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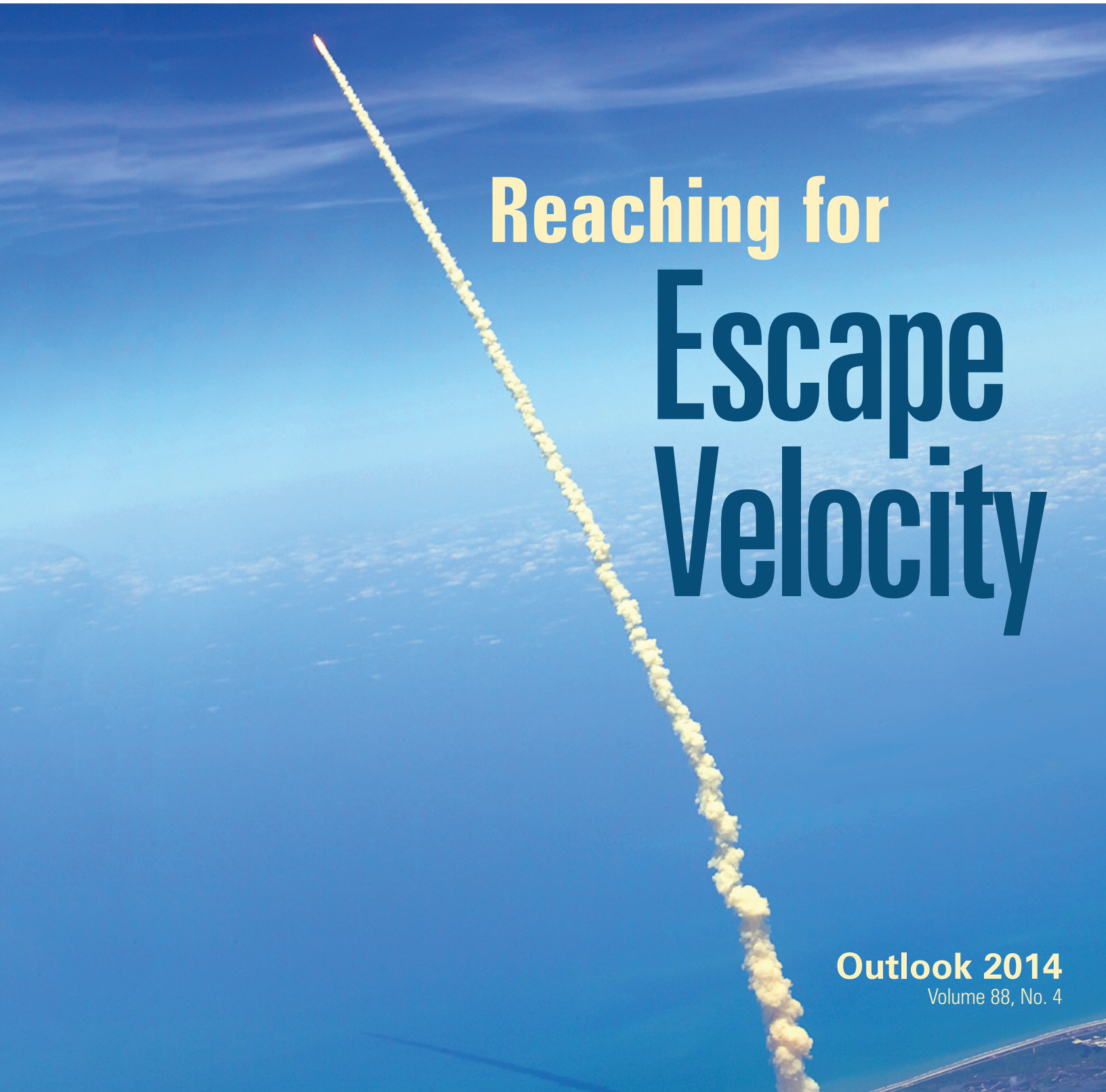
# INDIANA BUSINESS REVIEW



## Reaching for Escape Velocity

**Outlook 2014**

Volume 88, No. 4

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Publication of the *Indiana Business Review* is made possible through the support of Lilly Endowment Inc.

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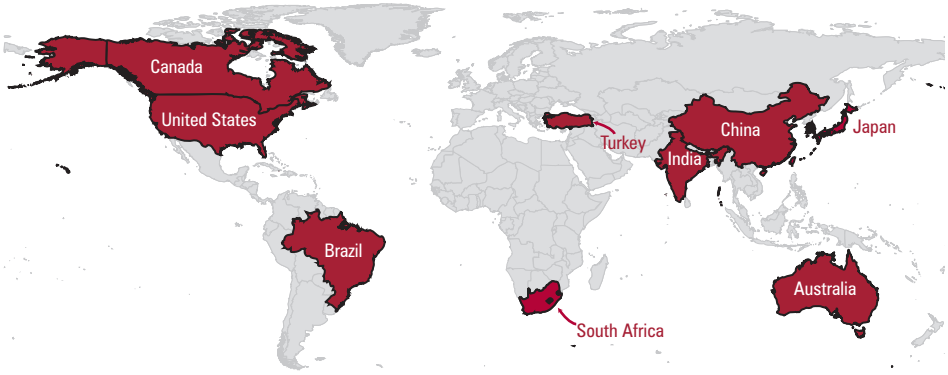
# International Outlook for 2014

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

The overall international economy will be stronger in 2014 than it is in 2013. Globally, GDP is forecasted to increase 3.6 percent in 2014, and is currently predicted to achieve a growth of 2.9 percent in 2013. This article will address the main reason the world economy seems to be stuck in low gear and is forecasted to experience moderate growth in 2014. It will also expose the global economy's weaknesses in the medium-term by outlining the shortcomings of the economies relied upon to uphold global growth.

**Figure 1: Countries Discussed in the 2014 International Economy Outlook**




Source: Indiana Business Research Center

## World Output

In 2014, world output will once again be predominantly supported by more advanced economies rather than growth from emerging and developing markets. The more advanced economies are slowly strengthening and expected to grow 2 percent in 2014. Despite repetitive efforts from U.S. politicians in Washington to sabotage the recovery, U.S. news is encouraging. The panic in Europe has somewhat receded as the peripheral countries are not as likely to default, the core European countries are slowly getting out of the recession, and other developed economies around the globe, such as Canada, Australia and Japan are steadily growing. The emerging markets (which had been the engine of growth in the recent past) are still growing but moderately weakening. This is particularly the case for India, Brazil and Turkey. China is still showing a solid 7.3 percent growth rate and its slowdown from double-digit growth rates has been orderly and deliberately gradual.

The risk to the global forecast remains down, but the most significant threat to the world economy will be in the second half of 2014. The Federal Reserve System will likely exit from both quantitative easing and zero policy rates and many economies' fundamentals will be tested.

## Global Trade

One metric to assess global health is the volume of global trade. Five years ago the financial tsunami in the United States was transmitted globally through the trade channel. International trade fell to record lows and only recovered because of the coordinated global stimulus and a growing Chinese appetite for imports. 2010 marked the end of the global recession and many economists made a mistake: they expected the world's output to strongly bounce back and stabilize at more than 4 percent annual growth rate, a very optimistic expectation. However, households decided to pay back their debt, advanced economies shifted from fiscal stimulus to austerity, and many economies' structural deficiencies surfaced. The main reason the optimistic forecast on global growth did not materialize was the less-than-stellar world trade recovery. In the past year and a half, world trade has barely grown (about 2 percent), and is well below its 20-year average of 5.4 percent. The necessary force of global recovery is missing.

> *The emerging markets (which have been the engine of growth in the recent past) are still growing but moderately weakening.*

In 2008, through contagion from the United States, Europe faced its own financial meltdown, which undeniably placed the European Union (EU) economies at the heart of an eventual trade implosion. Since the EU consumes roughly one third of the world's traded goods, when it is in meltdown mode, the world simmers as well. Specifically, Europe's subsequent bailouts exposed their structural problems: sovereign debt, a weak banking system, income distribution issues and mismatched labor market skills.

> *It is time for world policymakers to create an environment more conducive to market forces.*

These mismatched skills are uneven throughout the continent, most notably in the south and periphery European countries.

Through the trade channel, Europe's 2008 macroeconomic shock is now rippling to the EU's major trading partners in Asia, opening channels for the shock to spread well beyond developed economies. Subsequently, decelerating Asian growth is decreasing the demand for commodities flowing to the Asian market, which are usually sent from emerging economies such as Brazil or South Africa. In the early years of the crisis, the Asian powerhouses and their major trading partners were hailed for their resilience as their robust growth carried the rest of the world. Today, however, the Asian powerhouses and trading partners are faced with sluggish demand for their natural resources. Under the microscope of weak demand, these economies are revealing their immaturity and potential structural flaws.

## Monetary Policy

In June 2013, The Federal Reserve announced that it may end 'easy-money' (monetary stimulus). The Fed's announcement to end easy money quickly created volatility in markets in Brazil, India and Turkey. These countries' quick jump to volatility and the rapid decrease in the value of their currencies indicates that possible structural flaws exist in their economies. The currency depreciation alone is not a source of worry. The widening trade deficit that intensifies the risk of a balance-of-payment crisis in those countries causes concern. Further heightening the risk is that during the years of easy money the countries did not invest in infrastructure building or foundations for productivity growth.

Looking specifically at India, we can further dissect the possible structural flaws. India's vulnerability to volatility in the global capital market needs to be met by more rational policy measures. Namely, the policies need to focus on macroeconomic fundamentals, pro-growth, anti-inflationary measures and pro-government savings.

Likewise, the weakening inward capital flows in Brazil has led to the depreciation of the real, creating inflationary pressures while the economy is contracting. Concurrent to the weak capital flows, Brazil's lack of industrial diversification and persistent reliance on natural resource exports has exposed their economy to the Chinese slowdown known as "Chindown." Chindown is the self-engineered and official Beijing policy of weaning itself off commodity-hungry growth, meaning it is demanding fewer Brazilian resources. Some might think that Chindown's impact on Brazil could be lessened somewhat by the capital expenditures revolving around hosting the FIFA World Cup in 2014, as the infrastructure building represents a great opportunity for the longer-term. However, rampant corruption has been revealed in the sixth greatest economy in the world, and often higher corruption is associated with stunted economic performance in the longer-term.

Finally, shifting focus to Turkey, we also see signs of structural flaws. Namely, the Turkish economy is one of the most vulnerable to a sudden stop of capital inflows. This vulnerability is due to its large capital account deficit and large holding of foreign denominated debt. Although they were left unscathed by the global recession, as the time of un-easy money approaches we see that Turkey's robust growth is at the mercy of credit-fueled consumers. Finally, this traditionally boom-and-bust economy is located in a very hazardous geopolitical position. Turkey shares an 822 kilometer border with Syria, a 499 kilometer border with Iran and only approximately 3 percent of its land is in Europe.

## Global Forecast

The world in 2014 will once again face an important economic transition as there remains no possibility for easy money and fiscal stimulus to continue. The global economy will remain interdependent and there are large gains to be realized through intelligent coordination. It is time for world policymakers to create an environment more conducive to market forces. Years of easy money have only been successful in stabilizing financial markets, but they have not achieved strong and sustainable growth. There is a legitimate fear that our leaders will retreat into spaces that are constrained by their own domestic politics and this will continue to fuel frustration of many throughout the world. Poor politics will continue to destabilize even good economies.

# U.S. Outlook for 2014

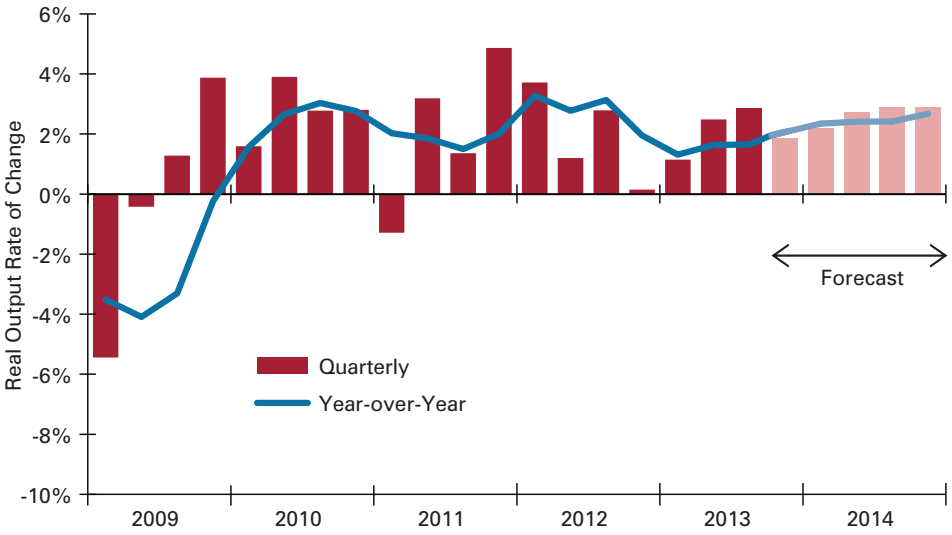
**Willard E. Witte: Professor Emeritus,** Department of Economics, Indiana University Bloomington

The United States economy has continued to disappoint so far in 2013. Through the third quarter, the economy managed to grow at an annual rate of just 2.2 percent (see **Figure 1**). Compared with our expectation a year ago, growth for all of 2013 will probably fall short by close to a full percentage point. The labor market has done somewhat better. We anticipated job growth would average close to 170,000 jobs per month. Through October 2013, the actual outcome has been 186,000 jobs per month (see **Figure 2**). If the final two months come in similar to the past three, the full year will be slightly above our estimate. The unemployment rate was down to 7.3 percent in October. By year-end it could fall a little more, which would put it lower than we expected a year ago. However, this is partly because people have continued to drop out of the labor force. The employment rate (the ratio of those employed to the population) is currently at its lowest level in over three decades.

Looking at a longer time frame of data, the past decade can be broken into four different phases

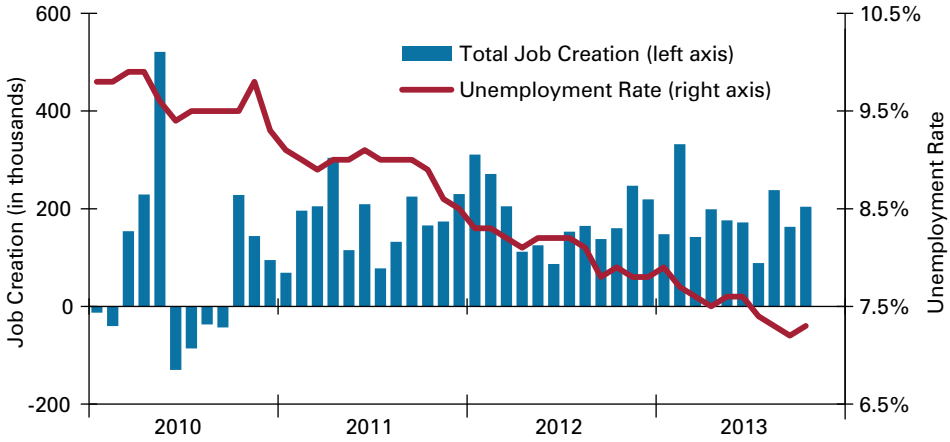
1. **Phase 1: The pre-recession period** (2004–2007). During phase 1, the economy stumbled into a set of serious imbalances. The prime movers were the huge housing boom and an associated financial bubble. These fueled unsustainable levels of consumption (as households cashed out inflated home equity) and state and local spending (paid for with inflated property tax revenue).
2. **Phase 2: The Great Recession.** When the inevitable collapse occurred, the second phase began. This was the Great Recession, after which the economy needed to rebalance itself. Rebalancing required a set of painful adjustments: housing and local government needed to significantly downsize and consumption needed to downsize—a little in the long run and more in the short-term—as households saved in order to rebuild their balance sheets.
3. **Phase 3: Stimulus and Stall.** Unfortunately, these adjustments were hampered by government policy. The huge stimulus package tried to prop up housing and stimulate consumption. It augmented state and local revenues. This produced some temporary improvement in the first year after the recession, followed by a swoon when the programs ended. The stimulus and stall lasted through 2010.
4. **Phase 4: Healing.** During the fourth phase, the economy has finally been moving on with its healing process. Housing has downsized, and during the past

**Figure 1: U.S. Real Output Rate of Change, 2009 to 2014**




Source: Bureau of Economic Analysis

**Figure 2: U.S. Monthly Job Creation and Unemployment Rate, 2010 to 2013**




Source: Bureau of Labor Statistics

year and a half has come back to life. Households have made large strides toward balance sheet repair, especially those with exposure to equity markets. State and local finances in aggregate are much improved but some problems remain, particularly in certain larger cities.

For at least the past year, the economy should have been able to achieve growth close to, perhaps above, its long-run potential of 2.5 percent to 3.0 percent. Yet growth remains stuck in a sub 2 percent rut. We can find only one plausible explanation: policy from Washington is standing in the way all across the board. Fiscal policy is obviously a mess. The latest episode managed to kick that mess into next year, but only after shutting down much of the government for two weeks. On the regulatory front, the rule seems to be "if it succeeds, regulate it or sue it." Meanwhile the Federal Reserve continues a totally unsustainable policy stance, with no real plan for how or when it will change course. All of this has created great uncertainty for consumers and greater uncertainty for businesses. Even with an improved financial situation, households remain reluctant to spend. Meanwhile, businesses sit on piles of cash, borrowing is cheap, yet investment spending is extremely disappointing.

Looking to 2014, this policy headwind is unlikely to disappear entirely, but it could possibly abate as the year unfolds. As a result, we expect that the first half of 2014 will be generally similar to the past year: unacceptably slow growth, without much progress in the labor market. To be more specific:

- We expect output growth to average about 2 percent through mid-2014. In other words, déjà vu. Later in 2014 we think (hope, with our fingers crossed) that there will be some improvement and growth will rise to nearly 3 percent (see **Figure 1**). This is predicated on some clearing of the uncertainty clouds.
- Labor market progress will continue. Employment could show increases above 200,000 jobs per month by the end of 2014, implying an unemployment rate below 6.5 percent by the end of the year.
- We expect inflation to remain well contained in 2014.
- The housing sector has been in recovery mode since the end of 2011 with very rapid growth over the past year. During 2014, we believe this surge will moderate. Housing will remain the strongest industry in the economy, but its period of double-digit growth could end.
- The Federal Reserve has held short-term interest rates at virtually zero for almost five years and has said it will maintain this stance through mid-2015. It has also been buying about $85 billion in securities per month for nearly a year. We expect the latter will taper down during 2014, producing some disorder in financial markets, but with little impact on the rest of the economy.
- Any real actions on the fiscal policy would be welcome but also unexpected, at least to us.

> *We expect that the first half of 2014 will be generally similar to the past year: unacceptably slow growth, without much progress in the labor market.*

Like a year ago, there are the usual suspects that could adversely upset our expectations. To begin with, the better economy later next year is predicated on some progress with the policy deadlock in Washington. Secondly, the outcome when the Fed begins to unwind its security purchase/low interest rate regime is very difficult to predict. Thirdly, the external situation is a minefield: Europe still has problems; the slowdown in China could resume; and the Middle East could go critical.

Even so, we expect the economy will muddle through. Specifically, we expect tepid economic recovery to continue for another few quarters with the possibility of a stronger environment later in 2014.

# Financial Outlook for 2014

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**Robert S. Neal, Ph.D.: Associate Professor of Finance,** Kelley School of Business, Indiana University Indianapolis
**Charles Trzcinka, Ph.D.: James and Virginia Cozad Professor of Finance,** Kelley School of Business, Indiana University Bloomington

Last year we wrote about the roller coaster ride caused by the fiscal cliff and the resulting debt problems. While this "beast" is still in the picture, we predict that the 2014 financial markets will be driven more by earnings than by concerns about whether the politicians can agree with each other. However, we can guarantee that 2014 will not be as good as 2013.

In the twelve months ending November 1, 2013 the Standard and Poor's 500 index (S&P 500) rose a spectacular 25.5 percent (S&P 500 was 1,416.18 on November 1, 2012 and was 1,771.95 on October 29, 2013 including dividends). This return was dramatically higher than for the same period last year (12 percent) and is the highest since the late 1990s. The S&P 500 and the Dow are now at all-time highs and the stock market has easily recovered from the Great Recession. About half the increase over the past year was due to an increase in earnings and the other half was due to price-earnings (PE) ratios increasing. The five year return from the low point in February 2009 is a stunning 16.7 percent per year. This remarkable return occurred in spite of policy uncertainty in Washington.

The Washington dysfunction may prove beneficial for investors. With Republicans controlling the House, it is unlikely that there will be an increase in taxes or spending. Simultaneously, the "sequester" is mechanically lowering federal spending, which is now about 20.8 percent of gross domestic product (GDP) versus 22 percent in FY 2012. With the economy growing, federal taxes are roughly 18 percent of GDP. As a result, the budget deficit fell from $1.1 trillion in FY 2012 to $680 billion in FY 2013 (which ended in September). If we combine this fiscal policy with our forecasted 2 percent to 3 percent real GDP growth and 1 percent to 2 percent inflation, it results in a relatively favorable environment for investors.

With this as a background we turn to fundamentals.

## 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:

- Earnings Scorecard: Of the 374 companies that had reported earnings-to-date for the third quarter of 2013, 74 percent reported earnings above the mean estimate and 53 percent reported revenues above the mean estimate.
- Earnings Growth: Analysts are forecasting earnings will increase by about 10.9 percent in 2014. Consumer discretionary has the highest earnings growth at 15.7 percent and utilities the lowest at 4.4 percent.
- Valuation: PE ratios are above their long run averages, but by modest amounts. The S&P 500 PE ratio is 19, more than its long-term average of 16. The forward PE is 14.8, which is above its long-term average of 14.0.[1] This suggests that earnings are not yet overvalued. One note of caution: the widespread use of share buyback programs may be artificially pushing earnings per share (EPS), and thus PE ratios upwards.
- IPOs are booming: By the fall of 2013, there were 191 initial public offerings (IPOs) in social media, biotech, cloud, internet security and energy. The week we kicked off the Outlook panel, November 4–8, was the biggest week for IPOs since 2006, with $4.8 billion being raised. Twitter jumped from its IPO price of $26 to $45 on the first day of trading.
- Revenue growth for publicly traded firms in the third quarter was 2.9 percent, higher than the expected 2.2 percent.
- 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 likely be maintained throughout 2014, and the 10-year bond rate is expected to maintain its current rate of 2.6 percent.
- Housing is the biggest potential upside as the market appears to have hit bottom and the housing "bubble" is working off its excess inventory.
- We think inflation will remain subdued. Our forecast of 1 percent for 2014 is in line with most forecasts.[2]
- The Conference Board's Leading Economic Indicator is rising,

*"With the economy growing, federal taxes are roughly 18 percent of GDP. As a result, the budget deficit fell from $1.1 trillion in FY 2012 to $680 billion in fiscal year 2013."*

suggesting an increase in domestic growth.

- The Eurozone economy is improving. Growth is expected to rise to 1 percent in 2014, much better than the 0.3 percent decline in 2013. Interest rates on sovereign debt have risen slightly since the start of the year, but are materially lower than 2012 levels.

However, negative factors could make the market recovery short-lived:

- The cyclically adjusted PE ratio for U.S. stocks is at 24.7, the highest since January 2008 but lower than May 2007 (27.5). This suggests stocks have more room to fall than rise.
- Earnings as a percent of GDP are at a 50-year high (about 11 percent of GDP). Hourly pay is stuck at 2008 levels in real terms. If hourly pay had kept up, earnings would be at the historic average, not the all-time high.
- "Taper Talk" will cause the market to fall for at least the short term. There is considerable debate as to why: the common answer is the Fed's quantitative easing (buying $85 billion per month of long term bonds and mortgage-backed securities) is keeping bond prices high, which diverts money into the stock market and increases stock values. When the Fed talked about tapering in June, the market fell 4 percent through much of June, recovering only when the Fed started to buy long term securities. During this same period, the 10-year bond yield rose from 1.6 percent to 2.9 percent before settling down to about 2.6 percent.
- Washington: The immediate risk is the potential shutdown in January and the debt ceiling battle in February. As we suggested in the introduction, the lack of agreement over the budget may have a benefit but the disagreement over the deficit is clearly a risk. However, the lack of consensus in Washington may shake the investors' confidence in the political system's response to the problem of the deficit and the need for substantial infrastructure spending in the United States.
- U.S. Debt: The expansion of the national debt since the end of 2008 is unprecedented since World War II. The debt-to-GDP ratio will have nearly doubled by 2014, from 40.5 percent to almost 70 percent. The massive government deficit may lead to fears of higher interest rates, accelerating inflation and much slower growth. These will have an adverse effect on business investment. The projected budget for 2013 is somewhat lower, about 4 percent of GDP. If the 2014 deficit is financed by tax increases, the tax bill will average about $2,050 per person.
- Companies have very large cash positions on their balance sheets, possibly related to policy uncertainty in Washington. The election may not resolve this uncertainty.
- Industrial Output: In spite of the recent upturn, industrial output remains at only 78 percent of capacity, well below the long run average of 81 percent (including previous recessions).
- Funding Deficit: The United States still faces a huge funding deficit in Social Security and Medicare payments. The present value shortfall is about $62 trillion, 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.

