

Louisville Forecast 2011

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The national recession officially ended in June 2009, and the middle of 2009 also coincided with the deepest year-over-year job losses locally. Since that time, job losses have subsided, and the Louisville metro area actually saw positive year-over-year job gains for a short time in the middle of 2010. Since then, the nation's economy hit a soft patch, raising concerns of a double-dip recession. The nation will escape a double-dip recession, but the key question for next year is the impact of national growth on the regional economy.

Last year, our outlook for the Louisville metro was slow growth, elevated rates of unemployment and consumer retrenchment. This year, the region will see continued improvement in the regional economy, but will not return to the labor market conditions that existed at the start of the recession. However, compared to last year we will make noticeable progress. There will be a continuation of economic growth and employment. The region's unemployment rate will remain somewhat elevated but with a downward trend. Consumers will continue to show their vigilance, and discretionary spending will continue to take a back seat to frugality.

Labor Markets and Employment

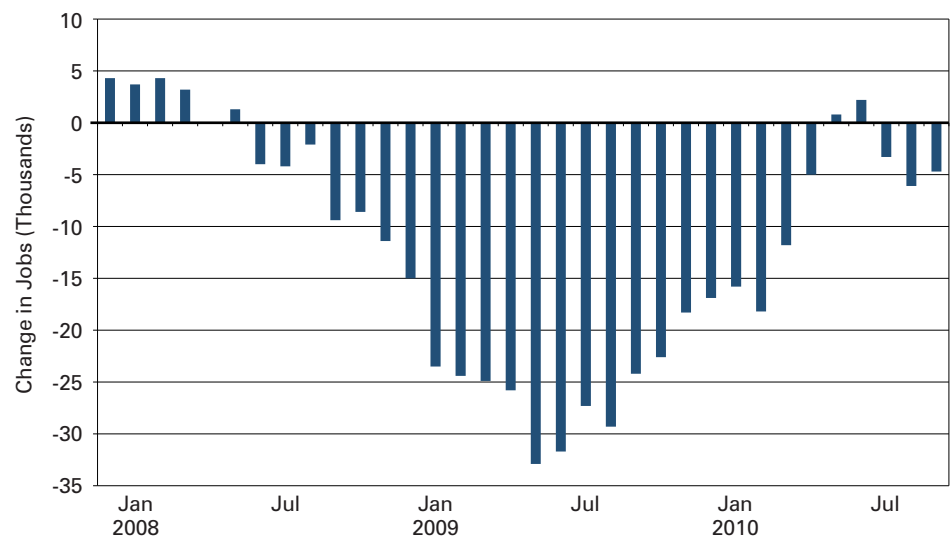
Since December 2007, the official start of the recession, the Louisville metro has lost a total of 37,700 nonfarm payroll jobs (see **Figure 1**).¹ Job losses over the official recession dates, December 2007 to June 2009, total 32,500. Despite additional job losses following the recession's ending date, the region will begin to see a gradual improvement in local labor markets. For example, job changes since the start of the year are only down 200, which is similar to what happened following the 2001 recession.²

Some of the most severely impacted sectors have been construction, manufacturing, retail, and transportation and warehousing. Losses in the transportation sector have decelerated as the nation's economy continues a soft recovery, and manufacturing did see a halt to the severe job losses that occurred early in the recession. Likewise,

losses in both retail and construction have slowed.

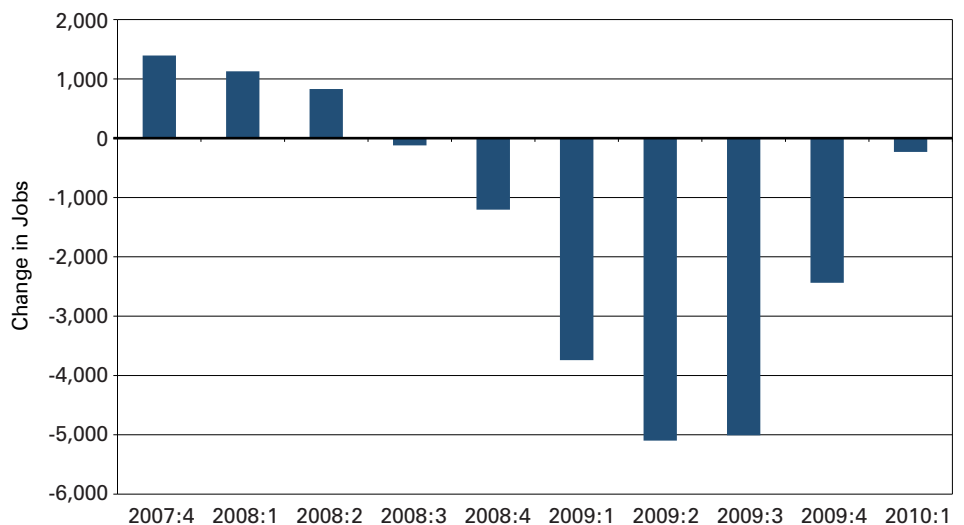
Employment growth in these severely impacted sectors will depend on both local and national consumer demand. A surge in consumer demand is suspect, but growth in employment will exceed last year's rates. Recent national reports give more confidence that

