The Economic Outlook: A Perspective from the Midwest

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Overview

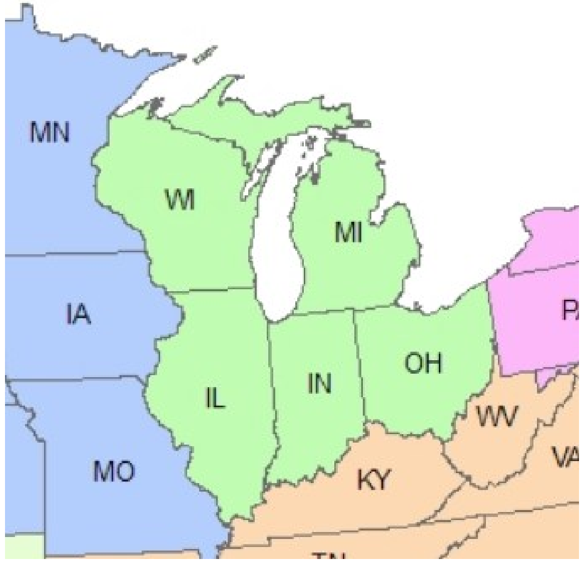
- **Three Goals**
  - Economic Outlook
    - Output picture reasonably healthy
    - Labor market weakening but hard to read
    - Inflation above target
    - Monetary policy balancing risks
  - How this manifests in the Midwest
  - What we know given (evolving) data availability

What is the Midwest?

Midwest Census Region

Federal Reserve's Seventh District (or District States)

BEA's Great Lakes Region



FEDERAL RESERVE BANK of CHICAGO

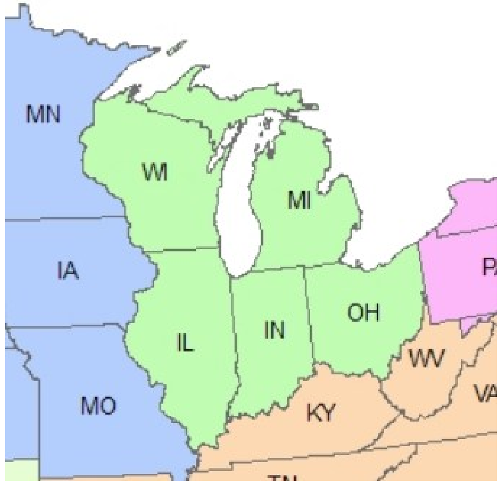
What is the Midwest?

Midwest Census Region

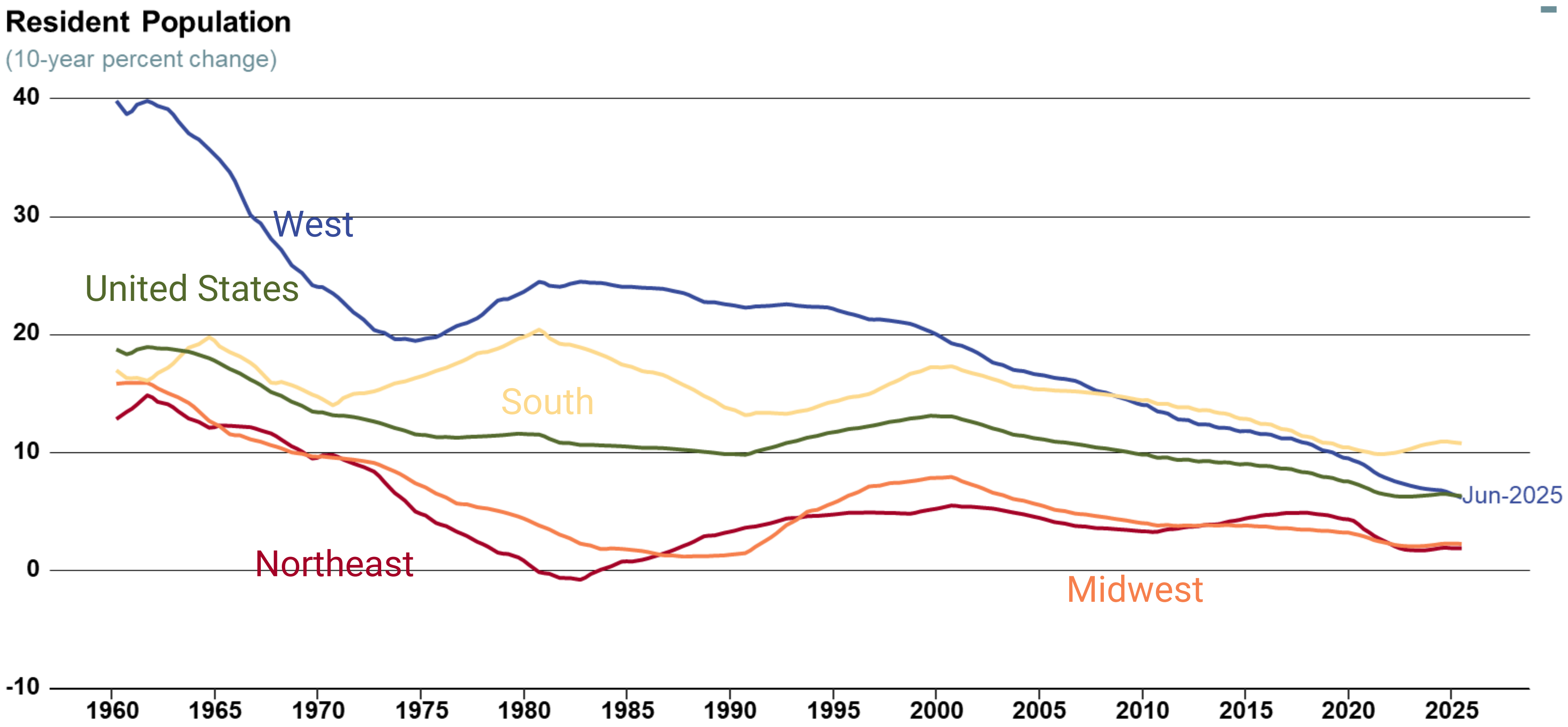
Big 10 in 2011?

Federal Reserve's Seventh District (or District States)

BEA's Great Lakes Region



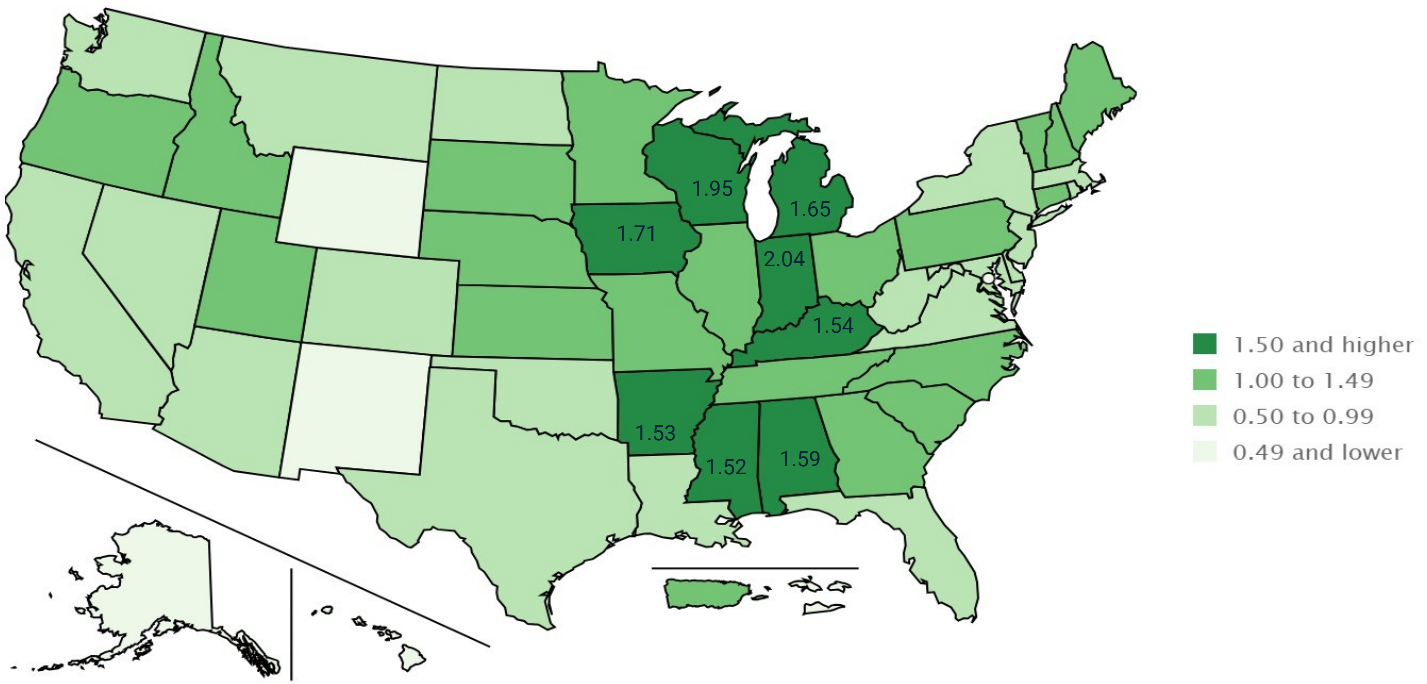
Relevant Economic Characteristics of the Midwest: Low Population Growth



Source: Bureau of Economic Analysis via Haver Analytics

Relevant Economic Characteristics of the Midwest: Manufacturing Intensive

Concentration of manufacturing employment (location quotient) by state, private industry, 2022

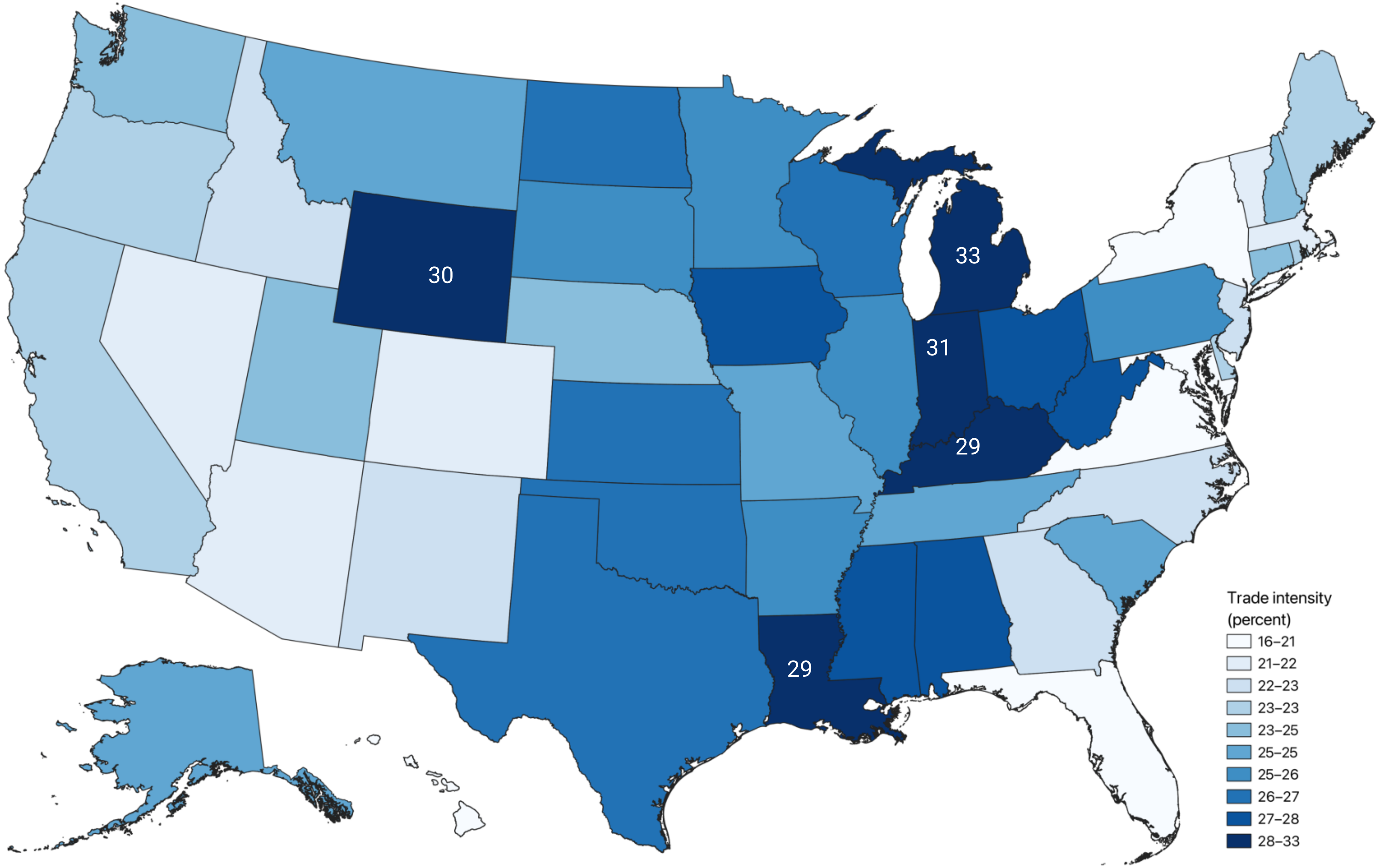


Hover, tap on mobile devices, or use tab and arrow keys to see area data.