## Forecast

Looking to 2014, the positives outweigh the negatives for the economy, but just barely. We expect the recovery to continue, but at a much slower rate than is typical for recovery: GDP growth will be in the 2 percent to 3 percent range, and inflation will be in the 1 percent to 2 percent range. Earnings will likely rise, but we suspect the rise will be weaker than Wall Street forecasts. Both Obamacare and the Dodd Frank bill are wild cards that could cause poor economic performance.

In this environment, we expect the return to equities to be positive but below the long-run average return of 9 percent. Treasury bonds are already at extremely low yields, and there is little potential for gains with these investments. In addition, we think there are material long-term inflation risks that could make long-term bonds unattractive. However, the low Treasury rates make mortgage rates extremely attractive, with 30-year fixed rates at 4.125 percent and 15-year fixed rates at 3.25 percent.

## 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, especially in January. The adjustment process to full recovery and full employment will likely continue to take time. Until a complete recovery is in sight, we expect market returns to be positive, but below their long-run average.

## Notes:

1. Forward PE for the S&P 500 is 14.8 based on an S&P 500 value of 1,756.54 and projected earnings of 119.05 in 2014.
2. Wells Fargo Securities predicts 1.4 percent, the Fed Forecast personal consumption expenditure (PCE) is 1.7 percent, the Congressional Budget Office (CBO) PCE is 1.6 percent, the Office of Management and Budget (OMB) and the Organization for Economic Cooperation and Development (OECD) each forecast 1.9 percent.

# Housing Market Outlook for 2014

**Matt Kinghorn: State Demographer and Economic Analyst,** Indiana Business Research Center, Kelley School of Business, Indiana University

The year 2013 has been the year of the housing rebound in Indiana and around the country. According to the National Association of Realtors, U.S. home sales during the first nine months of the year were up 12 percent over the same period in 2012. Here in Indiana, the number of houses sold through September 2013 improved by more than 17 percent year-over-year, and the state's median sales price climbed 4.2 percent (see **Table 1**).

Other measures of housing activity are improving, too. Building permits are up by nearly 28 percent through September 2013 and the state's foreclosure rate has fallen significantly in the last year.

Unprecedented affordability conditions helped to spur the housing rebound, but the cost of homeownership will likely increase in 2014. Not only are house prices on the rise again, but mortgage rates are climbing too (see **Figure 1**). According to Freddie Mac, the 30-year fixed mortgage rate jumped from 3.45 percent in in April 2013 to 4.19 percent by October. In their October forecasts, both the Mortgage Bankers Association and Freddie Mac predict the rate will climb above the 5 percent mark in the second half of 2014. By historic standards, however, housing in Indiana should remain affordable for some time.

Looking to 2014, we expect that Indiana's home prices, residential construction activity and foreclosure situation will continue to improve. The outlook for existing home sales is less clear. As several recent media reports have highlighted, a handful of real estate investment groups purchased a large number of homes in some Indiana markets in 2013 with the intention of converting these properties into rentals.[1] It seems unlikely that investor purchases will continue at the same pace in 2014. In the absence of investor activity, individual homeowners will have to pick up the slack but the drivers of housing demand—a strong labor market, migration and access to credit—still aren't firing on all cylinders.

In general, though, given that most of the key housing indicators are finally pointed in the right direction, we have plenty of optimism for the Indiana housing market heading into 2014. As with any outlook, however, we must point to the need for an improved labor market in Indiana, which will boost the state's household formation rate and help reverse the net out-migration trend of the past few years. These factors will bolster demand and further revive the still-sluggish residential construction industry. Once the foundation of the housing market is shored-up, we'll know that this recovery is built to last.

## Notes:

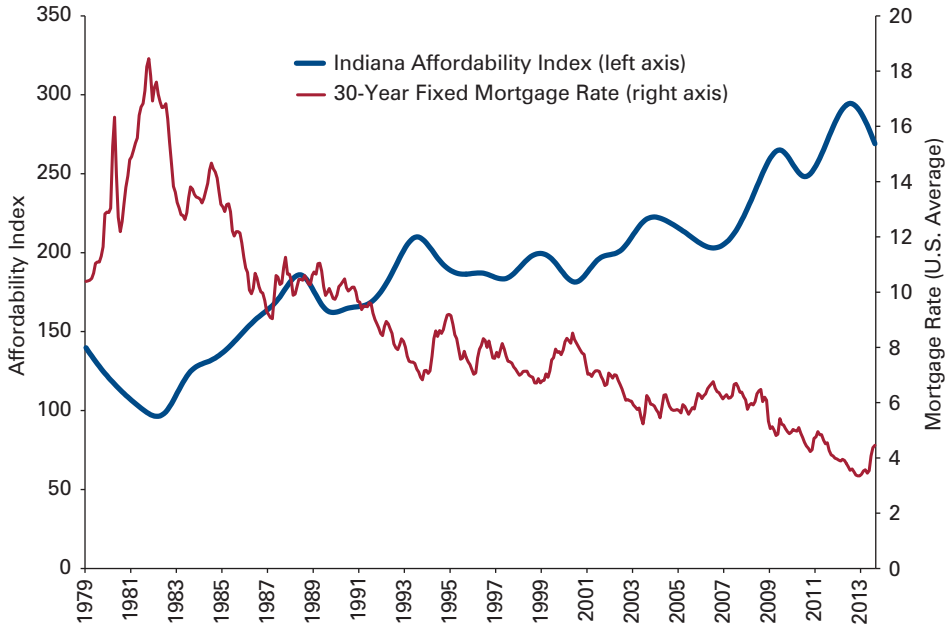
1. Jeff Swiatek, "Investor home-buying group increases Indianapolis-area holdings," Indystar.com, November 8, 2013.

**Table 1: Housing Metrics in Indiana, 2012 to 2013**

| | 2012 | 2013 | Percent Change |
|---|---|---|---|
| Existing Home Sales | 49,883 | 58,558 | 17.4% |
| Median Sales Price | $118,000 | $122,900 | 4.2% |
| Residential Building Permits | 10,302 | 13,163 | 27.8% |
| Foreclosure Rate (3rd Quarter) | 4.5% | 3.2% | - |

Note: Figures for sales, prices and permits represent activity through September of each year.
Sources: Indiana Association of Realtors, U.S. Census Bureau, and Mortgage Bankers Association

**Figure 1: Mortgage Interest Rates and Indiana Housing Affordability Index, January 1979 to August 2013**




Note: An index value of 100 means that a state's median household income is exactly enough to qualify for a mortgage on a median-priced home. Values above 100 indicate that the median income is more than enough to qualify. Indiana's index value was 269 in August 2013, meaning that the state's median household income was 269 percent of the income needed for a mortgage on the median-priced house. Monthly affordability values are interpolated from annual data. The 2013 index values are a forecast.
Source: Freddie Mac and Moody's Economy.com

# Indiana's Outlook for 2014

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

When looking into our economic crystal ball last year, about the only thing we could see was a dense mist of uncertainty for 2013. The nation was heading for the fiscal cliff and, with the exception of the Federal Reserve's continuing policy to provide financial liquidity, all the effects of the stimulus package from four years ago had run their course. Whether they knew it or not, workers were going to feel a hit in their 2013 take-home pay as the 2 percent payroll tax holiday expired January 1.

The payroll tax holiday and the continued uncertainty about the fiscal cliff, the early 2013 debt ceiling negotiations and the mandatory across-the-board cuts in government spending, a.k.a. "the sequester," resulted in our outlook for economic growth in Indiana going from sub-par in 2012 to below sub-par in 2013.

And below-sub-par is what we got.

## Employment and Growth

As the economic recovery gained traction, the Indiana economy regained about half of the jobs lost during the recession (2008 and 2009), gaining 57,000 jobs in 2011, and 56,000 jobs in 2012. Sub-par for a recovery bounce-back, but better than the alternative. Unfortunately, by the end of 2013, Indiana is expected to have added only 37,200 jobs.

Gross domestic product (GDP) growth followed a similar pattern. Indiana's GDP took a bigger hit than the nation's in 2008 and 2009, as **Figure 1** shows. Output growth rebounded more quickly in the Hoosier state and has since run a tick above the national growth rate. The year 2013, however, is a departure. The year is expected to close out with a growth rate about 1.3 percent (compared to the United States at 1.7 percent).

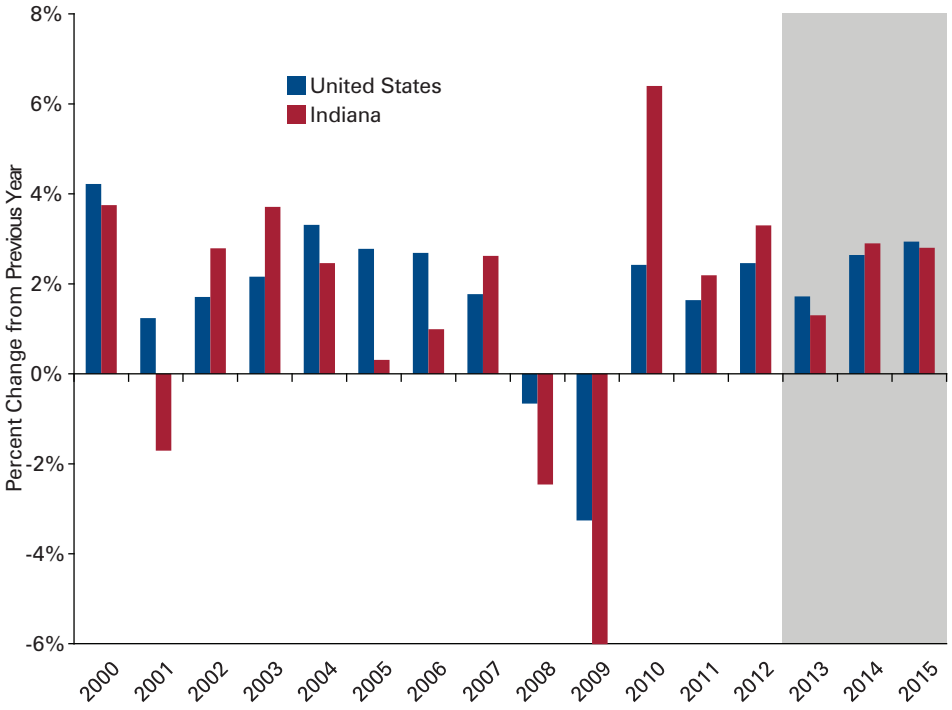
Before the September 2013 moderation in auto sales, the auto sector was on track to sell about 16 million units, an annual rate not attained since November of 2007. Considering the buoyant auto sales and the importance of motor vehicle manufacturing in the state, the disappointing growth in 2013 may be something of a head-scratcher. But consider this, while the state is a manufacturing powerhouse relatively speaking, all manufacturing represents 28.6 percent of state output. As a result, even though manufacturing GDP increased about 7.2 percent in 2012, when averaged with the 2.3 percent growth of private services, state output grew 3.3 percent. All this to say is that Indiana's auto sector may be close to having a banner year in 2013. Auto output in the state may grow well over 10 percent when the tallying is done, but this is not sufficient to pull up state GDP growth to a healthy level.

Next year, Indiana output growth is expected to double and eclipse the nation's rate. That said, it is forecast that neither Indiana nor the United States will return to long-run growth trends. Rather, more of the sub-par growth rates are expected.

On the employment front, the return to sub-par growth is likely to generate an additional 55,000 jobs in 2014, about the same rate as in 2011 and 2012. With the forecast of 47,000 new jobs added to the Indiana economy in 2015, the state will then be back to pre-recession employment levels of 2007. **Figure 2** presents quarterly employment change in the state over the last three years and the forecasted growth in employment for the next three years.

Indiana's unemployment rate rose dramatically during the recession, topping out at 10.8 percent. The rate

**Figure 1: Indiana Gross State Product and U.S. Gross Domestic Product, Annual Change, 2000 to 2015**




Source: IBRC, using Bureau of Economic Analysis and Center for Econometric Model Research data

has declined steadily since then to 8.4 percent in 2012 and for 2013 is expected to average 8.1 percent. The unemployment rates for 2014 and 2015 are forecast to fall around a percentage point each year, closing at an annual average of 6.8 and 6.0 respectively. It won't be until 2016 that the rate is expected to reach "full employment," about 5.5 percent.

## Personal Income

Since the beginning of the recession, Hoosiers' personal income has achieved something it was unable to for years, keeping pace with the nation. Better than that, it's been catching up. Indiana personal earnings have risen more rapidly than the national average, led by earnings from durable goods manufacturing, transportation and warehousing, and farming.

Indiana's per capita personal income (PCPI), that simple and serviceable measure of economic well-being, has stabilized. The gap between U.S. PCPI and Indiana PCPI widened in the first decade of the century, but while the large gap has been a source of consternation of breadwinners and policymakers, the gap has closed ever-so-slightly.

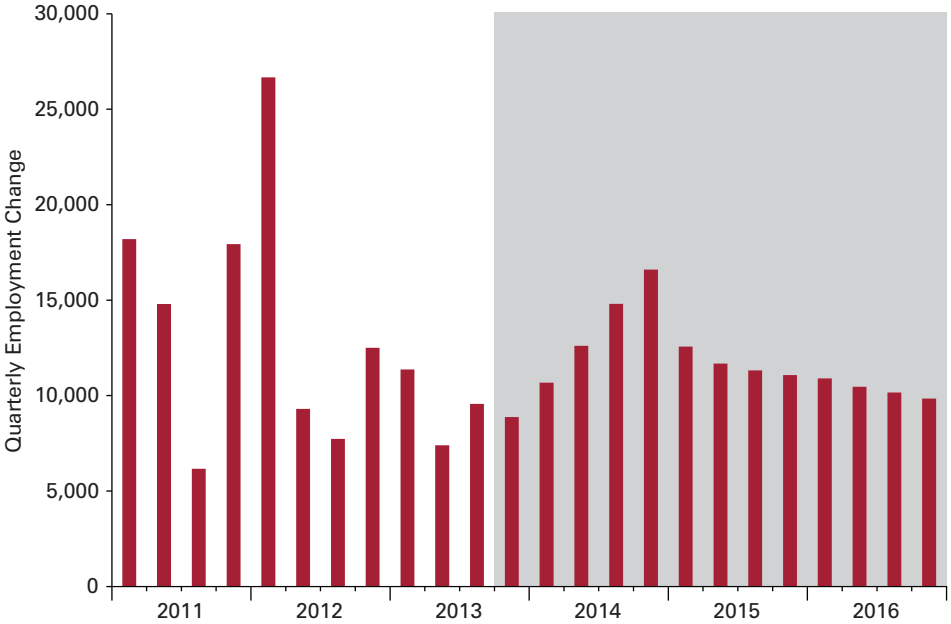
Personal income has taken some interesting turns over the last year or so. In late 2012, many people sold their financial assets to avoid the rise in capital gains taxes in 2013. As a result, personal income spiked in December 2012. In early 2013, payroll taxes returned to their pre-recession rates, scooping an additional 2 percent out of workers' paychecks. The erratic swings in personal income could help account for the less than robust rate of economic growth in early 2013.

## Housing

Indiana's housing market continues to improve, with sales up 17.4 percent and average prices up 4.3 percent through September, compared to last year. The inventory of homes for sale (down 1.4 percent) and the months of supply of homes for sale (down 16.4 percent) are also moving in the right direction.

Home construction, which began its slide in the state beginning in 2005, is on the mend. Building permits are showing slow but steady progress, reflecting the increasing optimism of home builders and increasing traffic from prospective buyers wanting to get into a house before long-term mortgage rates close them out of the market (see **Figure 3**). This brings us to a growth threat alert. Thirty-year mortgage rates track with 10-year treasury securities and the interest rate on the T-Bills has risen by about 1 percentage point over the last six months. Too fast a rise—a financial market nervous about inflation or other factors such as government credit worthiness being downgraded—would hammer the fragile housing recovery. (It is important to keep in mind that housing usually helps lead the economy out of a recession.)

**Figure 2: Indiana Employment Growth, 2011 to 2016**




Source: IBRC, using Bureau of Labor Statistics data

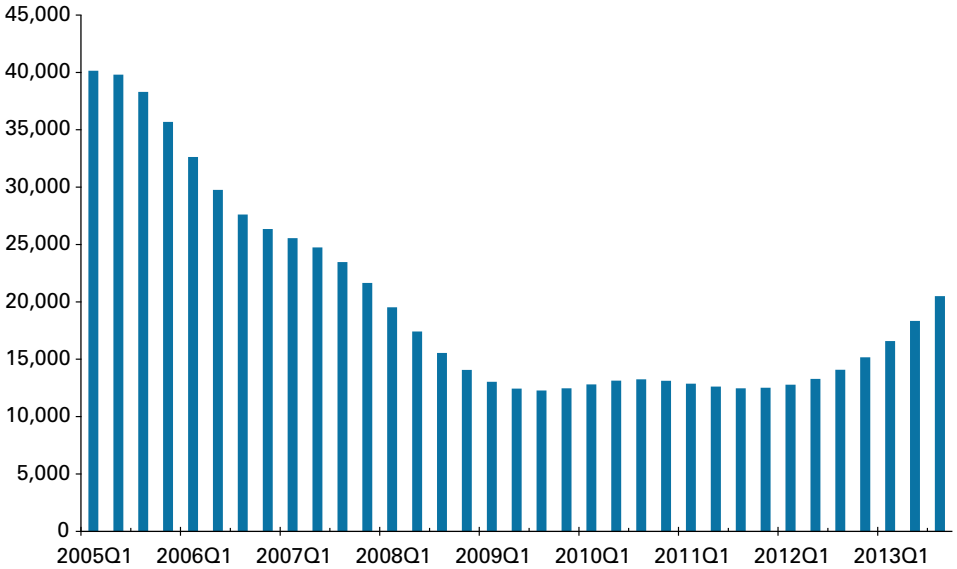
## Recreational Vehicles

Indiana, or at least Elkhart County and its environs, depends on the recreational vehicle (RV) industry. RV manufacturing in Indiana accounts for 83 percent of the nation's RV production. RV manufacturing as an industry, and Elkhart County as a location, were the poster children for the devastating effects of the Great Recession.

Good news: the RV industry is back. In 2012, 8.5 percent of all U.S. households owned an RV—the highest in history—up from 8 percent in 2005. The Recreation Vehicle Industry Association (RVIA) estimates 2013 total production will total 319,300 units, implying that Elkhart County will account for producing 265,000 units in 2013.

In the coming year, RV production and sales are expected to grow in the range of 5 percent to 10 percent

**Figure 3: Indiana Building Permits, All Types, 2005 Q1 to 2013 Q3**




Source: Moody's Analytics, using U.S. Census Bureau data

according to the RVIA. The 2014 RVIA also forecasts that RV sales will grow about 7.5 percent.

Pew Research Center notes 10,000 baby boomers will reach age 65 every day until 2029 and the RV industry is set to benefit. This points to favorable demographics for future RV growth as Baby Boomers define the face of retirement. Harris Interactive did a poll of RV owners, finding that 67 percent of potential RV buyers said that the RV lifestyle allows one to be more physically active, rather than sedentary, and this perception motivated purchases.

## Leading Index for Indiana

The Indiana Business Research Center's Leading Index for Indiana (LII) is an index similar to the Conference Board's Leading Economic Index for the nation, except the LII is designed based on the structure of Indiana's economy.

The LII in October rose 0.2 points to 101.8 from a revised 101.6 in September, the highest it has been since 2007. While home builders turned pessimistic, the transportation component of the index, the Purchasing Managers Index (a measure of manufacturing sentiment) and the auto sector indicator all rose a fraction.

These measures of economic conditions have been shown, historically, to predict future economic performance in 4 months to 6 months. But the index does not account for supply shocks (like oil price spikes due to Israeli bombs falling on Iran) or U.S. debt default (due to political intransigence in Washington). So, while the index may point to expected modest growth in 5 months, the economic future will likely be bumpy in the opening months of 2014, due to federal budget fights, the merely short term avoidance of government default and continued anxiety over the roll-out of the Affordable Care Act.

However, absent more major policy mess-ups emanating from Washington DC—what may be a naive hope given how the political forces are arrayed against prudence and fiscal responsibility—2014 looks to be a good measure better than 2013.

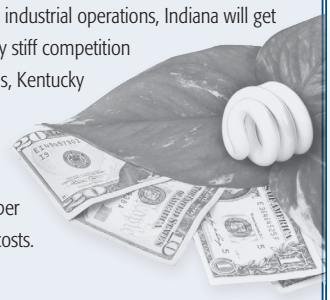
## INDIANA'S ENERGY FUTURE

Indiana is a major coal consuming state. In 2008, over half of Indiana's energy came from coal, compared to less than 23 percent for the nation. From 2008 to 2012, U.S. consumption of coal dropped 4.3 percent and natural gas consumption rose 3.3 percent. By 2012, the nation's use of coal stood at 18.3 percent, according to the Lawrence Livermore National Laboratory. (Data for states were not available for 2012.)

This shift is both monumental and rapid. Cheaper natural gas prices due to the supply surge attributed to hydraulic-fracturing of shale and tight gas formations are the forces behind this shift. But more stringent regulations of electricity generation are also responsible.

As a result of these new regulations, one can expect that Indiana power generation fuels will also shift from coal to natural gas. Indeed, Duke Energy and Indianapolis Power and Light have announced closings of coal-fired plants in the state. The closings of non-compliant plants, new plant design and planning, securing financial resources, getting regulatory approval for, and the construction of, alternative generation sources over the next few years may not be smooth.

In short, there may be deleterious economic ripple effects for both residential customers as well as industrial consumers that result from this transition. Indeed, Indiana's electricity rates for industrial users have jumped from 2003 to 2012, according to the firm Lewis & Kappes, PC. Indiana's rates for industrial users were the 5th cheapest in the country but by 2012, Indiana's rank fell to 24th. To the extent that electricity rates make a location attractive to locate a company's industrial operations, Indiana will get increasingly stiff competition from Illinois, Kentucky and Ohio, as these states have cheaper electricity costs.



# Indiana's Agricultural Outlook for 2014

**Corinne Alexander, Ph.D.: Associate Professor,** Department of Agricultural Economics, Purdue University, West Lafayette

The outlook for Indiana agriculture in 2014 predicts more moderate crop incomes and a return to profitability for the livestock sector. As of November 2013, with the more normal weather and a return to more normal yields, crop prices have fallen significantly: corn prices have fallen 30 percent, wheat prices have fallen 25 percent and soybean prices have fallen 7 percent. In 2014, with more typical weather and crop yields, prices for corn, wheat, soybeans and hay could decline further as U.S. inventories of these commodities will continue to rebuild. On a brighter note, these lower feed costs are welcome relief for livestock producers who suffered massive losses from the 2012 drought-induced high feed prices.

The pork industry has returned to profitability with producers earning $20 per head in late 2013 and anticipated returns of $28 per head in the first half of 2014. The primary driver of profitability in the hog industry is lower feed prices. As a result, hog producers are currently expanding their herds which will result in increased supplies of pork by the summer of 2014. As pork supplies increase next summer, hog prices will moderate and profit margins will narrow in late 2014.

The dairy industry is beginning to recover from prolonged losses due to extremely high drought-induced feed costs for grains and forages. Milk prices are forecast to be steady in 2014, supported by strong exports. One concern is that there are large inventories of butter and cheese, which could put downward pressure on dairy prices if exports slow down. Given the lack of USDA data due to sequestration and the partial government shutdown, there was no information at the time of this writing about the size of the U.S. dairy cow herd, which increases uncertainty about dairy supplies.

Over the last six years, the beef sector has adjusted to prolonged drought conditions and higher feed costs by reducing the breeding herd. The beef cow herd numbers are at their lowest levels since 1950. As a result, per capita domestic beef availability in 2014 will be 5 percent lower than in 2013 and 17 percent lower relative to 2007. Even though feed costs have moderated, the beef herd expansion will be very slow in 2014 because of continued drought conditions in the Southern Plains and Western regions. Indiana beef producers who have access to good forage conditions are well positioned to be profitable in 2014 and beyond.

We expect the row crop sector to have overall favorable incomes in 2013. Indiana crop producers are on track for a record production of corn with a current forecast of the first billion bushel corn crop. However, even with record production, incomes will be lower than in recent years because of the significantly lower crop prices. Looking toward 2014, with normal weather and normal yields, inventories of grain will continue to rebuild, resulting in even lower grain prices. Given the outlook for crop prices and input costs, row crop producers will face tighter profit margins in 2014 and may even face a period of losses before input costs adjust downward to be in line with the lower crop prices. The silver lining in the coming period of lower crop prices is that it will position U.S. agriculture to compete for a larger share of the export market, and enable the United States to rebuild the export market share that has been lost during recent short crop years. Another piece of good news for Indiana agribusinesses is that the large crop will bust bins and keep processors and grain handlers busy in 2014.

As of June 2013, the value of average quality Indiana farmland increased 17.1 percent over the previous 12 months according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey which found that the value of "good" farmland in their district was also 17 percent higher by mid-year. Looking to 2014, farmland buyers are expected to be less aggressive bidders of record high land values, slowing the rate of increase and possibly causing farmland values to pause. In addition to farm incomes, farmland values depend on factors including long-term interest rates, government support, real estate taxes and alternative investment opportunities. Long-term interest rates are currently extremely low and interest rates are expected to increase in the next five years, putting downward pressure on land values. The biggest factor supporting a "pause" in farmland value increases is the profit margin squeeze that is coming for crop producers.

> *"Lower feed costs are welcome relief for livestock producers who suffered massive losses from the 2012 drought-induced high feed prices."*

For more information about Indiana farmland values, see the Purdue Land Value Survey at: www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2013.pdf.

