

# Indianapolis-Carmel Forecast 2010

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Like the rest of the state and country, the Indianapolis-Carmel metro area<sup>1</sup> has experienced declining economic activity over the last year and a half. Unemployment is up and incomes are down. Business owners and consumers are uncertain about the overall health of the economy. Lately, there have been a few signs that the recession is over, but it remains to be seen how strong and sustainable the recovery will be.

## Employment<sup>2</sup>

Unemployment in the Indianapolis metro area stands at 7.7 percent as of September 2009, compared to 5.1 percent a year before. To put this number in perspective, there are now twice as many people unemployed (68,590) in the Indianapolis area as there were just two years ago.

While this is a significant increase, it is down from a peak of 8.7 percent during the summer months. It is also lower than the state and national unemployment rates of 9.2 percent and 9.5 percent, respectively. Historically, unemployment has been lower in Indianapolis than the nation, but this difference has been diminishing over the last eight years (see **Figure 1**). It remains to be seen whether unemployment has peaked, or whether it will continue to drift up before coming down toward the second half of 2010.

## Income<sup>3</sup>

Given the severity of the recession, it is not surprising that incomes have been falling in the area. Between the first quarters of 2008 and 2009, the weekly wage for the average worker fell by 3 percent (see **Table 1**). Total wage income fell by 6.3 percent, reflecting the double effects of having fewer workers earning lower wages.

Several industries have been hit particularly hard by the recession.

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*“The coming year should bring some modest improvement to the Indianapolis economy.”*

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Total wage income in construction was down 19.5 percent between the first quarters of 2008 and 2009, reflecting a 17.8 percent reduction in jobs and 2.1 percent lower wages among those still working. Manufacturing was also hit hard with a 10.1 percent decline in total wage income.

White-collar jobs were also hit with significant reductions. As a result of the financial crisis, total wage income in the finance and insurance industry was down 16.1 percent as many banks and financial institutions cut pay and laid off workers. Other industries experiencing large declines include management services (15.2 percent decline) and real estate (9.7 percent decline).

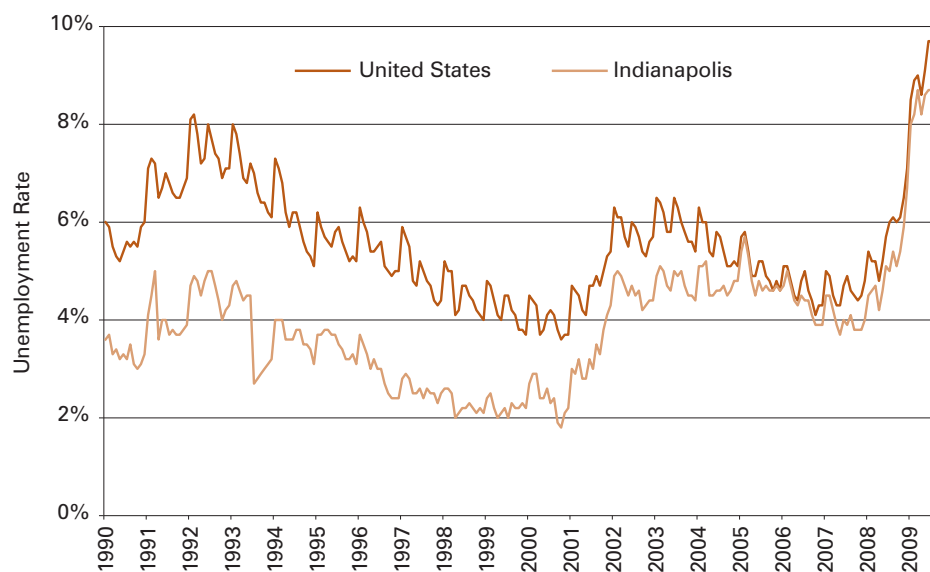
Only a few industries in Indianapolis experienced job growth, but health care was an important

one. The health care industry is the single largest industry for jobs in the Indianapolis metro area, employing 13.6 percent of all workers. The number of jobs in health care increased by 5.1 percent, reflecting national trends of an aging population and increased technology in health care. In addition, educational services and public administration each experienced modest increases in both number of jobs and average wages.

