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# INDIANABUSINESSREVIEW



## Economy 2011: Stuck in Traffic?

Will the economy finally gain traction in 2011?

Will backups in employment continue?

How fast will we recover?

**Outlook 2011**

Volume 85, No. 4

# Outlook for 2011

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

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

Since the end of the recession in June 2009, the employment picture has been mixed for the regions covered by this Outlook (see **Figure 1**). For 2011, the panel predicts that we will continue along the long road to 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. Their model of Indiana's economy similarly provided a basis for projecting the outlook for the state.

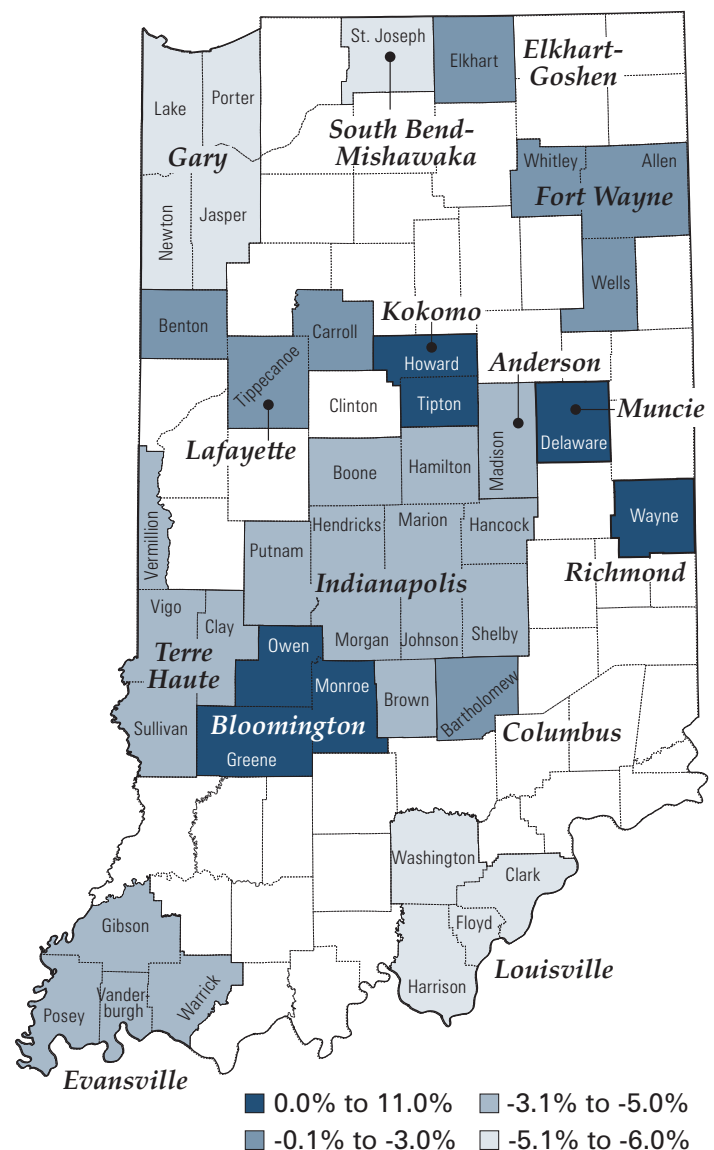
These economists and distinguished colleagues presented their predictions to audiences across Indiana through the Kelley School's Business Outlook Panel. In each city, an expert on the local economy joined the panel to discuss the outlook for the metro area. The 2011 predictions of all the Business Outlook panelists are presented in this issue of the *Indiana Business Review*, along with additional supporting detail.

The 2011 outlook issue of the *Indiana Business Review* begins with Ellie Mafi-Kreft's assessment of the international outlook, with growth in the world economy to slow slightly from 2010. Bill Witte comments on the U.S. economy, which is experiencing a more sluggish recovery than is typical. For the financial markets, John Boquist, Rob Neal and Chuck Trzcinka project that interest rates and inflation will remain low and the stock market should be positive, but below historical averages.

Matt Kinghorn weighs the outlook for housing, anticipating that the market will begin a modest recovery. Jerry Conover's forecast for Indiana's economy anticipates that 2011 will offer a bit of hope, but unemployment will remain a drag on economic growth. Corinne Alexander has mixed expectations for the Hoosier agriculture sector, predicting an increase in crop prices that will cut into profit margins in the livestock sector. Finally, a group of economists and business leaders from around the state share their insights into what 2011 holds in store for Indiana's metropolitan areas. ■

“2011 will offer a bit of hope, but unemployment will remain a drag on Indiana's economic growth.”

**FIGURE 1: Change in Employment for Indiana Regions since the End of the Recession, June 2009 to October 2010**



Source: IBRC, using Bureau of Labor Statistics data

# International Outlook for 2011

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

**T**he world economy is slowing again and is expected to grow at 4.2 percent in 2011. There are no doubts that the advanced economies are facing the greatest economic challenge since the Great Depression. Mounting tensions between the advanced economies and the emerging economies (particularly China) are further complicating things, as the pace of recovery is very uneven (2.2 percent for the developing countries and 7 percent for the emerging countries). The advanced economies are unoptimistic because the sluggish growth has yet to create jobs, particularly in the United States, Europe and Japan.

In the western world, the effects of the massive fiscal and monetary stimulus packages are dissipating while unemployment rates are still historically high a year after most of those economies have been technically out of recession. What are the immediate options of the developed-economy governments: austerity measures, more stimulus, protectionism or global collaboration? Further questions that remain to be answered include the following: Is it possible to ensure fiscal sustainability without dampening the recovery? How do we make sure that recovery efforts create jobs? And does sustainable recovery need global collaboration and rebalancing of the world economies?

Reflecting on recent financial meltdowns, such as the run on Northern Rock Bank in the United Kingdom in September 2007, the bankruptcy of Lehman Brothers in the U.S. in September 2008, and the Euro crisis of 2010, it is clear that we operate in a highly intertwined global financial market where what happens in one country affects the standing of financial institutions in other countries. This implies that the answers to the above questions

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*“Economists tracking advanced economies as a whole worry that without faster internal growth the world’s rich economies will be stuck in unprecedented high unemployment rates and idle capacity.”*

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cannot come from one country’s perspective.

This year’s global forecast may further mark the start in the shift of global economic weights as most of the developing economies will grow faster than the United States and their richer peers. Economists tracking advanced economies as a whole worry that without faster internal growth the world’s rich economies will be stuck in unprecedented high unemployment rates and idle capacity. The remainder of this paper will emphasize the divide between the advanced and the developing economies, focusing on the challenges each group is facing, the solutions formulated by their respective governments, and my take on what is coming next.

## **Advanced Economies**

The sluggish growth in the advanced economies comes from two sources: weak consumption and weak investment. On one front, households are rebuilding their damaged balance sheets and are saving instead of consuming; on the other front, the financial system is still tightly rationing credit to businesses. The downside risks for a slower recovery in 2011 relative to 2010 are real as the different stimulus package initiatives are wearing off. However, at the same time, there

exists a real need to stabilize the budgets of these countries in the medium term as most of them have been aggressively running over-accommodating fiscal policies in the past two-and-a-half years. How can a country service their public debt with millions of workers unemployed and the demographic shift to an aging population? In countries where access to the global capital market has been restrained or entirely shut down (such as Ireland, Greece and Spain), the policy option is clear: consolidate the debt and proceed to very painful reforms of public sector spending.

In the United States, the market for sovereign debt is not closed and the country can borrow at zero percent short term and around 2 percent in the long term, so there is an option for us to continue to stimulate the economy. The danger for the United States would be to hamper its economy’s potential by keeping its labor force idle too long. An exaggerated time of idle labor can significantly lower the potential labor force as disillusioned workers will give up and their skills will become obsolete, particularly in highly skilled tech industries.

The problem for most of the developed world is that the population is aging, people retire too early (from a pension perspective), productivity has weakened, and



immigration is controlled. Without a stimulus, demand remains weak and the damage could be great. This is the view of President Obama's economic team. Their policy recommendation is to not front-load the deficit reduction while keeping an eye on the consolidation of the long-term debt. Without a clear formulation of how we will rebalance our budget we are going to deviate from the appropriate long-term path of output production. France is proceeding more credibly by making future deficit cuts with their gradual reform of the retirement age, and so could the U.S. by enacting explicit future budget cuts and tax changes. The U.K., on the other hand, has decided to slash their government spending, betting on the theory that a leaner government would stimulate investment and consumption. For the British, reducing the massive government debt would lift private confidence, consumers would stop saving their disposable income, and entrepreneurs would feel confident to spend as their fear of higher taxes to repay the debt would be eliminated.

The bottom line is that economists are deeply divided about what is the best policy to adopt. IMF economists studied the difference between a country's current level of public debt and its debt limit and suggested that the ratio of public debt to GDP of 52 percent for the U.S. and 68 percent for the U.K. allowed them some flexibility. However, economists at the Brookings Institution warn about the adverse effect of such uncontrollable spending on innovation and private investment.

### **Emerging Markets**

The emphasis is on the Asian emerging markets where growth is strong and is leading the global recovery. Nevertheless, those economies face important challenges and downside risks to their growth forecast in the medium term. One of

the biggest challenges facing those countries is to create and sustain a private domestic demand so that they do not depend so heavily on their exports to the more advanced economies; this is what is referred to as rebalancing growth. The other challenge is to manage the high inflow of investments in smaller Asian countries and build the domestic infrastructure necessary to continue to develop economically. In general, the Asian economies are capital-abundant and it is time now to improve productivity by getting rid of all the structural rigidities in the labor market in particular. The inflow of capital is further expected to increase as the U.S. Federal Reserve is preparing for a second round of monetary stimulus that will push investors to higher earnings in the Asian markets. All this can end in asset bubbles and is putting an upward pressure on prices and the value of domestic currency in the emerging economies. Countries with flexible rates have witnessed significant appreciation of their currency.

For others, like China, the upward pressure on the domestic currency has been counteracted by the extraordinary accumulation of foreign assets, especially U.S. treasury bonds. The Chinese Central Bank exchanges the inflows of dollars for renminbi at a fixed exchange rate, thereby keeping the value of the renminbi artificially high, and then uses the dollars to buy U.S. T-bonds. According to the U.S. Treasury, China held \$46.7 billion of its treasury bills as of July 2010, making it the largest holder of the bills. This influx of renminbi further threatens the Chinese economy with inflationary pressures, but through the sterilization process—the Central Bank of China forcing their financial institutions to buy Chinese bonds—the government has

dampened the pressure on prices. By building foreign reserves and creating a current account surplus, China provides foreign investors the necessary collateral for the capital they invest in the country. Therefore, the fixed exchange rate regime and sterilization policies can serve as a nice development strategy, but China's use of its capital surplus to invest in incredibly low-yielding U.S. treasuries certainly diminishes its medium term prospects. Furthermore, China's dollar dependency is a consequence of this policy, and a devaluation of the greenback would adversely affect the world's biggest stockpile of foreign exchange reserves.

### **Conclusion**

The outlook for the global economy is highly uncertain in the medium term. A lot of instability is caused in part by the monetary policy of the Federal Reserve System. This flood of liquidity in the market is putting downward pressure on the U.S. currency with the hope that it will boost U.S. exports and stimulate the U.S. stock market. The Fed has good intentions in creating all this liquidity as it hopes to stimulate the U.S. economy, but the unintended consequence is that it may cause chaos for the rest of the world as a devaluation of the U.S. currency, and eventual revaluation of the renminbi, will do very little to correct the trade imbalances. Americans may buy fewer Chinese goods, but will they increase their savings or just divert to other trade partners? And above all, will the U.S. government start saving? The world is at a crossroads and countries are trying to find a domestic solution to a global problem. ■

# U.S. Outlook for 2011

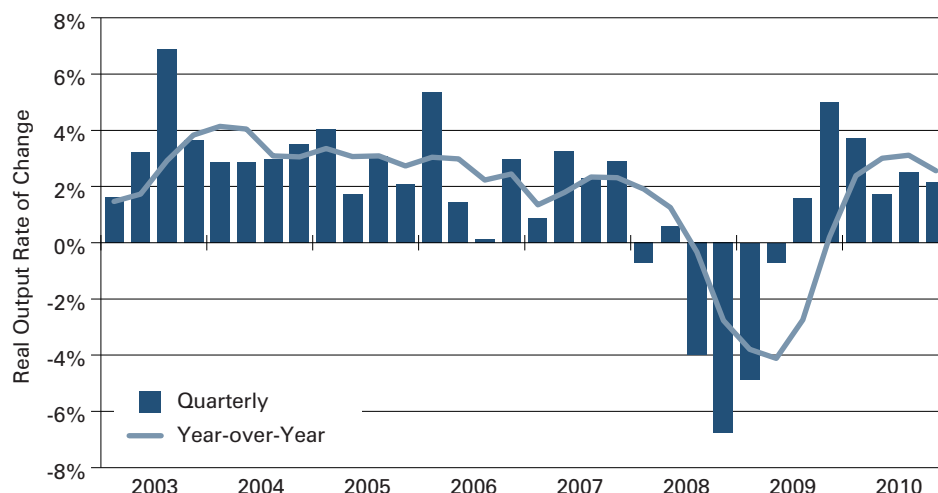
**Willard E. Witte:** Co-Director, Center for Econometric Model Research, Indiana University Bloomington

Over the past three years, the U.S. economy has been a model of diabolical consistency. During 2008 and the first half of 2009, it produced the worst recession since the Great Depression. During the time since, it has produced the worst recovery since World War II.

As can be seen in **Figure 1**, the Great Recession (as it is being called) began at the end of 2007. The Business Cycle Dating Committee of the National Bureau of Economic Research recently proclaimed that it ended in June 2009. This dating means that the recession lasted 18 months, the longest since World War II. At its low point (the cycle trough), output in the economy had fallen to 4.1 percent below its pre-recession peak, the largest decline since World War II. As shown in **Table 1**, this output decline is well above twice the average for previous recessions. Adding insult to injury, the “recovery” has been lackluster at best. Over the five quarters since the economy hit bottom total growth has been only 3.6 percent. After more than a year, output is still below its peak, with performance less than half that following previous downturns.

The employment picture, shown in **Figure 2**, is even more grim. At the official end of the recession, the private sector had a job loss of 6.5 percent (over 7 million). Following the patterns of the 1990 and 2001 recessions (but unlike earlier recessions), employment continued to decline after the recovery began, with 8.4 million jobs lost between December 2007 and December 2009. During the next 10 months the private sector added about 1.1 million jobs, but this still left employment in negative territory for the first five quarters of the recovery, as opposed to the substantial gains experienced in earlier recessions.

**FIGURE 1: U.S. Real Output Quarterly and Annual Rate of Change, 2003 to 2010**



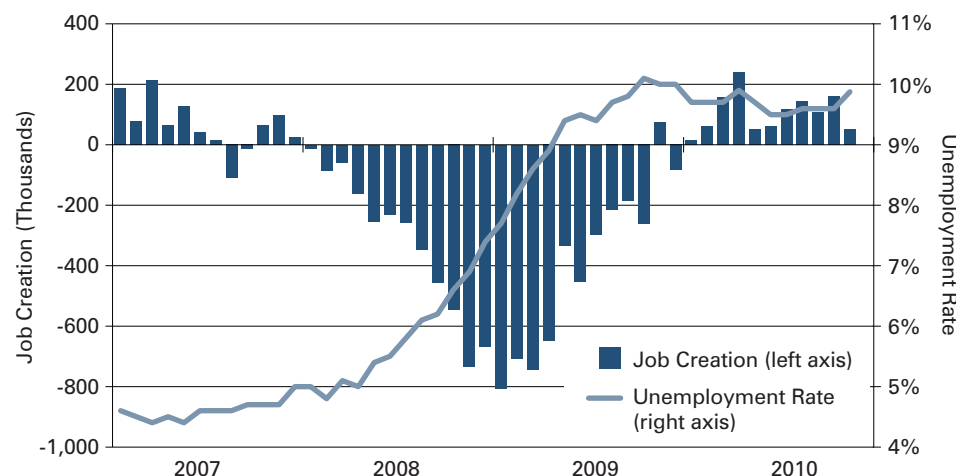
Source: Bureau of Economic Analysis

**TABLE 1: Impact of Recession on Output and Employment**

	Output		Private Sector Employment	
	Peak-to-Trough Decline	Five Quarters After Trough	Peak-to-Trough Decline	Five Quarters After Trough
Average of 9 Post-War Recessions	-1.6%	7.9%	-2.9%	3.8%
2007-2009 Recession	-4.1%	3.6%	-6.1%	-0.5%

Source: Bureau of Economic Analysis and Bureau of Labor Statistics

**FIGURE 2: U.S. Job Creation and Unemployment Rate, January 2007 to November 2010**



Source: Bureau of Labor Statistics

And, if all this wasn't enough, the recovery seems to have lost momentum. After accelerating to growth averaging an annual rate of 4.4 percent in the last quarter of 2009 and the first quarter of 2010, growth over the next two quarters fell off to an average of only 2.1 percent. Private sector job creation reached a relatively healthy 241,000 in April, but since has averaged only 99,000. Unemployment dropped from 10.1 percent in October 2009 to 9.5 percent in June 2010, but has since reversed course, with November 2010 up to 9.8 percent.

Turning to the future, we expect that 2011 will be generally similar to 2010: relatively slow growth with continuing problems in the labor market. To be more specific:

- We expect output growth in 2011 to be about 3 percent on a fourth-quarter to fourth-quarter basis. This will be a little better than 2010, but not enough to make much progress against the damage done during the recession.
- Employment will continue to increase, but only enough to allow marginal progress in reducing unemployment. By the end of 2011, unemployment will still be close to 9 percent.
- Inflation dropped to insignificant levels in 2010, and this situation will continue in 2011.
- The housing sector has hit bottom, but the large overhang of homes in or headed for foreclosure will prevent any significant rebound in construction during most of 2011.
- The Federal Reserve lowered short-term interest rates to virtually zero almost two years ago and will maintain that stance through 2011. It will also engage in "quantitative easing" in an effort to reduce longer-term rates and thus stimulate the economy. This effort will be mostly futile,

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*“Turning to the future, we expect that 2011 will be generally similar to 2010: relatively slow growth with continuing problems in the labor market.”*

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but could contribute to volatility in financial markets.

So we expect continuing economic recovery during 2011, with moderate output expansion, low inflation and some decline in unemployment.

Given the depth of the recession, this is certainly not an optimistic outlook. But given the recent trajectory of the economy, it is not pessimistic either.

However, the list of things that could upset our expectations is long and mostly negative. Businesses, both large and small, are confronted with enormous uncertainty about economic conditions, tax policy, health and energy costs, and many other things. This has produced a paralysis in their willingness to undertake new investment in plant and equipment and (even more important) in their willingness to take on new employees. Small businesses also face problems in financing expansion with a banking system that faces new regulations and seems very reluctant to take risks. The reworking of the political landscape engineered by voters in the November election compounds this situation. Ideally the electoral shakeup could presage a period of bipartisan compromise leading to real progress on the numerous policy issues facing Congress. If so, the prospects for real economic recovery could be enhanced. Alternatively, we could have partisan gridlock with dire consequences—economic and otherwise.

A second set of problems arises from the international situation. The slowdown since spring is at least partly due to Europe's debt crisis

that began in Greece. One effect of this was to reinforce the role of the dollar as a safe-haven currency. The resulting appreciation of the dollar relative to the Euro, although short-lived, cast doubt on the ability of exports to continue as a driver of the recovery. It also caused many observers to begin to wonder if the United States, with budget deficits close to 10 percent of GDP, could remain immune to such pressures. Meanwhile, policy makers in Washington continue to pressure the Chinese to raise the value of the renminbi (hoping that that will improve the U.S. trade deficit), while at the same time refusing to finalize pending trade agreements (which everyone agrees would benefit U.S. trade). None of this does anything to reduce uncertainty or to encourage domestic firms to pursue export opportunities.

To sum up: The recovery of the past year has been disappointingly weak. And sadly, we expect that 2011 will bring more of the same. The watchword for the economy going into the new year is uncertainty: uncertainty about the political climate, uncertainty about taxes, uncertainty about commodity prices, uncertainty about Fed policy and interest rates, and uncertainty about the dollar. Until some of this uncertainty is removed, the prospects for a robust recovery will remain dim. ■

# Financial Outlook for 2011

**John A. Boquist:** Edward E. Edwards Professor of Finance, Kelley School of Business, Indiana University Bloomington

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

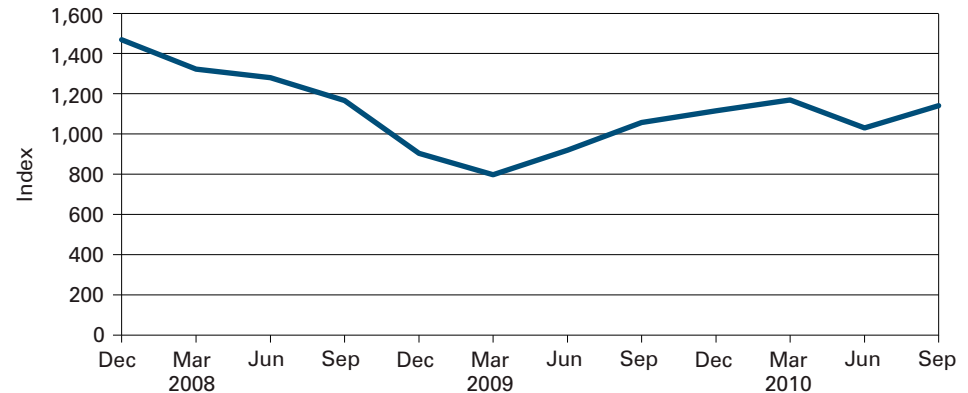
**Charles Trzcinka:** Professor of Finance, Kelley School of Business, Indiana University Bloomington

**T**he financial markets and the economy seem to be in parallel universes. The markets have rebounded strongly since the first quarter of 2009 while the economic recovery has been tepid. We expect that the financial markets and the economy will move closer together, with the markets increasing at a rate somewhat below average.

Despite the dramatic plunge during March 2009, the S&P 500 ended the year with an impressive 23 percent gain, as investors breathed a sigh of relief. The gains have continued in 2010, with the S&P 500 increasing an additional 10 percent from January to early November (see **Figure 1**). The Federal Reserve has maintained an aggressive position in monetary policy during this period. Short-term interest rates have remained close to zero through 2010 while long-term bond rates are very close to historical lows.

On November 3, 2010, the Federal Reserve Board announced a new round of “quantitative easing.” This term describes the process where the Fed buys assets from banks and other financial institutions. The Federal Reserve has initiated two periods of quantitative easing, frequently called QE1 and QE2. QE1 involved the purchase of about \$1.7 trillion of mostly mortgage-related assets from banks and ended in April 2010. The motivation was to reduce the risk exposure of banks by removing their distressed assets and simultaneously providing banks the liquidity to make new loans. QE1 has been successful in improving the financial condition of banks, although overall loan growth remains weak. QE2 has targeted the mid- to long-term portion of the Treasury yield curve. The idea is that when the Fed purchases these bonds, their price will rise and their yields

**FIGURE 1: S&P 500, December 2007 to September 2010**



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

will fall. If the yields fall enough, then banks will find it more attractive to make new loans rather than invest in Treasury bonds.

There is a general consensus that QE1 served its purpose, but there is considerable debate about QE2. The two concerns most frequently mentioned are the inflationary potential and the decline of the dollar. So far, the inflationary impact appears to be small. Both Treasury bond prices and TIPS (Treasury Inflation-Protected Securities) show little evidence of future inflation. The commodity and currency markets, however, offer a different perspective. The U.S. dollar has fallen sharply since the Fed indicated its intent to implement QE2. Since this favors U.S. exports over imports, many of our trading partners have been vocal in their opposition. In addition, many commodities (which are priced in dollars) have risen in price to apparently offset the devalued U.S. dollar. Both these trends are consistent with future inflationary pressures.

## 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 fourth straight month.
- Spending from the 2009 stimulus package will continue until 2011. Less than one-third of stimulus spending occurred in 2009. About one-half of the spending will be implemented in 2010 with the remainder scheduled for 2011 and beyond.
- Major banks, although still weak, have weathered the storm and are slowly rebuilding their balance sheets.
- The Federal Reserve is continuing to keep interest rates low to fuel the economy. The Fed Funds target rate of zero to 0.25 percent will be maintained for an extended period, probably well into 2011, and the 10-year

bond rate will likely fall from its current rate of 2.6 percent.

