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Labor Shortage. Jobs Deficit. Which Is It?

ALLISON LEEUW

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Economic developers and workforce professionals could look for new targets of job growth as it compares to population gains in order to measure the health of the Hoosier economy.

The nation began 2016 in its 78th month of economic expansion, and monthly job growth continues. Across the country, states have hit new peak levels of employment, finally recovering to employment levels seen prior to the Great Recession. Unemployment is also reaching levels historically seen to represent full employment (see **Figure 1**).

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by Allison Leeuw

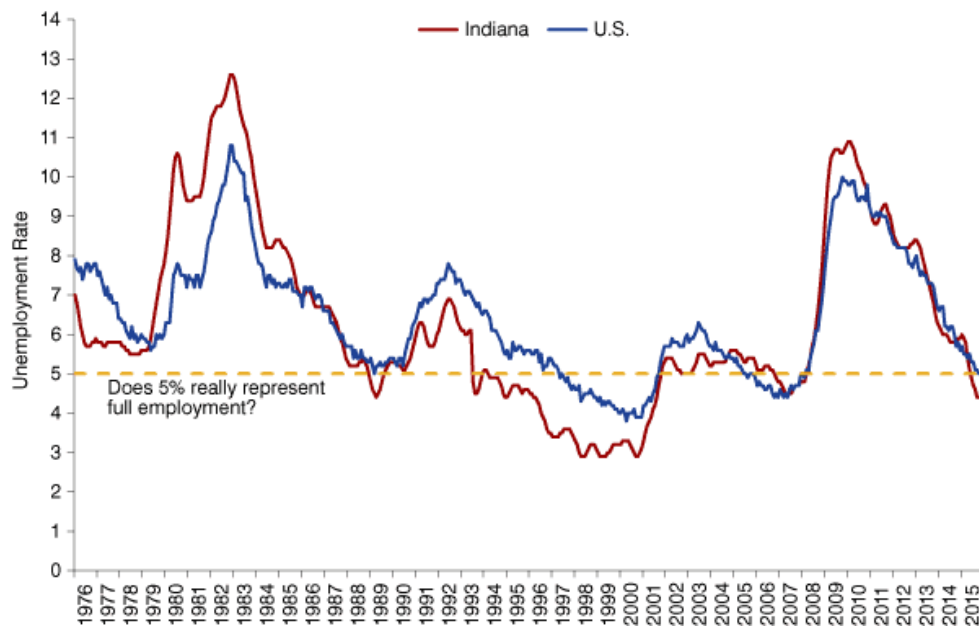
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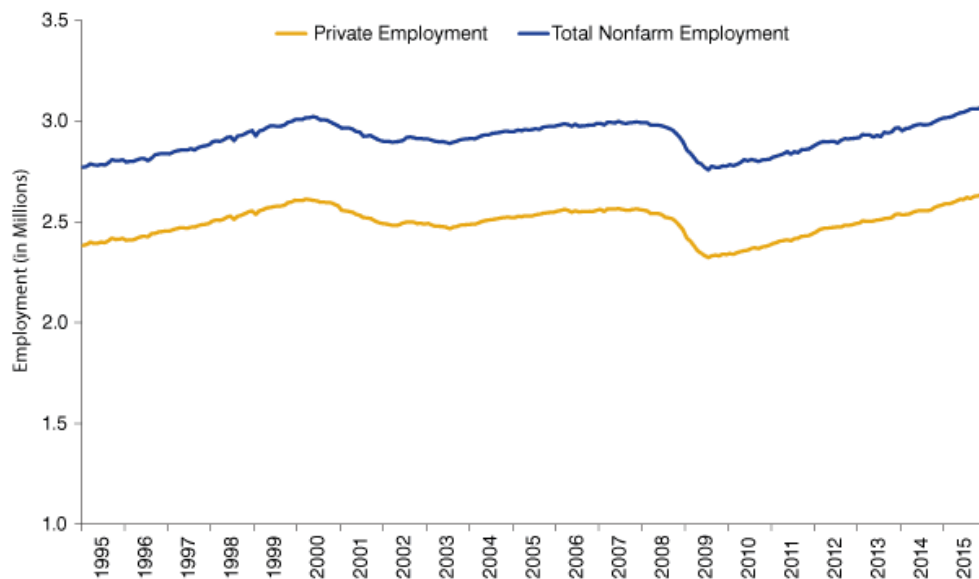
Figure 1: Indiana and U.S. Historical Unemployment Rate Comparison



Source: Indiana Department of Workforce Development and U.S. Bureau of Labor Statistics

Indiana reached a new peak level of employment in March 2015 when total nonfarm employment rose to 3,022,500. This was the first month employment was above the employment levels seen in March 2000, before the two recessions seen in the 2000s. A second milestone was reached for Indiana when the private sector also hit a new peak in July 2015. Preliminary December estimates for private employment in Indiana are now at a new peak of 2,633,400 jobs, which is 20,800 more jobs than Indiana's prior peak in March 2000. Total nonfarm employment was at 3,069,200 in December, roughly 47,000 above the levels of early 2000 (see **Figure 2**).¹

Figure 2: Indiana Employment



Source: U.S. Bureau of Labor Statistics

These were important milestones for Indiana and the nation. Nevertheless, debate remains on whether or not the pace of job growth is adequate, and whether the types of newly created jobs are paying high wages in high-growth sectors. The latter question regarding wages won't be analyzed here; instead, this article will examine the first question as it relates to the potential labor surplus remaining in Indiana.

