

Illinois Innovation Index

Innovation news and metrics for metropolitan Chicago and the state of Illinois



2013 Quarter 3

Business climate in Illinois and metropolitan Chicago: Indicators and recent trends

The Index is brought to you by the Chicagoland Chamber of Commerce, Chicago Metropolitan Agency for Planning, Illinois Science & Technology Coalition, and World Business Chicago in partnership with the Illinois Innovation Network.

Numerous factors contribute to a company's ability to grow and innovate. This quarterly edition of the Illinois Innovation Index examines several indicators that reflect the business climate in Illinois and metropolitan Chicago. Together, this edition's four topics—employment in key clusters, business attraction, start-up activity, and export levels—measure growth and reveal how companies view the state and region as a place to do business. While recent progress suggests a continued capacity to support innovation in metropolitan Chicago and Illinois, challenges remain that must be addressed through targeted responses.

Key findings

- In 2012, Illinois had a net gain in employment through relocations but lost slightly more companies than it attracted. The most relocation activity occurred between the states directly north and east of Illinois.
- Several of the state's specialized industries accounted for the greatest employment gains from relocation: the net increase in wholesale and retail trade, manufacturing, and transportation jobs was more than the net growth in all other industries combined.
- Approximately 22,531 new businesses were created in 2012 in the Chicago metropolitan statistical area (MSA). On a per capita basis, this total ranks the region fifth among the nation's five largest MSAs.
- Illinois and the Chicago MSA saw record levels of exports in 2012, an indicator of a supportive business climate and a driver of innovation.

Business relocations highlight strengths in key Illinois clusters

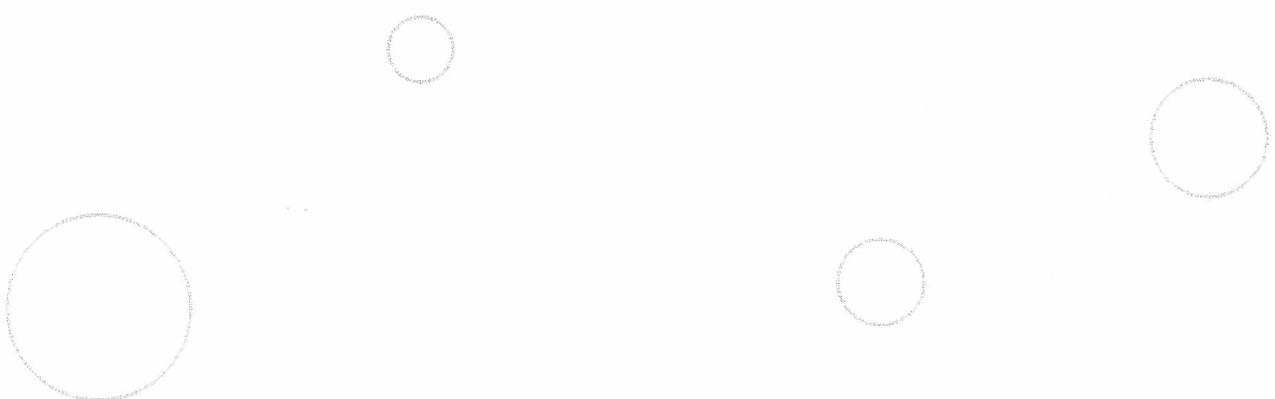
Overall business moves

In today's economy, states and regions are competing to attract and retain innovative companies and talented workers. A region's overall business environment—including not only regulatory climate but also talent, infrastructure, culture, and technology—can greatly influence a company's decision on where to locate. Measuring net business relocations for Illinois provides a clear indicator of how companies view the state's overall business climate.

In 2012, Illinois lost slightly more companies than it gained from business moves within the United States.¹ However, the companies that relocated to Illinois were larger on average than those that left, resulting in a net increase of more than 1,400 jobs in Illinois—relatively small compared with the state's employment base of nearly six million. Illinois' recent performance in attracting employment from the rest of the country suggests signs of a competitive business climate, and analysis of this data over time will help discern macro-level trends.

