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INDIANABUSINESSREVIEW



**Stuck in Neutral:
Economy 2012**

Outlook 2012
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Table of Contents

The Big Picture in 2012

1	Outlook	Jerry N. Conover
2	International Outlook	Elham Mafi-Kreft
4	U.S. Outlook	Willard E. Witte
6	Financial Outlook	Robert S. Neal and Charles Trzcinka
8	Housing Market Outlook	Douglas M. McCoy
10	Indiana's Outlook	Jerry N. Conover
11	Indiana's Agricultural Outlook	Corinne Alexander

Indiana Metros 2012

12	Anderson Forecast	Dagney Faulk
15	Bloomington Forecast	Timothy F. Slaper and Ryan A. Krause
19	Columbus Forecast	Michael J. Oakes
21	Evansville Forecast	Mohammed Khayum
23	Fort Wayne Forecast	John Stafford
24	Gary Forecast	Donald A. Coffin
28	Indianapolis-Carmel Forecast	Kyle J. Anderson
29	Kokomo Forecast	Kathy Parkison
31	Lafayette Forecast	Tanya Hall
34	Louisville Forecast	Uric Dufrene
37	Muncie Forecast	Dagney Faulk and Phillip E. Morris
39	Richmond Forecast	Tim G. Rogers and Renee L. Doty
41	South Bend and Elkhart Area Forecast	Douglas Agbetsiafa
44	Terre Haute Forecast	Kevin Christ and Robert Guell

Outlook for 2012

Jerry N. Conover, Ph.D.: Director, Indiana Business Research Center, Kelley School of Business, Indiana University

Each fall a group of Indiana University faculty gathers at the Kelley School of Business to consider the economic outlook for the coming year. In the process, they forecast the prospects in terms of global, national, state, metropolitan and agriculture perspectives, and they also assess the outlooks for the financial and housing markets.

The researchers concluded that, while the economy is expected to expand, the recovery will remain far more sluggish than typical following a recession. For 2012, the panel predicts lingering uncertainty, modest growth and fragile progress.

This year's discussion began with a review of the latest forecast based on the econometric model of the United States developed by Indiana University's Center for Econometric Model Research (CEMR). The researchers then made adjustments to the model's predictions to accommodate expectations about key underlying variables. Their model of Indiana's economy similarly provided a basis for projecting the outlook for the state.

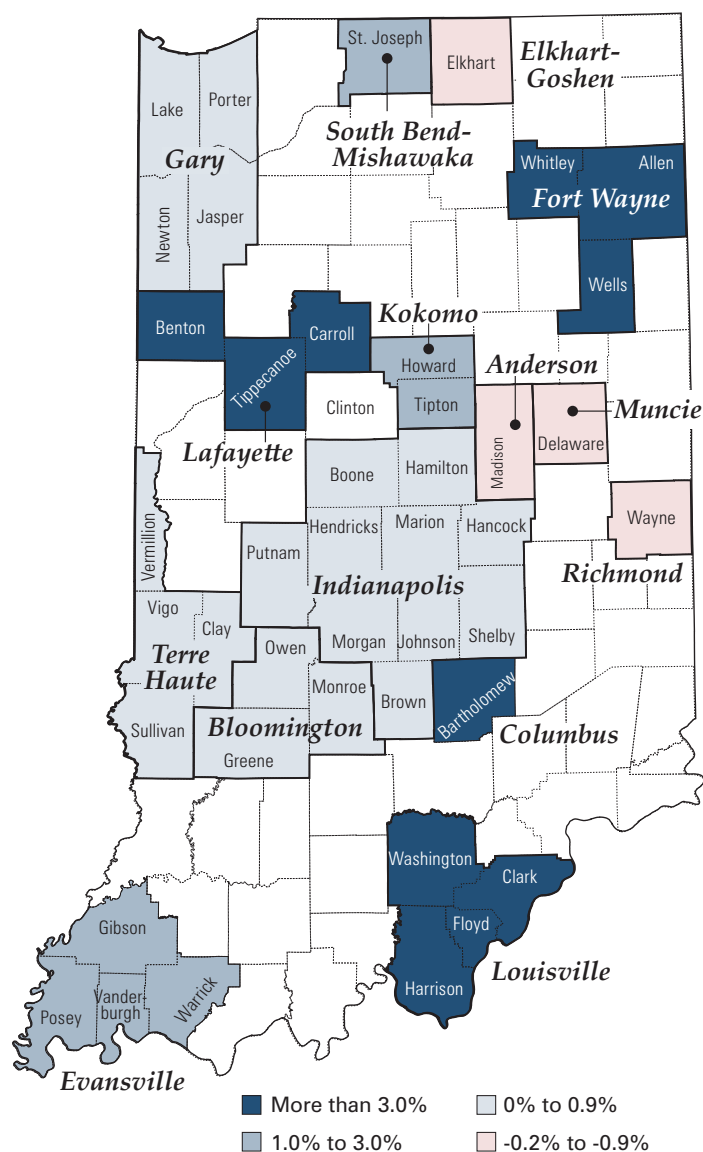
These economists and distinguished colleagues presented their predictions to audiences across Indiana through the Kelley School's Business Outlook Panel. In each city, an expert on the local economy joined the panel to discuss the outlook for the metro area. The 2012 predictions of all the Business Outlook panelists are presented in this issue of the *Indiana Business Review*, along with additional supporting detail.

The 2012 outlook edition of the *Indiana Business Review* begins with Ellie Mafi-Kreft's assessment of the international outlook, with global economic growth slowing to around 4 percent. Bill Witte comments on the U.S. economy, which is expected to grow between 2.5 and 3 percent, but without major progress in the labor market. For the financial markets, Rob Neal and Chuck Trzcinka project that the earnings forecasts and low interest rates are encouraging for stock prices, but uncertainty about fiscal policy and foreign economies will hamper growth.

Doug McCoy estimates that the housing market has finally bottomed out, but a large surplus of homes and persistent unemployment will slow the housing recovery. Jerry Conover's forecast for Indiana's economy anticipates that 2012 will see 1.5 percent employment growth, but the unemployment rate will wind down very slowly. Corinne Alexander predicts a bright future for Indiana agriculture in 2012, with record corn and soybean prices. However, high feed costs will cut into profit margins in the livestock sector. Finally, a group of economists and business leaders from around the state share their insights into what 2012 holds in store for Indiana metropolitan areas. ■

“For 2012, the panel predicts lingering uncertainty, modest growth and fragile progress.”

FIGURE 1: Change in Metro Employment, September 2010 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

International Outlook for 2012

Elham Mafi-Kreft: Clinical Assistant Professor of Business Economics and Public Policy, Kelley School of Business, Indiana University Bloomington

The significance of international trade to the U.S. economy, as well as the world economy, is undeniable. For decades, the U.S. has led the world in imports, while it has also remained one of the top three exporters. According to a recent paper from the National Bureau of Economic Research, the rise in U.S. exports since the end of the last recession contributed more than 50 percent to the growth of U.S. gross domestic product (GDP). Exports from the United States tend to respond to GDP growth in the rest of the world, as well as to the international value of the dollar.

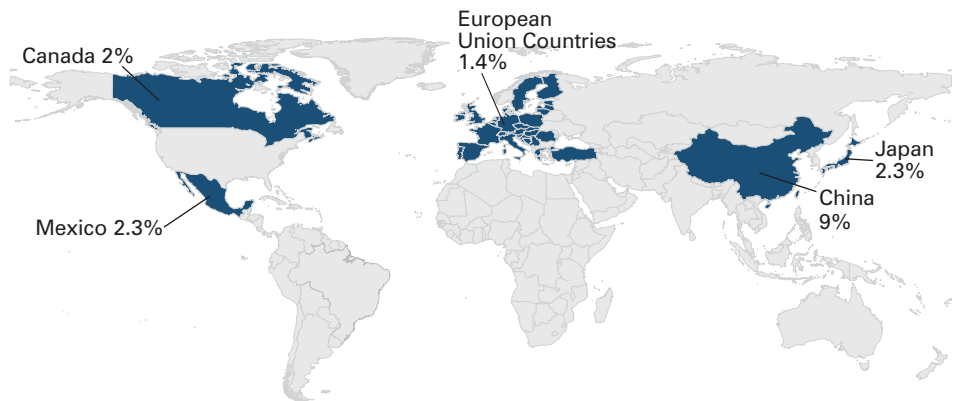
The main export partners of the U.S. are Canada, the European Union, Mexico, China and Japan. This article will provide a forecast of the global economy in 2012 with an emphasis on these trading partners since they are greatly affecting the U.S.'s path to a timid recovery. More than ever we are observing the inter-linkages of the world's economies.

The economic growth around the world looks to remain relatively stable in 2012. The International Monetary Fund projects the world's output to grow at 4 percent. This growth is powered by the emerging economies, while the developed world is lagging behind again this year.

China

China's outlook is positive but slightly slower than the previous two years. The world's second-largest economy is forecasted to grow at 9 percent. Due to its export-oriented economy, China is affected by an economic slowdown in its key trading partners—Europe and to some extent the United States. The slowdown in the Chinese growth is also partly policy driven, as the People's Bank of China is expected to

FIGURE 1: Projected GDP Growth, 2012



Source: International Monetary Fund

further tighten its monetary policy—particularly its foreign exchange rate policy to keep inflation under wrap. Other challenges for China include policies to disincentivize domestic savings (such as creating a welfare state) and further rely on domestic demand for growth. Finally, if the tightening regime continues it will help keep the dollar's value low and rebalance trade between the U.S. and China.

Canada

Canada is likely to outperform most of its peers with a growth forecast of about 2 percent in 2012. The fundamental drivers for growth—sound fiscal and economic management—are in place in the Canadian economy. Additionally, the abundance of natural resources that the world economy strongly demands has put Canada in a healthy trading position. Canada experiences a significant positive “wealth shock” when commodity prices rise and the macroeconomic resilience of the Canadian economy has prepared it to withstand negative price shocks. A decrease in commodity prices should not in itself trigger disruptive forces. However, external threats are great and potential spillovers

from the European debt crisis and fiscal hangover in the U.S. and Japan heighten the downside risks to the growth. These external threats have somewhat depressed Canadian businesses and consumers' confidence.

Mexico

After contracting 6.2 percent in 2009 and growing 5.4 percent in 2010, Mexico's GDP will expand 3.8 percent this year and 2.3 percent in 2012. Thanks to the North American Free Trade Agreement, Mexico's manufacturing industry is highly integrated into the U.S. industrial production chain, as 80 percent of Mexican exports are bought by U.S. households and businesses. Mexico's economic health is strongly tied to that of the United States. Therefore, Mexico's challenge is to be able to withstand a slowdown in their wealthy neighbor's economy by getting a bigger chunk of the American economy. The rising value of the yuan has contributed to lifting up Chinese wages and the high oil prices are making shipping costs from Mexico relatively more affordable. Those factors will contribute to Mexico regaining the biggest share of American imports.

However, the spike of violence in the north of the country may become a threat to the foreign direct investment that the country continues to rely on.

European Union

In the spring of 2011, the financial tensions in the European Union (EU) surged again, with significant tension in the periphery countries (Ireland, Greece, Portugal, Spain and Italy). Like the United States, the EU faces very substantial government and private-sector debt, much of which is now clearly not repayable. Some of those debts are held in the United States, but most of it is held by the European banks and the European Central Bank. The biggest threat is that the Greeks, the Portuguese and the Italians will default on their debts, in which case German and French lenders would be the biggest losers. But if Greece leaves the European Monetary Union, it may prompt the others to follow. This would be a legal and financial disaster for all parties concerned and would jeopardize the global economy as the EU's share in international trade is the most important in the world. Its financial sector is one of the world's largest, with significant banking exposures to other countries, and the euro is one of the major reserve currencies.

If Greece were to leave the European Monetary Union, capital would fly out of the country. In fear of a domino effect, deposits would run out of the periphery EU states; this unprecedented financial chaos would certainly trigger a deep recession. Germany, and to some extent France, would see an inflow of capital that will drive up the euro exchange rate and hurt the export-driven German economy for some time. The financial spillovers to other countries outside the EU would be limited, but the contagion through the trade channel would be

considerable around the world as a result of Europe being integrated in a larger trade zone.

Japan

Japan has suffered more than two decades of subpar economic growth and is set to experience a mild contraction in 2011. The country is struggling with high debt that has been further exacerbated by the devastating effects of the earthquake and tsunami of March 2011. However, Japan's distribution channels have been restored faster than expected, thereby limiting adverse spillovers to trade partners. At the moment, Japan is faced with a strong yen (mostly due to its current account surplus) and deteriorating overseas developments. Both issues are likely to dampen the growth forecast of 2.3 percent for 2012. Like virtually all the advanced economies, Japan has to balance its competing policy actions by 1) controlling the level of government debt and 2) spending to stimulate its slowing economic recovery.

Summary

Given the turbulent economic times in which we live, the downside risks for the global economy are greater than the upside opportunities. Politicians in Europe need to choose between a costly solution and a potentially ruinous one for the euro zone. Within the United States, partisan politics in the run-up to the election have taken precedence over enacting sound economic policy reforms.

Ultimately, the world's economy cannot count on the usual safeguard of growth from the emerging markets, as they are currently overheating and rightfully slowing after their rally from the most recent global recession. Globalization makes domestic economies vulnerable to costly backlashes, as we are currently

“Ultimately, the world's economy cannot count on the usual safeguard of growth from the emerging markets, as they are currently overheating and rightfully slowing after their rally from the most recent global recession.”

experiencing, but increased trade has been transformative for all our economies. History has shown that when trade partners simultaneously devalue their currencies in an attempt to stimulate economic growth or enact protectionist trade barriers to aid their ailing domestic businesses, the efforts usually fail. Such policies rarely stimulate domestic economic growth and often serve to stunt global economic output. ■

U.S. Outlook for 2012

Willard E. Witte: Professor Emeritus, Department of Economics, Indiana University Bloomington

The United States economy in 2011 managed to underachieve even relative to our unambitious expectation. A year ago, we thought growth would come in close to 3 percent for the year—certainly not great for an economy coming out of a very deep recession. Instead, the economy has expanded at an annual rate of only 1.2 percent through three quarters (see **Figure 1**).

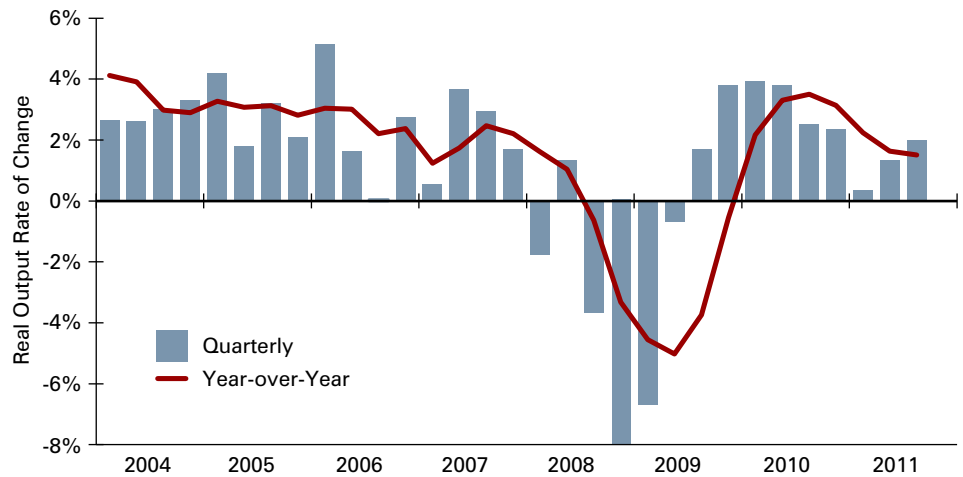
The labor market has done even worse. We anticipated job growth would average very close to 200,000 per month in 2011. Through November the actual outcome has been just 132,000 jobs (see **Figure 2**). The difference means that unemployment has remained close to 9 percent, not the modest decline we had forecast.

The blame for this dismal outcome is widely shared, but two items, one man-made and the other an act of God, top the list. The latter was the earthquake and tsunami that hit Japan in March. The disruption to supply chains had a temporary, but clearly negative, effect during the summer.

The man-made component is the inability of the political sector—both domestically and abroad—to make some tough decisions. At home, this has manifested itself as a series of deadline-driven crises that have all ended with a non-decision to delay any substantive action. The cumulative effect has been to ratchet up uncertainty and destroy what remains of household and business confidence that policy will shift from being mostly counterproductive to being a positive force for sustained recovery.

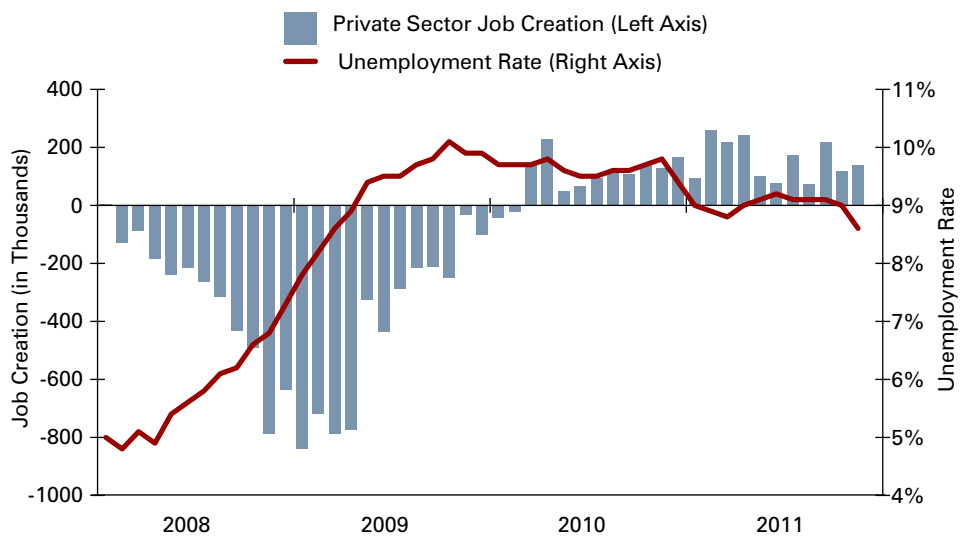
The global component is centered on Europe and its sovereign debt situation. As in the United States, leaders have taken half steps that are mostly designed to avoid the fundamental problem and to delay the point of real decision.

FIGURE 1: U.S. Real Output Rate of Change, 2004 to 2011



Source: Bureau of Economic Analysis

FIGURE 2: U.S. Job Creation and Unemployment Rate, 2008 to 2011



Source: Bureau of Economic Analysis

Looking to the future, these political problems seem unlikely to turn in a productive direction in the near term. As a result, we expect that 2012 will be generally similar to 2011: unacceptably slow growth, without much progress in the labor market. To be more specific:

- We expect output to grow between 2.5 and 3 percent on a fourth-quarter to fourth-

quarter basis. This will be better than 2011, due to somewhat improved household spending and less drag from the government sector.

- Employment will continue to increase, but only enough to allow marginal progress in reducing unemployment. By the end of 2012, unemployment will still be above 8 percent.

- Higher commodity prices raised inflation significantly in 2011. This situation has moderated recently, and we expect inflation to be well contained in 2012.
- The housing sector has hit bottom, but the large overhang of homes in or headed for foreclosure will prevent any significant rebound in construction or prices during most of 2012.
- The Federal Reserve lowered short-term interest rates to virtually zero almost three years ago and has said it will maintain this stance through mid-2013. It is also engaging in realignment of its very large security portfolio toward longer-term holdings in an attempt to edge down long-term rates. This is unlikely to have any dramatic effect.
- Any actions on the federal deficit/debt will be mostly smoke and mirrors with little impact on the actual budget for the next year. Real change will be postponed until after the election.

Thus, we see continuing tepid economic recovery during 2012, with disappointing output expansion, low inflation and a small decline in unemployment. This is better than a slide back into recession, but is a long way from an optimistic outlook.

Moreover, like a year ago, there is a substantial roster of things that could adversely upset our expectations. In terms of immediacy, the European situation tops the list. On a daily basis, news of “progress” or of some impediment is causing triple-digit swings in financial markets. But, so far, there is little evidence of the will to confront (or even to recognize) the underlying problem—several countries in the EU periphery have been living beyond their means with the excess financed abroad. The result is debt burdens that have become unsustainable.

“We expect that 2012 will be generally similar to 2011: unacceptably slow growth, without much progress in the labor market.”

Proposals to date have been focused on the debt problem. Solutions must, however, also deal with the imbalances between current standards of living and those that can be supported by domestic productivity. One way countries have traditionally dealt with this type of problem is by debasing their currency, which leads to a reduction in purchasing power and thereby a lowered standard of living. But the common European currency rules this out for, say, Greece. So the realignment requires more direct political actions, which so far don’t seem possible.

The U.S. is on a trajectory toward this same problem, but less far along, leaving more time to work out a solution. Our current dysfunctional political situation, however, is squandering that advantage. As in Europe, the problems we face require some fundamental changes. Instead of working on long-term solutions, however we have spent the last four years focused mostly on “fixes” that are short-term and temporary (and therefore ineffective). The result has been a lost half-decade. If the political deadlock is not broken by the next election, the danger of a lost decade will be very real.

Finally, the ongoing evolution of China must be mentioned. Regardless of how the European and U.S. problems are resolved, this evolution is likely to be the dominant economic story of the next decade. For the Chinese, the problems are enormous. They must transition from a low-wage economy driven by extraordinarily high levels of

domestic investment and exports to a more consumer-oriented structure. Production must shift toward raising productivity, rather than simply expanding scale. The financial system must develop and become more open. These transitions will be extremely difficult to accomplish. Missteps could have significant ramifications for the entire global economy.

But all of this is further in the future. For the next year, our expectation is that neither Europe nor our domestic situation will self-destruct. This will be enough to produce in 2012 a year much like 2011—slow growth that doesn’t feel much like “recovery,” but better than possible alternatives. ■

Financial Outlook for 2012

Robert S. Neal: Associate Professor of Finance, Kelley School of Business, Indiana University Bloomington

Charles Trzcinka: Professor of Finance, Kelley School of Business, Indiana University Bloomington

Since last summer, the financial markets have been on a European roller coaster ride. We could call it the “Beast” but at least we know that ride ends safely. This ride depends on whether the Europeans can figure out how to keep funding the debt of nations that have promised more than they can afford. When the situation looks as if it will be resolved, the markets climb higher. When the agreements collapse, the markets plunge with frightening speed.

Sooner or later, the situation will stabilize and then fundamentals like earnings, leverage and risk will return to the market. At that point we can get off the ride. When we exit, we expect that the financial markets and the U.S. economy will move closer together with the markets showing positive but below average growth.

In the 12 months ending November 2011, the S&P 500 rose about 3 percent. While the return was positive, it was dramatically lower than for the same period last year. The markets peaked in April, but the drumbeat from Europe and the tepid performance of the U.S. economy has erased most of those gains. Short-term interest rates have remained close to zero throughout 2011, and the long-term bond rates are very close to historical lows. As expected, the Federal Open Market Committee (FOMC) decided to continue with the current program of asset sales and purchases (“Operation Twist”). This strategy is designed to lower long-term rates and promote investments in housing and business equipment. The FOMC reiterated its expectation that current economic conditions “are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.”¹

“Corporate earnings have been remarkably resilient. Earnings for S&P 500 companies rose about 11 percent in 2011 and are expected to rise 9 percent in 2012.”

Economic Fundamentals

Stock prices are a very good indicator of future economic activity: investors buy stocks anticipating the real economy will pick up in the near future. There are many positive reasons to believe this story now:

- Corporate earnings have been remarkably resilient. Earnings for S&P 500 companies rose about 11 percent in 2011 and are expected to rise 9 percent in 2012.
- Price/Earnings (PE) ratios are close to historic averages. Shiller’s long-term PE ratio is above average, but the current and forward PEs are below average values.
- Major banks, although still weak, have weathered the storm and are slowly rebuilding their balance sheets.
- The Federal Reserve is continuing to keep interest rates low to fuel the economy. The Fed Funds target rate of 0 percent to 0.25 percent will probably be maintained throughout 2012, and the 10-year bond rate will likely maintain its current rate of 2 percent.
- The weak dollar will help companies grow their exports. The euro has fluctuated around \$1.37 in spite of the problems with European debt.
- The value of U.S. commercial real estate rose in August compared to the previous month. *Bloomberg BusinessWeek*

reported that the Moody’s/REAL Commercial Property Price Index shows commercial property prices in the nation climbed by 2.4 percent on a monthly basis. This also represented a hike of 7.2 percent over the same month in 2010.

