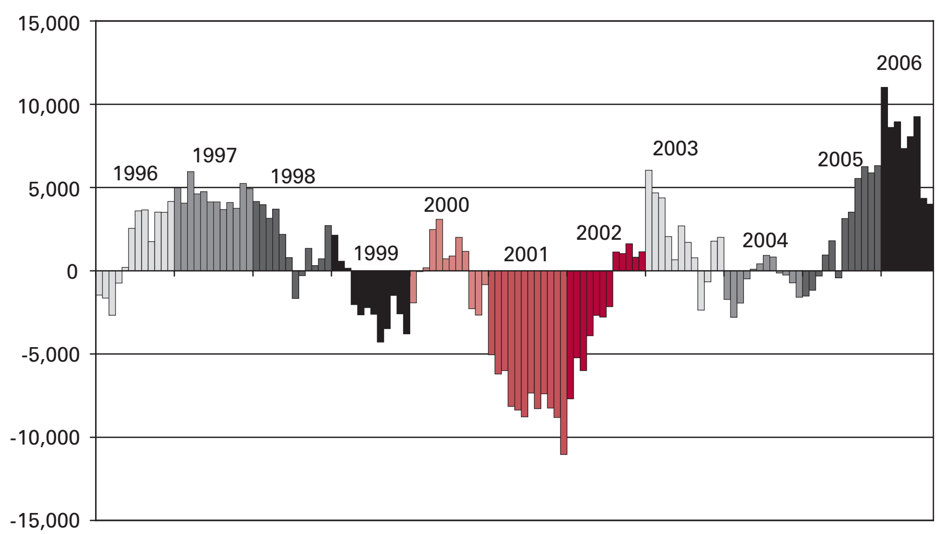
to production contractions by the Big Three domestic automakers. Secondly, we are very likely to experience more of the gradual but continuous transformation within the manufacturing sector to a more diversified market mix being served by northeast Indiana companies. Two recent announcements within days of each other typify this transformation—Tower Automotive announced the closing of its Kendallville chassis and suspension components facility eliminating 114 jobs and Micropulse, a Columbia City medical devise manufacturer, announced an expansion that should add 100 jobs to its workforce over the next four years. Given this ongoing "churn" in the manufacturing sector and the region's relatively slow ability to replace manufacturing jobs with higher-paying components of the service sector (such as financial services and professional and business services), the Fort Wayne area will work hard to continue total employment expansion in 2007 at the current rate of approximately 2,000 jobs per year.

From a longer-term perspective, northeast Indiana is in the process of putting in place a substantially more robust economic development system than the region has previously supported. For the first time ever, every county in the northeast corner of this state has an active local economic development organization with a full-time professional staff. Entrepreneurial and small business support efforts are gaining momentum. Workforce and economic development initiatives are becoming more closely aligned and a newly-created regional marketing organization has been formed in recent months and is being generously supported by private, public, and foundation capital. Over time, this more aggressive, multi-dimensional effort should pay dividends in both job creation and in increasing relative average wage levels in northeast Indiana.

Notes

1. Employment actually peaked in the second quarter of 2000, with Indiana jobs totaling 2,969,508 and Fort Wayne CSA jobs totaling 291,770.

Figure 2
Total Employment Change Since the Previous Year's Total Employment in the Fort Wayne–Auburn–Huntington CSA



Source: Bureau of Labor Statistics

Gary

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Looking Back

Establishment-Based Estimates of Employment and Earnings: The northwest Indiana[1] economy has generally lagged the state and the nation over the last decade and more. Between 1995 and 2006, employment in northwest Indiana grew at an average annual rate of 0.22 percent, compared with Indiana's relatively meager 0.60 average annual growth and the nation's 1.32 percent. This disappointing overall performance conceals much stronger performance in some sectors and much weaker performance in others. **Table 1** compares average annual employment growth for northwest Indiana with the state and the nation, for selected industries. While employment in construction and in health care services were quite strong, no industry in northwest Indiana experienced faster employment growth than both the state and the nation.

Real weekly earnings also grew more slowly in northwest Indiana (0.25 percent per year) than in the state (0.79 percent per year). Locally, weekly earnings grew more rapidly than the state in construction, manufacturing, and wholesale trade, and more slowly than the state in transportation and utilities, finance, and health care (see **Table 2**).

