



**STATE OF THE ECONOMY – CHICAGO  
CITY OF CHICAGO  
FISCAL YEAR: 2023**

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# ECONOMICS

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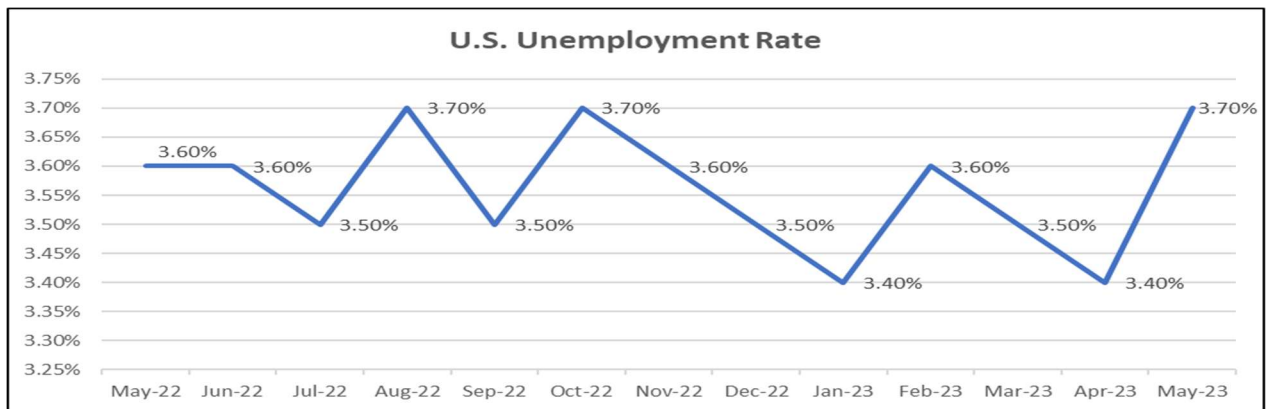


The Council Office of Financial Analysis (COFA) is providing a high-level view of the State of the Economy for the Chicago Metro area (Chicago, Naperville, and Arlington Heights). The data presented is the most up to date information available. The report will discuss the U.S. Economy and Indexes, Chicago Economy Overview, Chicago Economic Indicators, Chicago Labor Markets, Chicago Real Estate Markets, Commercial Vacancies downtown, Chicago Tourism and Other variables that may impact Chicago’s Economic well-being.

## THE U.S. ECONOMY

### UNEMPLOYMENT RATE

The May 2023 unemployment rate climbed to 3.7% and has trended for the past year between 3.4 and 3.7 percent. Employers added 339,000 jobs in May according to the employment report from the Bureau of Labor Statistics.<sup>1</sup> The spike in the unemployment rate was a surprise, up from 3.4% the previous month. The jobless rate surge was driven in part by those who completed a temporary job and those who permanently lost their jobs.<sup>2</sup> Some of the largest job gain increases were in professional and business services, government, health care and leisure and hospitality; transportation, construction and warehousing also saw growth.<sup>3</sup>



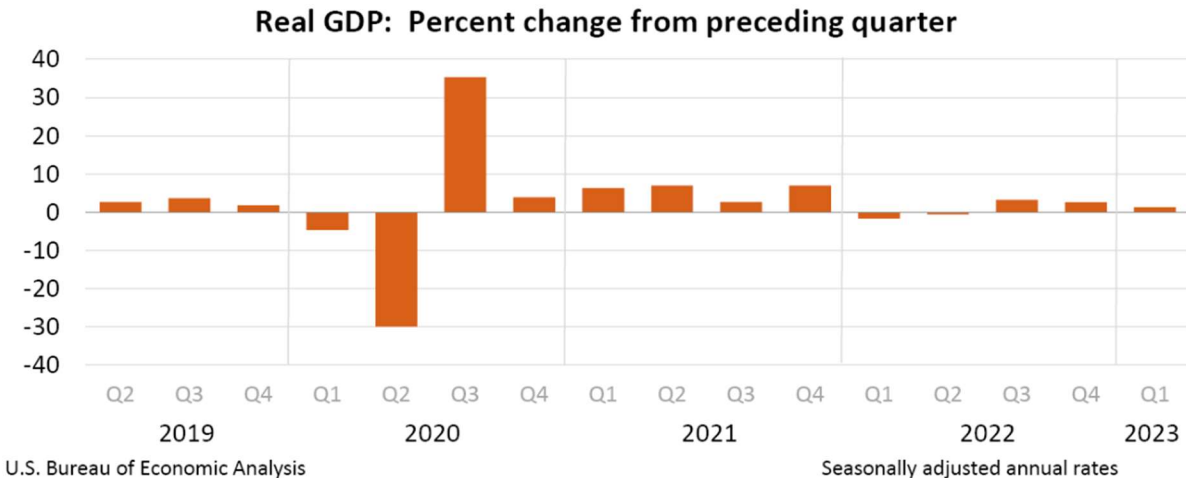
Source: Bureau of Labor Statistics (BLS)



Source: Bureau of Labor Statistics (BLS)

## REAL GROSS DOMESTIC PRODUCT GDP

GDP functions as a scorecard of the country’s health and can be defined as the monetary or market value of all finished goods and services produced within a country. GDP increased at an annual rate of 1.3 percent in the first quarter of 2023 according to a revised estimate.<sup>4</sup> The GDP estimate was revised up .2 percent to reflect an upward revision to inventory investment.<sup>5</sup> The increase in real GDP was due to increases in consumer spending, exports, federal government spending, state and local government spending and nonresidential fixed investment offset by decreases in private inventory and residential fixed investments.<sup>6</sup>



## DURABLE GOODS

New orders for manufactured durable goods was up in April, increased \$3.1 billion or 1.1 percent to \$283.0 billion according to the U.S. Census Bureau announcement. Excluding transportation, new orders decreased by 0.2 percent.<sup>7</sup> Excluding defense, new orders decreased 0.6 percent.<sup>8</sup> The increase was driven by transportation equipment.

