Gary

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

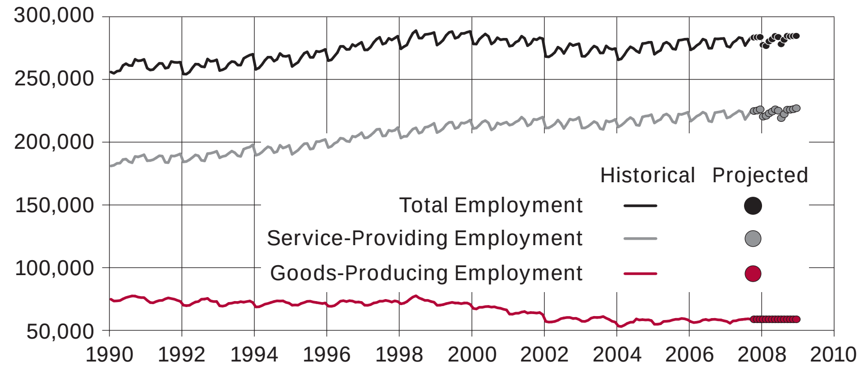
Northwest Indiana continues to lag both the state and the nation in terms of growth. From September 1990 through September 2007, payroll employment[1] in northwest Indiana grew at an average annual rate of 0.6 percent, while U.S. employment growth was 1.4 percent per year, and the state's employment grew at an average annual rate of 1 percent.[2] Household employment in northwest Indiana grew even more slowly, averaging only 0.4 percent, compared with 1.2 percent growth for the nation and 0.8 percent for Indiana. Perhaps surprisingly, the unemployment rate in northwest Indiana has not been exceptionally high, falling from 5.1 percent in 1990 to 4.2 percent in September 2007. During that same time, the nation's rate declined from 5.1 percent to 4.5 percent, and Indiana saw a smaller drop from 4.5 percent to 4.1 percent.[3]

The last year has been more of the same for northwest Indiana, with payroll employment growth (0.5 percent) continuing to lag the nation (1.8 percent), but atypically leading the state (0.3 percent).

In this case, the past is almost certainly prologue. We can anticipate generally slow employment growth for the region, with more downside risks than upside opportunities. We anticipate growth in total employment of about 0.3 percent, with a net addition of about 1,000 jobs to the local economy. Given a continuation of the labor force growth of the past two decades, this should result in a roughly stable unemployment rate.

The risks, however, are quite real. As we will see, building permits for housing have declined sharply in northwest Indiana, but construction employment has not followed. There is a clear risk here that the slowdown in housing permits will eventually result in declining construction employment. In addition, U.S. automobile sales (and production) in 2007 declined 1.6 percent compared to 2006 levels. Sales by GM, Ford, and Chrysler were down even more (4 percent), and inventories of unsold cars have declined.[4] With sales and inventories falling, production cutbacks have certainly occurred. Should auto sales continue to fall, the steel industry may see lagging demand for its products, which would negatively affect employment.

Figure 1
Employment in the Gary Metro Division



Sources: STATS Indiana and the Bureau of Labor Statistics

The Overall Economy: Employment and Population

The northwest Indiana economy will continue to add jobs, but at a very slow rate. Overall, we can look for about 0.3 percent growth in employment, or about 1,000 new jobs (see **Figure 1**). Given the slow growth in the region's population and labor force, this may be enough to hold the local unemployment rate at or near its current 4.3 percent level—although a moderate increase (to the 4.5 percent to 4.9 percent range) is not impossible. The slow growth in employment means that there should be little upward pressure on wages. Overall, growth in nominal (money) wages should keep pace with inflation, leaving real wages, on average, roughly unchanged. Most of the employment growth is likely to be in Porter County (with Lake County likely even to lose jobs) as businesses continue to relocate toward the counties with more rapid population growth. Note, however, that population growth is not likely to be robust between now and 2010 anywhere in northwest Indiana.

The Indiana Business Research Center (IBRC) projects average annual population growth in the region of 0.3 percent between 2005 and 2010, with Porter County "leading" the way with an average annual growth of 1 percent. Jasper County's population is projected to rise by about 0.9 percent per year—only 1,400 additional residents in total—between 2005 and 2010. The IBRC projects slight population declines in Newton County. Population is projected to shrink in the central labor force group—ages 25 to 44—in northwest Indiana between 2005 and 2010. This age group is projected to shrink fastest in Lake and Newton counties—around 0.5 percent per year or faster.[5] This decline in the prime-working-age population is one of the factors that makes northwest Indiana less attractive as a location for new businesses. It means that the labor force is also unlikely to grow much—if at all. Therefore, firms trying to expand may find it difficult to hire workers with the skills they need.