During the past year, employment growth in northwest Indiana has modestly outpaced the state, 1.02 percent to 0.92 percent (see **Table 3**). Real weekly earnings however, have increased by 3.68 percent at the state level, but only by 2.76 percent in northwest Indiana.[2]

Household-Based Estimates of the Labor Force, Employment, and Unemployment: Labor force growth locally has also substantially lagged. Between January 1990 and September

2006, the northwest Indiana labor force grew by only 8.4 percent, compared with 16.0 percent for the state and 20.8 percent for the United States. The household-based measure of employment yields an increase of 9.5 percent in northwest Indiana, 17.2 percent in the state, and 21.6 percent for the nation during the same time period.[3] **Figure 1** provides data on the size of the local labor force, household-based employment, and establishment employment for the recent past.

The unemployment rate in northwest Indiana has generally tracked the U.S. unemployment rate quite closely and has generally been slightly higher (see **Figure 2**). The relatively steady decline in the national unemployment rate (it has declined from 6.3 percent in March 2003 to 4.5 percent in September 2006) has not, it seems, helped to drive the local unemployment rate down.

The Challenges: Northwest Indiana continues to be a challenging place for new businesses to locate. The environmental issues surrounding many available industrial sites near Lake Michigan reduce the attractiveness of the region to outside firms, along with the continued traffic congestion and lack of regularly scheduled airline service at the Gary–Chicago Airport. However, the vitality of the Port of Indiana remains an extremely strong plus for location in the region.

Slow population growth in the region (averaging 0.29 percent per year between 1990 and 2005, and a more rapid, but still quite slow 0.51 percent per year since the 2000 census) and equally slow labor force growth (0.50 percent per year since 1991) also make northwest Indiana a less-than-desirable location for businesses looking for expansion or relocation sites, because it almost certainly makes recruiting workers more difficult. Of course, the slow growth in the economy only serves

Table 1
Average Annual Growth Rates in Employment for Selected Industries, First Quarter 1995 to 2006

Industry	Northwest Indiana	Indiana	United States
Total Nonfarm Employment	+0.22%	+0.60%	+1.32%
Construction	+1.56%	+1.45%	+5.15%
Manufacturing	-3.17%	-1.65%	-1.76%
Primary Metals	-4.92%	-3.29%	-2.78%
Chemicals	-3.27%	+0.80%	-0.97%
Transportation and Utilities	-0.70%	-0.31%	-0.31%
Wholesale Trade	-0.84%	-0.90%	+0.53%
Retail Trade	+0.36%	+0.40%	+1.37%
Eating and Drinking Places	+0.70%	+1.28%	+2.13%
Financial Services	+0.48%	+0.56%	+1.64%
Health Services	+2.30%	+3.16%	+2.55%

Sources: STATS Indiana and the Bureau of Labor Statistics

Table 2
Average Annual Growth in Real Weekly Earnings for Selected Industries, First Quarter 1995 to 2006

Industry	Northwest Indiana	Indiana
Total Nonfarm Employment	+0.25%	+0.79%
Construction	+1.31%	+1.11%
Manufacturing	+0.46%	-1.65%
Primary Metals	+0.89%	+0.17%
Chemicals	+4.88%	+2.72%
Transportation and Utilities	+0.04%	-0.22%
Wholesale Trade	+2.19%	+1.60%
Retail Trade	+0.54%	+0.63%
Eating and Drinking Places	+0.61%	+0.59%
Financial Services	+1.67%	+2.21%
Health Services	+1.32%	+0.44%