## INTEREST RATES

The Federal Reserve left interest rates unchanged on June 14, 2023, but indicated that borrowing costs may still need to increase by as much as two more 25-basis point hikes or half a percentage point by the end of the year.<sup>9</sup> The Central bank reacted due to a stronger than expected economy and slower decline in inflation and left the policy rate in the 5.00% - 5.25% range.

## CHICAGO FED NATIONAL ACTIVITY INDEX (CFNAI)

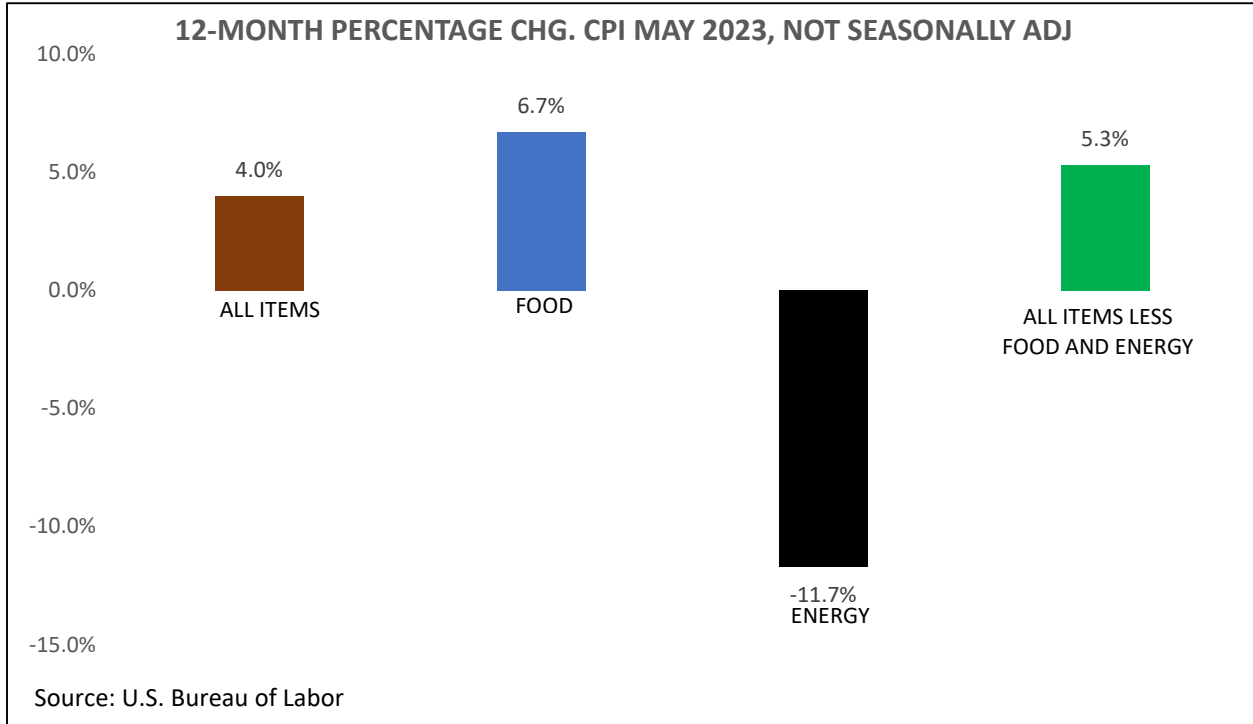
The Chicago Fed National Activity Index (CFNAI) rose +0.07 in April from -0.37 in March. The CFNAI is a monthly index designed to gauge economic activity and related inflationary pressure.<sup>10</sup> The index is led by improvements in production-related indicators and points to a potential pickup in economic growth in April. The index three-month moving average, CFNAI-MA3, decreased to -0.22 in April from -.012 in March.