After six years of recovery, has Indiana gained enough jobs for our economy to be considered strong? Analysis of population trends suggests that despite steady job growth of 4,000 jobs (on average) per month over the last few years, labor surpluses remain and many Hoosiers remain out of work.

Positive economic indicators abound. Indiana ended 2015 with an unemployment rate of 4.4 percent, which is well below the national average unemployment rate of 5 percent. The rate has declined a full percentage point over the last year. This is a particularly strong indicator for Indiana as our labor force continues to grow. Indiana's labor force participation has risen to 63.9 percent and remains higher than the national average. As of December 2015, Indiana's labor force is up by 37,762 over the year with gains of 83,844 in employed persons and declines in unemployment levels of 46,082.²

All of these benchmarks indicate a tightening labor market. Yet an examination of Indiana's population gains over the last 15 years indicates that approximately 160,000 working-age (20-64) people in Indiana are still not in the labor force. This estimate of the *working-age* labor force participation rate is down by approximately 4 percentage points since 2000, from 74.2 percent to approximately 70 percent at the end of 2015. [3](#)

Working-Age Population and Labor Force Participation

The official labor force participation rate is an estimate of how many people are available to work as a percent of the total civilian population. The population is defined as anyone living in the U.S. who is 16 or older and does not include people living in institutions (e.g., prisons, nursing homes and mental hospitals) or those on active duty in the armed forces. As our general population ages, the labor force participation rate naturally shrinks as people age out of the workforce and retire.

The Hoosier working-age population could support 87,000 more private sector jobs to reach a new target private employment level of 2,721,300. [3](#)

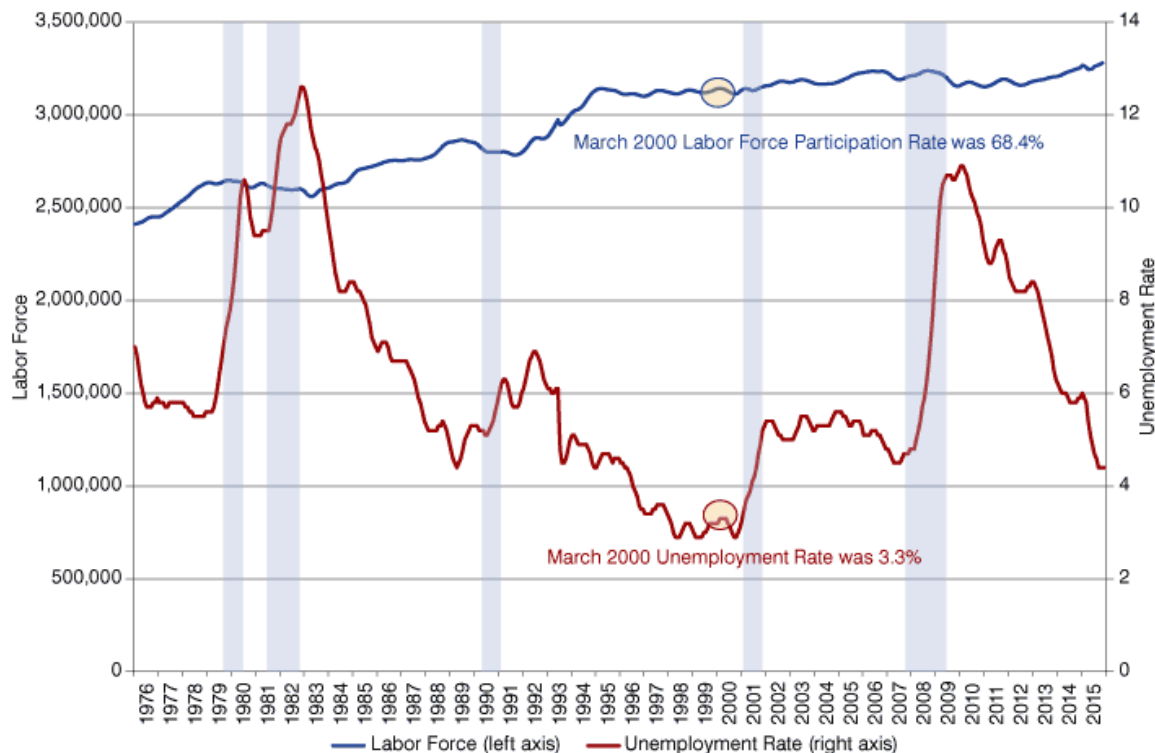
Nevertheless, our population gains indicate that the Hoosier working-age population could support 87,000 more private sector jobs to reach a new target private employment level of 2,721,300.

To get a better idea of how we compare to historical levels of working-age labor force participation, we can examine population estimates from census data. The U.S. Census Bureau releases intercensal or

postcensal population by age estimates annually.⁴ According to the 2014 postcensal estimates for Indiana, the prime working-age population (20-64) has grown by 313,000 since 2000. That is growth of over a quarter million working-age Hoosiers in the last 14 to 15 years. This contrasts significantly with labor force gains of only 149,000 over that same time frame. What does that mean for the other 164,000 working-age Hoosiers not working or looking for work?

