Indianapolis-Carmel Forecast 2009

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The following data and forecasts refer to the entire Indianapolis-Carmel metropolitan statistical area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby counties. Unless otherwise noted, data comes from STATS Indiana at www.stats.indiana.edu.[1]

Income[2]

The Indianapolis economy entered into recession during the first quarter of 2008. Between the first quarters of 2007 and 2008, total wage income in the Indianapolis metro fell 0.3 percent in real terms. Real weekly wages for the average worker fell 1.3 percent. This compares with growth of 2.2 percent in total real wage income and 0.7 percent in the real weekly wage per worker between the first quarters of 2006 and 2007.

Matching a fall in real income was the fall from 39,037 to 38,957 Indianapolis business establishments from the first quarter of 2007 to the same quarter in 2008. Even during the last Indianapolis recession between 2001 and 2003, the number of establishments grew by 1,000. Many small businesses in Indianapolis face financial and market challenges that are historic in nature.

The curtailed spending of financially-stressed households was a major source of economic contraction between the first quarters of 2007 and 2008. Shrinkage in real wage income equal to 6.7 percent in retail, 5.9 percent in arts and entertainment, and 5.6 percent in real estate signaled dramatic retrenchment in expenditures by Indianapolis residents. Real wage income within organizations offering business management services declined 11.6 percent, suggesting no recessionary immunity for highly skilled workers.

Steady performance in three industries that offer Indianapolis a competitive advantage insulated the economy from further decline. Real income from manufacturing grew by 0.3 percent as local factories took advantage of a weak dollar to increase sales to foreign markets. Health care grew 3.9 percent as Indianapolis strengthened its position as a regional hub of medical services. Real income from transportation and warehousing remained level as higher oil prices motivated companies to outsource logistic and supply chain services to local providers.

Employment[3]

A rise in the unemployment rate from 3.7 percent to 5.1 percent between September 2007 and September 2008 is more evidence of a local recession. Over the same period, the number of unemployed residents in the metropolitan area increased 39.5 percent. A September 2008 unemployment rate of 5.8 percent statewide and 6 percent nationwide, though, suggests better-than-average local employment conditions.

An equal jump in the unemployment rate in the Indianapolis-Carmel metro occurred between September 2000 and September 2001 before the last economic slowdown. Unemployment continued to rise for seventeen months before finally falling from its high of 5.1 percent in February 2003. This fact suggests continued increases in the unemployment rate to a peak higher than earlier in the decade.

Real Estate[4]

Indianapolis real estate may be on the verge of a slow recovery. Over the last twelve months (October 2007 to October 2008), median prices increased 3.6 percent and the inventory of unsold homes fell 9.3 percent. Long-term affordability of houses in the metropolitan area is helping Indianapolis real estate reverse such declines earlier than other cities in the country.

Forecast

The Indianapolis economy will shrink between 0.5 percent and 1 percent in real terms during 2009. A stronger dollar will reverse growth in manufacturing and leave the local economy more vulnerable to recessionary forces. Logistics and health care will remain relatively strong and provide sources of growth. The local unemployment rate will increase throughout the year to between 6 percent and 6.5 percent and will not peak until 2010. Small businesses will face a challenging year both in maintaining revenue and accessing credit. Until bankruptcies, foreclosures, and job losses slow in Indianapolis, households will refrain from spending—keeping the local economy stagnant. Across business sectors, retail, restaurant, and entertainment establishments will feel the biggest hit. The real estate sector will improve, but modest recovery will not be enough to ignite general economic recovery.

Notes

1. STATS Indiana is maintained by the Indiana Business Research Center at Indiana University's Kelley School of Business.
2. Wage statistics come from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages database supplied by STATS Indiana. Nominal wages are converted to real wages using Consumer Price Index values supplied by the Bureau of Labor Statistics.
3. Aggregate Indianapolis employment data are derived from labor force statistics supplied by STATS Indiana.
4. Indianapolis housing market data are from www.housingtracker.net.