<sup>11</sup>

## CONSUMER PRICE INDEX

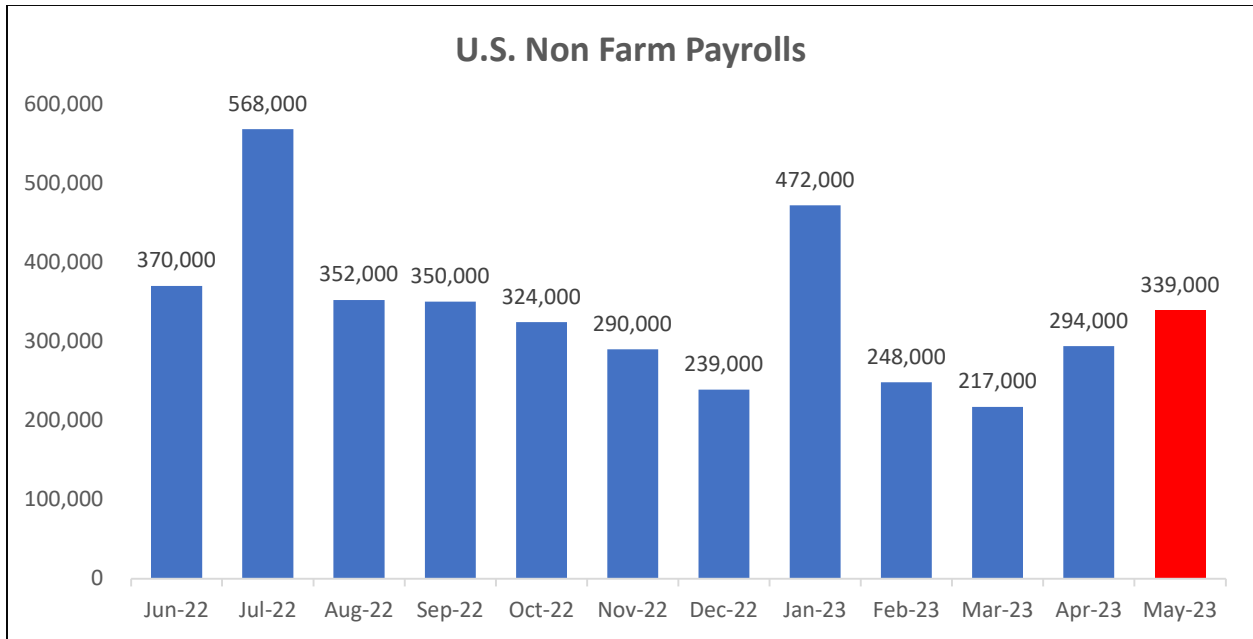
The Consumer Price Index (CPI) measures the average change over time in the prices paid by urban consumers for a market basket of goods and services. The CPI for all items rises 0.1% in May, shelter, trucks

and used cars are up. The Consumer Price Index for Urban Consumers increased 4.0% from May 2022 to May 2023, the smallest 12-month increase since March 2021. As displayed in the graph, the price for food rose 6.7% for the year ending May 2023, while consumer prices for energy decreased by 11.7%, the largest decrease since June 2020.



### U.S. LABOR MARKET

- The US economy added 339,000 jobs in May 2023, this exceeded expectations, the market forecast for May 2023 was 190,000, this was the highest level of nonfarm payroll employment in four months.<sup>12</sup> Figures for March and April were revised upward bringing employment 93,000 higher than reported previously.<sup>13</sup> In May increases were seen in professional and business services (64K), government (56K), health care (52K), leisure and hospitality (48K) construction (25K), transportation and warehousing (24K) and social assistance (22K).<sup>14</sup> The data continues to point to a tight labor market. Leisure and hospitality are still trending up adding 77K jobs per month over the prior 12 months.<sup>15</sup>
- In 2022 foreign-born workers accounted for a record high 18.1 percent of the U.S. civilian labor force, up 17.4 percent in 2021 – the most in 27 years of recordkeeping according to a report from the Department of Labor.<sup>16</sup>
- The U.S. Labor Participation rate of 83.4% for people ages 25 to 54 in May 2023 was the highest since January 2007 and has returned to pre-pandemic levels.<sup>17</sup>



Source: U.S. Bureau of Labor Statistics

## CHICAGO'S ECONOMY

The data presented for the Chicago economy is a view of the Chicago Metro area that consist of the Chicago, Naperville, and Arlington Heights communities. This section will review Chicago Economic Indicators, Chicago Labor Markets, Chicago Real Estate Markets and Chicago Tourism.

- Chicago has recouped most of its lost pandemic jobs as of Q1 but faces challenges in 2023 due to its large manufacturing sector. Its 2022 job growth rate of 4.1% was lower than the US rate of 4.3% in 2022. The restaurant sector, job growth was led by employment services (temporary staff and warehousing and storage. A job growth rate of 1.2% was forecasted by the Oxford Economics group, but Chicago is forecast to see a job decline of 1.3% in the second half of 2023 and an average annual job growth of 0.1% in 2024 – 2027, below the US rate of .4% for the four-year period. (Oxford Economics)
- Chicago's 2022 GDP growth rate of 2.9 ranks in the top 20 of the 50 largest metros. GDP growth was led by professional business services and information. Annual GDP growth is forecasted at 0.5% in 2023, which includes a GDP decline of 1.2% in the second half of the year. Oxford Economics forecast 2024-2027 annual GDP growth of 1.4% below the 50-city forecasted average rate of 1.7%. (Oxford Economics)
- Chicago saw net outmigration of 53,800 in 2022. This contributed to population decline of 0.6% for the year. Outmigration is forecasted at 192,800 from 2023 to 2027 and population falling by 0.2% annually below the US forecasted growth of 0.5%. (Oxford Economics)
- Chicago incurred a house price correction of 4% from Q2 2022 through Q1 2023 with a net decline of 2.1% from Q1 2022 to Q1 2023. Chicago's median house price of \$319,000 ranks in the middle of the top 50 metros. Average wages grew 6% on average, in 2020 through 2022, and are forecast to grow 3.7% in 2023 through 2027, below the US forecasted rated of 3.9%. (Oxford Economics)

Forecast for Chicago	2020	2021	2022	2023	2024	2025	2026	2027
GPD	-5.4	6.3	2.9	0.5	0.3	1.8	1.8	1.7
Personal Disposable Income	4.5	1.8	-6.1	1.0	1.2	1.5	1.1	0.9
Unemployment	-6.9	2.0	4.1	1.2	-0.5	0.5	0.2	0.1
Unemployment rate, %	9.5	6.3	4.6	5.1	6.5	6.0	5.5	5.4
Population	-0.3	-0.8	-0.6	-0.3	-0.2	-0.2	-0.2	-0.2
Consumer spending	-3.6	8.5	2.6	0.8	0.5	1.7	1.5	1.3
Average weekly wage	7.7	5.9	4.6	5.9	3.3	3.3	3.1	3.0

