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Economic Forecasts for 2010
International, National, Finance, Housing, Indiana, Agriculture, and Individual Metros

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INDIANA BUSINESS REVIEW

Outlook 2010
Volume 84, No. 4

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The Big Picture

Indiana Metro Areas

Outlook for 2010

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

November 2009

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

Suffice it to say that the economic situation during 2009 was not pretty. Over the past year, employment declined by at least 5 percent in all of the regions covered by this Outlook (see **Figure 1**). For 2010, the panel predicts that the worst is behind us, though it will take three to five years for a full recovery.

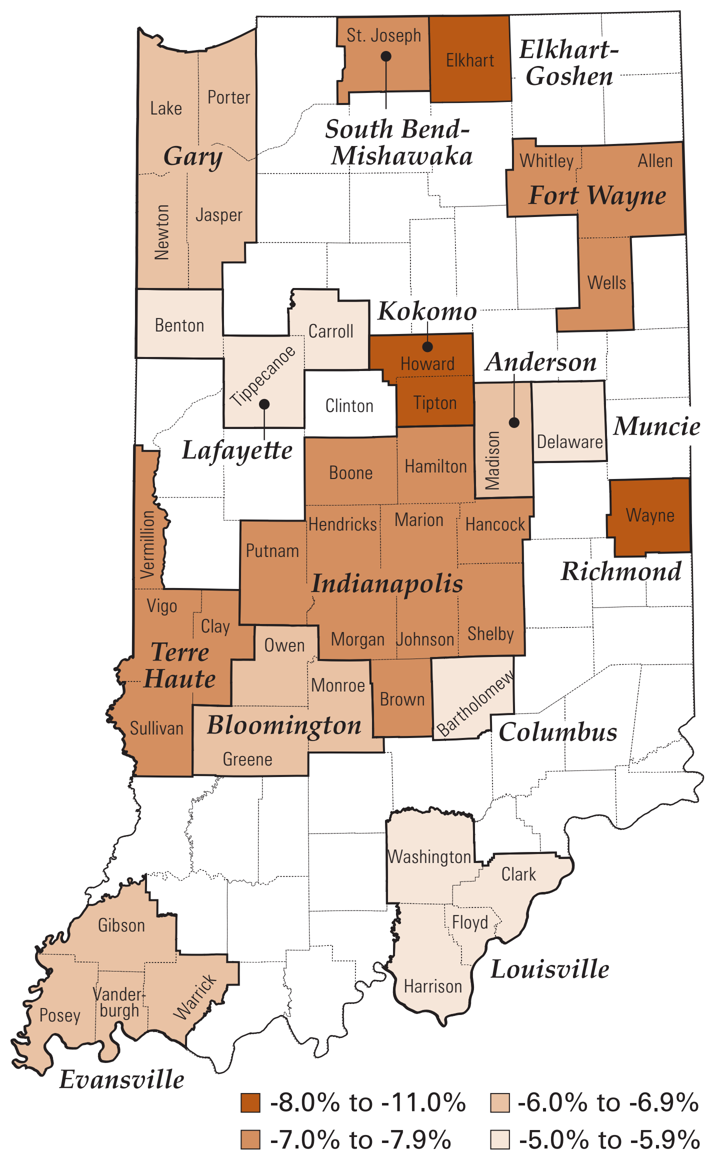
This year's discussion began with a review of the latest forecast based on the econometric model of the United States developed by Indiana University's Center for Econometric Model Research (CEMR). The researchers then made adjustments to the model's predictions to accommodate expectations about key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

These economists and distinguished colleagues presented their predictions to audiences across Indiana through the Kelley School's Business Outlook Panel. In each city, an expert on the local economy joined the panel to discuss the outlook for the metro area. The 2010 predictions of all the Business Outlook panelists are presented in this issue of the *Indiana Business Review*, along with additional supporting detail.

The 2010 outlook issue of the *Indiana Business Review* begins with Ellie Mafi-Kreft's assessment of the international outlook, with the prediction of a slow recovery with many downside risks. Bill Witte comments on the U.S. economy, which he believes will improve, though it will take longer than normally expected due to the lingering effects of the financial crisis. For the financial markets, John Boquist and Rob Neal project that interest rates will rise slightly by the end of the year, corporate profits will hold up due to major cost cutting that has occurred, and the stock market will grow more slowly.

Jeffrey Fisher weighs the outlook for housing, anticipating that the market will begin a modest recovery. The forecast for Indiana's economy, presented by Jerry Conover, anticipates that employment will finally grow again, though joblessness will remain a challenge. Corinne Alexander looks at what is expected for the Hoosier agriculture sector, predicting that overall agricultural income levels will be stronger than in 2009 (but nowhere near the levels seen in 2007 and 2008). Finally, a group of economists and business leaders from around the state share their insights into what 2010 holds in store for most of Indiana's metropolitan areas.

Figure 1: Change in Employment for Indiana Regions, October 2008 to October 2009



Source: IBRC, using Bureau of Labor Statistics data

International Outlook for 2010

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

November 2009

In 2010 the global economy is expected to make a slow recovery, expanding at a predicted rate of 3 percent, while employment and credit will remain strained. Furthermore, there are many downside risks and adverse scenarios that could materialize, such as an untimely unwinding of fiscal and monetary policies in rich nations.

Introduction

Our latest recession was born out of a synchronized financial crisis; much of the world happened to be in recession at the same time and this has made recovery more difficult. The good news is that we ended the free fall, but it would be a mistake to think that we are well on our way to a robust recovery. By definition, a recession is a business cycle contraction—a negative growth of gross domestic product (GDP). When the economy grows again, no matter how small, economists will say that we are over the recession; however, for ordinary people, the end of a recession is when they can get a job or feel secure in their current employment again.

How long are we going to have to wait before output grows fast enough to create jobs? A careful International Monetary Fund (IMF) report on eighty-eight banking crises in the last forty years was submitted to the leaders of the twenty most powerful countries at the annual G-20 meeting held in September 2009 in Pittsburgh, Pennsylvania. The conclusions were dismal as the report showed that the global financial crisis is likely going to hinder economic growth for quite a long time. The study showed that seven years after a financial crisis, output had declined relative to trend by 10 percent on average. In other words, seven years after the bust, a country's level of production was on average 10 percent below where it would have been without the crisis. The report said that lower employment, investment, and productivity are all contributing to sustained output losses.

Given the turbulent financial environment surrounding the global economy described above, I will now turn my attention to more detailed analysis of several economic regions around the globe, their most recent economic performance, and their outlook for 2010.

Advanced and Emerging Asia

The financial turmoil that originated in North America and Europe eventually hit Asia with great force. Among the major Asian economies, only China, India, and Indonesia did not experience contraction during the crisis. For the region as a whole, the economic contraction was sharp as GDP dropped an average 8.5 percent in the last quarter of 2008—with the economic activity in the newly industrializing economies (the four Asian Tigers: South Korea, Singapore, Hong Kong, and Taiwan) falling more than 15 percent. But just as the fall was quick and sharp, the rebound in the region has been rapid and strong. In fact, Asia is leading the global recovery, with China and India in the forefront. The Economist Intelligence Unit estimates a growth in GDP equal to 8.2 percent in China and 5.5 percent in India.

For the export-driven economies, such as South Korea, China, and Japan, the recovery is primarily the result of growth in domestic demand, supported by fiscal and monetary policies, rather than growth in demand from trading partners outside the region. More specifically, South Korea, China, and Japan's crisis-related fiscal measures were significantly greater (as a share of their GDP) than the advanced economy's average. Furthermore, as those countries came to the crisis with strong economic fundamentals (low inflation, favorable fiscal and current accounts) their policy actions were quite effective and have led to significant increase in the intra-regional trade. But even as these economies recover, they will remain under repair. For example, the expansion of China's government into health care and pensions will be a pertinent move to reduce households' precautionary motive for saving. It will result in an improvement of the national welfare and productivity and it will also contribute to a more balanced and sustainable economic growth that is less dependent on exports to Europe and the United States.

Europe

The financial fiasco that began in 2008 was economically devastating in Europe where GDP was contracting at a rate of 4.8 percent in the second quarter of 2009. Nevertheless, with positive last quarter results, Germany and France are currently pulling the area to a timid growth expected in 2010. The 2010 forecast is positive for most European countries. But some economists believe the recent crunch may have firmly established unemployment in the region, including Britain where the latest data show 7.9 percent unemployment. In Spain, the unemployment rate is currently around a staggering 18.9 percent, with a gloomy forecast in the months to come.

The housing bubble burst adversely affected countries with huge investment in the construction industry, such as Spain and Great Britain. The sharp decline in global demand affected export-driven countries, such as Germany, and the financial system debacle drove the IMF to bail out Iceland that was incapable of repaying its debt. The IMF had to respond to the crisis with a record lending commitment to small, export-oriented countries that are highly dependent on foreign capital inflows, such as Belarus, Bosnia-Herzegovina, Hungary, Latvia, Poland, Romania, Serbia, and Ukraine. Ultimately, the monetary actions taken by the European countries' central banks, the support that the banks received from the governments' financial bailouts/stimulus plans, as well as the major fiscal stimulus programs from the European governments to their citizens, have contributed to reduce uncertainty and increase confidence. This has led to a visible, but fragile, improvement in economic conditions.

Latin America

This is the first time Latin American economies have performed better than other economic regions in the face of strong global financial turbulence. The policy reforms adopted in recent years have prepared the region to resist external shocks better than they have in the past. Moreover, the resilience of the region can be explained by the change in the economic linkages between Latin America and the rest of the world. The top economy in the region, Brazil, is leading the economic recovery with a predicted 2010 growth of 3.8 percent. This is due in part to its large domestic market and Brazil's increased partnership with China, who is now Brazil's number one trading partner. Similarly, Chile, who signed a free trade agreement with China in 2005, is seeing new opportunity for recovery as China's demand for copper and other commodities is growing again.

The one major blemish on the Latin American economic region has been the performance of the Mexican economy. Thanks to the North American Free Trade Agreement, Mexico's economic health is strongly tied to that of the United States, as 80 percent of Mexican exports are bought by U.S. households and businesses. The Mexican economy was the hardest hit in the region, and it is projected to see an output contraction of 7.1 percent in 2009. The H1N1 virus further reduced revenue from the tourism sector in Mexico starting in the spring of 2009, and a drop in remittances from the United States is driving a significant amount of Mexicans to fall below the poverty line. Nevertheless, the Mexican economy is expected to recover in the last quarter of 2009 and the Economist Intelligence Unit predicts a growth in gross output of 3 percent in 2010.

Sub-Saharan Africa

Despite the more positive global outlook, it is certainly unclear whether or not Africa has seen its worst days. As the world's largest and second most-populous continent after Asia, Africa still represents the largest proportion of the world's poor. The sharp decrease in foreign direct investment and credit flows in Africa will have lasting consequences on its capacity to develop in the years to come. Africa needs and should continue to receive international support through the IMF and the World Bank. However, without its own institutions taking personal responsibility and accepting the many challenges to promote economic growth, Africa will continue to be marginalized economically. The sub-Saharan African economies have the potential to benefit from global economic growth when it materializes, with high-scale global events such as the 2010 FIFA World Cup hosted in South Africa. Unfortunately, if the domestic political institutions do not improve, the potential will not be reached.

Conclusion

We have observed with the current financial crisis that the emerging economies are growing faster than the high-income countries because the emerging economies have developed an ability to generate growth internally. However, it is very unlikely that a robust global recovery could happen without a robust recovery in the high-income countries. Overall, we are in a very fragile state of recovery as the unemployment rates around the globe are still going up and the expected unwinding of the monetary and fiscal policies leaves us uncertain whether the private sector will be able to pick up the slack. Furthermore, as political and economic leaders around the world question the viability of the dollar as the international reserve currency, the turmoil over the dollar may soon become a public policy issue in the United States.

U.S. Outlook for 2010

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November 2009

A year ago, as our Outlook Panel traveled the state, the U.S. economy had absorbed a series of body blows that pushed it into an abyss whose depth was far from clear. We anticipated a painful descent, with output falling through the middle of 2009, accompanied by significant decline in employment and rising unemployment.

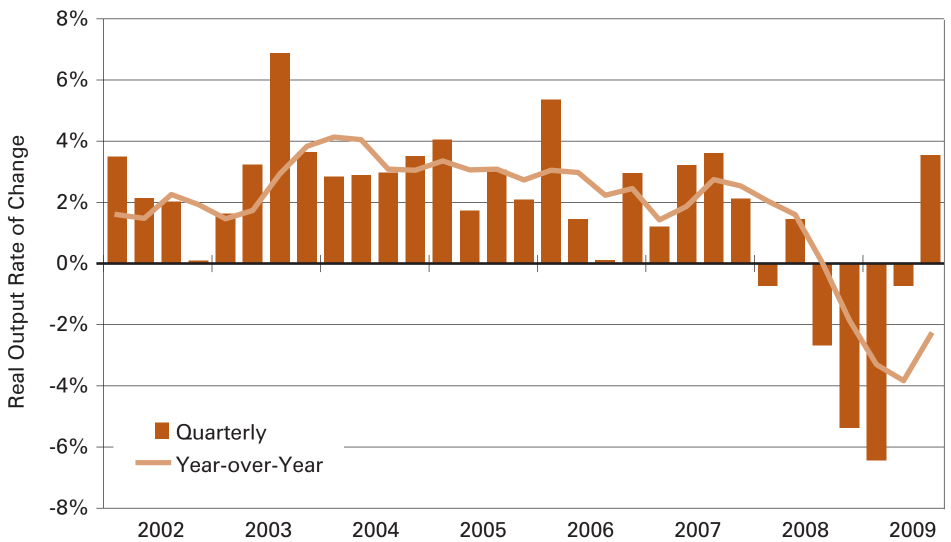
As shown in **Figures 1 and 2**, this was qualitatively an accurate prognosis. However, quantitatively the economy has done far worse than our "relatively optimistic scenario." From the peak of the cycle in the second quarter of 2008 through the low point in the second quarter of 2009, the output of the U.S. economy real gross domestic product (GDP) decreased by over 3.8 percent. Through October 2009 (starting in January 2008) job loss has totaled over 7.3 million (with some still to come), and unemployment has more than doubled to 10.2 percent. All three of these numbers are well above our year-ago expectations.

Looking ahead, we have a "good news, bad news" message. The good news is that we expect 2010 to be substantially better than 2009. The bad news is that it might not feel all that much better and there are some very large problems if one looks further into the future.

We think that the bottom of the recession was reached during the past summer, and that the third quarter of 2009 marks the beginning of a recovery period. However, as has been true of the past two recoveries, the labor market is likely to lag the overall recovery. To be more specific:

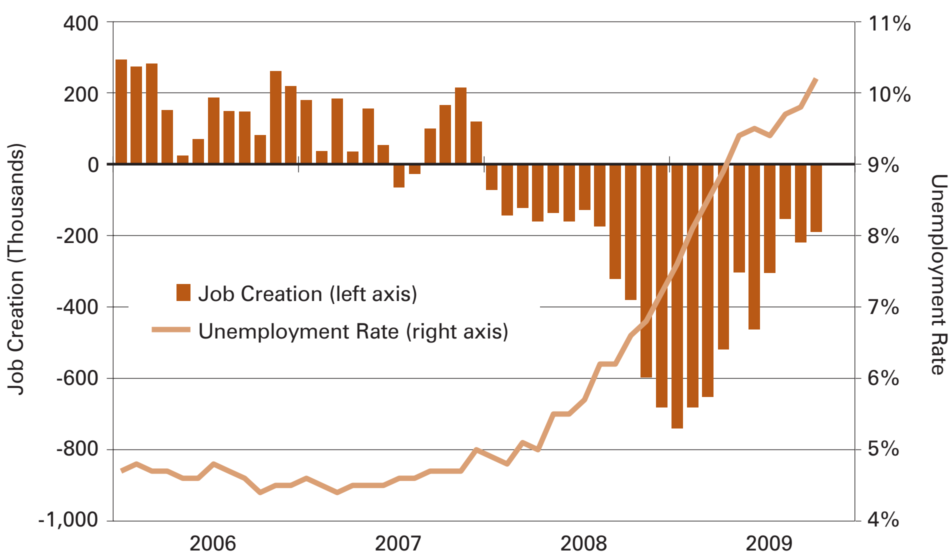
- We expect output to grow throughout 2010, with growth for the year of about 3.5 percent, somewhat above the long-run average. This is good, but given the depth of the downturn, not exceptional. There may be some upside potential beyond our outlook.
- Employment will not begin to grow until early in 2010 (lagging the turn in output by about six months). Total job loss will reach close to 8 million. Unemployment will peak about the same time at a little above 10 percent. The recovery will not be strong enough to reduce unemployment to more normal levels for several years; by the end of 2010, it will still exceed 9 percent.

Figure 1: U.S. Real Output Quarterly and Annual Rate of Change, 2002 to 2009



Note: Data are seasonally adjusted and use 2005 chained dollars.
Source: Bureau of Economic Analysis

Figure 2: U.S. Job Creation and Unemployment Rate, January 2006 to October 2009



Note: Data are seasonally adjusted.
Source: Bureau of Economic Analysis

- Inflation has fallen significantly from the energy price-driven levels of 2008. It will remain well contained during 2010.
- The Federal Reserve, which lowered its target for the federal funds rate very close to zero in November 2008, will hold rates at that level until at least mid-2010. It may begin to restore short-term rates to more normal levels during the second half of the year.

So we see an economic recovery during 2010, with moderate output expansion, low inflation, and some decline in unemployment later in the year. What's wrong with that? Two things: First, the recovery is much less than one might expect after such a severe downturn. Second, there are significant reasons to worry about its sustainability beyond 2010.

Both of these concerns are directly related to the primary causes of what has become the worst recession since the Great Depression. To simplify, the current recession resulted from the bursting of speculative bubbles in real estate and commodity markets, causing a near collapse of the financial system. The latter was countered by unprecedented intervention by central banks and governments around the globe, but especially by the Federal Reserve and the U.S. Treasury. Together these two agencies pumped close to $2 trillion of support into financial markets. In addition, at the behest of the Obama administration, Congress passed a stimulus package well in excess of $700 billion. These events and reactions leave the economy in a very difficult situation, both near term and especially longer term.

The standard recovery scenario revolves around household spending. It runs something like this: during a recession, households, faced with uncertainties about employment and income, become cautious. But once the cycle turns up, optimism returns and households open their wallets, perhaps even making up for lost time. As consumption revives, business investment follows to provide the capacity to meet increasing sales.

"The good news is that we expect 2010 to be substantially better than 2009. The bad news is that it might not feel all that much better and there are some very large problems if one looks further into the future."

This time around, however, the standard scenario is dubious on three grounds:

1. The housing collapse and financial crisis have done major damage to household balance sheets. The most significant asset of the typical American household is their house. Until the past few years, it was an asset whose value had never declined. Now it has.
2. An important asset for many households is funds in 401k plans, IRAs, and similar saving plans. Such "defined contribution" plans have increasingly supplanted the traditional "defined benefit" pensions of an earlier period. With defined contribution plans, the impact of a financial collapse falls on household balance sheets.
3. Faced with this double whammy, households have a lot of repair work to do. This will require higher saving at the expense of consumption. So the implication is a weak recovery unless something else picks up the slack.

One possibility could be the government. With stimulus package spending pouring out during the next year, this will, to a considerable extent, be the case. However, and this is the second problem ahead, governments also face budget constraints. The federal deficit next year will be the largest in our history except for the peak years during World War II. Such a situation is not sustainable. But restoring fiscal balance can only come about in two ways: lower government spending or higher government revenue (taxes). Either of these has negative short-run implications for the economy.

Finally, sometime in the next year or so, the Fed will probably face the need to remove the liquidity it injected during the financial crisis. Doing so will almost certainly mean higher interest rates—perhaps substantially higher. Again, this could have negative implications for the recovery.

Put these three components together and the prospects for a quick recovery followed by sustained robust expansion must be viewed with skepticism. Still, the prospects for the period immediately ahead are for a return to some growth, with the labor market following. That is far better than what we faced a year ago.

Financial Outlook for 2010

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November 2009

The S&P 500 ended down 38.5 percent in 2008, marking its third-worst year ever for stocks, behind only 1931 and 1937 during the Great Depression. Fortunately, the market has regained some of its luster by rising over 60 percent from the lows experienced this past March (see **Figure 1**). In fact, the Dow Jones Index passed the psychologically important threshold of 10,000 in mid-October. However, there is a very long way to go to recover the $11 trillion in household net worth that disappeared in 2008—$5.1 trillion, or 9 percent of it, in the last three months of the year, the most ever in a single quarter in the fifty-seven-year history of record-keeping by the central bank. To put the total in perspective, the single-year decline equals the combined annual output of Germany, Japan, and the United Kingdom. Recently the trend has reversed and net worth has been rising again, albeit slowly, as both home prices and stock prices are recovering. But at best, only a third of the damage has been repaired so far. Does this recent performance plus the "green shoots" we are observing in the economy mean the markets are back to normal? Or is there something else to fear?

Economic Fundamentals

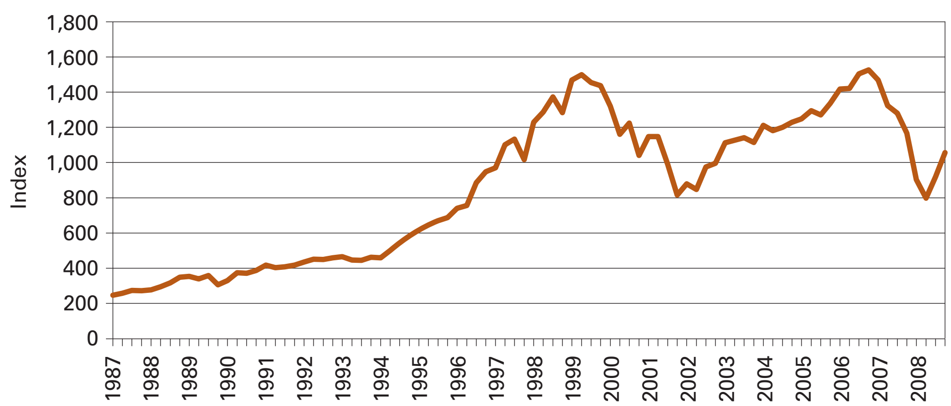
Stock prices are a leading economic indicator: investors buy stocks anticipating the real economy will pick up in the near future. There are many positive reasons to believe this story now:

- In October, the Conference Board reported that their index of Leading Economic Indicators increased for the sixth straight month.
- The massive infusions of government stimulus spending in the United States and around the world have finally taken effect.
- Major banks, although still weak, have weathered the storm and are slowly rebuilding their balance sheets.
- The Federal Reserve is continuing to keep interest rates low to fuel the economy and has announced a Fed Funds target rate of 0.05 percent to 0.25 percent for an "extended period."
- The decline in residential housing prices appears to be over in most parts of the country.
- The weak dollar will help companies grow their exports.

