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INDIANA BUSINESS REVIEW

Climbing Out: Outlook for 2013

Outlook 2013
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International Outlook for 2013

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Because of weak growth, 2012 is not going to be remembered as the year where the major advanced economies rebuilt confidence in their medium-term prospects. With deficient confidence in the advanced economies, uncertainty will once again dampen our global growth forecast in 2013. As a result of the cautious growth expected out of the emerging economies and the uncertainty in the advanced economies, the global economy is expected to grow at just 3.6 percent this coming year.

This article looks at what some economists are preemptively calling the perfect storm of 2013 and will shed light on the threats for the global economy.

Our economic environment in the second decade of the 2000s is perceived differently from the first one. First, what the subprime financial crisis made apparent to all of us is that we, as American citizens, are living beyond our means. By exposing the extent of our global interdependence, the crisis highlighted the weaknesses of the banking system and demonstrated how the interdependence compounds the systemic risk prevalent in a weak financial market. This weakness obviously threatens not only the financial institutions of Europe, but global institutions as well. Secondly, the U.S. policy response to the subprime crisis, followed by the European sovereign crisis, revealed that many developed countries' governments are also living beyond their means. Finally, the frequency and intensity of the turmoil in the Middle East, and in particular the instability brought on by Iranian politics in the region, is creating volatility as leading economies, like the United States, the European Union (EU), China, India and Japan, are net importers of oil.

Table 1: Projections for Advanced and Emerging Economies, 2010 to 2013

Geography	Actual		Projections	
	2010	2011	2012	2013
World Output	**5.1%**	**3.8%**	**3.3%**	**3.6%**
Advanced Economies	**3.0%**	**1.6%**	**1.3%**	**1.5%**
United States	2.4%	1.8%	2.2%	2.1%
Euro Area	2.0%	1.4%	-0.4%	0.2%
Germany	4.0%	3.1%	0.9%	0.9%
France	1.7%	1.7%	0.1%	0.4%
Italy	1.8%	0.4%	-2.3%	-0.7%
Spain	-0.3%	0.4%	-1.5%	-1.3%
Japan	4.5%	-0.8%	2.2%	1.2%
Emerging and Developing Economies	**7.4%**	**6.2%**	**5.3%**	**5.6%**
China	10.4%	9.2%	7.8%	8.2%
India	10.1%	6.8%	4.9%	6.0%
Brazil	7.5%	2.7%	1.5%	4.0%

Source: International Monetary Fund, *World Economic Outlook*, October 2012

Uncertainty Created by Higher National Debt in the Advanced Economies

Large public debts almost always lead to higher long-term interest rates, higher future taxation, higher inflation, greater uncertainty and, therefore, greater vulnerability to crises. With these threats in mind, the large public debt in the advanced economies is likely to have an adverse effect on investment, productivity and economic growth.

In the United States, the inability of Congress to plan a way to change the path of our public debt will hurt us in the long run, but in the very near future it forces us to face a "fiscal cliff." The fiscal cliff refers to the expiration of Bush-era tax cuts (threatening consumer's disposable income) and the launch of automatic annual spending cuts spread over the next decade (threatening the government's ability to pull the economy to growth), which will lead to a recession in the first two quarters of 2013.

The situation in Europe is also very concerning. On one side, the southern economies (such as Greece and Spain) are displaying austerity fatigue; on the other side, the northern economies (such as Finland and Germany) are displaying bailout fatigue. This could very well result in an exit of the eurozone by either Greece (debtor) or Finland (creditor). Given the history of Europe, the big two (France and Germany) need to avoid a disorderly breakup of the eurozone. Meanwhile, the periodically resurfacing fear and panic of a disorderly European breakup raises the borrowing costs for the most fragile economies and threatens to push those countries into insolvency, which would create further problems for Europe's economy. This is why Europe's growth forecast is very guarded even at 0.2 percent.

Japan's debt, by virtually any measure, is the highest in the world. Complicating the matter, the country's aging population and the cashing of their pensions is putting further strain on Japan's ability to maintain a sustainable trajectory of their public debt. This growing strain will continue to decrease business sentiment and has diminished the growth prospects of Japan, which is forecasted to grow at 1.2 percent in 2013.

Uncertainty Created by the Banking System in the Advanced Economies

Every financial crisis shows the same vicious spirals: when the banks are in trouble, credit rationing follows, growth weakens and the government steps in to prevent a bigger liquidity crisis. Then, the intervention of the government affects the sovereign debt level, and this in turn further weakens the banks. When the banks are weak, they lend less—which hurts consumption and business investment—and then the government gets stretched more, which grows government debt held by the weak banks.

In the United States, we seem to have cleaned up the excesses where they existed and are in the process of creating a buffer such as the Dodd-Frank Act, which is a regulation intended to promote the financial stability of the U.S. by improving accountability and transparency in the financial system and ending abuses of the financial system under the "too-big-to-fail" clause. But in mid-2012, JP Morgan's significant risks and losses clearly revealed that despite the Dodd-Frank Act, "too-big-to-fail" and the financial risks that come with it continue to represent a threat for the taxpayers despite increased regulation of the financial industry.

In Europe, the weak banking problem is apparent and imminent, so it is time to clean up banks' excesses. Any solution to reducing the excesses is going to be costly to the creditor countries (their taxpayers) and dangerous in terms of added moral hazard. Europe needs a stronger central supervision and the mutualization of some liabilities in the banking sector. Mutual liabilities can be created through a joint European fund, which would mimic the FDIC's role in the U.S., and then be used to re-capitalize the failing banks. This solution may prove too costly to implement, and thus Europe may search indefinitely for an answer to keep the eurozone intact.

Uncertainty Created by Weakened Growth in the Emerging World

China is expected to be the driver of global growth as it has been in the past decade. Despite global pessimism, China is forecasted to grow 8.2 percent in 2013. The downside risks of China's two major trading partners, the U.S. and the EU, threaten China's ability to hit its forecasted growth rate. Furthermore, China has been a growth model plagued with distortions, including the influence of the state in controlling key prices such as interest rates, the exchange rate and natural resource pricing. In addition, distortions occur since the state has a majority stake in enterprise ownership and tends to politicize investment decisions, artificially spur export-led growth and favor manufacturing over services.

After strong growth peaking in 2010, Brazil has been slowing ever since and is forecasted to grow at 4 percent in 2013. Much has to do with external factors brought in from the global economic slowdown; nevertheless, the internal economic woes of this country continue to stem from the "Brazil cost" (specifically, the high cost of doing business in Brazil is brought on by its mix of high taxes, high labor costs, infrastructure bottlenecks that strangle businesses facing stiff competition abroad, as well as high interest rates).

Conclusion

Our forecasted global growth of 3.6 percent is assuming that the major global economic threats are kept in check: namely that the U.S. finds a solution to its deficit problems and that the eurozone maintains a somewhat stable economic climate. If not, as Nouriel Roubini predicted, it will create a perfect storm and lead to another global contraction.

U.S. Outlook for 2013

Willard E. Witte: Professor Emeritus, Department of Economics, Indiana University Bloomington

The U.S. economy in 2012 managed to underachieve even relative to our unambitious expectations. A year ago, we thought growth might be a little above 2.5 percent for the year, which would have been a modest improvement from the 2 percent achieved in 2011.

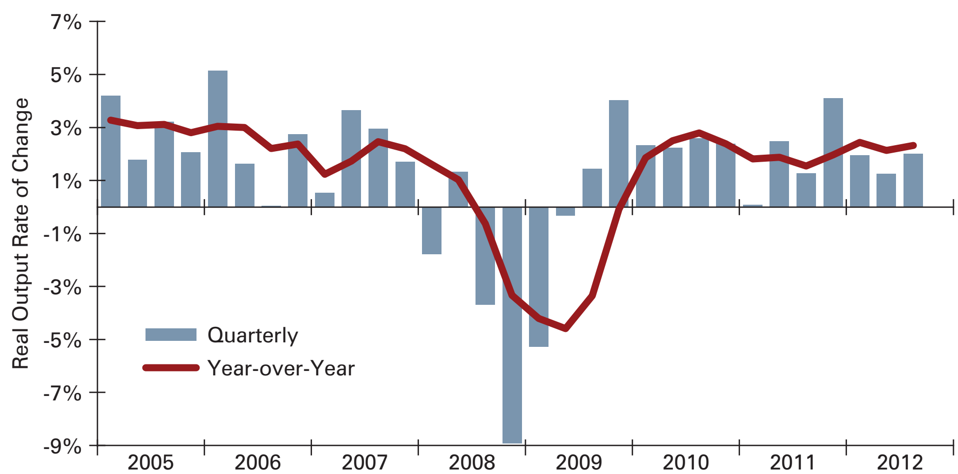
Instead, as shown in **Figure 1**, through three quarters the economy has expanded at an annual rate of only 1.7 percent. Job creation has been equally disappointing. We anticipated job growth would average close to 170,000 per month. Through October, the actual outcome has been just 157,000 (see **Figure 2**). The unemployment rate, on the other hand, has come down more than we anticipated—to 7.9 percent in October. A significant drop in the labor force participation rate explains this apparent contradiction. Individuals who stop looking for work (and thus drop out of the labor force) are no longer considered to be unemployed. If such discouraged workers were included, the unemployment rate would be about 1.5 percent higher. In addition, another 5 percent of the labor force who are employed part-time would rather have a full-time job.

Explanations for this depressing situation are not entirely convincing, but a list of usual suspects is available. Part of the problem lies abroad: Europe is making little progress in dealing with its sovereign debt problems, and China is clearly transitioning to a slower growth path. Part of the problem is domestic: The winding down of the stimulus package implied an inevitable shrinkage in the government sector. 2012 will be the third straight year in which government spending on goods and services (not including transfers such as Social Security and Medicare) has declined. The inability of the federal government to reach any firm decisions about tax policy and its budget has created great uncertainty. This uncertainty has left businesses unwilling to hire or invest.

These headwinds are unlikely to disappear in 2013. The problems facing both Europe and China are chronic. The domestic political situation was not clarified by the election, and divided government is still likely to thwart dramatic progress. As a result, we expect that 2013 will be generally similar to 2012: unacceptably slow growth without much progress in the labor market.

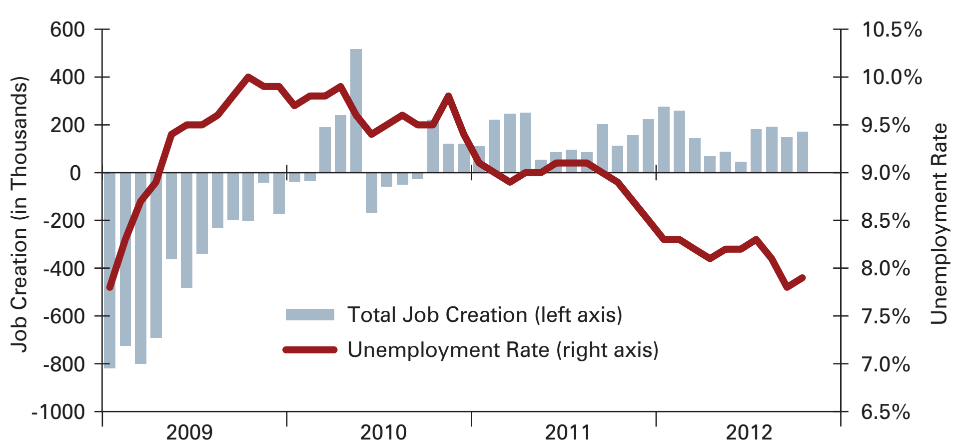
> *We expect that 2013 will be generally similar to 2012: unacceptably slow growth without much progress in the labor market.*

Figure 1: U.S. Real Output Rate of Change, 2005 to 2012



Source: Bureau of Economic Analysis

Figure 2: U.S. Job Creation and Unemployment Rate, 2009 to 2012



Source: Bureau of Labor Statistics

The Forecast

- We expect output to grow about 2.5 percent on a fourth-quarter to fourth-quarter basis. This will be better than 2012, due to somewhat better household spending, significant improvement in housing and less drag from the government sector.
- Employment will continue to increase, but only enough to allow marginal progress in reducing unemployment. By the end of 2013, unemployment will still be above 7 percent.
- We expect inflation to remain well contained in 2013.
- The housing sector has hit bottom, and the wave of foreclosures is finally starting to recede. During 2013, home prices will be increasing, and new home construction will be a bright spot in the economic landscape.
- The Federal Reserve lowered short-term interest rates to virtually zero almost four years ago and has said it will maintain this stance through mid-2015. It has also announced that it will purchase about $40 billion in securities per month for an indefinite period (quantitative easing, aka QE infinity). This is unlikely to have any dramatic positive effect.
- Any actions on the federal deficit/debt will be welcome. Inaction would be very counterproductive (more on this below).

So we see continuing tepid economic recovery during 2013, with disappointing output expansion, low inflation and a small decline in unemployment. This is better than a slide back into recession, but is a long way from an optimistic outlook.

The Caveats

Moreover, like a year ago, there is a roster of things that could adversely upset our expectations. In terms of immediacy, the "fiscal cliff" tops the list. Without political compromise—something we have little experience with recently—a long list of tax increases and spending reductions will go into effect on January 2. If a cliff dive does occur, it would almost certainly put the economy back into recession with negative growth for much of next year, with a decline in employment and rising unemployment. In fact, the uncertainty about the situation is already having an impact on business decisions. In the third quarter, investment in plant and equipment actually declined. The tepid pace of hiring probably also reflects this ambiguity.

As mentioned earlier, the external situation is also a minefield. Europe could go critical. The slowdown in China could go critical. The Middle East could go critical.

The Bright Spots

Unlike a year ago, there are also definite bright spots. One is the revival of the housing sector. From its peak in late 2005 to its trough almost five years later, housing activity receded by nearly 60 percent. In 2012 (through the third quarter), however, housing accounted for one-fifth of the overall growth of the economy even though the sector comprises less than 3 percent of GDP. Over the past year (through October), housing starts have increased 35 percent. On a sustained basis, the demand for new housing in the U.S. is at least 1.2 million units. That implies a further increase of about 40 percent just to get to the long-run trend. During 2013, housing should directly contribute a full percent to the overall growth of the economy, with an additional contribution from purchases of furnishings and other associated spending.

A second growth sector—totally unexpected just a few years ago—is energy. As everyone knows, production of oil and natural gas from shale is booming. The economic impact in regions affected is dramatic. North Dakota has an unemployment rate of 3 percent. Ohio (a site of some drilling, but also a lot of associated manufacturing) has the lowest unemployment rate of the Great Lakes states. More than 1 million jobs have been created nationally by the industry. There are also enormous potential indirect effects. The supply glut has drastically lowered natural gas prices. This is nice for homeowners who heat with gas and a potential game-changer for energy intensive industries—not to mention those that use gas as a raw material (e.g., chemical producers).

Housing and energy provide a base on which a solid expansion could take shape. At a minimum, they provide a barrier against a slide back into recession. But the heart of the economy is still consumer spending and business investment. Both these areas are being held back by the pervasive uncertainty emanating from government policy and the international situation. As long as that persists, the most likely course for the economy is continued slow growth.

Financial Outlook for 2013

D.J. Masson: **Clinical Associate Professor of Finance**, Kelley School of Business, Indiana University Bloomington
Robert S. Neal: **Associate Professor of Finance**, Kelley School of Business, Indiana University Bloomington
Charles Trzcinka: **Professor of Finance**, Kelley School of Business, Indiana University Bloomington

Last year we wrote about the roller coaster ride caused by the European sovereign debt problems. While this "beast" is still in the picture, we predict that the 2013 financial markets will be driven more by earnings than by fear.

Earnings are relatively high, but the third quarter numbers were disappointing. In the 12 months ending in October 2012, the S&P 500 index rose about 13 percent. While this return was much higher than for the same period last year, we have lost about half of this gain since the election. It seems that the election was not a positive factor for the market. There are two possible reasons. One is that the market thinks the Obama administration will be less friendly to business in its tax and regulation policies. The second is that the market is concerned about the uncertainty from Washington. The election did not end the partisan bickering and markets do not like uncertainty. We cannot determine which factor is dominant but we expect that both are likely to continue. With this as a background, we turn to fundamentals.

Economic Fundamentals

Stock prices are a very good indicator of future economic activity: investors buy stocks anticipating the real economy will pick up in the near future. There are many positive signals that suggest optimism for 2013.

- Corporate earnings are still generally high. Third quarter earnings for 2013 were disappointing for some industries and companies, but more companies are reporting a positive earnings surprise than a negative one.
- Price-earnings (PE) ratios are close to historical averages, suggesting that stocks are not overvalued. The PE ratio based on current earnings for the S&P 500 is currently 15.9, just below the long-term average of 16. The PE ratio for the projected earnings of the S&P 500 is 12.6, which is below the average value of 14.3 over the past 10 years.
- Major U.S. banks are stronger than their European counterparts. The stories out of Europe are about the weakness of bank balance sheets mostly in Spain and Italy—but we hope not Germany.
- The Federal Reserve is continuing to keep interest rates low to fuel the economy. The Fed Funds target rate of zero to 0.25 percent will probably be maintained throughout 2013, and the 10-year bond rate will likely maintain its current range of 1.5 percent to 2.0 percent.
- The dollar has been strong since last year but weaker over the past three months perhaps in response to "quantitative easing III." Its current direction is a help for companies growing their exports. The dollar/euro has fluctuated around $1.30 in spite of the problems with European debt.
- Housing is the biggest potential upside as the market appears to have hit bottom and the excess from the housing "bubble" has been worked off. Through the first half of 2012, the Case-Shiller Home Price Index has risen 5.2 percent and new residential construction is up 5.6 percent.
- We think inflation will remain subdued. Our forecast of about 2 percent is slightly higher than most commercial forecasts.