Source: Oxford Economics

Indicators	2022	2023	2024	2025	2026	2027
Gross Metro Product	505.4	508.5	517.1	528	539.2	549.0
Change (%)	3.8	0.6	1.7	2.1	2.1	1.8
Total Employment	3,763.2	3,826.1	3,833.7	3,849.2	3,851.6	3,850.7
Change (%)	4.6	1.7	0.2	0.4	0.1	0.0
Unemployment Rate (%)	4.6	4.2	4.4	4.4	4.6	4.8
Personal Income Growth (%)	1.8	4.6	4.4	3.9	3.8	3.5
Median Household Income (Thousands)	78.2	81.6	84.5	87.3	90.1	93.0
Population (thousands)	7,133.2	7,116.9	7,096.6	7,070.8	7,048.7	7,025.5
Change (%)	-0.6	-0.2	-0.3	-0.4	-0.3	-0.3
Net Migration (thousands)	-59.2	-39.7	-43.7	-48.4	-43.9	-44.2
Single-Family Permits (#)	4,629	7,688	8,262	9,030	9,065	8,699
Multi-Family Permits (#)	7,898	8,833	9,707	9,754	9,583	8,704
FHFA hou e price	234.1	234.3	230.4	232.8	242.2	253.2

Source: Moody Analytics: Chicago – Naperville – Arlington Heights, IL

#### US Metro Index: Chicago-Naperville-Elgin

Economics	Human capital	Quality of life
Ranks <b>102</b> of 382 metros	Ranks <b>68</b> of 382 metros	Ranks <b>111</b> of 382 metros

Source: Oxford Economics



## STRENGTHS

- Very large and diverse economy
- Strong global transit links and broad public transportation infrastructure
- Long list of corporate headquarters
- World-class universities and cultural amenities
- Low cost of living relative to other large cities

## WEAKNESSES

- Persistent public finance concerns
- Overreliance on manufacturing with small technology sector
- High economic segregation
- Low population growth in a slow-growing region of the US
- High crime rate.

Source: Oxford Economics

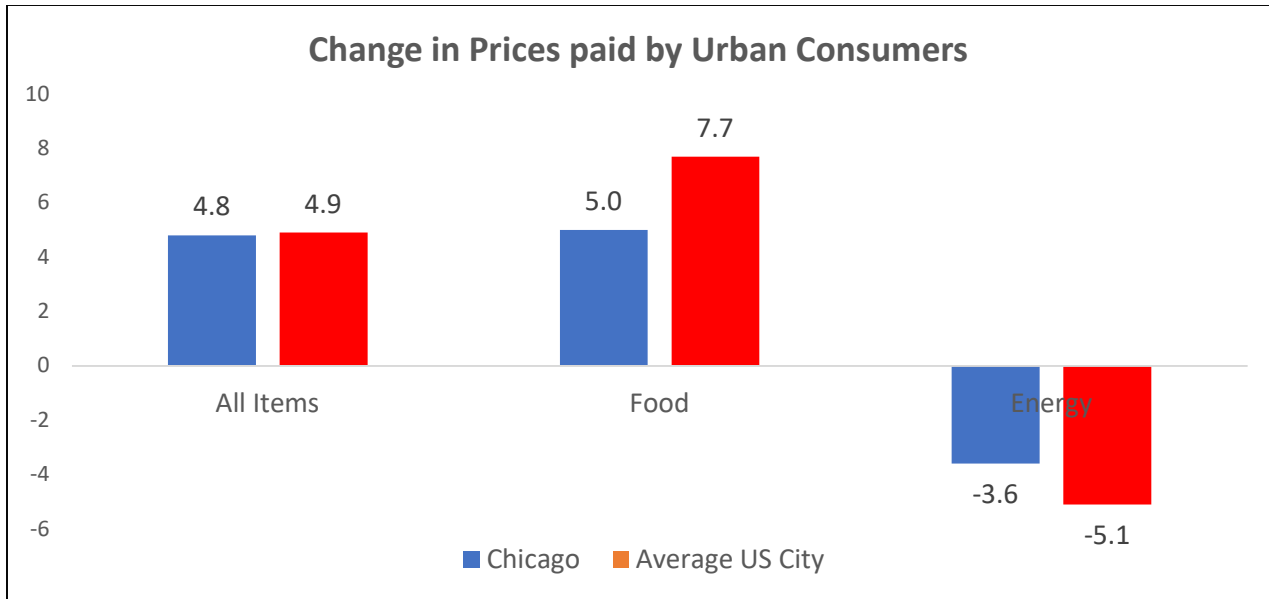
## ECONOMIC INDICATORS TO MEASURE HEALTH OF THE ECONOMY

The four main indicators in measuring the health of the economy in Chicago are the consumer price index (CPI), gross domestic product (GDP), unemployment figures, and interest rates. A common goal shared by all economies is growth, high employment, and price stability.

