- Between 2001 and 2008, the average annual wage for all jobs grew 15 percent in the Fort Wayne region, 21 percent in the state of Indiana, and 26 percent in the nation. In 2008, the average employee in the Fort Wayne region made 79 percent of the U.S. average annual wage. The potential loss of approximately 1,000 Navistar jobs to the region should their Fort Wayne Design Center relocate to Illinois would only exacerbate this issue.
- Between 2001 and 2008 the growth in GDP for all U.S. metropolitan areas was 17.4 percent after adjusting for inflation. The comparable rate of GDP growth in the Fort Wayne Metropolitan Statistical Area was 7.1 percent. Only the Anderson, Kokomo, and Muncie MSAs had slower GDP growth than did the Fort Wayne MSA over this period.

In many respects, the real issue of concern for northeast Indiana is not the impact of the current recession, but the longer-term trends that we have, to date, been unable to reverse.

## Notes

1. Based on U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages data.
2. For a more complete discussion of these factors, see the minutes of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System joint meeting on September 22 and 23, 2009.
3. William A. Strauss and Emily A. Engel, "Economy to turn corner in 2010," Chicago Fed Letter, August 2009.
4. Based on U.S. Bureau of Labor Statistics Current Employment Statistics data.
5. Based on U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages data.

# Gary Forecast 2010

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We now know that by the time we prepared our forecasts last year, the national economy had been in a recession for nearly a year.[1] It seems likely that as we prepare our forecasts for the coming year, the economy has bottomed out and the recovery has begun. The recession was somewhat more severe than we projected, and many economists see a repeat of the recoveries that occurred following the 1991 and 2001 recessions, with growth in output substantially exceeding the growth in employment. In fact, if the third quarter gross domestic product (GDP) figures hold up following revisions, we can already see that the recovery in output this year

**Table 1: Employment Gains and Losses Following Economic Recessions for Selected Sectors in Northwest Indiana**

| Sector | Percent Change since 2008 | Percent Change since 2007 Recession | Percent Change after 2001 Recession* | Percent Change after 1991 Recession* |
|---|---|---|---|---|
| Total Establishment Employment | -4.8 | -3.4 | -2.8 | 2.5 |
| Total Household Employment | -2.1 | -5.2 | -3.7 | 3.3 |
| Goods Production | -9.1 | -9.6 | -11.1 | 4.9 |
| Construction | -17.5 | -19.0 | -14.5 | 5.3 |
| Manufacturing | -4.7 | -4.4 | -9.6 | 4.7 |
| Durable Goods | -6.2 | -5.6 | -7.2 | -0.2 |
| Primary Metals | -2.6 | 0.5 | -7.1 | -2.2 |
| Iron and Steel Mills | 2.3 | 5.2 | -8.7 | -2.0 |
| Wholesale Trade | 0.0 | 1.0 | -8.3 | 4.3 |
| Retail Trade | -0.9 | -9.1** | -10.8 | -2.8 |
| General Merchandise Stores | -3.1 | -18.2** | -3.0 | 2.1 |
| Information Activities | -4.5 | -4.5 | -21.9 | -6.5 |
| Financial Activities | -2.2 | -6.2 | -5.8 | 0.9 |
| Private Education and Health | 0.2 | -1.5 | 9.9 | 11.0 |
| Private Education | 1.4 | -6.5 | 27.5 | 23.9 |
| Health Care and Social Assistance | 0.0 | -0.5 | 7.0 | 8.4 |
| General Medical and Surgical Hospitals | 3.1 | 0.0 | 2.6 | 3.8 |
| Arts, Entertainment, and Recreation | 1.2 | 13.3 | -11.8 | 29.7 |
| Accommodation and Food Services | -0.9 | 0.0 | -6.1 | 6.8 |
| Federal, State, and Local Government | 2.3 | 2.3 | 13.4 | 0.8 |
| Federal | -4.8 | 0.0 | -4.3 | 3.8 |
| State | 4.7 | 4.7 | 2.2 | 2.3 |
| Local | 2.4 | 2.1 | 16.5 | 0.3 |
| Local (Excluding Education) | 1.4 | 4.3 | -4.3 | 4.0 |
| Local Public Education | 3.2 | 0.5 | 4.4 | -2.3 |

*Eighteen months after recession troughs, November 2001 and March 1991
**December 2007 employment includes seasonal hiring
Source: Bureau of Labor Statistics

dramatically exceeds the recovery in employment. The preliminary third quarter data show an annual rate of increase in GDP of 3.5 percent,[2] while employment in July, August, and September continued to decline, with a net loss of jobs in the third quarter of about 1.2 million.[3] Data reported on STATS Indiana show employment in northwest Indiana having begun to increase in July.[4]

The recession's impact has not been felt uniformly across sectors of the economy, either nationally or locally (see **Table 1**).[5] Locally, construction, durable goods manufacturing, and retail trade bore the brunt of the decline in employment, accounting for over 90 percent of the net local job losses since the beginning of the recession (in December 2007), and for virtually all of the net job losses in the past year. Similarly, employment gains in the past two recoveries have been unevenly distributed (and these past two recoveries differed sharply from each other as well).