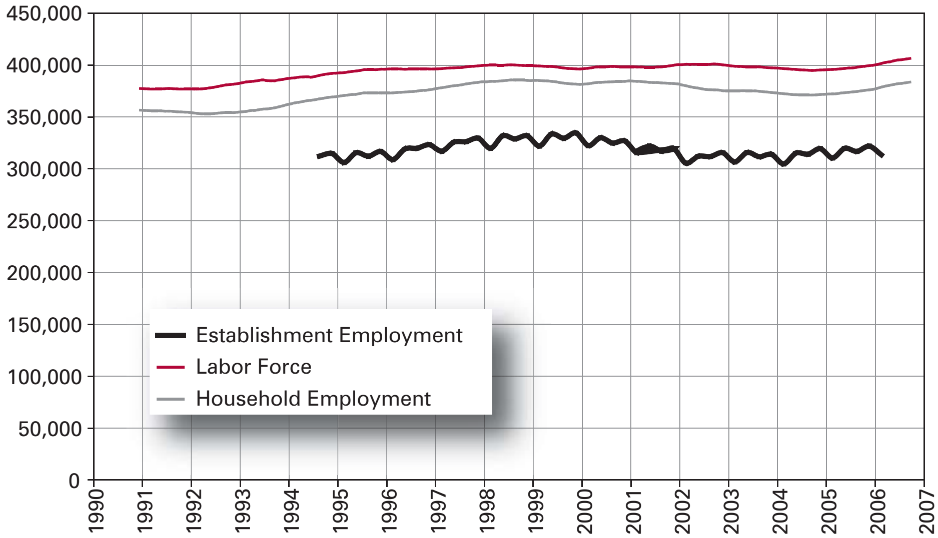
Source: STATS Indiana

Table 3
Employment Growth in Selected Industries, 2005 to 2006

Industry	Northwest Indiana	Indiana
Total Nonfarm Employment	+1.02%	+0.92%
Construction	+9.2%	+3.12%
Manufacturing	+0.47%	-0.56%
Primary Metals	-1.43%	-3.20%
Chemicals	+2.47%	-2.72%
Transportation and Utilities	+0.57%	+2.12%
Wholesale Trade	-0.32%	+1.57%
Retail Trade	+2.71%	+1.25%
Eating and Drinking Places	+3.29%	+2.72%
Financial Services	+0.22%	+0.47%
Health Services	+4.27%	+2.44%

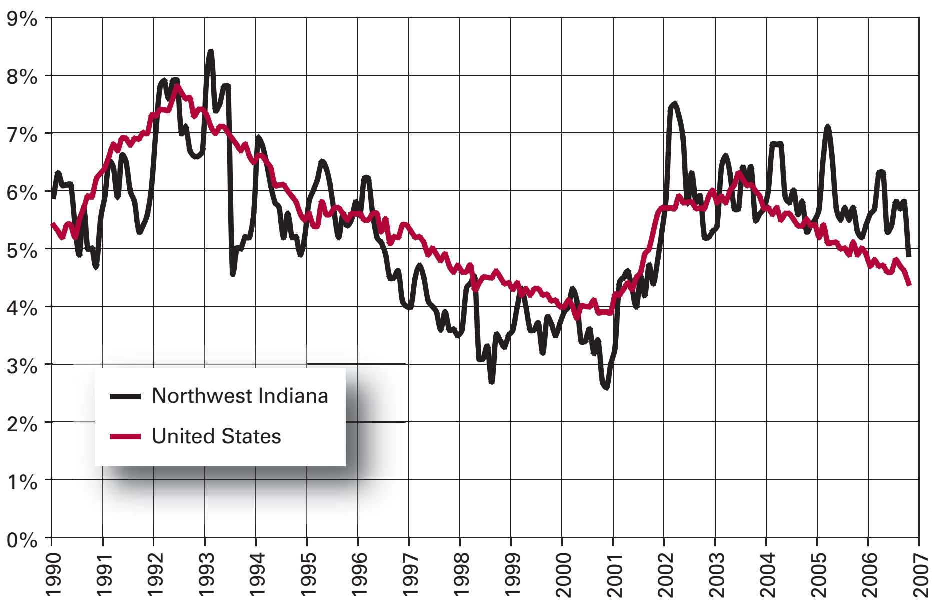
Source: STATS Indiana

Figure 1
Establishment Employment, Household Employment, and the Labor Force in Northwest Indiana



Sources: STATS Indiana and the Bureau of Labor Statistics

Figure 2
Unemployment Rates in Northwest Indiana and the United States, 1990 to 2006



Sources: STATS Indiana and the Bureau of Labor Statistics

> *"The relatively steady decline in the national unemployment rate (it has declined from 6.3 percent in March 2003 to 4.5 percent in September 2006) has not, it seems, helped to drive the local unemployment rate down."*

to reinforce both slow population growth and slow labor force growth, because people have a greater incentive to look elsewhere for economic opportunities.

One consequence of these factors is that the number of business establishments in northwest Indiana has grown by only 0.18 percent per year between 1995 (16,047 establishments) and 2006 (16,381 establishments). By way of contrast, the number of business establishments in Indiana has grown by a not-very-impressive 0.4 percent per year during the same period, but more than two times the rate of growth in northwest Indiana.

