

Gary

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Let's assume 5,000 of the 15,000 area manufacturing jobs lost return over the next two years; that's 2,500 jobs a year.

During normal times, the Fort Wayne area economy has been generating approximately 2,500 nonmanufacturing jobs yearly.

For 2004, these assumptions yield a forecasted increase of 5,000 jobs, or approximately a 2 percent increase in employment ending in December. This is the most optimistic end of the forecast range. One percent, or 2,500 jobs, is the pessimistic end.

Over the longer run, the capacity of the Fort Wayne area to grow employment is likely about half that of the nation. This is based on the area's relative dominance in the slow growth manufacturing sector⁴ and its relatively low population growth. ◀

Endnotes

1. Adams, Allen, DeKalb, Huntington, Wells, and Whitley counties.
2. Actually, they are wrong. Recovery from the 1990–91 recession was job-less. Recovery from the 2001 recession has been job-loss.
3. Erica L. Goshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?," *Current Issues in Economics and Finance* 9 (August 2003).
4. Actually, the argument above is that the secular trend is for decreased manufacturing employment.

Employment in the northwest Indiana economy (Lake and Porter counties) has remained fairly constant during 2003 (252,100 in January and 252,400 in September), a development comparable to the nation as a whole. Nonetheless, the local economy experienced a sharper decline during the most recent recession, with an employment decline of about 8 percent from the cyclical peak in the fourth quarter of 2000 (compared with a decline in total U.S. employment of about 1.5 percent to 2 percent from the cyclical peak, also in the fourth quarter of 2000).

The projected rapid growth in the national economy, which, given the continuing robust increases in productivity, is likely to produce only modest gains in employment (or reductions in unemployment), will likely lead to some expansion in the local economy as well. However, here that expansion will occur almost, if not entirely, as output, not employment growth. It seems unlikely that local employment will increase noticeably or that the local unemployment rate will fall.

Output and Employment

Establishment employment in northwest Indiana has shown considerable volatility

over the past thirteen years (see **Figure 1**), but little long-term growth (employment at the end of 1990 was about 250,000, compared with 252,400 in September 2003). Household employment has shown somewhat more growth (rising from about 270,000 in early 1993 to about 284,000 in September 2003).¹ **Figure 2** provides a comparison between northwest Indiana and the nation, in terms of growth in total employment. Clearly, employment in northwest Indiana has been much more volatile throughout the 1991 to 2003 period than has employment nationally. Equally clear, growth in employment nationally has been much more rapid, totaling more than 20 percent during this period, compared with less than 5 percent growth in local employment.

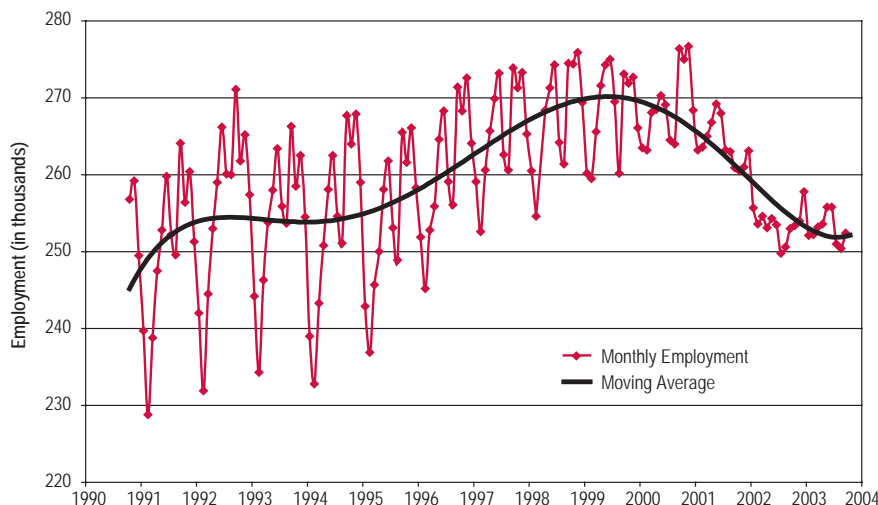
Both for the nation and the local economy, output growth has been considerably more rapid than has employment growth. Productivity growth has averaged more than 2 percent per year nationally over the past twelve years, and has averaged more than 5 percent per year for the past two years. As a consequence, total real output (GDP) nationally has increased by about 46 percent in the past thirteen years. Assuming that productivity growth in northwest Indiana has kept pace with the national trends, this suggests that total local output has increased by about 30 percent over the past thirteen years.²