While the overall economy will grow slowly, we now turn to some specific sectors—some of which will do better and others worse.

Goods-Producing

Construction: Construction employment has remained reasonably stable at about 18,000 to 20,000 jobs over the past decade. This masks, however, an increase in employment in the construction of buildings, which has increased from around 4,000 jobs (1996) to around 6,000 jobs in 2007. Much of this increase has apparently been in the home-building industry.

Not surprisingly, residential building permits issued in northwest Indiana increased by nearly 30 percent between 2000 and 2005. However, permits fell by approximately 20 percent in 2006 alone, and statewide and national data suggest that the decline has persisted into 2007. In Indiana, residential building permits averaged about 2,500 per month between March and June 2007, but have since declined by about 20 percent for July through September.[6]

While the effects of the decline in permit issuance have yet to show up in Indiana's construction employment numbers, they have clearly had an effect nationwide, where employment in residential construction is down by 25,000 jobs (about 2.4 percent) since peaking in June. While such a decline would have only a modest impact on the local economy (it would translate to a loss of about 150 construction jobs), it's worth recalling that the increase in residential construction has allowed construction employment to remain stable. Continued stability in construction employment would look like a good outcome, given the current uncertainties. Indeed, given that construction continues to be a high-wage industry (average annual earnings in 2005 of about $45,800—nearly 24 percent above the regional average), declining employment in construction would have a disproportionately adverse impact. For this and all subsequent earnings data see **Table 1**.

Manufacturing: The last two years have been, in relative terms, good ones in northwest Indiana. Following two decades of declining employment, manufacturing stabilized beginning in 2004. Overall employment has held steady at about 38,000 jobs and, perhaps more importantly, employment in metals has also stabilized at around 18,500 jobs. This stability has accompanied a strong world demand for steel, with little downward pressure on prices. Indeed, the steel industry has maintained its employment level over the past year despite declining auto sales and production. While steel no longer has the extraordinarily large role in the local economy that it did in the 1960s and 1970s, it is still a major source of income. Bureau of Economic Analysis (BEA) data indicate that primary metals workers earned an average of about $97,900 in 2005, more than 260 percent of the regional average. Manufacturing employment is, overall, a very high-wage sector, with average annual earnings in 2005 of nearly $79,000.

The outlook for the steel industry may not be all that promising. As noted above, auto sales and production have declined noticeably in 2007. This is likely to exert downward pressure on the demand for steel. In addition, the rapid growth of steel-making capacity both in China and in India is likely to cause downward pressures on price and on demand for U.S.-made steel. Once again, we have an important industry in which stability would look like a favorable outcome.

Elsewhere, the oil company BP continues its plans to overhaul and expand its refinery in Whiting. While this effort has been slowed by controversy over the potential environmental impacts of the development and of the permits originally issued by the Indiana Department of Environmental Management,[7] it does appear likely to move forward. The project will add about 1.7 million gallons per day (about a 15 percent increase) to the refinery's capacity. Although it will provide significant support to local construction employment during the construction phase, the expansion will apparently add only about eighty permanent jobs.[8]

Table 1
Annual Compensation per Employee for Selected Industries, 2005

Industry	Annual Compensation per Employee
All Industries	**$37,054**
Manufacturing	$78,962
Primary Metals	$97,944
Wholesale Trade	$53,306
Construction	$45,789
Government	$44,638
Federal, Civilian	$80,629
State	$47,405
Local	$42,243
Health Care and Social Assistance	$38,581
Retail Trade	$22,126
Educational Services	$19,256
Accommodation and Eating and Drinking Places	$13,082

Source: STATS Indiana, using Bureau of Economic Analysis data

Service-Providing

Services, broadly defined, have provided all of the net employment growth in northwest Indiana over the past two decades. It seems likely that continued employment growth in services will be necessary if the local economy is to add any significant number of new jobs. The service sector now accounts for 79 percent of all jobs in northwest Indiana, up from its 71 percent share in 1990. However, jobs in the service sector tend, in general, to provide below-average compensation. BEA data indicate that only around 60 percent of total compensation in 2005 went to people working in the service sector, well below that sector's share of employment. Two parts of the service sector stand out for rapid growth: health care and social services and accommodation and food services.