## Real Estate and Residential Construction

The Indianapolis area residential real estate market has held up fairly well during the economic downturn. The median price of a home on the market increased by a modest 0.9 percent compared to a year ago.<sup>4</sup> Furthermore, the number

■ **FIGURE 1: Comparison of Unemployment Rates, January 1990 to September 2009**



Source: STATS Indiana, using Bureau of Labor Statistics data

of unsold houses on the market has declined by 13.9 percent relative to 2008. The relatively low supply of houses suggest that home prices will continue to remain steady or increase in 2010. However, demand for housing will weaken after the federal government's tax credit program for new homebuyers runs out.

The residential construction market continues to weaken, with the number of new building permits declining by 24 percent for the first nine months of 2009 compared to the first nine months of 2008.<sup>5</sup>

Residential building permits are down 60.5 percent since 2006. New home construction is a key economic indicator because the residential construction industry employs a significant number of people and the building of new homes drives other consumption, such as building materials and home furnishings. New home construction may begin to show some improvement in 2010, but the unavailability of credit and the general uncertainty of the economy will hinder growth. Construction will

likely remain below the levels of 2006 for several years to come.

### Forecast

The coming year should bring some modest improvement to the Indianapolis economy. Unemployment will peak in late 2009 or early 2010 and should then begin to decline. Firms that cut jobs aggressively going into the recession will find it necessary to begin hiring again once economic activity picks up. However, following a recession, job creation can take several years, and even by the end of 2010, unemployment will still likely be higher than desirable.

Real personal incomes and economic output will likely grow 2 percent to 3 percent, but these will still be significantly below pre-recession levels. Furthermore, the personal savings rate has increased. While this is generally a good thing for the economy, it has the effect of reducing consumer spending, which leads to a slower recovery. Continued weakness of the dollar may help manufacturing and exporting businesses rebound more quickly. In all, 2010 looks to be a year of recovery for the local economy, but the pace of recovery may be slower than we would like. ■

### Notes

1. This analysis covers the Indianapolis-Carmel Metropolitan Statistical Area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby counties.
2. Employment data were collected from the Bureau of Labor Statistics reports at STATS Indiana: [www.stats.indiana.edu](http://www.stats.indiana.edu).
3. Income data come from the Quarterly Census of Employment and Wages data series at STATS Indiana: [www.stats.indiana.edu](http://www.stats.indiana.edu).
4. Housing prices and supply of houses were collected from [www.housingtracker.net](http://www.housingtracker.net).
5. Residential building permit data were collected from the U.S. Census Bureau. Percentage declines are calculated based on the dollar value of construction projects.

■ TABLE 1: Wages and Jobs for Selected Industries in the Indianapolis Metro, 2008:1 to 2009:1

Industry	Jobs		Average Wages		Percent Change in Total Wages
	2009 Percent	Percent Change since 2008	Weekly	Percent Change since 2008	
Total	100	-3.4	\$854	-3.0	-6.3
Construction	4.6	-17.8	904	-2.1	-19.5
Finance and Insurance	5.0	-3.4	1,225	-13.2	-16.1
Management of Companies and Enterprises	1.3	-3.5	1,680	-12.1	-15.2
Administrative, Support, and Waste Management	6.6	-14.2	533	0.9	-13.5
Manufacturing	10.6	-9.4	1,556	-0.8	-10.1
Real Estate, Rental, and Leasing	1.7	-2.2	779	-7.8	-9.7
Arts, Entertainment, and Recreation	1.3	-1.9	1,049	-5.4	-7.2
Information	2.1	-3.0	1,079	-4.2	-7.1
Transportation and Warehousing	6.1	-2.9	704	-3.8	-6.6
Wholesale Trade	4.9	-4.3	1,062	-2.2	-6.4
Retail Trade	10.6	-3.5	469	-1.9	-5.3
Accommodation and Food Services	8.7	-2.5	270	-2.2	-4.5
Other Services (Except Public Administration)	3.2	-2.6	594	-1.5	-4.1
Professional, Scientific, and Technical Services	5.3	0.2	1,160	-1.0	-0.8
Public Administration	5.2	1.6	874	2.0	3.6
Health Care and Social Services	13.6	5.1	812	-0.9	4.1
Educational Services	8.0	3.3	768	0.9	4.2

Source: STATS Indiana, using QCEW data