

Gary Forecast 2013

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As the economy goes through periods of expansion and contraction, two natural questions are “What factors are driving these changes?” and “What can they tell us about the future?” At the state and national level, economists have developed economic indices to gauge the pulse of the economy and address these questions. While these indices are certainly useful, they do not necessarily reflect the economic well-being of individual regions.

For example, in September 2012, the national unemployment rate was 7.6 percent and the unemployment rate in the state of Indiana was 7.5 percent (not seasonally adjusted). Within the state, however, the unemployment rate in the Southwest region (Evansville) was under 7 percent while it was over 8 percent in the Gary metro division.¹ Because of the potentially large variation among regions within a state, there is a need for some measure of the economic condition of an individual region.

In response to the demand for better information on the Northwest Indiana regional economy, Indiana University Northwest professors Bala Arshanapalli and Donald Coffin, with the support of a Lilly Sustaining Grant Fellowship, developed and released the Northwest Indiana Coincident Index and Leading Index.² The first index gauges the current and past condition of the region’s economy, while the second provides a six-month forecast of the growth rate of the regional economy. These indices are useful for consumers (to alter consumption behaviors), businesses (to adjust investment patterns) and governments (to choose policy issues) by providing advance knowledge of impending economic expansion or contraction.

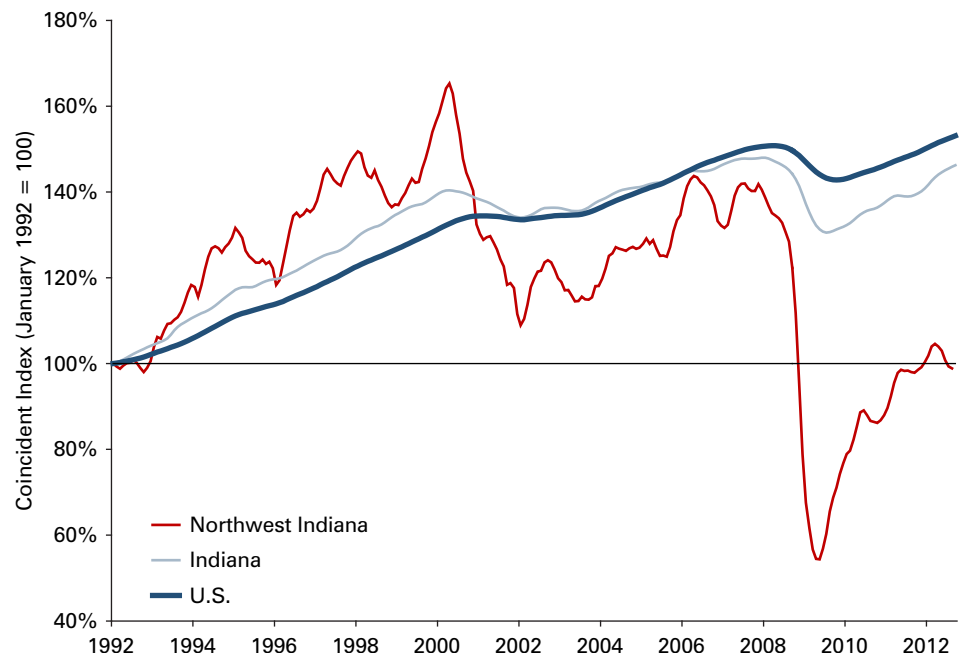
Figure 1 shows the Northwest Indiana Coincident Index, along with the state and national coincident indices since 1992. The regional index reveals several issues. First, after significant expansion in the 1990s, the region’s growth has been stunted in the last decade. The current level of Northwest Indiana’s index is approximately the same as in 1992. Second, in 2000 the regional economy began to slow down earlier than the state and national economy and experienced a deeper and longer recession. Finally, the region’s last downturn is roughly similar to that of the state and nation in timing but significantly worse in magnitude. Despite some improvements since then, the regional economy is today at roughly 70 percent of the level it was at its most recent peak in 2008.

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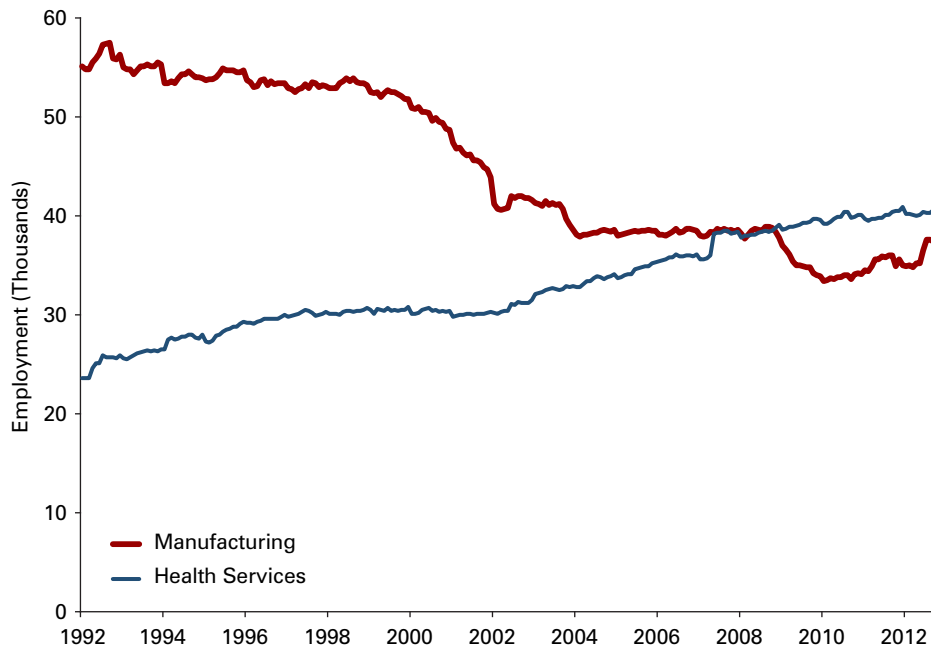
returned to pre-recession levels. There are two particular exceptions that are worth looking at more closely. Figure 2 shows two major employment areas for the Gary metro division manufacturing and

FIGURE 1: Economic Indices for the Region, State and Nation, January 1992 to September 2012



Source: Indiana University Northwest School of Business and Economics and the Federal Reserve Bank of Philadelphia

FIGURE 2: Selected Employment Data for the Gary Metro Division, January 1992 to September 2012



Source: Indiana Department of Workforce Development

health services. Manufacturing has declined steadily and the area has lost over 17,000 jobs (32 percent) in the sector since 1992. This decline is almost entirely due to the loss of employment in primary steel manufacturing. On the other hand, one bright spot in employment is health services. Since 1992, employment in health services increased by 72 percent and continued to expand even during the recession.

What Does This Mean for the Future?

While the Northwest Indiana region is subject to many of the same economic forces as the nation and the state, the region is also continuing to undergo its own structural changes. Steel production continues to decline and along with it employment in manufacturing. However, there is hope in the health services industry which has continued to expand. There is still potential for a strong recovery in the future if policymakers focus on attracting new manufacturing as well

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as encouraging other industries to relocate to the region and expand employment.

The most recent values of the Northwest Indiana Coincident Index and Leading Index, as well as values going back to 1992, can be found online at www.nwiindex.com. ■

Notes

1. Unemployment data come from the Bureau of Labor Statistics: www.bls.gov/. The Gary metro division includes Lake, Porter, Jasper and Newton counties.
2. The indices represent the entire Northwest Indiana economy, defined to include Lake, Porter, LaPorte, Newton, Jasper, Starke and Pulaski counties.