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

- U.S. commercial real estate, valued at some $3.5 trillion, has experienced a 39 percent decline in prices on average from the peak in late 2007, according to the MIT Center for Real Estate. This drop greatly exceeds the 27 percent commercial real estate decline associated with the savings and loan (S&L) crisis of the late 1980s and early 1990s, which prompted the government to establish the Resolution Trust Corporation to seize and auction off hundreds of S&Ls around the country.
- Oil prices have been hovering around $80 a barrel, threatening business profit margins and consumer budgets.
- In spite of the recent upturn, industrial output is at 70 percent of capacity, the lowest level in twenty years and 10 percentage points behind its average.
- The massive government deficits may lead to fears of accelerating inflation. The U.S. Treasury is adding $4 billion a day to its obligations.
- Although foreigners currently hold 43 percent of the publicly held Treasury debt, they are starting to show resistance in continuing to fund our deficits. Foreign holders reduced their purchases of U.S. debt 40 percent from the $159 billion in the first quarter of 2009 to $101 billion in the second quarter. Clearly, a weak dollar and low interest rates are not encouraging them to buy more. Most importantly, the Fed also announced in October it will be ending its quantitative easing program, which permits the Fed to buy U.S. debt to help finance our massive deficits. In the second quarter, such purchases accounted for nearly half ($164

Figure 1: S&P 500, December 1987 to September 2009



Note: Hash marks indicate last day of each quarter.
Source: IBRC, using Standard & Poor's data

billion out of $339 billion) of all Treasury purchases.

- The United States still has not fully addressed the huge funding gap in Social Security and Medicare payments for the 78 million baby boomers set to retire over the next seventeen years. The Government Accountability Office (GAO) has estimated the unfunded obligations of these two programs to be $41 trillion over the next seventy-five years. This present value shortfall is equivalent to $352,000 per U.S. household.

If the positives outweigh the negatives, we may experience a "V" shaped recession and we will recover quickly from here. If it is the other way around, we will have a "W" recovery with a painful drop in security prices, perhaps below the March lows, before economic recovery kicks in. Such was the pattern during the Great Depression when security prices whipsawed up and down from 1928 to 1941. True pessimists believe the negatives will predominate and the recession will be an "L" shape with lingering performance at the bottom for a number of years. This was the recent history in Japan. We are betting on a "U" shaped recovery, suggesting it will take more time than normal to fully recover from the downturn, perhaps three to five years. It is going to take time to gradually pay off debt, to rebuild corporate and consumer balance sheets, and to get back to full employment and consumer confidence.

"As the economic news gradually brightens and employment grows, the market should continue to rise, albeit more slowly."

Forecast

Rates: Interest rates will remain low as the Federal Reserve continues to fight the downturn and stimulate housing. For 2010, short-term rates will stay below 1 percent and long-term rates will be below 4 percent. Mortgage rates will average 5 percent to 6 percent. Toward the end of the year, a key concern could be inflationary pressures. To combat these pressures, the Fed would need to raise rates. We will see moderated rate increases toward the end of 2010.

Profits: Business profits for most sectors will hold up because of the massive cost-cutting (including labor costs) that has been undertaken. Unit labor costs are falling as layoffs raise productivity, working hours are reduced, and compensation growth is slowed. In financial services, banks will need to write off more bad loans, especially for residential and commercial real estate, and many smaller banks will disappear. As of October 23, there have been 106 bank closures and fourteen credit union failures for the year. These numbers will grow.

Now that the Car Allowance Rebate System (CARS) program has ended, the domestic auto sector will be weak as Ford and the government-run companies re-tool to produce smaller, fuel-efficient vehicles. Longer term, the move to hybrid and electric vehicles could spur growth in this sector, as evidenced by the $2.4 billion Electric Drive Battery and Component Manufacturing Initiative contained in the stimulus package approved by Congress.

The retail sector will remain weak for the year and the Christmas season as consumers reduce spending and save more to pay off debts. In the past year, households have started saving 5 percent of their income, up from 0 percent in previous years. Since approximately two-thirds of economic activity stems from consumer spending, the economy will grow faster if the savings rate drops and consumer spending picks up.

Stock Market: We believe the big gains in the stock market have already occurred. As the economic news gradually brightens and employment grows, the market should continue to rise, albeit more slowly. There is a lot of money on the sidelines, including households' increased savings, which will be committed to the markets as fear subsides and confidence rises. Lower stock market values have encouraged the strong companies to once again engage in merger and acquisition activity, further spurring stock prices. As always, prudent investing requires an active approach to ensure proper diversification, including substantial foreign investments, and to moderate risk levels.

Summary

The U.S. economy has survived the most brutal downturn since the Great Depression. There are signs that the worst is behind us. Unfortunately, it will take three to five years to restore the luster to the economy and once again reach full employment.

Housing Market Outlook for 2010

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November 2009

The new term that has become part of our language when talking about the housing market is a "short sale." This is not like a short sale for stocks where you sell a stock you don't own in anticipation of a price decline. Rather it means that you purchased a home at a price that is lower than what is owed on the mortgage—thus the lender is "short" on the amount received. Lenders do this to avoid the time and costs of foreclosure. Borrowers avoid the stigma of having defaulted on the loan because the lender agrees to accept the lower loan balance knowing that they are not likely to get any more money for the property by going through foreclosure. The property is listed with a broker and sold at a price that is less than the loan balance with the lender's approval. Of course, all the funds go to the lender.

The fact that an increasing number of the sales that took place over the past year were short sales is indicative of the state of the housing market. The bad news is that a lot of the sales are short sales with the lenders incurring losses and the borrowers losing their homes. The good news is that these sales are helping to clear out the inventory of homes that have negative equity, which is important to the eventual recovery of the housing market.

Housing Inventory

The supply of unsold homes has fallen dramatically. According to U.S. News and World Report, "the raw number of unsold new homes posted its twenty-ninth consecutive monthly drop and now stands at its lowest level since 1982. While inventory remains at an elevated 7.5 months of supply, it too has fallen sharply from its recent peak of 12.4 months. Single-family housing starts will probably continue to grow because builders, at some point, will need to ramp up production. Rising housing starts will mean that the job losses in the residential construction sector will soon come to an end."[1] This will help boost the overall economy.

Home Prices

A lower supply of homes that are on the market also helps stem the downward spiral in home prices. There are now signs that home prices are stabilizing: If not rising, at least in many areas the rate of price decline has lessened considerably. The widely followed S&P/Case-Schiller Home Price Index composite for the ten largest cities fell every quarter on a national basis from July 2006 through April 2009. Since then, it has risen for four consecutive months (see **Figure 1**). Some areas such as Las Vegas and Cleveland still showed slight declines, but much smaller than previous months. Home prices actually rose slightly in Detroit after significant declines for several years due to the troubled automotive industry.

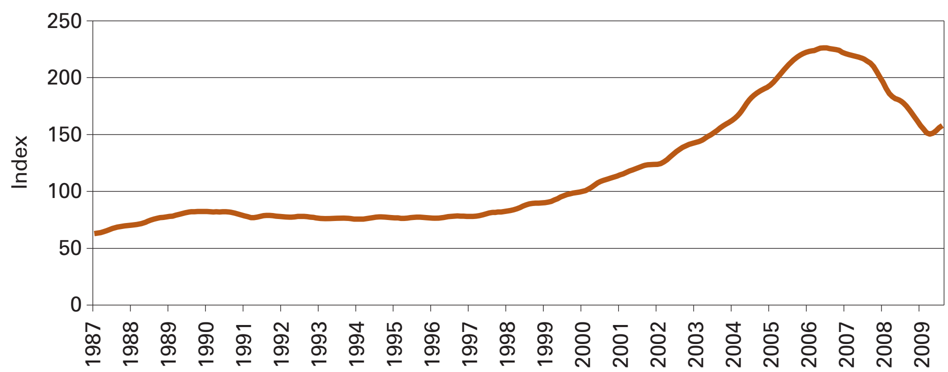
"The S&P/Case-Schiller Home Price Index for twenty major U.S. cities fell 11.3 percent in August from a year earlier. That's a significant improvement from the January reading, which showed a 19 percent year-over-year drop in property values,"according to Luke Mullins at U.S. News and World Report.[2]

"The 11.3 percent year-over-year drop that the twenty-city composite posted in August was the smallest such decline since January of 2008 and modestly stronger than the 11.9 percent drop economists had expected. It represents an improvement from July, when prices fell 13.3 percent from a year earlier. While many of the markets remain down versus this time last year, the relative rate of decline has shown some real improvement."[3]

Home Sales

The National Association of Home Builders (NAHB) reports that "after five consecutive months of increases, sales of newly built single-family homes fell 3.6 percent to a seasonally adjusted annual rate of 402,000 units in September."[4] This is a decline of 8 percent from a year earlier. This suggests, according to economist Zach Pandl at Nomura Global Economics, that "the recovery is going to proceed somewhat slowly and that we are definitely not out of the woods yet."[5] According to U.S. News and World Report, "the disappointing data on the market for new homes come just days after the September existing-home

Figure 1: S&P/Case-Schiller Ten-City Composite Home Price Index, 1987 to 2009



Note: Hash marks indicate January of each year.
Source: Standard & Poor's

sales report showed a surprising 9 percent surge. One factor behind this discrepancy is that the two reports apply the term ‘sale’ differently. Existing-home sales are counted when the transactions close, while new-home sales are tallied when the sales contracts are signed. ‘New-home sales were reasonably strong around midsummer and existing-home sales were strong in September,’ Pandl says.”[6]

NAHB reports that “on a regional basis, new-home sales were down 10 percent in the South, which is the nation’s largest housing market, and were down 10.6 percent in the West. The sales rate did not change in the Northeast in September, but gained 34 percent in the Midwest.”[7]

First-Time Homebuyer Tax Credit

Home sales are also increasing due to the $8,000 first-time homebuyer tax credit that President Obama signed into law in mid-February. Estimates suggest that the tax credit was responsible for as many as 400,000 additional home sales by the time it was originally set to expire at the end of November. The fall 2009 dip in sales may have been due to this impending expiration. Sales were trailing off as people started to run out of time to close sales before the deadline. However, in early November, the credit was extended by Congress and that should begin to stimulate sales again. Joe Robson, chairman of NAHB, noted that “extending the tax credit’s effective date for one year and expanding it to include all homebuyers would generate nearly 350,000 jobs, $28.2 billion in wages, salaries, and business income, and $11.6 billion in additional tax revenues.”[8]

The tax credit has been stimulating buyer demand along with the continuing low mortgage interest rate environment. “A number of factors, including cheaper home prices and attractive mortgage rates, have made buyers more comfortable making the biggest financial transaction of their lives,” according to U.S. News and World Report. “Thirty-year fixed mortgage rates, for example, averaged 5.45 percent in the week that ended August 14, down sharply from 6.65 percent a year earlier.”[9]

Housing Starts

NAHB projects total housing starts to increase in 2010 and 2011 (see **Table 1**). In 2010, starts will increase from about 564,000 expected for the balance of 2009 to 716,000 in 2010 and 1,059,000 in 2011. Although this is a nice improvement, the pace of housing starts will be well below the peak level of 1,800,000 in 2006. The NAHB also projects that the interest rate for fixed and adjustable interest rate mortgages will increase slightly in 2010 and 2011.

Conclusion

The housing market will show some growth in 2010; but, like the overall economy, it will be muted. Home prices are expected to rise slowly in most markets. Nonresidential construction will be weighed down by excess supply and tight credit for firms seeking to buy or lease space. Interest rates will rise slightly but remain low by historical standards, with some upward pressure possible late in the year. Mortgage rates will average 5 percent to 6 percent.

Table 1: National Association of Home Builders Forecast, 2006 to 2011

	2006	2007	2008	2009	2010	2011
Housing Activity (in Thousands)						
Total Housing Starts	1,812	1,342	900	564	716	1,059
Single-Family	1,474	1,036	616	445	600	894
Multi-Family	338	306	285	120	116	165
New Single-Family Home Sales	1,049	769	481	389	525	806
Existing Single-Family Home Sales	5,712	4,960	4,341	4,416	4,975	6,025
Interest Rates (%)						
Federal Funds Rate	4.96	5.02	1.93	0.16	0.13	0.41
Ninety-Day T-Bill Rate	4.85	4.47	1.39	0.19	0.27	0.59
Treasury Yields:						
One-Year Maturity	4.93	4.52	1.82	0.51	0.74	1.29
Ten-Year Maturity	4.79	4.63	3.67	3.24	3.78	4.29
Freddie Mac Commitment Rates						
Fixed Rate Mortgages	6.42	6.33	6.04	5.09	5.36	5.79
Adjustable Rate Mortgages	5.54	5.56	5.18	4.77	4.89	5.31
Prime Rate	7.96	8.05	5.09	3.25	3.25	3.44

Notes: Data are averages of seasonally adjusted quarterly data and may not match annual data published elsewhere. Forecasted data are shaded.
Source: National Association of Home Builders

Notes

1. Luke Mullins, “Weak Home Sales Suggest a Slog of a Recovery,” U.S. News and World Report: The Home Front Blog, October 28, 2009, www.usnews.com/money/blogs/the-home-front/2009/10/28/weak-home-sales-suggest-a-slog-of-a-recovery.html.
2. Luke Mullins, “Home Price Declines Becoming Less Jarring,” U.S. News and World Report: The Home Front Blog, October 27, 2009, www.usnews.com/money/blogs/the-home-front/2009/10/27/home-price-declines-becoming-less-jarring.html.
3. Ibid.
4. NAHB, “New Home Sales Fall in September,” National Association of Home Builders, October 28, 2009, www.nahb.org/news_details.aspx?newsID=9926.
5. See note 1 above.
6. See note 1 above.
7. See note 4 above.
8. See note 4 above.
9. See note 2 above.

Indiana's Outlook for 2010

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

December 2009

Indiana's economy has been battered far more severely than we projected a year ago, but signs of recovery have begun to appear as 2009 draws to a close. Here is an overview of our state's recent performance and its outlook for 2010.

Overall Economic Output

Overall economic activity is captured by real gross domestic product (GDP) at the state level, which is on track to end 2009 down 3 percent for the year. This performance caps a decade of slow GDP growth, ranking forty-ninth in the nation. Indiana's manufacturing output has shrunk for the past four years, but it still contributes more (25 percent) to Indiana's economy than any other sector. Manufacturing's share of GDP in Indiana leads all other states by a considerable margin. In 2010, the state's economy should grow about 2 percent, modest but welcome growth following a deep recession.

Personal Income

Hoosiers' total personal income (PI) growth has long lagged that of the United States, but at least it showed some annual growth for many years through 2008. For 2009, Indiana PI is on track to fall by 2 percent in real dollars since 2008, reversing that trend. Indiana's per capita personal income (PCPI) now trails the U.S. figure by a record $5,603, about 14 percent below the national PCPI.

Much of the PI decline happened early in 2009, and there are early signs of a turnaround in the making. In the second quarter, PI rose by 0.5 percent, the sixteenth-best performance in the nation. Most of the gain, however, resulted from government payments to individuals (unemployment benefits, social security, veterans' benefits, stimulus payments, etc.). The outlook for next year is more upbeat, with PI ending the year about 2 percent higher than in 2009.

Employment and Unemployment

Indiana payroll employment reached its most recent peak of nearly 3 million jobs in August 2007, not long before the recession began. Employment declined slowly at first and then much more rapidly in early 2009, bottoming out at 195,000 fewer jobs on state payrolls. About half of this decline came from the manufacturing sector, but it affected nearly all major sectors. Only education and health services managed to avoid an outright decline, but not by much.

Since bottoming out in July, Indiana employment has not moved appreciably; the October figure was only 900 jobs above its 2009 low. The unemployment rate meanwhile fell significantly in late summer after spending several months above the national rate earlier in the year. At present, Indiana's rate is also below those of our neighboring states, suggesting that the Hoosier state is more effectively resisting the major jobs downturn in the Great Lakes region. Even so, twice as many Hoosiers are looking for work as there were at the start of 2008.

The jobs forecast for 2010 calls for a slight decline in the first quarter followed by gradual growth, adding about 30,000 jobs during the year. Goods production employment will be relatively flat in 2010. The unemployment rate should be above 9 percent throughout most of the year.

Other Indicators

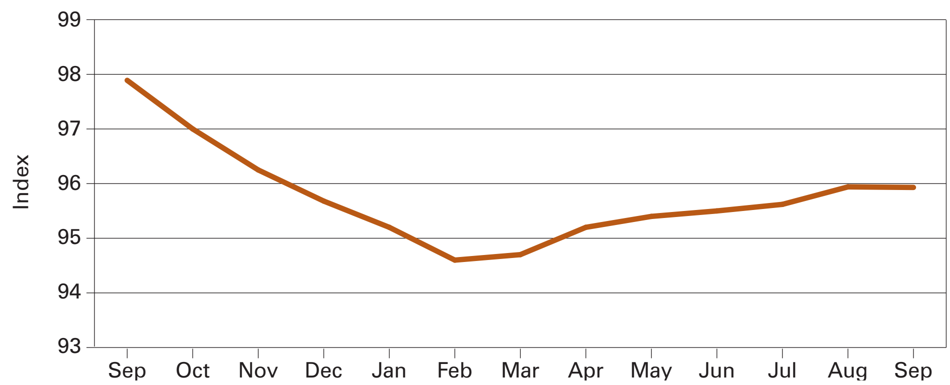
After five years of falling home construction, Indiana residential building permits should start rising again, up about 18 percent for 2010. Following a weak 2009 performance, sales of existing homes should rebound about 17 percent in 2010.

Indiana retail sales are on track to end 2009 down by 8 percent, with store profits falling even faster as retailers rely heavily on promotions to persuade consumers to buy. Retail sales in the year ahead are forecast to be relatively flat.

Leading Index for Indiana

The new Leading Index for Indiana (LII), which has anticipated past upturns and downturns in the state's economy by several months, has not declined since February 2009, rising in all but one of the intervening months (see **Figure 1**). The LII offers further grounds for encouragement that Indiana is climbing out of the recession, but it will likely be several years before we've regained all the ground that's been given up in this recession.

Figure 1: Leading Index for Indiana, September 2008 to September 2009



Source: Indiana Business Research Center

Indiana's Agricultural Outlook for 2010

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

November 2009

Indiana agriculture is continuing to face massive uncertainty in 2010 after the excitement of record corn and soybean prices in June 2008 and subsequent dismay at the collapse in prices and margins due to the recession. The silver lining for row crop agriculture is that the current losses are following two years of good incomes, including Indiana's 2008 record net farm income of $3.2 billion. These good income years mean that Indiana agriculture is well positioned in terms of low debt, so we do not expect a repeat of the 1980s' farm financial crisis.

Meanwhile, the livestock sector has been suffering major losses since feed costs started escalating several years ago, with losses most severe in the pork and dairy industries. The pork industry has faced two years of losses and it is likely that some producers are on the verge of financial failure. The pork industry has faced a series of challenges, starting with high feed costs; followed by weakening export and domestic demand due to the global recession; and, more recently, further weakening of demand due to fears of H1N1, which has been incorrectly linked to pork consumption. However, the pork industry has only reduced its herd by 3 percent over the last two years, prolonging the losses. Many of these factors should reverse by mid-2010. Feed costs have already moderated, China is expected to announce that it will resume imports of U.S. pork as fears of H1N1 abate, and the pork industry is reducing the size of its breeding herds.

The dairy industry benefited from record milk prices in 2007 and 2008, but those disappeared as the global recession eroded export demand and weakened domestic demand. The cool weather this summer was favorable for milk production, increasing milk supplies even as the industry was self-funding cow buyouts in the Cooperatives Working Together initiative in an attempt to reduce milk supplies. Currently, milk prices are below the cost of production and the United States Department of Agriculture (USDA) expects the dairy sector to continue struggling through 2010 even though milk prices are forecasted to increase slightly.

Shifting back to the row crop sector, the recession has impacted the biofuels sector. The dramatic drop in the price of crude oil from $147 per barrel in June 2008 to $32 per barrel in winter 2009 turned profits into massive losses for ethanol producers. As a result, two Indiana ethanol plants were shut down and one plant that was under construction in October 2008 has yet to be finished. That said, the ethanol industry in Indiana is still going strong. As of October 2009, there were nine operating ethanol plants in Indiana at South Bend, Rensselaer, Marion, Clymers, Portland, Alexandria, Bluffton, North Manchester, and Union City. These nine plants have the capacity to produce 638 million gallons of ethanol and utilize 236 million bushels of corn (an equivalent of 26 percent of Indiana's forecasted 2009 corn production). Looking to 2010, with crude oil futures trading in the range of $70 to $80 per barrel and with corn prices below $4, the ethanol industry will have positive margins and be a consistent buyer of corn.

Overall, the 2010 agricultural income outlook is stronger than in 2009 but nowhere near the levels seen in 2007 and 2008. Indiana agriculture has returned to the income levels of the late 1990s and early 2000 when margins were tight. The pace of improvement in demand for Indiana agricultural products will depend on the recovery of the U.S. economy, economic growth in developing markets, energy prices, and the stability or potential expansion in the biofuels sector.

Looking to 2010, with continued lower net farm income than in 2007 and 2008, the value of farmland is expected to remain flat or decline modestly. As of June 2009, the value of Indiana farmland declined between 0.2 percent and 1.7 percent over the previous twelve months, according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey that found the value of "good" farmland to be 3 percent lower in the second quarter of 2009 compared with the second quarter of 2008. It is also important to note that the value of Indiana farmland increased by about a third between June 2006 and June 2008, and it is typical to have a period of little change or even small declines after a period of strong increases.

