Indianapolis-Carmel Forecast 2014

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The Indianapolis-Carmel metropolitan area[1] economy has experienced another weak year of growth along with the rest of the state and country. Gains in output and employment have been modest.

Five Years Later

The financial crisis that began in late 2007 had significant repercussions in Indianapolis as well as everywhere else across the country. It is useful to examine the industries that were most affected by the recession and measure to what extent they have recovered. **Table 1** presents the change in number of jobs and real wages over the past five years (from March 31, 2008 to March 31, 2013). Overall, the total number of jobs grew nearly 1 percent and real wages remained flat.

Digging deeper, we can see the industries that were hit hardest and have yet to recover. Construction jobs are down 20.6 percent from their 2008 levels, while manufacturing and wholesale trade jobs are down 13.8 percent and 6.3 percent, respectively. The health care industry has seen the strongest growth, with the number of jobs increasing by 18.5 percent and wages increasing by 6.1 percent.

Employment and Wages

Slow economic growth still drives the Indianapolis economy. The good news is that unemployment has fallen to 6.9 percent, the lowest mark since 2008. But it is only a few percentage points lower than where it stood in 2012, and the local economy has only added about 16,000 jobs in that time. To get unemployment to a manageable 4 percent to 5 percent level, Indianapolis will need to add 43,000 jobs. Given the current pace, it looks like we will be in "recovery mode" for at least a couple more years.

Table 1: Indianapolis Change in Jobs and Wages, 2008 to 2013

Industry	Percent of Total Jobs	Change in Jobs	Real Wage Change
Health Care and Social Services	14.7%	18.5%	6.1%
Retail Trade	10.7%	1.6%	-0.3%
Manufacturing	9.7%	-13.8%	5.0%
Accommodation and Food Services	9.1%	5.9%	-1.3%
Administrative and Support Services	7.9%	7.5%	-1.0%
Educational Services	7.6%	2.9%	-5.1%
Transportation and Warehousing	6.4%	6.6%	-0.3%
Professional, Scientific and Technical	5.4%	6.7%	7.8%
Public Administration	4.8%	-2.0%	7.6%
Finance and Insurance	4.7%	-5.6%	4.8%
Wholesale Trade	4.6%	-6.3%	1.0%
Construction	4.2%	-20.6%	4.5%
Other Services	3.2%	-0.4%	-4.8%
Information	2.0%	-5.6%	2.2%
Real Estate, Rental and Leasing	1.6%	-2.7%	1.6%
Arts, Entertainment and Recreation	1.4%	9.0%	-17.4%
Management of Companies	1.3%	-6.2%	9.0%
Total		**0.9%**	**0.5%**

Notes: Data are March 31, 2008 to March 31, 2013. Total change in jobs and real wages are weighted averages based on each industry's percent of total jobs.
Source: STATS Indiana, using Indiana Department of Workforce Development data aggregated by the Indiana Business Research Center and author's calculations

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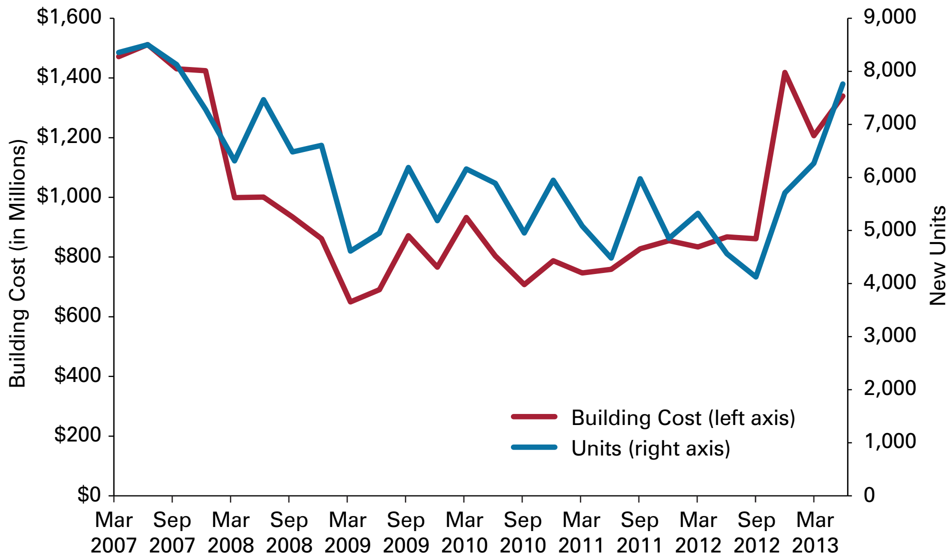
Examining different areas within the MSA, unemployment is highest in Marion County (7.8 percent) and lowest in Hamilton County (5.4 percent).

