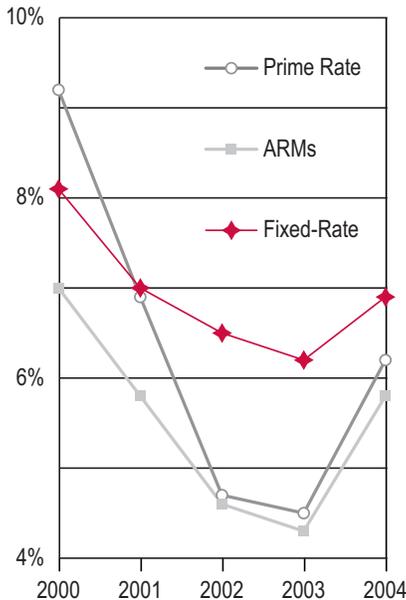


# Indiana

Morton J. Marcus

Executive Director, Indiana Business Research Center, Kelley School of Business, Indiana University, Bloomington, Indianapolis, and Gary

**Figure 1**  
Average Mortgage Rates



increases in median existing home prices in many metropolitan areas. In the Midwest, the median resale home price rose 5.6 percent during 2002. This strong rise in some areas of the country spurred some talk about whether a "housing bubble" was developing, but most economists do not think this is the case. However, price appreciation should return to normal patterns during 2003, rising at one or two points faster than the general rate of inflation.

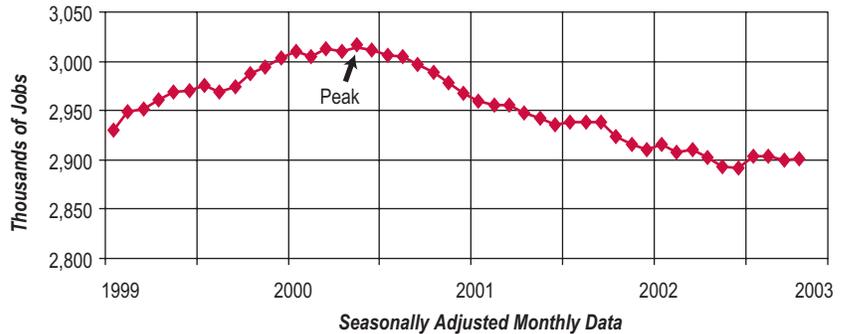
Apartment rental rates have been falling and vacancy rates rising, due in large extent to low interest rates. This has allowed more new home buyers, who would not have qualified at the higher interest rates of previous years, to qualify for a mortgage. Despite the weaker fundamentals for apartments, investor demand for apartments has been extremely strong during the past year as investors have considered real estate an attractive alternative to stock and bond investments and increased their allocations to real estate. This has increased prices for apartments, despite falling rents and rising vacancy rates. Assuming the stock market improves during 2003, the demand for apartments may drop off, although there appears to be a renewed appreciation for the role that real estate can provide in diversifying an investor's portfolio. ◀

Old truths seem to have been verified again. Indiana went into the recent recession before the rest of the nation and has had a harder time emerging from the recession than other states.

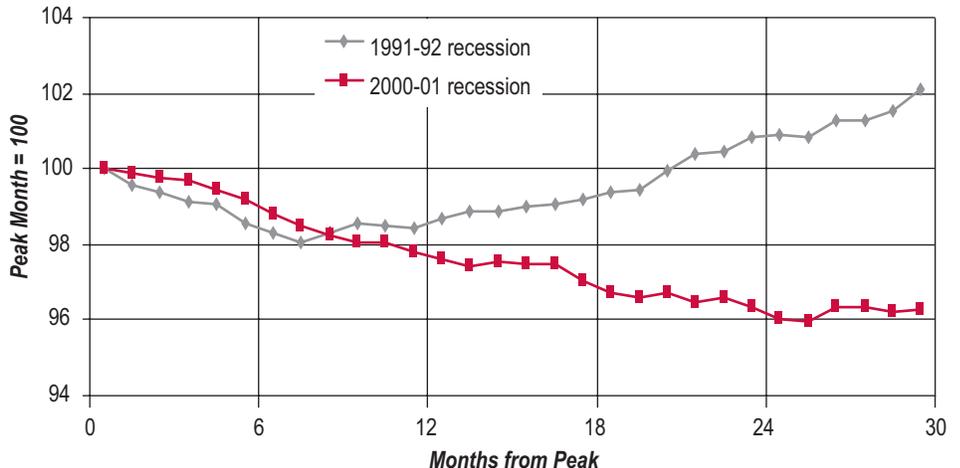
In May 2000, Indiana reached its employment peak at 3,013,700 jobs (see **Figure 1**). The low for this business cycle was in June 2002 at 2,891,400, a decline of 122,300 jobs or 4.1 percent. During the same twenty-five-month period, the nation lost only 0.9 percent of its jobs. As of October 2002, Indiana's employment was 112,600 (3.7 percent) below the peak of May 2000.