Farmland value also depends on factors including long-term interest rates, government price support payments, and real estate taxes. Given the current price levels for corn, soybeans, and wheat, prices continue to be well above the level where government price support payments would be triggered, reducing the influence of government programs. Long-term interest rates are extremely low now and can be expected to increase, putting downward pressure on land prices. While the short-term forecast for farmland values predicts a modest decline for 2010, the survey respondents were optimistic about the longer-term outlook, expecting a 4.3 percent increase in the value of farmland over the next five years.

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/2009/august/paer0809.pdf.

For more information about Indiana's agriculture outlook, visit www.agecon.purdue.edu/extension/prices/index.asp.

Anderson Forecast 2010

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November 2009

The structure of the economy in the Midwest region is changing. Haunted by declining manufacturing employment, deteriorating infrastructure, and languishing older neighborhoods, small cities like Anderson are struggling to redefine themselves. The most recent recession has added to the woes of an already struggling economy. There are signs that the recession is ending. National output (gross domestic product, or GDP) increased in the third quarter of 2009 and the housing market appears to be improving in many areas (although much of this improvement may result from the federal credit for first-time homebuyers and is therefore temporary—like the Cash for Clunkers blip for the auto industry this past summer).

Various measures of economic activity are examined for the Anderson metro area (Madison County) in this analysis. The data used are from the last recession in 2001 (when available) through the most recent data (usually September 2009) available at the time of writing. The goal is to analyze trends since the last recession and changes over the past year. We conclude with a summary of the labor market forecast for the Anderson area.

Labor Markets

The unemployment rate in Madison County (9.7 percent) is consistently higher than that of the state (9.2 percent) and nation (9.5 percent). The non-seasonally adjusted rate dropped in September relative to August 2009, and the labor force also decreased (see **Table 1**). The declining labor force suggests that frustrated job seekers are dropping out of the labor market, i.e., not looking for jobs. If these potential workers enter back into the job market en masse when the employment picture begins to improve, this could lead to a spike in the unemployment rate. The unemployment rate includes people who are not employed and actively looking for work but does not include people working part-time who would like to work full-time and people who have stopped looking for a job.

Table 2 shows average employment from January through September of 2009. Total nonfarm employment was 40,538, a decrease of 718 jobs (-1.7 percent) since 2008. This decline in jobs is substantially smaller than job losses from 2005 to 2007, but current economic conditions suggest that job losses will continue. Through September 2009, manufacturing was the hardest hit sector, shedding over 1,000 jobs (-25.5 percent), followed by professional and business services and education and health services. Over the same period, there were

Table 1: Labor Force and Unemployment for Madison County, September 2008 to September 2009

Year	Month	Labor Force	Unemployed	Unemployment Rate
2008	September	61,129	4,027	6.6
	October	61,363	4,253	6.9
	November	60,683	4,594	7.6
	December	60,884	5,433	8.9
	Annual	**60,958**	**4,271**	**7.0**
2009	January	61,540	6,811	11.1
	February	61,257	6,659	10.9
	March	61,107	6,957	11.4
	April	60,643	6,267	10.3
	May	61,882	6,980	11.3
	June	62,450	7,105	11.4
	July	60,939	6,881	11.3
	August	60,468	6,298	10.4
	September*	59,977	5,822	9.7

Note: Data are not seasonally adjusted.
*September 2009 data are preliminary
Source: Bureau of Labor Statistics

Table 2: Anderson Metro Employment by Industry, 2008 to 2009

Industry	2009*	Change since 2008	Percent Change 2008–2009
Total Nonfarm	40,538	-718	-1.7
Total Private	33,338	-918	-2.7
Goods-Producing	4,725	-919	-16.3
Manufacturing	3,038	-1,040	-25.5
Mining, Logging, and Construction	1,688	121	7.7
Service-Providing	35,813	201	0.6
Professional and Business Services	2,475	-314	-11.3
Educational and Health Services	7,850	-139	-1.7
Other Services	1,675	-3	-0.2
Information	600	0	0.0
Trade, Transportation, and Utilities	8,788	121	1.4
Financial Activities	1,688	76	4.7
Leisure and Hospitality	5,538	260	4.9
Government	7,200	200	2.9

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

job gains in construction, leisure and hospitality, and government.

The large job losses in manufacturing reflect national trends and have been increasing over several decades. Manufacturing accounted for just under 30,000 jobs in Madison County in the early 1970s. By 1980, manufacturing employment had decreased to 20,000. In 2000, there were just under 11,000 manufacturing jobs in the county. Today, there are about 3,000. These declines can be attributed to increases in productivity (so that fewer workers are needed to produce the same amount of output), globalization, and shifts in demand to services. Total employment in Madison County has decreased by about 10,000 workers since the 1970s. Over this same time period, the population has decreased from a high of almost 142,000 in 1972 to around 131,000 today.

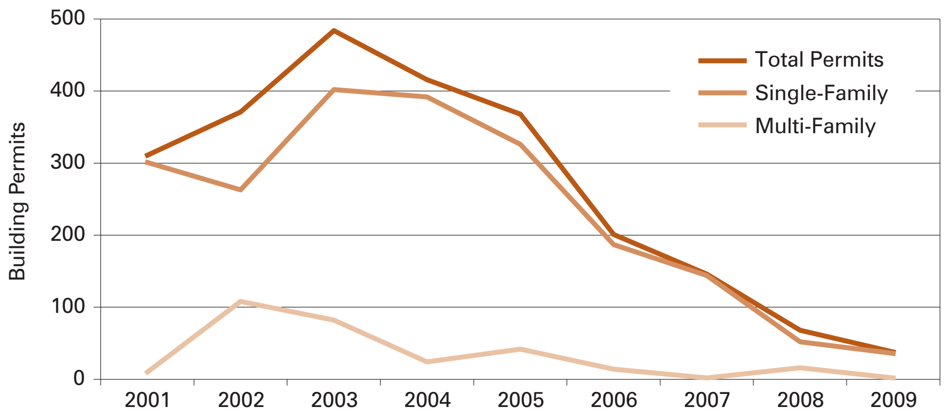
The effect of the current recession on wages has been somewhat variable, with some sectors experiencing larger declines than others. Comparing first quarter data from 2008 and 2009, average weekly wages declined 3.2 percent (see **Table 3**). Of the largest sectors, wholesale trade and construction were hardest hit with declines of 15.6 percent and 7.9 percent, respectively. Wages in the manufacturing sector actually showed a modest gain (3.8 percent). The inflation rate for the Midwest region between the first quarters of 2008 and 2009 was -0.5 percent, so workers in sectors with wages declining more than 0.5 percent are faring worse than last year.

Table 3: Average Weekly Wages in Anderson Metro, 2008:1 to 2009:1

Industry	2009:1	Change since 2008:1	Percent Change
Total	$571	-$19	-3.2
Wholesale Trade	757	-140	-15.6
Agriculture, Forestry, Fishing, and Hunting	508	-65	-11.3
Construction	665	-57	-7.9
Arts, Entertainment, and Recreation	370	-31	-7.7
Information	587	-35	-5.6
Finance and Insurance	690	-39	-5.3
Other Services (Except Public Administration)	354	-11	-3.0
Administrative, Support, and Waste Management	403	-11	-2.7
Retail Trade	385	-8	-2.0
Management of Companies and Enterprises	1,456	-29	-2.0
Transportation and Warehousing	727	-9	-1.2
Health Care and Social Services	650	-8	-1.2
Educational Services	683	-7	-1.0
Professional, Scientific, and Technical Services	638	-5	-0.8
Public Administration	680	2	0.3
Accommodation and Food Services	213	2	0.9
Real Estate, Rental, and Leasing	457	9	2.0
Manufacturing	824	30	3.8

Note: Mining and utilities are not available due to nondisclosure requirements.
Source: Bureau of Labor Statistics

Figure 1: Madison County Residential Building Permits, 2001 to 2009



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

Housing

Residential construction, as measured by residential building permits for new single- and multi-family housing units, peaked in 2003 with 484 permits issued between January and September. In contrast, only thirty-eight permits have been issued for the same time period in 2009, a decrease from the sixty-eight issued for the same period in 2008 (see **Figure 1**).

The slowing economy and a tighter mortgage market have taken their toll on the real estate market. Activity in Madison County has slowed over the past year (see **Table 4**). The number of units sold decreased to 2,746—a decline of 318 units (-10.4 percent) during the period covering January to September 2009. The average sales price has been trending downward from more than $91,000 in 2005 (the first year for which we have data) to $69,502 in 2009.

Social Safety Net

Table 5 shows the dollar value of foods stamps issued and the number of food stamp recipients. From 2008 to 2009, the dollar value of food stamps issued increased by more than 30 percent to more than $2 million. The number of recipients increased by 5.7 percent from 2008 to 2009, although the 2009 total is lower than that of 2007 and may reflect a change in population or the change in the state's system of administering benefits.

Gaming

In May 2008, electronic gaming became available at Hoosier Park. Fiscal Year 2009 (July 2008 through June 2009) is the first full year of operation. Of the thirteen gambling establishments authorized by the state, Hoosier Park ranked fifth in terms of total winnings (over $202 million) and the amount of wagering taxes paid (almost $56 million). Total employment at the casino is around 780, with just over 70 percent of employees from Madison County. The expansion of Ohio casinos recently approved by voters is expected to have a negative effect on Hoosier Park.

Outlook

The official numbers provide a bleak picture of the local economy. Overall employment and average wages have decreased. The unemployment rate is lower, but so is the labor force. There are bright spots: Nestlé opened a new manufacturing facility earlier this year, creating hundreds of jobs. Bright Automotive has a contract to develop a hybrid vehicle for the U.S. Army. Anderson has begun improvements on its wastewater treatment facilities to comply with the Clean Water Act.

In the coming year, we expect employment to continue to decrease about half a percent (-200 jobs) in Madison County through the first quarter of 2010 and then to stabilize

Table 4: Madison County Residential Real Estate Sales, 2005 to 2009

Year	Units Sold	Average Price
2005	3,586	$91,101
2006	3,722	84,352
2007	3,676	79,652
2008	3,064	77,362
2009	2,746	69,502

Note: Each year is based on January through September averages. Dollar values are not adjusted for inflation.
Source: Metro Indianapolis Board of Realtors

Table 5: Food Stamp Recipients in Madison County, 2003 to 2009

Year	Total Dollar Value of Food Stamps Issued	Number of Food Stamp Recipients
2003	$1,027,207	12,117
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

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

through the remainder of 2010.[1] We expect that income growth will remain flat through 2010. This outlook may be a bit optimistic given the difficulties faced by the U.S. auto industry, particularly General Motors and Chrysler, and the continuing difficulties in the financial sector, both of which ultimately affect employment and earnings in east-central Indiana. After the official end of the 1990–1991 recession in March 1991, the national unemployment rate continued to increase for more than a year, peaking at 7.8 percent in June 1992. We may see a similar scenario in 2010.

Notes

1. Using the Ball State University Center for Business and Economic Research Labor Market Forecast for Madison County.

Bloomington Forecast 2010

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

November 2009

In 2009, Bloomington's economy took a glancing blow. Compared to state and regional neighbors, Bloomington was an island of relative stability. As in 2009, the prospects for the Bloomington area for 2010 are brighter than for much of Indiana and the Midwestern region.

Population

Population growth tends to stimulate local businesses and in the last few years, the Bloomington area has experienced moderate population growth. As **Figure 1** shows, this growth has been predominantly in Monroe County. While the total population of the Bloomington Metropolitan Statistical Area (MSA) has been on the rise, Greene and Owen counties (the other two counties in the Bloomington MSA) have, taken together, lost population in the last five years. In the first half of the decade, the city of Bloomington's population declined by almost a thousand people; but in the last three years, it has regained lost ground. In the coming years, the population is expected to continue its gradual increase.

Gross Domestic Product

The economic growth of the Bloomington MSA slowed, but not as rapidly as other areas. In contrast to the state, which registered a real gross domestic product (GDP) decline of 0.6 percent from 2007 to 2008, Bloomington's economy grew at a rate of 1.7 percent. This rate of growth roughly equals the annual average from 2001 to 2008. The growth was not spread evenly among industries, however.

Manufacturing—a vast majority of the goods-producing sectors in **Figure 2**—declined 2.2 percent from 2007 to 2008 while the service-providing sector grew 3.6 percent. In terms of growth since 2001, the stand-out industry is professional and business services—which grew at an average annual rate of 6.4 percent over the period and 8.7 percent in 2008.

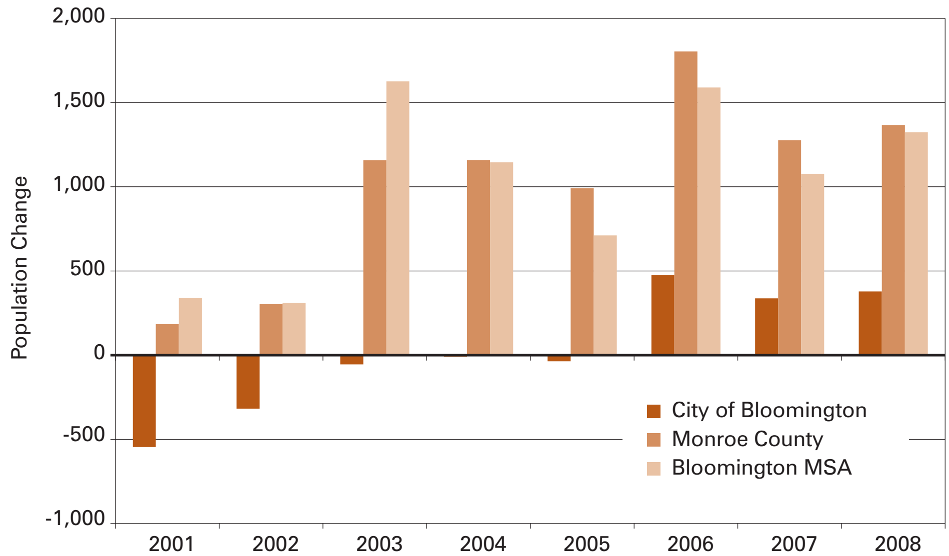
Employment

So while Bloomington will likely report a decline in GDP of about 2 percent for 2009 and rebound gradually in 2010, the forecast for employment is less optimistic. Employment growth typically lags economic growth. There will likely be employment losses at the beginning of the year and gains at the close of the year. The net for the year will likely register a flat or slightly negative job picture for 2010. Indeed, based on the forecast, employment in Monroe County won't bottom out until 2010, as **Figure 3** shows. After growing by an annual average rate of 1.2 percent from 2001 to 2007, the subsequent slowdown in the economy will put overall employment at about the same level as during the millennial recession. Because anemic economic growth is expected both nationally and regionally, the 2007 level of employment isn't expected to return until after 2012.

The structure of the economy in the Bloomington area has undergone a transformation over the last few years. As **Figure 4**

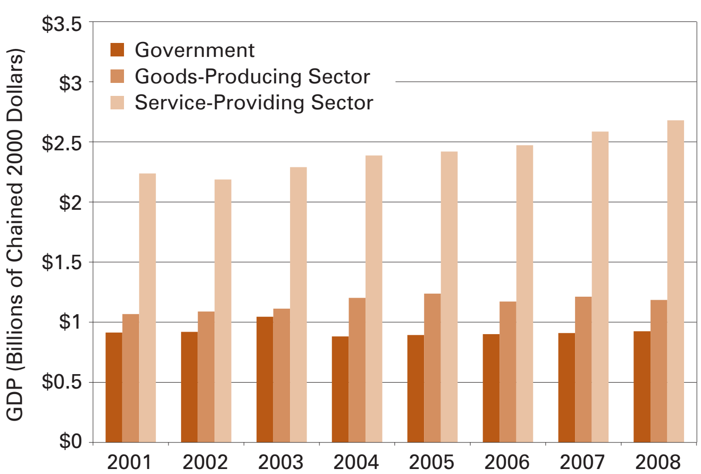
> *"There will likely be employment losses at the beginning of the year and gains at the close of the year."*

Figure 1: Annual Population Change, 2001 to 2008



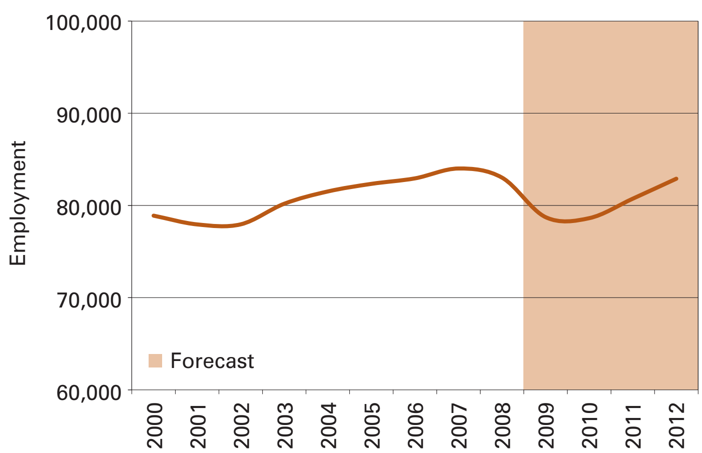
Source: IBRC, using U.S. Census Bureau data

Figure 2: Gross Domestic Product by Aggregated Sectors, 2001 to 2008



Source: IBRC, using Bureau of Economic Analysis data

Figure 3: Monroe County Total Employment, 2000 to 2012



Source: IBRC, using data from the Bureau of Economic Analysis and Center for Econometric Model Research shows, manufacturing and retail trade have lost jobs since 2001. The two stand-out industries in terms of employment growth were administrative and waste services and educational services. Proprietor employment also grew at a faster clip than total employment.

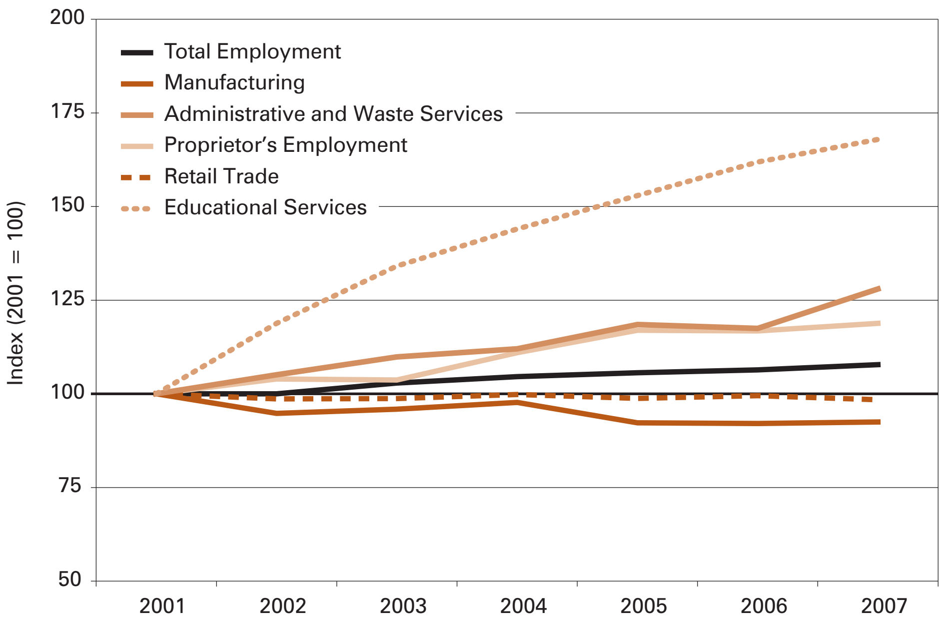
Per Capita Personal Income

On the per capita personal income (PCPI) front, the data are nothing to boast about. As **Figure 5** shows, the level of PCPI for both the state and Monroe County fall below the national average. Even more significant is the fact that the rate of current-dollar PCPI growth in Indiana from 2001 to 2007—2.9 percent—is materially below that of the nation as a whole—3.7 percent. At a rate of 3.5 percent, Monroe County betters the state average, but is still shy of the national average.

Housing

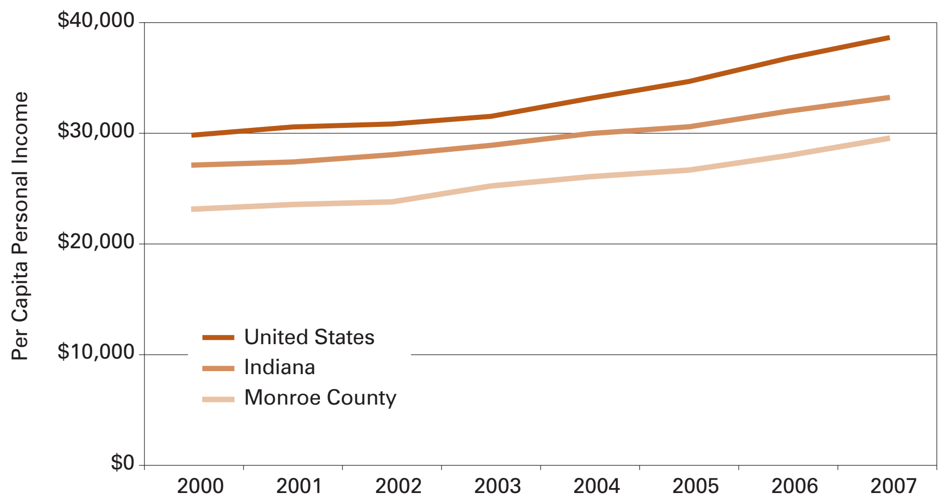
On a final, more positive point, the Monroe County housing market has remained reasonably stable. Compared to last year, home sales through September were down a mere 2.8 percent. That doesn't sound great until one weighs it against the state average (a 13.5 percent decline). The state average fall in median home sale price, however, was just a tad greater than Monroe County, -3.2 percent and -2.6 percent, respectively. **Table 1** presents current real estate data for Monroe County, the state and other selected counties. Even compared to the counties with a large university presence, and hence a cyclical economic cushion, Monroe County has been spared plummeting home prices.