> *We predict that the 2013 financial markets will be driven more by earnings than by fear.*

However, negative factors could make the market recovery short-lived:

- The immediate risk is the fiscal cliff which is, in case you haven't heard, the expiration of the Bush tax cuts, the payroll tax reduction and the reduction (called sequestering) of federal government expenditures on much of the federal budget. According to the Congressional Budget Office, taxes will rise from 15.7 percent of GDP in 2012 to 18.4 percent in 2013. Spending will fall from 22.9 percent to 22.4 percent of GDP. If we go over the cliff, we predict a recession in the first half of 2013 with a recovery by this time next year.
- Going over the cliff may shake the confidence of investors in the ability of the political system to respond to our long-term fiscal problems. On the other hand, it would cut the deficit by 50 percent, which may give the markets confidence that fiscal solutions are possible.
- Analysts are generally cutting earnings estimates for the fourth quarter of 2012 and early 2013. More companies are giving negative guidance and revenue forecasts are down. The surprising development

is that revenue numbers are much more disappointing than earnings. Over the past four quarters, 70 percent of S&P 500 companies have reported increased earnings over average estimates, but only 36 percent have reported a sales increase over average sales. This is the lowest percent since the first quarter of 2009. It is not clear whether these forecasts are based on the fiscal cliff.

- The European Central bank is still struggling with banks in Spain, Portugal, Italy and Greece. In addition, the International Monetary Fund currently estimates that the eurozone growth will be less than 1 percent for 2013. This is an improvement over 2012, but still represents very weak growth.
- Business investment is weak. In the third quarter of 2012, the growth rate of spending on equipment and software fell to zero. Companies have very large cash positions on their balance sheets, which may be related to policy uncertainty in Washington.
- The Conference Board Leading Economic Index is up only 0.2 percent for the past two months. In addition, a survey of CEOs from the Business Roundtable suggests increasing pessimism about future earnings and worldwide economic conditions.
- In spite of the recent upturn, industrial output is still only at 78 percent of capacity—well below the long-run average (including previous recessions) of 81 percent.
- The expansion of the national debt since the end of 2008 is unprecedented since World War II. By next year, the debt-GDP ratio will have doubled, from 40.5 percent to almost 80 percent. The massive government deficits may lead to fears of higher interest rates, accelerating inflation and slower growth in the future. These trends will have an adverse effect on business investment. The projected budget for 2012 is somewhat lower, about 7 percent of GDP. If the 2012 deficit is financed by tax increases, the tax bill will average about $3,500 per person.
- The U.S. still faces a huge funding deficit in Social Security and Medicare payments. The present value shortfall is about $62 trillion. This is equivalent to $206,000 per person or $825,000 per U.S. household. These problems are not insurmountable, but they do require common sense and bipartisan leadership—something that appears to be in short supply in Washington, D.C.

Forecast

Looking forward to 2013, the positives outweigh the negatives for the economy. We expect the recovery to continue, albeit at a rate much slower than a typical recovery, with both GDP growth and inflation in the 2 percent to 3 percent range. The pace of the recovery, however, will not improve until consumers have recovered enough to respond strongly. This process will extend beyond the end of 2013. Housing may be the largest potential upside, the world economy the biggest downside.

In this environment, we expect that the return to equities will be positive, regardless of whatever cliff we go over, but below the long-run average return of 9 percent. With Treasury bonds already at extremely low yields, there is little potential for gains with these investments. In addition, we think there are material long-term inflation risks which could make long-term bonds unattractive. In contrast, the low Treasury rates make mortgage rates extremely attractive, with 30-year fixed rates at 3.625 percent and 15-year fixed rates at 2.75 percent (at the time of this writing).

Summary

The U.S. economy appears to be heading to smoother waters, but unemployment remains a stubborn reminder of the recession. Partisan politics may continue to disrupt economic relationships especially for the fiscal cliff. The adjustment process to full recovery and full employment, however, will likely continue to take time. Until a complete recovery is in sight, we expect stock market returns to be positive, but below their long-run average.

Indiana's Outlook for 2013

Jerry N. Conover, Ph.D.: Director, Indiana Business Research Center, Kelley School of Business, Indiana University

A year ago I predicted that Indiana's economy would improve only modestly in 2012, and I'm glad to report now that I underestimated the state's rebound. Indeed, in some respects we've made quite notable progress. Here is an overview of Indiana's recent performance and its economic outlook for the year ahead.

Employment and Unemployment

At the bottom of the recession, Indiana payrolls had shed nearly a quarter million jobs in just a year and a half. As **Figure 1** shows, however, employment has grown steadily during the subsequent recovery. So far in 2012, payroll employment is averaging more than 50,000 jobs above last year's levels. Moreover, the pace is accelerating, with September's count up 65,100 from a year earlier—a rate of job creation comparable to the high-flying days of the late 1990s.

Job growth has been spread across nearly all sectors. Following a huge recession plunge, employment in manufacturing has grown consistently during the recovery, adding nearly 20,000 jobs over the past 12 months; to date, however, the sector has regained only about half of the jobs it lost. Jobs in private education and health services grew throughout the downturn, with sector employment now more than 30,000 above pre-recession levels.

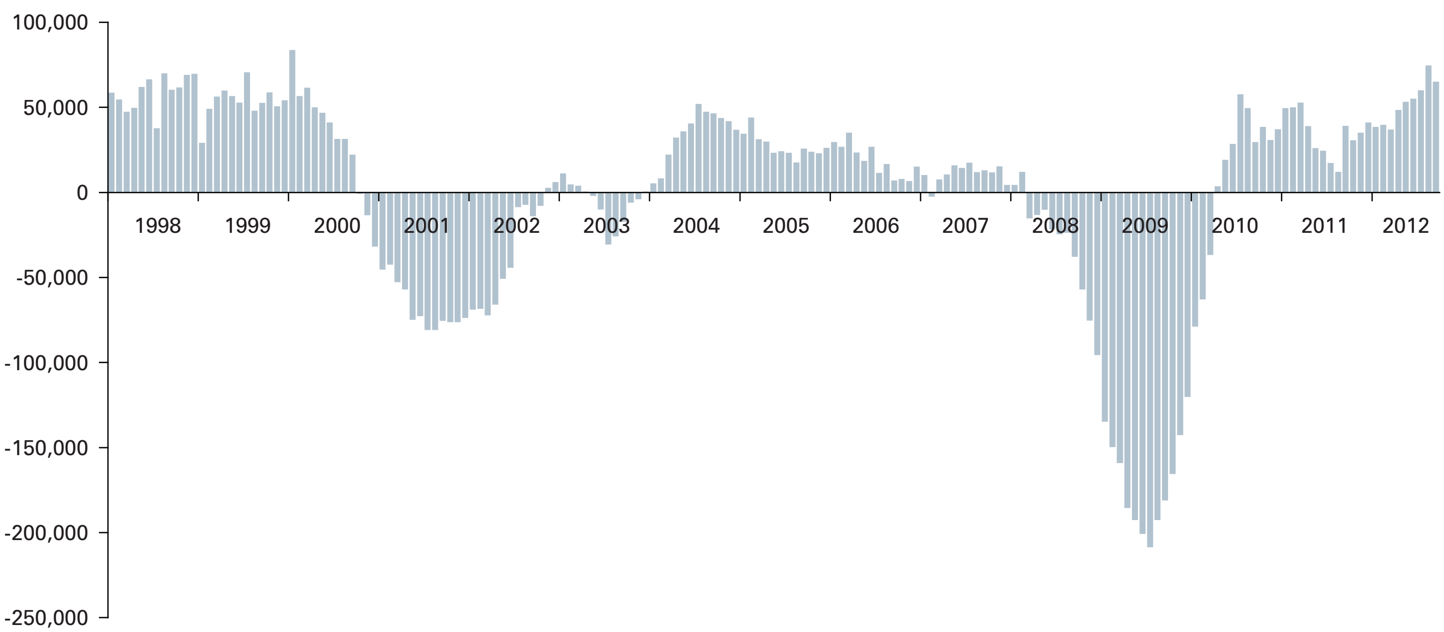
Professional and business services jobs are up about 7,500 over a year ago, but the sector's growth rate has slowed during the last couple of years. The only major sector to experience a decline in employment is financial activities, which has shrunk by 16,000 jobs since a year ago. Revealing a clear long-term trend, Indiana's financial sector has contracted in all but three years since the late 1990s.

Indiana's unemployment rate rose greatly during the recession, topping out at 10.8 percent. The rate has declined relatively steadily since then to 8.3 percent, which is still well above "normal" and represents a quarter million Hoosiers looking for work.

> *Indiana's gross domestic product was hit much harder than the nation's during the recession, but it also rose more quickly as the recovery began, led by a manufacturing rebound.*

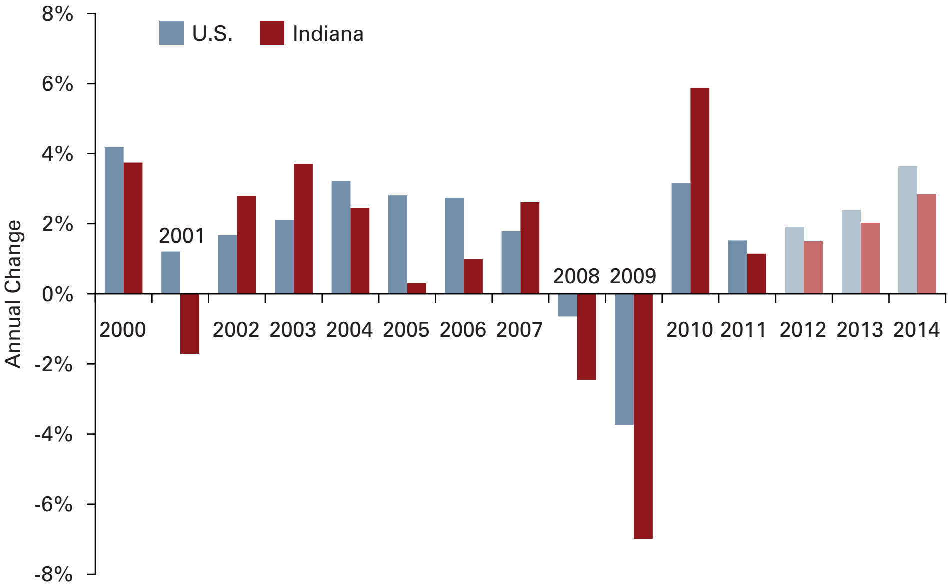
In 2013, we expect Indiana payroll employment to grow by more than

Figure 1: 12-Month Change in Indiana Nonfarm Employment, January 1998 to September 2012



Source: IBRC, using Bureau of Labor Statistics data

Figure 2: Annual Change in Real GDP, 2000 to 2014



Note: Data for 2012 to 2014 are projections.
Source: IBRC, using Moody's Analytics data

> *The unemployment rate will descend very slowly, ending 2013 near 7 percent.*

50,000, with gains spread across most sectors. The unemployment rate will descend very slowly, ending 2013 near 7 percent. At the current pace, we won't be back to the pre-recession level of around 5 percent for two to three more years.

Overall Economic Output

In relative terms, as shown in **Figure 2**, Indiana's gross domestic product (GDP) was hit much harder than the nation's during the recession, but it also rose more quickly as the recovery began, led by a manufacturing rebound. The state's economy continues expanding, but not as quickly as that of the nation. Indiana's GDP is on track to grow 1.5 percent in 2012 and 2.0 percent in 2013—both rates are about 0.4 percentage points slower than growth nationally. On the bright side, in the coming year the state economy will finally be larger than it was before the recession.

Personal Income

Following a long, gradual decline in relative terms over many years, Hoosiers' personal income has kept pace with the nation since the recession began—accounting for about 1.8 percent of the U.S. total—and lately it's been catching up a little. In the first half of 2012, Indiana had the nation's 11th fastest-growing personal income. Indiana personal earnings have risen more rapidly than the national average, led by earnings from durable goods manufacturing, transportation and warehousing, and farming.

Indiana 2013 real personal income growth will start out negative in the first quarter, due to expiration of the payroll tax cut, and then rise into the upper 2 percent range the rest of the year, averaging about 1.8 percent for the full year.

Housing

Indiana's housing market is decidedly more upbeat this year, with sales and prices up 13.1 percent and 3.6 percent, respectively, through September compared to the same period in 2011. The inventory of unsold homes on the market is down to nine months' supply and falling, indicating that the glut of homes for sale is steadily shrinking.

We forecast Indiana existing-home sales to rise 14 percent, as employment and incomes improve, and home construction to pick up steam, with housing starts increasing by one-third over 2012 numbers.

Retail Sales

Indiana retail sales rose 8 percent in 2011, and while they're still growing, the pace has abated somewhat. Our forecast for 2013 predicts modest retail growth of about 3 percent.

Leading Index for Indiana

The Indiana Business Research Center's Leading Index for Indiana (LII) tends to predict changes in the state's economic performance several months in advance. The LII in October rose 0.3 points to 100.1, its highest level since early 2008, an encouraging sign. Some components that make up the LII are moving in different directions, however, suggesting that conservative caution is in order—a time-honored Hoosier trait.

All in all, this is the best outlook we've offered in several years. While we don't predict anything approaching rapid growth, 2013 promises to be a tolerable year for the Indiana economy.

Indiana's Agricultural Outlook for 2013

Corinne Alexander, Ph.D.: Associate Professor, Department of Agricultural Economics, Purdue University, West Lafayette

The outlook for Indiana agriculture in 2013 is mixed and highly dependent on the weather. With normal weather next year and a return to normal crop yields, prices for corn, soybeans, wheat and hay could decline as much as 30 percent by late summer, which would be welcome relief for livestock producers currently suffering losses from drought-induced high feed prices. However, because U.S. inventories of corn and soybeans are at near-record tight levels, any weather problems would result in corn and soybean prices that would continue to provide major challenges for livestock producers. The current drought-induced record crop prices mean that the crop sector as a whole can expect above average incomes in 2013 even as they raise concerns about higher input costs for the 2013-2014 crop.

The pork industry has responded to the record feed prices by reducing the size of the breeding herd by 1.3 percent. Even so, the industry will face large losses over the next six months, and hog operations in a weak financial position will need the support of their lenders and other creditors. Given the herd liquidation underway, hog prices will increase and hog producers should be back to break-even by the summer of 2013. If there is a return to normal corn yields in 2013, feed costs would moderate and pork producers would be in a position to expand production.

Losses are currently the norm for the dairy industry, which is facing higher feed costs for grains and forages. Milk prices are forecast to be slightly higher, but they will still not cover costs. At the same time, even though the dairy industry is reducing cow numbers, milk production is forecast to increase due to increased output per cow. Dairy farms that produce their own feed and forage may be best positioned to survive this period of volatile feed costs.

The 2012 drought has been devastating to the beef cattle industry. Over the last five years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The 2011 drought in the Southern Plains forced cattle producers to liquidate their herds, and the 2012 drought in the Midwest and Plains is further reducing the cattle herd. As a result, per capita domestic beef availability in 2013 is 15 percent lower relative to 2007, and the USDA is forecasting record beef prices in 2013. As forage supplies increase and feed costs moderate, Indiana beef producers are well positioned to be profitable in late 2013 and beyond.

The row crop sector will have overall favorable incomes, but the impact of the 2012 drought on individual farm family incomes will depend on individual final yields, the amount of grain they forward priced at the lower prices last spring and their crop insurance. Some crop producers who have large yield losses, no crop insurance and who forward priced grain will face record losses, while other producers who have moderate yield losses, crop insurance and who did not forward price grain will have record incomes.

Looking forward to 2013, with normal weather and farmers globally responding to the current record prices, crop prices are expected to moderate significantly. Given the outlook for crop prices and input costs, row crop producers are forecast to have strong incomes in 2013. However, crop producers face many risks and crop insurance will continue to play a valuable role in managing these risks.

As of June 2012, the value of average quality Indiana farmland increased 16.3 percent over the previous 12 months according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey, which found that the value of "good" farmland in their district was 15 percent higher by mid-year. Looking to 2013, farmland buyers are expected to be less aggressive bidders of record-high land values, slowing the rate of increase. In addition to farm incomes, farmland values depend on factors including long-term interest rates, government support, real estate taxes and alternative investment opportunities. Long-term interest rates are extremely low and are expected to remain low in the near future, which supports higher land prices. The biggest factors supporting higher land prices continue to be strong crop incomes and the absence of attractive alternative investments.

"Any weather problems would result in corn and soybean prices that would continue to provide major challenges for livestock producers."

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2012.pdf.

Three Key Indicators—Forecasts for Jobs, Income and Productivity

Carol O. Rogers: Deputy Director, Indiana Business Research Center, Kelley School of Business, Indiana University

A plethora of critical information is provided on the economic conditions of the world, the nation, our state and metropolitan areas in this issue. Each article has been researched and written by economists who live and work in Indiana, providing us with unique perspectives on the economic changes and the road ahead.

We provide this particular page as an additional and alternate view of Indiana and its metropolitan areas, focusing on three specific indicators—productivity, jobs and income (see **Table 1**). These projected numbers may not match those of the area-specific authors because these have been gleaned from Moody's Economic Forecasts. We encourage you to read all of the articles in addition to this snapshot to have a fuller understanding of each area, and utilize both this snapshot and the in-depth articles as an important part of your financial, economic and workforce planning for 2013.

So, what can we gather from just three indicators? On per capita personal income (PCPI), an indicator of relative wealth in an area, Indiana and its metros are forecast to gain anywhere from 2.8 percent in South Bend to 4.2 percent in Muncie (see **Figure 1**).

The same can't be said in terms of productivity gains, as measured by the gross domestic product (GDP) figures seen in **Figure 2**. The state and its largest metro area, Indianapolis, show forecasted gains of 2 percent in GDP, while half of the metro areas will see increases of less than 1 percent.

Jobs data show increases between 1 and 2 percent in regions that have significant manufacturing investments: the state, Bloomington, Columbus, Elkhart, Kokomo and Lafayette (see **Figure 3**).

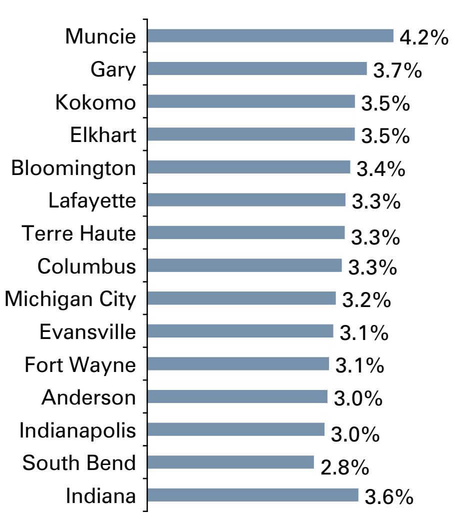
Overall, the Moody's Economy.com forecasts show mixed results across our metropolitan landscape, but are primarily positive across all three measures. There may be a chorus of "slow" or "more of the same" from our authors as our economies continue to grow by inches.