The recession of 2000–01 seemed very similar to the recession of 1991–92 when it started (see **Figure 2**). Seven months from the prior employment peak both cycles were down 2.0 percent to 2.5 percent in jobs. But, where the 1991–92 cycle began to reverse and head up from the eighth month onward, the more recent cycle has continued down. By the twentieth month, the 1990–91 cycle had reached the recovery point, where the number of jobs were once again at the previous peak. After twenty-nine months, this recession remains 122,600 jobs below the prior peak.

**Figure 1**  
Indiana's Total Non-Farm Employment



**Figure 2**  
Indiana's Total Non-Farm Employment in Two Recessions



During 1999 and the first few months of 2000, employment growth in Indiana and the U.S. seemed to be identical. But as the nation continued to expand jobs, Indiana's growth slowed and began to decline in mid-2000 (see **Figure 3**). When national employment topped out in March 2001, Indiana had been in decline for ten months. The nation reached its low point in jobs in April 2002, with Indiana's low being recorded two months later in June.

The Indiana and U.S. economies were advancing harmoniously in 1999. In the first quarter of 2000, that pattern came apart. From January 2000 to October 2002 Indiana's employment declined by 3.6 percent while the nation's employment crept up a miniscule 0.1 percent. **Table 1** shows the changes for each major industrial sector.

### Why Did Indiana Diverge from The Nation So Sharply?

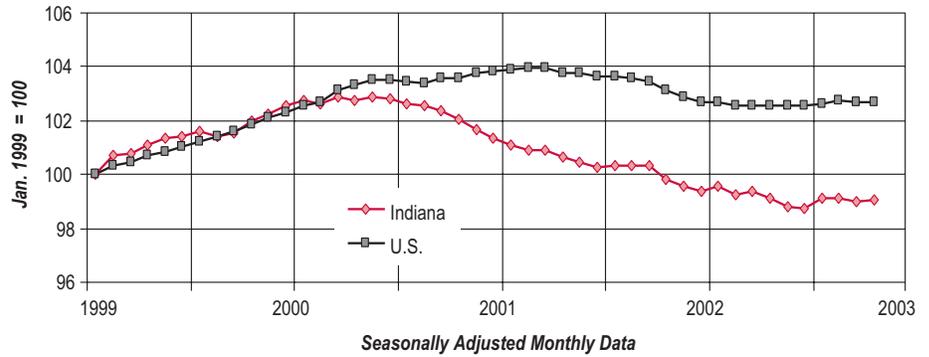
The problem was not particularly in manufacturing. Although Indiana's manufacturing firms lost nearly 77,000 jobs during this thirty-four-month period, this was consistent with Indiana's share of U.S. manufacturing employment. (Indiana had 3.8 percent of the nation's manufacturing jobs in January 2000 and 4 percent of the decline in manufacturing jobs.) **Figure 4** shows that Indiana's manufacturing employment may have led the nation in decline, but lately it has been advancing relative to the nation, and the two are almost at parity.

The divergence of Indiana from the nation seems to be more secular than cyclical. Consider **Figure 5**. Here manufacturing and retail trade are contrasted. The index difference is the vertical distance between the Indiana index and the U.S. index. It is easy to see that manufacturing in Indiana declined before the nation, but the difference has been decreasing. The same appeared to be the case with retail trade through March 2002. Then retail trade in Indiana began to diverge from the nation once again.

A similar pattern is found in **Figure 6**, where the finance, insurance, and real estate sector is shown along with the services sector. Indiana fails to keep pace with the nation throughout the period and is on a clear downward trend relative to the nation.

Thus, Indiana's problems over the past two years have been a recession manifested

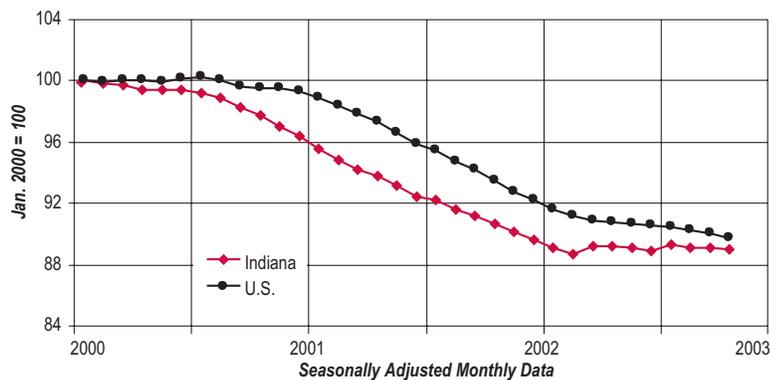
**Figure 3**  
U.S. and Indiana Total Non-Farm Employment



