The Midwestern United States (or Midwest) refers to the states in north-central region of the United States of America. It includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Nebraska, North Dakota, South Dakota and Wisconsin. Kentucky is sometimes defined as part of the Midwest and is part of the Government of Israel Economic Mission to the Midwest’s region. The area is also referred to as "Mid-America," and sometimes as “the Heartland.”

Chicago is the largest city in the region, followed by Indianapolis and Columbus. Other important cities include: Detroit, Louisville, Milwaukee, Kansas City, Omaha, Cleveland, Minneapolis-St. Paul, Wichita, St. Louis, Lexington, Cincinnati, Toledo, and Lincoln.
The Midwest has a population of 71,696,712 people, 22.78% of the total population of the U.S\(^1\), and accounts for 23.43% of the U.S’s GDP\(^2\). The Midwest is culturally distinct from other regions of the U.S, and is traditionally known for the rural character outside of large cities and the industrial heritage of its urban centers. However, the Midwest is also a major center of international business activity in the U.S as it is home to 141 Fortune 500 companies and some of the country’s largest and most dynamic cities.

Working with the Midwest

The opportunity is ripe to capitalize on the Midwest's interest in partnering with Israel. It is a mistake to overlook the Midwest in favor of the coasts when looking for export opportunities, joint ventures, or foreign direct investment. The region is home to a diverse population, multinational companies, a skilled work force, large Jewish communities, and generally cheaper office and manufacturing space. These factors make the Midwest the perfect point of entry into the U.S market. States such as Ohio, Illinois, Michigan and Minnesota have been the most active in the country in promoting trade and business with Israel. Recently, Israeli companies have participated in regional events in the biotechnology sector, water technology sector, automotive sector, IT sector, food services sector and much more. A highlight of this cooperation is the Memorandum of Understanding signed by the University of Chicago and Ben Gurion University of the Negev, exploring opportunities for a research partnership that will lead to new water production and purification technologies to increase global access to fresh water.

\(^1\) (US Census Bureau 2012)  
\(^2\) (BEA 2012)
State of the U.S. Economy and Economic Indicators for the Midwest

Although there are continued concerns over the lackluster economic recovery, the U.S. GDP is expected to continue to rise following its decline in the late 2000s. 2013 estimates from the International Monetary Fund show that the U.S. GDP per capita is expected to rise from its 2012 level of $49,965.27 to $51,264.37 by 2014, or 2.6% growth. Corroborating this tepidly positive outlook, in September 2013 the U.S. Federal Reserve estimated that the U.S. GDP growth would increase 1.3% over the ensuing year.

These modest gains were held back by the continued concern over unemployment, which has stayed constant in the Midwest over the past year. As of August 2013, the unemployment rate in the Midwest was at 7.5%, marginally higher than the national rate at 7.3% according to the Bureau of Labor Statistics. The national rate had decreased 0.8% over the past year, although half of this change was from the unemployed giving up the job hunt and leaving the labor force. The unemployment rate is expected to slowly rise to around 8% by March 2014. The Midwest should remain at or below the national average, as unemployment struggles in the western U.S. accounts for a more significant part of the national average.

Another concern is the continuing budget shortfalls both at the Federal and local levels, coupled with ongoing congressional gridlock. The Federal Government has taken some steps at limiting the nation’s deficit, which includes cutting spending in areas such as defense and social services. However, they have yet to agree on a budget for the upcoming fiscal year, and went to the brink of the fiscal cliff before raising the debt ceiling in October, following 16 days of

