



Regional Economy



REGIONAL ECONOMY

Our region maintains a diverse mix of industry sectors that drive our nearly \$320 billion economy. Until 2001, when the national economic downturn began, Chicago's regional economy recorded steady growth in jobs, gross regional product, and productivity. Recently however, there has been a reduction in total employment driving the region's unemployment rate above the national average.



REGIONAL ECONOMY

GROWING ECONOMY

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GROWING ECONOMY



GOAL:

Robust businesses will power our economy and increase the region's prosperity, its prominence, and its attractiveness to people and companies.



INDICATOR 1-1. INDUSTRY SECTOR DIVERSITY

Why Is This Important?

The range of industry sectors found within a region's economy is an indicator of its overall economic vitality. A diversified economy minimizes overdependence on one or two sectors and helps smooth the negative impact of a contracting national or global market.

Economic diversity creates a competitive advantage for the Chicago region's economy because sustained economic growth is not dependent on a single sector, or a collection of related industry sectors, to drive it.

How Is the Chicago Region Performing?

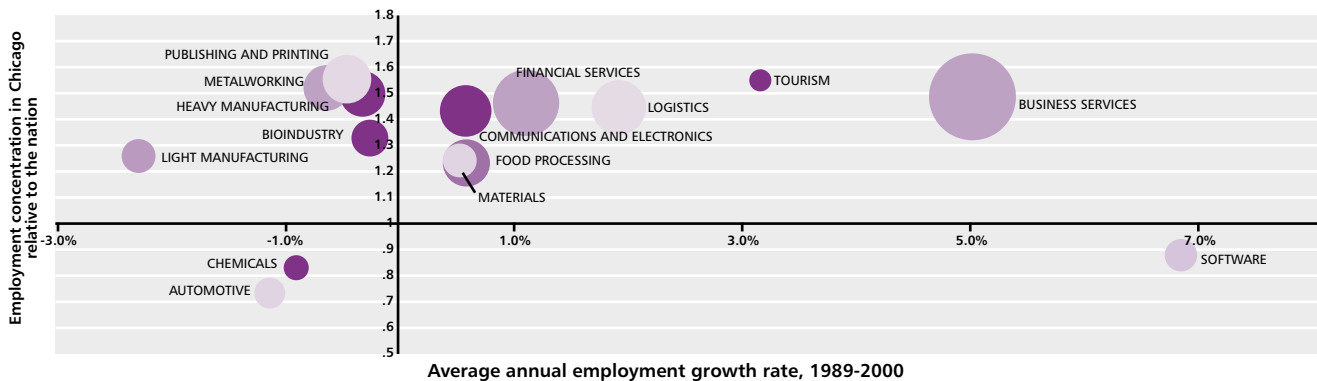
The Chicago region maintains a diverse mix of traditional and new economy industry sectors that drive our \$319.5 billion regional economy. These "driving" sectors bring income into the region through sales of products outside the region and they also employ 47% of the region's workers.

Twelve out of the fifteen sectors employed a higher concentration of workers in the Chicago region compared to their respective national levels. For instance, the overall concentration of communications and electronics employment is 42% greater in the Chicago region than nationally. On the other hand, employment in this sector has grown an average of six-tenths of a percent (.6%) each year since 1989 while the national rate has grown just under 1%.

The last eight years saw strong annual employment growth in the region's services sector, led by business services and financial services with expansion in smaller sectors like tourism, communications and electronics, and software.

Annual employment growth rates in traditional sectors like heavy and light manufacturing, chemicals, automotive, and printing and publishing have not kept pace with service sector employment growth during the 1990s. However, the rate of decline has been slower than during the 1970s and 1980s.

"OLD" AND "NEW" INDUSTRIES DRIVE REGION'S DIVERSE ECONOMY



Size of circle = total employment, 2000. Circles above center line have higher job concentration in the region than the nation. Circles to the right of the axis have positive average annual employment growth rates.

Source: Economy.com

INDICATOR 1-2. AVERAGE WAGE BY INDUSTRY SECTOR

Why Is This Important?