However, there are negative issues that could make the market recovery short-lived:

- The euro zone political economy.
- The decline in residential housing prices appears to be continuing in most parts of the country. The national Case-Shiller Index has fallen about 3 percent from September 2010 until August 2011. Of the 20 metro areas in the index, year-to-year price declines occurred in 17 of the 20 markets.
- The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.2 percent in September to 116.4 (2004 = 100), following a 0.3 percent increase in August and a 0.6 percent increase in July. September data show moderating growth in the LEI, according to Ataman Ozyildirim, economist at The Conference Board. “The weaknesses among the leading indicator components have become slightly more widespread in September. The slow pace in the LEI suggests a growing chance that this sluggish economy is going to be here for a while.”²

- Inflationary pressures have started to increase. The overall CPI rose 3.9 percent from its level a year ago. Commodity prices have been rising much faster. The PPI Commodity Price Index has increased 10.3 percent from year-ago levels. Eventually this will be reflected in higher production and transportation costs.
- In spite of the recent upturn, industrial output is still only 77 percent of capacity, well below the long-run average (including previous recessions) of 81 percent.
- The massive government deficits may lead to fears of higher interest rates and accelerating inflation. Both will have an adverse effect on business investment. The budget deficits for 2009, 2010 and 2011 totaled 30 percent of U.S. GDP. The federal government will need to borrow about \$4.5 trillion to finance this spending. The projected budget for 2012 is somewhat lower, about 7 percent of GDP. If the 2012 deficit is financed by tax increases, the tax bill will average about \$3,500 per person.
- The U.S. still faces a huge funding deficit in Social Security and Medicare payments. The present value shortfall is about \$62 trillion. This is equivalent to \$206,000 per person or \$825,000 per U.S. household. These problems are not insurmountable, but they do require common sense and bipartisan leadership—something that appears to be in short supply in Washington, D.C.

“Until a complete recovery is in sight, we expect market returns to be positive, but below their long-run average.”

Forecast

Looking forward to 2012, the positives outweigh the negatives for the economy. We expect the recovery to continue, albeit at a rate much slower than a typical recovery with GDP growth in the 1 to 3 percent range and inflation in the 2 to 4 percent range. The pace of the recovery, however, will not improve until consumers have increased their savings and repaired their balance sheets. This process will extend beyond the end of 2012.

In this environment, we project the return to equities to be positive, but below the long-run average return of 9 percent. With Treasury bonds already at extremely low yields, there is little potential for gains with these investments. In addition, we think there are material long-term inflation risks which could make long-term bonds unattractive. In contrast, the low Treasury rates make mortgage rates extremely attractive, with 30-year fixed rates at 3.875 percent and 15-year fixed rates at 3.25 percent. Homeowners who are paying 5 percent or more on their mortgage and expect to stay in their home for several years would likely benefit from refinancing their mortgage.

Summary

The U.S. economy appears to be heading to smoother waters but unemployment remains a stubborn reminder of the recession. Partisan politics may continue to disrupt economic relationships. The adjustment process to full recovery and full employment, however, will likely take at least two years. Until a complete recovery is in sight, we expect market returns to be positive, but below their long-run average. ■

Notes

1. “Press Release,” Board of Governors of the Federal Reserve System, August 9, 2011, www.federalreserve.gov/newsevents/press/monetary/20110809a.htm.
2. “News Release: The Conference Board Leading Economic Index (LEI) for the U.S. Increases Slightly,” The Conference Board, www.conference-board.org/pdf_free/press/PressPDF_4316_1319097258.pdf.

Housing Market Outlook for 2012

Douglas M. McCoy: Director of the Benecki Center for Real Estate Studies, Kelley School of Business, Indiana University
Bloomington

The housing industry continues to creep through the quagmire created by an inflated and leveraged economy hoping to find solid ground. Comparing current activity to its same period a year ago, economists generally agree the industry has hit bottom. On the other hand, there are still many challenges such as anemic job growth, a large inventory and strict lending standards.

U.S. Housing Industry

Job growth and consumer confidence are the primary economic drivers for bringing potential buyers to the market to take advantage of attractive credit terms and attractive housing prices; however, economic conditions remain weak, slowing a recovery. The following is an excerpt from an October 28, 2011 article published by the National Association of Home Builders (NAHB).

Economic conditions are expected to remain weak, slowing the housing recovery but not derailing it. At its Sept. 20-21 meeting the Federal Open Market Committee (FOMC) projected slower growth for the second half of 2011 and into 2012, based on weakening labor market conditions and consumer and business sentiment. The Oct. 19 Beige Book from the Federal Reserve depicted a slow and uneven economic recovery, with most bank districts reporting either weaker or less certain business outlooks.¹

The big question as we approach the end of 2011 is whether the housing slump has indeed bottomed. Sales of new single-family homes are forecasted to rise 4.5 percent in the third quarter of 2011 to a seasonally adjusted annual rate of 304,000 units, according to data released by the National Association of Realtors® (NAR). This increase follows downward revisions to the sales

rate for the previous four quarters. The annual seasonally adjusted rate forecasted for 2011 is down 4.7 percent compared to -22.6 percent in 2009 and -14.4 percent in 2010.

Total existing-home sales—including single-family, townhomes, condominiums and co-ops—dipped 3.0 percent to a seasonally adjusted annual rate of 4.91 million units in September from a level of 5.06 million in August, but this is 11.3 percent above the 4.41 million-unit pace in September 2010.

The median price of existing homes sold in September was \$165,600, down almost 3.9 percent from a year earlier. According to the October report from RealEstateabc.com, the median price dropped to \$244,100 from \$245,600 in July for the Northeast, and it fell 5.1 percent since August 2010. In the Midwest, the median price declined to \$141,700 in August from \$146,300 a year ago—a reduction of 3.5 percent. In the South, the median price moved lower to \$151,000 from \$152,600—down 0.8 percent for the year. The median price in the West made the biggest movement downward, falling to \$189,400 from \$208,300 in August—a 20.6 percent reduction from the prior year.

The supply of existing homes on the market is moving lower. This inventory moved 3 percent lower at the end of August to 3.58 million units. Considering the current pace of sales, this provides an 8.5 months supply of existing-home inventory, down from a 9.5 month supply from the preceding month.

Existing-home sales are forecasted to be fairly stable in the fourth quarter at 4.97 million compared to 4.75 in the fourth quarter of 2010—a 4.6 percent increase. New-home sales are expected to increase 4.4 percent in the fourth quarter to 313,000 from 300,000 one year ago. Fourth quarter

“Three important market indicators are improving in the Hoosier housing market: closed home sales, median sale price and average sale price.”

housing starts should increase 4.3 percent to 562,000 from 2010's fourth quarter of 539,000.

Median home prices of existing homes are forecasted to end 2011 at \$165,900, down from approximately \$173,000 over the past two years—a 4.3 percent decline. Median home prices for new homes are expected to end 2011 at \$225,000, which is a 1.8 percent increase over 2010 levels.

The 30-year fixed rate is hovering around 4.5 percent and likely to stay at that level or slightly higher during 2012. One-year adjustable rate mortgages should continue near 3 percent through 2012.

Existing-home sales are likely to finish 2011 at around 4.96 million, up slightly from 4.91 million during 2010. For 2012, sales are expected to be slightly higher at 5.2 million. New single-family sales are expected to be about 307,000 for 2011, down from about 322,000 in 2010; these sales are forecasted to increase to approximately 375,000 in 2012. Housing starts should end up at around 583,000 for 2011, down very slightly from 585,000 in 2010. Housing starts for 2012 are projected to increase to 630,000—an increase of nearly 8 percent from 2011.

Housing affordability is very favorable. The Housing Affordability Index, computed by the NAR is forecasted near 180 for 2011, up from 174 in 2010, an all-time high since the index was created in 1970.

TABLE 1: U.S. Homeownership Rate, 1965 to 2011

Year	Homeownership Rate
1965	63.0%
1970	64.2%
1975	64.6%
1980	65.6%
1985	63.9%
1990	64.0%
1995	64.8%
1998	66.3%
2000	67.4%
2005	68.9%
2010	66.9%
2011	66.2%

Note: Data are annual averages
Source: Census Bureau and Haver Analytics

This means that the median family has 80 percent more income than necessary to qualify for a mortgage on the median priced home. Thus, the index indicates it is a fantastic time to buy a home, except for a reality encountered by many would-be homeowners described in the following quote from Lawrence Yun, chief economist from the NAR.

*“Existing-home sales have bounced around this year, staying relatively close to the current level in most months,” he said. “The irony is affordability conditions have improved to historic highs and more creditworthy borrowers are trying to purchase homes, but the share of contract failures is double the level of September 2010. Even so, the volume of successful buyers is higher than a year ago and is remaining fairly stable—this speaks to an unfulfilled demand.”*²

Yun points out that the housing market is being excessively constrained because “a combination of weak consumer confidence and continuing tight lending criteria held back homebuyers even though the private sector added nearly 2 million net new jobs in the past 12 months.”³

So has the U.S. housing industry reached bottom? Yun suggests it has when he presents the U.S. homeownership rate since 1965 (see **Table 1**). He reasons that since we are now at 1998 levels where there was no mention of bubbles or unsustainability, the figures may indicate a stable level for the U.S. market. Moreover, he argues that if we do stabilize at around 66 percent homeownership, the natural increase in the U.S. population (3 million a year) and households (about 1.1 million a year) will generate approximately 700,000 additional homeowners each year in addition to the turnover realized from the approximately 75 million home-owning families.

The U.S. housing market is an important contributor to the U.S. economy. For most homeowners, their home is their largest investment and serves as a source of money from refinancing. This money means consumer spending to an economy that is largely driven (around 70 percent) by personal consumption. Moreover, the housing industry employs thousands of workers through the labor, material and services it requires. Therefore, it is very important to reach dry ground and to start walking forward at a tolerable pace rather than continuing to slug through mud made especially deep from an inflated economy fueled by the irresponsible use of leverage.

Indiana Housing Industry

According to the September 2011 Indiana Real Estate Market Report from the Indiana Association of Realtors® (IAR), three important market indicators are improving (when comparing September 2010 to September 2011):

- The number of closed home sales increased 10.2 percent to 5,163.
- The median sale price of homes increased 5.5 percent to \$115,000.

- The average sale price of homes increased 5.9 percent to \$138,543.

The IAR went on to point out that another important indicator, pending sales, was slightly down 0.4 percent to 4,597.

The IAR notes that the federal homebuyer tax credit is in these numbers and that while foreclosures and pending foreclosures are not fully accounted for, they are a major player in the Indiana market.

The following excerpt from the IAR’s October 24, 2011, release highlights a word that is all too familiar to Americans today: “jobs.”

*Whether market activity and value continue to grow depends upon a number of factors outside the real estate industry’s control say REALTORS® across the state. The number one item on their list is more jobs, which drives number two and three on the group’s list—available financing for qualified buyers and less foreclosure inventory.”*⁴

Notes

1. NAHB, “Eye on the Economy,” National Association of Home Builders, October 28, 2011, www.nahbenews.com/nahbeye/issues/2011-10-28.html.
2. NAR, “Existing-Home Sales Off in September but Higher than a Year Ago,” National Association of Realtors, October 20, 2011, www.realtor.org/press_room/news_releases/2011/10/ehs_sept.
3. NAR, “September Pending Home Sales Down, Still Higher Than a Year Ago,” National Association of Realtors, October 27, 2011, www.realtor.org/press_room/news_releases/2011/10/phs_sept.
4. IAR, “Realtors Release ‘Indiana Real Estate Market Report’ for September 2011,” Indiana Association of Realtors®, October 24, 2011, www.indianaishome.com/files/Press_Release_10_24_11.pdf.

Indiana's Outlook for 2012

Jerry N. Conover, Ph.D.: Director, Indiana Business Research Center, Kelley School of Business, Indiana University

The Great Recession took the wind out of Indiana's economic sails, and the path to recovery has led our ship of state across uneasy seas. Here is an overview of the state's recent performance and its economic outlook for 2012.

Employment and Unemployment

Indiana lost 8 percent of its workforce—more than 240,000 employees—by the end of the recession in mid-2009. The first year of recovery then looked promising as we added 55,000 jobs, but for the last year-and-a-half our labor market has meandered with no real traction; we're now down 200,000 jobs from the pre-recession peak.

Job recovery has varied widely across sectors, as seen in **Figure 1**. The only sector with more workers now than before the recession is private education and health care, adding more than 36,000 jobs. This sector's growth has slowed during the past several months, however. Government jobs held their own until mid-2010, but then state and local governments were hit by budget cuts and the sector has lost 30,000 jobs in the last year and a half.

The other major sectors all experienced substantial job losses during the recession, with trade, transportation and utilities now at its lowest employment level in decades. Manufacturing, on the other hand, while still down 98,000 jobs from its pre-recession peak, has grown during the recovery. Construction, the hardest-hit sector in relative terms, has only recently started to climb out of its hole and has added 11,000 jobs so far this year.

Indiana's unemployment rate rose by 6 points during the recession, followed by slow improvement since early 2009. However, it's been rising gradually the past several months

as more Hoosiers re-enter the labor force looking for work.

In 2012, we expect about 1.5 percent growth in Indiana employment—roughly 40,000 payroll jobs, spread across most sectors. The unemployment rate will wind down very slowly, ending 2012 near 8 percent. At this rate, it will be years before we return to pre-recession levels.

Overall Economic Output

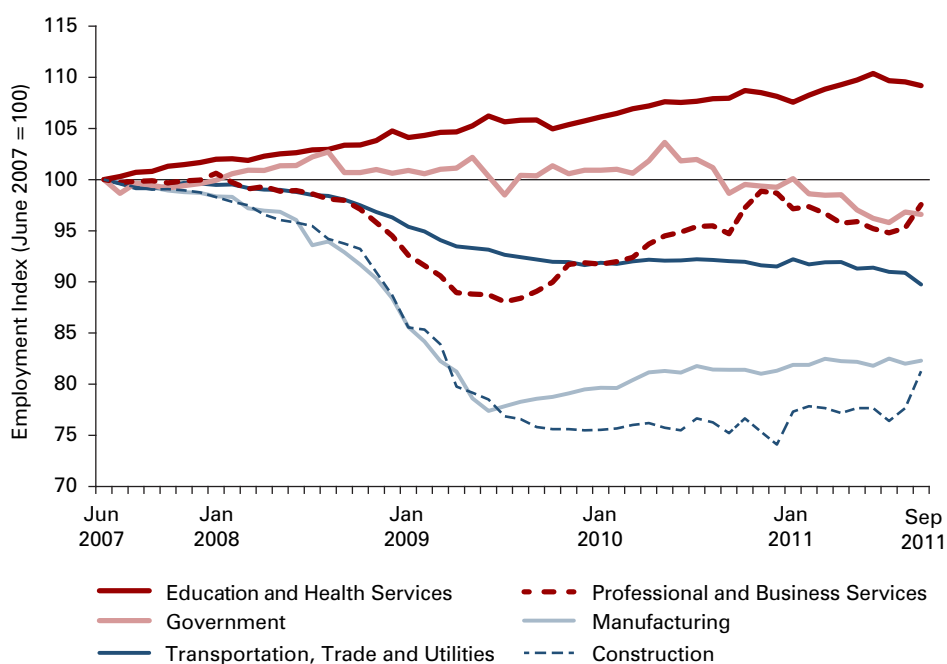
Following a year of strong Indiana gross domestic product (GDP) growth (4.6 percent) led by a manufacturing rebound, the state's GDP is growing less than half as rapidly in 2011—expected to end the year up 2.2 percent. The main contributors to this slower pace are weakness in the construction sector, decelerating manufacturing growth and shrinkage of the government sector.

For 2012, we anticipate negative state output growth in the first quarter payroll tax followed by decent growth the rest of the year. GDP for the year should rise about 3.1 percent, a bit faster than the national rate. Indiana's output growth will be led by manufacturing, trade, and professional and business services. Construction and government weakness will restrain growth.

Personal Income

The personal income (PI) of Hoosiers has been keeping pace with the nation, averaging about 1.8 percent of U.S. total PI. Interestingly, Indiana farmers have done relatively well, averaging 3.6 percent of U.S. farm income; farmers, however, account for only a tiny fraction of Indiana's PI.

FIGURE 1: Relative Employment Change in Major Indiana Sectors, June 2007 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

Indiana's Agricultural Outlook for 2012

Corinne Alexander: Assistant Professor, Department of Agricultural Economics, Purdue University, West Lafayette

Housing

Indiana's housing market has been fairly stable the past year, with sales and prices roughly level. The inventory of unsold homes on the market has averaged nearly 11 months' supply, but that figure is gradually decreasing, which should help prices start to rise again in 2012. We forecast home sales to rise 15 to 20 percent in 2012, and home construction to finally rebound, increasing as much as 30 percent or more over 2011.

Retail Sales

Indiana retail sales rose 6 percent in 2010, and they're still growing this year, though more slowly (5 percent). Our forecast for 2012 predicts even modest retail growth of about 1.5 percent.

Leading Index for Indiana

The Indiana Business Research Center's Leading Index for Indiana (LII) is designed to predict changes in the state's economic performance several months in advance. The LII in October rose half a point to 96.9, just shy of its post-financial crisis high. While we remain cautious, this latest movement in the LII is a positive sign following several months in the doldrums.

All told, the forecast for Indiana's economy is nothing to cheer about, but at least it's moving in the right direction. Unfortunately, a return to a truly vigorous economy is still quite a distance off. ■

The outlook for Indiana agriculture in 2012 is bright because corn and soybean prices are projected to set a new record, following record prices in 2011. The one concern is that Indiana was negatively impacted by the wet spring and dry summer, so many farmers have a smaller crop to sell and cannot fully benefit from these high prices.

The upward trend in grain prices started in August 2010 due to the Russian drought and is further supported by the smaller than expected U.S. corn crop, record world sugar prices and the low world grain inventory. These high prices mean that crop producers can expect above average incomes in 2012 even as they raise concerns about higher input costs for the 2012–2013 crop.

Meanwhile, these higher crop prices will cut into profit margins for the livestock sector that had just returned to profitability in 2010 after suffering major losses since feed costs started escalating in 2007. The silver lining for the livestock sector is that these higher feed costs will likely limit expansion of livestock herds, maintaining higher livestock prices and passing these higher feed costs onto consumers.

The pork industry has responded to the uncertainty over feed prices by modestly increasing the size of the breeding herd by 0.6 percent. The USDA expects pork exports to increase 2.8 percent in 2012. As a result, pork producers should return to profitability in 2012 as long as feed costs remain at current levels, i.e., the price of corn remains below \$7 per bushel. If there is a return to normal corn yields in 2012, feed costs could moderate further and pork producers would be in a position to expand production.

The dairy industry is facing higher feed costs for grains and forages, as well as lower milk prices, in 2012. At the same time, milk production is forecasted to increase largely due to increased output per cow. As a result, the dairy industry has tipped back into a period of losses and the USDA currently forecasts the dairy herd will contract slightly in terms of the number of dairy cows in 2012, though overall milk production may continue to increase with additional output per cow. Dairy farms that produce their own feed and forage may be in the best position to survive this period of volatile feed costs.

Of all the livestock sectors, the beef industry is the best positioned to weather the higher feed costs. Over the last four years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The drought in the Southern Plains is forcing cattle producers to liquidate their herds, further reducing the cattle herd. As a result, per capita domestic beef availability in 2012 is anticipated to be 17 percent lower relative to 2007, and the USDA is forecasting record beef prices. Indiana beef producers who have access to water, grain and forage are well positioned for a profitable 2012.

Shifting back to the row crop sector, 2012 will see another major acreage battle between corn, wheat and cotton, which will push field crop prices higher through the planting season next spring. Corn is expected to gain the most acreage, especially here in Indiana, and these acreage gains will come at the expense of soybeans and other oilseeds, which in turn will push up soybean prices. Given the outlook for very high crop prices, the biggest risk to row crop agriculture is continued rapid increase of input costs.

Anderson Forecast 2012

Dagney Faulk, Ph.D.: Director of Research, Center for Business and Economic Research, Ball State University

As of June 2011, the value of average quality Indiana farmland increased 23.7 percent over the previous 12 months according to the Purdue Land Value Survey. This is consistent with Federal Reserve Bank of Chicago survey findings that the value of “good” farmland was 21 percent higher in the second quarter of 2011 compared with the second quarter of 2010. Looking to 2012, with anticipated higher net farm income than in 2011, farmland values and cash rents are expected to continue increasing. Cash rent increases have lagged farmland values, with farmland values currently priced at 30 times cash rents. As a consequence, cash rent increases are forecasted to increase faster than farmland values as they “catch up.”

In addition to farm incomes, farmland values depend on factors including long-term interest rates, government price support payments, real estate taxes and alternative investment opportunities. Given the current price levels for corn, soybeans and wheat, prices continue to be well above the level where government price support payments would be triggered, reducing the influence of government programs. Long-term interest rates are extremely low and are expected to remain low in the near future, which supports higher land prices. The biggest factor supporting higher land prices is the absence of attractive alternative investments.

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2011.pdf.

For more information about the outlook for Indiana agriculture, see the Purdue Agricultural Economics Report at www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER10_2011.pdf.

The data available thus far for 2011 show a mixed economic picture in the Anderson metropolitan area (Madison County). There are a few encouraging signs in the local economy. The 2010 Census showed only a small population decline (1.3 percent) from 2000. The unemployment rate has decreased over the past year. Manufacturing employment has increased as have overall wages. Anderson, like other cities in the Midwest, is struggling to redefine itself after the exodus of large-scale manufacturing firms over the past several decades. Added to this mix is the necessary restructuring of local government activities due to property tax caps. To its credit, Anderson has some high-profile companies such as Bright Automotive (hybrid electric vehicles) and Coes (antimicrobial additives) working

on new technologies and increasing employment.

This article includes the most current data available on various measures of economic activity from public sources for the Anderson metropolitan area in order to analyze changes over the past year. A summary of the labor market forecast for the Anderson area is included in the conclusion.

Labor Markets

In Madison County, the unemployment rate has decreased over the past year with the exception of a couple of months early in the year (see **Table 1**). The preliminary unemployment rate for September 2011 is 9.7 percent and is higher than the state (8.5 percent) and national (8.8 percent) unemployment rates (not seasonally adjusted). The number of unemployed workers in

TABLE 1: Labor Force and Unemployment for Madison County, September 2010 to September 2011

Year	Month	Labor Force	Unemployed	Unemployment Rate
2010	September	60,992	6,400	10.5%
	October	61,086	6,275	10.3%
	November	61,144	6,567	10.7%
	December	60,411	6,355	10.5%
	Annual	61,538	7,035	11.4%
2011	January	60,374	6,821	11.3%
	February	60,124	6,612	11.0%
	March	60,527	6,228	10.3%
	April	59,466	5,643	9.5%
	May	60,338	5,802	9.6%
	June	60,681	5,998	9.9%
	July	59,998	6,079	10.1%
	August	60,674	6,171	10.2%
	September*	60,246	5,834	9.7%

*September 2011 data are preliminary. Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

Madison County has slowly trended down since March, but the labor force has been decreasing also, leading to the stubbornly high unemployment rates for the county. This suggests that frustrated job seekers are continuing to drop out of the labor market, migrate out of the area or both.

A look at the Current Employment Statistics shows variation in employment gains and losses in 2011. Total non-farm jobs in Madison County averaged 39,700 for the first three quarters of 2011. This is a decrease of about 1,500 jobs since 2007, the beginning of the most recent recession. Manufacturing (adding over 300 jobs) was the sector with the most job growth. Sectors with the largest job losses were trade, transportation and utilities; leisure and hospitality; and government (see **Table 2**). This marks the second year of net increases in manufacturing employment, but these are small increases relative to the thousands of manufacturing jobs lost over the past four decades. The Anderson metropolitan statistical area (MSA) began the millennium with around 10,500 manufacturing jobs and currently has around 4,000. The peak for manufacturing employment was around 30,000 jobs in the early 1970s.