Looking Ahead

The Kelley School of Business forecast for 2007 calls for about 3 percent growth in the gross domestic product of the U.S. economy, which would be another year of fairly solid growth. However, the most recent two quarters of data on the U.S. economy (2.6 percent growth in the second quarter of 2006 and a preliminary estimate of 1.6 percent in the third quarter) may give us pause. We can expect the local economy, in general, to generate smaller increases in employment than the national economy does, and, should the United States slide into a recession, we can expect that recession to be worse locally than nationally.

Last year, I forecast employment growth of 0.2 percent, and the local economy provided a pleasant surprise, growing considerably more rapidly than that, bolstered by a stronger national economy. Based on the slowdown in the national economy, my current forecast is for 0.4 percent employment growth, or about 1,900 net new jobs (see **Table 4**).

A recession could make this much worse. In the extremely mild recession in 2001, local employment fell by about 3.6 percent (2.5 times the national average) and recovered only slowly. Should the growth of output in the U.S. economy remain at the rate estimated for the third quarter of 2006 (1.6 percent) and should productivity growth remain strong, total national employment might fall by as much as 1 percent, which would be likely to cause as much as a 2.5 percent decline in employment locally (nearly 8,000 jobs).

If, on the other hand, we manage to avoid a national recession, and if the economy grows at 3 percent, we might see national employment rise by as much as 1.5 percent. This would be likely to lead to a local employment increase of around 0.6 percent, or about 1,900 new jobs.

Strongest employment growth is likely to continue to be in construction and in health care services. Both the continued reconstruction of the regional highway systems and BP's recent announcement of major expansion in its Whiting refinery suggest that construction is one sector that will probably not experience any serious setbacks. However, a continued decline in residential construction nationwide would almost certainly have a local impact. Based on recent changes in employment in the construction subcategory of "construction of buildings," it appears that employment growth has already peaked. Construction of buildings accounts for about one-third of construction employment in northwest Indiana, so a serious slowdown in residential construction could make this forecast somewhat optimistic.

We can expect growth in health care employment to be between 2 percent and 4 percent for the next year, adding 800 jobs to 1,600 jobs. This represents something of a slowdown in employment growth, which is predicated both on continued productivity increases and on changes in state and federal funding practices. It appears likely that Indiana Medicare spending will contract in the coming year, and continued rising health care costs (and insurance premiums) are likely to reduce real health care spending modestly.

Table 4
Projected Employment Change in Northwest Indiana, 2006 to 2007

Industry	Change
Total Nonfarm Employment	+1,900
Construction	+590 to +790
Manufacturing	-250 to -750
Primary Metals	-490 to -980
Chemicals	+10 to - 270
Transportation and Utilities	0 to -90
Wholesale Trade	-30 to -60
Retail Trade	+160 to +950
Eating and Drinking Places	+60 to +100
Financial Services	0 to +30
Health Services	+800 to +1,600

Source: Author's calculations

Manufacturing employment seems likely to resume its decline in 2007, albeit at a slower rate. I expect, in fact, a modest increase in non-steel manufacturing employment, which will be more than offset by a continuing, significant decline in steel employment. The employment decline in primary metals will probably be accompanied by an increase in steel output, as productivity gains continue to outpace output increases. The situation in steel is likely to be complex. On the one hand, Mittal's continuing strategy of growth-through-acquisition creates opportunities and risks. As Mittal has extended the scope of its holdings geographically, it is increasingly better positioned to shift production to newer, more productive, lower-cost facilities. On the other hand, this also creates some upside. If the global economy remains strong, then Mittal is also better positioned to expand output everywhere without, in the short-run, having to build new facilities. The second complicating factor is the threat of a recession. Should that happen, the typical large decline in production and sales of consumer durables (such as cars and appliances) will create downward pressure on output, and on employment, in steel. The decline in steel employment during and immediately following the 2001 recession (about 15 percent) indicates the potential for a small decline to turn into a much larger one.[4] The potential exists for that sort of decline—if a recession does occur—which would drive steel employment down by something more like 2,500 jobs, rather than the expected decline of anywhere from zero jobs to 1,000 jobs.

Retail trade is something of a wild card. Growth in employment is likely to be between 0.25 percent and 1.5 percent, resulting in a wide range in the employment forecast (160 to 960); a reasonable performance would lead to employment gains of about 550. If households continue to spend an extremely high percentage of their incomes, we should be nearer the top of this range. However, any move from consumption to saving could lead to a much smaller gain in local employment.

