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HEARD ON THE STREET

Midwest's Faltering Economies Will Spread Pain Nationwide

Financial strain is increasing for farmers and manufacturers in the heartland



A dive in exports of soybeans and other agricultural products to China has stung Illinois and other Midwestern growing states.

PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Lauren Silva Laughlin

Updated Sept. 30, 2019 8:15 pm ET

With the fortunes of flashy young companies such as We Co. and Peloton stealing headlines, it may be easy to forget about the worsening economic condition of flyover country, USA. That would be a mistake.

Regional economic indicators suggest that the financial health of the Midwest is waning, as trade tariffs start to take their toll on sectors from farming to manufacturing. The implications for the U.S. economy at large are significant.

One heartbeat of the Midwestern economy, farming, has been under serious pressure throughout the spring and summer. Agricultural exports to China have plummeted over the past two years, particularly soybeans. While a wet planting season kept crop yields in check, the lack of crop buyers has kept prices for soybeans and corn under pressure, too, which has been a double whammy for farmers.

As a result, farmers are starting to get into real financial trouble. Loan delinquencies and bankruptcies are rising, according to data aggregated by the American Farm Bureau Federation. For the first quarter of 2019, 2.5% of commercial real-estate loans in agriculture were more than 30 days past due, up from 2.1% in the prior quarter, which is also the historical average. Delinquencies on nonreal-estate loans in agriculture held by commercial lenders are rising, too, and above the historical average.

But it isn't just farmers who are hurting. The Federal Reserve Bank of Chicago tracks nonfarm business activity in five states—Iowa, Indiana, Illinois, Michigan, and Wisconsin—through its Midwest Economy Index. The index was in negative territory for the fifth straight month in August, the Chicago Fed said Monday. Readings below zero indicate that growth is less than the historical average rate. The July reading, at minus 0.37, was the worst since early 2010.

The Chicago Business Barometer, which tracks a broader range of activities and is influenced by swings in orders for Chicago-area businesses such as Boeing, declined to 47.1 in September from 50.4 in August. A reading below 50 indicates contraction, and the index has rarely dipped below 50 since the latest recession.

Meanwhile, business confidence measured in the same report dropped 4.9 points compared with the previous quarter to 47.3 in the third quarter, leaving it at the lowest level since 2009. "There was anecdotal evidence of tariffs affecting prices and business activity," said the report, out on Monday.

Now the United Auto Workers strike against General Motors threatens to add a new drag on the region.

States in the midsection of the country aren't as driven by headline-grabbing bubbles in, say, financial services or technology. But this actually makes their degradation all the more

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worrying, as it indicates strain in “real economy” sectors such as manufacturing that drive nationwide consumer spending.

The combined gross domestic product for states in the Great Lakes and Plains regions, as defined by the U.S. Bureau of Economic Analysis, account for almost

one-fifth of U.S. GDP. Pain in the Midwest will quickly ripple outward.

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