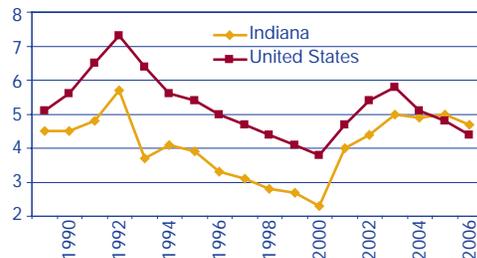


inside

- Measuring Worker Productivity: Comparing Indiana to its Neighbors 1
- Are the Well-Educated Coming to Indiana? 4
- Monthly Metrics: Indiana's Economic Indicators 7
- Regional Labor Force and Unemployment Rates 8
- Regional Perspective: Economic Growth Region 11 9
- Baltic States Part II: Latvia 12

September Unemployment

Indiana's September unemployment rate dropped to 4.7 percent from 5 percent the same time last year. This compares to the national rate of 4.4 percent in 2006.



*not seasonally adjusted

Fastest Growing Occupations with a Degree

Of those occupations requiring a bachelor's degree or higher, the following occupations are projected to be the fastest growing from 2004 to 2014 in Indiana. For more on this topic, see the article "Are the Well-Educated Coming to Indiana?" on page 4.

Occupation	Percent Change	Numeric Growth	2005 Median Wage
Network Systems and Data Communications Analysts	55%	1,090	\$56,212
Computer Software Engineers, Systems Software	45%	1,180	\$64,356
Computer Software Engineers, Applications	45%	1,750	\$65,549
Biomedical Engineers	44%	170	\$67,605
Physician Assistants	43%	300	\$66,111
Database Administrators	37%	600	\$50,345
Gaming Managers	37%	40	\$65,196
Network and Computer Systems Administrators	34%	1,490	\$50,170
Actuaries	33%	130	\$73,475
Occupational Therapists	33%	670	\$56,080

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

Measuring Worker Productivity: Comparing Indiana to its Neighbors

How does Indiana's manufacturing productivity compare to other states? To answer this question, the Advanced Economic and Market Analysis section of Indiana's Department of Workforce Development (AEMA) used the U.S. Census Bureau's 1997 and 2002 Economic Censuses, extracting the following data from the manufacturing reports: average number of employees (production and non-production combined), annual payroll, average number of production workers, production worker hours, production worker wages, value added, total cost

of materials, total value of shipments and total capital expenditures (see **Table 1**). While the U.S. Bureau of Labor Statistics (BLS) defines labor productivity as output per hour of all employed, that productivity index is based on aggregate national measures and data sources that do not allow BLS to construct state measures.

Key Findings

Five productivity measures (see Methodology) were created from the most recent economic census data (2002), and all five were compared to the previous economic census (1997) to

TABLE 1: WORKER PRODUCTIVITY IN THE MANUFACTURING INDUSTRY, 2002

	United States	Indiana	Illinois	Michigan	Ohio	Kentucky
Number of Employees	14,699,536	565,559	741,908	736,259	868,732	263,202
Annual Payroll (in Thousands)	\$576,170,541	\$22,852,682	\$29,841,718	\$33,171,232	\$35,301,070	\$10,077,029
Production Workers Average per Year	10,343,449	426,331	511,269	549,621	639,821	201,586
Production Workers Hours (in Thousands)	20,453,699	854,927	1,027,433	1,087,100	1,272,072	403,166
Production Workers Wages (in Thousands)	\$336,967,174	\$15,437,870	\$17,002,492	\$22,571,995	\$23,198,051	\$6,853,829
Value Added (in Thousands)	\$1,887,792,650	\$78,023,817	\$91,825,126	\$97,575,395	\$113,243,351	\$34,075,367
Total Cost of Materials (in Thousands)	\$2,025,061,815	\$82,850,352	\$96,051,575	\$124,086,616	\$130,639,775	\$54,416,995
Total Value of Shipments (in Thousands)	\$3,916,136,712	\$160,924,188	\$188,365,216	\$221,433,262	\$243,903,865	\$88,513,497
Total Capital Expenditures (in Thousands)	\$125,536,189	\$5,617,894	\$5,960,080	\$5,699,658	\$7,427,634	\$2,562,414

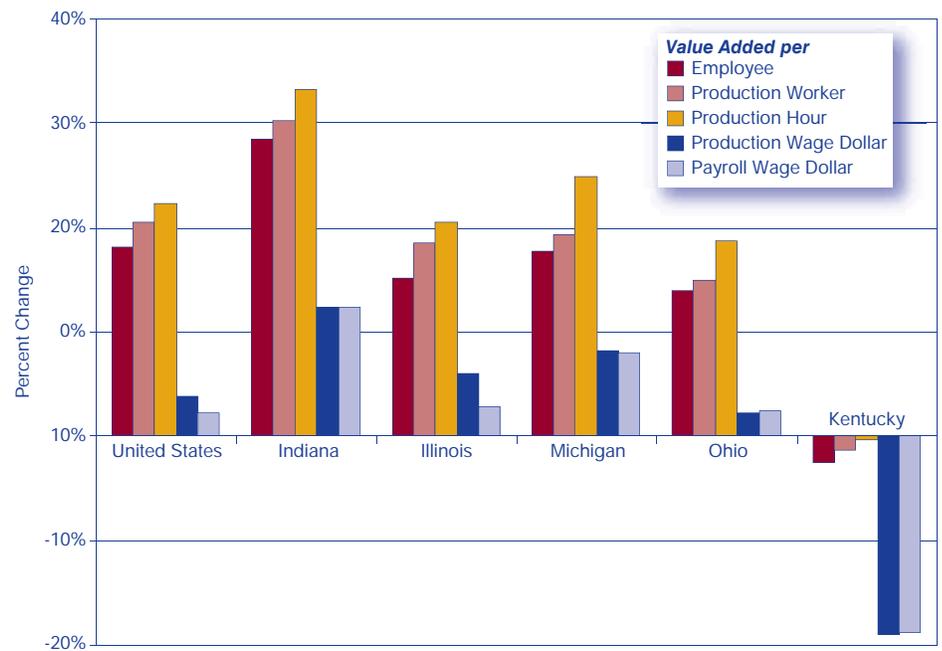
Source: U.S. Census Bureau

measure the improvement or decline in productivity. For each of the measures, Indiana, Michigan, Ohio, Illinois and Kentucky were ranked amongst each other for 2002 (see **Figure 1**). Indiana ranked first in four of the five measures—the exception being “value added per production wage dollar.” Indiana ranked second on this measure behind Illinois. Each state was ranked according to its percent change in value added from 1997 to 2002. Indiana came out on top in all percentage increases of value-added measures (see **Figure 2**).

Analysis

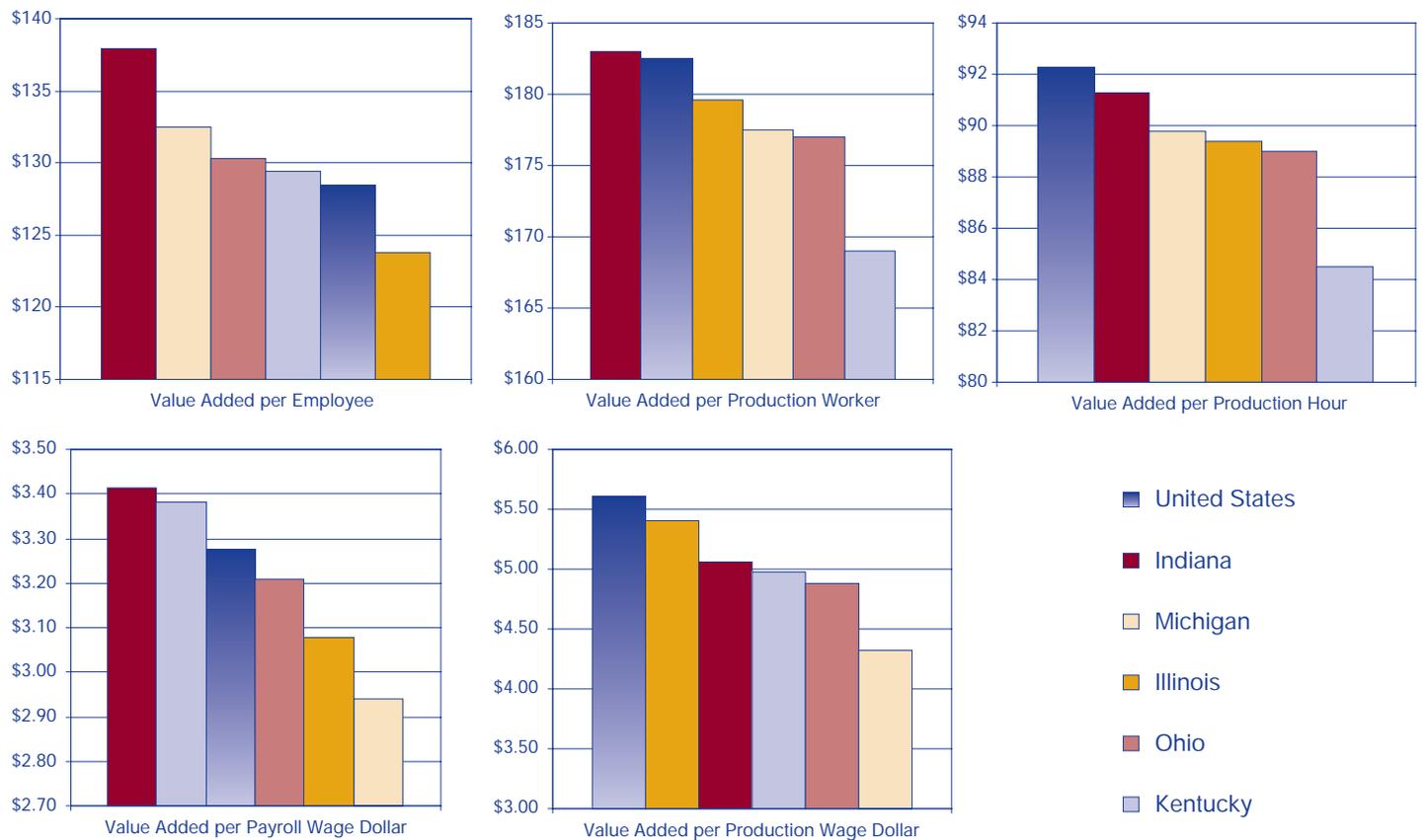
Despite job losses in manufacturing between 1997 and 2002, each state examined here (except Kentucky) has experienced increases in worker

