Economic Development

News & Views

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New Chicago Fed Index to Help Gauge U.S. Economic Trends

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Inside this Issue:

Measuring stick helps gauge U.S. economic trends using 85 indicators

On March 5, 2001, a new index designed to better gauge overall economic activity and inflationary pressures, was released by the Federal Reserve Bank of Chicago.

Called the *Chicago Fed National Activity Index,* or *CFNAI,* the index provides useful information on the current state of economic activity and inflationary pressures in the United States. Movements in the *CFNAI* closely track periods of economic expansion and contraction, as well as periods of rising and falling inflationary pressures. The index will be released on a monthly basis.

Chicago Fed National Activity Index

CFNAI

"Our goal in releasing this index on a monthly basis is to provide an objective, contemporaneous measure of economic activity that will add to the public discourse," W. Curt Hunter, Chicago Fed Director of Research, stated.

The index is adapted from the methodology developed by James Stock of Harvard University and Mark Watson of Princeton University which was discussed in an article titled "Forecasting Inflation," published in the *Journal of Monetary Economics* in 1999. The concept supporting Stock and Watson's approach is that a common factor exists in all inflation indicators, and it is this factor, or index, that is useful for predicting inflation. Similarly, the *CFNAI* extracts a single, summary measure of current economic activity from a host of common indicators.

The 85 economic indicators underlying the *CFNAI* are drawn from five broad categories of data: output and income; employment, unemployment and hours; personal consumption, housing starts and sales; manufacturing and trade sales; and inventories and orders. Each of these data series measures some aspect of overall macroeconomic activity.

The experience with many widely used indicators of economic activity and inflation has been that, in general, they do well in some periods and less well in others. Often a relationship that is pronounced at one time disappears in later episodes. A key finding from Stock and Watson's research is that across

FEDERAL RESERVE BANK
OF CHICAGO

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CFNAI *continued from page 1*

different time periods an index like the *CFNAI* beats forecasts based on other single indicators or combinations of different indicators. Research at the Chicago Fed generally supports these findings.

The *CFNAI* will be released at 9:00 a.m. Central Time. ■

For more information about the Chicago Fed National Activity Index, please contact James Pieper at 312/322-2387, or visit ***www.chicagofed.org.***

See related article on page 13.

The following are the official release dates for 2001:

Date of Release	Monthly Data for
March 5, 2001	January 2001
April 3, 2001	February 2001
May 2, 2001	March 2001
May 31, 2001	April 2001
July 5, 2001	May 2001
August 2, 2001	June 2001
September 4, 2001	July 2001
October 3, 2001	August 2001
November 5, 2001	September 2001
December 5, 2001	October 2001

Fed Facts

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank, the Federal Reserve System.

The role of the Federal Reserve System is to foster a strong economy and a stable financial system.

The Chicago Reserve Bank:
- Participates in formulating national monetary policy,
- Supervises and regulates banks and bank holding companies, and
- Provides financial services to banks and the U.S. government.

Financial Services Volumes (2000)
- **Checks Processed**
  $1.7 trillion
- **Automated Clearing-house Transfers**
  $2.5 trillion
- **Wire Transfers**
  $57 trillion
- **Currency Received and Counted**
  $51 billion
- **Unfit Currency Destroyed**
  $9.5 billion

Employees
2,121

Assets
$66.9 billion
(as of 12/31/2000)

Depository Institutions in 7G District
3,324

Banks and Bank Holding Companies Supervised
1,281

Communications

Advisor: Alicia Williams
Editor: Harry Pestine

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Editor's Note: A special thanks to Robin Newberger and Marina Plavnik for their assistance in preparing the MSA Profiles article.

Wealth-Building Conference Helps Women in Chicago

Wanda White (2nd from right), president of Women's Self-Employment Project, welcomes keynote speaker Dr. Julianne Malveaux (center) to the organization's "Wealth Building Conference for Women," held at the Federal Reserve Bank of Chicago on March 10. Also greeting Dr. Malveaux are Karen Kane (far left), senior vice president, and Angela Robinson (2nd from left), vice president, Federal Reserve Bank of Chicago and Brooke Stephens (far right), financial author and a conference speaker.

More than 100 Chicago-area women gathered at the Federal Reserve Bank of Chicago on Saturday, March 10 to learn how to start and manage a wealth-building plan. The event, called "Moneywise: The Conference for Financial Empowerment," was hosted by the Chicago Fed and the Women's Self-Employment Project (WSEP). The conference addressed personal finance topics for women of all ages and at all stages of financial planning — whether they are just starting a plan or enhancing existing strategies and investments.

The keynote speaker was Dr. Julianne Malveaux, economist, syndicated newspaper columnist and author of "Wall Street, Main Street, and the Side Street: A Mad Economist Takes a Stroll." Malveaux told the attendees that culturally, women get mixed messages about money, and emphasized the need to teach young people early on about the importance of money and how to handle their finances. "Money will empower you to make change," Malveaux concluded.

Wanda White, president of WSEP, stated that Saturday's attendance at the conference indicates that women continue to see the importance of personal financial issues. "We saw today that women of all financial situations want and need to know more about budgeting, saving, investing, and using credit wisely. We think the conference helped take the mystery out of building wealth, and that's important to women and to WSEP," White noted.

Angela Robinson, vice president and director of Economic Research Statistics at the Chicago Fed, who, along with White, convened the event stated, "No topic is more important to women today than addressing and attacking the issue of building for a secure financial future."

Karen Kane, senior vice president at the Fed, also expressed the bank's support and commitment for the program. "It's our pleasure to work with organizations like WSEP in extending our outreach and providing support to the great work that they do in helping women become more financially empowered."

Also addressing the conference was Brooke Stephens, author of "Wealth Happens One Day at a Time: 365 Days to a Brighter Financial Future" and "Talking Dollars and Making Sense: A Wealth-Building Guide for African-Americans."

Additional featured speakers discussed topics related to managing personal finances and building wealth. The topics covered included: saving money and barriers to saving; using credit wisely; investing; and building wealth and creating assets. The discussions focused on the needs women have in these areas.

The conference was held as part of Women's History Month and was co-sponsored by WSEP, the Federal Reserve Bank of Chicago, the American Express Foundation, and Fannie Mae.

The Women's Self-Employment Project provides training for women interested in starting a business or expanding an existing one. The organization also provides small-business loans, asset-development products, entrepreneurial training and consulting on various aspects of running a small business. ■

For additional information on the various programs offered by the Women's Self-Employment Project, call 312/353-0182.

Finance

New Markets Tax Credit Could Spur $15 Billion in New Investments in Urban and Rural Communities

The recently enacted Community Renewal Tax Relief Act could spur the investment of $15 billion in new private capital into investment vehicles that make loans and equity investments in New Markets businesses.

What is the New Markets Tax Credit?

When making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth more than 30 percent of the amount invested over the life of the credit, in present value terms. Eligible CDEs could include for-profit community development financial institutions (CDFIs), for-profit subsidiaries of community development corporations, SBA-licensed New Markets Venture Capital companies, and Specialized Small Business Investment Companies.

A number of pioneering community-based institutions have demonstrated track records in finding viable market opportunities in areas often overlooked by traditional investors. By increasing their capital base, this tax credit will enable CDEs to lend and invest more, to attract additional outside capital, and to bring even more private-sector support to their market-priming activities.

Why Do Businesses in Low-Income Urban and Rural Areas Need Help in Accessing Capital?

Markets in America's inner cities and distressed rural areas possess enormous untapped economic potential. However, growing businesses in these communities are unlikely to attract the attention of venture capitalists who generally work within their existing relationships and communities. The smaller local venture funds that exist in some communities may have difficulty raising capital, developing deal flow, providing the requisite investment and management expertise, and managing the risks inherent in less diversified local economies. Greater distances in rural areas often mean that capital providers may incur higher costs for travel and information. That is even more true of businesses in isolated rural or inner-city communities that are cut off from mainstream business networks. In urban markets, information barriers may prevent investors and lenders from discovering and fully appreciating business opportunities.

