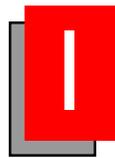


Indiana In the New Century



Indiana's path in the 21st century may be very different from the pattern of the last 30 years. The Hoosier state has seen dramatic changes in its relationship with the nation as witnessed by **Figure 1**.

Although we have averaged 2.3% annual real growth, the nation averaged 3.0%. The result has been a significant decline in Indiana's share of the nation's total personal income from 2.5% to 2.0%. While one half of one percent does not seem like a big number, it translates into \$30.6 billion or 23% of Indiana's current level of personal income. That is one cost of not keeping pace with the nation.

The Year Ahead

With no major changes on the horizon at the national level, Indiana can expect another year of progress in 2000. But we will be fortunate to add as many jobs (35,000) in 2000 as in 1999. Recent months have shown a decline in the monthly employment gains compared to a year earlier. In addition, weakness in durable goods purchases forecast at the national level, plus higher petroleum prices, both threaten to make 2000 a year of uncertainties.

Added to these concerns is the persistent delay in resolving the questions of property tax assessment practices. The current attractiveness of border counties for workers of other states depends on low property taxes. But how long can homeowners shift the

tax burden to business taxpayers without increasing the state's relative losses of employment and income? Lurking behind this issue is the question of restructuring school and poor relief financing. It is doubtful that any resolution of these factors is on the horizon.

Lessons from the 1990s

The 1990s appear to have differed from the '70s and the '80s. We have become accustomed to seeing Indiana experiencing more severe recessions than the nation. But the most recent recession in 1990-91 seems to have broken that pattern.

In **Figure 2** and **Table 1**, five cycles in personal income are shown for Indiana and the U.S. The recession in Indiana in early 1970 was not part of the national experience, but by the next peak in 1973, Indiana had matched the nation's growth for the period.

Our decline in the 1974-75 recession was greater in severity and duration than the nation's. We did not achieve parity with the nation before the next recession at the end of the '70s. In that instance (cycle III), Indiana did not even complete its recovery or experience any expansion beyond the previous peak before we were plunged into the 1981-82 recession.

Again Indiana's decline was deeper than the nation's (-8.5% vs. -1.3%) and greater in duration (6 quarters vs. 2 quarters). By the time this long cycle was over, Indiana had expanded by 16% compared to the nation's more vigorous growth of 27.3%.

Then came the short recession of 1990-91 and the recovery plus expansion we now enjoy. Here is where the pattern has changed. Indiana's decline was neither steeper nor longer than the nation's. And our expansion outpaced the nation in the early years of the decade.

Indiana's more rapid growth in the early 1990s (and our somewhat sluggish performance since 1995) may be an aberration or a true change in the nature of our economy. Therefore, our look to the next century must begin with an inquiry into the economic performance of Indiana in this decade. Preliminary estimates show that Indiana has added 473,000 jobs during the decade (see **Figure 3**). Our average annual rate of growth (1.76%) was virtually identical with the nation's growth (1.75%) for the period. The result is that, despite a strong growth in employment in the early 1990s, whatever advantage Indiana possessed has dissipated. Our share of the nation's employment was 2.29% in January 1989 and again in April 1990. It peaked at 2.39% in March 1995 and stood back at 2.29% in September 1999. What happened?

Morton J. Marcus

Director, Indiana Business Research Center, Kelley School of Business, Indiana University, Bloomington

