

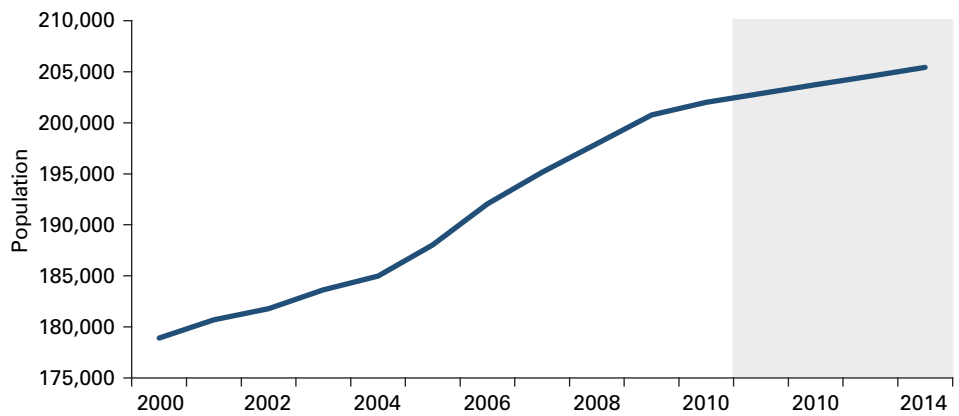
Lafayette Forecast 2012

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While 2011 was not marked with a dramatic improvement in the national economy, the Lafayette Metropolitan Statistical Area (MSA) regained its momentum with a slow but steady rise from the Great Recession. As we look to 2012, it appears that the area will continue to recover at a conservative rate. This recovery pace is on par with the expected rate of recovery throughout the nation, lacking the exuberant growth witnessed after the 2001 economic downturn.

To its benefit, the Lafayette MSA (which includes Tippecanoe, Benton and Carroll counties) is viewed as an attractive area to live and work—in part due to the presence of Purdue University. We see this optimism in the continued population growth that is expected for the next few years (see Figure 1). While the anticipated

FIGURE 1: Annual Population Change in the Lafayette MSA, 2000 to 2014



Note: Data for 2011 to 2014 are projections.
Source: IBRC, using U.S. Census Bureau data and Center for Econometric Model Research data

population growth for 2012 through 2014 (0.4 percent per year) is more docile than the surge seen in 2005 to 2006 (2.1 percent), it still bodes well for the area.

Labor

The Lafayette MSA had a lower unemployment rate than Indiana and the United States in the past year. As seen in Table 1, the Lafayette MSA consistently outperformed

TABLE 1: Labor Force and Unemployment for the Lafayette MSA, 2010 to 2011

Year	Month	Labor Force	Employment	Unemployment	Lafayette MSA Unemployment	Indiana Unemployment	U.S. Unemployment
2010	August	94,489	85,904	8,585	9.1%	10.0%	9.5%
	September	97,715	89,638	8,077	8.3%	9.9%	9.2%
	October	97,922	90,227	7,695	7.9%	9.7%	9.0%
	November	97,278	89,488	7,790	8.0%	9.6%	9.3%
	December	96,428	88,760	7,668	8.0%	9.5%	9.1%
	Annual Average		96,225	87,396	8,829	9.2%	10.2%
2011	January	95,072	87,609	7,463	7.8%	9.1%	9.8%
	February	96,145	88,900	7,245	7.5%	8.8%	9.5%
	March	97,019	90,108	6,911	7.1%	8.5%	9.2%
	April	97,404	91,107	6,297	6.5%	8.2%	8.7%
	May	95,926	89,031	6,895	7.2%	8.2%	8.7%
	June	95,058	87,390	7,668	8.1%	8.3%	9.3%
	July	94,300	86,669	7,631	8.1%	8.5%	9.3%
	August	96,044	88,487	7,557	7.9%	8.7%	9.1%
	September*	99,993	92,726	7,267	7.3%	8.5%	8.8%

*Preliminary data
Source: IBRC, using Bureau of Labor Statistics data

Indiana and the United States. The uptick in unemployment in June and July 2011 mirrors the trend seen in 2009 and 2010, which likely reflects of the change in the labor force due to students leaving the area during summer break. The spread in unemployment rates between the Lafayette MSA compared to the state and nation reflects the improved economy in the MSA. In conjunction with a decline in the unemployment rate and the number of unemployed, the number of employed workers and individuals in the labor force has increased—indicating individuals are finding work and have hope of obtaining a job.

