

Muncie

Only a few years ago, the short-term problems of the Indiana economy were largely solved. Jobs were plentiful, unemployment rates were scraping the ground, and the state's revenue coffers were flush. That left us in the unusual—and unfamiliar—situation of facing up to the larger, long-term problems facing the state economy, including the deterioration of our relative standard of living and the net out-migration of our educated population.

The recession of 2001 has only partially changed that situation. It has delivered to us—ahead of the U.S. economy as is the Indiana custom—a taste of the familiar cutbacks and closings in manufacturing, which have hit Muncie and East Central Indiana as hard as anywhere else. But coming on the tail of a seven-year stretch that has seen job growth locally stagnate even as the national economy charged ahead, it has been difficult to sort out which of the recent woes are due to the recession and which represent the outgrowth of trends that precede that event.

The East Central Indiana region, defined as Blackford, Delaware, Grant, Henry, Jay, Madison, Randolph, and Wayne counties, experienced zero population growth over the last decade. Terre Haute is the only other urban area in Indiana with a similar experience. Thus, the backdrop for our recession experience of 2001–02 is one of relative decline.

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Total Employment

This decline is clearly evidenced from the behavior of total employment over the last twelve years, as shown in **Figure 1**. The data, which are seasonally adjusted quarterly averages of the monthly DWD reports on payroll employment, depict an economy that peaked in mid-1995, more than six years before the U.S. economy slowed down. Since its high point of more than 62,000 jobs at the last decade's midpoint, Muncie business establishments have steadily contracted payrolls, to just under 58,000 employees in the third quarter of 2002.

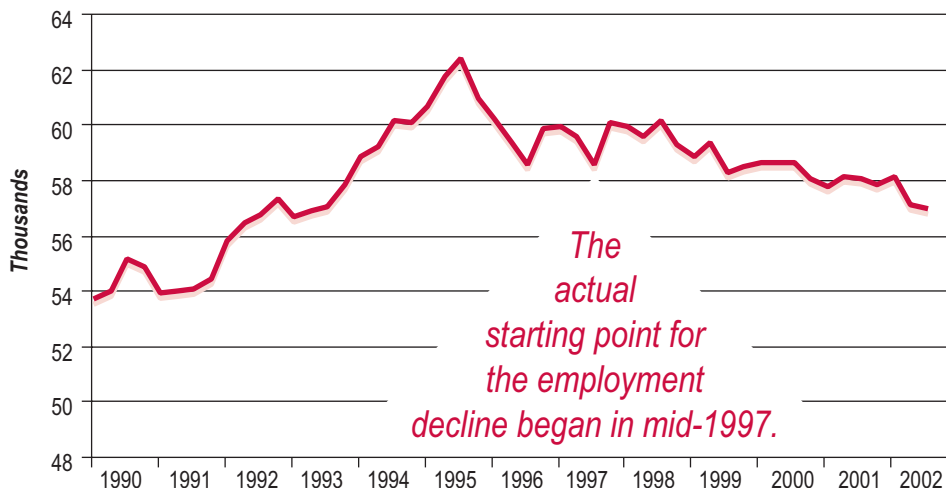
The picture is a bit misleading, however. Changes in accounting and ownership at a single large employer, the now-defunct Burlington Motor Carriers trucking company, caused a pre-1995 buildup in total employment and a sharp decline immediately thereafter that were more apparent than real. A closer examination of the data reveals that the true starting point for the downward trend preceding the 2001 recession was in mid-1997, when the economy suffered four setbacks in the manufacturing sector in quick succession.

Manufacturing

The closure of GM's Delphi battery plant and the sale and shutdown of Borg-Warner's manual transmission business were just two of the largest disruptions that ultimately led to a net job loss of 1,500 jobs in Muncie's manufacturing sector, as shown in **Figure 2**. Some new developments created new manufacturing jobs since that time, most notably the construction and expansion of the Keihin vehicle components facility. But those were not enough to offset job declines elsewhere, with the slow decline leading up to the beginning of the recession bringing factory employment down to about 9,500 jobs.

The manufacturing recession, nationally as well as in Indiana, began in the late spring of 2000, almost twelve months before the national recession was officially declared. Its pain has been fully shared by facilities and workers in the Muncie Metropolitan Statistical Area (MSA). In the four quarters following the third quarter of 2000, the manufacturing sector quietly shed almost 1,000 additional jobs.

Figure 1
Muncie MSA Establishment Employment



Those declines occurred during a period that saw national manufacturers contract payrolls by nearly two million jobs for many of the same reasons. The contraction in capital spending by businesses that has been the hallmark of this recession was devastating to manufacturers in the business of producing capital goods. The unrelenting price pressure caused by global competition and cost consciousness of large OEM's has forced companies everywhere to find ways to cut their own costs, which often translates into cutting payrolls.

The question faced by Muncie's leaders, much as in everywhere in Indiana, is simply, how many of these lost jobs are likely to come back? Given that the hoarding of skilled labor has probably kept these cuts from being even worse, the unpleasant answer to that question is that probably very few jobs will return in our short-run future.