Average annual wage, after adjusting for inflation, is an indicator of the income-generating capacity of the Chicago region's population. The data also indicate that, in certain industries, the region's workforce is more productive than the national average.

Average annual wage is one measure of the region's attractiveness because it indicates the capacity of residents to earn a living.

How Is the Chicago Region Performing?

In 2000, 12 of the industry sectors driving our region's economy, and employing 47% of its workers, paid average wages higher than \$43,000, the region's overall average wage for 2000.

Software, financial services, and communications/electronics paid the highest average annual wage in 2000. Food processing, logistics, and materials are

sectors that pay below the region's average, but above the \$36,000 average U.S. wage.

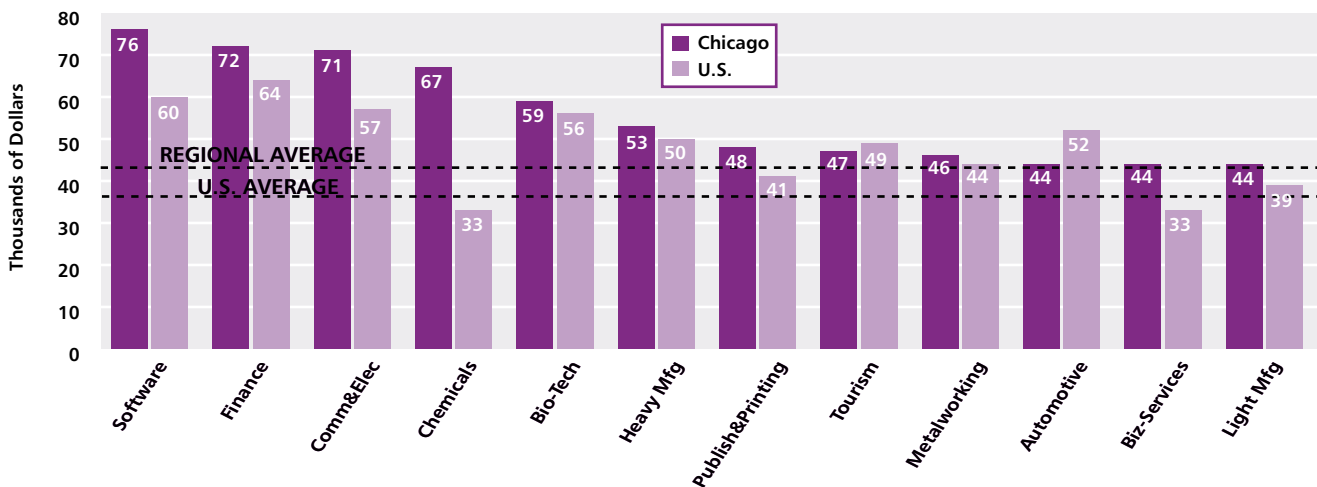
Eleven industry sectors driving the Chicago region's economy paid an average wage greater than their respective sector's national average wage.

On average, an employee worked 39.7 hours per week. This was higher than the national workweek average of 39.1 hours.

National average wage calculations include non-metropolitan areas, so wages paid by employers located in a metropolis like the Chicago region are often higher because of its relatively higher cost of living.

In contrast to workers in the driving industry sectors, 46% of the region's workers are employed in support sectors like retail and personal services and were paid an average of \$3,000 less than the \$36,000 U.S. average wage. The national economic recession also threatens to weaken the average wage paid to our region's employees.

AVERAGE ANNUAL WAGES BY INDUSTRY



Average annual wages in thousands of year 2000 dollars.
Source: Economy.com

INDICATOR 1-3. JOB GROWTH

Why Is This Important?

Job growth measures whether the Chicago region's economy is generating jobs for those who want to work. It is also a general indicator of the Chicago region's economic vibrancy.

Region-wide averages of job growth sometimes fail to identify challenges and problems in particular communities. That is because job growth does not occur evenly across industry sectors or across the region.

How Is the Chicago Region Performing?

The Chicago region's long economic expansion stalled last year, and the region is now experiencing declining employment and rising unemployment. This is in contrast to the steady growth in jobs, gross regional product (GRP) and productivity during the 1990s.