Figure 1
Indiana's Real Personal Income

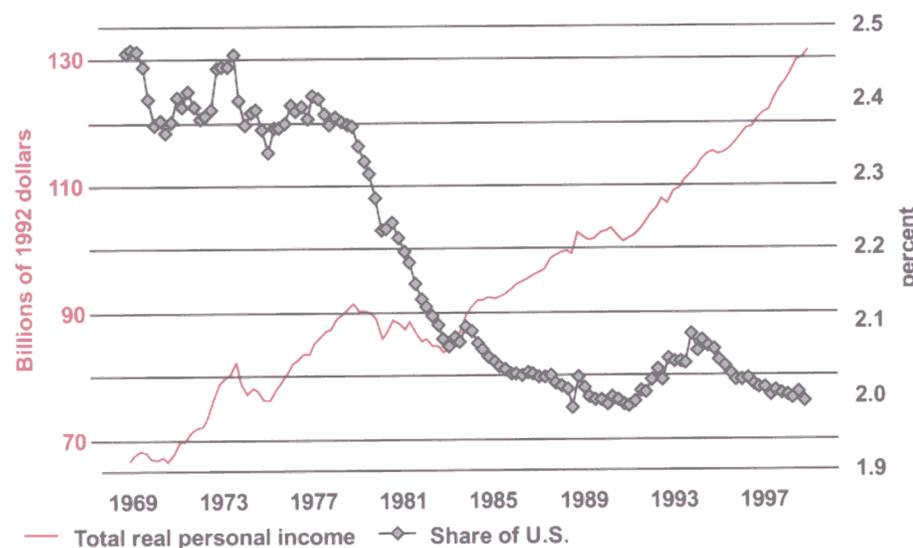
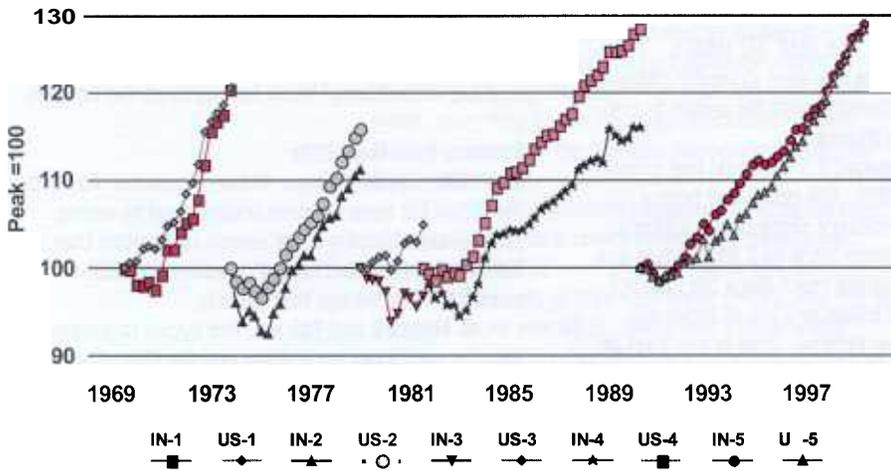


Figure 2
Cycles in Personal Income



Consistency in Growth

The answer is that Indiana was consistent in its employment growth while other states (particularly the largest states in the union) experienced considerable swings in their growth.

Between 1990 and 1994, Indiana's employment grew by 7.57% and between 1994 and 1998 the state advanced by 7.56%, a swing in the growth rate of a mere -.01%. The nation, however, went from a 4.1% increase to 10.3%, a swing of 6.2% (see Table 2). States larger in size than Indiana (with a greater share of the nation's employment) had large positive swings in their growth between the two periods (see figure 4). California, with more than 11% of the nation's employment in 1990, had a swing of nearly 15% in its growth. Nine other major states (shown in Figure 4) all had positive swings greater than Indiana. Hence, the apparent surge of Indiana between 1990 and 1994 was a relative advantage. When other states got back on course, after the recession of 1990-91, Indiana continued to grow at the same rate and lost the relative ground it had gained.

The State's Strength

Indiana differs from the rest of the nation in its continuing dependence on manufacturing employment (see Figure 5). Manufacturing lost just 1.9% of its share of the state's employment between 1990 and 1998 while that decline was 2.5% at the national level. The difference was more than taken up by services (3.5% in Indiana and 4.2% in the U.S.).

Table 1
Cycles in Personal Income

Cycles	Peak-to-Peak	Quarters		Decline	Recovery	Expansion	Decline from previous peak	New peak over previous peak
	1969:3 to 73:4	17	Indiana	5	2	10	-2.4%	20.5%
			U.S.	0	0	17	0.0%	20.6%
II	1973:4 to 79:1	21	Indiana	6	5	10	-7.5%	11.2%
			U.S.	5	4	12	-3.3%	15.8%
III	1979:1 to 81:3	10	Indiana	5	5*	0	-6.1%	-3.2%
			U.S.	0	0	10	0.0%	5.0%
IV	1981:3 to 90:2	35	Indiana	6	4	26	-8.5%	16.0%
			U.S.	2	5	28	-1.3%	27.3%
V	1990:2 to 99:2	37	Indiana	3	3	31	-1.51%	16.0%
			U.S.	3	4	30	-1.55%	15.5%

