Fort Wayne

If not, they will lose either their wages or their jobs. Continuous improvement in worker productivity remains a managerial challenge. Should the recent defeat of the referendum to finance the schools signify a long-term lack of support for education in our community, I fear for our long-term success. ◄

Advances in productivity have more than accounted for the economy's post-recessionary growth.

It's why a million jobs have disappeared since the start of the recovery in November 2001.

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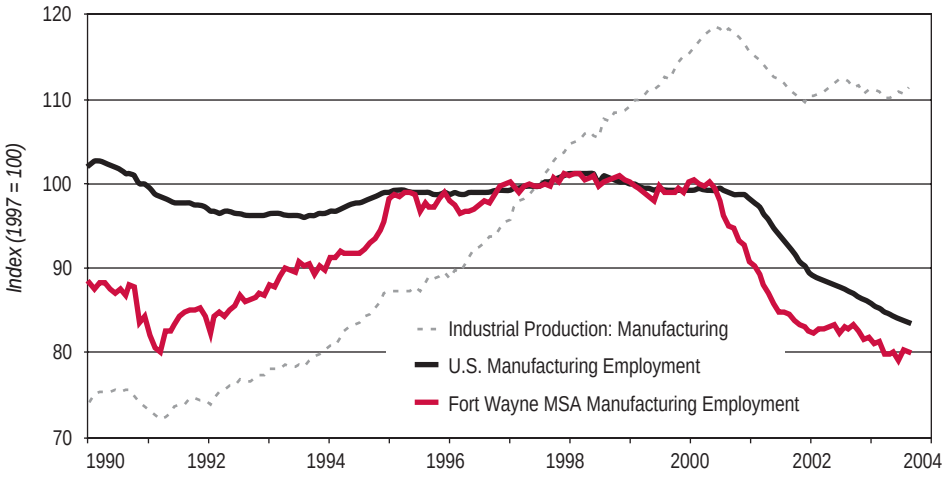
Manufacturing is disappearing. No, it's manufacturing employment that's disappearing. As shown in Figure 1, the total value of goods manufactured in the U.S. has declined approximately 6 percent since mid-2000, but that's not exactly a disappearing act. Furthermore, when the 6 percent decline is juxtaposed with the almost 60 percent increase in the last decade, it appears modest indeed. Isn't that a typical characteristic of recessions?

Look for the value of goods manufactured to reach new highs in the next twenty-four months as the current recovery gains momentum. That's not exactly a disappearing act.

What's disappearing is manufacturing employment. In 1978, there were over 19.3 million employed in manufacturing in the nation. Last November, there were 14.5 million. That's a total decrease of 25 percent, or essentially 1 percentage point per year.

Between 1978 and last November, the total value of goods manufactured in the U.S. increased 90 percent. It had doubled as of mid-2000. Why the disconnect? Productivity—the increase in output per hour of labor.

Figure 1
Manufacturing Output and Employment



Between 1978 and 1995 nonfarm business productivity grew at an average annual rate of about 1.2 percent. From 1996 to the fourth quarter of 2001—the end of the last recession—productivity averaged around 2 percent. Since the recession ended, productivity has expanded at an annual rate of more than 5 percent. In third quarter 2003, productivity grew at a seasonally adjusted annual rate of 9.4 percent. In classic understatement, Federal Reserve Chairman Alan Greenspan has described the surge in productivity as "startlingly large."

Frankly, the third quarter 2003 productivity number is too high to be believed, so it more than makes a point. And the point is that advances in productivity have more than accounted for the economy's post-recessionary growth. It's why a million jobs have disappeared since the start of the recovery in November 2001.

In the last three years, manufacturing employment in the Fort Wayne metropolitan area[1] has decreased by approximately fifteen thousand; or more starkly, basically one in every five manufacturing jobs has disappeared over the last thirty-six months (see Figure 1).

Due to the massive fiscal and monetary stimuli, the U.S. economy is now growing sufficiently fast to begin generating jobs (see "The U.S. Economy" on page 1). When economic growth exceeds productivity growth—which is about to occur—the modest employment gains will accelerate.

