

Kokomo Forecast 2010

Jason VanAlstine: Assistant Professor of Economics, Indiana University Kokomo

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The past year was a difficult one for Kokomo. At the end of 2008, Kokomo was named one of America's fastest dying cities by Forbes magazine.¹ Unemployment rates have been above 10 percent all year, peaking at 19.1 percent in June during Chrysler's bankruptcy and subsequent plant shutdowns. Some of the economic uncertainty that has hovered over the region has been lifted, with Chrysler and Delphi both emerging from bankruptcy and manufacturing showing signs of improvement at the national and state levels. Further optimistic news includes declining unemployment rates in Kokomo; Delphi Automotive Systems recently receiving two federal grants totaling \$96 million;² and Zuna Infotech set to create an estimated 400 jobs in Kokomo over the next few years at their new facility.³ However, without a change in some long-term trends, Kokomo may face persistent economic difficulties in the future.

Jobs and Unemployment

Unemployment rates in 2009 were consistently above 12 percent, peaking in June at 19.1 percent with the temporary closing of Chrysler during its bankruptcy. Recently the labor market has appeared to take a positive turn, with the unemployment rate decreasing each month since June and currently sitting at 11.6 percent, the lowest mark since December 2008. Additionally, there seems to be more stability at Chrysler and Delphi, two of the area's largest employers, than there has been over the past year and a half, due in part to the reorganization of both businesses and Delphi closing a bankruptcy that lasted four years.

In spite of these positive signs, a more disturbing trend is emerging in the long-run labor market picture. As shown in **Figure 1**, annual

employment figures have decreased every year since 1999, with a net loss of 13,155 jobs since August 1999 (-25.9 percent). During the same period in time, the labor force has decreased 17.3 percent, which has led to an overall increase in the unemployment rate. Additionally, from July 2000 to July 2008 the population aged twenty to sixty-four only decreased 2.1 percent, indicating a decrease in the labor force participation rate. If the local economy does not begin to create new jobs, the trend of increases in the number of jobless individuals will continue and emigration may become a significant problem.

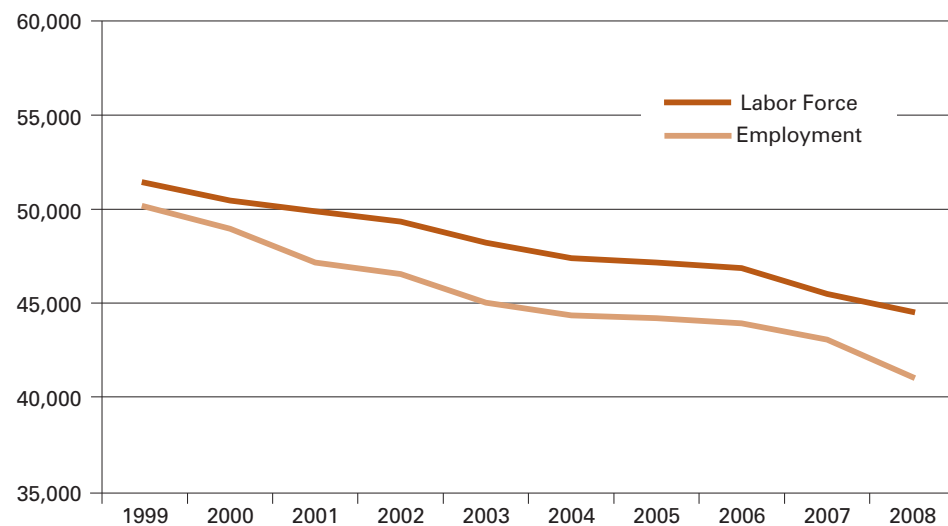
Average annual wages in Kokomo have decreased 7.5 percent in the past year to a value of \$45,202. This is still almost \$7,000 more than the average wage for a worker in Indiana, but is at its lowest value since 2003. Average weekly wages have also decreased, falling 5.3 percent from the first quarter of 2008 to \$806 in the first quarter of 2009, the lowest value since the third quarter of 2002. Not only do workers in Kokomo have fewer jobs available to them, but these jobs are also paying less on average than they have in the past.