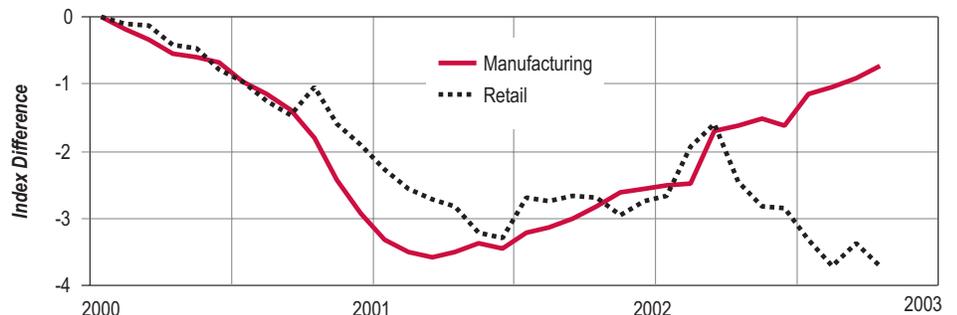
**Table 1**  
Changes in Sector Employment

Employment in Thousands of Jobs	United States		Indiana		Change		Percent Change	
	Jan '00	Oct '02	Jan '00	Oct '02	U.S.	Indiana	U.S.	Indiana
Total	130,728	130,895	3,010.2	2,901.1	167	(109.1)	0.1%	-3.6%
Construction & Mining	7,181	7,093	160.6	149.5	(88)	(11.1)	-1.2%	-6.9%
Manufacturing	18,503	16,602	695.3	618.7	(1,901)	(76.6)	-10.3%	-11.0%
Transportation & Public Utilities	6,952	6,726	149.2	140.8	(226)	(8.4)	-3.3%	-5.6%
Wholesale Trade	6,973	6,652	146.6	138.2	(321)	(8.4)	-4.6%	-5.7%
Retail Trade	23,174	23,298	561.9	544.0	124	(17.9)	0.5%	-3.2%
Finance, Insurance & Real Estate	7,572	7,803	141.8	140.3	231	(1.5)	3.1%	-1.1%
Services	39,922	41,404	744.0	753.0	1,482	9.0	3.7%	1.2%
Federal, State & Local Government	20,451	21,317	410.8	416.6	866	5.8	4.2%	1.4%

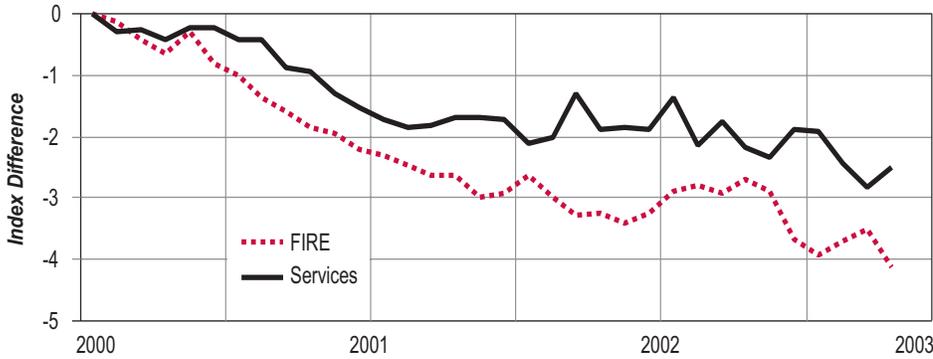
**Figure 4**  
U.S. and Indiana Manufacturing Employment



