

Columbus

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Candidates for political office all promise more jobs and more prosperity. In the real world, individual politicians don't have much effect on the economy. Trends in economic activity typically take many years to develop, much longer than any politician's term of office.

Trends emerging in Columbus and Bartholomew County, however, raise concerns. The Columbus metro has historically been one of Indiana's more prosperous regions. Per capita personal income (PCPI) was 103 percent of the national average in 1997, fifth highest among Indiana's ninety-two counties (see Figure 1). By 2002, though, per capita income had dropped below the national average (to 98

Figure 1
Bartholomew County PCPI

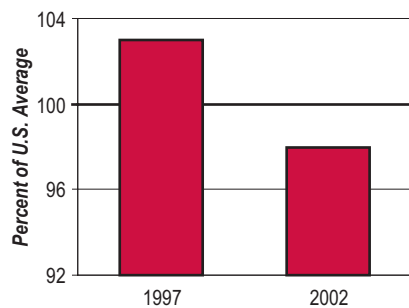
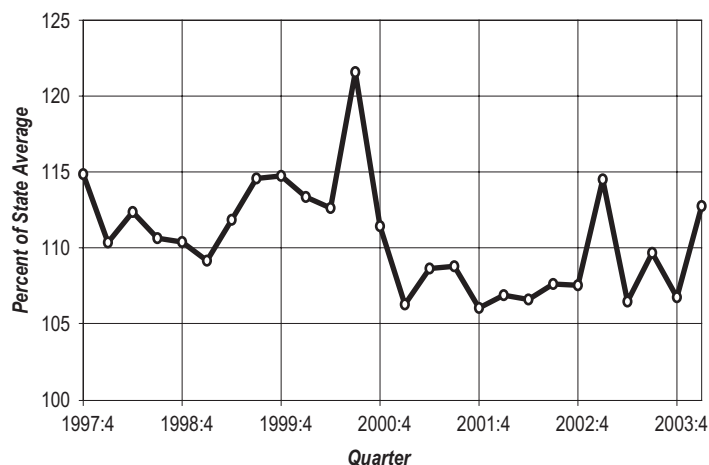


Figure 2
Bartholomew County Real Wages per Job as a Percent of State



percent), and the county's ranking in the state was down to ninth. That year was a recession year, of course, but it was a recession all over Indiana. Yet Bartholomew County's ranking within Indiana went down.

This decline in relative prosperity is reflected in the wages earned in the county. Figure 2 shows quarterly wages per job in Bartholomew County as a percent of the Indiana state average. From its former level of more than 110 percent of the state average, the county drifted down to near 105 percent in the most recent five years. (The spike in 2000 may have been influenced by the ArvinMeritor merger that year). What's even more troubling is that in real terms, after adjusting for inflation, wages per job in the county are no higher than they were in 1998 and 1999.

Recessions often hit hard in Bartholomew County. Heavy manufacturing has at times accounted for more than 40 percent of Bartholomew County employment, though now that figure has shrunk to 35 percent. But recoveries have been good to the area too. Not this time. The current economic recovery, a weak one nationally, has been even weaker in the Columbus area.

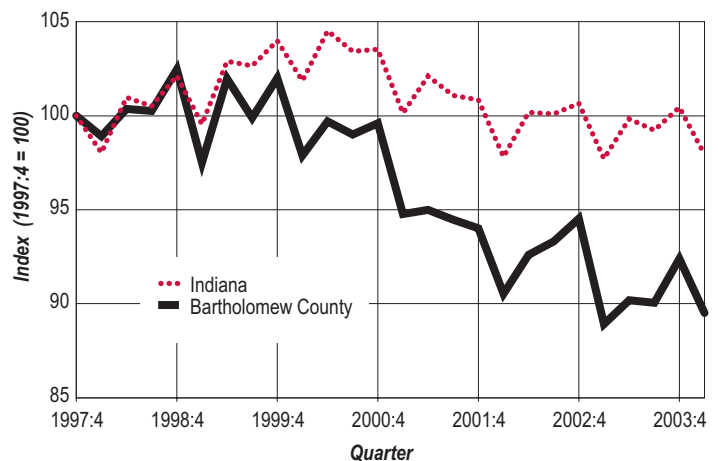
The level of employment is shown in Figure 3, indexed to the fourth quarter of 1997 in order to make a comparison to total

employment in the state. While employment statewide declined during the recession in 2000 and 2001, by the end of 2001 the worst of the drop was over. In Bartholomew County, however, after a brief bounce in 2002, the downward trend in employment continued, widening the gap between the performance of Bartholomew County and that of Indiana as a whole. So far, whatever recovery that has taken place nationally has not boosted employment around Columbus very much.