> *"The current recession hit northwest Indiana harder than we originally expected, with employment in construction and (surprisingly) retail trade most strongly affected."*

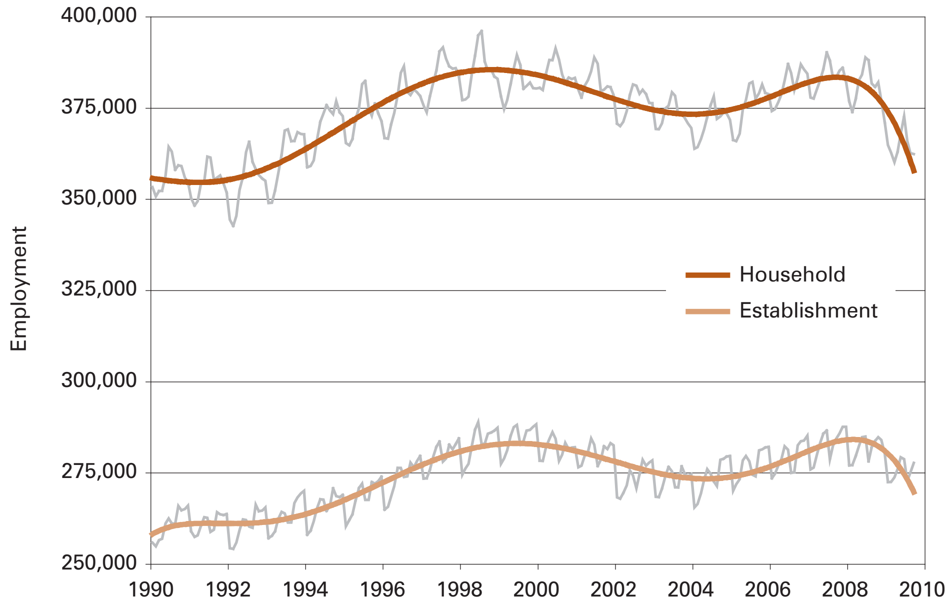
## A Look at the Recession

The northwest Indiana economy has fared slightly better than the national economy, with a decline in establishment employment of 3.5 percent since the official start of the recession (-4.8 percent over the past year), compared with a national decline of about 5.5 percent (see **Figure 1**). Locally, the industry hardest hit by the recession has been construction, where employment has declined by 4,000 since the beginning of the recession (-3,400 in the past year), a decline of 19 percent (-17.5 percent in the past year), comparable to the 14.9 percent national decline in employment. Locally, manufacturing employment also fell sharply, by around 4.5 percent, but much less than the national 14 percent decline. Surprisingly, in the face of an 18.5 percent decline in employment in iron and steel mills nationally, local employment grew 5.2 percent since the beginning of the recession (900 new jobs), and has even grown over the past year (400 new jobs).

In other sectors, employment loss has been similar to the national picture, with employment in retail trade falling 9.1 percent locally and 9.4 percent nationally, and employment in financial activities falling 6.2 percent locally and 6.4 percent nationally since the beginning of the recession. Both the local and national economies have seen strong growth in employment in arts, entertainment, and recreation.

In common with the nation, northwest Indiana[6] also saw a substantial decline in household employment (about -5 percent each for the nation and locally since the recession began). As with the national economy, almost all of the employment loss has occurred in the past year. The unemployment rate locally began to rise in late 2007 (bottoming out around 4.5 percent in

**Figure 1: Household Employment and Establishment Employment in Northwest Indiana, 1990 to 2009**




Note: Graph shows both monthly values and the trend line.
Source: Bureau of Labor Statistics

October/November), with the large increases beginning in late 2008 (rising from 5.9 percent in October 2008 to 10.6 percent in May 2009) as shown in **Figure 2**. The local unemployment rate has been declining since June, and in September 2009, stood at 9.4 percent.