# Seeking Escape Velocity—Jobs, Income and Productivity Forecasts

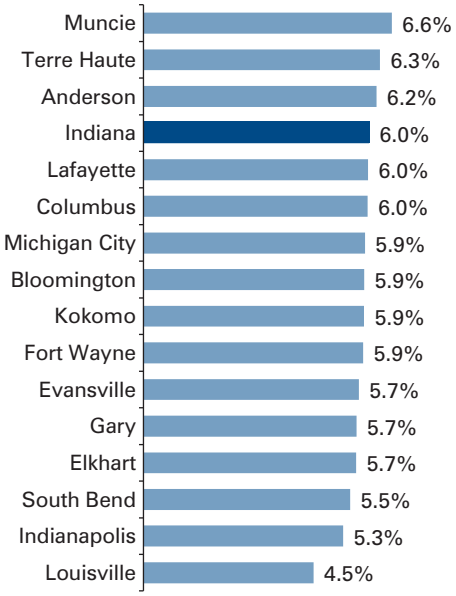
**Carol O. Rogers: Deputy Director,** Indiana Business Research Center, Kelley School of Business, Indiana University

Economists have lately been looking at our sluggish job growth as an increasing drag on the growth of the economy, akin to gravitational pull. They are watching the data to spot when we might reach escape velocity, launching us out and away from the "gravitational" drag of no/low-growth and out of the job growth deficit. It is worth watching jobs, income and gross domestic product (productivity) forecasts for any signs of escape velocity for Indiana and its metropolitan areas in 2014.

Indiana is expected to see a 6 percent increase in PCPI in 2014. The metros at the front end of this growth (growing at a faster rate than the Indiana forecast) include Muncie, Terre Haute and Anderson (see **Figure 1**). Growth in GDP is expected to be around 2 percent in Indiana, led by the Indianapolis-Carmel metro (see **Figure 2**). The Lafayette metro is forecast to lead job growth in Indiana, with a 2.9 percent increase expected for 2014, compared to Indiana's 1.3 percent growth forecast (see **Figure 3**). **Figure 4** gives us a closer look at manufacturing specific job growth expected in 2014. While Indiana's manufacturing jobs are expected to remain stable, Kokomo's forecast looks for 6 percent growth in manufacturing in 2014.

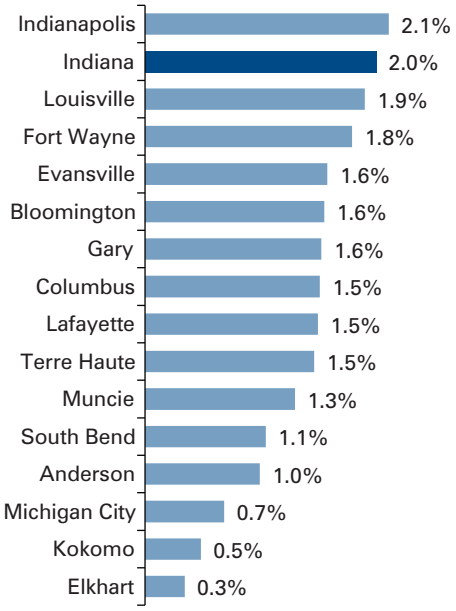
These forecasts of change may not match those of our authors, but that's okay. There is a long and honorable tradition in economics of always having multiple forecasts (think of the Truman line "give me a one-handed economist" in reference to economists often saying "on the one hand … on the other hand"). The indicators shown here are from Moody's and use the 2012 metro delineations. These data are useful as a starting point, but keep in mind what you can't get from Moody's is the insight and analysis of Indiana economists who live and work in Indiana, as evidenced in this, our annual Outlook issue. Let this small piece simply serve as a snapshot of what might occur in the next year as we all seek escape velocity.

**Figure 1: Per Capita Income Growth Forecast, 2014**



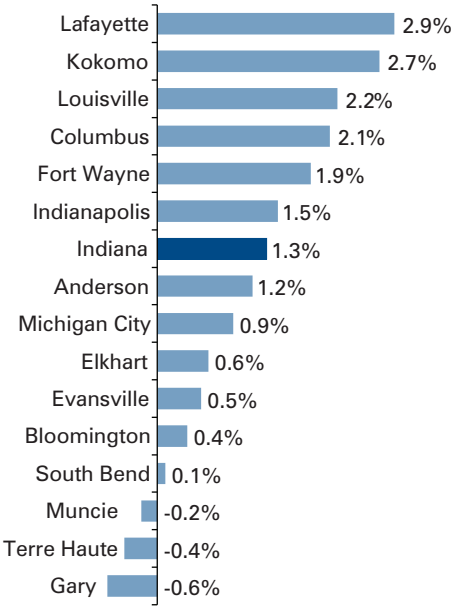

Source: IBRC, using subscription data from Economy.com

**Figure 2: GDP Growth Forecast, 2014**



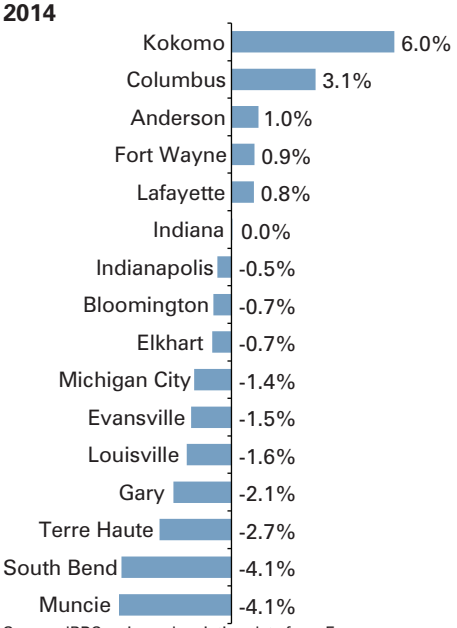

Source: IBRC, using subscription data from Economy.com

**Figure 3: Jobs Forecast, 2014**




Source: IBRC, using subscription data from Economy.com

**Figure 4: Manufacturing Jobs Forecast, 2014**




Source: IBRC, using subscription data from Economy.com

# Anderson Forecast 2014

**Emmett Dulaney, DBA: Associate Professor of Entrepreneurship,** Fall School of Business, Anderson University

The economy in 2013 has been a mixed picture for Anderson. While the unemployment rate in Madison County decreased by more than 1 percentage point since 2012, it remains approximately 15 percent above the state's rate. The labor force increased, but remains below levels of three years ago. The Flagship Enterprise Center (business incubator) has assumed more of a landlord role, and the housing market appears to be on the uptick with the number of building permits issued rebounding from a record low in 2012. Unfortunately, more people are receiving food stamps and the county continues to suffer in several areas.

## The Numbers

This article includes the most current data available on various measures of economic activity from public sources for the Anderson metropolitan area (Madison County). The goal is to analyze changes over the past year and provide a market forecast summary for the Anderson area, which appears in the conclusion of this article.

## Employment

The unemployment rate decreased from 2012 to 2013 in Madison County (see **Table 1**). The preliminary unemployment rate for August 2013 is 8.6 percent, down from 9.8 percent a year earlier. The unemployment rate is consistently running 15 percent higher than the state unemployment rate (7.5 percent, not seasonally adjusted). The number of unemployed workers in Madison County decreased by more than 300 workers over the course of the year while the labor force increased by about 800 workers. The decreasing unemployment and increasing labor force have led to a lower unemployment rate and suggest that previously frustrated job seekers are returning to the labor market.

**Table 1: Madison County Labor Force and Unemployment, September 2012 to August 2013**

| Year | Period | Labor Force | Unemployment | Unemployment Rate |
|---|---|---|---|---|
| 2012 | September | 60,697 | 5,616 | 9.3% |
| | October | 60,469 | 5,571 | 9.2% |
| | November | 60,084 | 5,612 | 9.3% |
| | December | 60,159 | 6,038 | 10.0% |
| | **Annual** | **60,424** | **5,871** | **9.7%** |
| 2013 | January | 60,419 | 7,023 | 11.6% |
| | February | 60,154 | 6,860 | 11.4% |
| | March | 59,880 | 6,575 | 11.0% |
| | April | 60,223 | 5,787 | 9.6% |
| | May | 60,767 | 5,788 | 9.5% |
| | June | 61,487 | 6,056 | 9.8% |
| | July | 61,241 | 5,967 | 9.7% |
| | August | 61,569 | 5,313 | 8.6% |

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

**Table 2: IT-40 Tax Returns for Residents of Madison County, 2004 to 2011**

| Year | Total Number of Returns Filed | Number of Returns over $1 Million | Number of Returns from $30,001 to $250,000 | Total Value of All Returns |
|---|---|---|---|---|
| 2004 | 58,522 | 19 | 23,077 | $2,273,515,708 |
| 2005 | 58,019 | 20 | 23,002 | $2,270,165,574 |
| 2006 | 58,175 | 25 | 23,686 | $2,395,576,750 |
| 2007 | 59,808 | 27 | 24,535 | $2,498,087,680 |
| 2008 | 58,799 | 20 | 23,849 | $2,398,270,520 |
| 2009 | 57,764 | 18 | 22,788 | $2,321,467,136 |
| 2010 | 56,556 | 18 | 22,406 | $2,302,140,160 |
| 2011 | 55,105 | 10 | 21,647 | $2,216,308,224 |

Note: The total value of all returns equals Federal adjusted gross income.
Source: STATS Indiana using Indiana Department of Revenue data

Though the population of the area has not changed much over the past 20 years, the demographics of those living in the area have changed. One manifestation of this in recent years is the decrease in the number of residents filing tax returns and the value of those returns (see **Table 2**). In 2011, the most recent year for which data is available, the total number of returns filed is 8 percent below that of 2007; there are 63 percent fewer declaring over $1 million and 12 percent fewer declaring between $30,001 and $250,000. Most noticeable is that the total income value of all returns is 11 percent lower than it was in 2007 and it has consistently declined each year.

## Housing

The housing market shows signs of rebounding in Madison County. Residential construction as measured by single family building permits was similar to 2011 levels after bottoming

**Table 3: Madison County Single Family Building Permits, 2000 to 2013**

| Year | Incorporated | Unincorporated | TOTAL |
|---|---|---|---|
| 2000 | 164 | 175 | 339 |
| 2001 | 149 | 129 | 278 |
| 2002 | 143 | 184 | 327 |
| 2003 | 143 | 418 | 561 |
| 2004 | 225 | 259 | 484 |
| 2005 | 297 | 292 | 589 |
| 2006 | 138 | 188 | 326 |
| 2007 | 124 | 84 | 208 |
| 2008 | 73 | 33 | 106 |
| 2009 | 31 | 28 | 59 |
| 2010 | 85 | 37 | 122 |
| 2011 | 39 | 25 | 64 |
| 2012 | 24 | 24 | 48 |
| 2013* | 37 | 29 | 66 |

* January through September totals
Note: Incorporated data include the following areas: Alexandria, Anderson, Elwood, Frankton, Ingalls, Lapel, Pendleton and Summitville
Source: Builders Association of Greater Indianapolis

out in 2012 (see **Table 3**). Comparing January through September, there was an 89 percent increase in the number of permits issued in 2013 compared to 2012. The Builders Association of Greater Indianapolis estimates the 66 permits issued in 2013 have created a total economic impact of $11,819,531 in local income, $2,683,229 in local taxes, and 200 local jobs.

According to the Metropolitan Indianapolis Board of Realtors, the number of new listings for existing homes decreased slightly in August 2013 to its lowest level in five years (compared to August of previous years). Closed sales are up 10.6 percent, but the median sales price is down. However, the average sales price is the same as it was one year ago and the percent of asking price obtained has increased to its highest level in four years to 88.9 percent (see **Table 4**).

## 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 continued to increase during 2013 in Madison County (see **Table 5**). The number of food stamp recipients increased to more than 23,000 individuals (about 17.5 percent of the population in the county, or 19 percent of households) during the January to August time period. The amount of money distributed in food stamps increased by almost 3 percent to more than $3 million monthly. This increase reflects the state of the economy in east central Indiana during the slow recovery from the recession.

**Table 4: Madison County Residential Real Estate Sales for August, 2009 to 2013**

| Year | Average Sales Price | Percent of Original List Price Received at Sale | Single-Family Detached Inventory |
|---|---|---|---|
| 2009 | $88,489 | 90.1% | 945 |
| 2010 | $74,980 | 86.1% | 1,000 |
| 2011 | $97,780 | 87.0% | 852 |
| 2012 | $82,913 | 86.1% | 875 |
| 2013 | $82,953 | 88.9% | 843 |

Note: All comparisons are for the month of August for each year.
Source: Metropolitan Indianapolis Board of Realtors

**Table 5: Madison County Food Stamp Recipients, January to August, 2004 to 2013**

| Year | Average Monthly Food Stamps Issued | Average Monthly Food Stamp Recipients |
|---|---|---|
| 2004 | $1,153,232 | 13,277 |
| 2005 | $1,368,883 | 14,457 |
| 2006 | $1,455,455 | 15,384 |
| 2007 | $1,519,787 | 15,681 |
| 2008 | $1,549,855 | 14,725 |
| 2009 | $2,027,924 | 15,557 |
| 2010 | $2,448,594 | 18,487 |
| 2011 | $2,812,786 | 21,227 |
| 2012 | $2,944,846 | 22,295 |
| 2013 | $3,028,290 | 23,012 |

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

Though the county is the 13th largest in the state in terms of population, according to the Indiana State Department of Health, it is 8th in number of suicides. According to the U.S. Census Bureau's 2011 numbers, the most recent data available, the poverty rate for Madison County is 18.9 percent, higher than every neighboring county with the exception of Delaware, and above the national average of 15 percent.

## Education

With a public school enrollment of nearly 19,000, the county constitutes 1.8 percent of all students in Indiana public schools, but 3.7 percent of all high school dropouts in the state. These numbers have decreased from past years as a result of the Excel Academy and newcomer The Crossing. Working in conjunction with each other, these entities are slowing the spiral in which the schools suffered and performed poorly in previous years. Of the students enrolled in public schools in Madison County, more than half are on free or reduced lunches.

## The Outlook for 2014

While the official numbers show some areas of improvement over the economic situation in Anderson from last year, it is too early to be considered in the clear. In the coming year, it is expected that employment growth will be flat and there will be only modest gains in income (in the 1 percent to 2 percent range) as the economy continues to improve.

# Bloomington Forecast 2014

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

Five years after the September 2008 financial market crash that sent economies around the world into a nosedive, the Bloomington area economy seems to be in reasonably decent shape. At the same time, the local region still faces several challenges, and recovery from the Great Recession is playing out unevenly throughout the metro area.

## The Jobs Picture

The Bloomington metropolitan statistical area (MSA) employment has experienced gradual shrinkage over many years. From the recession's start in 2007 through 2012 the MSA has lost 1,154 payroll jobs (1.7 percent); the shrinkage in Owen County, however, was proportionally greater at 7.5 percent.

Most of the larger sectors in the Bloomington area have shed jobs over this period. These include manufacturing, construction, financial services, professional and business services and retail trade. Two large sectors, however, have expanded since 2007: health care and social assistance (gaining 1,167 jobs in Monroe County alone) and leisure and hospitality services (up 741 jobs in the MSA). The latter sector's growth is primarily in the food and beverage industry. Federal and local government employment is up 3 percent to 4 percent during this period, but state government jobs are down 11 percent.

The above figures are based on payroll data reported by employers and, as such, they reflect jobs in the Bloomington area, regardless of where the workers live. A different view is offered by monthly surveys of households (whose residents may work locally or commute to jobs elsewhere). The latter data indicate that 11,591 fewer Bloomington MSA residents were employed in August 2013 compared to five years earlier, while 1,953 more people were unemployed. Together, these figures reveal that the local labor force (employed persons plus people looking for work) has shrunk by nearly 10,000 people in the last five years. Some shrinkage comes from people no longer seeking work, and some from people who used to work outside the local area and now are not working; a fairly small portion comes from actual loss of jobs in the Bloomington metro area.

The outlook for 2014 calls for slight employment growth in 2014, with some sectors growing while others shrink. The unemployment rate is forecast to decline gradually, ending 2014 below 7 percent.

## Economic Output

Measured by gross domestic product (GDP) at the MSA level, the Bloomington area's economy continues growing despite the decline in employment. Local economic growth has been slower than the national rate, however. Local output growth picked up in 2012 to 2.2 percent, a faster rate than in 62 percent of the nation's metro areas. The industries contributing the most to Bloomington's economic growth in 2012 were education and health services and construction, both expanding at a pace above the U.S. rate. Leisure and hospitality services also contributed to Bloomington GDP growth.

Following national trends, Bloomington's worker productivity has increased. Measured as real GDP per worker, productivity is up 13 percent over the past five years, which helps explain why the economy can grow even as employment shrinks.

Our forecast for Bloomington metro GDP predicts 0.7 percent growth this year and 1.6 percent in 2014. Monroe County alone will outshine the metro area, however, with growth rates of 1.6 percent in 2013 and 1.9 percent in 2014.

**Table 1: Percent Change in Personal Earnings by Industry in the Bloomington MSA, 2007 to 2011**

| Industry | Percent Change in Personal Earnings, 2007–2011 |
|---|---|
| Farming | 104.0% |
| Ambulatory Health Care | 20.1% |
| Government | 19.3% |
| Real Estate | 19.0% |
| Manufacturing | 8.9% |
| Retail Trade | -0.5% |
| Transportation and Warehousing | -2.1% |
| Professional, Scientific and Technical Services | -4.2% |
| Wholesale Trade | -10.2% |
| Construction | -16.1% |

Source: IBRC, using Bureau of Economic Analysis data

## Personal Income

From 2007 to 2011 (the last five years for which data are available), the metro area's personal income (PI) rose about $2,300 on a per capita basis (unadjusted for inflation). Adjusting for inflation, Monroe County's total PI grew respectably in terms of total dollars, while Greene County was about even and Owen County's PI lost a little ground.

A major component of personal income is earnings. Industry earnings growing at double-digit rates during this period include government, health care, real estate and chemical manufacturing. Industry earnings growing at double-digit rates during this period include government, health care, real estate and chemical manufacturing (see **Table 1**). Industries with substantial earnings shrinkage include construction and wholesale trade.

Transfer receipts, which are government payments to individuals (e.g., veterans' benefits, Social Security, unemployment benefits and welfare assistance) rose 34 percent over this period. This reflects the

substantial rise in public assistance during the downturn.

Bloomington metro area personal income is forecast to increase less than 1 percent this year, with substantially stronger growth expected in 2014.

### Real Estate

It would be obvious to anyone driving through Bloomington the last couple of years that construction activity has picked up quite a bit since the doldrums following the crash. New hotels, apartment buildings and campus construction projects have kept contractors busy. The office rental market took a hit when the federal sequester led to multiple defense contractors pulling up stakes in Bloomington, but overall office vacancies are comfortably low at present.

The housing market, which slowed greatly after the crash, has gained a lot of momentum the past year or two. Home sale closings were up about 4 percent for the three-month July–September 2013 period versus a year earlier, while home sale prices declined slightly. This reflects a bit of slowing recently as mortgage rates have nudged higher; 12-month average sale prices were up 14 percent.

Single-family home sales are forecast to rise 5 percent in 2014; single-family construction starts should end 2013 up 16 percent and rise 21 percent in 2014. Multi-family starts are predicted to total about 145 units this year, and more than 200 units in 2014.

### In Conclusion ...

As the U.S. and Indiana economies pick up steam, so will the Bloomington economy. While it will gain strength overall, the local pace of expansion won't be particularly robust. However, though job growth will continue to be more gradual than we might wish, we can be thankful that our economic output will keep growing. Many other cities would gladly swap places with Bloomington.

# Columbus Forecast 2014

**Ryan M. Brewer, Ph.D.: Assistant Professor of Finance**, IU Division of Business, Indiana University–Purdue University Columbus

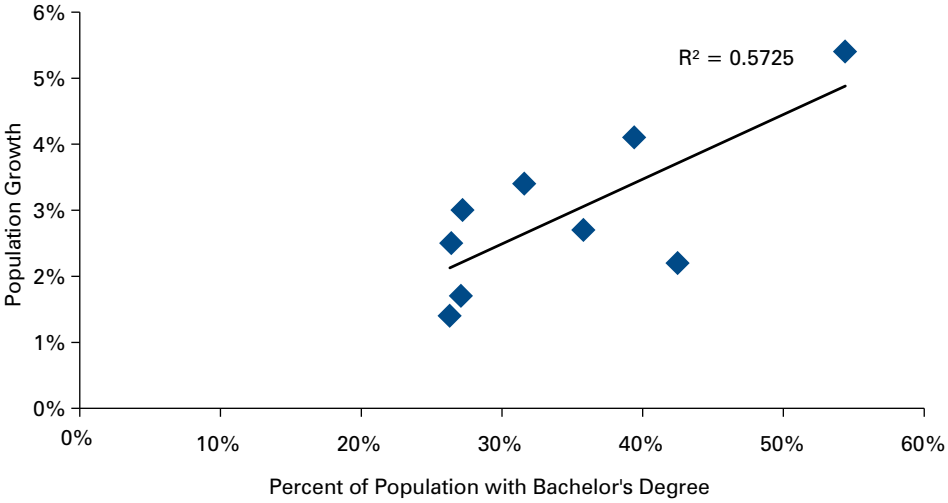
Organizations around Columbus invested over $21 million of long term capital per year from 2005 through 2012, beautifying the downtown area and creating new, modern spaces for business and leisure.[1] Why? The reasoning lies in attracting and retaining talented people and to secure more well-paying jobs. This strategy has been working. One question remains: given considerable uncertainty arising from soft global markets conflated with national political instability, will this strategy continue to work?

From 2010–2012, Bartholomew County realized the state's fourth highest population growth, a change of 3 percent.[2] Interestingly, for the state's nine most highly educated counties (the top 10 percent), being educated is correlated to attracting more people (see **Figure 1**).

With respect to talent as measured by level of educational attainment, Bartholomew County ranks near the median among counties in the United States on the whole—and Indiana ranks 44th among the states. Even so, Bartholomew County ranks sixth among Indiana's 92 counties in the level of educational attainment, with 27.2 percent of its adults having earned a bachelor's degree or higher, yielding a strong and growing highly educated workforce suitable for attracting jobs in advanced, high-tech manufacturing.

Coincident with strong population growth and highly educated people, Bartholomew County has experienced impressive recent net job creation, namely in the manufacturing sector, which captures 37.3 percent of all jobs in the county. For instance, in August of 2013, Columbus added 1,000 jobs, a 2 percent increase over July. In fact, Columbus, Indiana ranked fifth nationally among metropolitan statistical areas (MSAs) over the period, and 22nd nationally over the past year with a total of 1,800 new jobs created.[3] It is important to note that Columbus continues to see average per capita income rise due to high paying jobs being created. Per capita income in Columbus rose from

**Figure 1: Population Growth Among Indiana's Most Highly Educated Counties, 2010 to 2012**




Note: The counties with the highest percent of adults holding a bachelor's degree in order include Hamilton, Monroe, Boone, Tippecanoe, Hendricks, Bartholomew, Marion, Johnson and Allen.
Source: STATS Indiana

$37,023 in 2010 to $39,645 in 2011.[4] This 7.1 percent rise in per capita income bested every city in our control group aside from North Vernon, which experienced a rise of 7.7 percent to $31,435 as of 2011 (see **Table 1**).

As of August 2013, there were 51,300 jobs positioned within the Columbus MSA. At the same time, the labor force consisted of 42,920 people, which implies that Columbus currently generates 8,380 jobs for residents of neighboring communities (see **Table 2**).

The unemployment rate in Columbus stood favorably at 5.5 percent as of August 2013, compared to 7.5 percent for Indiana and 7.3 percent for the United States (using not-seasonally adjusted data). Surrounding areas of Seymour, Greensburg and North Vernon sustained unemployment rates of 6 percent, 6.9 percent and 8.3 percent, respectively. Notably, while these neighboring communities of Seymour, Greensburg, and North Vernon have experienced higher rates of unemployment, each of them has also added jobs since 2012, and in concert their employment bases have risen collectively by 2,490 people, again led by opportunities in automotive manufacturing.

Considering that the majority of new jobs in the Columbus MSA have been generated from economic activity in the manufacturing sector, it is of interest to note that the heavily automotive towns of Anderson and Kokomo have not fared as well as Columbus. For instance, the city of Kokomo employed 43,600 as of August 2013, an increase of 2,400 jobs since 2011. During the same period, Columbus gained 5,000 jobs. Kokomo also provided an employment base of 43,302 as of August 2013, exporting only 298 jobs to neighboring communities. Moreover, Kokomo also sustained an 8.1 percent unemployment rate. For Anderson, the news is even less encouraging. Anderson had a labor force of 61,569 and an employment base of 41,900 as of August 2013. With an unemployment rate of 8.6 percent, this implies that over 14,000 of Anderson's citizens find work in communities neighboring Anderson.