Table 1: Projected Percent Change for Three Key Indicators, 2012 to 2013

	GDP	Jobs	PCPI
Indiana	2.0%	1.2%	3.6%
Anderson	0.4%	-0.2%	3.0%
Bloomington	1.1%	1.2%	3.4%
Columbus	1.0%	1.9%	3.3%
Elkhart	0.8%	1.3%	3.5%
Evansville	1.2%	1.0%	3.1%
Fort Wayne	1.5%	0.9%	3.1%
Gary	1.3%	0.4%	3.7%
Indianapolis	2.0%	0.9%	3.0%
Kokomo	0.6%	1.0%	3.5%
Lafayette	1.1%	2.0%	3.3%
Michigan City	0.7%	0.1%	3.2%
Muncie	0.6%	1.2%	4.2%
South Bend	0.8%	0.4%	2.8%
Terre Haute	0.6%	0.1%	3.3%

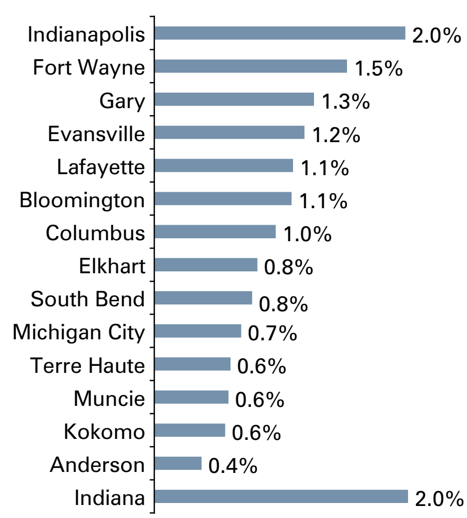
Source: IBRC, using subscription data from Economy.com

Figure 1: PCPI Growth Forecast for 2013



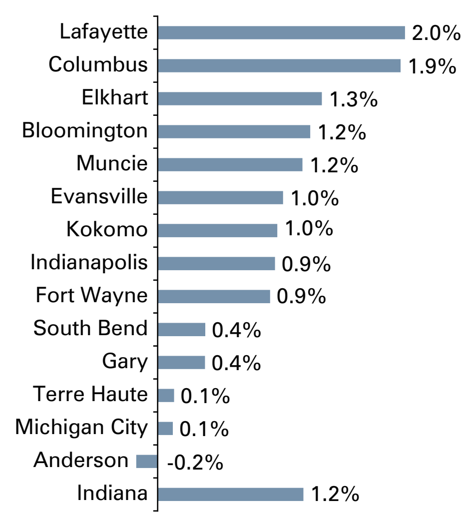
Source: IBRC, using subscription data from Economy.com

Figure 2: GDP Growth Forecast for 2013



Source: IBRC, using subscription data from Economy.com

Figure 3: Job Growth Forecast for 2013



Source: IBRC, using subscription data from Economy.com

Anderson Forecast 2013

Dagney Faulk, Ph.D.: Director of Research, Center for Business and Economic Research, Ball State University
Emmett Dulaney, DBA: Associate Professor of Entrepreneurship, Fall School of Business, Anderson University

Thus far, the available data for 2012 show a mixed picture for the Anderson Metropolitan Statistical Area (MSA). The unemployment rate in the Anderson MSA (Madison County) decreased by more than a percentage point during 2012, but still remains above the state's rate. While the labor force decreased, the number of jobs in the MSA increased but still continues to be substantially lower than at the beginning of the recession. There have been nine announcements so far this year of employers planning to come to the area, totaling 1,067 potential jobs. Hoosier Park Casino is facing increased competition as Ohio casinos open for business. Average weekly wages increased in most industry sectors but still lag the state. The housing market appears to have stabilized and the sales of existing homes have increased as has the average home price. Unfortunately, more people are receiving food stamps and city schools continue to lose students.

This article includes the most current data available at the time of writing on various measures of economic activity from public sources for the Anderson MSA. The goal is to analyze changes over the past year. A summary of the labor market forecast for the Anderson area is included in the conclusion.

Table 1: Labor Force and Unemployment for Madison County, September 2011 to September 2012

Year	Month	Labor Force	Unemployed	Unemployment Rate
2011	September	61,534	6,202	10.1
	October	61,519	6,131	10.0
	November	61,058	6,178	10.1
	December	60,683	6,103	10.1
	Annual	**61,156**	**6,432**	**10.5**
2012	January	60,682	6,550	10.8
	February	60,838	6,303	10.4
	March	61,018	6,120	10.0
	April	60,479	5,393	8.9
	May	60,780	5,536	9.1
	June	60,478	5,889	9.7
	July	59,894	5,893	9.8
	August	60,193	5,708	9.5
	September*	59,967	5,424	9.0

*September 2012 data are preliminary.
Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

Table 2: Anderson Metro Employment by Industry, Year-to-Date 2011 to 2012

Industry	2012	Change since 2011	Percent Change 2011–2012
Total Nonfarm	39,889	89	0.2%
Total Private	33,800	133	0.4%
Goods-Producing	5,011	89	1.8%
Manufacturing	3,722	44	1.2%
Private Service-Providing	28,789	44	0.2%
Trade, Transportation and Utilities	8,200	-100	-1.2%
Information	500	-67	-11.8%
Financial Activities	1,589	-11	-0.7%
Professional and Business Services	3,544	233	7.0%
Private Educational and Health Services	7,900	22	0.3%
Leisure and Hospitality	5,422	33	0.6%
Other Services	1,633	-67	-3.9%
Government	6,089	-44	-0.7%

Note: Year-to-date reflects January to September for each year. September 2012 data are preliminary.
Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

Labor Markets

In Madison County, the unemployment rate has decreased over the past year (see **Table 1**). The preliminary unemployment rate for September 2012 is 9.0 percent, down from 10.1 percent a year earlier. The unemployment rate is consistently higher than the state unemployment rate (7.5 percent, not seasonally adjusted). The number of unemployed workers in Madison County has decreased by more than 1,100 over the course of the year, and the labor force has decreased by about 700 workers leading to the decreasing unemployment rate and suggesting that frustrated job seekers are continuing to drop out of the labor market or migrate out of the area (or both). Additionally, almost

11 percent of those working within the county live elsewhere and travel here only for employment.

A look at the Current Employment Statistics shows variation in employment gains and losses in 2012. Total nonfarm jobs in Madison County averaged 39,890 for the first three quarters of 2012. This is the first increase in nonfarm employment since the recession, yet still represents a decrease of about 1,400 jobs since the beginning of the recession. Professional and business services was the sector with the largest job growth (adding more than 200 jobs). The sector with the largest job losses was trade, transportation and utilities (see **Table 2**).

This marks the second year of net increases in manufacturing employment since 2009, but these are small increases relative to the thousands of manufacturing jobs lost over the past four decades. The Anderson MSA began the millennium with 10,500 manufacturing jobs and currently has around 3,800 (as of September 2012). The peak for manufacturing employment was around 30,000 jobs in the early 1970s.

Average wages increased to $660 per week during the first quarter of 2012 (the most recent data available) and continue to be lower than the state average of $821 for the same period. **Table 3** shows average weekly wages (not adjusted for inflation) for the first quarters of 2011 and 2012. Most sectors experienced increases in wages. The sectors with the strongest wage growth were arts, entertainment and recreation (22.3 percent), finance and insurance (12.8 percent), and professional, scientific, and technical services (12.5 percent). Sectors that experienced declines in wages include construction and information. The inflation rate between the first quarter of 2011 and 2012 was 2.8 percent, so workers in most sectors experienced real wage growth over this period.[1]

Table 3: Average Weekly Wages in the Anderson MSA, 2011 Q1 to 2012 Q1

Industry	2011 Q1	2012 Q1	Percent Change
Total	$635	$662	4.3%
Arts, Entertainment, and Recreation	$422	$516	22.3%
Finance and Insurance	$798	$900	12.8%
Professional, Scientific, and Technical Services	$608	$684	12.5%
Accommodation and Food Services	$213	$239	12.2%
Public Administration	$717	$792	10.5%
Administrative and Support and Waste Management and Remediation Services	$408	$447	9.6%
Manufacturing	$1,057	$1,148	8.6%
Wholesale Trade	$804	$856	6.5%
Transportation and Warehousing	$722	$768	6.4%
Educational Services	$622	$649	4.3%
Other Services (Except Public Administration)	$373	$389	4.3%
Retail Trade	$401	$414	3.2%
Real Estate and Rental and Leasing	$467	$474	1.5%
Health Care and Social Services	$678	$686	1.2%
Agriculture, Forestry, Fishing and Hunting	$615	$615	0.0%
Construction	$767	$757	-1.3%
Information	$673	$657	-2.4%

Note: The authors feel the reported average weekly wages for management of companies and enterprises is inaccurate and therefore excluded it from this table.
Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

Housing

The housing market showed signs of stabilizing in Madison County. Residential construction as measured by new single-and multi-family housing units was similar to 2011 but still substantially lower than the number of permits issued in the mid-2000s (see **Table 4**). Sales of existing homes increased to more than 950 units (a 21 percent increase). The average price of homes sold also increased to more than $86,500—a 4.5 percent nominal increase relative to the same period last year (see **Table 5**).

Table 4: Madison County Residential Building Permits, Year-to-Date 2001 to 2012

Year	Total	Single-Family	Multi-Family
2001	265	257	8
2002	335	231	104
2003	444	364	80
2004	297	291	6
2005	368	326	42
2006	210	191	19
2007	146	144	2
2008	68	52	16
2009	38	36	2
2010	48	44	4
2011	39	37	2
2012	40	38	2

Note: Each year is based on January through September totals.
Source: U.S. Census Bureau

Social Safety Net

Changes in the number of food stamp recipients and the dollar amount of food stamp payments are one indicator of economic distress in a community. The number of food stamp recipients and the

Table 5: Madison County Residential Real Estate Sales, Year-to-Date 2004 to 2012

Year	Closed Sales	Average Sale Price
2004	1,244	$89,586
2005	1,221	$92,021
2006	1,294	$84,539
2007	1,161	$80,251
2008	1,038	$78,093
2009	937	$73,295
2010	812	$76,696
2011	786	$82,804
2012	955	$86,521

Note: Year-to-date reflects January to September for all years.
Source: Metro Indianapolis Board of Realtors

Table 6: Food Stamp Recipients in Madison County, January to October Averages, 2004 to 2012

Year	Average Monthly Food Stamps Issued	Average Monthly Food Stamp Recipients
2004	$1,173,429	13,389
2005	$1,376,317	14,524
2006	$1,457,203	15,388
2007	$1,546,086	15,812
2008	$1,574,533	14,879
2009	$2,085,753	15,832
2010	$2,506,633	18,796
2011	$2,838,637	21,411
2012	$2,954,793	22,354

Note: Dollar amounts are not adjusted for inflation.
Source: STATS Indiana, using FSSA data

corresponding amount of food stamps issued continued to increase during 2012 in Madison County but at a slower rate than the previous year (see **Table 6**). The average number of monthly food stamp recipients increased 4.4 percent to more than 22,000 individuals (about 17 percent of the population in the county) during the January to October time period. The dollar amount distributed in food stamps increased by more than 4 percent to exceed $2.9 million. This increase reflects the state of the economy in east-central Indiana during the slow recovery from the recession.

Education

The city schools have been losing students for a number of years and the trend shows little sign of reversing. A significant portion of that loss in students is attributable to families responding to the weak performance of the city's schools by using the tuition transfers to send their children elsewhere. As better-performing students leave the schools, it creates a spiral in which those very schools continue to suffer and perform poorly, in part because of the aptitudes of students they are left with. After graduation, more than 57 percent of high school graduates go on to a four-year school, yet only 16.6 percent of area residents have a four-year degree. Clearly, this is symptomatic of a brain drain in which educated residents are leaving the community.

Gaming

May 2012 marked the fourth full year of operation at Hoosier Park Casino. After declining between 2009 and 2010, the winnings generated at Hoosier Park increased over the past couple of years. Winnings increased 2.6 percent to $222.5 million and $55.3 million in wagering tax revenues generated from these winnings (see **Table 7**). As in the previous year, for fiscal year 2012 Hoosier Park ranked sixth of the 13 Indiana casinos in terms of total winnings. In November 2009, Ohio voters approved a ballot initiative to allow casinos in Cincinnati, Cleveland, Columbus and Toledo. The new casinos opened in Cleveland, Toledo and Columbus earlier this year along with a "racino" in Columbus. A casino is scheduled to open in Cincinnati during the spring of 2013. These casinos are likely to draw patrons from Indiana casinos and negatively affect wagering tax revenue.

Business Incubation

A large portion of the Flagship Enterprise Center's 193,200 square feet was occupied by Bright Automotive, a hybrid-vehicle firm founded in 2008. In February 2012, the company—which had plans to build a manufacturing site and produce 50,000 vehicles a year with up to 1,000 workers—folded.

Outlook

Extrapolating on the numbers and trends presented, the following outlook focuses on the three key areas of employment, education and housing.

Employment: Unemployment will continue to be a drain on the local economy for several years. There is a considerable lag and disparity between job announcements and actual payrolls. Manufacturing—one area that showed promise in the state last year and early this year—has sputtered and stalled once more. In Madison County, 72.4 percent of all firms employ less than 10 employees (86.6 percent have less than 20), so it is imperative that entrepreneurship and small business

Table 7: Hoosier Park Casino Win and Wagering Tax Totals, FY 2008 to FY 2012

Year	Win	Percent Change	Wagering Tax	Percent Change
2008	$15,873,432	n/a	$3,980,053	n/a
2009	$202,201,775	1,173.8%	$55,808,319	1,302.2%
2010	$201,116,846	-0.5%	$55,426,052	-0.7%
2011	$216,866,917	7.8%	$60,901,674	9.9%
2012	$222,463,973	2.6%	$55,333,226	-9.1%

Source: Indiana Gaming Commission

ownership be nurtured; however, Indiana received a "C" and "D" in a recent Kauffman Thumbtack Small Business Survey in the categories of promoting training and networking programs, respectively. The Indianapolis region (the survey did not hone in on smaller cities) was ranked "C" and "F" in those two areas. Replicating the study, Grant County—our neighbor to the north—found that only 18.3 percent of area business owners identified the economy as the biggest challenge to starting a business, while 30 percent said it was support. This is an area where Anderson could shine and differentiate itself from its neighbors, but it would take a coordinated effort on the part of all the parties that business owners must deal with.

Education: A properly educated workforce is necessary to attract high value-added jobs. There is much work to do in this area, but it is encouraging to see the work being done by the Madison County Education Coalition. With a strategic goal of developing a stronger linkage between economic development and education initiatives, this organization has accomplished much in a short period of time. One solution to the brain drain that others in the area (particularly the Grant County Economic Growth Council) are using is "forgivable loans" that reduce the amount of money graduates must pay back if they stay within the area.

Housing: It cannot be disputed that we have bottomed out in construction—the number of permits being issued in Madison County has stabilized but is still low compared to pre-recession numbers. The bad news is that the lack of new construction does not mean that the number of existing homes could not still represent a surplus—a condition leading to declining values—if the number of homes desired in the county lessens.

The official numbers show some small improvements over the economic situation in Anderson last year in some areas. In the coming year, we expect employment growth to be flat and small gains in income (in the 2 percent range) as the economy continues its slow recovery.[2]

Notes

1. Inflation rate for the Midwest region using the CPI for all urban consumers.
2. Forecast from the Center for Econometric Model Research, Indiana University, Bloomington, August 2012.

Bloomington Forecast 2013

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Ryan A. Krause: Research Assistant, Indiana Business Research Center, Kelley School of Business, Indiana University

Not all good news is good. A reader of *The Atlantic Cities* in early September would have learned that Bloomington, Indiana, from 2010 to 2011, was the second-best metro for a pay raise in the whole country.[1] Wow! Bloomington is doing well! What a great place to live!

But the correct response to this revelation would be, "Huh? Say what?" The report was too good to be true. The claim was supported by a dubious use of data. Bloomington's average increase in wages was not in fact 7 percent in one year, but a more modest 2.7 percent. That's a rather average increase, but average can feel pretty good when many other localities have been hit harder. The Bloomington Metropolitan Statistical Area (MSA) has emerged from the Great Recession in reasonably good shape, and the forecast for the Bloomington area is reasonably good too.

The Bloomington area sustained considerable population growth over the past decade. As a whole, the MSA's population grew by around 10 percent, roughly equivalent to the national average. As **Figure 1** shows, this growth occurred entirely within Monroe County. In contrast, the combined population of Greene and Owen counties has remained relatively constant, with a slight decrease over the last decade. This trend is projected to continue. Data from Moody's Economy.com suggest that growth in Monroe County

> *Employment in the education and health services sector has continued on an upward trajectory almost unabated.*

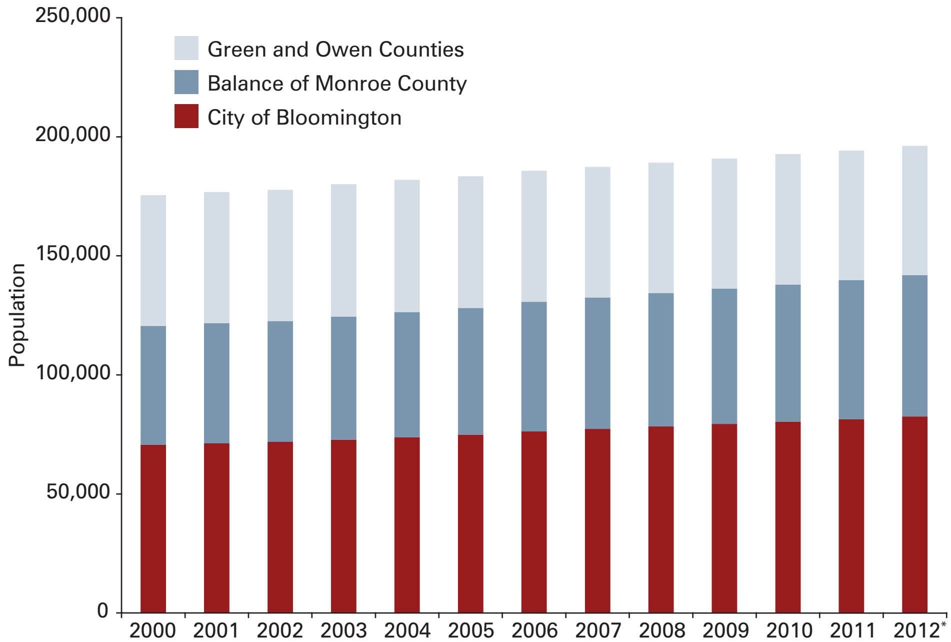
will push the Bloomington MSA population to 200,000 by 2014.