If the relationship between national and local growth remains as it has apparently been in the past, 4 percent growth in output nationally would suggest 2.6 percent growth in output in northwest Indiana. If productivity growth (nationally and locally) averages 3 percent over the next year, total local employment would be projected to fall by about 0.45 percent, or from about 252,400 (September 2003) to about 251,300 (September 2004).

The Manufacturing Sector

Manufacturing, both locally and nationally, continues its long, slow decline in employment (although not in output), as

Figure 1
Total Employment in Northwest Indiana



shown in Figure 3. In 1991, manufacturing accounted for about 22 percent of total employment in northwest Indiana (and about 16 percent nationally). Today, manufacturing accounts for only 16 percent of local employment and about 11 percent of national employment. Manufacturing employment has declined in northwest Indiana at an average annual rate of 3 percent between 1991 and 2003 (the decline nationally has averaged 1.2 percent per year). Nationally, manufacturing productivity has increased at an average annual rate of 3.7 percent. This suggests a growth in local manufacturing output of about 0.7 percent per year (and 2.5 percent nationally). Assuming a continuation of these growth rates, we would expect manufacturing employment to decline by about 3 percent locally over the next year, falling from 38,600 (September 2003) to about 37,400 by September 2004.

Steel

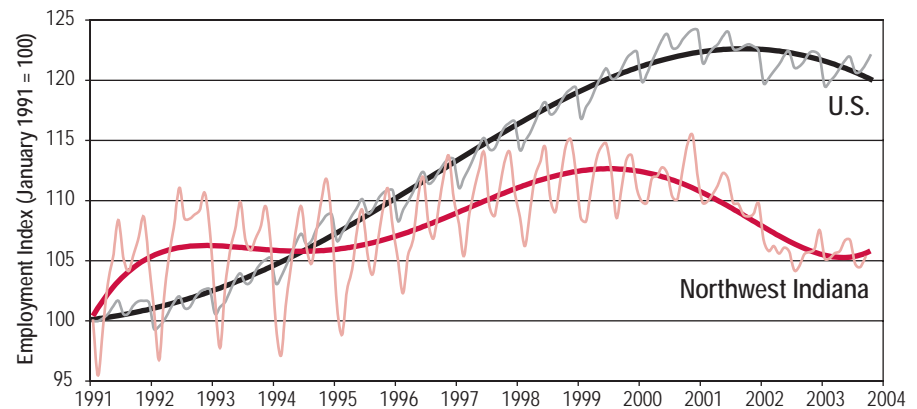
Locally, the decline in employment in the steel industry has been even more precipitate than in manufacturing generally, falling by an average of 4.2 percent per year since 1991. This decline was accelerated by the sale of LTV to ISG and the recent consolidations involving ISG and Bethlehem and, separately, USX and National. (The national decline in steel employment has exceeded that locally, with employment falling at a 4.8 percent annual rate.)

Productivity growth in the steel industry nationally has averaged 3.6 percent per year since 1991, suggesting an output decrease nationally that has averaged about 1.2 percent per year. Local steel output has been roughly constant over the last twelve years, suggesting that productivity has increased slightly more rapidly locally than it has nationally.

Steel output may rise little in the coming year, however. The outlook for steel depends on a number of factors, which are difficult to gauge:

- ▶ First, developments in the automobile industry (and durable goods generally) will matter greatly. The auto industry has experienced a run of very strong years of sales that may not continue. Durable goods production and sales, however, usually recover more strongly

Figure 2
Change in Total Employment in the U.S. and Northwest Indiana, 1991 to 2003



than the economy as a whole, so there may be grounds for optimism.

