

Anderson Forecast 2009

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What a difference a year makes. Profound changes occurred between the fall of 2007 and the fall of 2008 that will likely change the landscape of our economic world. Nationally, we have gone through one of the most profound economic challenges in history.

A year ago, the city of Anderson was building momentum in its attempt to redefine and rebuild its economy. The Chamber of Commerce had awarded the city its City of the Year Award, Forbes had ranked Anderson as a top 100 city for business climate, and the Rotary had also given recognition to the city. Momentum looked positive and there was room for optimism as Anderson took the first few steps of the long journey toward its economic reconstruction. Voters spoke in Anderson's last election, removing the previous mayor. Turnover in leadership is a difficult obstacle to overcome in maintaining momentum. There is some truth in the old adage that you never change horses in midstream. It may be that the new leadership will be successful; however, it takes time to establish a new administration.

A year ago, the housing market in Anderson was extremely weak by historical comparison. This year's national events in financial markets have taken a bad situation in Anderson and made it worse. Credit markets have tightened lending and the excess supply of housing in Anderson has not dwindled. The threat of falling national income has surely been another factor in local economic performance. It is not surprising that the obstacles that faced the city a year ago remain. The profound sense of local economic loss in Anderson has been matched nationally as well.

From beginning to end, the Anderson rebuilding process will

face obstacles. In our case, the most imposing obstacle is that of improving local education. Economic issues all take a back seat to rebuilding our local schools. Success at the local school builds the foundation for success with the local economy.

A recent article in the *Herald Bulletin* points out some of the symptoms of poor school performance. From 2007 to 2008, Anderson city schools lost another 378 students. Over the past twenty years, the school system has lost over 3,000 students. While part of this loss can be attributed to demographic changes, a significant portion of the loss can be attributed to families responding to the weak performance of our local schools. Tuition transfers and enrollment in alternative charter schools have increased the drain of students. Another article from the same source reports that graduation rates for the two high schools in the city are 66 percent and 53 percent, far below the national average. Any attempt to rebuild the local economy must begin and end with rebuilding local education.

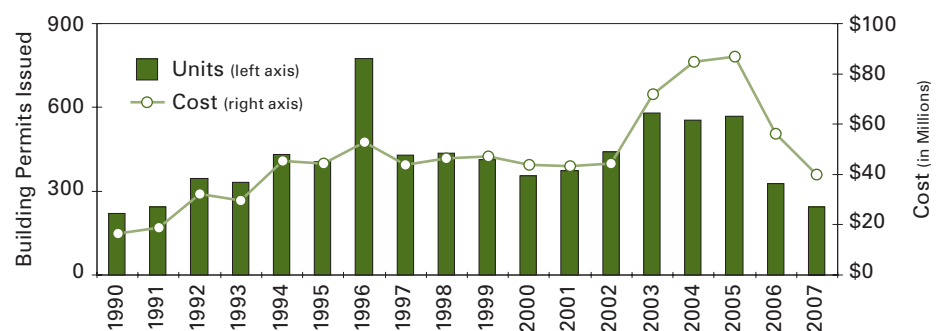
In what state do we now find the local economy? The housing market continued its decline last year. In 2007, only 243 permits were issued in the county, representing a mere \$40 million of housing construction (see **Figure 1**). In 2006, 328 permits were

issued, representing \$56 million of housing construction. In 2005, a year more comparable to historical levels, 569 permits were issued, representing \$87 million in housing construction. In the short span of two years, from 2005 to 2007, investment in new home construction in Madison County fell 54 percent.

In the labor market, unemployment has changed only slightly from last year. The county had a yearly unemployment rate of 6.3 percent in 2007; Anderson had an unemployment rate of 7.1 percent. For January through September 2008, Madison County had an unemployment rate of 6.8 percent and the city of Anderson had a rate of 7.2 percent. If national unemployment should rise significantly, unemployment in Anderson will likely be more stable than past trends might indicate. In the past, the county moved into high unemployment ahead of the nation because of the county's concentration of automotive jobs. Now that the automotive industry has moved out of the county, the Anderson metro tends to lag behind the rest of the country's unemployment trend. Hence, the nation will likely see an increase in unemployment before Madison County's rate increases.

