

# Indiana

million starts (single and multi-family). While a rise in interest rates will dampen housing starts, the continued economic recovery should offset this. And assuming the stock market continues to rise, consumers will feel wealthier and thus more willing to purchase a first home or buy a larger home. Younger people who have been renting or “doubling up” with their parents will be more inclined to purchase a home as the economy improves, and any increase in job growth will be positive for home sales. **Table 1** summarizes the housing and interest rate forecast from the National Association of Homebuilders ([www.nahb.org](http://www.nahb.org)).

The increasing rate of homeownership has taken somewhat of a toll on multi-family housing. The result is declining rental rates and rising vacancy rates as people switch from renting to owning. Yet despite the weakening fundamentals for multi-family housing, investors have put a huge influx of capital into this market, rediscovering the benefits of diversifying their portfolio with real estate. Large institutional investors have bid up the price of real estate to record levels compared to their income. Investors are willing to purchase apartments at much lower rates of return than previously, due to lower return expectations for all asset classes, as well as low interest rates, allowing investors to get very favorable financing. ◀

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**A**fter a long period of uncertainty fed by mixed economic signals, more and more economists are dancing to the tune that the jobless recovery of the U.S. economy is finally turning around. In Indiana, however, clear support for a change in the song’s key from minor to major has yet to emerge.

From its May 2000 peak at 3,014,400, total employment in Indiana has fallen by 5.1 percent (154,600 jobs) to 2,859,800 in September 2003. As shown in **Figure 1**, employment at the national level continued to grow for nearly a year after Indiana employment began its downhill slide; since Indiana’s peak, U.S. jobs have declined by only 1.4 percent. Moreover, in the past fourteen months, national employment has been relatively flat, slipping by only 0.2

percent, while Indiana’s payrolls have shrunk an additional 1.6 percent.

## Losers and Gainers

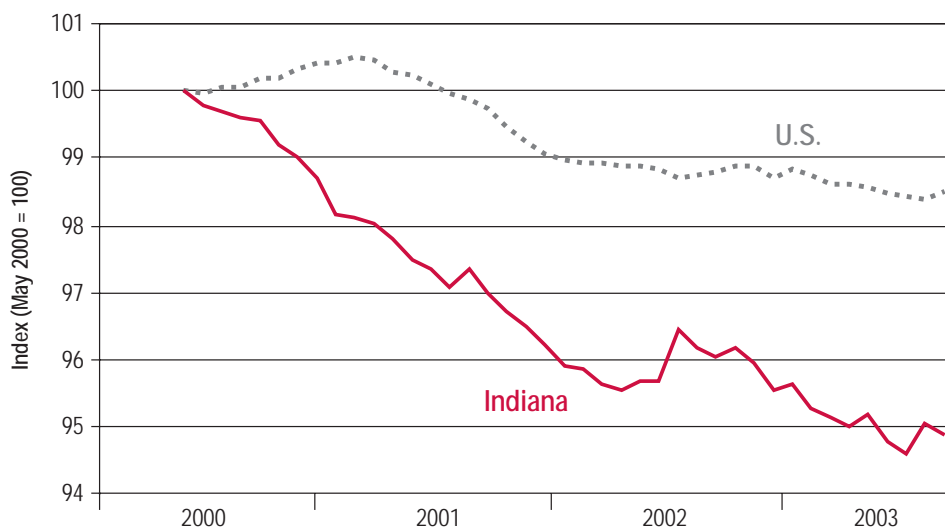
The largest portion (61.3 percent) of the jobs lost since Indiana’s employment peak has been in manufacturing—a drop of nearly ninety-five thousand jobs. The manufacturing sector now accounts for 20 percent of all nonfarm jobs in Indiana, down from more than 22 percent in early 2000. Two factors are largely responsible for this shrinkage: manufacturers moving production to places where labor is cheaper (largely overseas) and improvements in productivity. Although much attention has been paid to the outsourcing issue, significant increases in productivity have enabled many factories to hold, or even increase, production volumes without having to replace laid-off workers. In this environment, substantial growth in Indiana factory payrolls is unlikely in the short term.