- The decline in residential housing prices appears to be over in most parts of the country. The Case-Shiller Index has risen about 1.3 percent from September 2009 until August 2010. This is about 6 percent higher than its lowest value back in April 2009, but the change is not uniform around the country. For example, from September 2009 to August 2010, housing prices rose more than 6 percent in San Diego but declined 4 percent in Chicago.
- The weak dollar will help companies grow their exports.
- Corporate earnings have been remarkably resilient. Operating earnings for S&P 500 companies rose about 28 percent in 2010 and are expected to rise 15 percent in 2011.

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

- U.S. commercial real estate, valued at about \$3.7 trillion, experienced a 5.1 percent increase in the four quarters from September 2009 to September 2010 according to the National Council of Real Estate Investment Fiduciaries (NCREIF). Commercial real estate is far below its peak in 2007 (about \$5 trillion), but the relatively small increase over the last four quarters is broadly based with the East, South, Midwest and West participating roughly equally in the increase.
- While inflationary pressures have remained low (in the 1 to 2 percent range) commodity prices have been rising much faster—up 8 percent on average since the start of 2010. Eventually this will

be reflected in higher production and transportation costs.

- In spite of the recent upturn, industrial output is still only at 74 percent of capacity, well below the long-run average (including previous recessions) of 81 percent.
- The massive government deficits may lead to fears of higher interest rates and accelerating inflation. The budget deficits for 2009, 2010 and 2011 will exceed 30 percent of U.S. gross domestic product (GDP). The federal government will need to borrow about \$4.5 trillion to finance this spending. If this spending is financed by tax increases, the tax bill will average about \$14,000 per person.
- As of August 2010, foreigners held \$4.2 trillion of the \$13.3 trillion of U.S. Treasury debt. This is a sharp increase from \$3.5 trillion held a year earlier; however, we think the falling dollar and low interest rates may spark some resistance to keep funding our deficits.
- The United States still faces a huge funding deficit in Social Security and Medicare payments. The present value of these future payments has been estimated to be about \$62 trillion. This is equivalent to \$132,000 per person or \$532,000 per U.S. household. These deficit problems are not insurmountable, but they do require common sense and bipartisan leadership.

### Forecast

Looking forward to 2011, the positives outweigh the negatives for the economy. We expect the recovery to continue, albeit at a rate much slower than a typical recovery,

with GDP growth in the 2 to 3 percent range and inflation in the 1 to 2 percent range. The pace of the recovery, however, will not improve until consumers have increased their savings and repaired their balance sheets. This process will extend beyond the end of 2011.

In this environment, we expect a positive return to equities but below the long-run average return of roughly 7 percent. With Treasury bonds already at extremely low yields, there is little potential for gains with these investments. It is possible that QE2 can make bonds attractive until at least mid-year 2011, but we think there are material long-term inflation risks that will soon make long-term bonds unattractive. In contrast, the low Treasury rates make mortgage rates extremely attractive, with 30-year fixed rates at 4.5 percent and 15-year fixed rates at 3.75 percent. Homeowners who are paying 6 percent or more on their mortgage and expect to stay in their home for several years would likely benefit from refinancing their mortgage.

### Summary

The U.S. economy has survived the most brutal downturn since the Great Depression. The recession is over and the worst is behind us. The adjustment process to full recovery and full employment, however, will likely take at least two years. Until a complete recovery is in sight, we expect market returns to be positive but below average. ■



# Housing Market Outlook for 2011

**Matt R. Kinghorn: Economic Research Analyst**, Indiana Business Research Center, Kelley School of Business, Indiana University Bloomington

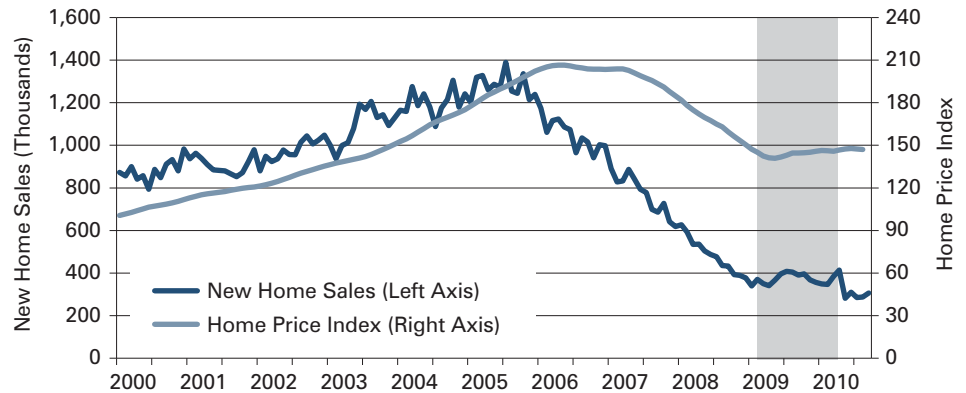
The short-term direction of the housing market seems as murky today as it has at any point in recent years. Following the expiration of the federal homebuyer tax credit program in June, housing demand has been lackluster, even by today's standards. Additionally, mounting foreclosures and short sales threaten to erode home values further. Meanwhile, the stalled labor market serves as a backdrop to these housing woes. Daunting as these problems may be, the conditions are right for a recovery as prices have come down and interest rates are low. However, it may be some time before consumers are confident enough to jump back into the housing market in large numbers.

## Housing Market Tries to Stand on Its Own

The dramatic decline in the U.S. housing market in recent years has been well documented. The sale of new homes dropped 71 percent from a peak of about 1.4 million units in 2005 to 374,000 units in 2009. Existing single-family home sales fell 27 percent over the same period and home values have declined in much of the country. In response to these conditions, the federal government initiated its tax credit program for homebuyers in hopes of boosting demand. It seems clear that this program, which ran from early 2009 through April 2010, did at least help to break the free fall in home sales and values. However, it is difficult to know if these tax credits simply hastened the purchase of homes by those who would have bought anyway or if they induced new buyers into the market.

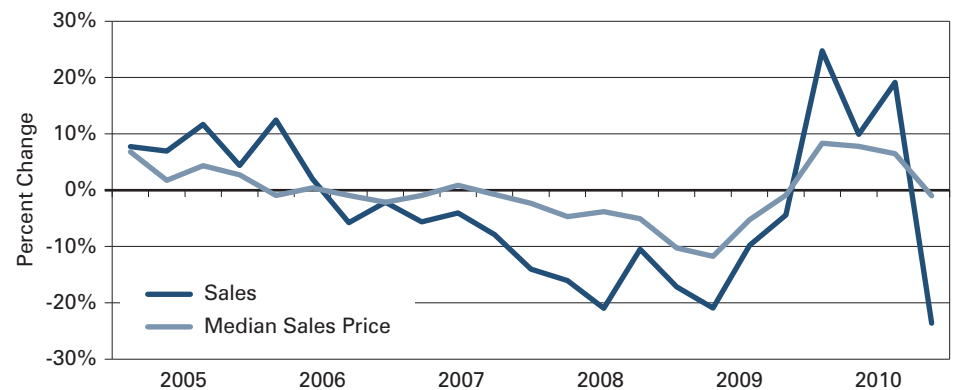
Whichever the case may be, **Figure 1** suggests that we are in the midst of a predictable post-homebuyer-tax-credit hangover. After declining at an average rate of 3.1 percent per

**FIGURE 1: New Home Sales and Case-Shiller 20-City Home Price Index, 2000 to September 2010**



Note: The shaded area indicates the period that federal home buyer tax credits were available. Both variables are seasonally adjusted. New home sales are reported as an annual rate. Hash marks indicate January and July of each year. Source: IBRC, using Standard & Poor's and U.S. Census Bureau data

**FIGURE 2: Year-over-Year Change in Indiana Home Sales and Median Price, 2005:1 to 2010:3**



Note: Hash marks indicate quarters of each year. Source: IBRC, using Indiana Association of Realtors data

month between July 2005 and April 2009, new home sales stabilized and grew at an average monthly rate of 1.1 percent through April 2010. Without the aid of federal stimulus, however, new home sales fell sharply in May 2010 and have remained low. In fact, the five months since the expiration of the tax credits are the five lowest monthly new homes sales figures on record dating back to 1963. Home values, as measured by the Case-Shiller Home Price Index, also steadied while the tax credits were active but ticked downward in July and August.

The situation has been similar in the market for existing homes. According to the National Association of Realtors, existing home sales increased nearly 5 percent between 2008 and 2009 and the rate of sales remained relatively strong through the first half of 2010. The expiration of the tax credits, though, triggered a 27 percent drop in the seasonally adjusted rate of existing home sales between June and July.<sup>1</sup> In contrast to new home sales, the existing home market has bounced back more sharply with the

September sales figure up 18 percent over the July mark.

Much of this instability has been driven by troubles in the once booming housing markets of the South and West. States like Florida, Nevada, Arizona and California have headlined this crisis. Yet the Indiana housing market has experienced similar trends. As **Figure 2** shows, both median home prices and sales declined year-over-year for most quarters between 2005 and the early 2009, but these measures rebounded over the next year and a half. However, the demand pulled forward by the tax credits left Indiana with a 24 percent year-over-year decline in sales in the third quarter of 2010 and a 1 percent decline in the median sales price.

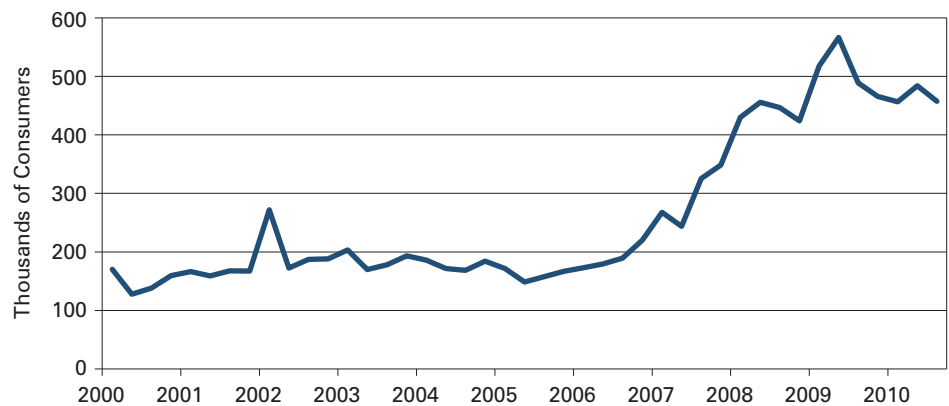
### Foreclosure Problems Persist

One major force that continues to place downward pressure on home values is the continued foreclosure crisis. **Figure 3** indicates that the quarterly flow of individuals with new foreclosures has improved from peak levels recorded in 2009 but continues to be elevated. In contrast to the slight decline seen in new foreclosures in the third quarter, the New York Fed also reports that the share of mortgages that transitioned into delinquency increased for the first time since 2009. An uptick in delinquencies could signal another rise in foreclosures.

Compounding this problem is the recent revelation of improper documentation for many properties in foreclosure. Efforts to remedy the so-called “robo-signing” practices could lengthen the time it takes to clear foreclosed properties from the market, which would act as a further drag on the housing recovery.

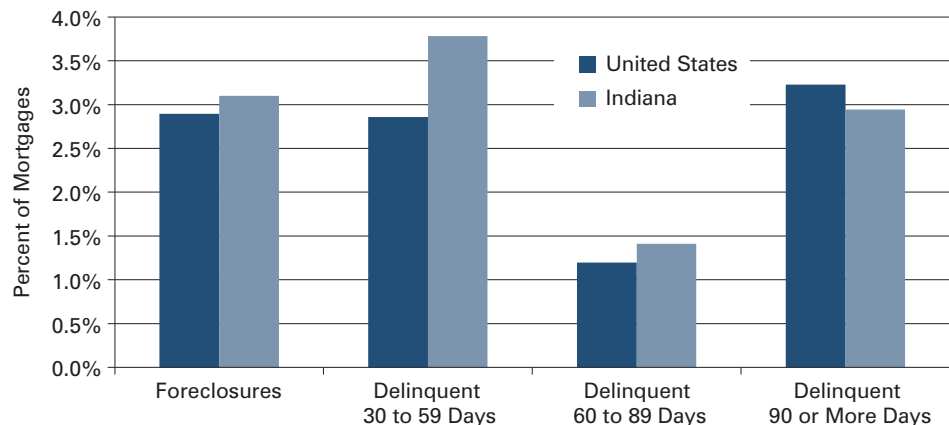
The foreclosure crisis has hit Indiana harder than the United States as a whole. **Figure 4** shows that the share of Indiana’s prime mortgages in foreclosure in August 2010 is slightly higher than the U.S. average.

**FIGURE 3: Number of U.S. Consumers with New Foreclosures, 2000:1 to 2010:3**



Source: IBRC, using Federal Reserve Bank of New York data

**FIGURE 4: Percent of Prime Mortgages in Foreclosure or in a Stage of Delinquency in Indiana and the United States, August 2010**



Source: IBRC, using Federal Reserve Bank of New York data

**TABLE 1: National Association of Realtors (NAR) and Mortgage Bankers Association (MBA) Forecasts, 2010:2 to 2011:4**

	Housing Starts (SAAR, thousands)		Existing Home Sales (SAAR, thousands)		30-Year Fixed Rate Mortgage		Median Existing Home Price (Thousands)	
	NAR	MBA	NAR	MBA	NAR	MBA	NAR	MBA
2010:2	602	602	5,570	5,570	4.9%	4.9%	\$176.6	\$176.6
2010:3	594	589	4,150	4,026	4.5	4.6	177.6	161.0
2010:4	653	580	4,531	4,232	4.5	4.4	168.6	163.6
2011:1	698	595	4,765	4,650	4.7	4.7	165.9	170.1
2011:2	746	635	5,202	4,701	4.9	4.8	177.0	169.9
2011:3	791	670	5,391	4,900	5.1	5.0	179.2	171.4
2011:4	843	735	5,188	5,051	5.4	5.1	170.4	173.5

Notes: Actual values are reported for 2010:2. Figures were taken from each organization's October 2010 forecasts.  
Source: National Association of Realtors and Mortgage Bankers Association

Perhaps more alarming is the share of the state’s prime mortgages in the early stages of delinquency.

The pattern is similar for mortgages owned by Fannie Mae and Freddie Mac, with 8.4 percent of Indiana’s

# Indiana's Outlook for 2011

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

mortgages held by these entities either delinquent or in foreclosure compared to 7.3 percent nationally. Indiana's above average mortgage delinquency situation should come as no surprise given that the state has had one of the nation's highest unemployment rates in recent months.

## Home Construction

The trends in residential building permits and housing starts largely mirror what we saw in new home sales. Each indicator stabilized in 2009 and 2010 but neither has risen appreciably. While it is welcome news that these indicators have steadied, they have settled at levels that are roughly one quarter of 2005's peak of construction activity. In 2009, Indiana recorded its lowest level of residential building permits since 1982.

## Conclusion

The housing markets in the U.S. and in Indiana will likely see growth in 2011, but with the broader economy, this growth will be modest. As **Table 1** outlines, two industry trade groups forecast that housing starts and home sales will climb somewhat but, in the case of home sales, the numbers are not likely to reach the level seen prior to the tax credit deadline. While there is currently some slack in demand, reduced prices and low interest rates should keep home purchases attractive. The housing market is now simply waiting on a robust economic recovery to spur consumers into taking advantage of very favorable affordability conditions. Unfortunately, that strong recovery appears to be at least a year or two away. ■

## Notes

1. The data sources for new and existing homes show that each market responded to the expiration of the tax credit at different times. This discrepancy is due to how home sales are counted. New home sales are counted when a sales contract is signed while existing home sales are counted when the sales contract is closed.

One year ago, Indiana's economy was reeling from major hits caused by the deepest recession in decades. As 2010 draws to a close, we've seen measurable, if modest, improvement, and the prospects for the year ahead are mildly encouraging.

## Employment: A Mixed Picture

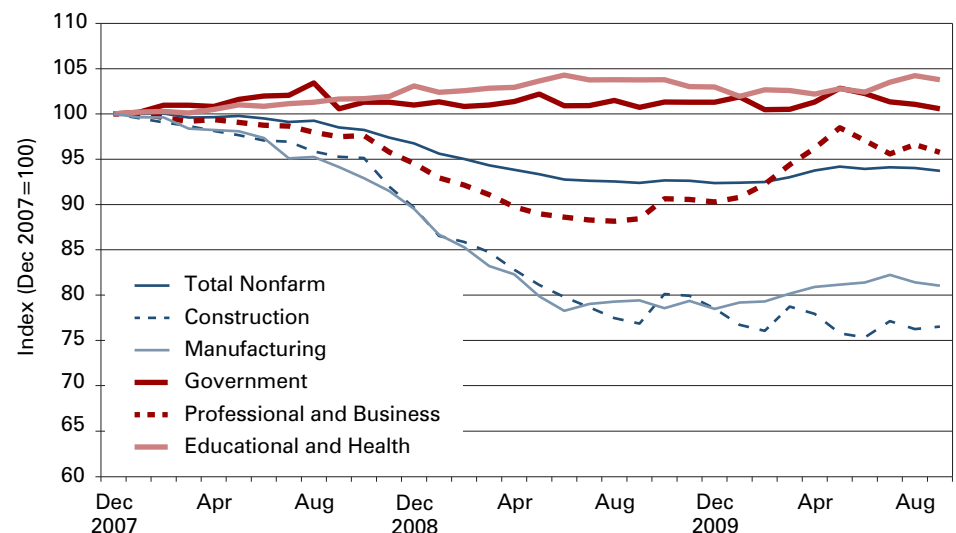
The recession that began in December 2007 hit Hoosiers very hard. By the time Indiana employment bottomed out two years later, 227,900 payroll jobs had disappeared—the 13th highest rate of decline in the nation. Fortunately, 2010 has been a relatively good year: we've recovered 40,000 jobs between December 2009 and September 2010 (preliminary). This gain of 1.4 percent so far is the fifth fastest in the nation, and the state has received national media attention for its job creation. However, the pace of growth is unsteady, with some slippage in recent months. And despite this year's net gain, 82 percent of the lost jobs have yet to return.

Some sectors are faring better than others in this recovery. **Figure 1** shows relative change in Indiana payroll employment since the start of the recession. Private education/health services jobs actually increased nearly 4 percent, and government jobs have not slipped into negative territory.

In contrast, the construction and manufacturing sectors together shed more than 138,000 jobs, nearly one-fifth of their start-of-recession levels before they started slowly rebounding. Manufacturing has inched upward slowly, but construction remains near the bottom. And the professional and business services sector, which saw substantial job gains during the past decade, slipped 12 percent during the recession but has regained much of that loss this year.

We expect Indiana employment to complete 2010 about 2 percent, or 55,000 jobs, above where it started and for 2011 to show similar gains. This is well above job growth in recent years, but even so, at this

**FIGURE 1: Relative Change in Indiana Employment, December 2007 to September 2010**



Note: September 2010 data are preliminary.  
Source: IBRC, using Bureau of Labor Statistics data

rate it will be at least 2013 before employment returns to pre-recession levels. The forecast calls for all major sectors to show at least some growth in 2011.

### **Unemployment Stagnant**

Indiana's unemployment rate has hovered around 10 percent since spring 2009 without any sign of meaningful abatement. Our state enjoyed about a 1 percentage point advantage over our neighbors from the summer of 2009 through late spring of 2010. However, all the neighboring states except Michigan have reduced their unemployment rates to match ours over the last several months.

The number of unemployed Hoosiers more than doubled during the recession to 340,000 before receding slightly. This is the highest level of sustained unemployment since the major recession of the early 1980s, which peaked well above 12 percent. The recovery following that recession took five years to get back to normal, and the current situation does not offer cause for optimism that this time will be much different. Our forecast predicts unemployment remaining above 9 percent through 2011, continuing to be a major drag on economic growth.

### **Moderate Rise in Economic Output**

Growth of the overall output of Indiana's economy, measured by change in real gross domestic product (GDP) at the state level, has for the most part trailed the nation for many years. This year, however, Indiana's GDP growth appears to be keeping up with U.S. growth so far, and the Hoosier economy's expansion is forecast to slightly outpace the nation in 2011, rising in the 3 to 4 percent range.

### **Personal Income Rebounding**

In broad strokes, the total personal income of Hoosiers has more or less kept pace with that of the nation, averaging about 1.8 percent of the U.S. total for the past few years. Last year, our state's personal income declined more rapidly (-2.4 percent) than the nation's (-1.7 percent), but this year it is on track to rebound by 2.2 percent—a bit slower than the national pace of 2.7 percent. In 2011, we forecast both Indiana and U.S. personal income to rise by about 3.5 percent.

In dollar terms, the average Hoosier's per capita personal income is \$5,714 less than the average American's. The last year Hoosiers out-earned the nation was 1965.

### **Exports Looking Up**

Exports have long been a source of relative strength in Indiana's economy, with Hoosier exports growing more than twice as fast as U.S. exports over the past decade. The worldwide recession, however, slammed trade last year, with every state's export volume down from 2008. Fortunately, exports have been rebounding this year; Indiana's 37 percent year-over-year export growth in the first half of 2010, placing our state near the head of the pack, has pushed our exports above pre-recession levels. Foreign domestic investment (FDI) is also contributing to Indiana's economic growth, with a near record number of FDI announcements in the state over the past year.<sup>1</sup>

The ups and downs of Indiana's exports reflect in part the recent turbulent market for motor vehicles and parts, which is now growing again. Our exports are also influenced strongly by a growing market for pharmaceuticals and medical devices, two of our top four export commodities. In fact, Indiana has led the nation in drug exports for several quarters in a row. The

outlook for exports is hard to nail down, however, due to continuing uncertainties arising from global negotiations on trade, exchange rates and other factors that impact foreign demand for American goods.

### **Housing Still Sluggish**

Indiana's housing activity so far this year is mixed, rather like last year. There's been very little change in the numbers of new listings, pending sales and closed sales; sales prices have risen just 2 to 3 percent. There is still a 10-month inventory of homes on the market, and that will have to fall to a more normal five- to six-month level to jump-start home construction, which has been moribund for several years. Our forecast for 2011 predicts progress in this direction, with housing starts increasing more than 25 percent over 2010. Even so, home construction will remain far below pre-recession levels.

### **Retail Sales Returning**

Indiana retail sales shrank last year by 6 percent, but 2010 is on track to gain back much of the lost sales; this year sales are expected to rise by 5 percent compared to 2009. Sales growth will slow down in 2011, with a 2 percent gain forecast. At this tepid growth pace, we should experience pre-recession retail activity sometime in 2012.

### **Conclusion**

All in all, the forecast for the year ahead offers a little bit of hope given the deep hole we've been in—but we still have quite a climb ahead to get out of the hole altogether, and the land of milk and honey is well over the horizon. ■

### **Note**

1. Matt R. Kinghorn and Matthew Hutchinson, "Indiana in the Global Economy: Current Export and FDI Activity," *Indiana Business Review*, Fall 2010, [www.ibrc.indiana.edu/ibr/2010/fall/article1.html](http://www.ibrc.indiana.edu/ibr/2010/fall/article1.html).



# Indiana's Agricultural Outlook for 2011

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

**T**he outlook for Indiana agriculture in 2011 is getting brighter as crop prices continue to increase. The upward trend in grain prices started in August 2010 due to the Russian drought and is further supported by the smaller than expected U.S. corn crop and the low world cotton inventories. These high prices mean that row crop producers can expect above average incomes in 2011 even as they raise concerns about higher input costs for the 2011-2012 crop.

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

The pork industry suffered major losses in 2008 and 2009 due to high feed costs and weak export and domestic demand due to the global recession and fears of H1N1, which has been incorrectly linked to pork consumption. In 2010, the pork industry reduced its herd by 4 percent and pork exports resumed as the global economic recovery progressed. Looking to 2011, pork exports are projected to reach a record 21 percent of production, and as long as the pork industry does not expand, producers should avoid major losses in the next 12 months.

The dairy industry is recovering from record losses in 2009 and early 2010 due to the dismal prices caused by the global recession that eroded export demand and weakened domestic demand. The industry has responded with Cooperatives Working Together herd buyouts that have only been moderately successful

at reducing cow numbers. On the bright side, milk prices and butter prices in particular have strengthened enough to return the industry to the black. Looking to 2011, the dairy industry will continue to be very fragile, with any erosion in milk price or further increase in feed costs tipping the industry back into a period of losses.