Source: U.S. Bureau of Labor Statistics

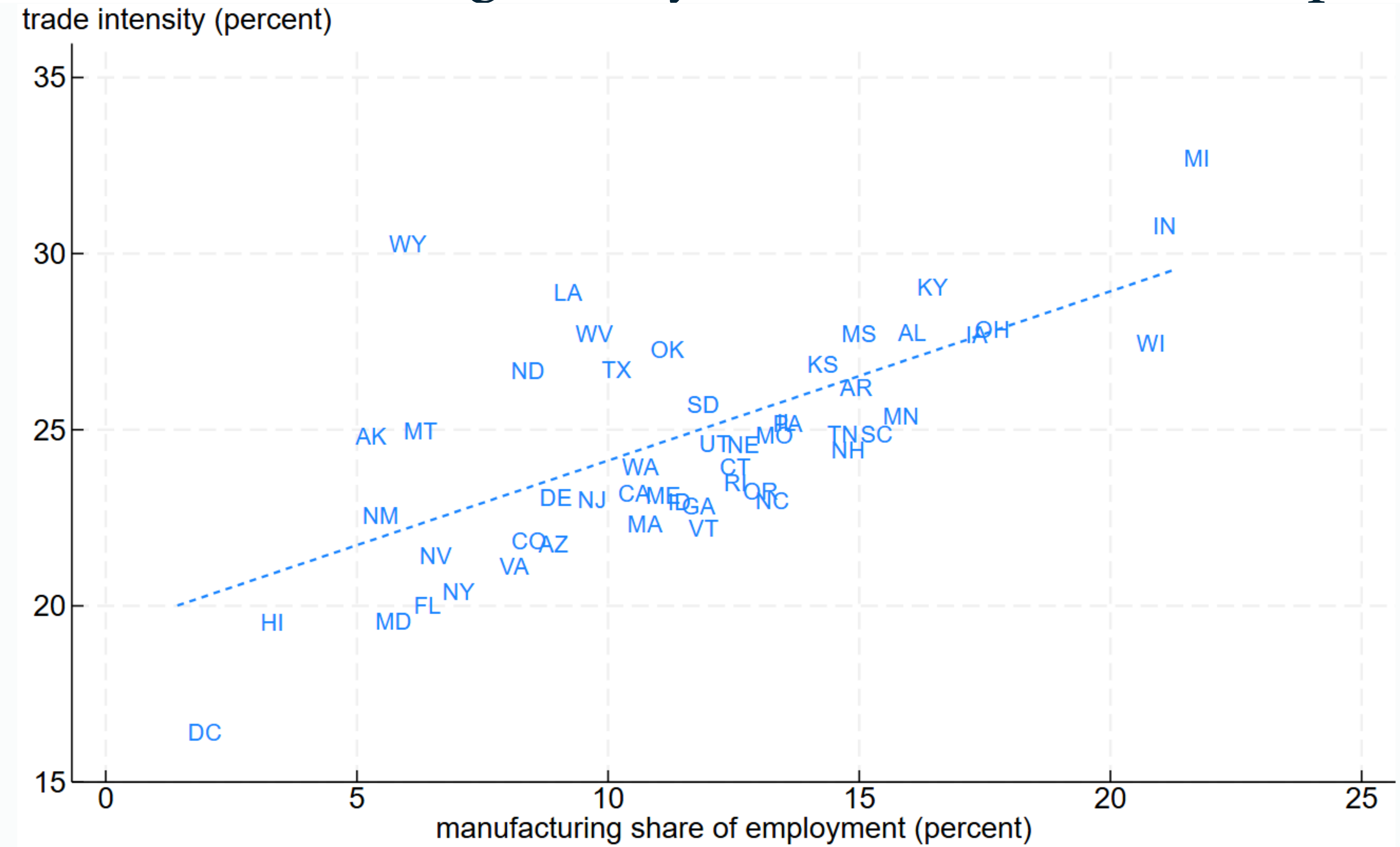
[A look at manufacturing jobs on National Manufacturing Day : The Economics Daily: U.S. Bureau of Labor Statistics (bls.gov)]

Relevant Economic Characteristics of the Midwest: Trade Dependent



Note: Trade intensity is the sum of the value of a state's imports as a share of its GDP and exports as a share of its GDP.
Sources: Authors' calculations based on data from the Organisation for Economic Co-operation and Development (OECD), 2019 Inter-Country Input-Output (ICIO) tables; U.S. Census Bureau, 2019–23 *American Community Surveys*; and U.S. Bureau of Labor Statistics, 2019–23 *Consumer Expenditure Surveys*.
Elizabeth Kepner and Thomas Walstrum, "What Parts of the United States Trade the Most?" Chicago Fed Insights, June 2025

Manufacturing-heavy economies more exposed to trade



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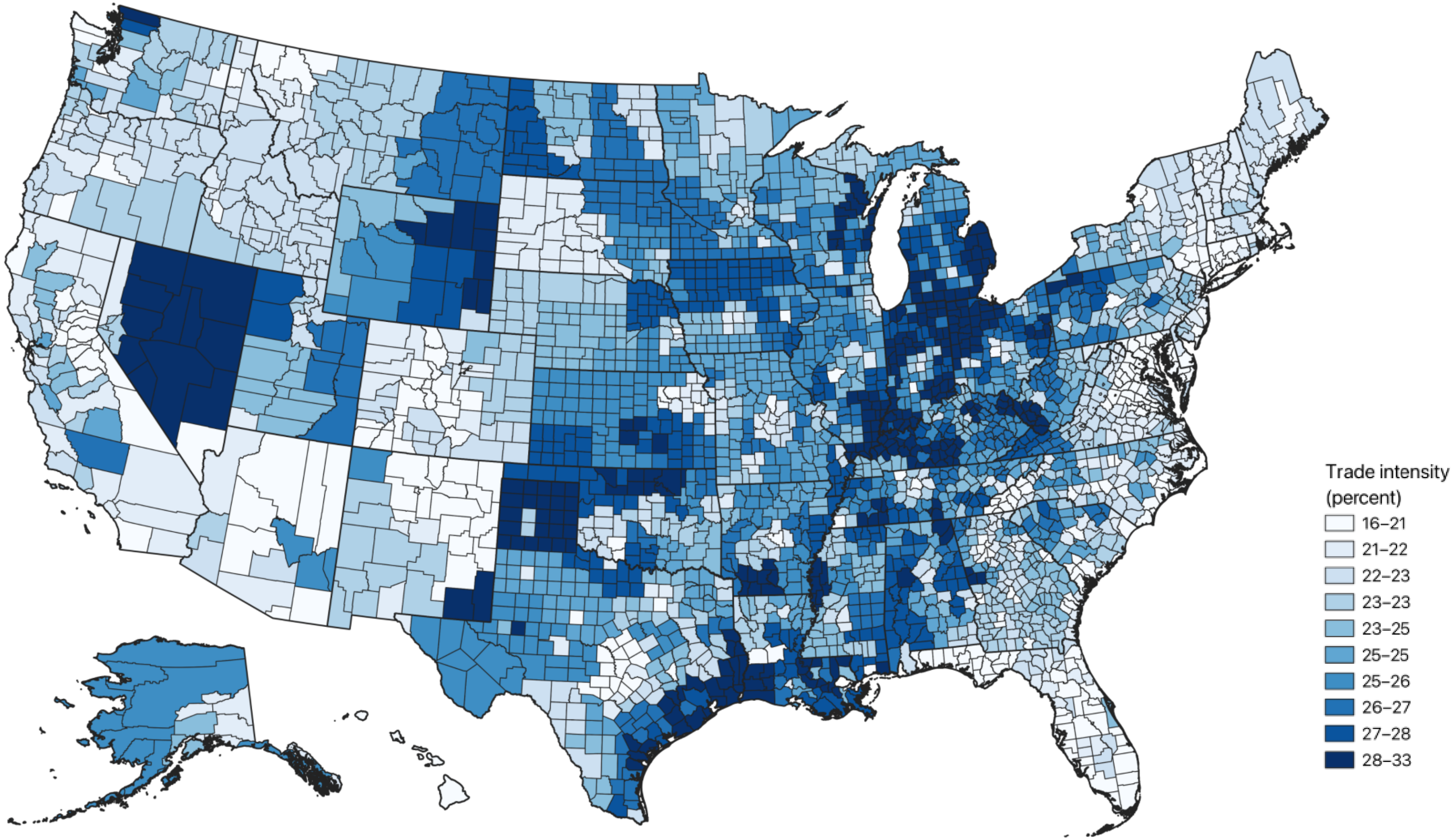
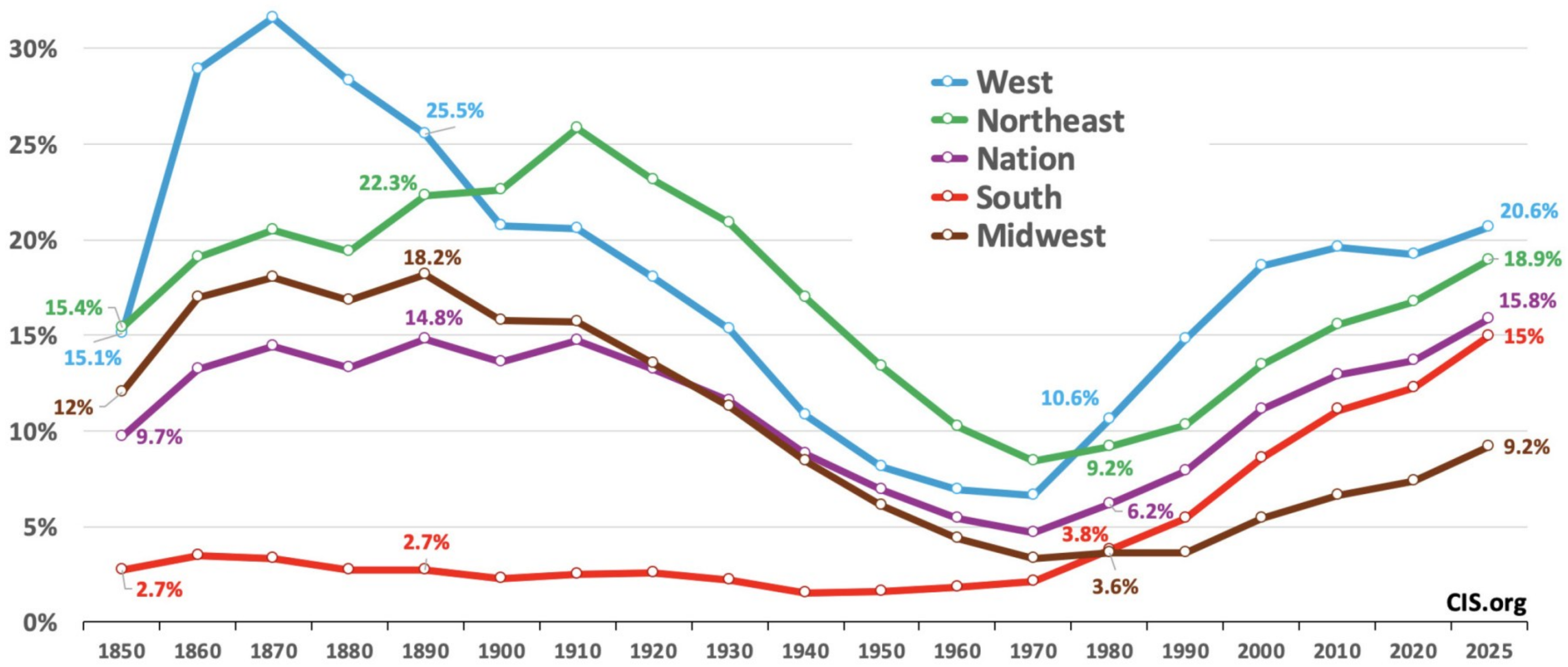
Relevant Economic Characteristics of the Midwest: Trade Dependent



Preliminary, Please do not cite.