While recent data show relocations occurring across the nation, the greatest churn of companies moving to and from Illinois came from neighboring East North Central states (see exhibit on page 4). Together Indiana, Michigan, Ohio, and Wisconsin accounted for more than a quarter of all 2012 moves to and from Illinois; this figure rises to 43 percent when West North Central states are included. Even with this business churn, Illinois in fact gained slightly more companies than it lost to nearby states. The net gain in employment but loss in companies indicates Illinois' strength in attracting larger companies and its challenge to retain smaller businesses.

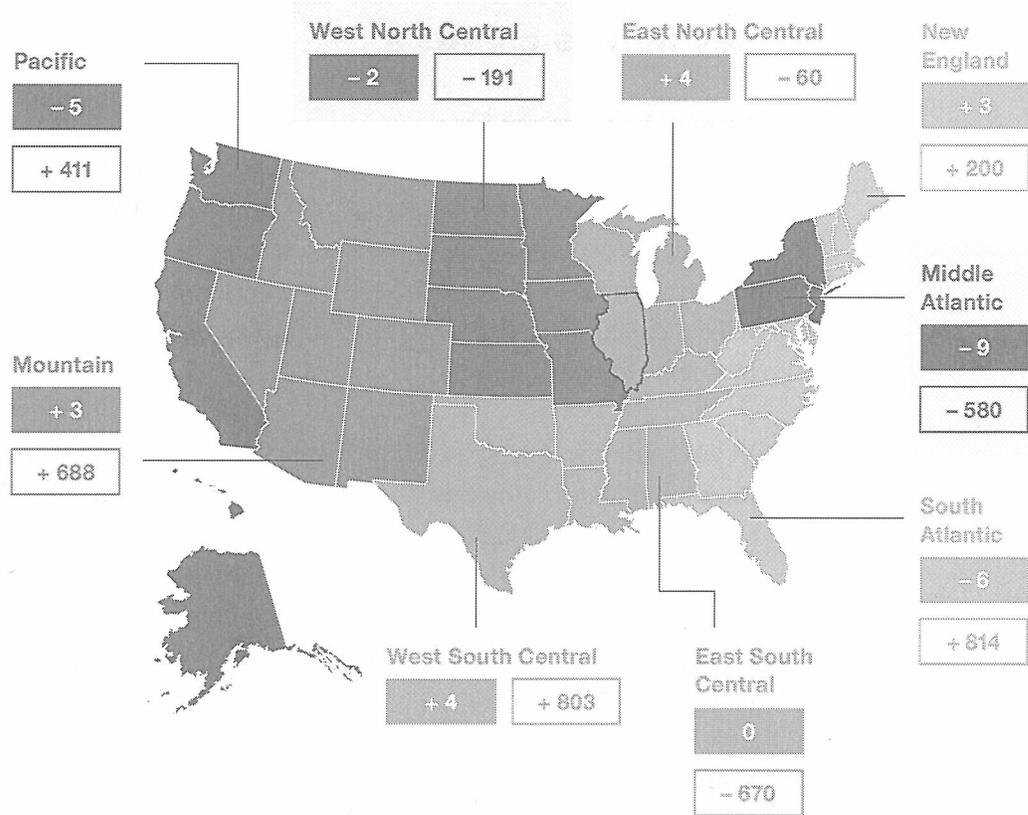
¹ CMAP analysis of Dun & Bradstreet data.