Of these labor force gains, just 47,000 (approximately) are estimated as people employed. This could be interpreted as a potential gap of over 100,000 jobs needed to date just to recoup the level of labor force participation seen historically. **Figure 3** illustrates historical unemployment rate trends and labor force participation rates as they compare to the prior “peak” employment era of early 2000.

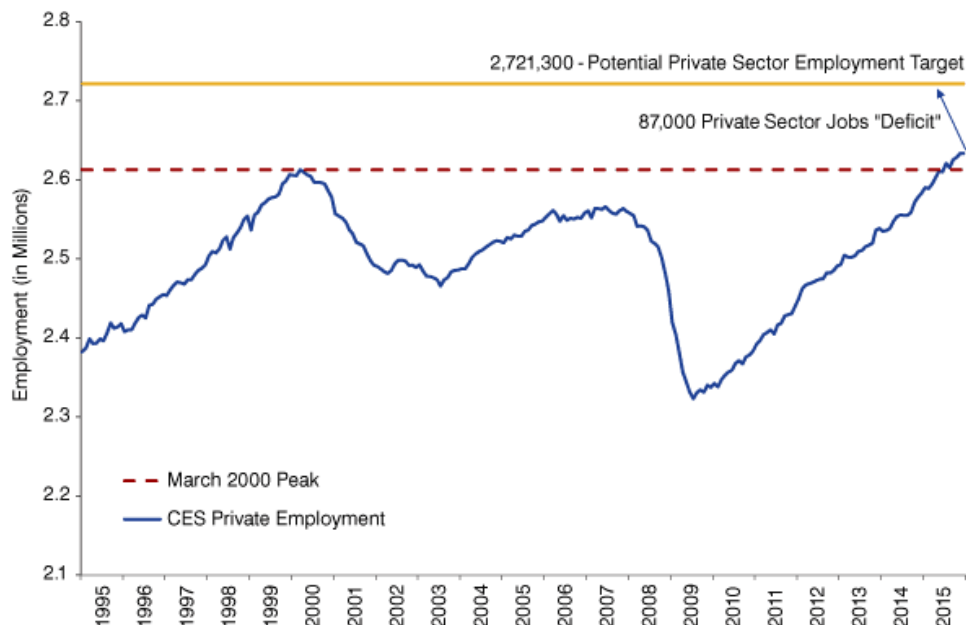
Figure 3: Indiana Labor Force Levels and the Unemployment Rate



Source: Indiana Department of Workforce Development

Figure 4 illustrates new potential job growth targets for total nonfarm and private sector estimates based on these approximations of population growth.

Figure 4: Potential Private Employment Target

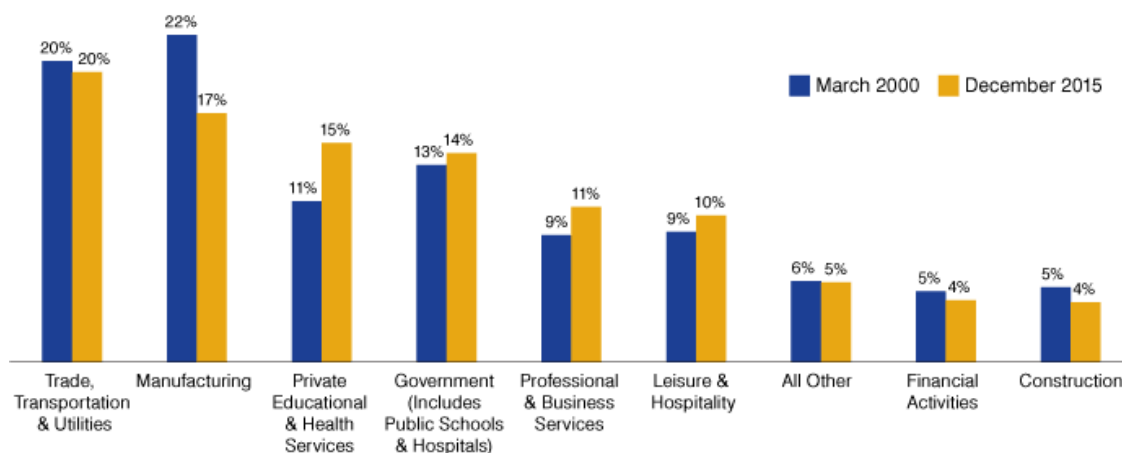


Note: This private sector target is based on a total nonfarm employment target of 3.171 million (i.e., 86 percent of total nonfarm).
 Source: Indiana Department of Workforce Development

Changing Industry Mix

The Hoosier economy has transformed over the last decade. Manufacturing remains one of the top sectors for jobs and wages in Indiana, with approximately 17 percent of all payroll jobs in this sector (based on total nonfarm public and private sector jobs from the Current Employment Estimates). And yet, Indiana's industry composition is changing. Manufacturing, once at 22 percent of jobs, is now second to the trade, transportation and utilities supersector (now at 20 percent of all jobs in the state). Substantial growth since March 2000 has also been concentrated in the education and health industries, both in the private and the public sector. Private education and health has grown from 11 percent of jobs to 15 percent (see **Figure 5**).