The Bloomington MSA did not suffer the setback in economic growth that the state of Indiana did over the last half decade. However, this also means that the recovery has not been quite as rapid. In fact, Bloomington's gross domestic product (GDP) only dropped in one year, 2007, by a paltry 0.6 percent. In contrast, Indiana's GDP dropped 2.5 percent in 2008 and 7.6 percent in 2009 (see **Figure 2**). As a result of this, the rebound in economic growth has been sharper for Indiana than for Bloomington. Indiana's economy grew by 5.7 percent and 1.1 percent in 2010 and 2011, respectively. In the same years, the Bloomington MSA's economy grew by only 0.5 percent and 0.1 percent, respectively. Projections have the state and the MSA tracking a little more closely in the coming years though: Growth is expected to be fairly similar for 2012 and 2013, albeit with Indiana still growing at a faster rate.

Employment is a somewhat different story. While the Bloomington MSA's employment did not see the steep drop in 2009 that Indiana did, its employment has steadily declined since the financial crisis—even as employment has been steadily recovering across the state (see **Figure 3**). As a result, Indiana is expected to have recovered all the jobs lost in the last recession by 2014. In contrast, Bloomington is still expected to be well off its pre-recession highs at that time.

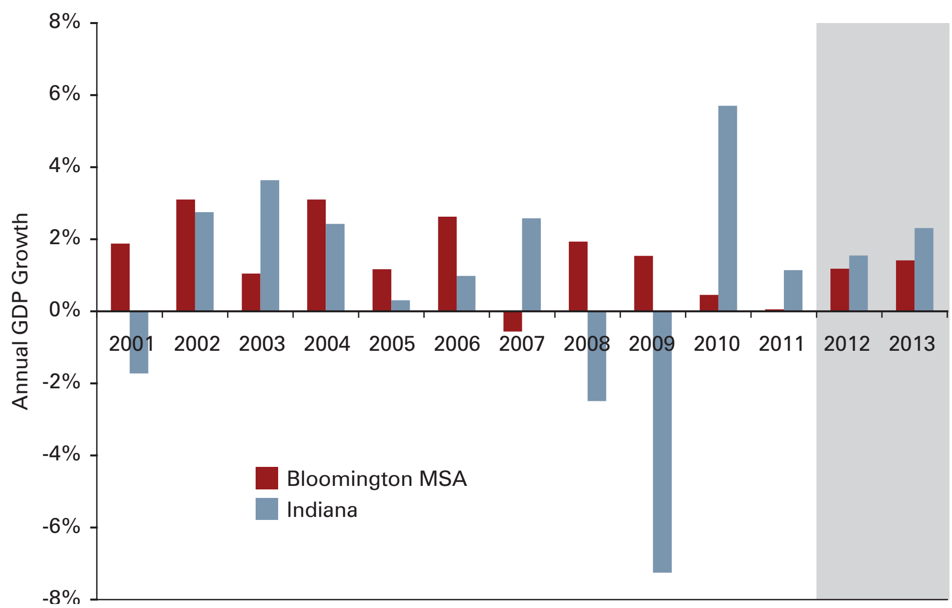
If we disassemble the Bloomington MSA's aggregate employment into industry sectors, we can begin to understand the reasons for the slow employment recovery. As might be expected given the importance

Figure 1: Bloomington MSA Population, 2000 to 2012



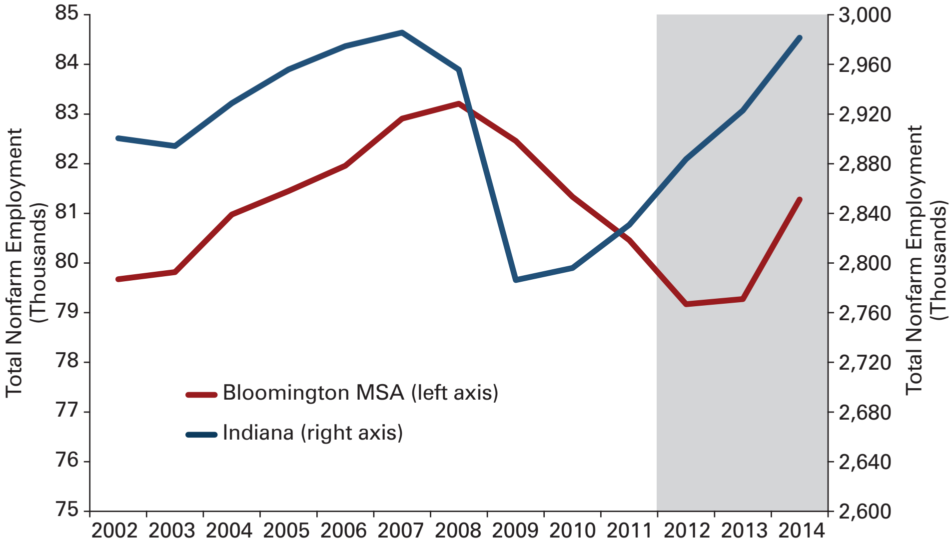
*2012 data are projected.
Source: U.S. Census Bureau and Moody's Economy.com

Figure 2: Bloomington MSA and Indiana Gross Domestic Product Growth, 2001 to 2013



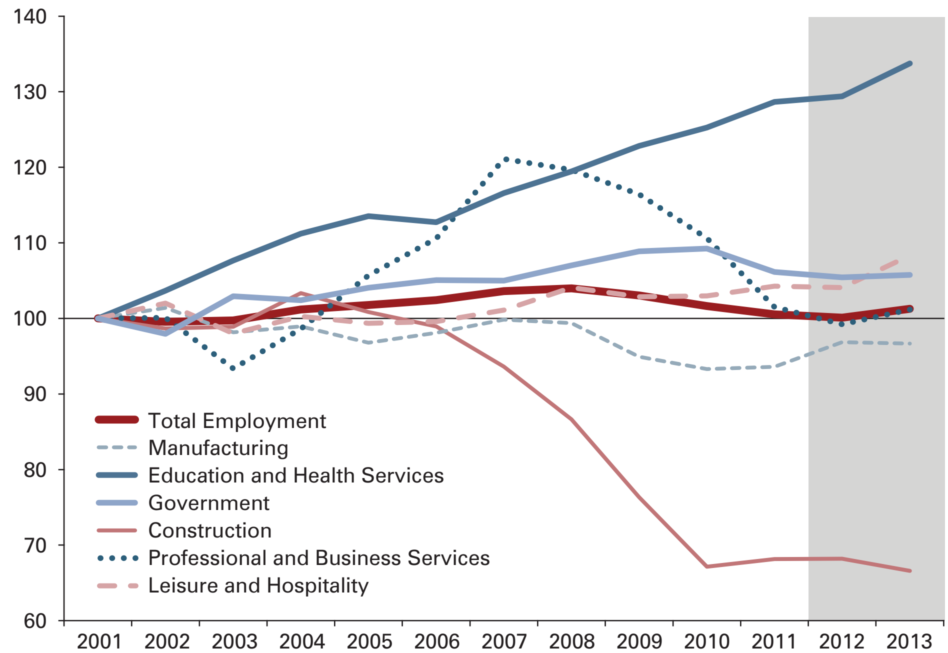
Note: 2012 to 2013 data (shaded) are projected.
Source: Bureau of Economic Analysis and Moody's Economy.com

■ FIGURE 3: **Bloomington MSA and Indiana Employment, 2002 to 2014**



Note: 2012 to 2014 data (shaded) are projected.
Source: Bureau of Labor Statistics and Moody's Economy.com

■ FIGURE 4: **Industries in the Bloomington MSA with Notable Employment Gains and Losses, 2001 to 2013**



Note: 2012 and 2013 data (shaded) are projected.
Source: Bureau of Economic Analysis and Moody's Economy.com

of Indiana University to the area, employment in the education and health services sector has continued on an upward trajectory almost unabated. Construction employment, on the other hand, has suffered significantly since the housing bubble burst (see **Figure 4**). One ray of hope is that the bleeding in this sector seems to have finally stopped. Projections for employment in construction are basically flat for 2012 and 2013.

One surprising area of job loss is the professional and business services sector. This sector had experienced remarkable growth prior to the recession, but has since dropped to 2001 employment levels. Projections do not see this sector growing very much in employment over the next couple of years.

> *One surprising area of job loss is the professional and business services sector. This sector had experienced remarkable growth prior to the recession, but has since dropped to 2001 employment levels.*

The gap between Bloomington's per capita personal income (PCPI) and Indiana's has remained relatively constant over the last decade (see **Figure 5**). There was a temporary narrowing in 2009 as the broader economy constricted and the Bloomington economy was relatively insulated from the economic storm. Since then, the gap has widened back to traditional levels and forecasts do not suggest any major changes in the coming years. At $31,079 and $35,550, respectively, it is disquieting to note that the Bloomington PCPI and the Indiana PCPI remain well below the U.S. PCPI, which stood at more than $41,000 in 2011. As is typical with college towns, Bloomington's PCPI is diluted by its large student population.

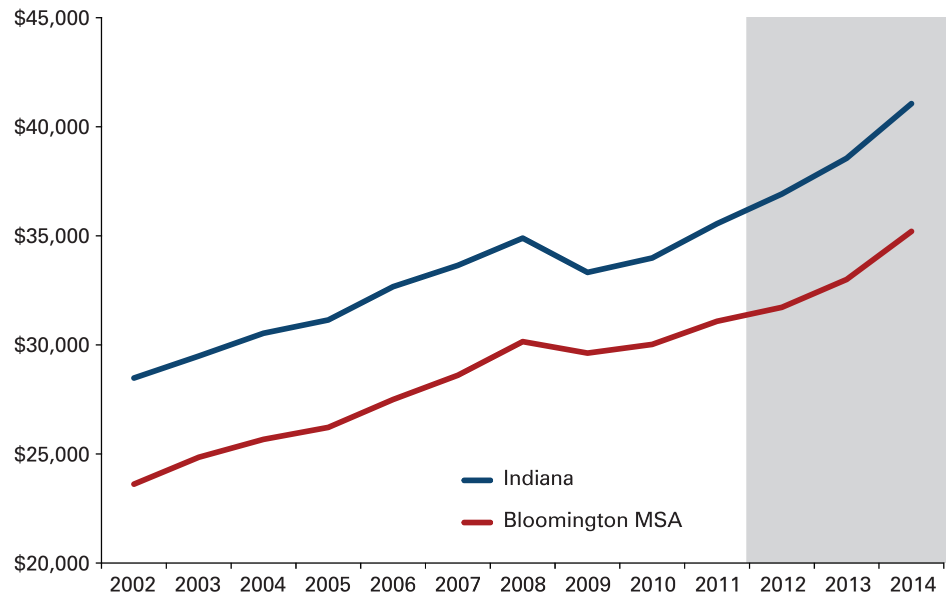
The condition of local residential construction is also disquieting, especially if compared to the years early in the century, as shown in **Figure 6**. The number of permits in 2009 to 2011 was less than 25 percent of the level in 2002 to 2004. Market conditions seem to have hit bottom, however. Based on Census Bureau data, the year-to-date total for August 2012 (at the time of this writing) topped 300 units. As the regional economy goes from stabilizing to growing, the residential construction market will benefit.

That growth may be fueled by the increasing connectivity of Bloomington to south-central Indiana by the completion of Interstate 69. As the transportation linkages grow, Crane NSWC will increase in its importance for Bloomington and the regional economy. Crane employs about 4,000 people. A large portion of those employees live in Bloomington and may increase as the technology park at Crane's Westgate expands. In Daviess County alone, employment in professional, scientific and technical services jumped from just over 150 to 700 in five years. One might expect that Westgate-based workers seeking entertainment and cultural amenities would put down roots in Bloomington and its environs, adding to its growth and economic vitality.

Notes

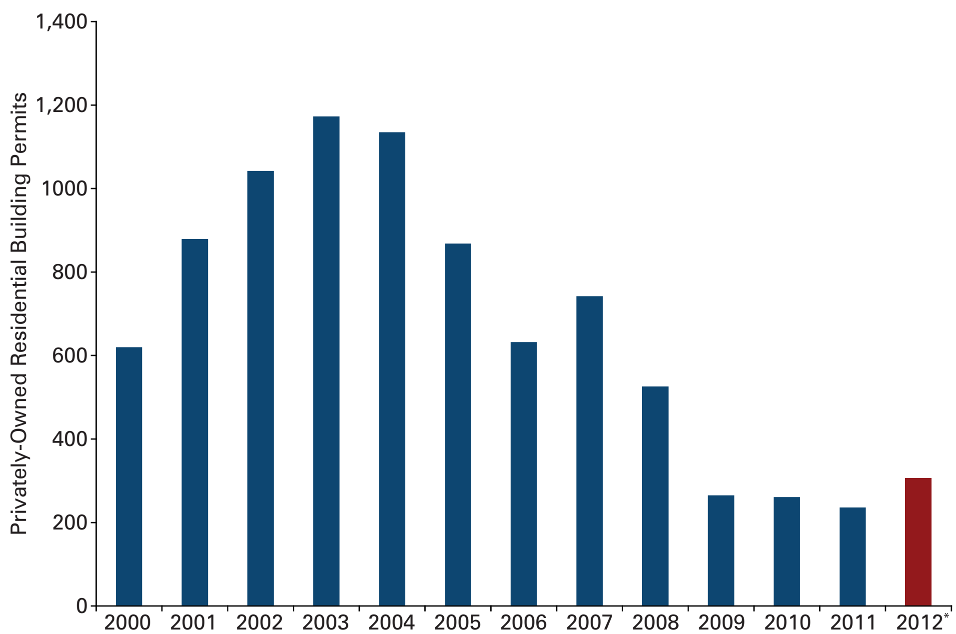
1. Richard Florida, "America's Best Places for a Raise," *The Atlantic Cities*, September 3, 2012, www.theatlanticcities.com/jobs-and-economy/2012/09/americas-best-places-raise/3101/.

Figure 5: Bloomington MSA and Indiana Per Capita Personal Income, 2002 to 2014



Note: 2012 to 2014 data (shaded) are projected.
Source: Moody's Economy.com

Figure 6: Monroe County Residential Building Permits, 2000 to 2012



*2012 data show the cumulative year-to-date value as of August.
Source: U.S. Census Bureau

Columbus Forecast 2013

Michael J. Oakes: MBA Director and Senior Lecturer in Finance, IU Division of Business, Indiana University–Purdue University Columbus

A year ago, 2012 was looking pretty good for Columbus. In fact, that was the official outlook: Within the context of a slower state and national economy overall, the Columbus economy in 2012 would be "pretty good."

Today, that is a fine description of what happened. Total resident employment in the Columbus MSA (Bartholomew County) is at an all-time high (as of July). You have to go back to the fall of 1999 to find the next closest resident employment numbers.

Total area employment, the number of people working in the Columbus MSA regardless of where they live, is also at an all-time high at 50,400. Since hitting an employment low of 40,500 in July 2009, monthly employment growth has been nearly twice as fast during this recovery as during the previous recovery after the 2001-2002 recession (see **Figure 1**). Since September 2011, an additional 4,000 people have been put to work—an 8.6 percent increase.

To many of us, area unemployment still seems a little high at 5.4 percent for September. Surprisingly, however, that is lower than the monthly average of 5.8 percent over the past decade. It is also the lowest unemployment rate of any MSA in the state. It is the third-lowest rate at the county level.

Compare this to other manufacturing-heavy areas. Elkhart, Delaware, Howard and Madison counties are still significantly above both the state and national averages. Madison County, home of Anderson, is looking at 9 percent unemployment.

"Pretty good" holds up on wages too. Weekly wages in the Columbus MSA have consistently stayed above the state average. Despite dipping below an annual average of 109 percent of the state's weekly wages during the slow recovery, it climbed above 113 percent for 2011 (see **Figure 2**).

And finally, outside of the numbers, most residents in the area can see for themselves signs of "pretty good." Retailers are holding up. Construction is up. Home sales and prices are up. It's not yet a boom by any means, but new home and apartment construction is visible. Downtown Columbus almost bustles.

Outlook

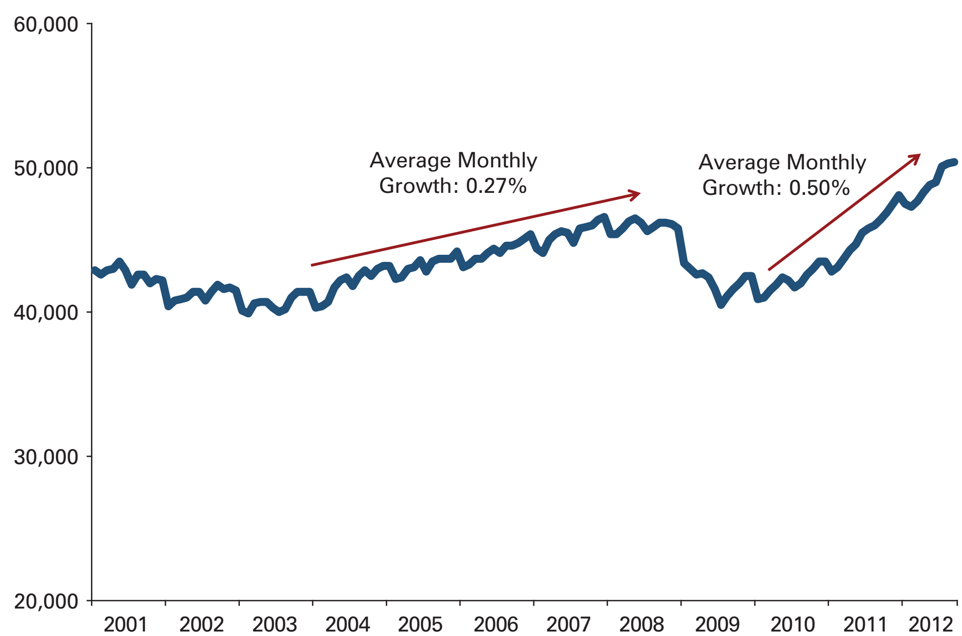
What about 2013? Economic activity in Columbus is always dependent on what happens elsewhere. So all of the economic difficulties and uncertainty confronting others are right here in our view too. There are no more important illustrations of that than the late October release and conference call for Cummins Inc.'s third quarter earnings. CEO Tom Linebarger indicated very clearly that uncertainty is front and center.

