

CRAIN'S CHICAGO BUSINESS

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Local businesses start to see signs of recession

Technology and housing are the first to feel the impact, and other sectors including manufacturing are preparing for a downturn.

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Chicago-area companies are bracing for a recession.

Some sectors—notably tech and mortgage lending—already are feeling pain and have started layoffs. Other fields such as manufacturing are still enjoying strong orders, but executives are cautious about spending.

“We’re not doing big capital expenditures right now because we want to keep as much cash on hand as we can,” says Kyra Tillman, president of BTM Industries, a machine shop in Woodstock that employs 14 full-time workers and two interns.

Executives increasingly acknowledge the likelihood that the Federal Reserve’s drive to tame inflation by raising interest rates will push the country into a recession of some severity. Yet, a [strong labor market](#)—with millions of job openings and the addition of 372,000 jobs in June—could provide a cushion.

When and if a recession arrives, the region could be hurt more severely than others, because it hasn’t fully recovered lost jobs from the 2020 COVID recession, says Sarah Crane, senior economist at Moody’s Analytics. Payroll employment in the six-county Chicago metropolitan area and in Illinois as of May was down more than 2% from January 2020, according to Moody’s. National employment is down only 0.34% in the same period.

“If a recession happened right now, Chicago would have more sluggish growth than if it had fully recovered,” Crane says. There were layoffs in industries most stricken by the pandemic, such as restaurants and hotels, but also losses because stressed workers left their jobs, exited the workforce entirely or moved out of state.

Slower-than-average labor force growth holds the state back as people migrate to the Sun Belt and Mountain states, Crane says. Although Illinois gained population in the census, that changed with the pandemic, according to Moody’s data. Illinois had the fourth-highest outbound migration rate, after California, New York and New Jersey. Between January 2021 and February 2022, Illinois saw 57% outbound moves and 43% inbound.

Young tech firms that soared during the pandemic are shedding staff, including celebrity video greetings startup Cameo and internet-of-things specialist Hologram. Funders have pulled back and instructed startups to conserve cash amid the stock market downturn, which has pummeled the tech sector.

Housing also has been early to feel pain as the Fed’s interest rate hikes boost mortgage rates.

Mortgage lenders have laid off workers as refinancings dry up, including JPMorgan Chase, Guaranteed Rate and Interfirst Mortgage. Baird & Warner’s Key Mortgage Services laid off 10 workers in June, accounting for 10% of its staff.

Software engineer Jonathan Ma wishes he put his Uptown townhome on the market a year ago, when mortgage rates were half their current 5% to 6% rate. After a month on the market, he cut the asking price by \$25,000 to \$450,000, but as of mid-July had yet to receive an offer.

“It’s taking longer to go under contract,” says Laura Ellis, president of residential sales at Baird & Warner. “Sellers had gotten into the mindset that prices are going up rapidly and they were pricing for the future. That’s not bearing out right now.” Homes in Chicago are now sitting for 54 days on the market, compared to 15 days a year ago, according to Redfin.

A pause in the housing market is likely to slow demand for household goods and appliances. At mega-appliance retailer Abt Electronics in Glenview, it’s providing breathing room. “Instead of

being three weeks behind, now it's maybe 10 days," says co-president Mike Abt. He expects sales to be up only marginally this year, a function of a post-pandemic reset.

"Business was way up the first two years of COVID," Abt says. "Everyone bought the things I sell—home entertainment and cooking appliances—more than they usually do. It was bound to slow down."

Retail employment in the Chicago metro area had been declining for the four years leading up to the pandemic, due largely to the shift to online buying, but lost another 4,700 jobs since January 2020, according to data from the Bureau of Labor Statistics, or BLS, and Moody's. That's been more than offset in the distribution and transportation sectors, which gained more than 14,000 positions in the past two years as a result of the e-commerce surge and the region's position as a rail shipping hub.

The Chicago area's leisure and hospitality field has a long way to go to recoup lost jobs. It's down by almost 45,000 positions from the start of COVID-19, according to BLS and Moody's. That's due largely to the decline in business travel, which isn't expected to fully recover to pre-pandemic levels, Crane says. It's also attributable to the loss of downtown office workers who frequent restaurants and bars and schedule meetings at hotels.

Manufacturing employment in the Chicago area is down by about 8,000, or nearly 3% from the start of the pandemic, according to BLS and Moody's. National employment in manufacturing since the start of the pandemic is flat at 12.7 million jobs.

Yet machine shop owner Tillman says her customers that produce industrial equipment are still going strong. By holding back on capital spending, she hopes to avoid layoffs. "We are still looking for people," she says. "We don't have a lot of luck." The company has two open positions.

At Atlas Tool Works in Lyons, President Zach Mottl says a recession is most likely needed to tame inflation but expects his markets in medical devices, defense and aerospace to remain robust. Atlas employs 75 full-time workers. There are four open positions, but Mottl says he would hire seven to 10 workers if he could. "I hate to say this, but if there is a slowdown, we may finally be able to find the talent that we desperately need," he adds.

Local manufacturers may also benefit from the nascent trend to reshore production to North America. Along with their suppliers, they got burned in the pandemic's supply chain breakdowns. Some are turning to domestic suppliers and back-up inventory. "We've raised our inventories for those just-in-case scenarios," Mottl says.

Still, the warning signs are front and center. The Federal Reserve Bank of Chicago [reported](#) that its Survey of Economic Conditions Activity Index decreased to -34 in June from -8 in May, "suggesting that economic growth was well below trend."

The Chicago Fed noted that respondents remained "pessimistic on balance," that the pace of hiring decreased as did expectations for the pace of capital spending.

Nationally, the number of open jobs fell by about 4% to 11.3 million in May, [according to BLS](#). U.S. GDP has fallen for two straight quarters, meeting a widely accepted definition of recession.

Given all the talk about recession, it's not surprising that business leaders would be concerned, says James Glassman, head economist at JPMorgan Chase. "We noticed that their view about their own performance is usually more optimistic than the views about the world around them."

Moody's economists predict a 40% chance of a recession in the next 12 months. "The labor market has been so strong, it will take a while to unwind the momentum we have," Crane says.