The region lost jobs at a slightly faster rate than the nation from 2000 to 2001 (1.4% versus 1.3%). This drove the unemployment rate in the region to climb faster than the national rate. While Chicago's rate in

2000 was only two-tenths of a percent higher than the U.S. (4.2% versus 4.0%), this difference grew to five-tenths of a percent by the end of 2001 (5.3% versus 4.8%).

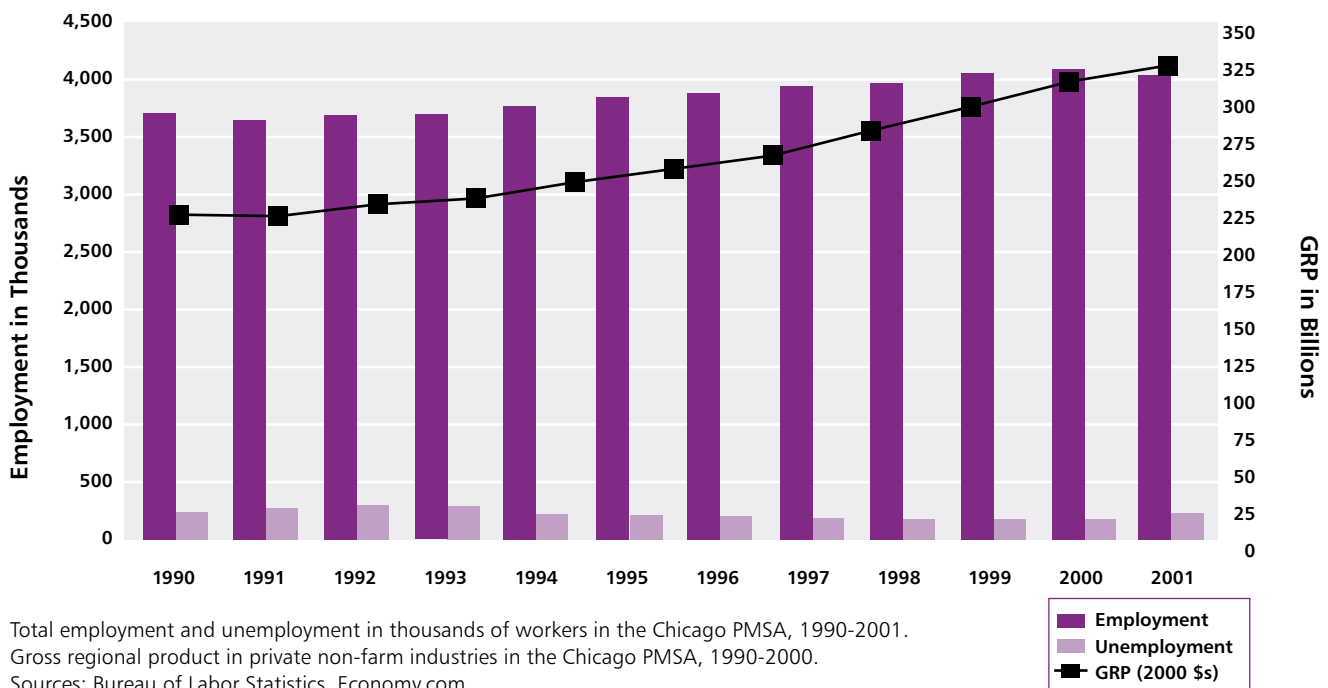
This difference is partly due to the greater importance of the manufacturing sector in the Midwest regional economy as compared to the U.S. Manufacturing began to decline prior to the onset of the general national recession in March of 2001.

In 2000, the GRP's growth rate slowed to 3.4%, down from its nearly 6% annual growth rate between 1997-1999. In comparison, the national growth of output slowed to only 5.3% between 1999 and 2000.

The region's productivity rose during 2000 because annual growth in GRP (3.4%) outpaced that of employment (.9%). Productivity, or "output per worker," improves when the rate of growth in the GRP is higher than the corresponding rate of job growth for the region. Ultimately, rising productivity allows the wages and earnings of workers to rise.