Figure 4: Industries in Monroe County with Notable Employment Gains and Losses, 2001 to 2007



Source: IBRC, using Bureau of Economic Analysis data

Figure 5: Per Capita Personal Income, 2000 to 2007



Source: IBRC, using Bureau of Economic Analysis data

Table 1: Monroe County Real Estate Market Compared to Other Selected Indiana Counties, 2008 to 2009

County	Percent Change in Units Sold*	Percent Change in Median Sales Price*
Indiana	-13.5	-3.2
Monroe	-2.8	-2.6
Vanderburgh	-8.1	0.5
Allen	-10.3	1.1
Tippecanoe	-10.9	-2.0
Marion	-14.4	-2.4
St. Joseph	-22.1	-1.2
Bartholomew	-39.4	-5.3

*From previous year
Note: 2009 data includes January through September only.
Source: IBRC, using Indiana Association of Realtors data

Columbus Forecast 2010

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

November 2009

A year ago, with the full weight of the worst recession since the Great Depression not yet registering, Columbus and Bartholomew County were expected to dodge "the biggest bullets" hitting U.S. consumers and businesses. Did they?

Yes, Columbus did dodge what could have been a much worse decline given its dependence on a manufacturing sector that suffered greatly over the past twelve months. Unemployment appears to have peaked in June at 9.9 percent, below Indiana's 10.7 percent.

Columbus also remains more prosperous than most of its peer regions across the state. In 2008, personal income per capita in Bartholomew County was the ninth highest in the state (though since 2000, this income per capita has been growing only at the state average).

This isn't to say the recession didn't hit hard. By June 2009, more than 4,000 people were out of jobs, nearly double the number unemployed in any month during each of the two previous recessions. (That includes a small increase in the labor force since the last recession, however.) In addition to cuts in both professional staff and hourly workers at Cummins Inc., the area's largest employer, a year-long decline in demand for retailers, restaurants, business services, and construction and its cadre of local contractors has made this recession widely and personally felt.

In September 2009 came the sale of Irwin Union Bank and Trust assets to First Financial Bancorp and the subsequent bankruptcy filing of Irwin Financial Corp. This marked Indiana's first FDIC-orchestrated bank closing since 1992 (the Rushville National Bank). Integral to the economic and cultural history of Columbus, the loss of Irwin Union will remain a dramatic legacy of this recession.

Columbus has reason to look to a brighter future in 2010 and beyond, however, as long as a U.S. recovery proceeds as expected.

The unemployment rate has already turned downward (see **Figure 1**). Using September 2009 data, the number of unemployed in the Bartholomew County area has dropped nearly 16 percent since the June peak.

At 8.8 percent in September, Columbus has a lower unemployment rate than Muncie (9.5 percent), Anderson (9.7 percent), Kokomo (11.6 percent), and Elkhart (15 percent)—all areas where manufacturing has also played a prominent economic role.

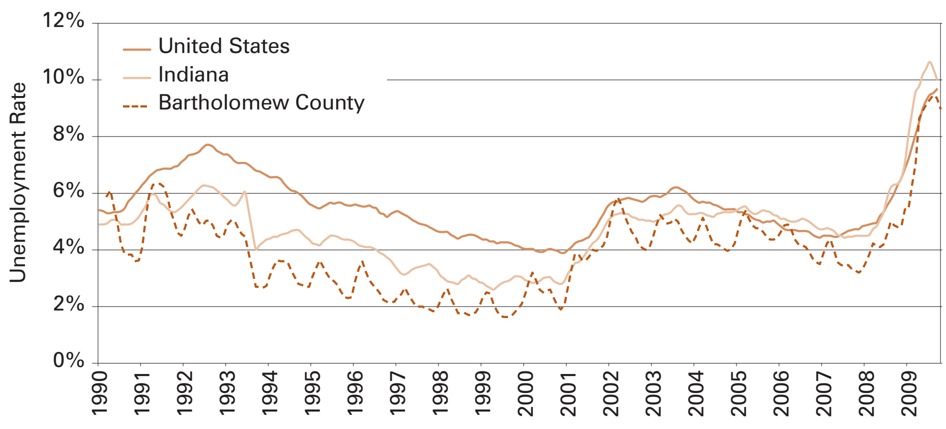
Cummins recently announced the return of 270 workers for a second shift for mid-range engine production. The firm's recent third quarter results showed dramatic improvement in its cost position and profitability in all business segments, despite a drop in sales averaging 25 percent across those lines. That kind of aggressiveness in trimming costs places the firm in a strong position to respond to a slower than usual recovery.

Manufacturing remains by far the most prominent industry, at about 36 percent of jobs in the area, which is twice that of the state. Still, Columbus continues to slowly diversify away from manufacturing and into services such as health care, hospitality, tourism, retailing, and education. Visits associated with the fall foliage transformation in next-door Brown County have meant more day trips this year than weekend stays as in past years, reducing some demand for hotel rooms and associated spending. Tourism in general for the Columbus area has held its own, however. According to the Columbus Area Visitor's Center, 2009 has been the "second-best year ever for area hotels."

Growth in non-manufacturing jobs is expected to continue in 2010 from ongoing development associated with Camp Atterbury and the Mascatatuck Urban Training Center (located in Jennings County). Military officials reported in October an increase of almost 3,000 jobs over the past few years. That number is expected to grow to 4,800 as program expansion continues through 2012.

Partly connected to future job growth is the increasing reach of training and higher education in Columbus and the surrounding area. Ivy Tech and Indiana University–Purdue University

Figure 1: Three-Month Moving Average Unemployment Rates, 1990 to September 2009



Source: Bureau of Labor Statistics

Columbus registered a record number of students for the fall of 2009. The Workforce and Economic Development division at Ivy Tech, which provides employee training and certification services, was recently hailed as the state's most successful.

While dramatic, the failure of Irwin Union probably consists of more emotional angst than significant economic pain. Ohio-based First Financial picked up local branches and managed a smooth transition. Operations at most branches are likely to remain mostly unchanged, though executive and some functional administrative staffs are just as likely to see major cuts. But the area's financial services market is still relatively healthy, even attractive. MainSource Bank, based in Greensburg, announced it will expand into Columbus with three new branches.

Moreover, many of Irwin Union's problems resulted from its expansion outside of Columbus and Indiana. As it did so, it plugged into the turmoil of the real estate markets out West. Though local housing prices and sales have taken a hit, the area and state saw neither the high inflation of the real estate bubble nor the severe problems associated with its bursting.

The Outlook

Columbus and Bartholomew County should rebound as they usually do: eventually slightly better than the rest of the state and nation, as long as the national recovery continues as expected in 2010. (History, of course, has proven less useful in this business cycle than in previous ones.) Even though the local unemployment rate is falling, actual employment, which is down about 4 percent from its July 2008 peak, may not pick up noticeably until early in 2010 when job creation begins to outweigh slight decreases in the labor force.

Evansville Forecast 2010

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

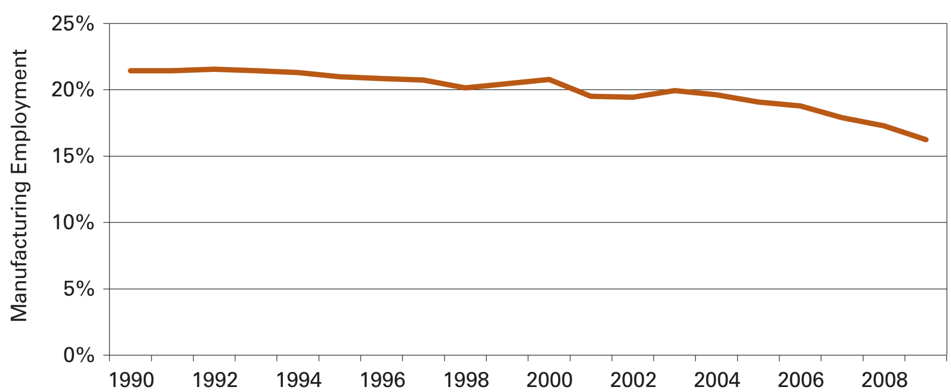
November 2009

During every recession over the past five decades, the Evansville metro economy has exhibited resiliency and a capacity to withstand the adverse impacts associated with national recessions. The recession that began at the end of 2007 is no exception. While the declines in output, employment, real income, and real retail sales intensified in 2009, the depth of these impacts are less pronounced in Evansville than in many other metro areas of similar size and structure. The dynamics of the Evansville area labor market underscore this with a drop in the non-seasonally adjusted unemployment rate from 8.6 percent in January 2009 to 7.6 percent in September 2009, compared with a rise in the national unemployment rate from 7.6 percent to 9.8 percent over the same time period.

Economic performance in 2009 was driven by job losses in key sectors such as manufacturing, construction, and financial services. Traditional recession-resistant sectors such as health care and education were also adversely affected. Employment increases were evident only in the hospitality and government sectors. In 2009, nominal personal income is estimated to decrease by 3.1 percent and real gross metro product is estimated to decrease by 3.8 percent. The manufacturing sector continues to be an important base to metro area household incomes and consumer spending activity even as the economy adjusts to an ongoing diversification away from manufacturing-industry dependence.

As the Evansville economy tracked the U.S. economy in 2009, there were indications of a slowly improving housing market, some deterioration of credit quality, and higher delinquency rates. Homeowners experienced some home price depreciation, but the median home price has not dipped by as much as it has nationally. Existing home prices declined from an average of $94,000 in 2008 to $89,000 in 2009, and mortgage originations are estimated to increase from $715 million in 2008 to $761 million in 2009. Between 2008 and 2009, single-family housing permits are estimated to have

Figure 1: Manufacturing Employment as a Percent of Total Nonfarm Employment in the Evansville Metro, 1990 to 2009

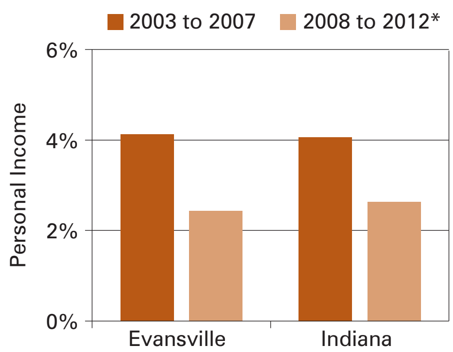


Note: Data are from September of each year.
Source: Bureau of Labor Statistics

dropped by 57 percent and personal bankruptcies per 1,000 persons are estimated to have increased from 5.1 to 8.9.

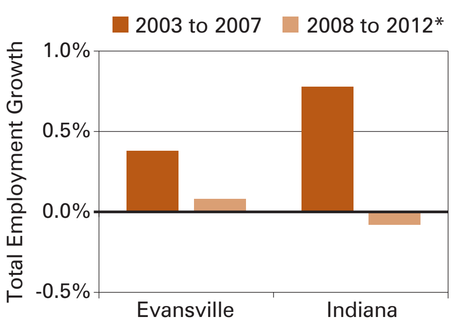
The national downturn and weaknesses in credit markets negatively impacted a number of the metro area's largest employers. These include workforce reductions announced by a plastics firm, automotive parts manufacturers, and a financial services firm. Recent announcements from Whirlpool Corporation about the closure of its Evansville manufacturing facility in 2010 and the decision to keep its product development unit in Evansville underscore both the challenges and opportunities for the Evansville economy in the future.

Figure 2: Average Growth of Personal Income



*Includes forecasted data
Source: Center for Econometric Model Research

Figure 3: Average Growth of Total Employment



*Includes forecasted data
Source: Center for Econometric Model Research

"Given the proportion of output that is sold outside the metro area, the rebound will not begin until the broader economy strengthens and demand for locally produced goods returns to the level of the preceding five years."

In-migration, which has boosted local population growth in recent years, was not evident in 2009 as the widespread nature of the national recession has limited residents' mobility. In 2010, the Evansville metro economy will benefit from an announced $26 million investment by Mead Johnson Nutritionals to build its new Research and Development Technology Center as well as the stimulative impacts associated with the nearly $21 million expansion by Berry Plastics.

Given the proportion of output that is sold outside the metro area, the rebound will not begin until the broader economy strengthens and demand for locally produced goods returns to the level of the preceding five years. Consequently, personal income and output growth in the next year will be below levels of the past five years.

Given Evansville's dependence on manufacturing, the metro has been noticeably impacted since the inception of the current recession. Since September 2000, Evansville's manufacturing workforce has fallen 25.2 percent or about 9,400 workers. As a result, manufacturing as a share of total nonfarm employment has continued to decline (see **Figure 1**). However, manufacturing earnings as a share of total earnings has remained stable at about 27 percent between 2001 and 2009.

In 2010, output is forecasted to increase by 0.1 percent, the number of jobs is projected to decrease by 1,900, and the forecast for nominal personal income growth is zero percent. **Figures 2 and 3** provide a comparison of forecasts for the Indiana segment of the Evansville economy and the state of Indiana for the 2008–2012 period.

Since the pace of structural change in the Evansville economy has quickened during the past year, there are likely to be added transitional challenges as the regional economy adjusts from its manufacturing-industry dependence, particularly in nondurable manufacturing (see **Table 1**). In addition, when the elderly age cohort and the youth age cohort make up large shares of the population, it places greater pressures on in-migration as a source of the human capital needs of the region.

Table 1: Manufacturing Percent of Total Employment, September 2009

Industry	Evansville Metro	United States	Indiana
Manufacturing	16.2	9.0	15.6
Durable Goods	52.3	60.9	69.4
Nondurable Goods	47.7	39.1	30.6

Source: Bureau of Labor Statistics

Fort Wayne Forecast 2010

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

November 2009

The causes of this recession were much different than most we have experienced in the past four decades—fueled more by the burst of the housing bubble and a crisis in the financial system rather than a cyclical decline in consumer spending. However, while northeast Indiana had not experienced the unrealistic increase in housing values nor was it in the epicenter of the financial sector, our heavy reliance on manufacturing—particularly in transportation equipment manufacturing—very quickly pulled us in. By mid-summer, many counties in the northeast part of Indiana were experiencing some of the highest unemployment rates in the state, if not the nation.

For purposes of this article, we will define the Fort Wayne region as Adams, Allen, DeKalb, Huntington, Noble, Wells, and Whitley counties. In a few cases, due to data availability, the three-county Fort Wayne Metropolitan Statistical Area (MSA) will be utilized (Allen, Wells, and Whitley counties).

Employment in the Fort Wayne region has now declined compared with the same month of the prior year for twenty-eight consecutive months. One of the real issues is not just how severe but how long this recession will last. Between September 2007 and September 2009, the Fort Wayne region lost nearly 24,800 jobs, nearly as many as in the double-dip recession of the early 1980s. **Figure 1** illustrates the magnitude of this recession on northeast Indiana.

On a more positive note, we began to see some areas of economic improvement by the third quarter of 2009. Announcements of business callbacks and expansions have recently been exceeding the number of downsizings and plant closings—both in the number of events reported and in terms of employees affected. For example, General Motors recently announced that it would add 700 jobs to its Allen County facility in the spring of 2010. The Fort Wayne region has also experienced a near 2 percent drop in the monthly (seasonally adjusted) unemployment rate from a high of 13 percent in May to the September rate of 11.2 percent.

The Year Ahead

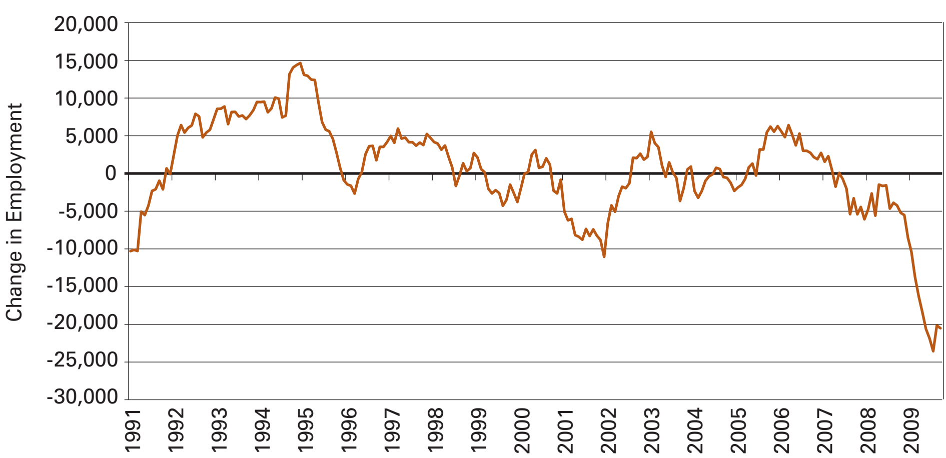
The difficulty in forecasting what 2010 may bring was epitomized in events of back-to-back days in late October. On October 29, the Dow gained 199 points based on the release of preliminary third quarter gross domestic product (GDP) growth pegged at an annualized rate of 3.5 percent. The next day, the market fell 249 points based largely on the announcement that September consumer spending had dropped 0.5 percent from August. The economy can still be described as fragile at best.

Northeast Indiana remains heavily dependent on the appetite of the American consumer for durable goods. Despite the reduction in manufacturing jobs over the past decade, this region is still far more dependent on the production of goods to generate economic wealth than is the nation. In fact, on a comparative basis, this concentration appears to be increasing. In 1990, the Fort Wayne region had 1.8 times the concentration in manufacturing jobs than the nation. In 2008, this had increased to 2.3 times the national employment concentration in manufacturing employment.[1] This concentration in goods production means that the region's recovery is very dependent upon the level of U.S. consumer spending.

As illustrated in **Figure 2**, unemployment in the Fort Wayne region jumped substantially beyond national unemployment during the spring and summer of 2009. In recent months, we have seen the gap between the regional and national unemployment rates close somewhat. Certainly, this can be at least partially attributed to some improvement in employment in the automotive and recreational vehicle industries. However, there is no reason to believe that the composition of employment here will allow this gap to narrow further.

From a national perspective, several factors are likely to keep consumer spending down in 2010. Unemployment is predicted to stay around 10 percent for much of the

Figure 1: Change in Employment for the Fort Wayne Region, 1991 to 2009



Note: Data represent employment increases or decreases from the same month of the previous year.
Source: Bureau of Labor Statistics

upcoming year. Underemployment has also eroded consumer capacity. Additionally, the negative reaction to the loss of perceived housing wealth (regardless of how artificial this may have been) and to the reduction of retirement portfolios (regardless of how unrealistic some of the prior gains may have been) have and will, in the opinion of this author, continue to dampen consumer spending. Lastly, the lingering tight credit climate carrying over from the financial crisis of 2008 will contribute to constrained spending on durable goods.[2]

There is considerable evidence to suggest that what we are now experiencing may be more than just the "Great Recession." We may look back several years from now and call this period the "Great Readjustment." The psychological impact of the convergence of the housing value free fall in many markets, the dramatic drop in the net worth of baby boomers' retirement plans, and concern regarding the future financial strength of the federal government to meet all its entitlement obligations without fueling high inflation may nudge American consumers toward saving and away from spending. Going back to the "spend now, save later" approach of the past three decades is not likely to occur soon.

For all of these reasons, it is likely that unemployment in northeast Indiana will remain above the national rate for at least the next year—likely around 1 percent to 1.5 percent above the national rate. For the seven-county Fort Wayne region, this means unemployment is likely to range from 10 percent to 11.5 percent for most of 2010. Employment gains, and there are several signs of encouragement with business expansions, will likely be mostly offset with further business contractions. The two should come close to balancing out. Significant increases in regional employment are likely to have to wait until at least 2011.

> *"In 2008, the average employee in the Fort Wayne Region made 79 percent of the U.S. average annual wage."*

One of the issues to watch closely in 2010 will be change in the area's labor force. We have seen a substantial decline in the number of individuals estimated to be in the labor force over the past three months, averaging 9,200 fewer individuals than were in the local labor force one year earlier. Are individuals becoming discouraged and stopping an active search for work, dropping out of the labor force to go back to school, heading into early retirement, or are they moving from the region?

The Longer-Term Perspective

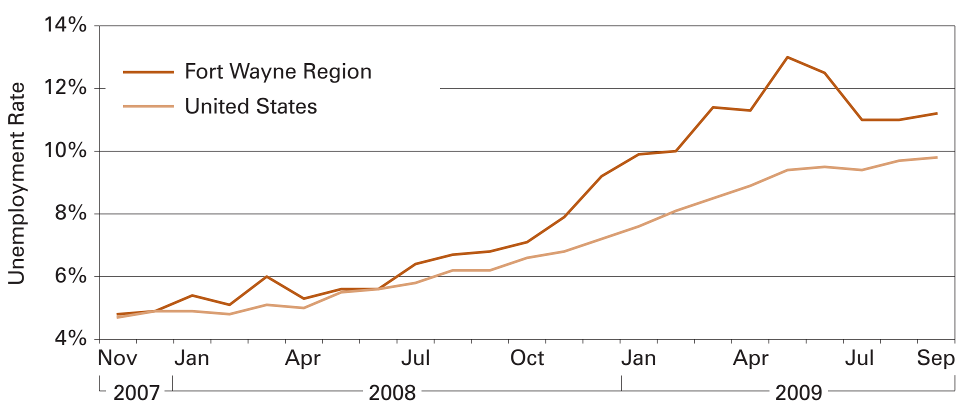
While the impact of the current recession and the anticipation/desire for a near-term, strong recovery are on the minds of most area residents and employers, we must not lose sight of some longer-term issues that were in play well before the present downturn.

We continue to see a significant restructuring of the regional economy. Mike Jackson, chairman and CEO of Auto Nation, has noted that the automotive industry is currently in a catastrophic situation, but he "remains optimistic about the future because the industry's old business model of high fixed costs will be destroyed as many companies restructure."[3] That type of restructuring is very much at the heart of changes in the regional economy. In the Fort Wayne metro between 2000 and 2008, average annual goods-producing employment declined by 17.5 percent; service-providing employment increased by 4.6 percent; and total private sector employment declined by 2.3 percent.[4]

We also continue to lose ground in a relative comparison of key economic indicators:

- Between 1999 and 2008, the Fort Wayne region lost 6.4 percent of its total employment, Indiana lost 1.1 percent and the nation gained 6.2 percent.[5]

Figure 2: Monthly Unemployment Rates, November 2007 to September 2009



Source: Bureau of Labor Statistics

- Between 2001 and 2008, the average annual wage for all jobs grew 15 percent in the Fort Wayne region, 21 percent in the state of Indiana, and 26 percent in the nation. In 2008, the average employee in the Fort Wayne region made 79 percent of the U.S. average annual wage. The potential loss of approximately 1,000 Navistar jobs to the region should their Fort Wayne Design Center relocate to Illinois would only exacerbate this issue.
- Between 2001 and 2008 the growth in GDP for all U.S. metropolitan areas was 17.4 percent after adjusting for inflation. The comparable rate of GDP growth in the Fort Wayne Metropolitan Statistical Area was 7.1 percent. Only the Anderson, Kokomo, and Muncie MSAs had slower GDP growth than did the Fort Wayne MSA over this period.