On the housing front, low mortgage rates and thousands of good new jobs have spurred a home buying spree we have not

**Table 1: Annual Per Capita Personal Income for Select Indiana Cities, 2006 to 2011**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Income Growth Rate 2010–2011 |
|---|---|---|---|---|---|---|---|
| North Vernon | $26,654 | $27,958 | $29,353 | $28,728 | $29,200 | $31,435 | 7.7% |
| Columbus | $35,520 | $36,504 | $38,377 | $35,579 | $37,023 | $39,645 | 7.1% |
| Kokomo | $31,592 | $33,127 | $32,988 | $30,962 | $31,087 | $33,126 | 6.6% |
| Greensburg | $29,664 | $30,930 | $33,103 | $31,737 | $32,592 | $34,354 | 5.4% |
| Seymour | $29,655 | $30,931 | $32,632 | $31,477 | $31,386 | $32,941 | 5.0% |
| Evansville | $35,095 | $35,499 | $37,757 | $35,819 | $37,290 | $39,021 | 4.6% |
| Bloomington | $27,496 | $28,607 | $30,149 | $29,549 | $29,719 | $30,915 | 4.0% |
| Anderson | $29,230 | $29,899 | $29,698 | $28,795 | $29,322 | $30,421 | 3.7% |
| Indiana | $33,087 | $34,016 | $34,966 | $33,679 | $34,386 | $36,342 | 5.7% |
| United States | $38,127 | $39,804 | $40,873 | $39,357 | $40,163 | $42,298 | 5.3% |

Source: Bureau of Economic Analysis

**Table 2: Employment for Metros and Micros, 2006 to 2013**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | August 2013 |
|---|---|---|---|---|---|---|---|---|
| Evansville | 179,300 | 178,900 | 176,400 | 169,600 | 173,100 | 175,700 | 176,300 | 177,200 |
| Bloomington | 81,200 | 79,800 | 82,500 | 77,800 | 76,200 | 76,900 | 80,400 | 76,400 |
| Columbus | 44,600 | 45,800 | 45,900 | 41,100 | 42,000 | 46,300 | 49,600 | 51,300 |
| Kokomo | 47,900 | 46,600 | 44,700 | 39,700 | 40,300 | 41,200 | 42,600 | 43,600 |
| Anderson | 42,200 | 41,100 | 42,100 | 40,900 | 40,300 | 40,300 | 41,100 | 41,900 |
| Seymour | 21,485 | 21,579 | 20,987 | 18,744 | 19,320 | 19,651 | 19,460 | 20,523 |
| North Vernon | 13,137 | 13,162 | 12,933 | 11,762 | 12,023 | 12,017 | 12,081 | 12,498 |
| Greensburg | 12,268 | 11,940 | 12,132 | 11,149 | 11,102 | 11,349 | 11,188 | 12,198 |
| Indiana | 2,958,200 | 2,984,700 | 2,961,600 | 2,754,700 | 2,805,100 | 2,834,900 | 2,917,000 | 2,962,800 |
| United States | 136,149,000 | 137,534,000 | 136,697,000 | 129,786,000 | 129,728,000 | 131,457,000 | 133,753,000 | 135,961,000 |

Notes: Shaded areas are micros. Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

> *Bartholomew County has experienced impressive recent net job creation, namely in the manufacturing sector.*

seen in Columbus since before the Great Recession. As of August 2013, Bartholomew County had processed 170 housing permits—a pace of 255 total for the year if things continue, higher than any year since 2007 (257 permits filed). Additionally, the average home sale price rose for the fourth consecutive year in the Columbus MSA, up by nearly 3.7 percent in 2013. The number of homes sold in Columbus in 2013 is on track to surpass 900, a number also unseen since 2007.

### Outlook

The Columbus economic outlook for 2014 is neutral to slightly favorable. On the positive side, things have been going very well locally. The 4th Street community area is now complete, Columbus continues to maintain mutually cooperative leadership in many organizations throughout the city, and the downtown redevelopment effort has been accompanied by an assortment of festivals, sports, arts, architecture, tourist activities, and even a mid-major, full-length marathon. Indiana's leading index is at a six-year high (101.48), local building permits are on track for a record year and national stock market indices continue to show strength with impressive market capitalizations.

On the negative side: Cummins just lowered its forecast for the fourth quarter of 2013 and 2014 on weaker than expected demand, and despite near-record revenue levels, Cummins expects its sales in 2013 to end below 2012 levels. Cummins has also forecasted 2014 sales to be flat, with many markets sustaining slow growth or weak demand. Also, the national debate regarding the debt ceiling and future discussions on tax policy creates an air of uncertainty which has a chilling effect on economic growth. Congressional gridlock and government shutdowns are merely a sideshow versus the real economic damage that could be inflicted on capital intensive businesses if tax policies and Federal Reserve policies are not handled with clarity and care.

The Columbus economy is tied to the interactions of external and internal forces. To the former, growth in the manufacturing sector on the whole, relevant markets around the globe and the health of the automotive and transportation industries will continue to fuel demand for products and services that Columbus is well-positioned to provide. To the latter, a continued focus on local redevelopment and the cooperative efforts seen among leaders around the city will likely continue to result in the creation of intangible, unique qualities yielding economic opportunities. With a little help from constituents in Washington, D.C. and around the world, Columbus should be able to sustain a pace for modest growth in 2014.

### Notes

1. City of Columbus, Redevelopment Office, www.columbus.in.gov/redevelopment/economic-impacts-of-redevelopment/, accessed October 30, 2013.
2. STATS Indiana, www.stats.indiana.edu/uspr/a/us_profile_frame.html, accessed October 15, 2013.
3. Department of Numbers, www.deptofnumbers.com/employment/metros/, accessed October 31, 2013.
4. United States Bureau of Economic Analysis, www.bea.gov/, accessed October 15, 2013.

# Evansville Forecast 2014

**Mohammed Khayum, Ph.D.: Professor of Economics and Dean of Business**, Romain College of Business, University of Southern Indiana

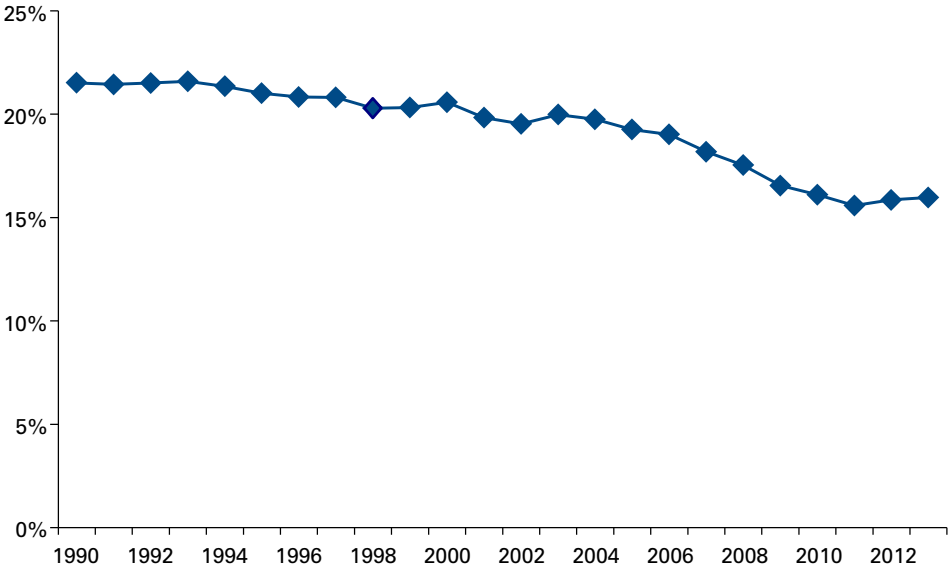
By the end of 2010, real output in the Evansville metropolitan area (metro) reached pre-Great Recession (December 2007 to June 2009) levels. However, six years after the onset of the recession, the Evansville economy remains about 1,000 jobs short of the employment level that prevailed in 2007. During 2013, signs of labor market improvement, increases in personal income and real retail sales, combined with the impact of recent fixed investment provide the basis for projecting that employment will reach pre-recession levels in 2014.

Once all the data are released for 2013, nominal personal income is estimated to have increased by 2.6 percent and real gross metro product is estimated to have increased by 0.5 percent. In 2014, Evansville metro area output is forecasted to increase by 2.1 percent, the number of jobs is projected to increase by 1,400 and the forecast for nominal personal income growth is 5.8 percent.

The unemployment rate in the Evansville metro fell from 8.4 percent in January 2013 to 6.9 percent in August. Nationally, the unemployment rate fell from 8.5 percent to 7.3 percent over the same time period. Job gains occurred in the following sectors: professional and business services, education and health services, and trade. Industries experiencing job losses include construction, financial activities and information.

Mixed signals are evident in the housing market. Homeowners experienced home price appreciation as existing home prices increased from an average of $96,200 in 2012 to $102,500 by the end of the second quarter in 2013. However, mortgage originations are expected to decrease

**Figure 1: Evansville MSA Manufacturing Employment as Percent of Total Nonfarm Employment, 1990 to August 2013**




Source: STATS Indiana, using Bureau of Labor Statistics data

> *Given the proportion of the metro area's output that is sold outside the metro, the strength of recovery in the Evansville area is linked to the strength of the broader economy.*

**Table 1: Manufacturing Percent of Total Employment, August 2013**

| Industry | Evansville Metro | Indiana | U.S. |
|---|---|---|---|
| Manufacturing | 16.0% | 16.7% | 8.8% |
| Durable Goods | 53.0% | 72.0% | 62.7% |
| Nondurable Goods | 47.0% | 28.0% | 37.3% |

Source: STATS Indiana, using Bureau of Labor Statistics and Indiana Department of Workforce Development data

from $1,182 million in 2012 to $933 million in 2013. Between 2012 and 2013, single-family housing permits are estimated to have increased by 28 percent while personal bankruptcies per 1,000 persons are estimated to have decreased from 5.0 to 4.1.

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**).

As one of the most manufacturing-dependent metro areas in the nation, the Evansville economy was noticeably impacted by the Great Recession. Since 2007, Evansville's manufacturing workforce has fallen by 12.7 percent (about 4,100 workers) compared to an 11.2 percent reduction in Indiana's manufacturing workforce over the same period. In 2013, manufacturing earnings continued to be a significant driver of economic activity, accounting for about 24.2 percent of total earnings in the Evansville economy.

Given the proportion of the metro area's output that is sold outside the metro, the strength of recovery in the Evansville area is linked to the strength of the broader economy. As the projected demand for locally produced goods reverts to its pre-recession level, personal income and output growth are expected to increase in 2014.

While output and employment growth are projected in 2014, the Evansville economy faces an ongoing challenge as a result of long-term adjustments occurring within the manufacturing sector, particularly in the share of nondurable manufacturing. **Table 1** shows manufacturing as a percent of total employment for the metro, state and nation. In addition to the changing dynamics of the manufacturing industry, relatively slow growth in population, income and employment over the past three decades and a rapid change in the pace of technology adoption highlight the importance of achieving higher rates of output and employment growth. The completion of I–69 between Evansville and Bloomington in 2014 will improve Evansville's economic activity: undoubtedly, the additional transportation and distribution networks will provide considerable opportunities for future employment and output growth. ■

# Fort Wayne Forecast 2014

**Ellen Cutter, AICP: Director,** Community Research Institute, Indiana University–Purdue University Fort Wayne

After posting solid numbers in the first quarter years of 2010–2011 (4,097 jobs) and 2011–2012 (3,279 jobs), employment growth in the Fort Wayne MSA flattened off more recently, shedding 236 jobs between the first quarters of 2012 and 2013.

## Employment Situation

As shown in **Table 1**, losses in logistics and construction were offset by gains in health care and manufacturing. Contraction within the professional and technical services and information sectors further challenge economic diversification efforts to boost the region's average annual wage, which remained flat over the last year at $41,528.

Manufacturing remains the region's largest employer, with health care close behind. While the health care sector both locally and nationally exhibited strong growth, manufacturing in the Fort Wayne MSA diverges from national trends. Since 2000, the national manufacturing sector has declined by 31 percent. During this time, the Fort Wayne MSA's manufacturing sector contracted by 25 percent, declining from about 44,500 jobs to 33,500 jobs (-11,000). According to the National Bureau of Economic Research, the Great Recession officially lasted from December 2007 until June 2009. So, what's happened since 2009? The national manufacturing sector has been sluggish, creating only 72,000 jobs (representing 0.6 percent growth). In the Fort Wayne MSA, the manufacturing job base has expanded by 10 percent, adding nearly 3,000 new jobs, which pay an average wage higher than that for the region.[1]

The Community Research Institute tracks business expansions, relocations and closings among the region's major employers and those in targeted industries. Recent notable events include an expansion of aluminum components provider 80/20 Inc. ($11 million investment, 90+ new jobs) and a new Fort Wayne location for Accelerated Tanks and Trailers ($4.2 million investment, 300+ new jobs). Bolstering the transportation and logistics sector, Sweetwater Sound is currently underway with a $23.6 million expansion that will support more than 300 new jobs. The region's insurance cluster also registered a win with Ash Brokerage's recent announcement to locate its headquarters in downtown Fort Wayne, partnering with Hanning & Bean Enterprises to construct a $71 million mixed-use office, retail and residential complex.

## Labor Market

In September, the U.S. unemployment rate dipped to 7 percent, representing the lowest point since November 2008 (6.5 percent). The Fort Wayne MSA mirrored these dynamics, with the most recent rate (7 percent in August)

**Table 1: Fort Wayne MSA Covered Employment, 2012 Q1 to 2013 Q1**

| Industry | Employment | | Change 2012 Q1 to 2013 Q1 | | 2013 Q1 Average Annual Wage |
|---|---|---|---|---|---|
| | 2012 Q1 | 2013 Q1 | Number | Percent | |
| Total | 193,163 | 192,927 | -236 | -0.1% | $41,528 |
| Manufacturing | 33,057 | 33,465 | 408 | 1.2% | $57,077 |
| Health Care and Social Services | 31,296 | 32,884 | 1,588 | 5.1% | $45,219 |
| Retail Trade | 21,389 | 21,330 | -59 | -0.3% | $24,264 |
| Accommodation and Food Services | 16,270 | 16,478 | 208 | 1.3% | $13,611 |
| Educational Services | 15,482 | 15,033 | -449 | -2.9% | $35,056 |
| Administrative Support and Waste Services | 10,629 | 10,122 | -507 | -4.8% | $22,851 |
| Wholesale Trade | 9,298 | 9,576 | 278 | 3.0% | $50,012 |
| Transportation and Warehousing | 10,448 | 9,170 | -1,278 | -12.2% | $42,690 |
| Finance and Insurance | 8,485 | 8,572 | 87 | 1.0% | $73,965 |
| Construction | 7,974 | 7,680 | -294 | -3.7% | $43,210 |
| Public Administration | 6,130 | 6,151 | 21 | 0.3% | $45,452 |
| Professional and Technical Services | 6,288 | 5,915 | -373 | -5.9% | $49,134 |
| Other Services | 5,753 | 5,634 | -119 | -2.1% | $24,628 |
| Information | 3,783 | 3,672 | -111 | -2.9% | $53,368 |
| Real Estate, Rental and Leasing | 2,110 | 2,200 | 90 | 4.3% | $34,091 |
| Arts, Entertainment and Recreation | 1,778 | 1,889 | 111 | 6.2% | $19,295 |
| Management of Companies | 1,607 | 1,787 | 180 | 11.2% | $71,270 |
| Utilities | 479 | 476 | -3 | -0.6% | $110,451 |
| Agriculture, Forestry, Fishing and Hunting | 370 | 383 | 13 | 3.5% | $27,131 |

Note: Some sector data is partially suppressed. The above chart does not include mining and unallocated job estimates. These quarterly estimates include only covered employment. Monthly estimates which include a broader definition of employment estimate Fort Wayne MSA employment to be 211,500 for August 2013.
Source: STATS Indiana, using Indiana Department of Workforce Development data aggregated by the Indiana Business Research Center.

**Table 2: Labor Market Dynamics, August 2012 to August 2013**

| Year | Month | Fort Wayne MSA | | | Unemployment Rate | | |
|---|---|---|---|---|---|---|---|
| | | Unemployed | Employed | Labor Force | Fort Wayne MSA | Indiana | United States |
| 2012 | August | 16,769 | 187,424 | 204,193 | 8.2 | 8.4 | 8.2 |
| | September | 16,946 | 188,184 | 205,130 | 8.3 | 8.5 | 7.6 |
| | October | 15,538 | 188,885 | 204,423 | 7.6 | 8.4 | 7.5 |
| | November | 15,799 | 188,303 | 204,102 | 7.7 | 8.4 | 7.4 |
| | December | 16,690 | 187,655 | 204,345 | 8.2 | 8.3 | 7.6 |
| | Annual | 16,857 | 188,031 | 204,888 | 8.2 | 8.4 | 8.1 |
| 2013 | January | 18,560 | 185,486 | 204,046 | 9.1 | 8.6 | 8.5 |
| | February | 18,079 | 185,440 | 203,519 | 8.9 | 8.7 | 8.1 |
| | March | 17,669 | 183,757 | 201,426 | 8.8 | 8.7 | 7.6 |
| | April | 15,428 | 187,900 | 203,328 | 7.6 | 8.5 | 7.1 |
| | May | 15,678 | 188,749 | 204,427 | 7.7 | 8.3 | 7.3 |
| | June | 16,985 | 191,350 | 208,335 | 8.2 | 8.4 | 7.8 |
| | July | 17,614 | 188,984 | 206,598 | 8.5 | 8.4 | 7.7 |
| | August | 14,522 | 192,819 | 207,341 | 7.0 | 8.1 | 7.3 |
| August to August 1-Year Change | | -2,247 | 5,395 | 3,148 | -1.2 | -0.3 | -0.9 |

Notes: Data are not seasonally adjusted. Due to the October federal government shutdown, the scheduled September release of state and local data was delayed and was not available at the time of publication.
Source: Bureau of Labor Statistics

also reflecting the lowest point since November 2008 (6.8 percent). As recent commentary by The Brookings Institution points out, the national unemployment rate does not reflect that an estimated 3.4 million workers have dropped out of the labor force.[2]

Federally reported unemployment rates only capture workers who are (1) currently employed or (2) those that are unemployed but actively looking for work, as measured by unemployment claims. It does not capture the so-called hidden workforce: those who have maximized and no longer receive unemployment benefits, those who migrated from employment to disability status and those who have exited the workforce for other reasons. So, despite a falling unemployment rate, there are still critical concerns about reengaging a notable portion of adults back in the labor force. The same holds true for the Fort Wayne area.

The regional labor force is up over this time last year (3,148) and the unemployment rate has continued to drop, a promising combination (see **Table 2**). Currently, there are about 207,341 adults in the Fort Wayne labor force, down about 6,000 since the same month in 2007. Recent dynamics are promising, but there is still work to do. Continuing to re-engage workers who dropped out of the labor force in the wake of the Great Recession remains a challenge, but transitioning a greater number of those active in the labor market to employment is an important sign of confidence and opportunity.

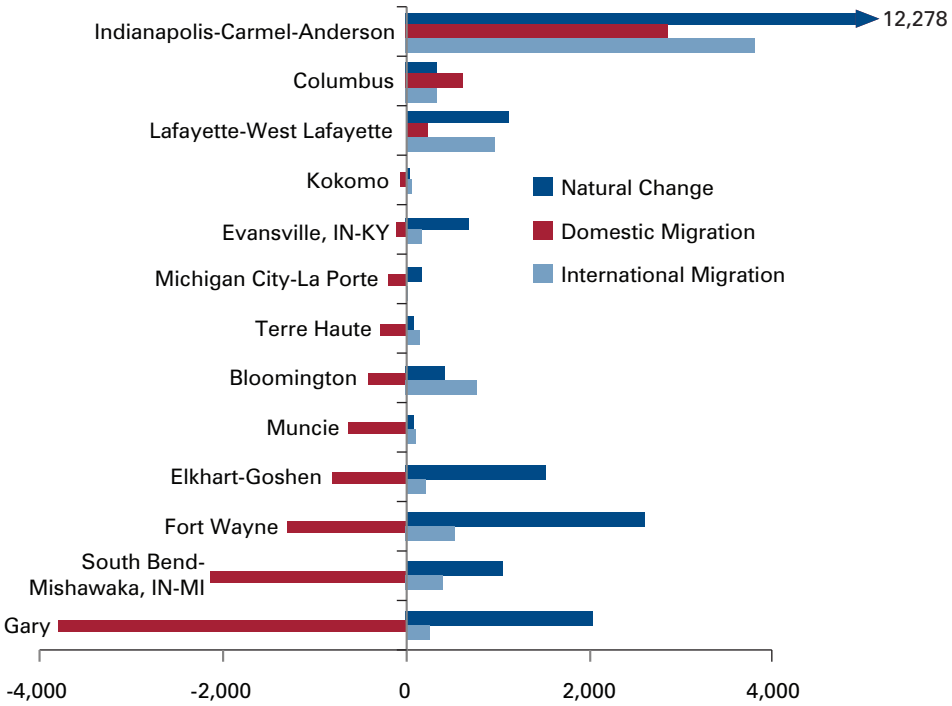
Fort Wayne's workforce continues to improve its competitive position. The number of adults with associate degrees and bachelor degrees grew at a rate outpacing the nation (see **Table 3**). Attainment at the middle skill levels (e.g. high school, some college and associate degree) is strong; however, the metro still

**Table 3: Highest Educational Attainment (Among Adults Ages 25 and older), 2000 to 2011**

| Highest Educational Attainment | Fort Wayne MSA | | | United States | | |
|---|---|---|---|---|---|---|
| | 2000 | 2011* | Change | 2000 | 2011* | Change |
| No diploma | 14.2% | 11.0% | -3.2% | 19.6% | 14.6% | -5.0% |
| High school | 34.1% | 32.8% | -1.3% | 28.6% | 28.6% | 0.0% |
| Some college | 22.5% | 22.3% | -0.2% | 21.0% | 21.0% | 0.0% |
| Associate degree | 7.9% | 9.4% | 1.5% | 6.3% | 7.6% | 1.3% |
| Bachelor's degree | 14.1% | 16.5% | 2.4% | 15.5% | 17.7% | 2.2% |
| Master's or above | 7.2% | 8.0% | 0.8% | 8.9% | 10.5% | 1.6% |

*2007–2011 5-year estimate period from the American Community Survey
Note: Due to the October federal government shutdown, the scheduled release of 2012 3-year estimates was delayed and was not available at the time of publication.
Source: Census Bureau

**Figure 1: Components of Metro Population Change, July 2011 to July 2012**




Notes: Data are sorted by domestic migration. All metros are Indiana-specific unless otherwise noted. This chart is zoomed in to better show values. The Indianapolis-Carmel-Anderson Metro's natural increase extends beyond this chart, adding 12,278 people.
Source: Census Bureau

has a smaller share of adults who have completed a four-year degree or graduate level program in comparison to the national data.

Related to this dynamic is how the MSA's population is growing. Between July 2011 and July 2012, the Fort Wayne MSA grew by an estimated 1,838 residents: an increase of 2,607 due to natural change, an increase of 526 due to international migration, and a decrease of 1,291 due to domestic migration. Domestic out-migration is an issue throughout the state of Indiana (see **Figure 1**). As a result of a natural increase (more births than deaths) and international migration, however, Fort Wayne is faring better than most Hoosier metros in terms of total population change. Efforts to solidify a positive regional image, create a more dynamic downtown Fort Wayne and engage diverse residents in leadership roles—in addition to aggressive, targeted job creation efforts—are working to stem this trend. However, as concluded by Battelle in a recent report, Indiana's lack of high-wage knowledge-intensive jobs, compared to other states, "leads to [college graduates'] migration, and ultimately to the state's low adult educational attainment ranking relative to the nation, despite a strong higher education pipeline."[3]

## The Year Ahead

Each February, the Bureau of Labor Statistics releases revisions to its monthly Current Employment Statistics jobs estimates through a process known as benchmarking. Revisions to 2012 employment estimates for the Fort Wayne MSA (Allen, Wells and Whitley counties) downgraded growth, prolonging full job recovery from the recession. Across all metro areas, the average revision was 0.4 percent.[4] In Fort Wayne the revision was 4.6 percent, off by 10,000 jobs.

While August's monthly employment figures are rosy (compared to 2012), we will take them with a grain of salt until they are finalized. Based on Indiana Business Research Center estimates, EMSI projections and Community Research Institute analysis, we estimate about 1 percent growth in employment for the Fort Wayne MSA in 2014. There are, as always, a multitude of factors that could sway the MSA's performance, and many are at the federal level. Issues of great importance to businesses and consumer confidence include the Affordable Care Act implementation, impacts of sequestration on the region's defense communications cluster, interest rates and debt ceiling negotiations. ■

## Notes

1. U.S. Bureau of Labor Statistics Current Employment Statistics, not seasonally adjusted, September 2013. (Based on annual estimates).
2. Burtless, Gary, "Unemployment Ticks down but Not All Good News: 2.4 Million Are Missing from the Labor Force," The Brookings Institution, October 22, 2013.
3. Battelle Technology Partnership, "Indiana's Competitive Economic Advantage: The Opportunity to Win the Global Competition for College Educated Talent," 2012.
4. Brendan Hadder, Patrick Hoskins, and Daniel Stemp, "Revisions in State Establishment-based Employment Estimates Effective January 2013," U.S. Bureau of Labor Statistics, February 2013, www.bls.gov/sae/benchmark2013.pdf.

# Gary Forecast 2014

**Micah R. Pollak, Ph.D.: Assistant Professor of Economics,** School of Business and Economics, Indiana University Northwest

The economic changes in Northwest Indiana in 2013 have been mixed. While some areas of the economy have rebounded and even exceeded pre-recession levels, such as the health care industry, others still lag far behind, such as manufacturing. For the purpose of discussing the regional economy, the "Gary metro area" of Northwest Indiana is defined by the U.S. Census Bureau as the following counties: Lake, Porter, Jasper and Newton (La Porte County is now the Michigan City metro).