Table 2 compares the employment between 2010 and 2011 in the Lafayette MSA. Last year it was predicted that all industries would increase their employment in response to an improved economic outlook and increased demand, with the professional and business services and manufacturing sectors having the strongest growth. This prediction proved to be right on target as nearly all industries have had employment growth thus far in 2011, and the professional business services and manufacturing sectors did report the strongest increase in employment levels (711 and 633 jobs, respectively).

The increased employment is due in part to large area employers hiring additional workers to fulfill large orders (Wabash National), seeing increased demand for goods (Subaru of Indiana Automotive), return to pre-recession levels (Caterpillar), and continued expansions (IU Health Arnett and Purdue Research Park). Two industries—information and government—saw declining employment in 2011. The drop in federal jobs locally mirrors state and national trends as government officials continue to grapple with budget woes.

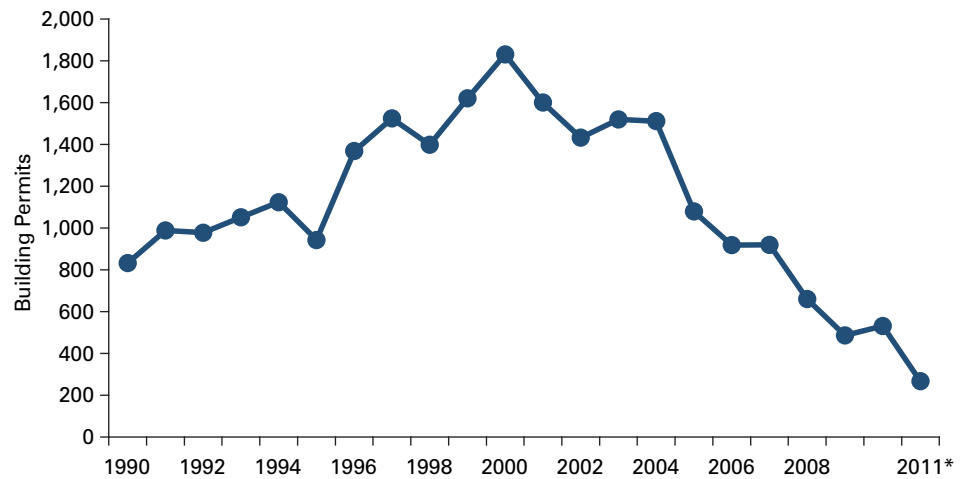
In 2012, employment should continue to increase, although it will

TABLE 2: Lafayette MSA Employment, 2010 to 2011

Industry	2011*	Change since 2010	Percent Change 2010–2011
Total Non-Farm	92,033	833	0.9%
Total Private	65,233	2,333	3.7%
Goods-Producing	17,211	611	3.7%
Manufacturing	14,633	633	4.5%
Mining, Logging and Construction	2,578	78	3.1%
Service-Providing	74,822	122	0.2%
Private Educational and Health Services	11,511	411	3.7%
Trade, Transportation and Utilities	2,000	100	5.3%
Leisure and Hospitality	8,633	33	0.4%
Professional and Business Services	6,411	711	12.5%
Financial Activities	3,744	144	4.0%
Information	978	-22	-2.2%
Other Services	2,767	67	2.5%
Government	26,800	-1,500	-5.3%

*January through September data annualized for 2011. September data are preliminary.
Source: Bureau of Labor Statistics

FIGURE 2: Lafayette MSA Residential Building Permits, 1990 to 2011



*Reflects year-to-date figures through August 2011 for Tippecanoe County (year-to-date data for the rest of the metro are unavailable).
Source: IBRC, using U.S. Census Bureau data

be at a slow but steady pace. The manufacturing sector is expected to lead this growth—particularly in fabricated metals and motor vehicles—followed by the health care, leisure and hospitality, and professional and business services sectors.

In conjunction with the increased employment within the Lafayette MSA in 2011, average weekly wages increased 6.5 percent. Thirteen out of the 18 major sectors with available data had a wage increase from the first quarter of 2010 to the first quarter of 2011 (not adjusted for inflation), as seen in **Table 3**.

Noting that the largest wage increases occurred in management of companies and enterprises as well as manufacturing, it could be the result of “rewarding” business leaders for navigating through the Great Recession and its aftermath and the re-hiring of higher-paid workers (e.g., engineers) at the manufacturing plants. In 2012, it is expected that the wage increases will continue modestly, keeping up with the increase in employment and inflation.