Business relocations, Illinois, 2012

Moved to Illinois:
 Total businesses: **275**
 Total number of employees: **7,957**

Moved from Illinois:
 Total businesses: **283**
 Total number of employees: **6,542**



Legend

- +/- XX Number of businesses, net gain/loss
- +/- XX Number of employees, net gain/loss

East North Central states

	Moved to Illinois		Moved from Illinois	
	Companies	Employees	Companies	Employees
Indiana	24	494	27	240
Michigan	13	171	13	136
Ohio	12	399	9	559
Wisconsin	27	268	23	457
Total	76	1,332	72	1,392

Source: Dun & Bradstreet

Business moves by industry

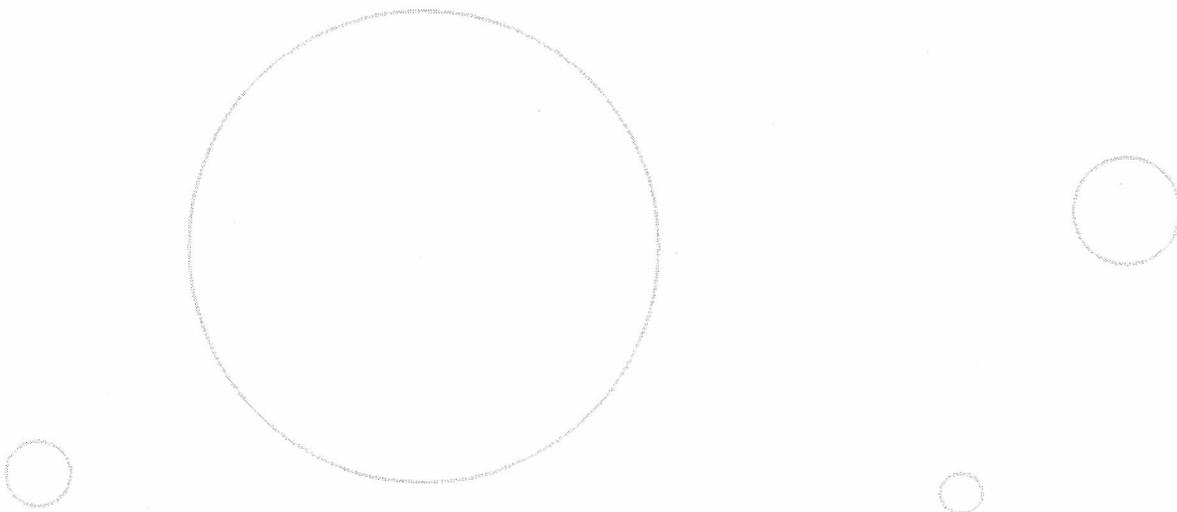
Recent business relocations to and from Illinois highlight the state's leading industries. In 2012, the state's net increase in trade, manufacturing, and transportation jobs² from business relocations was more than the net growth in all other industries combined. These three industries benefit from built-in advantages of the state's business climate, including transportation infrastructure, skilled workers, and integrated supply chains.

As the [July edition](#) of the Index reported, a business climate that supports industry clusters can have a direct impact on innovation through the colocation of investment, talent, and businesses. As part of a transition to more service-intensive activities, Illinois lost employment in many production-based clusters. Yet even with employment loss, the state remained at the forefront of manufacturing and transportation. These industries have also led in the economic recovery; since 2010, employment in the region's freight and manufacturing industries have grown by 7 percent, more than double the growth rate of the rest of the economy (2.8 percent).³