FIGURE 2: PERCENT CHANGE IN PRODUCTIVITY, 1997 TO 2002



Source: U.S. Census Bureau

FIGURE 1: VALUE ADDED FOR EACH PRODUCTIVITY MEASURE, 2002



Source: U.S. Census Bureau

productivity over this five-year period. As shown in **Figure 2**, Indiana exhibits the greatest increases when compared to the nation and our four neighboring states. Most striking is the percent change for value added per production worker and per production hour. These productivity measures increased by 30 percent and 33 percent, respectively. This confirms that manufacturing is experiencing more output with less employment. These increases are due in no small part to increases in technology and skilled labor. Before we interpret this as bad news (for the worker who has lost his or her job), we have to recognize that higher skilled manufacturing jobs come with increased wages. In fact, hourly wage rates for production workers have increased by \$1.25 on average since 1997. This data is not only promising for Indiana and the region, but it brings optimism to the manufacturing sector as a whole. Job losses are beginning to diminish (in fact, Indiana projects increases in manufacturing employment over the next decade), providing strong evidence that the manufacturing sector will continue to be a major economic driver for Indiana and the nation. The policy implications of this data once again support the notion that economic and workforce development initiatives will do well to focus on helping workers gain the skills they need to work more productively in an advancing manufacturing field. Indiana's Strategic

“We have to recognize that higher skilled manufacturing jobs come with increased wages. In fact, hourly wage rates for production workers have increased by \$1.25 on average since 1997.”

Skills Initiative (SSI), which is working to address Indiana's critical job and skill shortages, is well timed. For more information on how Indiana's SSI and Training Acceleration Grants are committed to expanding the skills of Indiana's existing workforce and to increasing opportunities and wages for Hoosier workers, please visit www.in.gov/dwd.

Methodology

The Economic Census measures industry output with two calculations: value of shipments and value added. The value of shipments item covers the net selling values of all products shipped, as well as receipts for work contracted or performed for others. A multi-unit company that ships products, materials or contracts work between plants is requested to report the value of all products transferred. Due to this reporting duplication and the possible inaccuracies involved, the value-added measurement is considered to be the best value measure available for comparing the relative economic importance of manufacturing among industries and geographic areas. “The value-added measure of manufacturing activity is derived by subtracting the cost of materials, supplies, containers, fuel, purchased electricity, and contract work from the value of shipments (products manufactured plus receipts for services rendered).”¹ For the purposes of this analysis, the value-added figures, therefore, appeared the best choice in

“For more information on how Indiana's SSI and Training Acceleration Grants are committed to expanding the skills of Indiana's existing workforce and to increasing opportunities and wages for Hoosier workers, please visit www.in.gov/dwd.”

comparing Indiana's manufacturing worker productivity to our neighboring states and the nation as a whole.

The five productivity measures (all expressed in dollar values) used were:

1. Value added per employee (all employees)
2. Value added per production worker
3. Value added per production hour (hours worked by production workers)
4. Value added per production wage dollar (wages paid to production workers)
5. Value added per payroll wage dollar (wages paid to all employees)

As an example: for every dollar paid to an Indiana production worker in wages, \$3.41 of value added is generated. The third measure (value added per production hour) most closely compares to the BLS definition of labor productivity at the national level.

Notes

1. Economic Census Report for Indiana Manufacturing, 2002, Appendix A, 246–247.

—Allison Leeuw and Jon Wright, *Research and Analysis Department, Advanced Economic and Market Analysis Group, Indiana Department of Workforce Development*

Are the Well-Educated Coming to Indiana?

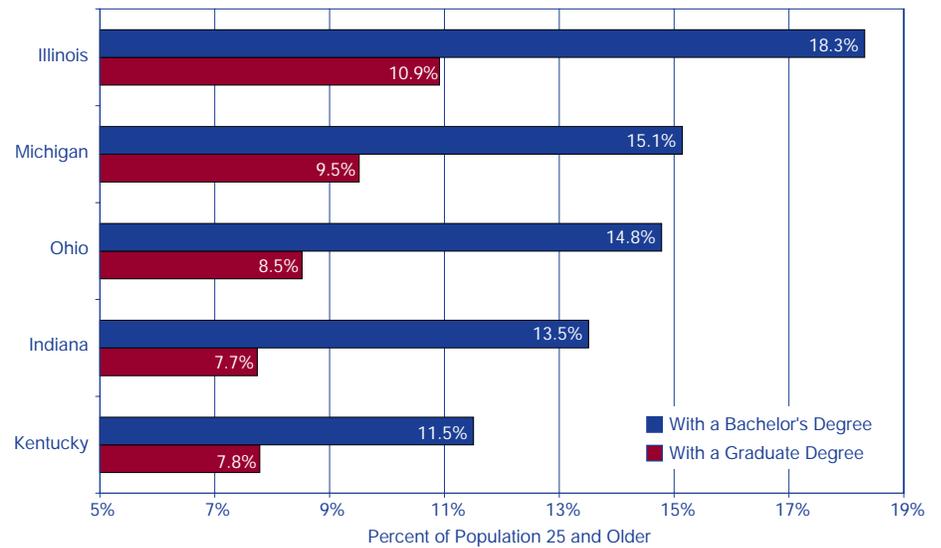
Out of Indiana's 3.9 million adults (age 25 and older), 534,551 have a bachelor's degree, while an additional 306,325 hold a graduate or professional degree. In the third part of our series on education data from the 2005 American Community Survey, we focused our analysis on those with college degrees and where they come from.

To put this segment of the population in perspective, 17 percent of the adult population nationwide have a bachelor's degree and 10 percent have a graduate degree. This compares to Indiana's 14 percent with a bachelor's degree and 8 percent with a graduate degree. Among its neighbors, Indiana trails Illinois, Michigan and Ohio (see **Figure 1**), though only Illinois exceeds the U.S. averages.

How Many Degree Holders Are Hoosiers by Birth?