The local per capita personal income (PCPI) is projected to grow 3.8 percent in 2011, followed by a more tepid 2 percent for 2012. Similar to the state overall, the Lafayette MSA’s PCPI continues to lag behind the United States with the 2010 PCPI only 85 percent of the national figure. The difference between the U.S. and Lafayette MSA is likely attributed to the occupational mix in the MSA and the fact that Indiana’s highest earning tier of occupations tend to be paid less than similar occupations elsewhere, regardless of cost-of-living factors.¹

Housing

Residential construction peaked in 2000 with 1,830 permits issued for single- and multi-family building permits in the Lafayette MSA. Since 2004, there has been a dramatic decline in the volume of building permits filed, with 2009 only

TABLE 3: Average Weekly Wages in the Lafayette MSA, 2010:1 to 2011:1

Industry	Average Weekly Wage	Change in Jobs since 2010:1	Change in Average Weekly Wage
Total	\$758	4.6%	6.5%
Management of Companies and Enterprises	\$2,283	97.3%	228.0%
Manufacturing*	\$1,259	7.6%	15.6%
Finance and Insurance	\$966	-2.5%	10.3%
Educational Services*	\$966	2.0%	1.2%
Wholesale Trade	\$900	5.8%	4.4%
Professional, Scientific, and Technical Services	\$892	1.8%	1.7%
Construction	\$722	-2.0%	3.4%
Transportation and Warehousing	\$718	6.8%	4.2%
Health Care and Social Services	\$712	0.6%	4.9%
Public Administration	\$707	-2.1%	0.1%
Agriculture, Forestry, Fishing and Hunting	\$638	8.3%	-1.7%
Real Estate and Rental and Leasing	\$543	-1.6%	3.6%
Other Services (Except Public Administration)	\$521	2.2%	14.3%
Information	\$480	3.6%	-2.8%
Administrative and Support and Waste Management and Remediation Services	\$408	54.4%	-3.1%
Retail Trade	\$407	1.2%	4.4%
Accommodation and Food Services	\$240	4.3%	2.1%
Arts, Entertainment, and Recreation*	\$213	-0.7%	-2.7%

* Some county data were excluded due to confidentiality. Note: Data for mining and utilities were nondisclosed. Source: IBRC, using Indiana Department of Workforce data

recording 486 permits. More permits were filed in 2010 (531) and 267 permits were filed in Tippecanoe County in 2011 as of August (see **Figure 2**).

Comparison of year-to-date (January through September) 2011

figures with 2010 finds that the Lafayette MSA real estate market is slightly behind 2010 trends regarding new listings and closed sales, which may be partially due to the reduction in the inventory of homes for sale. However, as of September 2011, the

TABLE 4: Lafayette MSA Housing Market, January to September 2009 and 2010

	Lafayette MSA			Benton County			Carroll County			Tippecanoe County		
	2010	2011	Change	2010	2011	Change	2010	2011	Change	2010	2011	Change
New Listings	2814	2,578	-8.4%	98	90	-8.2%	255	232	-9.0%	2461	2256	-8.3%
Closed Sales	1,461	1,402	-4.0%	50	45	-10.0%	120	101	-15.8%	1,291	1,256	-2.7%
Median Sales Price	n/a	n/a	n/a	\$65,500	\$68,500	4.6%	\$81,500	\$79,250	-2.8%	\$122,000	\$124,000	1.6%
Months Supply of Inventory*	10.8	12.06	11.7%	12.9	13.9	7.8%	11.7	14.5	23.9%	7.8	7.8	0.0%
Inventory of Homes for Sale*	1328	1,264	-4.8%	71	65	-8.5%	161	157	-2.5%	1096	1042	-4.9%

*Data as of September 2011
Source: IBRC, using Indiana Association of Realtors data

Louisville Forecast 2012

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Lafayette MSA has a year's worth of housing inventory to sell (see **Table 4**). The decline in listings is spread across all counties; however, reduction in homes sold seems to be most prevalent in Benton and Carroll counties. Overall, the median sales price has risen in Benton and Tippecanoe counties, but declined slightly in Carroll County. The increase in "months supply of inventory" was evident in Carroll and Benton counties, indicating the increased length of time it takes to sell a home in these areas. In 2012, the housing market will likely continue to be languid, with foreclosed homes potentially accounting for a larger proportion of existing home sales. If this does occur, then prices will be pulled down further. At this point, the Lafayette MSA will continue to work off the excess inventory of houses to a more manageable level.