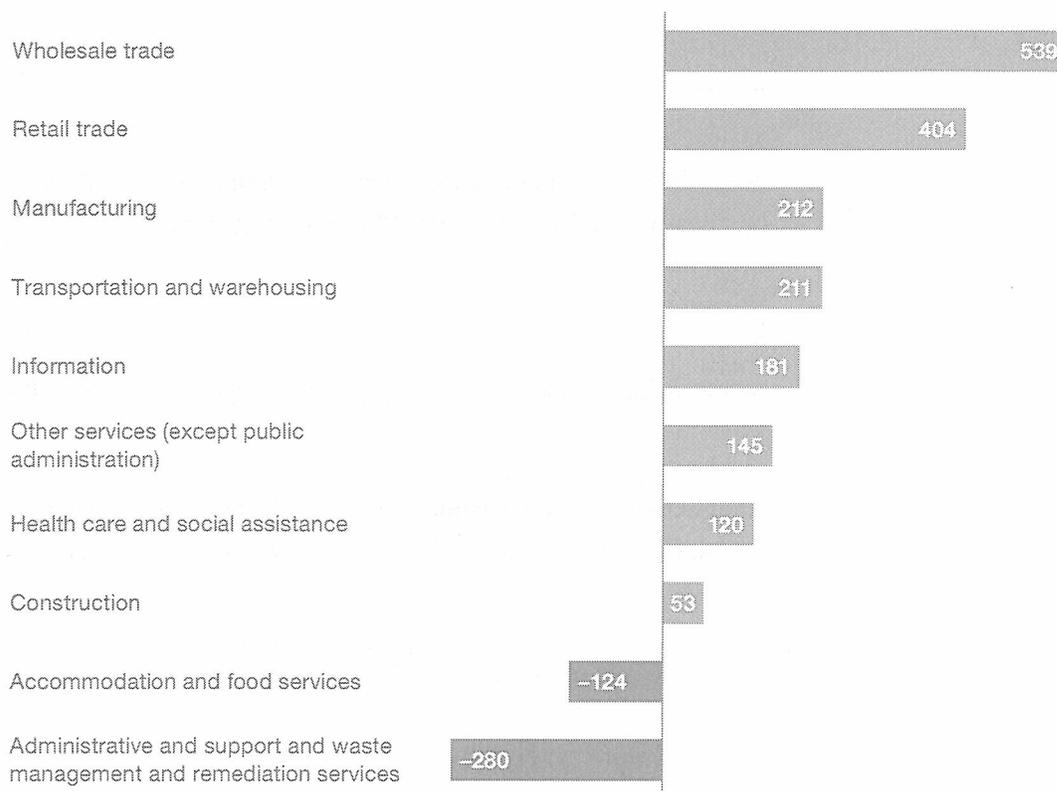
² North American Industry Classification System (NAICS) codes are as follows—trade: 42, 44–45; manufacturing: 31–33; transportation: 48–49.

³ [The Freight-Manufacturing Nexus: Metropolitan Chicago's Built in Advantage](#), CMAP, August 2013.

Illinois' historical specializations in manufacturing, transportation, and trade also support innovation, especially as manufacturing shifts toward advanced processes and trade relies on sophisticated transportation networks (see spotlight). Tracking industry business moves over time will reveal whether companies continue to choose Illinois' developed production and trade clusters over competing locations. The following chart shows the industries with the most net employment change due to relocations in 2012.



Net change in employment due to relocation in Illinois,¹ by industry, 2012



¹The following industries had a net change of <20 employees and are not shown: Agriculture, forestry, fishing, and hunting; Utilities; Management of companies and enterprises; Finance and insurance; Arts, recreation, and entertainment; Mining, quarrying, and oil and gas extraction; Educational services; Unclassified; Public administration; and Professional, scientific, and technical services.

Source: Dun & Bradstreet

Additional components affecting business climate

Tax incentives. Local and state governments often offer tax incentives as a way to attract companies and jobs. The data on business relocations suggest that efforts by states and municipalities emphasizing business attraction through tax incentives may have minimal impact. A recent CMAP [report](#) found local tax incentives are prevalent throughout the region but typically have the greatest influence after a company has already selected a region and is deciding on a particular location within the region.

Regulation. Notably, the regions of the United States that were the biggest sources of relocated

