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Federal Reserve's Beige Book reports a slower contraction in economic activity in the Chicago region

by RACHEL CLAYTOR

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Economic activity in the Federal Reserve's Chicago region contracted further from early March through early April, but at a slower pace from the previous period, according to a survey conducted by the Federal Reserve that was released Wednesday.

The Beige Book, the anecdotal gathering of economic reports from the Federal Reserve's 12 districts and which is issued eight times a year, said there were widespread reductions in work hours, temporary factory shutdowns, layoffs, and hiring freezes across the Chicago region during the five-week period the survey was conducted. Staffing firms in the Chicago, New York, Cleveland, Richmond and Dallas regions said that demand for workers "remained sluggish," the survey noted. Sectors that saw an uptick in hiring were health care and finance.

The Chicago region's unemployment rate was 9 percent in February, half a percentage point higher than the national unemployment rate of 8.5 percent in March.

Housing markets remained depressed nationally, with new home construction activity and home prices continuing to decline, according to the survey. In Chicago, property values fell sharply as vacancy rates increased. Residential and commercial construction contacts cited limited credit availability as the primary reason for new projects being put on hold.

The number of construction projects increased in Chicago during the last 10 years as the need steadily declined, contributing to high vacancy rates, said McKim Barnes, vice president of research and analysis at Draper & Kramer Inc. in Chicago.

"We are experiencing the effect of massive, excess construction that occurred in Chicago over the past decade," he said. "What we are experiencing now is the bottoming out as supply is greater than demand."

Barnes noted that there were 38,500 housing unit permits for construction in the Chicago suburbs in 2005. That number shrank 81 percent to 7,360 permits in 2008. The number of households in Chicago decreased as construction continued to increase, Barnes said.

"Kids are choosing to stay home and live with mom and dad because they have \$50,000 of college debt," he said.

Barnes described construction around the Chicago area as being "at a standstill," but he predicted that the steady decline in home values will stabilize in the next three to four months.

"They have been dropping so rapidly, I think they will hit a spot and stabilize sooner than expected," he said.

Consumer spending in the Chicago region improved slightly in March, even as national retail sales dropped by 1.1 percent, according to the Beige Book. Discounts and promotions helped sales of essentials, fast food, and consumer electronics. Luxury goods and big-ticket items continued their sales declines.

"What we have seen is a tremendous contraction in spending and consumption and a move towards saving," said Walter Zweifler, senior business appraiser at Zweifler Financial Research in New York. "When business drops off, the quality of customer service improves and the price for what you pay for will go down."