In many respects, the real issue of concern for northeast Indiana is not the impact of the current recession, but the longer-term trends that we have, to date, been unable to reverse.

Notes

1. Based on U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages data.
2. For a more complete discussion of these factors, see the minutes of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System joint meeting on September 22 and 23, 2009.
3. William A. Strauss and Emily A. Engel, "Economy to turn corner in 2010," Chicago Fed Letter, August 2009.
4. Based on U.S. Bureau of Labor Statistics Current Employment Statistics data.
5. Based on U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages data.

Gary Forecast 2010

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

November 2009

We now know that by the time we prepared our forecasts last year, the national economy had been in a recession for nearly a year.[1] It seems likely that as we prepare our forecasts for the coming year, the economy has bottomed out and the recovery has begun. The recession was somewhat more severe than we projected, and many economists see a repeat of the recoveries that occurred following the 1991 and 2001 recessions, with growth in output substantially exceeding the growth in employment. In fact, if the third quarter gross domestic product (GDP) figures hold up following revisions, we can already see that the recovery in output this year

Table 1: Employment Gains and Losses Following Economic Recessions for Selected Sectors in Northwest Indiana

Sector	Percent Change since 2008	Percent Change since 2007 Recession	Percent Change after 2001 Recession*	Percent Change after 1991 Recession*
Total Establishment Employment	-4.8	-3.4	-2.8	2.5
Total Household Employment	-2.1	-5.2	-3.7	3.3
Goods Production	-9.1	-9.6	-11.1	4.9
Construction	-17.5	-19.0	-14.5	5.3
Manufacturing	-4.7	-4.4	-9.6	4.7
Durable Goods	-6.2	-5.6	-7.2	-0.2
Primary Metals	-2.6	0.5	-7.1	-2.2
Iron and Steel Mills	2.3	5.2	-8.7	-2.0
Wholesale Trade	0.0	1.0	-8.3	4.3
Retail Trade	-0.9	-9.1**	-10.8	-2.8
General Merchandise Stores	-3.1	-18.2**	-3.0	2.1
Information Activities	-4.5	-4.5	-21.9	-6.5
Financial Activities	-2.2	-6.2	-5.8	0.9
Private Education and Health	0.2	-1.5	9.9	11.0
Private Education	1.4	-6.5	27.5	23.9
Health Care and Social Assistance	0.0	-0.5	7.0	8.4
General Medical and Surgical Hospitals	3.1	0.0	2.6	3.8
Arts, Entertainment, and Recreation	1.2	13.3	-11.8	29.7
Accommodation and Food Services	-0.9	0.0	-6.1	6.8
Federal, State, and Local Government	2.3	2.3	13.4	0.8
Federal	-4.8	0.0	-4.3	3.8
State	4.7	4.7	2.2	2.3
Local	2.4	2.1	16.5	0.3
Local (Excluding Education)	1.4	4.3	-4.3	4.0
Local Public Education	3.2	0.5	4.4	-2.3

*Eighteen months after recession troughs, November 2001 and March 1991
**December 2007 employment includes seasonal hiring
Source: Bureau of Labor Statistics

dramatically exceeds the recovery in employment. The preliminary third quarter data show an annual rate of increase in GDP of 3.5 percent,[2] while employment in July, August, and September continued to decline, with a net loss of jobs in the third quarter of about 1.2 million.[3] Data reported on STATS Indiana show employment in northwest Indiana having begun to increase in July.[4]

The recession's impact has not been felt uniformly across sectors of the economy, either nationally or locally (see **Table 1**).[5] Locally, construction, durable goods manufacturing, and retail trade bore the brunt of the decline in employment, accounting for over 90 percent of the net local job losses since the beginning of the recession (in December 2007), and for virtually all of the net job losses in the past year. Similarly, employment gains in the past two recoveries have been unevenly distributed (and these past two recoveries differed sharply from each other as well).

"The current recession hit northwest Indiana harder than we originally expected, with employment in construction and (surprisingly) retail trade most strongly affected."

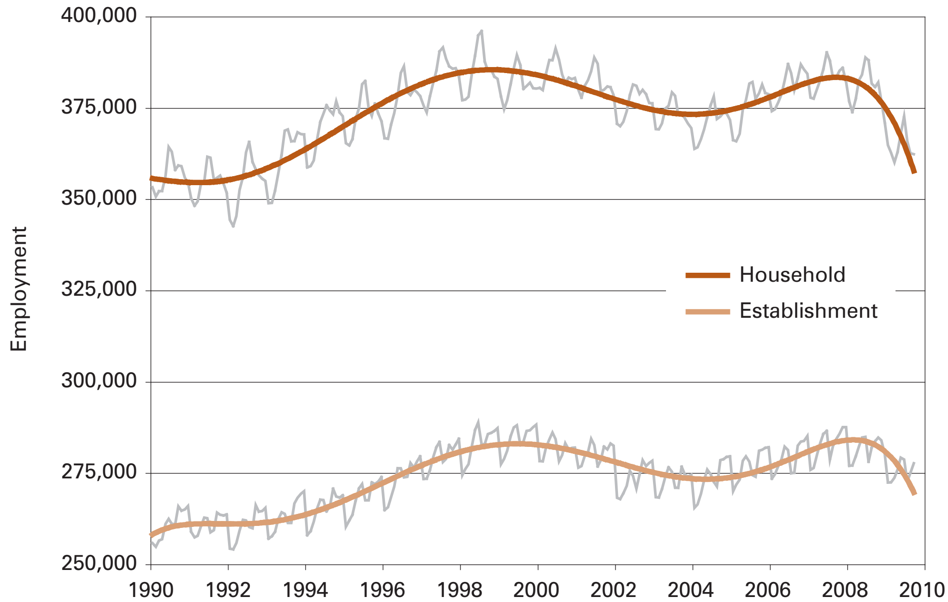
A Look at the Recession

The northwest Indiana economy has fared slightly better than the national economy, with a decline in establishment employment of 3.5 percent since the official start of the recession (-4.8 percent over the past year), compared with a national decline of about 5.5 percent (see **Figure 1**). Locally, the industry hardest hit by the recession has been construction, where employment has declined by 4,000 since the beginning of the recession (-3,400 in the past year), a decline of 19 percent (-17.5 percent in the past year), comparable to the 14.9 percent national decline in employment. Locally, manufacturing employment also fell sharply, by around 4.5 percent, but much less than the national 14 percent decline. Surprisingly, in the face of an 18.5 percent decline in employment in iron and steel mills nationally, local employment grew 5.2 percent since the beginning of the recession (900 new jobs), and has even grown over the past year (400 new jobs).

In other sectors, employment loss has been similar to the national picture, with employment in retail trade falling 9.1 percent locally and 9.4 percent nationally, and employment in financial activities falling 6.2 percent locally and 6.4 percent nationally since the beginning of the recession. Both the local and national economies have seen strong growth in employment in arts, entertainment, and recreation.

In common with the nation, northwest Indiana[6] also saw a substantial decline in household employment (about -5 percent each for the nation and locally since the recession began). As with the national economy, almost all of the employment loss has occurred in the past year. The unemployment rate locally began to rise in late 2007 (bottoming out around 4.5 percent in

Figure 1: Household Employment and Establishment Employment in Northwest Indiana, 1990 to 2009



Note: Graph shows both monthly values and the trend line.
Source: Bureau of Labor Statistics

October/November), with the large increases beginning in late 2008 (rising from 5.9 percent in October 2008 to 10.6 percent in May 2009) as shown in **Figure 2**. The local unemployment rate has been declining since June, and in September 2009, stood at 9.4 percent.

In terms of job loss and increased unemployment, the current recession dwarfs both the 1991 and 2001 recessions in its impact on the local economy but does not really approach the devastation that resulted from the twin recessions of the late 1970s/early 1980s, in which local employment fell by well over 40,000 jobs.

As the Recovery Develops

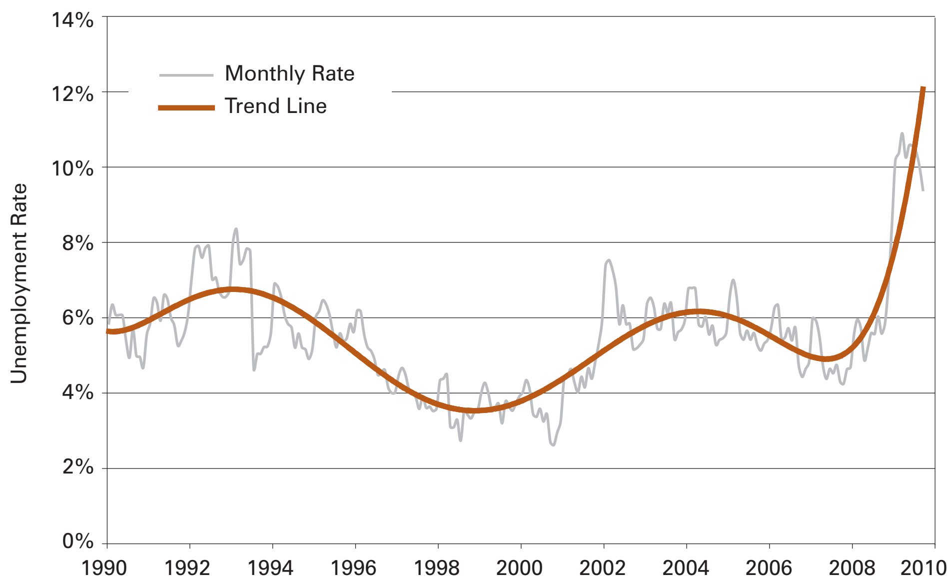
There is a broad consensus that the national recovery from the recession is likely to be especially slow to affect labor markets, with slow growth in net new jobs and persistently high unemployment.[7] **Table 1** shows how northwest Indiana fared in the first eighteen months of the recoveries following the 1991 and 2001 recessions.[8] These were, in terms of their impact on northwest Indiana and the nation, very different recessions. Locally, employment recovered fairly briskly during the first eighteen months of the recession in 1991, with establishment employment growing by 3.3 percent (about a 2.1 percent annual rate, compared with an average annual rate of employment growth between 1990 and 2007 of about 1 percent). But following the trough of the 2001 recession, employment continued to fall, with establishment employment falling an additional 3.7 percent in the eighteen months following the recession's trough.

What can we expect: a recovery more like the recovery from the 1991 recession or the non-recovery that occurred in 2001–2003? The national data provide a few hints. Following the 1991 recession, real GDP grew at an annual rate of about 3.5 percent over the following eighteen months. Ten years later, the economy grew at a slightly less than 2 percent annual rate during the first eighteen months of recovery. Nationally, employment fell by 1.2 percent between the March 1991 trough and September 1991, and fell again in the 2001–2003 recovery, by 0.8 percent from November 2001 to May 2003. Given the slow growth in real GDP, this slow decline in employment is what we would expect. Simply to keep up with productivity growth, output would need to rise by something like an annual rate of 2.5 percent to maintain the current level of employment. And productivity growth was especially rapid (growing at an annual rate of more than 3 percent) in the 1991–1992 recovery, and growing faster than output (at an annual rate of about 2.7 percent) in the 2001–2003 recovery.[9]

If we maintain the recent growth in real GDP, the recent productivity growth rates suggest that national employment is likely to grow at an annual rate of 1 percent to 2 percent per year (1.5 percent to 3 percent over eighteen months). Historically, employment in northwest Indiana has grown more slowly than it has in the nation; based on this historical relationship, we expect that employment in northwest Indiana will grow at an annual rate of between 0.3 percent and 0.8 percent, with a very wide band of possible outcomes. Applying these growth rates to the September 2009 level of employment in northwest Indiana, we expect employment growth of between 800 and 2,200 new net jobs.

However, at such slow rates of growth in national and local employment, and with a continued 0.5 percent per year growth in the local labor force, it is likely that the unemployment rate will rise slightly over the next twelve months, from its current 9.4 percent to 9.7 percent. In the optimistic case, the local unemployment rate could fall to 9.1 percent. In short, unless the national economy grows more robustly or the local economy performs outside the range of its historical relationship with the national economy, the unemployment rate will change little over the next year.

Figure 2: Unemployment Rate in Northwest Indiana, 1990 to 2009



Source: Bureau of Labor Statistics

Growth in specific sectors of a local economy is notoriously difficult to forecast. While developments in most local economies are strongly affected by the nature of the changes occurring in the national economy, these relationships are also highly variable and subject to significant changes as the structure of local economies change. Perhaps most notably for the northwest Indiana economy, the relative decline in the importance of the steel industry as a source of employment (and income) and the introduction of casino gambling (which led to a very large expansion of the arts, recreation, and entertainment sector) have led to dramatic changes in the relationship between national economic developments and their impacts on the local economy.

Subject to the cautions expressed above, our best estimate is that employment changes by sector will depend on national growth, as shown in **Table 2**. Under the extreme slow growth scenario (a 1 percent increase nationally in establishment employment), we expect essentially no growth in construction employment in northwest Indiana and a decline in manufacturing employment. Based on historical patterns, we expect the steel industry to give up about half of the employment gains that have occurred in the past two years. If national growth is stronger, we anticipate slight growth in construction employment, but little difference in the manufacturing sector. Local employment in manufacturing has declined consistently over the past twenty (or more) years, even when the national economy has been growing vigorously. Health care is likely to remain the strongest sector of the local economy under either scenario, gaining around 1,000 jobs. This forecast is essentially unaffected by the extent of national employment growth.

Conclusions

The current recession hit northwest Indiana harder than we originally expected, with employment in construction and (surprisingly, retail trade most strongly affected. Also surprisingly, manufacturing employment, while down, was less affected than one might have expected, and employment in steel actually rose.

The recovery of the local economy from the recession will depend on the strength of the national recovery. With many economists predicting a very slow recovery in employment, our expectations for a local recovery are not optimistic. We expect total employment to rise by something in the range of 800 to 2,200 jobs (0.3 percent to 0.8 percent), and for the unemployment rate to remain above 9 percent during the coming year. A stronger national recovery would be good news. But a weaker recovery would be very bad news indeed.

Table 2: Growth Forecast for Selected Sectors in Northwest Indiana in 2010

Sector	Assuming 1% National Growth in Employment	Assuming 2% National Growth in Employment
Total Establishment Employment	800	2,200
Construction	0	300
Manufacturing	-900	-600
Iron and Steel Mills	-450	-400
Retail Trade	100	500
Private Education and Health	1,100	1,100
Health Care and Social Assistance	1,000	1,100
Accommodation and Food Service	300	400
Federal, State, and Local Government	250	300

Note: Detail does not add to total because some sectors are not included in this table.
Source: Based on author's calculations

Notes

1. According to the National Bureau of Economic Research's (NBER) Business Cycle Dating Committee, the recession began in December 2007: www.nber.org/cycles.html.
2. See the Bureau of Economic Analysis press release at www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.
3. Measuring employment using the establishment employment data series. These data may be found at www.bls.gov.
4. These data may be found at www.stats.indiana.edu/topic/jobs_wages.asp.
5. National employment data are from the Bureau of Labor Statistics, unless otherwise noted (www.bls.gov); local employment data are from STATS Indiana (www.stats.indiana.edu/topic/jobs_wages.asp).
6. This discussion of the unemployment data uses the seven-county area including Lake, Porter, LaPorte, Jasper, Newton, Pulaski, and Starke counties. Data are from STATS Indiana at www.stats.indiana.edu/topic/laus.asp.
7. Representative discussions of the "jobless recovery" (ignoring polemics) include the following:
   Mary Daly and Bart Hobjin, "Jobless Recovery Redux?" FSRB Economic Letter, June 5, 2009, Federal Reserve Bank of San Francisco Economic Research and Data, www.frbsf.org/publications/economics/letter/2009/el2009-18.html.
   Erica Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?" *Current Issues in Economics and Finance*, Vol. 9, no. 8, (August 2003), www.ny.frb.org/research/current_issues/ci9-8/ci9-8.html.
8. This section focuses on the eighteen months following the trough, because I expect the trough of the current recession to be identified as June 2009. Eighteen months will take us to December 2010, which allows us to look a year ahead. I have used data for the eighteen months following the NBER Business Cycle Dating Committee's date for the troughs for 1991 and 2001: www.nber.org/cycles.html.
9. Data are from www.bls.gov/lpc/data.htm.

Indianapolis-Carmel Forecast 2010

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

November 2009

> *The coming year should bring some modest improvement to the Indianapolis economy.*

Like the rest of the state and country, the Indianapolis-Carmel metro area[1] has experienced declining economic activity over the last year and a half. Unemployment is up and incomes are down. Business owners and consumers are uncertain about the overall health of the economy. Lately, there have been a few signs that the recession is over, but it remains to be seen how strong and sustainable the recovery will be.

Employment[2]

Unemployment in the Indianapolis metro area stands at 7.7 percent as of September 2009, compared to 5.1 percent a year before. To put this number in perspective, there are now twice as many people unemployed (68,590) in the Indianapolis area as there were just two years ago.

While this is a significant increase, it is down from a peak of 8.7 percent during the summer months. It is also lower than the state and national unemployment rates of 9.2 percent and 9.5 percent, respectively. Historically, unemployment has been lower in Indianapolis than the nation, but this difference has been diminishing over the last eight years (see **Figure 1**). It remains to be seen whether unemployment has peaked, or whether it will continue to drift up before coming down toward the second half of 2010.

Income[3]

Given the severity of the recession, it is not surprising that incomes have been falling in the area. Between the first quarters of 2008 and 2009, the weekly wage for the average worker fell by 3 percent (see **Table 1**). Total wage income fell by 6.3 percent, reflecting the double effects of having fewer workers earning lower wages.

Several industries have been hit particularly hard by the recession. Total wage income in construction was down 19.5 percent between the first quarters of 2008 and 2009, reflecting a 17.8 percent reduction in jobs and 2.1 percent lower wages among those still working. Manufacturing was also hit hard with a 10.1 percent decline in total wage income.

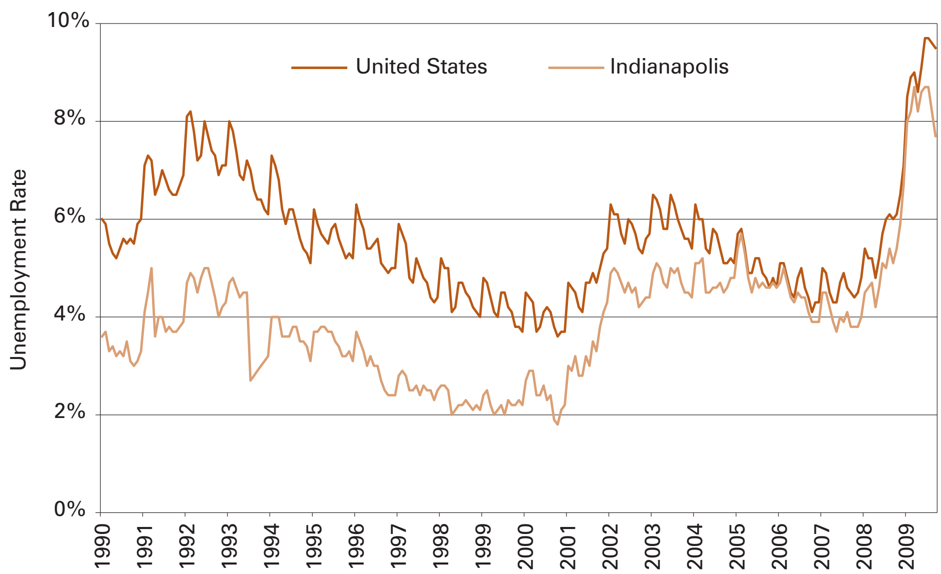
White-collar jobs were also hit with significant reductions. As a result of the financial crisis, total wage income in the finance and insurance industry was down 16.1 percent as many banks and financial institutions cut pay and laid off workers. Other industries experiencing large declines include management services (15.2 percent decline) and real estate (9.7 percent decline).

Only a few industries in Indianapolis experienced job growth, but health care was an important one. The health care industry is the single largest industry for jobs in the Indianapolis metro area, employing 13.6 percent of all workers. The number of jobs in health care increased by 5.1 percent, reflecting national trends of an aging population and increased technology in health care. In addition, educational services and public administration each experienced modest increases in both number of jobs and average wages.

Real Estate and Residential Construction

The Indianapolis area residential real estate market has held up fairly well during the economic downturn. The median price of a home on the market increased by a modest 0.9 percent compared to a year ago.[4] Furthermore, the number

Figure 1: Comparison of Unemployment Rates, January 1990 to September 2009



Source: STATS Indiana, using Bureau of Labor Statistics data of unsold houses on the market has declined by 13.9 percent relative to 2008. The relatively low supply of houses suggest that home prices will continue to remain steady or increase in 2010. However, demand for housing will weaken after the federal government's tax credit program for new homebuyers runs out.

The residential construction market continues to weaken, with the number of new building permits declining by 24 percent for the first nine months of 2009 compared to the first nine months of 2008.[5] Residential building permits are down 60.5 percent since 2006. New home construction is a key economic indicator because the residential construction industry employs a significant number of people and the building of new homes drives other consumption, such as building materials and home furnishings. New home construction may begin to show some improvement in 2010, but the unavailability of credit and the general uncertainty of the economy will hinder growth. Construction will likely remain below the levels of 2006 for several years to come.