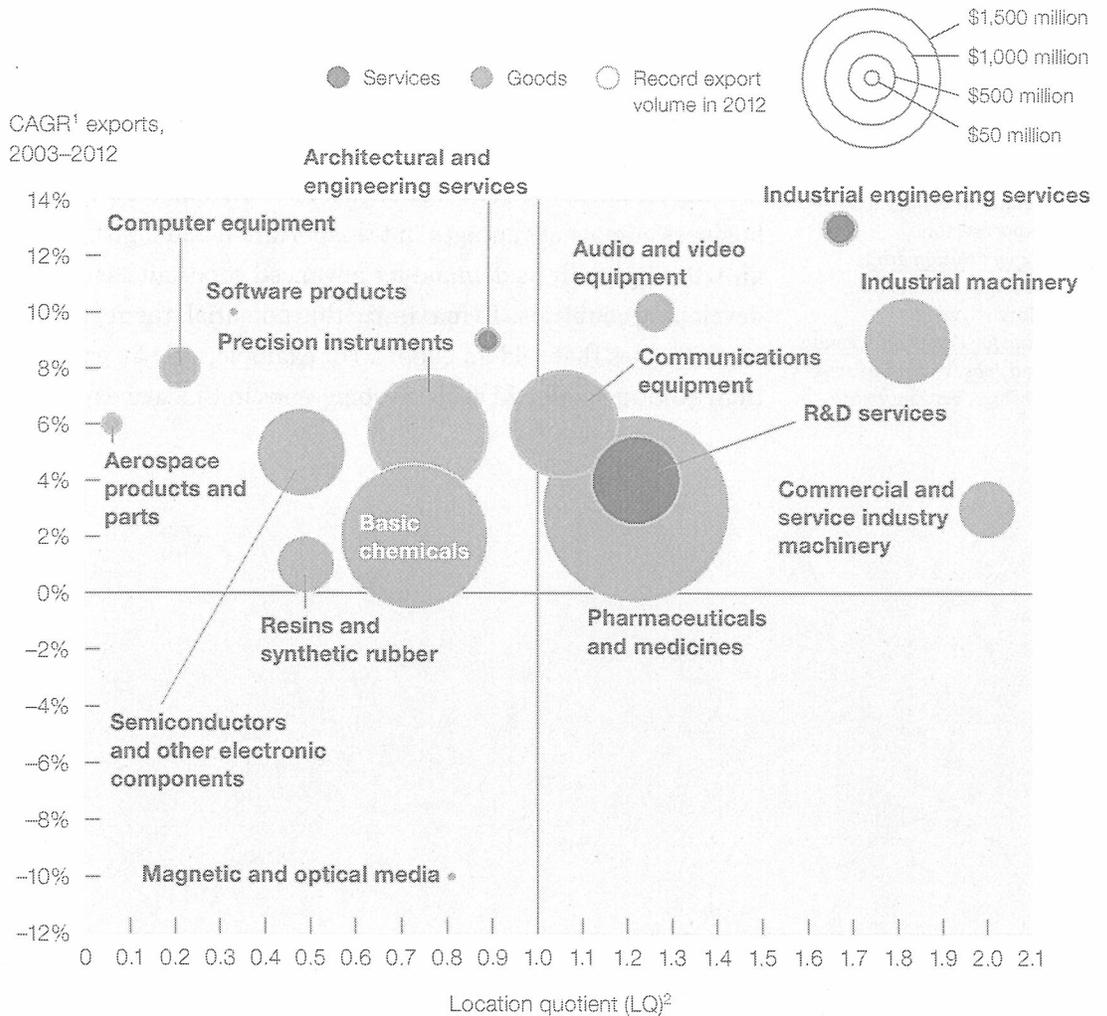
employment—South Atlantic, West South Central, and Mountain—all contain a large number of states with right-to-work laws. Illinois' performance suggests that its diverse economy, deep pool of skilled labor, and quality of life are more powerful draws for companies.

Cost of living. According to the Council for Community and Economic Research, Chicago is significantly more affordable than other large U.S. urban centers and technology hubs. Transportation in San Francisco, for example, is 10 percent more expensive than in Chicago, and housing in New York is as much as 237 percent more expensive than in Chicago.

Chicago and Illinois exports hit record levels in 2012

Exports are especially relevant when evaluating the region's business climate; they indicate the competitiveness of local businesses and foster innovative activity that strengthens the climate. The August edition of the Index quantified the effects of a strong export environment—both metropolitan Chicago and the state of Illinois achieved record levels of exports in 2012. As discussed above, exporters in Illinois and metropolitan

Exports by high-tech goods and services sector, Chicago MSA, 2012



¹ Adjusted for inflation.

