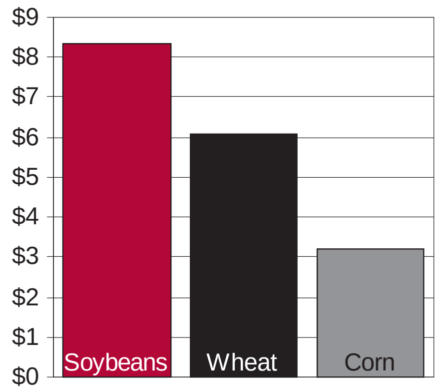
**Figure 2**
**Projected Prices for Soybeans, Wheat, and Corn, 2007–2008**




Source: WASDE

infrastructure that will take a year or more to correct.

In addition to the biofuels sector, strong export demand and extremely tight worldwide wheat supplies are resulting in very high commodity prices. In the case of wheat, world stocks are the lowest since 1975–76 and U.S. wheat stocks are even tighter, at the lowest since 1948–49. As a result, the October 12, 2007, World Agricultural Supply and Demand Estimates (WASDE) projects that 2007–08 U.S. wheat prices will be around $6.10 (see **Figure 2**). These prices for wheat are well above the 1995–96 record of $4.55 per bushel. In the case of corn, exports are at their highest level in eighteen years. In addition, with all the new ethanol plants coming on line, the WASDE report projects that corn prices will be around $3.20 per bushel, higher than the 2007 price of $3.04. In the case of soybeans, with the sharp acreage reduction in 2007, supplies will be tight; the WASDE report projects that soybean prices will be around $8.35 in 2008, well above the 2007 price of $6.43. As a result of these high commodity prices, Purdue University estimates that Indiana net farm income will be around $2.2 billion in both 2007 and 2008, well above the 1997–2006 average of $1.2 billion. With these near-record farm incomes, the biggest challenge facing Indiana producers will be to manage increasing input costs.

Looking to 2008, the high commodity grain price, with its large impact on the returns to crop production, can be expected to increase the value of farmland. Farmland value also depends on factors including long-term interest rates, government price support payments, and real estate taxes. 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 can be expected to increase, which would put downward pressure on land prices, but the rate increase is happening slowly. Overall, the biofuels and export boom increased the value of average quality Indiana farmland in 2007 by 17 percent and is expected to increase an additional 5 percent to 15 percent in 2008 according to the Purdue Land Value Survey.[1]

### Note

1. The Purdue Land Value Survey is available at www.agecon.purdue.edu/extension/pubs/paer/2007/august/paer0807.pdf.

*More information about the Indiana agricultural outlook can be found at: www.agecon.purdue.edu/extension/pubs/paer/2007/august/paer0807.pdf*

# Indiana

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The outlook for Indiana's economy in the year ahead presents a mixed picture, not unlike that of the nation. We should expect more ups than downs, but unsettled economic forces at work beyond our borders make it difficult to hit this moving forecast target. Let's take a closer look at several key indicators of Indiana's economic health.

## Jobs: Slowly but Steadily Improving

After a rough start with two months of job losses, Indiana employment in 2007 has resumed the long-term recovery trend that it has generally followed since July 2003, when it reached its lowest point of the decade. By late summer, total payroll jobs had climbed to within just 13,000 of their all-time high, but September's count gave up some of that momentum. Even with that slippage, the state had 18,000 more payroll jobs than it did a year earlier. The general upward employment trend, evident in **Figure 1**, should keep employment rising by approximately 15,000 more jobs in 2008.

However, not all sectors will share this growth equally. The manufacturing sector in particular is still undergoing a long-term employment decline in our state, just as it is throughout the nation. We expect Indiana will have about 11,000 fewer factory jobs at the end of 2007 than it did at the start, but the rate of shrinkage should abate considerably in 2008, perhaps even leveling off once some large new factory projects come on line. Additionally, Indiana remains the nation's most manufacturing-intensive state: the sector accounts for 18.9 percent of all our payroll jobs.