Why is Equity Capital Especially Important to Businesses?

Equity capital can provide small businesses with "patient" capital — capital that can be used to grow a business before a return on the funds is due to the investor. A healthy equity capital base in a business relieves some short-term cash flow pressures, allowing the firm room to innovate and introduce new products, cultivate new sales leads, and hire and train new staff. In addition, equity capital can increase a small business's creditworthiness, which can lower its cost of financing and better enable it to leverage additional sources of financing. Finally, an equity cushion helps a firm absorb unforeseen setbacks and weather temporary economic downturns.

How Will the New Markets Tax Credit Work?

Eligible CDEs will apply to the Treasury Department's CDFI Fund for an award of New Markets Tax Credits. The application and selection will be based on objective criteria, including the expertise of the management team and the experience of the CDE in working with disadvantaged businesses and communities. Once a CDE is awarded tax credit allocations, the CDE is authorized to allocate its given amount of tax credits to private equity investors in the CDE.

When an equity investment is made in the CDE, investors will be able to claim a 5 percent credit on the investment amount for each of the first 3 years, and a 6 percent credit for each of the next 4 years. During the life of the investment, the tax credit will total over 30 percent of the investment, in present-value terms.

Which Investors will be Eligible for the New Markets Tax Credit?

Any taxable investor — including an individual, a company, or an investment fund — that makes an equity investment in a qualified CDE is eligible for the tax credit. The kind of eligible investors that may be interested in New Markets Tax Credits include banks and thrifts, insurance companies, investment banks, venture capital and other investment funds, finance companies, individuals, corporations, and others.

Which Businesses will Qualify for CDE Loans and Investments?

The CDE, using its local knowledge and expertise, will decide what businesses to invest in or lend to with the funds it raises with the New Markets Tax Credit. Almost all businesses located in low- or moderate-income areas could qualify for loans or equity investments. Based on the portfolio of existing successful business investors in New Markets areas, typical firms could include: small technology firms, inner-city shopping centers, manufacturers, retail stores or microentrepreneurs. A business must meet the following two eligibility requirements to qualify:

Continued on page 5

Tax Credit *continued from page 4*

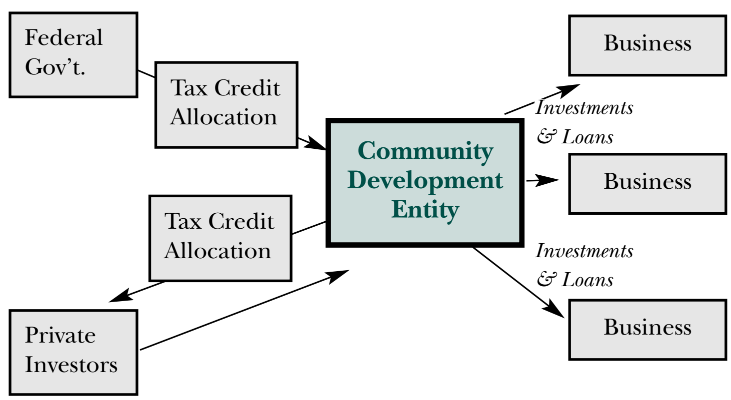
First, the business must be located in either a census tract with a poverty rate of at least 20 percent or a census tract with a median income that does not exceed the greater of 80 percent of the median income for the MSA, or 80 percent of the statewide median income.

Second, the business must have a substantial connection to that location as measured by the following criteria: at least 50 percent of the business's income must be derived from activity in a low-income community; a substantial proportion of the business's property must be located in a low-income community; the employees of the business must perform a substantial proportion of their work in the low-income community; and less than 5 percent of the business's assets can be held in unrelated investments.

These requirements may be met by the business unit receiving the investment, such as a branch plant or division of a company, rather than the entire corporate entity. This means that a company does not need to establish a new corporation in the eligible census tract, as long as the CDE's investment can be traced to the facility in the low-income census tract.

What Types of Community Development Entities will be Eligible for the New Markets Tax Credit?

The New Markets Tax Credit will build upon the knowledge and expertise of local institutions that understand the local business terrain and have a proven record of success in community and economic development. A wide range of for-profit community development entities will qualify, including: community development banks or venture funds; community development corporations; small business investment companies focused on low- and moderate-income communities; venture capital companies; and other investment funds serving low- and moderate-income communities. Tax credits could also be awarded for investments in national or regional funds that invest in local community development entities. Similarly, tax credits could be provided for secondary market funds that purchase eligible loans or investments from the originating entity. The following are examples of some of the types of CDEs that the New Markets Tax Credit is designed to assist:



- **Community Development Financial Institutions (CDFIs)** CDFIs are specialized financial institutions that are located in, and serve, low- and moderate-income areas. CDFIs provide a wide range of financial products and services, including mortgage financing for first time homebuyers, financing for community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and businesses. These institutions also provide technical assistance to small businesses and credit counseling to consumers. CDFIs include community development banks and thrifts, credit unions, loan funds, venture capital funds, and microenterprise loan funds. The Treasury Department's CDFI Fund certifies and funds CDFIs nationwide.

- **Community Development Corporations (CDCs)** CDCs that establish for-profit subsidiaries, limited liability companies, or partnerships may be eligible for equity investments by NMTC investors. Like CDFIs, CDCs have as their primary mission serving the economic and social needs of their communities. CDCs have an extensive history of serving distressed areas and utilizing tax credit tools, such as the low-income housing tax credit, to build affordable housing

- **Small Business Investment Companies focused on Low- and Moderate-IncomeAreas (SBICs)** SBICs are private venture firms that are licensed by the SBA to invest in small growing businesses. In order to encourage SBICs to invest greater amounts of capital in inner cities and in rural areas, the SBA introduced a new investment category – "LMI Investments" – for financings made in low- and moderate-income geographies, or for financings in businesses that employ a significant percentage of people from such geographies. Any SBIC whose primary mission is making investments in LMI geographies will be able to apply for the New Markets Tax Credit. ■

*Further questions? Please contact the Consumer and Community Affairs staff at the Federal Reserve Bank of Chicago at 312/322-8232 or visit the United States Treasury Department's CDFI Fund web site at **www.treas.gov/cdfi/**.*

Banks Increase CDC's Capitalization

Shareholders of the Northern Illinois Community Development Corporation (NICDC) recently announced that four new bank shareholders have become investors in NICDC. The four new bank investors are Associated Bank, Firstar Capital Corporation, Blackhawk State Bank and Stillman BancCorp.

The new investors have added $342,000 to the development corporation's current capital base of $460,000. According to David Thompson, NICDC president and executive vice president of Alpine Bank, the new investments will be used to increase the pool of investment capital available for small businesses in Winnebago and Boone Counties.

NICDC, which was organized in 1992, is a private, for-profit, multibank community development corporation authorized by federal and state bank regulatory agencies to encourage banks to participate in higher risk community investments. Organizers include the Rockford Local Development Corporation (RLDC), area banks, the Illinois Department of Commerce and Community Affairs (DCCA) and communities in Winnebago and Boone Counties. NICDC's objective is to stimulate business development in the area. Essentially, NICDC is a bi-county extension of the RLDC's successful Revolving Loan Fund that serves businesses in Rockford.

NICDC offers a range of debt and equity investments up to $100,000 for small businesses located anywhere in Winnebago and Boone counties. Terms and conditions of these investments are flexible to accommodate the diverse needs of the many types of businesses and business projects in the two-county area.

Since its inception, NICDC has provided $1,050,000 of capital to finance 15 small business projects with aggregate investments totaling $8,030,000. John Phelps, NICDC loan portfolio manager and RLDC Deputy Director commented, "The new capital being provided by new shareholders will allow the portfolio to double in size over the next five years."

NICDC was initially capitalized with $375,000 provided by its founding banks AMCORE Bank, Bank One, National City Bank, Alpine Bank and Belvidere National Bank and a grant from DCCA. These funds were devoted to the corporation's small business investment activities. Participating governments and the Rockford Local Development Corporation provided start-up-operating capital. The RLDC manages NICDC's day-to-day operations under a contractual arrangement. A board of directors appointed by its shareholders governs the corporation.