² An LQ above 1 indicates a higher intensity in a given export sector compared with the national average; conversely, an LQ below 1 denotes less intensity.

Source: Brookings Institution, *Export Nation 2013*

Chicago benefit from superior transportation infrastructure, supply chain integration, and complex logistics. The latest data reveal companies in Illinois and Chicago continue to respond and remain competitive in innovation-intensive export sectors: in 2012, Illinois' exports exceeded the national average in half of all high-tech sectors and reached record export levels in several of the Chicago MSA's high-tech goods and services sectors.⁴

Increased export levels also help foster innovative business activity in the state and region. Exports support jobs in trade-related industries such as manufacturing, strengthen access to new and developing markets, and support regional growth; in metropolitan Chicago, for example, every \$1 million in exports supports 7 jobs throughout the supply chain, including 3.7 production jobs.⁵

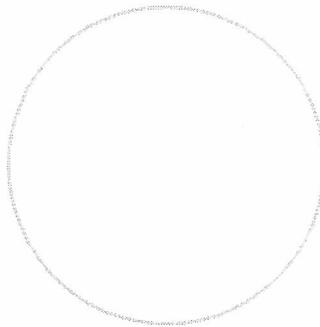
Companies at the forefront of innovation gain global market share through exporting and often adapt existing product lines to meet distinct needs of foreign markets.

Moving forward, the state and region have an opportunity to leverage the unique business climate advantages in transportation and logistics to continue impressive export growth, especially as demand for advanced goods and services continues to grow in developing countries. To maximize this potential, the region needs to tap into the vast pool of companies that seldom export. For example, only an estimated 5 percent of the more than 40,000 small and midsize companies in Chicago export today.⁶

⁴ Refer to the August edition of the Index for a definition of high-tech export sectors.

⁵ Export Nation 2012, Brookings Institution, March 8, 2012.

⁶ Plan for Economic Growth and Jobs. World Business Chicago, February 2012.



Illinois logistics firms post rapid expansion

Each year, *Inc. Magazine* ranks 5,000 of the fastest-growing U.S. companies, of which 273, or 5 percent, are located in Illinois. The state has a diverse economic base, and Illinois' fastest-growing companies represent the full range of industries, from finance and marketing to manufacturing.

A close look at Illinois' rapidly growing companies underscores key competitive advantages within the state's diversified economy. Logistics firms are particularly well suited to capitalize on the state's transportation assets in order to improve efficiency and increase market access for their customers. Indeed, 16 logistics and transportation companies in Illinois made *Inc. Magazine's* national list, led

by Load Delivered Logistics of Chicago and Ecogistics of Rock Island, which each grew by more than 960 percent over the past three years.

A CMAP report examined these logistics and transportation advantages within metropolitan Chicago, documenting recent manufacturing and freight employment growth. The data indicate that the region and state's unrivaled transportation infrastructure and connectivity is a key pillar of the overall business environment. This business climate provides a built-in advantage, where companies can invest and grow in Illinois but efficiently reach the rest of the world.

New business creation and start-up climate in metropolitan Chicago

The final data set in this quarterly edition covers recent business creation levels in metropolitan Chicago. As with the other outcome-oriented indicators, entrepreneurial decisions about where to start a new business provide insight on how executives view the numerous factors affecting a region's overall business climate.

In 2012, entrepreneurs created 22,351 new businesses in metropolitan Chicago. While in absolute numbers this ranks the region near the top of the nation, the number of business starts as a share of total businesses in metropolitan Chicago falls slightly below that of other large metro areas.