The Consumer price index (CPI) is a measure of inflation determined by price changes in a hypothetical basket of goods purchased by a typical household. With the CPI in the Chicago area advancing, it indicates we are consuming less for more. The GDP measures the performance of an economy and defined as the market value of all goods and services produced by the economy in the Chicago area for a given year; intermediate products are excluded. Chicago's strong GDP is due in large part to its diverse economy. To keep the economic engine moving people must spend money on goods and services, most earn their spending money by working, therefore an important goal is making jobs available or high employment. Unemployment figures is a vital measure of economic health; it increases during recessionary periods and decreases during an economic expansion. Interest rates impacts spending and investments; the lower the interest rates the more willing people are to borrow money to make big purchases, such as houses or cars which can positively impact the economy.

## CONSUMER PRICE INDEX (CPI)

The Consumer Price Index (CPI) for Chicago-Naperville-Elgin advanced 0.4 percent in May according to the U.S. Bureau of Labor Statistics.<sup>18</sup> The food index increased 0.9 percent, while the energy index decreased 0.7 percent in May, all items less food and energy was up 0.3 percent.<sup>19</sup> Within the all items less food category prices were higher for shelter, used automobiles, and household furnishing, while the prices declined for recreation.

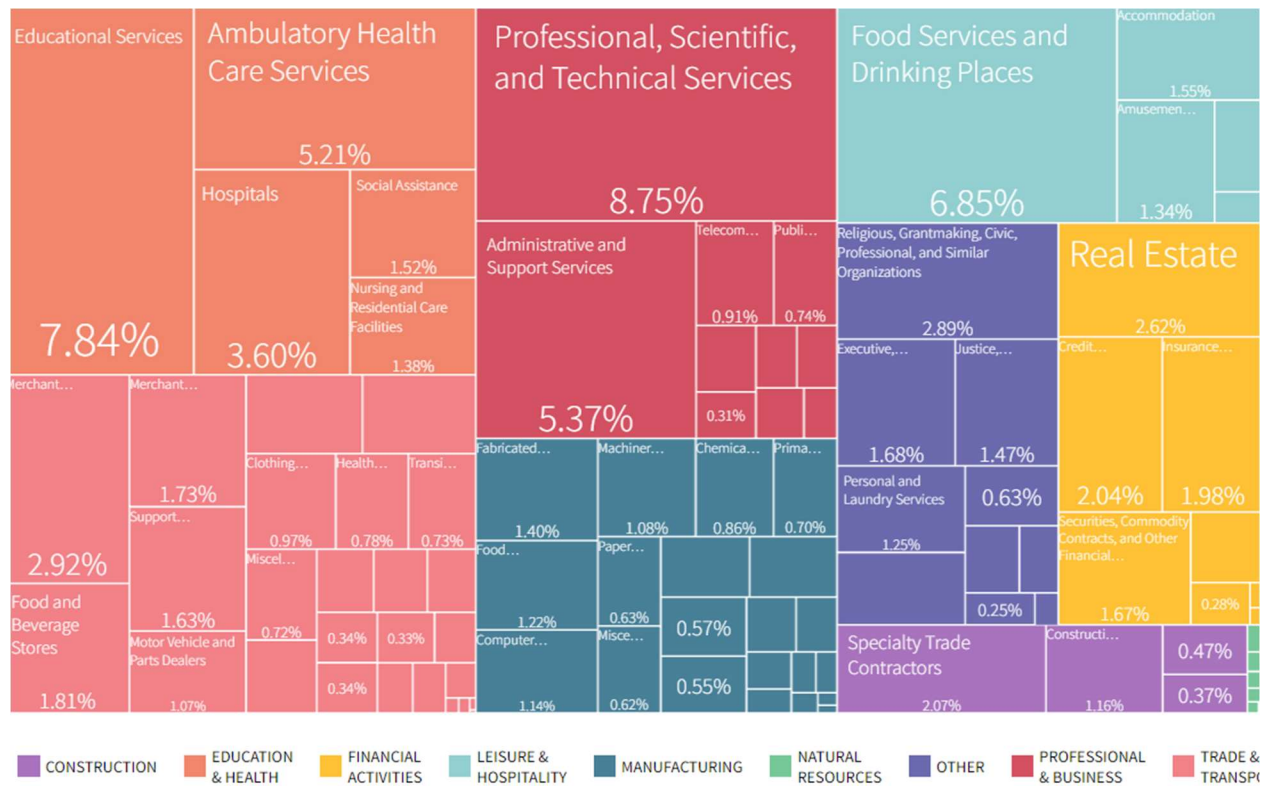


### INFLATION

According to the U.S. Bureau of Labor Statistics, prices in Chicago are 2,702.15% higher in 2023 versus 1914 (the base year), this is a \$540.43 difference in value. Chicago has experienced an average inflation rate of 3.11% per year.<sup>20</sup> The inflation rate or the rate at which goods and service rise can be illustrated by using 1914 as a baseline year verses the current year. In 1914 a basket of goods and services would cost \$20 an equivalent purchase in 2023 would cost \$560.43.<sup>21</sup> This rate of change indicates significant inflation. One of the threats during an inflationary period is consumer confidence, as consumer confidence erodes consumers pull back it threatens our economic livelihood.

### Chicago’s Economic Composition

Chicago has a population of 6.9 million (2020), Chicago’s labor force consists of approximately 4.2 million workers.<sup>22</sup> The largest sector in Chicago’s economic composition consists of Education and health services accounting for 19.56% of employees in the city.