Bartholomew County businesses have long been a draw for residents of surrounding counties. The commuting patterns show far more people commuting into Bartholomew County to work than commuting out. But that pattern, too, is weakening. In 1997, the ratio of commuters into the county to commuters out of the county was 3.3 to 1 (see Figure 4). Three people drove into the county to work for every one Bartholomew County resident commuting to a job outside the county. By 2002, that ratio was down to 2.5 to 1. There were fewer inbound commuters and more people leaving the county to work.

These local trends indicate Bartholomew County's economic climate in 2005 will not improve as much as the national average. And the outlook at the national level is for only lukewarm (and highly uncertain) expansion.

Figure 3
Quarterly Payroll Employment Index

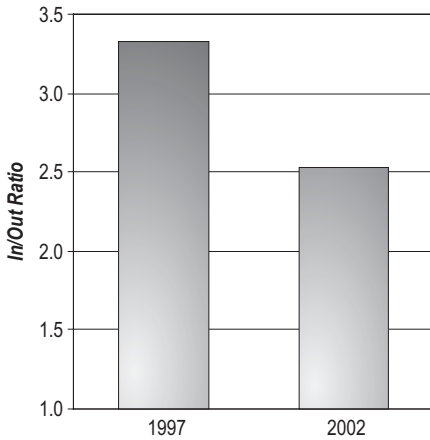


Evansville

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Figure 4
Bartholomew County Commuting Ratio



Some sectors of the Columbus area economy surely will do better than others. While real wages per job were flat countywide in the last five years, they grew by more than 30 percent in the financial services sector. And despite the recession, employment in health care jumped 10 percent from 2001 to 2004.

In general, though, don't look for 2005 to be much different from 2004. Based on forecast data from the Kelley School of Business, here's what to expect:

- ▶ **General level of business activity:** About the same as in 2004. Not much growth.
- ▶ **Wages:** Flat. Any increases will just about cover inflation.
- ▶ **Number of jobs:** Not much improvement over 2004. Countywide, an increase of perhaps 600 jobs, or about a 1.5 percent rise in payrolls.
- ▶ **Unemployment rate:** The average may be a little better than 2004. But the early months typically have the highest unemployment rate of the year. So expect the rate to approach 4 percent in the first quarter, improving to 3 percent by the fourth quarter. ◀

Sources

Indiana Business Research Center, Kelley School of Business, Indiana University; U.S. Bureau of Economic Analysis; and the U.S. Census Bureau

Our area has enjoyed economic stability over the last several years. The U.S. Bureau of Economic Analysis reports Evansville per capita income at \$29,116. This was 94 percent of the national per capita income for 2002. In 1969, per capita income in Evansville was 89 percent of the national per capita income. The number of jobs was recently measured at 162,100, which compares favorably with last year's 161,900. Unemployment in our city is 4.0 percent, compared to 4.8 percent in Indiana and 5.1 percent in the nation.

As measured by the index of economic activity maintained at the University of Evansville, the Evansville economy did not show substantial growth during 2003 (see Table 1). The index has yet to return to the peak set at the turn of the century. There was a substantial gain in both construction and finance, an insignificant decline in trade and a substantial decline in electricity sold to industrial users, the index's proxy for industrial production. The transportation component of the index, boardings at the local airport, continued to decline.

Index Defined

- ▶ Electricity sold to industrial users = industrial production
- ▶ The total value of new construction permits in Vanderburgh County = construction.
- ▶ Annual boardings at the Evansville Regional Airport = transportation
- ▶ Metropolitan area employment in wholesale and retail trade = trade
- ▶ Finance sector employment = finance

In my opinion, the expansionary effects of our nation's fiscal policy have likely run most of their course. Monetary policy is returning to neutral after a long period of expansion. Interest rates will move away from historic lows to levels near their historic averages. These increased interest rates are not likely to make doing business in the durable goods sector or the construction sector any easier. The effects of higher interest rates on the finance sector are uncertain. We can thank the employers of our area for substantial job growth in the past and hope for stability in the future. Barring any unexpected national or international developments, I expect next year to be much like this year. ◀

Table 1
Index of Economic Activity in Evansville

Year	Industrial Production	Construction	Trade	Transportation	Finance	Index	Index Growth
1995	0.316	0.040	0.273	0.047	0.240	0.917	n/a
1996	0.330	0.060	0.275	0.051	0.247	0.963	5.0%
1997	0.329	0.048	0.284	0.055	0.250	0.966	0.3%
1998	0.359	0.069	0.277	0.060	0.234	1.000	3.5%
1999	0.385	0.090	0.282	0.062	0.247	1.066	6.6%
2000	0.397	0.072	0.285	0.060	0.254	1.068	0.2%
2001	0.387	0.045	0.288	0.052	0.280	1.053	-1.4%
2002	0.401	0.064	0.284	0.052	0.254	1.054	0.1%
2003	0.385	0.071	0.283	0.050	0.260	1.049	-0.5%
Change from 2002	-3.9%	10.5%	-0.4%	-2.8%	2.6%	-0.5%	n/a