<table>
<thead>
<tr>
<th></th>
<th>2012 Imports from Israel (U.S. Dollars)</th>
<th>2012 Exports to Israel (U.S. Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>546,911,692</td>
<td>254,183,037</td>
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<tr>
<td>Indiana</td>
<td>177,944,519</td>
<td>48,972,756</td>
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<tr>
<td>Iowa</td>
<td>35,303,167</td>
<td>34,309,905</td>
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<tr>
<td>Kansas</td>
<td>75,204,406</td>
<td>74,962,263</td>
</tr>
<tr>
<td>Kentucky</td>
<td>113,067,816</td>
<td>57,505,142</td>
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<tr>
<td>Michigan</td>
<td>416,488,004</td>
<td>126,331,075</td>
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<td>Minnesota</td>
<td>170,868,403</td>
<td>70,529,276</td>
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<td>Missouri</td>
<td>273,533,333</td>
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<td>Ohio</td>
<td>386,570,658</td>
<td>239,257,249</td>
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<tr>
<td>Nebraska</td>
<td>16,581,289</td>
<td>28,641,815</td>
</tr>
<tr>
<td>North Dakota</td>
<td>1,769,555</td>
<td>7,784,913</td>
</tr>
<tr>
<td>South Dakota</td>
<td>4,684,394</td>
<td>17,273,255</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>132,598,948</td>
<td>72,159,460</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,433,910,985</strong></td>
<td><strong>1,229,696,429</strong></td>
</tr>
</tbody>
</table>
government shutdown which took $24 billion out of the US economy and reduced fourth-quarter GDP growth from 3% to 2.4%. Meanwhile, state budget shortfalls continue plague a majority of states, as evident by the map below. In the Midwest, Wisconsin, Minnesota, Missouri, and Ohio each reported budget shortfalls of over 10% of their budget, while Illinois, Kentucky, and Nebraska each reported budget shortfalls of between 4-10% of their budget. However, there is reason for optimism as key industries in the Midwest such as pharmaceuticals and medical devices will continue to see growth with rising healthcare spending, and the government continues to subsidize clean energy, which is an important driver for many Midwest cities.

Chicago is the economic and cultural center of the Midwest, and its metropolitan area accounted for $571 billion of GDP in 2012, making it the 5th largest urban economy in the world after Tokyo, New York, Los Angeles, and Paris. To put this into perspective, the Chicago economy is slightly bigger than the nation of Iran and just below that of the Switzerland. It is the...
global headquarters of some of the largest companies in the world, including Boeing, Sears, Walgreens Co, Motorola Solutions (and Motorola Mobility, now owned by Google), Allstate Insurance, Kraft, Abbott Laboratories, McDonalds and United Airlines.

Chicago is also a global financial center, particularly in the trading of commodities and futures. Finally, Chicago is the nucleus of the American rail system and is the home to one of the world’s busiest airports which acts as a nationwide hub for domestic and international travel.

Minneapolis/St. Paul is the next largest metropolitan area in the Midwest and as of 2012, its GDP is about $220 billion. It is home to several major U.S retailers including Target and Best Buy. It also hosts the global headquarters of large multinational corporations, such as 3M, Xcel Energy, US Bancorp and PepsiAmericas, Medtronic and General Mills. The Minneapolis/St. Paul economy is larger than that of Pakistan and smaller than the Israeli economy.

The Detroit metropolitan area is the third largest in the Midwest, with a 2012 GDP of $208 billion. Detroit is synonymous with America’s auto industry, and hosts the international headquarters for the big three domestic U.S automakers - GM, Ford and Chrysler. The city is also one of America’s largest ports, with the Ambassador Bridge alone carrying 25% of the total trade between Canada and the United States. On July 18, 2013, the city of Detroit filed for Chapter 9 bankruptcy, making it the largest city to file for bankruptcy in US history. City services were not immediately affected by the bankruptcy filing, and the city hopes to emerge from bankruptcy within a year.
Sectors of the Midwest Economy

Manufacturing

The Midwest was traditionally a manufacturing and agricultural region. However, in almost every state, conventional manufacturing is declining as jobs move to the service sector. Manufacturing has fallen from 23.5% in 1980 to 11% in 2012 as a share of overall payroll employment in the region, and services has increased from 21.6% to 33.9% during the same time period. Some states are coping more effectively than others, but all are pursuing policies to encourage diversification of their economies and spur job growth.

Despite all of this, manufacturing still plays an important role in the regional economy, particularly across the swath of states known as the “Rust Belt,” which encompasses parts of Michigan, Illinois, Indiana and Ohio. For example, manufacturing still accounts for 16% of total employment in Indiana.