> *Employment and income are projected to grow faster than the state average again; both look to be among the highest growth rates of all Indiana MSAs.*

Still, the outlook for Columbus in 2013 is yet again pretty good. Here are some reasons.

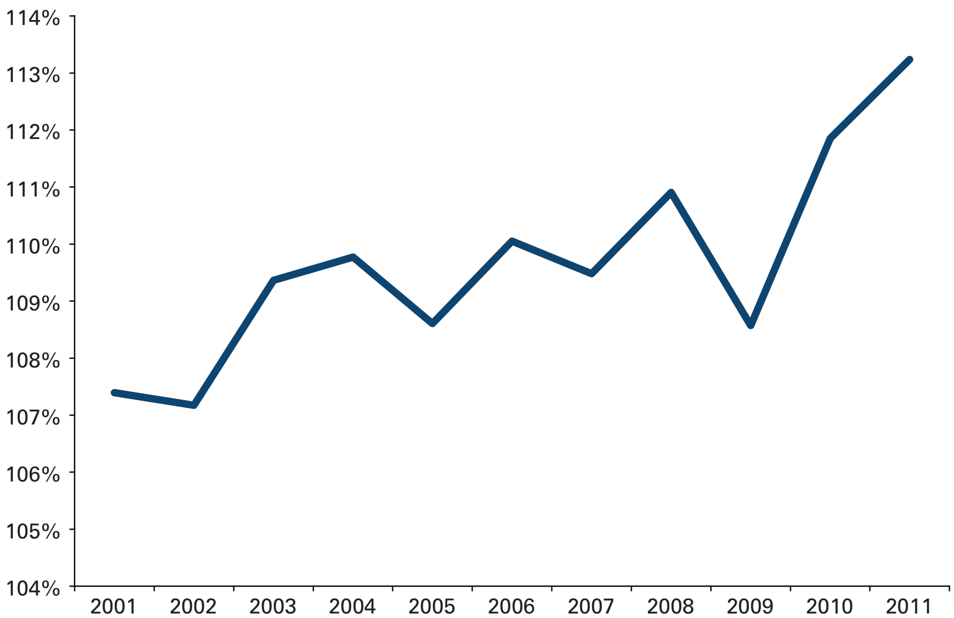
First, the models out of the Indiana Business Research Center (IBRC)

Figure 1: Total Columbus MSA Employment, January 2001 to September 2012



Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

FIGURE 2: Columbus Weekly Wages as Percent of Indiana, 2001 to 2011



Source: Bureau of Labor Statistics

show some relatively good metrics for Columbus. Employment and income are projected to grow faster than the state average again; both look to be among the highest growth rates of all Indiana MSAs.

A second reason for a pretty good 2013 is that the community's "whole package," in the spotlight during last year's outlook, is still attracting employers and talent to Columbus. Not only did the Columbus MSA reach a record high employment in October 2012, but during the past 12 months, year-over-year employment growth was faster in Columbus than all but one other national MSA.

Nearby Honda is increasing output and employment. A local transmission manufacturer plans to double employment over the next few years. Targeting area automotive industry manufacturers, a supply chain services firm will invest $15 million and add at least 50 manufacturing jobs.

Columbus is also home to a booming tourism industry. It accounts for around 8 percent to 10 percent of employment and well over $200 million in annual revenue, growing at almost 6 percent a year. One consequence of this growth is a vibrant downtown residential and commercial district that is absorbing new apartments, parking garages, restaurants and retailers.

Finally, there is also reason to be optimistic about Cummins, the area's largest employer. Though revenues and profits are down, and though it announced worldwide layoffs of 1,500 (approximately 150 of which will hit local employees), this has all the markings of a company aggressively out in front of concerns about the global slowdown. The company appears to be more proactive than reactive, the latter usually leading to greater negative impact over a longer period of time.

For several years, Columbus has benefited from a local economy diversified by globalism. Ties of many area manufacturers, led by Cummins, to global supply chains and markets mitigated the slow national recovery from the 2007-2009 U.S. recession. This diversification was highlighted in July when it was revealed that over two years, Columbus employers issued immigrant worker visas—largely to managerial and engineering professionals—at a faster rate than any MSA except the San Jose area in northern California.

As global economic growth slowed, particularly in China and Brazil, local manufacturers have seen demand slow. And yet September purchasing and production data offer some evidence that China's slowdown may have bottomed. To the extent that there is clarity about anything in China, its leadership transition in early November may well lead to more focused attention on continuing its record growth rates.

The point is not so much that 2013 will bring lots of growth. Rather, it's that 2013 will again, as in 2012, be pretty good locally—pretty good in the context of the much slower growth and general expectations that seem to have become the norm in the U.S.

Evansville Forecast 2013

Mohammed Khayum, Ph.D.: Professor of Economics and Dean of Business, College of Business, University of Southern Indiana

Economic performance in 2012 highlights the complexity of making accurate forecasts even for relatively short time horizons. Errors in predicting turning points for key influences on economic activity such as business sentiment and personal consumption expenditures are critical illustrations of the complex forces that impact forecasting accuracy. Even as the national economy maintained an upward trajectory in output and employment during 2012, there have been noticeable changes in direction in consumer confidence, personal consumption expenditures and business investment between the first and third quarters of 2012.

By the end of 2011, the economic recovery that started in mid-2009 exhibited distinctive features when compared to previous post-World War II economic recoveries. The current recovery is taking longer to attain pre-recession levels of employment and output, and is characterized by mixed signals on its intensity and momentum. These characteristics raise fundamental questions about the relative roles of structural change and cyclical fluctuations in explaining the characteristics of the current recovery.

An examination of the Evansville economy during 2012 indicates some improvement in the labor market but an unexpected decline in real output. Increases in personal income and real retail sales that were evident in 2011 continued in 2012 but at much slower rates. In 2012, nominal personal income saw an estimated 3.0 percent increase and real gross metro product decreased by an estimated 1.6 percent. These updated estimates are below forecasts of 4.7 percent and 3.0 percent, respectively, that were made at the end of 2011 and reflect the impact of business closures in the local economy.

The unemployment rate fell from 8.3 percent in January 2011 to 6.7 percent in September 2012, compared with a drop in the national unemployment rate from 9.8 percent to 7.8 percent over the same time period. Job gains occurred in the following sectors: arts, entertainment, and recreation; transportation and warehousing; health care and social assistance; and utilities. Activities experiencing jobs losses include retail trade, construction, manufacturing, mining and financial services.

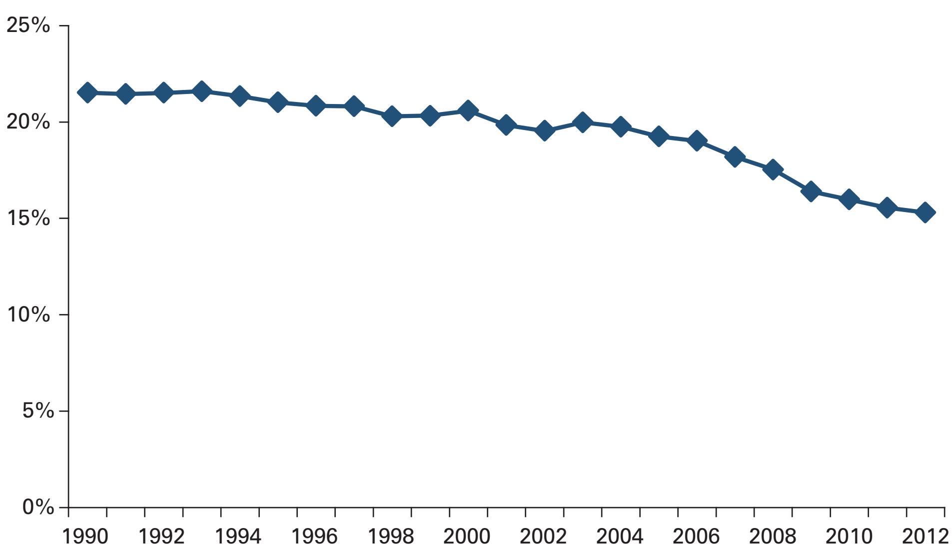
Mixed signals are also evident in the housing market. Homeowners experienced some home price depreciation as existing-home prices decreased from an average of $92,600 in 2011 to $92,100 in the first quarter of 2012, and mortgage originations were estimated to increase from $808 million in 2011 to $1,006 million in 2012. Between 2011 and 2012, single-family housing permits are estimated to have increased by 26 percent, and personal bankruptcies per 1,000 persons were estimated to have decreased from 5.2 to 4.2.

The manufacturing sector continues to be an important base to metro area household incomes and consumer spending activity even as the economy adjusts to an ongoing diversification away from manufacturing-industry dependence (see **Figure 1**).

As one of the most manufacturing-dependent metro areas in the nation , the Evansville economy was noticeably impacted since the inception of the recent recession. Since 2007, Evansville's manufacturing workforce has fallen by 16.4 percent or about 5,300 workers, compared to the 11.1 percent reduction in Indiana's manufacturing workforce over the same period. In 2012, manufacturing earnings continued to be a significant driver of economic activity, accounting for 23.3 percent of total earnings in the Evansville metro economy.

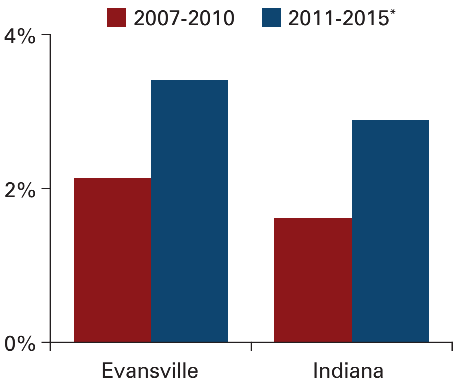
Given the proportion of output that is sold outside the metro area, the strength of the recovery in the Evansville area is linked to the strength of the broader economy.

Figure 1: Evansville MSA Manufacturing Employment as Percent of Total Nonfarm Employment, 1990 to September 2012



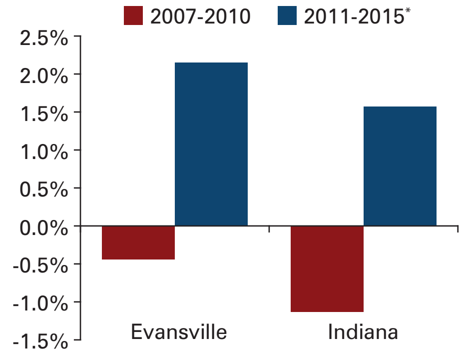
Source: STATS Indiana, using Bureau of Labor Statistics data

Figure 2: Percent Change in Average Personal Income



*Includes forecasted data
Source: Center for Econometric Model Research

Figure 3: Percent Change in Average Total Employment



*Includes forecasted data
Source: Center for Econometric Model Research

As the demand for locally produced goods reverts to its pre-recession level, personal income and output growth are expected to increase in 2013.

In 2013, for the Evansville metro area, output is forecasted to increase by 1.8 percent, the number of jobs is projected to increase by 600 and the forecast for nominal personal income growth is 4.1 percent. **Figures 2** and **3** provide a comparison of forecasts for the Indiana segment of the Evansville economy and the state of Indiana for the 2011-2015 period.

While output and employment growth are projected to increase in 2013, the Evansville economy faces an ongoing challenge as a result of long-term adjustments occurring within the manufacturing sector, particularly in the share of nondurable manufacturing. **Table 1** shows manufacturing as a percent of total employment for the metro, state and nation. In addition, a relatively slow growth trend in population, income and employment over the past three decades—combined with rapid change in the pace of technology adoption—highlight the importance of achieving higher rates of output and employment growth. This requires a greater focus on identifying and taking advantage of opportunities that can lead to transformational change in economic activity and the economic structure of the Evansville metro area. ■

Table 1: Manufacturing Percent of Total Employment, September 2012

Industry	Evansville Metro	Indiana	U.S.
Manufacturing	15.3%	16.7%	9.0%
Durable Goods	52.8%	72.6%	62.3%
Nondurable Goods	47.2%	27.4%	37.7%

Note: September data are preliminary and not seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data

Fort Wayne Forecast 2013

John Stafford: Director, Community Research Institute, Indiana University–Purdue University Fort Wayne

Valerie Richardson: Research Associate, Community Research Institute, Indiana University–Purdue University Fort Wayne

This forecast article is being prepared just days before the national election (now decided), an event that was dominated by current economic conditions and concern about future prospects.

Let us begin with a review of the Fort Wayne metropolitan area's comparative success in recovering from the Great Recession—at least from an employment perspective.

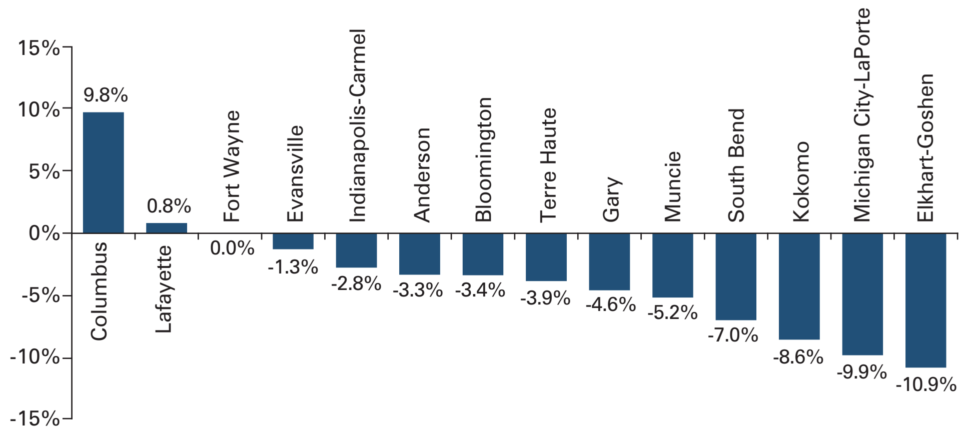
Last year at this time, the Fort Wayne MSA (Allen, Wells and Whitley counties) had just been identified as leading the nation's top 100 metros in job growth over the prior 12 months. More recently, this area again received attention by a report from Garner Economics LLC for being one of only 23 metro areas (out of 372 nationally) to have outpaced national monthly job growth in each of the past 23 months.[1] The Columbus and Elkhart-Goshen MSAs were the only other Indiana metros to be included in the group. Further analysis by the Community Research Institute indicates that Fort Wayne's streak of outpacing the nation started prior to the report's beginning date of September 2010 (the month national employment began to increase) and continues forward through September of this year—29 consecutive months.

Recent monthly metro employment numbers[2] indicate that the Fort Wayne MSA is nearly back to its pre-recession level from 2007. This is no small feat given the extent of employment losses experienced in

2008 and 2009. Compared with much of Indiana, the Fort Wayne MSA has indeed fared better.

Between September 2007 and September 2012 (the most recent data available at the time this article was written), total nonfarm employment statewide was still down 3.0 percent. Of the 14 metro areas in Indiana for which CES data were available, only the Columbus and Lafayette MSAs had September 2012 employment higher than pre-recession September 2007. The Fort Wayne MSA was within 100 jobs of reaching its September 2007 employment level. As illustrated in **Figure 1**, the other 11 MSAs still have gaps to close—in some cases, a substantial gap.

Figure 1: Nonfarm Employment Change, September 2007 to September 2012



Note: Data are not seasonally adjusted.
Source: Current Employment Statistics

What has been happening in the Fort Wayne metro area that has contributed to the relatively strong rebound? 2010 and 2011 were good years for local company expansions and the resulting jobs from those previously announced events certainly impacted the 2012 employment totals. The Community Research Institute tracks company expansions and other business dynamics (including negative events) among major employers and targeted industries across northeast Indiana. While we have not seen the same high level of expansion activity in 2012 as was experienced in the prior two years, we also did not see the higher number of negative employment events that occurred during the recession or in the months following its end.

The one significant exception has been the now nearly complete phase-out of Navistar's Fort Wayne engineering operations—a loss of approximately 1,400 jobs over the past couple of years. Given that event, the September 2012 employment total for the MSA is even more surprising.

Recent discussions with local economic development officials reinforce what our event tracking is telling us. Businesses have become very cautious in making investment and hiring decisions. The caution is being attributed to both political and tax uncertainty at the national level.

There is one aspect of recent employment growth that supports this cautious approach by business and also takes some luster off the good news. The Fort Wayne MSA has experienced a significant increase in the number of jobs filled by temporary help services, where employment is up 93 percent since 2009. This same phenomenon is being experienced all across Indiana with the statewide increase in "temp" employment up 76 percent since 2009.[3] Nearly 23 percent of the employment increase in the Fort Wayne MSA between 2009 and 2012 can be attributed to temporary help. Such an increase in temporary employment is most likely a further indication of industry caution and uncertainty about the future business climate.

A very real downside of the high level of temporary employment shows up in wages earned. The average annual pay for temporary help in Indiana is $22,569. It is very likely that many of these temp workers have been hired in the manufacturing sector where the statewide average wage is $55,398.[4] Temporary work, while certainly better than no work at all, does not provide the same level of financial support to a family or to the community as do many permanent jobs.

As we have mentioned in prior Outlook articles, the relative decline in average annual pay in the Fort Wayne area over a number of years is a serious concern for the economic health of the metro area. The average annual wage in the Fort Wayne MSA now trails the statewide average by almost $1,300 per job. This trend has become the focus of regional economic and community development efforts. The Vision 2020 initiative of the Northeast Indiana Regional Partnership is focused on improving the level of talent in the region under the premise that "quality pay" comes from "quality jobs" that require highly skilled workers. The "Big Goal" component of Vision 2020 is aimed at making dramatic improvement in the percentage of the region's workforce that has post-high school education and/or industry-recognized certifications. Higher education is a prerequisite to economic success in a 21st century economy and, unfortunately, this is a factor in which Northeast Indiana has some catching up to do. We are hopeful and optimistic that these new initiatives will pay big dividends over the next decade and contribute to a reversing of the relative wage decline.