Relevant Economic Characteristics of the Midwest: Fewer Immigrants

Figure 3. The foreign share of the population was very high in every region, except for the South, from 1870 to 1920. It fell everywhere in the middle of the 1900s, but increased dramatically in all regions in the last half century, including the South.



Sources: Decennial censuses, 1850 to 2000; ACS in 2010 and 2020; and CPS for January, February, and March 2025.

Source: Center for Immigration Studies, Camorato and Zeigler, The Foreign-Born Population at the State and Regional Level, 1850 to 2025, July 2025

Midwest Characteristics

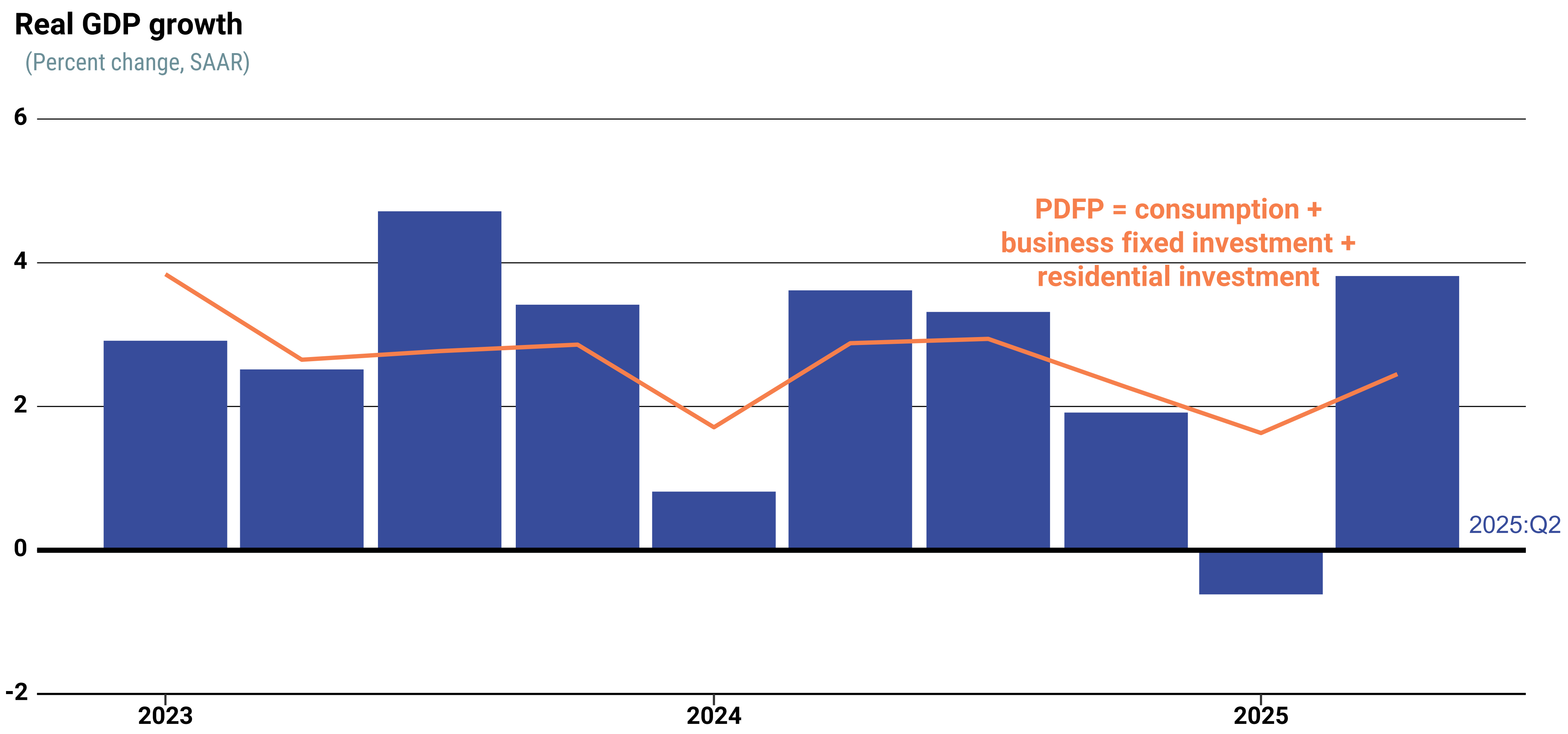
- **Slow population growth**
- **Heavy manufacturing** → **Trade dependent**
- **Relatively low foreign born**

Economic Conditions

- **Overall**

- **In the Midwest**

Domestic spending has held up in 2025

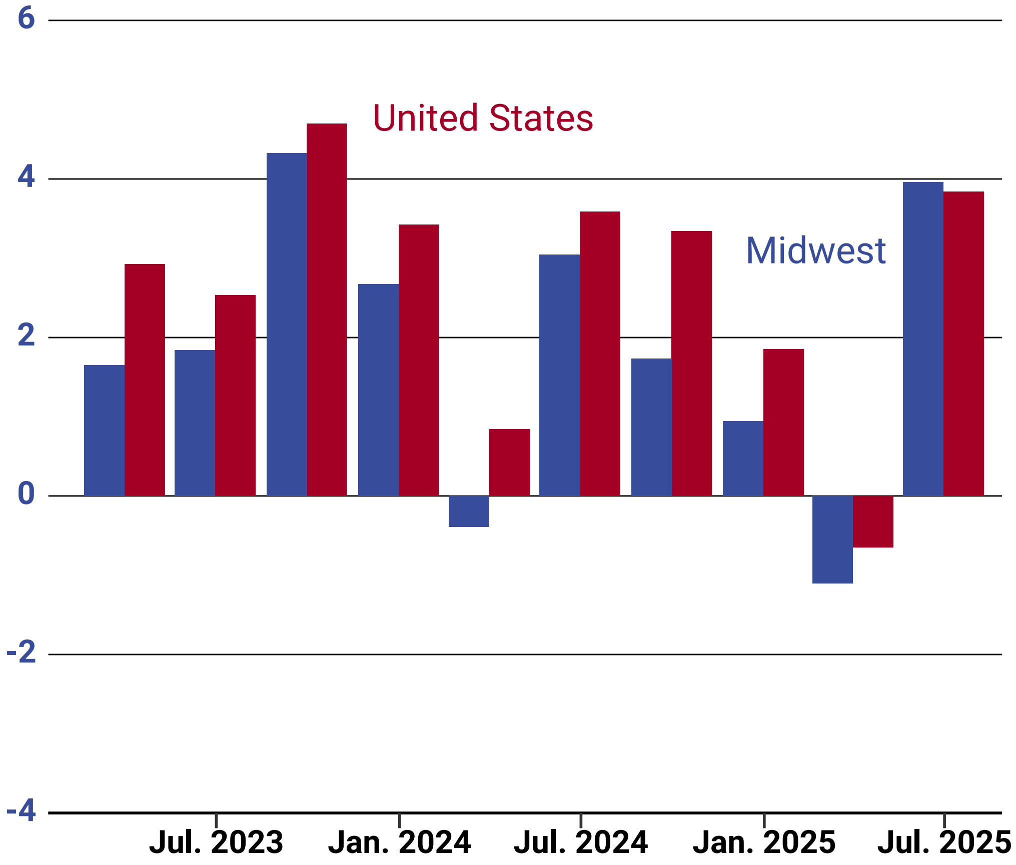


Note: Private domestic final purchases includes consumption, business fixed investment and residential investment
Source: BEA via Haver Analytics

Pattern in Midwest is Similar

Gross Domestic Product Midwest vs US

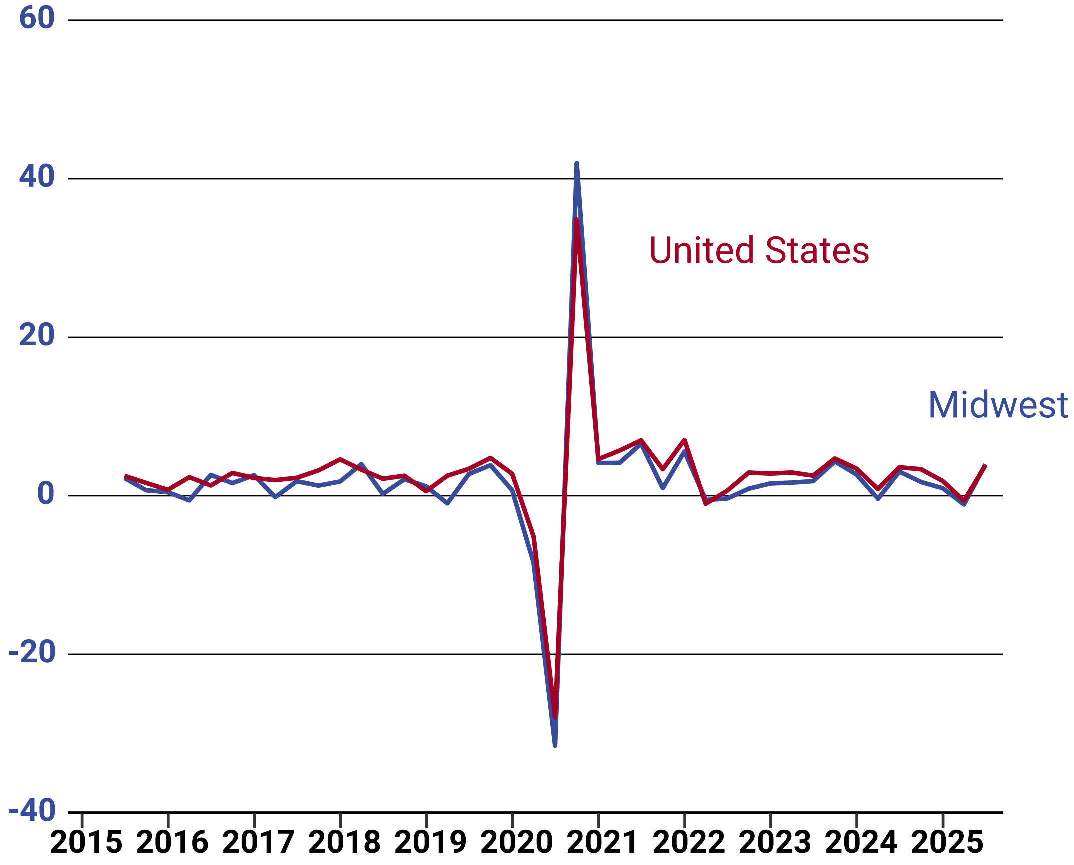
(Percent change, annual rate)