FIGURE 1: Monthly Change in Nonfarm Payroll Jobs in the Louisville Metro, Year-over-Year December 2007 to September 2010



Source: Bureau of Labor Statistics

FIGURE 2: Quarterly Change in Payroll Jobs in Southern Indiana, 2007:4 to 2010:1



Note: Includes Clark, Floyd, Harrison and Washington counties.
Source: Indiana Department of Workforce Development

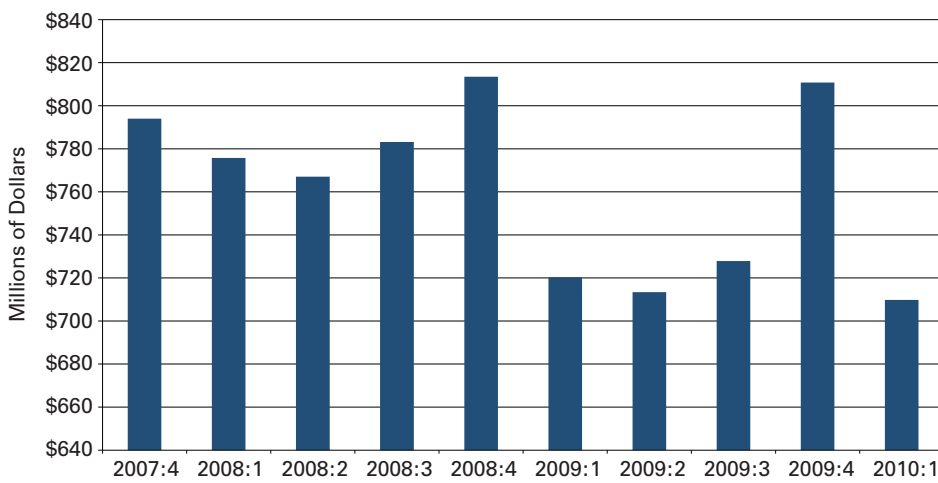
growth rates in these sectors will be higher than expected and in line with sustainable employment gains.

The professional and business services (PBS) sector has seen recent gains, which can normally be viewed as a barometer of future hiring. However, in this most recent episode, gains in the professional and business services sector have not

been followed by sustained gains in total employment. Overall economic uncertainty in the macro-economy and uncertainty in the nation's capital may be placing headwinds to permanent hiring. Hiring in the professional and business services sector has increased by 6 percent since the start of 2010, for example, likely due to temporary

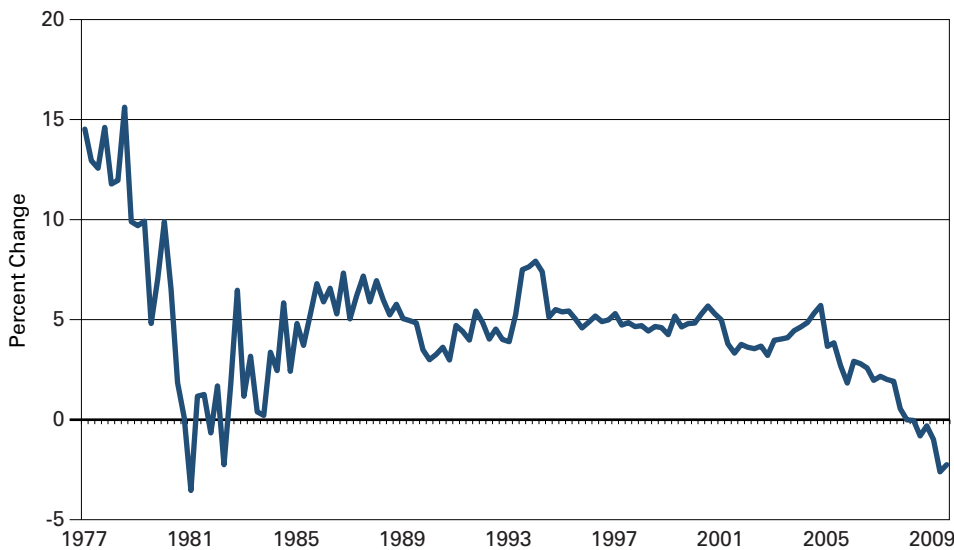
labor services. Overall hiring minus the PBS sector is down slightly at almost 1 percent and has yet to hit a sustained positive trend. Recent reports lead one to believe that the increase in professional and business services sector will be followed by sustained increases in all employment.