A measure of economic vitality that provides optimism for the Fort Wayne area is the growth in the local labor force since the "official" end of the recession (June 2009). Between September 2009 and September 2012, the Fort Wayne MSA labor force has grown by 3.7 percent.[5] There are now 7,630 more local residents in the labor force today than three years ago. This is coming at a time when many other metro areas across Indiana—and the state as a whole—have a smaller labor force now compared to the end of the recession.

Indiana's labor force participation rate is now less than 62 percent, below the national rate of 63.6 percent.[6] By contrast, the Fort Wayne MSA's current labor force participation rate stands at 67.6 percent. This is second among Indiana MSAs (excluding those which are a component of a multi-state economic region). As illustrated in **Figure 2**, the range in the labor force participation rate among these MSAs is surprisingly broad.

What Lies Ahead for 2013

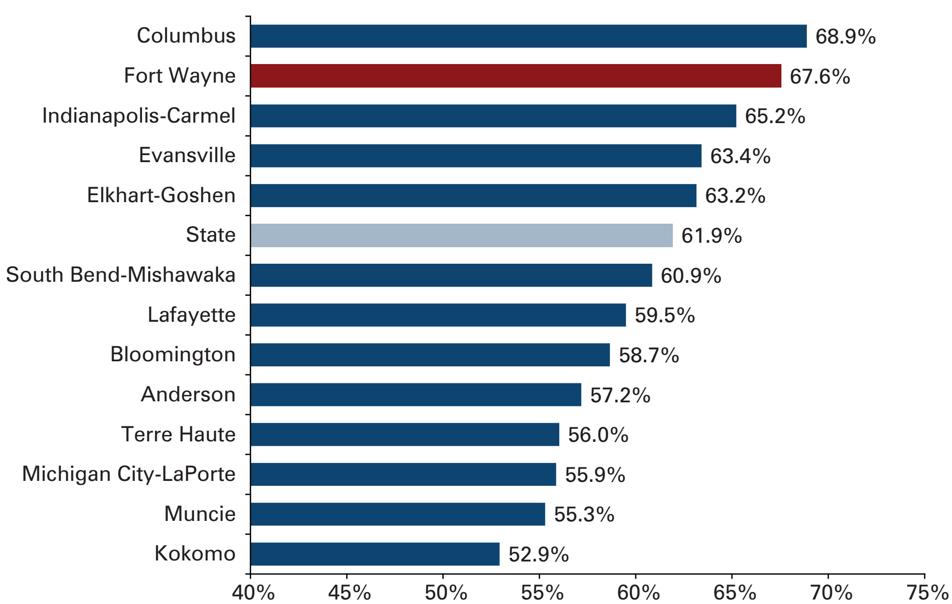
There are so many significant unknowns: the "fiscal cliff;" the continuing financial woes in Europe; a softening of China's rapid economic growth; and the continuing precarious situation in the Middle East with its potential disruptive impact on energy prices. We have certainly seen a slowdown in business expansion announcements in the Fort Wayne MSA as 2012 has progressed. It is not likely that the situation will change significantly until there is more clarity on the national level with respect to tax, federal deficit and health care issues.

Counterbalancing these national uncertainties is the strong business climate present in the state of Indiana. The Fort Wayne area should benefit from that strong climate when the national picture clears. We look for only modest change in employment totals over the next 12 months in the local economy, assuming that the inability to resolve the national fiscal cliff does not push the U.S. economy into recession. Hedging our bets? Yes, but the Fort Wayne area economy would stand little chance of being immune to the impact of a major national downturn. ■

Notes

1. Tom Tveidt, "Progress Report: U.S. Metros and National Job Growth," Garner Economics LLC, September 2012.
2. U.S. Bureau of Labor Statistics Current Employment Statistics, non-seasonally adjusted, September 2012.
3. Economic Modeling Specialists, Inc.
4. Bureau of Labor Statistics Quarterly Census of Employment and Wages, 2011 average annual wage.
5. We are using September 2009 (rather than June 2009) to September 2012 to capture the most recent labor force data and to avoid the need for seasonal adjustments.
6. For purposes of this article, the Community Research Institute calculated labor force participation rate estimates for MSAs by dividing the September 2012 Local Area Unemployment Statistics labor force by 2011 American Community Survey population estimates for those age 16 and older.

Figure 2: Labor Force Participation Rates in Indiana MSAs, September 2012



Source: Community Research Institute, using American Community Survey and Bureau of Labor Statistics data

Gary Forecast 2013

Micah R. Pollak, Ph.D.: Assistant Professor of Economics, School of Business and Economics, Indiana University Northwest

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.

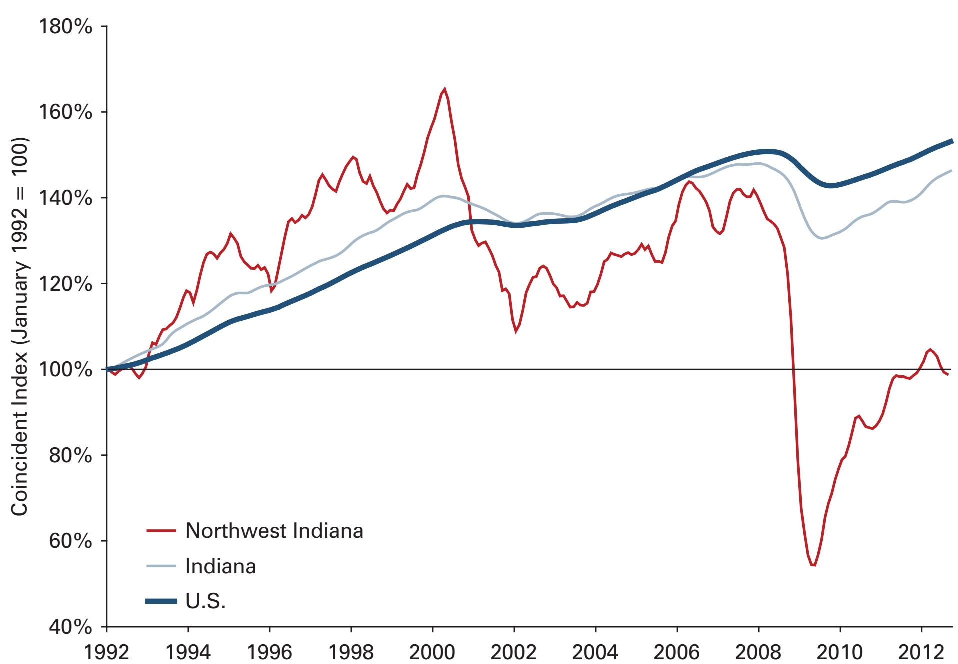
In response to the demand for better information on the Northwest Indiana regional economy, Indiana University Northwest professors Bala Arshanapalli and Donald Coffin, with the support of a Lilly Sustaining Grant Fellowship, developed and released the Northwest Indiana Coincident Index and Leading Index.[2] 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.

All types of employment in the region were hit hard by the recent recession; however, many have now 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

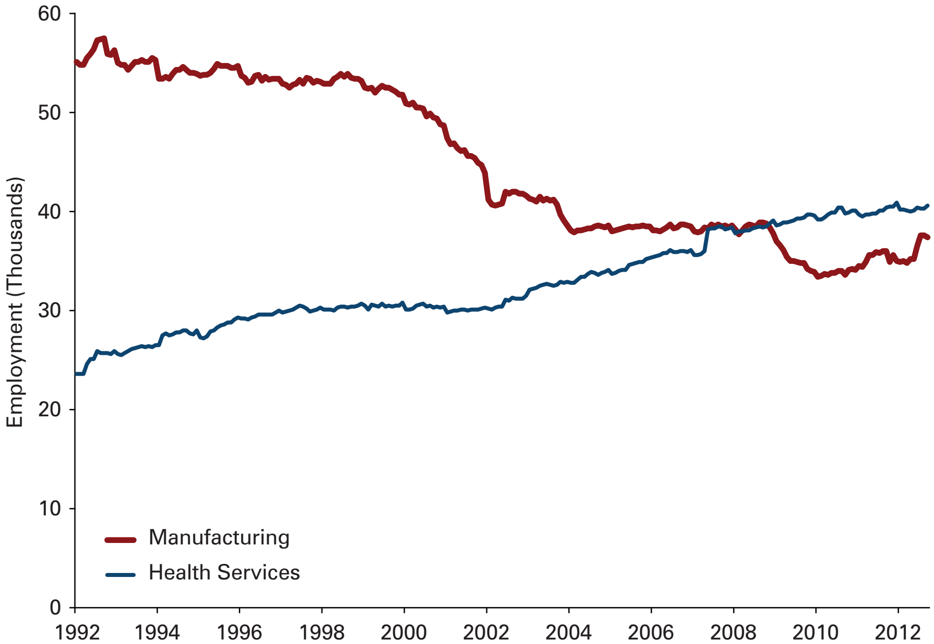
> *All types of employment in the region were hit hard by the recent recession; however, many have now returned to pre-recession levels.*

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

> *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.*

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 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.

Indianapolis-Carmel Forecast 2013

Kyle J. Anderson, Ph.D.: Clinical Assistant Professor of Business Economics, Kelley School of Business, Indiana University

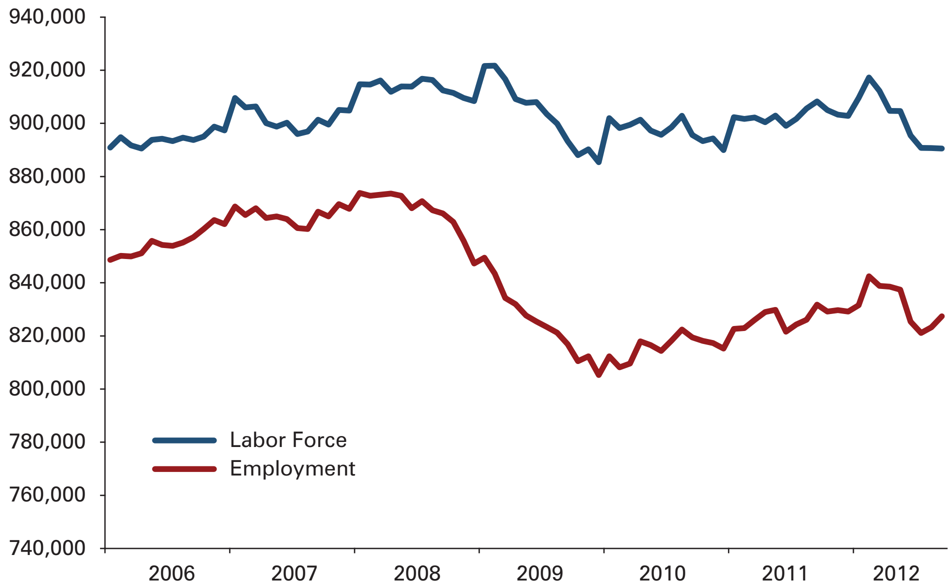
Unfortunately, last year's forecast for Indianapolis was mostly correct. We have seen a relatively weak year in 2012. The Indianapolis-Carmel metropolitan area[1] should expect to see a rebound in 2013 along with the rest of the country and state.

Table 1: Indianapolis Unemployment Comparison, 2011 to 2012

Metro Area	Labor Force Change	Change in Number of Unemployed	Unemployment Rate, 2011	Unemployment Rate, 2012
Indianapolis	**-1.9%**	**-17.4%**	**8.4**	**7.1**
St. Louis, MO	-1.6%	-21.6%	8.8	7.0
Cincinnati, OH	0.4%	-22.7%	8.3	6.4
Louisville, KY	0.4%	-20.7%	9.6	7.6
Columbus, OH	1.0%	-22.2%	7.4	5.7

Note: Data are for September of each year.
Source: Bureau of Labor Statistics

Figure 1: Indianapolis Labor Force and Employment, January 2006 to September 2012



Note: Data are seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data and author's calculations

Employment and Wages

The unemployment rate in Indianapolis dropped to just over 7 percent by late 2012. While this represents a sizable drop in the rate, the news is not all good. The number of jobs actually decreased by 4,400. The decline in the unemployment rate is due to the labor force shrinking by a larger amount. Until the local economy begins adding jobs at a much greater pace, unemployment will remain above 7 percent.

The employment situation in Indianapolis also looks poor compared to other cities. **Table 1** shows change in labor force and unemployment for Indianapolis and four comparable Midwestern cities. Indianapolis showed the smallest decline in the number of unemployed and was one of only two that had a shrinking labor force. It is difficult to pinpoint an exact cause as to why the area is not recovering strongly relative to other cities. It may be that the recovery in manufacturing and construction is having a greater effect in other areas.

Indianapolis did experience a spike in jobs and the labor force in the first quarter of 2012 (see **Figure 1**). This is likely attributable to hosting the Super Bowl, and the economic benefit of that was likely quite large. However, it was also temporary and did not contribute to a strong year of economic growth.

A few industries did experience significant positive growth. **Table 2** provides the change in number of jobs and average wages by industry for the Indianapolis area. It should be noted that the most recent data available are from the first quarter of 2012, which experienced slightly inflated numbers due to the Super Bowl. Health care continues to see growth in jobs of greater than 3 percent, and wages are rising as well. Other industries with significant gains that are likely more than temporary include construction and information.

Housing and Construction

The Indianapolis real estate market has yet to rebound. The percentage of mortgages that are in foreclosure or seriously delinquent remains at 10 percent.[2] Home prices fell slightly for the third straight year, declining by 2.6 percent.[3] The number of homes on the market also declined, with 22 percent fewer homes on the market than there were two years ago.

A number of factors indicate that housing prices should move up over the next year. Interest rates remain historically low, and home prices are recovering across the state and country. While the foreclosure rate is a problem, it doesn't seem to be leading to an over-supply of houses on the market. In fact, the inventory of houses on the market is quite low, which should enable sellers to get value for their homes. Finally, positive economic growth will lead to household formation and new home purchases.

New residential construction in the area has shown only modest signs of recovery. **Figure 2** shows new residential construction over the last five years. Construction is up by 10 percent over the last year (as measured by cost), but this is still significantly off the 2007 levels. Given growth projections for the Indianapolis area, construction spending should return to somewhere between $1 billion to $1.2 billion per year. This would indicate that construction will grow by around 25 percent from its current levels. However, it is not clear whether this growth will occur in 2013 or later.

Forecast

While economic growth in 2012 was disappointing, look for growth to be much better over the next 12 months. The Indy housing market has hit bottom, and increasing activity in home sales and construction will provide a boost to the local economy. Job increases will come from the health care and construction industries. The unemployment rate will remain at or slightly below 7 percent, while incomes will increase by about 2 percent. Overall, we are finally putting the recession behind us, and growth will soon return. ■

Notes

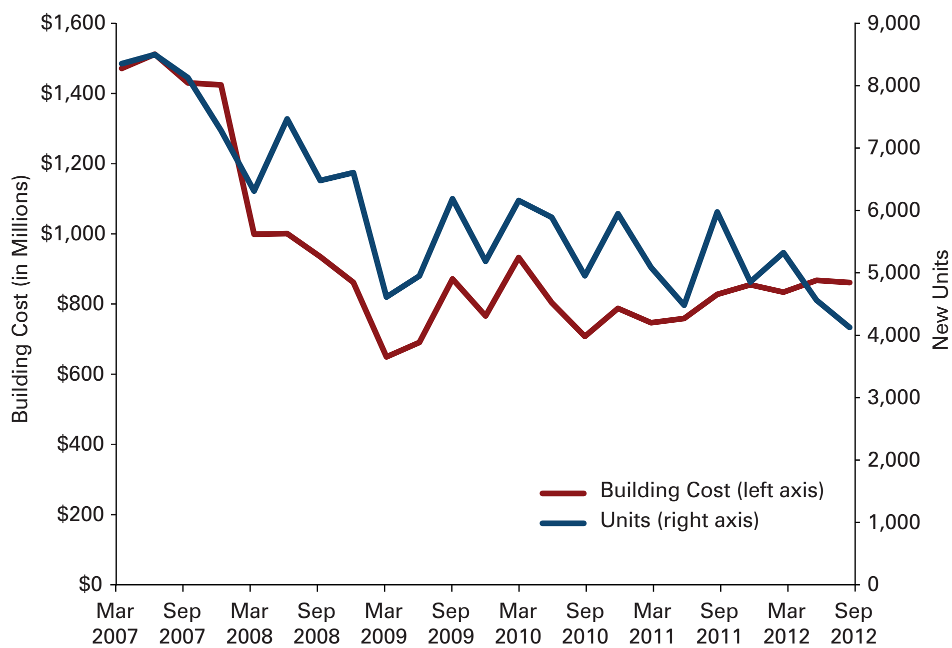
1. This analysis covers the Indianapolis-Carmel Metropolitan Statistical Area, which includes Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam and Shelby counties.
2. Foreclosure and delinquency data come from Foreclosure-Response.org.
3. Housing prices and supply of houses were collected from www.housingtracker.net.