About 57 percent of Hoosiers with a bachelor's degree were born in the state; for those with graduate degrees, only half are Indiana natives (see

FIGURE 1: PERCENT OF ADULTS WITH HIGHER EDUCATION, 2005



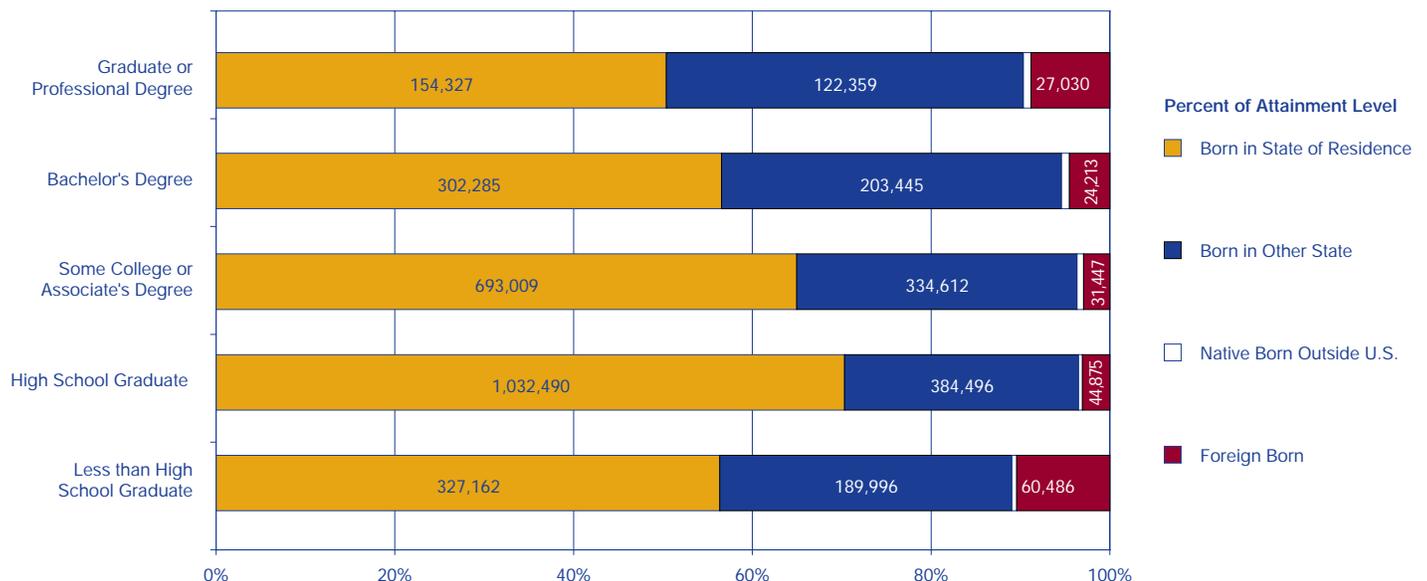
Source: IBRC, using U.S. Census Bureau data

Figure 2). As shown in **Figures 3** and **4**, the Midwest in general has the highest percentages on these measures (and also on the percentage of native-born in general).

Of course, this can be interpreted multiple ways. Are these percentages high because those born in the state like it so much they want to stay (or return) after getting their education? Or is it

because non-Hoosiers are unwilling to move to the state because few jobs require their skills, or perhaps because they simply find it unattractive? These data can't answer those questions, but we can use another ACS dataset to reveal the educational attainment of those recently moving to Indiana from other states.

FIGURE 2: INDIANA'S EDUCATIONAL ATTAINMENT BY PLACE OF BIRTH, 2005



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

How Educated Are Indiana's Newest Residents?

Between 2004 and 2005, roughly 74,500 people reported moving to Indiana from a different state and 31 percent of them had a bachelor's degree or higher (see **Figure 5**). At first glance, that doesn't sound too bad, given that only about 21 percent of Indiana's total population falls into that category.

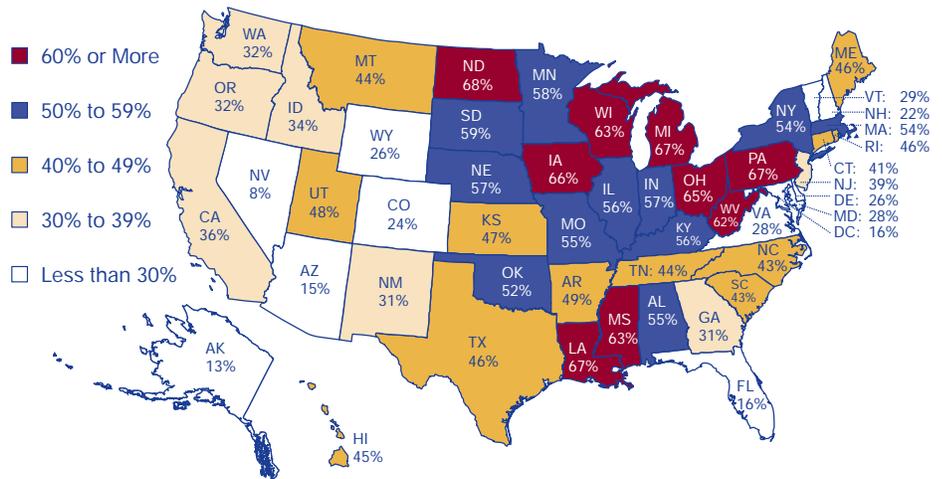
However, considering that the highly educated tend to be more prone to move than others, one finds Indiana ranking fairly low nationwide on this measure. Only 10 states have a lower percentage of its new residents with at least a four-year degree (see **Figure 6**). Meanwhile, there were five states in the Northeast where more than 50 percent of those moving into them had a bachelor's or graduate degree, led by the District of Columbia at a whopping 72 percent.

Jobs Are a Major Attraction

In an increasingly mobile nation, a large percentage of the population seems willing to move in order to capitalize on the best job opportunities. So, if Indiana has a lower number of people with a high level of educational attainment, one could presume that these skills have not traditionally been in great demand (which is a reasonable assumption considering the state's historic reliance on manufacturing). However, if one looks at the latest occupation projections from the Indiana Department of Workforce Development, that appears to be changing.¹

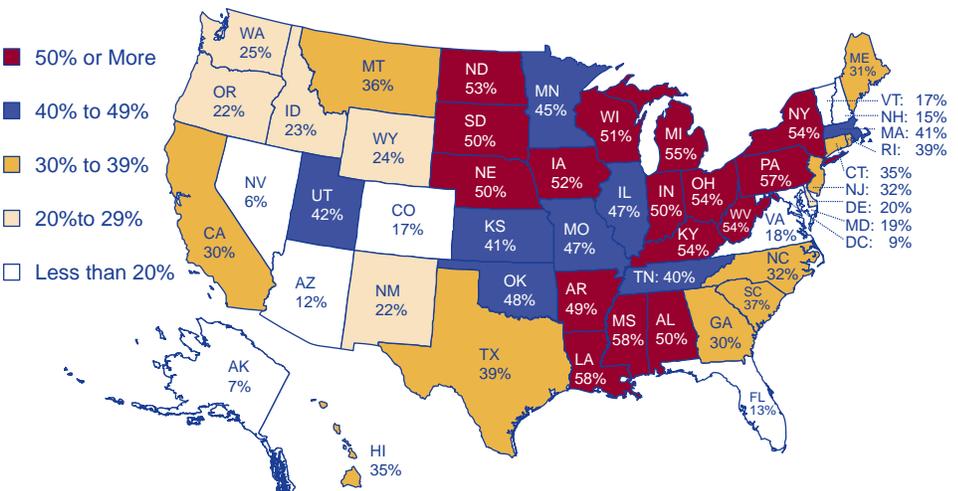
Between 2004 and 2014, occupations not requiring any post-secondary education are expected to grow 7 percent, while occupations requiring a

FIGURE 3: PERCENT OF THOSE WITH BACHELOR'S DEGREES BORN IN STATE, 2005



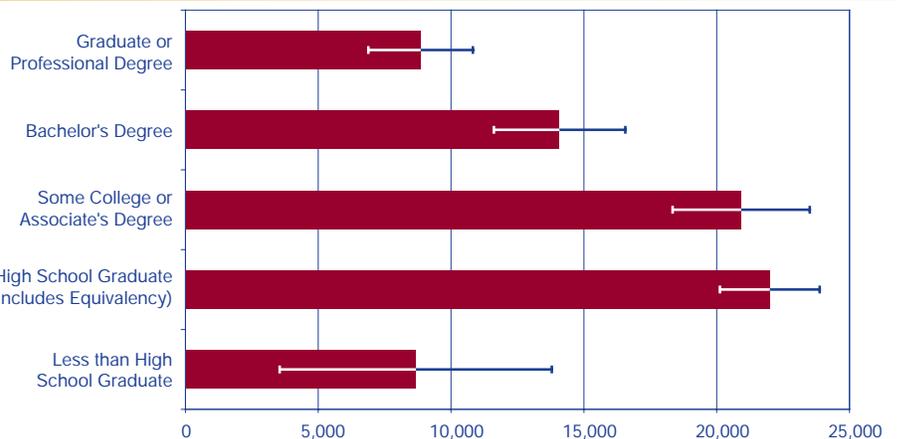
Source: IBRC, using U.S. Census Bureau data