FIGURE 3: Total Quarterly Wages for Southern Indiana, 2007:4 to 2010:1



Note: Includes Clark, Floyd, Harrison and Washington counties.
Source: Indiana Department of Workforce Development

FIGURE 4: Four-Quarter Percent Change in FHFA House Price Index for the Louisville Metro, 1977:4 to 2010:2



Source: Federal Housing Finance Agency

Southern Indiana

We will continue to see stability in the labor markets in Southern Indiana. New and continuing claims for unemployment have declined considerably from recession level highs.³ As employment resumes, we will see gradual declines in Southern Indiana unemployment rates. Employment losses have decelerated, and we will now enter a period of job creation (see **Figure 2**). Total wages in the four Southern Indiana counties are down 8.5 percent from the first quarter of 2008 to the first quarter of 2010 and will continue to be a challenge to discretionary retail spending (see **Figure 3**).⁴

Housing and Local Valuations

Since 2004, metro area permits are down 70 percent.⁵ However, housing permits are beginning to show evidence of small increases. Lower levels of housing permits are desirable from a supply/demand perspective in the area's housing market. But the decline in permits will continue to impose challenges on those sectors that depend on home construction.

Regional home values remain strained. The FHFA House Price Index for the Louisville metro has now undergone seven consecutive quarterly declines (see **Figure 4**). This is a first in the history of this index. There were a few non-consecutive declines in the early 80s, but the

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number of recent declines in the index is unprecedented.

Outlook

The 2011 outlook for the Louisville metro is a return to job creation. Employment growth will resume but not at higher than average rates. The region will continue to see gradual improvements in the area's unemployment rate, but the decline will be slow due to an expanding labor force. The consumer will continue to emerge, but frugality will continue to dominate in general. Regional retail will continue to be impacted by these consumer trends, and hence the region's commercial real estate will see continued challenges. Manufacturing will continue to recover, but significant gains in employment growth are doubtful. Housing will continue recovering, but only at a slow pace.

Overall, the outlook for Louisville is a resumption of economic growth and employment, with a more favorable view now to the upside. We will not return to full employment, but 2011 will be the year where we begin to make noticeable progress on the recovery of lost jobs. ■

Notes

1. Calculation based on Bureau of Labor Statistics data from December 2007 to September 2010.
2. Calculation based on Bureau of Labor Statistics data from January 2010 to September 2010.
3. Unemployment claim data come from Hoosiers by the Numbers at www.hoosierdata.in.gov.
4. This calculation uses Quarterly Census of Employment and Wages data accessed via STATS Indiana.
5. This calculation is based on year-end totals from 2004 to 2009 using the Federal Reserve FRED database.

Year two after the Borg Warner plant (the last of the large automobile-related factories) shuttered its doors, the Muncie metro area finds itself making progress redefining itself as a fledgling hub in the alternative energy industry. The city of Muncie went through a community planning process this year, and the resulting Muncie Action Plan identifies goals and actions to improve Muncie. There have been several job announcements over the past few months. And while local governments are still struggling with the ramifications of property tax caps, there seems to be a renewed sense of optimism for the coming year.

This article includes the most current data available on various measures of economic activity from public sources for the Muncie metropolitan area (Delaware County). The goal is to analyze changes over

the past year. A summary of the labor market forecast for the Muncie area is included in the conclusion.

Labor Markets

The unemployment rate (not seasonally adjusted) for September 2010 is the lowest Delaware County has seen in the past year. However, the September 2010 rate (10.1 percent) is higher than the September 2009 rate of 9.7 percent and local unemployment has consistently been higher than that of the state. The good news is that the labor force has been slowly increasing since June and the number of unemployed workers has been decreasing at a faster rate, leading to the decrease in the unemployment rate (see **Table 1**). This is ideal and signifies that frustrated job seekers are coming back into the labor force; however, this value may mask

TABLE 1: Labor Force and Unemployment for Delaware County, September 2009 to September 2010

| Year | Month | Labor Force | Unemployed | Unemployment Rate |
|------|---------------|---------------|--------------|-------------------|
| 2009 | September | 54,449 | 5,283 | 9.7 |
| | October | 54,386 | 5,538 | 10.2 |
| | November | 53,621 | 5,430 | 10.1 |
| | December | 53,478 | 5,592 | 10.5 |
| | Annual | 54,619 | 5,724 | 10.5 |
| 2010 | January | 52,498 | 6,160 | 11.7 |
| | February | 53,266 | 6,234 | 11.7 |
| | March | 53,359 | 6,235 | 11.7 |
| | April | 54,354 | 5,847 | 10.8 |
| | May | 54,687 | 5,866 | 10.7 |
| | June | 53,035 | 6,356 | 12.0 |
| | July | 53,085 | 6,155 | 11.6 |
| | August | 53,401 | 5,896 | 11.0 |
| | September* | 54,346 | 5,514 | 10.1 |

*September 2010 data are preliminary.
Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics