

Gary Forecast 2009

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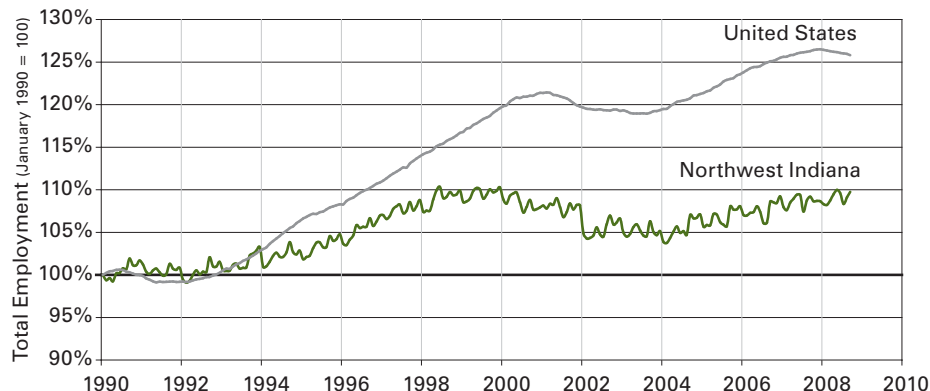
November 2008, updated December 2008

The performance of the northwest Indiana economy in 2008 has been, in a number of ways, a surprise. Historically, northwest Indiana has lagged the nation in employment growth (see **Figure 1**), but that has not been the case in the last year.¹ Our expectation a year ago was for total employment to grow by 0.3 percent,² in the context of a national economy experiencing moderate employment growth. Indeed, employment in northwest Indiana did grow by 0.5 percent, but, nationally, instead of 1.5 percent to 2 percent employment growth,³ the U.S. economy lost jobs—falling 0.3 percent during 2007 and decreasing employment each month during 2008. That rate of national employment growth would almost always be associated with declining employment in northwest Indiana.

Furthermore, national data from the Current Population Survey show employment declining slightly between September 2007 and September 2008, down a little more than 1 million (a 0.8 percent decline), while data for northwest Indiana show an increase of about 2,500 people with jobs (a 0.8 percent increase). And while northwest Indiana's unemployment rate increased (from 4.5 percent in September 2007 to 5.5 percent in September 2008),⁴ that increase was substantially smaller than the national unemployment rate increase (up from 4.5 percent to 6.0 percent).⁵

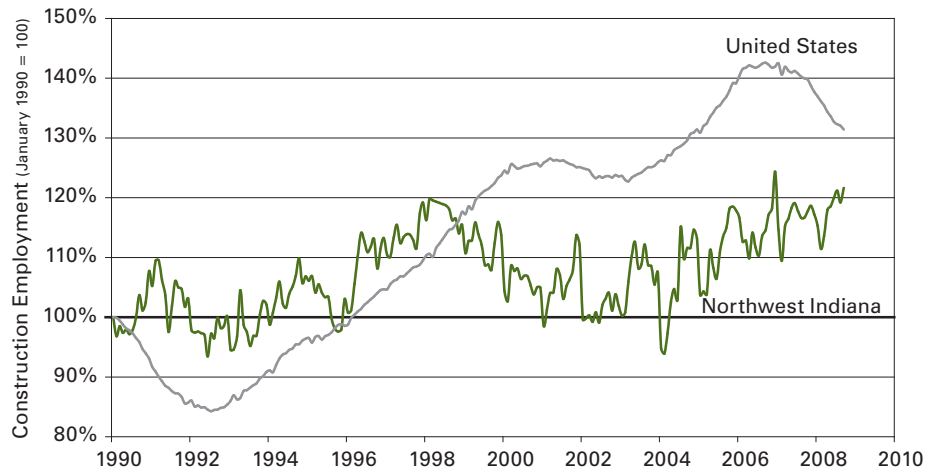
Specific industries also provided some major surprises. For the past decade, the local construction sector has lagged behind the nation in terms of employment growth (see **Figure 2**). As is generally well-known, the construction industry has experienced a severe decline nationally—down 6 percent from September 2007 to September 2008.⁶ In northwest Indiana, however, construction employment has

■ **FIGURE 1: Total Employment in Northwest Indiana and the United States**



Source: Bureau of Labor Statistics

■ **FIGURE 2: Construction Employment in Northwest Indiana and the United States**



Source: Bureau of Labor Statistics

increased 4.2 percent over the last year. Meanwhile, residential building permits in Lake and Porter counties fell from 1,782 (January to September 2007) to 869 (January to September 2008)—a decline of 51 percent.⁷ Nationally, employment in iron and steel mills fell by 2.6 percent from September 2007 to September 2008⁸ but rose nearly 2 percent (300 jobs) in northwest Indiana.