Source: Bureau of Economic Analysis from Haver Analytics

Annual Change in Gross Domestic Product Midwest vs US

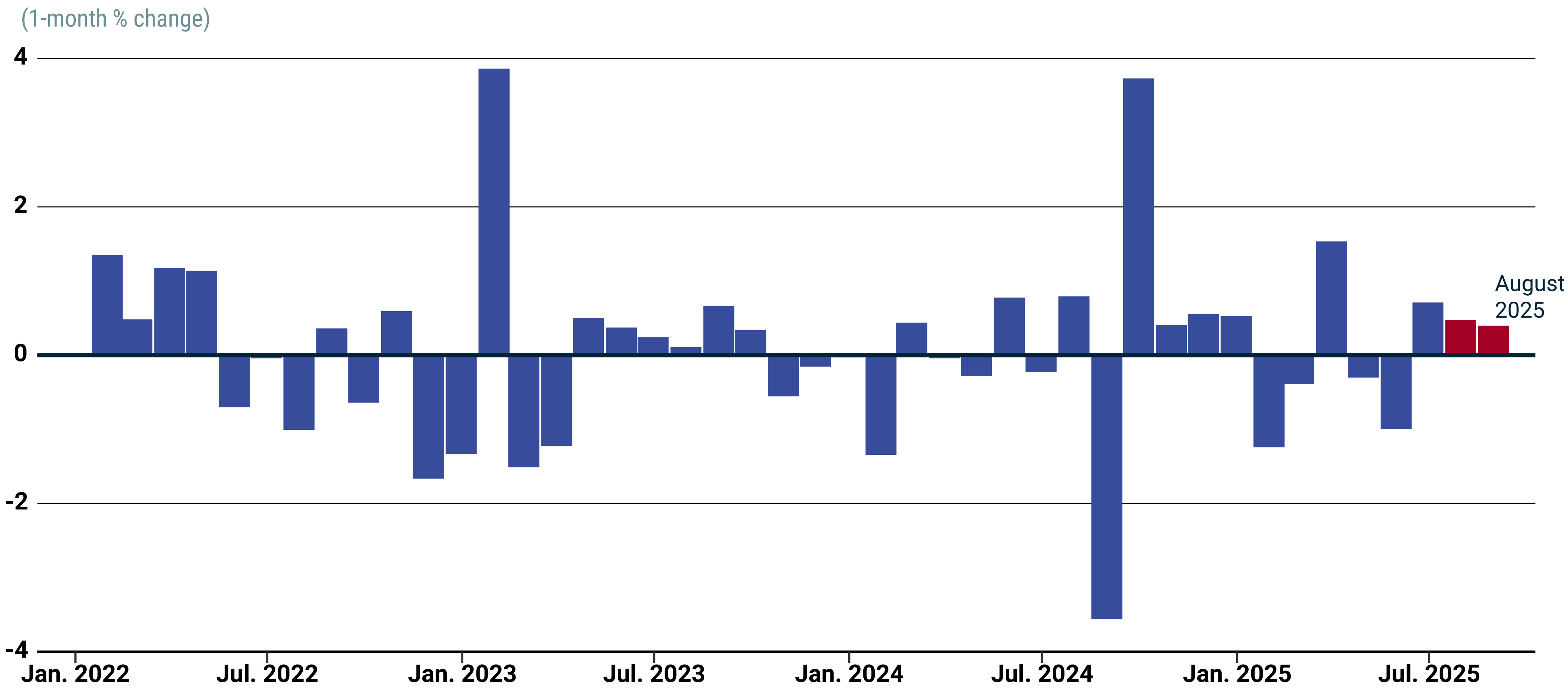
(Percent change, annual rate)



Source: Bureau of Economic Analysis from Haver Analytics

Consumer spending has been strong, looking okay in Q3

Real retail sales (including autos)

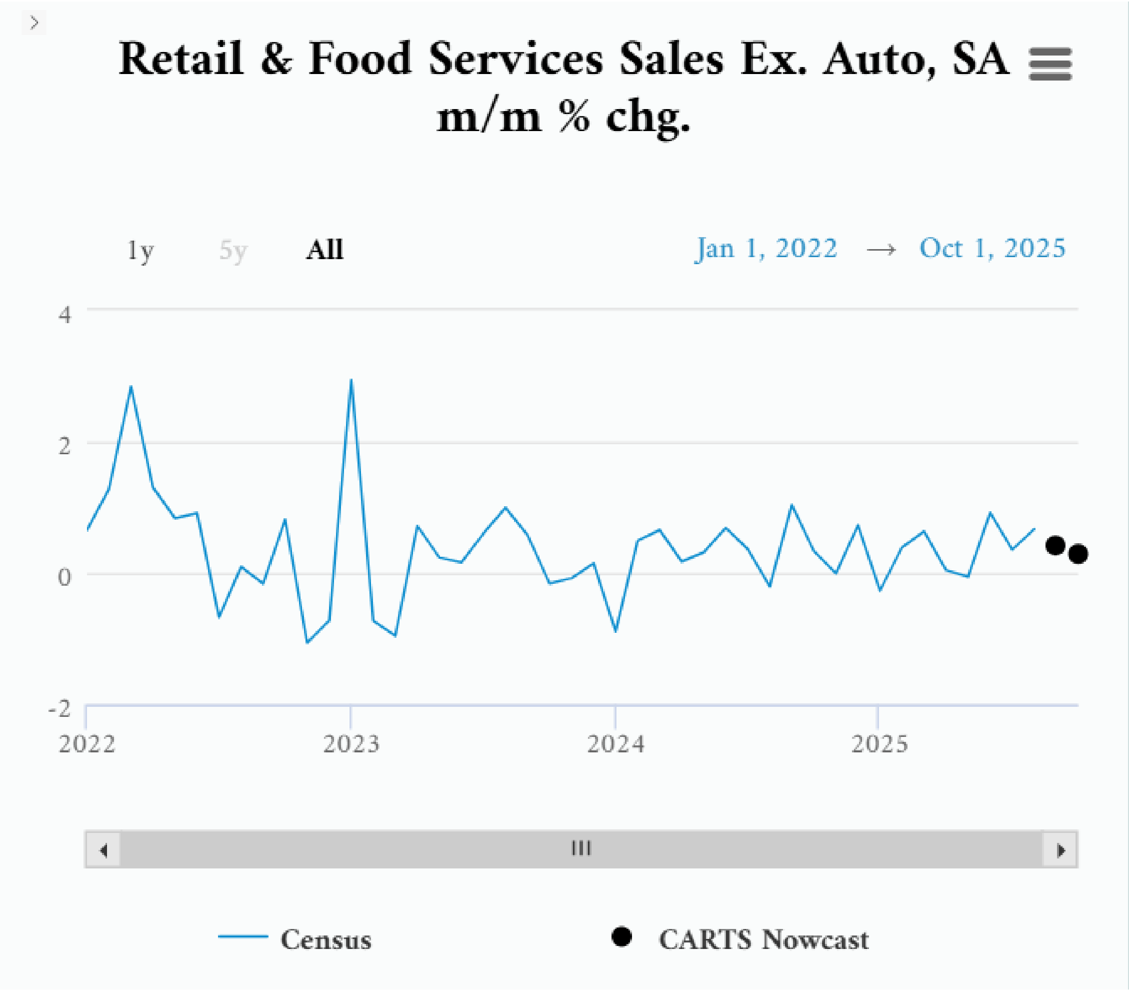


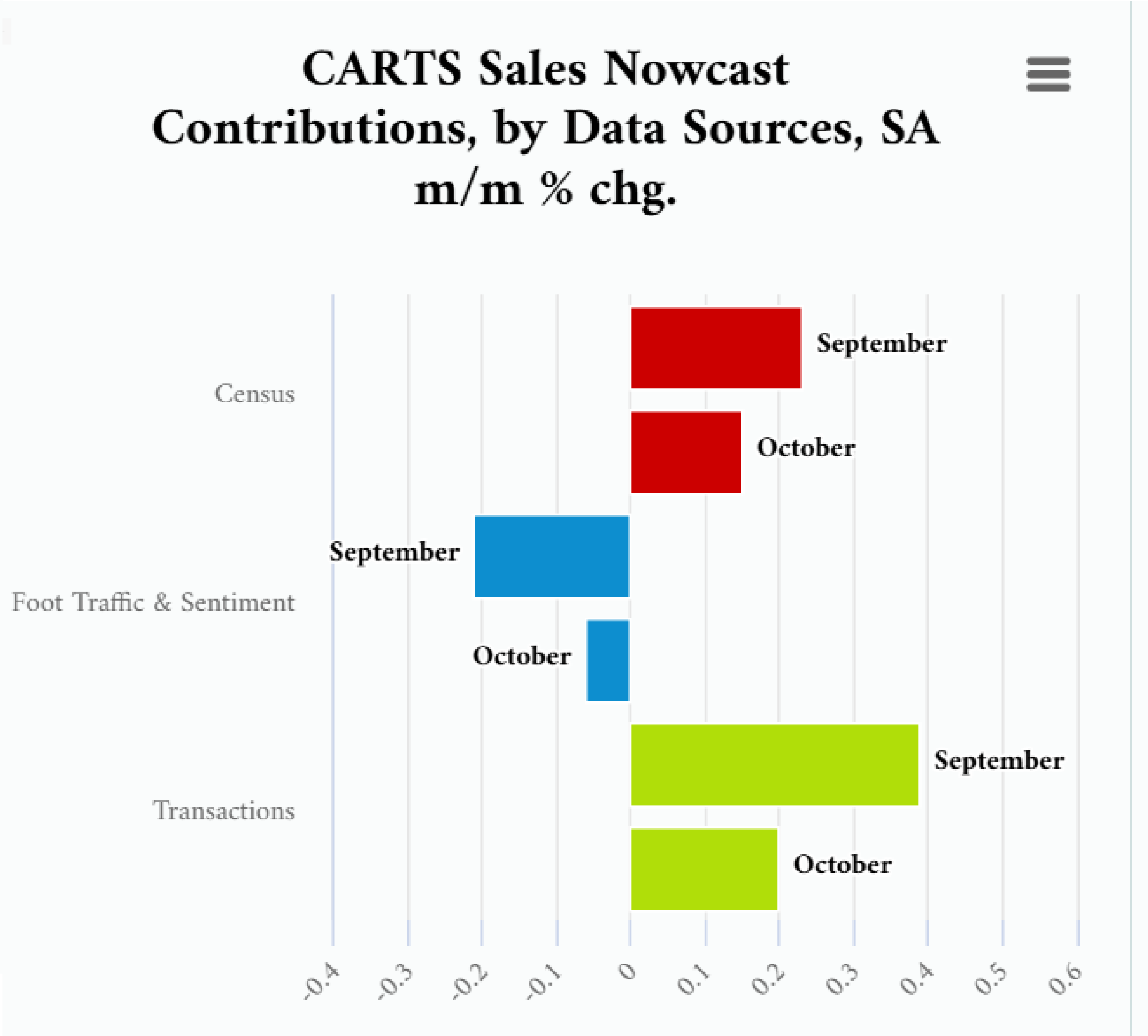
Source: Census Bureau via Haver Analytics, staff calculations

Chicago Fed Advance Retail Trade Summary (CARTS) Provides Information on Recent Retail Sales

- What is CARTS?
  - Combines eight weekly indicators for retail sales (Payment card transactions, retail foot traffic, gasoline sales, and consumer sentiment) and Census monthly data on retail & food services sales ex. auto
  - Creates a weekly index of retail trade
    - When aggregated to a monthly frequency, matches Census Bureau retail trade data
- Why did we develop this?
  - Wanted something more timely (weekly!)
  - Real and nominal retail sales (not just nominal)
- A bonus… in absence of government data, a more timely source of information