FIGURE 4: PERCENT OF THOSE WITH GRADUATE DEGREES BORN IN STATE, 2005



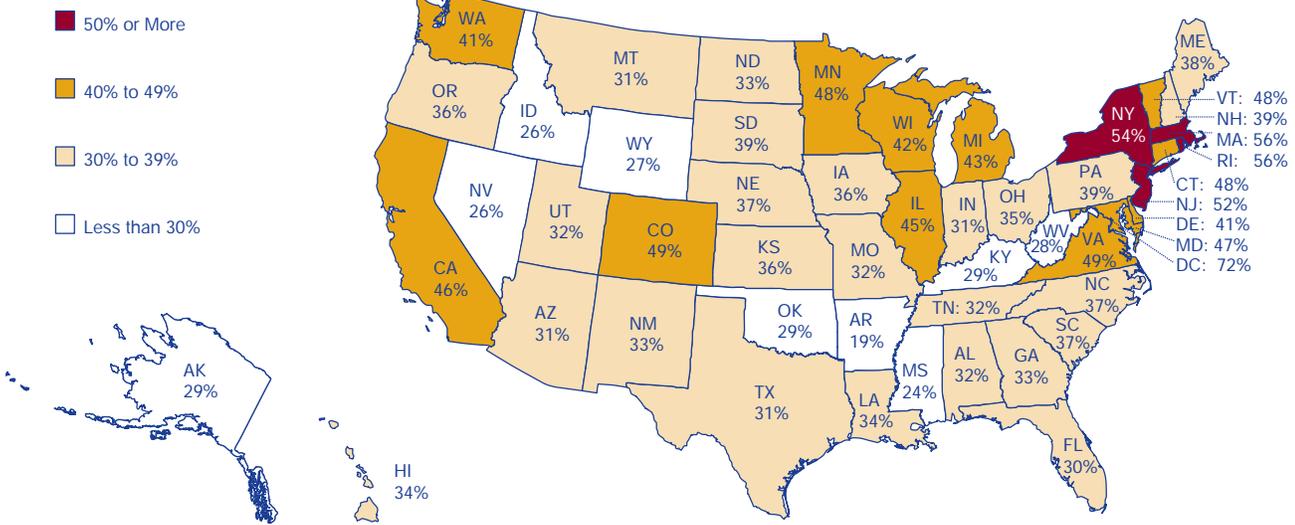
Source: IBRC, using U.S. Census Bureau data

FIGURE 5: PEOPLE WHO MOVED TO INDIANA FROM A DIFFERENT STATE WITHIN THE PAST YEAR



Note: Error bars shown are the 90 percent confidence interval.
Source: IBRC, using U.S. Census Bureau data

FIGURE 6: PERCENT OF THOSE MOVING TO EACH STATE IN THE LAST YEAR WITH A BACHELOR'S DEGREE OR HIGHER



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

bachelor's degree or higher are anticipated to increase at a much higher rate of 17 percent. Those occupations requiring just a bachelor's degree have the largest numeric growth, while those requiring a doctorate are projected to increase at the highest rate (see **Figure 7**). Looking at specific occupations, network systems and data communications analysts are expected to grow at the fastest rate (55 percent, or 1,090 jobs), while elementary school teachers are projected to grow the most numerically (4,200 jobs, or 16 percent).

The total number of new positions requiring at least a bachelor's degree is 77,930. Of course, that's just new

jobs created during that 10-year span and does not take into account the replacement factor—that is, filling positions left vacant by retirees and others leaving the workforce. When the replacement jobs are factored in, it is projected that Indiana will see 168,080 job openings requiring at least a four-year degree between 2004 and 2014. And the more jobs like that we

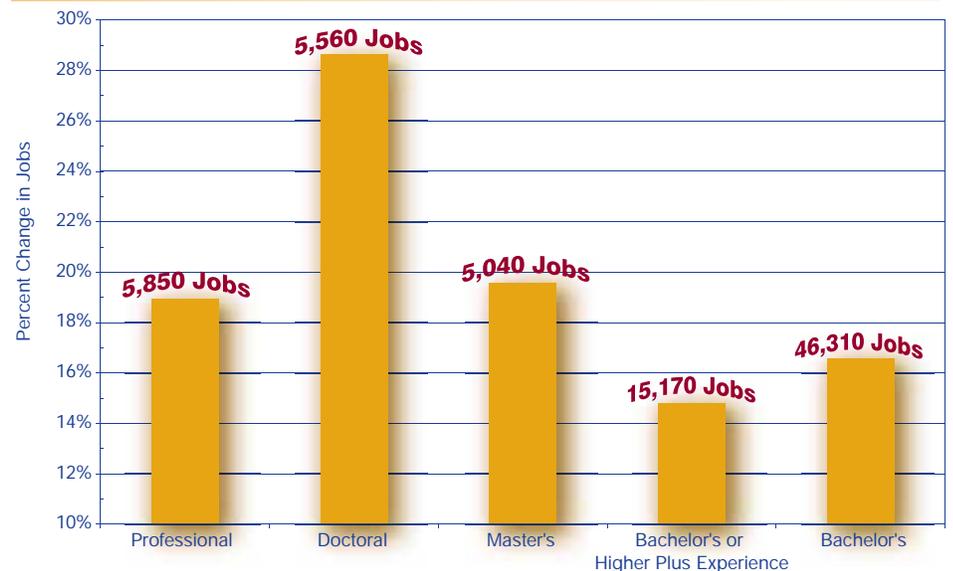
have, the more likely we'll draw in the educated workforce they require.

Notes

1. These occupation projections are available at www.hoosierdata.in.gov and were highlighted in the September issue of *InContext*. Jon Wright and Bob Ferguson, "Indiana's Occupational Employment Outlook to 2014," *InContext*, 7 (9): 1-3; available at www.incontext.indiana.edu/2006/september/1.html.

—Rachel Justis, Managing Editor, Indiana Business Research Center, Kelley School of Business, Indiana University

FIGURE 7: INDIANA'S PROJECTED GROWTH BY LEVEL OF EDUCATIONAL ATTAINMENT, 2004 TO 2014

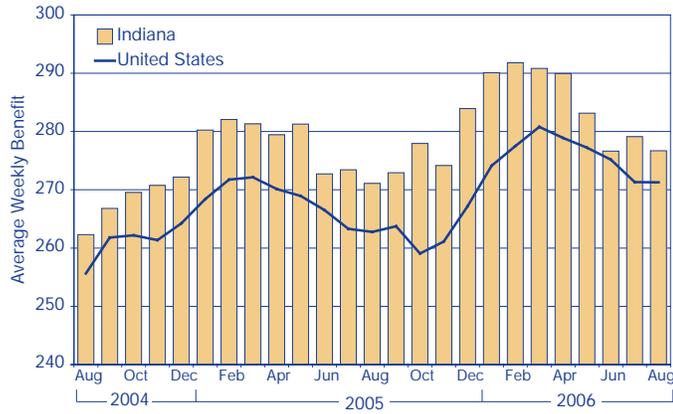


Source: IBRC, using Indiana Department of Workforce data

“The more jobs requiring at least a four-year degree that we have, the more likely we’ll draw in the educated workforce they require.”

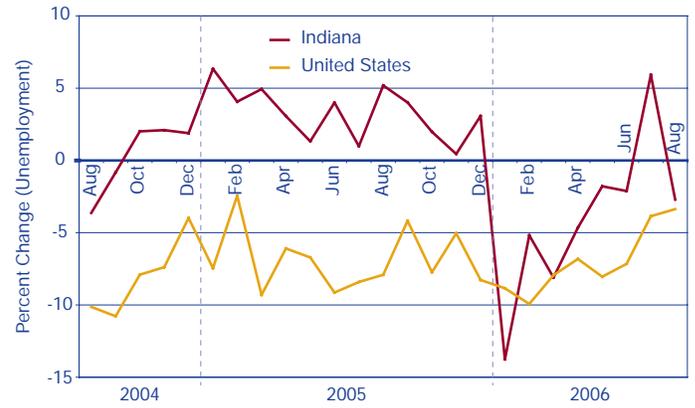
Monthly Metrics: Indiana's Economic Indicators

AVERAGE BENEFITS PAID FOR UNEMPLOYMENT INSURANCE CLAIMS



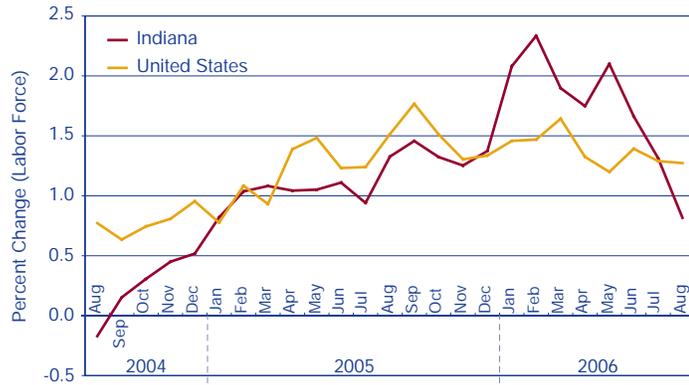
Source: U.S. Department of Labor

PERCENT CHANGE IN UNEMPLOYMENT FROM THE PREVIOUS YEAR*



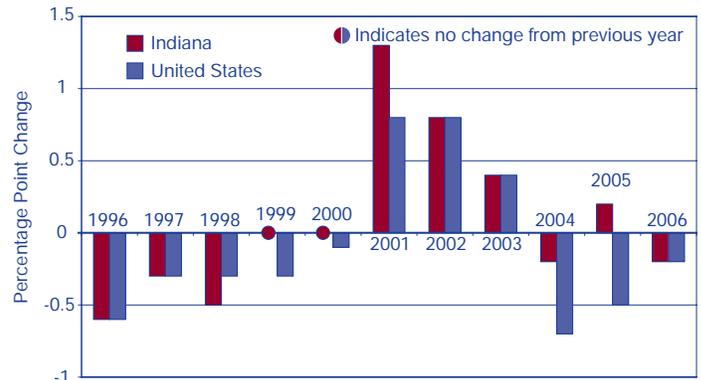
*seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