Figure 5: Indiana's Industry Mix, Prior Private Employment Peak and Today



Source: U.S. Bureau of Labor Statistics (Current Employment Statistics)

Economic developers have historically focused their efforts on job creation in the private sector. Nevertheless, much of the growth during the recovery included jobs in the growing health-care industry in the public sector. These jobs are also often middling- to high-paying STEM jobs, including those in research and development. New job targets could aim for continued industry diversification, encouraging growth in the public and private sectors, including many new jobs in public health and education.

Conclusion

As to the introductory questions of whether Indiana has a labor (skills) shortage or a jobs deficit? The complicated answer may be both.

The estimates in this article were created to serve both the economic development community and educators. Economic developers can show prospective businesses and those wanting to expand business in Indiana that the Hoosier state has the workforce supply to fill new demand. We have a sizeable working-age population not yet engaged with the workforce.

In turn, educators and workforce development professionals can keep an informed eye on the types of jobs those businesses are seeking to bring to the state. A shifting industry mix and other structural changes in the economy necessitate flexible and nuanced alignment in curriculum and training to help job seekers meet employer demand.

Notes

1. Source: U.S. Bureau of Labor Statistics, Current Employment Estimates (CES)
2. Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Estimates (LAUS)
3. Source: Indiana Department of Workforce Development, based on U.S. Census Bureau data
4. Intercensal estimates are produced each decade by adjusting the existing estimates between censuses to smooth the transition from one decennial census count to the next. Meanwhile, the postcensal estimates produced after one census but before the next census incorporate current data on births, deaths and migration to produce each new vintage of estimates and to revise estimates for years back to the last census.


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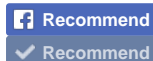


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The Saga of Small Towns

RACHEL STRANGE

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Location, location, location. This phrase, often used in connection with real estate, can also apply to Indiana's small towns. Since 1990, most of Indiana's small towns with significant population increases have been located near a major metro.

In fact, small towns located within a metropolitan statistical area (MSA) grew a combined 60 percent between 1990 and 2014. Small towns outside of MSA boundaries only grew 6 percent as a whole.

We explored recent small town population change (from 2010 to 2014) in a [previous article](#).¹ We noted that increasing suburbanization seemed to be driving the growth in cities and towns with less than 10,000 people (which we refer to as "small towns" for convenience). Here, we take a longer term look and explore how population has changed in Indiana's small towns since 1990, with a special focus on differences based on MSA status.

The Backstory

In 1990, Indiana had 504 cities and towns with less than 10,000 residents. By 2014, 490 incorporated areas met that threshold, and 12 percent of the Indiana population lived in a small town.

Small Towns that No Longer Exist

Since 1990, seven small towns have dissolved and no longer exist (see [Table 1](#)).

Table 1: Population History of the Small Towns Dissolving between 1990 and 2014

Town	1970	1980	1990	2000	2010
Carefree	-	41	26	-	-
Castleton	183	80	37	-	-
Judson	63	80	61	-	-
Lake Hart	-	231	213	-	-
Milford	187	177	126	121	-
New Providence	337	384	270	-	-
Fredericksburg	207	233	155	92	85

Note: Fredericksburg dissolved in 2012.

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



Small Towns that Got Bigger

Meanwhile, 13 towns that had less than 10,000 people in 1990 have surpassed that threshold (see [Table 2](#)). Back in 1990, Fishers—now the sixth-largest incorporated area in the state—qualified as a small town.

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Table 2: Small Towns Surpassing 10,000 Residents Threshold between 1990 and 2014