NICDC's new board of directors and officers for the year 2001 include: Bruce Lammers, president; David Thompson, vice president; Edward Munguia, secretary and David Stearns, treasurer. Bruce Lammers, newly elected President expressed his expectation that "NICDC will expand its role in providing capital for economic development in Northern Illinois and serve as a forum for financial institutions to address area economic development needs in a collaborative manner." Other directors include Chuck Sommers, National City Bank; Jim Metz, Belvidere National Bank; Jeff Layng, Bank One; Bill Zibell, Associated Bank; David Norton, Firstar Bank; Dan Loescher, Loescher & Associates, Ltd.; Stuart Cohn, Behr Metals and Dawn Hallsten, Mateer & Associates. ■

For additional information contact Sanders Howse, Jr., Rockford Local Development Corporation, 815/987-8675.

Michigan Workers to Receive More Than $3.6 Million in Job Training Grants

The Michigan Economic Development Corporation (MEDC) is helping Michigan workers improve their job skills.

During the first two months of 2001, the MEDC's Economic Development Job Training program funded 44 grants of more than $3.6 million to upgrade the skills of more than 6,000 Michigan workers.

"These grants, coupled with the $60 million already in place for the new Michigan Technical Education Centers, will be the cornerstones of Michigan's worker training program," said Doug Rothwell, president and CEO of the MEDC. "Companies come to Michigan because of our strong workforce. The job training program allows us to address the individual training needs of a company."

The program helps Michigan businesses create new jobs or retain existing jobs by improving the skills and competitiveness of Michigan's workforce. Under the requirements of the job-training program, employers must provide a 25 percent match for training existing workers. Employers will provide almost $1.5 million in matching funds for the 44 grants.

The funds are provided to local community colleges, vocational-technical schools or other training providers. As the state's 18 Michigan Technical Education Centers (M-TECs) open for business, more companies are expected to utilize their training services, which are tailored to each company's skill needs and time demands. There are seven M-TECs currently open with more scheduled to open this year.

"This program seeks to ensure that Michigan employers have the highly trained technical workers they need to compete in the global economy," Rothwell said. "Providing skills training helps worker career advancement, teamwork and productivity."

MEDC, a partnership between the state and local communities, promotes smart economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life. ■

For more information, contact Kathleen McMahon, Economic Development Corporation, at 517/335-4590.

SBA Web Site Wins Award

The SBA's award-winning web site garnered yet another prize, when *Home Office Computing*, a magazine aimed at the growing work-at-home workforce, published its choice of the "100 best home office products, services and sites of 2000."

The publication gave the Bronze Award in the Info/Portal Site category to the SBA site, **www.sba.gov.** The magazine's announcement emphasized that "the Small Business Administration's site offers encyclopedic info on government-sponsored financing, training and advocacy."

The SBA web site offers approximately 45,000 pages of a wide variety of information on starting, financing, developing and managing a successful business, and has established itself as an invaluable resource to its users in the small business community. Since its inception in 1994, the site's online traffic has increased steadily, to a weekly average of more than 10 million hits.

The Silver Award in the same category went to the Service Corps of Retired Executives (SCORE) Web site, **www.score.org.** SCORE is an SBA-sponsored organization that provides free business training and advice.

Home Office Computing editor in chief Eric Grevstad said: "We are pleased to salute these products because they help home-based workers succeed… they're just right for today's work-at-home workforce."

The SBA web site has won several major awards and accolades for excellence from the business, publishing and online communities over the past few years. Among them are *Forbes* Best of the Web 2000, *Building Caring Communities* Web Excellence Award 2000, *Starting Page* Top 2000, Microsoft's Best of Business Webs '97 & '98, Yahoo!'s Best Sites of '98 Award and the Eagle Award for Excellence on the Net. ■

Indiana INTERNnet to Battle Brain Drain

The Indianapolis Chamber of Commerce has developed a unique initiative aimed at increasing the state's supply of educated workers. The Indiana "INTERNnet" project formerly known as Brain Gain uses intern programs to keep central Indiana graduates in the region.

Indiana has great colleges and universities, and thousands of students annually take advantage of the opportunities they offer. Too often, however, after graduation, those students leave to go to bigger cities or areas with more geographic diversity. a practice known as "brain drain."

According to research done by the Indiana Fiscal Policy Institute, 36 percent of residents and 89 percent of non-residents leave the state after graduation to begin their careers. Even more alarming, only 4.5 percent of high tech graduates remain in the area. Roland Dorson, executive vice president of the Chamber, cited a low awareness of strong career opportunities within the state as a major cause for the high rate of departure.

The Indianapolis Chamber has identified higher education internship and co-operative education programs as key factors in determining where graduates accept jobs. However, many of these programs are unknown or are under-populated, depriving metropolitan Indianapolis of a powerful tool for reversing the brain drain.

Initially started in 1999, the mission of the Indiana INTERNnet project is to identify strategies for increasing employers and students' use of internship and co-operative education programs offered by colleges and universities in metropolitan Indianapolis. The Chamber predicts that by raising the levels of participation among employers and students in metropolitan Indianapolis, the state will increase its stock of highly educated workers available for the emerging knowledge-based economy.

Recent accomplishments include:

- The creation of a catalog, targeted toward employers, that describes internship programs currently available through central Indiana colleges and universities.
- The development of the Indiana INTERNnet web-site. Scheduled to be up and running in early 2001, the site will be a matching system for students, universities, and employers who are interested in acquiring or setting up an internship opportunity in Indiana. The site will also provide tools to help users create a high quality internship, including "how to start an internship" for employers, "how to build a resume" for students, and "what companies have model internship programs" for universities.

Funders for the Indiana INTERNnet project include the Lilly Endowment, the Indiana Department of Commerce, Indiana Technology Partnership, Central Indiana Corporate Partnership, Indianapolis Foundation, USA Group Foundation, IUPUI, Indianapolis Chamber of Commerce and Anthem.

John S. Myrland, president of the Indianapolis Chamber of Commerce, stated "from all that we know, internships really make a difference in where graduates decide to locate. The Chamber wants to keep central Indiana graduates here and improve our community's workforce, and we feel the key to this is creating and expanding high-quality internship programs to improve the connection between those graduates and central Indiana employers." ■

For more information, contact Kelly Parker, Communications Manager, Indianapolis Chamber of Commerce at 317/464-2226.

Two New MSA Profiles and Investment Opportunities Released

by Robin Newberger and Marina Plavnik

Robin Newberger and Marina Plavnik are Research Analysts in the Consumer Issues Research Section of the Consumer & Community Affairs Division

In March 2001, the Federal Reserve Bank of Chicago launched the latest in its series of MSA Profiles, covering Ann Arbor, Michigan and Davenport-Moline-Rock Island, Iowa-Illinois. The profiles provide extensive data on demographic, socioeconomic, housing, employment, small business and mortgage lending trends within each MSA. In addition, the profiles report the results from surveys conducted in each MSA to assess the housing, infrastructure and credit needs of low-income neighborhoods in these areas.

The Chicago Fed's Consumer and Community Affairs (CCA) Division has been developing profiles of the major metropolitan statistical areas (MSAs) in the Chicago Federal Reserve district to provide financial institutions, nonprofit organizations, and government agencies with information on community development opportunities. These profiles highlight the economic and demographic characteristics of each MSA, and aim to identify the investment opportunities in the MSA to help financial institutions address the credit needs of their communities. The ultimate goal of this publication series, MSA Profile and Investment Opportunities, is to encourage community and economic development by promoting relationships and partnerships between financial institutions and local community organizations.