Of all the livestock sectors, the beef industry is the best positioned to weather the higher feed costs. Over the last three years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The beef cow herd is now 12 percent smaller than the recent high in 1996, and the breed herd continues to decrease. While this smaller production has helped to strengthen beef prices, the beef industry will continue to lose consumer market share.

Shifting back to the row crop sector, 2011 will see a major acreage battle between corn, wheat and cotton which will push field crop prices higher through the planting season next spring. Cotton prices are up 50 percent since August due to low world inventories, which will incentivize U.S. farmers to increase cotton acreage. In addition, wheat prices are also up about 50 percent since July due to the Russian drought and farmers are responding by increasing wheat acreage, with Indiana farmers expected to increase wheat acreage by 50 to 75 percent from the record low acreage in 2010. Corn is expected to gain the most acreage, especially here in Indiana; these acreage gains will come at the expense of soybeans and other oilseeds, which will push up soybean prices. Given the outlook for very high crop prices, the risk to row crop agriculture is a rapid increase in input costs.

As of June 2010, the value of Indiana farmland increased between

4.5 percent and 6.3 percent over the previous 12 months, according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey which found that the value of "top quality" farmland was 6.3 percent higher in the second quarter of 2010 compared with the second quarter of 2009. Looking to 2011, with higher net farm income than in 2010, the value of farmland and cash rents are expected to continue increasing by 5 percent to 10 percent.

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

For more information about Indiana farmland values, see the Purdue Land Value Survey at [www.agecon.purdue.edu/extension/pubs/paer/2010/august/paer0810.pdf](http://www.agecon.purdue.edu/extension/pubs/paer/2010/august/paer0810.pdf). And for more information about the outlook for Indiana agriculture, visit [www.agecon.purdue.edu/extension/prices/index.asp](http://www.agecon.purdue.edu/extension/prices/index.asp). ■

# Anderson Forecast 2011

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

The data available thus far for 2010 suggest that the economic situation in the Anderson Metropolitan Statistical Area (Madison County) has improved over the past year. Aside from the Indianapolis Colts training camp moving back to Anderson after more than a 10-year absence, there are several encouraging signs in the local economy. The number of jobs and the population have remained steady. This could represent a turning point. Anderson, like other cities in the Midwest, is struggling to redefine itself after the great exodus of large-scale manufacturing firms over the past several decades. Added to this mix is the necessary restructuring of local government activities due to property tax caps. To its credit, Anderson has some high-profile companies such as Bright Automotive (hybrid electric vehicles) and Coes (antimicrobial additives) working on

*“In the coming year, we expect employment to remain steady and small gains in income as the economy continues to recover.”*

new technologies and the Flagship Enterprise Center is expanding.

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

## Labor Markets

In Madison County, the unemployment rate peaked at 11.9

percent in early 2010 (see Table 1). The preliminary unemployment rate for September 2010 is 10.7 percent, higher than both the state (9.5 percent) and nation (9.2 percent) using the not seasonally adjusted data. The number of unemployed workers in Madison County has trended down slowly since March but the labor force has also decreased; this led to the stubbornly high unemployment rates for the county and suggests that frustrated job seekers are continuing to drop out of

**TABLE 1: Labor Force and Unemployment for Madison County, September 2009 to September 2010**

Year	Month	Labor Force	Unemployed	Unemployment Rate
2009	September	61,358	6,073	9.9
	October	61,298	6,228	10.2
	November	60,966	6,164	10.1
	December	60,298	6,442	10.7
	<b>Annual</b>	<b>62,046</b>	<b>6,633</b>	<b>10.7</b>
2010	January	60,427	7,040	11.7
	February	60,394	7,175	11.9
	March	60,717	7,238	11.9
	April	61,067	6,764	11.1
	May	62,156	6,757	10.9
	June	61,771	7,176	11.6
	July	61,509	7,165	11.6
	August	61,539	7,021	11.4
	September*	60,674	6,476	10.7

\*September 2010 data are preliminary.  
Note: Data are not seasonally adjusted.  
Source: Bureau of Labor Statistics

**TABLE 2: Anderson Metro Employment by Industry, Year-to-Date 2009 to 2010**

Industry	2010	Change since 2009	Percent Change 2009-2010
Total Nonfarm	40,822	100	0.2
Total Private	33,967	100	0.3
Goods-Producing	5,100	100	2.0
Manufacturing	3,822	156	4.2
Service-Providing	35,722	0	0.0
Trade, Transportation and Utilities	8,556	144	1.7
Information	511	-78	-13.2
Professional and Business Services	3,033	11	0.4
Educational and Health Services	8,022	11	0.1
Leisure and Hospitality	5,500	-56	-1.0
Financial Activities	1,600	33	2.1
Other Services	1,644	-67	-3.9
Government	6,968	68	1.0

Note: Data are January to September of each year. September 2010 data are preliminary.  
Source: Bureau of Labor Statistics

the labor market, that residents are migrating out of the area, or both.

Current Employment Statistics data show a relatively stable jobs situation in 2010. Total nonfarm jobs in Madison County increased by about 100 jobs to around 40,800. This is a decrease of about 6,500 jobs since 2000 but is the first positive increase in year-over-year employment in the 2000s. Manufacturing (adding more than 150 jobs) and trade, transportation and utilities (adding more than 140 jobs) were the sectors with the most job growth. Losses were in information, leisure and hospitality and other services (see **Table 2**). This marks the first net increase in manufacturing employment in this millennium, but it is small relative to the thousands of manufacturing jobs that have been lost over the past four years. (These numbers are preliminary and may be adjusted in the coming months.) The Anderson MSA began the millennium with around 10,500 manufacturing jobs and currently has around 3,800. The peak for manufacturing employment was around 30,000 jobs in the early 1970s.

Average wages were about the same as last year at \$572 per week during the first quarter of 2010 (the most recent data available) and are lower than the state average of \$739 for the same period. **Table 3** shows average weekly wages (not adjusted for inflation) for the first quarter of 2009 and the first quarter of 2010. Several sectors experienced decreases in wages. The hardest hit sectors were transportation and warehousing (-9.1 percent); administrative, support and waste management services (-5.9 percent); and information (-5.3 percent). The sectors with the largest gains in weekly wages were finance and insurance (7.2 percent); agriculture, forestry, fishing and

hunting (6.9 percent); and wholesale trade (6.1 percent). The inflation rate between the first quarters of 2009 and 2010 was 2.4 percent, so workers in

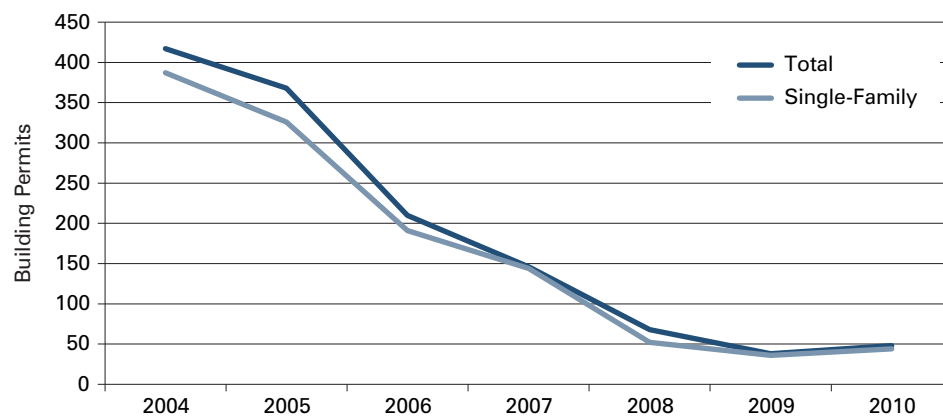
sectors with wage growth below 2.4 percent are worse off in 2010 relative to 2009.

**TABLE 3: Average Weekly Wages in Anderson Metro, 2009:1 to 2010:1**

Industry	2009:1	2010:1	Percent Change
Total	\$570	\$572	0.4%
Finance and Insurance	693	743	7.2
Agriculture, Forestry, Fishing and Hunting	508	543	6.9
Wholesale Trade	758	804	6.1
Public Administration	680	721	6.0
Construction	665	694	4.4
Arts, Entertainment, and Recreation	370	385	4.1
Manufacturing	824	856	3.9
Other Services (Except Public Administration)	346	359	3.8
Retail Trade	385	385	0.0
Professional, Scientific, and Technical Services	637	637	0.0
Real Estate and Rental and Leasing	451	448	-0.7
Management of Companies and Enterprises	1456	1440	-1.1
Health Care and Social Services	649	634	-2.3
Educational Services	683	667	-2.3
Information	587	556	-5.3
Administrative and Support and Waste Management and Remediation Services	405	381	-5.9
Transportation and Warehousing	727	661	-9.1

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

**FIGURE 1: Madison County Residential Building Permits, Year-to-Date 2004 to 2010**



Note: Data are January to September totals for each year.  
Source: IBRC, using U.S. Census Bureau data

**TABLE 4: Madison County Residential Real Estate Sales, Year-to-Date 2005 to 2010**

Year	Units Sold	Average Price
2005	3,586	\$91,101
2006	3,722	84,352
2007	3,676	79,652
2008	3,064	77,362
2009	2,777	70,287
2010	2,495	74,892
Change 2009 to 2010	-282	4,605
Percent Change	-10.2%	6.6%

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

**TABLE 5: Food Stamp Recipients in Madison County, Year-to-Date 2003 to 2010**

Year	Average Monthly Food Stamps Issued	Number of Food Stamp Recipients
2003	\$1,013,779	11,910
2004	1,133,426	13,168
2005	1,370,772	14,447
2006	1,458,962	15,350
2007	1,497,539	15,581
2008	1,520,783	14,402
2009	1,920,528	15,340
2010	2,410,044	18,310
Change 2009 to 2010	489,517	2,970
Percent Change	25.5%	19.4%

Note: Data are January to May totals for each year. Dollar values are not adjusted for inflation. Source: STATS Indiana, using FSSA data

## Housing

The housing market shows weak signs of recovery in Madison County. Residential construction as measured by new single- and multi-family housing units shows an increase with 48 permits issued between January and September 2010 (see **Figure 1**). This is substantially lower than the number of permits issued during the same months earlier in the decade.

Sales of existing homes show no sign of recovery yet (see **Table 4**). Home sales through September 2010 decreased more than 10 percent relative to the same period in 2009 to just under 2,500 units. The average price of homes sold was almost 7 percent higher, but that is likely due to the mix of houses sold during this period.

## Social Safety Net

Changes in the number of food stamp recipients and the dollar amount of food stamp payments is one indicator of economic distress in a community. The number of food stamp recipients and the corresponding amount of food stamps issued increased dramatically during the past year in Madison County (see **Table 5**). The number of food stamp recipients increased almost 20 percent, with the total averaging more than 18,000 individuals (about 14 percent of the population in the county) during the January to May time period. The average monthly dollar amount distributed in food stamps increased by more than 25 percent to exceed \$2.4 million. This increase reflects the state of the economy in east-central Indiana, the slow recovery from the recession, and may also reflect changes to the state administration of assistance programs.

## Gaming

May 2010 marked the second full year of operation of Hoosier Park Casino. The recession affected casino winnings and the wagering tax generated at Hoosier Park. Winnings decreased 0.5 percent to \$201.1 million. The wagering tax revenues generated from these winning decreased 0.7 percent to \$55.4 million. For fiscal year 2010, Hoosier Park ranked sixth of the 13 Indiana casinos in terms of total winnings. Last November, Ohio voters approved a ballot initiative to allow casinos in Cincinnati, Cleveland, Columbus and Toledo. The Cincinnati and Columbus casinos are likely to draw patrons from the same geographic area as Indiana's Hoosier Park Casino. The new Columbus and Toledo casinos are currently scheduled to open in 2012.

## Outlook

The official numbers show some small improvements over the situation last year in some areas: the level of employment in the county has increased slightly, and average wages have been steady. The high unemployment rate and corresponding increases in the number of people needing public assistance, the slow rate of home sales, and the decreasing labor force in the county are the dark clouds.

In the coming year, we expect employment to remain steady and small gains in income (in the 2 to 3 percent range) as the economy continues to recover.<sup>1</sup>

## Notes

1. These estimates are based on the August 2010 forecasts from the Center for Econometric Model Research at Indiana University.



# Bloomington Forecast 2011

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

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

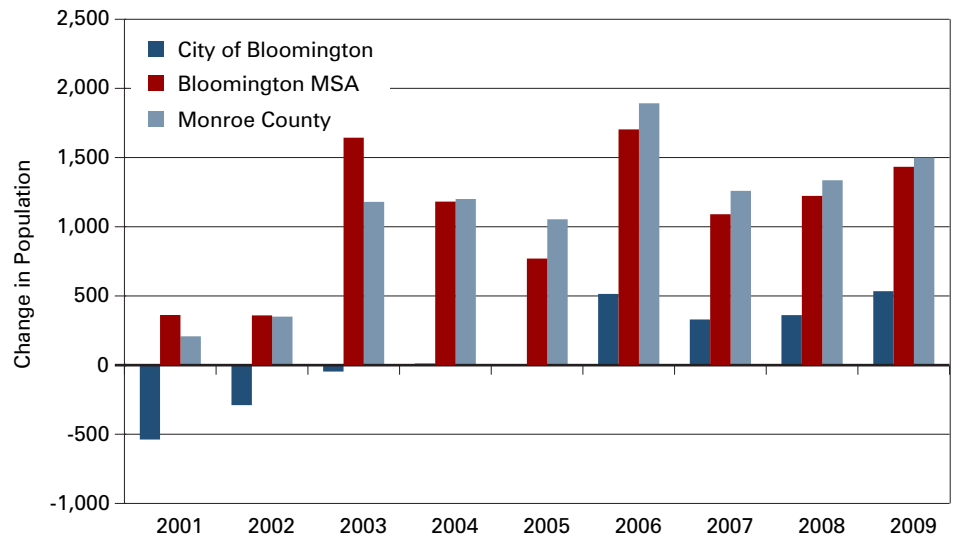
**D**uring the Great Recession, the Bloomington Metropolitan Statistical Area (MSA) suffered considerably less than just about every other city or region in Indiana. In 2009 and 2010, Bloomington's peers would be justified in being a tad jealous. In the coming year, the prospects for the Bloomington area are almost optimistic compared to most of Indiana and the Midwest.

The Bloomington area has continued its steady, if moderate, population growth. This growth has helped to ease the recessionary pain of local businesses. As **Figure 1** shows, population growth has been fairly even across all three geographic "definitions" for Bloomington—the city of Bloomington, Monroe County and the entire Bloomington MSA. The population of the Bloomington MSA has been on the rise thanks to the growth of Monroe County even while Greene County has lost population and Owen County has gained only a nominal number of residents in the last few years. In contrast to the first half of the decade when the city lost population while the rest of the county gained population, both the city of Bloomington and Monroe County have unambiguously grown in the last four years. In the coming years, the population is expected to continue its gradual increase.

The economic growth of the Bloomington MSA slowed, but not as rapidly as most other areas. Real GDP rose by 2.2 percent in 2008, the first year of the recession. Estimates show Bloomington's GDP dropping by about the same percentage in 2009. Moody's Analytics forecasts the rate of economic growth for both 2010 and 2011 to be about 2.5 percent.

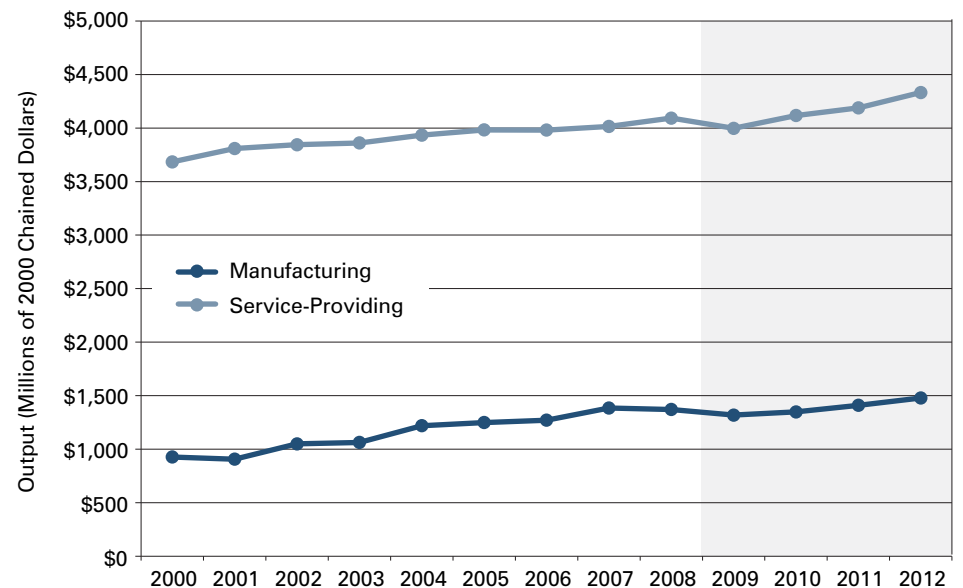
Within the Bloomington MSA, different industries have experienced different patterns of growth. A vast

**FIGURE 1: Annual Population Change in Bloomington MSA, Monroe County and the City of Bloomington, 2001 to 2009**



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

**FIGURE 2: Bloomington MSA Gross Domestic Product by Aggregated Sectors, 2000 to 2012**



Note: Data for 2009 to 2012 are forecasts.

Source: IBRC, using Bureau of Economic Analysis data and Moody's Analytics for forecast values

majority of the goods-producing sector declined 1.0 percent from 2007 to 2008 while the service-producing sector grew at 1.9 percent (see **Figure 2**). Estimates show a more sizable drop

in manufacturing GDP (-3.9 percent) than in service GDP (-2.4 percent) in 2009. Both sectors have turned around in 2010, however, with the service-producing sector returning to its 2008

level. Manufacturing, on the other hand, is not expected to surpass its 2007 level until 2011.

While Bloomington will likely register economic growth in GDP for 2010, the forecast for employment is not as positive because job growth typically lags economic growth. Payroll employment rose a fraction in 2008, 0.2 percent, and in 2009 that insignificant gain was reversed with a drop of 0.3 percent (see **Figure 3**). In light of the last two years, the forecasted increase of 1.9 percent for 2010 and 1.2 percent for 2011 may seem like good news, but it will not be enough to make a significant dent in unemployment.

**Figure 4** shows how the employment base has changed over the last few years. Manufacturing and retail trade lost jobs early in the decade, but have held steady more recently. The three industries that have maintained and even boosted Monroe County's total employment are: 1) educational services, 2) health care and social assistance and 3) professional, scientific, technical services and management of companies. Proprietor employment also grew at a faster clip than total employment.

Personal income for the average Monroe County resident has been growing faster than the average Hoosier, but this is nothing to cheer. As **Figure 5** shows, the level of per capita personal income for both the state and Monroe County fall below the national average. Even adjusted for the lower cost of living in Indiana—about 93 percent of the national average—Indiana and Monroe County lag behind.

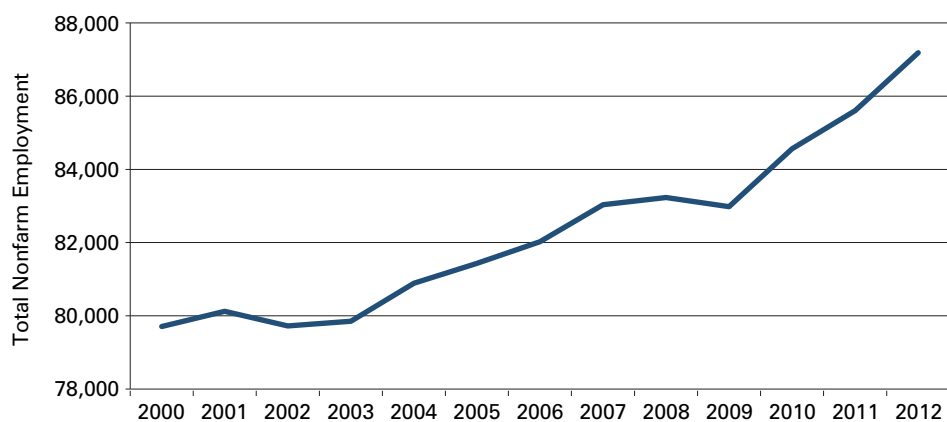
More distressing is that both the state and the county are losing ground relative to the nation. From 2000 to 2008, the average annual rate of growth for current-dollar PCPI in Indiana was a disappointing 2.9 percent, whereas the national average rate of growth was 3.5 percent. Monroe County's annual average rate

of PCPI growth was 3.3 percent for the same period.

The housing market in Monroe County has weathered the real estate storm reasonably well. Compared to last year at this time, year-to-date median home prices are up 5.6 percent, but sales are down by 5.2 percent. Year-to-date home sales statewide registered an uptick of 2.6 percent from last year, but both Monroe County and the state saw

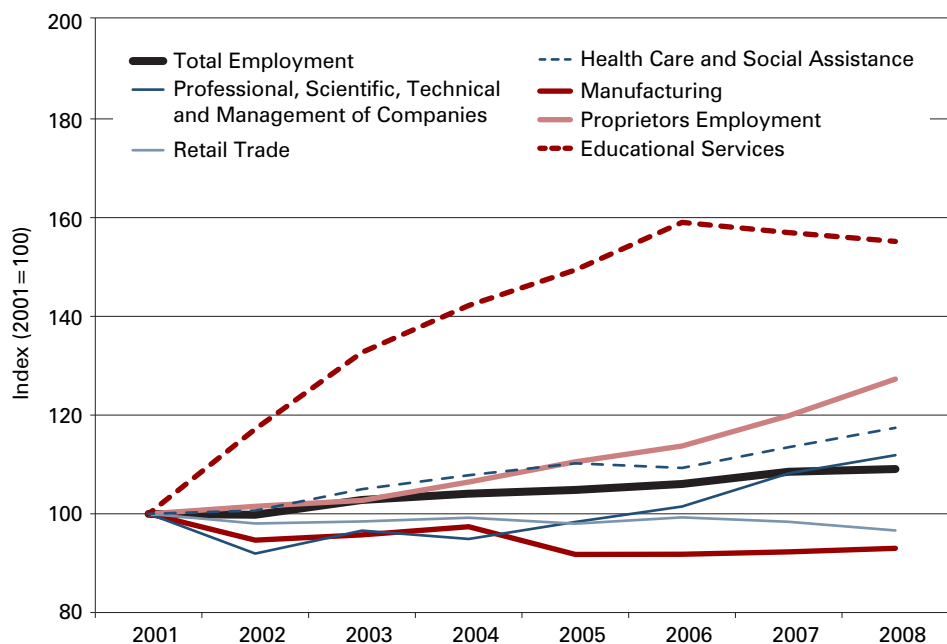
*“In the coming year, the prospects for the Bloomington area are almost optimistic compared to most of Indiana and the Midwest.”*

**FIGURE 3: Monroe County Total Employment, 2000 to 2012**



Note: Data for 2010 to 2012 are forecasts.  
Source: IBRC, using Bureau of Economic Analysis data and Moody's Analytics for forecast values

**FIGURE 4: Industries in Monroe County with Notable Employment Gains and Losses, 2001 to 2008**



Source: IBRC, using Bureau of Economic Analysis data

# Columbus Forecast 2011

**Michael J. Oakes:** Interim Head of the Division of Business and Senior Lecturer in Finance, Indiana University–Purdue University Columbus

The impact of the recession is lingering longer in Columbus than most expected. That should be no surprise since it is lingering longer everywhere than most anyone expected.

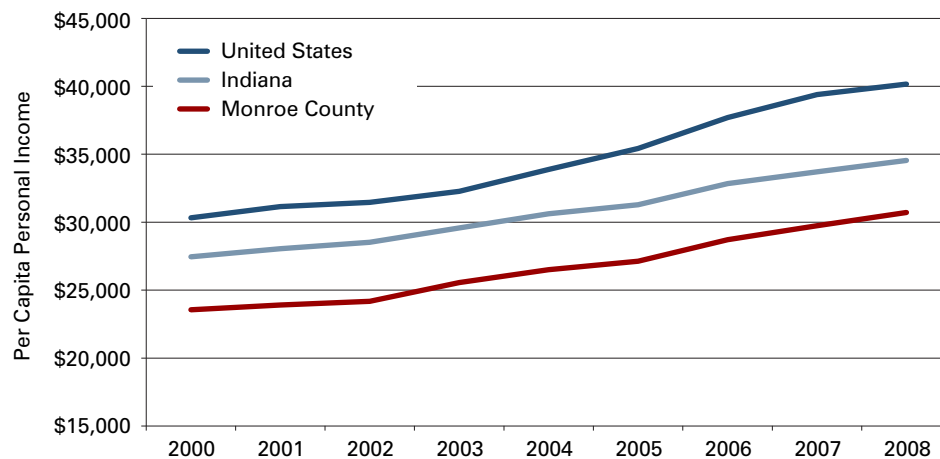
Beyond the economic data, trends and policy debates, the economy of 2011 has the feel of something waiting just off to the side. New jobs are scarce and unemployment is high—but both are getting a little better. Business is slow and frustrating—but not actually anemic. Nothing is as muscled as we have come to expect following a recession.

In Columbus, good things are happening. It is just that we all seem to be waiting for more economic fuel and thrust.

Take unemployment, for example. At this time last year, 9.6 percent of the workforce in Bartholomew County was unemployed. Now the rate had dropped to 8.5 percent (as of September, not seasonally adjusted). That is a significant improvement. The Indiana unemployment rate overall stood at 9.5 percent last September, dropped a little and rose back again. A year later, it is still 9.5 percent (see **Figure 1**).

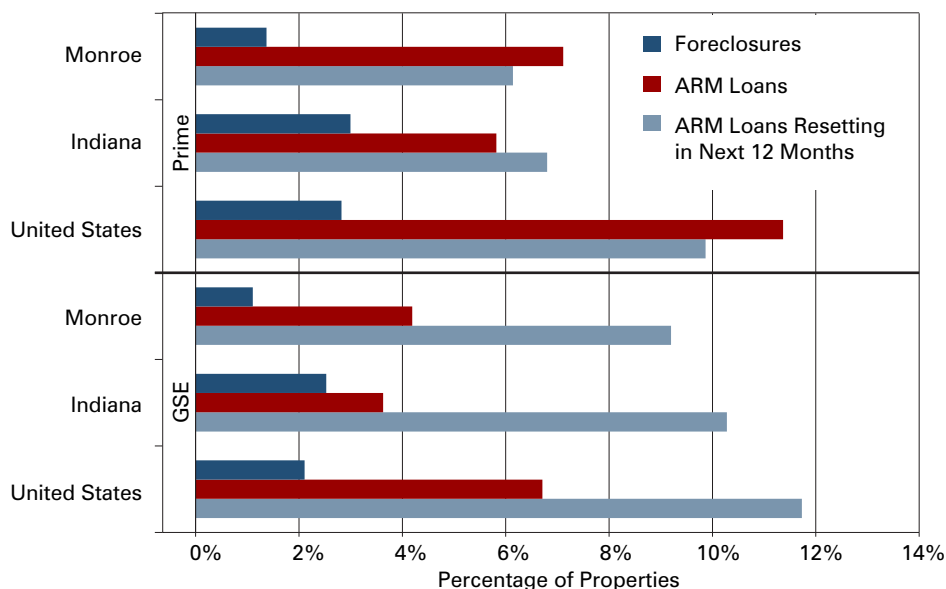
The drop in the unemployment rate is even more interesting given that more than 30 percent of the jobs here are in manufacturing (twice the proportion of Indiana overall). In other areas across the state where manufacturing plays a large role in terms of overall employment, those areas' unemployment rates are noticeably higher. In fact, both the Anderson and Kokomo metros are less dependent on manufacturing than Columbus, but their unemployment

**FIGURE 5: Per Capita Personal Income, 2000 to 2008**



Source: IBRC, using Bureau of Economic Analysis data

**FIGURE 6: Housing Distress Measures for Monroe County, Indiana and the United States, July 2010**



Source: IBRC, using New York Federal Reserve Lender Processing Services Mortgage Performance data

summer home sales drop significantly compared to last year, a consequence of the homebuyer's tax credit expiring in May 2010.

Based on foreclosure data released in the summer, the distress level of the Monroe County housing market appears to be relatively well contained and the county will not likely suffer the stresses of other regions across the state or the country. As **Figure 6** shows, Monroe County has a lower percentage of properties in

foreclosure than the state or the nation for both prime loans and the broader measure of loans guaranteed by the government-sponsored enterprises (GSE)—Fannie Mae and Freddie Mac—that serve as clearinghouses for most mortgages. ■

rates are 10.7 percent and 11 percent, respectively.

Unfortunately, one reason for the drop in the unemployment rate is a declining labor force. This most likely signals movement out of the area as individuals lose hope about their job prospects, and it varies more widely for the Columbus area than for the state overall (see **Figure 2**). Since the Columbus labor force peaked in July 2008, it has now dropped by nearly 10 percent. Bartholomew County has lost an estimated 4,600 jobs between the years 2008 and 2010—a fall of 8.3 percent.

While the downward trend in unemployment is welcome, this won't matter much to individuals and families for whom there is still a lot of job pain. And yet the activity off to the side shows much promise.

- Tourism remains strong for Columbus. A strategic focus on amateur sporting events, such as softball and baseball tournaments, brings thousands of visitors into the area.
- Camp Atterbury continues its physical expansion. Not only is that a direct driver of new jobs, the increase in training means more U.S. service personnel leasing area apartments, shopping at area retailers and eating at area restaurants.
- The housing market is still slow, but record low interest rates and a healthy supply of good homes suggest home sales are ready to pick up quickly as soon as confidence in job prospects does.
- The loss of Irwin Union Bank—last year's last straw—has turned into a nice example of economic creative destruction. First Financial Bancorp managed a clean acquisition of Irwin's assets and now is asserting itself as a full-fledged member of the community. Its planned banking

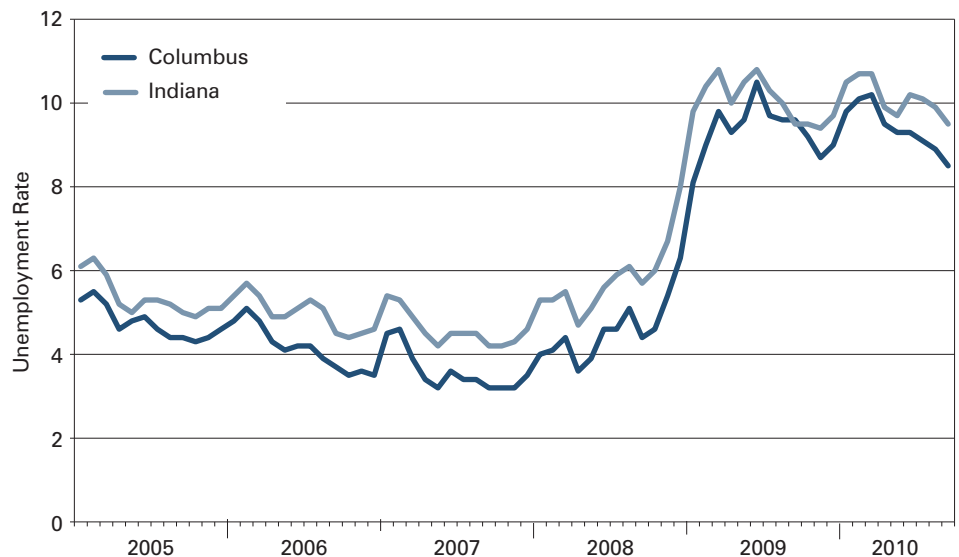
center is yet another construction project scheduled for downtown.

- Cummins hums along at a quick pace, tied into a global economy that directly benefits local Hoosiers. Its overall sales growth and profitability is obviously important to the area. It is also creating jobs: 200 in Seymour to the south, and in a dramatic announcement in October, 350 mostly professional jobs when it

takes over the former Irwin bank building just across the street from its headquarters. (This is the building First Financial will vacate in favor of its new banking center.)

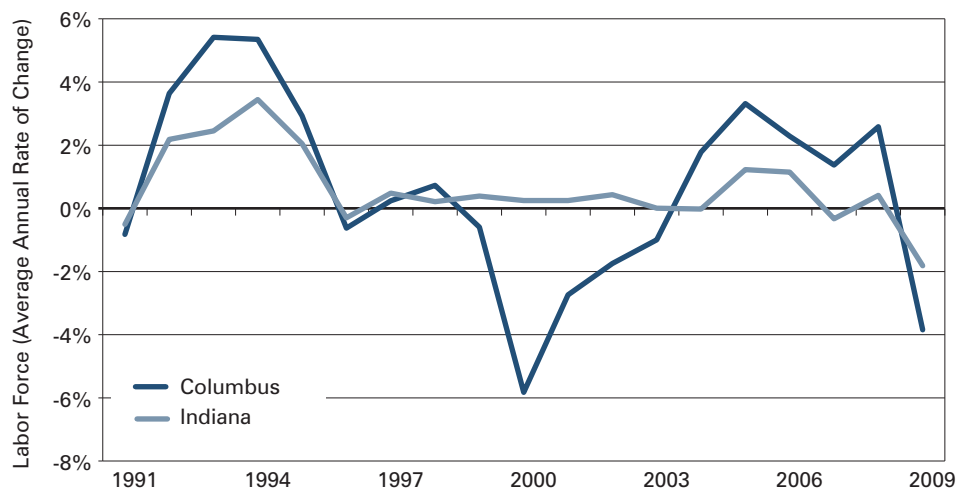
- Columbus is even taking jobs away from Mexico. Late in the summer, Caltherm Corp. announced that it would transfer equipment from its Mexico facility to an expanded Columbus plant and then bring on 32 more jobs.

**FIGURE 1: Monthly Unemployment Rates, January 2005 to September 2010**



Source: IBRC, using Bureau of Labor Statistics data

**FIGURE 2: Average Annual Rates of Change in Labor Force, 1991 to 2009**



Source: IBRC, using Bureau of Labor Statistics data



*“The housing market is still slow, but record low interest rates and a healthy supply of good homes suggest home sales are ready to pick up quickly as soon as confidence in job prospects does.”*

### The Outlook

With Indiana set to continue its slow recovery in 2011, Columbus and Bartholomew County should as well. Economic growth will climb just ahead of the state average. Personal income is expected to average 4.7 percent growth through 2013, according to the economic model from the Center for Econometric Model Research. Job growth will rise just slightly behind the state overall, though unemployment should continue to decline at a quicker pace than the state.

Despite new job creation in areas outside manufacturing, it will be several years before employment recovers to pre-2008 levels.

The good news is (and has been for a while) that manufacturing in the area benefits from its engagement with the global economy. That diversity has already helped Cummins and other area firms avoid the devastation common elsewhere in manufacturing-heavy communities. It is also likely to continue supporting the existing quality manufacturing jobs. ■

## Evansville Forecast 2011

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

While the Business Cycle Dating Committee of the National Bureau of Economic Research has determined that the 2007-2009 recession began in December 2007 and ended in June 2009,<sup>1</sup> there is considerable variation across metro areas with regard to the timing, strength and persistence of the recovery. While previous post-World War II recessions ranged in length from six months to 16 months for the national economy (averaging about 10.5 months), the 2007-2009 recession was the longest recession in the postwar period at 18 months. In addition, it was the deepest recession in the postwar period: at their lowest points, employment fell by 6.1 percent and output fell by 4.1 percent.<sup>2</sup> In comparison, employment fell by just over 5 percent and output fell by nearly 4 percent in the Evansville metro area.

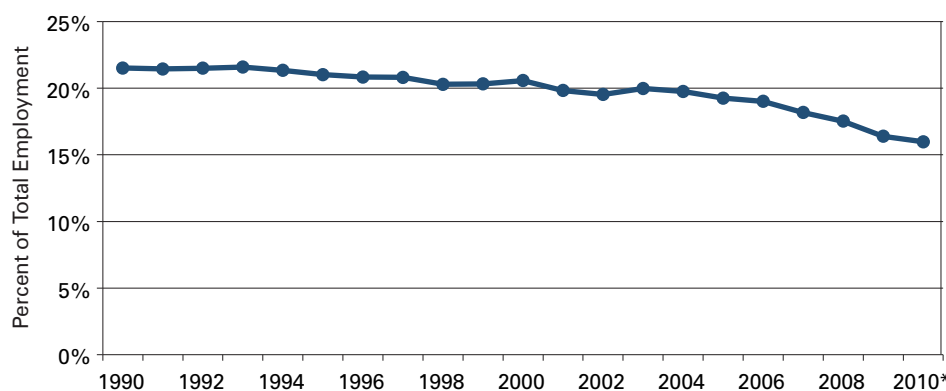
In the aftermath of the 2007-2009 recession, the recovery of the Evansville metro economy appears to be as slow, fragile and filled with uncertainty as the national recovery. Following decreases in output and

employment in 2009, real output, income and retail sales increased in 2010. However, the strength of these increases was far from spectacular.

The dynamics of the Evansville area labor market underscore this with a rise in the unemployment rate from 7.6 percent in September 2009 to 8.4 percent in September 2010 compared with a drop in the national unemployment rate from 9.5 percent to 9.2 percent over the same time period. In previous business cycles, aggregate hours and employment have frequently reached their troughs later than when the recession has officially ended.<sup>3</sup> The rise in the unemployment rate in the Evansville metro area during 2010 suggests that household employment will also reach its trough later than the official date indicating the end of the recession.

An examination of the output and employment performance of the national economy since June 2009 indicates that the current recovery has been the slowest in output growth in the first five months compared to the other postwar recoveries and the slowest in terms of employment

**FIGURE 1: Manufacturing Employment as a Percent of Total Nonfarm Employment in the Evansville Metro, 1990 to September 2010**



\*Shows September 2010 number rather than the annual average.  
Source: IBRC, using Bureau of Labor Statistics data

growth in the first eight months compared to previous postwar recessions. The Evansville metro area has coped with the recession slightly better than many metro areas in terms of relatively lower output loss and a relatively lower unemployment rate during 2008 and 2009. At the same time, it will take a number of years to recover the jobs lost during the recession. It is projected that the Evansville metro area will take less time (three to four years) than the national economy to return to employment levels prior to the recession.

In 2010, Evansville experienced job gains in traditional recession-resistant sectors such as health care and education, but employment increases were also evident in retail, wholesale trade, and the professional and business services sector. In 2010, nominal personal income is estimated to increase by 1.5 percent and real gross metro product is estimated to increase by 3.4 percent.

The manufacturing sector continues to be an important base to metro area household incomes and consumer spending activity even as the economy adjusts to an ongoing diversification away from manufacturing-industry dependence (see **Figure 1**).

The Evansville economy tracked the United States economy in 2010. Homeowners experienced some home price depreciation as existing home prices decreased from an average of \$88,200 in 2009 to \$87,300 in 2010 and mortgage originations are estimated to decrease from nearly \$1.5 billion in 2009 to \$1.3 billion in 2010. Between 2009 and 2010, single-family housing permits are estimated to have increased by 22 percent and personal bankruptcies per 1,000 persons increased from 6.2 to 7.8.

Given the proportion of output that is sold outside the metro area the strength of the recovery in the Evansville area is linked to the strength of the broader economy. As the demand for locally produced

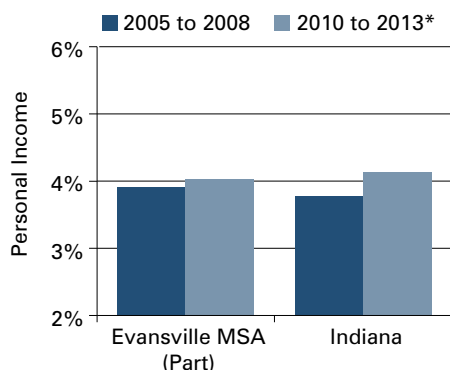
goods returns to the level of the preceding five years, personal income and output growth in the next year will be at higher levels than in 2010.

In 2011, for the Evansville metro area, output is forecasted to increase by 3.2 percent, the number of jobs is projected to increase by 1,800 and nominal personal income is projected to grow 3.9 percent. **Figures 2 and 3** provide a comparison of forecasts for the Indiana segment of the Evansville economy and the state of Indiana for the 2010-2013 period.

As one of the most manufacturing-dependent metro areas in the nation, the Evansville economy was noticeably impacted by the current recession. Since 2000, Evansville's manufacturing workforce has fallen by 26.3 percent or about 9,700 workers as of September 2010, though this is better than the 32.9 percent reduction in Indiana's manufacturing workforce over the same period.<sup>4</sup> At the same time, manufacturing earnings as a share of total earnings has remained stable at about 29 percent between 2001 and 2010 in the Evansville metro economy.

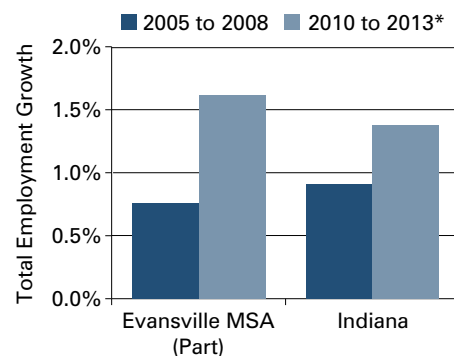
Since the pace of structural change in the Evansville economy slowed during the past year, there are likely to be added transitional challenges as the regional economy adjusts from its manufacturing-industry dependence, particularly in nondurable manufacturing (see **Table 1**). In addition, the metro has a higher percentage of the elderly age cohort than the state and a lower proportion of the youth cohort than the nation, which places greater pressures on in-migration as a source of the human capital needs of the region. ■

**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

**TABLE 1: Manufacturing Percent of Total Employment, September 2010**

Industry	Evansville Metro	United States	Indiana
Manufacturing	16.0%	9.0%	15.7%
Durable Goods	52.9	61.4	71.0
Nondurable Goods	47.1	38.6	29.0

Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

## Notes

1. See [www.nber.org/cycles/cyclesmain.html](http://www.nber.org/cycles/cyclesmain.html) for more information.
2. See [www.minneapolisfed.org/publications\\_papers/studies/recession\\_perspective/](http://www.minneapolisfed.org/publications_papers/studies/recession_perspective/).
3. See [www.nber.org/cycles/sept2010.html](http://www.nber.org/cycles/sept2010.html).
4. The 2010 data is based on September values instead of year to date.

# Fort Wayne Forecast 2011

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

The official end of the recession in June 2009 represented the bottom or “trough” of the economic downturn and from that point on we are, at least theoretically, in the recovery phase. The National Bureau of Economic Research (NBER) declarations of recession beginnings and endings depend on many factors in addition to decreases and increases in employment. In fact, it is not unusual for job growth to lag the official end of a recession by a few months. However, at least at the local level, employment change is the most obvious, readily available and tangible indicator that can be used to track the pace of a recovery.

As can be seen in **Figure 1**, total nonfarm, seasonally adjusted employment dropped 7.8 percent in the Fort Wayne MSA<sup>1</sup> from the beginning of this recession (December 2007) to its end (June 2009). This was a loss of 16,800 jobs. The percentage decline in the Fort Wayne area is similar to that experienced statewide but is substantially greater than the percentage of job loss nationally. While June 2009 (the official end of the recession) is used as the turning point in **Figure 1**, national employment actually reached its low point in December 2009. Locally, July 2009 represented the lowest point in seasonally adjusted monthly employment.

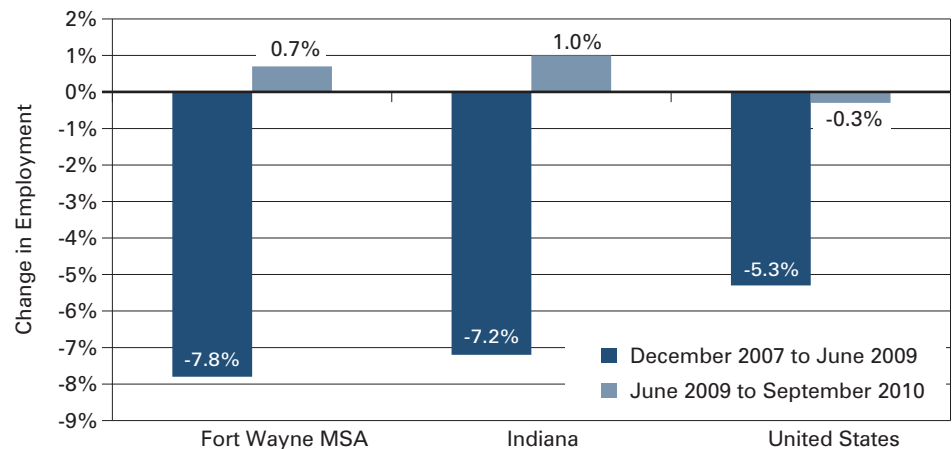
Manufacturing continues to be a major, if not the dominant, driver of the Fort Wayne area economy. As illustrated in **Figure 2**, local employment in this sector has been hit particularly hard during this recession, similar to every recession in recent times. The Fort Wayne MSA lost 8,900 manufacturing jobs during the recession. This was nearly 10 percentage points greater than the manufacturing job loss nationally and comparable to that experienced across Indiana.

If we accept the premise that the recovery began in July 2009, then how has the Fort Wayne area rebound compared with the state and national experience? Very modest improvement would best describe the change over the past fifteen months at both the local and state levels.

**Figure 1** shows the Fort Wayne area and Indiana faring better than the national employment picture over that period.<sup>2</sup>

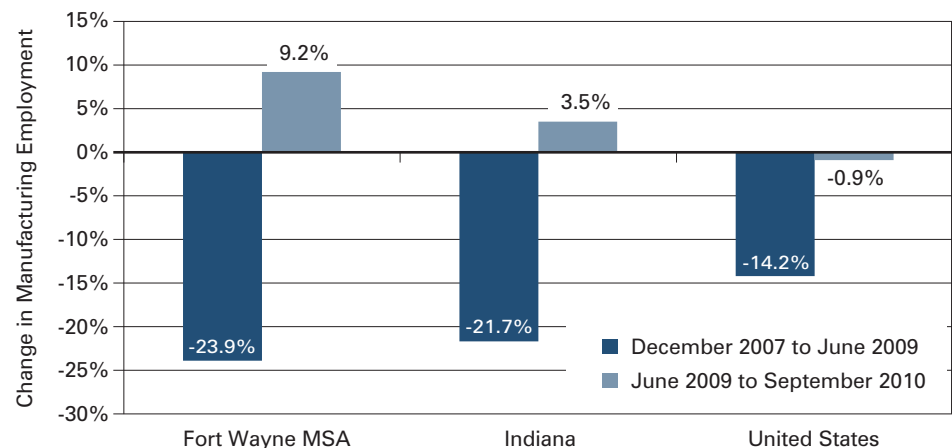
The local manufacturing sector was both a substantial portion of the Fort Wayne area job loss during the recession, accounting for over one-half of all jobs lost, and the leading sector in the current recovery to date. Total local employment has grown by approximately 1,400 jobs since the end of the recession.<sup>3</sup> The manufacturing sector has gained 2,600 jobs during the last 15 months, more than offsetting continued job losses in several other sectors.<sup>4</sup> As illustrated in **Figure 2**, the Fort

**FIGURE 1: Change in Total Nonfarm Employment during the Recession and from Recovery to Date, 2007 to 2010**



Note: Data are seasonally adjusted. September 2010 data are preliminary.  
Source: Community Research Institute, using Bureau of Labor Statistics data

**FIGURE 2: Change in Total Manufacturing Employment during the Recession and from Recovery to Date, 2007 to 2010**



Note: Data are seasonally adjusted. September 2010 data are preliminary.  
Source: Community Research Institute, using Bureau of Labor Statistics data

Wayne MSA's manufacturing rebound was greater than that experienced at both the state and national levels.

Can the manufacturing sector continue to lead the Fort Wayne area recovery? In the Midwest, manufacturing has been one of the few bright spots in the economy to date. The Federal Reserve Bank of Chicago's Midwest Manufacturing Index substantiates this rebound in manufacturing, fueled in part by the relative recovery of the automotive subsector. This index has increased 11 of the past 15 months, but has begun to level in the past couple of months. The Midwest Manufacturing Index will be an important barometer for continued manufacturing employment growth in the Fort Wayne area.

In addition to the pace of the recovery, northeast Indiana must also be concerned about where total employment will peak at the end of the recovery period. For this discussion, we will shift to a broader geographic definition of northeast Indiana that includes the following ten counties: Adams, Allen, DeKalb, Huntington, LaGrange, Noble, Steuben, Wabash, Wells and Whitley. **Figure 3** illustrates both northeast Indiana and national employment and the six recessions

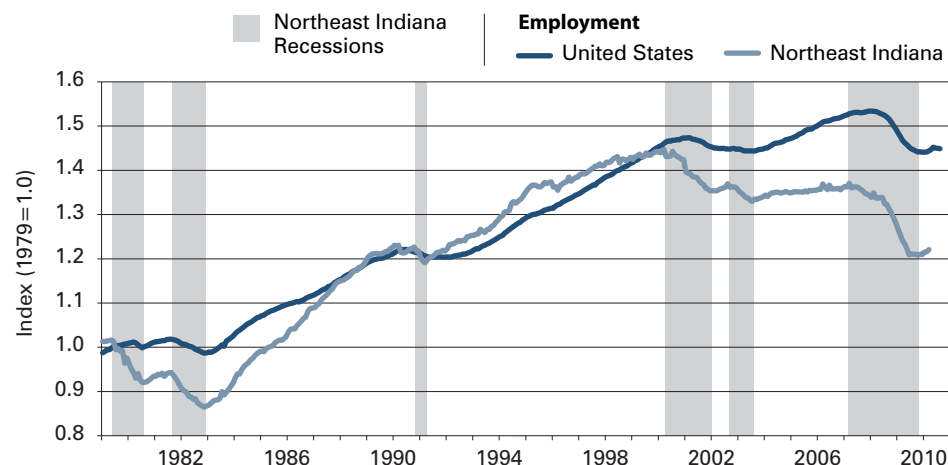
that have impacted the area since the late 1970s.<sup>5</sup> From an employment perspective, there was no meaningful recovery from the two downturns in the early part of the past decade. This was very different than what took place nationally, where employment growth occurred for several years following the early 2000s downturn.

Will the even greater loss of northeast Indiana jobs experienced during the recent recession again re-establish a lower employment "norm" after recovery, or will we see a dramatic post-recession growth in employment as occurred after the double-dip recessions of the late 1970s and early 1980s and the more mild recession of the early 1990s? The answer to that question likely rests with the strength of the manufacturing recovery nationally and to the region's ability to create basic sector professional (white collar) jobs. The former factor likely has some significant upper limits for a technology-driven, globally oriented advanced manufacturing sector and the latter will likely depend on the success of northeast Indiana's ability to reinvent much of its economic core through efforts such as Vision 2020. A cautionary note—northeast Indiana recovered most positively from those recessions where the downturn began locally

either at the same time or after it began nationally. The region did not recover as successfully from those recessions where the downturn began locally before it occurred nationally. Employment peaked in northeast Indiana in March 2007—nine months before the national recession began.

The year ahead for the Fort Wayne area is likely to look much like 2010. Positive economic announcements involving new business investment and job creation will be mixed with negative announcements of company restructuring and the gradual phase out of more than 1,000 jobs associated with the Navistar operations in Fort Wayne. Job growth will continue to be very modest—perhaps a net of 1,500 to 2,000 in total employment for the Fort Wayne MSA. However, should Navistar accelerate its Fort Wayne phase-out, this projected job growth will be even further impaired in 2011. These numbers are not going to significantly move the unemployment rate downward, but moving the rate below 8.5 percent to 9 percent would be considered a major accomplishment. As we move beyond the trough of the 2007-2009 recession, we too frequently expect this recovery to perform as most have in post-World War II downturns. However, this recession was anything but a typical event, a fact we would be wise to not easily forget. ■

**FIGURE 3: Northeast Indiana and National Employment Indexed to Northeast Indiana Recessions, 1979 to 2011**



Source: Community Research Institute, using Bureau of Labor Statistics data

## Notes

1. The Fort Wayne Metropolitan Statistical Area includes Allen, Wells and Whitley counties.
2. While national employment has grown by approximately 0.7 percent since December 2009, it is still below the seasonally adjusted total at the official end of the recession.
3. Using preliminary Current Employment Statistics seasonally adjusted data from the Bureau of Labor Statistics for the Fort Wayne MSA.
4. Using preliminary Current Employment Statistics non-seasonally adjusted data from the Bureau of Labor Statistics for the Fort Wayne MSA (note: seasonally adjusting these data does not appear to significantly modify the manufacturing job gain number).
5. The 2003 period represents a significant local economic downturn from a job loss perspective, but no national recession was declared for this event.



# Gary Forecast 2011

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

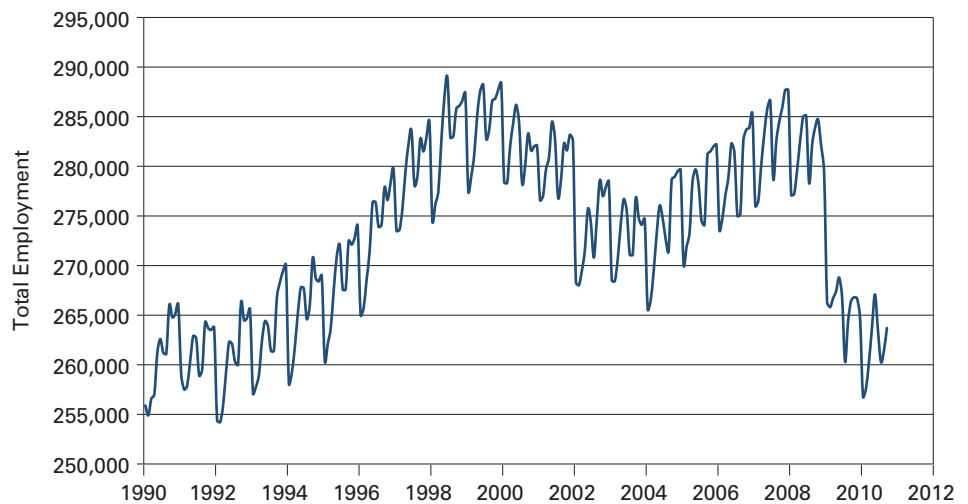
The Business Cycle Dating Committee of the National Bureau of Economic Research has determined that the current recession began in December 2007 and that the recovery began in June 2009.<sup>1</sup> There is widespread agreement that this has been the worst recession the U.S. economy has experienced since World War II, and the dimensions of the decline are striking. Between December 2007 and June 2009, employment in the United States declined by 5.3 percent, with a net loss of about 7.3 million jobs, and the unemployment rate rose from 5.0 percent to 9.5 percent.<sup>2</sup> U.S. gross domestic product (GDP) declined during this period (fourth quarter 2007 to second quarter 2009) by 4.1 percent (using chained dollars).

In northwest Indiana, employment fell 7.2 percent, a net loss of 20,800 jobs, as the unemployment rate rose from 4.6 percent to 10.6 percent. GDP data are not readily available for the local economy, but total wages paid to employees in the broader northwest Indiana region fell by 15.2 percent between the fourth quarter of 2007 and the second quarter of 2009.<sup>3</sup> It is clear that the recession hit northwest Indiana harder than it hit the nation.

Since the recovery began in June 2009, employment nationally has actually declined slightly (-0.25 percent), while the unemployment rate has increased to 9.6 percent (from 9.5 percent). Nationally, GDP has increased by 3 percent (through the second quarter of 2010). Growth in GDP during the early stages of this recovery has been disappointing, but is comparable to growth coming out of the 1991 and 2001 recessions.

Local employment in northwest Indiana has actually grown in recent months, rising by 1.3 percent between July 2009 and September 2010; as with the nation, however, this has not led to a decline in the unemployment

FIGURE 1: Total Employment in Northwest Indiana, 1990 to September 2010



Source: IBRC, using Bureau of Labor Statistics data

rate, which is essentially unchanged (10.6 percent compared to 10.5 percent). Total wages in the first quarter of 2010 (the most recent data available) for the broader northwest Indiana region have continued to decline, down by 2.8 percent since the second quarter of 2009.

The last three years have been perhaps the most difficult period the U.S. economy has encountered since World War II, so the question is, "what we can expect going forward?"

The baseline sub-state forecasts from the Center for Econometric Model Research forecasts employment growth in northwest Indiana of about 1.3 percent for 2011, 1.7 percent for 2012, and 1.5 percent for 2013. If this occurs, it will match the fastest three-year growth in employment that northwest Indiana has experienced since 1990, which occurred between 1995 and 1999, during the boom years of the second Clinton administration. Three-year growth in employment coming out of the 1991 recession averaged about 0.5 percent per year, and employment actually fell during the first three years following the end of the 2001 recession. My expectation

is that growth in employment in northwest Indiana will do what it has usually done over the past 20 years—underperform both the state and the nation. Income growth is likely to be slower as well.

## Employment and Income Growth

Coming into the recovery phase of the current business cycle, total employment is at about the same level as it was in 1995 (see Figure 1). By contrast, national employment is at roughly its 2004 level. So both locally and nationally, there is considerable opportunity for employment growth. The extent of employment growth will depend on growth in the economy, and here is where the problem would seem to lie. According to Reuters, the consensus forecast for U.S. GDP growth in 2011 is 2.7 percent.<sup>4</sup> This remains below the long-term rate of growth of GDP, which is about 3.2 percent per year from 1947 through 2010.

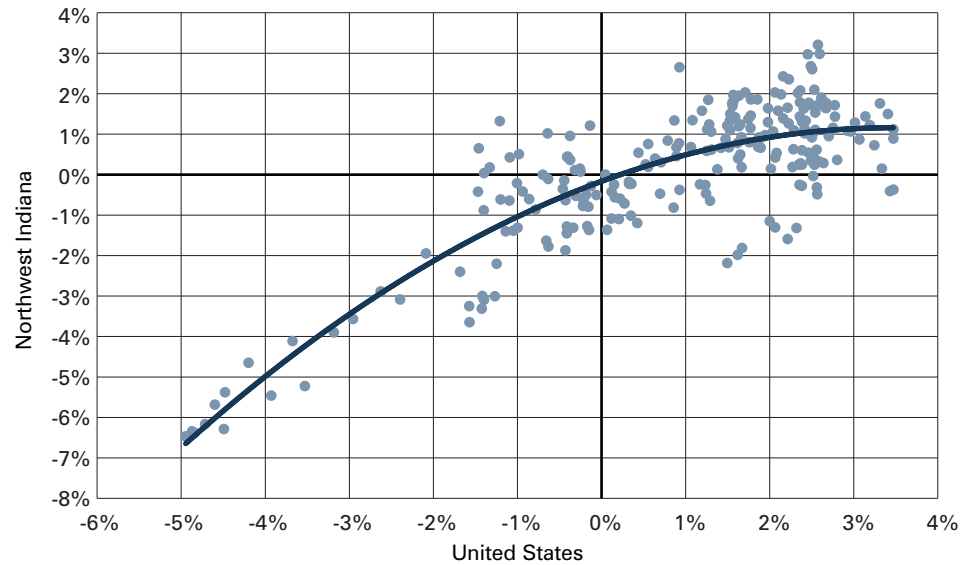
Since 1947, the average annual rate of growth in labor productivity has been 2.3 percent per year. If output grows at a rate of 2.7 percent per year, we would expect employment growth of about 0.4 percent, which

may not be enough even to reduce the national unemployment rate.<sup>5</sup> If we accept the consensus forecast about GDP growth, however, then we are almost forced to expect national employment growth of something around 0.4 percent unless productivity growth collapses. And, on average, productivity growth in the recovery phase of the business cycle since World War II has averaged about 2.4 percent, or almost the same as average productivity growth during the postwar period. So it seems reasonable to expect employment growth for the near-term future of around 0.4 percent per year nationally.

In addition, there is a fairly consistent relationship between employment growth nationally and employment growth in northwest Indiana, as seen in **Figure 2**. Unless national growth is stronger than the consensus forecast, or unless productivity growth is slower than history would lead us to believe, employment in northwest Indiana is likely to grow by about 0.2 percent. Employment at the end of 2010 seems likely to end up being about 263,600. Using employment growth of 0.2 percent for 2011, total employment should rise to end 2011 at about 264,400, or roughly 500 jobs ahead of the end of 2010.

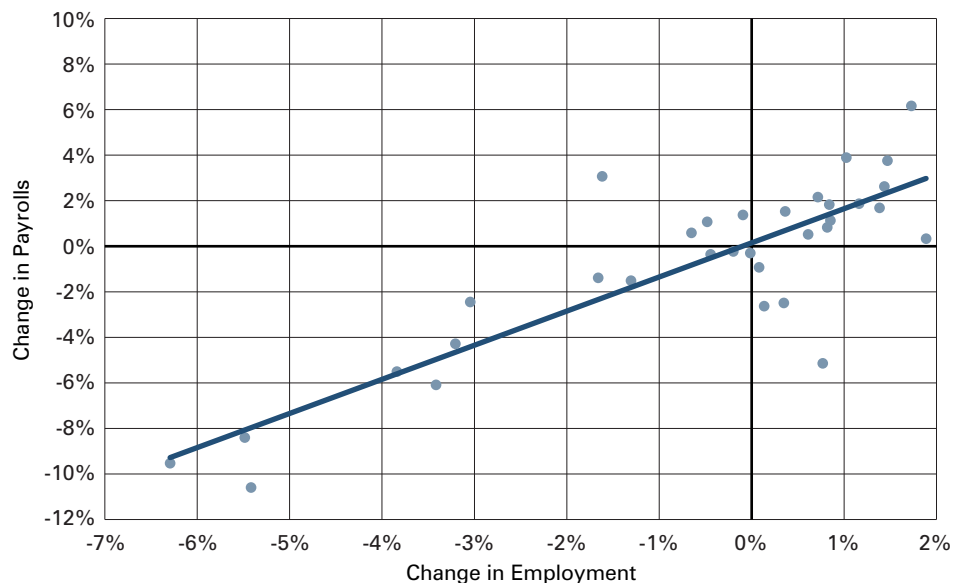
Just as there is a fairly consistent relationship between national and regional employment growth, there is also a fairly consistent relationship between growth in payrolls (adjusted for inflation) and growth in employment (see **Figure 3**). Given the 0.2 percent increase in employment we expect, we would also expect real payrolls to rise by about 0.36 percent. Real weekly wage payments should rise by about 0.2 percent (see the relationship in **Figure 4**), from about \$710 per week to about \$712 per week. As is the case with the increase in employment, the increases in income are extremely small.

**FIGURE 2: Annualized Growth of Monthly Employment in Northwest Indiana and the United States, 1990 to 2010**



Source: IBRC, using Bureau of Labor Statistics data

**FIGURE 3: Employment Growth and Growth in Total Real Wage Payments in the Broader Northwest Indiana Region, 2001:1 to 2010:1**



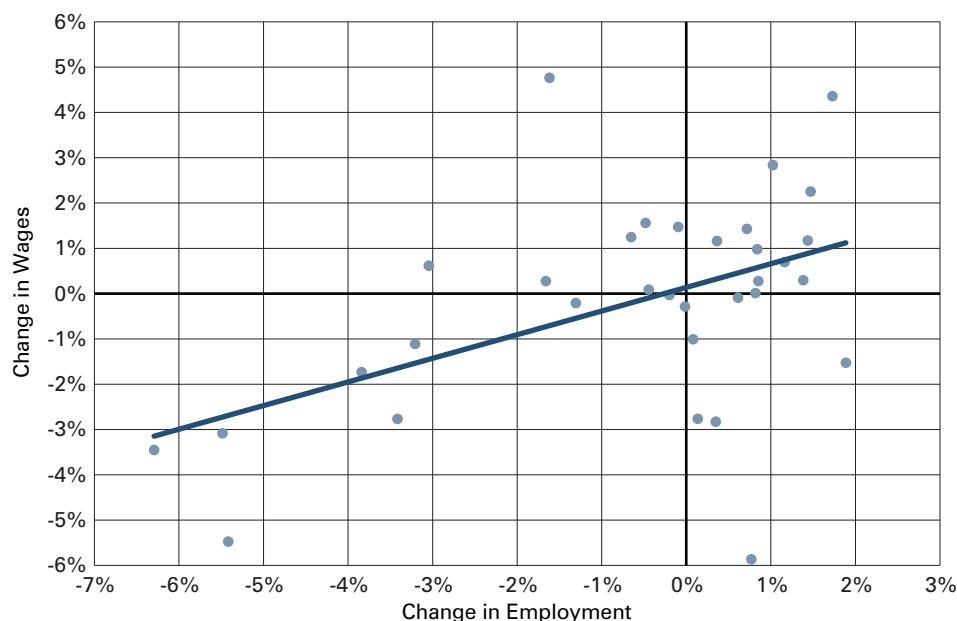
Source: IBRC, using Bureau of Labor Statistics data

### Sectoral Differences: Cases for Optimism?

Growth, of course, will differ significantly by sector (see **Table 1**). We anticipate that there will be some recovery in construction, with employment rising by 2.8 percent, or some 400 jobs. Given the extraordinary decline in construction

activity (which really hit northwest Indiana in late 2008; employment has declined by 31.5 percent from October 2008 to September 2010), this growth will still leave construction activity well below its capacity. Health care should continue its historically strong growth, adding about 1,000 jobs (or 2.7 percent

**FIGURE 4: Growth in Employment and the Change in Real Weekly Wages in the Broader Northwest Indiana Region, 2001:1 to 2010:1**



Source: IBRC, using Bureau of Labor Statistics data

**TABLE 1: Employment Forecast for Selected Sectors in Northwest Indiana, 2010 to 2011**

Industry	Change in Number of Jobs	Percent Change
Construction	410	2.8%
Health Care and Social Assistance	1,050	2.7%
Arts, Entertainment and Recreation	280	3.8%
Accommodation and Food Services	300	1.3%
Manufacturing	-900	-2.3%
Iron and Steel Mills	-530	-3.5%

Source: Based on author's calculations.

growth). Both the entertainment sector (arts, entertainment and recreation) and the hotel/food service sector (accommodation and food services) will add a significant number of jobs (about 280 and 300, respectively, or growth of 3.8 percent and 1.3 percent).

Government will not be a significant contributor to growth in the coming year. Aside from the pressure that is growing to reduce the federal government's budget deficit, federal government employment is fairly modest in northwest Indiana (and we expect a modest

decline in it). The state and many local governments are also under considerable pressure to reduce their spending levels in order to meet the mandate in the Indiana Constitution to have balanced budgets. Thus, we expect only slight growth in state or local employment, with almost all of that concentrated in local public education. Overall, we expect government employment to grow by roughly 0.2 percent, about the same as overall employment.

Major job losses are likely to continue in manufacturing. We expect the loss of around 900 manufacturing

jobs (-2.3 percent), with most of that in the iron and steel mill sector (a loss of 530 jobs, or -3.5 percent.).

Other sectors seem likely to shed jobs as well, although in smaller numbers (and as a smaller percentage of employment). Job losses seem likely in the utilities, transportation and warehousing; finance; and real estate sectors.

### Concluding Remarks

The recession hit northwest Indiana severely. Not only were job losses large, they were concentrated in the highest wage sectors of the economy (construction, manufacturing and finance). We expect growth in only one of these hard-hit sectors over the next year, and construction will remain severely below its potential.

Unless national economic growth is substantially more robust than expected, there is little reason to expect much upside to our forecast. The northwest Indiana economy will do better than it has done in 2009 or 2010, but the coming year will not bring a boom. What lies ahead is likely to be less unpleasant times, rather than a robust recovery. ■

### Notes

1. See [www.nber.org/cycles/cyclesmain.html](http://www.nber.org/cycles/cyclesmain.html).
2. Here we are looking at payroll employment, defined as the number of paid employees at business firms. This is different from household employment, which is measured by the Current Population Survey and is used, among other things, in the determination of the unemployment rate. Unless otherwise noted, all data for the United States come from either the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)) or the Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)) website. All data for northwest Indiana can be found at STATS Indiana ([www.stats.indiana.edu](http://www.stats.indiana.edu)).
3. This article defines northwest Indiana as the four-county Gary Metropolitan Division. The broader northwest Indiana region includes seven counties: Jasper, Lake, LaPorte, Newton, Porter, Pulaski, and Starke.
4. "Economists Cut U.S. Growth Forecast Again," *Reuters*, September 6, 2010, [www.reuters.com/article/idUSTRE6880KI20100909](http://www.reuters.com/article/idUSTRE6880KI20100909).
5. According to Reuters, the consensus forecast for the U.S. unemployment rate by the end of 2011 is 9 percent.

# Indianapolis-Carmel Forecast 2011

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

The Indianapolis-Carmel metropolitan area<sup>1</sup> should continue to slowly recover over the course of 2011, with unemployment declining, incomes rising and a general economic rebound. However, the recovery will be modest and leave economic growth below historic levels and unemployment above normal levels, even by the end of the year.

## Employment<sup>2</sup>

The unemployment rate in the Indianapolis metro is 8.7 percent as of September 2010, about half a percentage point higher than a year ago. To put this number into some perspective, there are more than 53,000 fewer people working now than there were three years ago and 42,500 more unemployed. **Figure 1** provides a comparison between the unemployment rate in Indianapolis and Indiana. While Indianapolis has fared better, the gap in the unemployment rate is narrowing.

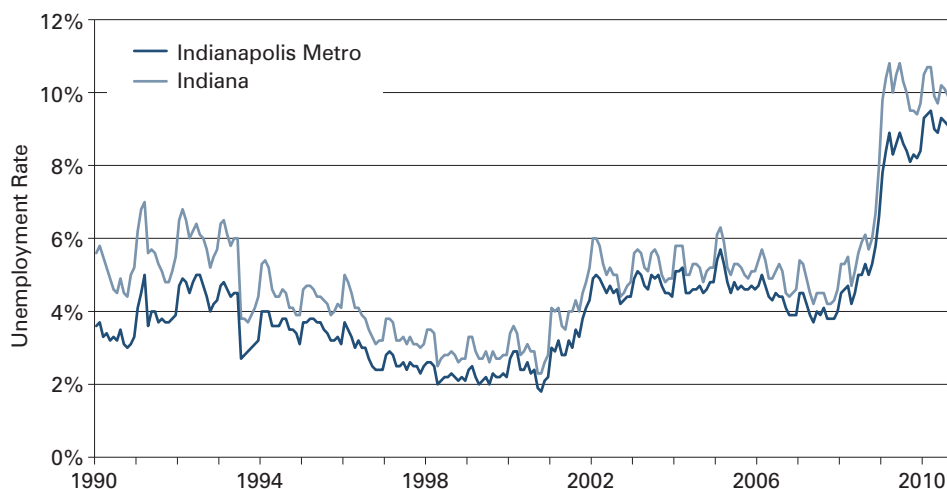
Modest economic growth in 2011 should lead to the creation of approximately 20,000 new jobs by the end of 2011. This will be enough to lead to a modest decline in the unemployment rate by the end of the year, but it will likely take three to four years before we have a full employment recovery.

## Income<sup>3</sup>

Aggregate income for the Indianapolis metro area fell by 0.4 percent over the past year, as a 1.8 percent increase in average wages was not enough to offset a 2.1 percent decline in the number of jobs. Of course, not all industries fared the same during the economic downturn. **Table 1** provides a breakdown of the change in wages and number of jobs over the past year.

Job losses in construction and manufacturing continue to hurt the local economy, even as average

**FIGURE 1: Unemployment Rates for the Indianapolis Metro and Indiana, 1990 to September 2010**



Source: IBRC, using Bureau of Labor Statistics data

**TABLE 1: Wages and Jobs for Selected Industries in the Indianapolis Metro, 2009:1 to 2010:1**

Industry	Average Wages		Jobs	
	Weekly	Change since 2009	Percent of Total, 2010	Change since 2009
Total	\$869	1.8%	100.0%	-2.1%
Health Care and Social Services	797	-1.8	14.4	3.4
Administrative and Support and Waste Management and Remediation Services	526	-1.3	6.9	2.1
Educational Services	751	-2.2	8.2	0.5
Public Administration	906	3.7	5.3	0.3
Retail Trade	462	-1.5	10.7	-1.6
Professional, Scientific, and Technical Services	1,163	0.3	5.3	-1.6
Accommodation and Food Services	275	1.9	8.7	-2.8
Finance and Insurance	1,373	12.1	5.0	-3.0
Transportation and Warehousing	695	-1.3	6.1	-3.1
Other Services (Except Public Administration)	583	-1.9	3.2	-3.4
Management of Companies and Enterprises	1,770	5.4	1.3	-4.3
Real Estate and Rental and Leasing	773	-0.8	1.7	-4.5
Wholesale Trade	1,042	-1.9	4.8	-5.3
Information	1,097	1.7	2.0	-6.0
Manufacturing	1,704	9.5	10.1	-6.7
Arts, Entertainment, and Recreation	1,107	5.5	1.2	-7.4
Construction	919	1.7	4.1	-12.1

Source: STATS Indiana, using QCEW data



wages in those areas bounced back from 2009. Wages increased in manufacturing (9.5 percent), along with several other industries, including finance and insurance (12.1 percent), management (5.4 percent) and arts and entertainment (5.5 percent). The health care industry remains a large part of the Indianapolis economy, and jobs in the field increased by 3.4 percent. In addition, educational services and public administration both experienced modest increases in the number of jobs.

Over the next few years, wages should continue to increase at a rate of 3 percent per year, which will provide a boost to the local economy.

### Real Estate and Residential Construction

The Indianapolis real estate market continues to struggle. Indianapolis ranks 20th out of the largest 100 metro areas, with 5.9 percent of homes with mortgages in the foreclosure process. Another 4.7 percent of mortgage holders are seriously delinquent on their mortgages. While these numbers are alarming, they have actually been growing more slowly than other areas due to relatively stable home prices.

Over the past year, the median home price fell by 2.9 percent, while the number of unsold homes on the market increased by 1.4 percent.<sup>4</sup> In inflation-adjusted terms, home prices in the area are down 7.7 percent since 2007. However, this decline in housing is relatively modest compared to other metropolitan areas both in the Midwest and nationally. Demand for housing remains soft even with extremely low interest rates. Furthermore, the high number of foreclosures indicates that the supply of homes on the market will continue to grow over the course of the year. Don't expect home prices to increase anytime soon.

New residential construction remains weak. While new residential building permits in 2010 will likely exceed 2009 levels, they tailed off toward the end of the year, suggesting further declines in the construction industry. While this is bad news for the construction industry, it does suggest that the oversupply of homes is correcting itself, and that the local housing market will stabilize toward the end of 2011.

### Forecast

The coming year should bring some improvement to the Indianapolis economy. Economic production will increase between 2 and 3 percent. This in turn will lead to the creation of 20,000 new jobs in the area. While this will be a welcome improvement in the economy, it is not likely to be sufficient to bring down the area unemployment rate very much. Furthermore, a weak residential housing market will remain as a drag on the economy as a whole. The Great Recession continues to lead to weakness in the Indianapolis economy, and likely will for at least a couple more years. ■

### 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 was collected from the Bureau of Labor Statistics reports accessed from the STATS Indiana website.
3. Income data come from the Quarterly Census of Employment and Wages at the STATS Indiana website.
4. Housing prices and supply of houses were collected from [www.housingtracker.net](http://www.housingtracker.net). Foreclosure data was collected from [www.foreclosure-response.org](http://www.foreclosure-response.org).

# Kokomo Forecast 2011

**Jason VanAlstine: Assistant Professor of Economics**, Indiana University Kokomo

**A**fter the worst two-year stretch in recent memory, the local economy in Kokomo is finally starting to show signs of improvement. Large-scale investments at some of the area's largest manufacturing facilities have led to increased job opportunities and optimism. This change in attitude can even be seen in the national media, as Kokomo has gone from one of "America's fastest-dying towns"<sup>1</sup> to a "town back from the brink."<sup>2</sup>

### Employment

Unemployment rates in 2010 have been declining, with rates above 13 percent for the first three months, rates above 12 percent for the next four months, and rates below 12 percent in August and September. As seen in **Figure 1**, the unemployment rate has remained above both the national and state averages for the entirety of the past three years, but it has been closing the gap since June 2009, especially in the third quarter of 2010. This decrease has occurred in spite of an increase in the number of people who have resumed their job search this year (the labor force increased by approximately 2.2 percent since January). Combining this information with recent news about investment and hiring at Chrysler, Delphi and Abound Solar Inc. indicates that the local economy is trending in the right direction in recent months and should continue to do so in the near future.

However, if a longer view is taken, a disturbing trend has emerged over the past 10 years. More than 12,600 jobs have left the Kokomo area since its peak employment level in May 2000, a decline of 25

percent (see **Figure 2**). The rate of job loss is far exceeding the rate of population decline, which points to future problems in both the labor market and housing market if the recent gains in employment are not sustained and built upon. Additionally, analysis of Howard County commuting patterns shows a net loss in population at the end of the work day, decreasing the amount of earned income that remains in the local economy.

### Sector Analysis

**Table 1** lists the five largest economic sectors in the Kokomo MSA based upon employment. Although manufacturing has taken a beating in the last decade, it still remains the largest sector, comprising nearly one quarter of all of the jobs in the area. A recent uptick in manufacturing activity and a growing health sector due to the area's aging population have the local economy on the rise. As with the national economy, many of the other sectors such as retail and education will not see sizeable gains until the overall health of the nation's employment improves.

### Residential Real Estate

Residential real estate in the area has taken a tremendous hit recently, with an annual decline in prices exceeding 10 percent from the first quarter of 2009 to the first quarter of 2010.<sup>3</sup> The Indiana Association of Realtors Real Estate Market Report for September is summarized in **Table 2** using combined data for Howard and Tipton counties.<sup>4</sup> There has been an increase of 12 percent in the number of closed sales in the first nine months of this year compared to the first nine months of last year. List prices have also increased by 9 percent comparing September 2009 to September 2010. FiServ has predicted a small loss in the median home price

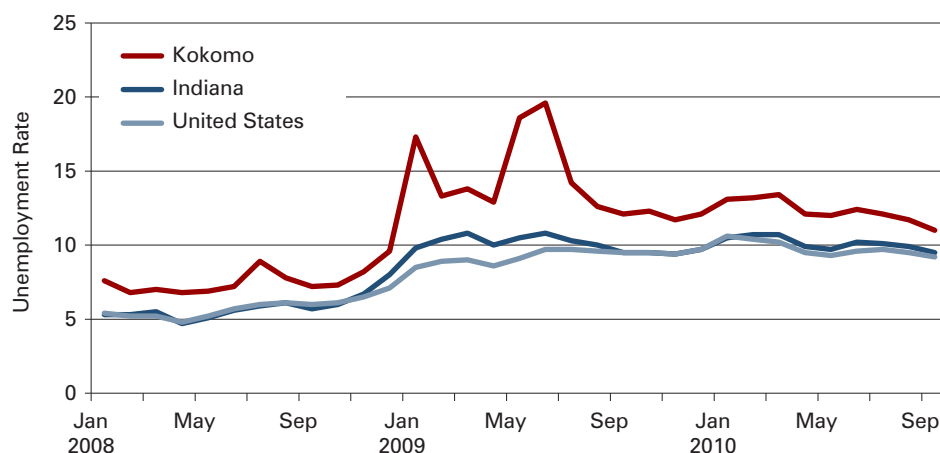
for the first quarter of 2010 through the first quarter of 2011, but predicts a 0.9 percent gain for the following year.<sup>5</sup>

### Forecast

The short-term economic forecast for Kokomo is the best that it has been in several years. The Indiana Business Research Center is forecasting modest growth in area employment (above 1 percent in each of the next three years), while income growth in the area is forecast to outpace state increases, averaging over 4.4 percent

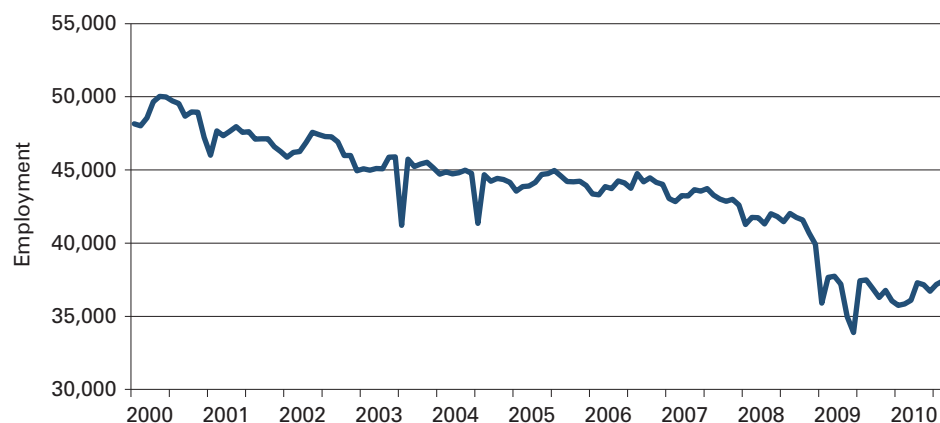
*“Although manufacturing has taken a beating in the last decade, it still remains the largest sector, comprising nearly one quarter of all of the jobs in the area.”*

**FIGURE 1: Unemployment Rate Comparison, January 2008 to September 2010**



Source: IBRC, using Bureau of Labor Statistics data

**FIGURE 2: Employment Trend for the Kokomo MSA, 2000 to 2010**



Note: Hash marks indicate January and July of each year.  
Source: IBRC, using Bureau of Labor Statistics data

# Lafayette Forecast 2011

**Tanya Hall: Economic Research**

**Analyst**, Indiana Business Research Center, Kelley School of Business, Indiana University

**Molly Manns: Associate Editor**, Indiana Business Research Center, Kelley School of Business, Indiana University

**TABLE 1: Sector Analysis for the Kokomo MSA, 2008 to 2010**

Sector	2008	2009	September 2010	
			Employment	Percent of Total Jobs
Manufacturing	12,200	8,300	9,300	22.6%
Government	7,800	7,500	7,500	18.2%
Retail	5,600	5,200	5,100	12.4%
Education and Health*	3,931	4,189	4,516	12.2%
Leisure and Hospitality	4,500	4,200	4,400	10.7%

\*Data for this sector were unavailable for September, so a comparable measure was constructed using the most recent data available (March 2010).

Source: Bureau of Labor Statistics

**TABLE 2: Residential Real Estate for the Kokomo MSA, Year-to-Date September 2009 to September 2010**

Residential Properties	2009	2010	Percent Change
New Listings	1,558	1,478	-5%
Closed Sales	718	806	12%
Median Sales Price*	\$69,450	\$75,500	9%

\*The median sales price shows data for Howard County only.

Source: Indiana Association of Realtors

per year for the next three years. Conexus Indiana is also forecasting income growth for the area, predicting an increase of nearly 18 percent in the area's manufacturing income.

The long-term forecast depends on the area's ability to continue to grow employment and retain its population. Additionally, the area needs to close the gap on educational attainment compared to national averages in order to diversify the job skills of the local workforce. The real estate market will continue to be stagnant, with little or no increase in property values for the coming year. In summary, the area should see steady growth in economic activity, particularly in manufacturing and health services, and positive (although smaller) growth in employment and real estate for the next year. ■

## Notes

1. Matt Woolsey, "In Depth: America's Fastest-Dying Towns," *Forbes.com*, December 9, 2008, [www.forbes.com/2008/12/08/townsten-economy-forbeslife-cx\\_mw\\_1209dying\\_slide\\_9.html](http://www.forbes.com/2008/12/08/townsten-economy-forbeslife-cx_mw_1209dying_slide_9.html).
2. "The Turnaround," *CNNMoney.com*, accessed November 5, 2010, [http://money.cnn.com/video/smallbusiness/2010/10/17/sbiz\\_kokomo\\_downtown\\_2.cnnmoney/](http://money.cnn.com/video/smallbusiness/2010/10/17/sbiz_kokomo_downtown_2.cnnmoney/).
3. "Real Estate: Your Local Forecast," *CNNMoney.com*, accessed November 4, 2010, <http://cgi.money.cnn.com/tools/homepricedata/index.html?market=9IN>.
4. These reports are archived at [www.indianaishome.com/4\\_0\\_Reports.asp](http://www.indianaishome.com/4_0_Reports.asp).
5. See footnote 3.

The year 2009 was characterized by a turbulent economy, and many probably thought 2010 did not feel much better. While the economy improved in 2010, it was still slower than the languid recovery forecasted. Economists continuously downgraded their cautiously optimistic forecasts, consumer confidence declined, and employment figures left something to be desired. As we look to 2011, it appears that the Lafayette Metropolitan Statistical Area (MSA) will continue to recover at a conservative rate. This slow pace of recovery is on par with what's expected nationally.

Despite the prediction of a modest recovery, the Lafayette MSA, which includes Tippecanoe, Benton and Carroll counties, is still viewed as an attractive area to live and work. After years of strong population growth, the MSA population is expected to rebound in 2011 following the minor drop experienced in 2010 (-0.7 percent), as shown in **Figure 1**. This population growth has been driven by Tippecanoe County, home to Purdue University and its research park. It is expected that the metro will add about 800 residents in 2011 (a 0.4 percent growth).

## Labor

As seen in **Table 1**, except for June and July 2010, the Lafayette MSA consistently performed better than Indiana and the United States in the past year. The uptick in

unemployment in June and July 2010 compared to state and national levels mirrors the trend seen in 2009 and may be reflective of the change in the labor force due to students leaving the area during summer break.

**Table 2** compares the employment between 2009 and 2010 in the

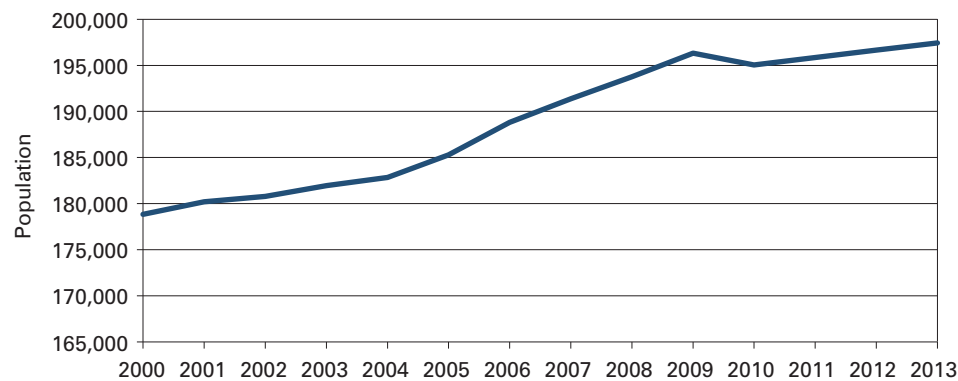
Lafayette MSA. In 2010, the Lafayette MSA continued to shed jobs in nearly every industry. Last year, it was forecasted that the Lafayette MSA would see this shedding of jobs through the second quarter of 2010 before a rebound in hiring occurs. As of September 2010, total nonfarm

employment has declined by 2,856 jobs (-3.2 percent) from the 2009 average.

The goods production sector continued to take the brunt of the job losses in 2010 (-7.5 percent or 1,200 jobs), with 922 of these job losses occurring in manufacturing. While some manufacturers did rehire laid-off workers or hired additional workers (Wabash National Corporation, Caterpillar and Subaru of Indiana Automotive), it was not enough to offset the additional shedding done by other manufacturers in the area. Manufacturing comprised 15 percent of jobs in the Lafayette MSA in 2010, down from its peak of 21.5 percent in 2000.

Although the service-providing sector was not as severely impacted in 2010, it still saw a 2.4 percent loss in jobs. The information industry

**FIGURE 1: Population in the Lafayette MSA, 2000 to 2013**



Note: Data for 2010 to 2013 are forecasts.  
Source: IBRC, using U.S. Census Bureau data and CEMR forecasts

**TABLE 1: Unemployment for the Lafayette MSA, Indiana, and the United States, 2009 to 2010**

Year	Month	Lafayette MSA	Indiana	United States
2009	August	9.2%	10%	9.6%
	September	8.9	9.5	9.5
	October	8.5	9.5	9.5
	November	8.7	9.4	9.4
	December	8.8	9.7	9.7
	<b>Annual</b>	<b>9</b>	<b>10.1</b>	<b>9.3</b>
2010	January	9.6	10.5	10.6
	February	9.4	10.7	10.4
	March	9.4	10.7	10.2
	April	8.8	9.9	9.5
	May	9.1	9.7	9.3
	June	10.2	10.2	9.6
	July	9.8	10.1	9.7
	August	9.1	9.9	9.5
	September	8.5	9.5	9.2

Source: IBRC, using Bureau of Labor Statistics data

**TABLE 2: Lafayette MSA Employment, 2009 to 2010**

Industry	2010*	Change since 2009	Percent Change 2009-2010
Total Nonfarm	89,244	-2,856	-3.2%
Total Private	61,689	-1,411	-2.3%
Service-Providing	73,144	-1,756	-2.4%
Professional and Business Services	5,256	156	3.0%
Financial Activities	3,700	0	0.0%
Private Educational and Health Services	10,778	-22	-0.2%
Leisure and Hospitality	8,644	-56	-0.6%
Trade, Transportation and Utilities	13,656	-144	-1.1%
Other Services	2,656	-144	-5.4%
Information	900	-100	-11.1%
Government	27,556	-1,444	-5.2%
Goods-Producing	16,100	-1,200	-7.5%
Manufacturing	13,378	-922	-6.9%
Mining, Logging and Construction	2,722	-278	-10.2%

\*January through September average. September data are preliminary. Annual data are used for 2009.

Source: IBRC, using Bureau of Labor Statistics data



experienced the most dramatic decline on a percent basis (-11.1 percent or 100 jobs) since 2009.

In 2011, it is anticipated that all industries will increase their employment in response to an improved economic outlook and increased demand. The strongest growth is expected in the professional and business activities industry, followed by growth in certain manufacturing industries (e.g., motor vehicles and fabricated metals).

Coinciding with the Lafayette MSA's overall decline in employment in 2009, average weekly wages declined 4 percent from the first quarter of 2009 to the first quarter of 2010. Four out of the 20 major sectors had a wage increase during that time (not adjusted for inflation), as seen in **Table 3**. In 2011, the average weekly wage and salary earnings may again decline slightly with the addition of new workers at lower pay scales and the approach of a productivity plateau.

The Lafayette MSA's per capita personal income (PCPI) continues to lag behind the United States, with the 2009 PCPI only 76.4 percent of the national figure and 85.6 percent of Indiana's 2009 PCPI; however, the Lafayette MSA is projected to see a 4 percent increase in its PCPI in 2010. The difference between the U.S. and the Lafayette MSA PCPI is likely attributable to the occupational mix in the MSA area and the fact that Indiana's highest earning tier of occupations tend to be paid less than similar occupations elsewhere, regardless of cost of living factors.<sup>1</sup> In 2011, the local PCPI is estimated to increase roughly 3.2 percent.

## Housing

Residential construction peaked in 2000 with 1,830 permits issued for single and multi-family building permits in the Lafayette MSA (see

**TABLE 3: Average Weekly Wages in the Lafayette MSA, 2009:1 to 2010:1**

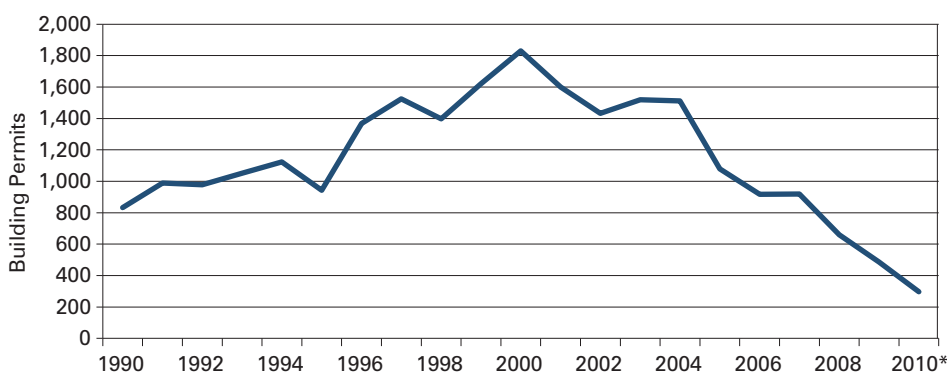
Industry	2010:1	Percent Change
Total	\$712	-4.0%
Agriculture, Forestry, Fishing and Hunting	649	6.6
Other Services (Except Public Administration)	456	4.8
Accommodation and Food Services	235	4.0
Information	494	0.2
Unallocated	0	0.0
Professional, Scientific, and Technical Services	877	-0.6
Retail Trade	390	-1.3
Transportation and Warehousing	689	-1.9
Administrative and Support and Waste Management and Remediation Services	421	-2.1
Educational Services	955*	-3.2
Real Estate and Rental and Leasing	524	-3.7
Public Administration	706	-3.7
Health Care and Social Services	679	-3.7
Arts, Entertainment, and Recreation	219*	-3.9
Construction	698	-4.3
Manufacturing	1,089*	-5.6
Finance and Insurance	876	-7.4
Wholesale Trade	860	-10.0
Management of Companies and Enterprises	696	-42.1

\*These totals exclude county data that are not available due to nondisclosure requirements.

Note: Utilities and mining data are not available due to nondisclosure requirements.

Sources: IBRC, using QCEW data from the Bureau of Labor Statistics

**FIGURE 2: Lafayette MSA Residential Building Permits, 1990 to 2010**



\*Reflects year-to-date figures through September 2010

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

**Figure 2).** Since 2004, there has been a dramatic slowdown in building permits (2006 and 2007 are the exception), ranging from 15 percent

to 30 percent a year. January to September data for 2010 indicate that building permit issuances are actually

up slightly (8.2 percent) over the 2009 data for the same time period.

In 2009, 2,049 homes were sold in the Lafayette MSA, down 10.8 percent since 2005. Thirty-three percent of homes sold in the MSA were built in 2000 or later, compared to 23 percent statewide (see **Figure 3**).

While Indiana did not experience the housing bubble burst to the extent of states like Florida and California, it was not immune to the overall downhill slide in home prices. The same holds true for the Lafayette MSA. While Indiana saw a decrease in median home values of 9.1 percent from 2005 to 2009, median

home values dropped 10.6 percent in Benton County and declined 15.3 percent in Carroll County. However, the median values for Tippecanoe County were unchanged.

A comparison of the January through September figures for 2009 and 2010 finds that the Lafayette MSA real estate market is still relatively soft, as there has been a 0.9 percent decrease in closed sales (see **Table 4**). All three counties experienced an increase in median sales price, ranging from 0.4 percent in Tippecanoe to 12.8 percent in Carroll County.

In 2011, it is anticipated that home sale prices may increase modestly; however, demand for building permits may be languid despite low mortgage interest rates until the employment situation improves and consumers regain confidence in the economy. In the meantime, it is anticipated that the Lafayette MSA will continue to work off the excess inventory of houses to a more manageable level.

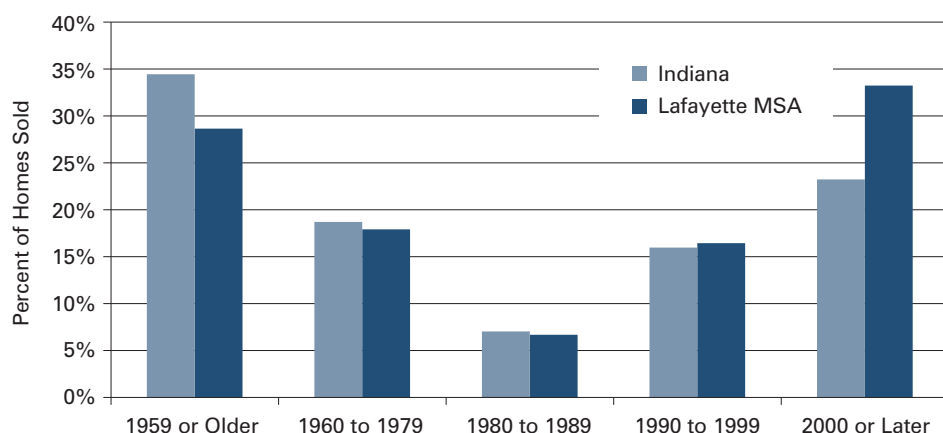
### Conclusion

Overall, the Lafayette MSA outlook is expected to show a slight growth in population, employment, PCPI and housing activity, yet experience minor downturns in wages and earnings. The recovery will be modest and dependent on the rate of job growth and consumer confidence in the economy. ■

### Notes

1. For more research on the differences between U.S. and Indiana PCPI, see Timothy F. Slaper and Ryan A. Krause, "Mix of Occupations Impacts Metro Income," *Indiana Business Review*, Summer 2010, [www.ibrc.indiana.edu/ibr/2010/summer/article2.html](http://www.ibrc.indiana.edu/ibr/2010/summer/article2.html).