Meanwhile, construction has grown substantially in 2007, and the sector should add another 4,000 jobs in 2008. Also, we forecast growth in various service sector jobs: health care (+9,000), professional and business services (+5,000), leisure and hospitality (+5,000), and state and local government (+3,000).

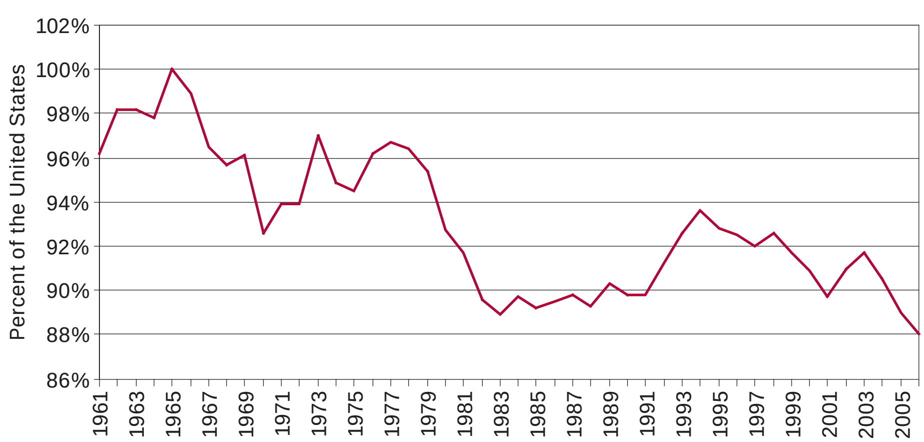
**Figure 1** shows that the unemployment rate has been slowly declining in Indiana for about three years, and it often has been below the U.S. rate during this period. Though the rate tends to fluctuate from month to month, it's expected to generally hover in the range of 4.5 percent to 4.8 percent through most of 2008.

**Figure 1**
**Indiana Nonfarm Payroll Employment and Unemployment Rates**


Note: Employment and unemployment rates are seasonally adjusted
Source: Bureau of Labor Statistics

> *"Indiana's per capita personal income should rise modestly in 2008, growing by less than 2 percent (adjusted for inflation)."*

**Figure 2**
**Indiana Per Capita Personal Income as a Percent of the United States**




Source: Bureau of Economic Analysis

## Income: Still Growing but Losing Ground

Economists' most widely watched income measure is personal income, which includes earnings from employment, income from investments and rental property, payments from governments (e.g., veterans' and social security benefits), among other sources. Indiana's per capita personal income (PCPI) should rise modestly in 2008, growing by less than 2 percent (adjusted for inflation). Though any growth is welcome, this slow rate of growth is well behind most other states. As a result, Indiana's PCPI now stands at 88 percent of the U.S. figure, its lowest relative level in decades (see **Figure 2**). Thirty-five states have higher per capita incomes; fortunately, Indiana's relatively low PCPI stretches farther due to a low cost of living compared to much of the nation.

## State GDP: Also Growing Slowly

Indiana's gross domestic product (GDP), a measure of overall output of the state's economy, was more than $215 billion in 2006, ranking sixteenth among the states. However, after enjoying somewhat stronger growth a few years back, the growth rate has slowed in recent years. Since 2001, Indiana's GDP has grown by 10.6 percent, which surpasses only nine other states.

A key contributor to this trend is the continuing shrinkage of our manufacturing sector. Manufacturing generates 30.2 percent of Indiana's GDP, the highest share in the nation. Generally, when the manufacturing sector is shedding a lot of jobs (as has been the case nationally for several years), states with a lot of manufacturing activity naturally feel the pain more than other states. However, if Indiana's factory sector should experience more growth in 2008 than it has witnessed in recent years, Indiana's GDP should show correspondingly stronger growth too.

### Home (Again) in Indiana

Indiana's housing market has generally not experienced the rapid run-up in prices that characterized many parts of the nation during the recent "housing bubble" years. As a result, when that bubble started showing signs of weakness, our housing market was not as adversely affected as in many other states. Nonetheless, Indiana housing is certainly experiencing a slow market, with increasing supply and reduced demand.