PERCENT CHANGE IN LABOR FORCE FROM PREVIOUS YEAR*



*seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

CHANGE IN UNEMPLOYMENT RATE FROM AUGUST OF PREVIOUS YEAR*



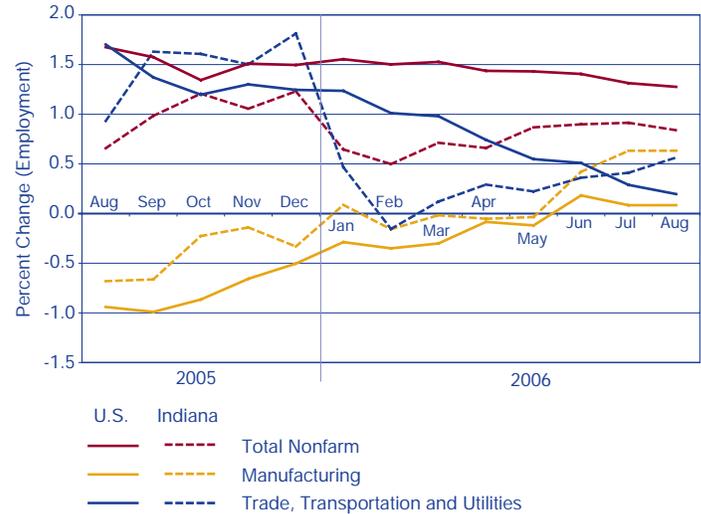
*seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

CHANGE IN EMPLOYMENT BY INDUSTRY SUPER-SECTOR, 2005 TO 2006*

Industry	Indiana		United States
	Change in Jobs	Percent Change	Percent Change
Total Nonfarm	24,800	0.8	1.3
Financial Activities	2,700	1.9	2.2
Information	700	1.7	-0.2
Leisure and Hospitality	4,100	1.5	1.6
Educational and Health Services	4,000	1.1	2.2
Manufacturing	3,600	0.6	0.1
Trade, Transportation and Utilities	3,300	0.6	0.2
Other Services	600	0.5	0.2
Professional and Business Services	1,100	0.4	2.7
Government	1,600	0.4	0.6
Natural Resources and Mining	0	0.0	9.4

*August of each year, seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

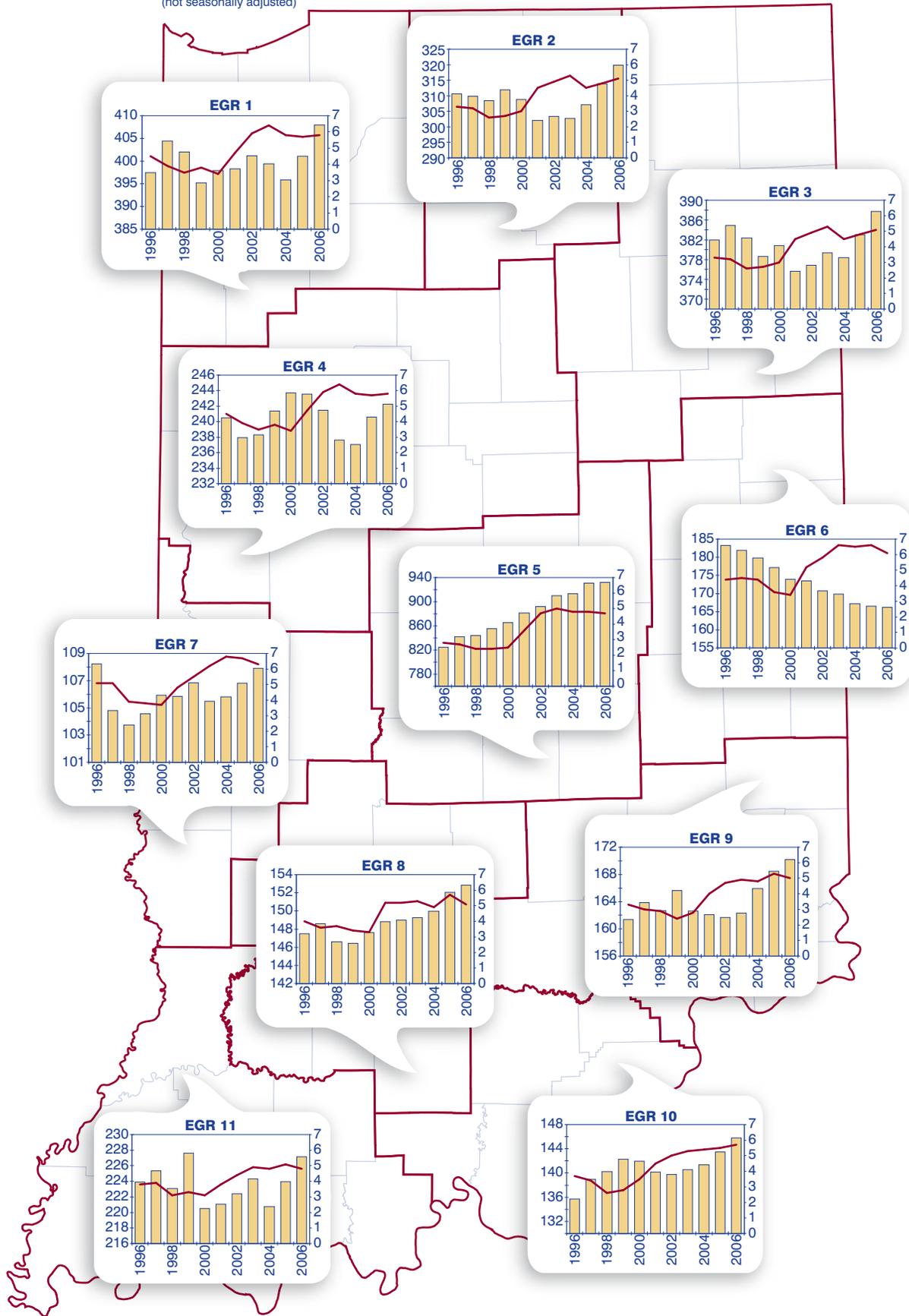
OVER-THE-YEAR PERCENT CHANGE IN EMPLOYMENT BY SUPER-SECTOR*



*seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics and Indiana Department of Workforce Development data

Regional Labor Force and Unemployment Rates

August of Each Year (not seasonally adjusted) ■ Labor Force in Thousands (left axis) — Unemployment Rate (right axis)



Regional Perspective: Economic Growth Region 11

Economic Growth Region (EGR) 11 is located in the southwesternmost tip of Indiana and is made up of nine counties: Dubois, Gibson, Knox, Perry, Pike, Posey, Spencer, Vanderburgh and Warrick. The approximate 421,400 people in these nine counties made up 6.7 percent of the state's population in 2005, down from 6.8 percent in 2000. So how are those 421,000 plus people distributed within the region? More than 41 percent reside in Vanderburgh County while another 13.4 percent are in Warrick County (see **Figure 1**). Pike County made up the smallest proportion of the region with 12,766 people (3 percent).

As far as change in population over the last five years, Knox County was hit the hardest, with decreases every year except from 2002 to 2003, where it saw a mild increase of 45 people. Over the five-year span, Knox County experienced a decrease in population of more than 800 people (see **Figure 2**). At the other end of the spectrum, Warrick County increased every year by at least 390 residents and had an overall

increase of about 3,780 people. Despite decreases in two thirds of the counties at some point in time over the five years, EGR 11 saw an overall increase of 6,290 people.

Jobs

Manufacturing supplied more jobs than any other industry in the region. Similar to the state was the numeric increase in health care and social services jobs, which added the most at both the regional and state levels from 2001 to 2004. Where the two geographies differed was change in manufacturing jobs. At the regional level, jobs in the manufacturing industry saw an increase of 1.4 percent while Indiana posted losses of 3.9 percent (see **Table 1**).