Non-Manufacturing

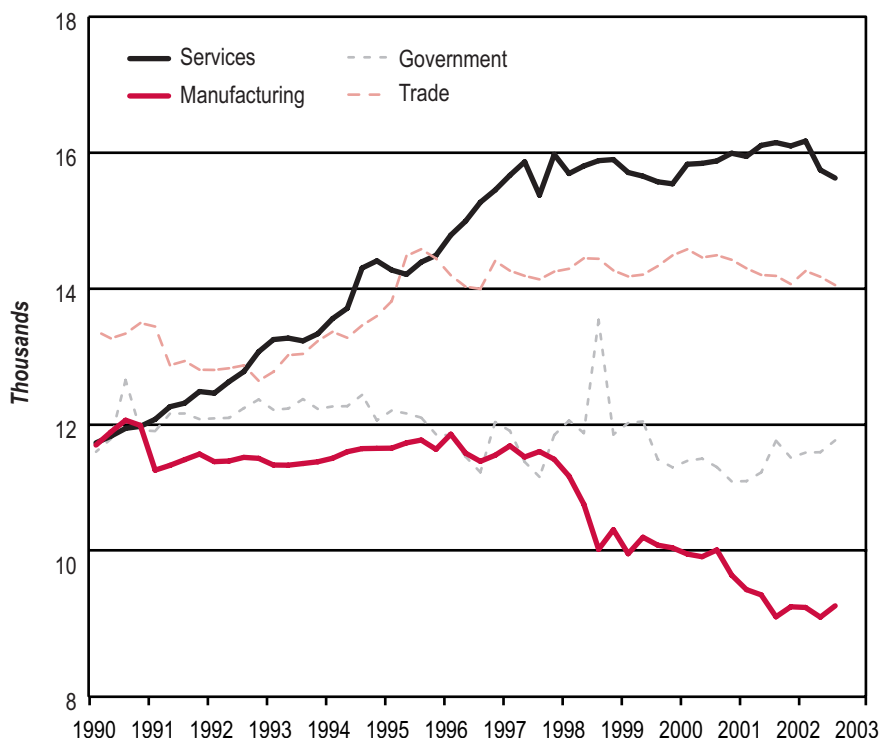
It may surprise some to learn that the services, retail/wholesale trade, and government sectors are the three largest employers in the Muncie MSA. Although they have largely avoided the sharp, recession-induced declines suffered by the manufacturing sector, their longer-term movements largely reflect the same pattern of the area's overall population base.

Steady growth in Muncie's services industries employment in the 1990s was interrupted by the manufacturing declines of 1997, as seen in **Figure 2**. After growing by about 4,000 jobs—more than 30 percent—in the first seven years of the last decade, services industry payrolls have remained at, or near, 16,000 jobs ever since. This behavior is at odds with the industry's growth in the rest of the state and nation.

The stagnation occurred as rising employment in health care industries was offset by lower payrolls in business services, particularly in temporary help supply. The latter no doubt reflects the decreased demand coming from the manufacturing sector.

The wholesale and retail trade sector experienced a disappointing performance in 2001–02 as well. While retail trade continues to provide the most visible signs of new growth in the arrival of new stores, the data in the figure suggest that additions to the

Figure 2
Employment for Selected Sectors in the Muncie MSA



employment base from new openings have been offset by layoffs and declines elsewhere. There was some increase in the size of the retail pie in the mid 1990s, with the arrival of stores like Meijer, Walmart, and Lowe's increasing the geographic scope of the Muncie market. But the trend since that time has been largely sideways, as the growth and refurbishing of retail outlets has squeezed out, rather than added to, those already here.

Trends in government sector employment, shown in **Figure 2**, reflect the population-related declines in public schools and the situation at Ball State University (BSU), the area's largest single employer. While largely stable, there has been some decline in this sector's employment since the mid-1990s, reflecting both the loss of school-aged children and the softness in BSU enrollment during that time. The latter has moved, unsurprisingly, in a pattern that is opposite to the direction of the national economy, with stronger growth occurring thus far in the current recession.

Assessment and Outlook

The Muncie MSA, much like the rest of the state, has clearly suffered the effects of the

national economic recession. Those effects, especially in manufacturing, began in 2000, well in advance of the national downturn. The timing and severity of the recession here has been approximately the same as what has occurred in the Indiana economy.

The distinguishing pattern in the Muncie employment data has been the absence of growth in the years leading up to the new decade. Even as the national economy soared at the height of the technology boom, both employment and population here declined or grew very slowly at best. The recession-induced declines in employment since 2000, while no more painful than any other Indiana city has experienced, come on top of this pre-existing trend.

With improvement in the national economy, such as what is forecast by economists at Indiana University and elsewhere, the Muncie economy can hope to regain some portion of the approximately 1,000 jobs lost since the downturn began. Unfortunately, if the slow secular decline in the local economy continues into next year, the best that we can hope for in 2003 is an increase of only a few hundred jobs. ◀