In the past year, employment growth in Northwest Indiana (Lake and Porter Counties) has slowed significantly. As a result, the unemployment rate in the region has increased from a low of about 3.2 percent in mid-1999 to about 4.5 percent at the end of 2000. A continuation of current growth patterns both in Northwest Indiana and in the nation should lead to employment growth in Northwest Indiana of 1 percent to 1.5 percent over the next year, with declines in local manufacturing (including steel), and increases in services and trade. This relatively slow growth in employment is also likely to result in slightly higher unemployment rates by the end of 2001.

The declines in manufacturing are offset by significant gains in service employment. This marks a continuation of a past trend. Steel, in particular, has experienced a reduction in employment levels and in the average work week. Many steelworkers have some degree of job security as per their union contract. However, there can still be a reduction in average hourly wages steel through a reduction in average weekly hours. This reduction brings about a proportionately greater reduction in earnings, since the hours lost are overtime hours. The protection that the steel industry sought from foreign imports has not been fully achieved. As a result, both domestic and foreign steel producers are competing for a shrinking market.

The possibility of a downturn in the Northwest Indiana economy remains substantial. If slower car sales persist, or should the national economy slow, manufacturing (and particularly steel) in Northwest Indiana could decline even more than our baseline forecasts suggest. There exists a substantial possibility of employment declines in 2001, rather than continued growth.

Employment and Unemployment

After four years of 2 percent to 3 percent employment growth, the local economy added jobs at about a 1.5 percent rate over the past year, with (trend) employment growing by about 2500 (see Figure 1). Indeed, for the first time since 1996, the year-to-year growth in employment was negative in late 1999. Manufacturing employment fell by about 2000 jobs between late 1999 and late 2000, and only continued relatively strong growth in the service sector (a gain of about 5000 jobs; nearly 40 percent of the job gain in the service sector was in retail trade) allowed any growth in total local employment. The shift in employment from manufacturing to services also leads to lower earnings, since the average level of compensation for services employment is significantly lower than it is for manufacturing in general.

Figure 1
Northwest Indiana Total Establishment Employment, Trends and Predictions
The relatively slow growth in the Northwest Indiana economy will probably continue throughout 2001, as growth in the U.S. economy slows in response to higher interest rates and higher energy prices. (Indeed, motor vehicle output has declined, at least temporarily, within the last month.) Continued moderate national growth will support only incremental employment increases in Northwest Indiana. We anticipate that manufacturing employment will continue to fall in 2001, losing perhaps as many jobs as in the past year, and slower growth in services and retail will prevail, with total employment growth accounting for a net of 2500 new jobs overall.

The unemployment rate in Northwest Indiana has already increased from its late 1999 low of about 3.2 percent (see Figure 2); indeed, unemployment was generally less than 4 percent throughout 1999 and has been generally above 4 percent in 2000. With employment growth slowing, we anticipate that the local unemployment rate will continue to rise in 2001, perhaps reaching 5 percent.

Even this relatively slow local economic growth will require that the national economy continue to grow at a moderate (2 percent to 2.5 percent) rate. Should national economic growth slow in response to higher interest rates, higher energy prices, increased import penetration of domestic markets (or other causes), the Northwest Indiana economy may experience a decline. The continued concentration of the local employment in manufacturing (17 percent of total local employment, and only 14 percent of national employment) makes the Northwest Indiana economy somewhat more sensitive to cyclical downturns.

If the forecasts of continued strong national growth prove to be correct, then the local economy may grow at a faster rate that we have indicated. On the other hand, if employment growth nationally falls to zero, we anticipate that local employment may fall as much as 2 percent, with manufacturing bearing the brunt of the decline. The additional unemployment that could result might lead to unemployment rates as high as 7.5 percent to 8 percent.

**Weekly Hours and Wages**

Average weekly hours in manufacturing have also trended down in the past year. After averaging 43 hours per week in 1999, weekly hours seem likely to average about 40 in 2000. This means that the true decline in manufacturing employment has been greater than the decline in employment (down about 3.5 percent over the past year) alone suggests—combining the drops in employment and in hours suggests an overall reduction in the use of labor in manufacturing of slightly more than 10 percent.

Average hourly wages in manufacturing (adjusted for inflation to 2000 prices) began to reverse their downward course in early 1998 and have been moving upward ever since. After bottoming out at about $18.95 in May 1998, real wages have increased to about $20.55 in August 2000—an increase of 8 percent. (The trend growth during this period—May 1998 was something of an anomaly—is about 3.3 percent.) In general, real wages have increased as hours have increased and decreased when hours have decreased (because the average earnings data incorporate overtime premiums). The last year is, therefore, an unusual period. It seems unlikely that real wages in manufacturing will continue their strong growth if manufacturing employment continues to decline.

We expect weekly hours to stabilize in 2001 at around 40 hours per week and real wages to fall to around $20 per hour.
Steel

The steel industry deserved separate treatment because of its continued importance to the Northwest Indiana economy. Employment in steel has declined over the past year, falling to about 26,000; this represents a decline of nearly 24 percent since 1991 and almost 5 percent in the past year. Weekly hours in steel have shown no trend over the past decade (indeed, steelworkers work slightly longer hours now than they did in 1991); they have declined from over 44 hours per week in 1999 to around 42 hours per week now. Real wages in steel have increased by about 15 percent during the 1990s and about 4 percent recently.