The northwest Indiana economy has not outperformed the national economy in a long, long time. That it has done so in the past year is surprising; that it will do so in the coming year is unlikely. And the

coming year looks like a difficult one nationally. The Indiana Center for Econometric Model Research forecast for the 2009–2010 period shows slower than normal output and employment growth for the United States; and, if historical patterns persist, slower than normal growth for the U.S. economy means extremely slow growth, perhaps even declines, for the northwest Indiana economy.

Total establishment employment in northwest Indiana will likely fall about 1.5 percent over the next year,⁹ with the largest percentage declines in the construction, manufacturing,

and finance industries. Growth in health care (including hospitals) will likely continue, albeit more slowly. For the October 2008 to September 2009 period, this would yield average establishment employment of about 279,000—down from about 283,000 (see **Table 1**). We project labor force growth will slow to its long-term average of about 0.5 percent per year, but household employment¹⁰ will decline about 1.5 percent. The unemployment rate should average about 7.1 percent over the coming year.

Difficult Times in Construction and Manufacturing

As noted above, northwest Indiana's construction sector has held up remarkably well. However, the (apparent) collapse in residential construction is not a positive sign.¹¹ Given the tighter lending practices in the home mortgage industry, it seems unlikely that residential construction will recover quickly. Furthermore, during the recession, we can expect cutbacks in nonresidential construction as well.¹² Construction employment in northwest Indiana is projected to decline by about 5 percent on average during 2009, down from roughly 20,000 jobs to a little less than 19,000.

Manufacturing employment in northwest Indiana, especially in steel, appears to have stabilized beginning in late 2003, with around 38,000 jobs in manufacturing and 18,000 in steel. This is not likely to continue. Two of the major users of steel in the United States are nonresidential construction (which we project to decline) and motor vehicles. National motor vehicle sales in September and October were down about 30 percent from the same months in 2007.¹³ Virtually no one expects a substantial rebound in automobile sales or production. These developments will put significant downward

TABLE 1: Employment and Forecasted Change in Employment by Industry in Northwest Indiana, 2008 to 2009

Industry	Employment, 2008*	Employment, 2009**	Percent Change, 2008-2009	Average Annual Percent Change (1991-2008)
Total Establishment Employment	283,029	278,830	-1.5%	+0.5%
Construction	19,889	18,985	-5.0%	+0.7%
Manufacturing	37,745	36,235	-4.0%	-2.6%
Durable Goods	29,599	28,119	-5.0%	-2.4%
Iron and Steel Mills	17,013	15,992	-6.0%	-3.5%
Wholesale Trade	10,369	10,162	-2.0%	+0.6%
Retail Trade	35,687	34,983	-2.0%	+0.6%
Financial Activities	9,735	9,248	-5.0%	-0.8%
Health Care and Social Assistance	38,551	39,798	+3.0%	+3.0%
Hospitals	13,432	13,768	+2.5%	+1.5%
Arts and Entertainment	7,847	7,533	-4.0%	+3.9%
Accommodation and Food Service	22,314	21,867	-2.0%	+1.8%
Government	38,808	38,774	-0.1%	—
Federal	2,058	2,024	-1.7%	-1.7%
State	4,221	4,221	—	+0.2%
Local	32,528	32,259	—	+0.7%
Local Public Education	18,305	18,305	—	+0.8%

*Average of October 2007–September 2008 monthly data

**Forecast for the average monthly data for October 2008–September 2009

Source: Bureau of Labor Statistics

pressure on output in the steel industry. Coupled with the apparent slowdown in growth in China, for example,¹⁴ this strongly suggests cutbacks in domestic steel production and employment. Steel mill employment in northwest Indiana will likely fall from around 17,000 for the October 2007–September 2008 period, to a little less than 16,000, a loss of about 1,000 jobs. That will account for about two-thirds of the expected decline in employment in manufacturing.

In addition, the reduction in manufacturing activity will directly affect wholesale/warehousing employment. While this sector has contributed modestly to employment growth over the past eighteen years, the declines in manufacturing activity will almost certainly lead to

a small (2 percent or so) reduction in employment over the coming year.

Financial Services

In northwest Indiana, the financial services sector has experienced a slow decline in employment (-0.7 percent per year since 1991), although financial services output has certainly grown. In the last few months, however, the national financial services sector has suffered some severe strains. National employment has declined by about 1.3 percent over the past year,¹⁵ and a number of banks, investment banks, securities trading firms, and at least one major insurance company have been absorbed into other firms or become bankrupt. It will take some time before stability returns to this sector, and continued retrenchment

seems likely. Locally, employment has declined about 1 percent over the past year, generally in keeping with the longer-term trends. A combination of a national recession and some restructuring of this sector suggest a sharper decline in the coming year of roughly 5 percent.