Table 1: Wages and Jobs for Selected Industries in the Indianapolis Metro, 2008:1 to 2009:1

Industry	Jobs: 2009 Percent	Jobs: Percent Change since 2008	Average Wages: Weekly	Average Wages: Percent Change since 2008	Percent Change in Total Wages
Total	100	-3.4	$854	-3.0	-6.3
Construction	4.6	-17.8	904	-2.1	-19.5
Finance and Insurance	5.0	-3.4	1,225	-13.2	-16.1
Management of Companies and Enterprises	1.3	-3.5	1,680	-12.1	-15.2
Administrative, Support, and Waste Management	6.6	-14.2	533	0.9	-13.5
Manufacturing	10.6	-9.4	1,556	-0.8	-10.1
Real Estate, Rental, and Leasing	1.7	-2.2	779	-7.8	-9.7
Arts, Entertainment, and Recreation	1.3	-1.9	1,049	-5.4	-7.2
Information	2.1	-3.0	1,079	-4.2	-7.1
Transportation and Warehousing	6.1	-2.9	704	-3.8	-6.6
Wholesale Trade	4.9	-4.3	1,062	-2.2	-6.4
Retail Trade	10.6	-3.5	469	-1.9	-5.3
Accommodation and Food Services	8.7	-2.5	270	-2.2	-4.5
Other Services (Except Public Administration)	3.2	-2.6	594	-1.5	-4.1
Professional, Scientific, and Technical Services	5.3	0.2	1,160	-1.0	-0.8
Public Administration	5.2	1.6	874	2.0	3.6
Health Care and Social Services	13.6	5.1	812	-0.9	4.1
Educational Services	8.0	3.3	768	0.9	4.2

Source: STATS Indiana, using QCEW data

Forecast

The coming year should bring some modest improvement to the Indianapolis economy. Unemployment will peak in late 2009 or early 2010 and should then begin to decline. Firms that cut jobs aggressively going into the recession will find it necessary to begin hiring again once economic activity picks up. However, following a recession, job creation can take several years, and even by the end of 2010, unemployment will still likely be higher than desirable.

Real personal incomes and economic output will likely grow 2 percent to 3 percent, but these will still be significantly below pre-recession levels. Furthermore, the personal savings rate has increased. While this is generally a good thing for the economy, it has the effect of reducing consumer spending, which leads to a slower recovery. Continued weakness of the dollar may help manufacturing and exporting businesses rebound more quickly. In all, 2010 looks to be a year of recovery for the local economy, but the pace of recovery may be slower than we would like.

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. Employment data were collected from the Bureau of Labor Statistics reports at STATS Indiana: www.stats.indiana.edu.
3. Income data come from the Quarterly Census of Employment and Wages data series at STATS Indiana: www.stats.indiana.edu.
4. Housing prices and supply of houses were collected from www.housingtracker.net.
5. Residential building permit data were collected from the U.S. Census Bureau. Percentage declines are calculated based on the dollar value of construction projects.

Kokomo Forecast 2010

Jason VanAlstine: Assistant Professor of Economics, Indiana University Kokomo

November 2009

The past year was a difficult one for Kokomo. At the end of 2008, Kokomo was named one of America's fastest dying cities by Forbes magazine.[1] Unemployment rates have been above 10 percent all year, peaking at 19.1 percent in June during Chrysler's bankruptcy and subsequent plant shutdowns. Some of the economic uncertainty that has hovered over the region has been lifted, with Chrysler and Delphi both emerging from bankruptcy and manufacturing showing signs of improvement at the national and state levels. Further optimistic news includes declining unemployment rates in Kokomo; Delphi Automotive Systems recently receiving two federal grants totaling $96 million;[2] and Zuna Infotech set to create an estimated 400 jobs in Kokomo over the next few years at their new facility.[3] However, without a change in some long-term trends, Kokomo may face persistent economic difficulties in the future.

Jobs and Unemployment

Unemployment rates in 2009 were consistently above 12 percent, peaking in June at 19.1 percent with the temporary closing of Chrysler during its bankruptcy. Recently the labor market has appeared to take a positive turn, with the unemployment rate decreasing each month since June and currently sitting at 11.6 percent, the lowest mark since December 2008. Additionally, there seems to be more stability at Chrysler and Delphi, two of the area's largest employers, than there has been over the past year and a half, due in part to the reorganization of both businesses and Delphi closing a bankruptcy that lasted four years.

In spite of these positive signs, a more disturbing trend is emerging in the long-run labor market picture. As shown in **Figure 1**, annual employment figures have decreased every year since 1999, with a net loss of 13,155 jobs since August 1999 (-25.9 percent). During the same period in time, the labor force has decreased 17.3 percent, which has led to an overall increase in the unemployment rate. Additionally, from July 2000 to July 2008 the population aged twenty to sixty-four only decreased 2.1 percent, indicating a decrease in the labor force participation rate. If the local economy does not begin to create new jobs, the trend of increases in the number of jobless individuals will continue and emigration may become a significant problem.

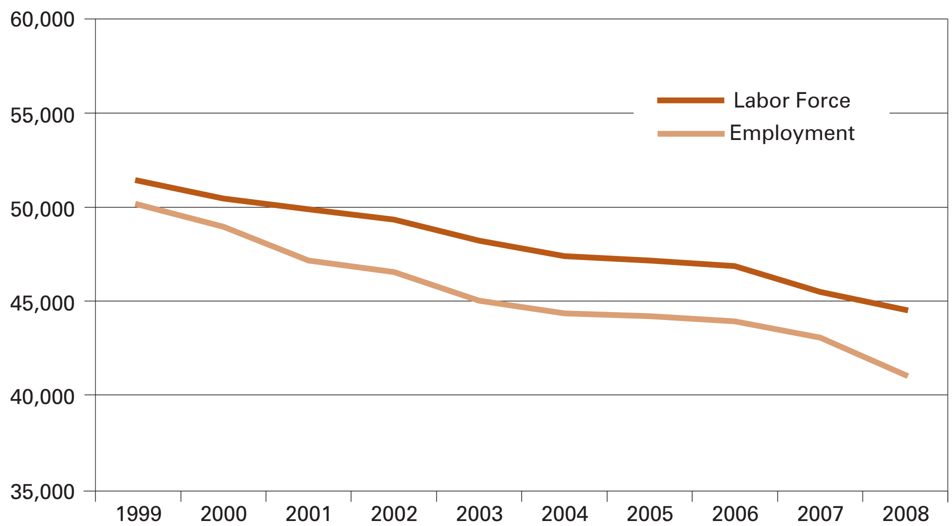
Average annual wages in Kokomo have decreased 7.5 percent in the past year to a value of $45,202. This is still almost $7,000 more than the average wage for a worker in Indiana, but is at its lowest value since 2003. Average weekly wages have also decreased, falling 5.3 percent from the first quarter of 2008 to $806 in the first quarter of 2009, the lowest value since the third quarter of 2002. Not only do workers in Kokomo have fewer jobs available to them, but these jobs are also paying less on average than they have in the past.

Although nearly 75 percent of employment in Kokomo is now in service industries, manufacturing still plays a very important role in the local economy. The five largest sectors by employment are detailed in **Table 1**. Education and health care was the only one of these five sectors to experience job growth in 2009, while manufacturing suffered a large decrease. However, recent economic activity at the national level has indicated that manufacturing activity is increasing, and Kokomo will see benefits if this trend continues. Retail may also pick up for the holiday season as consumers are more optimistic than they were in 2008, although probably not enough to make up for the past year.

Real Estate

Indications are that the market for real estate will remain relatively flat for the next few years. Zillow.com reports that the median real estate listing price has increased by 2 percent since November 2008 to $69,900.[4] CNNmoney.com reports that home prices are expected to decrease by 0.4 percent from June 2009 to June 2010 and increase by 0.6 percent from June

■ **Figure 1: Kokomo Employment and Labor Force, 1999 to 2008**



Source: Bureau of Labor Statistics

Table 1: Kokomo's Largest Economic Sectors by Employment, January 2007 to September 2009

			September 2009	
Sector	2007	2008	Employment	Percent of Total Jobs
Manufacturing	14,100	12,000	9,600	23.4
Government	7,700	7,800	7,800	19.0
Retail	5,700	5,600	5,400	13.2
Education and Health	4,100	4,200	4,500	11.0
Leisure and Hospitality	4,500	4,500	4,300	10.5

Source: Bureau of Labor Statistics

2010 to June 2011.[5] These sources point to a stagnant housing market for the area, absent a major negative change in the labor market.

Outlook

Recent news has provided some room for optimism regarding the local economy. The third quarter has marked the first increase in gross domestic product for the United States since the recession began in December 2007. Additionally, the unemployment rate in Kokomo has decreased for three successive months and is now at its lowest point since December 2008. However, it is important that this optimism remain guarded given the "jobless recovery" after the last recession. When the recession of 2001 ended, it took nineteen additional months for national employment figures to rebound to pre-recession levels. The annual unemployment rate in Indiana did not decrease to 5 percent again until 2006 (it was 2.9 percent in 2000) and the annual unemployment rate in Kokomo did not return to values below 6 percent until 2007 (3 percent in 2000). Continued stability at Chrysler and Delphi, combined with job creation through new businesses like Zuna Infotech will be important factors for leading the region into economic recovery.

The long-term economic picture is more pessimistic. Employment has decreased in Kokomo for ten straight years, leading to a cumulative decrease of over 25 percent. Additionally, the labor force is decreasing at a faster rate than the population aged twenty to sixty-four, indicating a decrease in the labor force participation rate. Overall, without an increase in the number of job opportunities or a decrease in the population, the number of jobless in Kokomo will continue to increase, placing downward pressure on wages and the local economy.

References

All employment and wage data are from www.bls.gov. Population data are from www.census.gov.

Notes

1. Matt Woolsey, "America's Fastest Dying Towns," Forbes.com, December 9, 2008, www.forbes.com/2008/12/08/towns-ten-economy-forbeslife-cx_mw_1209dying.html (accessed November 1, 2009).
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3. Scott Smith, "IT Startup Comes to Kokomo," *Kokomo Tribune*, October 28, 2009, www.kokomotribune.com/local/local_story_301231016.html (accessed November 1, 2009).
4. www.zillow.com/local-info/IN-Kokomo-home-value/r_46061/
5. http://cgi.money.cnn.com/tools/homepricedata/index.html?market=9IN

Lafayette Forecast 2010

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November 2009

A turbulent economy characterized 2009. As we look to the future to determine how 2010 will treat the Lafayette Metropolitan Statistical Area (MSA), it appears that we may have a slow recovery. A quick recovery is likely to be hampered by additional job shedding through the beginning of 2010 before businesses begin to slowly re-hire and thaw out pay freezes.

Despite the prediction of a slow recovery and its consequences, there is a sense of optimism in the Lafayette MSA due to the mixture of science and technology that Purdue's Research Park is bringing to the area. This sense of optimism may be reflected in the continuous population growth in the Lafayette MSA since 2000 (see **Figure 1**). This population growth has been particularly strong in Tippecanoe County, home to Purdue University and its Research Park. It is expected that the population growth will continue in 2010 with around 0.7 percent growth, or an additional 1,300 residents in the MSA.

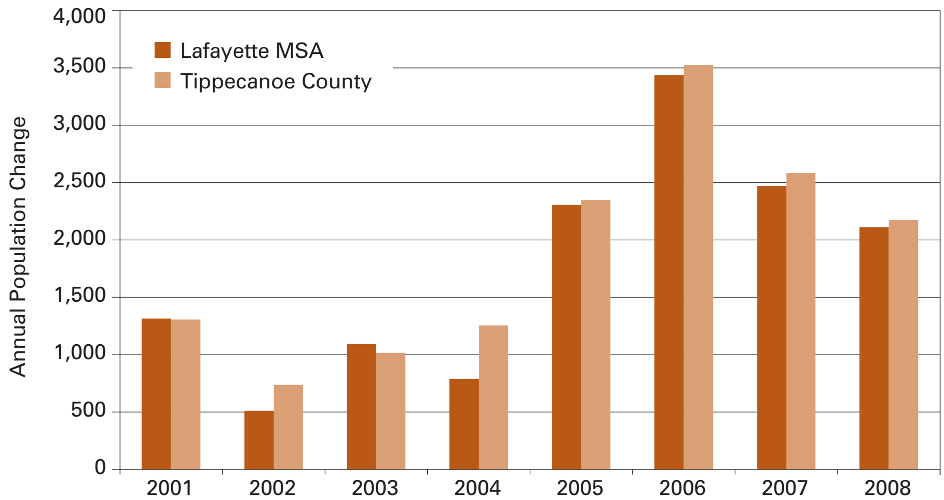
Labor

Overall, the Lafayette MSA, which includes Tippecanoe, Benton, and Clinton counties, has weathered the recession fairly well compared to Indiana and the United States. As seen in **Table 1**, except for June and July 2009, the Lafayette MSA has had lower unemployment rates (8.9 percent in August) than Indiana (9.7 percent) and the United States (9.6 percent). The variance seen in June and July may have been related to the school year or to the substantial layoffs announced in May from Caterpillar, Wabash National, Inc., and Fairfield Manufacturing Co.

Table 2 compares the employment between 2008 and 2009 in the Lafayette MSA. As of September 2009, total nonfarm employment declined by 1,556 jobs (-1.6 percent) over the 2008 average. In particular, the goods production sector experienced most of the job losses thus far in 2009 (-8.2 percent or -1,653 jobs). The majority of these job losses (-1,369) can be attributed to manufacturing, which accounts for 20 percent of the Lafayette MSA jobs. In contrast to the goods-producing sector, the service-providing sector had a slight improvement (0.1 percent) in employment from 2008 due to the private educational and health services and leisure and hospitality industries. These trends suggest that the service-providing sector will continue to grow in 2010, yet its rate of growth will be dependent on the goods-producing sector. The goods sector is anticipated to continue to struggle, but may grow slightly. If the recovery is slow as expected, its impact will be felt in the trade, transportation, and utilities; professional and business services; and financial activities industries.

Although the Lafayette MSA has experienced an overall decline in employment in 2009, average weekly wages by workers only slightly declined (-0.1 percent). Eleven out

Figure 1: Annual Population Change in the Lafayette MSA and Tippecanoe County, 2001 to 2008



Source: IBRC, using Bureau of Labor Statistics data

Table 1: Labor Force and Unemployment for the Lafayette MSA, 2008 to 2009

Year	Month	Labor Force	Unemployed	Unemployment Rate
2008	August	95,748	4,775	5.0
	September	98,140	4,558	4.6
	October	99,055	4,660	4.7
	November	98,471	5,301	5.4
	December	97,507	5,919	6.1
	Annual	**97,413**	**4,744**	**4.9**
2009	January	99,108	8,287	8.4
	February	98,871	8,292	8.4
	March	98,742	8,619	8.7
	April	98,815	8,148	8.2
	May	100,501	8,826	8.8
	June	101,237	10,540	10.4
	July	96,528	10,381	10.8
	August	93,169	8,318	8.9

Source: IBRC, using Bureau of Labor Statistics data

Table 2: Lafayette MSA Employment, 2008 to 2009

Industry	2009*	Change since 2008	Percent Change 2008–2009
Total Nonfarm	94,244	-1,556	-1.6
Total Private	65,378	-1,756	-2.6
Goods-Producing	18,556	-1,653	-8.2
Manufacturing	15,356	-1,369	-8.2
Mining, Logging, and Construction	3,200	-283	-8.1
Service-Providing	75,689	56	0.1
Professional and Business Services	5,567	-158	-2.8
Trade, Transportation, and Utilities	14,244	-131	-0.9
Financial Activities	3,811	-22	-0.6
Other Services	2,978	3	0.1
Leisure and Hospitality	8,767	67	0.8
Private Educational and Health Services	10,456	197	1.9
Government	28,867	158	0.6

*January through September average. September data are preliminary. Annual data are used for 2008.
Source: IBRC, using Bureau of Labor Statistics data

of the seventeen major sectors had a wage increase from the first quarter of 2008 to the first quarter of 2009 (not adjusted for inflation), as seen in **Table 3**. This increase may be due to increased productivity or the deflation seen in 2009 that led to the elimination of jobs, thus affecting the weekly wage average. In 2010, wage and salary earnings may slightly decline again (less than 1 percent) until employment regains its momentum.

The Lafayette MSA's per capita personal income (PCPI) continues to lag behind the United States with the 2008 PCPI only 75.6 percent of the national figure. This difference can be attributed to the loss of well-paying jobs in the area, especially in manufacturing. In 2010, the local PCPI is estimated to increase roughly 2.5 percent, a stronger growth than the expected 2009 figures.

Table 3: Average Weekly Wages in Lafayette MSA, 2008:1 to 2009:1

Industry	2009:1	Change since 2008:1	Percent Change
Total	$743	-$1	-0.1
Management of Companies and Enterprises	1,215	-377	-23.7
Information	493	-47	-8.7
Transportation and Warehousing	702	-49	-6.5
Health Care and Social Services	705	-15	-2.1
Other Services (Except Public Administration)	435	-6	-1.4
Retail Trade	395	-3	-0.8
Manufacturing*	1,154	3	0.3
Professional, Scientific, and Technical Services	885	6	0.7
Administrative, Support, and Waste Management	428	3	0.7
Accommodation and Food Services	227	2	0.9
Construction	730	13	1.8
Finance and Insurance	945	19	2.1
Educational Services*	987	23	2.4
Public Administration	733	25	3.5
Real Estate, Rental, and Leasing	546	20	3.8
Wholesale Trade	955	61	6.8
Arts, Entertainment, and Recreation*	256	30	13.3

*These totals exclude county data that are not available due to nondisclosure requirements.
Note: Utilities data are not available due to nondisclosure requirements.
Sources: IBRC and the Bureau of Labor Statistics, using QCEW data

Housing

Residential construction peaked in 2003 with 1,519 permits issued for single- and multi-family building permits. More recently, the number of permits issued dropped 28.2 percent in 2008 and data for 2009 (January to August) indicate that building permits are down nearly 60 percent in 2009 (see **Table 4**).

Comparison of 2008 to January through September 2009 real estate activity in the Lafayette MSA finds the market relatively soft, as the number of units sold in the three counties declined by 12.1 percent (see **Table 5**). The median sales price declined in Tippecanoe (-2.0 percent) and Carroll counties (-22.8 percent), but increased in Benton County (14.3 percent). In 2010, it is anticipated that the real estate market will see an increase in home sales, yet prices will continue to decline slightly in the soft market. Permits issued are expected to increase a little over 2009.

Table 4: Lafayette MSA Residential Building Permits, 2001 to 2009

Permits	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total	1,576	2,113	1,519	1,511	1,079	918	919	660	264
Single-Family	923	1,624	1,026	1,334	1,048	720	623	537	260
Multi-Family	653	489	493	177	31	198	296	123	4

*January through August
Source: IBRC, using U.S. Census Bureau data

Table 5: Lafayette MSA Residential Real Estate Sales, 2008 to 2009

County	Units Sold			Median Sales Price		
	2008	2009*	Percent Change	2008	2009*	Percent Change
Lafayette Metro	1,582	1,391	-12.1	n/a	n/a	n/a
Tippecanoe	1,392	1,240	-10.9	122,500	120,000	-2.0
Carroll	132	111	-15.9	90,500	69,900	-22.8
Benton	58	40	-31.0	52,450	59,950	14.3

*January through September
Source: IBRC, using Indiana Association of Realtors data

Conclusion

Overall, the Lafayette MSA outlook is expected to show a slight growth in population, employment, PCPI, and housing activity, but experience minor downturns in wages and earnings and home sale values. Hopefully, the recovery is stronger than predicted, but that will depend on the consumer's confidence in the economy and their willingness to secure loans and acquire debt, as well as increased demand for U.S. goods and services.

Louisville Forecast 2010

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November 2009

The Louisville metro and the southern Indiana region[1] experienced significant employment losses over the prior year. Will the region enjoy a rapid recovery, or make slower progress over the coming year?

The Labor Markets

Since the current recession began in December 2007, the Louisville metro area has suffered a 4.9 percent decline in total nonfarm payrolls, equivalent to 30,400 jobs.[2] This change is less than the 5.2 percent decline for the United States, but exceeds the combined total job losses for the Louisville metro during the past two recessions.

Table 1 shows changes in nonfarm payroll employment over the past three years. Regional job losses began to escalate during late 2008 and reached an apparent bottoming of over-the-year losses in May 2009. Significant losses occurred in manufacturing and transportation, both walloped by national problems. Local job losses and cautionary consumer spending have hurt the retail sector.

September's 10 percent unemployment rate for the metro area exceeds the national average of 9.8 percent. However, claims for unemployment peaked in the first half of 2008 and are now trending downward (see **Figures 1** and **2**).[3]

Manufacturing, transportation, and retail will see low growth in the coming year due to tepid consumer spending.

Construction employment will rebound as building permits increase and existing homes clear the market. However, the construction sector will not see the gains in employment enjoyed earlier in the decade, and housing will rebound only slightly.

The Louisville metro area will see small gains in professional and business services, primarily due to increases in temporary labor services and a generally improved business climate. Leisure and hospitality will be fairly stable, with a potential for declines due to a more cautious consumer. Health care and educational services have been the most resilient during the year, but the second half of the year has seen a deceleration in gains. Nevertheless, hiring will likely continue in this sector.