*failed to reach previous peak

Figure 3
Changes in Indiana's Non-farm Employment

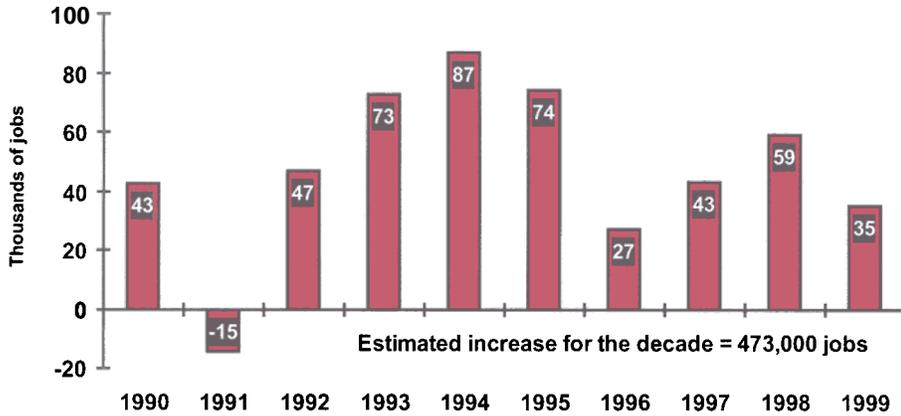


Table 2
Employment Changes in the 1990s

Major Industry	Percent Change in U.S. Employment			Percent Change in Indiana Employment			
	1990 to 1994	1994 to 1998	Swing	1990 to 1994	1994 to 1998	Swing	Rank in U.S.
Total	4.11	10.3	6.2	7.57	7.56	-0.01	38
Mining	-15.08	-1.5	13.58	-16.05	1.22	17.27	15
Construction	-1.66	21.52	23.17	9.25	15.02	5.78	32
Manufacturing	-4.17	2.87	7.05	4.14	2.89	-1.25	37
Durable Goods	-6.12	7.46	13.58	5.13	4.43	-0.7	41
Nondurable Goods	-1.46	-3.22	-1.76	1.76	-0.94	-2.7	24
Transportation & Public Utilities	3.41	10.38	6.97	3.77	4.57	0.81	43
Wholesale Trade	-0.59	10.91	11.5	4.43	8.7	4.27	38
Retail Trade	4.36	8.81	4.45	7.83	6.49	-1.34	39
Finance, Insurance, Real Estate	1.74	8.27	6.52	6.67	7.67	1.01	37
Services	12.84	18.55	5.71	16.56	15.7	-0.86	34
Government	4.14	3.71	-0.43	3.2	2.47	-0.73	28

Figure 4
Relationship Between State Size and Growth Swing

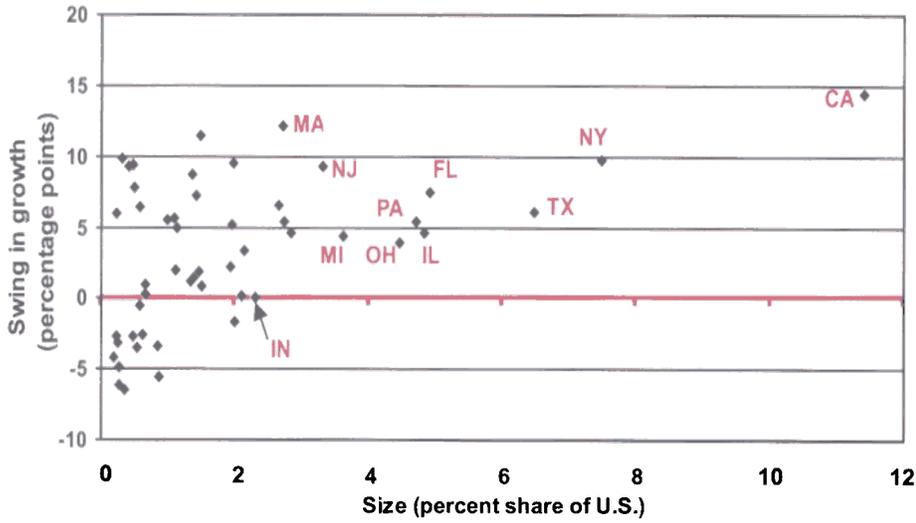


Figure 5
Manufacturing and Service Jobs as a Percent Total of Non-farm Employment