**Figure 5**  
Indiana Compared to the Nation



**Figure 6**  
Indiana Compared to the Nation

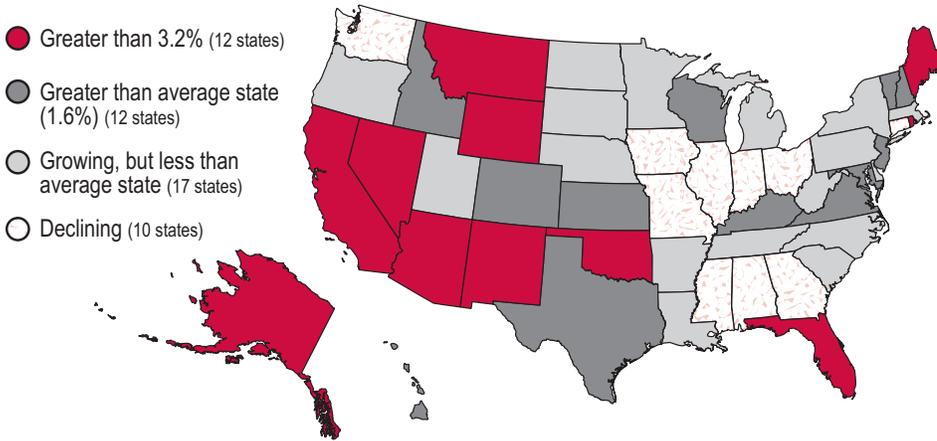


in the manufacturing sector and an ongoing relative decline in finance, insurance, real estate, retail trade, and services. Some of this is related to the loss of headquarters activities and some to slower population growth than is being experienced nationwide.

**How Bad Is Indiana's Economy Compared to Other States?**

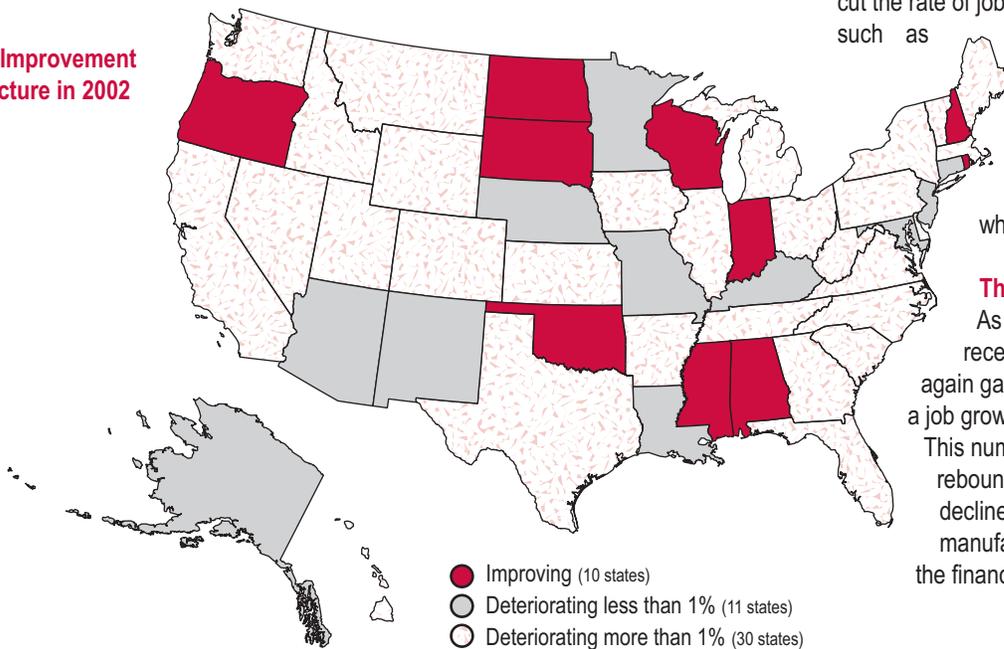
Between September 1999 and the same month in 2000, only Mississippi lost jobs. Alabama that year had a 0.2 percent growth and ranked forty-ninth in the nation. Indiana ranked forty-eighth in job growth with a 0.8 percent increase. The next year, from September 2000 to September 2001, Indiana ranked fiftieth in the nation with a 2.2 percent decline in number of jobs. In the most recent year, September 2001 to September 2002, Indiana lost jobs at a 1.3 percent rate, which was twenty-eighth in the nation. For the past three years combined, Indiana has a combined job loss percentage of 2.7 percent, ranking forty-ninth in the nation between Missouri and last place Mississippi.

**Figure 7**  
Change in Employment, 2000–2002



**Figure 7** shows Indiana among the ten states with declining employment over the past three years. **Figure 8** is designed for those who need to see the more pleasant side of our difficulties. Here Indiana is shown as one of ten states with an improvement in their job picture during 2002. Although the Hoosier state did not gain jobs, it cut the rate of job losses. Other states, such as Nevada, Wyoming, and Rhode Island, continued to increase the number of jobs, but at a decreasing rate. Sometimes we take whatever joy is to be taken.

**Figure 8**  
States with an Improvement in Their Job Picture in 2002



**The Year Ahead**  
As the nation emerges from the recession, Indiana should once again gain jobs. We are forecasting a job growth of 30,000 during 2003. This number is based on a cyclical rebound subdued by the secular decline in employment in manufacturing, public utilities, and the financial sectors. ◀