Average wages increased to \$630 per week during the first quarter of 2011 (the most recent data available) and continue to be lower than the state average of \$770 for the same period. **Table 3** shows average weekly wages (not adjusted for inflation) for the first quarters of 2010 and 2011. Most sectors experienced increases in wages. The sectors with the strongest wage growth were manufacturing (23.4 percent), information (21 percent), and agriculture and forestry (13.4 percent). Sectors that experienced declines in wages include public administration (government), accommodation and food services, professional scientific and technical services, and educational services.

TABLE 2: Anderson Metro Employment by Industry, Year-to-Date 2010 to 2011

Industry	2011	Change since 2010	Percent Change 2010-2011
Total Non-Farm	39,733	-733	-1.8%
Total Private	33,422	-233	-0.7%
Goods-Producing	5,322	378	7.6%
Manufacturing	4,022	344	9.4%
Service-Providing	28,100	-611	-2.1%
Trade, Transportation and Utilities	8,033	-267	-3.2%
Information	600	-33	-5.3%
Financial Activities	1,600	0	0.0%
Professional and Business Services	3,200	56	1.8%
Educational and Health Services	7,689	-133	-1.7%
Leisure and Hospitality	5,322	-156	-2.8%
Other Services	1,656	-78	-4.5%
Government	6,311	-500	-7.3%

Note: Data are January to September of each year. September 2011 data are preliminary.
Source: Bureau of Labor Statistics

TABLE 3: Average Weekly Wages in Anderson MSA, 2010:1 to 2011:1

Industry	2010:1	2011:1	Percent Change
Total	\$572	\$634	10.8%
Management of Companies and Enterprises	\$1,440	*	*
Manufacturing	\$856	\$1,056	23.4%
Information	\$556	\$673	21.0%
Agriculture, Forestry, Fishing and Hunting	\$543	\$616	13.4%
Arts, Entertainment, and Recreation	\$385	\$425	10.4%
Construction	\$694	\$766	10.4%
Transportation and Warehousing	\$661	\$722	9.2%
Finance and Insurance	\$743	\$798	7.4%
Administrative and Support and Waste Management and Remediation Services	\$381	\$406	6.6%
Health Care and Social Services	\$634	\$675	6.5%
Real Estate and Rental and Leasing	\$448	\$475	6.0%
Other Services (Except Public Administration)	\$359	\$373	3.9%
Retail Trade	\$385	\$400	3.9%
Wholesale Trade	\$804	\$806	0.2%
Public Administration	\$721	\$717	-0.6%
Accommodation and Food Services	\$220	\$214	-2.7%
Professional, Scientific, and Technical Services	\$637	\$609	-4.4%
Educational Services	\$667	\$622	-6.7%

*The author feels the 2011 reported average weekly wage for the management of companies and enterprises is inaccurate and therefore excluded it from this table.
Source: Bureau of Labor Statistics

“In the coming year, we expect employment to stabilize and small gains in income as the economy continues its slow recovery.”

TABLE 4: Madison County Residential Building Permits, Year-to-Date 2004 to 2011

Year	Total	Single-Family	Multi-Family
2004	346	311	35
2005	368	326	42
2006	210	191	14
2007	146	144	2
2008	68	52	16
2009	38	36	2
2010	48	44	4
2011	39	37	2

Note: Each year is based on January through September totals.
Source: U.S. Census Bureau

TABLE 5: Madison County Residential Real Estate Sales, Year-to-Date 2005 to 2011

Year	Units Sold	Average Price
2005	3,586	\$91,101
2006	3,722	\$84,352
2007	3,676	\$79,652
2008	3,064	\$77,362
2009	2,777	\$70,287
2010	2,444	\$79,044
2011	2,290	\$81,573
Change 2010 to 2011	-154	\$2,529
Percent Change	-6.3%	3.2%

Note: Data are January to September for each year. Dollar values are not adjusted for inflation.
Source: Metro Indianapolis Board of Realtors

The inflation rate between the first quarters of 2010 and 2011 was 2.2 percent, so workers in most sectors experienced real wage growth over this period.

Housing

The housing market showed further weakening in Madison County. Residential construction as measured by new single- and multi-family housing units increased with 39 permits issued between January and September 2011—down from 48 permits during the same period a year earlier (see **Table 4**). This is substantially lower than earlier in the decade. Sales of existing homes show no sign of recovery yet (see **Table 5**), although the decrease in the number of units sold was not as severe as in the previous year. Home sales through September 2011 decreased more than 6 percent relative to the same period in 2010 to about 2,300 units. The average price of homes sold was just over 3 percent higher but likely due to the mix of houses sold during this period.

Social Safety Net

Changes in the number of food stamp recipients and the dollar amount of food stamp payments are one indicator of economic distress in a community. The number of food stamp recipients and the corresponding amount of food stamps issued increased during the past year in Madison County but at a slower rate than the previous year (see **Table 6**).

The number of food stamp recipients increased 14 percent to more than 21,000 individuals (about 16 percent of the population in the county). The dollar amount distributed in food stamps increased by more than 13 percent to exceed \$2.8 million. This increase reflects the state of the economy in east-central Indiana during the slow recovery from the recession.

Gaming

May 2011 marked the third full year of operation of Hoosier Park Casino. After declining between 2009 and 2010, the winnings and the wagering tax generated at Hoosier Park increased over the past year. Winnings increased 7.8 percent to \$216.9 million and wagering tax revenues generated from these winnings increased 9.9 percent to \$60.9 million. As in the previous year, Hoosier Park ranked sixth of the 13 Indiana casinos for fiscal year 2011 in terms of total winnings. In November 2009, Ohio voters approved a ballot initiative to allow casinos in Cincinnati, Cleveland, Columbus and Toledo. The new Columbus and Toledo casinos are currently scheduled to open in March and April 2012, respectively. These casinos may draw patrons from Hoosier Park and other Indiana casinos.

TABLE 6: Food Stamp Recipients in Madison County, Year-to-Date 2003 to 2011

Year	Average Monthly Food Stamps Issued	Number of Food Stamp Recipients
2003	\$1,035,505	12,242
2004	\$1,173,429	13,389
2005	\$1,376,317	14,524
2006	\$1,457,203	15,388
2007	\$1,546,086	15,812
2008	\$1,574,533	14,879
2009	\$2,085,753	15,832
2010	\$2,506,633	18,796
2011	\$2,838,637	21,411
Change 2010 to 2011	\$332,004	2,615
Percent Change	13.2%	13.9%

Note: Each year is based on January through October monthly averages. Dollar amounts are not adjusted for inflation.
Source: STATS Indiana, using FSSA data

Bloomington Forecast 2012

Outlook

The official numbers show small improvements over the situation last year in some areas. While the level of employment in the county has decreased, average wages have increased and the unemployment rate has decreased over the past year (but is still high by historical standards). The high unemployment rate and corresponding increases in the number of people needing public assistance, the slow rate of home sales, and the decreasing labor force in the county are the dark clouds.

In the coming year, we expect employment to stabilize and income will see small gains (in the 3 percent range) as the economy continues its slow recovery.¹ ■

Notes

1. Forecast from the Center for Econometric Model Research, Indiana University, Bloomington, August 2011.

Timothy F. Slaper, Ph.D.: Director of Economic Analysis, Indiana Business Research Center, Kelley School of Business, Indiana University

Ryan A. Krause: Research Assistant, Indiana Business Research Center, Kelley School of Business, Indiana University

While many Midwestern cities suffered mightily over the last few years, the Bloomington metropolitan statistical area (MSA) has emerged from the economic downturn in comparatively good shape. The forecast for the Bloomington area is relatively bright.

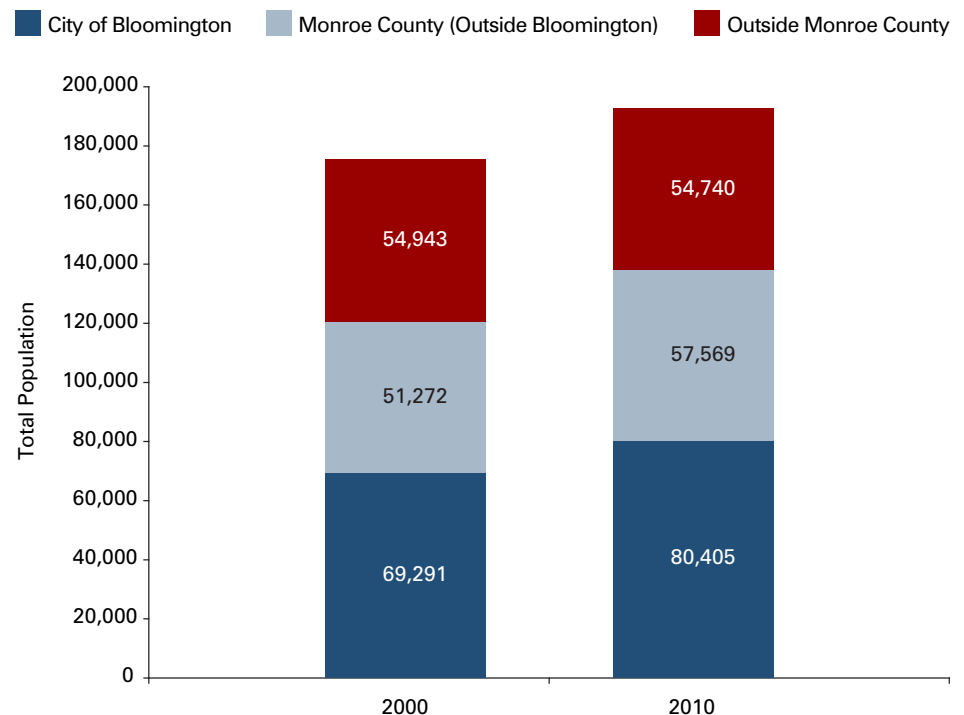
The Bloomington area sustained considerable population growth between the 2000 and 2010 censuses. As a whole, the MSA's population grew by close to 10 percent, roughly equivalent to the national average. As Figure 1 shows, this growth occurred entirely within Monroe County. In contrast, the combined population of Greene and Owen counties decreased by 203 people over the last 10 years. In the first half of the decade, the city of Bloomington lost population while

the surrounding county gained. In the last five years, however, both the city of Bloomington and the rest of Monroe County have grown substantially. In the coming years, the county's population is expected to continue this increase.

The Bloomington MSA weathered the economic decline better than most other areas. In fact, according to the Bureau of Economic Analysis, the Bloomington GDP never declined — although its growth did slow. Estimates show Bloomington's GDP growing by a scant 0.7 percent in 2010. Moody's Analytics forecasts the same paltry rate of economic growth for 2011. For 2012, Moody's forecasts a 1.6 percent rate of economic expansion.

Within the Bloomington MSA, different industries have experienced

FIGURE 1: Bloomington Population MSA by Geography, 2000 to 2010



Source: IBRC, using U.S. Census Bureau data

different patterns of growth.

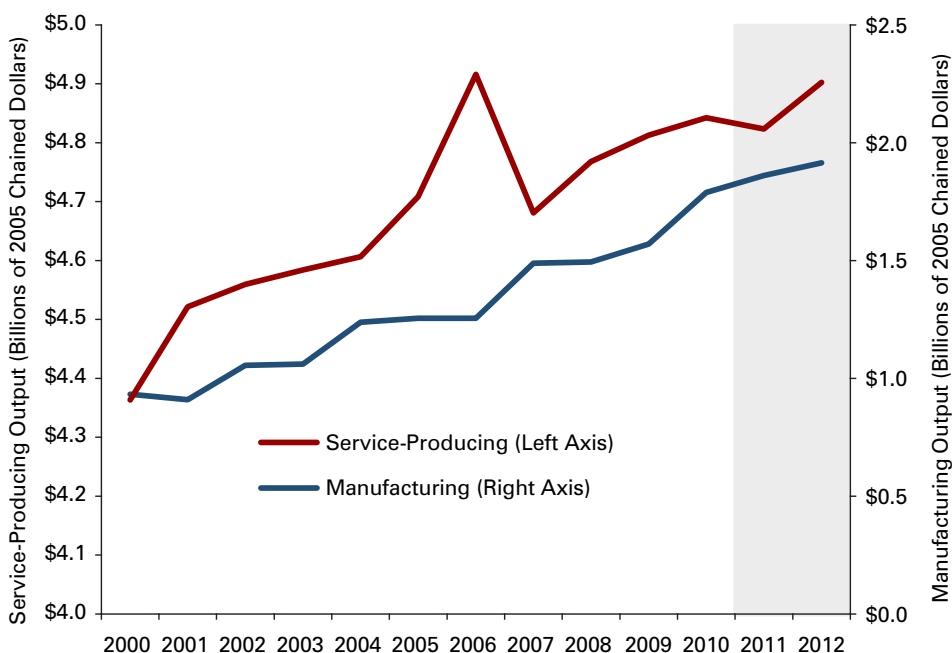
As shown in **Figure 2**, both the manufacturing and service-producing sectors have been steadily growing for more than 10 years. The service-producing sector did experience a significant drop in 2007 following a sharp increase, but has since made up most of the lost ground. Manufacturing output is at its highest level to date and is projected to continue the upward trend.

While Bloomington will likely register positive, if sluggish, growth in GDP for 2011, the forecast for employment is not as positive since job growth typically lags economic growth. Payroll employment in Monroe County peaked in 2008 at just over 83,000 (see **Figure 3**). Since then, it has steadily declined to 81,600 in 2010. Unfortunately, projections for future employment are negative, with 2012 employment projected to fall below 80,000.

Figure 4 shows how the employment base has changed over the last few years. Manufacturing and retail trade have both declined gradually throughout the decade, with manufacturing employment experiencing a sharp dip in 2009. The three industries that have maintained and even boosted Monroe County's total employment are 1) educational services, 2) health care and social assistance, and 3) professional, scientific, technical services and management of companies. Proprietor employment also grew at a faster clip than total employment.

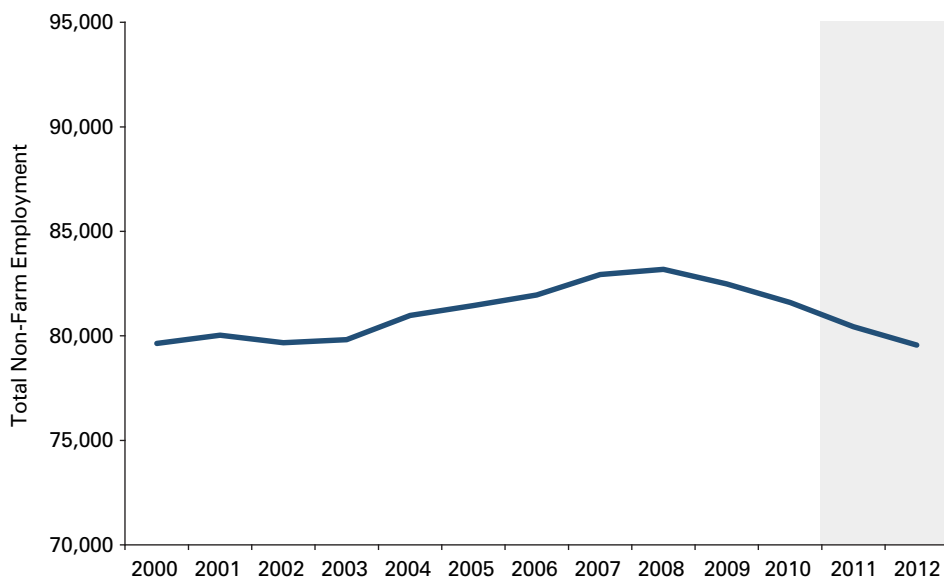
The average personal income of Monroe County residents has historically lagged the averages for both Indiana and the United States. As **Figure 5** shows, however, Monroe County's average personal income has risen steadily since 2001, faster than either Indiana's or the nation's. In 2009, Monroe County made substantial ground as its average personal income rose slightly while Indiana and the U.S. average dropped precipitously. Even so,

FIGURE 2: Gross Domestic Product by Aggregated Sectors, Bloomington MSA



Note: Data for 2011 to 2012 are forecasts.
Source: IBRC, using Bureau of Economic Analysis data and Moody's Analytics for forecast values

FIGURE 3: Monroe County Total Employment, 2000 to 2012

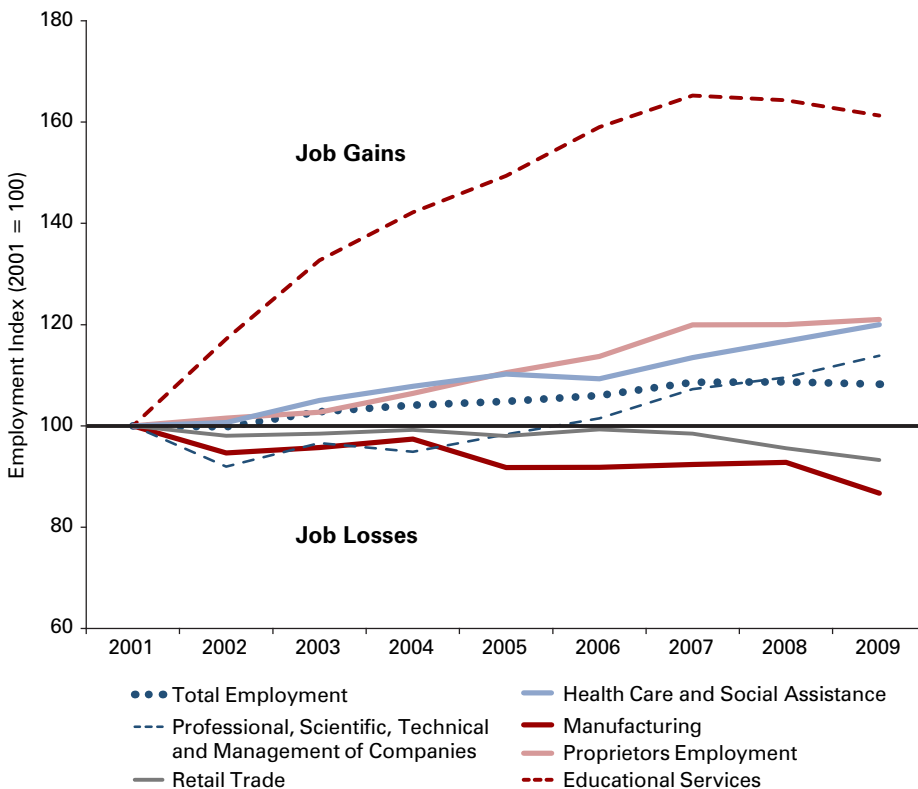


Note: Data for 2011 to 2012 are forecasts.
Source: IBRC, using Bureau of Economic Analysis data and Moody's Analytics for forecast values

adjusted for the lower cost of living in Indiana—about 93 percent of the national average—Indiana and Monroe County still lag the U.S. average in per capita personal income (PCPI).

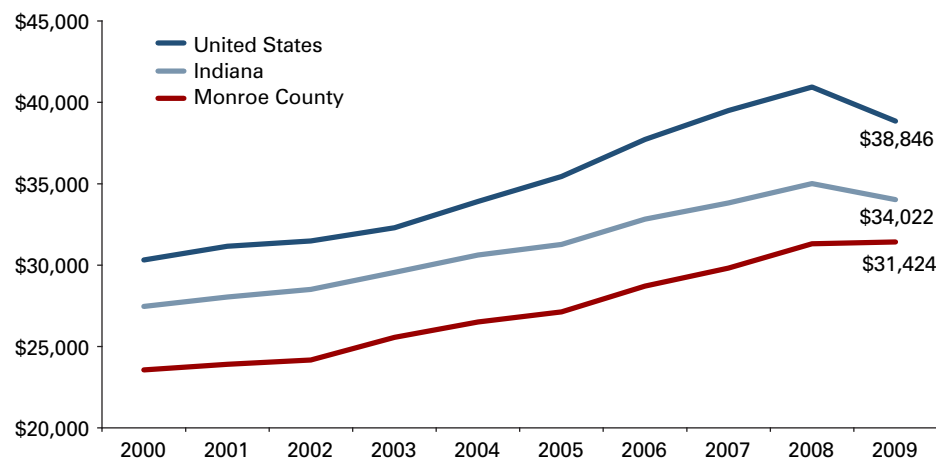
Perhaps encouraging is the fact that for the year 2009, Monroe County was growing faster annually than either the United States or Indiana in terms of PCPI. From 2000 to 2008 the average annual rate of

FIGURE 4: Industries in Monroe County with Notable Employment Gains and Losses, 2001 to 2009



Source: IBRC, using Bureau of Economic Analysis data

FIGURE 5: Per Capita Personal Income, 2000 to 2009



Source: IBRC, using Bureau of Economic Analysis data

growth for current dollar PCPI in the United States was 3.5 percent. Monroe County's annual average rate of PCPI growth was 3.3 percent for the same period. Figuring in 2009,

however, adversely affects the U.S. growth rate so severely that Monroe County surpasses it. From 2000 to 2009, the U.S. PCPI grew by only 2.8 percent on average per year. By

“The Bloomington MSA weathered the economic decline better than most other areas. In fact, according to the Bureau of Economic Analysis, the Bloomington GDP never declined—although its growth did slow.”

contrast, Monroe County's PCPI grew by 3.2 percent annually.

With nearly every census, Bloomington winds up on the list of “highest poverty” rankings. As it happens, these data on household income and poverty are no longer collected by the decennial census. The American Community Survey (ACS) collects these data now. Since poverty is defined at the family level and not the household level, the poverty status of the household is determined by the poverty status of the householder. This works fine, except in college towns.

Many students who do not live in dorms still live in shared housing circumstances—that is, they have roommates. According to the Census Bureau, students sharing a house or apartment would be a “non-family” household. In this case, only the householder income would be counted and in these circumstances, the “householder” is the poor soul that is stuck filling out the ACS form. What does this mean in terms of poverty statistics? In the case of Bloomington, more than 50 percent of the population for which poverty is determined comprises unrelated individuals (no doubt living in shared housing). Another way to look at the question is to note the proportion of the population that works. About

60,000 Bloomingtonians were 16 years of age or older in 2010. Only about 26 percent of them worked full-time. More than that, about 30 percent, didn't work at all. The remainder—54 percent—worked part-time or for only a part of the year.

These factors can be summarized visually in **Figure 6**. In short, the poverty rate for families in the city of Bloomington, while slightly above average, is far closer to the average than what one might think if naively looking at a “bottom 10” list. Students drive the deceptively high official rates of poverty.

Bad News, Good News

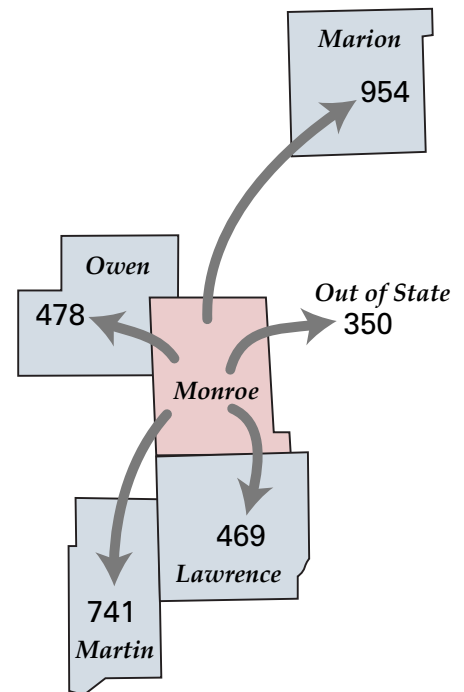
There are good things and bad things in store for the region in the coming years. The 2012 closing of the Otis Elevator plant on Curry Pike tempers one's optimism for the near future. Even considering the scaled down operation at the site (the plant's current employment of about 225 is down from its height in 1989 of nearly 1,200 workers), the economic impact is not trivial. Including the Otis employees that will lose their jobs or be relocated elsewhere, the

total job loss in the Bloomington area is estimated to be about 400 as a result of the closure.¹ By way of perspective, the Bloomington MSA lost, on average, about 800 jobs each year in 2009 and in 2010 due to the economic downturn. The plant closure would add another 400 jobs on top of those jobs lost due to the recession.

