

# Regional Economic Digest

## Midwest

### ECONOMIC CONDITIONS

Some Midwest regional economies are struggling. State economies with large manufacturing industries are in or near recession (North and South Dakota, Ohio, Indiana and Michigan). A state is deemed to be in recession if employment and industrial production shows negative growth two consecutive quarters.

Production and payroll cuts by vehicle and vehicle parts producers are most pressing for Indiana, Michigan and Ohio economies.

Outside of manufacturing and the states mentioned above, the rest of the area economies continue to expand. Expansion can be seen in states like Illinois, Iowa, Minnesota, Nebraska and Wisconsin.

### Key Indicators

**Disposable personal income.** Disposable income is reported each month by the Commerce Department and represents a measure of inflation and income growth. Changes in disposable income are important to financial service companies because it is a gauge of consumer spending power. Healthy rises in disposable income indicate consumers' ability and capacity to borrow and spend.

**Consumer borrowing.** Historical years consumer borrowing patterns give the best indication of what future demand will likely be.

Consumer borrowing often moves in tandem with job growth. It can be influenced by interest rates – that is, lower rates may stimulate borrowing.

**Consumer confidence index.** The monthly index is calculated based on responses to a series of questions. It has two components: the present situation index, which measures consumers' feeling about their current economic situation and the expectation index, which tracks consumers' feelings about the future. Factors that influence the index include individual perceptions of employment availability and of their current and projected income levels.

Historically, the level of consumer confidence has been a good predictor of future spending habits. People's expectations of future economic, employment and income levels – which affect their ability to repay borrowed money – can be key in making purchase

decisions. The index is one measure that is used to project future consumer borrowing.

**Delinquencies and bankruptcies.** Delinquency and bankruptcy trends are related measures used to predict future consumer borrowing. As these rates decline, consumers may be presumed to have a greater capacity to borrow.

A rising level of delinquencies isn't necessarily a precursor to bankruptcies. However, it does indicate that an increasing number of individuals are having trouble meeting their debt obligations, which signals a perceived reduction in aggregate spending capacity.

### ANALYSIS/FORECAST RISK

Consumer confidence continues to fall in February and is now more than 25% off from a year ago. Both expectations and the assessment of current conditions are also on a rapid decline.

The decline in consumer confidence is more pronounced in the industrial Midwest economies, which have been affected by restructuring moves by the big three auto makers, a series of cost cutting measures being implemented by heavy truck and industrial equipment manufacturers, and bankruptcies of steel companies.

The struggling manufacturing sector is not expected to continue for much longer. The inventory cycle among the traditional manufacturers is expected to wind down and the Midwest economies will regain their footing.

The risks are, however, high if the inventory correction takes longer than anticipated. Indeed, if consumer perception continues to decline, manufacturing problems will have only begun and the recession in the Midwest economy largely dependent on manufacturing, would intensify.

It is unlikely a national recession occur this year, but it may be fair to say most regional economies will not be able to avoid effects of the economic slowdown.

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