Automotive

The most prominent example of manufacturing in the Rust Belt is the American automotive industry. As of October 2013, the industry employs 822,400 people directly, up over 6% from October 2012. Although hit hard by the recession in 2008, there has been evidence of a rebound brewing in the sector.

General Motors (GM) increased sales in October 2013 by 16% compared to last year. Since GM’s IPO in November 2010 marking its return to the New York Stock Exchange, GM stock has risen 6.8%. Chrysler has hired more than 1,800 new employees this year at its Toledo, OH plant, far exceeding expectations. The plant now has more employees than it has had any point in the past decade. The most robust recovery has been that of Ford Motor Company, the only one of the big three auto companies not to file a bankruptcy claim. In its 17th straight profitable quarter, Ford reported a record third-quarter 2013 pre-tax profit of $2.6 billion, also setting a third-quarter record in market share with 3.7%.

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4 (National Association of Manufacturers 2009)
5 Bureau of Labor Statistics, 2013
6http://www.gm.com/content/gmcom/home/company/investors/sales-production/content_pages_news_us_en_2013_nov_gmsales~content~gmcom~home~company~investors~sales-production.html
8 http://www.nytimes.com/2013/10/25/business/ford-keeps-up-profit-streak-andraises-forecast.html?_r=0

Employment in Motor Vehicle and Parts Dealers and US Total Light Vehicle Sales, Seasonally Adjusted, 2007-2012

Source: US Department of Labor

Motor Vehicles and Parts Manufacturing Jobs, Seasonally Adjusted

Source: Bureau of Labor Statistics
Agriculture

Agriculture and food processing is another important industry for the Midwest. Historically known as the nation’s breadbasket, the Midwest is home to some of the most productive farmland in the U.S. and is divided into three distinct Agricultural areas:

- **Lake States** (Minnesota, Wisconsin, Michigan) – Grains and dairy
- **Corn Belt** (Illinois, Iowa, Missouri, Indiana, Ohio) – Corn, soy, beef, feed grains, dairy, livestock.
- **Northern Plains** (North Dakota, South Dakota, Nebraska, Kansas) – Wheat, other grains

Kentucky is part of the Appalachian farming area, which grows the majority of tobacco and peanuts in the United States.

The abundance of farmland makes the Midwest a prime location for major food processing and distribution networks. The following multinational food and agriculture companies have their headquarters in the Midwest:

- **Monsanto** (St. Louis, MO) – Herbicides, Pesticides and Crop Seed
- ** Archer Daniels Midland** (Decatur, IL) – Food & Grain Processing, Beverages, Feed, Ethanol
- **Cargill** (Minneapolis, MN) – Food & Grain Processing, Livestock, Pharmaceuticals
- **ConAgra** (Omaha, NE) – Food Processing, Distribution
- **Chiquita** (Cincinnati, OH) – Food, Bananas
- **Kellogg** (Battle Creek, MI) – Food & Grain Processing
- **Kraft Foods** (Chicago, IL) – Food Processing, Distribution, Beverages
- **General Mills** (Minneapolis, MN) – Food & Grain Processing

Although agriculture and manufacturing have traditionally been the staple industries of the Midwest, the large amount of prestigious universities in the area and the push for diversification have created a strong industry presence in services, finance, high technology, health care and green technology. In the past year, nonfarm employment has risen an average of 1.4% in the Midwest.

Illinois, the most populous state in the Midwest is a prime example. The state’s service sector alone employs more than 2.35 million people. Chicago is the epicenter of this activity and the city is the second largest financial center in the US, after New York City. It is home to over 2,300 commercial banks, nearly 1,000 savings institutions, 500 credit unions and 2,000 Insurance carriers, including international companies State Farm and Allstate. Chicago is also the global center of commodities and derivatives trading. Outside Illinois, Minneapolis-St. Paul, St. Louis, and Kansas City also serve as important regional financial centers.