Employment, hours, and wages in steel will all depend on national steel output over the next year. Nationally, steel output will be larger if the national economy grows more rapidly or if steel imports fall (or fail to rise significantly). The Chicago/Indiana region consistently produces between 25 percent and 30 percent of steel output in the U.S. and current (weekly) output levels have recently decreased from about 540,000 tons to about 500,000 tons (see Figure 3). (Nationally, output has decreased since the first of the year from about 2.2 million tons to about 1.9 million tons per week.)

Weekly steel output in Northwest Indiana has, since the beginning of 1997, shown a modest upward time trend (growing, on average, by 170 tons per week). It has also increased and decreased along with, but by a smaller percentage than, national output (an increase in national output of 1000 tons per week seems to correspond to an increase in regional steel output of about 150 tons per week). Nationally, steel output has been decreasing since about the beginning of 2000. Slower growth in the overall U.S. economy and continued stiff import competition is likely to cause continued slow declines in total U.S. steel output, down to perhaps as little as 1.7 million tons per week by the end of 2001.

Should that occur, local steel output could fall from its current 500,000 tons per week to around 475,000 tons per week. Such a decline in output, coupled with ongoing productivity increases in steel, could cause steel employment to fall by about 7 percent to 8 percent (around 1800 – 2000 fewer jobs) by the end of 2001. (Note that the Chicago/Indiana region’s share of total steel output would rise, which is only a modest consolation.) Such a development would probably be associated with declining total employment in Northwest Indiana.

Labor Force Growth

Since 1993, the resident Labor Force (the employed plus the unemployed) in Northwest Indiana has grown very little, rising from about 290,000 to about 300,000, or 3 percent in seven years, with almost no overall growth since early 1994. The slow labor force growth appears to parallel the slow growth in population in the region since 1990 (up from about 602,400 in 1990 to about 628,400 in 1999, an increase of 3.9 percent over a decade). While the local economy is extremely “open” to commuters (e.g., from LaPorte or Newton Counties, or from the south Chicago suburbs), such slow labor force growth can become a barrier to continued economic growth in the region.

In addition, slow population and labor force growth is also a response to slow economic growth, as in-migration is likely to slow and out-migration is likely to increase.

There is no indication in recent trends in the labor force or in the population that labor force growth is about to accelerate. At best we look for 1 percent to 1.5 percent growth in the labor force in the coming year; at the high end of that range, unemployment will almost certainly rise.
Conclusions

With continued moderate growth in the U.S. economy, growth in Northwest Indiana will almost certainly slow from its already slow pace of the past two years, with employment growth of 1 percent to 1.5 percent. Manufacturing employment will probably continue to decline, led by potentially large declines in employment in steel. Moderate growth in services (including retail) will lead to slow overall growth. The local unemployment rate is likely to rise to around 5 percent.

However, the local economy remains vulnerable to a national slowdown. An end to the U.S. expansion would likely lead to declining employment and 7 percent to 8 percent unemployment in Northwest Indiana. In the event of a national recession, the decline in the local economy would be even more severe.

While we do not expect that U.S. economic growth will end (still less do we expect a national recession), the chances of such a result are greater now than a year ago. We remain optimistic about the short-term future of the local economy, but our optimism is tempered.

Indianapolis

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The outlook is for a moderating rate of employment growth for the metropolitan (nine county) Indianapolis area. This outlook is based on the national consumption growth rate slowing to a rate closer to the national disposable personal income growth rate. From 1995 to 2000, consumers had the best of times—low unemployment and inflation, and growth in household wealth. However, an uncertain stock market, due to rising costs and slowing profit growth, will result in more moderate growth in consumer spending.

Also, at the national level the ratio of household debt service to disposable income has risen to a high level of 13.6 percent. Although this high level has not been accompanied yet by rising mortgage, credit card, or installment loan delinquencies, it does raise a question about the strength of consumption in 2001.

Capital spending, which has contributed to 35 percent of the growth of real GDP in 2000, but represents only 10 percent of nominal GDP, is expected to slow after the capital goods backlog is reduced. Large increases in federal and state spending to improve highways and mass transit, authorized by the Transportation Emergency Act21 (TEA-21) in 1998, will continue in 2001 in the Indianapolis area. Also, increased defense spending may have some modest local impacts later in the year.

Recent Performance

How has the Indianapolis metropolitan area done over the past year (3rd quarter, 1999 to 3rd quarter, 2000)? Based on nonfarm payment employment, Indianapolis is compared to other areas in our region and others outside our region of similar size in Table 1. Indianapolis was third in our region. How will a slowing rate of consumer spending affect the Indianapolis metropolitan area economy? Let’s look at the sources of growth in employment in the past year in Table 2.

Chemicals, a nondurable manufacturing component, reflects, in part, the publicly-announced Eli Lilly expansion plans that will continue. The large federal government increase was the extra hiring for the 2000 U.S. Census enumeration, and will not be reoccurring in 2001.

Construction has been a primary contributor to employment growth for the past several years. Single-family building permits were down about 6 percent for 2000 through September compared to the same period in 1999. In 2001, if the local employment growth is a little slower, then housing permits, and expenditures for household furnishings, will follow the same pattern but will be cushioned by eventually falling mortgage rates. Office vacancy rates have moved up. The supply of hotel rooms will increase by 616 rooms with the opening of the Indianapolis Marriott Downtown. It will be a challenge to duplicate the impressive employment increase in construction in 2001.

Consumer spending consists of durables, nondurables, and services. Expenditures on durable goods tend to be more volatile than services. Indianapolis has a lot of auto-related durable goods-based employment. Consumers will have increasing choices, especially in the SUV market. Many SUVs