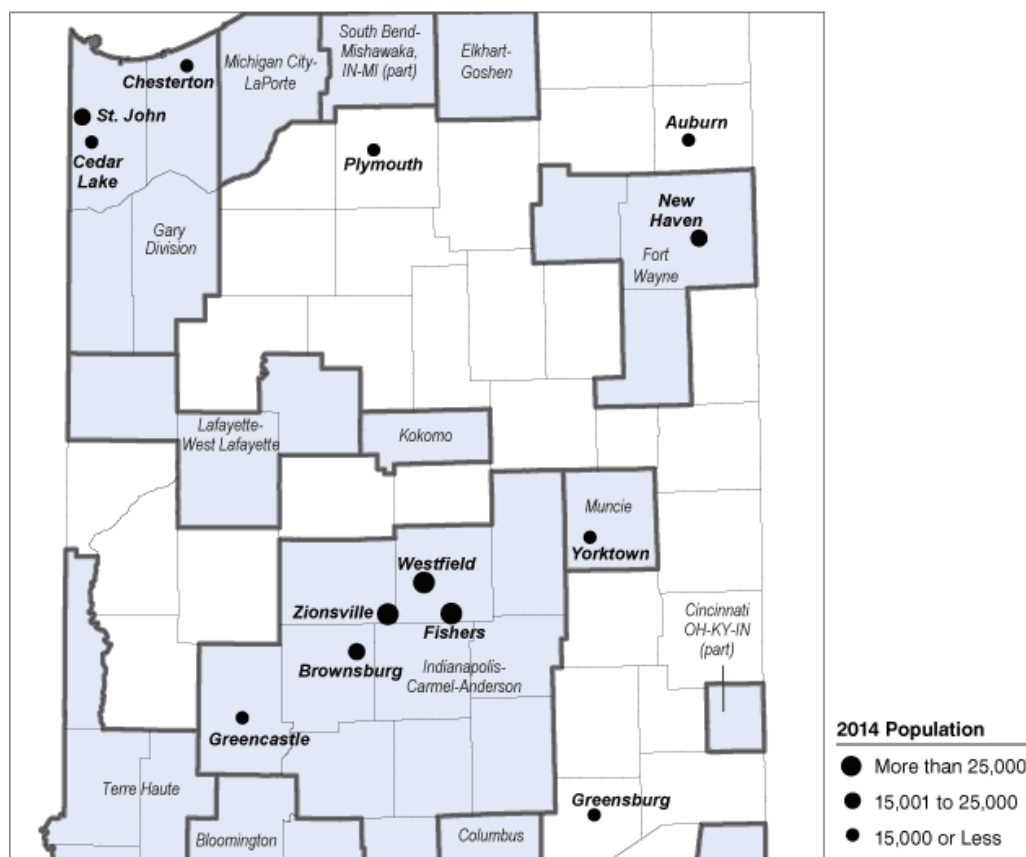
Place	1990	2000	2010	2014	Change, 1990-2014	Percent Change
Fishers	7,508	37,835	76,794	86,325	78,817	1,049.8%
Westfield	3,304	9,293	30,068	35,297	31,993	968.3%
Zionsville	5,281	8,775	14,160	25,734	20,453	387.3%
Brownsburg	7,628	14,520	21,285	23,322	15,694	205.7%
St. John	4,921	8,382	14,850	16,117	11,196	227.5%
New Haven	9,320	12,406	14,794	15,608	6,288	67.5%
Chesterton	9,124	10,488	13,068	13,403	4,279	46.9%
Auburn	9,379	12,074	12,731	12,834	3,455	36.8%
Cedar Lake	8,885	9,279	11,560	11,854	2,969	33.4%
Greensburg	9,286	10,260	11,492	11,817	2,531	27.3%
Yorktown	4,106	4,785	9,405	11,220	7,114	173.3%
Greencastle	8,984	9,880	10,326	10,362	1,378	15.3%
Plymouth	8,303	9,840	10,033	10,095	1,792	21.6%

Note: In several cases, annexation played a role in the growth between 1990 and 2014.

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

With the exceptions of Greensburg in Decatur County, Plymouth in Marshall County and Auburn in DeKalb County, all of these places are located within a metropolitan area, as shown in Figure 1.

Figure 1: Places with Less than 10,000 Residents in 1990 but More than 10,000 Residents in 2014