Health Care: The health care sector now accounts for nearly 13 percent of total employment, up from about 9 percent in 1990. Employment has grown considerably more rapidly than in other sectors, rising about 2.6 percent per year (a total of 13,000 additional jobs) since 1990. Little of this growth has occurred in hospitals, which have added only 900 jobs since 1990 (a 0.3 percent average annual growth). Medical practices and free-standing clinics have grown very rapidly. Health care jobs are a mix of very well-paying jobs and fairly low-paying jobs. As a result, the sector is fairly average, with average annual compensation of about $38,600 (4 percent above the regional average). Health care providers face a difficult environment with pressures on them to reduce costs and charges and with reimbursements from government programs (Medicare and Medicaid, chiefly) generally failing to cover their costs. Given the aging population and recent initiatives, particularly at the state level, to address some of the funding issues, continued growth in the health care sector seems likely, with 900 new jobs being added in the next year.

Accommodations and Food Services: Food services became a part of the hotel/motel sector rather than retail sector when industry sectors were redefined. This has also been a fast-growing sector, adding jobs at the rate of 1.4 percent per year since 1990 (a total of 4,500 additional jobs). Unfortunately, compensation in this sector—around $13,000 per employee per year—is the lowest in the region (about 35 percent of the regional average); this is partly because jobs in this industry tend to be part-time. We can expect continued growth in employment, with about 400 additional jobs over the next year.

Between them, health care and accommodations and food services will account for more than 100 percent of the total job growth in the local economy. (This is offset by a decline of about 300 jobs in all other sectors combined.)

Financial Services: The banking, insurance, and other financial services sector has undergone a major transformation, both locally and nationally (to say nothing of the global transformation). Bank mergers have created increasingly large financial institutions and have reduced local ownership of such institutions. One consequence is that employment growth in the financial services sector has been modest outside financial centers. As a result, employment in financial services has declined slowly from its mid-1990s peak (about 11,400 jobs) to about 10,000 jobs in 2007. Finance now accounts for about 3.5 percent of jobs locally. Workers in finance, somewhat surprisingly, earn less than an average level of compensation, with the sector accounting for only 2.7 percent of total compensation, according to the BEA. Given the trends of the past decade, we cannot expect the financial services sector to provide any significant number of new jobs; indeed, a continued slow decline seems more likely.

Retail: The retail sector has grown at almost exactly the same rate as the overall economy, adding jobs at a 0.5 percent average annual rate since 1990, and holding its share of total local employment at about 12.6 percent. This is another sector with below-average compensation, with average annual compensation of about $22,100 (about 60 percent of the regional average). Again, the prevalence of part-time jobs in retail is an important factor. Despite the opening of a major retail outlet (Cabela's) in Hammond, we can expect only modest employment growth—perhaps an additional 100 jobs in the next year.

Government

Total government employment, after growing rapidly between 1990 and 1999, has remained relatively stable since, averaging about 40,500 jobs. This has been driven entirely by changes in local government employment. The difference between total and local government employment (federal and state government) has remained virtually constant since 1990, at around 7,000 jobs. It seems likely that government employment in northwest Indiana will remain roughly constant over the next year and that the distribution of employment between federal, state, and local governments will also remain unchanged. Employment in local education will remain the largest single contributor to government employment, accounting for around 45 percent of the jobs.

Summing Up

As it has been for more than twenty years, northwest Indiana remains a slow-growth region. Overall economic activity and employment growth will continue to lag the state, and population growth for the foreseeable future seems likely to be very slow. Stable employment (at best) in construction, manufacturing, and government, coupled with modest increases in health care and in accommodations and food services, will lead to employment growth of about 1,000 jobs (+0.3 percent) in the coming year. The continued slow growth in population and the labor force, however, means that the unemployment rate is likely to remain stable, or rise only slightly.

Notes

1. Payroll employment is employment by place of work, whereas household employment is employment of area residents. Although these tend to move in the same direction, they are not identical measures.
2. Unless otherwise specified, all data in this report have been obtained from STATS Indiana (www.stats.indiana.edu).
3. Measurement errors become larger moving from larger to smaller geographical areas.
4. Export Development Canada (www.edc.ca/english/docs/ereports/commentary/publications_13457.htm).
5. The outlook is not bright, even taking a longer view. The IBRC population projections suggest an average annual population growth rate of 0.3 percent between 2005 and 2040, and a decline in the age 25–44 population cohort of 0.3 percent per year between 2005 and 2040.
6. U.S. Census Bureau (www.census.gov/const/www/permitsindex.html).
7. David Schaper, "BP Backtracks After Criticism over Lake Pollution," *NPR*, August 23, 2007. Available at www.npr.org/templates/story/story.php?storyId=13903534.
8. Jack Lyne, "BP adding 2,080 Jobs, Investing $3.25 B in Blunder-Prone U.S. Arm," *Site Selection*, October 16, 2007. Available at www.siteselection.com/ssinsider/bbdeal/bd061016.htm.