Table 2: Change in Jobs and Wages for Selected Industries in the Indianapolis Metro, 2011 Q1 to 2012 Q1

Industry	Jobs	Average Weekly Total Wages
Total	2.9%	4.3%
Administrative and Support and Waste Management and Remedial Services	7.9%	4.2%
Construction	7.2%	3.9%
Accommodation and Food Services	6.3%	6.4%
Arts, Entertainment, and Recreation	5.5%	11.9%
Information	4.5%	4.5%
Retail Trade	3.6%	7.8%
Health Care and Social Services	3.4%	9.3%
Management of Companies and Enterprises	3.2%	2.6%
Transportation and Warehousing	2.8%	9.7%
Professional, Scientific, and Technical Services	2.4%	1.8%
Manufacturing	2.2%	-4.5%
Other Services (Except Public Administration)	1.4%	7.0%
Wholesale Trade	1.0%	7.6%
Real Estate and Rental and Leasing	1.0%	10.2%
Finance and Insurance	-0.2%	7.1%
Educational Services	-1.0%	9.4%
Public Administration	-1.7%	8.8%

Source: STATS Indiana, using Quarterly Census of Employment and Wages data

Figure 2: New Residential Construction, March 2007 to September 2012



Note: Data are seasonally adjusted.
Source: U.S. Census Bureau

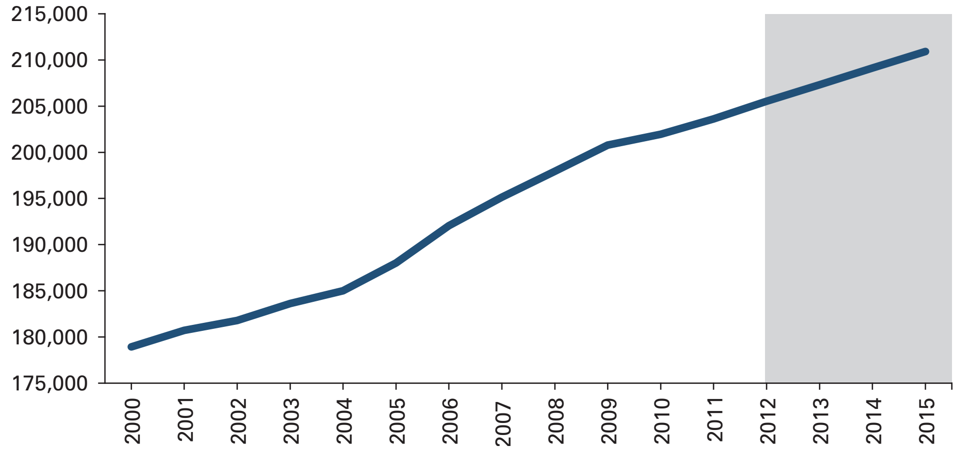
Lafayette Forecast 2013

Tanya Hall: Economic Research Analyst, Indiana Business Research Center, Kelley School of Business, Indiana University

Nationally, the year 2012 had glimpses of positive news mixed with disappointing growth. However, the Lafayette Metropolitan Statistical Area (MSA), which includes Tippecanoe, Benton and Carroll counties, seems relatively sheltered from the national lethargy with its continued slow and steady growth. While the area has not experienced a rapid resurgence from the depths of the recession, it has rebounded more quickly than many other areas of the state.

As we look toward 2013, assuming that the national fiscal cliff issue is resolved in a timely manner, the MSA is poised to continue slow growth with announced business expansions, developments and hiring plans. The Lafayette MSA is viewed as an attractive area to live and work—in part due to Purdue University. We see this optimism in the continued population growth that is expected in the coming years (see **Figure 1**). In 2012, the population was estimated to increase 0.9 percent to 205,531 residents and maintain a 0.9 percent growth each year through 2015. This level of population growth is more timid than past time periods, namely the 1.9 percent average annual

Figure 1: Annual Population Change in the Lafayette MSA, 2000 to 2015



Note: Data for 2012 to 2015 are projections.
Source: IBRC, using U.S. Census Bureau data and Center for Econometric Model Research data

Table 1: Labor Force Statistics for the Lafayette MSA, 2011 to 2012

					Unemployment Rate		
Year	**Month**	**Labor Force**	**Employment**	**Unemployment**	**Lafayette MSA**	**Indiana**	**U.S.**
2011	August	96,864	88,684	8,180	8.4%	9.3%	9.1%
	September	99,675	91,987	7,688	7.7%	8.9%	8.8%
	October	100,681	93,118	7,563	7.5%	8.8%	8.5%
	November	101,193	93,790	7,403	7.3%	8.6%	8.2%
	December	99,648	92,226	7,422	7.4%	8.6%	8.3%
	Annual Average	**97,908**	**90,272**	**7,636**	**7.8%**	**9.0%**	**8.9%**
2012	January	97,822	90,399	7,423	7.6%	9.2%	8.8%
	February	98,596	91,266	7,330	7.4%	8.8%	8.7%
	March	99,139	91,863	7,276	7.3%	8.6%	8.4%
	April	99,638	93,220	6,418	6.4%	7.7%	7.7%
	May	98,109	91,246	6,863	7.0%	7.8%	7.9%
	June	97,376	89,642	7,734	7.9%	8.3%	8.4%
	July	96,659	89,177	7,482	7.7%	8.3%	8.6%
	August	95,332	88,311	7,021	7.4%	8.0%	8.2%
	September*	98,930	92,490	6,440	6.5%	7.5%	7.6%

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

growth seen from 2005 to 2007, yet still is a step in the right direction.

Labor

Over the past few years, the Lafayette MSA has had a lower unemployment rate than Indiana and the United States. The Lafayette MSA consistently outperformed Indiana and the United States (see **Table 1**). Even during the MSA's unemployment peak in June/July,[1] its rate was between roughly half a percentage point and 1 percentage point less than the state and nation's rates. 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 declining unemployment rate and fewer unemployed individuals, the number of employed workers and individuals in the labor force has increased—indicating that individuals are finding work and have hope of obtaining a job. In fact, between September 2009 and September 2012, the Lafayette MSA has gained more than 4,100 jobs. The majority of these jobs were in Tippecanoe County (87.3 percent), yet each county's employment growth ranged between 4 percent and 4.8 percent, indicating similar employment growth rates. These job gains exclude institutions and armed forces, thus the job gains are occurring within the public and private sector in the region.

Table 2 looks specifically at the employment picture between 2011 and 2012 in the Lafayette MSA. Last year, it was predicted that employment would continue to increase at a steady pace. The manufacturing sector was anticipated to lead this growth—particularly in fabricated metals and motor vehicles, followed by health care, leisure and hospitality and the professional and business services sectors. In 2012, nearly all industries had employment growth and the manufacturing

Table 2: Lafayette MSA Employment, 2011 to 2012

Industry	2012*	Change since 2011	Percent Change 2011–2012
Total Nonfarm	94,189	1,189	1.3%
Total Private	68,278	2,078	3.1%
Goods-Producing	18,367	667	3.8%
Manufacturing	15,833	733	4.9%
Mining, Logging and Construction	2,533	33	1.3%
Service-Providing	75,822	422	0.6%
Private Educational and Health Services	11,689	389	3.4%
Trade, Transportation and Utilities	14,478	378	2.7%
Leisure and Hospitality	8,944	244	2.8%
Professional and Business Services	7,056	156	2.3%
Financial Activities	3,733	133	3.7%
Information	1,089	-11	-1.0%
Other Services	2,933	33	1.1%
Government	25,911	-989	-3.7%

*January through September data annualized for 2012. September data are preliminary.
Source: IBRC, using Bureau of Labor Statistics data

Table 3: Average Weekly Wages in the Lafayette MSA, 2012

Industry	Average Weekly Wage	Change in Jobs since 2011:Q1	Change in Average Weekly Wage
Total	$808	3.2%	6.3%
Management of Companies and Enterprises	$2,222	-0.5%	-2.7%
Manufacturing*	$1,376	11.3%	9.3%
Professional, Scientific, and Technical Services	$988	-2.4%	9.4%
Wholesale Trade	$965	7.4%	7.2%
Educational Services*	$951	1.5%	-1.6%
Finance and Insurance	$941	-5.0%	-2.6%
Construction	$802	8.5%	11.1%
Health Care and Social Services	$796	3.2%	10.9%
Transportation and Warehousing	$785	0.1%	9.3%
Public Administration	$727	-1.6%	2.8%
Agriculture, Forestry, Fishing and Hunting	$649	4.4%	1.7%
Real Estate and Rental and Leasing	$607	4.1%	11.8%
Information	$555	4.0%	15.6%
Other Services (Except Public Administration)	$526	6.4%	1.3%
Retail Trade	$442	-2.4%	8.6%
Administrative and Support and Waste Management and Remediation Services	$400	7.7%	-2.2%
Accommodation and Food Services	$256	2.6%	6.7%
Arts, Entertainment, and Recreation	$225	2.6%	6.1%

*Some county data were excluded due to confidentiality.
Source: IBRC, using QCEW data

industry did create the largest number of jobs (733) since 2011 followed by private educational and health services (389).

The manufacturing increase stems from multiple businesses expanding in the region such as Subaru of Indiana Automotive, Purdue Research Park businesses, Wabash National, Rea Magnet Wire Co. and Alcoa. The private educational and health services sector will likely continue to gain jobs due to plans to build an inpatient rehabilitation hospital. Two industries, information and government, experienced employment declines in 2012. The drop in state and local government jobs at the MSA level reflects cuts made while government officials grapple with and reallocate budget funds. In 2013, employment growth will likely continue at its current pace, led by the manufacturing, health care and transportation sectors.

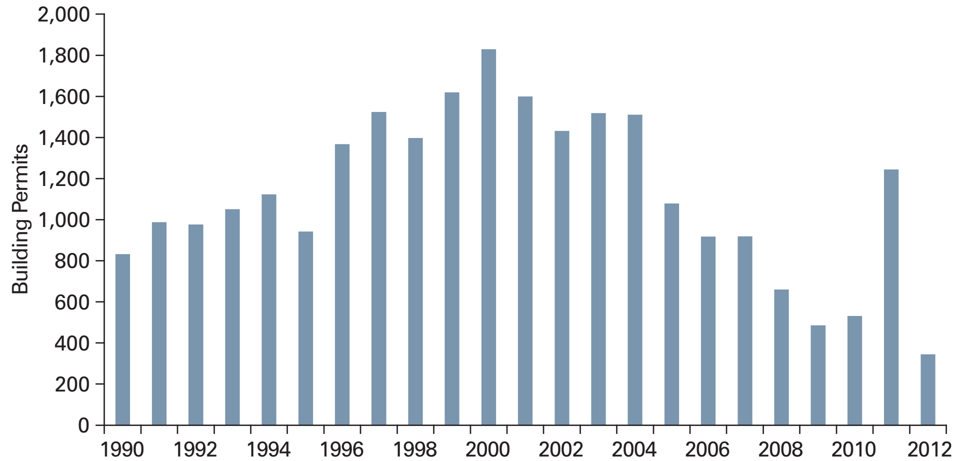
Between 2011 and 2012, average weekly wages increased 6.3 percent within the Lafayette MSA. Fourteen of the 18 major sectors (two were non-disclosed) had wage increases ranging from 15.6 percent in information to 1.3 percent in other services (see **Table 3**). The 2012 forecast predicted modest wage increases—in step with inflation and increased employment—which was verified with these results. Moving into 2013, it is anticipated that the average annual weekly wage will increase slightly, corresponding with the anticipated new jobs in manufacturing and health care services. As the housing market continues to stabilize and improve, wage increases will likely also occur in the real estate/rental/leasing and construction industries.

The Lafayette MSA's per capita personal income (PCPI) historically lags behind the United States due to its occupational mix, student population 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.[2] The most recent data showed the region's PCPI at 85 percent of the national figure in 2010. It is projected that the PCPI increased approximately 4.3 percent in 2011 and by another 3.0 percent in 2012. During 2013, PCPI growth may slow to 2.5 percent.

Housing

In 2011, a sizable jump in the number of housing permits issued (134.3 percent for a total of 1,244 permits) within the Lafayette MSA was recorded, with the majority for single-family residences (see **Figure 2**). Of all the Indiana-based metros, the Lafayette MSA had the second-largest number of permits filed in 2011 behind the Indianapolis

Figure 2: Lafayette MSA Residential Building Permits, 1990 to 2012



Note: 2012 data reflects year-to-date figures through August for Tippecanoe County only.
Source: IBRC, using U.S. Census Bureau data

Table 4: Lafayette MSA Year-to-Date Residential Real Estate Sales, 2011 to 2012

	Lafayette MSA			Benton County			Carroll County			Tippecanoe County		
	2011	2012	Change	2011	2012	Change	2011	2012	Change	2011	2012	Change
New Listings	2,578	2,742	6.4%	90	89	-1.1%	232	243	4.7%	2,256	2,410	6.8%
Closed Sales	1,402	1,645	17.3%	45	47	4.4%	101	112	10.9%	1,256	1,486	18.3%
Median Sales Price	n/a	n/a	n/a	$68,500	$45,000	-34.3%	$79,250	$101,500	28.1%	$124,000	$128,000	3.2%
Months Supply of Inventory*	12.1	9.2	-23.5%	13.9	9	-35.3%	14.5	12.2	-15.9%	7.8	6.5	-16.7%
Inventory of Homes for Sale*	1,264	1,170	-7.4%	65	49	-24.6%	157	153	-2.5%	1,042	968	-7.1%

*Data as of September 2012.
Note: Year-to-date reflects January to September data.
Source: IBRC, using Indiana Association of Realtors data

MSA. While this level of housing permits was certainly a welcome respite given the economy, it still trailed behind the peak of residential construction in 2000 when 1,830 permits were issued for single- and multi-family building permits. In 2012, 345 permits were issued (2012 data are January-to-August figures for Tippecanoe County only), which constitutes about a third of the 2011 metro figures. However, based on last year's forecast, permit issuances must have surged in the third and fourth quarters, so the same situation may yet occur in 2012. Housing markets are improving, a trend that will likely be reflected in the Lafayette MSA during 2013.

Table 4 compares year-to-date (January through September) figures to illustrate that the Lafayette MSA real estate market has picked up in 2012. This is indicated by an uptick in listings (6.4 percent) and closed sales (17.3 percent), along with a decline in the months' supply of inventory (-23.5 percent) and inventory of homes (-7.4 percent). As of September 2012, the Lafayette MSA had nine months' worth of housing inventory to sell—a declining number likely associated with the smaller inventory in Tippecanoe County (6.5 months).

The median sales prices for the sold homes varied, with Benton County witnessing a -34.3 percent drop in prices and Carroll County seeing a 28.1 percent increase. Nationally, the housing market appears to have hit bottom and is now climbing upward. In 2013, Lafayette's housing market is expected to maintain its steady yet slow growth.

Conclusion

The outlook is sluggish for 2013, but the Lafayette MSA will continue its incremental increases in population, income, jobs, wages and even in the housing market. Housing trends indicate that the industry may have turned a corner and those ripple effects within the economy would be a welcome boost to the region. However, the fiscal cliff will cause businesses to be cautious and its outcome could certainly derail any anticipated momentum.

Notes

1. The uptick in unemployment in June and July 2012 mirrors the recurring trend seen in 2009 to 2011, likely attributed to the change in labor force needs due to students leaving the area during summer break.
2. Tim Slaper and Ryan Krause, "Occupational Hazard: Why Indiana's Wages Lag the Nation," *Indiana Business Review* 85 (Spring 2010), www.ibrc.indiana.edu/ibr/2010/spring/article1.html.

Louisville Forecast 2013

Uric Dufrene, Ph.D.: Sanders Chair in Business, Indiana University Southeast, New Albany

As 2012 came to an end, the Louisville metro[1] was just shy of hitting a pre-recession peak in nonfarm payrolls. As of September 2012, payrolls were just 7,000 short of the 627,000 nonfarm payrolls that the Louisville metro observed in January of 2008. This progress comes with very strong year-over-year growth in nonfarm payrolls, well exceeding the U.S., Indiana and Kentucky. As we move into 2013, will this high growth be sustained, or can we expect growth to level off to levels consistent with the national, Indiana and Kentucky economies?

The 2013 outlook for the Louisville metro is for growth to continue, but likely decelerate compared to 2012. The national economy in 2013 will be affected by uncertainty surrounding the fiscal cliff. Slower nationwide growth will have an impact locally. Consequently, slower payroll growth for the Louisville metro is expected in 2013.

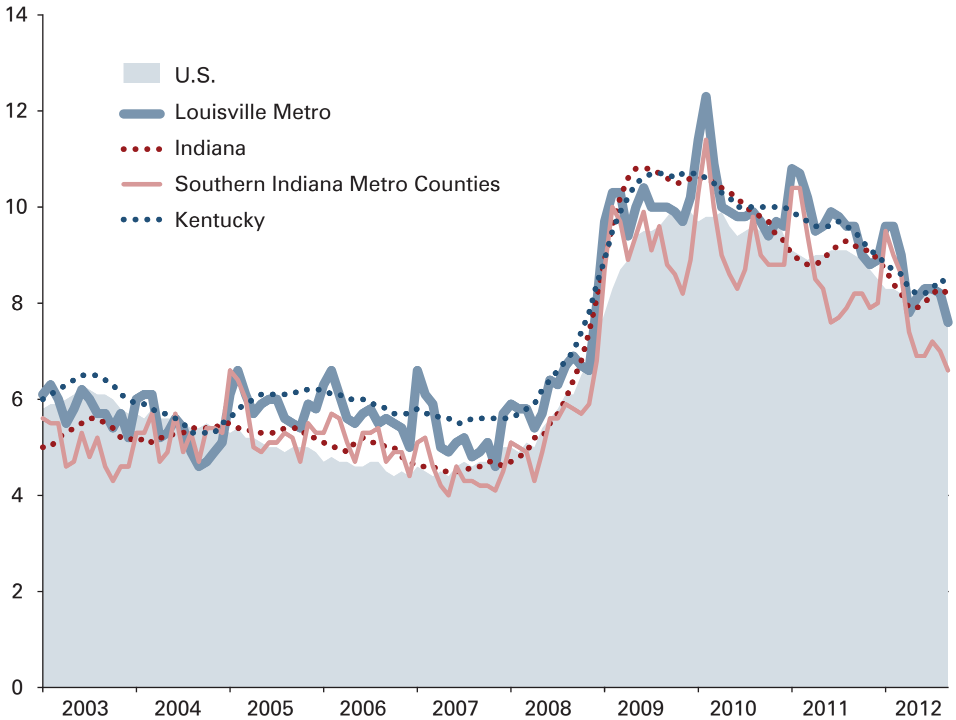
Labor Markets

The unemployment rate for the Louisville metro has trended down since 2011 and just moved under the national rate as of September 2012. The Southern Indiana area of the metro region fared better, with rates hovering around 7 percent and the lowest among the region and both states (see **Figure 1**). Despite a lower unemployment rate, the number of unemployed remains stubbornly high—nearly double than prior to the recession.