On the brighter side, the Crane Naval Surface Warfare Center continues to be an important economic force for Bloomington and the region. Crane employs about 4,000 people. A large portion of those employees live in Bloomington. Based on 2009 data, 741 people a day commuted from Monroe County to Martin County. Only Lawrence County beats Monroe County as the bedroom community for Crane's relatively well-compensated engineers and technicians.

While relatively few Monroe residents commute to Daviess and Greene counties today, that may change in the future as the technology park at Crane's Westgate expands. In Daviess County alone, employment in professional, scientific

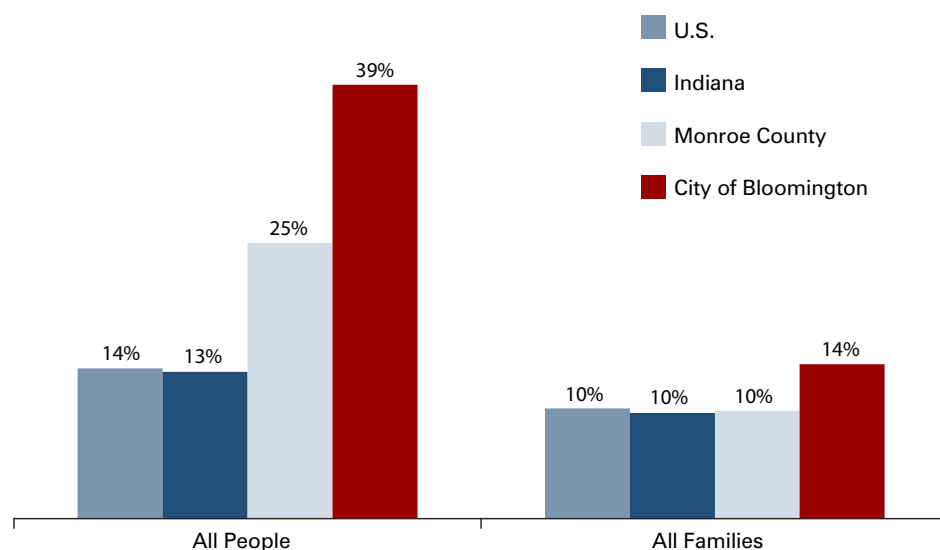
FIGURE 7: Commuting Out of Monroe County, 2009



Source: STATS Indiana Commuting Profiles

and technical services jumped from just over 150 to 700 in five years. The change in employment in professional, scientific and technical services from 2004 to 2009 in Greene County was even more dramatic. While the significant five-year job growth in professional, scientific and technical services in Greene and Daviess counties is not reflected in commuting statistics from Monroe County, one might expect that Westgate-based workers seeking entertainment and cultural amenities would put down roots in Bloomington and its environs, adding to its growth and economic vitality. ■

FIGURE 6: Poverty Rates for All People and All Families, 2005 to 2009



Note: The differences in 2005 to 2009 family poverty for Monroe County compared to Indiana and the U.S. are not statistically significant at a 90 percent confidence level.
Source: IBRC, using U.S. Census Bureau 2009 American Community Survey 5-year estimates

Notes

1. When estimating the ripple effects of a plant closure, it does not matter whether the employees are relocated or not. The money re-circulating in the local economy is lost either way.

Columbus Forecast 2012

Michael J. Oakes: MBA Director and Senior Lecturer in Finance, IU Division of Business, Indiana University–Purdue University Columbus

Last year, we described the Columbus and Bartholomew County area economy as having the feel of something in waiting—something just off to the side waiting for more economic fuel and thrust. It looked like growth in 2011 would be slow, but probably ahead of the state. Job growth would also be slow, resulting in an unsatisfyingly slow fall in unemployment rates—but that would also probably improve more quickly than the state.

That's about how 2011 has turned out. GDP and personal income growth here has been faster than in the state overall. Employment growth has been higher. And unemployment has fallen quicker.

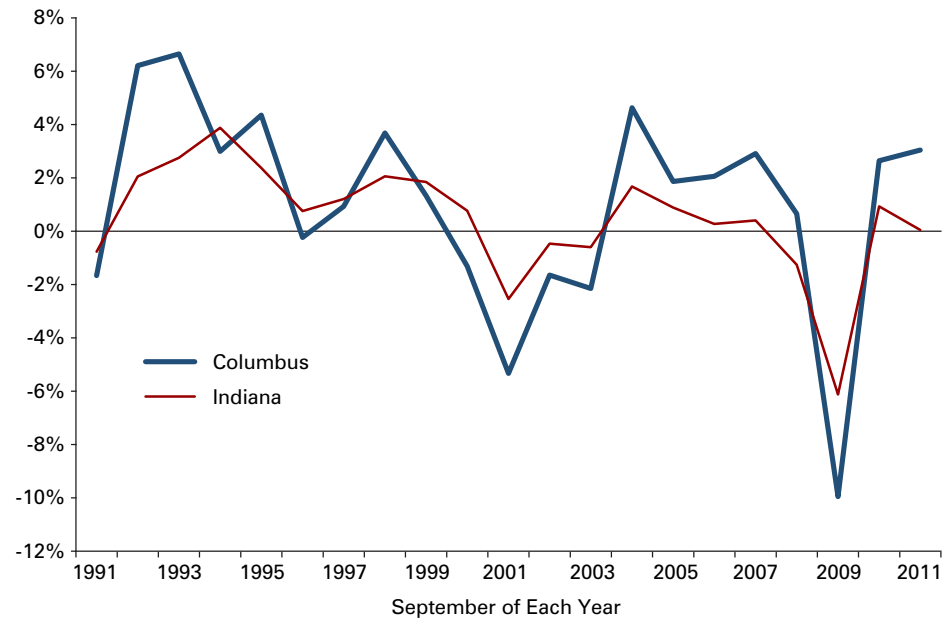
This is unusual compared to the previous two recessions when Columbus recovered more slowly than the state. In large part, that was due to the proportion of the employment base here connected to manufacturing, which once hovered around 35 percent. Manufacturers have always been cautious in ramping employment back up.

Outlook

Within the context of slower-than-desired overall economic growth in Indiana and nationwide, the outlook for Columbus is pretty good. There are several factors influencing this.

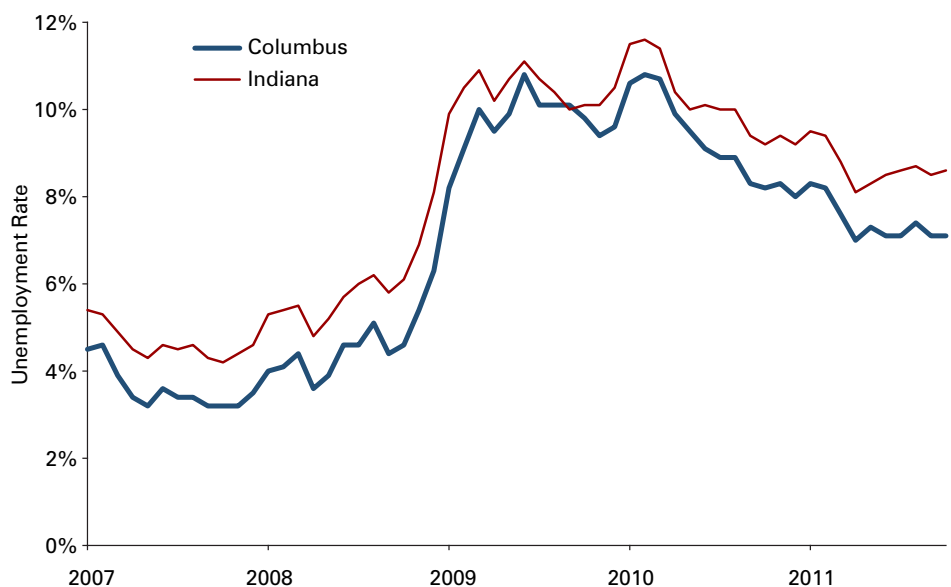
First, the numbers look good. Jobs clipped up 7.6 percent since the start of 2010 in Columbus compared to just under 2 percent for the state (see **Figure 1**). Columbus unemployment dropped more than 3 percentage points to reach 7.1 percent in October 2011 relative to 10.6 percent in January 2010. That compares to a current rate of 8.6 percent in Indiana, down from 11.5 percent in January 2010 (see **Figure 2**). In fact, no other metropolitan area in Indiana has

FIGURE 1: Annual Change in Employment, 1991 to 2011



Note: Data are not seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

FIGURE 2: Monthly Unemployment Rates, January 2007 to October 2011



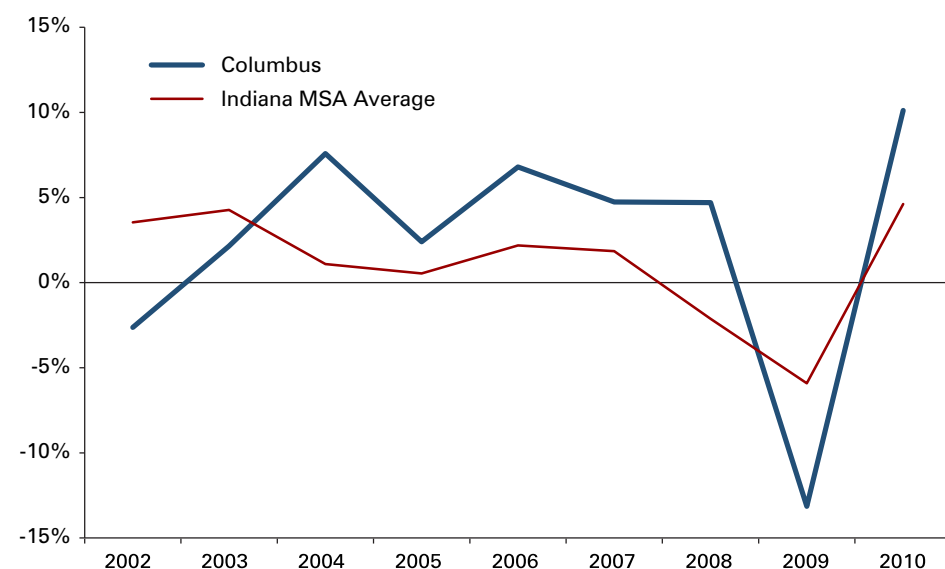
Source: IBRC, using Bureau of Labor Statistics data

an unemployment rate as low as Columbus.

GDP data for 2010 showed the Columbus economy growing faster than most other MSAs in the country

(see **Figure 3**). This was due in part to an especially low base established in 2009. And while the data release comes with a considerable time lag, the growth nevertheless resonates

FIGURE 3: Columbus Annual Real GDP Growth vs. Average of Indiana MSAs, 2002 to 2010



Source: IBRC, using Bureau of Labor Statistics data

with what we are seeing on the ground.

Personal income has climbed too. According to models from the Kelley School of Business Center for Econometric Model Research, personal income growth for Columbus will outpace all but the Indianapolis and Elkhart-Goshen MSAs in 2011 and 2012. Columbus growth is expected to be 3 percent in 2012 compared to about 2.6 percent in Indiana.

A second factor influencing a more optimistic 2012 (again, within the context of the overall economy's continued slow recovery) is Columbus' increasing integration with a global economy. As the United States suffered through its severe financial asset deflation recession in 2007–2009, economic activity continued at a healthy pace elsewhere in the world. China, India and Brazil are the usual suspects, and their growing economies helped sustain supply chains that in 2011 look much more like worldwide supply webs. As a result, plants and supporting services in Columbus (and throughout much of Indiana, too) are humming right along even as

the U.S. economy continues its slow recovery.

Much has been made of this with respect to Cummins, a global manufacturer now with more than 60 percent of its revenues coming from economic activity outside the United States. But Columbus and the region benefit from dozens of companies stitched into this global manufacturing web. This includes Honda's operations in nearby Greensburg, which is ramping up to a second shift with 1,000 new hires.

Third, the ground-level view in Columbus is noticeably improving. Employment still is about 2,600 jobs below the peak in December 2007 (the official start of the most recent recession). Already announced new positions, however, nearly match that figure (when including Honda). Combined, NTN, LHP, Sunright and NuSun have announced over 450 new jobs on the horizon. LHP, a maker of embedded systems related to the automobile industry, is investing in a new headquarters facility in 2012 and expanding professional jobs by 200.

Cummins expects to expand by an additional 950 professional positions

and construct yet another new office building in downtown Columbus.

These new positions support growth in related employment and services as well. The Columbus Economic Development Board estimates area manufacturing-related jobs to have a multiplier of 1.74.

Smart Decisions

Finally, a fourth factor influencing better economic performance in 2012 is the long series of economic development strategies put in place by local officials and leaders over the past 15 years. The city and surrounding area are reaping benefits from many smart decisions. Cummins is still here in part because of local investments in education, downtown development and the kinds of cultural enhancements that make it feasible to bring top-notch engineers and managers from throughout the world to a small Midwestern community.

Things are being built in downtown Columbus: two new banks, two new office buildings, the reconstructed community center, new apartments and the parking facilities to support all of these. It isn't quite the crane-laced skyline of Shanghai, but the activity here is in stark contrast to other Midwestern communities where new commercial construction is scarce (and long-empty buildings are common).

Nothing in the outlook suggests Columbus' economy is immune to macro issues related to the U.S. economy overall. A second recession seems unlikely, but it would obviously affect local employment and income negatively.

The total economic package now available in Columbus—a globalized manufacturing base along with public and private leadership committed to creating and sustaining a world-class community—is helping the area recover from a very bad recession in pretty good shape. ■

Evansville Forecast 2012

Mohammed Khayum: Professor of Economics and Dean of Business, College of Business, University of Southern Indiana

Unease about the economy's performance in 2011 and heightened concerns about the likelihood of a double-dip recession have raised fundamental questions about the role and impact of macroeconomic policies, our understanding of the driving forces behind the changing structure and dynamics of the U.S. economy, and the adjustment processes underlying consumer spending and business investment. At the same time, there is increased focus on investigating the relative influence of technological unemployment and wealth disparity on the trajectory of the economy over the past two decades. For much of 2011, the evidence shows that there continues to be considerable variation across metro areas with regard to the timing, strength and persistence of the recovery. While previous postwar recessions ranged in length from six months to 16 months for the national economy (averaging about 10.5 months), the 2007–09 recession was the longest recession in the postwar period, at 18 months. In addition, the 2007–09 recession was the deepest recession in the postwar period; at their lowest points, national employment fell 6.3 percent and output fell 5.1 percent. In comparison, employment fell by just over 5 percent and output fell by 5 percent in the Evansville metro area.

In the aftermath of the 2007–2009 recession, the recovery of the Evansville metro economy has become progressively stronger. Following decreases in output and employment in 2008 and 2009, increases in real output, personal income and real retail sales that started in 2010 continued in 2011. The dynamics of the Evansville area labor market reflected these developments. The unemployment

rate fell from 9.7 percent in January 2010, to 7.1 percent in September 2011, compared with a drop in the national unemployment rate from 9.5 percent to 9.1 percent over the same time period. In previous business cycles, aggregate hours and employment have frequently reached their troughs later than when the recession has officially ended. The decrease in the unemployment rate in the Evansville metro area during 2011 suggests that household employment has started to rebound at a faster rate than the national economy.

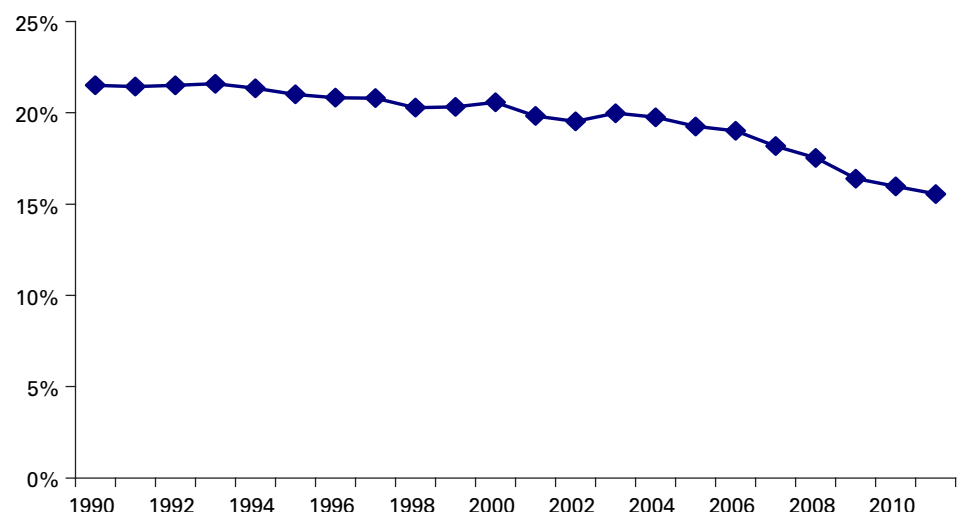
An examination of the output and employment performance of the national economy since June 2009 indicates that the current recovery has been relatively slow compared to the other post-World War II recoveries and the slowest in terms of employment growth compared to previous postwar recessions. The Evansville metro area has coped with the recession better than many metro areas in terms of relatively lower output loss and a relatively lower

“Given the proportion of output that is sold outside the metro area, the strength of the recovery in the Evansville area is linked to the strength of the broader economy.”

unemployment rate during 2010 and 2011. Currently, employment in the Evansville metro economy is 98.8 percent of the level of employment at the onset of the recession.

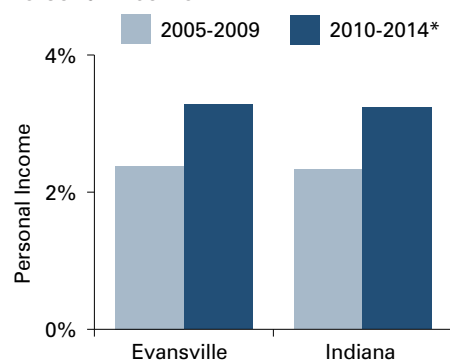
Economic performance in 2011 has been driven by job gains in the health care and education sectors. Employment increases were also evident in construction as well as in the professional and business services sector. In 2011, nominal personal

FIGURE 1: Evansville MSA Manufacturing Employment as Percent of Total Non-Farm Employment, 1990 to September 2011



Source: STATS Indiana, using Bureau of Labor Statistics data

FIGURE 2: Average Growth of Personal Income

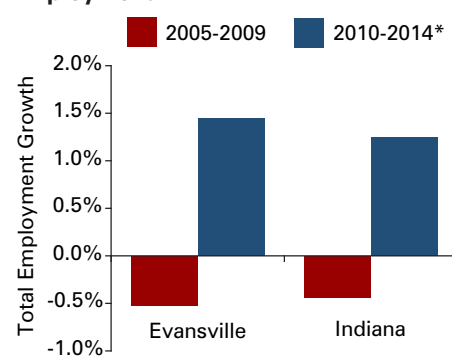


*Includes forecasted data
Source: Center for Econometric Model Research

income is estimated to increase by 4.2 percent and real gross metro product is estimated to increase by 2.3 percent. The manufacturing sector continues to be an important base to metro area household incomes and consumer spending activity even as the economy adjusts to an ongoing diversification away from manufacturing-industry dependence (see **Figure 1**).

The Evansville economy tracked the performance of the United States economy in 2011, with mixed signs of a sustained recovery. Homeowners experienced some home price depreciation as existing-home prices decreased from an average of \$91,800 in 2010 to \$90,700 in the first quarter of 2011, and mortgage originations are estimated to decrease from \$1,220 million in 2010 to \$1,012 million in 2011. Between 2010 and 2011, single-family housing permits are estimated to have decreased by 16.2 percent and personal bankruptcies per 1,000 people are estimated to have increased from 5.9 to 7.9.

FIGURE 3: Average Growth of Total Employment



*Includes forecasted data
Source: Center for Econometric Model Research

Given the proportion of output that is sold outside the metro area, the strength of the recovery in the Evansville area is linked to the strength of the broader economy. As the demand for locally produced goods reverts to its pre-recession level, personal income and output growth are expected to maintain their upward trajectory.

For the Evansville metro area, output is forecasted to increase by 3 percent in 2012, the number of jobs is projected to increase by 2,300 and the forecast for nominal personal income growth is 4.7 percent. **Figures 2 and 3** provide a comparison of forecasts for the Indiana segment of the Evansville economy and the state of Indiana for the 2010–2014 period.

As one of the most manufacturing-dependent metro areas in the nation, the Evansville economy was noticeably impacted since the inception of the current recession. Since 2007, Evansville's manufacturing workforce has fallen by 15.4 percent or about

5,000 workers, compared to the 16.9 percent reduction in Indiana's manufacturing workforce over the same period. In 2011, manufacturing earnings continued to be a significant driver of economic activity, accounting for 24 percent of total earnings in the Evansville metro economy.

Even though the pace of structural change in the Evansville economy slowed during the past year, ongoing challenges will arise as a result of long-term adjustments occurring within the manufacturing sector, particularly in the share of nondurable manufacturing (see **Table 1**). In addition, an elderly age cohort as a proportion of the population that is higher than the state average, and a youth cohort as a proportion of the population that is lower than the national average place greater pressures on in-migration as a source for meeting the region's human capital needs. ■

TABLE 1: Manufacturing Percent of Total Employment, September 2011

Industry	Evansville Metro	U.S.
Manufacturing	15.6%	8.9%
Durable Goods	52.6 %	62.0 %
Nondurable Goods	47.4 %	38.0%

Note: September data are preliminary and not seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data

Fort Wayne Forecast 2012

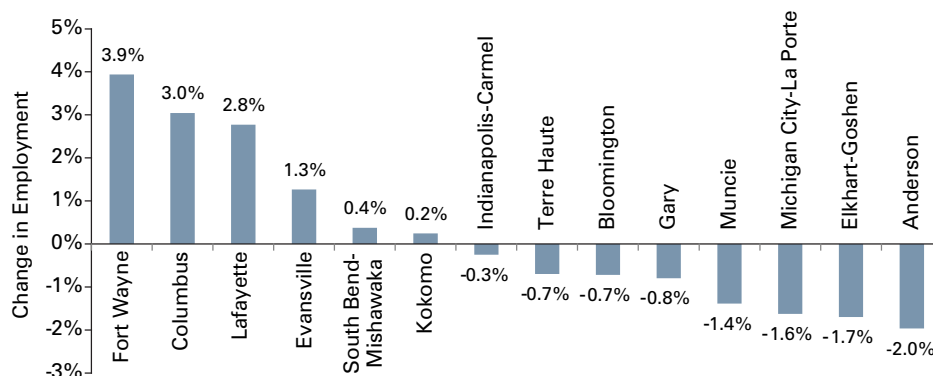
John Stafford: Director, Community Research Institute, Indiana University–Purdue University Fort Wayne

As I began to prepare this review and forecast, the online publication *The Fiscal Times* reported that the Fort Wayne metropolitan area (MSA)¹ led the top 100 metro areas in the nation in net job growth over the past 12 months. This news was certainly a boost to a community that had been hit hard by the Great Recession. The net increase of 8,000 jobs between September 2010 and September 2011² was one of several indicators pointing to a gradual but steady recovery from the low point in the winter of 2009–2010. Major gains were experienced across a wide variety of employment sectors. As illustrated in **Figure 1**, Fort Wayne also led all Indiana metropolitan areas in job growth during this September to September period, with only the Columbus and Lafayette MSAs even approaching the 3.9 percent increase in employment experienced in Fort Wayne.

Based on the most recent non-seasonally adjusted unemployment data provided by the Indiana Department of Workforce Development³ (September 2011), the Fort Wayne MSA is tied with the Indianapolis area for the fourth-lowest unemployment rate among all 16 Indiana metropolitan areas. The current 8.1 percent unemployment rate is a substantial improvement from the 10.4 percent annual average rate for 2010. We must go back to December 2008 to find resident employment in the Fort Wayne MSA as high as the September 2011 level of 195,627. While the Fort Wayne MSA currently represents approximately 7 percent of all statewide employment, the 8,838 net increase in the number of residents employed in the region over the past year represents 24 percent of statewide employment growth.