In terms of job loss and increased unemployment, the current recession dwarfs both the 1991 and 2001 recessions in its impact on the local economy but does not really approach the devastation that resulted from the twin recessions of the late 1970s/early 1980s, in which local employment fell by well over 40,000 jobs.

## As the Recovery Develops

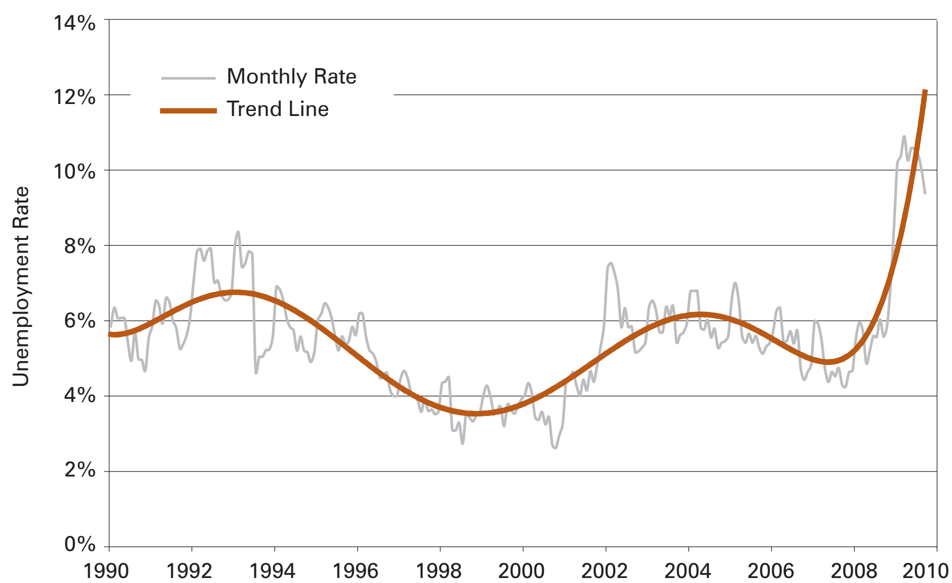
There is a broad consensus that the national recovery from the recession is likely to be especially slow to affect labor markets, with slow growth in net new jobs and persistently high unemployment.[7] **Table 1** shows how northwest Indiana fared in the first eighteen months of the recoveries following the 1991 and 2001 recessions.[8] These were, in terms of their impact on northwest Indiana and the nation, very different recessions. Locally, employment recovered fairly briskly during the first eighteen months of the recession in 1991, with establishment employment growing by 3.3 percent (about a 2.1 percent annual rate, compared with an average annual rate of employment growth between 1990 and 2007 of about 1 percent). But following the trough of the 2001 recession, employment continued to fall, with establishment employment falling an additional 3.7 percent in the eighteen months following the recession's trough.

What can we expect: a recovery more like the recovery from the 1991 recession or the non-recovery that occurred in 2001–2003? The national data provide a few hints. Following the 1991 recession, real GDP grew at an annual rate of about 3.5 percent over the following eighteen months. Ten years later, the economy grew at a slightly less than 2 percent annual rate during the first eighteen months of recovery. Nationally, employment fell by 1.2 percent between the March 1991 trough and September 1991, and fell again in the 2001–2003 recovery, by 0.8 percent from November 2001 to May 2003. Given the slow growth in real GDP, this slow decline in employment is what we would expect. Simply to keep up with productivity growth, output would need to rise by something like an annual rate of 2.5 percent to maintain the current level of employment. And productivity growth was especially rapid (growing at an annual rate of more than 3 percent) in the 1991–1992 recovery, and growing faster than output (at an annual rate of about 2.7 percent) in the 2001–2003 recovery.[9]

If we maintain the recent growth in real GDP, the recent productivity growth rates suggest that national employment is likely to grow at an annual rate of 1 percent to 2 percent per year (1.5 percent to 3 percent over eighteen months). Historically, employment in northwest Indiana has grown more slowly than it has in the nation; based on this historical relationship, we expect that employment in northwest Indiana will grow at an annual rate of between 0.3 percent and 0.8 percent, with a very wide band of possible outcomes. Applying these growth rates to the September 2009 level of employment in northwest Indiana, we expect employment growth of between 800 and 2,200 new net jobs.

However, at such slow rates of growth in national and local employment, and with a continued 0.5 percent per year growth in the local labor force, it is likely that the unemployment rate will rise slightly over the next twelve months, from its current 9.4 percent to 9.7 percent. In the optimistic case, the local unemployment rate could fall to 9.1 percent. In short, unless the national economy grows more robustly or the local economy performs outside the range of its historical relationship with the national economy, the unemployment rate will change little over the next year.