Spillovers

As noted earlier, the decline in manufacturing will likely result in modest employment losses in wholesale and warehousing activities. As overall employment declines, reductions in household incomes will result in other cutbacks as well. One quite well-known response to a recession is a reduction in eating out, and we project a 2 percent decline in food services sector employment. Other discretionary spending is also likely to decrease, and the amount of travel for entertainment purposes is also likely to decline. Taken together, this suggests a decline in employment of around 4 percent in the entertainment sector.

Good News?

Over the past two decades, the health care sector has shown the most consistent growth. While it is not recession-proof, it should continue to provide a source of increased employment for the region. In the next year, we expect an addition of about 1,150 jobs (up 3 percent), of which about 340 will be in local hospitals (up 2.5 percent).

Government—particularly the federal government—frequently adds jobs in recessions. However, we do not expect employment growth in the government sector. Indeed, federal government employment has shrunk for two decades, and we see no reason for that to change. State and local governments will do well to maintain employment in the face of what is likely to be a period of reduced tax revenues.

“As overall employment declines, reductions in household incomes will result in other cutbacks as well.”

Summing Up

As usual, we project northwest Indiana will underperform both the state economy and the national economy. The coming year should see a decline (of about 1.5 percent) in total employment, with a resumption of larger percentage declines in manufacturing. Whether the declines in manufacturing are only cyclical, with jobs returning as we recover from the recession, remains to be seen. Construction seems poised for a significant contraction, with residential construction almost certain to fall and nonresidential construction suffering from business cutbacks during the recession. This will almost certainly be temporary, as will the expected declines in entertainment and food services. The decline in financial services is likely to be permanent, however, as the long-term employment decline continues. Only health care provides much hope for employment growth in the coming year.

More recent data on the state of the national economy, in particular the employment declines in October and November, suggest that the prospects for the northwest Indiana economy are worse than they appeared two months ago. The forecast presented here, therefore, is a best-case scenario. ■

Notes

1. Unless otherwise indicated, all data for northwest Indiana come from the Indiana Business Research Center's STATS Indiana website at www.stats.indiana.edu. All employment change data for northwest Indiana and the United States refer to changes from September 2007 to September 2008.

2. Donald A. Coffin, "Gary," *Indiana Business Review*, Winter 2007, www.ibrc.indiana.edu/ibr/2007/outlook/gary.html.
3. Willard E. Witte, "The U.S. Economy," *Indiana Business Review*, Winter 2007, www.ibrc.indiana.edu/ibr/2007/outlook/national.html.
4. An interesting development is that the labor force (those people either employed or looking for work), which usually declines in September from its summer levels (a typical decline is around 2 percent), has decreased only half as much as usual this year.
5. Information on the national employment situation may be found at www.bls.gov/news.release/empsit.t01.htm.
6. Current Employment Statistics are available at www.bls.gov/ces/data.htm.
7. Building permit data are available at <http://censtats.census.gov/bldg/bldgprmt.shtml>.
8. *Ibid.*
9. Technically, this is a decline from the average employment level for the October 2008 to September 2009 "year," compared to the October 2007 to October 2008 period.
10. Household employment typically exceeds establishment employment, because more people commute out of northwest Indiana to jobs (to Chicago for example) than commute into northwest Indiana for jobs.
11. Residential building permits fell 50 percent in Lake and Porter counties in the first nine months of 2008, compared with the same period in 2007. Nationally, investment in residential structures has declined 22 percent between the third quarter of 2007 and the third quarter of 2008, and by an even larger 43 percent since the third quarter of 2005. See the Federal Reserve Bank of St. Louis website at <http://research.stlouisfed.org/fred2/series/PRFIC1/downloaddata?cid=112>.
12. These are apparently only beginning, with spending down 1 percentage point in the third quarter of 2008, compared with the second quarter of 2008. See the Federal Reserve Bank of St. Louis website at <http://research.stlouisfed.org/fred2/series/PNFIC1/downloaddata?cid=112>.
13. See Econbrowser online at www.econbrowser.com/archives/2008/11/another_bad_mon.html for details.
14. David Marcellis blog, "Economists React: China's Growth is Slowing, Not Slumping," October 20, 2008, <http://blogs.wsj.com/economics/2008/10/20/economists-react-chinas-growth-is-slowing-not-slumping>.
15. Current Employment Statistics are available at www.bls.gov/ces/data.htm.