EMPLOYMENT FALLS IN 2001, BREAKS NINE-YEAR TREND



INDICATOR 1-4. CORPORATE HEADQUARTERS

Why Is This Important?

Corporations locate headquarters in regions that have excellent access to capital, a plentiful and skilled workforce, efficient and reliable transportation systems, diverse housing supplies, world-class education and research institutions, and strong cultural and recreational opportunities.

Corporate headquarters generate business for financial, legal, and professional services, and feed our region's strong convention and tourism sector because people from around the world travel to the region for meetings and conferences sponsored by those corporations.

A region's philanthropic community and civic partnerships also benefit because corporate headquarters tend to have greater ties to their home community.

How Is the Chicago Region Performing?

Overall, 185 public companies with more than 500 employees called the Chicago region their corporate home in 2000. This is a decrease of 3.6% from the

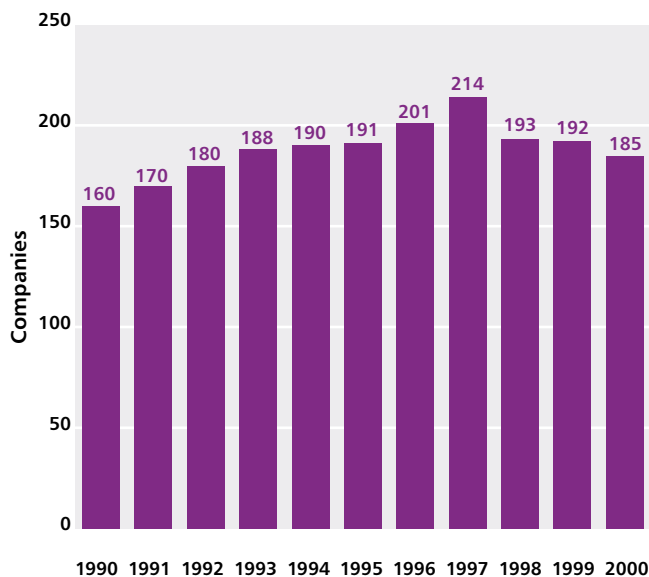
1999 figure of 192 corporate headquarters. It marks the third year in a row that the number of corporate headquarters has declined in the region. Compared to the top 20 U.S. metropolitan regions in 2000, the Chicago region ranked fourth behind the metropolitan areas of Los Angeles (215), San Francisco (216), and New York, which ranked first with 443 corporate headquarters.

The Chicago region is home to 107 corporations with more than 2,500 employees, second only to the New York (239) region, and well ahead of the San Francisco (91) area, its nearest competitor.

Corporate headquarters announcements filled news headlines during the last year. The biggest story was the Boeing Corporation's announcement to re-locate more than 400 jobs from Seattle to Chicago, which beat out Denver and Dallas as the new corporate home for this multi-billion dollar global aerospace giant.

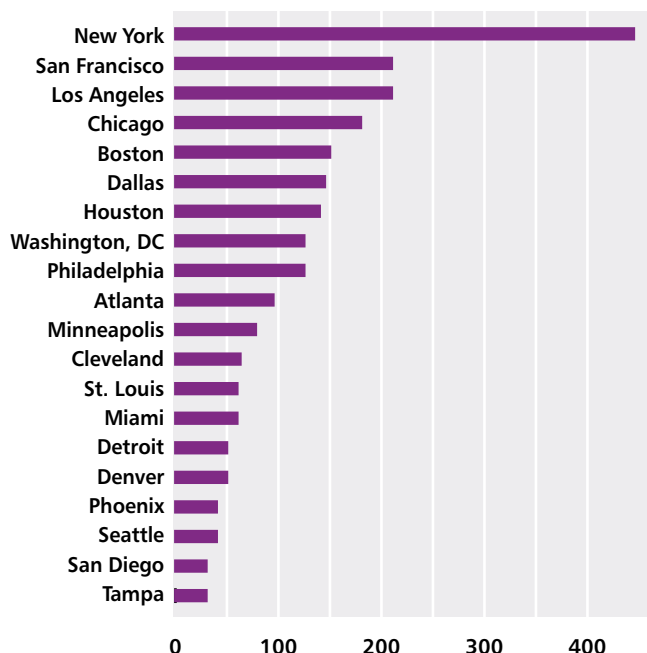
In addition, Northfield-based Kraft Foods announced that, after its parent Phillip-Morris re-constituted Kraft as a separate corporate entity, it was making the Chicago region its official North American corporate headquarters.

