospitality employment growth continues to lag, reflecting the slow return of tourism to the Second City. That noted, growing airport passenger volumes suggest that international, business and group travel is starting to pick back up again, which should bolster the metro's leisure & hospitality sector moving forward.
- Employment growth has been more resilient elsewhere. Notably, hiring has held up better in the manufacturing, trade & transportation, healthcare, and education industries, as well as in the government sector.

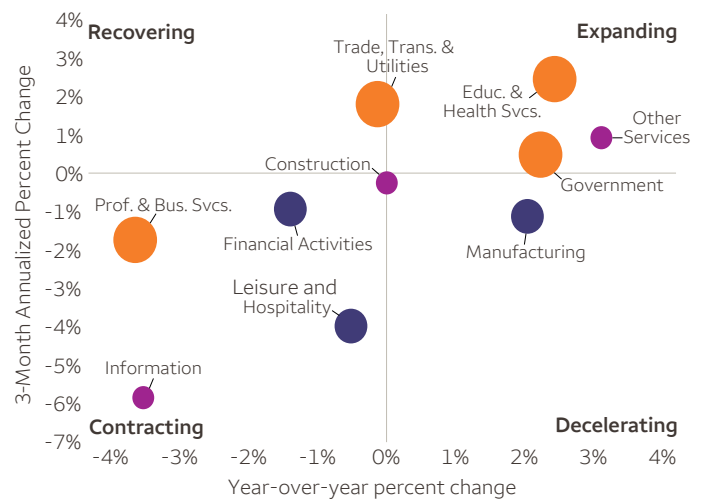


Chicago MSA Nonfarm Payrolls
In thousands, seasonally adjusted



Source: U.S. Department of Labor and Wells Fargo Economics

Chicago Employment Growth by Industry
3-Month moving averages, October 2024



Percent of Total Employees: ● 5% to 10% ● Less than 5% ● More than 10%

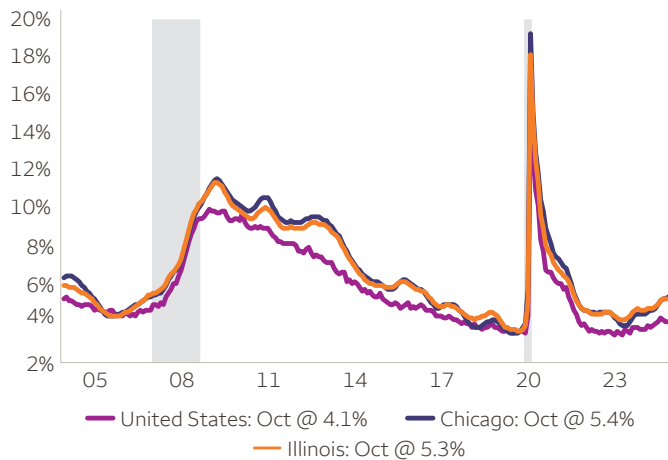
Source: U.S. Department of Labor and Wells Fargo Economics



Chicago's labor force is expanding

- Unemployment has been drifting higher recently alongside softening labor market conditions. The metro unemployment rate stood at 5.3% in September, up from a cycle low 3.9% hit in April 2023. Taking a step back, Chicago's unemployment rate is still well below the double-digit rates registered at the height of the past two recessions.
- The recent increase in the jobless rate is mostly the result of moderating employment growth, though faster labor force growth also may be exerting upward pressure. Chicago's labor force rose 1.4% on a year-to-year basis in October, the strongest annual pace in over two years. The metro labor force now amounts to over 5 million participants, the highest total on record.

Chicago MSA Unemployment Rate
Seasonally adjusted



Chicago MSA Labor Force
In thousands, seasonally adjusted



Source: U.S. Department of Labor and Wells Fargo Economics

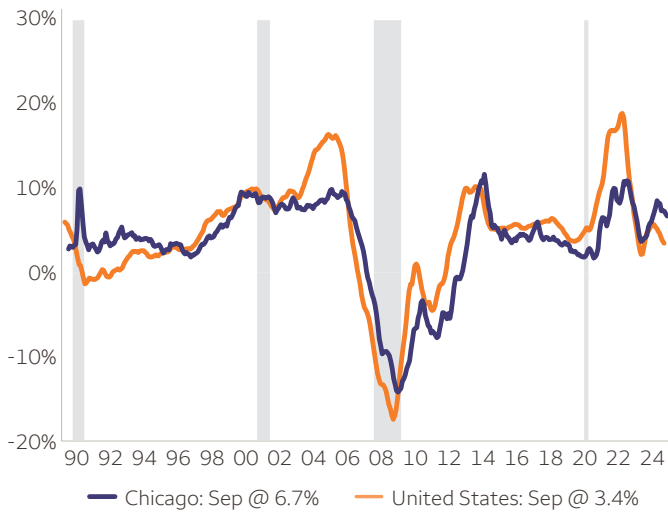
Source: U.S. Department of Labor and Wells Fargo Economics

Real estate affordability advantage

- Home prices in Chicago are rising faster than the national average. Despite higher mortgage rates and reduced sales volumes, low supply and improving economic growth have driven single-family home prices up nearly 7.0% over the year in September, ahead of the 3.9% national pace.
- Even with relatively strong home price gains, Chicago remains one of the most cost-effective large metro areas in the nation. According to Redfin, the median single-family home price amounted to \$325K in October, below the national average of \$434K. The region's affordability advantage extends to the apartment market where asking rents averaged \$1,790 in Q3-2024, under most other major metros with comparable employment levels and urban amenities.