Highlights of the Ann Arbor, Michigan MSA Profile (Lenawee, Livingston, and Washtenaw Counties)

As illustrated in Figure 1, almost one-half of the Ann Arbor population resided in middle-income census tracts, 29 percent of the population resided in low- and moderate-income neighborhoods, and 22 percent in upper-income tracts. In 1999, the Ann Arbor MSA had an estimated population of 557,349 people. From 1990 to 1999, the population was estimated to have increased by 13.3 percent. Almost 55 percent of the MSA's population resided in Washtenaw County.

The MSA's minority population experienced a 30 percent growth rate between 1990 and 1999 (Figure 2). Asians were the fastest growing racial/ethnic group and reported a gain of 55 percent. By comparison, Non-Hispanic Whites reported the slowest rate of growth during the period (11 percent).

Figure 3 depicts the racial/ethnic composition of the MSA by income census tract, as given by the 1990 Census. Whites were the largest racial/ethnic category in all income geography categories, with the proportion increasing with the income of census tracts. Blacks represented almost 19 percent of the low-income tract population and over 9 percent of the moderate-income population. Asians constituted about 11 percent of the low-income tract population and nearly 2.5 percent of the moderate-income tract population. Hispanics represented almost 3.5 of the low-income tract population and over 4 percent of the moderate-income population.

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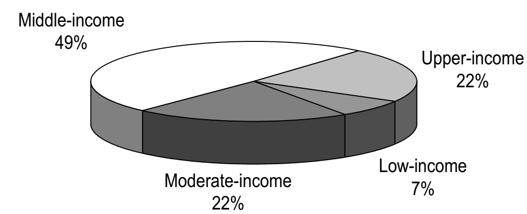
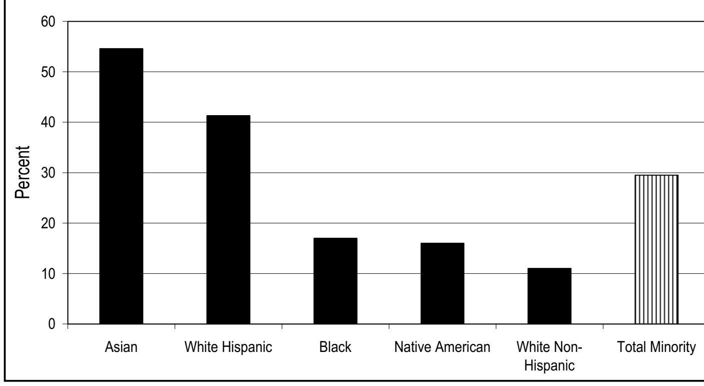
Figure 1 – Percent of Population in Ann Arbor MSA (by Census Tract Income)



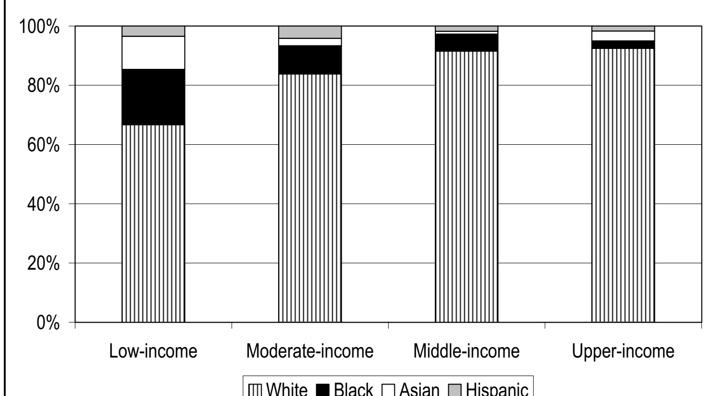
Source: *1990 Census of Population and Housing, U.S. Bureau of the Census.*

Figure 2 – Change in Race/ethnicity of Ann Arbor MSA Population: 1990–1999



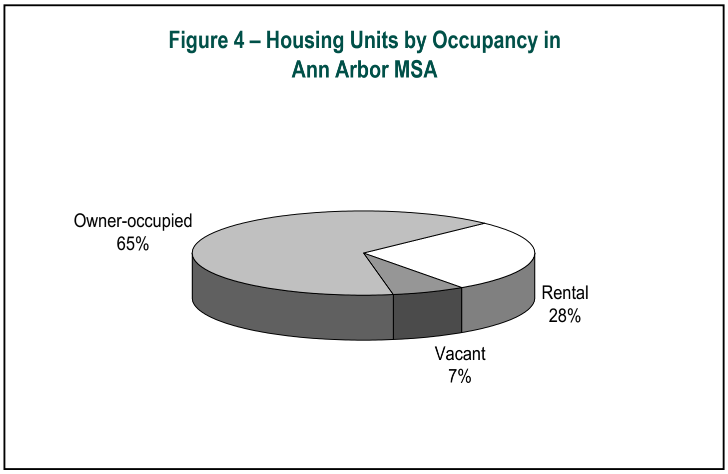
Source: *Population Estimates Program, Population Division, U.S. Bureau of the Census.*

Figure 3 – Racial/ethnic Composition of Ann Arbor MSA (by Census Tract Income)

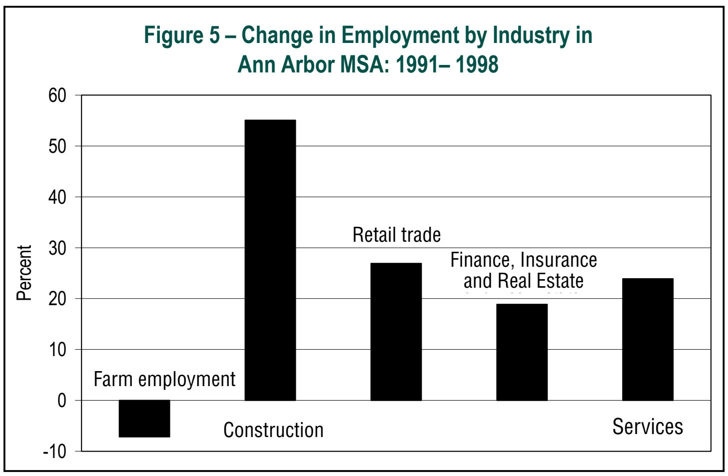


Source: *1990 Census of Population and Housing, U.S. Bureau of the Census.*

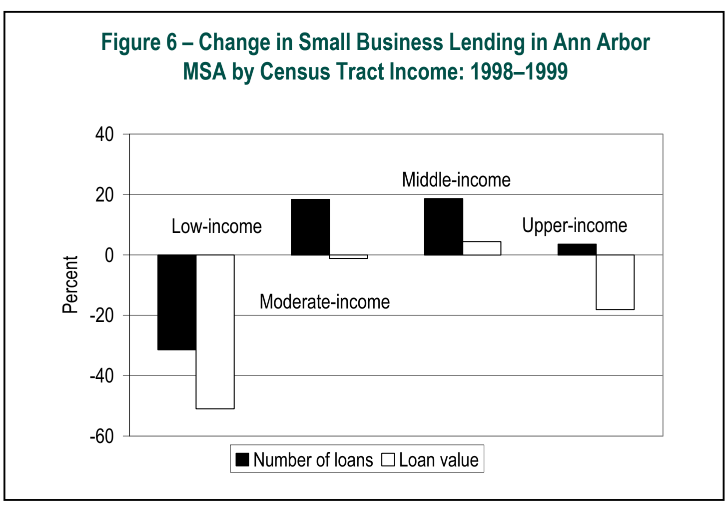
MSA Profiles *continued from page 8*



Source: 1990 Census of Population and Housing, U.S. Bureau of the Census.



Source: Bureau of Labor Statistics.



Source: FFIEC, Dun & Bradstreet, and 1990 Census of Population and Housing.

As illustrated in Figure 4, 65 percent of the housing units in the Ann Arbor MSA were owner-occupied, 28 percent were rental and 7 percent were reported as vacant. Livingston County reported the highest percentage of owner-occupied housing in the MSA (78.5 percent). Washtenaw County had the largest percentage of rental units (34.3 percent), while Lenawee County reported the highest proportion of vacant units (almost 10 percent).