Manufacturing

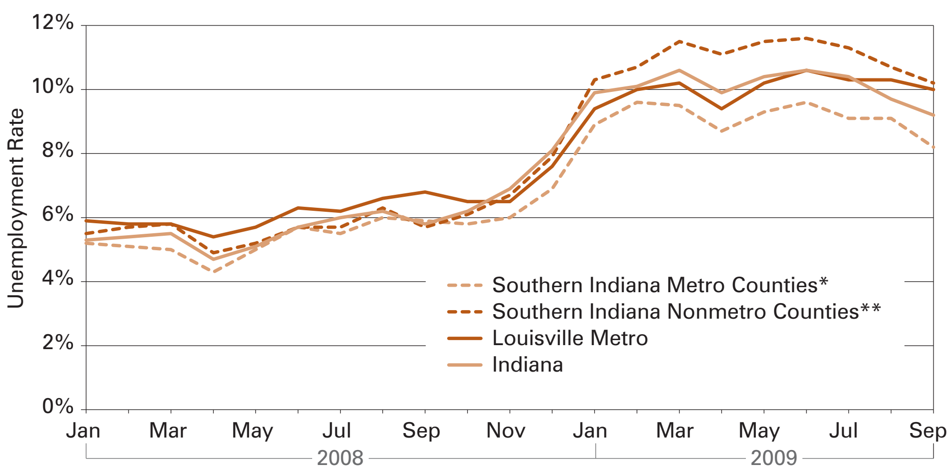
September data show a year-over-year loss of only 3,900 jobs, a noticeable deceleration from an earlier trough of 10,000. Significant reductions in inventory stocks are causing manufacturers to ramp up production and re-hire workers. For example, from January to September of 2008, manufacturing employment declined by 5,000. Over that same period in 2009, manufacturing employment

Table 1: Percent Change in Louisville Metro Nonfarm Payroll Employment, 2006 to 2009*

Industry	2006–2007	2007–2008	2008–2009
Total	6.1	-7.4	-23.6
Construction	1.4	0.0	-5.7
Transportation and Utilities	1.5	-1.8	-4.5
Manufacturing	-2.5	-7.4	-3.9
Retail	1.2	-1.5	-3.9
Professional and Business Services	0.8	0.3	-2.7
Wholesale	0.1	-0.2	-1.7
Leisure and Hospitality	0.5	0.9	-1.5
Financial Activities	1.1	0.1	-0.8
Other Services	0.1	-0.6	-0.4
Information	0.4	0.4	-0.2
Education and Health Services	2.0	1.7	0.8
Government	-0.5	0.7	0.9

*Calculated using January through September data for each year
Source: Bureau of Labor Statistics

Figure 1: Unemployment Rates for Selected Regions, 2008 to 2009



*Includes Clark, Floyd, Harrison, and Washington counties
**Includes Crawford, Jackson, Jefferson, Orange, and Scott counties
Source: Bureau of Labor Statistics

is basically unchanged. Moving forward, however, the region will likely not recover the number of lost manufacturing jobs, and any hope for a strong recovery in manufacturing will be muted due to national consumer behavioral changes. The key for local manufacturers will then turn to exports.

Consumer-Related Sectors

Consumer-driven sectors will experience challenges during the coming year. As of the first quarter of 2009, average weekly wages were down for southern Indiana,[4] and the same likely applies to all of the Louisville metro.[5] Depressed personal earnings, relatively high unemployment rates, and a more frugal consumer will provide significant challenges to certain retail and leisure and hospitality establishments. As an example of the challenges faced by consumer discretionary establishments, attendance at the Horseshoe Southern Indiana Casino is 25 percent lower than in 2004, equivalent to a reduction of 200,000 customers.[6] Despite such challenges, some establishments will actually thrive and increase market share due to a business strategy that successfully adjusts to changing consumer habits.

Housing and Real Estate

Data from the National Association of Realtors indicate that home prices in the Louisville metro may have reached a bottom during the first quarter of 2009. Second quarter data show an increase of 9.5 percent from the first quarter and a 1.6 percent decline from the second quarter of 2008.[7] Building permits for the Louisville metro are at a level that is 57 percent of the permit activity in 2008, a year that also saw a significant decline in permits from the previous year (see **Figure 3**).[8] During the most recent quarter, however, building permits have turned upward, running at an annual rate that would exceed 2008 total permits.

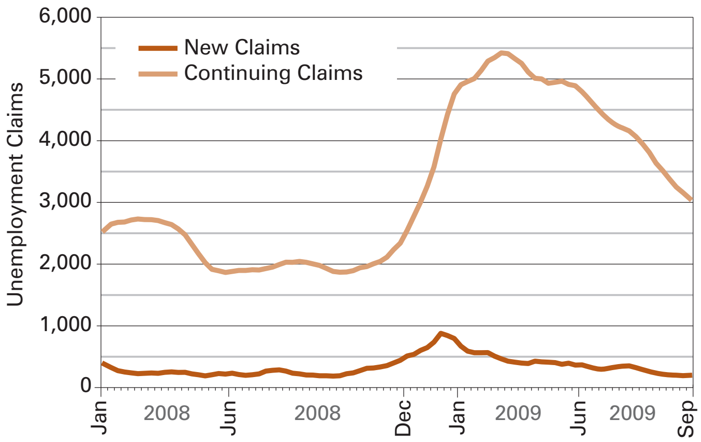
Outlook for 2010

The region will continue to experience elevated rates of unemployment (exceeding 8 percent) through 2010, with some individual counties faring better. The region will continue to see a deceleration of year-over-year employment losses, but will not recover total jobs lost during the recession. The local housing market will continue to rebound as buyers take advantage of government incentives and foreclosed properties, but the commercial real estate sector will continue to face challenges. Consumers will be vigilant with their spending, and pursuits of leisure and discretionary retail shopping will reflect these behavioral changes. The risk to a recovery lies in both local and national unemployment rates. Sustained unemployment may contribute to additional home foreclosures and will impose additional challenges to consumer discretionary establishments. In summary, 2010 will be a year of low growth, continued labor market stress, and the emergence of the new consumer.

Notes

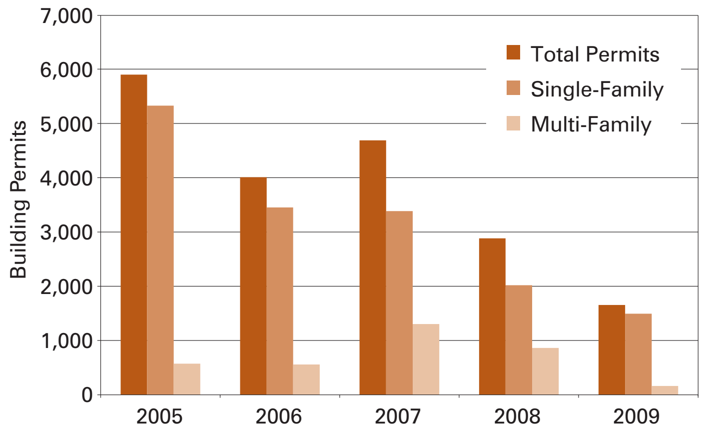
1. The southern Indiana region is defined as Clark, Crawford, Floyd, Harrison, Jackson, Jefferson, Orange, Scott, and Washington counties.
2. 30,400 is the difference between jobs in September 2009 and December 2007, using seasonally adjusted data from the Bureau of Labor Statistics at www.bls.gov.
3. This statement is based on unemployment claims for Indiana Economic Growth Region 10 (consisting of Clark, Crawford, Floyd, Harrison, Scott, and Washington counties), using data from the Indiana Department of Workforce Development at www.hoosierdata.in.gov.
4. Based on QCEW data at www.stats.indiana.edu.
5. Average weekly earnings of Louisville metro production workers declined by 10 percent in September, both on a month-over-month and year-over-year basis. Source: www.bls.gov.
6. www.in.gov/igc/2363.htm
7. www.realtor.org/research/research/metroprice
8. Building permits data are from: http://socds.huduser.org/index.html.

Figure 2: Unemployment Claims for Economic Growth Region 10, January 2008 to September 2009*



*Includes Clark, Crawford, Floyd, Harrison, Scott, and Washington counties
Source: Indiana Department of Workforce Development

Figure 3: Building Permits for the Louisville Metro, 2005 to 2009



Note: Calculated using January through August data of each year.
Source: State of the Cities Data Systems

Muncie Forecast 2010

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

November 2009

Spring 2009 marked the end of an era in Muncie history—Borg Warner, maker of transfer cases for transmission systems and the last of the large automobile-related factories, closed, marking the end of employment for the last 350 workers. In addition, several smaller manufacturing plants closed this year. Graphics Packaging International closed, ending employment for 150 workers. Duffy Tool and Stamping announced that it would close by the end of the year, ending employment for 130 workers. City government is facing budget reductions resulting from the property tax caps and has cut jobs.

Amid this dire employment picture, there are reasons for optimism. Brevini, the Italian maker of gear boxes for wind turbine energy generation, and VAT, which provides warranty support and maintenance for gear boxes and produces solar- and wind-powered street lights, are scheduled to commence operations in 2010. Perhaps this will mark the beginning of a new era.

Various measures of economic activity are examined for Muncie (Delaware County) in this analysis. The data are from 2001 (the last recession) through the most current available (usually September 2009). We analyze trends since the last recession and changes over the past year. In the final section, we conclude with a summary of the labor market forecast for the Muncie area.

Table 1: Labor Force and Unemployment for Delaware County, September 2008 to September 2009

Year	Month	Labor Force	Unemployed	Unemployment Rate
2008	September	55,766	3,703	6.6
	October	55,608	4,049	6.6
	November	55,460	4,601	7.3
	December	55,341	3,726	8.3
	Annual	**56,378**	**5,606**	**6.7**
2009	January	55,864	5,546	9.9
	February	55,487	5,901	9.9
	March	55,218	5,301	10.6
	April	56,261	6,077	9.6
	May	54,937	6,447	10.8
	June	53,711	5,830	11.7
	July	53,018	5,302	10.9
	August	52,837	5,026	10
	September*	59,977	5,822	9.5

Note: Not seasonally adjusted.
*September 2009 data are preliminary
Source: Bureau of Labor Statistics

Table 2: Muncie MSA Employment, 2008 to 2009

Industry	2009*	Change since 2008	Percent Change 2008–2009
Total Nonfarm	50,956	-1,211	-2.3
Total Private	38,622	-1,133	-2.9
Goods-Producing	5,811	-1,122	-16.2
Manufacturing	4,033	-989	-19.7
Mining, Logging, and Construction	1,778	-133	-7.0
Service-Providing	45,144	-89	-0.2
Financial Activities	2,678	-111	-4.0
Other Services	1,689	-56	-3.2
Trade, Transportation, and Utilities	8,422	-144	-1.7
Information	400	0	0.0
Educational and Health Services	9,778	33	0.3
Leisure and Hospitality	5,133	44	0.9
Professional and Business Services	4,711	222	5.0
Government	12,333	-78	-0.6

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

Labor Markets

The unemployment rate (not seasonally adjusted) in Delaware County decreased for the past two months, settling at 9.5 percent in September 2009—down from 10 percent the previous month and remaining persistently higher than that of the state. The labor force has decreased each month since April 2009, indicating that frustrated job seekers are dropping out of the labor force and potential workers are moving from the area (see **Table 1**). The unemployment rate includes people actively looking for work but does not include people who have dropped out of the labor market or people who hold part-time jobs but would like to be working full-time. As a result, the unemployment rate understates the level of economic distress present in the local labor market.

Table 2 shows that nonfarm employment decreased to just under 51,000 jobs in 2009, a loss of more than 1,200 jobs. Job losses were led by the manufacturing sector, which reduced employment by 989 jobs (-19.7 percent). Other sectors that were hard hit include construction (-7 percent), financial activities (-4 percent), and trade, transportation and utilities (-1.7 percent). Over the same period, employment gains occurred in professional and business services (5 percent), leisure and hospitality (0.9 percent), and education and health services (0.3 percent).

Manufacturing jobs have been declining steadily for several decades. In 1970, there were over 18,500 manufacturing jobs in Delaware County. By 1980, manufacturing jobs had declined to just over 13,400. In 1990 there were just over 11,500. By 2000, manufacturing jobs were around 9,700. In 2009, there are just over 4,000 manufacturing jobs. Over a forty-year period, manufacturing jobs decreased by about 14,500. During the same time period (1970 to 2009), overall employment increased by about 10,000 workers. Most of the job growth over this period has been in retail, services, and state and local government. Total population in Delaware County has decreased from a high of over 133,000 in 1972 to about 115,000 today. The structure of the local economy has changed dramatically in the past four decades.

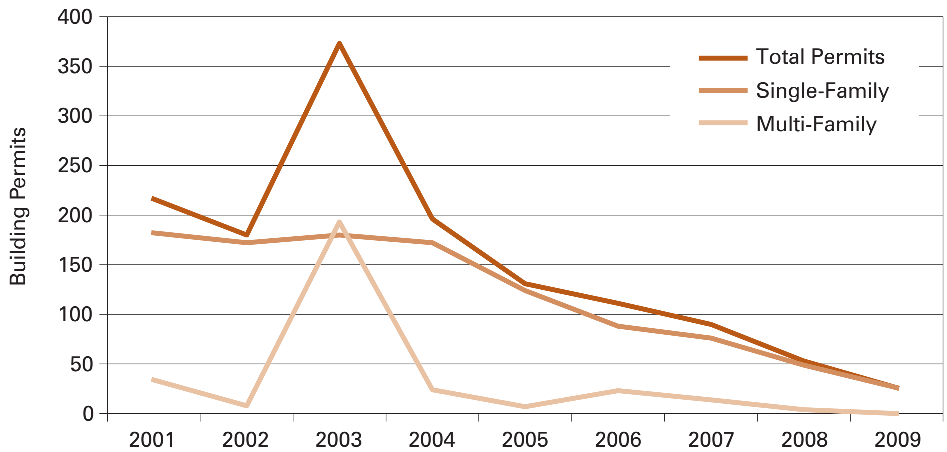
Average wages in most sectors decreased over the past year. **Table 3** shows average weekly wages (not adjusted for inflation) from the first quarter of 2008 through the first quarter of 2009. The hardest hit sectors were finance and insurance (-9.8 percent); arts, entertainment and recreation (-8.7 percent); and management of companies and enterprises (-8.1 percent). A few sectors (utilities, construction, administration and support, educational services, and public administration) experienced small increases in wages. The inflation rate for the Midwest region between the first quarters of 2008 and 2009 was -0.5 percent, so workers in those sectors experiencing declines greater than 0.5 percent are faring worse than last year.

Table 3: Average Weekly Wages in Muncie MSA, 2008:1 to 2009:1

Industry	2009:1	Change Since 2008:1	Percent Change
Total	$739	-$18	-2.4
Finance and Insurance	1,045	-113	-9.8
Arts, Entertainment, and Recreation	617	-59	-8.7
Management of Companies and Enterprises	1,517	-133	-8.1
Agriculture, Forestry, Fishing, and Hunting	591	-34	-5.4
Professional, Scientific, and Technical Services	980	-41	-4.0
Real Estate, Rental, and Leasing	632	-24	-3.7
Transportation and Warehousing	715	-23	-3.1
Information	856	-25	-2.8
Mining	1,034	-30	-2.8
Manufacturing	1,050	-24	-2.2
Retail Trade	430	-7	-1.6
Wholesale Trade	1,005	-9	-0.9
Other Services (Except Public Administration)	480	-4	-0.8
Accommodation and Food Services	239	-1	-0.4
Health Care and Social Services	721	0	0.0
Utilities	1,549	7	0.5
Educational Services	713	9	1.3
Public Administration	758	12	1.6
Construction	871	18	2.1
Administrative, Support, and Waste Management	499	13	2.7

Source: Bureau of Labor Statistics

Figure 1: Delaware County Residential Permits, 2001 to 2009



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

Housing

Residential construction as measured by residential building permits for new single- and multi-family construction continued to decline in 2009 (see **Figure 1**). The number of permits issued dropped to twenty-six for the January to September period in 2009, down from fifty-three for the same period in 2008, and a high of 373 in 2003.

Activity in the Delaware County residential real estate market actually increased a bit in 2009. Between January and September, 733 units sold compared to 715 for the same period in 2008 (see **Table 4**). The number of days on the market was higher in 2009 than previous years, as was the sales price. In 2009, about 27 percent of the units sold were repossessions.

Social Safety Net

Table 5 shows the dollar value of foods stamps issued and the number of food stamp recipients. In 2009, the dollar value of food stamps issued increased by more than 34 percent to exceed $1.88 million. The number of recipients increased by more than 9 percent from 2008 to 2009, although the 2009 total is lower than that of 2007 (likely due to the change in the state's system of administering benefits that reportedly incorrectly denied benefits to eligible households). The number of students receiving free or reduced price lunches has increased since 2006 (see **Figure 2**). Over the past two years, an additional 250 students have qualified each year.

Outlook

The available labor market data for Delaware County are discouraging. Total employment decreased by more than 1,000 jobs. The manufacturing employment base continues to shrink. The unemployment rate declined but so has the labor force, indicating that many people have stopped looking for jobs. Average wages decreased in most industry sectors over the past year. The bright spots are the 2010 opening of plants producing component parts for wind energy and the housing market, which has shown increases in sales (although much of this increase is likely attributable to the federal credit for first-time homebuyers and is therefore temporary).

In the coming year, we expect employment to continue to decrease about 1 percent (-500 jobs) in Delaware County through the first quarter of 2010 and then to stabilize through the remainder of 2010.[1] We expect that income growth will remain flat through the next year. This outlook may be overly optimistic given the continued difficulties in the U.S. auto industry (particularly General Motors and Chrysler) and the financial sector, both of which ultimately affect employment and earnings in east-central Indiana.

Table 4: Residential Real Estate Sales in Delaware County, 2003 to 2009

	2003	2004	2005	2006	2007	2008	2009
Units Sold	994	1,063	966	1,086	984	715	733
Average Days on Market	116	115	119	131	128	145	155
Median Days on Market	78	79	92	107	95	113	117
Average Sale Price	$96,399	96,863	101,891	98,230	92,596	91,632	90,628
Median Sale Price	$80,000	80,000	80,650	80,000	79,900	75,500	76,750
Average Property Tax/ Average Sale Price	1.0%	1.2%	1.2%	1.2%	1.3%	1.7%	1.5%

Note: Each year based on January through September averages.
Source: Metro Indianapolis Board of Realtors

Notes

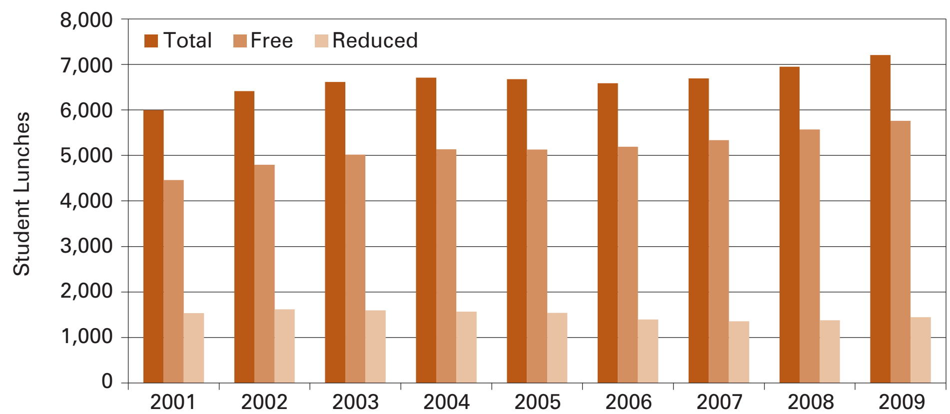
1. Ball State University Center for Business and Economic Research Labor Market Forecast for Delaware County.

Table 5: Total Number of Food Stamp Recipients in Delaware County, January to August Average

Year	Total Food Stamps Issued	Number of Food Stamp Recipients
2003	$952,028	11,242
2004	1,094,493	12,553
2005	1,417,196	14,119
2006	1,344,199	14,103
2007	1,409,418	14,338
2008	1,406,896	13,010
2009	1,885,016	14,225

Source: STATS Indiana, using FSSA data

Figure 2: Students Receiving Free and Reduced Price Lunch in Delaware County



Source: IBRC, using FSSA data

Richmond Forecast 2010

Tim G. Rogers: President/CEO, Economic Development Corporation of Wayne County
Renee L. Doty: Manager of Community Affairs, Economic Development Corporation of Wayne County

November 2009

As the nation and the world sort out what the economy is going to look like post-recession, every county also has to determine what their role will be in the economic future. While the most recent recession brought many issues to the forefront, has it really changed the realities of counties like Wayne County? Loss of traditional manufacturing jobs and population decline were issues prior to the recession for Wayne and surrounding counties. The overall strategy to surviving the recession isn't much different than the overall strategy of surviving in an increasingly competitive, technological, and global economy.

In spite of the issues surrounding unemployment and the perceived lack of workforce skills, manufacturers are still finding benefits—the workforce being one of them—for expanding in Wayne County. Jason Finishing Group, an international industrial abrasives maker, recently relocated a manufacturing line from North Carolina to their Richmond plant, creating nearly fifty new jobs by 2012 and making a $550,000 investment. According to company officials, engaged employees and a strong management team were among the reasons for expanding in Wayne County.

In spite of the economic downturn, an entrepreneurial approach has led to survival strategies for two Wayne County companies. CIT, a materials handling and product machining manufacturer producing automotive component parts, was awarded a three-year contract to produce physical therapy tables for the health care equipment industry. Company officials stated that due to the ups and downs of the automotive industry they constantly worked on diversifying their products and customer base. When the casket manufacturing industry took a downturn, casket manufacturer, J. M. Hutton, took an entrepreneurial approach in deciding to use the skills of their existing workforce to produce truck body and airplane parts. The over $1 million investment in new equipment retained nearly 100 jobs and created some new jobs for one of Wayne County's oldest companies.

Table 1: Unemployment, Household Income and Population in Wayne and Surrounding Counties

County	September 2009 Unemployment Rate	2007 Median Household Income	2008 Population	Population Growth since 1990
Wayne	10.9	$39,239	67,795	-5.8
Henry	12.0	42,306	47,162	-2.0
Randolph	10.2	40,071	25,801	-5.0
Fayette	13.4	39,948	24,265	-6.7
Union	8.6	41,103	7,157	2.9
Darke, OH	9.9	46,556	52,027	-3.0
Preble, OH	11.1	48,323	41,643	3.8

Sources: Bureau of Labor Statistics, U.S. Census Bureau, and Ohio Department of Jobs and Family Services

Wayne County, just like the other counties in our region, has had employment setbacks. According to the recently released report, *Richmond Indicators: A Community and Economic Benchmark Report*, the county lost 1,500 jobs between 2001 and 2007, a 4 percent decline. Of the three largest sectors (manufacturing, retail trade, and health care and social assistance), two saw a decrease in employment since 2001, with manufacturing down 1,250 jobs and retail trade down 653 jobs. However, health care and social assistance posted job gains.

The report also shows there were 29,700 Wayne County jobs as of June 2009, compared to 32,700 jobs a year earlier. It comes as no surprise that the county's September 2009 unemployment rate jumped to 10.9 percent, putting the county twenty-sixth in the state in unemployment.

Several neighboring counties are facing similar challenges in unemployment, population decline and low median household income with some of their numbers worse than Wayne County's. Surrounding counties in both Indiana and Ohio struggle to varying degrees to hold their own in the rapidly changing economic environment (see **Table 1**).