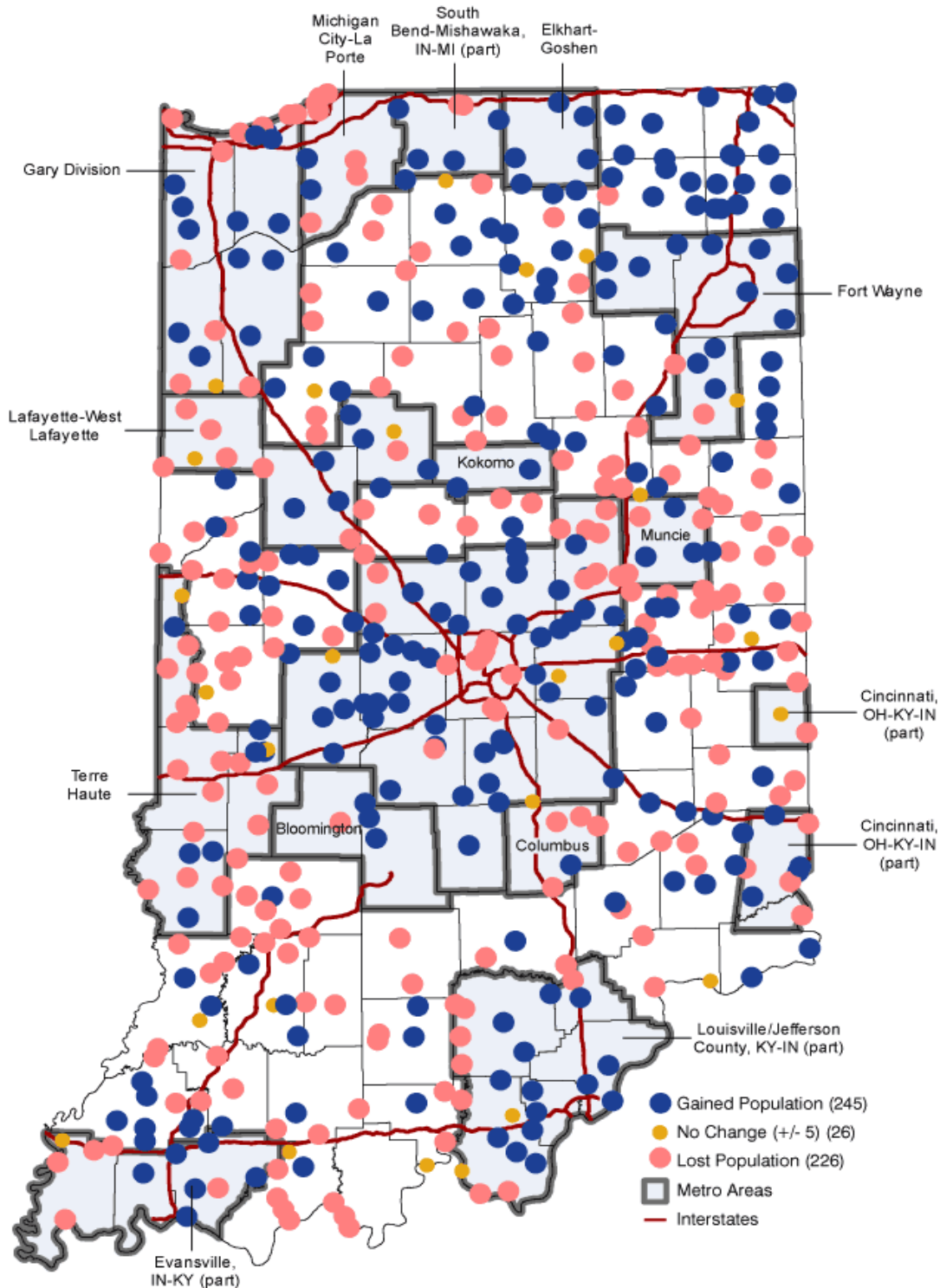


Source: IBRC, using U.S. Census Bureau data

A Metro/Non-Metro Comparison

Figure 2 illustrates how small town population change has varied across the state since 1990.

Figure 2: Small Town Population Change, 1990 to 2014



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

Across Indiana, 236 small towns were located within an MSA. Fifty-five percent of these metros grew between 1990 and 2014.² Meanwhile, only 44 percent of the 261 small towns in non-metro areas of the state grew.

The median growth for small towns within MSAs was 5 percent, compared to -2 percent for non-metro small towns (see Table 3).

Table 3: Metro/Non-Metro Comparison, 1990 to 2014

	Small Towns within an MSA	Small Towns outside of an MSA
Number of Small Towns*	236	261
Growing	130	115
No Change (+/- 5)	14	12
Declining	92	134
Population Change	254,098 (60%)	22,893 (6%)
Average Change	34%	3%
Median Change	5%	-2%

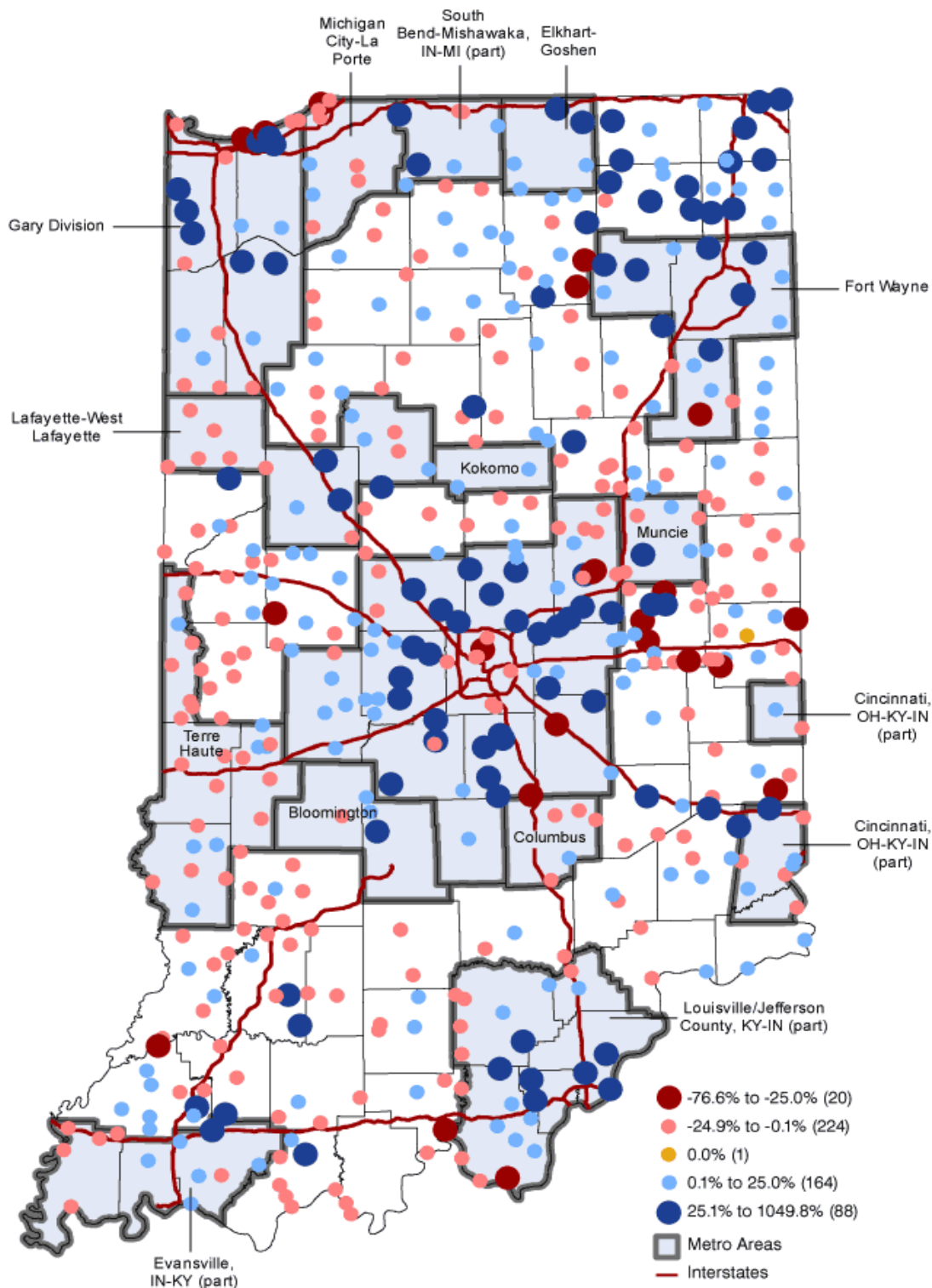
*Total number of small towns in 1990, excluding the seven that dissolved during the time frame.