Although nearly 75 percent of employment in Kokomo is now in service industries, manufacturing still plays a very important role in the local economy. The five largest sectors by employment are detailed in **Table 1**. Education and health care was the only one of these five sectors to experience job growth in 2009, while manufacturing suffered a large decrease. However, recent economic activity at the national level has indicated that manufacturing activity is increasing, and Kokomo will see benefits if this trend continues. Retail may also pick up for the holiday season as consumers are more optimistic than they were in 2008, although probably not enough to make up for the past year.

Real Estate

Indications are that the market for real estate will remain relatively flat for the next few years. Zillow.com reports that the median real estate listing price has increased by 2 percent since November 2008 to \$69,900.⁴ CNNmoney.com reports that home prices are expected to decrease by 0.4 percent from June 2009 to June 2010 and increase by 0.6 percent from June

■ FIGURE 1: Kokomo Employment and Labor Force, 1999 to 2008



Source: Bureau of Labor Statistics

Lafayette Forecast 2010

Tanya Hall: Economic Research Analyst, Indiana Business Research Center, Kelley School of Business, Indiana University
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At a turbulent economy characterized 2009. As we look to the future to determine how 2010 will treat the Lafayette Metropolitan Statistical Area (MSA), it appears that we may have a slow recovery. A quick recovery is likely to be hampered by additional job shedding through the beginning of 2010 before businesses begin to slowly re-hire and thaw out pay freezes.

Despite the prediction of a slow recovery and its consequences, there is a sense of optimism in the Lafayette MSA due to the mixture of science and technology that Purdue's Research Park is bringing to the area. This sense of optimism may be reflected in the continuous population growth in the Lafayette MSA since 2000 (see **Figure 1**). This population growth has been particularly strong in Tippecanoe County, home to Purdue University and its Research Park. It is expected that the population growth will continue in 2010 with around 0.7 percent growth, or an additional 1,300 residents in the MSA.

Labor

Overall, the Lafayette MSA, which includes Tippecanoe, Benton, and Clinton counties, has weathered the recession fairly well compared to Indiana and the United States. As seen in **Table 1**, except for June and July 2009, the Lafayette MSA has had lower unemployment rates (8.9 percent in August) than Indiana (9.7 percent) and the United States (9.6 percent). The variance seen in June and July may have been related to

TABLE 1: Kokomo's Largest Economic Sectors by Employment, January 2007 to September 2009

Sector	2007	2008	September 2009	
			Employment	Percent of Total Jobs
Manufacturing	14,100	12,000	9,600	23.4
Government	7,700	7,800	7,800	19.0
Retail	5,700	5,600	5,400	13.2
Education and Health	4,100	4,200	4,500	11.0
Leisure and Hospitality	4,500	4,500	4,300	10.5

Source: Bureau of Labor Statistics

2010 to June 2011.⁵ These sources point to a stagnant housing market for the area, absent a major negative change in the labor market.

Outlook

Recent news has provided some room for optimism regarding the local economy. The third quarter has marked the first increase in gross domestic product for the United States since the recession began in December 2007. Additionally, the unemployment rate in Kokomo has decreased for three successive months and is now at its lowest point since December 2008. However, it is important that this optimism remain guarded given the "jobless recovery" after the last recession. When the recession of 2001 ended, it took nineteen additional months for national employment figures to rebound to pre-recession levels. The annual unemployment rate in Indiana did not decrease to 5 percent again until 2006 (it was 2.9 percent in 2000) and the annual unemployment rate in Kokomo did not return to values below 6 percent until 2007 (3 percent in 2000). Continued stability at Chrysler and Delphi, combined with job creation through new businesses like Zuna Infotech will be important factors for leading the region into economic recovery.

The long-term economic picture is more pessimistic. Employment

has decreased in Kokomo for ten straight years, leading to a cumulative decrease of over 25 percent. Additionally, the labor force is decreasing at a faster rate than the population aged twenty to sixty-four, indicating a decrease in the labor force participation rate. Overall, without an increase in the number of job opportunities or a decrease in the population, the number of jobless in Kokomo will continue to increase, placing downward pressure on wages and the local economy.

References

All employment and wage data are from www.bls.gov. Population data are from www.census.gov. ■

Notes

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