A preliminary look at county-by-county data indicated that there should be little change in the distribution of economic activity by county in the coming year. Total employment in Porter County, for example, has grown by only 0.25 percent per year in the last five years, only slightly faster than the region's growth.

The unemployment outlook is the least clear. If the national unemployment rate remains unchanged at 4.4 percent, we might see the local unemployment rate rise modestly to 5 percent or 5.1 percent. A recession that lifts the national unemployment rate to 6 percent is likely to cause the local unemployment rate to rise to around 7 percent. Moderate slowing of the U.S. economy is likely to result in a local unemployment rate of between 5.5 percent and 6 percent.

Conclusions

More than in any recent year, the uncertainties surrounding the path of the national economy matter. Since 2001, the national economy has grown steadily, if not always briskly. For the first time in this century, however, the prospects of a recession must be factored into our expectations for the local economy. Given our still-considerable concentration of economic activity in cyclically sensitive industries (steel and other metals; chemicals; petroleum products), a mild national recession could lead to significant slowdown in the local economy. The national economic forecast presented in this issue of the ***Indiana Business Review*** suggests that we may dodge that bullet; other forecasts are less optimistic. This is, then, a much more cautious forecast than usual, because more than usual depends on which way the national economy jumps. Continued moderate growth in the national economy will lead to very modest growth in northwest Indiana. That is the best to expect.

Notes

1. In what follows, the northwest Indiana economy is Lake, LaPorte, Porter, Jasper, Newton, Pulaski, and Starke counties, unless otherwise specified.
2. In the preceeding discussion, I compare the first quarter of 2006 (the most recent period for which data are currently available) with the first quarter of 1995.
3. Measured between January 1990 and September 2006 (the most recent month for which local data are available. Sources for northwest Indiana and Indiana: www.stats.indiana.edu; and the United States: www.bls.gov.
4. The 2001–2002 decline also involved some industry restructuring, but was mostly a response to the recession.

Indianapolis

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The following data and forecasts refer to the nine-county Indianapolis area, including Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan, and Shelby counties. Unless otherwise noted, data comes from STATS Indiana at www.stats.indiana.edu, maintained by the Indiana Business Research Center at the Indiana University Kelley School of Business.

"Indianapolis outpaced the nation in income growth but had a slower rate of job growth."

Income

Between the first quarters of 2005 and 2006, income growth impressively outpaced the rest of the country and reversed last year's local downward trend. Real average weekly compensation increased 5.1 percent in Indianapolis, compared to just 0.2 percent nationwide.[1] Both agriculture and manufacturing witnessed double-digit wage growth. Overall, compensation data suggest a 6.4 percent real growth rate in the local economy. Real growth in the U.S. economy over the same period was only 3.7 percent.[2] Between the first quarters of 2004 and 2005, economic activity in metropolitan Indianapolis shrank 0.5 percent. The Indianapolis economy posted an impressive turnaround in its ability to generate money.

Employment

Indianapolis lagged the nation in job growth. Between August 2005 and August 2006, local employment grew only 0.3 percent, compared to a 1.6 percent expansion nationwide. Local unemployment matches national unemployment at 4.6 percent of the labor force. Manufacturing employment shrank 1.1 percent and the number of management jobs fell 3.1 percent. The areas of highest job growth were agriculture at 4.5 percent, food service and accommodation at 4.4 percent, and construction at 3.3 percent.

Real Estate

Building activity is slowing like the rest of the country, but Indianapolis has not seen the fall in real estate value witnessed in other markets. Year-to-date building permits fell 17 percent between September 2005 and September 2006.The local median home price increased from $134,900 to $139,900, but the inventory of unsold homes increased 14 percent.[3]

Quality of Life

Data suggest a rise in community stress among those who live and work in the central city. Marion County's unemployment rate of 5.4 percent is higher than that of the larger metropolitan area. Between July 2005 and July 2006, total crime incidents (in the area patrolled by the Indianapolis Police Department) increased 10.5 percent.[4]

Notes

1. Nationwide wage growth data from the Bureau of Labor Statistics.
2. Real gross domestic product growth data from the Bureau of Economic Analysis.
3. Indianapolis housing market data from www.housingtracker.net. Note that data for the real estate portion of this article uses the actual Indianapolis–Carmel metro data rather than the nine-county region referred to at the beginning of this article. The Indianapolis–Carmel metro includes the following counties: Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby.
4. Crime trend data from the Indianapolis Police Department.