CARTS data for Sept. and Oct. are consistent with earlier months

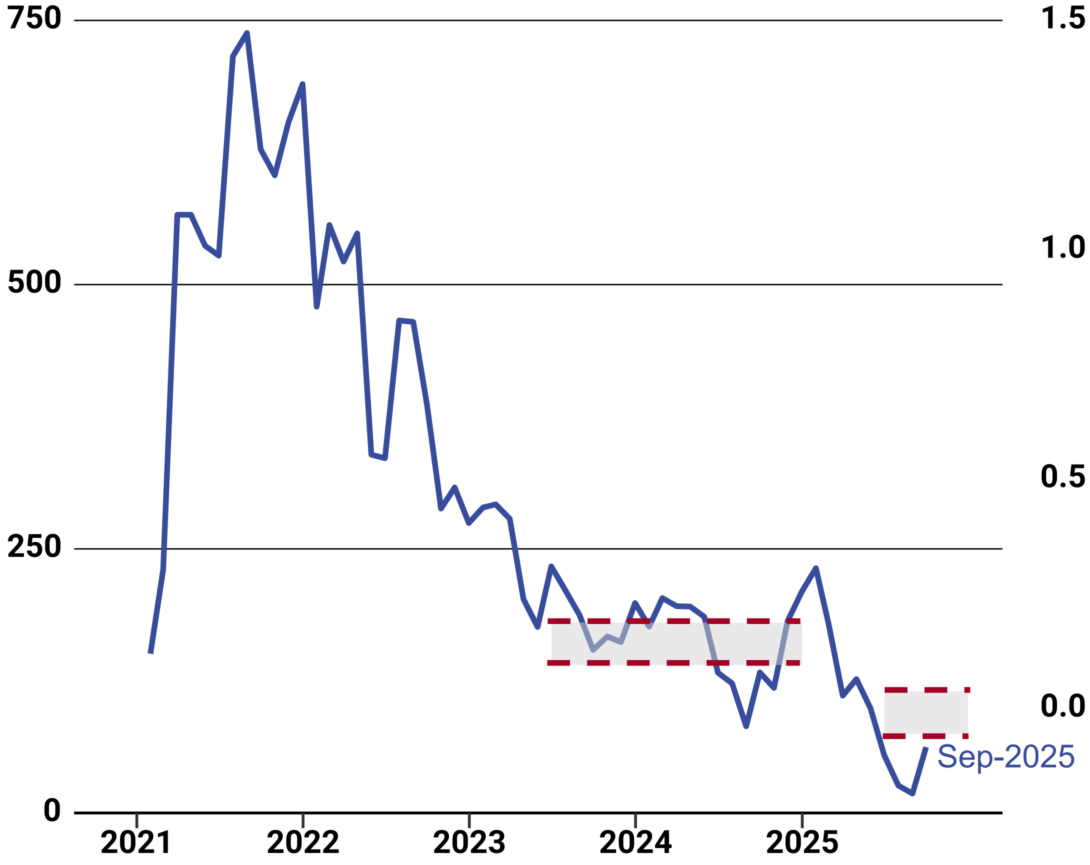




Payroll employment influenced by immigration

Payroll gains

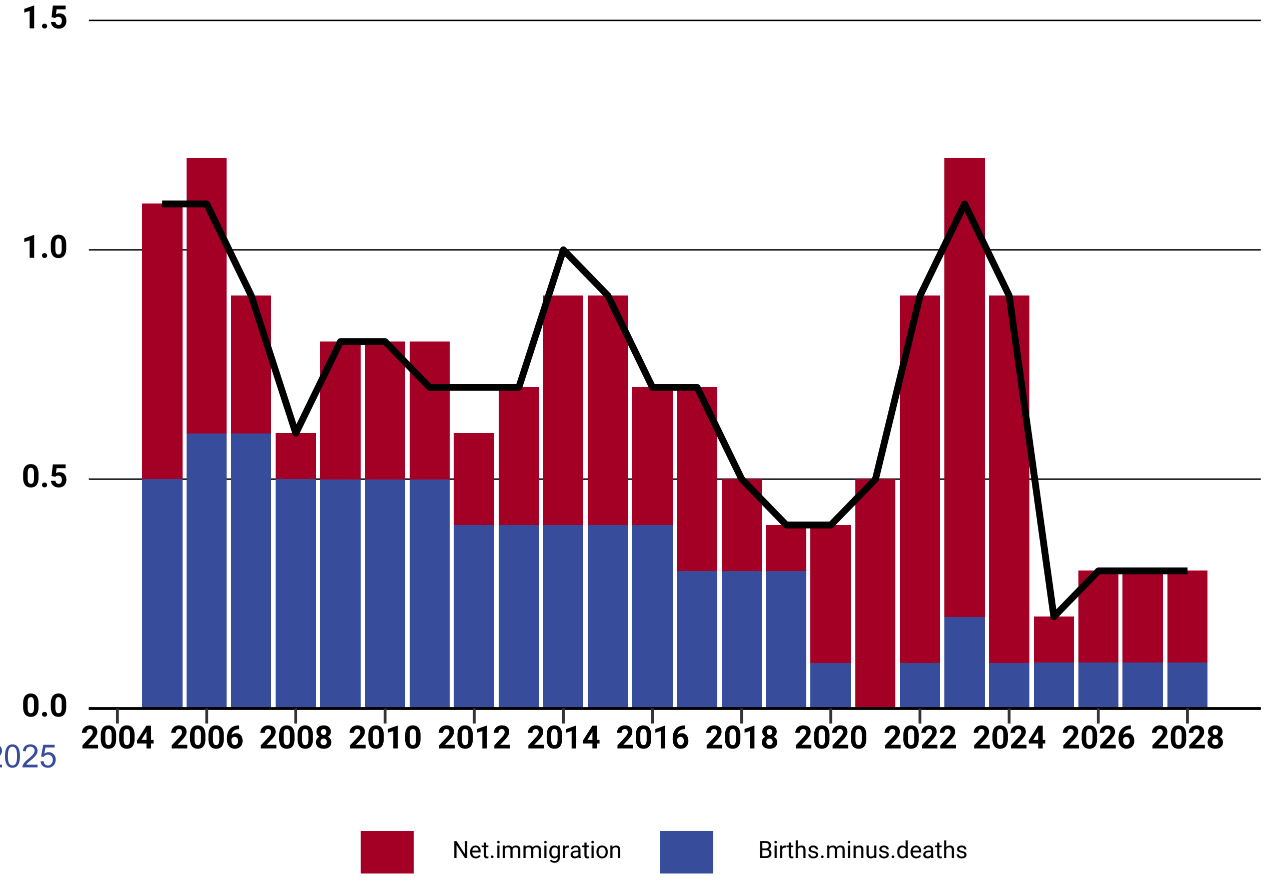
(3-month moving average, thousand persons, SA)



Source: BLS via Haver Analytics

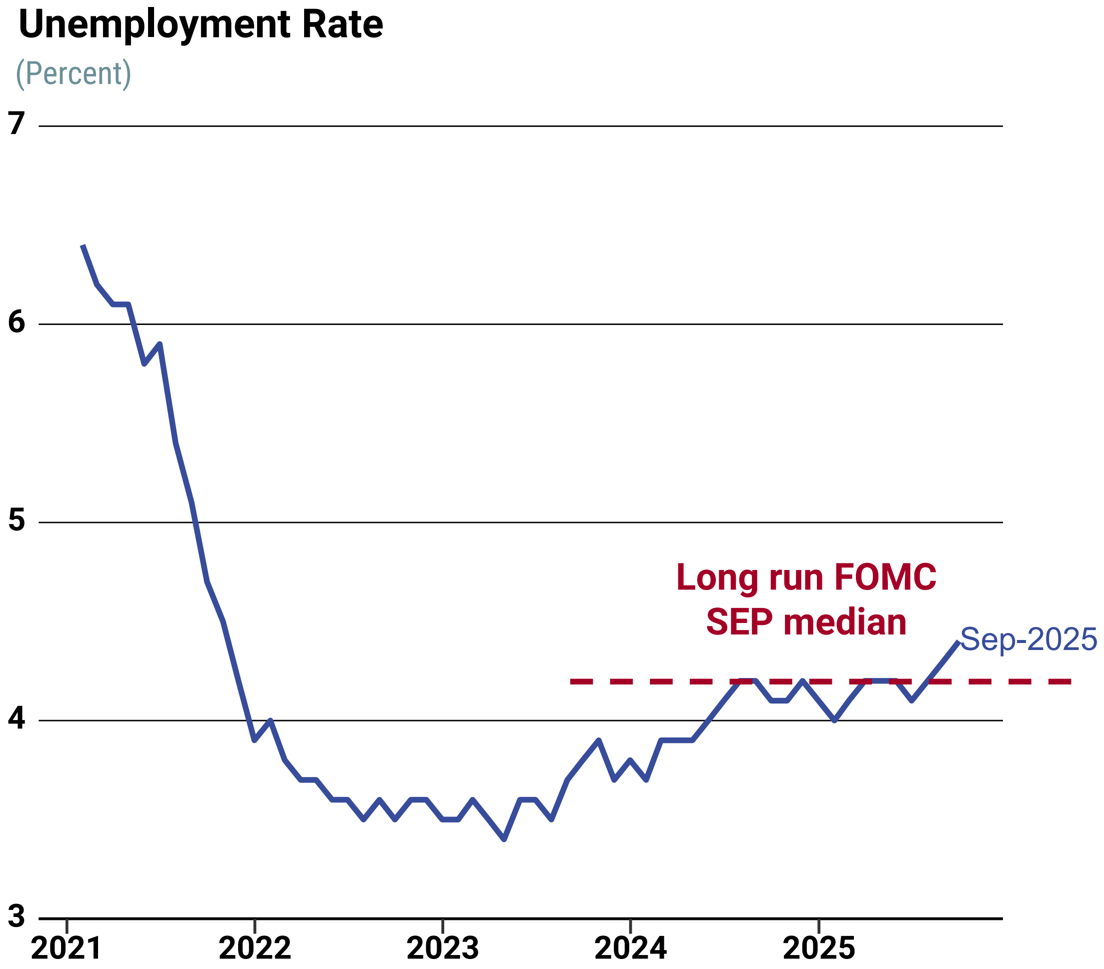
CBO Estimates of Contributions to Population Growth

(Percent)