NUMBER OF HEADQUARTERS IN THE CHICAGO REGION CONTINUES TO DECLINE



Number of publicly held companies in the six country region with at least 500 employees.
Sources: Standard and Poor's, Federal Reserve Bank of Chicago

NUMBER OF CORPORATE HEADQUARTERS, 2000



Number of corporate headquarters in the 20 Largest MSAs, 2000.
Sources: Standard and Poor's, Federal Reserve Bank of Chicago

INNOVATION & ENTREPRENEURSHIP



GOAL:

The region will be known for its success in developing innovative products, businesses, and industries.



INDICATOR 2-1. VENTURE CAPITAL

Why Is This Important?

Venture capital investment indicates how attractive firms in the Chicago region are to investors that are looking for significant earnings growth potential.

Innovative and entrepreneurial firms that attract venture capital range from new start-ups to mature companies with a proven record of accomplishment. Regions that encourage these firms gain a competitive advantage economically because innovative ideas attract investment into a region regardless of the national economy's overall condition.

How Is the Chicago Region Performing?

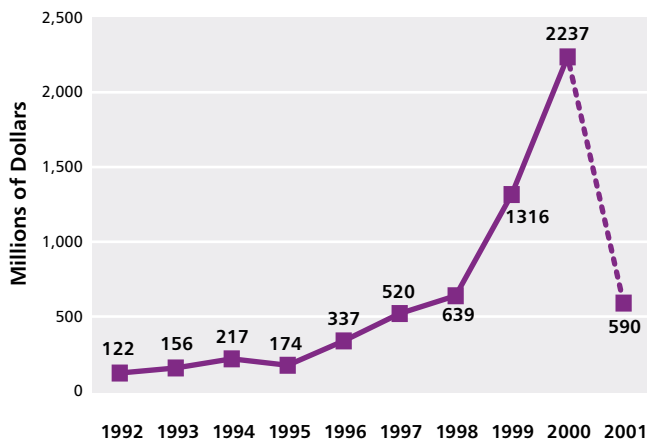
Venture capital investments in Chicago area firms jumped 60 percent to \$2.2 billion from \$1.3 billion

between 1999 and 2000. Internet related companies received the largest share of investment dollars (33%), followed by communications and media (22%), and computer software (10%). However, preliminary data points to a significant drop in venture capital investment during 2001.

While the Chicago region received a tremendous inflow of venture capital investment dollars during the 1990s, our levels pale when compared to the Silicon Valley region, the leading magnet for venture capital in the United States, which received \$21 billion in 2000.

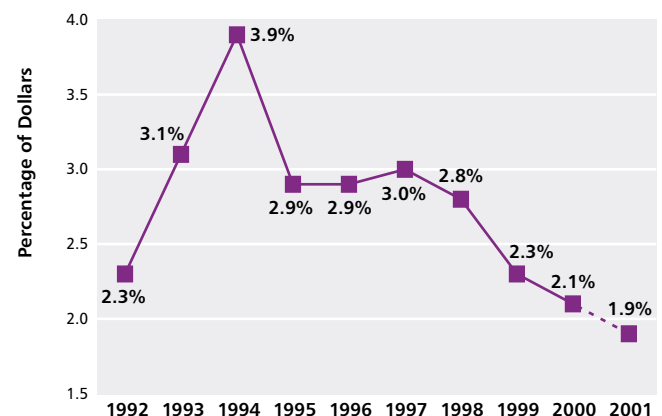
More troubling, our region's share of national venture capital fell to 2.1% in 2000 from 2.3% in 1999, dropping the Chicago region to 11th among the top 20 metropolitan regions in 2000, well behind other smaller regions like Boston, Washington, D.C., and Denver. On a per capita basis, the Chicago region's rank was even lower at 17th place for 2000.