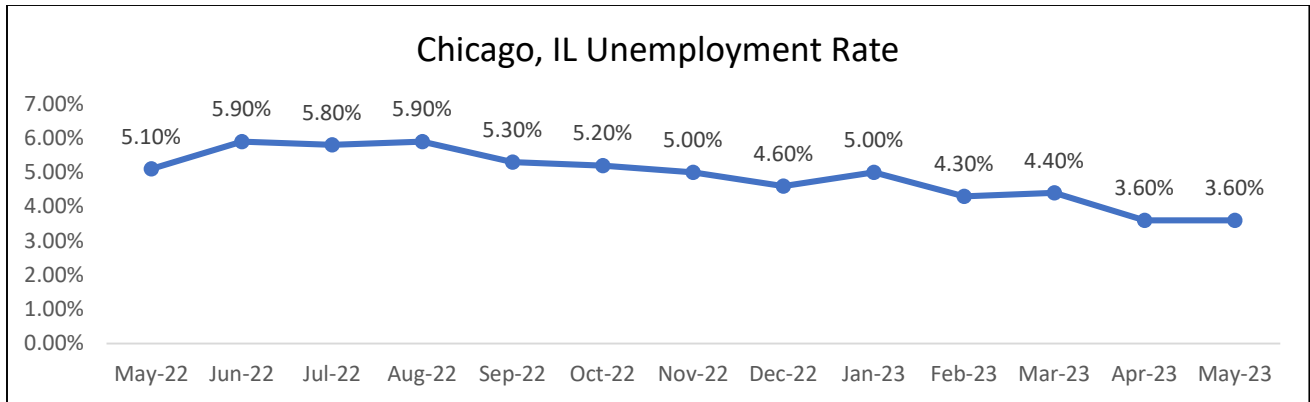
Source: Metroverse. <https://metroverse.cid.harvard.edu/city/634/economic-composition>

### GROSS DOMESTIC PRODUCT

The total economic output of Chicago in gross metropolitan product totaled \$770.7 billion in 2020, in 2021, the GDP of the Chicago metropolitan is forecasted to hit \$630.13 billion.<sup>23</sup> The total economic output of Chicago exceeds the total economic output of Switzerland, it is also the third largest in the United States behind New York and Los Angeles. Chicago continues to have one of the largest GDPs in the world with a diverse economy that contributes to the strong GDP.

### CHICAGO UNEMPLOYMENT RATE

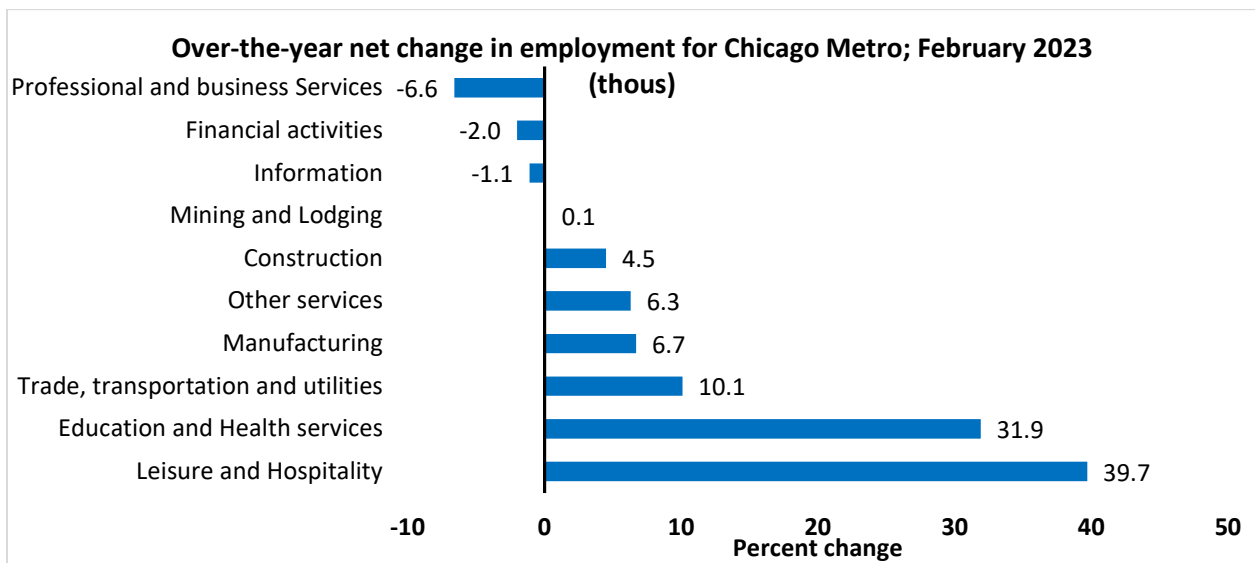
The Chicago, IL Unemployment Rate is at 3.60% for May 2023 compared to 3.60% last month and 5.10% last year, this is trending lower than the long term average of 7.63%.<sup>24</sup> The unemployment rate measures the percentage of total employees in Chicago that are part of the labor force without a job or stated differently it is a statistic that reflects the number of unemployed people as a percentage of the labor force. The unemployment rate does not measure people who have not looked for work, discouraged workers or people who are eligible and able but not actively seeking work are not included in this rate. Following the financial crisis, the Chicago, IL Unemployment rate reached as high as 13% in 2010.<sup>25</sup>



Source: YCharts BLS

### CHICAGO LABOR MARKETS

In Chicago-Naperville-Elgin, IL-IN-WI, leisure, and hospitality had the largest gain of +39,700 among the area’s private-industry sectors.<sup>26</sup> The Chicago-Naperville-Arlington Heights, IL area gained 77,500 jobs over the past year, with Elgin adding 6 percent and Lake County-Kenosha County, IL-WI, and Gary, IN adding 9 percent.<sup>27</sup>