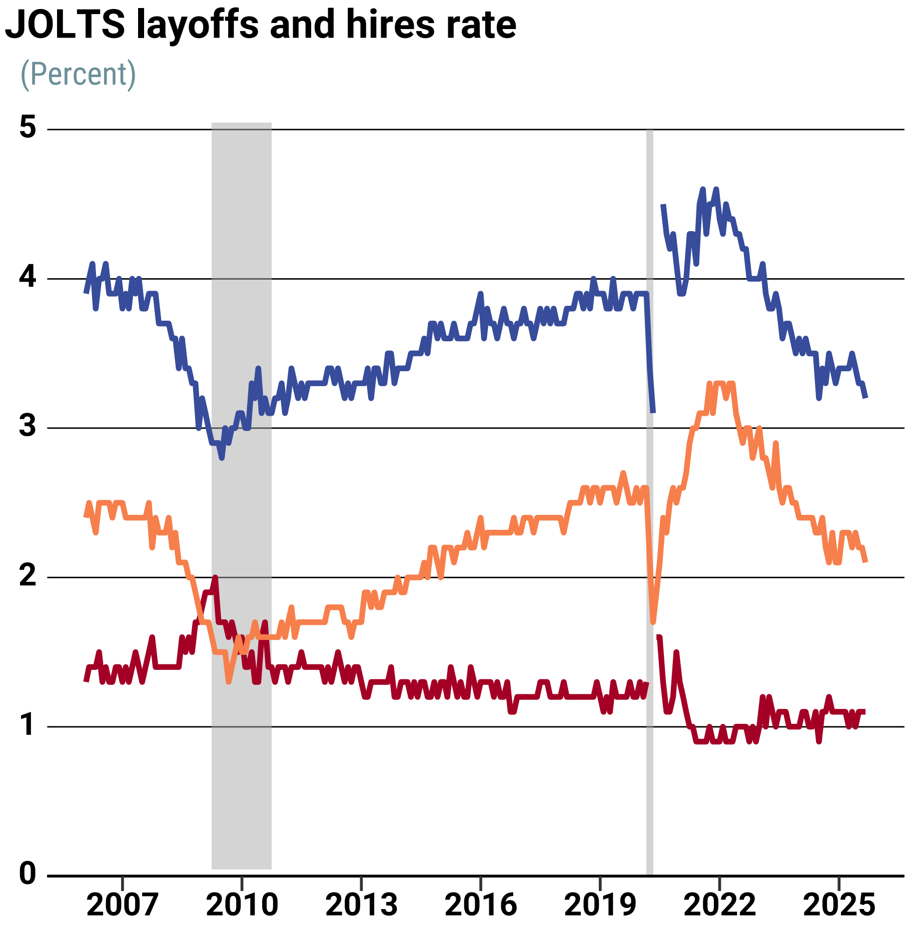


Source: Congressional Budget Office

Unemployment rate stable and job market stagnant



Source: BLS via Haver Analytics

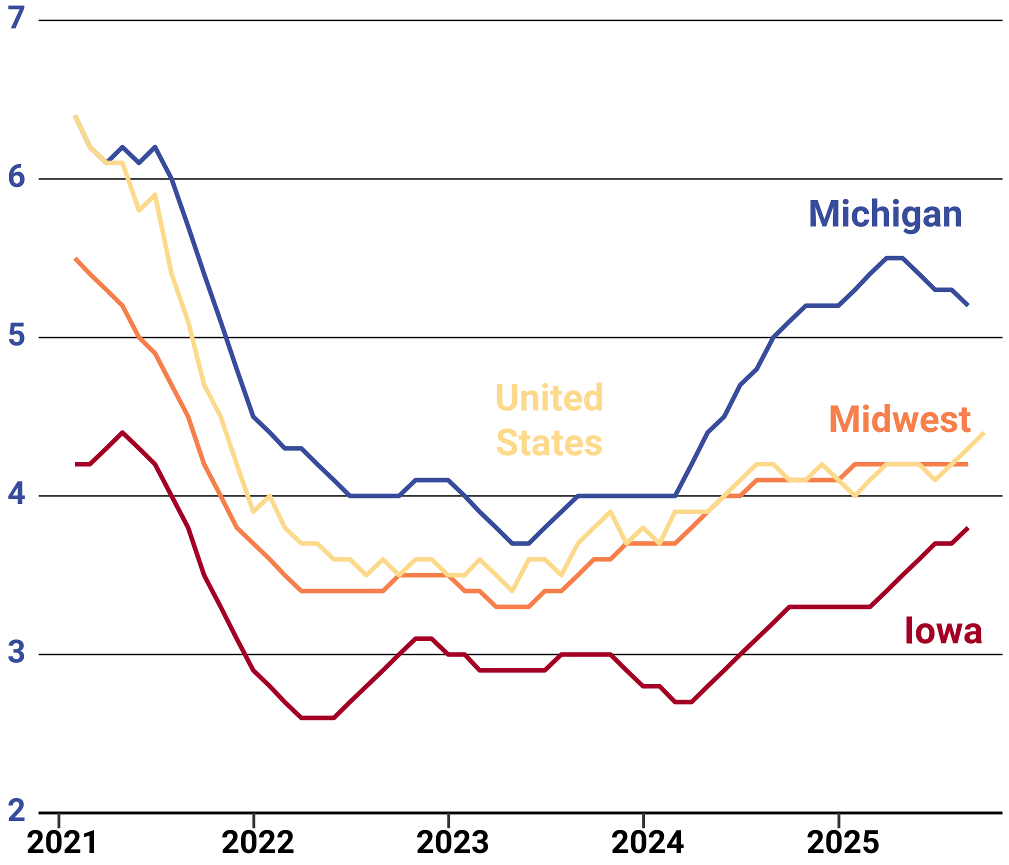


Note: Layoffs and hires peaked at 8.6 in Mar 2020 and 6.1 in May 2020 respectively.

Source: BLS via Haver Analytics

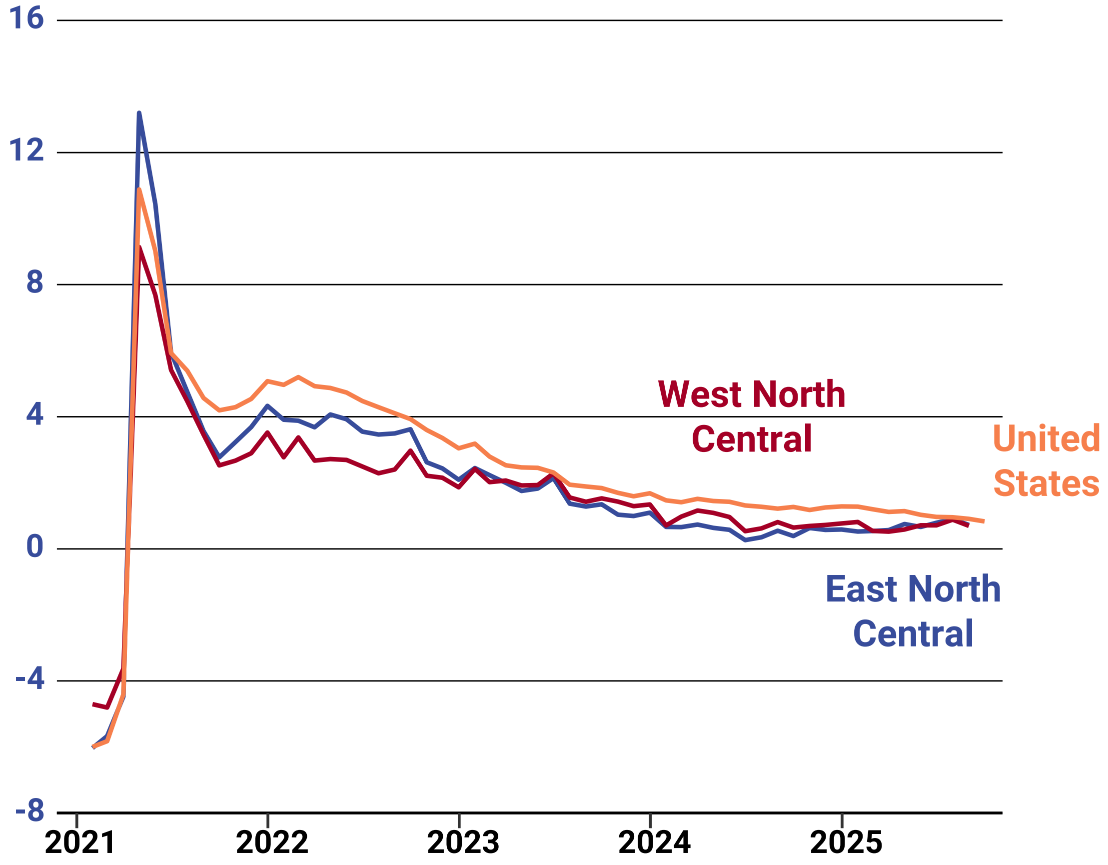
Midwest labor market similar, but heterogeneous

Unemployment Rate
(Percent, seasonally adjusted)



Source: Bureau of Labor Statistics from Haver Analytics

Total Nonfarm Employment
(Year over Year Percent change, seasonally adjusted)

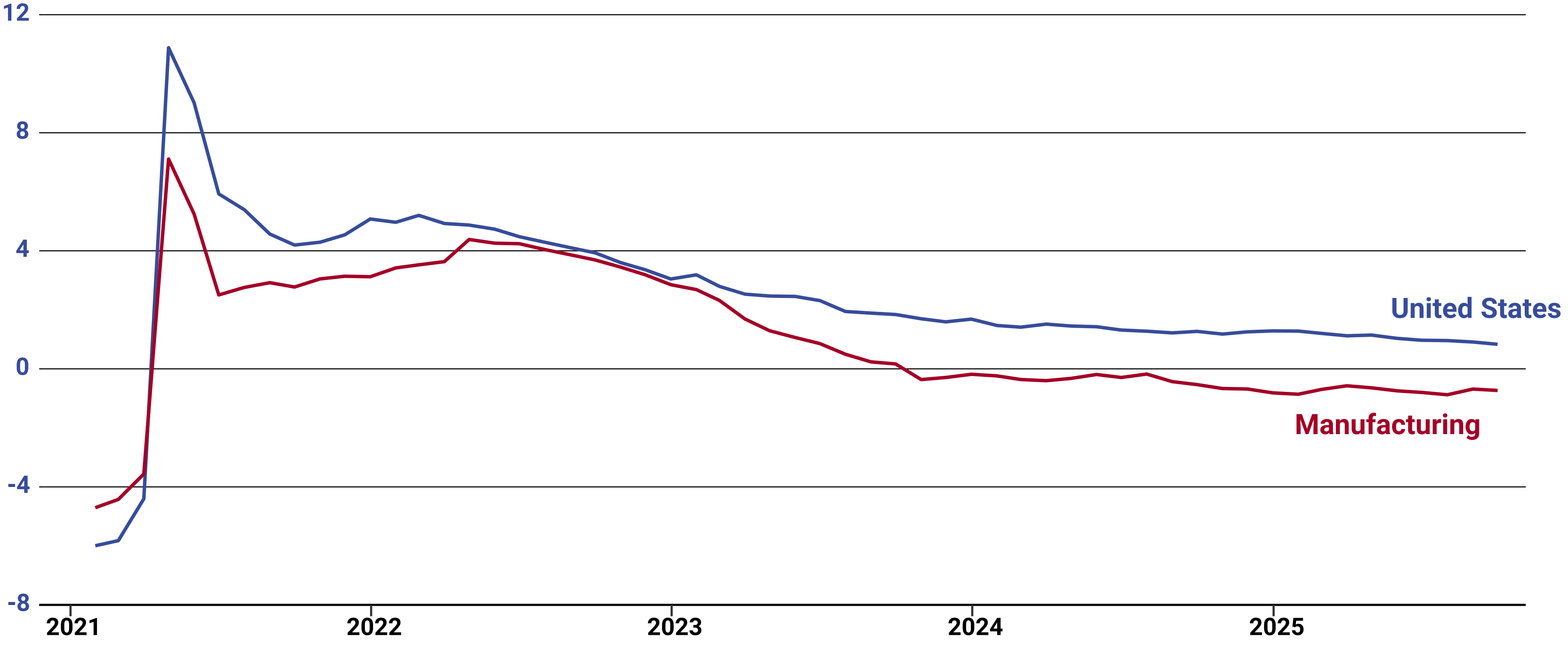


Source: Bureau of Labor Statistics from Haver Analytics

Payroll employment growth – Overall vs Manufacturing

Payroll Employment

(Percent change, annual)



Source: Bureau of Labor Statistics from Haver Analytics

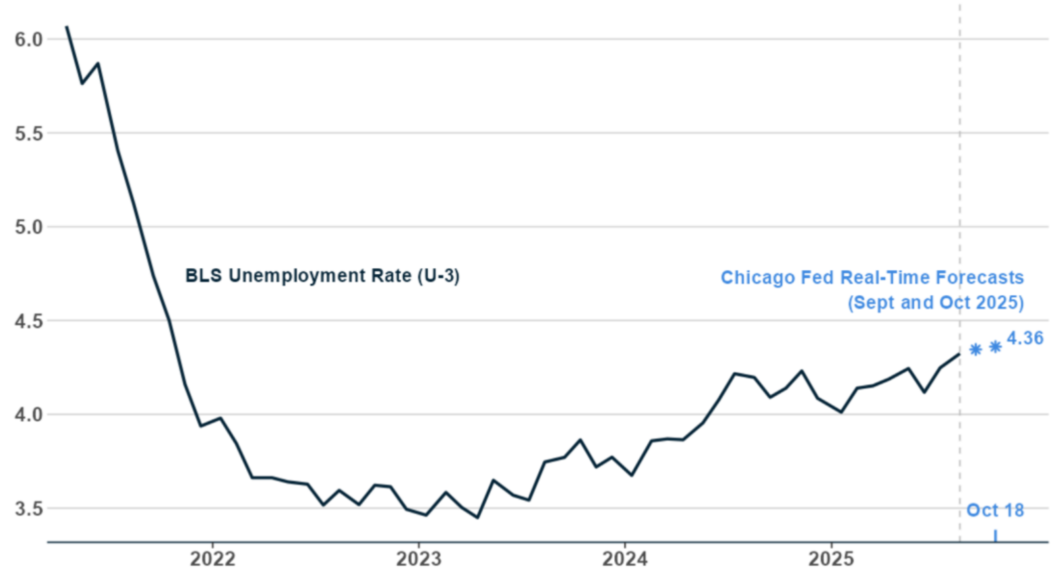
Chicago Fed Labor Market Indicators provide recent information on the labor market

- What are the CFLMI?
  - Combines public and private indicators of the labor market (UI claims, Google Trends, Forecasts, Private Job Openings data) and BLS monthly data
  - Creates monthly measures of separations, hiring rate for the unemployed, and a forecast of the BLS unemployment rate
- Why did we develop this?
  - Wanted something more timely
  - New (more comprehensive) measures
- A bonus… in absence of government data, a more timely source of information

CF LMI show very modest deterioration in labor market

Chicago Fed Real-Time Unemployment Rate (Oct 2025)

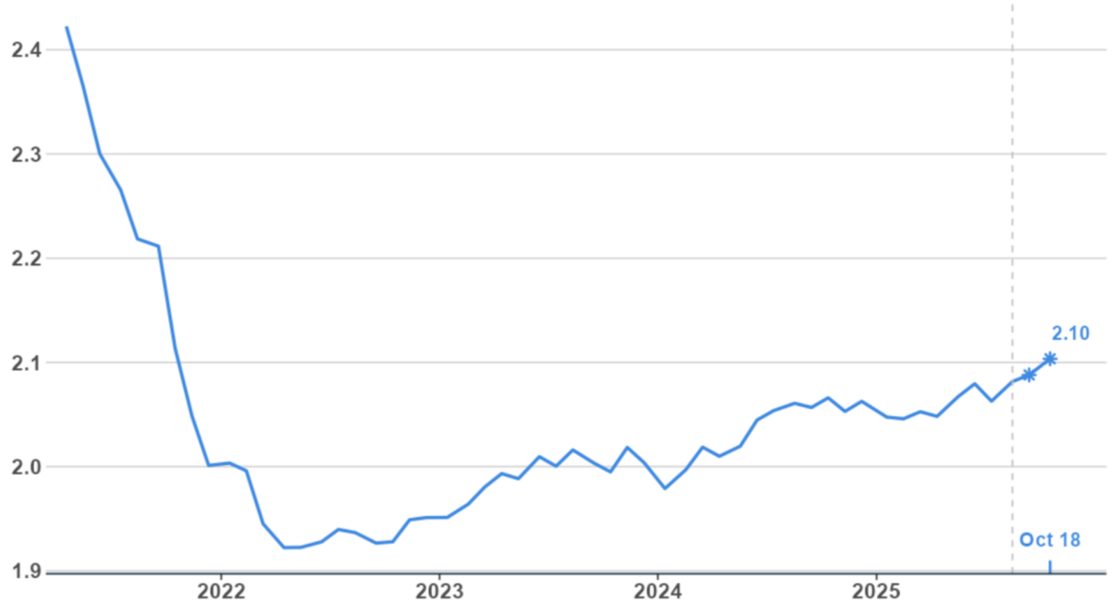
Percent of labor force



Federal Reserve Bank of Chicago
Notes: Actual BLS civilian unemployment rate data (U-3), alongside the Chicago Fed Real-Time Unemployment Rate (blue marker) for September and October 2025. The vertical line denotes the final pre-shutdown BLS release.
Sources: Chicago Fed staff calculations based on data from ADP, Bloomberg, The Conference Board, Google, Haver Analytics, Indeed, Lightcast, Morning Consult, and U.S. Bureau of Labor Statistics (BLS).