According to the 1990 Census, the Ann Arbor MSA had a median family income of $45,123, well above the $36,652 median family income reported for the state of Michigan as a whole. Livingston County had the highest median family income of $49,910. The U.S. Department of Housing and Urban Development estimated a 1999 median family income of $68,700 for the Ann Arbor MSA.

According to the 1990 Census, the MSA had a median housing value of $87,057, which was considerably higher than the state median housing value of $60,062. Livingston County had the highest median housing value of $97,441. The value of residential housing units authorized by building permits increased at an average annual real rate of approximately 2.2 percent from 1995 to 1999.

Between 1991 and 1998, the MSA added six new jobs for every 100 people, or a total of 34,900 jobs, with service-producing industries accounting for over 88 percent of the gain. Between 1990 and 1998, construction was the fastest growing industry in the MSA in terms of employment, reporting a 55 percent growth rate (Figure 5). Farm employment, on the other hand, experienced a decline of over 7 percent during the same period.

Over the eight-month period ending in August 2000, the MSA unemployment rate averaged 2.0 percent, which was below the 3.5 percent unemployment rate for Michigan as a whole. Washtenaw County had the lowest unemployment rate in the MSA of 1.6 percent, whereas Lenawee County had the highest unemployment rate of 3.6 percent.

Our analysis of small business lending data gathered under the Community Reinvestment Act (CRA) suggests that while the number of small business loans in the MSA increased by 11.6 percent from 1998 to 1999, the total dollar value of loans fell 7.9 percent during this period. As illustrated in Figure 6, low-income tracts reported the largest decline in the number and dollar value of loans from 1998 to 1999. The middle-income census tract category was the only one that reported gains in both the number and the dollar value of loans during the period.

In general, our analysis of the home mortgage lending data for the MSA gathered under the Home Mortgage Disclosure Act (HMDA) shows that lending fell between 1998 and 1999 in the Ann Arbor MSA and its three counties, driven primarily by a slowdown in refinance lending. As depicted in Figure 7, the 1998-1999 decline was in sharp contrast to the gains observed in all census tract income categories during the 1997-1998 period.

Continued on page 10

MSA Profiles *continued from page 9*

In the second section of the Profile, Investment Opportunities: Survey Results, we summarize the results of our Community Investment Opportunity Survey. Because Washtenaw County is the only county that has low-income tracts and contains the majority of moderate-income census tracts, the discussion is focused on the survey results for Washtenaw County. In general, survey results indicate a need for additional affordable housing, especially single-family units. Survey results also suggest a greater need for adequate streets and sidewalks, schools, public transportation, and public recreational facilities. Although availability of infrastructure is reported to be good, on average, some responses indicate a greater need for health care facilities, retail trade establishments, financial counseling services, and day care centers. Almost one-half of the respondents are dissatisfied with credit availability to nonprofit organizations and about one-fifth indicate a greater need for credit by individuals and businesses (Figure 8).

Highlights of the Davenport-Moline-Rock Island MSA Profile (Rock Island County (IL), Henry County (IL), Scott County (IA))

A growth in the minority population fueled the 2.2 percent population increase in the Davenport-Moline-Rock Island MSA between 1990 and 1999. Minorities accounted for an estimated 12.8 percent of the MSA population in 1999 – with Blacks representing 6.1 percent of the total, White Hispanics 5.4 percent, and Asians 1.0 percent. As seen in Figure 9, minorities grew by about 30 percent between 1990 and 1999 as compared to a 0.9 percent decline for non-minorities. The White Hispanic population grew by 55.4 percent over the period, the Asian population by 42.2 percent, and the Black population by 13.6 percent.

Over 25 percent of the population residing in low- and moderate-income census tracts were minorities in 1990. This compares to 6.7 percent within middle-income census tracts and 4.7 percent within upper-income census tracts.

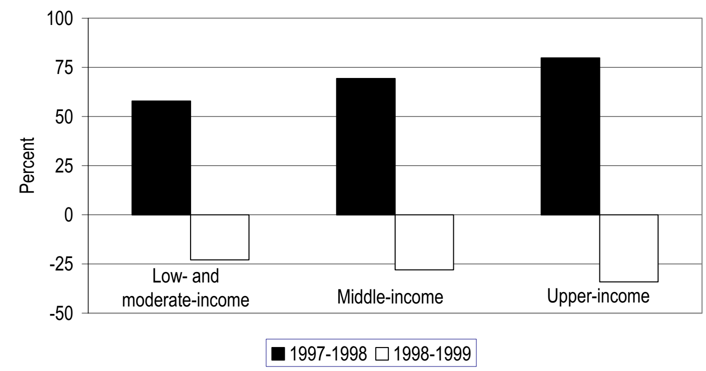
Nominal per capita income in the MSA was $26,003 in 1998, and the U.S. Department of Housing and Urban Development estimated a 1999 median family income of $51,800. The 12.3 percent of households in the MSA living below the poverty line in 1990 exceeded the 11.9 percent rate in Iowa and the 11.5 percent rate in Illinois.

Sixty-four percent of the units in the MSA were owner-occupied in 1990. Thirty percent were rental and the remainder were vacant. The median housing value in 1990 (approximately $50,000) was about $4,000 higher than the median for Iowa, but over $30,000 below the median for Illinois. As seen in Figure 10, the average dollar value of new single-family units was about the same in 1999 in real terms ($134,000) as it had been in 1990. Approximately 34 percent of renters in the MSA paid more than 30 percent of their monthly income in housing costs, compared to 30 percent for Iowa and 37.7 percent for Illinois. The MSA had an affordability ratio of 0.56 in 1990.[1]

Continued on page 11

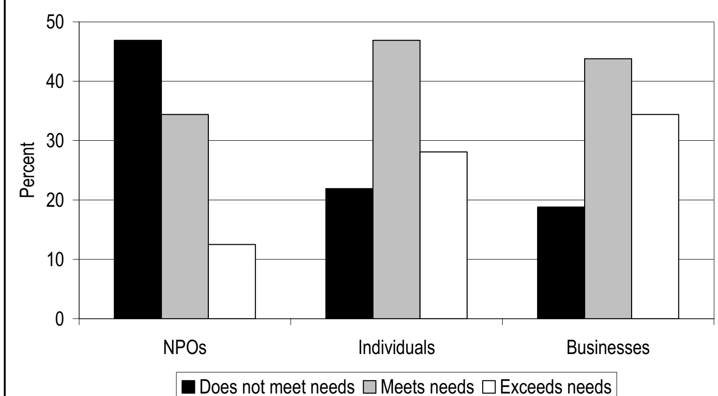
1 The affordability ratio is calculated by dividing median household income by median housing value. Values closer to 1.0 indicate greater affordability.

Figure 7 – Change in Loan Originations by Census Tract Income in Ann Arbor MSA: 1997–1999



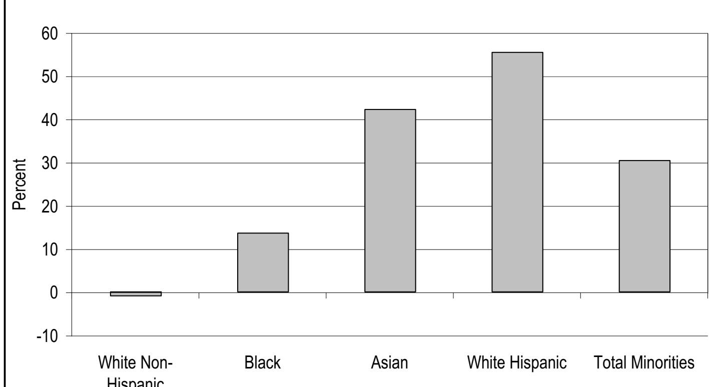
Source: *FFIEC, HMDA data on CD-ROM.*

Figure 8 – Community Investment Opportunity Survey Results: Credit Availability in Ann Arbor MSA