Housing permits issued are expected to decline by about 18 percent to 19 percent this year and next, consistent with reports of limited new construction activity. Statewide sales of existing homes should drop about 9 percent in 2007 and 6 percent in 2008. It will likely remain a buyer's market well into the coming year, but by the end of 2008, a good portion of the excess inventory may be absorbed as buyers and sellers adjust to the new credit realities and demand starts picking up. When that happens, construction and home sales should start ticking upward again.

### Conclusion

Indiana continues to feel the pinch of retrenchment in the manufacturing sector, but the state shows refreshing signs of growth in several industries and in several geographic areas. All in all, absent a major negative shock to the economy, the state should enjoy a mild breeze in its sails during the coming year.

# Anderson

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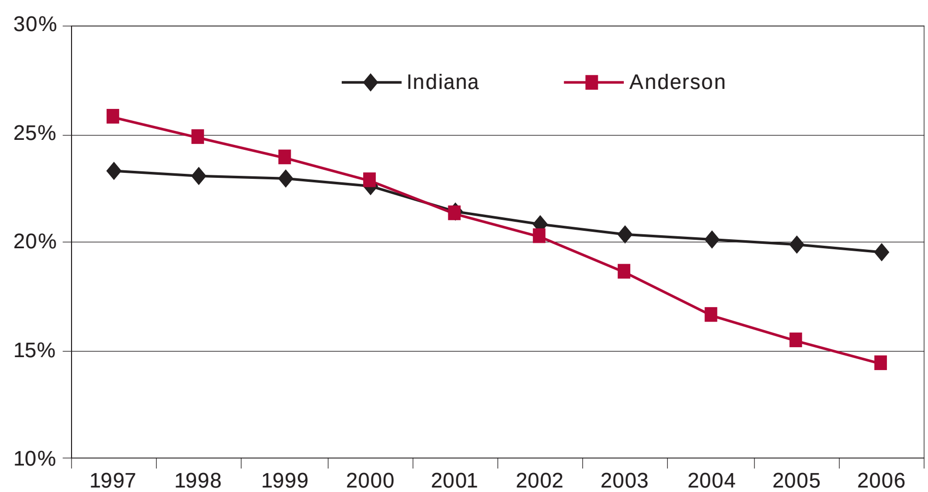
Employment is a central issue for the city of Anderson and Madison County. More specifically, for more than sixty years, automotive manufacturing employment has been the center of our economic base. After twenty-five years of decline, however, the automotive manufacturing industry has finally closed its doors on Anderson.

Due primarily to the decline in the auto industry, employment in Madison County has been falling over recent years. Ten years ago, there were 47,488 jobs in the county, with 12,246 of these jobs in manufacturing. As recently as 2006, there were 41,225 jobs in the county and only 5,901 of them were in manufacturing. Those figures translate into a 13 percent decrease in overall employment and a 52 percent decrease in manufacturing employment. **Figure 1** shows manufacturing as a percent of total nonfarm employment in Anderson and Indiana since 1997. No employment categories in the area show significant gains over the past four years. Consequently, unemployment in the city and the county is running far above normal. From January to August 2007, unemployment in the county averaged 6.9 percent while unemployment in the city of Anderson was 7.8 percent.

The decline in employment has led to declines in other areas that measure the economic condition of the community. Income levels are lagging behind the rest of Indiana. Average earnings in Madison County for 2006 are only 88 percent of average earnings for the state. The housing market has shown the impact of both local and national turmoil. The number of housing permits issued last year fell to only 328 for the county. This number is far below historic averages. In addition, the industrial tax base has been falling, causing residential property taxes to rise. On another measure, population projections indicate a declining population for the county.

The problem with relying on these types of statistics as diagnostic tools is that they represent too much of the past and not enough of the future of Anderson. The current numbers now

**Figure 1**
**Manufacturing as a Percent of Total Nonfarm Employment, 1997 to 2006**




Source: IBRC, using Bureau of Labor Statistics data