Another indicator of economic recovery in the Fort Wayne area can be found in the 2010 gross domestic

FIGURE 1: Non-Farm Employment Change, September 2010 to September 2011



Note: Data are not seasonally adjusted.
Source: Current Employment Statistics

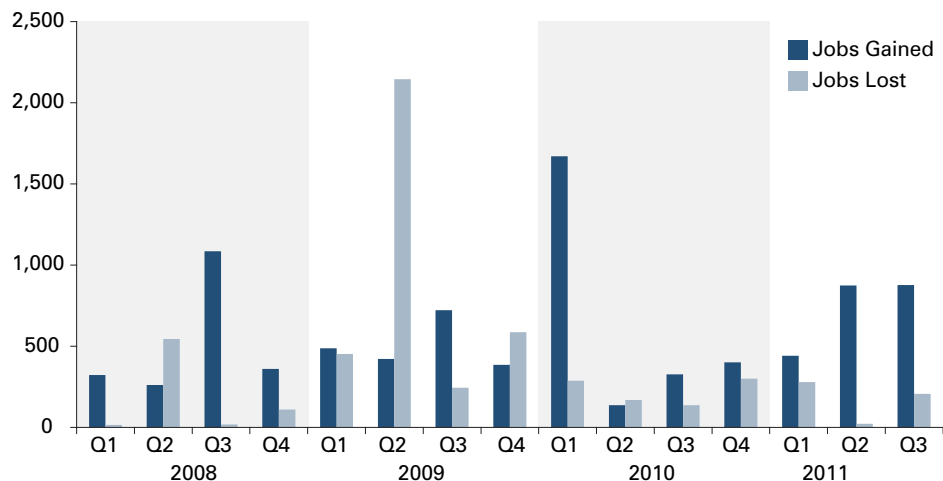
product (GDP) data compiled by the Bureau of Economic Analysis. Total inflation-adjusted GDP in the Fort Wayne metropolitan area increased 5.2 percent between 2009 and 2010. This was more than twice the rate of growth across all U.S. metropolitan areas (2.5 percent). The news in the manufacturing sector was even more encouraging, as the Fort Wayne area experienced a 23.1 percent increase between 2009 and 2010. In Indiana, only the Elkhart-Goshen MSA's manufacturing sector fared better (an increase of 28.3 percent). Inflation-adjusted manufacturing GDP has never been higher in the Fort Wayne metropolitan area than it was in 2010. Despite a loss of 5,800 jobs in the manufacturing sector between September 2006 and September 2011, this sector still represents more than 15 percent of all non-farm employment in the Fort Wayne metropolitan area and remains a significant contributor in bringing net new income to the region. However, we still have a long way to go to fully recover from the recent recession. Total employment in the metropolitan area is still down more than 3 percent from the September 2007 level, and manufacturing employment is still down nearly 13 percent.⁴ The monthly Local Area

Unemployment Statistics data series indicates that more than 17,000 area residents are unemployed. While this number is down from a March 2010 high of nearly 24,500, it is still substantially above the 2004–2007 average of 10,640.

Wage levels in Fort Wayne remain a real concern. Back in 2000, the Fort Wayne MSA annual average wage was 102 percent of the state average wage and 90 percent of the national average wage.⁵ In 2010, the MSA's average wage was \$37,998, falling to 97 percent of the statewide wage and 81 percent of the U.S. average wage. We saw no appreciable improvement between 2009 and 2010 in this relative comparison. To have kept pace with inflation since 2000, the Fort Wayne area average wage would have needed to increase to \$40,058 by 2010 but was actually \$2,060 below that amount. Nationally, the average wage needed in 2010 to keep pace with inflation since 2000 was \$44,739. The actual U.S. average wage outpaced inflation by \$2,000 over that period.

We have made real strides in recovery in the Fort Wayne area, and yet we have a significant way to go just to get back to pre-recession employment levels. We have even farther to go in recapturing the

FIGURE 2: Fort Wayne Metropolitan Area Number of Jobs Gained and Lost from Public Announcements, 2008 to 2011



Note: 2011 data are preliminary. Data, which are current as of November 3, 2011, are continuously being revised.
Source: Community Research Institute

quality of our jobs. What should we expect from 2012? There are many critical unknowns at this point. Will the European debt crisis stabilize? Will the United States get its federal budget, deficit and debt issues under control, or will uncertainty continue to stymie business investment and consumer confidence. Both are important issues locally as the backbone of the Fort Wayne area economy continues to rest heavily on consumer purchase of durable goods.

The number of jobs reflected in positive announcements (recalls, new hires, expansions and attractions) has outweighed the number of jobs associated with negative announcements (layoffs, downsizings and closings) as tracked by the Community Research Institute⁶ over the past five full quarters in the Fort Wayne region (see **Figure 2**). This should bode well for continued employment improvements in 2012. However, we are now experiencing the actual layoffs and transfers from Navistar, which will continue into the next year. They are estimated to have a direct impact of between 1,100 and 1,400 lost jobs. It is difficult to imagine that the area will continue the employment growth pace

experienced during the past year. Seeing the unemployment rate drop in 2012 to the 7.5 percent range for the Fort Wayne area and the addition of 2,000 to 2,500 net new jobs would represent continued steady recovery. That forecast assumes a relatively stable national/international political scenario and an improving national economy. ■

Notes

1. The Fort Wayne Metropolitan Statistical Area includes Allen, Wells and Whitley counties.
2. Bureau of Labor Statistics Current Employment Statistics, non-seasonally adjusted total non-farm establishment employment.
3. Local Area Unemployment Statistics non-seasonally adjusted data series.
4. Bureau of Labor Statistics Current Employment Statistics.
5. Bureau of Labor Statistics Quarterly Census of Employment and Wages.
6. The Community Research Institute tracked company events related to jobs and investment in core industry sectors for each of the 10 counties of northeast Indiana on behalf of the Northeast Indiana Regional Partnership.

Gary Forecast 2012

Donald A. Coffin, Ph.D.: Associate Professor of Economics, School of Business and Economics, Indiana University Northwest

The recession that began in December 2007¹ had a larger impact on employment in Northwest Indiana (-6.6 percent) than it did in the nation (-5.3 percent); Indiana fared somewhat worse than did our region (a 7.9 percent job loss statewide), as shown in **Table 1**.² But while employment rose slightly in Indiana after the recession's trough, it continued to fall significantly in our region, declining by an additional 8,100 jobs between June 2009 and September 2011 (an additional 3.1 percent loss). Unlike the nation and the state, the recovery (such as it is) has not even begun to take hold. **Figure 1** shows these changes graphically, with total non-farm employment indexed to January 1990.

Since the national economy passed its trough, employment losses in Northwest Indiana have been concentrated in two industries:

1. **Manufacturing:** It has lost 3,200 jobs, or 9.4 percent, since the trough—nearly as many jobs as were lost during the decline phase of the recession; the steel industry alone has lost that many jobs between June 2009 and September 2011 (-18.9 percent), after losing only 300 jobs during the nationwide downturn.
2. **Retail Trade:** It has lost 2,500 jobs since June 2009 (7.4 percent), following a loss of 3,500 jobs from December 2007 to June 2009.

While the Northwest Indiana economy also lagged the nation in the recoveries from the 1990 and 2001 recessions (with employment declines of 1.4 percent in the early

“It seems almost certain, then, that employment growth in Northwest Indiana will be very close to zero in the coming year.”

phases of the recovery from the 1990 recession and 2.3 percent early in the 2002–2003 recovery period), the more recent performance of the local economy has been noticeably worse. The continuing decline in retail trade was a distinctive feature of the previous periods as well.

When and Where Will the Recovery in Northwest Indiana Take Hold?

The continuing decline in employment in Northwest Indiana is in large part a consequence of the weakness of the national recovery. **Figure 2** shows the relationship between real personal income growth in the nation and employment growth in Northwest Indiana between 1990 and 2011.³ This suggests that employment growth in the Northwest Indiana economy will, on average, be negative until annualized real personal income growth in the nation exceeds 2.58 percent. The discouraging note is that growth in real personal income, far from accelerating, has been slowing over the past seven months. Real personal income had been growing at an annualized rate of around 4 percent from October 2010 to March 2011. Since then, growth has slowed, and in the last two months, the growth rate of real personal income has been only 1.4 percent.

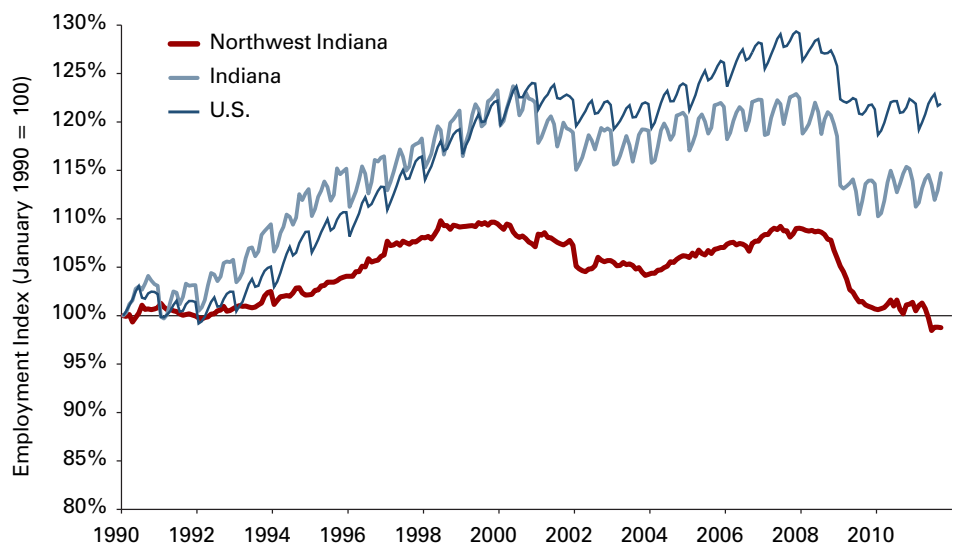
National economic forecasts⁴ have generally begun to suggest slower growth over the next 12 to 18 months, with the average rate of growth in

TABLE 1: Employment Changes During and After the Recession, December 2007 to September 2011

Indicator	Northwest Indiana	Indiana	U.S.
Total Non-Farm Employment, December 2007	283,600	3,015,700	138,875,000
Change in Employment, 12/2007 to 6/2009	-18,600	-236,800	-7,350,000
Percent Change	-6.6%	-7.9%	-5.3%
Total Non-Farm Employment, December 2009	265,000	2,778,900	131,525,000
Change in Employment, 6/2009 to 9/2011	-8,100	45,300	-467,000
Percent Change	-3.1%	1.7%	-0.4%
Total Non-Farm Employment, September 2011	256,900	2,825,200	131,058,000
Change in Employment, 6/2009 to 9/2011	-26,700	-190,500	-7,817,000
Percent Change	-9.4%	-6.3%	-5.6%

Source: Based on author's calculations

FIGURE 1: Total Non-Farm Employment Index, January 1990 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

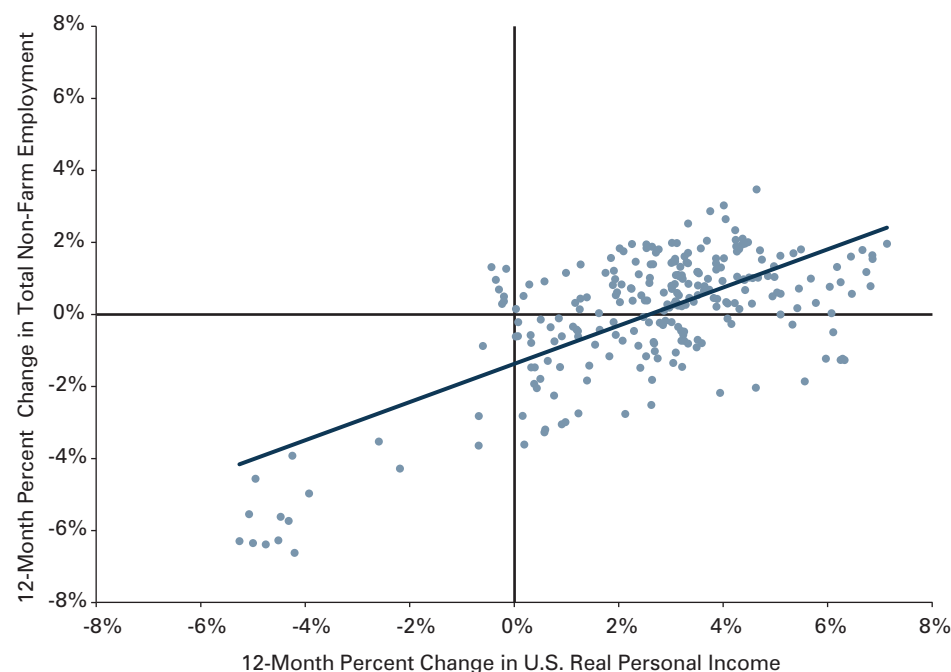
real gross domestic product (GDP) derived from the Federal Reserve Banks of Philadelphia's survey of forecasters coming in at 2.2 percent—down from the previous estimate of 3.4 percent. Given the historical relationship between changes in real GDP and changes in real personal income,⁵ this suggests that real personal income will grow at an annualized rate of about 2.7 percent over the next year, suggesting that employment in Northwest Indiana will rise by about 0.03 percent. Essentially, then, the expected increase in national GDP and national

real personal income will leave employment levels in Lake and Porter counties unchanged.⁶

In other words, it does not look like the recovery will really begin in Northwest Indiana until 2013, unless national economic growth exceeds current expectations.

How rapid would national economic growth need to be for employment in Northwest Indiana to grow by 2 percent in the next year? Working backward from our earlier results, it would take growth in real GDP of around 7 percent to generate 2 percent growth in

FIGURE 2: Northwest Indiana Non-Farm Employment Change (%) and U.S. Real Personal Income (%), 1990 to 2011



Source: IBRC, using Bureau of Labor Statistics data

TABLE 2: Employment Forecast by Industry, September 2011 to September 2012

Industry	Change	Percent Change
Industries With Employment Declines		
Iron and Steel Mills	-500	-3.6%
Retail Trade	-600	-1.9%
Manufacturing, Other than Iron and Steel Mills	-100 to -200	-0.6% to -1.2%
Transportation and Utilities	-100 to -200	-0.7% to -1.5%
Wholesale Trade	-100 to -200	-1.1% to -2.3%
Financial Activities	-100 to -200	-1.2% to -2.4%
Arts/Entertainment/Recreation	-100 to -200	-1.4% to -2.9%
Hotels/Motels/Eating and Drinking Places	-100 to -200	-0.5% to -0.9%
Local Government (Other than Schools)	-100 to -200	-0.8% to -1.6%
Industries With Employment Increases		
Construction	+1,500	+8% to +9%
Health Care and Social Assistance	1.1	2.7%

Source: Based on author's calculations

employment in the local economy. This can, I think, be ruled out as a possibility. What about 1 percent growth in employment? That also seems unlikely, as the historical relationships would suggest that

GDP growth of about 4.5 percent would be necessary. It seems almost certain, then, that employment growth in Northwest Indiana will be very close to zero in the coming year.

There will be some growth in employment, particularly in health care and construction in Northwest Indiana. However, it appears that will be almost completely offset by employment declines elsewhere. Two sectors—steel and retail—are likely to experience significant declines; employment will decline by about 1,500 jobs in other sectors, but those declines will be fairly evenly spread out (see Table 2).

- Further Declines in Steel.** All of the indicators suggest that the average age of motor vehicles in the U.S. has risen to unprecedented levels, which also suggests an upturn in auto sales. Auto sales have increased by 10 percent in the September 2010 to September 2011 period.⁷ In addition, industrial production has been rising at between 1.5 percent and 2 percent per year for the last two years. This is likely to continue, so it might seem likely that steel output, and thus steel employment, will rise in the coming year.⁸ However, our analysis suggests that rising automobile output is associated with lower steel employment. Assuming 10 percent growth in auto production and a 2 percent increase in industrial production, we would predict a continued decline, not an increase in steel employment, with a loss of around 500 jobs.
- Further Declines in Retail Trade.** Income growth in the region is likely to continue to be extremely slow, leading to some additional losses in retail trade—about 600 jobs. This is likely to show up as gains in some parts of the region (south of U.S. 30 and in Porter County) and losses elsewhere.
- Declines in Other Sectors.** Employment declines ranging

“There will be fairly strong growth in construction and health care (which will be offset by declines elsewhere). Fortunately, these gains will be in two of the sectors which pay higher-than-average wages and salaries.”

from 100 to 200 jobs are likely to occur in manufacturing (outside of steel), transportation and warehousing, wholesale trade, financial services, arts/entertainment/recreation, hotels/motels/restaurants/bars, and local government (outside of local public education).

- **Gains in Health Care.** The health care sector has grown almost continuously over the past 20 years, and there is no reason to expect this to change. Based on that 20-year pattern of growth (2.7 percent per year), we can expect about 1,100 jobs to be created.
- **Gains in Construction.** In percentage terms, construction was the industry that declined the most during the recession; it has recovered mildly since June 2009, adding 1,100 jobs in that two-year period, with 600 in the past year. We can expect this to increase slightly, with construction adding about 1,500 jobs in the coming year.
- **Other Industries.** Employment in other sectors should be roughly unchanged in the coming year.

Concluding Remarks

The coming year will not look like a recovery in Northwest Indiana. The continuing weakness of national economic growth will, if historical patterns hold, result in essentially no employment growth, although there will be fairly strong growth in construction and health care (which will be offset by declines elsewhere). Fortunately, these gains will be in two of the sectors which pay higher-than-average wages and salaries. For yet another year, the local economy will lag both the state and the nation.

A Personal Consideration

I joined the Kelly School Economic Outlook Panel in 1998, and this year marks my 14th year as a member. It is also my last. I will retire from Indiana University Northwest in May 2012. My time as a member of the Panel has been a central part of my role with IUN and has been one of the things that I have looked forward to most keenly during the year.

The opportunity to meet and talk with so many people each year whose concerns about the future of the local economy have paralleled mine, to be enlightened by their perspectives, and to share with them my insights has given me more pleasure than I know how to express. I have been privileged to be a part of the Economic Outlook Panel, and I wish to thank Morton Marcus (former director) and Jerry Conover (current director) of the Indiana Business Research Center (IBRC). I must also express my appreciation to Carol Rogers and especially to Nikki Livingston (both of the IBRC) whose efforts have made my task much, much easier. ■

Notes

1. As dated by the National Bureau of Economic Research Business Cycle Dating Committee (www.nber.org/cycles.html).
2. All data for Northwest Indiana and the state are drawn from STATS Indiana, a service of the Indiana Business Research Center (www.stats.indiana.edu/). National data can be found at STATS Indiana, on the Bureau of

Labor Statistics website (www.bls.gov) or on the website of the Federal Reserve Bank of St. Louis in the FRED database (<http://research.stlouisfed.org/fred2/>).

3. The solid line is based on a regression analysis of the relationship between these two measures:

$$\%ChEmp = -1.37 + 0.53 * (\%ChRPI)$$

$$(-10.96) (+14.88)$$
Adj. $R^2 = 0.471$
 $F = 221.50$
t-statistics in parentheses.
4. For a fairly comprehensive summary of forecasts, see “Third Quarter 2011 Survey of Professional Forecasters,” August 12, 2011, www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2011/survq311.cfm.
5. According to Reuters, the consensus forecast for the U.S. unemployment rate by the end of 2011 is 9 percent.
6. Consistent with the definition of Northwest Indiana used in Table 1.
7. Data are from the Federal Reserve Bank of St. Louis FRED Database at <http://research.stlouisfed.org/fred2/series/ALTSALES>.
8. A regression of an index of steel employment on an index of auto production and on an index of industrial output yields the following results (monthly data, using annualized percentage changes for all data):

$$\%ChEmp = -3.69 - 0.17 * \%ChAutoProd + 0.31 * \%ChIndProd$$

$$(14.85) (-6.98) (+4.94)$$
Adj. $R^2 = 0.157$
 $F = 24.18$
t-statistics in parentheses.

Editor's Note:

Dr. Coffin, you will be sorely missed by the thousands of readers and listeners who have appreciated your thoughtful and concise insights into the economy of Northwest Indiana. And I personally will miss you and your gracious sharing of your considerable expertise and wisdom. Thank you!

Indianapolis-Carmel Forecast 2012

Kyle J. Anderson, Ph.D.: Clinical Assistant Professor of Business Economics, Kelley School of Business, Indiana University

The Indianapolis-Carmel metropolitan area¹ should continue a slow recovery during 2012, with unemployment declining, incomes rising and a general economic rebound. The Super Bowl in February will bring a nice, but temporary, economic stimulus. However, the recovery will be modest and leave economic growth below historic levels and unemployment above normal levels, even by the end of the year.

Employment and Wages

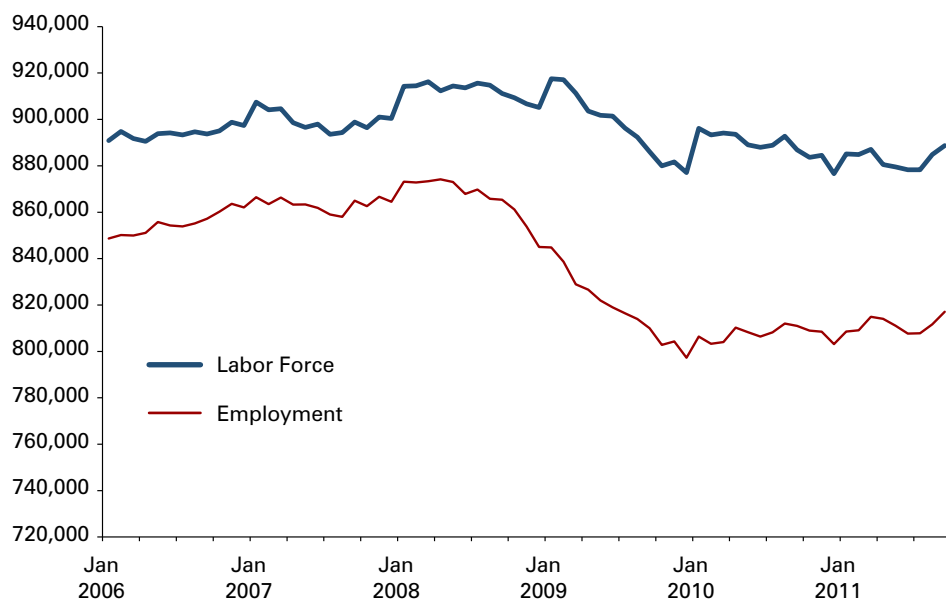
Over the past 12 months, Indianapolis added 6,100 jobs,² a disappointing figure given the high level of unemployment. This poor growth has unemployment above 8 percent. The economy needs to add about 50,000 jobs to get back to normal employment, something that is likely to take several more years. Not only has the number of employed declined, but the size of the labor force has shrunk as people have stopped looking for work (see **Figure 1**). Look for an increase of 10,000 to 15,000 jobs during 2012.

There is some good news as wages are higher compared to a year ago.³ Average wages rose 4.3 percent, with gains across the board except for educational services. **Table 1** provides a breakdown of wage change and job growth by industry for the Indianapolis area.

Housing and Construction

The Indianapolis real estate market continues to struggle. Indianapolis ranks 18th out of the largest 100 metro areas with 6.5 percent of homes with mortgages being somewhere in the foreclosure process.⁴ Another 3.3 percent of mortgage holders are seriously delinquent on their mortgages. As bad as this looks, the percentage of mortgages in foreclosure or serious delinquency declined from 10.6 percent to 9.9

FIGURE 1: Indianapolis Labor Force and Employment, January 2006 to September 2011



Note: Data are seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data and author's calculations

TABLE 1: Wages and Jobs for Selected Industries in the Indianapolis Metro, 2011

Industry	Wages		Jobs	
	Average Weekly Wage	Average Wage Change since 2010	Percent of Total	Change in Number since 2010
Total	\$906	4.3%	100.0%	1.5%
Administrative and Support and Waste Management and Remedial Services	\$551	4.8%	7.3%	7.9%
Real Estate and Rental and Leasing	\$832	7.6%	1.7%	3.7%
Construction	\$963	4.8%	4.2%	3.2%
Health Care and Social Services	\$832	4.4%	14.6%	2.8%
Accommodation and Food Services	\$283	2.9%	8.8%	2.7%
Transportation and Warehousing	\$720	3.6%	6.1%	2.6%
Professional, Scientific and Technical Services	\$1,300	11.8%	5.3%	2.2%
Management of Companies and Enterprises	\$2,020	14.1%	1.3%	2.2%
Other Services (Except Public Administration)	\$582	-0.2%	3.2%	2.0%
Wholesale Trade	\$1,097	5.3%	4.7%	1.3%
Retail Trade	\$489	5.8%	10.6%	1.2%
Finance and Insurance	\$1,535	11.8%	4.9%	0.4%
Educational Services	\$720	-4.1%	8.1%	-0.3%
Manufacturing	\$1,795	5.3%	9.7%	-2.2%
Information	\$1,185	8.0%	1.9%	-4.4%

Note: Data are for the first quarter of each year.
Source: STATS Indiana, using Quarterly Census of Employment and Wages data

percent over the past year, a sign that stability in the housing market may be increasing.

Home prices fell slightly for the second straight year, declining 1.6 percent.⁵ The good news is that the number of homes on the market dropped 10 percent, indicating that home prices may stabilize.

Historically low mortgage rates have helped stabilize house prices, but have not been enough to increase them. The low mortgage rates are tempered by the tightened credit standards that make home purchases difficult for all but highly qualified buyers.

New residential construction in the area has shown continued weakness. Year-to-date new residential construction is 3.2 percent lower than last year. To put this in perspective, construction spending is 47 percent lower than it was just four years ago. Eventually, new home construction will pick back up, but it may not occur in 2012.

Super Bowl

The Super Bowl will provide a small boost to the Indianapolis area economy. While economic impact estimates vary widely, conservative estimates would suggest an economic boost of \$100 million to \$200 million (more aggressive estimates put it between \$400 million and \$500 million). This spending represents about 0.2 percent of total annual spending in the Indianapolis area economy.

This should lead to a small bump in incomes and temporary jobs as Indianapolis welcomes tens of thousands of visitors. While most of the increase will be in retail and hospitality, the spending should be multiplied through the entire economy, giving a minor boost to many sectors of the economy. While the publicity for the city will be great, the economic benefits often don't last for long after the event is over.

Forecast

Barring any major negative shocks to the economy, incomes will grow in 2012, and the unemployment rate should continue to drift downward. However, the rate of job creation is not enough right now to put a serious dent in the unemployment rate, which will likely still be over 7 percent by the end of 2012. ■

Notes

1. This analysis covers the Indianapolis-Carmel Metropolitan Statistical Area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan and Shelby counties.
2. Employment data were collected from the Bureau of Labor Statistics reports accessed from the STATS Indiana website.
3. Income data come from the Quarterly Census of Employment and Wages at the STATS Indiana website.
4. Foreclosure and delinquency data come from Foreclosure-Response.org.
5. Housing prices and supply of houses were collected from www.housingtracker.net.

Kokomo Forecast 2012

Dr. Kathy Parkison: Professor of Economics, Indiana University Kokomo

While Kokomo is celebrating a new laboratory at Delphi and the Indiana Chamber of Commerce naming it as the "Community of the Year," its economy still remains heavily weighted toward manufacturing. Employment in manufacturing industries peaked statewide in June 2000, and while recent losses have been much less than they were in 2009 (with some months even posting gains), manufacturing employment has still not regained anywhere close to its peak (see **Figure 1**).

The Kokomo area remains heavily invested in industrial production and is very subject to economic disruptions as industrial production fluctuates. The critical news is that many of these job losses will be permanent due to increasing productivity, job losses to overseas and the troubles in the automobile industry. This means that manufacturing production, while increasing somewhat, is unlikely to return to the glory days of the past.

Overall, Kokomo's labor force (defined as those employed and those seeking employment) is smaller than in 2001. The decrease in the labor force numbers from 50,000 in 2001 to 42,500 in 2011 means that there are clearly fewer people in the area. Employment has also decreased in that same 10-year time period (see **Figure 2**).

The unemployment rate, while still higher than the state average, is nowhere near the highs of a few years ago (see **Figure 3**). In the data collected by the Bureau of Labor Statistics, many industries

“Growth for the Kokomo economy is iffy. Trends in the automobile and other manufacturing industries will need to be watched carefully.”

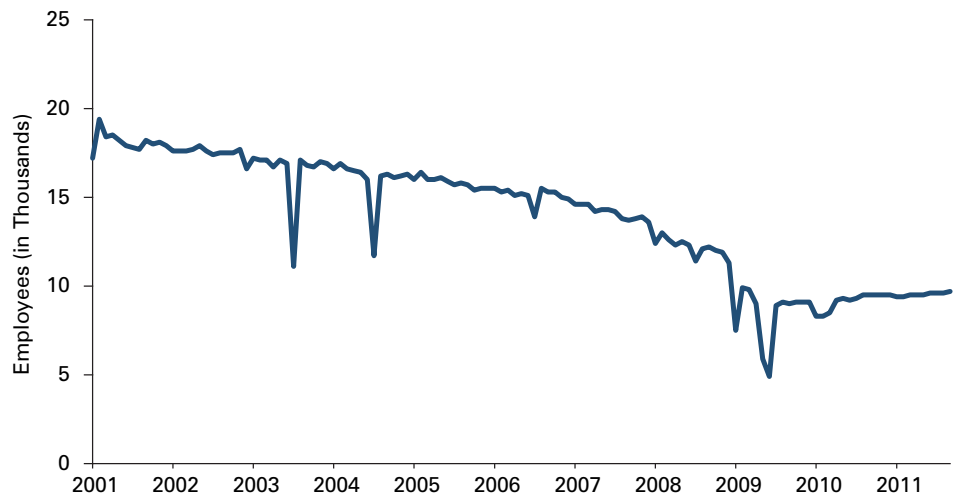
are showing a slight increase in employment.

Even if job growth is occurring, it is not in the same high-paying industries that drove the Kokomo economy for so long. This has an impact on stores, restaurants, etc. since the buying habits of workers making \$800 per week may not be equivalent to those earning \$1,640 per week. Economic theory says that the lower-paid workers may dine out less, buy less clothing (or buy clothing at less expensive stores), travel less, buy less expensive electronics, etc. Therefore, retailers, restaurateurs, etc. need to be aware of these trends and plan accordingly.

There are some bright spots—agriculture continues to do reasonably well. The high dollar values for corn and soybeans make commodity farmers very happy (though it doesn't make the livestock farmers nearly as happy). There are new businesses starting in the area, and Indiana has had some success in attracting new large business operations.

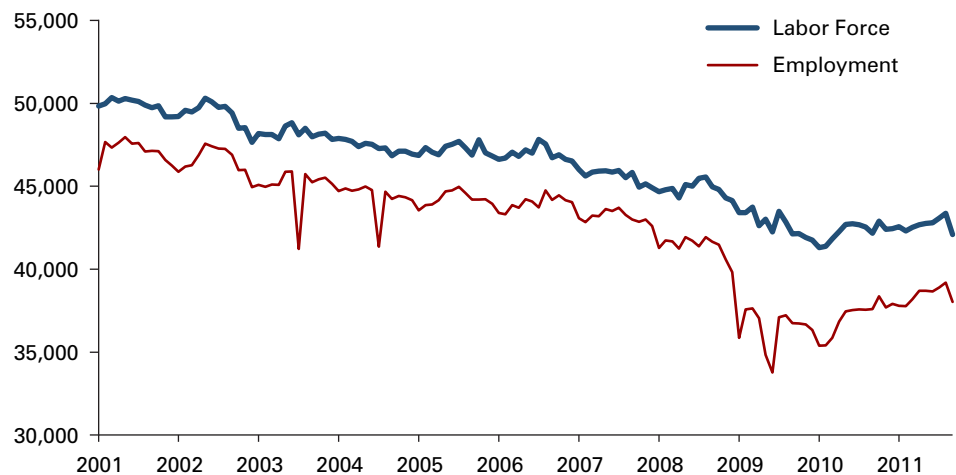
Nevertheless, the gloominess that has pervaded the economy for several years now continues. Overall, growth for the Kokomo economy is iffy. Trends in the automobile and other manufacturing industries will need to be watched carefully and local authorities will need to remain proactive on preparing the community for the future. In particular, K-12 students need to be reminded that their futures lie in industries very different from those of their parents and that they need to acquire the skills needed for that future. ■

FIGURE 1: Manufacturing Employment in Kokomo, January 2001 to September 2011



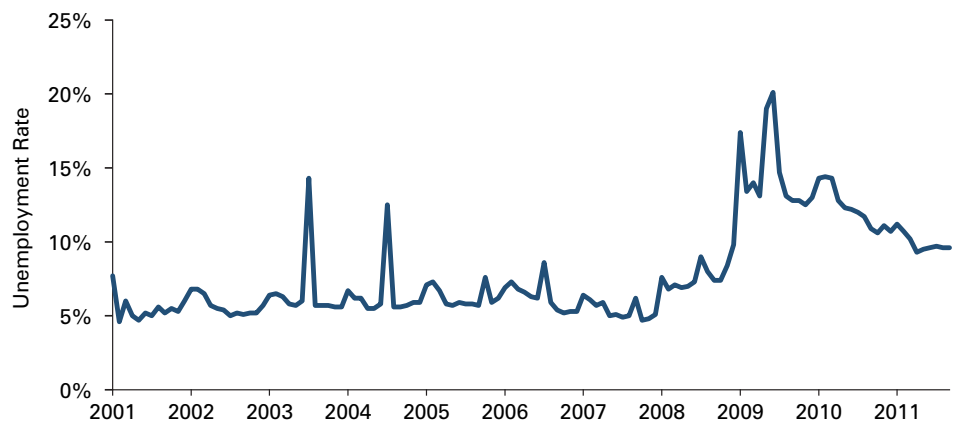
Source: IBRC, using Bureau of Labor Statistics data

FIGURE 2: Labor Force and Employment in Kokomo, January 2001 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

FIGURE 3: Kokomo's Unemployment Rate, January 2001 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

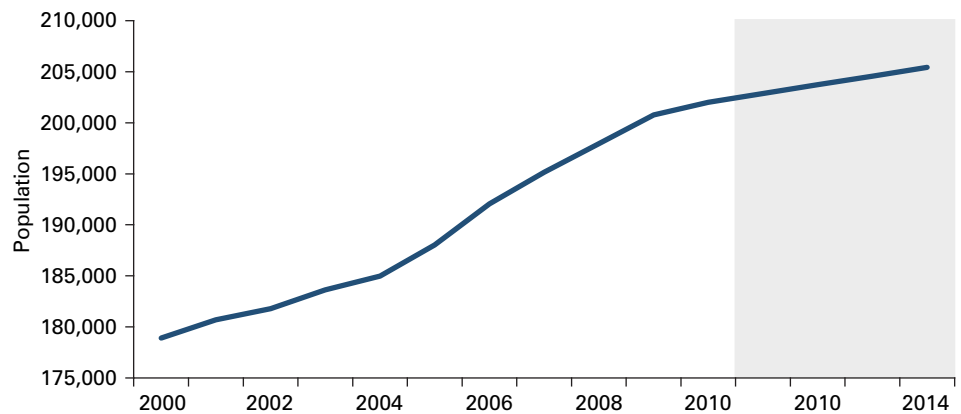
Lafayette Forecast 2012

Tanya Hall: Economic Research Analyst, Indiana Business Research Center, Kelley School of Business, Indiana University

While 2011 was not marked with a dramatic improvement in the national economy, the Lafayette Metropolitan Statistical Area (MSA) regained its momentum with a slow but steady rise from the Great Recession. As we look to 2012, it appears that the area will continue to recover at a conservative rate. This recovery pace is on par with the expected rate of recovery throughout the nation, lacking the exuberant growth witnessed after the 2001 economic downturn.

To its benefit, the Lafayette MSA (which includes Tippecanoe, Benton and Carroll counties) is viewed as an attractive area to live and work—in part due to the presence of Purdue University. We see this optimism in the continued population growth that is expected for the next few years (see **Figure 1**). While the anticipated

FIGURE 1: Annual Population Change in the Lafayette MSA, 2000 to 2014



Note: Data for 2011 to 2014 are projections.
Source: IBRC, using U.S. Census Bureau data and Center for Econometric Model Research data

population growth for 2012 through 2014 (0.4 percent per year) is more docile than the surge seen in 2005 to 2006 (2.1 percent), it still bodes well for the area.

Labor

The Lafayette MSA had a lower unemployment rate than Indiana and the United States in the past year. As seen in **Table 1**, the Lafayette MSA consistently outperformed

TABLE 1: Labor Force and Unemployment for the Lafayette MSA, 2010 to 2011

Year	Month	Labor Force	Employment	Unemployment	Lafayette MSA Unemployment	Indiana Unemployment	U.S. Unemployment
2010	August	94,489	85,904	8,585	9.1%	10.0%	9.5%
	September	97,715	89,638	8,077	8.3%	9.9%	9.2%
	October	97,922	90,227	7,695	7.9%	9.7%	9.0%
	November	97,278	89,488	7,790	8.0%	9.6%	9.3%
	December	96,428	88,760	7,668	8.0%	9.5%	9.1%
	Annual Average	96,225	87,396	8,829	9.2%	10.2%	9.6%
2011	January	95,072	87,609	7,463	7.8%	9.1%	9.8%
	February	96,145	88,900	7,245	7.5%	8.8%	9.5%
	March	97,019	90,108	6,911	7.1%	8.5%	9.2%
	April	97,404	91,107	6,297	6.5%	8.2%	8.7%
	May	95,926	89,031	6,895	7.2%	8.2%	8.7%
	June	95,058	87,390	7,668	8.1%	8.3%	9.3%
	July	94,300	86,669	7,631	8.1%	8.5%	9.3%
	August	96,044	88,487	7,557	7.9%	8.7%	9.1%
	September*	99,993	92,726	7,267	7.3%	8.5%	8.8%

*Preliminary data
Source: IBRC, using Bureau of Labor Statistics data

Indiana and the United States. The uptick in unemployment in June and July 2011 mirrors the trend seen in 2009 and 2010, which likely reflects of the change in the labor force due to students leaving the area during summer break. The spread in unemployment rates between the Lafayette MSA compared to the state and nation reflects the improved economy in the MSA. In conjunction with a decline in the unemployment rate and the number of unemployed, the number of employed workers and individuals in the labor force has increased—indicating individuals are finding work and have hope of obtaining a job.

Table 2 compares the employment between 2010 and 2011 in the Lafayette MSA. Last year it was predicted that all industries would increase their employment in response to an improved economic outlook and increased demand, with the professional and business services and manufacturing sectors having the strongest growth. This prediction proved to be right on target as nearly all industries have had employment growth thus far in 2011, and the professional business services and manufacturing sectors did report the strongest increase in employment levels (711 and 633 jobs, respectively).

The increased employment is due in part to large area employers hiring additional workers to fulfill large orders (Wabash National), seeing increased demand for goods (Subaru of Indiana Automotive), return to pre-recession levels (Caterpillar), and continued expansions (IU Health Arnett and Purdue Research Park). Two industries—information and government—saw declining employment in 2011. The drop in federal jobs locally mirrors state and national trends as government officials continue to grapple with budget woes.

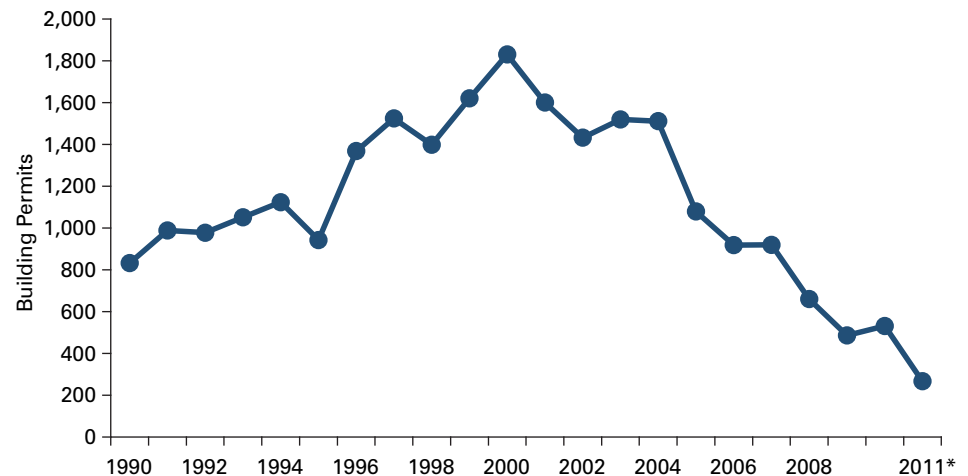
In 2012, employment should continue to increase, although it will

TABLE 2: Lafayette MSA Employment, 2010 to 2011

Industry	2011*	Change since 2010	Percent Change 2010–2011
Total Non-Farm	92,033	833	0.9%
Total Private	65,233	2,333	3.7%
Goods-Producing	17,211	611	3.7%
Manufacturing	14,633	633	4.5%
Mining, Logging and Construction	2,578	78	3.1%
Service-Providing	74,822	122	0.2%
Private Educational and Health Services	11,511	411	3.7%
Trade, Transportation and Utilities	2,000	100	5.3%
Leisure and Hospitality	8,633	33	0.4%
Professional and Business Services	6,411	711	12.5%
Financial Activities	3,744	144	4.0%
Information	978	-22	-2.2%
Other Services	2,767	67	2.5%
Government	26,800	-1,500	-5.3%

*January through September data annualized for 2011. September data are preliminary.
Source: Bureau of Labor Statistics

FIGURE 2: Lafayette MSA Residential Building Permits, 1990 to 2011



*Reflects year-to-date figures through August 2011 for Tippecanoe County (year-to-date data for the rest of the metro are unavailable).
Source: IBRC, using U.S. Census Bureau data

be at a slow but steady pace. The manufacturing sector is expected to lead this growth—particularly in fabricated metals and motor vehicles—followed by the health care, leisure and hospitality, and professional and business services sectors.

In conjunction with the increased employment within the Lafayette MSA in 2011, average weekly wages increased 6.5 percent. Thirteen out of the 18 major sectors with available data had a wage increase from the first quarter of 2010 to the first quarter of 2011 (not adjusted for inflation), as seen in **Table 3**.

Noting that the largest wage increases occurred in management of companies and enterprises as well as manufacturing, it could be the result of “rewarding” business leaders for navigating through the Great Recession and its aftermath and the re-hiring of higher-paid workers (e.g., engineers) at the manufacturing plants. In 2012, it is expected that the wage increases will continue modestly, keeping up with the increase in employment and inflation.

The local per capita personal income (PCPI) is projected to grow 3.8 percent in 2011, followed by a more tepid 2 percent for 2012. Similar to the state overall, the Lafayette MSA’s PCPI continues to lag behind the United States with the 2010 PCPI only 85 percent of the national figure. The difference between the U.S. and Lafayette MSA is likely attributed to the occupational mix in the MSA and the fact that Indiana’s highest earning tier of occupations tend to be paid less than similar occupations elsewhere, regardless of cost-of-living factors.¹

Housing

Residential construction peaked in 2000 with 1,830 permits issued for single- and multi-family building permits in the Lafayette MSA. Since 2004, there has been a dramatic decline in the volume of building permits filed, with 2009 only

TABLE 3: Average Weekly Wages in the Lafayette MSA, 2010:1 to 2011:1

Industry	Average Weekly Wage	Change in Jobs since 2010:1	Change in Average Weekly Wage
Total	\$758	4.6%	6.5%
Management of Companies and Enterprises	\$2,283	97.3%	228.0%
Manufacturing*	\$1,259	7.6%	15.6%
Finance and Insurance	\$966	-2.5%	10.3%
Educational Services*	\$966	2.0%	1.2%
Wholesale Trade	\$900	5.8%	4.4%
Professional, Scientific, and Technical Services	\$892	1.8%	1.7%
Construction	\$722	-2.0%	3.4%
Transportation and Warehousing	\$718	6.8%	4.2%
Health Care and Social Services	\$712	0.6%	4.9%
Public Administration	\$707	-2.1%	0.1%
Agriculture, Forestry, Fishing and Hunting	\$638	8.3%	-1.7%
Real Estate and Rental and Leasing	\$543	-1.6%	3.6%
Other Services (Except Public Administration)	\$521	2.2%	14.3%
Information	\$480	3.6%	-2.8%
Administrative and Support and Waste Management and Remediation Services	\$408	54.4%	-3.1%
Retail Trade	\$407	1.2%	4.4%
Accommodation and Food Services	\$240	4.3%	2.1%
Arts, Entertainment, and Recreation*	\$213	-0.7%	-2.7%

* Some county data were excluded due to confidentiality.
Note: Data for mining and utilities were nondisclosed.
Source: IBRC, using Indiana Department of Workforce data

recording 486 permits. More permits were filed in 2010 (531) and 267 permits were filed in Tippecanoe County in 2011 as of August (see **Figure 2**).

Comparison of year-to-date (January through September) 2011

figures with 2010 finds that the Lafayette MSA real estate market is slightly behind 2010 trends regarding new listings and closed sales, which may be partially due to the reduction in the inventory of homes for sale. However, as of September 2011, the

TABLE 4: Lafayette MSA Housing Market, January to September 2009 and 2010

	Lafayette MSA			Benton County			Carroll County			Tippecanoe County		
	2010	2011	Change	2010	2011	Change	2010	2011	Change	2010	2011	Change
New Listings	2814	2,578	-8.4%	98	90	-8.2%	255	232	-9.0%	2461	2256	-8.3%
Closed Sales	1,461	1,402	-4.0%	50	45	-10.0%	120	101	-15.8%	1,291	1,256	-2.7%
Median Sales Price	n/a	n/a	n/a	\$65,500	\$68,500	4.6%	\$81,500	\$79,250	-2.8%	\$122,000	\$124,000	1.6%
Months Supply of Inventory*	10.8	12.06	11.7%	12.9	13.9	7.8%	11.7	14.5	23.9%	7.8	7.8	0.0%
Inventory of Homes for Sale*	1328	1,264	-4.8%	71	65	-8.5%	161	157	-2.5%	1096	1042	-4.9%

*Data as of September 2011
Source: IBRC, using Indiana Association of Realtors data

Louisville Forecast 2012

Uric Dufrene: Sanders Chair in Business, Indiana University Southeast, New Albany

Lafayette MSA has a year's worth of housing inventory to sell (see **Table 4**). The decline in listings is spread across all counties; however, reduction in homes sold seems to be most prevalent in Benton and Carroll counties. Overall, the median sales price has risen in Benton and Tippecanoe counties, but declined slightly in Carroll County. The increase in "months supply of inventory" was evident in Carroll and Benton counties, indicating the increased length of time it takes to sell a home in these areas. In 2012, the housing market will likely continue to be languid, with foreclosed homes potentially accounting for a larger proportion of existing home sales. If this does occur, then prices will be pulled down further. At this point, the Lafayette MSA will continue to work off the excess inventory of houses to a more manageable level.

Conclusion

Overall, the Lafayette MSA is expected to show slight growth in population, employment, PCPI and wages, yet experience tepid activity in the housing market. As businesses continue to add to their employment rolls, it may help boost consumer confidence in the economy—thus spurring consumption. However, due to the severity of the Great Recession and the slow rebound, consumers and businesses alike may be adapting to this new normal and practicing a more frugal lifestyle, thus further compounding the slow economic growth. ■

Notes

1. For more research on the differences between the U.S. and Indiana PCPI, see Timothy Slaper and Ryan Krause, "Occupational Hazard: Why Indiana's Wages Lag the Nation," *Indiana Business Review*, Spring 2010, www.ibrc.indiana.edu/ibr/2010/spring/article1.html.

At the start of 2011, the Louisville metro was on track for positive job growth. From January to April, the region added about 11,000 non-farm jobs, and the region's unemployment rate had declined by half of a percentage point. The start of the year's second quarter, however, was the beginning of an overall slowdown. From May to August, non-farm payrolls added no new jobs, and the unemployment rate only declined by three-tenths of a point. Since August, employment growth has resumed, and the region should continue to see gradual growth through 2012.

Employment

The Louisville metro continues to be down approximately 22,000 non-farm payroll jobs since the beginning of the Great Recession. Stronger manufacturing growth over 2011 helped partially erase the recession

jobs deficit, but this growth is now beginning to slow (see **Figure 1**). Consequently, the region will continue to see positive job growth, but only at a slow rate.

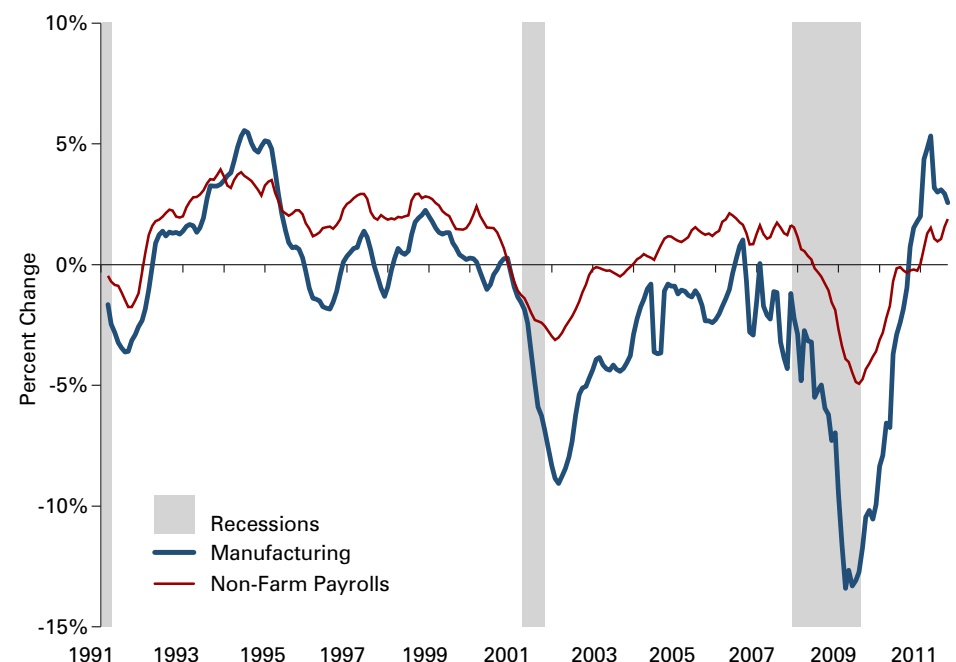
Unemployment Rate

The Louisville metro's unemployment rate appears to have reached a floor. After declines earlier in the year, the region's unemployment rate settled around the 9 percent level (see **Figure 2**).

As employment and the labor force continue to grow, the unemployment rate will not see significant declines from the 9 percent level since both the labor force and employment will grow at approximately the same rate. The most recent data point saw the unemployment rate increase back up to 9.6 percent. However, the underlying trend in job creation was quite positive.

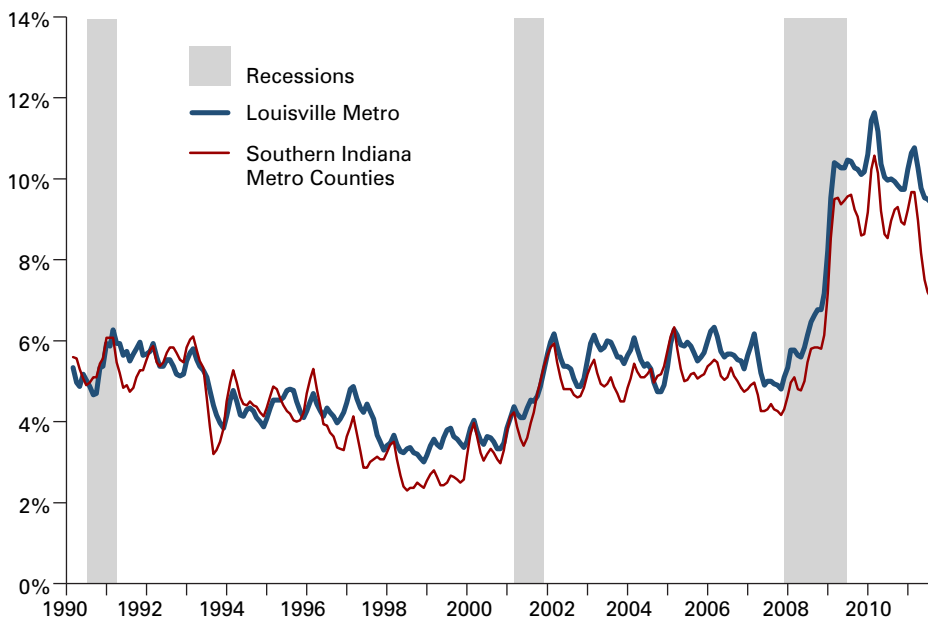
On the other hand, the Southern Indiana metro counties (Clark, Floyd, Harrison and Washington)

FIGURE 1: Louisville Employment and Manufacturing Growth, March 1991 to September 2011



Source: FactSet

■ **FIGURE 2: Louisville Unemployment Rates, March 1990 to September 2011**



Source: FactSet

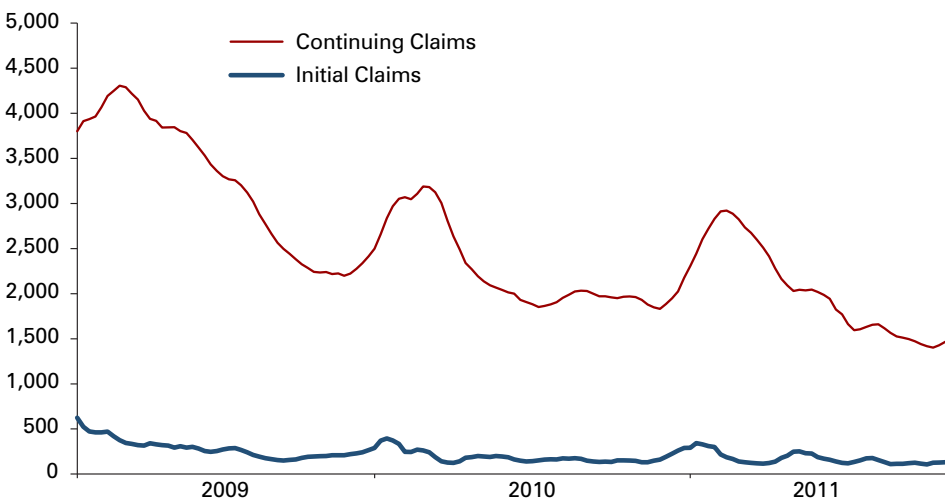
have enjoyed rates less than the region's average, with some counties experiencing unemployment rates around the 7 percent level. A favorable combination of growing employment and labor force is contributing to the overall rate decline. Hence, the outlook for Southern Indiana's unemployment rate is continued gradual

improvement, with the area's rate settling to a level just above 6 percent.

Unemployment Claims

Southern Indiana's new claims for unemployment continue to show improvement from the escalating levels of 2009 (see **Figure 3**). The latest readings indicate that claims in the metro counties appear to have

■ **FIGURE 3: Unemployment Claims in Southern Indiana Metro Counties, January 2009 to October 2011**



Note: Data are four-week moving averages.
Source: FactSet

settled with no noticeable trend of higher or lower levels.

Manufacturing

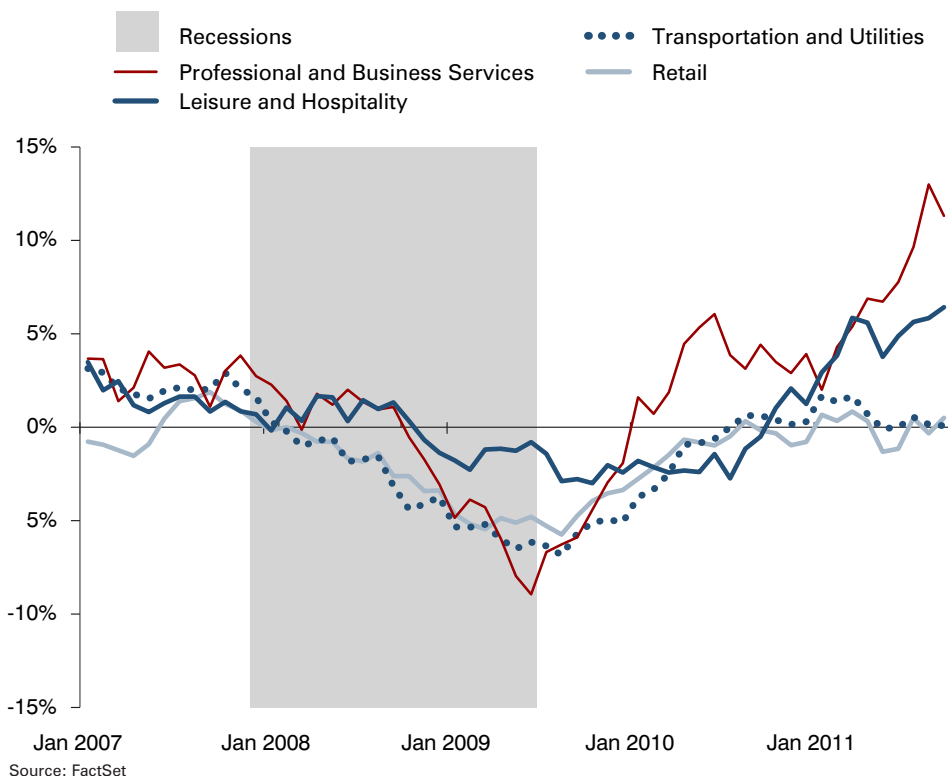
Manufacturing contributed to massive employment losses for Indiana during the Great Recession and subsequently contributed to employment gains. Following the Great Recession, manufacturing drove Indiana's economic recovery due to inventory restocking needs following demand-driven cutbacks in production. Policymakers rejoiced over manufacturing gains, and Indiana was often showcased as a jobs leader nationally.

Perhaps this job growth was short lived. As the nation exits the inventory restocking phase, demand will be necessary in order to sustain earlier gains in manufacturing. Subpar growth in gross domestic product and slowing growth in Europe and emerging market economies suggest that the demand will not be sufficient to sustain these gains. Consequently, manufacturing growth has slowed and will likely see continued slow growth during 2012.

Services

Service sector growth has bounced back since the depths of the Great Recession, but has not been sufficient to erase the overall jobs deficit. For example, retail employment continues to be down 4,500 from prior to the last recession. Additionally, transportation and utilities, a significant component of the metro economy, has yet to bounce back from the 4,200 lost positions since September 2007. As consumer spending on leisure and business travel continues to recover, leisure and hospitality employment continues its recovery as well, adding 3,000 jobs since last year. Some of the most impressive growth can be attributed to the professional and business services sector (see **Figure 4**). From September 2010 to September 2011, 8,300 jobs were

FIGURE 4: Louisville Services Employment, January 2007 to September 2011



added to this overall employment barometer. On the downside, however, most of the professional and business services gains are attributed to temporary labor services, an indication of continued slack in the regional labor markets. The most resilient service sector, educational services and health care, continues to be in positive territory — but the most recent numbers point to a leveling of growth.

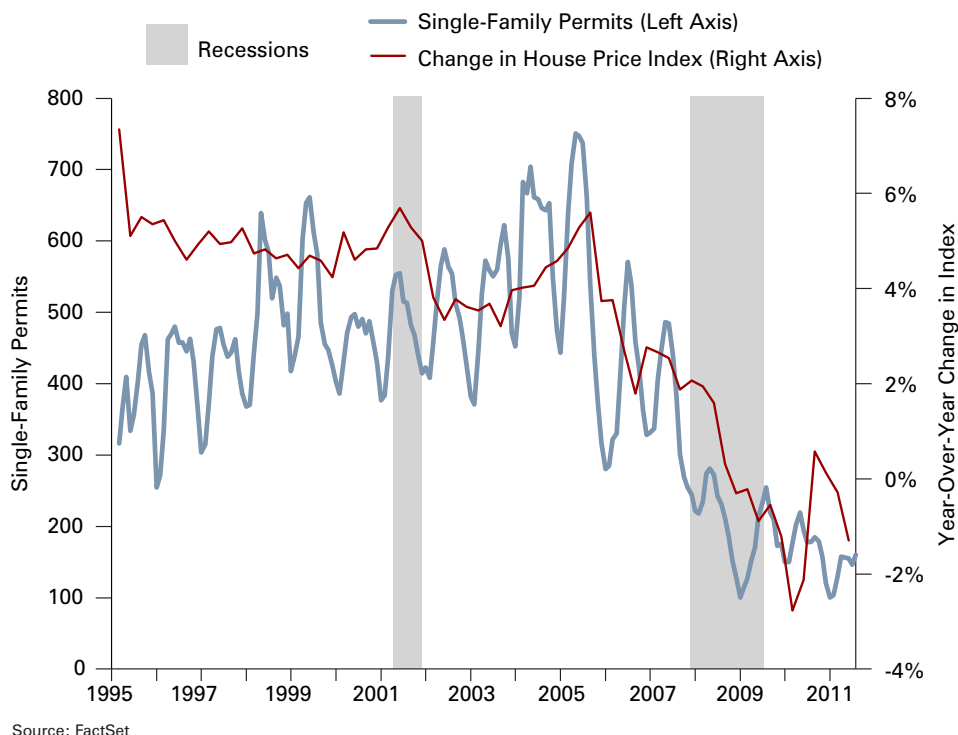
Housing

Housing continues to struggle. Permits remain well below trend, and home prices remain soft. Challenges faced in housing will continue to adversely impact consumer confidence and subsequent consumer spending. No significant housing recovery can be expected this year. Consequently, housing will continue to weigh on consumer sentiment, adversely affecting overall consumer demand.

Outlook

The Louisville metro will continue to see job growth, but only gradually. As a result, the region's unemployment rate will continue to hover above 8 percent. Housing should also see a gradual turnaround, but at a very subdued pace. Building permits and construction jobs will also see increases, but likewise at a very slow pace. The region should expect to see gradual improvement in the service sectors as consumers continue to experience an overall recovery and become more confident. Southern Indiana will see higher employment growth than the overall metro area, and its unemployment rate will remain at levels lower than the region. ■

FIGURE 5: Louisville Single-Family Permits and Change in House Price Index, March 1995 to August 2011



Muncie Forecast 2012

Dagney Faulk, Ph.D.: Director of Research, Center for Business and Economic Research, Ball State University

Phillip E. Morris: Graduate Assistant, Center for Business and Economic Research, Ball State University

The past year has been sluggish in east-central Indiana, but there are signs of increased economic activity. Delaware County's contribution to the I-69 Alternative Energy Corridor is the Park One complex, now home to Brevini Wind, VAT Energies and Mursix. Earlier this year, Brevini Wind started production of its largest project to date: manufacturing gearboxes for Finland-based Winwind.¹ Progress Rail Services opened a facility in a long vacant industrial building and in October displayed the first two locomotives produced by its new Muncie manufacturing facility. Presently, the number of workers is around 150 but is expected to increase.² Local officials recently took a trip to Turkey, resulting in the announcement that Kermit USA plans to establish its U.S. headquarters in Muncie, creating 70 new jobs by 2016.³

This article includes the most current data available on various measures of economic activity from public sources for the Muncie metropolitan area (Delaware County) to analyze changes over the past year. A summary of the labor market forecast for the Muncie area is included in the conclusion.

Labor Markets

The unemployment rate for September 2011 made a healthy improvement from January 2011 decreasing from 10.6 percent to 9.3 percent. This is also lower than one year ago (September 2010) which had an unemployment rate of 10.0 percent. However, this is still higher than Indiana's rate of 8.5 percent (not seasonally adjusted). Similar to last year, the number of unemployed workers has decreased at a faster rate than the increase in the labor force.

TABLE 1: Labor Force and Unemployment for Delaware County, September 2010 to September 2011

Year	Month	Labor Force	Unemployed	Unemployment Rate
2010	September	54,730	5,476	10.0%
	October	54,291	5,348	9.9%
	November	54,002	5,631	10.4%
	December	53,504	5,345	10.0%
	Annual	54,114	6,074	11.2%
2011	January	52,614	5,563	10.6%
	February	52,423	5,225	10.0%
	March	52,917	4,953	9.4%
	April	52,968	4,572	8.6%
	May	53,710	4,854	9.0%
	June	51,953	5,272	10.1%
	July	52,413	5,241	10.0%
	August	52,797	5,233	9.9%
	September	54,184	5,030	9.3%

Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

TABLE 2: Muncie Metro Employment by Industry, Year-to-Date 2010 to 2011

Industry	2011*	Change since 2010	Percent Change 2010-2011
Total Non-Farm	48,389	-433	-0.9%
Total Private	36,156	-356	-1.0%
Goods-Producing	5,122	44	0.9%
Manufacturing	3,544	-89	-2.4%
Service-Providing	31,033	-400	-1.3%
Trade, Transportation and Utilities	8,167	0	0.0%
Information	300	-56	-15.6%
Financial Activities	2,722	44	1.7%
Educational and Health Services	9,811	56	0.6%
Leisure and Hospitality	4,767	11	0.2%
Other Services	1,600	-33	-2.0%
Government	12,233	-78	-0.6%

*January through September average. September data are preliminary.
Source: Bureau of Labor Statistics

From January through September, the number of unemployed workers decreased by 9.6 percent, while the

labor force increased by 3.0 percent. This led to the decrease in the unemployment rate (see **Table 1**).

■ **TABLE 3: Average Weekly Wages in the Muncie MSA, 2010:1 to 2011:1**

Industry	2010:1	2011:1	Percent Change
Total	\$611	\$613	0.3%
Utilities	\$1,116	\$1,352	21.1%
Wholesale Trade	\$805	\$858	6.6%
Retail Trade	\$379	\$402	6.1%
Real Estate and Rental and Leasing	\$570	\$594	4.2%
Health Care and Social Services	\$618	\$642	3.9%
Information	\$619	\$642	3.7%
Other Services (Except Public Administration)	\$408	\$418	2.5%
Public Administration	\$712	\$728	2.2%
Transportation and Warehousing	\$717	\$733	2.2%
Accommodation and Food Services	\$218	\$222	1.8%
Construction	\$647	\$641	-0.9%
Educational Services	\$729	\$722	-1.0%
Professional, Scientific, and Technical Services	\$719	\$703	-2.2%
Finance and Insurance	\$721	\$704	-2.4%
Management of Companies and Enterprises	\$2,034	\$1,977	-2.8%
Administrative and Support and Waste Management and Remediation Services	\$416	\$404	-2.9%
Agriculture, Forestry, Fishing and Hunting	\$476	\$459	-3.6%
Manufacturing	\$893	\$828	-7.3%
Arts, Entertainment and Recreation	\$290	\$255	-12.1%

Source: Bureau of Labor Statistics

Again in 2011, non-farm employment decreased. However, the decrease of 433 jobs was less than 2010's decrease of 811 and substantially less than the job losses between 2008 and 2009, which exceeded 2,500. As in 2010, manufacturing lost the most jobs, down 89. However, these manufacturing losses were less than 20 percent of jobs lost in 2010 (-467). Private educational and health services had the largest increase

in jobs with 56, which is a major turnaround from 2010 where this industry lost 122 jobs. Financial activities had the second-largest addition of jobs with 44 (see **Table 2**).

Over the past three years, average weekly wages in Delaware County have remained relatively constant with a level of \$613 in 2011 (see **Table 3**). Changes in 2011 average weekly wages were split nearly 50/50 among the sectors with 10 increases and nine decreases. The largest increases

■ **TABLE 4: Delaware County Residential Building Permits, Year-to-Date 2000 to 2011**

Year	Total	Single-Family	Multi-Family
2004	254	174	80
2005	231	182	49
2006	180	172	8
2007	371	180	191
2008	200	154	46
2009	131	124	7
2010	112	87	25
2011	90	76	14
2008	53	49	4
2009	26	26	0
2010	30	28	2
2011	59	49	10

Note: Each year is based on January through September totals.
Source: U.S. Census Bureau

were in utilities (21.1 percent), wholesale trade (6.6 percent) and retail trade (6.1 percent). The sectors with the largest decreases were arts, entertainment and recreation (-12.1 percent) and manufacturing (-7.3 percent). Over half of the sectors saw very little change (less than 3 percent) in either direction. Overall, average weekly wages across the county were not keeping pace with the inflation rate of 2.2 percent.

Housing

Even though new housing construction remains substantially lower than it was from 2000 through 2006, building permits have made a respectable jump in 2011 increasing to 59 from 30 in 2010 (see **Table 4**).

■ **TABLE 5: Residential Real Estate Sales, Delaware County, January to September Averages, 2003 to 2011**

Indicator	2004	2005	2006	2007	2008	2009	2010	2011
Units Sold	1,063	966	1,086	984	715	733	714	635
Average Days on Market	115	119	131	128	145	155	130	146
Average Sale Price	\$96,863	\$101,891	\$98,230	\$92,596	\$91,632	\$90,628	\$85,084	\$85,957
Median Sale Price	\$80,000	\$80,650	\$80,000	\$79,900	\$75,500	\$76,750	\$69,950	\$72,900
Average Property Tax/ Average Sales Price	1.21%	1.20%	1.18%	1.30%	1.71%	1.54%	1.47%	1.16%

Source: Jim Kouns with the Mid-Eastern Indiana Association of Realtors (MEIAR)

“In the coming year, we expect small gains in employment (1 percent) and income (in the 3 percent range) as the economy continues its slow recovery.”

This contrasts with the activity of the real estate market. The number of units sold decreased from 714 in 2010 to 635 in 2011 and the average days on the market increased. However, the average sale price increased from \$85,084 in 2010 to \$85,957 in 2011. This is the first increase in the average sales price of homes since 2005 (see Table 5).

TABLE 6: Food Stamp Recipients in Delaware County, January to October Averages, 2003 to 2011

Year	Average Monthly Food Stamps Issued	Number of Food Stamp Recipients
2003	\$958,929	11,346
2004	\$1,107,937	12,601
2005	\$1,398,397	14,064
2006	\$1,349,338	14,119
2007	\$1,426,283	14,400
2008	\$1,423,852	13,043
2009	\$1,932,026	14,454
2010	\$2,302,577	16,915
2011	\$2,520,722	18,706
Change 2010 to 2011	218,145	1,791
Percent Change	9.5%	10.6%

Note: Each year is based on January through October monthly averages. Dollar amounts not adjusted for inflation. Source: STATS Indiana, using FSSA data

Social Safety Net

Again in 2011, there were increases in the dollar amount of food stamps issued and the number of food stamp recipients (see Table 6). However, these increases were less than what occurred in 2010. In 2011, the dollar amount of food stamps issued was \$2.52 million per month. This is an increase of \$218,145 (9.5 percent) compared to the \$370,551 (19.2 percent) increase in 2010. The number of food stamp recipients in 2011 was 18,706 per month. This is an increase of 1,791 (10.6 percent) compared to the increase of 2,461 (17 percent) in 2010.

Outlook

The official numbers indicate that Muncie's economy did not fare particularly well over the past year, although there are glimmers of growth from individual businesses in the area. While the unemployment rate has decreased, so did the labor force and the overall level of employment in the area. The rate of job declines has diminished, average wages are stable but the number of people on food stamps increased. The number of residential building permits increased as did the average sale price of single-family homes, but the number of units sold decreased.

In the coming year, we expect small gains in employment (1 percent) and income (in the 3 percent range) as the economy continues its slow recovery.⁴

Notes

1. "Brevini to Start Work on Huge Contract," *Inside Indiana Business*, May 17, 2011, www.insideindianabusiness.com/advanced-manufacturing.asp?detail=true&id=308.
2. "Progress Rail Shows Off New Locomotives During Open House," *The Star Press*, October 29, 2011.
3. "Turkish Manufacturer Chooses Indiana for New HQ," *Inside Indiana Business*, November 4, 2011, www.insideindianabusiness.com/newsitem.asp?id=50629.
4. Forecast from the Center for Econometric Model Research, Indiana University, Bloomington, August 2011.

