Anderson

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To understand the state of the local economy, it helps to see issues in relevant terms. There are three interesting comparisons for the Anderson community that shed light on our position in the 1990s: (1) we can look at ourselves in the 1990s compared to the ’80s; (2) we can look at ourselves compared to the national economy; and (3) we can look at ourselves compared to the rest of Indiana. This report takes all three approaches in an attempt to best show our progress, our current condition, and possible future directions.

The labor market continues to show signs of structural change. On the unemployment side, moderation has been the trend since the early part of the 1990s. The Madison County yearly unemployment rate for this decade has been 5.8%, compared to 9% in the 1980s. Of course, part of this improvement is due to improved national performance: about 7.3% in the 1980s, and down to 6% in the ’90s. Still, this does not explain all of our improved performance. The local unemployment rate has been below the national level for five years in a row (1993–1997) and is running below the national level for the first eight months of 1998. We have experienced less than a 4% unemployment rate so far this year—despite the spike in unemployment that occurred in July due to the GM strike. The rate doubled in that month, and will likely add about a quarter of a percentage point for the year.

In relative terms, it would seem that our ability to create jobs has improved significantly. However, another comparison is also important. The local unemployment rate is not as low as that of the average community in Indiana for this decade or this year. Although we are doing better compared to our own experience in the 1980s and the national performance in the ’90s, we still lag behind the average of other Indiana communities.

Our more stable employment picture reflects some important structural changes locally. Manufacturing employment tends to be sensitive to cyclical movements in the economy. Yearly manufacturing employment in the 1980s averaged more than 18,000; that number has fallen to about 13,500 in this decade. Total employment in Madison County averaged 45,470 in the 1980s, but has risen to an average of 47,700 in the 1990s. So the percent of total jobs in manufacturing—as high as 44% in the early 1980s—fell drastically to less than 28% by the end of 1996.

There has also been a change in the way local manufacturing has approached national economic downturns. The local labor contract provides more insulation from layoffs due to national declines, and provisions like the job bank solve mild downturns internally. Naturally, there is more risk from the more extreme disruptions, such as the regional auto strikes. Because the auto companies have decided not to increase their hiring in the Anderson market, when increased production is needed, overtime has been the preferred solution. Mild downturns are met with a decrease in overtime rather than an increase in unemployment.

Another significant structural change is the redefinition of Anderson as more of a regional service center. The jobs created in the past decade have been primarily in the retail and service sectors. We see improved choices for local shopping, food services, and entertainment alternatives. When you remove manufacturing from the employment mix, about 6,000 new jobs have been created in other sectors in Madison County from the 1980s to the 1990s.

Construction has also improved over the two decades. Residential construction for the county averaged slightly more than $7 million per year in the 1980s, but has risen dramatically in the 1990s to an average level of $32 million per year. In 1996, this value reached a high of over $52 million. For 1997, we saw a decrease to a not-so-modest $44 million in residential construction. Through the first half of 1998, we were ahead of the building pace of the year before. Nonresidential construction has also improved in the 1990s. For the last decade, Madison County averaged less than $7 million per year. In the first half of the ’90s, the county averaged over $17 million per year. Much of the higher average is driven by the large expansion in 1994. Still, the performance was clearly better in the first half of the decade. The increased construction and economic activity is a reflection of the desirable location Madison County enjoys, with its proximity to Indianapolis.

Income in the 1990s is much less impressive. Income measures show that local income growth is positive, but lags behind the average community in Indiana. Our share of the Indiana income pie has been flat or decreasing for most of the past 20 years. While average wages are relatively high in Madison County, the number of high-value-added jobs is clearly declining. The larger number of jobs in retail and service sectors tend to be low-value-added and thus pay lower average wages. The labor market transition partly explains the slower income growth. A higher dependence on transfer payments for income is another part of the explanation.

The local short-term forecast, which includes the balance of 1998 and into 1999, is not bad. Most national forecasts are calling for a moderation of GDP growth for 1999, somewhere in the 1 to 2 percent range. A modest cooling of the national economy should not be enough to push local auto unemployment upward significantly. It will likely mean less overtime and therefore less local manufacturing income and lower average manufacturing wages. We shouldn't expect large changes in the local employment mix or unemployment for the coming year. Of course, some wild cards could surprise us. The changing ownership of local auto factories gives us some uncertainty in the near future. Existing contracts will be honored, but we cannot begin to predict what will happen at the end of those contracts.

On balance, the current assessment of our local economy should include a significant recovery from the poor performance of the 1980s. We have seen some improvement over the past decade. But the comparison between us and the rest of Indiana indicates that we have some distance to go in maintaining a standard of living commensurate with other, more prosperous Hoosier communities. The quality of employment growth will be a key for us in 1999 and on into the next century. Because our future as a manufacturing center is at best uncertain, a focus on providing the infrastructure needed to attract high-value-added jobs is essential for long-term growth.

Columbus

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Despite marked improvement in employment performance on the state and national fronts, once again the Columbus area economy outpaced them both. The year-to-August average monthly unemployment rate for Bartholomew County stood at 2.2% (2.3% for the same period in 1997), compared to 3.1% for the state (3.6% for the same period in 1997) and 4.5% for the U.S. (5% in 1997). The county's unemployment rate for the months of July and August was only 1.6%. And its initial unemployment insurance claims posted lower numbers in 1998 than in 1997—down by 22% and 18% for the first and second quarters, respectively. August 1998 initial claims were 14% lower than those for August 1997. Moreover, total unemployment claims filed decreased by 30% from 3,527 in July to 2,471 in August.

Table 1 shows the unemployment rates, the number employed, the number unemployed, and the annualized employment growth rates through the 1980s and '90s for Bartholomew County. Note that from 1990 to the most recent period available (third quarter 1998), the number employed has grown by 23% (from 31,922 to 39,395) and the unemployment rate fell from 4.9% to the current rate of 1.6%.

Table 1
Columbus Area Employment Data

Period	*Unemployment Rate (%)*	*Number Employed (Monthly Avg.)*	*Number Unemployed (Monthly Avg.)*	*Annual Employment Growth Rate (%)*[1]
1980-1989	8.2	27,700	2,450	1.2
1990-1995	4.9	31,890	1,580	4.4
1996	2.8	38,029	1,120	2.1
1997	2.2	38,395	888	1.0
3Q98[2]	1.6	39,395	645	1.3

[1]The annual employment growth rate is the percentage change for each quarter in a year compared to the same quarter in the previous year.

[2]For some of the figures reported, September's numbers were not available at the time of writing. Consequently, we extrapolated third-quarter averages by assuming that September's figures are equal to the average of the data from August and July.

For the first nine months of 1998, Cummins Engine reported a 25% decrease in net earnings to $111 million (from $148 million in 1997), or $2.86 per share (from $3.82 in 1997), on sales of $4.7 billion (from $4.1 billion in 1997). These earnings exclude a pretax charge of $114 million for restructuring costs and $35 million associated with a methodology change in calculating product coverage costs for extended warranty programs. The restructuring plan, along with expected savings from economies of scale (a decrease in the firm's long-run average cost) in the new product lines, should reflect positively on the firm's financial position in the future. On the other hand, Cummins agreed to a consent decree with the government that requires it to pay a fine of $25 million and comply with new environmental standards (along with six other engine manufacturers, whose collective fine amounted to $1 billion). This is expected to put upward pressure on the cost of production in the next millennium.