**FIGURE 3: Percent of Homes Sold by Year Built in the Lafayette MSA and Indiana, 2009**



Source: IBRC, using Indiana Association of Realtors data

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

	Lafayette MSA			Benton County			Carroll County			Tippecanoe County		
	2009	2010	Change	2009	2010	Change	2009	2010	Change	2009	2010	Change
New Listings	2,766	2,815	1.8%	96	98	2.1%	278	255	-8.3%	2,392	2,462	2.9%
Closed Sales	1,475	1,461	-0.9%	40	50	25.0%	117	120	2.6%	1,318	1,291	-2.0%
Median Sales Price	n/a	n/a	n/a	\$63,000	\$65,500	4.0%	\$72,250	\$81,500	12.8%	\$121,500	\$122,000	0.4%
Months Supply of Inventory	10.9	9.6	-11.7%	12.9	9.9	-23.3%	12.9	11.8	-8.5%	6.8	7.1	4.4%
Inventory of Homes for Sale	1,212	1,253	3.4%	64	53	-17.2%	166	162	-2.4%	982	1,038	5.7%

Note: Data for both years show January to September year-to-date.  
Source: IBRC, using Indiana Association of Realtors data

# Louisville Forecast 2011

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

The national recession officially ended in June 2009, and the middle of 2009 also coincided with the deepest year-over-year job losses locally. Since that time, job losses have subsided, and the Louisville metro area actually saw positive year-over-year job gains for a short time in the middle of 2010. Since then, the nation's economy hit a soft patch, raising concerns of a double-dip recession. The nation will escape a double-dip recession, but the key question for next year is the impact of national growth on the regional economy.

Last year, our outlook for the Louisville metro was slow growth, elevated rates of unemployment and consumer retrenchment. This year, the region will see continued improvement in the regional economy, but will not return to the labor market conditions that existed at the start of the recession. However, compared to last year we will make noticeable progress. There will be a continuation of economic growth and employment. The region's unemployment rate will remain somewhat elevated but with a downward trend. Consumers will continue to show their vigilance, and discretionary spending will continue to take a back seat to frugality.

## Labor Markets and Employment

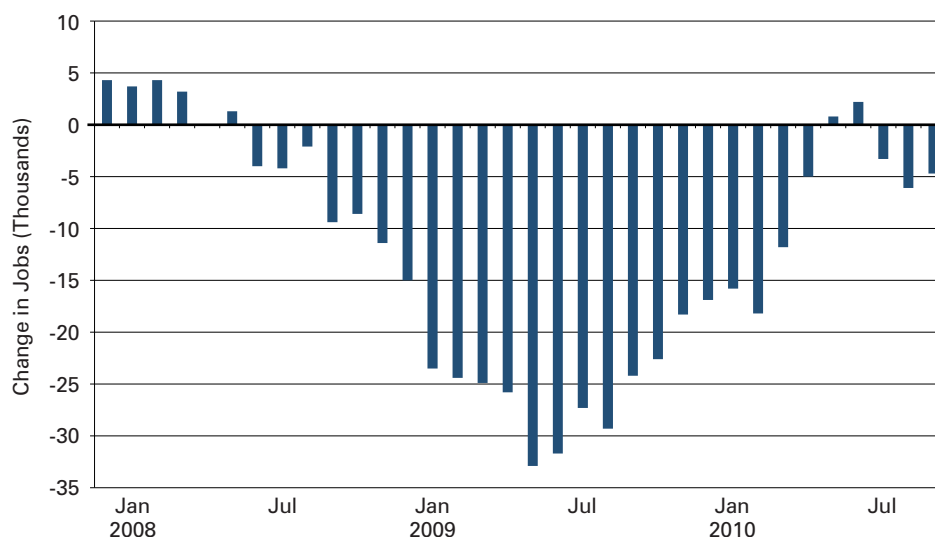
Since December 2007, the official start of the recession, the Louisville metro has lost a total of 37,700 nonfarm payroll jobs (see **Figure 1**).<sup>1</sup> Job losses over the official recession dates, December 2007 to June 2009, total 32,500. Despite additional job losses following the recession's ending date, the region will begin to see a gradual improvement in local labor markets. For example, job changes since the start of the year are only down 200, which is similar to what happened following the 2001 recession.<sup>2</sup>

Some of the most severely impacted sectors have been construction, manufacturing, retail, and transportation and warehousing. Losses in the transportation sector have decelerated as the nation's economy continues a soft recovery, and manufacturing did see a halt to the severe job losses that occurred early in the recession. Likewise,

losses in both retail and construction have slowed.

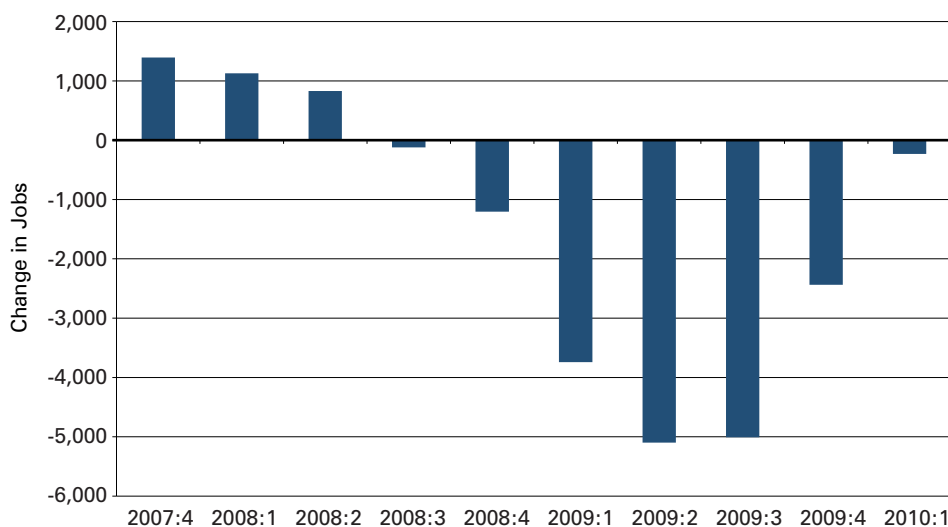
Employment growth in these severely impacted sectors will depend on both local and national consumer demand. A surge in consumer demand is suspect, but growth in employment will exceed last year's rates. Recent national reports give more confidence that

**FIGURE 1: Monthly Change in Nonfarm Payroll Jobs in the Louisville Metro, Year-over-Year December 2007 to September 2010**



Source: Bureau of Labor Statistics

**FIGURE 2: Quarterly Change in Payroll Jobs in Southern Indiana, 2007:4 to 2010:1**



Note: Includes Clark, Floyd, Harrison and Washington counties.  
Source: Indiana Department of Workforce Development

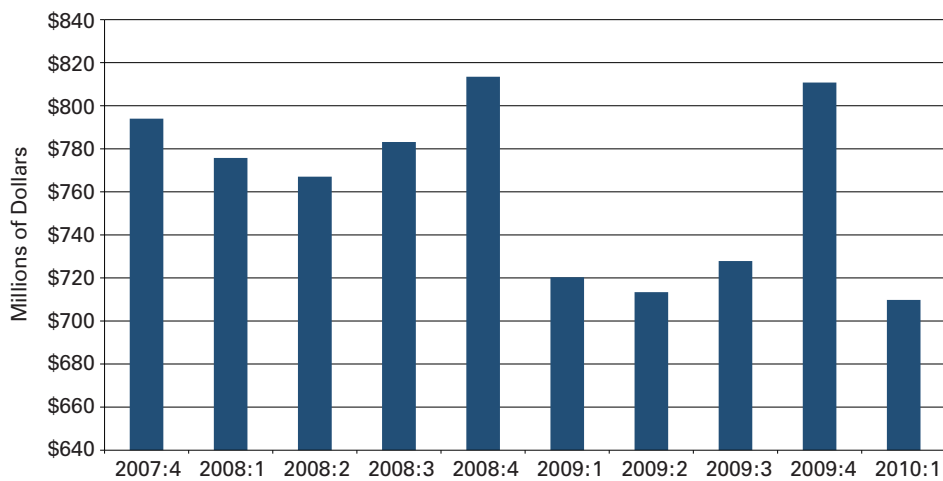
growth rates in these sectors will be higher than expected and in line with sustainable employment gains.

The professional and business services (PBS) sector has seen recent gains, which can normally be viewed as a barometer of future hiring. However, in this most recent episode, gains in the professional and business services sector have not

been followed by sustained gains in total employment. Overall economic uncertainty in the macro-economy and uncertainty in the nation's capital may be placing headwinds to permanent hiring. Hiring in the professional and business services sector has increased by 6 percent since the start of 2010, for example, likely due to temporary

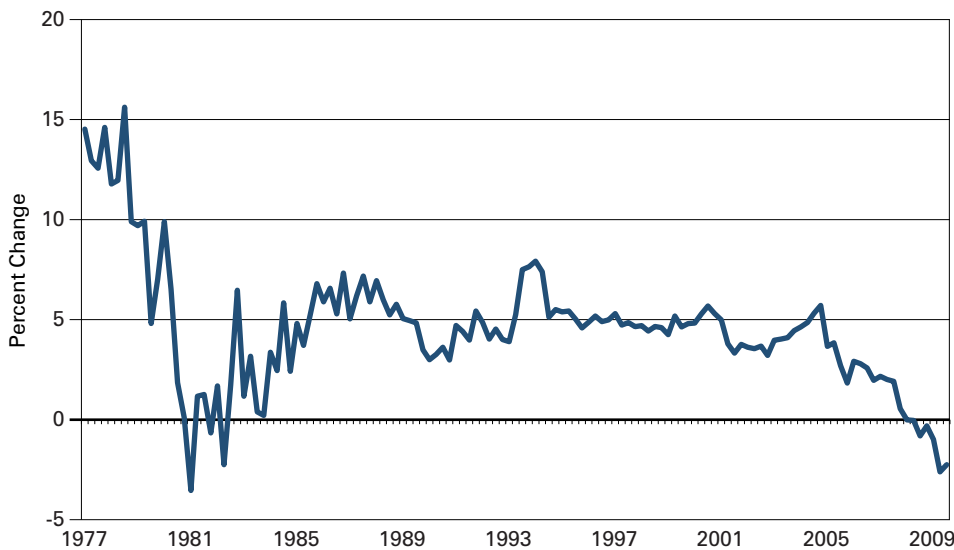
labor services. Overall hiring minus the PBS sector is down slightly at almost 1 percent and has yet to hit a sustained positive trend. Recent reports lead one to believe that the increase in professional and business services sector will be followed by sustained increases in all employment.

**FIGURE 3: Total Quarterly Wages for Southern Indiana, 2007:4 to 2010:1**



Note: Includes Clark, Floyd, Harrison and Washington counties.  
Source: Indiana Department of Workforce Development

**FIGURE 4: Four-Quarter Percent Change in FHFA House Price Index for the Louisville Metro, 1977:4 to 2010:2**



Source: Federal Housing Finance Agency

## Southern Indiana

We will continue to see stability in the labor markets in Southern Indiana. New and continuing claims for unemployment have declined considerably from recession level highs.<sup>3</sup> As employment resumes, we will see gradual declines in Southern Indiana unemployment rates. Employment losses have decelerated, and we will now enter a period of job creation (see **Figure 2**). Total wages in the four Southern Indiana counties are down 8.5 percent from the first quarter of 2008 to the first quarter of 2010 and will continue to be a challenge to discretionary retail spending (see **Figure 3**).<sup>4</sup>

## Housing and Local Valuations

Since 2004, metro area permits are down 70 percent.<sup>5</sup> However, housing permits are beginning to show evidence of small increases. Lower levels of housing permits are desirable from a supply/demand perspective in the area's housing market. But the decline in permits will continue to impose challenges on those sectors that depend on home construction.

Regional home values remain strained. The FHFA House Price Index for the Louisville metro has now undergone seven consecutive quarterly declines (see **Figure 4**). This is a first in the history of this index. There were a few non-consecutive declines in the early 80s, but the



# Muncie Forecast 2011

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number of recent declines in the index is unprecedented.

## Outlook

The 2011 outlook for the Louisville metro is a return to job creation. Employment growth will resume but not at higher than average rates. The region will continue to see gradual improvements in the area's unemployment rate, but the decline will be slow due to an expanding labor force. The consumer will continue to emerge, but frugality will continue to dominate in general. Regional retail will continue to be impacted by these consumer trends, and hence the region's commercial real estate will see continued challenges. Manufacturing will continue to recover, but significant gains in employment growth are doubtful. Housing will continue recovering, but only at a slow pace.

Overall, the outlook for Louisville is a resumption of economic growth and employment, with a more favorable view now to the upside. We will not return to full employment, but 2011 will be the year where we begin to make noticeable progress on the recovery of lost jobs. ■

## Notes

1. Calculation based on Bureau of Labor Statistics data from December 2007 to September 2010.
2. Calculation based on Bureau of Labor Statistics data from January 2010 to September 2010.
3. Unemployment claim data come from Hoosiers by the Numbers at [www.hoosierdata.in.gov](http://www.hoosierdata.in.gov).
4. This calculation uses Quarterly Census of Employment and Wages data accessed via STATS Indiana.
5. This calculation is based on year-end totals from 2004 to 2009 using the Federal Reserve FRED database.

Year two after the Borg Warner plant (the last of the large automobile-related factories) shuttered its doors, the Muncie metro area finds itself making progress redefining itself as a fledgling hub in the alternative energy industry. The city of Muncie went through a community planning process this year, and the resulting Muncie Action Plan identifies goals and actions to improve Muncie. There have been several job announcements over the past few months. And while local governments are still struggling with the ramifications of property tax caps, there seems to be a renewed sense of optimism for the coming year.

This article includes the most current data available on various measures of economic activity from public sources for the Muncie metropolitan area (Delaware County). The goal is to analyze changes over

the past year. A summary of the labor market forecast for the Muncie area is included in the conclusion.

## Labor Markets

The unemployment rate (not seasonally adjusted) for September 2010 is the lowest Delaware County has seen in the past year. However, the September 2010 rate (10.1 percent) is higher than the September 2009 rate of 9.7 percent and local unemployment has consistently been higher than that of the state. The good news is that the labor force has been slowly increasing since June and the number of unemployed workers has been decreasing at a faster rate, leading to the decrease in the unemployment rate (see **Table 1**). This is ideal and signifies that frustrated job seekers are coming back into the labor force; however, this value may mask

**TABLE 1: Labor Force and Unemployment for Delaware County, September 2009 to September 2010**

Year	Month	Labor Force	Unemployed	Unemployment Rate
2009	September	54,449	5,283	9.7
	October	54,386	5,538	10.2
	November	53,621	5,430	10.1
	December	53,478	5,592	10.5
	<b>Annual</b>	<b>54,619</b>	<b>5,724</b>	<b>10.5</b>
2010	January	52,498	6,160	11.7
	February	53,266	6,234	11.7
	March	53,359	6,235	11.7
	April	54,354	5,847	10.8
	May	54,687	5,866	10.7
	June	53,035	6,356	12.0
	July	53,085	6,155	11.6
	August	53,401	5,896	11.0
	September*	54,346	5,514	10.1

\*September 2010 data are preliminary.  
Note: Data are not seasonally adjusted.  
Source: Bureau of Labor Statistics

underemployment where workers are working fewer hours than they would like (part-time instead of full-time) or have taken jobs that do not fully utilize their skills.

**Table 2** shows that nonfarm employment decreased by about 330 jobs (-0.7 percent) in 2010, which is a much smaller decrease compared to the previous year's decrease (-2,800 jobs) in Delaware County. Of the job losses for 2010, manufacturing took the greatest hit with 322 lost jobs (-8.5 percent) followed by other services losing more than 100 jobs (-6.5 percent) and educational and health services losing 100 jobs (-1 percent). There was a fairly large increase of 233 employees in the government sector for the county (1.9 percent) reflecting the census activity, in part.

Average weekly wages as a whole for Delaware County remained steady at about \$611 per week from 2009 to 2010 (see **Table 3**). Some sectors were hit much harder than others, including utilities (-24.3 percent), wholesale trade (-13.3 percent) and construction (-12.2 percent). In contrast, many sectors experienced wage increases over the past year, including manufacturing (9 percent), public administration (9.2 percent), arts, entertainment, and recreation (9.8 percent), and management of companies and enterprises (18.7 percent). While no net change in the average wage rate across all sectors can be viewed as a positive, it represents a decrease in buying power when the inflation rate of 2.4 percent is considered.

## Housing

New housing construction remains sluggish especially when compared to the early years of the decade. Total building permits increased marginally in 2010 from 26 to 30 permits—much lower than pre-recession levels (see **Figure 1**). Residential real estate market activity decreased relative to the same period last year. The number of units sold

decreased from 733 to 714 units with an average sale price of \$85,084, about \$5,500 lower than the same period last year (see **Table 4**). The sales volume is substantially lower than the 2006 peak of 1,086 units sold.

This drop in activity is contrasted by the decreased number of days on the market. The drop in sales price likely represents residents eager to sell their homes either with prospects of

**TABLE 2: Muncie MSA Employment, Year-to-Date 2009 to 2010**

Industry	2010*	Change since 2009	Percent Change 2009-2010
Total Nonfarm	48,978	-333	-0.7%
Total Private	36,667	-567	-1.5
Goods-Producing	4,878	-478	-8.9
Manufacturing	3,467	-322	-8.5
Service-Providing	44,100	144	0.3
Trade, Transportation and Utilities	8,178	-11	-0.1
Information	400	0	0.0
Educational and Health Services	9,767	-100	-1.0
Leisure and Hospitality	4,967	-44	-0.9
Financial Activities	2,589	-11	-0.4
Other Services	1,589	-111	-6.5
Government	12,311	233	1.9

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

**TABLE 3: Average Weekly Wages in Muncie MSA, 2009:1 to 2010:1**

Industry	2010:1	Change since 2009:1	Percent Change
Total	\$611	\$0	0.0%
Utilities	1,116	-358	-24.3
Wholesale Trade	805	-123	-13.3
Construction	647	-90	-12.2
Administrative and Support and Waste Management and Remediation Services	416	-20	-4.6
Real Estate and Rental and Leasing	570	-27	-4.5
Transportation and Warehousing	717	-27	-3.6
Other Services (Except Public Administration)	408	-13	-3.1
Retail Trade	379	-8	-2.1
Health Care and Social Services	618	-9	-1.4
Professional, Scientific and Technical Services	719	-9	-1.2
Educational Services	729	-7	-1.0
Finance and Insurance	721	-6	-0.8
Information	619	37	6.4
Manufacturing	893	74	9.0
Public Administration	712	60	9.2
Arts, Entertainment and Recreation	290	26	9.8
Management of Companies and Enterprises	2,034	321	18.7

Source: Bureau of Labor Statistics

moving to newer homes or migrating to other areas.

### Social Safety Net

The past year has seen a considerable increase in the number of food stamp recipients (see **Table 5**). In 2010 (January to May average), the

monthly dollar value of food stamps issued increased by more than 24 percent to exceed \$2.2 million. The average number of recipients increased by 17.5 percent to over 16,400 recipients (14.2 percent of the population) from 2009 to 2010. This change is significantly larger

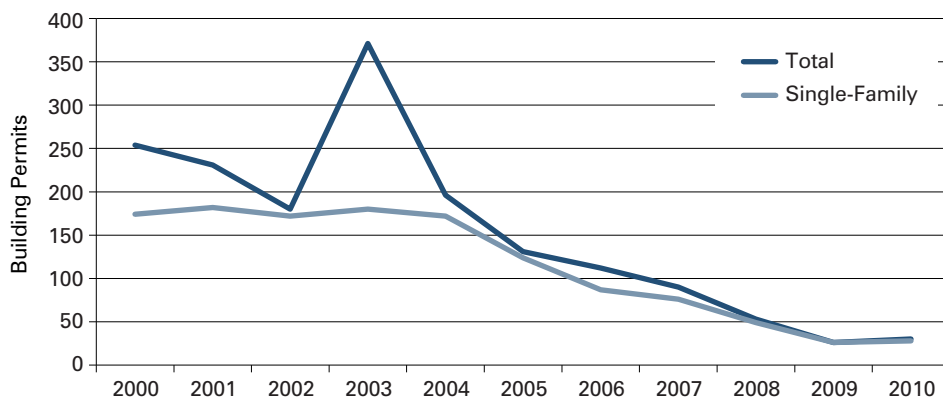
than the 2008 to 2009 change of only 6.8 percent and may be due in part to processing changes at the government agency level.

### Outlook

Manufacturing in the Muncie MSA took a hit in 2010 with the loss of more than 300 jobs; however, there are reasons for optimism. Several companies have announced location or expansion plans in Delaware County over the next few years. Progressive Rail is moving into the former ABB facility and is expected to ultimately have 650 positions.<sup>1</sup> Mursix is expanding and expects to add between 150 and 250 jobs over the next five years.<sup>2</sup> Magna Powertrain is expecting to add 50 new jobs over the next year.<sup>3</sup> Fort Recovery Industries is expecting to add 40 new jobs.<sup>4</sup> This is promising news for many manufacturing workers currently out of work.

The Muncie MSA has seen its share of decline due to the 2007-2009 recession. Recently, a few economic factors such as labor force statistics and new residential construction have shown some improvement, but Muncie still is struggling to regain its prosperity from the Borg Warner days. In the coming year, we expect employment to stabilize and begin to increase toward the end of 2011. We expect income growth to show small positive increases in the 1 percent to 2 percent range as the economy continues to recover. ■

**FIGURE 1: Delaware County Residential Building Permits, Year-to-Date 2000 to 2010**



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

**TABLE 4: Residential Real Estate Sales in Delaware County, Year-to-Date 2004 to 2010**

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

Note: Each year is based on January through September averages.  
Source: Mid-Eastern Indiana Association of Realtors (MEIAR)

**TABLE 5: Food Stamp Recipients in Delaware County, Year-to-Date 2003 to 2010**

Year	Average Monthly Food Stamps Issued	Number of Food Stamp Recipients	Number of Households Receiving Food Stamps
2003	\$944,092	11,044	4,969
2004	1,075,295	12,452	5,744
2005	1,501,846	14,480	6,631
2006	1,346,939	14,099	6,596
2007	1,397,244	14,289	6,818
2008	1,417,000	13,089	6,227
2009	1,787,958	13,981	6,533
2010	2,220,867	16,423	7,553

Note: Each year is based on January through May averages.  
Source: STATS Indiana, using FSSA data

### Notes

1. "Our View: Job Announcements Welcome," *The Star Press*, November 3, 2010.
2. "Construction to Begin on Mursix's New HQ," *Inside Indiana Business*, May 10, 2010, [www.insideindianabusiness.com/newsitem.asp?ID=41583](http://www.insideindianabusiness.com/newsitem.asp?ID=41583).
3. "Michigan Automotive Supplier Expanding in Indiana" *Inside Indiana Business*, October 8, 2010, [www.insideindianabusiness.com/newsitem.asp?ID=44046](http://www.insideindianabusiness.com/newsitem.asp?ID=44046).
4. "Business Line," *The Star Press*, November 5, 2010, [www.thestarpress.com/article/20101105/BUSINESS/11050302/Business-Line](http://www.thestarpress.com/article/20101105/BUSINESS/11050302/Business-Line).

# Richmond Forecast 2011

**Tim G. Rogers:** President/CEO, Economic Development Corporation of Wayne County

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

**W**ith the national recession ending in June 2009, most experts feel a double-dip recession has been narrowly avoided. However, despite the end of the recession, growth and job creation remain stubbornly stagnant.<sup>1</sup> As was pointed out in last year's Richmond forecast,<sup>2</sup> the recession only exacerbated the problems Richmond and Wayne County faced, including the loss of manufacturing jobs, decreasing population, increasing global competition and diminishing tax revenue. The end of the recession won't cause those issues to go away. Nonetheless, Richmond and Wayne County did see new investment from the private sector continuing from 2009 into 2010.

## Investment Activity and Trends for 2009-2010

As last year's forecast stated, entrepreneurial businesses were finding ways and reasons to expand their product lines, retain and create jobs, and increase investment in Wayne County. Local entrepreneurs felt confident enough to take advantage of opportunities to purchase companies, while others diversified product lines to be more competitive, keeping investment and jobs in the community. The Economic Development Corporation (EDC) of Wayne County partnered with existing companies in retention and/or expansion projects creating close to \$11 million in private investment for 2010. With the most recent announcement by Perpetual Recycling Solutions to locate a new facility in Richmond, the investment total for 2010 so far totals \$40.8 million. In 2009, projects in the county resulted in \$11.5 million in investment. The two years combined resulted in \$52.3 million in new, private investment.