VENTURE CAPITAL INVESTMENT GROWS IN THE 1990s



Total venture capital investment (measured in year 2000 dollars) in companies in the Chicago CMSA, 1992-2001. 2001 figures through Q3 (9/30/01), not adjusted for inflation. Source: Venture Economics, Inc.

CHICAGO'S SHARE OF NATIONAL VENTURE DOLLARS FALLING



Share of total national venture capital investment going to companies in the Chicago CMSA, 1992-2001. 2001 figures through Q3 (9/30/01), not adjusted for inflation. Source: Venture Economics, Inc.

**INDICATOR 2-2.
TECHNOLOGY TRANSFER**

Why Is This Important?

This indicator measures whether the Chicago region and its research universities are transforming innovative ideas into marketable products and processes.

Technology licenses are the vehicles that transfer applied research and development ideas created by our region's universities to companies that will commercialize them. Royalties collected by universities from those licenses represent the initial economic value generated by those innovative ideas.

Converting applied research into commercial products helps the Chicago region's economy.

Technology transfer promotes economic growth, creates new jobs, and encourages additional research and development that helps sustain the cycle of innovation and entrepreneurship.

How Is the Chicago Region Performing?

Chicago region universities, many of which emphasize teaching over research, are lagging when compared to five other selected U.S. metropolitan regions in both total licenses issued and income generated per license.

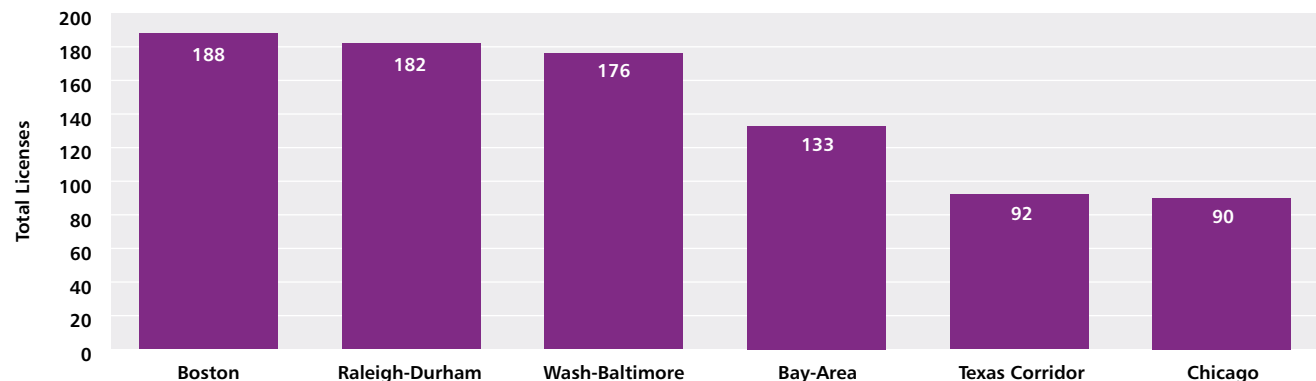
Between 1998-1999, the major Chicago region universities that reported this data issued an average of 90 new technology licenses, 37.5% less than the composite two-year average among six selected regions, including the Boston and Raleigh-Durham regions.

Average income received by Chicago region universities per license that yielded income was higher than universities in the Washington, D.C.-Baltimore, Maryland region, but still 26%

lower than the composite average of \$60,169 for the six selected regions. The University of Illinois system (UI-Urbana and UI-Chicago) generated 54% of the Chicago region's \$17.77 million received during 1998-1999. Northwestern University and the University of Chicago combined to generate 46%.



TECHNOLOGY TRANSFER TRAILS OTHER HIGH TECH REGIONS



Total licenses and options executed by major research universities (FY98-99 average) in six selected regions. Source: Association of University Technology Managers