The labor force in Madison County has been declining, falling to 60,613 for 2007. This marks an 8.8 percent

■ FIGURE 1: Total Building Permits in Madison County, 1990 to 2007



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

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decline over the past decade. Some of this change is likely due to the aging of the county workforce. Many older workers have retired, thus reducing the size of the workforce. The number of workers employed fell to 56,805 for 2007—an 11.4 percent decline over the past decade. The largest employment category for the county is now health care. The average wage in health care is approximately half of the average wage in manufacturing. Manufacturing has fallen to the third largest employment category behind health care and retail. Retail workers have an average annual wage that is about one-third of that for manufacturing workers. Clearly, the outcomes in the labor market have significant implications for the community's income.

From 2001 to 2006, real net earnings for residents of Madison County fell by 2.4 percent. We ranked eighty-fourth out of ninety-two counties. Even as county income has been falling, transfer payments to retirees have risen by nearly 21 percent over that same time period. If it had not been for transfer payments to retirees, our income performance would have been weaker. The weakness of the labor market, falling income, and distributional issues have affected the poverty rate in the county. By 2005, the poverty rate had increased to almost 12 percent.

Of course, the key to rebuilding the city depends upon rebuilding the economic base. Leadership has the choice of internal job creation or external job attraction. However, both of these choices will depend upon the quality of education created within the community. The jobs that we create internally will provide greater value as we improve the education levels of the workforce. The same holds true for external jobs attracted to the city. We can only attract high value-added jobs if the workforce is well educated. Our economic outlook for the future will improve as we improve our educational performance. ■

Just as 2009 promises to be a tough year for economies throughout the nation and around the world, it will challenge the Bloomington economy. The prospects for the Bloomington area, however, seem somewhat less cloudy than in many places, including much of Indiana.

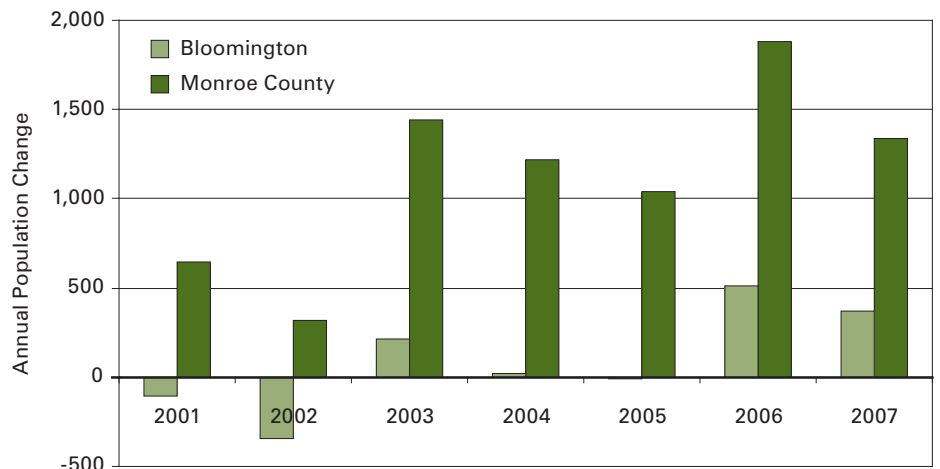
On the bright side, the population of Bloomington and Monroe County continues to grow, and this in turn fuels businesses that serve the local market. As shown in **Figure 1**, both the city and the county have grown substantially over the past two years, and the city continues to account for a minority of total county growth. Monroe County gained an estimated 1,337 residents in 2007, its largest annual jump since the turn of the century and the fastest growth rate of any county in the region. Continued gradual population growth is expected in 2009.

Growth of the overall economy of the Bloomington metropolitan statistical area (MSA) presents a mixed picture. The metro area's economic output (gross domestic product at the county level) grew

7.7 percent from 2001 through 2006 (the most recent year for detailed MSA data), but this was only half the national rate. The area's retail output grew more slowly than U.S. retail output, while its manufacturing output nearly equaled the national growth rate at 14.5 percent. Output of the professional and technical services sector gained a respectable 25.3 percent, outpacing the nation in this sector. In a preview of a general slowdown in building, output of the metro area's construction sector fell 12 percent in 2006 after five relatively steady years. The Bloomington area's output should end 2009 somewhere between flat and up very slightly (perhaps 1 percent) compared to 2008.

As this article was written, the Bloomington MSA appeared to be reaching a possible turning point in employment growth. For 2008 through September, payroll employment averaged more than 1,000 jobs above the same period in 2007. Job change in September and October, however, averaged a slight decrease. This workforce shrinkage was seen across a wide range of

■ **FIGURE 1: Annual Population Change in Bloomington and Monroe County, 2001 to 2007**



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