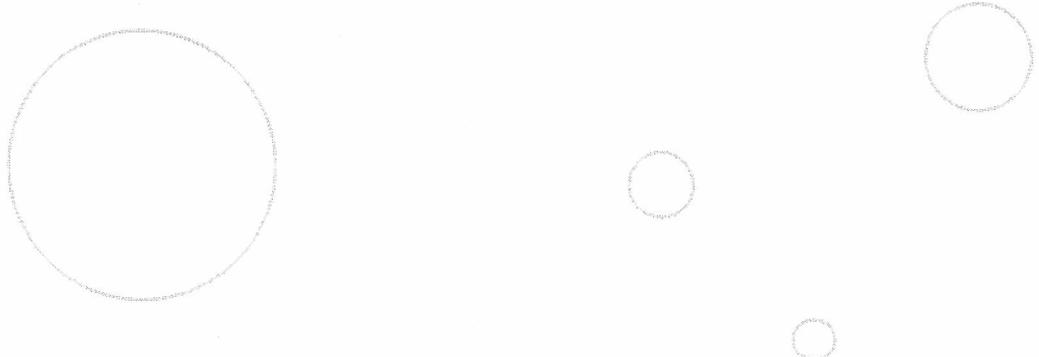
New business starts, top 5 largest U.S. MSAs

Metropolitan statistical area (MSA)	New business starts, 2012	Total number of businesses	Business starts as a % of total businesses
Houston	22,521	352,764	0.064
Los Angeles	35,984	578,008	0.062
Dallas	19,521	316,981	0.062
New York	29,125	526,104	0.055
Chicago	22,531	470,096	0.048

Source: Dun & Bradstreet

Reflecting the diversity of metropolitan Chicago's economy, the new businesses created last year comprise a variety of economic sectors. Recent data provided by Built In Chicago showcase momentum in digital start-ups, one innovative segment of the region's broad economy.⁷ In 2012, entrepreneurs launched 197 digital start-ups in metropolitan Chicago. Compared to 2011, the number of digital start-ups receiving funding of more than \$1 million in 2012 also increased, led by health insurance comparison site GoHealth, which raised \$50 million to enhance its digital technology. Indeed, more than a quarter of all funding dollars went to health care companies, double the amount the next two largest sectors by financing received (software and marketing).

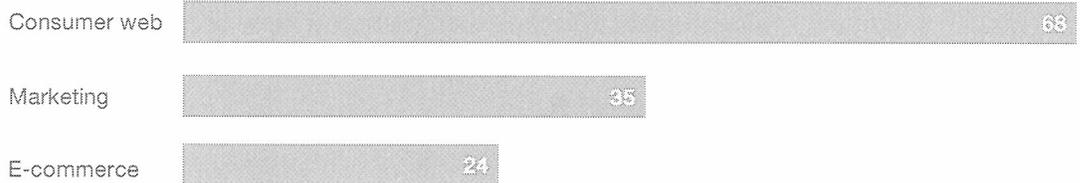
⁷ Built In Chicago defines a digital company as an enterprise whose business is primarily Web- or mobile-based.



Digital start-up launches and total funding were slightly down in the first two quarters of 2013 compared with the same two quarters in 2012; however, the number of companies that received funding grew by 40 percent. Additional data on financing trends were featured in the [Q1 2013 issue](#) of the Illinois Innovation Index.