Source: U.S. Bureau of Labor Statistics

### CHICAGO REAL-ESTATE MARKETS

- Home prices were down in the City of Chicago by 8.1 percent from \$370,000 in April 2022, to the current April 2023 amount of \$340,000.
- Home sales declined April 2023 vs. April 2022 by 31.2 percent.
- Interest rates: With the recent Fed interest rate increases it is projected to slow home price appreciation and reduce the number of homes sold.
- Condos: The Chicago condo market has experienced less of a drop in demand over the past 12 months than single family homes
- Rental Market: Chicago area rents went up by 10.5% year-over-year<sup>i</sup>



- In May 2023 the average 1-bedroom apartment in Chicago rents for \$1,995, a 5% increase over last year.
- Studio apartment increased by 5% to \$1,450 per month.
- Average 2 -bedroom apartment increased by 9% to \$2,400.
- 53% of the households are renter-occupied, while 48% are owner-occupied.

Source: Norada Real Estate Investments

#### COMMERCIAL VACANCIES DOWNTOWN OFFICES

- Vacancy rate at the end of 2022 – all time high of 21.4% up from 19.7% year over year and higher than the 13.8% vacancy when the COVID-19 pandemic began.
- Contributing factors: remote work movement, rising interest rates and economic slowdown.
- Pending foreclosures at 30 N LaSalle and 19 S LaSalle
- Positive signs: Residential conversions in response to new city initiative offering public subsidies for such projects.
- Positive sign: Google sets out to redevelop and occupy the James R. Thompson Center.

Source: Crains Chicago Business. <https://www.chicagobusiness.com/commercial-real-estate/downtown-office-vacancy-hits-another-new-high>

#### CHICAGO TOURISM

Chicago tourist spent 49 million in 2022, 80% of pre-pandemic high. Chicago witnessed a 60% rise in overall visitation in 2022 positioning the city's hospitality industry toward a recovery from the COVID-19 shutdowns.

- Tourist pumped nearly \$17 billion into the economy last year, 89% of 2019 levels.
- Local hotels averaged 60% occupancy in 2022, sharply up from 43% the year before and 74% of 2019 average.
- Positive News: Events – NASCAR and 2024 Democratic National Convention.

Source: The Center Square. Chicago tourist total 49 million in 2022.

#### OTHER ECONOMIC VARIABLES

##### CFNAI INDEX

The CFNAI Index is a monthly index to gauge economic activity and related inflationary pressure. The index is released by the Federal Reserve Bank of Chicago and is a weighted average of several economic indicators aligned with four categories of data: 1) production and income 2) employment, unemployment 3) personal consumption and housing and 4) sales, orders, and inventories. Led by declines in production-related indicators, the Chicago Fed National Activity Index (CFNAI) decreased to 0.015 in May from +0.14 in April suggesting economic growth decline in May.<sup>28</sup>

Production-related indicators contributed to -0.09 to the CFNAI in May down from +0.18 in April, industrial production decreased 0.2 percent in May after increasing 0.5 percent the previous month and sales, orders and inventories category moved up to -0.05 in May from -0.10 in April.<sup>29</sup> Employment-related indicators contributed -0.3 to the CFNAI in May down from +0.07 in April, housing edged up +0.02 in May from -0.01 in April.<sup>30</sup>

## BANKING TURMOIL

The banking crisis that erupted two months ago now appears to have less of an impact than anticipated. According to the bank reports the impacts were mixed; larger institutions like JPMorgan Chase and Bank of America had less of an impact while smaller institutions such as First Republic faced tougher times. That means the money to Wall Street remains intact while the situation on Main Street is much more uncertain. The small banks will lend less and that will be a credit hit for Middle America and therefore be negative for growth. The question is how negative it will be for growth. Bank earnings largely have been decent for the first quarter, but the future remains uncertain.

There are some cracks appearing: escalating delinquency rates, credit card charge-offs, personal saving rates have declined, rise in credit card balances, and further tightening of credit, largely impacting Middle America. For now, the fallout from the banking crisis seems less serious than anticipated where things go from here on out is on the consumer who accounts for more than two-thirds of all U.S. economic activity – Middle America.

## ECONOMICS OF GUN VIOLENCE

The Huffington Post ran an article in 2013 on Gun Violence Cost: Chicago Killing cost \$2.5 billion a year according to analysis. The data continues to be relevant today with adjustments needed for cost and the current escalated gun violence in 2023 terms. According to the CPI inflation calculator \$100 in 2013 is equivalent in purchasing power to \$130.55 today, an increase of \$30.55 over 10 years.<sup>31</sup> The dollar had an inflation rate of 2.70% per year between 2013 and 2013 producing a cumulative price increase of 30.55%.<sup>32</sup> So to adjust the cost to today dollars the cost of killing would be \$3,263.750 (\$2,500,000 increasing 30.55%). The original data include 500 homicides, we have been trending higher than that in prior years, but I'll use the 500 as a baseline. The annual cost of murder in Chicago is approximately \$3.3 billion per year. A sampling of the analysis included:

- \$900 - \$1,200 Cost of a typical ambulance ride to the ER
- \$800 Incremental cost for an autopsy by the medical examiner
- \$52,000 Average cost for acute trauma care of gunshot victims, 70% who are insured.
- \$35,000 Average cost of care at the Rehabilitation Institute of Chicago where 1/20<sup>th</sup> of the patients are gunshot victims.