Housing and Construction

The Indianapolis residential real estate market has been one of the few bright spots in the economy. Median housing prices are up 10.3 percent since 2012, while inventories have remained flat.[2] One contributor to this trend has been the practice of large investment groups buying up single family homes as rental properties. Whether or not this is good for the local economy remains to be seen, but it does seem to have the effect of increasing prices and investment in the housing market. Look for housing prices to continue to rise over the next year as mortgage rates remain at historically low levels and economic growth leads to increased demand for housing.

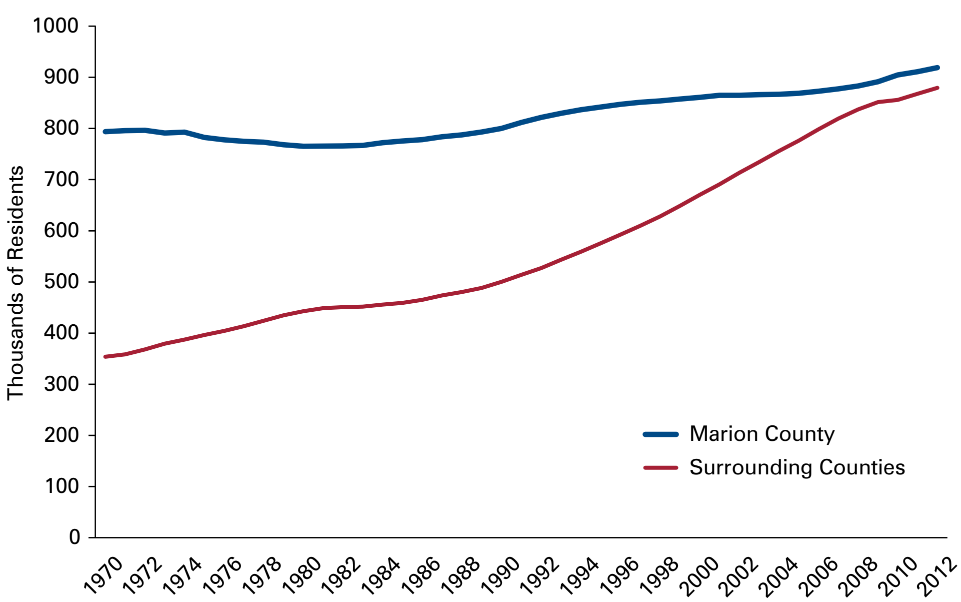
Another positive indicator is that the percent of mortgages that are in foreclosure or are seriously delinquent has declined over the past year. About 6 percent of mortgages are in foreclosure and another 3.2 percent are seriously delinquent (more than 90 days). However, this is actually an improvement, as 10 percent were in foreclosure or serious delinquency in 2012.[3]

Figure 1: New Residential Building Permits in the Indianapolis MSA, 2007 to 2013



Note: Data are quarterly and are seasonally adjusted.
Source: U.S. Census Bureau

Figure 2: Indianapolis MSA Resident Population, 1970 to 2012



Source: U.S. Census Bureau processed through FRED

New residential construction has experienced a dramatic recovery over the last 12 months. **Figure 1** shows that new construction costs, as measured by permits, are expected to top $1.2 billion in the metro area in 2013. This level of residential construction has not been achieved since 2007 and suggests that we have finally fully recovered from the housing/construction crisis.

Overall, new residential construction spending increased 41 percent from June 2012 to June 2013. While 2014 should continue to see growth, it is expected to be at a much more modest pace.

Demographic shifts

During the last few years, population growth has been picking up in Marion County and slowing in the surrounding counties. Population growth in Marion County averaged 0.4 percent from 1995–2009, but has averaged more than 1 percent per year since. Meanwhile, growth in the surrounding counties has slowed from 2.8 percent to 1.1 percent during the same time periods.

Figure 2 shows the population of Marion County and the sum of the surrounding counties. A few years ago, it appeared certain that the surrounding counties would surpass Marion County, but this has not yet happened. It seems as though some of the redevelopment efforts within Marion County, and especially those in and around downtown, are paying off.

Forecast

With the notable exception of the residential construction market, Indianapolis continues a weak five-year recovery. Incomes and output will likely rise 2 percent next year along with the state and the rest of the nation. The economy will add between 15,000 jobs and 20,000 jobs, which will reduce the unemployment rate to around 6.5 percent. ■

Notes

1. This analysis covers the Indianapolis-Carmel Metropolitan Statistical Area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam and Shelby counties.
2. Housing prices and supply of houses were collected from www.housingtracker.net.
3. Foreclosure and delinquency data come from Foreclosure-Response.org.