When discussing the economic conditions of this area, one particularly useful tool is the Northwest Indiana Coincident Index which is published monthly by the School of Business and Economics at Indiana University Northwest.[1] This index measures the current pulse of the economy and forecasts the future growth of the region. The Coincident Index is modeled after state and federal coincident indices published by the Federal Reserve Bank of Philadelphia.[2]

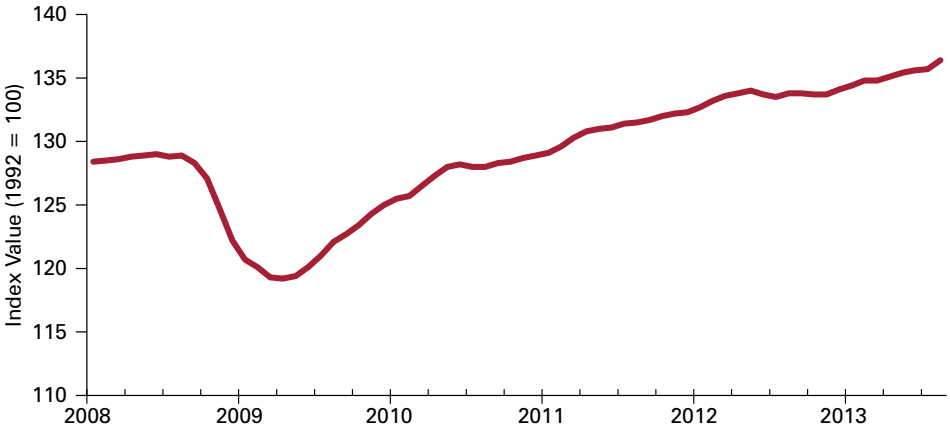
Based on the Northwest Indiana Coincident Index, the economy in Northwest Indiana grew 1.6 percent between August 2012 and August 2013. **Figure 1** shows the Northwest Indiana Coincident Index since 2008. In August 2013, the index rose to a new high of 136.4. While this is favorable news, this growth is less than the 2 percent growth that was forecasted one year ago by the index. Furthermore, Northwest Indiana grew at a slower pace than both the state of Indiana and the nation during this same time period. The coincident indices published by Federal Reserve Bank of Philadelphia show the state of Indiana grew by 3.3 percent and the United States grew by 2.9 percent.

The slower economic growth in Northwest Indiana can primarily be attributed to the types of jobs in the region, particularly the high concentration of employment in manufacturing. **Figure 2** shows the top five industries by earnings in the Gary metro area. These industries are manufacturing, health care, government, construction and retail trade. More than 25 percent of earnings in Northwest Indiana come from manufacturing jobs. This high concentration of earnings and employment in a single industry means it is harder for the region to adapt to changing economic conditions as all our eggs, so to speak, are in one basket.

It is hard to overestimate the significance of this concentration of manufacturing jobs in Northwest Indiana. Lake and Porter counties, which comprise 93 percent of the population in the Gary metro, have a location quotient for manufacturing of 23.6: employment in these counties is 23.6 times more concentrated in manufacturing than the nation as a whole.[3] For comparison, the state of Indiana has a location quotient for manufacturing of 4.8, which by national standards is considered high. Because of this high concentration of employment in manufacturing, particularly primary metal manufacturing, the financial crisis—which slowed national and international demand for steel and other metal manufactured goods—hit northwest Indiana particularly hard.

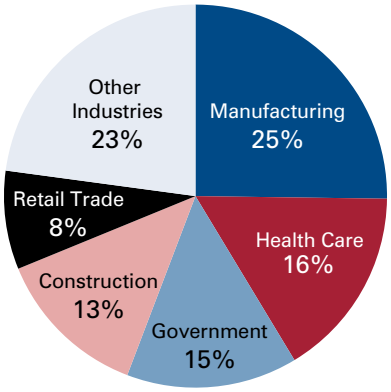
**Figure 3** shows employment in manufacturing for the Gary metro area since 2005. Following the U.S. financial crisis of 2007–2008, the region began to hemorrhage manufacturing jobs. In the year 2009 alone, the region lost 5,500 manufacturing jobs (14 percent of all manufacturing jobs and 2 percent of all jobs). While the region has made some gains since then, recovering about 60 percent of the manufacturing jobs lost, employment has not yet returned to pre-recession levels.

**Figure 1: Northwest Indiana Coincident Index, January 2008 to August 2013**




Source: Northwest Indiana Coincident Index

**Figure 2: Top Five Industries by Earnings in the Gary Metro Area, 2011**




Source: Bureau of Labor Statistics, Current Employment Statistics

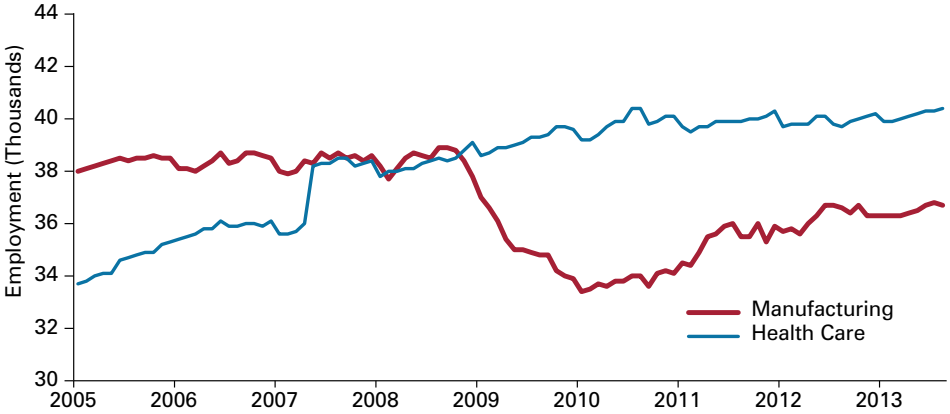
**Figure 3** also shows one of the bright spots for the region, employment in health care and social assistance. Since the beginning of 2007 the region has added 4,500 new jobs in the health care industry, an increase of 12.5 percent. While these new jobs partially offset the loss of manufacturing jobs, service related jobs tend to be lower paying than manufacturing jobs and this has limited the recovery. Ultimately, however, the health care industry will play a more important role in regional growth in the future.

Another bright spot in the region's economy is the housing market. **Figure 4** shows the number of new residential construction permits issued monthly in the Gary metro area since 2005. Between 2005 and 2011, the number of monthly residential permits issued fell by almost 80 percent. Since 2011, the number of new permits issued each month has been consistently increasing. **Figure 4** also shows the average construction cost of new residential buildings, which has been consistently increasing since 2005—aside from minor decreases in 2009 and 2012.

While the financial crisis hit Northwest Indiana especially hard, there have been some signs lately that the regional economy is recovering, though at a pace slower than the state and national economies.

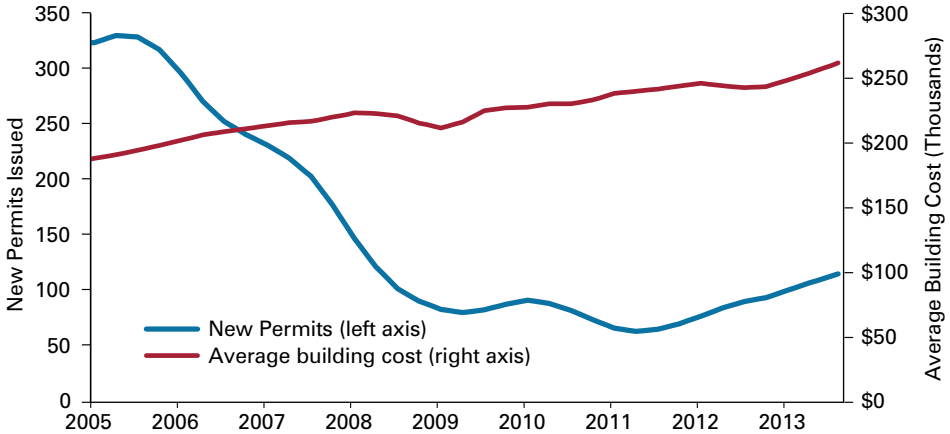
In conclusion, the Northwest Indiana Coincident Index can be combined with a number of leading indicators to construct a forecast for the growth of the economy and employment in 2014. **Table 1** shows forecasted growth in the economy and employment for 2014, along with forecasted and actual growth for 2013. Based on the index, the Northwest Indiana economy is forecasted to grow 2.2 percent in 2014 and regional employment is forecasted to increase by 0.8 percent, the equivalent of 2,000 new jobs. While economic expansion and new jobs are always desirable, growth at this rate would still leave the region approximately 16,000 jobs (or 5 percent) below the employment high in 2007. ■

**Figure 3: Gary Metro Employment in the Top Two Industries, January 2005 to August 2013**




Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

**Figure 4: Monthly New Residential Construction in the Gary Metro, January 2005 to August 2013**




Note: Data are seasonally adjusted
Source: U.S. Census Bureau, Seasonally Adjusted

## Notes

1. The Northwest Indiana Coincident Index is released monthly at www.nwiindex.com.
2. United States Coincident State Index, Federal Reserve Bank of Philadelphia
3. Location quotient data comes from the Bureau of Labor Statistics and is defined as the ratio of manufacturing employment to total employment in the analysis area compared to the same ratio for the nation.

**Table 1: Northwest Indiana Regional Forecasts, 2014**

| | Actual | Forecast | |
|---|---|---|---|
| | 2013 | 2013 | 2014 |
| Economy | 1.6% | 2.0% | 2.2% |
| Employment | -0.7% | -0.4% | 0.8% |
| | -1,900 jobs | -1,100 jobs | 2,000 jobs |

Source: Author's Calculations

# Indianapolis-Carmel Forecast 2014

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

The Indianapolis-Carmel metropolitan area[1] economy has experienced another weak year of growth along with the rest of the state and country. Gains in output and employment have been modest.

## Five Years Later

The financial crisis that began in late 2007 had significant repercussions in Indianapolis as well as everywhere else across the country. It is useful to examine the industries that were most affected by the recession and measure to what extent they have recovered. **Table 1** presents the change in number of jobs and real wages over the past five years (from March 31, 2008 to March 31, 2013). Overall, the total number of jobs grew nearly 1 percent and real wages remained flat.

Digging deeper, we can see the industries that were hit hardest and have yet to recover. Construction jobs are down 20.6 percent from their 2008 levels, while manufacturing and wholesale trade jobs are down 13.8 percent and 6.3 percent, respectively. The health care industry has seen the strongest growth, with the number of jobs increasing by 18.5 percent and wages increasing by 6.1 percent.

## Employment and Wages

Slow economic growth still drives the Indianapolis economy. The good news is that unemployment has fallen to 6.9 percent, the lowest mark since 2008. But it is only a few percentage points lower than where it stood in 2012, and the local economy has only added about 16,000 jobs in that time. To get unemployment to a manageable 4 percent to 5 percent level, Indianapolis will need to add 43,000 jobs. Given the current pace, it looks like we will be in "recovery mode" for at least a couple more years.

**Table 1: Indianapolis Change in Jobs and Wages, 2008 to 2013**

| Industry | Percent of Total Jobs | Change in Jobs | Real Wage Change |
|---|---|---|---|
| Health Care and Social Services | 14.7% | 18.5% | 6.1% |
| Retail Trade | 10.7% | 1.6% | -0.3% |
| Manufacturing | 9.7% | -13.8% | 5.0% |
| Accommodation and Food Services | 9.1% | 5.9% | -1.3% |
| Administrative and Support Services | 7.9% | 7.5% | -1.0% |
| Educational Services | 7.6% | 2.9% | -5.1% |
| Transportation and Warehousing | 6.4% | 6.6% | -0.3% |
| Professional, Scientific and Technical | 5.4% | 6.7% | 7.8% |
| Public Administration | 4.8% | -2.0% | 7.6% |
| Finance and Insurance | 4.7% | -5.6% | 4.8% |
| Wholesale Trade | 4.6% | -6.3% | 1.0% |
| Construction | 4.2% | -20.6% | 4.5% |
| Other Services | 3.2% | -0.4% | -4.8% |
| Information | 2.0% | -5.6% | 2.2% |
| Real Estate, Rental and Leasing | 1.6% | -2.7% | 1.6% |
| Arts, Entertainment and Recreation | 1.4% | 9.0% | -17.4% |
| Management of Companies | 1.3% | -6.2% | 9.0% |
| **Total** | | **0.9%** | **0.5%** |

Notes: Data are March 31, 2008 to March 31, 2013. Total change in jobs and real wages are weighted averages based on each industry's percent of total jobs.
Source: STATS Indiana, using Indiana Department of Workforce Development data aggregated by the Indiana Business Research Center and author's calculations

> *The Indianapolis residential real estate market has been one of the few bright spots in the economy.*

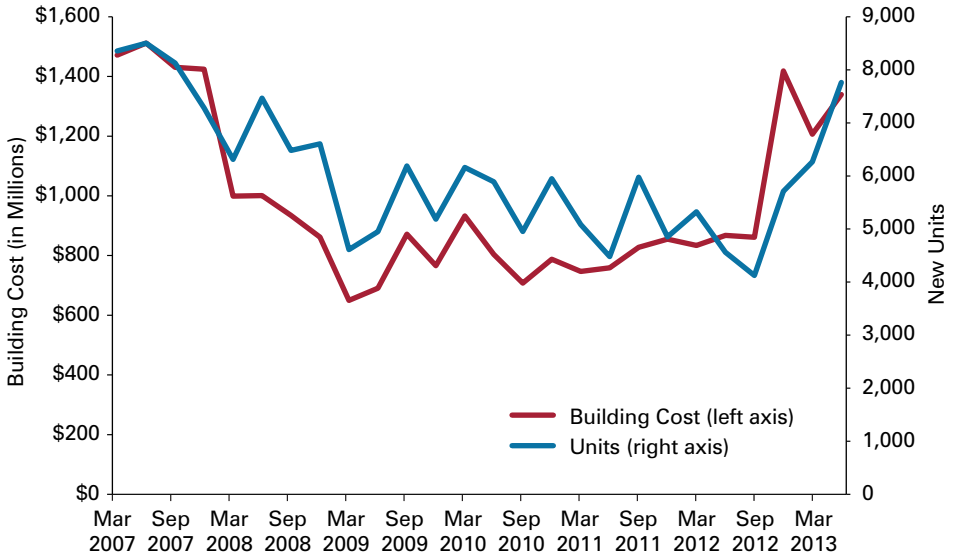
Examining different areas within the MSA, unemployment is highest in Marion County (7.8 percent) and lowest in Hamilton County (5.4 percent).

## Housing and Construction

The Indianapolis residential real estate market has been one of the few bright spots in the economy. Median housing prices are up 10.3 percent since 2012, while inventories have remained flat.[2] One contributor to this trend has been the practice of large investment groups buying up single family homes as rental properties. Whether or not this is good for the local economy remains to be seen, but it does seem to have the effect of increasing prices and investment in the housing market. Look for housing prices to continue to rise over the next year as mortgage rates remain at historically low levels and economic growth leads to increased demand for housing.

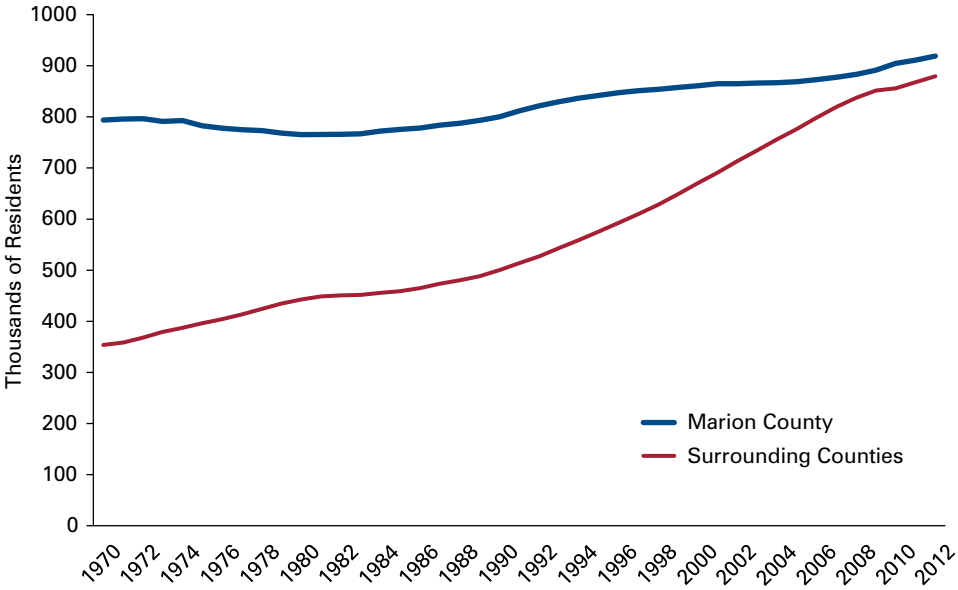
Another positive indicator is that the percent of mortgages that are in foreclosure or are seriously delinquent has declined over the past year. About 6 percent of mortgages are in foreclosure and another 3.2 percent are seriously delinquent (more than 90 days). However, this is actually an improvement, as 10 percent were in foreclosure or serious delinquency in 2012.[3]

**Figure 1: New Residential Building Permits in the Indianapolis MSA, 2007 to 2013**




Note: Data are quarterly and are seasonally adjusted.
Source: U.S. Census Bureau

**Figure 2: Indianapolis MSA Resident Population, 1970 to 2012**




Source: U.S. Census Bureau processed through FRED

New residential construction has experienced a dramatic recovery over the last 12 months. **Figure 1** shows that new construction costs, as measured by permits, are expected to top $1.2 billion in the metro area in 2013. This level of residential construction has not been achieved since 2007 and suggests that we have finally fully recovered from the housing/construction crisis.

Overall, new residential construction spending increased 41 percent from June 2012 to June 2013. While 2014 should continue to see growth, it is expected to be at a much more modest pace.

## Demographic shifts

During the last few years, population growth has been picking up in Marion County and slowing in the surrounding counties. Population growth in Marion County averaged 0.4 percent from 1995–2009, but has averaged more than 1 percent per year since. Meanwhile, growth in the surrounding counties has slowed from 2.8 percent to 1.1 percent during the same time periods.

**Figure 2** shows the population of Marion County and the sum of the surrounding counties. A few years ago, it appeared certain that the surrounding counties would surpass Marion County, but this has not yet happened. It seems as though some of the redevelopment efforts within Marion County, and especially those in and around downtown, are paying off.

## Forecast

With the notable exception of the residential construction market, Indianapolis continues a weak five-year recovery. Incomes and output will likely rise 2 percent next year along with the state and the rest of the nation. The economy will add between 15,000 jobs and 20,000 jobs, which will reduce the unemployment rate to around 6.5 percent. ■

## Notes

1. This analysis covers the Indianapolis-Carmel Metropolitan Statistical Area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam and Shelby counties.
2. Housing prices and supply of houses were collected from www.housingtracker.net.
3. Foreclosure and delinquency data come from Foreclosure-Response.org.

# Lafayette Forecast 2014

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

The year 2013 had a series of mixed employment and economic news nationally and statewide, leading to anticipated languid growth rates. The Indiana Business Research Center (IBRC) has long predicted that 2014 may experience a turning point in these trends. On the other hand, the Lafayette Metropolitan Statistical Area (MSA)—Benton, Carroll and Tippecanoe counties—has had encouraging reports and economic statistics. While the area has not experienced rapid resurgence from the depths of the recession, it has rebounded more quickly than many other areas of the state and maintained steady growth. As we look to the future to determine how 2014 will treat the Lafayette MSA, the area appears poised to continue its growth with announced business expansions, developments and investments in the local economy.

## Population

To its benefit, the Lafayette MSA is viewed as an attractive area to live and work, due in part to its proximity to Purdue University. We see this optimism in the continued population growth that is expected for the next few years (see **Figure 1**). In 2013, the population was estimated to increase 1 percent to 207,946 residents and maintain a 0.9 average annual percent growth each year through 2016. This steady anticipated population growth was consistent with the 2013 forecast and while it is more timid than growth in previous years, it is a step in the right direction.

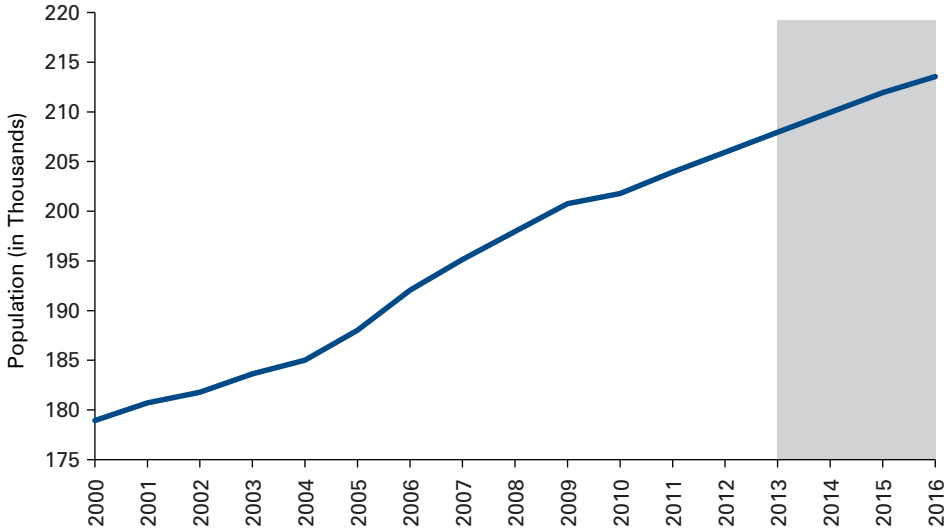
## Labor

Historically, the Lafayette MSA has had a lower unemployment rate than Indiana and the United States. Between August 2012 and August 2013, the Lafayette MSA has outperformed Indiana every month (other than a slight hiccup in July 2013) and stayed closer to the United States' rate most months (see **Table 1**). The spread in unemployment rates between the Lafayette MSA compared to the state and nation reflects the improved economy in the MSA. Despite the variability in the labor market (measured by unemployment rates, number of individuals employed, in the labor force and unemployed), the Lafayette MSA is seeing a general trend of individuals finding work.

**Table 2** looks specifically at the employment picture between 2012 and 2013 in the Lafayette MSA. Last year it was predicted that employment would continue to increase at a slow and steady pace. The manufacturing sector was anticipated to lead this growth followed by the health care and transportation sectors. During 2013, nearly all industries had employment growth and the leading industry has been the professional and business

> *"The stronger-than-expected employment growth from professional and business services compared to manufacturing reflects the continuous attraction and expansion of firms associated with research and development within the life sciences and engineering sectors."*

**Figure 1: Annual Population Change in the Lafayette MSA and Tippecanoe County, 2000 to 2016**




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

services (adding 400 jobs) followed by manufacturing (adding 375 jobs) and private educational and health services (adding 263 jobs).

The stronger-than-expected employment growth from professional and business services compared to manufacturing reflects the continuous attraction and expansion of firms associated with research and development within the life sciences and engineering sectors. The close proximity to Purdue University is helping fuel the growing number of start-ups stemming from university research. In total, the Lafayette MSA has 125 high-tech and life science businesses, with many providing services in research, design, consulting and computer programming. While this sector is expanding, many of these businesses have small employment sizes, so it is critical that the Lafayette MSA help nurture these businesses for continued economic development benefits.

Manufacturing will continue to be an important sector in the area and recent announcements indicate this sector is still going strong in the Lafayette MSA. Statewide, manufacturing is expected to pullback on employment, yet several businesses in the Lafayette MSA recently announced expansion plans for equipment, plants and employees (Alcoa, Heartland Automotive, Nanshan, Subaru of Indiana, TKO Graphix and Voestalpine Rotec).

Two sectors—information and government—have seen declining employment in 2013, repeating their 2012 trends. The drop in state and local government jobs at the MSA level reflects cuts made while government officials continue to reallocate budget funds. In 2014, employment growth will likely pick up the pace—moderately—fueled by the professional and business services

**Table 1: Unemployment Rates in the Lafayette MSA, Indiana and the United States, August 2012 to August 2013**

| Year | Month | Lafayette MSA | Indiana | United States |
|---|---|---|---|---|
| 2012 | August | 7.9% | 8.4% | 8.2% |
| | September | 6.9% | 7.9% | 7.6% |
| | October | 6.9% | 7.9% | 7.5% |
| | November | 7.4% | 8.1% | 7.4% |
| | December | 7.6% | 8.5% | 7.6% |
| | **Annual Average** | **7.4%** | **8.4%** | **8.1%** |
| 2013 | January | 9.2% | 9.6% | 8.5% |
| | February | 8.0% | 9.3% | 8.1% |
| | March | 8.2% | 9.1% | 7.6% |
| | April | 6.8% | 8.0% | 7.1% |
| | May | 7.2% | 8.1% | 7.3% |
| | June | 8.6% | 8.7% | 7.8% |
| | July | 8.4% | 8.3% | 7.7% |
| | August* | 6.8% | 7.5% | 7.3% |

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

**Table 2: Lafayette MSA Employment, 2012 to 2013**

| Industry | 2013* | Change since 2012 | Percent Change 2012–2013 |
|---|---|---|---|
| Total Nonfarm | 96,900 | 800 | 0.8% |
| Total Private | 70,313 | 1,313 | 1.9% |
| Goods-Producing | 19,300 | 300 | 1.6% |
| Manufacturing | 16,675 | 375 | 2.3% |
| Mining, Logging and Construction | 2,625 | 25 | 1.0% |
| Service-Providing | 77,600 | 500 | 0.6% |
| Professional and Business Services | 8,100 | 400 | 5.2% |
| Private Educational and Health Services | 11,963 | 263 | 2.2% |
| Leisure and Hospitality | 9,225 | 125 | 1.4% |
| Financial Activities | 3,700 | 100 | 2.8% |
| Trade, Transportation and Utilities | 13,938 | 37 | 0.3% |
| Other Services | 3,013 | 13 | 0.4% |
| Information | 1,075 | -25 | -2.3% |
| Government | 26,588 | -512 | -1.9% |

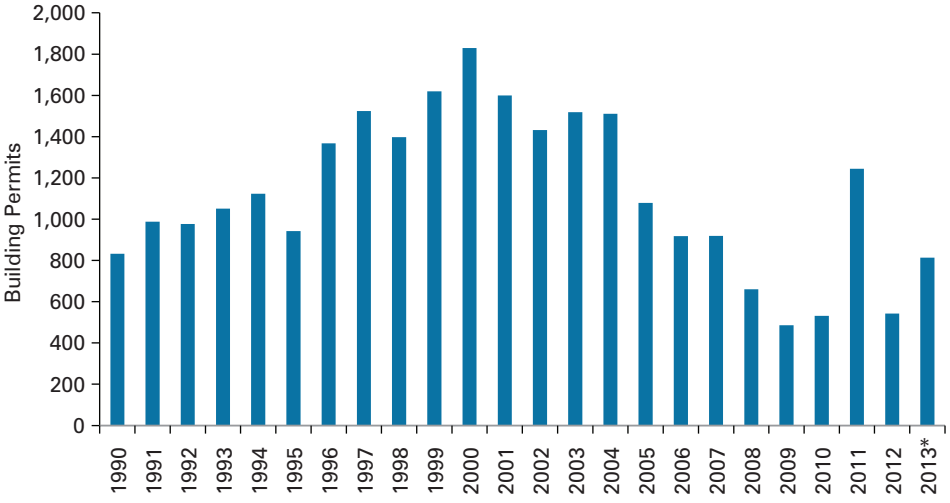
*January through August data annualized for 2013. August data are preliminary.
Source: IBRC, using Bureau of Labor Statistics data

**Table 3: Average Weekly Wages in the Lafayette MSA, 2013**

| Industry | 2013 Q1 | Percent Change since 2012 Q1 | |
|---|---|---|---|
| | Average Weekly Wage | Jobs | Average Weekly Wage |
| Total | $799 | 0.2% | -0.9% |
| Finance and Insurance | $1,044 | 1.1% | 10.8% |
| Administrative Support and Waste Management | $459 | -0.8% | 10.1% |
| Agriculture, Forestry, Fishing and Hunting | $697 | 3.6% | 7.4% |
| Professional, Scientific and Technical Services | $1,052 | 1.1% | 6.7% |
| Educational Services* | $996 | -1.4% | 4.7% |
| Public Administration | $761 | -0.3% | 4.7% |
| Arts, Entertainment and Recreation | $226 | -1.0% | 4.6% |
| Transportation and Warehousing | $799 | -2.0% | 1.8% |
| Health Care and Social Services | $809 | 0.6% | 1.6% |
| Accommodation and Food Services | $260 | -0.9% | 1.6% |
| Other Services (Except Public Administration) | $533 | -0.6% | 0.9% |
| Information | $546 | 1.4% | -1.6% |
| Retail Trade | $434 | 2.3% | -1.8% |
| Wholesale Trade | $946 | 4.2% | -2.0% |
| Construction | $767 | 0.6% | -4.2% |
| Real Estate, Rental and Leasing | $581 | 2.4% | -4.3% |
| Manufacturing* | $1,260 | -0.7% | -8.4% |
| Management of Companies and Enterprises | $1,384 | -1.9% | -37.7% |

*Indicates that some county data was excluded due to confidentiality
Note: Data for mining and utilities are not shown due to nondisclosure requirements.
Source: IBRC, using QCEW data

**Figure 2: Lafayette MSA Residential Building Permits, 1990 to 2013**




*Reflects year-to-date figures through August for Tippecanoe County only
Source: IBRC, using U.S. Census Bureau data

sector, manufacturing and private health and educational services.

Between the first quarter of 2012 and first quarter of 2013, average weekly wages decreased 0.9 percent within the Lafayette MSA. Eleven out of the 18 major sectors (two were not disclosed) had positive wage increases ranging between 10.8 percent (finance and insurance) and 0.9 percent (other services), as seen in **Table 3**. The 2013 forecast predicted modest wage increases, which did not occur due to wage declines in management of companies and enterprises (-37.7 percent) and manufacturing (-8.4 percent). Moving into 2014, it is anticipated that the average annual weekly wage will increase slightly, corresponding with the anticipated new jobs in professional and business services, manufacturing and health care services. As the housing market continues to stabilize and improve, wage increases will likely also occur in the construction industries.

The Lafayette MSA's per capita personal income (PCPI) historically lags the United States due to the occupational mix in the MSA and the fact that Indiana's highest earning tier of occupations tends to be paid less than similar occupations elsewhere, regardless of cost of living factors. In 2011, the most recent year for which Bureau of Economic (BEA) data are available, the Lafayette MSA's PCPI was 75.1 percent of the national figure.[1] The PCPI increased by 6.4 percent in 2011 and is projected to have grown by 4.6 percent in 2012. PCPI is expected to grow by 3 percent in 2013 and another 4.6 percent in 2014.

## Housing

While housing permits issued in 2011 were high, the 2012 number of permits issued fell by 56.4 percent down to 543 permits (see **Figure 2**). The vast majority of issued permits

> *Statewide, the manufacturing industry is expected to become bearish, but the Lafayette MSA may prove to be an outlier.*

were for single-family homes (93.7 percent) followed by five or more family home structures (5.9 percent). Of all the MSAs completely within Indiana's boundaries, the Lafayette MSA had the third largest number of permits issued in 2012. Thus far in 2013, 814 permits have been issued in Tippecanoe County, approximately 50 percent more than the entire MSA's 2012 permits. The yo-yo trend in housing permits reflects the volatile nature of the housing market, so 2014 will likely see a dip (hopefully slight) in the quantity of permits filed.

Comparing year-to-date (January through September) 2013 figures with 2012 shows that the Lafayette MSA real estate market has stayed about the same with a slight change in listings (2.5 percent), closed sales (11.2 percent) and a decline in months' supply of inventory (-6.7 percent). Benton County had the largest change in new listings (28.1 percent) whereas Tippecanoe County only had a 1 percent increase since 2012. As of September 2013, the Lafayette MSA had nearly 10 months' worth of housing inventory to sell (see **Table 4**). The median sales prices for homes sold varied across counties within the Lafayette MSA. Benton County witnessed an increase in prices for homes sold (26.7 percent) whereas Carroll County had a decline (-11.8 percent) and Tippecanoe County had very little change (1.3 percent). Nationally, housing trends have been positive thus far in 2013, and major changes are not expected in the Lafayette MSA during 2014. Instead, we expect to see a steady return to market stability.

## Conclusion

Overall, economic activity in the Lafayette MSA seems to be picking up steam, giving 2014 a more optimistic outlook than in prior years. The anticipated employment growth will trickle down to improvements in PCPI, wages and the housing industry. The Lafayette MSA should continue to cultivate the professional and business services sector as it has had steady growth over the past several years. Statewide, the manufacturing industry is expected to become bearish, but the Lafayette MSA may prove to be an outlier. Indiana's economic activity is expected to increase in 2014, snapping the state out of its languid growth. The Lafayette MSA will continue to contribute to the state's economic improvements with lower unemployment rates and better job production fueled by Purdue University's proximity and the resulting start-up businesses.

## Notes

1. For more research on differences between the U.S. PCPI and Indiana's PCPI, see www.ibrc.indiana.edu/ibr/2010/spring/article1.html and www.ibrc.indiana.edu/ibr/2013/spring/article1.html.

**Table 4: Lafayette MSA Year-to-Date Residential Real Estate Sales, 2012 to 2013**

| | Lafayette MSA | | | Benton County | | | Carroll County | | | Tippecanoe County | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | Change | 2012 | 2013 | Change | 2012 | 2013 | Change | 2012 | 2013 | Change |
| New Listings | 2,742 | 2,811 | 2.5% | 89 | 114 | 28.1% | 243 | 263 | 8.2% | 2,410 | 2,434 | 1.0% |
| Closed Sales | 1,645 | 1,829 | 11.2% | 47 | 47 | 0.0% | 112 | 117 | 4.5% | 1,486 | 1,665 | 12.0% |
| Median Sales Price | n/a | n/a | n/a | $45,000 | $57,000 | 26.7% | $101,500 | $89,500 | -11.8% | $128,000 | $129,700 | 1.3% |
| Months Supply of Inventory* | 9.2 | 9.9 | 6.9% | 9 | 11.6 | 28.9% | 12.2 | 12.9 | 5.7% | 6.5 | 5.1 | -21.5% |
| Inventory of Homes for Sale* | 1,190 | 1,110 | -6.7% | 49 | 60 | 22.4% | 153 | 174 | 13.7% | 988 | 876 | -11.3% |

*Data as of September 2013.
Note: Year-to-date reflects January to September data.
Source: IBRC, using Indiana Association of Realtors data

# Louisville Forecast 2014

**Uric Dufrene, Ph.D.: Executive Vice Chancellor for Academic Affairs,** Indiana University Southeast, New Albany

The Louisville metro saw an overall deceleration of payrolls in 2013 compared to 2012. Even though payrolls slowed compared to the previous year, the region finally surpassed its pre-recession jobs peak (see **Figure 1**). As 2013 ended, payrolls began to accelerate once again, and 2014 payrolls will be comparable to the high payroll growth of 2012.

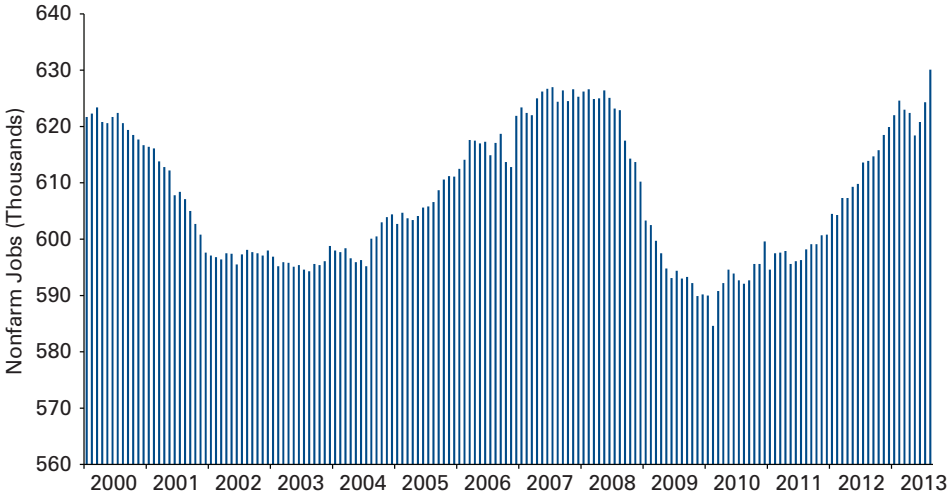
## Labor Markets

Unemployment rates continued a downward trend in 2013. However, unemployment rates in Southern Indiana and the Louisville metro did increase slightly in the middle of the year due to the overall payroll growth deceleration (see **Figure 2**). Rates in both regions now hover above the national average, a reversal for Southern Indiana compared to 2012. As payroll growth resumes at a higher rate in 2014, regional unemployment rates should return to a consistent downward trend.

## Sector Growth

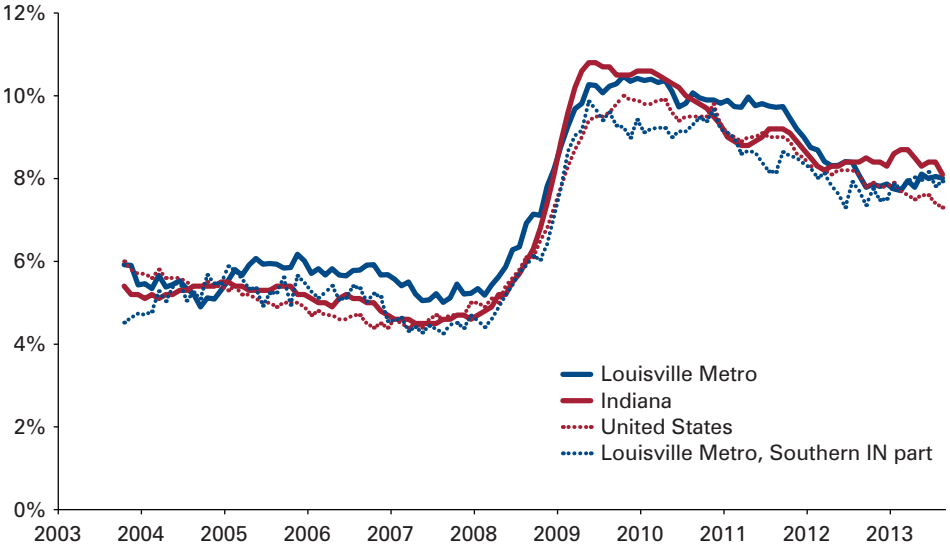
Unlike 2012, most sectors in the Louisville metro showed slower growth in 2013. The professional and business services sector was one of the largest contributors to overall growth in 2012, but slowed during 2013. Leisure and hospitality, one of the leading sectors of 2012, also saw slower growth in 2013. Retail increased slightly from earlier in the year, but the growth rate was less than the overall job growth for the Louisville metro. The one sector that showed the most favorable change compared to the previous year was construction. During the first quarter and almost all of 2012, construction showed negative job growth. Even though housing showed an overall turnaround in 2012, construction employment did not reflect gains to housing. This has changed for 2013.

**Figure 1: Louisville Metro Nonfarm Payroll Jobs, January 2000 to August 2013**




Source: FactSet

**Figure 2: Unemployment Rates in the Louisville Metro, Indiana and the United States, October 2003 to August 2013**

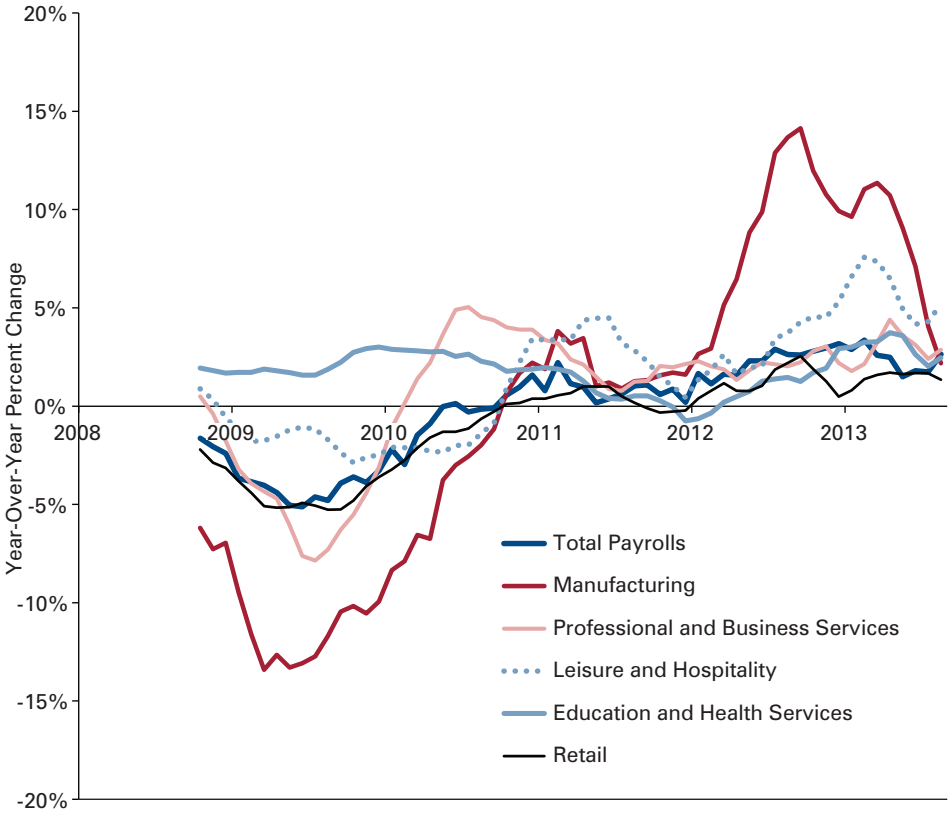



Source: FactSet

## Manufacturing

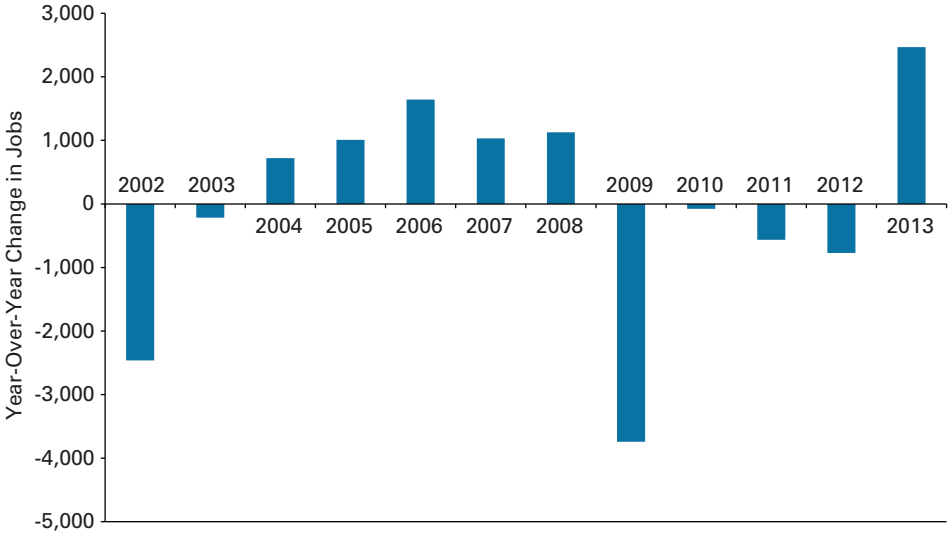
Perhaps the sector that showed the biggest change from 2012 to 2013 was manufacturing (see **Figure 3**). Manufacturing was a significant contributor to above average job growth for the metro area during 2012. Likewise, it was a key reason overall job growth slowed in 2013. Growth in manufacturing continues to remain higher than overall job growth, but at rates considerably lower than they were at the beginning of 2013. National manufacturing indicators such as the ISM Manufacturing Index point in the direction of expansion in manufacturing. During the first half of 2013, the index pointed to contraction in manufacturing, and this was ultimately reflected in slower

**Figure 3: Louisville Metro Sector Job Growth for Select Industries, October 2008 to August 2013**




Source: FactSet

**Figure 4: Change in Jobs in the Louisville Metro Southern Indiana Counties, 2002 Q1 to 2013 Q1**




Note: Data show year-over-year change using first quarter data for each year.
Source: FactSet

Louisville manufacturing payroll growth.

## Southern Indiana

Payrolls in Southern Indiana finally showed considerable improvement during the first quarter of 2013. Year-over-year change in first quarter payrolls were the most favorable since 2010, and 2010 growth was driven primarily by Census hiring in Clark County. Outside of the 2010 change, the first quarter of 2013 represents the highest year-over-year gain in payrolls since the start of the Great Recession (see **Figure 4**). Employment growth has been consistently positive in 2013, but at rates considerably lower than the two previous post-recession recoveries.

## 2014 Outlook

Last year's outlook called for slower overall growth for the Louisville metro. Payroll growth did decline compared to 2012, but Louisville managed to surpass the pre-recession jobs peak. As 2013 progressed, higher job growth resumed, and this is an early signal for 2014. The Louisville metro will see above average job growth in 2014, and jobs added will rival the impressive growth observed in 2012. We expect payroll gains to exceed 2.5 percent year-over-year, likely closer to 3 percent, positioning the Louisville metro to add nearly 20,000 jobs in 2014. This job growth should also result in additional declines to the unemployment rate, reversing the small increases of 2013. By this time in 2014, the metro should expect an unemployment rate in the range of 7 percent to 7.5 percent.

# Muncie Forecast 2014

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The official numbers show small improvements in the Muncie area economy during 2013. The unemployment rate is down. Nonfarm employment increased as did average weekly wages. The housing market, particularly real estate sales, continues to improve, and local real estate agents indicate that there are shortages in some segments of the market. However, the job gains of the past year are not likely to persist. In September, IU Health Ball Memorial Hospital, Delaware County's largest employer, announced that 120 people would be laid off by the end of 2013. Local software maker Ontario Systems recently announced a layoff of 20 workers. These job losses will hamper an already fragile recovery. Earlier this year, Magna Powertrain announced that it is adding up to 76 jobs over the next few years, and recently Progress Rail announced the hiring additional workers on short-term contracts, but net gains in employment in the county are likely to be small.[1]

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.

**Table 1: Labor Force and Unemployment, Delaware County, August 2012 to August 2013**

| Year | Month | Labor Force | Unemployed | Unemployment Rate |
|---|---|---|---|---|
| 2012 | August | 54,430 | 5,286 | 9.7 |
| | September | 55,397 | 4,970 | 9.0 |
| | October | 55,440 | 4,817 | 8.7 |
| | November | 55,209 | 4,852 | 8.8 |
| | December | 55,118 | 5,133 | 9.3 |
| | **Annual** | **54,245** | **5,161** | **9.5** |
| 2013 | January | 54,901 | 5,712 | 10.4 |
| | February | 54,275 | 5,594 | 10.3 |
| | March | 54,134 | 5,556 | 10.3 |
| | April | 54,253 | 4,781 | 8.8 |
| | May | 54,487 | 4,928 | 9.0 |
| | June | 52,895 | 5,573 | 10.5 |
| | July | 53,091 | 5,445 | 10.3 |
| | August | 52,729 | 4,532 | 8.6 |

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

**Table 2: Muncie Metro Employment by Industry, Year-to-Date 2012 to 2013***

| Industry | 2013 | Change since 2012 | Percent Change 2012–2013 |
|---|---|---|---|
| Total Nonfarm | 50,650 | 550 | 1.1% |
| Total Private | 37,463 | 50 | 0.1% |
| Goods-Producing | 5,713 | 88 | 1.6% |
| Manufacturing | 4,200 | 75 | 1.8% |
| Private Service-Providing | 31,750 | -38 | -0.1% |
| Trade, Transportation and Utilities | 8,900 | 213 | 2.4% |
| Leisure and Hospitality | 5,025 | 113 | 2.3% |
| Financial Activities | 2,600 | 75 | 3.0% |
| Information | 300 | -13 | -4.0% |
| Private Educational and Health Services | 9,238 | -25 | -0.3% |
| Other Services | 1,600 | -38 | -2.3% |
| Government | 13,188 | 500 | 3.9% |

*January through August average.
Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

## Labor Markets

The unemployment rate for August 2013 made a substantial improvement from January 2013, decreasing from 10.4 percent to 8.6 percent. This is also lower than one year ago (August 2012) when the unemployment rate was 9.7 percent (see **Table 1**). However, Delaware County's unemployment rate is still higher than Indiana's rate of 7.5 percent (not seasonally adjusted) in August 2013. Similar to the situation in 2012, the number of unemployed workers decreased at a faster rate (down 20.7 percent) than the change in the labor force (down 4 percent) in 2013. The decrease in unemployment rate is due in part to a smaller labor force as around 2,000 people left the labor force in Delaware County. The change in the number of unemployed

**Table 3: Average Weekly Wages in the Muncie MSA, 2013 Q1**

| Industry | 2013 Q1 | Percent Change since 2012 Q1 |
|---|---|---|
| Total | $682 | 3.2% |
| Utilities | $1,538 | 10.2% |
| Health Care and Social Services | $760 | 8.6% |
| Arts, Entertainment and Recreation | $262 | 7.4% |
| Finance and Insurance | $892 | 6.8% |
| Professional, Scientific and Technical Services | $812 | 6.0% |
| Real Estate, Rental and Leasing | $696 | 5.9% |
| Information | $754 | 5.5% |
| Retail Trade | $436 | 2.8% |
| Manufacturing | $907 | 2.7% |
| Transportation and Warehousing | $803 | 1.9% |
| Other Services (Except Public Administration) | $431 | 1.2% |
| Administrative Support and Waste Management | $440 | 0.5% |
| Public Administration | $731 | 0.4% |
| Educational Services | $798 | -1.6% |
| Accommodation and Food Services | $231 | -2.1% |
| Wholesale Trade | $887 | -2.5% |
| Construction | $706 | -3.3% |
| Management of Companies and Enterprises | $1,752 | -7.2% |

Note: Data for agriculture, forestry, fishing and hunting and mining are not included due to nondisclosure requirements
Source: U.S. Bureau of Labor Statistics & Indiana Department of Workforce Development

workers is similar to the state of Indiana which saw a 21.3 percent reduction. However, Indiana's labor force went in the opposite direction with a 1 percent increase.

For the third straight year, nonfarm employment increased in Delaware County with 550 more jobs. This reverses the 2007–2010 trend where nonfarm employment lost 4,400 jobs. For the third straight year, manufacturing jobs increased and the result was an additional 75 jobs in 2013. Trade, transportation and utilities was the industry sector that provided the largest share of the private nonfarm employment increase with 213 jobs, while government (including public schools and hospitals) added 500 jobs (see **Table 2**).