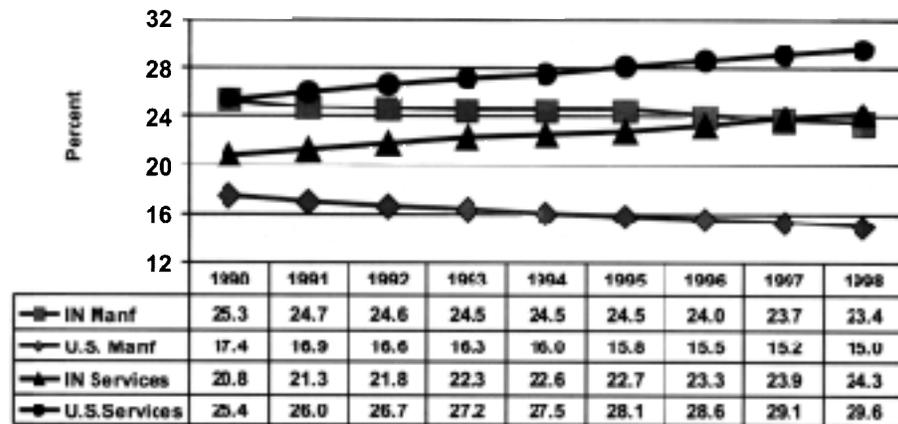


Figure 6
Manufacturing Jobs

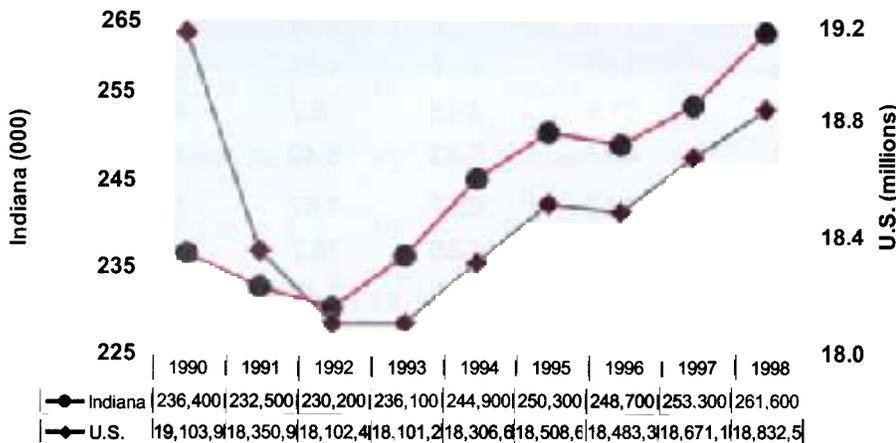


Figure 7
Average Weekly Hours in Manufacturing

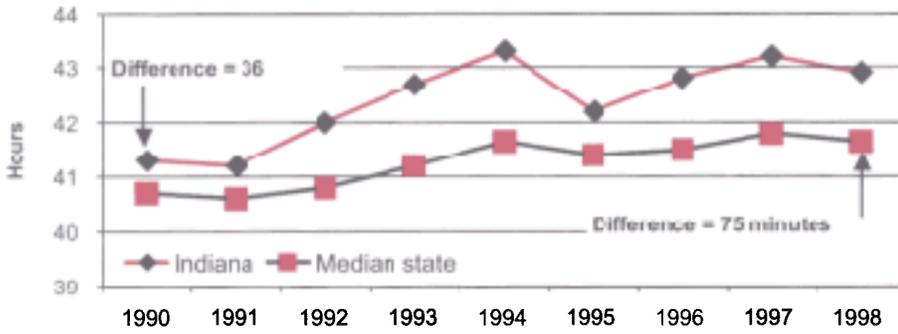


Figure 8
Average Hourly Earnings in Manufacturing

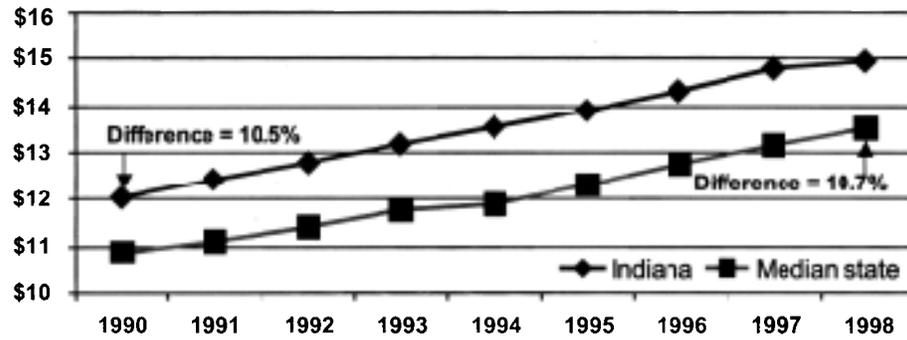
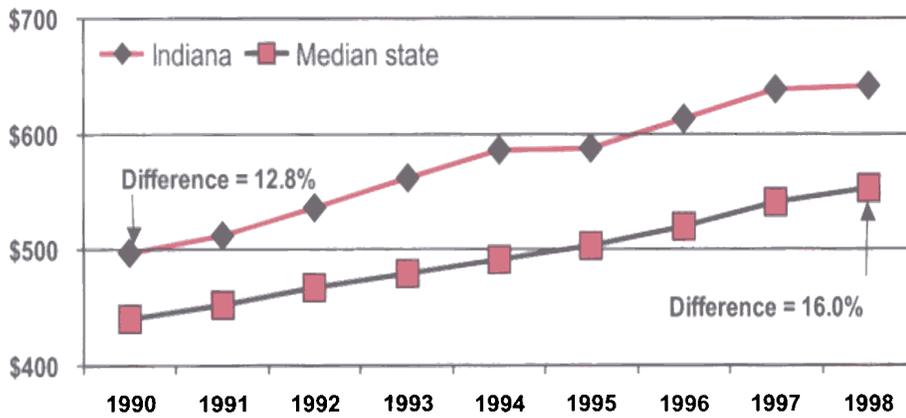


