

# Indianapolis-Carmel

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The following data and forecasts refer to the entire Indianapolis-Carmel Metropolitan Statistical Area (MSA), which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby counties. Unless otherwise noted, data comes from STATS Indiana at [www.stats.indiana.edu](http://www.stats.indiana.edu).

## Income

Between the first quarters of 2006 and 2007, income growth slowed significantly. Annual growth in real average weekly compensation in the Indianapolis-Carmel metro area decelerated from 5.1 percent to 0.8 percent. The average manufacturing worker saw take-home wages shrink 0.7 percent in real terms. Overall, compensation data suggest a 2.2 percent real growth rate in the local economy. This is down from 6.6 percent over the same period last year and lags the 3 percent growth in real gross domestic product (GDP) posted by the U.S. economy as a whole.<sup>1</sup>

Previously established momentum in the Indianapolis region's income growth disappeared between 2006 and 2007. The city has returned to its traditional status of a lagging economic performer. The city lacks the critical mass of a high income industry required to make it competitive with other metropolitan areas across the nation.

## Employment

Last year, employment in the Indianapolis-Carmel MSA shrank at an unprecedented rate. Between September 2006 and September 2007, total employment fell by 1.1 percent, as measured by the U.S. Bureau of Labor Statistics. This is a dramatic reversal of the 2.4 percent annual growth rate witnessed between

September 2004 and September 2006. Indianapolis-Carmel metro employment has fallen only one other time since 1990. Jobs fell by 0.7 percent between September 1990 and September 1991 during the First Gulf War recession. Employment contraction in Indiana outpaced the Indianapolis region with a -1.6 percent rate between 2006 and 2007. Over the same period, employment nationwide grew by 1 percent. Construction, manufacturing, real estate, retail trade, and entertainment are industries that account for most of the employment contraction in the Indianapolis-Carmel MSA.

Ironically, local unemployment fell from 4.1 percent to 3.7 percent while the national rate increased from 4.4 percent to 4.5 percent. The unemployment rate fell even though the number of jobs shrank because of even larger shrinkage in the labor force. The labor force is the number of people of working age that have a job or seek a job. This number shrank by 1.5 percent between 2006 and 2007—a contraction that is also the largest for this variable since 1990. The state labor force shrank by an even bigger 2.1 percent. The national labor force grew by 1.2 percent.<sup>2</sup>

Higher relative rates of retirement and out-of-state migration best explain these shifts in the labor force. Shrinkage of the working population and the loss of skilled talent to jobs in other cities handicap long-term growth prospects for the Indianapolis area economy.

## Real Estate

The Indianapolis-Carmel metro felt the nationwide retrenchment in real estate this past year. Over the last twelve months, the median price of homes fell 3.5 percent and the inventory of unsold homes rose 6.1 percent. Inventory peaked three

months ago, signaling a possible recovery in the market that will be slow.<sup>3</sup>

## Forecast

The Indianapolis region economy will inch forward in a lackluster way in 2008.

- A weak dollar will help local manufacturers export more products.
- The housing market will bottom out and begin to grow in tiny spurts.
- A local low cost-of-living will help attract outside businesses.
- Real growth in the local economy will be between 1 percent and 1.5 percent, a pace that will lag forecasted national growth of 2.5 percent.
- Consistent with its local “yo-yo” pattern, employment will reverse its downward trajectory and grow between 1.5 percent and 2 percent.

Unimpressive growth will keep the Indianapolis region economy afloat, but the Indianapolis-Carmel MSA will fall further behind other metropolitan areas because of its under-supply of college-educated workers. ■

## Notes

1. Wage statistics come from the Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW) database supplied by STATS Indiana. Nominal wages are converted to real wages using the Consumer Price Index values supplied by the Bureau of Labor Statistics. Data on U.S. GDP come from the Bureau of Economic Analysis.
2. Aggregate Indianapolis employment data are derived from labor force statistics supplied by STATS Indiana. Industry level insights come from the QCEW database.
3. Indianapolis housing market data sourced from [www.housingtracker.net](http://www.housingtracker.net).