Average weekly wages in Delaware County rose for the second straight year, increasing from $661 to $682 (3.2 percent). This was also the eighth straight year that first quarter average weekly wages either increased or remained constant (see **Table 3**). A majority of the industry sectors in 2013 (13 of 18) experienced positive increases in weekly wages ranging from 0.4 percent to 10.2 percent. Seven of these sectors increased 5 percent or more: utilities (10.2 percent), health care and social services (8.6 percent), arts, entertainment and recreation (7.4 percent), finance and insurance (6.8 percent), professional, scientific and technical services (6.0 percent), real estate, rental and leasing (5.9 percent) and information (5.5 percent). Five sectors saw a decline in average weekly wages in 2013: construction, wholesale trade, educational services, management of companies and enterprises, and accommodation and food services.

The inflation rate between the first quarters of 2012 and 2013 was 1.7 percent, so workers in more than half of the sectors experienced real wage growth over this period.[2]

**Table 4: Delaware County Residential Building Permits, Year-to-Date 2002 to 2013**

| Year | Total | Single-Family | Multi-Family |
|---|---|---|---|
| 2002 | 164 | 156 | 8 |
| 2003 | 345 | 156 | 189 |
| 2004 | 200 | 154 | 46 |
| 2005 | 122 | 115 | 7 |
| 2006 | 94 | 79 | 15 |
| 2007 | 87 | 73 | 14 |
| 2008 | 47 | 43 | 4 |
| 2009 | 21 | 21 | 0 |
| 2010 | 25 | 23 | 2 |
| 2011 | 53 | 43 | 10 |
| 2012 | 47 | 42 | 5 |
| 2013 | 22 | 22 | 0 |

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

## Housing

After 2011 and 2012, it looked like new housing construction was on the rebound. However, the number of residential building permits dropped substantially—from 47 permits in 2012 to 22 permits in 2013 (see **Table 4**). There were mixed results in the residential real estate market in 2013. On the positive side, the number of units sold increased for the second straight year—from 713 units in 2012 to 826 units in 2013. However, the average number of days on the market increased by 10 and the average sales price decreased by $6,621 (falling from $92,213 in 2012 to

**Table 5: Residential Real Estate Sales, Delaware County, January to September, 2006 to 2013**

| Indicator | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| Units Sold | 1,086 | 984 | 715 | 733 | 714 | 635 | 713 | 826 |
| Average Days on Market | 131 | 128 | 145 | 155 | 130 | 146 | 134 | 144 |
| Average Sale Price | $98,230 | $92,596 | $91,632 | $90,628 | $85,084 | $85,957 | $92,213 | $85,592 |
| Median Sale Price | $80,000 | $79,900 | $75,500 | $76,750 | $69,950 | $72,900 | $79,900 | $72,905 |
| Average Property Tax/Average Sales Price | 1.18% | 1.30% | 1.71% | 1.54% | 1.47% | 1.16% | 1.28% | 1.15% |

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

$85,592 in 2013). These changes put the 2013 numbers—average days on the market and average sales price—back to 2011 levels (see **Table 5**).

## Social Safety Net

For the fifth straight year, there were increases in the dollar amount of food stamps issued, the number of food stamp recipients and the number of households receiving food stamps (see **Table 6**). However, the rate of growth in food stamps issued and recipients has been declining over the past three years. In 2013, the dollar amount of food stamps issued was $2.7 million per month. This is an increase of 3.0 percent compared to the increase of 5.9 percent in 2012 and the increase of 10.1 percent in 2011. The number of food stamp recipients topped 20,000 per month (for the first time) in 2013, an increase of 3.2 percent compared to the increase of 6.3 percent in 2012 and the increase of 11.1 percent in 2011. In 2013, the number of households receiving food stamps was just slightly less than 10,000 per month. This is an increase of 4.1 percent compared to the increase of 8.7 percent in 2012 and the increase of 13.5 percent in 2011.

**Table 6: Food Stamp Recipients in Delaware County, January to September Averages, 2005 to 2013**

| Year | Average Monthly Food Stamps Issued | Average Monthly Food Stamp Recipients | Number of Households Receiving Food Stamps (monthly average) |
|---|---|---|---|
| 2005 | $1,404,316 | 14,083 | 6,497 |
| 2006 | $1,344,049 | 14,108 | 6,632 |
| 2007 | $1,411,099 | 14,351 | 6,837 |
| 2008 | $1,404,418 | 13,004 | 6,154 |
| 2009 | $1,909,044 | 14,323 | 6,662 |
| 2010 | $2,282,955 | 16,787 | 7,739 |
| 2011 | $2,513,198 | 18,653 | 8,787 |
| 2012 | $2,661,710 | 19,823 | 9,549 |
| 2013 | $2,740,579 | 20,455 | 9,941 |
| Change 2012 to 2013 | $78,869 | 632 | 392 |
| Percent Change 2012–2013 | 3.0% | 3.2% | 4.1% |

Note: Dollar amounts not adjusted for inflation.
Source: STATS Indiana, using FSSA data

## Outlook

The past year extended the period of slow growth that has become the "new normal" since the Great Recession. The decline in the labor force from 2012 to 2013 indicates that discouraged workers are a persistent issue and the continued increase in the number of food stamp recipients indicates ongoing economic distress for many families in Delaware County. Approximately 17 percent of Delaware County's population and 20 percent of households received food stamps in 2013. Several years of strong, positive employment and income growth are needed to alleviate the lingering effects of the most recent recession and the closing of large manufacturing plants and associated businesses over the past two decades in East Central Indiana.

In the coming year, we expect small gains in employment (1 percent) and income (in the 2 percent to 3 percent range) as the economy continues its slow recovery.[3]

## Notes

1. Walker, D. and K. Roysdon, "Progress Rail hiring, but secrecy remains," *The Star Press*, November 3, 2013, A1. Roysdon, K, *The Star Press*: "Hospital layoffs higher than forecast," September 23, 2013, A1; "Ontario lays off 20 from workforce of 287," September 28, 2013, A1; "Magna to add 76 jobs by 2016," March 27, 2013, A1.
2. Inflation rate for the Midwest region using the CPI for all urban consumers.
3. Forecast from the Center for Econometric Model Research, Indiana University, Bloomington, August 2013.

# Richmond Forecast 2014

**Litao Zhong, Ph.D.: Assistant Professor of Economics, Finance and Director of Business and Economic Research Center,** School of Business and Economics, Indiana University East

The East Central Indiana regional economy did achieve moderate progress in 2013, as we predicted in 2012. The recovery is expected to continue in 2014 amid many external uncertainties. Before we make the 2014 forecast, let's take a look at the region's economic performance in 2013. The geographic territory in this article contains the following six Indiana counties: Fayette, Henry, Randolph, Rush, Union and Wayne, with Wayne County the central focus of this article. Summaries of the labor market and housing sector follow, concluding with our 2014 regional outlook.

## Labor Market

In Wayne County, recent job data are encouraging. Compared to 2012, the labor force declined during February through May but there was a robust rebound during June through August, resulting in a net gain of 113 people in 2013 (see **Table 1**). Meanwhile, the number of people unemployed, on a year-to-year basis, fell by 146 workers. The regional data follows the same trend as Wayne County's (see **Table 2**). Looking at the big picture, the regional job market is gaining a solid footing as the national recovery continues. On one side, people are feeling more optimistic about the job market as they are seeking employment, and on the other side, employers are more willing to hire people with the improving economic conditions.

Furthermore, unemployment rates keep dipping across the country, including in East Central Indiana (see **Figure 1**). The preliminary unemployment rate for Wayne County was 8.9 percent in August 2013, down from 10.7 percent a year earlier. Although we need to recognize the substantial drop in Wayne County's unemployment

**Table 1: Labor Force and Unemployment for Wayne County, January through August, 2012 to 2013**

| | Labor Force | | | Unemployment | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 1-Year Change | 2012 | 2013 | 1-Year Change |
| January | 30,078 | 30,106 | 28 | 3,295 | 3,372 | 77 |
| February | 30,294 | 30,263 | -31 | 3,254 | 3,235 | -19 |
| March | 30,106 | 29,764 | -342 | 3,199 | 3,115 | -84 |
| April | 30,196 | 30,148 | -48 | 2,939 | 2,825 | -114 |
| May | 30,445 | 30,172 | -273 | 3,049 | 2,882 | -167 |
| June | 30,233 | 30,404 | 171 | 3,196 | 3,047 | -149 |
| July | 29,685 | 30,061 | 376 | 3,201 | 2,932 | -269 |
| August | 29,080 | 30,106 | 1,026 | 3,117 | 2,676 | -441 |
| January through August Average | 30,015 | 30,128 | 113 | 3,156 | 3,011 | -146 |

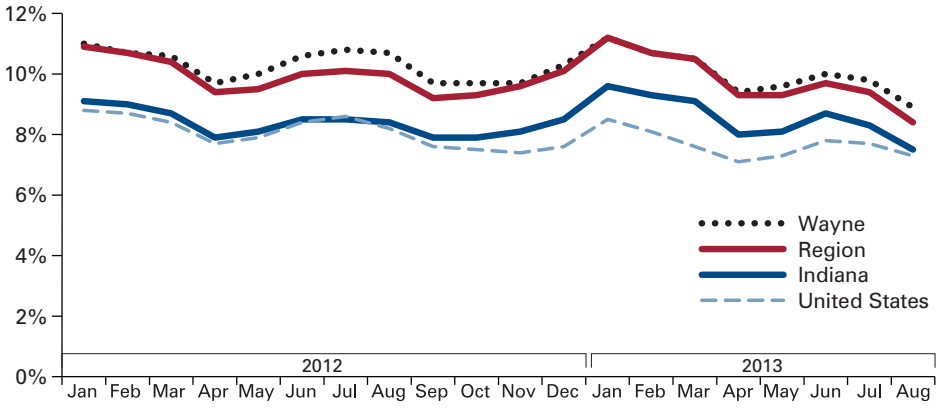
Note: Data are not seasonally adjusted.
Source: Indiana department of Workforce Development

**Table 2: Labor Force and Unemployment for the Richmond Region, January through August, 2012 to 2013**

| | Labor Force | | | Unemployment | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 1-Year Change | 2012 | 2013 | 1-Year Change |
| January | 85,789 | 85,829 | 40 | 9,335 | 9,573 | 238 |
| February | 85,660 | 85,566 | -94 | 9,154 | 9,142 | -12 |
| March | 85,844 | 84,707 | -1,137 | 8,905 | 8,880 | -25 |
| April | 85,977 | 85,466 | -511 | 8,121 | 7,920 | -201 |
| May | 87,036 | 86,142 | -894 | 8,282 | 8,017 | -265 |
| June | 86,199 | 86,609 | 410 | 8,597 | 8,442 | -155 |
| July | 85,660 | 85,828 | 168 | 8,620 | 8,088 | -532 |
| August | 84,469 | 86,220 | 1,751 | 8,453 | 7,266 | -1,187 |
| January through August Average | 85,829 | 85,796 | -33 | 8,683 | 8,416 | -267 |

Note: Data are not seasonally adjusted.
Source: Indiana department of Workforce Development

**Figure 1: Monthly Unemployment Rates, January 2012 to August 2013**




Note: Data are not seasonally adjusted.
Source: Indiana department of Workforce Development

**Table 3: Employment by Industry in the Richmond Area, 2013 Q1**

| Industry | Wayne | | | Region | | |
|---|---|---|---|---|---|---|
| | 2013 Q1 | 1-Year Change | 2-Year Change | 2013 Q1 | 1-Year Change | 2-Year Change |
| Total Nonfarm | 28,480 | -23 | 260 | 59,862 | 196 | 725 |
| Total Private | 24,106 | 112 | 354 | 48,525 | 409 | 1,169 |
| Goods-Producing | 6,065 | 34 | -54 | 13,771 | 305 | 533 |
| Manufacturing | 5,265 | 33 | -68 | 11,283 | 195 | 406 |
| Private Service-Providing | 18,042 | 79 | 409 | 34,756 | 103 | 636 |
| Trade, Transportation and Utilities | 5,607 | 102 | 244 | 10,989 | 209 | 298 |
| Private Educational and Health Services | 5,626 | 159 | 39 | 10,220 | 231 | 230 |
| Leisure and Hospitality | 2,964 | 49 | 186 | 5,370 | -11 | 128 |
| Professional and Business Services | 1,929 | 83 | 222 | 4,105 | -3 | 292 |
| Financial Activities | 1,069 | -38 | -59 | 2,041 | -47 | -89 |
| Other Services | 607 | -50 | -54 | 1,465 | -99 | -90 |
| Information | 243 | -224 | -167 | 581 | -174 | -76 |
| Government | 4,374 | -135 | -94 | 11,340 | -213 | -338 |

Note: Some data for Rush and Union counties are not disclosable.
Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

rate, it is stubbornly higher than the regional, state and national rates. In the region, only Rush County and Union County enjoy rates lower than or near the national and state rates. This downward trend in the unemployment rate is expected to continue in 2014 as the economy continues to recover. Due to the fact that Wayne County's unemployment rate has persistently exceeded the national rate by around 2 percent in the past three years, we predict Wayne County's unemployment rate will float between 8 percent and 9 percent in 2014, and the regional rate will be slightly lower than Wayne County's rate.

A look at the Quarterly Census of Employment and Wages shows a similar pattern in employment gains and losses by industry between Wayne County and the region for the first quarter of 2013 (see **Table 3**). Total employment in Wayne County was 28,480 jobs for the first quarter of 2013, only 23 fewer jobs than a year ago. Total employment shows an increase of 260 jobs from the first quarter of 2011 as the region gained more jobs in the past two years. The private sector has experienced a different trajectory than the government sector: one had consistent job gains (the private sector) in two successive years, yet the other one had steady job losses (the government sector) during the same period.

**Table 4: Average Weekly Wages, 2013 Q1**

| Industry | Wayne | | Region | |
|---|---|---|---|---|
| | 2013 Q1 | 1-Year Change | 2013 Q1 | 1-Year Change |
| Total Nonfarm | $663 | 2.8% | $625 | 0.4% |
| Total Private | $661 | 2.6% | $619 | 0.5% |
| Goods-Producing | $838 | 3.6% | $829 | -2.6% |
| Manufacturing | $868 | 3.8% | $888 | -2.9% |
| Private Service-Providing | $602 | 2.2% | $523 | 2.3% |
| Financial Activities | $839 | 5.0% | $710 | 6.1% |
| Professional and Business Services | $765 | 0.4% | $603 | 2.8% |
| Information | $669 | 0.3% | $600 | -2.0% |
| Private Educational and Health Services | $751 | 1.2% | $555 | 4.1% |
| Trade, Transportation and Utilities | $553 | 3.8% | $549 | 1.5% |
| Other Services | $391 | -1.0% | $396 | 3.6% |
| Leisure and Hospitality | $256 | 2.4% | $232 | -0.6% |
| Government | $823 | 2.8% | $765 | 1.6% |

Note: Some data for Rush and Union counties are not disclosable.
Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

**Table 5: Housing Market in the Richmond Area, January to August 2012 and 2013**

| | Closed Sales | | | Median Price | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | Percent Change | 2012 | 2013 | Percent Change |
| Statewide | 44,333 | 52,216 | 17.8% | $117,500 | $122,900 | 4.6% |
| Randolph | 66 | 77 | 16.8% | $47,900 | $56,000 | 16.9% |
| Rush | 7 | 10 | 42.9% | $27,000 | $30,500 | 13.0% |
| Henry | 194 | 239 | 23.2% | $54,900 | $59,900 | 9.1% |
| Wayne | 463 | 489 | 5.6% | $74,200 | $69,500 | -6.3% |
| Fayette | 77 | 93 | 20.8% | $63,875 | $47,000 | -26.4% |
| Union | 6 | 10 | 66.7% | $105,000 | $46,500 | -55.7% |

Sources: Prime Property Realty, LLC. (Wayne County) and Indiana Real Estate Market Report by Indiana Association of Realtors (all except Wayne County)

Within the private sector, the traditional big employer in our region—manufacturing—shows a sign of improvement. In Wayne County, manufacturing added 33 jobs in the first quarter, compared to persistent massive job losses in past decades. Looking at the broader picture, the region gained more manufacturing jobs from 2011 through 2013. This is consistent with the gradual economic recovery in our region and nation. In addition to the manufacturing sector, the large net job gains also extend to some other sectors, such as trade, transportation and utilities, professional and business services and private educational and health services. Continuing the recent trend, the health sector still plays a pivotal role in creating new jobs in both Wayne County and surrounding areas. Although there is a large retrenchment in the information sector, its relative weight in overall employment is very limited.

Average wages increased by nearly 3 percent to $663 per week in Wayne County during the first quarter of 2013, while regional average wages rose by a paltry 0.4 percent to $625 per week (see **Table 4**). Most sectors in Wayne County experienced an uptick in wages. This is particularly true for financial activities with the strongest wage increase (5 percent), followed by manufacturing (3.8 percent) and trade, transportation and utilities (3.8 percent). The regional picture, however, is mixed. The manufacturing sector endured a 2.9 percent decline in wages, while the financial sector experienced the largest wage increase of 6.1 percent. This is mainly attributed to the rebound in both the stock and housing markets.

## Housing

The national housing market heated up rapidly in the first half of 2013 before cooling down. The regional housing market shows mixed results. New construction is still sluggish in that there were only nine building permits issued in Richmond during the first six months of 2013.[1] However, the sales of existing houses perked up across our region (see **Table 5**). For Wayne County, sales only ticked up by 5.6 percent, compared to double-digit increases in other areas of the region and state. Consequently, the median home prices reflect an unclear picture. Randolph, Rush and Henry had upbeat prices, while Wayne, Fayette and Union had subdued prices. The future of the housing market depends on the state of the national economy and the Fed's monetary policy. The improving economy will propel the housing market, but higher mortgage rates and rising home prices could scare off prospective home buyers. Therefore, blended by these possibilities, we expect the local housing market to grow at a slower rate in 2014.

## Outlook

The road to economic revival in 2013 was not as smooth as we predicted last year. The on and off political gridlock in Washington D.C. and the imminent exit of the Fed's easy-money policy stunted economic growth and undermined business and consumer sentiment in the second half of 2013. It will also create uncertainty into 2014, which will affect investment, employment, income and output. This is the reason the International Monetary Fund (IMF) recently cut its world growth forecast.[2] The atmosphere will spill over into our regional economy if the uncertainty continues. Yet there is an unparalleled shining point in our regional economy because of the Richmond's Stellar Communities Designation. This designation will undoubtedly create more jobs and investments in our region, as well as upgrading Richmond's infrastructure to make the city more competitive in the long run. As Mayor Hutton explained, the purpose of the Stellar program is to connect the community for higher quality lives in Richmond.[3] If more people come to Richmond, the economy will likely improve.

Overall, based on all relevant external and internal factors, we forecast a moderate uptick in regional economic activity in 2014. Both the job market and the housing market will continue improving, but economic growth could be uneven due to uncertainties at both the national and international levels.

## Notes

1. The number is calculated based on the monthly newsletters distributed from City of Richmond, Indiana.
2. "IMF's Pessimism on Global Growth Widens", *Wall Street Journal*, Wednesday, October 9, 2013.
3. www.richmondindiana.gov/Our_Government/Mayor/Stellar_Communities.htm, accessed November 8, 2013.

# South Bend and Elkhart Area Forecast 2014

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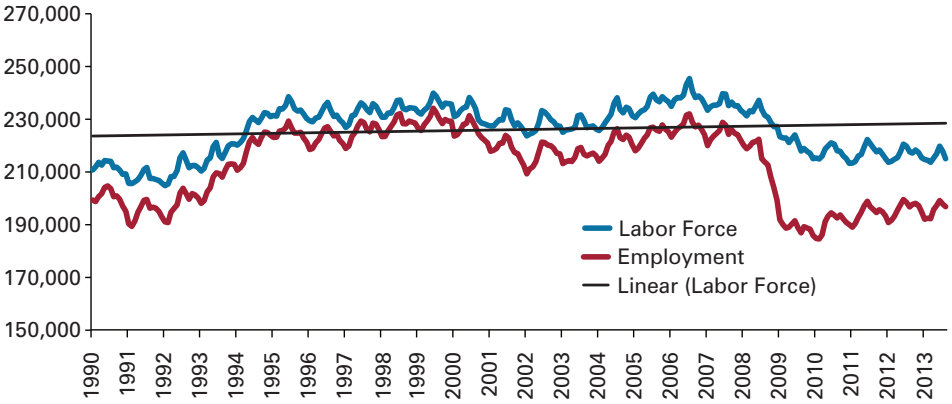
The South Bend-Mishawaka MSA and Elkhart-Goshen MSA recovered much of the losses in production, per capita income and real wages since the Great Recession ended. Although total employment levels have improved in the two MSAs, they remain significantly below pre-recession levels. The sharp decline in the region's labor force has abated, and unemployment rates fell below recession levels.

## Real Metropolitan GDP

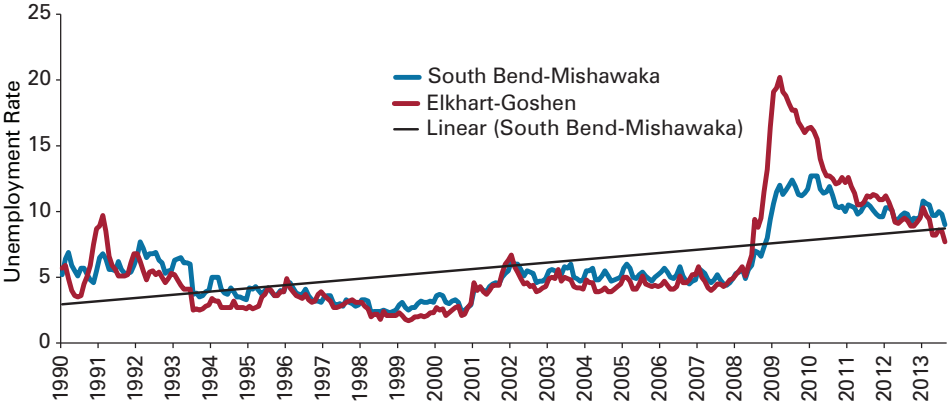
The good news is that the combined size of the local economy—the South Bend-Mishawaka MSA and Elkhart-Goshen MSA—measured by its real metropolitan gross domestic product (RGDP) was $4.1 billion higher in 2012 (an increase of 24 percent) than its low in 2009.[1] Separately, the Elkhart-Goshen MSA grew by $3 billion (45 percent) while the South Bend-Mishawaka MSA grew by $1 billion (9.6 percent) from their respective recession lows. The combined production level for the region was nearly half a billion dollars (-$586 million) below its pre-recession 2007 level. Despite its spectacular recovery, the Elkhart MSA's RGDP remained more than a half-billion dollars below the 2007 pre-recession level, while the South Bend-Mishawaka MSA's RGDP was more than $150 million above its 2007 level.

**Figure 1: Labor Force and Employment in the Elkhart-Goshen and South Bend-Mishawaka MSAs Combined, January 1990 to August 2013**




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

**Figure 2: Unemployment Rate in the Elkhart-Goshen and South Bend-Mishawaka MSAs Combined, January 1990 to August 2013**




Note: Resident labor force rates are not seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data

## Labor Force and Employment

The earlier sharp decline of the local economy's labor force slowed down significantly (see **Figure 1**). In July 2013, the combined labor force stabilized at 217,771 workers, after steadily declining from the record 2006 high of 245,480 workers.[2] As a result, the region's combined labor force in July 2013 was 27,709 workers smaller than its July 2006 level and 941 workers lower than its July 2012 level. The year-over-year numbers show the Elkhart-Goshen MSA gained 444 jobs in July 2013, while the South Bend-Mishawaka MSA lost 1,120 jobs. This is mainly due to the different rates of economic recovery in the two MSAs From July 2012 to July 2013, total employment for both areas increased from 196,722 workers to 197,770 workers. Meanwhile, the Elkhart-Goshen MSA added 444 jobs while employment in the South Bend-Mishawaka MSA fell by 1,120 workers during the same time period.

## Unemployment

As the local economy recovered, the number of people unemployed fell and unemployment rates declined in both areas. The number of unemployed plunged 18 percent and 8.3 percent in Elkhart-Goshen and South Bend-Mishawaka MSAs, respectively. The very strong recovery in the Elkhart-Goshen MSA drove

its unemployment rate down to 7.7 percent in August 2013 from 9.3 percent a year earlier and more than 12.5 percentage points (62 percent) below its recession high of 20.2 percent. South Bend-Mishawaka MSA's jobless rate declined slightly (-0.8 percentage point) from 9.8 percent in August 2012 or -3.7 percentage points (-29 percent) from the recession peak of 12.7 percent. **Figure 2** presents the two MSAs' monthly unemployment rates from 1990 to 2013. As the figure shows, these rates were considerably lower by August 2013 than they were during the same month in 2009 and 2012.

**Table 1** presents the MSAs' employment by industry. The recent employment data indicate modest job growth for the local economy.[3] The total nonfarm sector added 600 new jobs from July 2012 to July 2013. The following industries experienced job growth during the past year in the combined MSAs: trade, transportation and utilities; private education and health services; professional and business services; leisure and hospitality; and government. All the gains in trade, transportation and utilities (400 jobs) were from the Elkhart MSA, and all the jobs in professional and business services added since last year (600 jobs) were gains in the South Bend-Mishawaka MSA. Both MSAs gained equally in leisure and hospitality, adding 200 jobs each since July 2012.