CoreLogic Home Price Index: Chicago vs. US

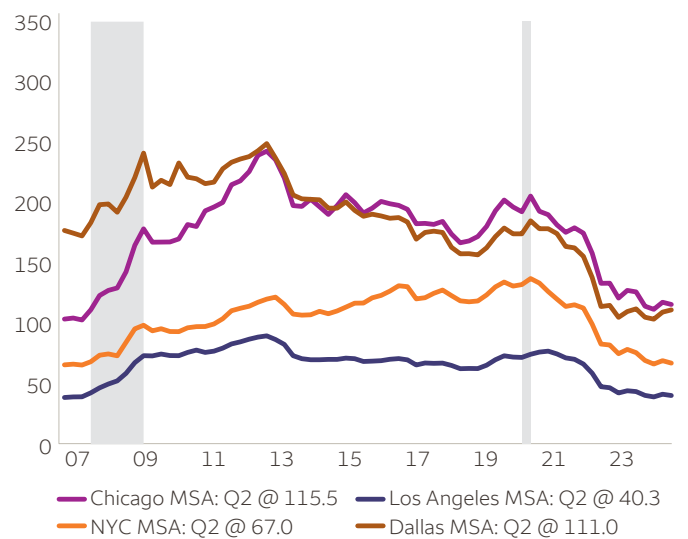
Year-over-year percent change



Source: S&P CoreLogic and Wells Fargo Economics

Housing Affordability Index

Moody's Analytics, Index > 100 More Affordable, Index < 100 Less Affordable



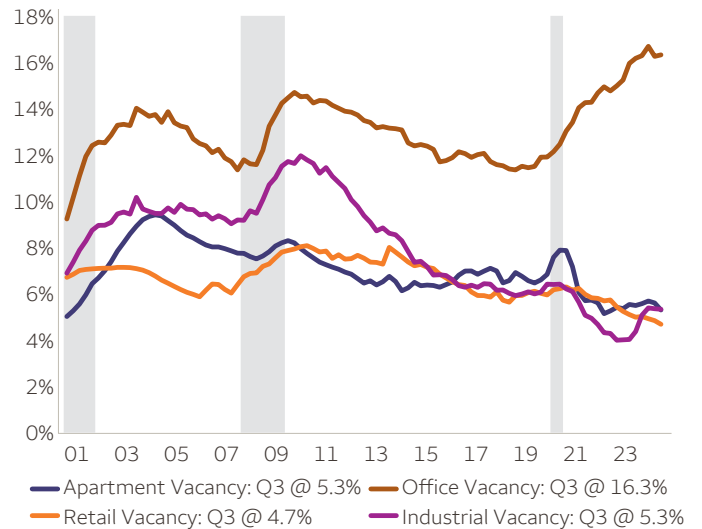
Source: Moody's Analytics and Wells Fargo Economics



Industry diversification in the city of big shoulders

- Commercial real estate in Chicago has been jarred by the pandemic and increased prevalence of hybrid work. Although office vacancy rates have leveled off recently, occupancy remains well below pre-COVID trends. However, other major property types have outperformed against a backdrop of limited supply and sturdy demand. Retail vacancy rates have dropped to historical lows, while multifamily and industrial vacancy rates remain below their 2019 averages.
- Chicago still serves as North America’s freight hub. Over 1,000 logistics projects have been completed since 2019, more than any other major metro. O’Hare airport is one of the nation’s largest and fastest-growing air-cargo hubs, and Chicago is a major rail interchange point, with roughly 25% of all freight trains in the U.S. passing through the metro. The region’s dense manufacturing and logistics network sets up the region for growth alongside increased investment directed toward fortifying supply chains and expanding domestic manufacturing capacity.
- The metro’s high-caliber research universities are driving an increasingly diverse industry landscape. The city is home to a growing cluster of tech startups, venture capital firms and unicorn companies that cut across a wide array of industries, including quantum computing, finance and life sciences.

Chicago CRE Vacancy Rates



Source: S&P CoreLogic and Wells Fargo Economics

Top 10 Metros For Logistics Facility Projects

January 2019 to July 2024

Metro area	Projects
Chicago-Naperville-Elgin, IL-IN-WI	1,186
Dallas-Fort Worth-Arlington, TX	817
Houston-The Woodlands-Sugar Land, TX	651
Atlanta-Sandy Springs-Alpharetta, GA	288
Los Angeles-Long Beach-Anaheim, CA	233
New York-Newark-Jersey City, NY-NJ-PA	227
Phoenix-Mesa-Chandler, AZ	171
Cincinnati, OH-KY-IN	169
Columbus, OH	166
Austin-Round Rock-Georgetown, TX	143

Source: Conway Data, Inc. and Wells Fargo Economics



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