- ▶ Second, changes in fixed investment, particularly in construction and machinery, will matter. Recent changes in real output in these sectors suggest that they may grow more rapidly than the overall national economy.
- ▶ Third, domestic production of steel will depend on developments in the international economy and any changes that may occur in U.S. trade policy. It is not clear at the time of this writing whether the selective tariffs on steel will continue. What is clear, however, is that after a brief (and substantial) reduction in 2001, steel imports have recovered to about the same level as before the imposition of tariffs. Furthermore, the U.S. faces potential World Trade Organization sanctions if we continue with these tariffs.

This all combines to suggest that growth in steel output will be modest at best. If steel output grows 1 percent in 2004, and if productivity growth continues at its historic rate, then we might expect a decline in steel employment in northwest Indiana of about 2.5 percent, down to 18,400 in September 2004 from 18,900 in September 2003.

The Services Sector

Growth in employment in services has, over the past twelve years, provided the only bright spot in employment, growing at an annual rate of nearly 1 percent. This is "bright" only

by contrast with the rest of the local economy, however (since service employment nationally has grown by slightly more than 2 percent per year since 1991). Within the services sector, the leading industries locally have been in finance, insurance, and real estate (up from 10,700 in October 1990 to 13,800 in August 2003, a growth of about 2 percent per year) and health services (up at an average annual rate of about 2.3 percent per year, from 23,500 in October 1990 to 31,900 in August 2003). A continuation of this growth in services will add a little over two thousand jobs locally—not nearly enough to offset the employment declines in manufacturing.

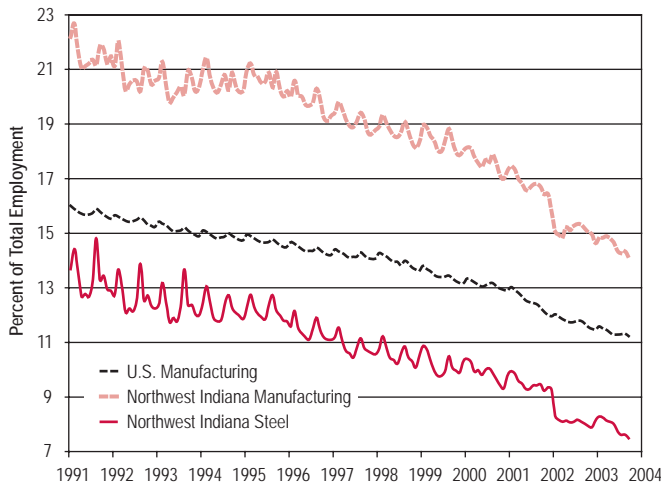
It should be noted, however, that the growth sectors in services are generally high-wage sectors, so this shift will not reflect a shift from high-paying manufacturing jobs to low-paying service jobs, but rather a shift to jobs in which people apparently earn even more than the average in manufacturing.

The Labor Market

In the past three years, the local labor market has experienced a rapid increase in unemployment beginning in late 2000, a peak in early 2002 of nearly 8 percent, and a subsequent decline to 6 percent in August 2003³ (see Figure 4). Local labor markets are notoriously volatile, and forecasting unemployment rates, in particular, is difficult.

Labor market conditions will be determined not only by growth in local employment, but also by the extent of employment opportunities in surrounding communities, especially in Chicago and its southern

Figure 3
Manufacturing Employment as a Percent of Total Employment



suburbs (strength in La Porte County would also benefit people living in Lake and Porter counties). The Chicago region seems poised to grow at a pace mirroring the national economy. This does not, however, suggest rapid employment growth on the Indiana side of the border. In La Porte County, household employment has decreased by about 0.5 percent between September 2002 and September 2003, a loss of about three hundred jobs.⁴ This clearly does not suggest that establishment employment growth in La Porte County has been robust. Combined with the changes in Jasper, Newton, Pulaski, and Starke counties, this does not suggest that changes in the Lake/Porter County labor markets will be driven by favorable changes in the surrounding counties.