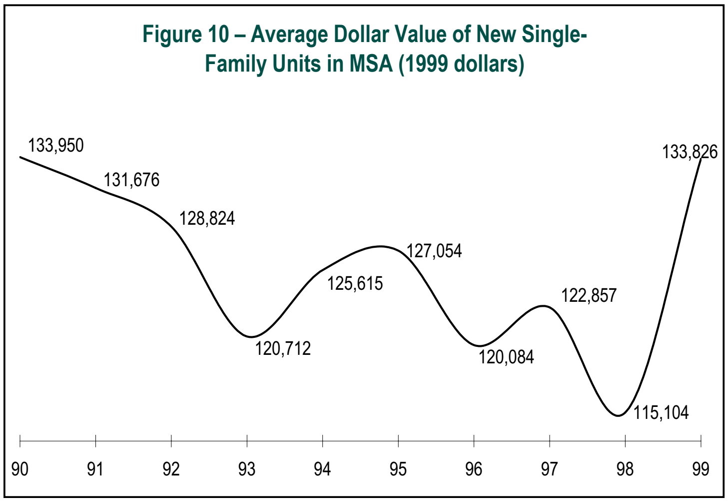
Source: *Community Investment Opportunity Survey, Federal Reserve Bank of Chicago.*

Figure 9 – 1990-1999 Population Change Davenport-Moline-Rock Island MSA

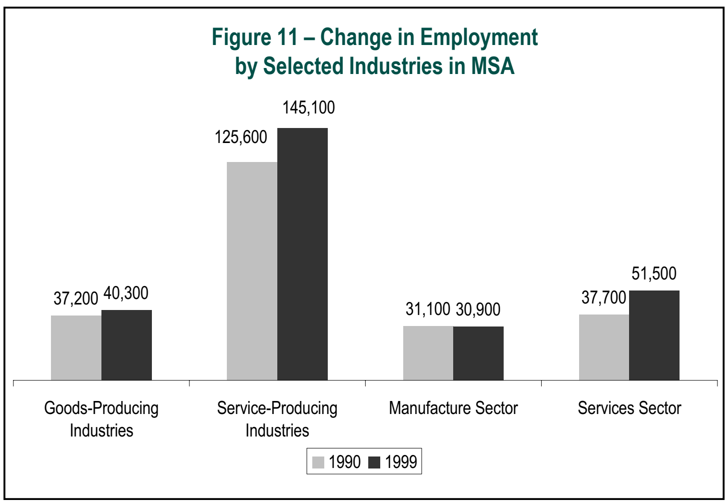


Source: *Population Estimates Program, U.S. Bureau of the Census.*

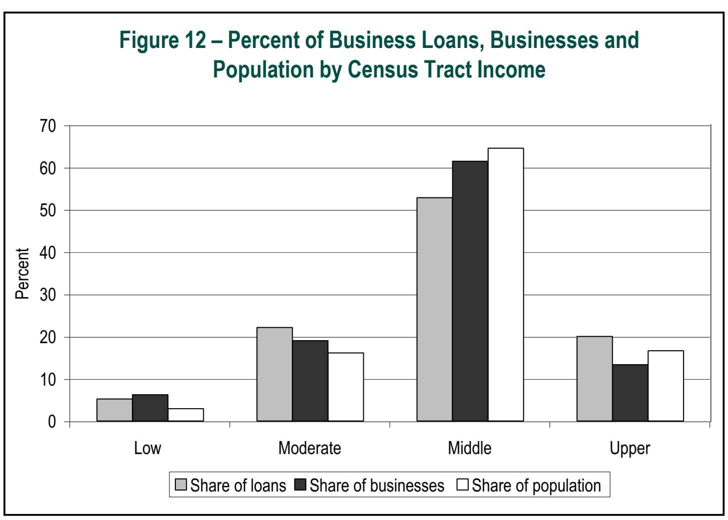
MSA Profiles *continued from page 10*



Source: *U.S. Bureau of the Census.*



Source: *Bureau of Labor Statistics and Regional Economic Information System (REIS), Bureau of Economic Analysis, U.S. Department of Commerce.*



Source: *FFIEC, Dun & Bradstreet, and 1990 Census of Population and Housing, U.S. Bureau of the Census.*

The MSA increased its wage and salary jobs by 22,600 between 1990 and 1999, representing an addition of 6 jobs per 100 people. The 13.9 percent increase in employment compares favorably to the 2.2 percent estimated increase in population. Service industries employed almost 80 percent of the MSA workforce in 1999. As seen in Figure 11, service-industry jobs grew by about 15 percent between 1990 and 1999, versus 8 percent growth for goods-producing industries. In particular, the services *sector* grew by about 37 percent, as compared to a 0.6 percent contraction in the manufacturing sector.

The number of new small business loans rose by 1.3 percent in the MSA between 1998 and 1999, while the dollar value of that lending fell by 14.2 percent. The average loan value was lower as a consequence. For the upper and middle-income census tracts, the number of loans rose by 6.8 percent and 3 percent, respectively. The number of loans in moderate- and low-income census tracts fell by 4.4 percent and 9.5 percent, respectively. The value of loans in moderate-income tracts declined by 24.8 percent as well, while the dollar value of loans in low-income census tracts grew by 22.2 percent.

The 1999 data indicate a concentration of business lending in the upper-income census tracts. As Figure 12 shows, upper-income census tracts received 20 percent of business loans, as compared to having about 13 percent of the businesses and 17 percent of the population. The largest proportion of business loans (53 percent) were issued in middle-income census tracts that had 61 percent of the businesses and 65 percent of the population.

According to data gathered under the Home Mortgage Disclosure Act (HMDA), the largest share of housing loans (43 percent) was dedicated to refinancing existing mortgages, followed by conventional mortgage loans, home improvement, and government-insured loans. As Figure 13 shows, the number of housing loans in the MSA declined by 21 percent in 1999 (the MSA had experienced a 44 percent increase during the 1997 to 1998 period). Less than 1 percent of loans (43 out of 5,395) were made to borrowers residing in census tracts with a minority population of 50 percent or greater. All 43 loans originated in minority tracts were made in low- and moderate-income census tracts.

Survey Responses

An additional perspective on the community-investment needs in the MSA comes from the Consumer and Community Affairs Division's survey of nonprofit organizations. Survey respondents reported least favorably about the availability of affordable housing. Forty-six percent of respondents reported that the availability of one-to-four-unit owner-occupied housing and the availability of affordable rental units do not meet the needs of the community.

Infrastructure is generally viewed as not meeting needs with regard to schools and transportation, but respondents give higher marks

Continued on page 12

MSA Profiles *continued from page 11*

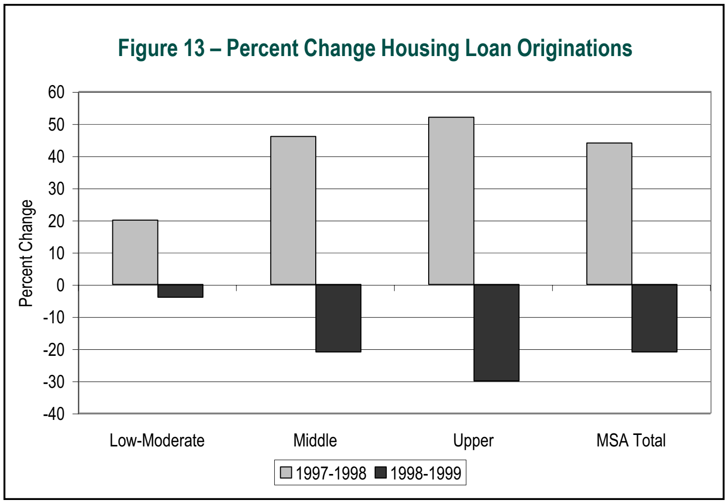


Figure 13 – Percent Change Housing Loan Originations

Source: *FFIEC and HMDA data.*

to neighborhood services such as police/fire departments and public recreation facilities.