Regardless of its increase in manufacturing jobs, many manufacturing workers in the region appear to be browsing for openings. According to the Research and Analysis division at Indiana's Department of Workforce Development, the top five categories of people looking for jobs in Region 11 are assemblers (factory

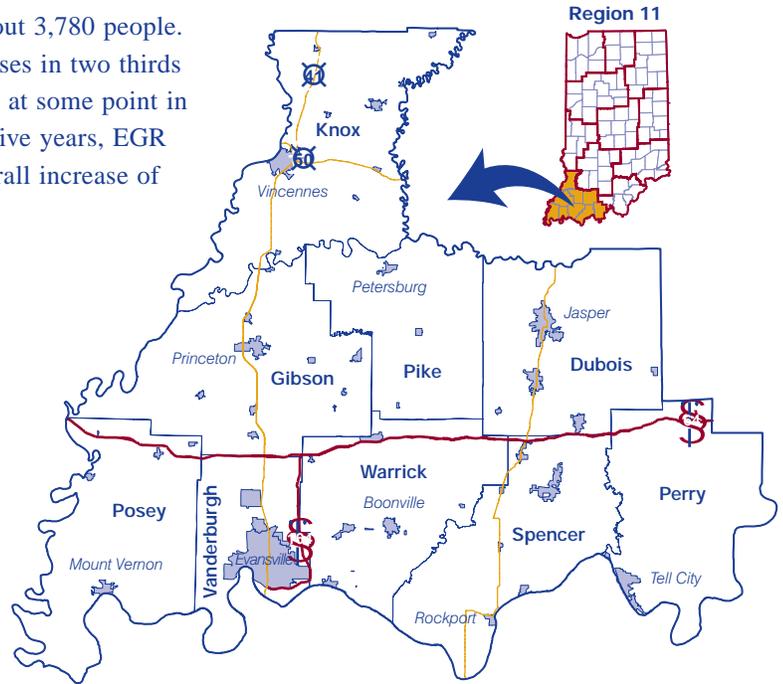
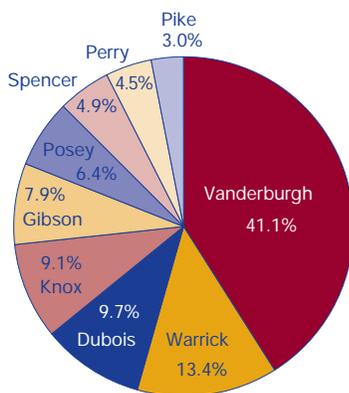
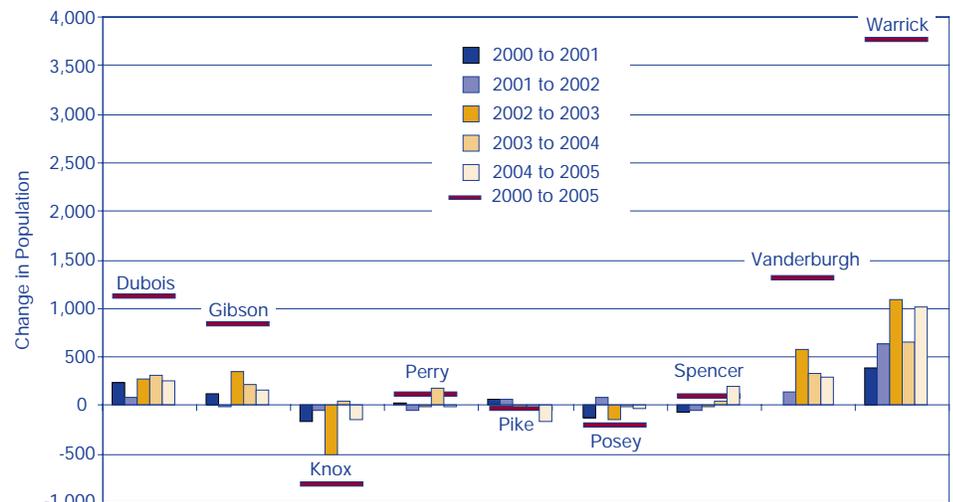


FIGURE 1: EGR 11 POPULATION DISTRIBUTION, 2005



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

FIGURE 2: CHANGE IN POPULATION IN EGR 11, 2000 TO 2005



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

TABLE 1: CHANGE IN JOBS IN EGR 11, 2001:4 TO 2005:4

Industry	EGR 11			Indiana		
	2005:4	Change	Percent Change	2005:4	Change	Percent Change
Total	209,245	3,771	1.8	2,909,311	44,204	1.5
Management of Companies and Enterprises	4,166	961	30.0	26,383	580	2.2
Agriculture, Forestry, Fishing and Hunting	986	225	29.6	11,676	179	1.6
Administrative, Support and Waste Management	8,894	1,532	20.8	162,971	26,231	19.2
Utilities	2,012	191	10.5	16,392	78	0.5
Arts, Entertainment and Recreation	2,765	255	10.2	42,075	-938	-2.2
Transportation and Warehousing	9,787	739	8.2	130,762	2,254	1.8
Health Care and Social Services	27,175	2,006	8.0	349,731	26,716	8.3
Wholesale Trade	8,515	453	5.6	122,561	963	0.8
Public Administration	7,560	259	3.5	125,665	1,340	1.1
Professional, Scientific and Technical Services	5,484	149	2.8	91,747	5,781	6.7
Accommodation and Food Services	15,881	389	2.5	234,925	10,247	4.6
Manufacturing	45,190	603	1.4	572,089	-23,038	-3.9
Construction	12,116	121	1.0	152,130	1,654	1.1
Educational Services	13,497	-21	-0.2	253,715	15,088	6.3
Retail Trade	23,634	-1,360	-5.4	341,224	-13,494	-3.8
Information	3,608	-228	-5.9	46,761	-3,811	-7.5
Other Services (Except Public Administration)	6,257	-430	-6.4	82,897	-1,875	-2.2
Real Estate, Rental and Leasing	2,308	-182	-7.3	37,808	537	1.4
Finance and Insurance	4,844	-1,578	-24.6	100,449	-4,138	-4.0
Mining	1,355	-650	-32.4	6,472	-420	-6.1

Source: IBRC, using Bureau of Labor Statistics data

work), production laborers, all other machine operators, all other hand workers, and forklift/industrial truck operators (as of September 10, 2006). **Table 2** shows the top 20 jobs being sought out by workers in the area.

Two industries in the region experienced double-digit percent losses: the mining industry decreased jobs by 32.4 percent, and the finance and insurance industry saw a 24.6 percent decline. The good news for EGR 11 is that while two industries lost a significant amount of jobs, there were five industries with double-digit percent increases that more than compensated for those losses. Overall, there were just over 10,000 establishments supplying 209,245 jobs in EGR 11 in the fourth quarter of 2005, an increase in jobs of 1.8 percent from the same time in 2001. This was a faster pace than the state overall, which saw a 1.5 percent increase over that time span.

Wages

The average weekly wage in Indiana for the fourth quarter of 2005 across all industry sectors was \$705. EGR 11 paid \$687 per week, a difference of \$18. However, Region 11 is improving, albeit slowly, from a difference in 2001 of \$19. In fact, eight of the 20 major industry sectors shown in **Figure 3** increased wages by more than the state, helping to narrow the gap in wage differences.

In Indiana, all major industry sectors increased wages since 2001. At the regional level, only finance and insurance saw a decrease in wages (down \$21 from its 2001 level). Management of companies and enterprises increased wages the most at both the regional and state levels, by \$217 and \$223, respectively. After these large increases, the management of companies and enterprises industry

TABLE 2: TOP 20 JOBS BEING SOUGHT IN EGR 11

Job Title	Number of Applicants
Assemblers (Factory Work)	4,799
Production Laborers	3,991
All Other Machine Operators	2,446
All Other Hand Workers	2,226
Forklift/Industrial Truck Operators	2,144
Hand Packers and Packagers	1,883
General Office Clerks	1,685
Plastic Molding and Casting Machine Operators	1,641
Production Inspectors, Testers, Graders	1,548
Cashiers, General	1,544
All Other Metal and Plastic Machine Operators	1,490
Receptionists/Information Clerks	1,416
Production Helpers	1,350
Shipping and Receiving Clerks	1,326
Stock Clerks: Stockroom/Warehouse	1,302
File Clerks	1,233
Administrative Assistants	1,168
Secretaries—Other	1,123
All Other Precision Assemblers	1,095
Order Fillers—Wholesale/Retail Sales	1,088

Source: Indiana Department of Workforce Development

maintained its lead as highest paying industry at the state level, and only mining paid more in EGR 11.