For the Fort Wayne area, the immediate question is when will the fifteen thousand laid-off manufacturing workers be called back? According to a recent research note from the Federal Reserve Bank of New York, the answer for many will likely be never:

"The period after the 2001 recession will be remembered as the second jobless recovery.[2] Our inquiry into the reasons for the current labor market slump suggests that structural change has played an important role. Industries that lost jobs during the recession have continued to shrink during the recovery, and permanent job losses have eclipsed temporary layoffs. … An unusually high share of unemployed workers must now find positions in different firms or industries."[3]

Unfortunately, the researchers didn't quantify "unusually high," so I am forced to.

Gary

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Let's assume 5,000 of the 15,000 area manufacturing jobs lost return over the next two years; that's 2,500 jobs a year.

During normal times, the Fort Wayne area economy has been generating approximately 2,500 nonmanufacturing jobs yearly.

For 2004, these assumptions yield a forecasted increase of 5,000 jobs, or approximately a 2 percent increase in employment ending in December. This is the most optimistic end of the forecast range. One percent, or 2,500 jobs, is the pessimistic end.

Over the longer run, the capacity of the Fort Wayne area to grow employment is likely about half that of the nation. This is based on the area's relative dominance in the slow growth manufacturing sector[4] and its relatively low population growth. ◄

Endnotes

1. Adams, Allen, DeKalb, Huntington, Wells, and Whitley counties.
2. Actually, they are wrong. Recovery from the 1990–91 recession was job-*less*. Recovery from the 2001 recession has been job-*loss*.
3. Erica L. Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?," *Current Issues in Economics and Finance* 9 (August 2003).
4. Actually, the argument above is that the secular trend is for decreased manufacturing employment.

Employment in the northwest Indiana economy (Lake and Porter counties) has remained fairly constant during 2003 (252,100 in January and 252,400 in September), a development comparable to the nation as a whole. Nonetheless, the local economy experienced a sharper decline during the most recent recession, with an employment decline of about 8 percent from the cyclical peak in the fourth quarter of 2000 (compared with a decline in total U.S. employment of about 1.5 percent to 2 percent from the cyclical peak, also in the fourth quarter of 2000).

The projected rapid growth in the national economy, which, given the continuing robust increases in productivity, is likely to produce only modest gains in employment (or reductions in unemployment), will likely lead to some expansion in the local economy as well. However, here that expansion will occur almost, if not entirely, as output, not employment growth. It seems unlikely that local employment will increase noticeably or that the local unemployment rate will fall.

Output and Employment

Establishment employment in northwest Indiana has shown considerable volatility over the past thirteen years (see Figure 1), but little long-term growth (employment at the end of 1990 was about 250,000, compared with 252,400 in September 2003). Household employment has shown somewhat more growth (rising from about 270,000 in early 1993 to about 284,000 in September 2003).[1] Figure 2 provides a comparison between northwest Indiana and the nation, in terms of growth in total employment. Clearly, employment in northwest Indiana has been much more volatile throughout the 1991 to 2003 period than has employment nationally. Equally clear, growth in employment nationally has been much more rapid, totaling more than 20 percent during this period, compared with less than 5 percent growth in local employment.

Both for the nation and the local economy, output growth has been considerably more rapid than has employment growth. Productivity growth has averaged more than 2 percent per year nationally over the past twelve years, and has averaged more than 5 percent per year for the past two years. As a consequence, total real output (GDP) nationally has increased by about 46 percent in the past thirteen years. Assuming that productivity growth in northwest Indiana has kept pace with the national trends, this suggests that total local output has increased by about 30 percent over the past thirteen years.[2]

If the relationship between national and local growth remains as it has apparently been in the past, 4 percent growth in output nationally would suggest 2.6 percent growth in output in northwest Indiana. If productivity growth (nationally and locally) averages 3 percent over the next year, total local employment would be projected to fall by about 0.45 percent, or from about 252,400 (September 2003) to about 251,300 (September 2004).

The Manufacturing Sector

Manufacturing, both locally and nationally, continues its long, slow decline in employment (although not in output), as

Figure 1
Total Employment in Northwest Indiana