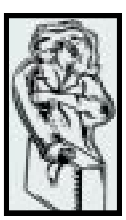
The needs for banking, financial counseling, job training and day care services are currently being well-met according to survey respondents. Respondents rated the availability of credit to individuals and businesses higher than the availability of credit to nonprofit organizations. Fifty-four percent of respondents deemed credit to nonprofits as not meeting the community's needs, compared to 34 percent who agreed it does meet their needs. With regard to credit availability for businesses, more than 60 percent of the respondents agreed that short-term loans meet or exceed needs, about 70 percent agreed that long-term loans meet or exceed needs, and about 75 percent agreed that lines of credit meet or exceed the needs of the community. ■

In addition to the Ann Arbor and Davenport-Moline-Rock Island Profiles, the Consumer and Community Affairs Division has completed profiles on the following MSAs: Saginaw-Bay City-Midland, Flint, and Detroit in Michigan; Milwaukee in Wisconsin; Indianapolis in Indiana; Des Moines in Iowa; and Chicago in Illinois. These profiles can be accessed via the Federal Reserve Bank of Chicago's public website at ***www.chicagofed.org/publications/MSA.***

For copies of the profiles or further questions, please contact the Consumer and Community Affairs division at 312/322-8232.

Women in Business

Drive for Stamp to Honor Mother of Franchising



Congresswoman Louise M. Slaughter recently introduced a resolution in the United States Congress to honor Martha Matilda Harper with a postage stamp.

Harper created modern business franchising and, in doing so, moved her and hundreds of other low-income women into economic self-sufficiency.

"While Susan B. Anthony and other suffragists are honored with postage stamps, women pioneers in other fields, especially male-dominated sectors such as business, are not as fortunate," said Congresswomen Slaughter.

Harper, an indentured servant from the age of seven, was determined to use business for social change and to help women achieve economic independence. She established the Harper Method Inc., a health-conscious hair-and-skin-care franchise system in 1888 to change her destiny and leave servitude behind.

Harper's management practices would be considered contemporary by today's standards — the business thrived until 1972. It became a worldwide network of more than 500 health-conscious shops with two international manufacturing centers and five training schools. The Harper Method Founders Shop in Rochester, N.Y., is the oldest continually operating beauty salon in America. Harper also invented the reclining shampoo chair, modern versions of which are used almost universally.

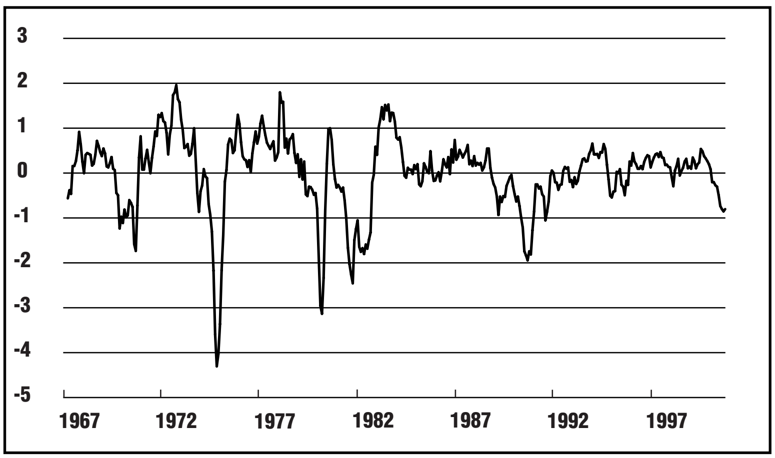
"It is important that young people know that women in this country achieved greatness in many fields," declared Slaughter, who was recently elected vice-chair of the Congressional Caucus on Women's Issues. "They were not recognized for it. However, Martha Matilda Harper is not just an example of women's history, but of American History. This is a woman who attained the American dream."

A dozen major women's associations have endorsed the resolution for a Harper postage stamp. They include the National Association of Women Business Owners, the National Women's Business Council, the Association of Women's Business Centers, the National Association of Female Executives, the American Business Women's Association, the American Association of University Women, and Women, Inc. ■

For more information on Martha Matilda Harper and the stamp, log on to **http://www.marthamatildaharper.com.**

Chicago Fed National Activity Index Shows Economy Improved Slightly in March

The Chicago Fed National Activity Index (CFNAI) increased to –0.63 in March from a downward revised value of –0.91 in February. The revision to February's index was relatively small, from –0.89 as reported last month. The manufacturing sector continues to be a primary source of weakness in the CFNAI. In addition, negative employment growth outside of manufacturing adversely affected the March reading. The overall tenor of the March manufacturing data, however, was improved relative to February, raising the index somewhat. The three-month moving average index, CFNAI-MA3, was –0.80 in March, an improvement over the downward revised –0.85 value in February. March was the ninth consecutive month that the CFNAI-MA3 was below zero, an indication of below-trend growth in the national economy and a sign of easing pressures on future inflation.



Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI–MA3)

Economic data released for March suggest some improvement in the manufacturing sector. Industrial production growth was positive in March. In addition, the National Association of Purchasing Managers' Index for manufacturing improved, although the PMI continued to depict a contracting manufacturing sector. For the 20 individual indicators that receive the largest weights in the CFNAI, 14 are substantially related to the manufacturing sector; 13 of these 14 indicators showed improvement in March relative to February. Other data releases that contributed negatively to the March CFNAI include the payroll employment and unemployment reports, which also displayed weakness outside of the manufacturing sector. For example, employment growth was either negative or below average in the retail and wholesale trade sector, service-producing sector, and transportation and utilities sector. Overall, of the 85 individual indicators, 55 series showed improvement relative to February, while 51 series displayed below-average growth. As of April 30, March data for 64 of 85 indicators had been published; estimates for the remaining 21 series were used in constructing the March index.

The negative March reading should be interpreted as continuing evidence of national economic growth below trend. The CFNAI-MA3 has been at or below –0.70 since December 2000. The likelihood that the U.S. economy is currently in a recession appears to have decreased slightly since February. In the sample period over which the CFNAI is constructed (1967-2001), there were five economic recessions. In each of these recessions, the CFNAI-MA3 fell below –1.50. The March CFNAI-MA3 reading of –0.80 continues to be above those previous recessionary levels. Historical experience indicates an increasing probability of a recession as the CFNAI-MA3 falls deeper into and below the range of –0.70 to –1.00. The March index levels continue to indicate that the U.S. economy is most likely not in recession.

Revisions to the February CFNAI can be attributed to two main factors: revisions to previously published data and differences between estimates of previously unavailable data and subsequently published data. Today's revised February CFNAI is 0.02 lower than the number initially reported. Revisions to previously published data contributed +0.08 to February's value, while differences between forecasted and now published data contributed –0.10 to this figure. A larger revision for December 2000, from –0.68 to –0.77, is almost completely due to revision in the December Industrial Production report. This had the effect of lowering the CFNAI-MA3 for December through February. ■

CDCs & Microlenders Can Link To SBA Home Page

Certified development companies (CDCs) and micro-lenders will soon be able to link to the SBA home page at ***www.sba.gov.*** Small businesses in need of assistance can currently get the name and address of various lending partners on the SBA Web site. The new linkage will allow the SBA customers to more easily access information about services in their geographic areas. ■

From Our Research Department

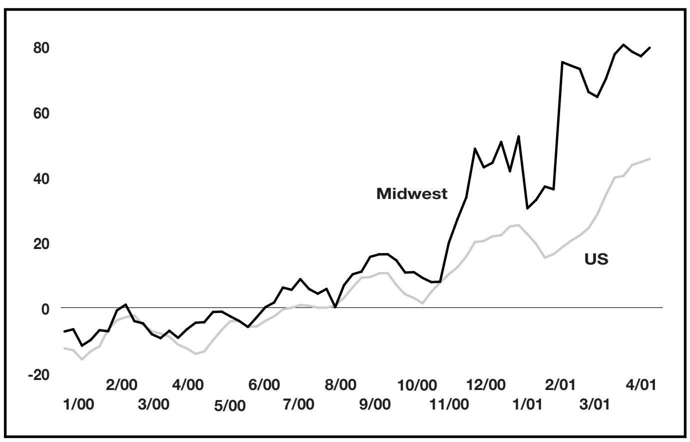
The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes the entire state of Iowa along with large portions of Illinois, Indiana, Michigan, and Wisconsin. At the present time, there are 43 Metropolitan Statistical Areas (MSAs) in the Seventh District. The geographic boundaries of MSAs are defined by the U.S. Office of Management and Budget (OMB) as economic areas encompassing communities that are tightly linked by a flow of commuters, migrants, goods and services, and payments.