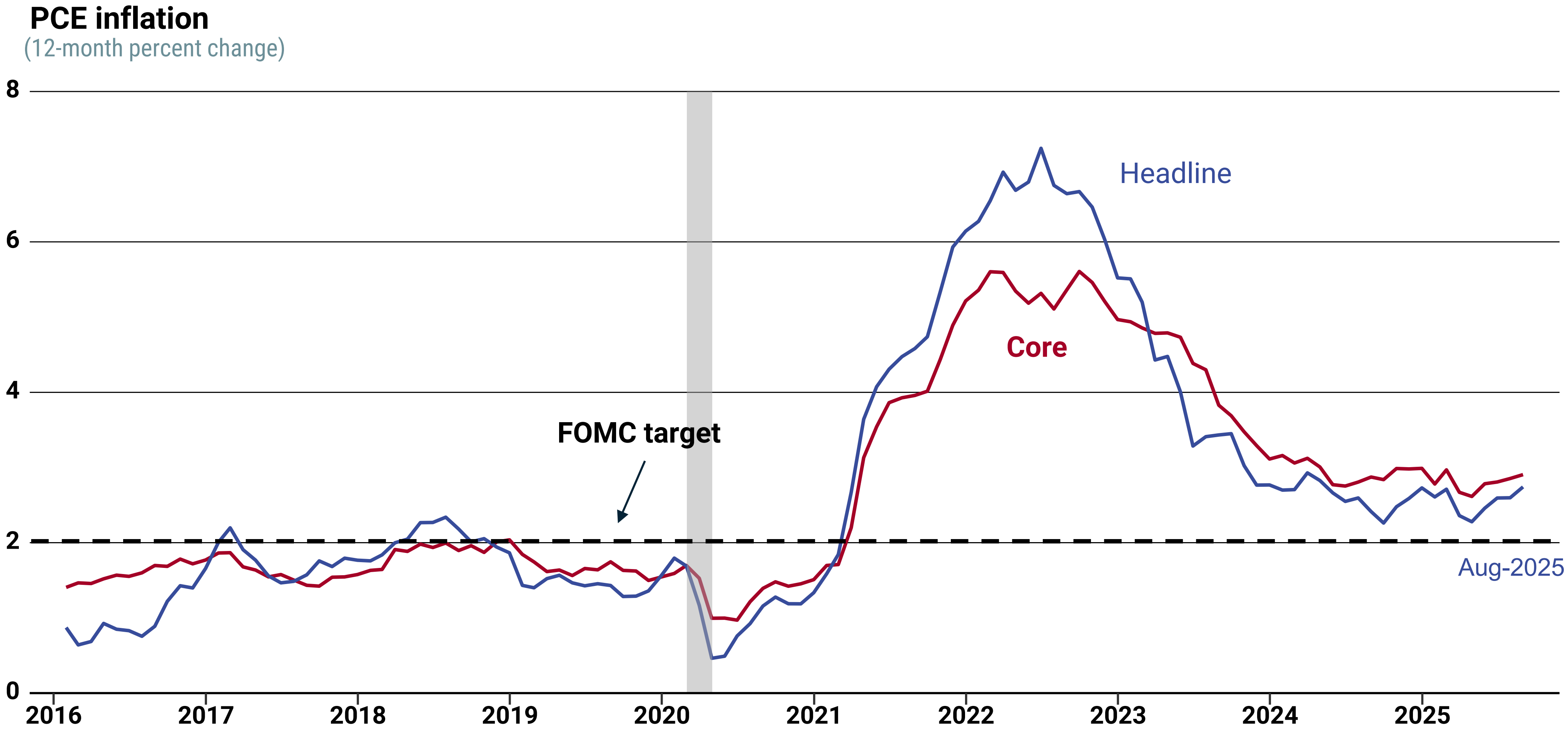
Chicago Fed Layoffs and Other Separations Rate (Oct 2025)

Percent of employed



Federal Reserve Bank of Chicago
Notes: The Chicago Fed Layoffs and Other Separations Rate measures the prevalance of layoffs, discharges (including firings), and quits into nonemployment. The vertical line denotes the final pre-shutdown BLS release.
Sources: Chicago Fed staff calculations based on data from ADP, Bloomberg, The Conference Board, Google, Haver Analytics, Indeed, Lightcast, Morning Consult, and U.S. Bureau of Labor Statistics (BLS).

Inflation has cooled, though not yet at target



Source: BEA via Haver Analytics; staff calculations

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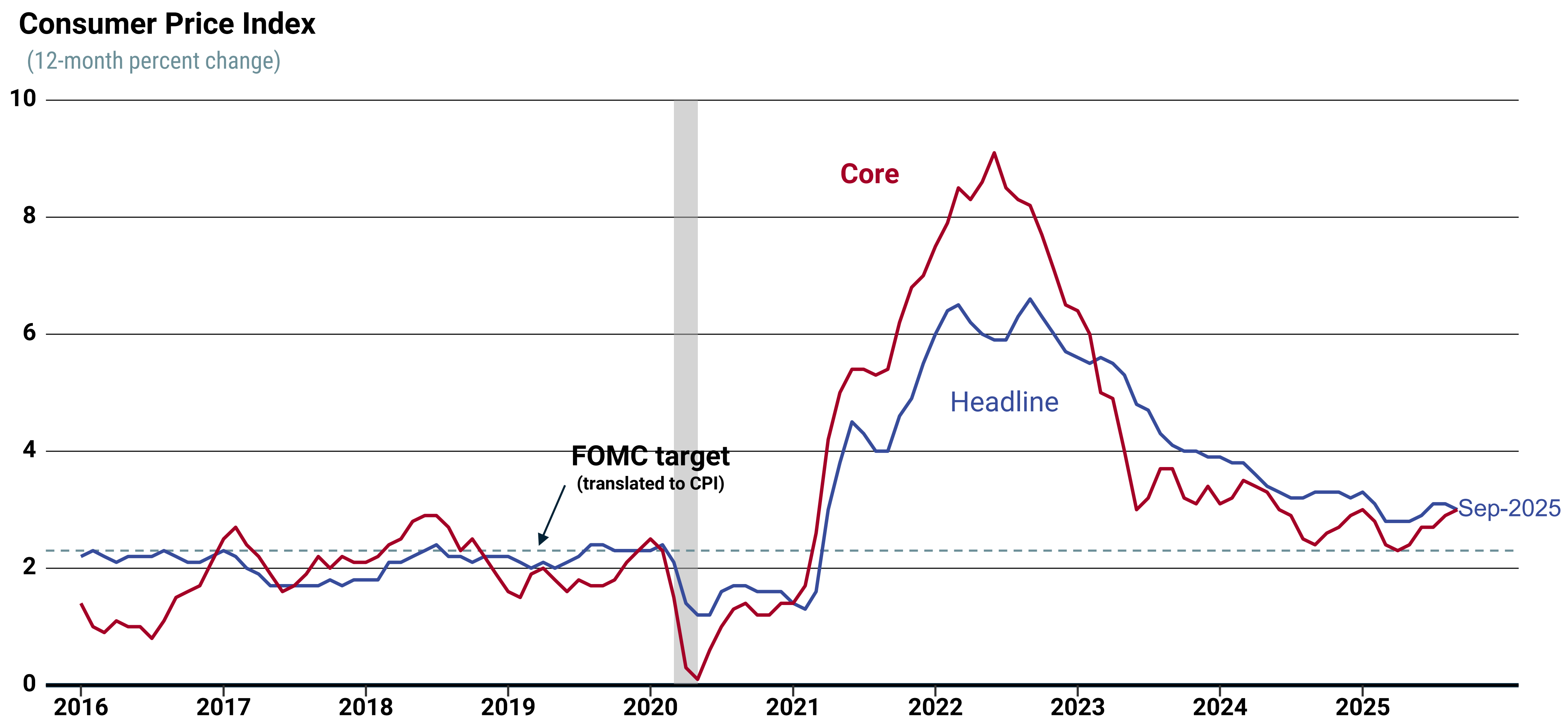
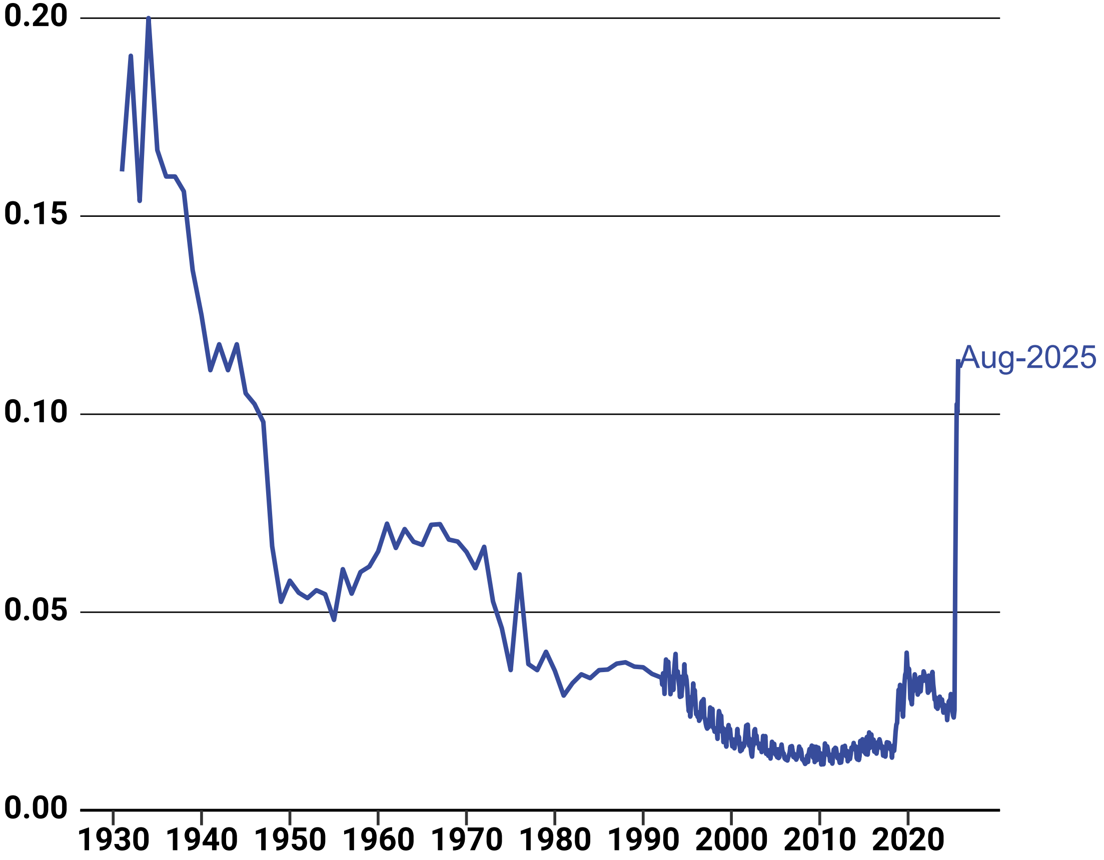