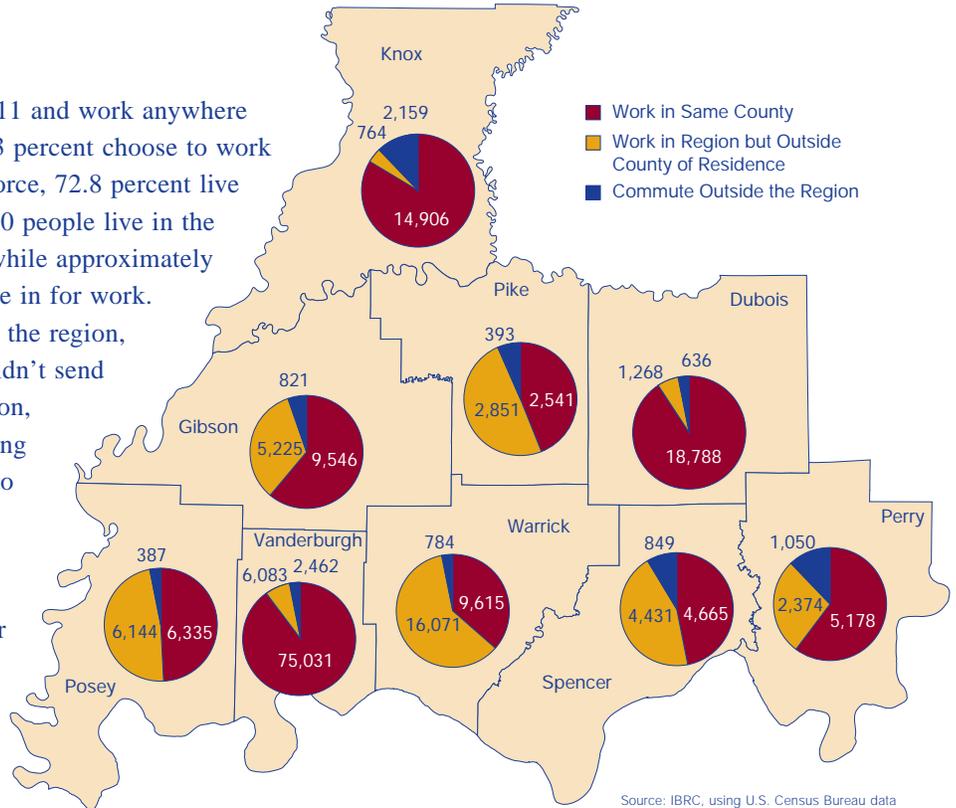
FIGURE 4: EGR 11 COMMUTING PATTERNS, 2000

Commuting

Of the 201,357 people who live in EGR 11 and work anywhere (defined as the regional labor force), 95.3 percent choose to work within the region; of the regional labor force, 72.8 percent live and work in the same county. About 9,500 people live in the region and commute out of it for work, while approximately 6,200 live outside the region but commute in for work.

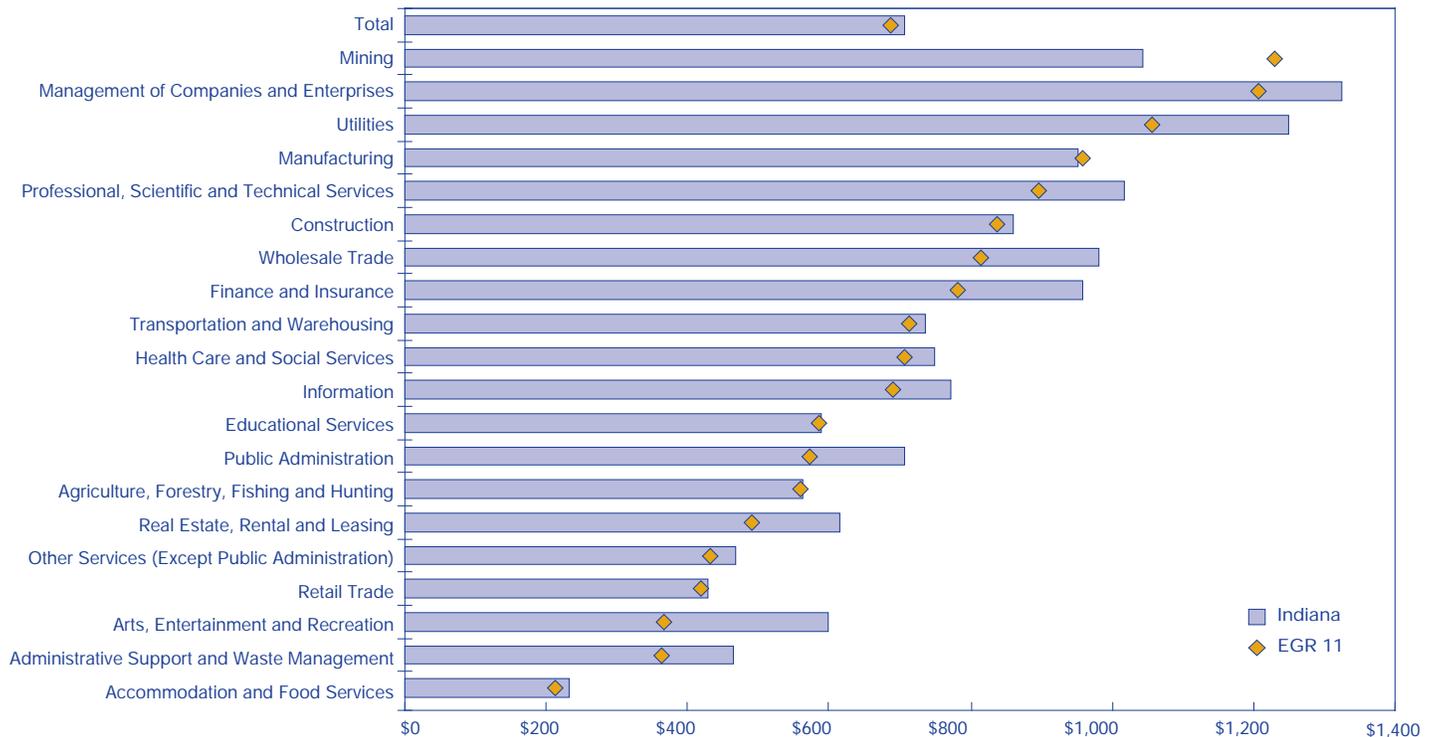
As for those who live and work within the region, Knox County was the only county that didn't send workers to every other county in the region, leaving Spencer out of the mix and sending out the fewest number of workers (764) to fellow EGR 11 counties. Warrick County was the most generous with its workers, sending out 16,071 workers to the other eight counties and keeping only 9,615 for itself.

—Molly Manns, Research Associate, Indiana Business Research Center, Kelley School of Business, Indiana University



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

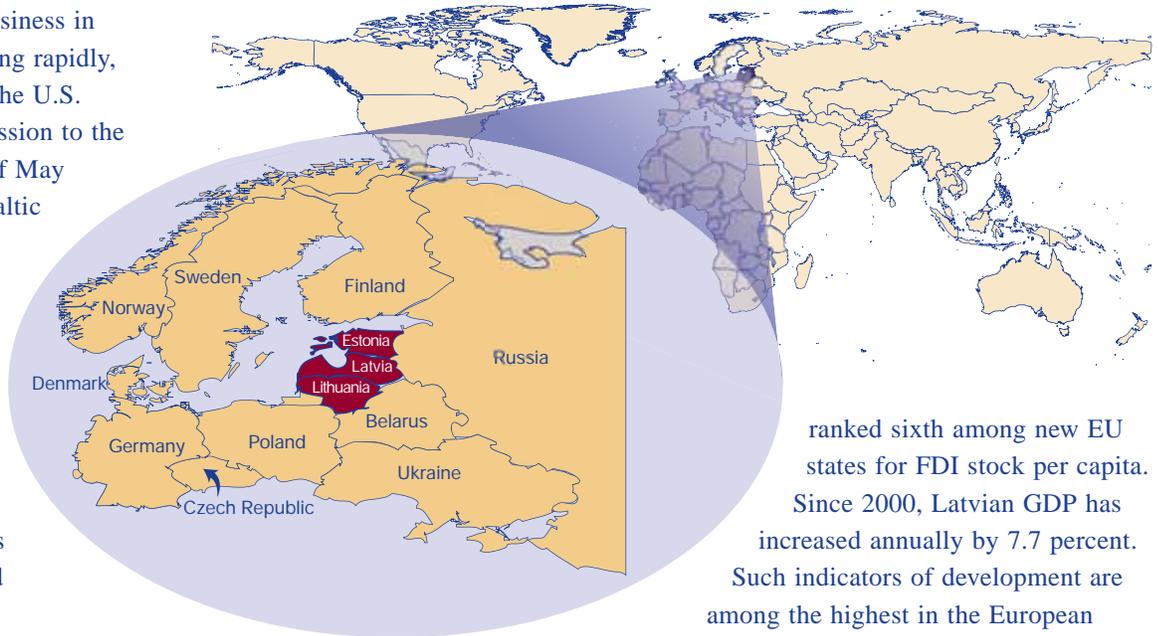
FIGURE 3: AVERAGE WEEKLY WAGES IN EGR 11 AND INDIANA, 2005:4



Source: IBRC, using Bureau of Labor Statistics data

Baltic States Part II: Latvia

The interest of U.S. business in the Baltic States is growing rapidly, most recently shown by the U.S. Investment and Trade Mission to the Baltic States at the end of May 2006. Looking at each Baltic State separately, we can see intensive economic development, as well as a large growth in trade and investments. This article, second of a three-part series on the region, draws your attention to Latvia and its connections to the United States and Indiana.



ranked sixth among new EU states for FDI stock per capita. Since 2000, Latvian GDP has increased annually by 7.7 percent. Such indicators of development are among the highest in the European Union.