Technology

Hi-tech and Biotech also have a strong presence in the Midwest. Chicago is home to many of the largest pharmaceutical companies in the world including Abbott, Baxter, Hospira and Takeda. Chicago is also growing its IT sector, with over 5,000 tech jobs in the “River North” neighborhood alone, including Motorola Mobility’s (now owned by Google) move to the area. This includes companies like Groupon and Grubhub. Indianapolis has been the home of pharmaceutical giant Eli Lilly since 1876 and Cincinnati has been home to consumer goods giant

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9  [Structure of U.S. Agriculture n.d.](#)
10  [State of Illinois Business Portal](http://business.illinois.gov)
Procter & Gamble since 1837. Minnesota is a global center for medical devices, and St. Louis is known for its strength in agro-technology.

Telecommunications

The Midwest has one of the most advanced telecom infrastructures in the U.S. and North America. Many of the nation’s leading telephone operators and telecom equipment suppliers are situated in the Midwest with total sales more than $82 Billion. It is also home to the number one commercial terrestrial telecom network with 25.7 terabytes/second lit capacity, located in Chicago. One of the world’s largest “carrier hotels” (server/data storage/routing hardware facility), the Lakeside Technology Center, is also located in downtown Chicago. Moreover the city boasts the world’s largest commercial Internet exchange point by volume. The network service providers (NSP) have recognized the advantages of this infrastructure and currently 27 of 28 U.S./Canadian NSPs have a POP (point-of-presence) in the Chicago area.

Leading companies Motorola and U.S Cellular are based in Chicago, while Sprint is based just outside Kansas City.

Retail

The Midwest is home to many of the nation’s largest retail companies, including Best Buy, Target, McDonald’s, Walgreens, Kraft, General Mills, and Sears. Unemployment and the sluggish economy have hurt some players in this sector, but many companies have seen continued growth, especially as people focus on cheaper goods and services. One example of this trend is the recent growth of McDonald’s, the world’s largest fast food chain, whose stock hit an all-time high in April, 2013. There are many opportunities for investment in retail items and technology related to this sector, especially digital media technology related to marketing and other strategies.

Recent Trends

A slowdown in the American Pharmaceutical Industry is expected for 2013-2017. IMS Health, a global pharmaceutical consultancy is expecting the US market to shrink up to 2.7% in 2013, and grow only 0.7-3.7% over the next five years (slightly ahead of Europe), compared to robust double-digit growth in Asia (11.4-14.4%) and Latin America (10-13%). As the home to Abbott Labs, Eli Lilly, and the American home of Astellas Pharma and Takeda Pharmaceuticals, the Midwest may feel some after-effects of a market slowdown. IMS is crediting the slowdown to a wave of patent expirations in the USA, which will allow market entry from generic competitors. Furthermore, governments in developed countries have made moves to rein in spending on drugs as part of their health care plans. However, this also suggests that pharmaceutical companies will be looking for innovation areas to maintain profits, opening the door for new research and M&A.

The slimmed down and more efficient Manufacturing Sector in the Midwest has been one of the few industries rapidly adding jobs in the region. The Obama administration has also announced a $4.5 million partnership with the private sector to boost manufacturing jobs and opportunities in the Midwest. Employment in the manufacturing sector has also been steadily increasing, posting gains of 3.9% in July 2012 from the previous year.
Appendix

Annual Manufacturing Growth
US vs. Midwest, March 2012 to March 2013

Source: Chicago Federal Reserve

Source: Chicago Federal Reserve
Chicago Fed Midwest Manufacturing Index vs. U.S. Manufacturing Production Index

Manufacturing Output Indexes

<table>
<thead>
<tr>
<th></th>
<th>1 month ago</th>
<th>3 months ago</th>
<th>1 year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago Fed Midwest Manufacturing Index (CFMMI)</td>
<td>1.5</td>
<td>1.3</td>
<td>4.0</td>
</tr>
<tr>
<td>US Industrial Production-Manufacturing (IPMFG)</td>
<td>0.7</td>
<td>0.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>

U.S. and Seventh District PMIs: Total

Sources: Federal Reserve of Chicago
Manufactured Exports (Index, 2009=1)
Seventh District States

Figure 1: CPI Inflation

Source: Federal Reserve of Chicago