The biggest losses for the combined area in the past year occurred in manufacturing (-500 jobs) since July of 2012 and natural resources (-400 jobs). While the Elkhart-Goshen area added 1,400 jobs from July 2012 to the same month in 2013, the South Bend-Mishawaka MSA's employment fell by 800 jobs. The top five industries contributed 86 percent (Elkhart-Goshen) and 77 percent (South Bend-Mishawaka) of nonfarm employment. Private education and health care and trade, transportation and utilities are the two employment leaders in the South Bend-Mishawaka MSA with 46 percent of total nonfarm employment. Manufacturing and trade, transportation and utilities contributed over 60 percent to the Elkhart-Goshen MSA's total nonfarm employment.

From July 2012 to July 2013, seven industries in the Elkhart-Goshen MSA experienced job gains. The following industries each added 200 new jobs: natural resources; manufacturing; education and health services; and leisure and hospitality. Trade, transportation and utilities added 400 jobs, while other services and government sectors added 100 jobs and 500 jobs, respectively. The area also experienced job losses in information services (-100 jobs), professional and business services (-300 jobs). Employment in the financial services sector remained flat.

Meanwhile, the South Bend-Mishawaka MSA added 600 new jobs in professional business services; 100 jobs in education and health care; and 200 jobs in leisure and hospitality. The area experienced job losses in manufacturing (-700); natural

**Table 1: Employment by Industry and Metro Area, July 2013**

| Industry | Elkhart-Goshen | | South Bend-Mishawaka | | Combined MSAs | | |
|---|---|---|---|---|---|---|---|
| | Employment July 2013 | Change since July 2012 | Employment July 2013 | Change since July 2012 | Employment July 2013 | Change since July 2012 | Change since July 2007 |
| Total Nonfarm | 115,200 | 1400 | 130,100 | -800 | 245,300 | 600 | -25,900 |
| Manufacturing | 51,900 | 200 | 16,100 | -700 | 68,000 | -500 | -15,200 |
| Private Educational and Health Services | 11,100 | 200 | 32,400 | 100 | 43,500 | 300 | 2,900 |
| Trade, Transportation and Utilities | 18,300 | 400 | 24,900 | 0 | 43,200 | 400 | -4,200 |
| Government (Includes Public Schools and Hospitals) | 7,700 | 500 | 13,400 | -200 | 21,100 | 300 | -1,700 |
| Professional and Business Services | 7,900 | -300 | 12,900 | 600 | 20,800 | 300 | -1,700 |
| Leisure and Hospitality | 7,100 | 200 | 13,000 | 200 | 20,100 | 400 | 0 |
| Financial Activities | 3,200 | 0 | 6,000 | -200 | 9,200 | -200 | -1,200 |
| Other Services | 3,700 | 100 | 5,500 | -100 | 9,200 | 0 | -700 |
| Natural Resources, Mining and Construction | 3,800 | 200 | 4,200 | -600 | 8,000 | -400 | -3,300 |
| Information | 500 | -100 | 1,700 | 100 | 2,200 | 0 | -800 |

Source: STATS Indiana, using Current Employment Statistics data

resources (-600); financial services and government (-200) and other services (-100). The information service sector employment remained flat in the South Bend-Mishawaka MSA.

Looking ahead to 2014, employment should grow 2.5 percent in the Elkhart-Goshen MSA and 1.5 percent in the South Bend-Mishawaka MSA.

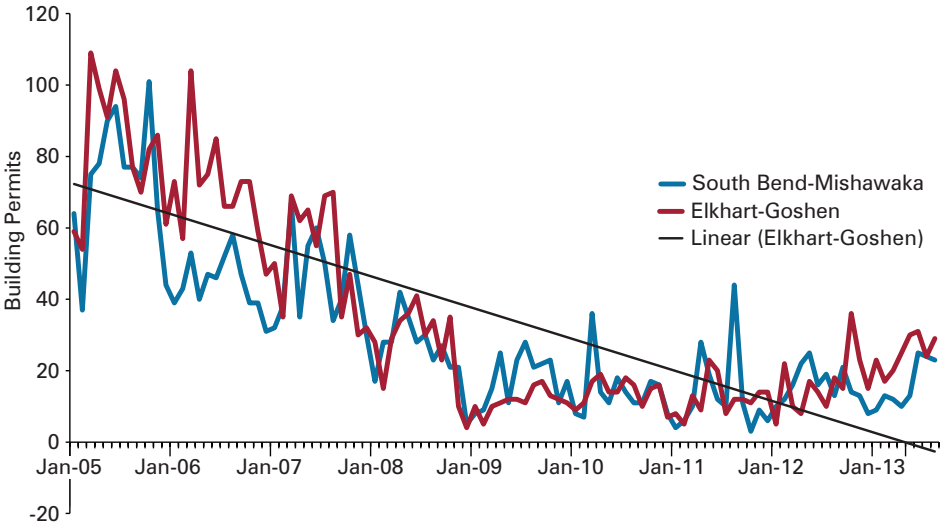
## Local Wages and Hours Worked

Average weekly wages in the combined MSAs increased over the last year. The average weekly wage of $756 in the Elkhart-Goshen MSA represents a 1.5 percent increase since last year. The South Bend-Mishawaka MSA's average weekly wage of $768 was 5.6 percent higher than the first quarter of 2012. Average weekly hours declined in the combined MSAs.[4] After expanding gradually since January 2011, the average weekly hours in the local economy fell in August 2013. In the Elkhart-Goshen MSA, the average weekly hours fell 3.2 percent to 36.2 hours but remained above the index's low of 33.9 hours recorded in December 2008. Similarly, the South Bend-Mishawaka MSA's average weekly hours fell 2.3 percent to 34.6 hours but remained above the low of 34 hours recorded in April 2009. This decline should be temporary. Average weekly wages and hours should rise as the local economic recovery continues for the remainder of 2013 and during the first half of next year.

## Housing

Single-family building permits rose in both MSAs in 2013. The Elkhart-Goshen MSA had 199 single-family building permits filed compared to 130 permits in September 2012. Similarly, single-family housing permits in the South Bend-Mishawaka MSA rose to 199 through August of 2013 compared to 108 filed during first nine months of 2012 (see **Figure 3**). According to recent housing market data released by the Indiana Association of Realtors,[5] the local housing market continues to recover. The year-over-year inventory of homes for sale fell 3 percent in September in the local housing markets. Closed sales and median home prices also increased in both the Elkhart-Goshen and South Bend-Mishawaka MSAs. As average wages and employment rise and mortgage rates remain below historic levels, housing demand should expand modestly the first half of 2014.

**Figure 3: Single-Family Residential Building Permits by Metropolitan Area, January 2005 to August 2013**




Source: U.S. Census Bureau

## Summary

The recovery that began in June 2010 is continuing in the local economy. Both MSAs have experienced modest income and job growth, a significant decline in unemployment rates, rising wages and low interest rates. The outlook for 2014 is guardedly optimistic. Strong and successful pro-growth public and private sector partnerships and initiatives in the two MSAs should spur employment and job growth in the metros. Existing companies are expanding, while new ones are being created. At the same time, other businesses are moving plants and operations into the MSAs, adding jobs to the local economy. Accompanied by rising wages and historically low interest rates, unemployment rates should fall steadily below current levels to 7 percent in the Elkhart-Goshen MSA and 8.5 percent in the South Bend-Mishawaka MSA through the first half of 2014.

## References for More Data

- Bureau of Economic Analysis: www.bea.gov/newsreleases/regional/gdp_metro/gdp_metro_newsrelease.htm.
- STATS Indiana Covered Employment and Wages, 2013: www.stats.indiana.edu/cew/.
- STATS Indiana Labor Force Estimates Time Series View, 2012: www.stats.indiana.edu/laus/laus_view3.html.
- STATS Indiana Current Employment Statistics: www.stats.indiana.edu/ces/ces_naics/.
- Indiana Association of Realtors® Indiana Housing Market Update:www.indianaishome.com (go to Latest Stats).

## Notes

1. Using Bureau of Economic Analysis 2012 data.
2. STATS Indiana, 2013 data.
3. U.S. Bureau of Labor Statistics.
4. Source: STATS Indiana, 2013.
5. Source: STATS Indiana, Indiana Housing Market Update, 2013.

# Terre Haute Forecast 2014

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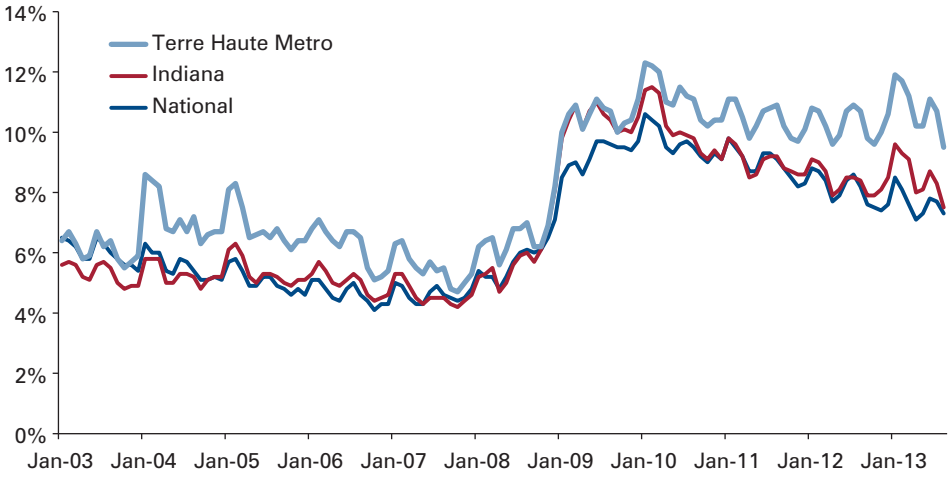
The outlook for the Terre Haute regional economy continues to be clouded by persistent unemployment and an acceleration of a long-term downward trend in area employment. Our analysis suggests that the Terre Haute region faces not just a lagging cyclical downturn, but troubling long-term headwinds that will make it difficult for the region to remain an important economic hub. Long-term job loss, structural unemployment, unusual seasonality and below-average compensation all combine to paint a difficult picture of the local labor market and economy. The only current sources of optimism revolve around potential beneficial effects of the impending completion of the 641-bypass on the city's southeast corner, and the 2015–2016 promised opening of a production facility by Nantworks, a California-based pharmaceutical company.

## Labor Market Conditions

For most of the past decade, the Terre Haute region's unemployment rate has lagged the state's unemployment rate by 1 point to 2.5 points (see **Figure 1**). While the state unemployment rate was generally in line with the nation's rate between 2004 and 2008, and again between the middle of 2010 and the middle of 2012, the Terre Haute region's unemployment rate has remained stubbornly above both rates for most of this period. As the national unemployment rate began its slow descent from its peak in 2010, Indiana's rate first tracked the national improvement, but surprisingly lagged behind the national rate for most of 2012. While the national and state recovery progressed slowly, the Terre Haute region's labor market remained in the doldrums.

**Figure 1: Unemployment Rates in Terre Haute, Indiana and the United States, January 2003 to August 2013**




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

The contrast between Terre Haute's unemployment rate and the state's unemployment rate is striking. Coming out of the 2001 recession, the Terre Haute rate was a point or two higher than statewide averages. The 2003 closure of Columbia House had a large, if temporary, effect of widening the gap to nearly 3 points. Between 2004 and through the worst of the Great Recession, the Terre Haute region largely caught up with the state. Since 2010, however, the city once again lags the state dramatically. We believe these data suggest that the Terre Haute region's

**Table 1: Unemployment Rate Deviations between the United States, Indiana and the Terre Haute Metro, 1990 to 2012**

| | 1990–2001 | | 2002–2012 | |
|---|---|---|---|---|
| | U.S. from Indiana* | Indiana from Terre Haute** | U.S. from Indiana* | Indiana from Terre Haute** |
| January | 1.4 | -1.5 | -0.1 | -1.3 |
| February | 1.1 | -1.5 | -0.3 | -1.3 |
| March | 1.1 | -1.5 | -0.4 | -1.1 |
| April | 1.1 | -1.5 | -0.2 | -1.1 |
| May | 1.1 | -1.5 | -0.1 | -1.2 |
| June | 1.4 | -1.5 | 0.0 | -1.3 |
| July | 1.7 | -1.0 | 0.1 | -1.1 |
| August | 1.4 | -1.4 | -0.1 | -1.3 |
| September | 1.6 | -1.1 | 0.1 | -1.0 |
| October | 1.4 | -1.2 | 0.0 | -0.8 |
| November | 1.3 | -1.2 | -0.1 | -0.9 |
| December | 1.2 | -1.4 | -0.2 | -1.0 |

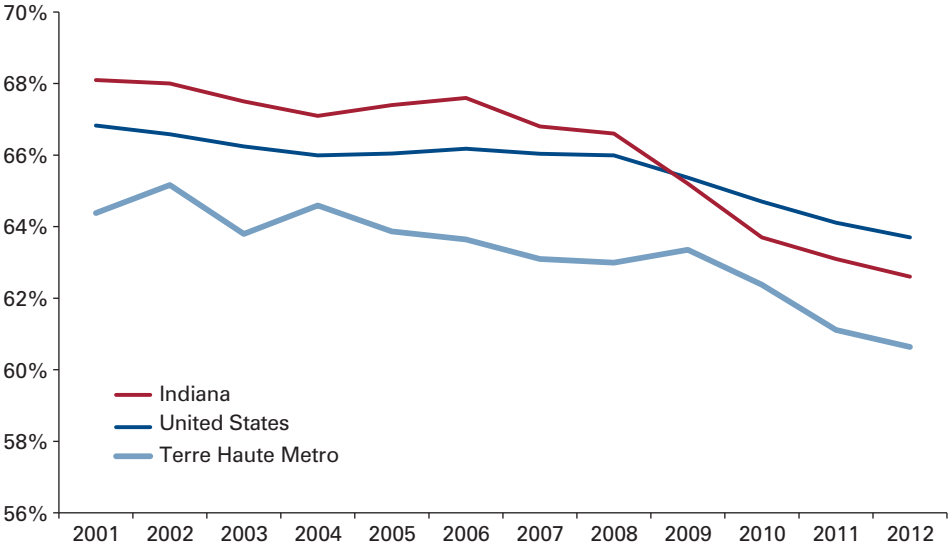
*Positive numbers indicate a higher unemployment rate in the United States
**Positive numbers indicate a higher unemployment rate in Indiana
Note: Unemployment rates used for this table are not seasonally adjusted
Source: Bureau of Labor Statistics

natural rate of unemployment may be 1 to 2 points higher than the state's rate, perhaps because of a higher proportion of structural unemployment. The implications for the metro area are significant: even if the state unemployment rate drops to pre-Great Recession levels, an event neither of us believe likely, Terre Haute's unemployment rate is likely to remain elevated.

An additional feature of the Terre Haute unemployment rate that deserves comment is that it has a seasonal element not present in state data. **Table 1** shows how the September through December period is quite different in Terre Haute, with the gap between metro and state unemployment rates temporarily shrinking each year during that period. There are two explanations for this and both revolve around the holiday buying season. As home to the western hemisphere's only Blu-ray facility, which also happens to be one of the world's largest video game stamping locations, Terre Haute sees a tremendous boost in temporary, low-wage manufacturing employment during the fall months. Secondly, as a regional shopping center to west-central Indiana and east-central Illinois, the retail and restaurant businesses do quite well during that period.

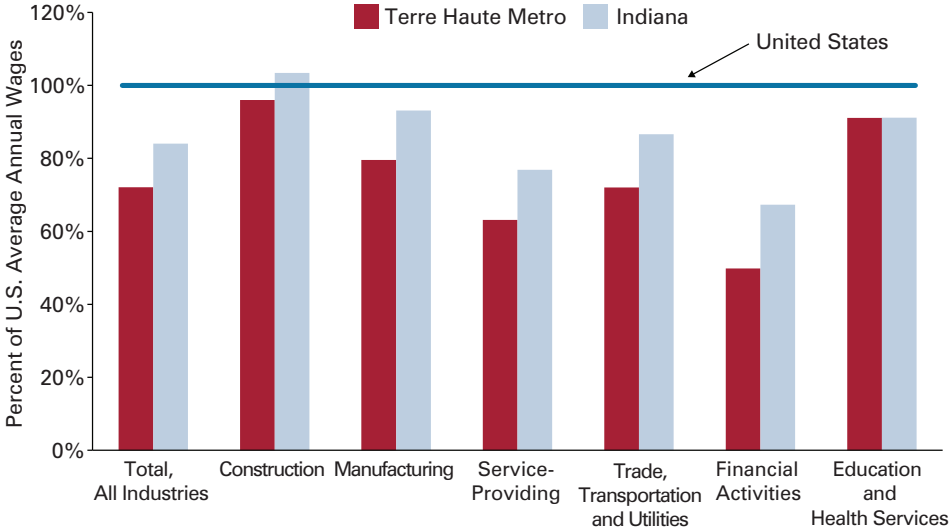
These observations about current labor market conditions occur against a backdrop of a long-term decline in area employment that seems to be picking up pace. Employment in the Terre Haute metro peaked at about 83,000 in late 1995. Over the ensuing 12 years, the metro lost about 6,000 jobs so that metro employment stood at about 77,000 on the eve of the Great Recession. Six years later, the Terre Haute metro is still struggling to emerge from the shadow of that recession and employment stands just above 70,000. As one would expect when jobs disappear from the local economy, labor force participation has declined as well. In part, this reflects a long-term national trend in declining labor force participation, but as **Figure 2** shows, the pace of decline is slightly faster for the Terre Haute metro.

**Figure 2: Labor Force Participation Rates in the Terre Haute Metro, Indiana and the United States, 2001 to 2012**




Source: U.S. and Indiana, Bureau of Labor Statistics; Terre Haute Metro, authors' estimates based on BLS and Census data.

**Figure 3: Average Annual Pay in the Terre Haute Metro and Indiana as a Percent of U.S. Average Annual Pay for Selected Sectors, 2012**




Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

There is one final observation about the Terre Haute metro's labor market that bears comment. As **Figure 3** illustrates, the average annual pay in all private industries in the area is only about 70 percent of the national average. In manufacturing, average annual

pay is less than 80 percent of the national average. Even accounting for lower costs of living in the area, these disparities seem significant. It seems that aside from the education and health services sectors, when the metro does attract or create jobs, those jobs tend to be below average in terms of annual pay. We believe that these data help explain why the region continues to experience significant brain drain.

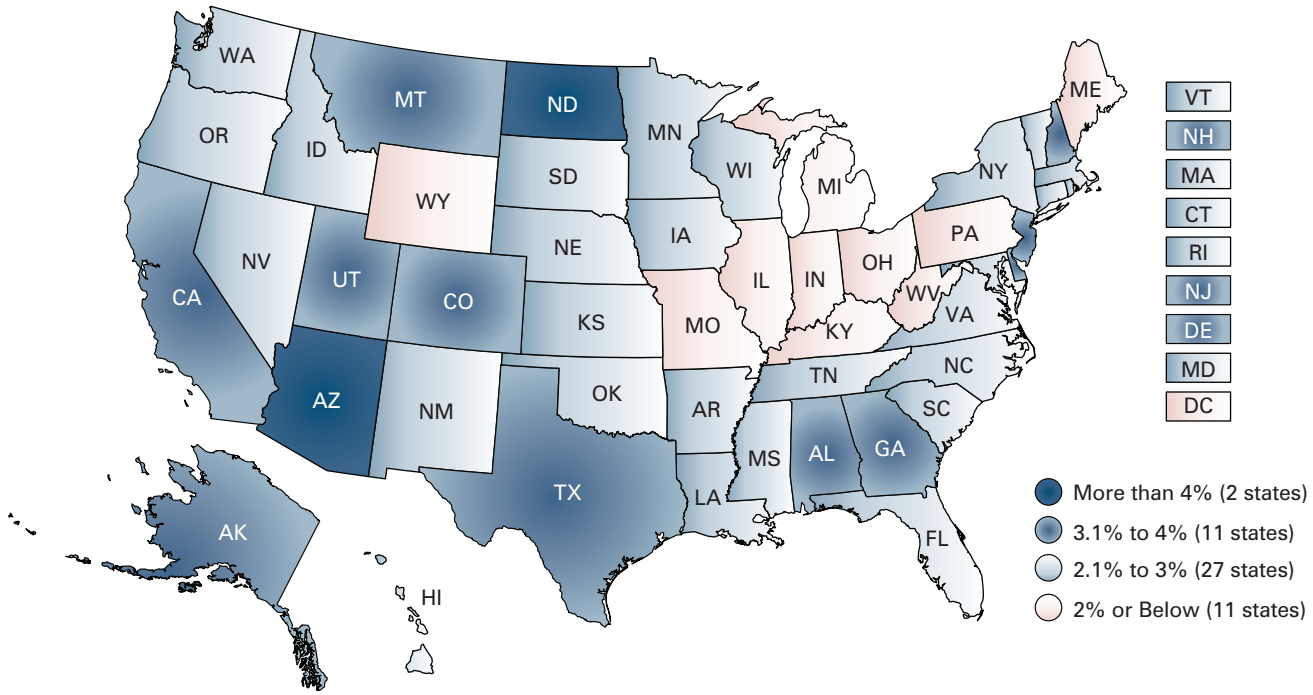
## Outlook

This year's outlook makes for difficult reading. While the nation and the rest of the state appear to be continuing an admittedly slow and painful recovery from the Great Recession, there are indications that the Terre Haute metro's economy remains more sluggish and vulnerable to another economic downturn, if it were to occur. Outside of the education and health services sectors, where employment and compensation remain relatively strong, the region's industrial composition offers little evidence of long-term economic health.

It is perhaps time for regional civic and business leaders to begin casting their nets a bit wider to attract new kinds of jobs to the area—jobs that will stem the tide of employment loss and that could contribute to a new sense of vibrancy and not just low-paying seasonal work. Nantworks has the potential to be such an employer, but its impact, assuming it comes to fruition, will not be a factor until after 2014. Nor will the 641-bypass have any noticeable economic impact until after 2014, and then it may only accelerate the addition of more retail operations, which tend to be lower-paying and partially seasonal. We understand that finding and attracting entirely new classes of employers is a tall order, but the reality of our reviews over the past few years is that the metro's economy and labor market are not healthy, show little forward momentum, and more of the same will not change the outlook.

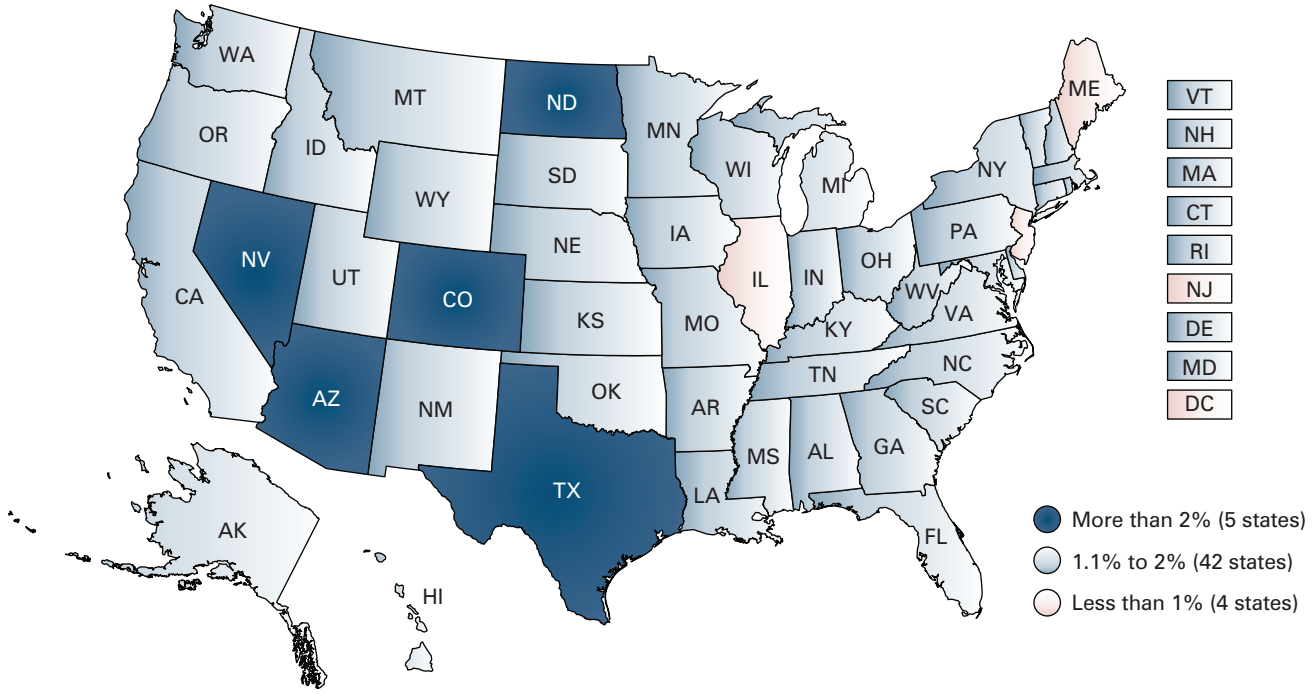
*"It is perhaps time for regional civic and business leaders to begin casting their nets a bit wider to attract new kinds of jobs to the area—jobs that will stem the tide of employment loss and that could contribute to a new sense of vibrancy."*

## U.S. Forecast GDP Growth Rates, 2013 to 2014




Source: IBRC, using U.S. Bureau of Economic Analysis (BEA) and Moody's Analytics (ECCA) Forecast data

## U.S. Forecast Jobs Growth Rate, 2013 to 2014




Source: IBRC, using U.S. Bureau of Economic Analysis (BEA) and Moody's Analytics (ECCA) Forecast data