Start-ups in Chicago region, 2012

Fastest-growing sectors, by number of companies



Source: Built In Chicago

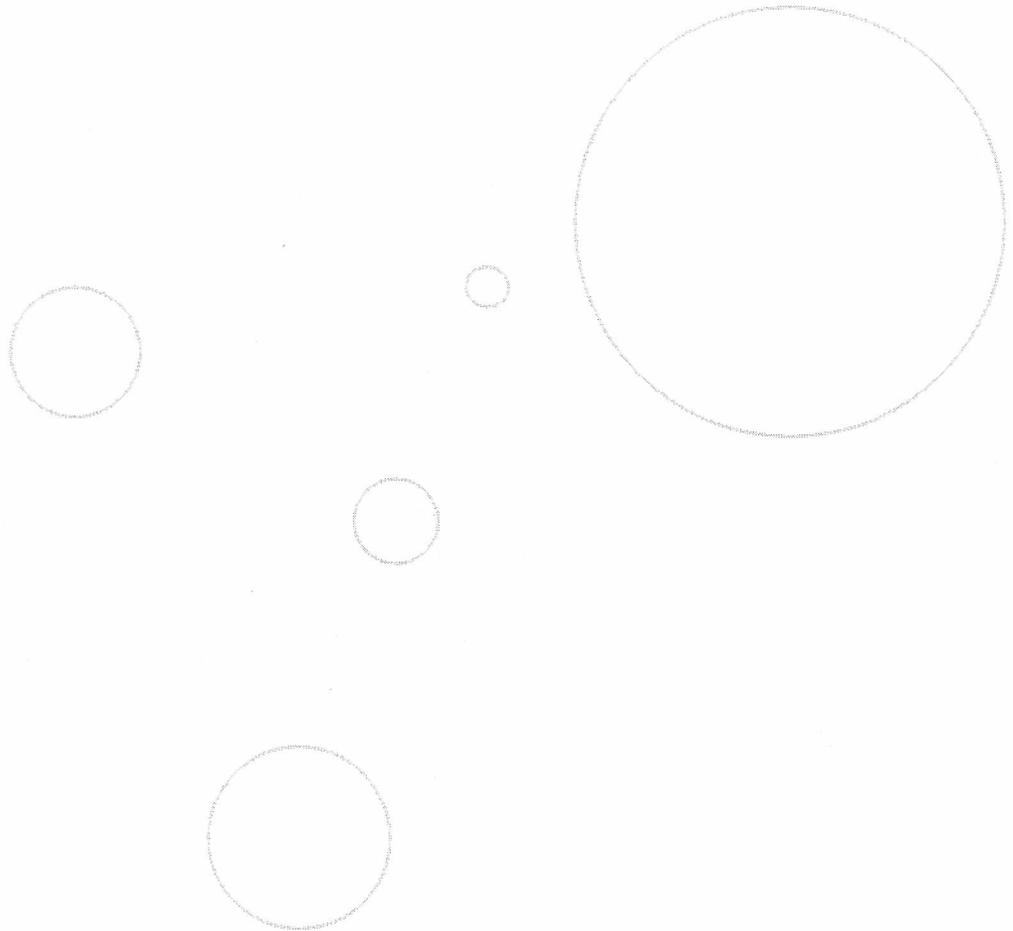
Business climate for start-ups

Founding a start-up is challenging, but access to resources and a support system can help fledgling entrepreneurs overcome barriers and grow into successful ventures. In 2012, downtown Chicago became home to 1871, a digital start-up incubator designed to offer educational programming, access to mentors and investors, and other resources to help early-stage entrepreneurs. Currently, 1871 is home to more than 200 start-ups. Since 2012, companies at 1871 have

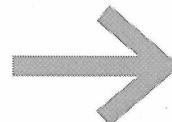
created more than 800 jobs and raised nearly \$30 million in investments. One piece of the innovative ecosystem housed at 1871 is the [Illinois Innovation Network](#), launched in 2013 to coordinate resources for start-ups, including capital, physical space, and professional services. Assets such as 1871 are an important part of the region's business climate and send a positive signal to entrepreneurs.

Looking forward

Illinois is a leader in trade, manufacturing, and transportation, and companies within these industries are integrating new processes to innovate and remain competitive. However, an attractive business climate doesn't happen on its own. The Chicago region and Illinois are making strategic investments in infrastructure, workforce, and support systems to ensure that innovation and growth continue. In addition, the ongoing activities of a wide network of civic organizations, nonprofit organizations, advocacy groups, and other stakeholders has resulted in strategic efforts--such as the launch of initiatives like 1871--to achieve their shared goals. The close coordination of these programs will be vital to promoting an attractive business climate that results in economic growth and improved quality of life for all residents. ■



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