**Figure 2: Unemployment Rate in Northwest Indiana, 1990 to 2009**




Source: Bureau of Labor Statistics

Growth in specific sectors of a local economy is notoriously difficult to forecast. While developments in most local economies are strongly affected by the nature of the changes occurring in the national economy, these relationships are also highly variable and subject to significant changes as the structure of local economies change. Perhaps most notably for the northwest Indiana economy, the relative decline in the importance of the steel industry as a source of employment (and income) and the introduction of casino gambling (which led to a very large expansion of the arts, recreation, and entertainment sector) have led to dramatic changes in the relationship between national economic developments and their impacts on the local economy.

Subject to the cautions expressed above, our best estimate is that employment changes by sector will depend on national growth, as shown in **Table 2**. Under the extreme slow growth scenario (a 1 percent increase nationally in establishment employment), we expect essentially no growth in construction employment in northwest Indiana and a decline in manufacturing employment. Based on historical patterns, we expect the steel industry to give up about half of the employment gains that have occurred in the past two years. If national growth is stronger, we anticipate slight growth in construction employment, but little difference in the manufacturing sector. Local employment in manufacturing has declined consistently over the past twenty (or more) years, even when the national economy has been growing vigorously. Health care is likely to remain the strongest sector of the local economy under either scenario, gaining around 1,000 jobs. This forecast is essentially unaffected by the extent of national employment growth.

## Conclusions

The current recession hit northwest Indiana harder than we originally expected, with employment in construction and (surprisingly, retail trade most strongly affected. Also surprisingly, manufacturing employment, while down, was less affected than one might have expected, and employment in steel actually rose.

The recovery of the local economy from the recession will depend on the strength of the national recovery. With many economists predicting a very slow recovery in employment, our expectations for a local recovery are not optimistic. We expect total employment to rise by something in the range of 800 to 2,200 jobs (0.3 percent to 0.8 percent), and for the unemployment rate to remain above 9 percent during the coming year. A stronger national recovery would be good news. But a weaker recovery would be very bad news indeed.

**Table 2: Growth Forecast for Selected Sectors in Northwest Indiana in 2010**

| Sector | Assuming 1% National Growth in Employment | Assuming 2% National Growth in Employment |
|---|---|---|
| Total Establishment Employment | 800 | 2,200 |
| Construction | 0 | 300 |
| Manufacturing | -900 | -600 |
| Iron and Steel Mills | -450 | -400 |
| Retail Trade | 100 | 500 |
| Private Education and Health | 1,100 | 1,100 |
| Health Care and Social Assistance | 1,000 | 1,100 |
| Accommodation and Food Service | 300 | 400 |
| Federal, State, and Local Government | 250 | 300 |

Note: Detail does not add to total because some sectors are not included in this table.
Source: Based on author's calculations

## Notes

1. According to the National Bureau of Economic Research's (NBER) Business Cycle Dating Committee, the recession began in December 2007: www.nber.org/cycles.html.
2. See the Bureau of Economic Analysis press release at www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.
3. Measuring employment using the establishment employment data series. These data may be found at www.bls.gov.
4. These data may be found at www.stats.indiana.edu/topic/jobs_wages.asp.
5. National employment data are from the Bureau of Labor Statistics, unless otherwise noted (www.bls.gov); local employment data are from STATS Indiana (www.stats.indiana.edu/topic/jobs_wages.asp).
6. This discussion of the unemployment data uses the seven-county area including Lake, Porter, LaPorte, Jasper, Newton, Pulaski, and Starke counties. Data are from STATS Indiana at www.stats.indiana.edu/topic/laus.asp.
7. Representative discussions of the "jobless recovery" (ignoring polemics) include the following:
   Mary Daly and Bart Hobjin, "Jobless Recovery Redux?" FSRB Economic Letter, June 5, 2009, Federal Reserve Bank of San Francisco Economic Research and Data, www.frbsf.org/publications/economics/letter/2009/el2009-18.html.
   Erica Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?" *Current Issues in Economics and Finance*, Vol. 9, no. 8, (August 2003), www.ny.frb.org/research/current_issues/ci9-8/ci9-8.html.
8. This section focuses on the eighteen months following the trough, because I expect the trough of the current recession to be identified as June 2009. Eighteen months will take us to December 2010, which allows us to look a year ahead. I have used data for the eighteen months following the NBER Business Cycle Dating Committee's date for the troughs for 1991 and 2001: www.nber.org/cycles.html.
9. Data are from www.bls.gov/lpc/data.htm.