A number of trends started in 2009 that continued through 2010:

### **The plastics sector has seen an increase in activity, particularly in manufacturing of food containers.**

- Berry Plastics, a manufacturer of plastic food containers, expanded in 2009.
- While Innatech, which manufactured plastic automobile components, closed its operation, Abbott Laboratories purchased the building and continues to operate a manufacturing line that produces plastic containers for their baby formula and health food lines.

### **There has been an increase in activity in the renewable and recyclable sectors.**

- Crate Creations added a new line that manufactures biofuel and animal bedding from scrap wood pallets.
- Perpetual Recycling Solutions announced they will locate a new operation in the former General Aluminum facility, recycling water bottles into food-grade plastic flake for food container manufacturers.
- B & F Plastics manufactures a diverse number of products from recycled plastic and rubber for the construction, recreation and automotive industries to name a few.

### **Addition of new lines have expanded existing businesses.**

- CIT specializes in the design and production of steel racks, containers, machine cabs and canopies for the transportation industry, but was able to use their expertise to win a three-year contract to produce physical therapy tables for the health care equipment industry.

- Reel Options, a division of Vantor Corporation, purchased new machinery to add a new product line.
- Transilwrap also purchased new equipment to add a new product line to their Richmond facility.

### **Retailers and restaurateurs began investing in a section of downtown Richmond named the Historic Depot District for its proximity to the railroad and the location of a historic rail depot. The district continues to grow and succeed through the momentum that's been created.**

- A local businessman purchased the historic rail depot the district is named for, and with financial assistance from the city of Richmond, began restoration work. Space in the building will be available for lease.
- Several small retail stores and boutiques have opened for business and restaurants have expanded to allow for additional seating and banquet space.

## 2011 Strategies and Trends

Moving into 2011, a number of different strategies to encourage investment are being developed. An aggressive business retention and expansion program continues; the EDC of Wayne County, partnering with the Economic Growth Group, pursued a target industry analysis to research industry sectors with characteristics that match key attributes in Wayne County; Phase II of the Midwest Industrial Park is being prepared for development; and new marketing strategies are being developed to promote the county externally to site consultants. Internally, strategies are being utilized to educate the community



about efforts to assist local businesses, attract new businesses, and raise awareness regarding the products that are manufactured in Wayne County.

There is no way to predict when job creation and increased investment will begin to steadily grow again. But based on Wayne County's \$52.3 million in new investment between 2009 and 2010 during the recent recession, certain trends can be predicted for 2011:

1. Continued investment in the community by existing businesses through retention or expansion projects leading to retained or new jobs.
2. Increase in interest from targeted industry sectors through increased marketing strategies.
3. Diversification of the economic base.
4. Increased interest in Wayne County based on proximity to major markets.
5. Available incentives to increase competitiveness in site location decisions.
6. Stronger existing business activity assisting in increased attraction opportunities.

Experts predict growth will be slow for some time to come. As a result, communities like Richmond and Wayne County must work to leverage all possible angles to diversify their economic base and promote growth from both existing businesses and new projects. All these efforts will hopefully lead to the most important trend everyone is looking for—new investment resulting in new jobs that will move communities toward economic strength and sustainability. ■

## Notes

1. Sara Murray, "Slump Over, Pain Persists," *The Wall Street Journal*, September 21, 2010.
2. Tim G. Rogers and Renee L. Doty, "Richmond Forecast 2010," *Indiana Business Review*, Winter 2009, [www.ibrc.indiana.edu/ibr/2009/outlook/richmond.html](http://www.ibrc.indiana.edu/ibr/2009/outlook/richmond.html).

# South Bend and Elkhart Area Forecast 2011

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

**Molly Manns:** Associate Editor, Indiana Business Research Center, Kelley School of Business, Indiana University

The Michiana region, which includes the Elkhart-Goshen MSA and the South Bend-Mishawaka MSA,<sup>1</sup> is still recovering from the 2007-2009 recession<sup>2</sup> and has begun to enjoy vigorous business growth despite the weak economy. This trend toward recovery is likely to continue throughout 2011.

## Employment

After a fairly steady drop in the labor force the past few years, the 2010 data for the combined Elkhart-Goshen and South Bend-Mishawaka MSAs indicate a leveling out in the area's labor market.<sup>3</sup> While the labor force continued its decline, it is declining at a slower rate, with a drop of about 6,500 workers from September 2009 to September 2010 (see **Figure 1**); the prior year's decline was more than double that figure.

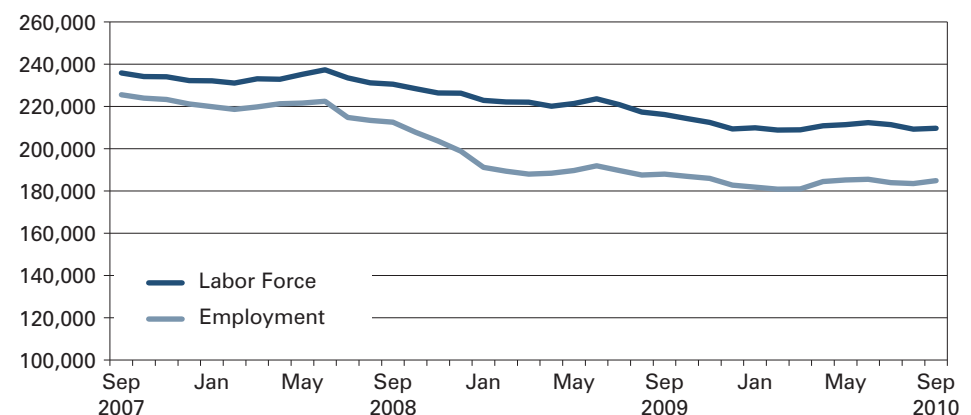
The Elkhart-Goshen MSA had some of the worst unemployment rates in the nation during the recession, warranting visits from President Obama in early 2009.<sup>4</sup> The Elkhart-Goshen unemployment

rate peaked in March 2009 at 20.1 percent and has since dropped to 13 percent in September 2010, still high but definitely an improvement (see **Figure 2**).

The South Bend-Mishawaka MSA did not see as drastic a climb in its unemployment rate, though it is still much higher than it was pre-recession at 11 percent in September 2010. This metro has a notably lower concentration in manufacturing than the Elkhart-Goshen MSA that likely contributed to its less drastic jump. As both metropolitan areas improve in 2011, the unemployment rate should decline to 9.5 percent in the South Bend-Mishawaka metro and 11 percent in the Elkhart-Goshen area.

**Table 1** shows employment data by industry for the Michiana region. While jobs in the MSAs are still down 46,500 from where they were in September 2007, a look at the more recent data shows some positive signs. Combined total nonfarm jobs were down 1,500 (-0.6 percent) in September 2010 compared to their September 2009 levels. That may not

**FIGURE 1: Labor Force and Employment in the Elkhart-Goshen and South Bend-Mishawaka MSAs Combined, September 2007 to September 2010**



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

sound all that positive unless one considers that nonfarm employment dropped 6.5 percent from 2007 to 2008 and 10.4 percent from 2008 to 2009 (using data from September of each year). Thus, it looks like the worst is behind us and job losses are moderating.

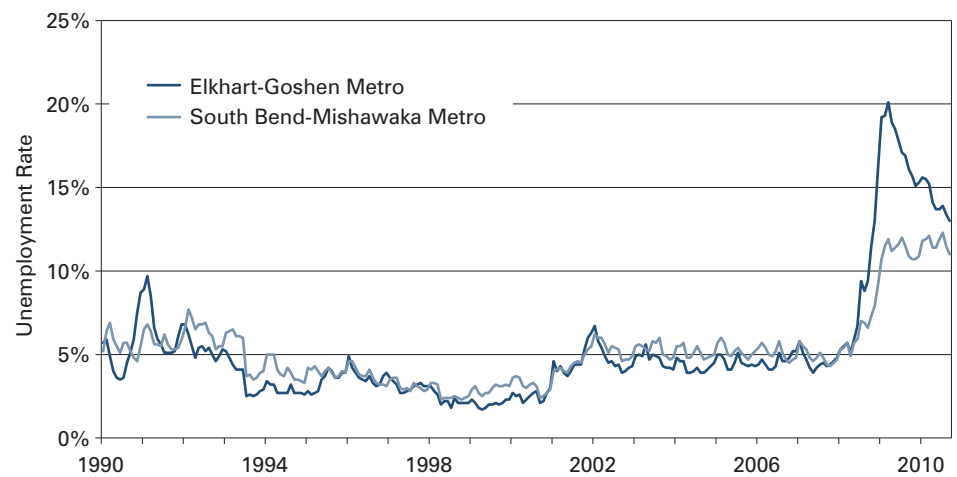
Individual industries saw some positive signs as well in the more recent data. While every industry saw losses from September 2007 to September 2010, three industries in the combined area experienced job gains over the past year — manufacturing; trade, transportation and utilities; and professional and business services. While leisure and hospitality did not gain any jobs from 2009 to 2010, it did not lose any either.

All of the manufacturing gains (1,100 jobs) were a result of more jobs in the Elkhart-Goshen MSA, and all the jobs in professional and

business services added since 2009 (400 jobs) were a result of gains in the South Bend-Mishawaka MSA. Both MSAs gained equally in trade, transportation and utilities, each

adding 200 jobs since September 2009. The biggest losses for the combined area in the past year were seen in educational and health services (-1,500 jobs since September

**FIGURE 2: Unemployment Rates in the Elkhart-Goshen and South Bend-Mishawaka MSAs, January 1990 to September 2010**



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

**TABLE 1: Employment by Industry and Metro Area, September 2010**

Industry	Elkhart-Goshen		South Bend-Mishawaka		Combined		
	Employment	Change since September 2009	Employment	Change since September 2009	Employment	Change since September 2007	Change since September 2009
Total Nonfarm	100,100	1,000	130,500	-2,500	230,600	-46,500	-1,500
Natural Resources, Mining and Construction	3,300	-100	4,800	-400	8,100	-3,000	-500
Manufacturing	40,600	1,100	15,900	0	56,500	-25,800	1,100
Trade, Transportation and Utilities	15,800	200	25,600	200	41,400	-5,600	400
Information	600	0	1,700	-100	2,300	-600	-100
Financial Activities	3,200	100	5,900	-300	9,100	-1,100	-200
Professional and Business Services	6,500	0	12,000	400	18,500	-4,800	400
Private Educational and Health Services	11,300	0	31,100	-1,500	42,400	-1,700	-1,500
Leisure and Hospitality	6,600	0	11,800	0	18,400	-1,800	0
Other Services	3,100	-200	5,100	-200	8,200	-1,600	-400
Government (Includes Public Schools and Hospitals)	9,100	-100	16,600	-600	25,700	-500	-700

Source: Bureau of Labor Statistics

2009) and government, which includes public schools and hospitals (-700 jobs).

In 2011, we expect overall employment gains of 3.6 percent for the South Bend-Mishawaka and 3.5 percent for the Elkhart Goshen metros. With the exception of government, we expect employment gains in other sectors (see **Table 2**).

### Wages

Average weekly wages in the combined MSAs were relatively stable from the first quarter of 2009 to the first quarter of 2010, falling only \$1 over that time and coming in at \$681 for total jobs. Wages did not fall equally in each MSA, however. The Elkhart-Goshen MSA actually saw an increase in wages of 3.4 percent. The South Bend-Mishawaka MSA experienced an overall decline in wages of 2.8 percent. Eight industries in the Elkhart-Goshen MSA contributed to its overall increase in average weekly wages, with the highest contributors being management of companies and enterprises (up 24.6 percent to \$2,042/week) and manufacturing (up 10 percent to \$760/week).

### Housing

From January to September 2010, the Elkhart-Goshen MSA had 128 single-family building permits filed,

higher than its January to September 2009 number of 104. Meanwhile, the South Bend-Mishawaka MSA had fewer single-family building permits filed through September of 2010 (130) compared to 162 filed during the same time period in 2009. Elkhart-Goshen saw over-the-year increases in every month from February to July 2010 while South Bend-Mishawaka experienced its only over-the-year increase in March. The region should experience modest growth in housing demand due to the expected upturn in economic activity, stabilized financial markets and lower mortgage rates. Continued tight credit conditions and high local unemployment will work against this growth.

### Summary

In 2010, the Michiana region continued to work against the sluggish economy that started in 2007: job loss, high unemployment rates and weak new home construction. However, 2010

*“2010 showed some positive signs, with unemployment rates continuing to fall, slower employment decline than in previous years and a less dramatic drop in wages over the previous year.”*

showed some positive signs, with unemployment rates continuing to fall, slower employment decline than in previous years (with increases in some industries) and a less dramatic drop in wages over the previous year (with increases in some industries).

Looking ahead, we’re beginning to see some vigorous business expansions like the Ignition and Innovation Parks in South Bend, new contracts for 2,526 Humvees, the airport expansion at the South Bend Regional Airport, recovery in the RV industry, and new businesses such as Think North America, Nexus RV, and others. Overall, we expect Michiana’s economic conditions to improve in 2011 with falling unemployment, modest job growth, improvement in real wages and increased activity in the housing market. ■

### Notes

1. Unless otherwise noted, the Elkhart-Goshen MSA includes Elkhart County and the South Bend-Mishawaka MSA is limited to St. Joseph County, Indiana.
2. In September 2010, the National Bureau of Economic Research marked the dates of the 2007-2009 recession as December 2007 through June 2009. For more information, visit [www.nber.org/cycles/cyclesmain.html](http://www.nber.org/cycles/cyclesmain.html).
3. Employment data in this section are Local Area Unemployment Statistics data from STATS Indiana ([www.stats.indiana.edu/laus/laus\\_view3.html](http://www.stats.indiana.edu/laus/laus_view3.html)) and are not seasonally adjusted.
4. Mimi Hall, “Obama visits job-starved Elkhart, Indiana,” *USA Today*, February 9, 2009, accessed November 10, 2010.

**TABLE 2: Projected Employment Growth for Selected Industries, 2011**

Industry	South Bend-Mishawaka	Elkhart-Goshen
Education and Health	3.2%	2.6%
Trade, Transportation, and Utilities	1.9	2.5
Manufacturing	3.1	3.6
Professional and Business Services	3.3	2.3
Leisure and Hospitality	1.7	3.0
Financial Activities	2.5	4.0
Natural Resources	2.1	3.0
Other Services	2.9	3.2
Information	5.0	6.6

Source: Based on author’s calculations

# Terre Haute Forecast 2011

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

**Robert Guell:** Professor of Economics, Indiana State University

**A**lthough on a national basis the recession of 2007-2009 officially ended in June 2009, when one considers the dynamics of the labor market, the effects of the recession still weigh heavily on the local Terre Haute economy. While the unemployment rate did fall slightly between July 2009 and February of this year (on a seasonally adjusted basis), since February it has been trending upward again leaving it well above national and state levels (see **Figure 1**).

The reason for the temporary decline in the unemployment rate had more to do with seasonal factors than any real upturn. In fact, more people left the labor force while the actual number of unemployed stayed at a high level (see **Figure 2**). Thus, despite winning the Indiana Chamber of Commerce Community of the Year award for 2010, and despite completion of the much-anticipated Union Hospital expansion, the engines of growth remain mostly idle.

Even so, if one looks carefully enough, there are signs that the outlook may be improving for some. In addition to the aforementioned expansion at Union Hospital, Indiana State University (ISU) and Rose-Hulman Institute of Technology welcomed larger-than-anticipated freshman classes, and there are some indications that ISU's enrollments may continue to grow in the coming years. Thus, the educational and health services sector of the local economy appear to be in good shape.

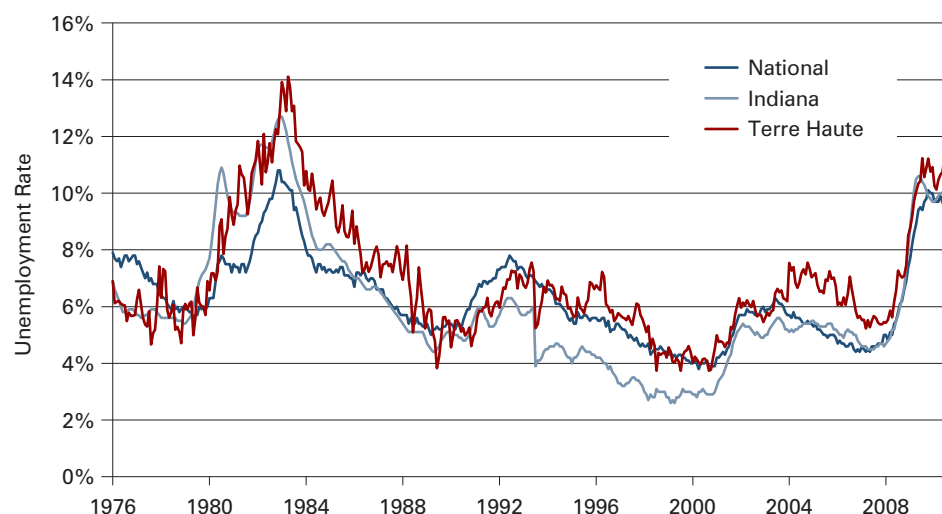
A second bright spot is Terre Haute's downtown area, where a revitalization that began with the opening of the new Hilton Garden Inn in 2007 and Candlewood Suites in 2008 continues. September saw the long-awaited opening of the new Terre Haute Children's Museum, while three blocks away construction is well underway on a

large new bookstore on the edge of the ISU campus. Such additions to the downtown area, along with new restaurant openings, are increasing business activity in the downtown area.

On the manufacturing front, ThyssenKrupp Presta is expanding, partly because of the closure of less

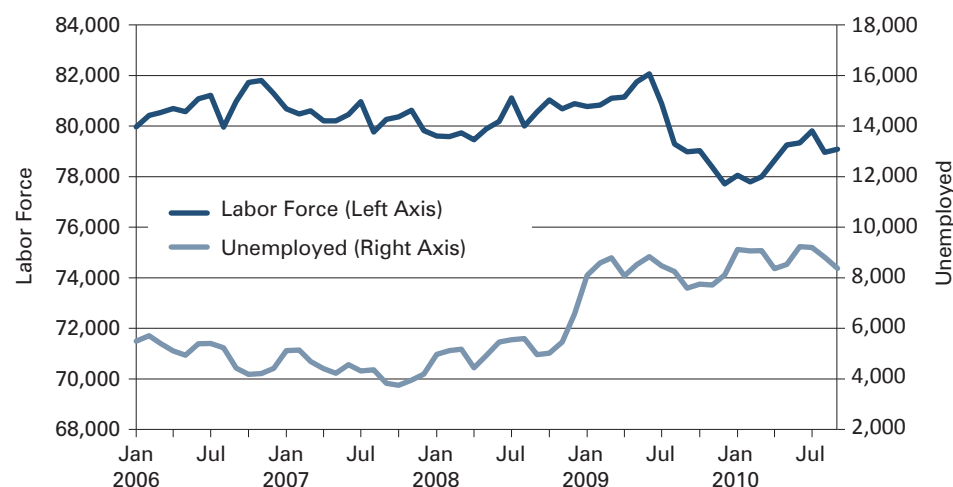
productive facilities elsewhere and partly because Ford has contracted with the company to produce steering systems for all new Fords. Similarly, the cyclical businesses at Great Dane (truck trailers), ADVICS (formerly Aisin Brake) and Sony DADC (DVDs and BluRay DVDs)

**FIGURE 1: National, State, and Terre Haute Metro Unemployment Rates, January 1976 to September 2010**



Note: Tick marks indicate January of each year. Data are seasonally adjusted (Terre Haute adjustment calculated by authors.)  
Source: Bureau of Labor Statistics

**FIGURE 2: Labor Force and Unemployment for the Terre Haute Metro, January 2006 to September 2010**



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

are seeing typical post-recession increases in production and hiring.

Reorganizations and contractions are also ongoing in Vigo County. Indiana State University reduced its faculty and non-faculty employment through a retirement incentive program. Though a few layoffs were still necessary, the subsequent enrollment growth has been enough to ensure that, for the time being, one of Terre Haute's largest employers will no longer be reducing its economic footprint.

The property tax caps and their impact are, of course, being felt throughout Indiana local governments. Though total enrollment in the Vigo County Public School System was down, the number of unfilled teaching positions rose even more rapidly as the school corporation began planning for a sustained period of lower revenues. Similarly, the city and county governments are facing what would have normally been considered draconian cuts—pushing 20 percent of their respective operating budgets. This has led the county to induce some to retire while forcing the city to curtail popular services.

In surveying the local Terre Haute economy, one cannot help but be struck by the way that the local economy has been changing over the past few years. Reflecting national trends, the local economy is becoming more centered on services. While manufacturing continues to be an important part of the local economy, its significance in terms of employment has not changed much since 1990; meanwhile, educational, health and other services have grown in importance (see **Table 1**). A significant change in the mix of area employment has been underway for some time.

Unfortunately, the stubbornly high unemployment rate also reflects national trends. If anything, Terre Haute's recovery from the recession of 2007-2009 looks to be

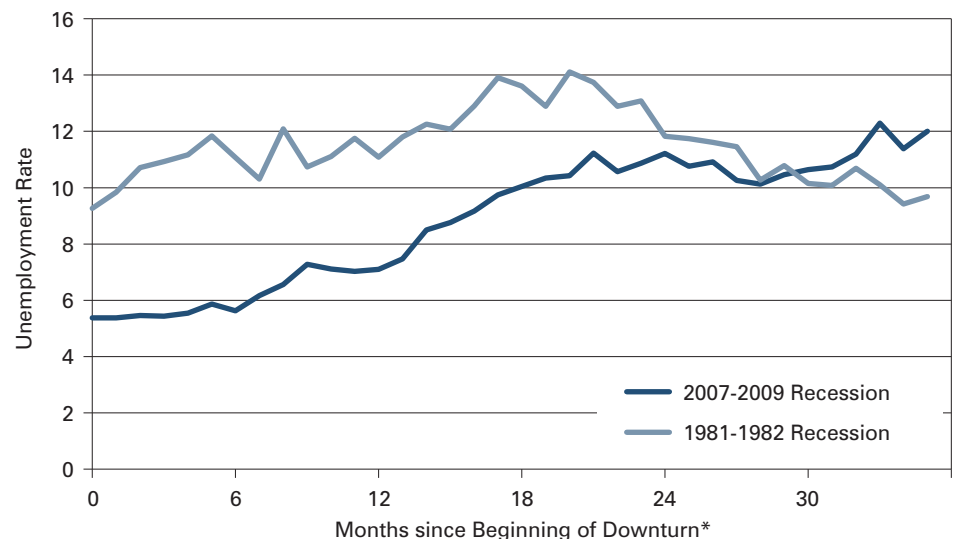
*“The Terre Haute economy might continue to experience high levels of unemployment well into 2011. While bright spots are on the horizon, a general upturn still seems a good distance away.”*

**TABLE 1: Terre Haute Metro Employment by Sector, 1991 to 2010**

Sector	1991–1995	1996–2000	2001–2005	2006–2010
Manufacturing	15.8%	16.0%	15.3%	15.5%
Wholesale and Retail Trade	18.5	18.9	16.9	14.6
Education and Health Services	14.1	15.2	15.4	17.1
Other Services	22.3	22.7	24.9	24.8
Other (Including Agriculture)	13.7	10.0	9.8	10.2
Public Sector (Including Local Education)	15.6	17.1	17.7	17.8

Note: Data for 2010 include January through September. September data are preliminary.  
Source: Bureau of Labor Statistics

**FIGURE 3: Comparison of Terre Haute Metro Unemployment Rates over Two Severe Recessions**



\*The 2007-2009 downturn started October 2007 and the 1981-1982 downturn started August 1981.  
Note: Data are seasonally adjusted based on calculations by the authors.  
Source: IBRC, using Bureau of Labor Statistics data

proceeding more slowly than the recession of 1981-1982 (see **Figure 3**), although it must be remembered that the recession of 1981-1982 was the second of a “double dip.” In that era, which in many ways is a postwar benchmark for our current situation, the unemployment rate actually began rising in early 1979 and did not begin falling until the

spring of 1983—a total of about four years of persistent and high unemployment. By that standard, the Terre Haute economy might continue to experience high levels of unemployment well into 2011. While bright spots are on the horizon, a general upturn still seems a good distance away. ■