Unemployment rates are useful indicators of the labor market conditions in local areas. The unemployment rate is defined as the percentage of adults in the work force who are not currently employed but are actively seeking employment. Importantly, the work force, and hence the unemployment rate, does not include workers who are not actively looking for work. This means that workers who have given up looking for work are not counted as unemployed.

Unemployment rates for Seventh District MSAs are derived from data provided by the United States Department of Labor (USDL). Using definitions and guidelines established by the USDL to ensure consistency across state lines, state agencies calculate MSA unemployment rates on the basis of a monthly payroll survey and unemployment insurance records. The rates used here have been adjusted to account for normal seasonal variations.

Through the better part of this record economic expansion, labor markets in the Seventh District were tighter than the nation as a whole. In contrast to the 1980s, the Midwest's unemployment rate had been running below the national average since 1992. While good news for the region's workers, whose wages and salaries grew faster than the national average, the very low levels of unemployment made it difficult for employers to find quality help. Broad-based labor shortages, across both industry and occupational categories, had contributed greatly to the District's slowing employment growth in the last few years. Earlier in this expansion, a strong rebound in our manufacturing industries, as well as robustness in construction and services, led to employment growth in the region that outpaced that of the nation. As labor markets in the region tightened more dramatically in the mid-1990s, the national rate of employment growth caught up to, and has since surpassed, the region's. With a generally slower economy and relatively unfavorable migration patterns, the trend toward slower job growth should continue in the near term.

Change in initial unemployment claims



LABOR MARKET HIGHLIGHTS

There are signs that the generally softer U.S. economy is having a disproportionate effect on the Seventh District's labor markets. Announced layoffs in the Midwest were reportedly running at twice the rate of the national average and the unemployment rate was also increasing faster here.

The average unemployment rate for District states rose to 4.3 percent in the first quarter of 2001. This is the first reading above 4.0 percent in over three years and is up from an average of 3.7 percent in both the first and fourth quarters of 2000. In addition, it is the first time in nearly a decade that the unemployment rate in the Midwest has topped the national average. The region's labor markets have been tighter, and our unemployment rate lower than the national rate since May 1992, and it wasn't that long ago when they were nearly a full percentage point lower.

There is strong evidence that higher unemployment in the District is due largely to softness in our manufacturing sector. Two of our mainstay industries, steel and autos, have struggled recently. A number of domestic steel producers filed for bankruptcy protection in 2000 and domestic auto producers have announced a slew of production cutbacks and layoffs in recent months.

Initial unemployment claims though the first two weeks of April were running around 30 percent higher than at the same time last year. When this data is separated into eastern and western portions of the District, it is readily evident that the trend toward increasing joblessness in the region is being driven by the heavily industrialized eastern states of Indiana and Michigan.

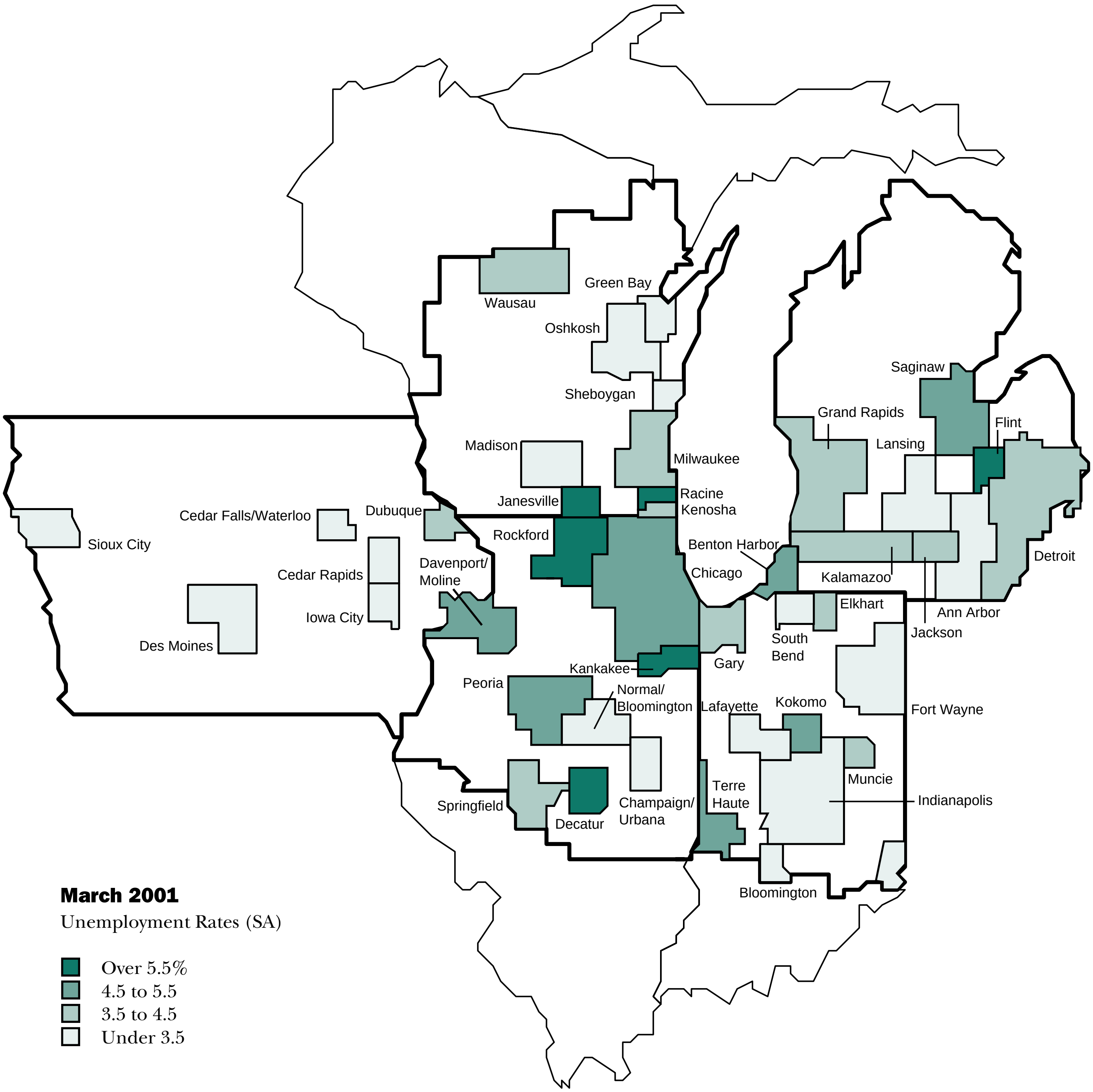
Despite the jump in unemployment insurance claims, unemployment remained relatively low in Indiana, at 3.2 percent in March. Iowa had the lowest rate of District states, 2.8 percent, while Illinois had the highest, 5.3 percent.

Of the District's metro areas, Madison, Wisconsin and Cedar Rapids, Iowa had the lowest unemployment rates, at 1.8 percent and 1.9 percent respectively. As one might expect, the highest unemployment rates in March could be found in manufacturing intensive areas. Flint, Michigan had the highest rate, at 7.1 percent, followed by Decatur, Illinois at 6.6 percent.

Richard E. Kaglic—Economist

Seventh District Labor Markets

Unemployment conditions for March 2001



March 2001

Unemployment Rates (SA)

- Over 5.5%
- 4.5 to 5.5
- 3.5 to 4.5
- Under 3.5

NOTE: All rates are subject to revision.

FEDERAL RESERVE BANK
OF CHICAGO

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