Source: Bureau of Labor Statistics via Haver Analytics

Tariffs up sharply and feeding into inflation

Collected tariff rate

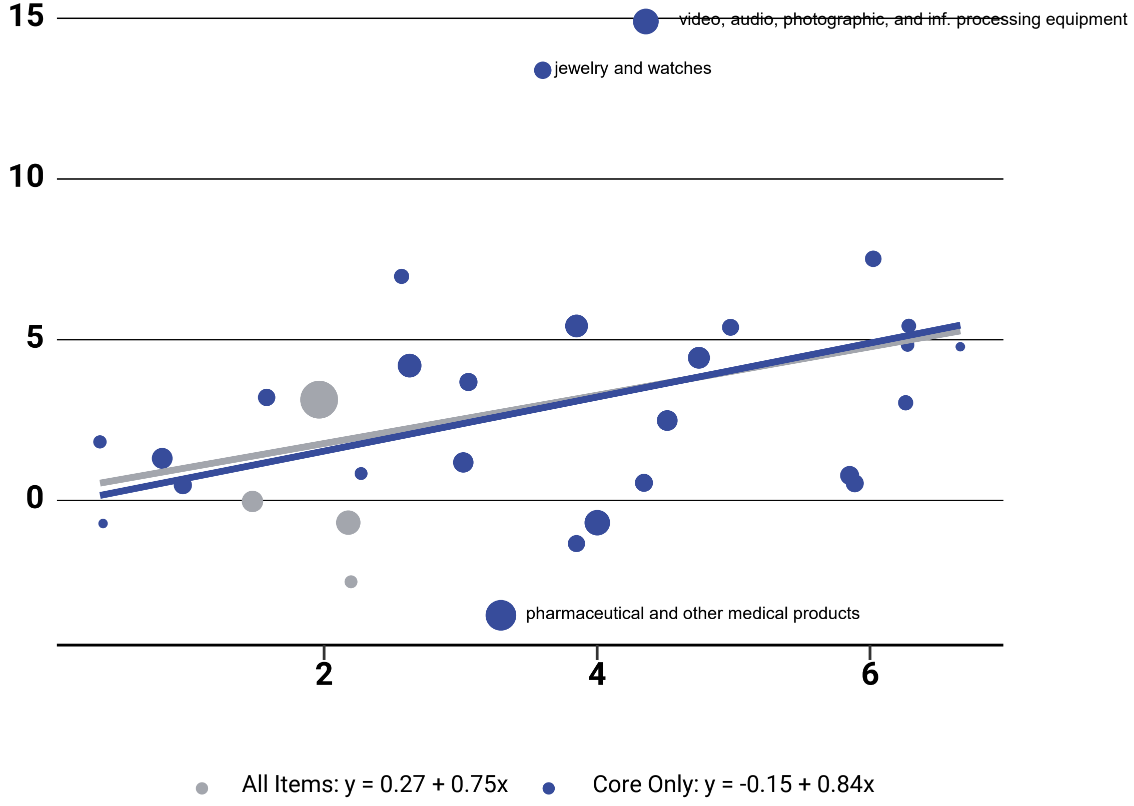
(Custom duties as a share of goods imports)



Source: U.S. Treasury, Census Bureau via Haver Analytics

Tariff effects on PCE goods inflation

(Excess inflation by Import Share)

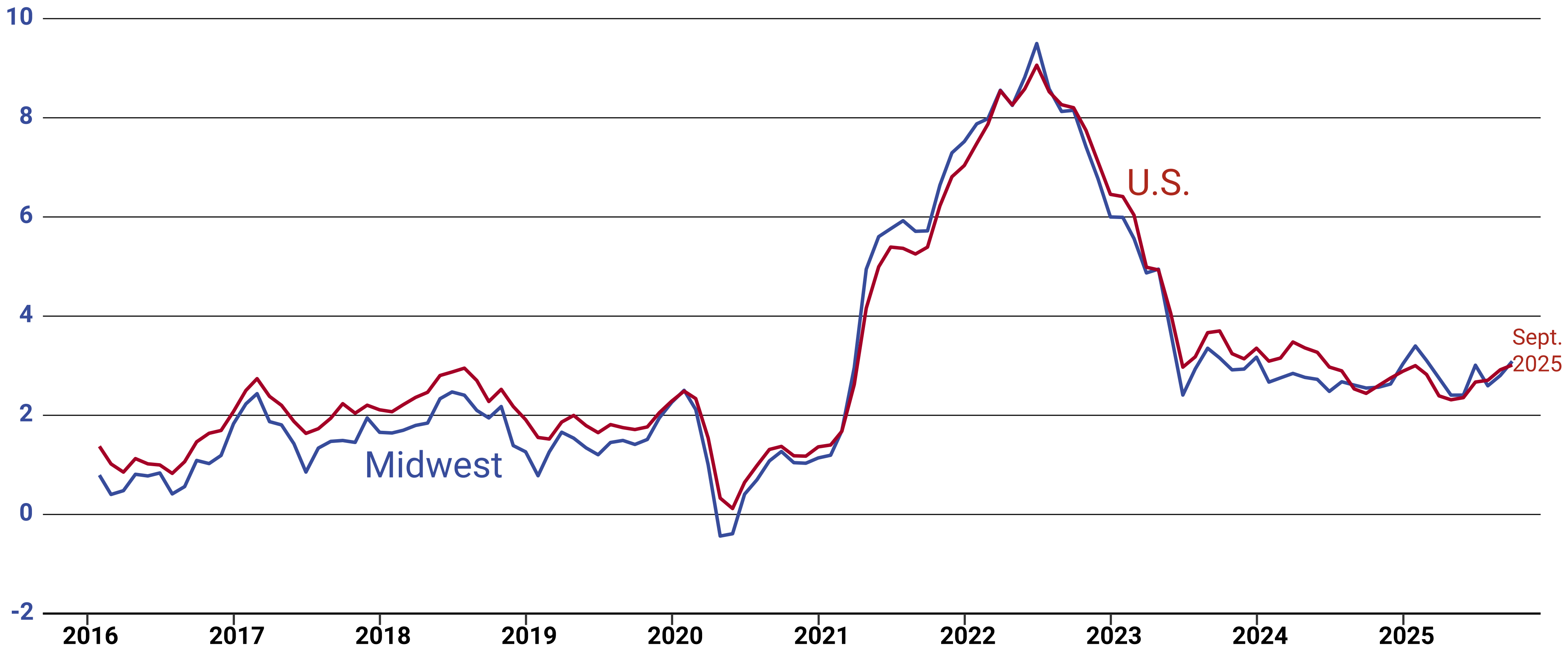


Source: BLS via Haver Analytics, BEA, Hobijn and Nechio (2025)

Midwest inflation very similar

CPI-U: All Items

(12-month percent change)



Source: Bureau of Labor Statistics from Haver Analytics

Short-run expectations elevated; long-run anchored

TIPS inflation compensation, 2 year

Source: Board of Governors of the Federal Reserve System

TIPS inflation compensation, 5-10 years

Source: Board of Governors of the Federal Reserve System

Monetary Policy: Risks on both sides of mandate

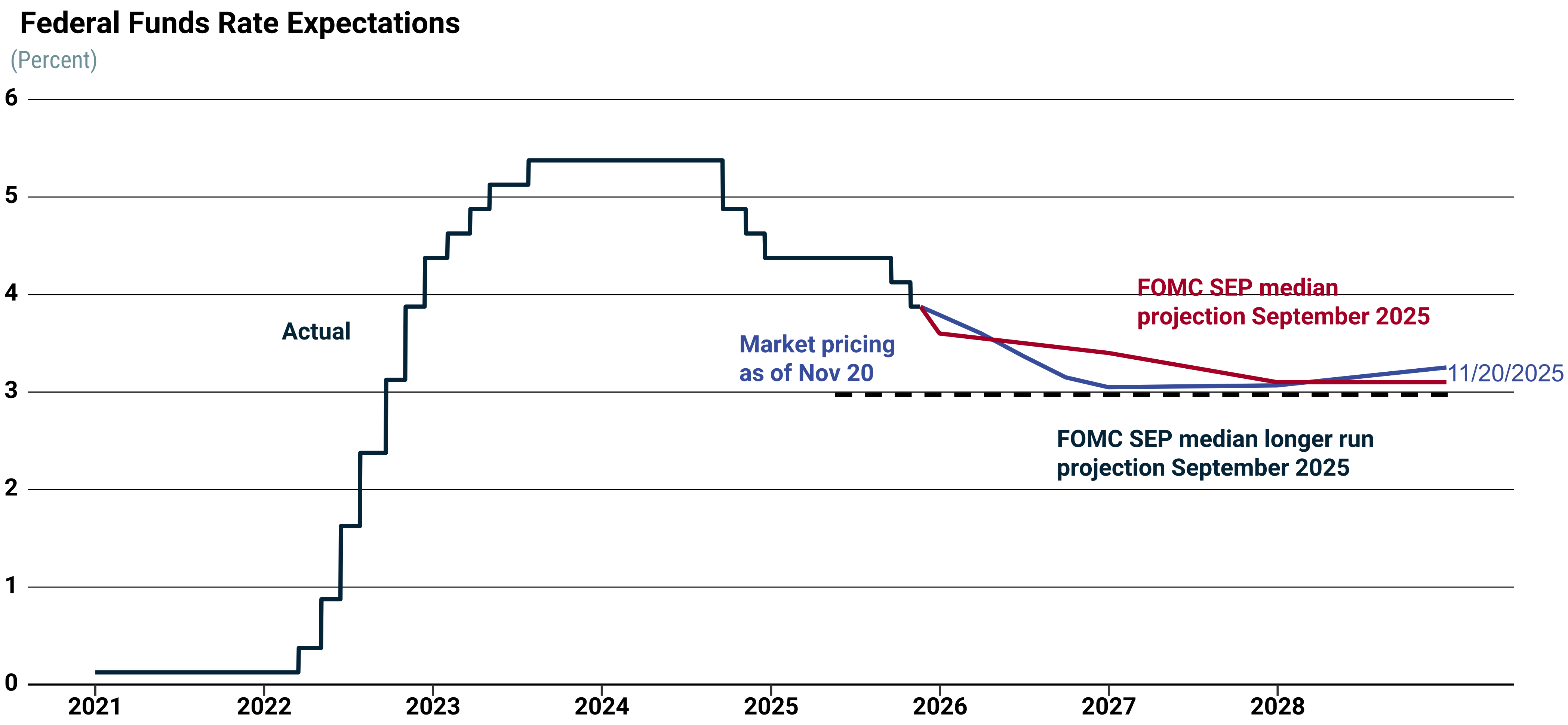
- **What is the net impact on the FOMC's dual mandate goals of stable prices (2 percent inflation) and maximum employment ?**

- **Inflation is above target and expected to increase**
  - 4+ years above target
  - Inflation expectations may creep up

- **Employment growth has been close to zero**
  - Immigration policy changes responsible for much of the drop
  - Unemployment has only slightly increased
  - Many worry that things could get worse

- **Need to balance risks**

Fed funds path



Source: Federal Reserve Board via Haver Analytics

FOMC expects …

Projection (Sept.)	2024 (actual)	2025	2026	2027	Long run
GDP	2.4	1.6	1.8	1.9	1.8
Unemployment Rate	4.1	4.5	4.4	4.3	4.2
Core PCE	3.0	3.1	2.6	2.1	-

Source: BEA and BLS via Haver Analytics and FOMC Summary of Economic Projections, September 2025

Conclusion

- **Economic Outlook**
- **Recent data broadly consistent with earlier readings**
- **Midwest picture not meaningfully different**
  - Despite some important and salient features of the Midwest Economy

Share your knowledge with us

Fill out our monthly survey to help keep the Fed up-to-date on what you're seeing.

Results are shared with the Chicago Fed's president and help inform monetary policy.

Responses are kept confidential, but aggregate results are made public.

www.chicagofed.org