(where annual earnings were about $70,000 in 1978, projected to be about $68,500 in 2006) and the rise in service employment (with earnings of about $30,500 in 1978 and $29,200 in 2006).

Real earnings growth from 2001 to 2006 has been adequate, if not spectacular, averaging 4.7 percent, with even more rapid growth in construction, manufacturing, and in the financial sector. The earnings growth in manufacturing has been led by very strong earnings growth in the steel industry, where average annual earnings rose by about 30 percent, largely as a result of increased overtime pay. Outside of steel, earnings in manufacturing have declined from 2005 to 2006.

Earnings growth over the next year will be very weak across industries in all likelihood, a consequence of the slow growth in employment. In addition, the slow growth in earnings will contribute to slow growth in retail trade and in services.

Conclusions
Northwest Indiana will continue its slow growth. Employment and earnings will grow more slowly than in the state, even as Indiana grows more slowly than the nation. Employment growth of about 0.2 percent with an earnings increase of about 0.3 percent will lead to roughly constant total labor income in the region in 2006 compared with 2005. Slow growth in employment will place downward pressure on earnings growth, and reduced earnings growth will place downward pressure on employment growth in the retail sector and in services. The unemployment rate will decline fractionally, largely as a result of a continued decline in the labor force. The short-term outlook for the northwest Indiana economy continues to be discouraging.

Notes
1. Beginning with the 2006 outlook, the northwest Indiana region will consist of seven counties: Jasper, Lake, La Porte, Newton, Porter, Pulaski, and Starke. Slightly more than 90 percent of the region’s employment is located in Lake, La Porte, and Porter counties.
2. All data on employment, unemployment, and earnings in this report come from STATS Indiana (www.stats.indiana.edu), or are estimates and forecasts prepared by the author.
3. This includes lawyers offices, accounting firms, architectural and engineering firms, etc. See http://www.census.gov/epcd/naics02/naic02.htm for complete details on the NAICS industrial classification.
5. About 26 percent of the population was under 18 in 2003, a percentage that has also increased in recent years.

Figure 3
Average Annual Earnings for All Workers and Manufacturing Workers

Note: Data are adjusted for inflation.
Source: Historical data from STATS Indiana. Forecast calculated by author.
professional and scientific services. Finance and insurance jobs shrank by 2.8 percent and growth in government jobs was flat. All other sectors of the local economy saw job growth of 3 percent or less.

**Real Estate**

Between April 1, 2000, and July 1, 2003, the U.S. Census Bureau estimates that the population of the Indianapolis metropolitan area increased by 70,273 individuals (4.6 percent). From the beginning of 2001 to the end of 2003, enough building permits were approved to house an estimated 211,507 individuals in new structures. This trend suggests that housing capacity is expanding at three times the rate of population growth. Employment in construction remained steady at 45,000 jobs between the first quarters of 2004 and 2005, but the average wage fell from $788 to $770 per week.

**Forecast**

The current Indianapolis economy is anemic and will continue to fall behind the nation in 2006. Permanently higher energy prices, cheaper labor in foreign countries, and a possible General Motors bankruptcy place worrisome pressure on a local economy that remains too dependent on non-vibrant industries. Job growth will occur, but at an unimpressive rate and not in high-paying occupations. Real household income is expected to shrink locally by 1 percent in 2006. Real estate wealth will also shrink as developers continue to build in over-supplied communities and deflate the price of homes in neighborhoods that are already established. Growth among local life science and technology enterprises will be notable, but their small presence in the Indianapolis economy will not reverse a more general malaise. If the current trend continues, Indianapolis risks becoming an economic satellite of cities that demonstrate a more energetic and pioneering approach to economic development.

**Notes**

1. This calculation assumes 2.6 individuals per household, as estimated by the U.S. Census Bureau.

**Kokomo**

**Brian Harris**
First Vice President, First National Bank and Trust

with input from

**Walter Wolff,**
Regional President, STAR Financial Bank

and **John O’Donnell**
President, First National Bank and Trust

The short-term economic forecast for Kokomo can be summed up with one word: uncertainty. The local Kokomo economy will suffer in 2006 more from the apprehension and fear of impending local manufacturing changes rather than from the changes themselves, which will not occur for some time.

It is difficult to focus on the local economy when it is so heavily dependent on global markets, since our largest local employers have locations and vendors scattered across the world. As our largest employers go, so goes the city. With that said, a large amount of apprehension exists in the local economy while the second largest employer, Delphi, works through a reorganization plan that will most likely drag out to the end of 2006. Meanwhile, the largest employer, DaimlerChrysler, is financially sound and continues to benefit from its large capital investments in Kokomo. Kokomo was at one time number one in the nation for European investment, almost entirely due to DaimlerChrysler. However, DaimlerChrysler will be closely monitoring the wage negotiations with Delphi as their next contract negotiations near in 2007. Workers are one of the most important and expensive commodities to the majority of large corporations, and the most efficient productivity for the lowest price will prevail in their strategic planning in nearly all instances. Compensation restructuring and/or job reductions at Delphi will negatively affect Kokomo.

Kokomo’s economy remains heavily tied to the manufacturing...