Note: The explosive growth in Fishers pulls the "within MSA" population change figures up slightly. When excluded, the within MSA population change becomes 175,281, and the average falls to 30 percent.

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

By focusing on the large dots in **Figure 3**, one can zone in on the places that either gained or lost 25 percent of their population.

Figure 3: Percent Change in Small Town Population, 1990 to 2014



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

It is obvious that even within the metro/non-metro dichotomy, the experience of small towns has varied. While small towns near Indianapolis have grown 143 percent, those near Evansville, Terre Haute, Columbus and Michigan City have lost population on the whole (see **Table 4**).


Table 4: How Small Town Growth Varied by Metro Area

Metro Area	Number of Small Towns in 1990	Small Town Population		Change since 1990	
		1990	2014	Numeric Change	Percent Change

Indianapolis-Carmel-Anderson	74	130,783	318,195	187,412	143%
Muncie	6	11,537	18,432	6,895	60%
Fort Wayne	15	36,406	52,568	16,162	44%
Bloomington	4	6,852	9,771	2,919	43%
Gary	24	63,076	89,538	26,462	42%
Elkhart-Goshen	5	11,168	14,616	3,448	31%
Louisville	24	37,632	46,403	8,771	23%
South Bend-Mishawaka	7	8,375	10,028	1,653	20%
Kokomo	2	3,160	3,485	325	10%
Lafayette-West Lafayette	15	16,564	17,629	1,065	6%
Cincinnati	10	19,789	20,945	1,156	6%
Evansville	12	25,583	25,195	-388	-2%
Terre Haute	24	34,180	33,268	-912	-3%
Columbus	5	3,586	3,473	-113	-3%
Michigan City-La Porte	9	13,694	12,937	-757	-6%

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

Summary

Overall, Indiana's total population grew 19 percent between 1990 and 2014. Approximately half of the state's small towns experienced growth during this time period. In general, small towns located in MSAs grew much faster than those in more rural parts of the state.  [Download this small town population change spreadsheet](#) for a closer look at your area.

Notes

1. Rachel Strange, "Growth and Decline in Indiana's Small Towns," *InContext*, November-December 2015, www.incontext.indiana.edu/2015/nov-dec/article3.asp.
2. A change of +/- 5 residents is categorized as no change.

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Manufacturing Wage Premium Is Stable

TIMOTHY E. ZIMMER

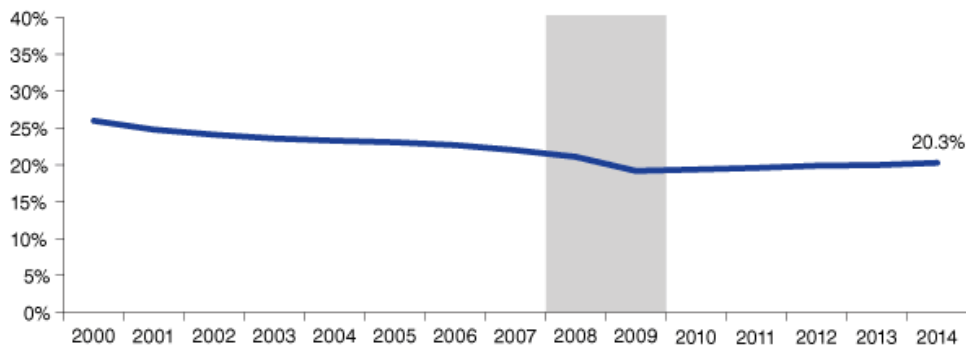
Professor of Economics and Finance, University of Indianapolis
Co-Director, The Center of Excellence in Workforce Education Research

Indiana has had a long history of reliance on manufacturing for higher wage employment. With automobile manufacturing and other heavy manufacturing either in the state or within close proximity, Indiana as a parts supply leader or distribution center has been a natural fit.

The Great Recession was a significant hit to the manufacturing industry. To better assess manufacturing in Indiana over the past 15 years, data was compiled for analysis from the [Hoosiers by the Numbers website](#), which is operated by the Indiana Department of Workforce Development (DWD). The data are annual averages from the Quarterly Census of Employment and Wages (QCEW) series.

