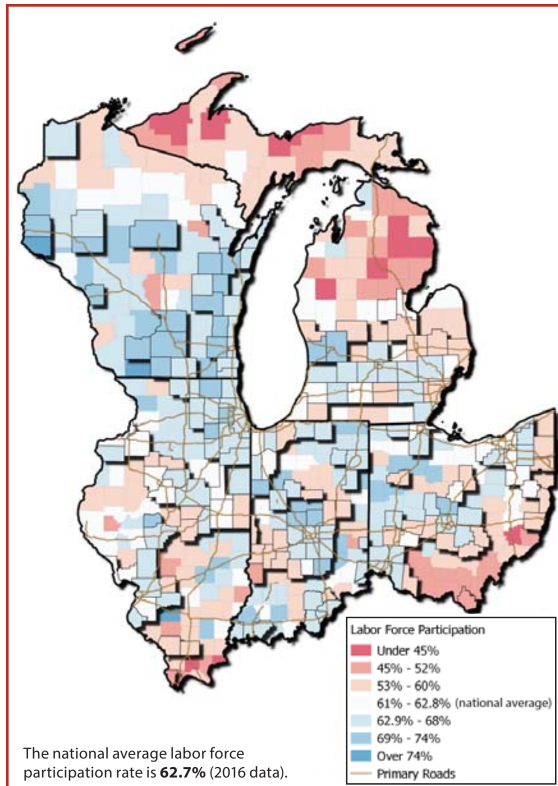
GREAT LAKES ECONOMY

Employment in the five Great Lakes states continued to grow at a relatively brisk pace during 2016, and all indications are that growth should continue unabated at least into the first half of 2017. The economies of Michigan, Indiana, Illinois, Ohio, and Wisconsin have generated continuous year-over-year job growth since the latter half of 2010, adding, in total, 1.8 million jobs at an annual rate of 1.5 percent. The calendar year of 2016 was no exception, with the five states producing another 232,000 jobs but at a slightly slower clip of 1.0 percent.

Much of the employment growth over this time has been spurred by a rebound in manufacturing jobs. Manufacturing is still a large part of the Great Lakes economies, with the five states claiming 23 percent of U.S. manufacturing jobs while accounting for 15 percent of U.S. total nonfarm employment. Manufacturing job growth exceeded total nonfarm employment growth from 2010 through 2016 in every Great Lakes state but Illinois, helping the regional labor market recover from the recession. Michigan boasted the largest rebound from 2010 to the end of 2016, gaining 121,000 manufacturing jobs, which was the most of any of the five states. Still, it was not able to entirely make up the 151,000 manufacturing jobs it had lost from 2007 through 2010. No state did, and the share of manufacturing in the five Great Lakes states declined from 14.3 percent of total nonfarm employment in 2007 to 13.0 percent in 2016.



The national average labor force participation rate is **62.7%** (2016 data).

While employers from all sectors appear to be struggling to find qualified workers, the manufacturing sector seems to have the greatest difficulty at this time. One reason may be that in the manufacturing sector, the loss of jobs in the region occurred over a longer run, despite the recent uptick. Consequently, many workers left the area or the sector for jobs elsewhere, or simply decided to leave the labor force. This is reflected in the decline in labor force participation rates in the region, which fell from 66.5 percent in 2006 to 63.5 percent in 2016.

The rates in Michigan and Ohio, 60.6 and 61.5, respectively, are below the national average of 62.7 percent, while the other three states are above the national rate.

The map of the five-state region shows the uneven participation rates across counties in the region. The metropolitan areas (except Detroit in Wayne County) are those with the highest labor force participation rates, while the rural areas have the lowest rates. Places that have lost a large part of their manufacturing base, such as Detroit and Flint, Michigan, and Gary, Indiana, have low participation rates, while other, more diversified local economies have been able to maintain their workforce to a larger extent.

If those workers on the sidelines were willing to return to the labor force, the region would benefit from an additional 700,000 workers, based on the current population and unemployment rates. The question is whether these individuals possess the skills required by the region's employers. Looking at the number of unfilled vacancies, the answer appears to be that more training and career development need to take place in the public schools and community colleges to meet those needs. In addition, wages will probably have to increase to attract people into current in-demand occupations. During the decade-long decline in manufacturing in the Great Lake states, wages and per capita income fell below the national average. Even during the economic expansion, wages and benefit costs have been nearly flat, with average annual increases of no more than 2 percent. Only recently have there been a few signs of larger raises, particularly for higher-skilled positions, as noted in the most recent Beige Book report from the Federal Reserve Bank of Chicago. The prospect of further national economic growth in the 2.0-to-2.5-percent range in the coming year, reflecting the latest consensus forecast, may push wages up even further.