To strengthen our economy in the short term as well as for the future, we need to recognize that Richmond and Wayne County serve as a hub of a larger six- to seven-county area that includes western Ohio. We must all work together to address the needs of our existing business base and sell the positive assets of the region. In an increasingly competitive and global economy, no single county operates as an island. Our problems do not recognize municipal or state boundaries, but fortunately neither do our strengths.

Economic development organizations cannot be responsible for solving all the problems we face. But by working with entrepreneurial-minded companies who are aware of what our workforce is capable of, we can achieve growth, strength, diversity, and success even if it is a few new jobs at a time. By building and caring for what we have now, growth for the future is a very real trend for Wayne County and the surrounding region.

South Bend and Elkhart Area Forecast 2010

Grant C. Black: Director of the Bureau of Business and Economic Research and Assistant Professor of Economics, Indiana University South Bend

November 2009

The Michiana region, comprised largely of the South Bend-Mishawaka and Elkhart-Goshen metropolitan areas, faced significant setbacks during the recent recession, including slowed production, substantial job loss, and shrinking real wages. Recovery in 2010 will come slowly, particularly for employment.

> *"The Michiana region should experience falling unemployment rates, modest job growth, some improvement in real wages, and increased activity in housing markets."*

Gross Domestic Product

Real gross domestic product (RGDP) for the region dropped substantially due to the recession, particularly in manufacturing-dominated Elkhart.[1] RGDP decreased 9.1 percent in 2008 in Elkhart and decreased 0.5 percent in South Bend. Based on the percentage change in RGDP, Elkhart ranked 365 (second worst) out of the 366 metropolitan areas in the United States, and South Bend ranked 278th. The size of the local metropolitan economies in 2008 was $10.6 billion (in chained 2001 dollars) in South Bend and $8.9 billion in Elkhart.

Employment

The recession adversely affected local labor conditions. One cause of concern is the region's shrinking labor force. In September 2009, there were 11,609 fewer people in the labor force of the combined South Bend and Elkhart metropolitan areas than in September 2007.[2] South Bend's labor force shrank 4 percent during this period, while Elkhart's labor force contracted by over 6 percent. The reduction in the labor force could be a sign of growth in the number of discouraged workers and the out-migration of workers from the area.

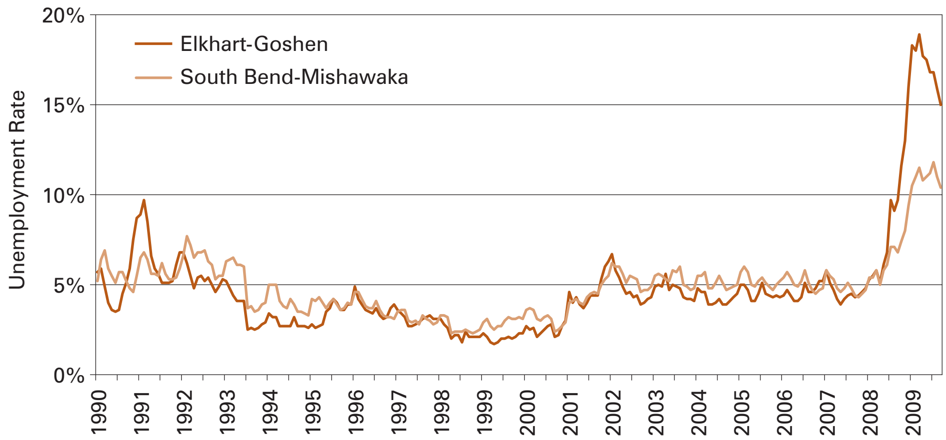
Figure 1 shows metropolitan unemployment rates for 1990 to 2009. Local unemployment rates continued their rapid ascent since 2008, reaching their peaks in early to mid-2009. Due to substantial declines in employment caused by the slowdown of the RV industry, Elkhart faced some of the worst labor market conditions in the United States, with its unemployment rate reaching 19 percent in March 2009. Insulated somewhat by its more diverse economic base, including a concentration in education and health care, South Bend's unemployment rates were relatively lower—though still high—in 2009.

Table 1 reports employment data by industry for the region's metropolitan areas. The region has lost a staggering number of jobs as a result of the recession that officially began in the fourth quarter of 2007. Approximately 245,800 people were employed in nonfarm sectors across the region in September 2009, with employment being about 31,800 higher in South Bend compared to Elkhart. From September 2007 to September 2009, total nonfarm employment decreased more than 11 percent, with a loss of 7,700 jobs in South Bend and 23,600 jobs in Elkhart. Much of this job loss occurred since the fourth quarter of 2008.

Manufacturing was the hardest hit sector, losing 21,500 jobs largely due to massive layoffs and closings in transportation and related manufacturing sectors. Heavily affected by plummeting RV production, Elkhart lost 18,500 manufacturing jobs since September 2007. Manufacturing employment will likely remain low in the year ahead as the RV and automotive markets remain weaker than previous years, consumer confidence remains shaky, and credit markets stay tight.

Even among non-manufacturing sectors, all experienced employment losses from September 2007 to September 2009, except private educational and health services that saw a modest gain of 500 jobs in the

Figure 1: Elkhart-Goshen and South Bend-Mishawaka Unemployment Rates, 1990 to 2009



Source: Bureau of Labor Statistics

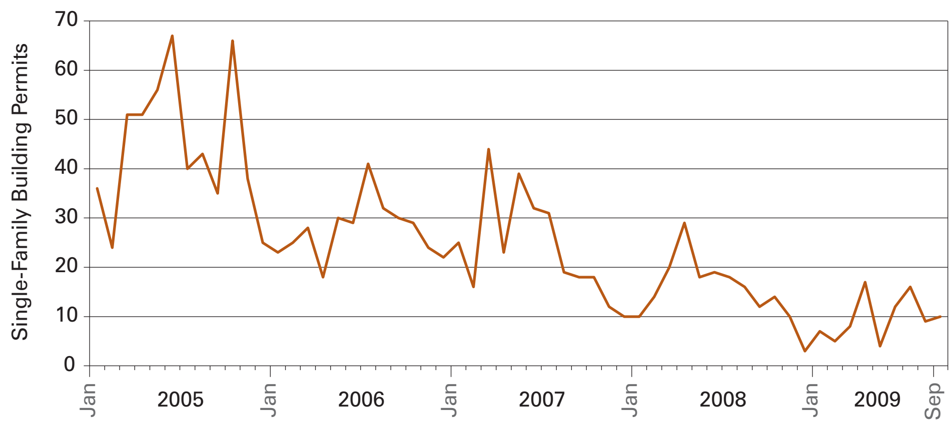
■ Table 1: **Employment by Industry and Metro Area, September 2009***

Industry	South Bend		Elkhart		Combined	
	Employment	Change since September 2007	Employment	Change since September 2007	Employment	Change since September 2007
Total Nonfarm	138,800	-7,700	107,000	-23,600	245,800	-31,300
Manufacturing	16,800	-3,000	44,000	-18,500	60,800	-21,500
Professional and Business Services	13,000	-1,200	7,200	-1,900	20,200	-3,100
Trade, Transportation, and Utilities	27,200	-1,200	17,400	-1,200	44,600	-2,400
Natural Resources, Mining, and Construction	5,600	-1,000	3,800	-700	9,400	-1,700
Leisure and Hospitality	12,600	0	6,700	-900	19,300	-900
Other Services	5,400	-400	3,600	-400	9,000	-800
Government	16,300	-900	9,200	200	25,500	-700
Financial Services	6,600	-400	3,100	-100	9,700	-500
Information	2,000	-100	700	-100	2,700	-200
Educational and Health Services	33,300	500	11,300	0	44,600	500

*September 2009 data are preliminary
Source: Bureau of Labor Statistics

South Bend metro area. The largest non-manufacturing losses were in professional and business services, with a combined loss of 3,100 jobs in the region. Other sectors suffering sizeable losses included trade, transportation and utilities (-2,400 jobs); natural resources, mining and construction (-1,700 jobs); leisure and hospitality (-900 jobs); other services (-800 jobs); and government (-700 jobs). The only sector expanding in Elkhart was government. Employment in services and trade will likely remain weak as consumer demand continues to be relatively low. The government sector, which includes public education and hospitals, will likely stagnate or fall as public budgets continue to tighten.

■ Figure 2: **Single-Family Residential Building Permits in St. Joseph County, 2005 to 2009**



Source: St. Joseph County Building Department

Wages

Unlike the previous year, real wages saw a clear decline in the past year across the region.[3] The real average weekly wage fell 4.7 percent to $683 (in constant 2009 dollars) from the first quarter of 2008 to the first quarter of 2009 in the two metropolitan areas combined. Wages, however, did not fall at the same pace across the region. The real average weekly wage decreased 4.1 percent in South Bend and 9.2 percent in Elkhart. The overall decline in wages reflects the slowdown in economic activity during the recession, while the relatively stronger decline in Elkhart comes from the more severe reduction in labor demand in that area. Despite the overall decline in wages, changes in wages varied considerably across sectors. Among the nineteen sectors for which data are available across the region, eleven saw positive growth. Given the expected sluggish rebound of labor demand as the economy begins to recover, wage growth will be minimal in the coming year, particularly in sectors with sizeable labor surpluses.

Housing

Residential construction, measured by the number of new single-dwelling housing permits issued in St. Joseph County, remained soft in 2009 but exhibited some signs of improvement beginning in the summer. From January 2009 to September 2009, only 88 new housing permits were issued, compared to 156 during the same period in 2008 and 247 in 2007 (see **Figure 2**). While low in number, 2009 saw some growth in new permits, particularly in April, June, and July, with intermittent downturns in February, May, and August. The region should experience modest growth in housing demand due to the expected upturn in economic activity, stabilized financial markets, and the availability of federal stimulus incentives in the short term. Continued tight credit conditions and high local unemployment will work against this growth.

Summary

In 2009, the Michiana region continued to bear the burden of a sluggish economy that began declining in 2007: significant job loss, high unemployment rates, lower real wages on average, and weak new home construction. Yet, 2009 showed signs of improvement, with production improving in some sectors, unemployment rates beginning to fall, and real wages expanding in certain sectors. The outlook for 2010 is optimistic, though not overly so. The worst effects of the recession have likely occurred and economic conditions should improve as the national economy recovers. The Michiana region should experience falling unemployment rates, modest job growth, some improvement in real wages, and increased activity in housing markets. The local rate of recovery will depend on the speed and depth of the national upturn, the health of the manufacturing sector, and the ability to re-employ the substantial local labor surplus. The impact of the recovery will depend on the ability to sustain economic growth in the future.

Notes

1. Data from the Bureau of Economic Analysis: www.bea.gov/newsreleases/regional/gdp_state/2009/pdf/gsp0609.pdf.
2. Data from STATS Indiana, Labor Force Estimates Time Series View: www.stats.indiana.edu/laus/laus_view3.html.
3. Data from STATS Indiana, Covered Employment and Wages: www.stats.indiana.edu/cew/.

Terre Haute Forecast 2010

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

Robert Guell: Professor of Economics, Indiana State University

November 2009

The Terre Haute metro area exits the recession of 2007–2009 in much worse shape economically than when the recession began, due largely to the departure of Pfizer. As **Figure 1** shows, the area unemployment rate began escalating when Pfizer laid off all of the production workers associated with the ill-fated drug Exubera in the fall of 2007, and continued its upward climb when Pfizer announced (in 2008) that it was closing its Terre Haute facility. Combined with a national recession that hit Terre Haute's retail sector hard, as well as diminished demand for products from local manufacturing firms such as Sony DADC, Boral Brick, Certainteed, Bemis, Applied Extrusion Technology, and Great Dane, the Wabash Valley economy will enter 2010 in the worst condition in decades.

While the rise in the local unemployment rate largely mirrors the cyclical national pattern, the reduction in the total number of jobs in the Terre Haute area is more troubling. Total employment is down more than 10 percent (from 77,460 to 69,615) from the beginning of the recession, and the local labor force, while essentially remaining stagnant since 1998, has experienced a noticeable decline over the last two years (see **Figure 2**). This decline illustrates what economists call the "discouraged worker effect," and helps explain the dip in the local unemployment rate

> *"Having said all this, there are a few potential "green shoots" that may spring from what has been an otherwise tremendously difficult recession for the city and region."*

Figure 1: Terre Haute Metro Unemployment Rate (Seasonally Adjusted), 1990 to 2009

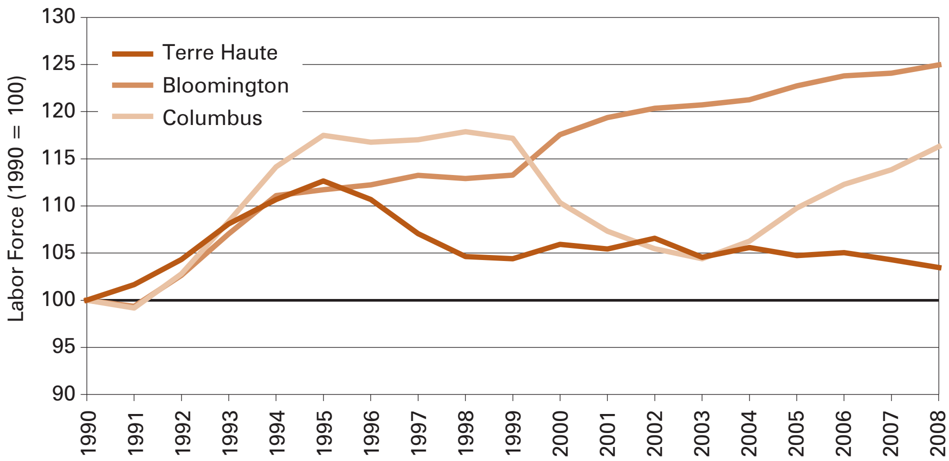
Note: Tick marks indicate January of each year. Seasonal adjustment calculated by the authors.
Source: Bureau of Labor Statistics

in the third quarter of 2009. This dip occurred only because many of the unemployed left the labor force rather than continuing to look for work. Approximately half of the reduction in the labor force was attributable to those discouraged workers (see **Table 1**). Whenever that happens, the unemployment rate will fall, but not for the reasons one might hope.

Figure 2 also illustrates that in terms of generating job opportunities for the local population, the Terre Haute regional economy is falling behind nearby metropolitan areas of similar size. While the Columbus regional economy exhibits greater cyclical fluctuation, a labor market feature that is not enviable, the other important message in this figure has to do with long-term labor market health. After keeping pace with Bloomington and Columbus in terms of relative growth of the labor force up to 1995, the Terre Haute regional economy has fallen behind in terms of its ability to provide jobs for the local population. Such labor market weakness, if chronic, will contribute to population exit and brain drain that will weaken longer-term prospects for the area economy.

Having said all this, there are a few potential "green shoots" that may spring from what has been an otherwise tremendously difficult recession for the city and region. Union Hospital, together with the leading physicians group in the area (Associate Physicians and Surgeons), will soon open its $175 million expansion. CSN, Greenleaf, Chem-Chem, and Kellogg all opened or expanded facilities in the last year, and PolyOne, AET, and Novelis (the spin-off from Alcan) each brought production from less profitable locations to Terre Haute during the year. Alorica, which opened a call-center facility in Terre Haute in early 2008, quickly

Figure 2: Labor Force Index for Terre Haute, Bloomington, and Columbus Metros



Source: Bureau of Labor Statistics

Table 1: Terre Haute Metro Labor Force Statistics, June to September 2009*

Month	Labor Force	Employed	Unemployed	Unemployment Rate
June	79,817	71,157	8,660	10.8
July	79,199	70,711	8,488	10.7
August	77,404	69,470	7,934	10.3
September	76,848	69,615	7,233	9.4

*Not seasonally adjusted
Source: Bureau of Labor Statistics

exceeded its employment goals, reflecting a trend toward the return of call centers to the United States. The I-70–IN 46 intersection is also seeing activity once again; the Terre Haute Convention and Visitors Bureau and three local banks completed construction in 2009; and a new Holiday Inn Express is under construction as 2009 comes to a close. The single largest potentially positive news could come in the form of a defense subcontract that Unisone Engine Components hopes to land with GE should the Joint Strike Fighter defense program become reality.

Pfizer's departure, though it has left a significant hole in the budget of the city, county, and local United Way, also comes with an opportunity. The land and facility have been sold to the county for a very small fraction of what the 845-acre, 383,000 square foot facility is worth. Though currently idle, much of the facility was built in anticipation of Exubera sales and was never used. Because it was never used, much of the space is in nearly move-in condition for a manufacturer.

The hoped-for turnaround in the national economy would likely benefit those elements of the Terre Haute economy that are cyclical. Those manufacturing operations that contribute to the cyclical rise in the local unemployment rate could also eventually lead to a rapid decline in that rate as Terre Haute plastic, aluminum, Blu-ray discs, bricks, and siding begin to sell once again.

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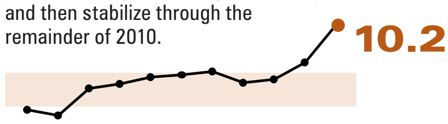
Metro Unemployment Rates at a Glance

Graphs show annual unemployment rates from October 1999 through October 2009. The shaded region shows rates from 3 percent to 6 percent.

INDIANABUSINESSREVIEW

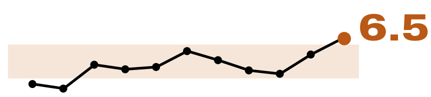
ANDERSON

Employment will continue to decrease about half a percent (-200 jobs) through the first quarter of 2010 and then stabilize through the remainder of 2010.



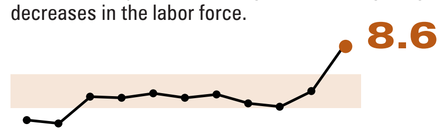
BLOOMINGTON

Employment losses are likely at the beginning of the year with gains to follow. Overall, 2010 will likely register a flat or slightly negative job picture.



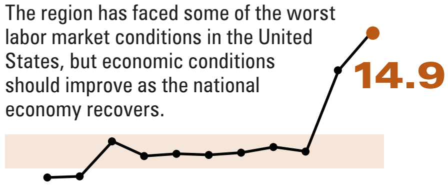
COLUMBUS

Employment may not pick up noticeably until early in 2010 when job creation begins to outweigh slight decreases in the labor force.



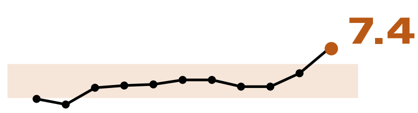
ELKHART

The region has faced some of the worst labor market conditions in the United States, but economic conditions should improve as the national economy recovers.



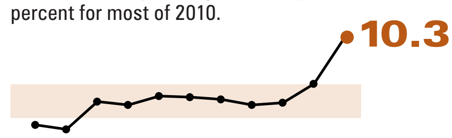
EVANSVILLE

In the Evansville metro, employment is projected to decrease by 1,900 jobs during 2010.



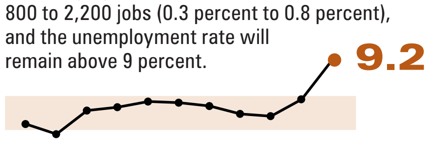
FORT WAYNE

Unemployment for Fort Wayne and surrounding counties is likely to range from 10 percent to 11.5 percent for most of 2010.



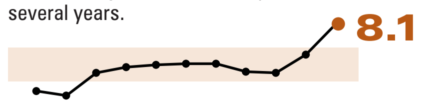
GARY

Total employment will rise somewhere between 800 to 2,200 jobs (0.3 percent to 0.8 percent), and the unemployment rate will remain above 9 percent.



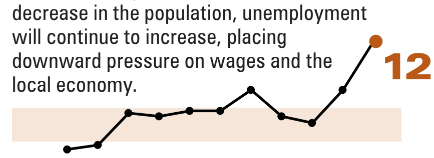
INDIANAPOLIS

The coming year should bring some modest improvement. Unemployment will peak by early 2010 and then begin to decline, but job creation will take several years.



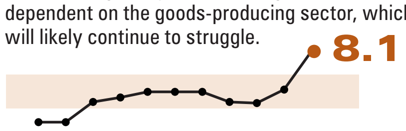
KOKOMO

Without more job opportunities or a decrease in the population, unemployment will continue to increase, placing downward pressure on wages and the local economy.



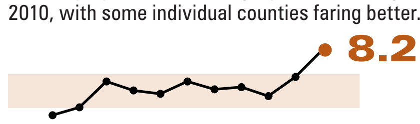
LAFAYETTE

Employment in the service-providing sector will continue to grow, yet its rate of growth will be dependent on the goods-producing sector, which will likely continue to struggle.



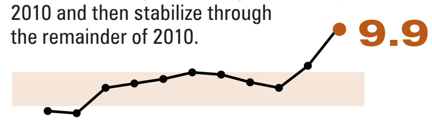
LOUISVILLE

The region will continue to experience elevated rates of unemployment (exceeding 8 percent) through 2010, with some individual counties faring better.



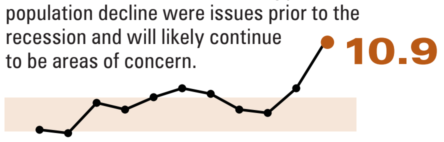
MUNCIE

Employment should continue to decrease about 1 percent (-500 jobs) through the first quarter of 2010 and then stabilize through the remainder of 2010.



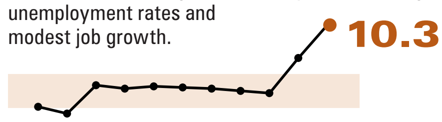
RICHMOND

Loss of traditional manufacturing jobs and population decline were issues prior to the recession and will likely continue to be areas of concern.



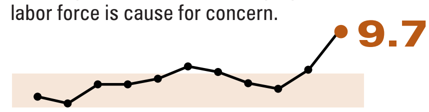
SOUTH BEND

As the national economy recovers, the South Bend-Mishawaka region should experience falling unemployment rates and modest job growth.



TERRE HAUTE

While a national recovery will cause improvements to the cyclical causes of unemployment, a declining labor force is cause for concern.



Source: IBRC, using Bureau of Labor Statistics Local Area Unemployment Rates