The Nation

Latvia has 2.3 million people, making it the second largest Baltic State. The majority of the population is Latvian (57 percent), with Russians as the next largest ethnic group (29.6 percent).

This country, which is slightly larger than West Virginia, is located at the crossroads of Northern and Eastern Europe, on the east coast of the Baltic Sea. Latvia borders Estonia on the north, Russia and Belarus to the east, and Lithuania to the south.

The Baltic States declared independence in 1991 after the collapse

of the Soviet Union. After a difficult transition period, they joined NATO and the European Union in 2004. Latvia was also the first Baltic country to be accepted to the World Trade Organization (WTO) in 1998.

Economy

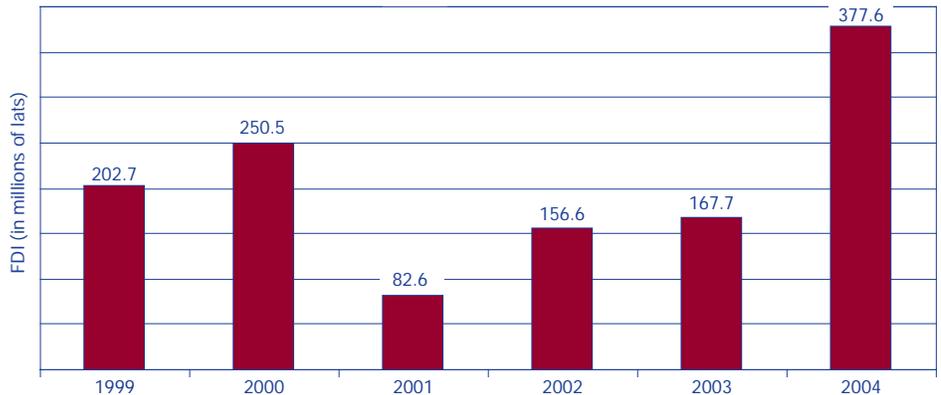
Latvia has already completed privatization of small and medium enterprises and some larger ones. Currently, it is experiencing steady growth in foreign direct investment (FDI), especially from the Scandinavian states (see **Figure 1**). Latvia was

The dominating investors include Sweden, Norway, Finland, Denmark and Germany. They account for more than 50 percent of the total investment, primarily in the fields of finance, real estate, telecommunications, trade and export-orientated manufacturing. About 5 percent of Latvia's FDI comes from the United States (see **Figure 2**).

The Latvian Investment and Development Agency cites two basic reasons for FDI growth:

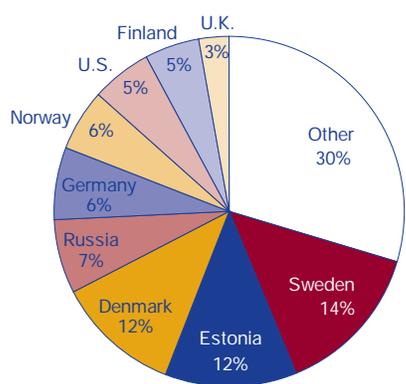
1. Substantial differences in operational cost between the east and west coast of the Baltic Sea.

FIGURE 1: FOREIGN DIRECT INVESTMENT IN LATVIA, 1999 TO 2004



Source: Central Statistical Bureau of Latvia

FIGURE 2: FDI IN LATVIA BY COUNTRY, 2005



Source: Central Statistical Bureau of Latvia

2. Investors striving for presence in the fast growing Baltic market and looking at further strategic opportunities in Russia and the Commonwealth of Independent Countries.

As mentioned in the first article in this series, Lithuania, as well as Latvia, could potentially repeat Ireland's success. These Baltic States are almost in the same position as Ireland was in 1980s, in terms of being EU periphery states, having a large trade deficit and very low income per capita). Ireland was called "the poorest of the rich"¹ in a 1988 *Economist* survey; however, according to World Bank data for 2005, Ireland is now one of the richest EU states with income per capita of \$34,280. Latvia and Lithuanian fall at the bottom of that list, with per capita incomes of \$5,460 and \$5,740, respectively (see **Figure 3**).

According to some economists, however, this goal may be difficult to achieve due to some substantial differences between Ireland and Latvia.² The main driving force for Ireland's FDI growth was U.S. investments, close ties to the United States due to the Irish ancestry of almost 50 million Americans, a common language and Ireland's

FIGURE 3: INCOME PER CAPITA IN THE EUROPEAN UNION, 2005



Source: World Bank

high quality workforce, especially in information and biotechnology.

Trade

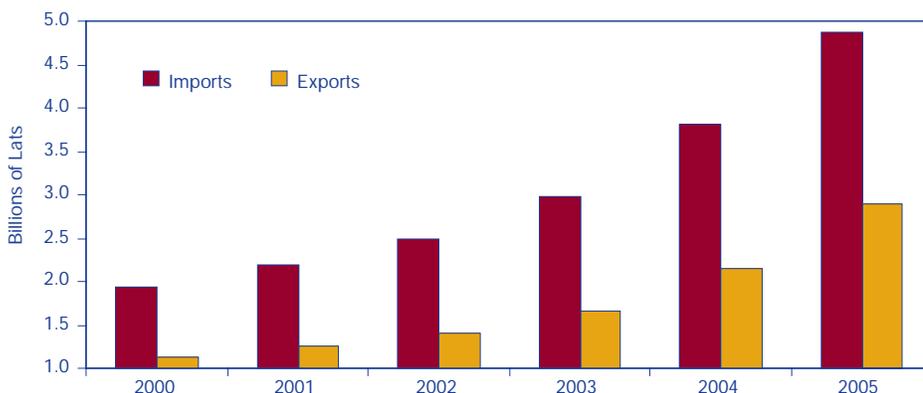
Latvian exports and imports rose dramatically since admission to the EU in 2004 (see **Figure 4**). Latvian exports increased 33.6 percent in 2005. The increase was seen in all commodity groups, but especially in machinery and

mechanical appliances (56.6 percent), prepared foodstuffs and alcoholic and non-alcoholic beverages (50.9 percent), and products of chemicals and allied industries (29.3 percent). The dominant destination for exported goods (76.2 percent) was other EU countries. This figure was up by 31.8 percent in comparison to 2004.

The import value in 2005 rose 27.1 percent compared to the previous year. The fastest growing import groups were mineral products (59.6 percent), transport vehicles (26.5 percent), machinery and mechanical appliances (26 percent), plastic and its articles (29.2 percent) and food products, alcoholic and non-alcoholic beverages (28.7 percent).

Current Latvian export patterns are still concentrated toward "traditional" products (such as wood products or furniture), while exports of products requiring high technological skills

FIGURE 4: LATVIAN IMPORTS AND EXPORTS, 2000 TO 2005



Source: Central Statistical Bureau of Latvia

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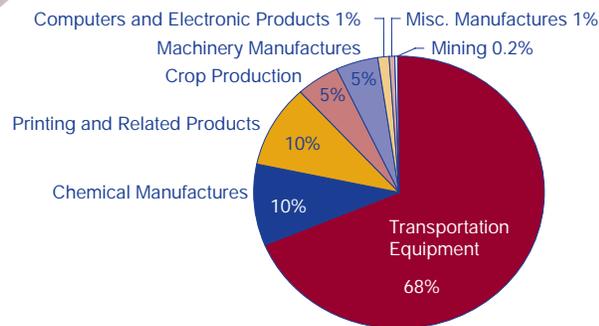
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(continued from page 13)

FIGURE 5: INDIANA'S EXPORTS TO LATVIA, 2005



Source: www.export.gov

remain low. These products constitute a smaller part of total exports due to their low value, but their rate of growth is high. For example, the growth rate of pulp of wood, paper and cardboard was 40.8 percent.

This emphasis on traditional products dates back to the Soviet era, when the majority of investments in the region were focused on the low-value-added industries, including wood, paper and furniture.³

While imports from Latvia remained about the same, U.S. exports to Latvia grew by 46 percent between 2004 and 2005. Moreover, exports from Indiana went up 62 percent. Indiana ranked 21st among states in terms of the total amount exported to Latvia, which was almost \$1.9 million. The state primarily exported transportation equipment (see Figure 5).

Considering Latvia's economic and political stability, it is reasonable to expect the flow of investment and trade with the United States to continue to grow.

Notes

1. "The Luck of the Irish," *Economist*, 15 October 2004, available online at www.economist.com/surveys/displayStory.cfm?story_id=3261071.
2. Morten Hansen, "The Irish Growth Miracle: Can Latvia Replicate?" *Baltic Journal of Economics*, Summer/Autumn 2005, 3.
3. Claus-Friedrich Laaser and Klaus Schrader "Baltic Trade with Europe: Back to the Roots?" *Baltic Journal of Economics*, Summer/Autumn 2005.

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