Figure 9
Average Weekly Earnings in Manufacturing



Where Indiana lost some manufacturing jobs in the early years of the decade, it had gained 45,600 such jobs (7.1%) by 1998. The nation, however, lost 271,400 manufacturing jobs between 1990 and 1998 (-1.4%) (see **Figure 6**).

Manufacturing workers have done well in Indiana during the 1990s. Figure 7 reveals that Hoosier manufacturing workers have increasing amounts of overtime work available and that the number of hours worked in Indiana, compared to the median state, is growing. In **Figure 8** and **Figure 9**, we see that Indiana manufacturing workers have increased their lead on manufacturing workers in the median state in average hourly earnings and in average weekly earnings. With employment growing in manufacturing, it is hard to argue that Hoosier workers are pricing themselves out of the market. These increased earnings may reflect increased productivity as a result of capital investment, effective training, and improved management.

Caution should be taken, however, since the higher level of earnings and the growing differential between Indiana and the nation could encourage firms to move their activities to other locations in the future. Thus, the ongoing concern for Indiana in the next few years will remain emphasis on continued improvements in labor productivity in the state's manufacturing productivity as well as an accelerated drive to bring other workers' earnings up to higher levels should some manufacturing jobs be lost.

Concluding Note

The evidence seems to support the idea that Indiana has *not* changed its relationship to the nation during the 1990s. Our relative surge in employment growth during the early years of the '90s was the result of slow growth in other states more than strong advances by Indiana. That may have been a consequence of declines in federal spending on defense following the end of the Cold War. Indiana is known for its consumer goods rather than its military outputs.

Manufacturing continues to be the major player in our state's economic base. The growth of services is not likely to contribute to the state's economic base. Hence, our attention must continue to focus on our existing strengths while we attempt to expand that base with new goods and services that will attract buyers from domestic and international markets alike.

Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University, Indianapolis

The Indianapolis metropolitan (nine-county) economy will continue to grow in 2000 at a rate that is strong compared to the Midwest region but somewhat less than the national rate. The employment growth will be moderate—increasing 10,000 to 15,000 jobs. In 1999, the high rate of growth in consumer spending was a major source of strength nationally and locally. Is it sustainable?

In 1998 and part of 1999, consumer spending was very strong due to wealth gains from the stock and real estate markets, reduced prices for energy and imports, stable health care costs, and reduced monthly mortgage payments due to refinancing. National consumer spending will not be as strong in 2000. The reduced rate of spending will affect spending on cars/trucks. In 1999 in Indianapolis, construction and motor vehicle employment were engines of growth, but will make lesser contributions in 2000.

Exports nationally are expected to be stronger in 2000 and will benefit local firms. However, the data on exports are based on the zip code of the reporting unit, usually the marketing group at the corporate headquarters. An Indianapolis firm may have plants located in other parts of the country. Therefore, the positive production and employment effects arising from increased exports may occur elsewhere than Indianapolis—the reporting location of the exports. Expanding exports should offset some of the slowing consumer durables spending.

Entrepreneurial Momentum

As Indianapolis enters the 21st century, a high-tech initiative has been launched. In a national ranking, Indianapolis was ranked number 1 in entrepreneurship in the Midwest. Under former Mayor Goldsmith's initiative, a Central Indiana Technology Partnership was developed. The Lilly Endowment made a grant of \$29.9 million to the Indiana University Foundation for research in fundamental information technologies. Three research laboratories will be established in Indianapolis based on this grant. Central Indiana institutions and firms expect to be well-represented in the competition for the Indiana General Assembly \$50 million 21st Century Research and Technology Fund.

Indianapolis has been known as the crossroads of America with its many interstate highways passing through. Now, it is the crossroads of America in