As shown in **Figure 2**, other sectors losing substantial numbers of jobs include professional and business services (21,600 jobs, or 14.0 percent of the total decline since May 2000) and retail trade (19,800 jobs, or 12.3 percent). Both losses reflect the general impact of a sluggish economy, as businesses and consumers cut out discretionary spending when money and jobs are scarce. On the bright side, employment in educational and health services has actually increased by 17,300 jobs during Indiana’s general employment downturn; this sector now accounts for 12.2 percent of all Hoosier jobs. Government was another sector showing significant growth during this period, adding a total of 3,100 workers to payrolls that now account for 14.7 percent of all jobs in the state.

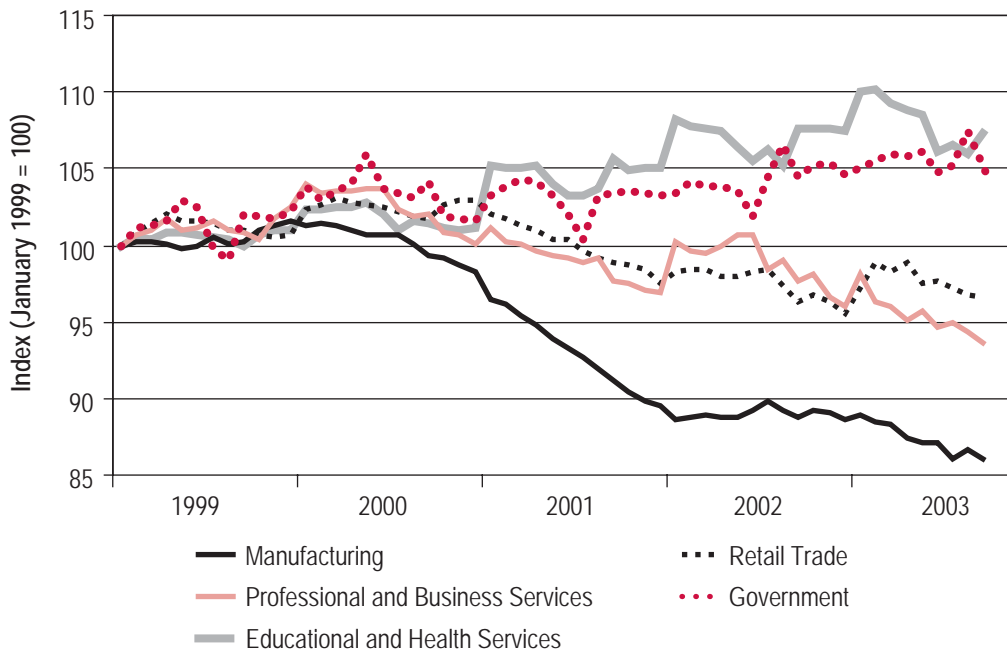
## It’s All Relative

As **Figure 3** reveals, Indiana ranks near the bottom of the nation in job growth the last two and a half years, with a 5.1 percent loss since the state’s employment peaked. Only Michigan lost a larger percentage of its workers, and only four states (Michigan, Ohio, New York, and Illinois) lost larger numbers of workers during this period. On average, employment throughout the nation shrank by 1.4 percent, with losers outnumbering gainers about three to two.

**Figure 1**  
Relative Change in U.S. and Indiana Employment, May 2000 to September 2003



**Figure 2**  
Key Sectors in Indiana's Nonfarm Employment, January 1999 to September 2003



*As the national economy picks up steam in the year ahead, Indiana should see a modest upturn before the year is out, with a 1 percent increase in employment, or roughly twenty-eight thousand jobs.*

**Indiana's Outlook for 2004**

As the national economy picks up steam in the year ahead, Indiana should see a modest upturn before the year is out. Indiana entered the most recent recession before the rest of the nation, and it is taking its time climbing out.

Several factors lead to the forecast of only modest improvement in the Hoosier economy. Growth in auto sales nationally, which drive large portions of Indiana's manufacturing activity, may level off from its frenetic pace of the past year. Similarly, home sales (another big driver of the economy) are expected to grow at a more moderate pace, since interest rates may rise slightly and much of the formerly latent demand for housing has been filled. Markets abroad are not expected to pump much life into sales of Indiana companies, and the state's own population is growing slowly.

In light of these considerations, we forecast an increase of only about 1 percent, or roughly twenty-eight thousand jobs, in Indiana employment. The unemployment rate is projected to decline slightly from its current seasonally adjusted level of 5.2 percent, approaching the long-term average of 4.6 percent by the end of 2004. ◀

**Figure 3**  
Percent Change in Jobs, May 2000 to September 2003