Conclusion

Overall, the Lafayette MSA is expected to show slight growth in population, employment, PCPI and wages, yet experience tepid activity in the housing market. As businesses continue to add to their employment rolls, it may help boost consumer confidence in the economy—thus spurring consumption. However, due to the severity of the Great Recession and the slow rebound, consumers and businesses alike may be adapting to this new normal and practicing a more frugal lifestyle, thus further compounding the slow economic growth. ■

Notes

1. For more research on the differences between the U.S. and Indiana PCPI, see Timothy Slaper and Ryan Krause, "Occupational Hazard: Why Indiana's Wages Lag the Nation," *Indiana Business Review*, Spring 2010, www.ibrc.indiana.edu/ibr/2010/spring/article1.html.

At the start of 2011, the Louisville metro was on track for positive job growth. From January to April, the region added about 11,000 non-farm jobs, and the region's unemployment rate had declined by half of a percentage point. The start of the year's second quarter, however, was the beginning of an overall slowdown. From May to August, non-farm payrolls added no new jobs, and the unemployment rate only declined by three-tenths of a point. Since August, employment growth has resumed, and the region should continue to see gradual growth through 2012.

Employment

The Louisville metro continues to be down approximately 22,000 non-farm payroll jobs since the beginning of the Great Recession. Stronger manufacturing growth over 2011 helped partially erase the recession

jobs deficit, but this growth is now beginning to slow (see **Figure 1**). Consequently, the region will continue to see positive job growth, but only at a slow rate.

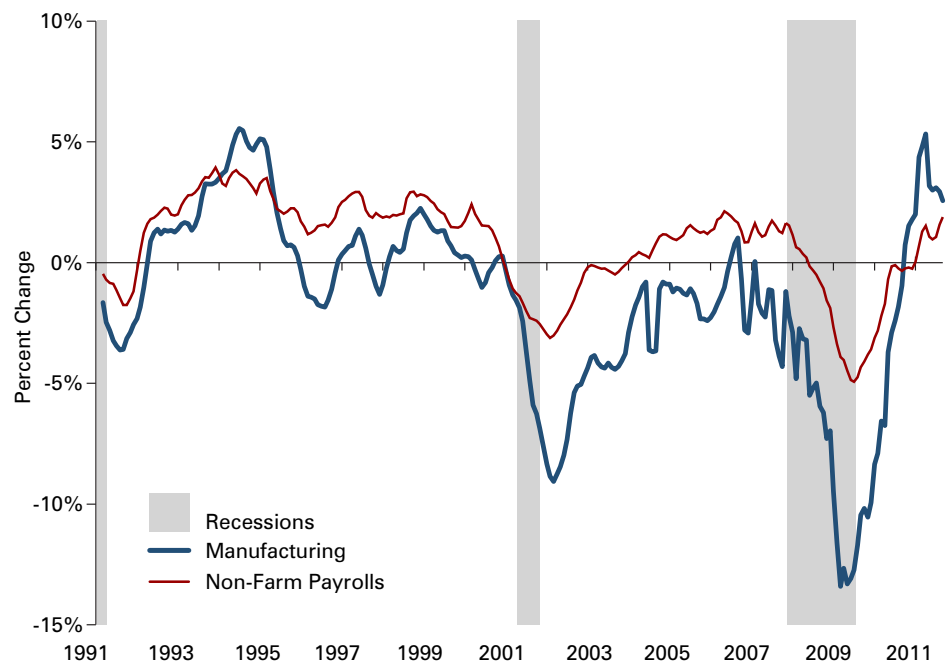
Unemployment Rate

The Louisville metro's unemployment rate appears to have reached a floor. After declines earlier in the year, the region's unemployment rate settled around the 9 percent level (see **Figure 2**).

As employment and the labor force continue to grow, the unemployment rate will not see significant declines from the 9 percent level since both the labor force and employment will grow at approximately the same rate. The most recent data point saw the unemployment rate increase back up to 9.6 percent. However, the underlying trend in job creation was quite positive.

On the other hand, the Southern Indiana metro counties (Clark, Floyd, Harrison and Washington)

FIGURE 1: Louisville Employment and Manufacturing Growth, March 1991 to September 2011



Source: FactSet