Source: Analysis Homicides Cost Chicago \$2.5 Billion

Not only does violence destroy local businesses but an analysis by the University of Chicago found that every homicide in Chicago reduces the city's population by 70 people.<sup>33</sup> Residents are fleeing from Chicago particularly in predominately black neighborhoods on the city's South Side.<sup>34</sup>

When violence drives businesses and people out of the city it reduces the tax base and deprecates the City's ability to address the violence issues which generates more violence and drives more people out of Chicago, reducing the tax base leaving the City with fewer resources and more problems.

Gun violence further depletes the City's resources through police overhead. According to research by Bloomberg for every murder overtime is incurred, with extreme cases consuming 1,000 to 1,500 hours of premium pay. The study posits reducing homicides by 25 percent would boost Chicago home values by \$5.5 billion.<sup>35</sup>

**IMMIGRATION**

Over 10,000 Migrants have arrived in Chicago since August 2022 as City continues efforts to expand shelters. The city wasn't prepared to handle the influx of immigrants sent by Texas Governor Greg Abbott. The City of Chicago estimated about 102 million spent from January until June addressing the migrant crisis. The city has received approximately 30 million from Illinois and 4.4 million from FEMA FOR emergency food and shelter program.

What is an adverse economic impact of immigration?

Immigration increases poverty in two ways: a) by increasing labor market competition it lowers wages for native- born workers, forcing more of them into poverty; and b) the immigrants themselves are often poor. If migrants move to an area where there is not enough housing available and for the native people, it can put pressure on house prices and rents. Also, it will affect social services, schools, hospitals, and public transportation.

What are the economic causes of immigration?

Economic reasons for immigrating include seeking higher wage rates, better employment opportunities, a higher standard of living, and educational opportunities. Most of the recent asylum seekers are from Venezuela, individuals and families are also from all over the world, including countries from Africa, Europe, and the Middle East.

<b>IMMIGRATION</b>	
<b>PROS</b>	<b>CONS</b>
<ul style="list-style-type: none"> <li>* Increased economic growth</li> <li>* More flexible labour markets</li> <li>* Fills job vacancies in unpopular jobs</li> <li>* Provides skilled workers, such as nurses, doctors teachers</li> <li>*Potential Entrepreneurs</li> <li>*Working-age migrants provide net benefit to government budget</li> <li>* A solution to ageing population</li> <li>* Greater cultural divesity</li> </ul>	<ul style="list-style-type: none"> <li>* Potential fall in real wages, especially for low-skilled native workers</li> <li>* Increased pressure on public services: health, education, congestion on roads</li> <li>* Over-population could increase cost of housing/renting</li> <li>* Impact on real GDP per capita can be negative</li> <li>* Social disharmony</li> </ul>

Source: [www.economicshelp.org](http://www.economicshelp.org)

Evaluation: People who often dislike the idea of immigration are the strongest in communities where the rate of immigration is very low. Areas with high rates of immigrants are more likely to appreciate the benefits of immigration.

The societal benefit of immigration is well documented, however as migrants continue to be bused into our city Chicago is feeling the strain. Chicago is spending on average more that \$20 million each month to



house and support the immigrants according to the City of Chicago Budget Director. Now elected officials and city leaders are calling this effort a humanitarian and potentially fiscal crisis.

Chicago is taking steps to open five new migrant shelters with a capacity of nearly 2,500 to handle the surge of asylum-seekers. Migrants in Chicago continue to sleep on the floor of police stations and outside district stations. As Chicago heads into the winter months and the upcoming Democratic convention it is critical to be well prepared. Preparation takes funding and without an aggressive plan that includes federal and state assistance it will be challenging to uphold the sanctuary city standing.

## CONCLUSION

Chicago like many other cities dealt with the devastation from the pandemic. As the City recovers it is important to be aware of factors that may impact our economic recovery. The indicators for Chicago point to a recovery. Potential fallout from the banking crisis, interest rate fluctuations, crime, and our sanctuary city status may impede our progress. Chicago continues to suffer from out-migration and its correlation to crime. A University of Chicago study indicated that for every murder in Chicago it reduces the population by 70. When continued violence drives out people and businesses it reduces the tax base with less revenue and more expenses to handle the uptick in crime, it is a vicious loop. Chicago continues to struggle with its school system, safety, and housing affordability. The headlines paint a bleak forecast, but Chicago has a lot of positive things going for it.

Chicago's top-ranked universities provide linkage to the highly educated workforce. The city has a diverse economy and remains the home of many major corporations. In addition, the city is a center of professional services such as accounting, law, and consulting. The CME Group, the world's largest financial exchange is in Chicago and O'Hare International remains a key hub. Economic assets include Northwestern University and the University of Chicago. The city also boasts physical beauty with the beautiful lakefront, downtown skyline, extensive transit, and mixed-use neighborhoods. Chicago has a land-based Casino, recently held the NASCAR race, and is preparing for the Democratic National Convention. Chicago has a lot to offer but also have hurdles to overcome; pension funding, crime, sustainability beyond federal funding, inequality, affordable housing, and quality education to name a few.



## ENDNOTES

- <sup>1</sup>CNN Business. <https://www.cnn.com/2023/06/02/economy/may-jobs-report-final/index.html>
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- <sup>7</sup>The U.S. Census Bureau. Release May 26, 2023.  
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- <sup>15</sup>U.S. Bureau of Labor Statistics
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