Richmond Forecast 2012

Tim G. Rogers: President/CEO, Economic Development Corporation of Wayne County and the Wayne County Area Chamber of Commerce

Renee L. Doty: Manager of Community Affairs, Economic Development Corporation of Wayne County

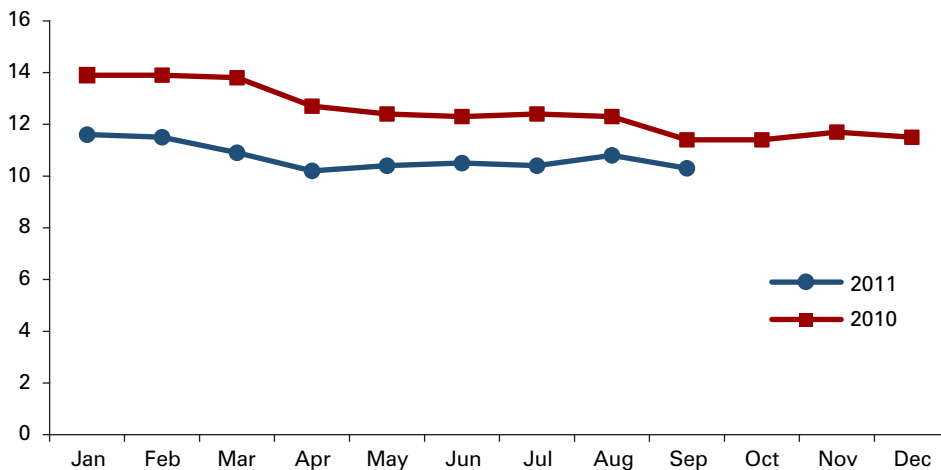
2011 shaped up to be a slightly better year for Wayne County compared to 2010. Unemployment numbers for 2011 continued to decrease slightly over 2010. August 2011 saw a slight increase, but the unemployment rate continued downward again in September to 10.3 percent (see Figure 1). This compares to 11.4 percent in September 2010 and 12.0 percent in September 2009.¹ In addition, Wayne County saw a number of development projects reach completion or break ground in 2011 across the manufacturing, housing, health care and retail sectors.

Investment Activity for 2011

New housing stock was added representing a combined investment of roughly \$15.2 million in 2011. Nine North Apartments, Village at Whitewater and Centerstone all cut ribbons on housing projects representing both new single-family homes and apartments. There were 496 house sales in Wayne County in 2011 (January 1 to November 1)—an increase of 22 sales relative to 2010. However, the average sale price for a house in 2011 (year-to-date) was \$83,611, down by \$8,900 over 2010.²

The retail and service sector saw growth in 2011. Best Buy opened a new store with an investment of \$1.9 million. Construction is underway on a new Holiday Inn and Conference Center representing an investment of \$7 million. Richmond's historic Depot District continues to add new

■ FIGURE 1: Wayne County Unemployment Rates, 2010 to 2011



Source: Indiana Department of Workforce Development

“If the trend for 2012 remains the same as 2010 and 2011, Wayne County will continue to experience growth, mirroring the nation but at a slower pace.”

restaurants and shopping venues. The district is anchored by the former train depot built in 1902 and designed by famous architect Daniel E. Burnham. The depot was recently renovated for commercial use. Richmond will also welcome an Olive Garden on the east side, scheduled to open late in 2011 or early 2012. A new Italian-style market will open on the city's west side by early 2012. The health care sector also saw new investment. Reid Hospital and Health Care Services constructed and opened a new cancer center. The new center represents a capital investment of \$2.1 million.

The Economic Development Corporation of Wayne County (EDC) assisted with several projects representing new investment and the retention and creation of new jobs. The EDC closed eight projects in 2011 that generated \$24.5 million in new private investment. Those projects created or retained 130 jobs. Two of the projects in 2011 came from companies doing second expansions within the last two years. Two expansion projects occurred with companies who were considering other Midwest locations as well as Wayne County.

2012 Strategies and Trends

Predicting trends for 2012 is difficult. A national election cycle raises uncertainty in leadership, proposed legislation or new regulations and how global markets will be impacted. Wayne County continues to build a foundation for future growth. A recent marketing campaign targeted food processors. Another industry sector will be targeted with a marketing campaign in 2012. The EDC also partnered with the City of Richmond to begin work on Phase II of the Midwest Industrial Park opening up 166 acres for development along Interstate 70. The EDC will continue an aggressive business retention and expansion effort to grow and diversify the economic base of the area. The City of Richmond also approved TIF funding to make additional improvements in the commercial Depot District. One such improvement clears the way for the Model T Ford Club of America to relocate the Model T Museum to the Depot District which will strengthen the economic viability of the area.

If the trend for 2012 remains the same as 2010 and 2011, Wayne County will continue to experience growth, mirroring the nation but at a slower pace. Wayne County will continue to work with the business

sector and also market to prospects in targeted industry sectors for new investment opportunities. If the county can continue to build on its current momentum, perhaps growth will start to move at a faster pace in 2012. ■

Notes

1. Data came from the Hoosiers by the Numbers website at www.hoosierdata.in.gov.
2. Data came from the Paragon website at <http://richmondin.p3.fnismils.com> (accessed November 2011).

South Bend and Elkhart Area Forecast 2012

Douglas Agbetsiafa: Chair and Professor of Economics, School of Business and Economics, Indiana University South Bend

The Michiana region, comprised largely of the South Bend-Mishawaka and Elkhart-Goshen metropolitan statistical areas (MSAs), continues to recover from the significant setbacks resulting from the 2007–2009 recession. We expect the recovery to continue in 2012 but at a slow pace.

Gross Domestic Product

The combined local real gross domestic product (RGDP) was \$19.45 billion (in chained 2001 dollars) in 2010. Separately, the 2007–2009 recession caused Elkhart-Goshen MSA's RGDP to contract 15.3 percent, while the South Bend-Mishawaka MSA shrank by 6.9 percent. By the end of 2010, and with RGDP of \$8.81 billion, the Elkhart-Goshen MSA grew 13 percent, while the South Bend-Mishawaka MSA area (\$10.65 billion) grew about 1 percent from the previous year. By the end of 2010, the Elkhart-Goshen area experienced the largest upturn in RGDP growth in the nation. Thanks to a strong recovery in the metro's durable goods manufacturing, it went from a 15.3 percent decline in 2009 to 13 percent growth in 2010—an impressive gain of 28.3 percentage points. The South Bend-Mishawaka metropolitan area's RGDP grew about 1.0 percent in 2010 after declining 6.9 percent in 2009—a turnaround of 8 percentage points. Overall, the size of the local metropolitan economies, while higher in 2010 than its level in 2009, remained \$1.1 billion (in chained 2001 dollars) below pre-recession levels.

Labor Force and Employment

The local labor force continued to decline but at a slower rate, with a decline of about 1,500 between September 2010 and September 2011. This is compared to a drop of 6,500 workers between September 2009 and September 2010. This improvement is

unevenly distributed between the two metropolitan areas. From September 2010 to September 2011, the South Bend-Mishawaka MSA labor force declined by 60 people, while the Elkhart-Goshen MSA labor force fell by 1,434.¹ Combined employment for both metros fell by 1,400 from 239,700 jobs in September 2010 to 238,300 in September 2011. The Elkhart-Goshen MSA lost 1,800 jobs, while the South Bend-Mishawaka MSA gained 500 more jobs during the same period. However, between the first quarter of 2010 and the same quarter of 2011, the Elkhart area had the largest percent gain in the nation (6.2 percent).

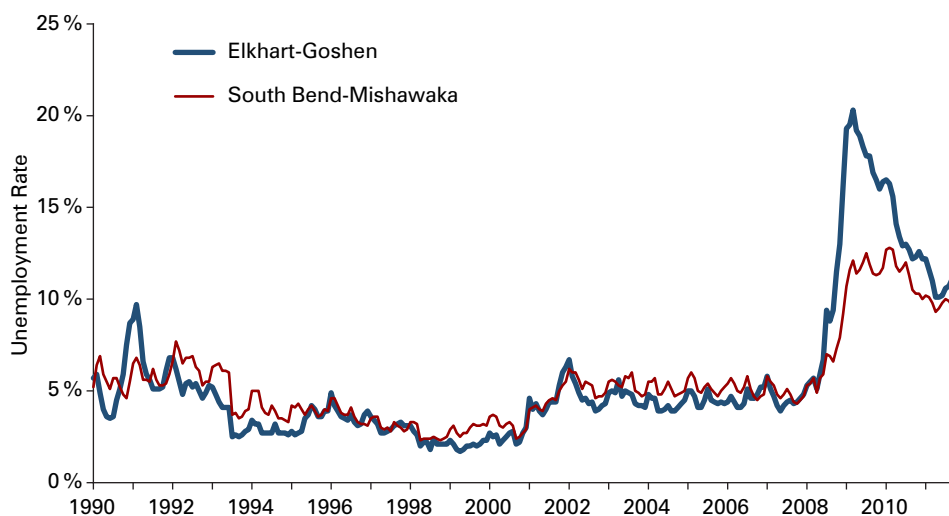
Figure 1 shows metropolitan unemployment rates for 1990 to 2011. For both MSAs, the unemployment rates continued to fall since peaking in 2009. These rates were lower by the third quarter of 2011 than they were in 2009. The economic recovery which began in June 2009 buoyed local economic growth and reduction in unemployment rates across the two metropolitan areas. Elkhart-Goshen's unemployment rate fell

5.8 points by September 2011 from the September 2009 level of 16.9 percent—a huge 34.3 percent decline. Insulated somewhat by its more diverse economic base, the South Bend-Elkhart MSA experienced only a 1.8 point decline for the same period.

Table 1 reports employment data by industry for the region's metropolitan areas. The Michiana region has lost a staggering number of jobs as a result of the recession that officially began in the fourth quarter of 2007 and ended in June 2009. Approximately 228,400 people were employed in non-farm sectors across the region in September 2011, with employment being about 29,800 higher in the South Bend-Mishawaka area compared to Elkhart-Goshen. From September 2010 to September 2011, total non-farm employment fell by 1,800 jobs in the Elkhart-Goshen MSA, while rising by 500 jobs in the South Bend-Mishawaka MSA.

While jobs in the two metropolitan areas were down 38,700 from where they were in September 2007, a look at more recent data shows some

FIGURE 1: Unemployment Rates in the Elkhart-Goshen and South Bend-Mishawaka MSAs, January 1990 to September 2011



Source: STATS Indiana, using Bureau of Labor Statistics data

positive signs. The combined total non-farm jobs were down 1,800 compared to their 2010 levels. That may not sound all that positive unless one considers that non-farm employment dropped 6.5 percent from 2007 to 2008 and 10.4 percent from 2008 to 2009 (using September data from each year). It looks like the worst may be behind us and job losses may be moderating. In the most recent data, some individual industries saw positive signs as well. While all industries experienced losses from September 2009 to September 2010, only four industries in the combined area experienced job losses over the past year—trade, transportation and utilities; private educational and health services; other services; and government. On the other hand, manufacturing; professional and business services; and natural resources, mining and construction recorded healthy gains. Also, there were modest job gains in information and financial services during the period.

“All of the 900 manufacturing industry gains resulted from more jobs in the Elkhart-Goshen MSA, and all the jobs in professional and business services added since 2010 were a result of gains in the South Bend-Mishawaka MSA alone.”

All of the 900 manufacturing industry gains resulted from more jobs in the Elkhart-Goshen MSA, and all the jobs in professional and business services added since 2010 were a result of gains in the South Bend-Mishawaka MSA alone. This metro area added 600 jobs in trade, transportation and utilities, 500 in leisure and hospitality, 200 in financial activities, while the Elkhart-Goshen MSA lost 900, 400, and 100 jobs in these industries, respectively, from September 2010 to September 2011. Job losses in private educational and health services were more pronounced in South Bend-Mishawaka with 1,200 losses compared to Elkhart-Goshen with 500 job losses. Both MSAs share the

combined government sector job losses almost equally, with 700 jobs losses in South Bend-Mishawaka and 600 job losses in Elkhart-Goshen.

Local Wages

From March 2010 to March 2011, the average weekly wage rose by 5.7 percent to \$698 in Elkhart compared to a gain of 3.4 percent from March 2009 to March 2010. In the South Bend-Mishawaka metropolitan area, the average wage climbed 3.1 percent to \$723, compared to a decline of 2.2 percent during the previous period. This positive wage trend should continue as both local economies continue their recovery and see improving labor markets.

TABLE 1: Employment by Industry and Metro Area, September 2011

Industry	Elkhart-Goshen		South Bend-Mishawaka		Combined Region		
	Employment	Change since September 2010	Employment	Change since September 2010	Employment	Change since September 2007	Change since September 2010
Total Non-Farm	104,300	-1,800	134,100	500	238,400	-38,700	-1,300
Natural Resources, Mining and Construction	3,700	300	4,900	200	8,600	-2,500	500
Manufacturing	45,800	900	15,900	-100	61,700	-20,600	800
Trade, Transportation and Utilities	15,500	-900	26,200	600	41,700	-5,300	-300
Information	600	0	1,700	100	2,300	-600	100
Financial Activities	2,900	-100	6,000	200	8,900	-1,300	100
Professional and Business Services	7,300	-200	13,700	800	21,000	-2,300	600
Private Educational and Health Services	10,500	-500	31,800	-1,200	42,300	-1,800	-1,700
Leisure and Hospitality	6,300	-400	12,400	500	18,700	-1,500	100
Other Services	3,200	-300	5,400	100	8,600	-1,200	-200
Government (Includes Public Schools and Hospitals)	8,500	-600	16,100	-700	24,600	-1,600	-1,300

Source: Bureau of Labor Statistics

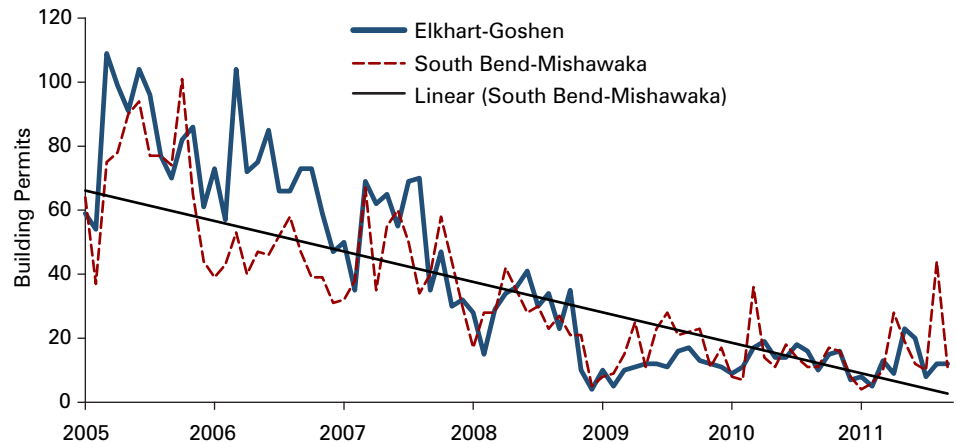
Housing

Residential construction, measured by the number of new single-dwelling housing permits issued in the combined MSAs moderately improved. From January to September 2011, the Elkhart-Goshen MSA had 110 single-family building permits filed. This number is lower than its January-to-September 2010 number of 128 (see **Figure 2**). At the same time, the South Bend-Mishawaka MSA had more single-family building permits (144) filed through September of 2011 compared to the same period in 2010 (130). Indiana Association of Realtors® data also indicate some improvement in the housing sector of both metropolitan areas. Median home prices jumped 13.9 percent in Elkhart-Goshen (from \$86,500 in September 2010 to \$98,500 in September 2011), while rising 3.7 percent during the same period in South Bend-Mishawaka (from \$107,000 to \$111,000). In addition, the inventory of homes for sale declined 7.7 percent in the Elkhart-Goshen region and 0.8 percent in the South Bend-Mishawaka MSA during the period. If these patterns continue, the region should experience a modest growth in housing demand as the local economy continues to expand, financial markets stabilize, bank credit and lending restrictions ease, and local labor markets improve.

Summary

The Michiana region continued its slow but steady recovery from the crippling 2007–2009 recession that caused significant job loss, high unemployment rates, falling real wages on average and weak new home construction. However, 2011 showed some encouraging signs, with real gross domestic product of the local economy rising, declining (though elevated) unemployment rates and real wages expanding in certain sectors. The outlook for 2012 is guardedly optimistic.

FIGURE 2: Single-Family Residential Building Permits by Metropolitan Areas, January 2005 to September 2011



Source: U.S. Census Bureau

Looking ahead, we are beginning to see some increased business growth and expansions like Shafer-Gear, Bright Automotive, Development Partners, Hydro Alumni Co, Inovateus, and others that have added jobs in the South Bend-Mishawaka MSA with more jobs coming in 2012. The same is happening in Elkhart-Goshen's business friendly environment, where new and expanding manufacturers like Eterniti, Lippert Components and Kinro Manufacturing, Redwood RV, Electronic Commerce Inc., Molden Foam LLC and others have added several hundred jobs. Overall, the Michiana region's unemployment rates should continue to fall below current levels, economic activity will quicken, real wages will rise and the housing market will rebound.

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Notes

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Terre Haute Forecast 2012

Kevin Christ: Associate Professor of Economics, Rose-Hulman Institute of Technology

Robert Guell: Professor of Economics, Indiana State University

The outlook for the Terre Haute regional economy is much like the campaign slogan of Terre Haute's newly re-elected mayor Duke Bennett: "Responsible Progress." The city has managed to navigate the drain on revenues resulting from property tax caps while simultaneously developing a plan to deal with its combined sewer overflow problems in an EPA-compliant fashion. While employment figures make it abundantly clear that many of the area's residents continue to struggle to find work, the city is living within its means.

The bright spots are mostly confined to the relatively healthy education and health sectors. Rose-Hulman Institute of Technology, Indiana State University and the Wabash Valley campus of Ivy Tech Community College are all experiencing robust enrollment and working on significant building projects. The expansion of Union Hospital is complete and both it and Regional HCA continue to provide stable employment for many. Those looking for other hopeful signs might point to a continued healthy relationship between the city and its largest private employers (Sony, Bemis and Alorica) that could well be enhanced by the stability associated with having the first re-elected mayor in 20 years.

The downtown area continues to revive, with new facilities under construction for a local TV station and radio station, the latter of which will include new office and retail space. Additionally, the renovation of a former federal building is well underway. In June 2012, it will become the new home of Indiana State's Scott College of Business. The relocation of the college to the northern edge of downtown will

continue a revitalization of the area that has been ongoing since 2007.

Labor Market

Despite these successes, one cannot ignore the conclusion that the Terre Haute regional economy is stuck in the same stagnant environment that affects the state of Indiana and the nation. Almost 30 months into

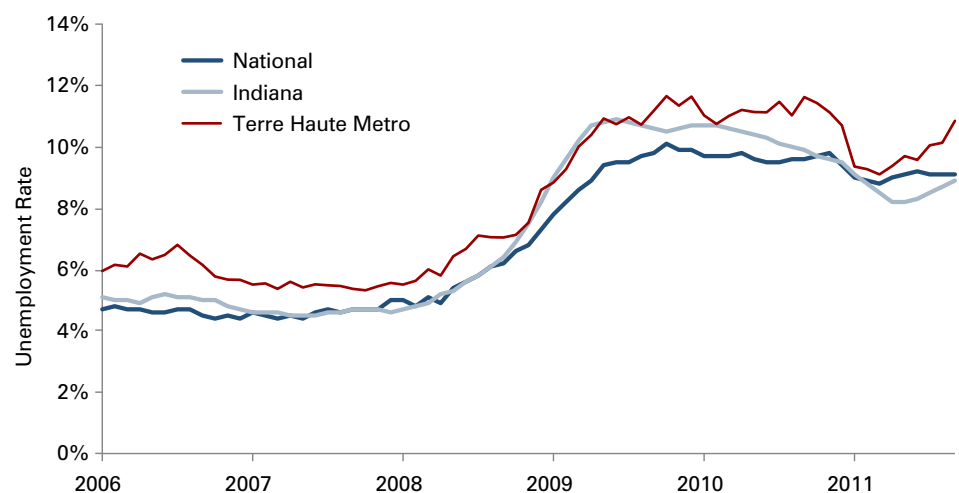
an official recovery from the worst recession since the 1930s, the Terre Haute economy continues to be sluggish and offers few signs of any imminent return to robust growth. Since peaking in November 2006, area employment has sputtered downward, with about 5,600 fewer people employed in the area today (see Figure 1).

FIGURE 1: Terre Haute Regional Employment, January 2006 to September 2011



Source: U.S. Bureau of Labor Statistics (not seasonally adjusted data)

FIGURE 2: Seasonally Adjusted Unemployment Rates, January 2006 to September 2011



Source: U.S. Bureau of Labor Statistics, STATS Indiana and authors' calculations

After improving rather dramatically between the fall of 2010 and the spring of 2011, the Terre Haute labor market weakened considerably during the last half of 2011. On a seasonally adjusted basis, the local unemployment rate fell to 9.1 percent by March 2011, but has since climbed to 10.8 percent. In this respect, the Terre Haute labor market mirrors the performance of the state labor market and is showing slightly more weakness than the national labor market (see **Figure 2**).

The manufacturing sector, once the bulwark of the regional economy, continues to be buffeted by sluggish macroeconomic trends and to decline in relative importance to the area economy. Although as a percent of total area employment, the manufacturing sector's decline since 2006 looks slight (and has actually recovered a bit since a low point in the summer of 2009), it must be remembered that such percentages occur against a backdrop of an overall contraction of the local labor market. Since the peak month of November 2006, the area's manufacturing sector has shed 1,400 jobs. The only sectors to record a net gain in jobs during that period were the education and

“A dramatic change in the trajectory of the area economy will require injection of new investment from outside the area.”

health sectors, which employ 200 more people today than in November 2006.

Outlook

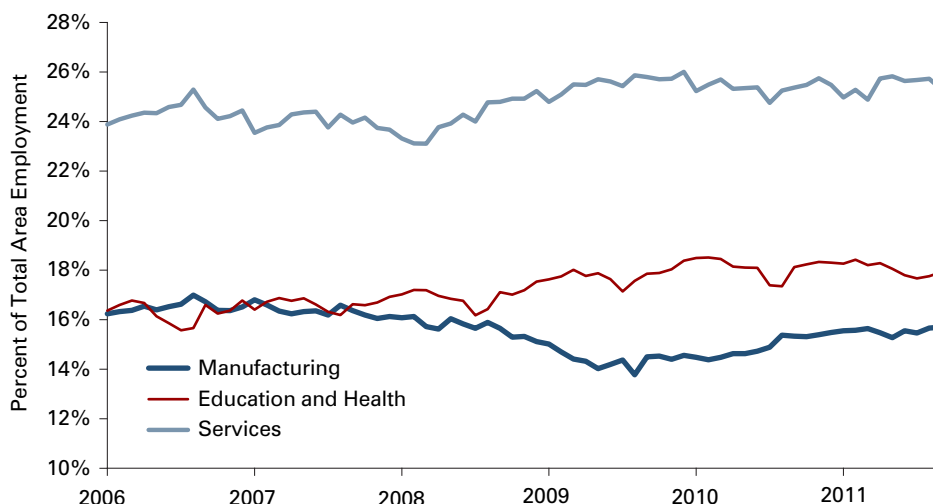
After recording employment growth that was largely identical to state growth during the previous decade, the prospects for near-term employment growth look weak. The Indiana University Center for Econometric Model Research estimates that Terre Haute's employment growth rates are likely to be lower than the state's in the near future.

Though the education and health sectors have been relatively healthy, there are no plans to increase employment at Indiana State or Rose-Hulman in the near future. Though the federal penitentiary facilities have expanded, it is not likely that additional facilities will be constructed in the city. The hope

that existed for the GE Aviation F136 alternative engine project was largely dashed on the rocks of federal budget issues.

Neither the Center nor we believe it likely that the Terre Haute economy will spontaneously or independently expand. Local businesses and education and health institutions are holding their own against the landscape of a weak national economy, but a dramatic change in the trajectory of the area economy will require injection of new investment from outside the area. In short, despite consistent and laudable efforts by the Terre Haute Economic Development Corporation, the results for the city and the area remain modest. ■

FIGURE 3: Sectoral Composition of Employment for Terre Haute Regional Economy, January 2006 to September 2011



Source: U.S. Bureau of Labor Statistics