An additional factor to consider in the labor market is the growth in the labor force, which is largely a reflection of growth in the working age population. Between 1990 and 2000, the labor force in northwest Indiana grew at an average annual rate of 0.75 percent (0.45 percent in Lake and 1.75 percent in Porter), compared with 1.1 percent per year growth in the labor force nationally. It seems plausible to expect that the labor force in northwest Indiana will continue to grow slowly.

A labor force that is growing slowly has advantages and disadvantages for the labor market developments. The advantage is that even relatively slow employment growth will be consistent with a stable or declining unemployment rate.

The major disadvantage is that a slowly growing labor force will not attract new businesses locating (or relocating) new facilities from outside the region.

If the local labor force continues to grow by about 0.75 percent over the next year, and if household employment tracks with establishment employment (a loss of about 0.45 percent), we would expect a slightly rising unemployment rate, from 6 percent in August 2003 to about 7 percent in August 2004.

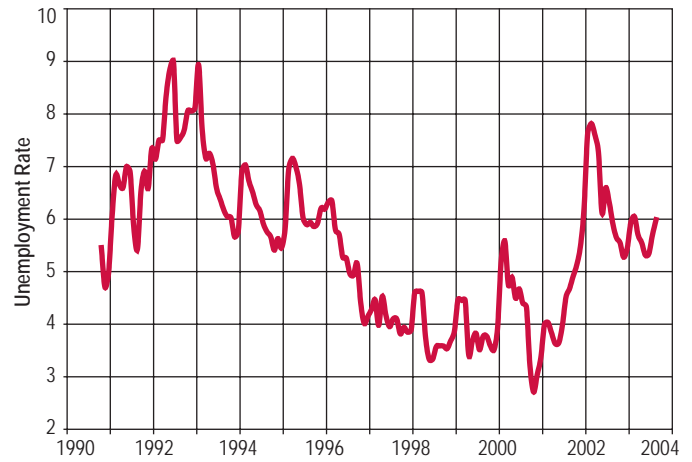
Conclusions

The local economy will continue its pattern of slower growth in output and employment than the national and state economies for yet another year. While total local output may be expected to rise by about 2.6 percent, this is likely to translate into a small employment decline. Manufacturing and steel will continue to experience declining employment, even with the possibility of small output growth. As a consequence, it seems likely that the local unemployment rate will rise slightly in the coming year. ◀

Endnotes

1. Establishment employment provides an estimate of employment at firms, organizations, and government agencies located in Lake and Porter counties. Household employment estimates the number of people living in Lake and Porter counties who have jobs, regardless of where those jobs are located. The household employment figures were substantially revised in early 1993 and earlier estimates are not comparable. (In addition, the household employment

Figure 4
Unemployment Rates for Northwest Indiana, 1990 to 2003



estimates are subject to larger ongoing adjustments, so short-term changes in household employment may provide little guidance to developments in the local economy.) Establishment employment is the better guide to the output being produced locally, while household employment may be a better guide to the economic wellbeing of residents.

2. Total real personal income in Indiana grew by about 24 percent between 1991 and 1999, the last year for which data are currently available from the U.S. Bureau of Economic Analysis. Estimates of real personal income for Lake and Porter counties are harder to find.
3. It is necessary to exercise caution in using and interpreting local (small-area) unemployment rates. These estimates are not survey based and can be subject to large revisions as additional data become available and, in particular, when annual benchmarking revisions are done.
4. Household employment in Jasper, Newton, Pulaski, and Starke counties combined grew by only slightly over a thousand jobs, and some of that may represent migration out of Lake and Porter counties, not establishment employment growth in excess of that in Lake and Porter counties. In short, the outlying counties in northwest Indiana do not seem likely to provide a strong base for regional employment growth in the coming year.