Indiana's reliance on manufacturing began to decline in 2008 as indicated by its share of private employment. Indiana manufacturing employment fell from over 25 percent of employment in 2000 to below 20 percent during the Great Recession. Since the recession, however, the level has stabilized and increased slightly (see **Figure 1**).

Figure 1: Manufacturing Employment as a Percent of Total Private Employment



Note: Shading indicates the Great Recession.
Source: Indiana Department of Workforce Development and the U.S. Bureau of Labor Statistics (Quarterly Census of Employment and Wages)

Manufacturing has long interested policymakers and economic developers because of the wage premium usually afforded manufacturing jobs relative to other industries. However, in recent years, the growth of manufacturing wages in Indiana has been slowing (see **Figure 2**). The rate of growth in average weekly manufacturing wages has had a difficult time keeping up with inflation. When adjusted for inflation, real wage growth in manufacturing has been nearly nonexistent since 2000.

Figure 2: Annual Growth in Weekly Manufacturing Wages

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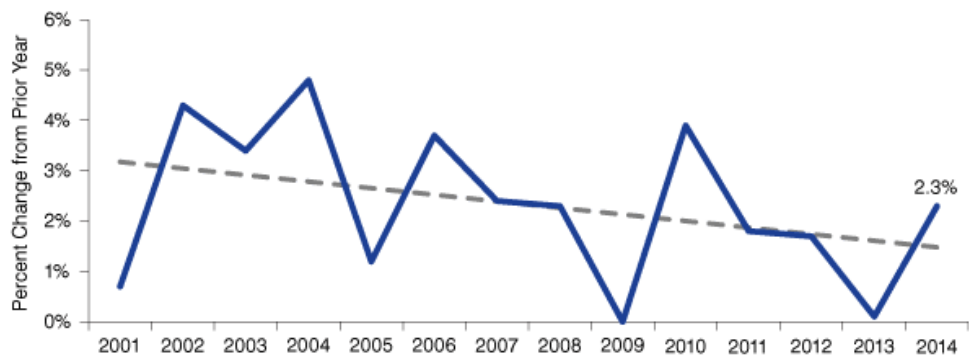
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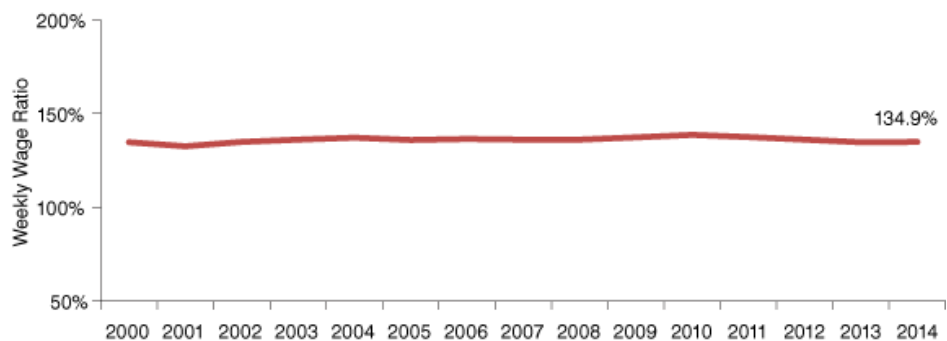


Source: Indiana Department of Workforce Development and the U.S. Bureau of Labor Statistics

What is the cause for the slowing growth in manufacturing wages? There has been significant conjecture and research, with additional questions as a result: Is Indiana not doing enough to attract high-wage manufacturing? Is Indiana not preparing its workforce adequately to meet demand for skilled high-wage manufacturing jobs? Or, does the industry no longer see the need to pay premium wages for the more skilled employees required for advanced manufacturing jobs?

While certainly not conclusive, one method to answer these questions is to assess changes in relative weekly wages over time. Manufacturing wages have remained remarkably stable over time in terms of relative wage. Since 2000, average weekly manufacturing wages have been approximately 135 percent of the average weekly wage for total private employment (see **Figure 3**).

Figure 3: Ratio of Manufacturing Wages to Total Private Employment Wages



Source: Indiana Department of Workforce Development and the U.S. Bureau of Labor Statistics

The good news is that manufacturing work is still valued at a premium by employers and that this employment premium has remained relatively stable. Manufacturing jobs remain higher paying on average relative to other industries. This also suggests that an influx of lower wage manufacturing is not a rampant problem, although this does not alleviate the continued need to extend every effort to bring in higher wage manufacturing jobs. Economic development efforts must continue focusing on luring higher wage manufacturing to the state (or higher wage jobs of any sector), and everyone else (including the workforce itself) needs to focus on getting the education and training needed to adequately fill these jobs.


There is some bad news, however. The data suggests that the wage growth problem is systemic across all industries. The lack of wage growth is not a manufacturing-specific problem. The premium afforded manufacturing employees has remained stable since 2000. The problem is that wage growth in all industries has been insufficient. As all wages increase, it should follow that manufacturing wages would increase proportionally. The state must work diligently to increase the wages of all workers, however, the lack of wage growth is a national issue.

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