Sector Growth

The professional and business services sector was a key sector in

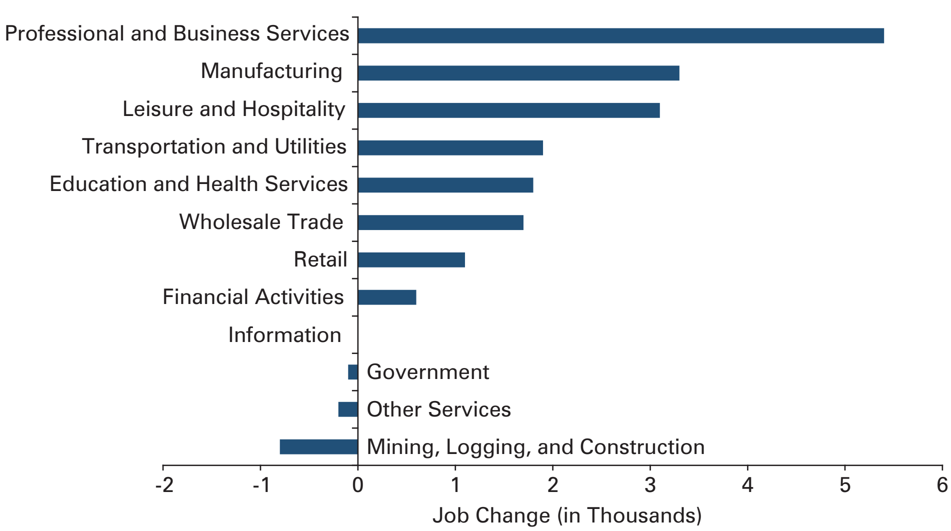
FIGURE 1: Louisville Unemployment Rates, March 2003 to September 2012



Source: Bureau of Labor Statistics

overall job growth for the Louisville metro last year. Professional and business services added 5,400 jobs out of 19,300 added for the entire region, as of September 2012 (see **Figure 2**). However, the professional and business services sector appears to be decelerating compared to early gains. Year-over-year gains had reached 11.3 percent earlier in the year, but have declined to 7.0 percent in September. This is likely reflective of an overall soft economy, but could also be

FIGURE 2: Louisville Metro Year-over-Year Job Change by Sector, 2011 to 2012



Note: Data are for September of each year.
Source: FactSet

indicative of subsequent slowing of total payrolls in the metro region.

Leisure and hospitality also showed solid gains, reflective of improving sentiment among consumers. Education and health services continued to show gains, but at a slower pace compared to recessionary and post-recession years. While housing continues to recover, construction continues to face challenges in overall employment. Despite the increase in building permits, construction employment remains flat compared to last year. Transportation and utilities, as well as retail and wholesale trade, showed moderate gains over 2012.

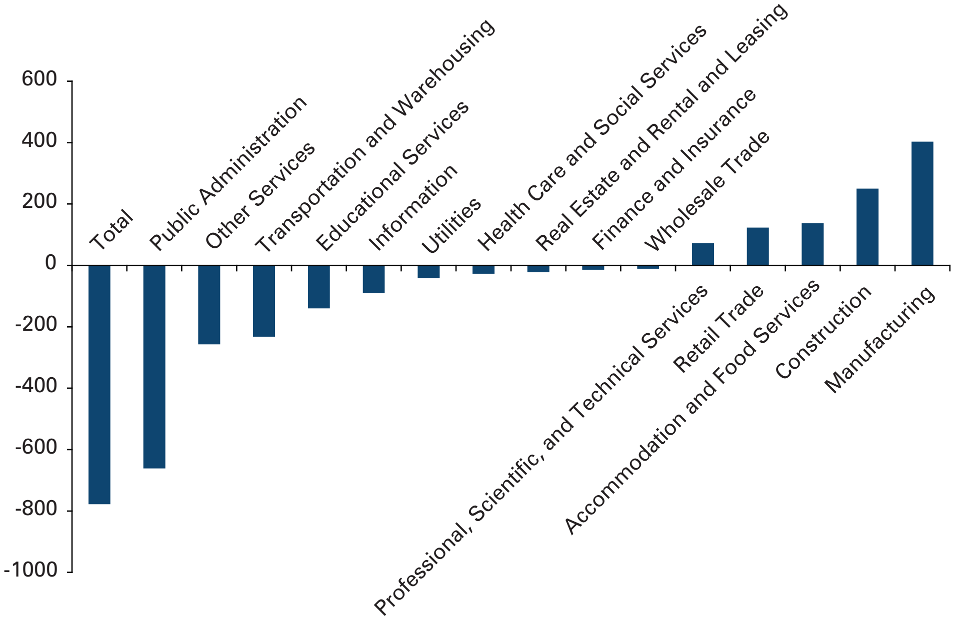
Manufacturing

Even though total manufacturing payrolls are lower today than 10 years ago, it continues to be an important payroll sector for the Louisville metro and Southern Indiana. While not the leading sector in job growth this past year, manufacturing did see another year of gains and contributed to overall job growth, adding 3,300 jobs. Much of this growth came in the durable goods sector, with local manufacturers in automotive and related automotive parts being responsible for a good portion of this growth. Automotive production, perhaps driven by pent-up demand, has been a major driver of gains in manufacturing. A key issue is whether gains can be sustained once auto sales move past the pent-up demand phase. Recent indicators suggest that a bottoming in manufacturing has occurred, but considerable uncertainty remains, largely due to weak domestic and global demand. Weak demand is the biggest challenge facing manufacturing. The sector may get an offsetting boost from encouraging signs in housing.

Southern Indiana

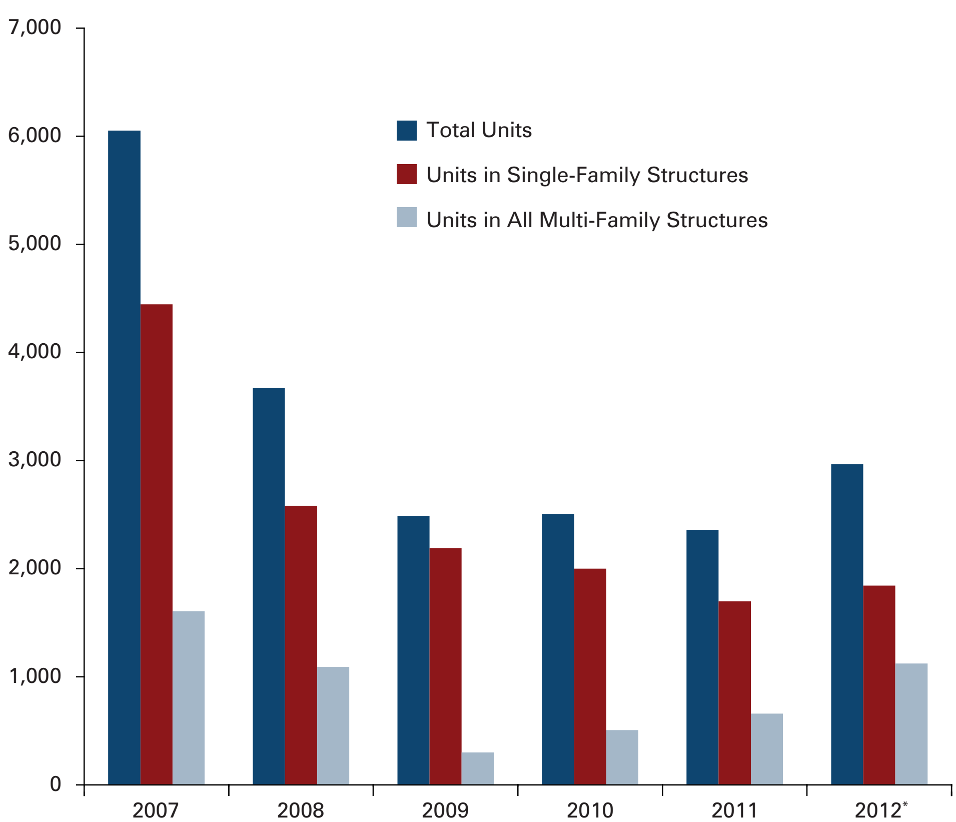
Payroll gains in Southern Indiana were lower due to declines in public

Figure 3: Year-over-Year Job Change by Sector for Southern Indiana's Louisville Metro Counties, 2011 Q1 to 2012 Q1



Note: Some industries are unavailable due to disclosure issues.
Source: STATS Indiana, using Quarterly Census of Employment and Wages data

Figure 4: Louisville Metro Building Permits, 2007 to 2012



*2012 data are year-to-date through September.
Source: State of the Cities Data Systems

administration, likely the result of reductions in payrolls at Clark County's Census operations (see **Figure 3**). Removing the impact of public administration declines, payroll growth in Southern Indiana was at a subdued pace. Manufacturing was quite strong and contributed to overall payroll growth. However, slowdowns in manufacturing, prompted by continued weak national demand, will take away from overall payroll growth in 2012 and 2013.

Housing

Housing continues to see improvement. Overall permits are up, and housing values continue to rebound. As of September, building permits in the region continue to be down 42 percent from 2007. However, September 2012 year-to-date permits have already exceeded total permits for 2011 (see **Figure 4**). Gains to housing will continue but at a moderate pace.

Outlook

Last year's outlook, as presented at the annual Economic Outlook program, was that payrolls would surprise to the upside and exceed expectations. Indeed, year-over-year payroll gains for the Louisville metro have been the highest since the 1990s. Contributing to these gains were professional and business services, manufacturing, and leisure and hospitality. For 2013, growth will begin to decelerate due to continued weak domestic and global demand. The region's unemployment rate will see gradual declines, but the number of unemployed will continue to remain higher than pre-recession levels. This past year's record of year-over-year job gains will be tough to match. For that reason, expect slower payroll gains for 2013.

Notes

1. The Louisville-Jefferson County Metropolitan Statistical Area consists of Clark, Floyd, Harrison and Washington counties in Indiana and Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, Spencer and Trimble counties in Kentucky.

Muncie Forecast 2013

Dagney Faulk, Ph.D.: Director of Research, Center for Business and Economic Research, Ball State University
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The official numbers show noticeable improvements in the Muncie area economy during 2012. The unemployment rate is down. Nonfarm employment has increased by a respectable amount as have average weekly wages. The housing market, particularly real estate sales, has improved, and local real estate agents indicate that there are shortages in some segments of the market. There have not been any major announcements of new businesses locating in the area or closings of existing manufacturing facilities, but several of the area's major manufacturers are humming along.

This article includes the most current data available at the time of writing on various measures of economic activity from public sources for the Muncie metropolitan area (Delaware County) to analyze changes over the past year. A summary of the labor market forecast for the Muncie area is included in the conclusion.

Labor Markets

The unemployment rate in 2012 showed very healthy improvement, decreasing from 10 percent to 8.8 percent from January to September (see **Table 1**). This is also lower than one year ago (September 2011) when the unemployment rate was 9.9 percent. However, Delaware County's rate is still higher than Indiana's rate of 7.5 percent (not seasonally adjusted). In 2012, we have a different scenario than 2011 with the changes in the number of unemployed workers and the labor force. In 2011, the number of unemployed workers decreased at a faster rate (down 7.1 percent) than the increase in the labor force (up 2.0 percent). However, from January to September in 2012, the labor force had a slight reduction of 0.8 percent and the number of unemployed persons also decreased but at a higher rate of 12.6 percent. This is similar to Indiana as a whole where there was a slight reduction in the labor force in 2012 (-0.3 percent) and a larger decrease in the number of unemployed workers (-18.7 percent).

Table 1: Labor Force and Unemployment, Delaware County, September 2011 to September 2012

Year	Month	Labor Force	Unemployed	Unemployment Rate
2011	September	54,531	5,398	9.9%
	October	54,456	5,322	9.8%
	November	54,790	5,513	10.1%
	December	54,398	5,334	9.8%
	Annual	**53,755**	**5,458**	**10.2%**
2012	January	54,419	5,429	10.0%
	February	54,374	5,375	9.9%
	March	54,679	5,373	9.8%
	April	53,581	4,776	8.9%
	May	54,806	4,922	9.0%
	June	52,968	5,384	10.2%
	July	52,664	5,261	10.0%
	August	53,486	5,021	9.4%
	September	54,009	4,744	8.8%

Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics

Table 2: Muncie Metro Employment by Industry, Year-to-Date 2011 to 2012*

Industry	2012	Change since 2011	Percent Change 2011–2012
Total Nonfarm	49,678	1,244	2.6%
Total Private	37,767	1,300	3.6%
Goods-Producing	5,567	300	5.7%
Manufacturing	3,867	189	5.1%
Private Service-Providing	32,200	1,000	3.2%
Trade, Transportation and Utilities	8,200	-89	-1.1%
Information	300	0	0.0%
Financial Activities	2,578	-22	-0.9%
Private Educational and Health Services	9,633	178	1.9%
Leisure and Hospitality	4,789	11	0.2%
Other Services	1,600	0	0.0%
Government	11,911	-56	-0.5%

*January through September average.
Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

TABLE 3: Average Weekly Wages in the Muncie MSA, 2011 Q1 to 2012 Q1

Industry	2011 Q1	2012 Q1	Percent Change
Total	$613	$662	8.0%
Finance and Insurance	$704	$833	18.3%
Construction	$640	$729	13.9%
Educational Services	$722	$811	12.3%
Information	$642	$715	11.4%
Real Estate and Rental and Leasing	$594	$657	10.6%
Health Care and Social Services	$636	$701	10.2%
Professional, Scientific, and Technical Services	$704	$767	8.9%
Administrative and Support and Waste Management and Remediation Services	$406	$438	7.9%
Transportation and Warehousing	$733	$788	7.5%
Accommodation and Food Services	$222	$237	6.8%
Manufacturing	$829	$885	6.8%
Wholesale Trade	$857	$910	6.2%
Retail Trade	$402	$423	5.2%
Agriculture, Forestry, Fishing and Hunting	$459	$482	5.0%
Utilities	$1,352	$1,396	3.3%
Other Services (Except Public Administration)	$418	$426	1.9%
Public Administration	$728	$728	0.0%
Arts, Entertainment, and Recreation	$255	$244	-4.3%
Management of Companies and Enterprises	$1,977	$1,888	-4.5%
Mining	$1,325	D	D

Note: D indicates that the data are not disclosable.
Source: Bureau of Labor Statistics and Indiana Department of Workforce Development

TABLE 4: Delaware County Residential Building Permits, Year-to-Date 2001 to 2012

Year	Total	Single-Family	Multi-Family
2001	231	182	49
2002	180	172	8
2003	371	180	191
2004	196	172	24
2005	131	124	7
2006	112	87	25
2007	90	76	14
2008	53	49	4
2009	26	26	0
2010	30	28	2
2011	59	49	10
2012	52	47	5

Note: Each year is based on January through September totals.
Source: U.S. Census Bureau

There was a turnaround in nonfarm employment in 2012. In every year from 2007 through 2011, nonfarm employment decreased for a total reduction of about 4,400 jobs. However, nonfarm employment increased by 1,244 in 2012. Delaware County has not seen this large of an increase in nonfarm employment since 1995. Manufacturing was partially responsible with an increase of 189 workers—the largest increase among the sectors. Manufacturing steadily declined from 2003 through 2011, losing 4,111 jobs. Private educational and health services had the second-largest addition of jobs with 178 (see **Table 2**).

After being relatively constant over the previous three years, average weekly wages in Delaware County rose 8 percent in 2012 to $662 (see **Table 3**). Most sectors in 2012 experienced positive increases ranging from 1.9 percent to 18.3 percent. Six of these sectors had increases of 10 percent or more: finance and insurance (18.3 percent), construction (13.9 percent), educational services (12.3 percent), information (11.4 percent), real estate, rental and leasing (10.6 percent), and health care and social services (10.2 percent). Two sectors, management of companies and enterprises and arts, entertainment, and recreation saw a decline in average weekly wages in 2012.

TABLE 5: Residential Real Estate Sales, Delaware County, January to September Averages, 2005 to 2012

Indicator	2005	2006	2007	2008	2009	2010	2011	2012
Units Sold	966	1,086	984	715	733	714	635	713
Average Days on Market	119	131	128	145	155	130	146	134
Average Sale Price	$101,891	$98,230	$92,596	$91,632	$90,628	$85,084	$85,957	$92,213
Median Sale Price	$80,650	$80,000	$79,900	$75,500	$76,750	$69,950	$72,900	$79,900
Average Property Tax/Average Sales Price	1.2%	1.2%	1.3%	1.7%	1.5%	1.5%	1.2%	1.3%

Source: Jim Kouns with the Mid-Eastern Indiana Association of Realtors (MEIAR)

The inflation rate between the first quarters of 2011 and 2012 was 2.8 percent, so workers in most sectors experienced real wage growth over this period.[1]

Housing

After a jump in new housing construction in 2011, the number of residential building permits leveled off and even declined a bit this year going from 59 in 2011 to 52 in 2012 (see **Table 4**).

The residential real estate market rebounded in 2012 in all measurable aspects. The number of units sold increased from 635 in 2011 to 713 in 2012 and the average number of days on the market decreased. The average sales price had a substantial increase of more than $6,200—increasing from $85,957 in 2011 to $92,213 in 2012. This is the highest average sales price since 2007 and the second straight year that the average sales price has increased (see **Table 5**).

Table 6: Food Stamp Recipients in Delaware County, January to October Averages, 2004 to 2012

Year	Average Monthly Food Stamps Issued	Average Monthly Food Stamp Recipients
2004	$1,107,937	12,601
2005	$1,398,397	14,064
2006	$1,349,338	14,119
2007	$1,426,283	14,400
2008	$1,423,852	13,043
2009	$1,932,026	14,454
2010	$2,302,577	16,915
2011	$2,520,722	18,706
2012	$2,667,504	19,854
Change 2011 to 2012	$146,782	1,149
Percent Change 2011 to 2012	5.8%	6.1%

Note: Dollar amounts not adjusted for inflation.
Source: STATS Indiana, using FSSA data

Social Safety Net

For the fourth straight year, the dollar amount of food stamps issued and the number of food stamp recipients increased (see **Table 6**). However, these increases have been declining over the past two years. In 2012, the dollar amount of food stamps issued averaged almost $2.7 million per month. This is an increase of $146,782 (5.8 percent) compared to the $218,145 (9.5 percent) increase in 2011 and the $370,551 (19.2 percent) increase in 2010. The number of food stamp recipients averaged 19,854 per month in 2012. This is an increase of 1,149 (6.1 percent) compared to the increase of 1,791 (10.6 percent) in 2011 and the increase of 2,461 (17 percent) in 2010.

Outlook

There has been too much variation in the data over the past few years to get too excited about the positive changes in the local indicators during the first three quarters of 2012. The decline in the labor force over the past year indicates that discouraged workers are a persistent issue and the continued increase in the number of food stamp recipients indicates ongoing economic distress for many families in Delaware County. Several more quarters (even years) of positive employment and income growth are needed to alleviate the lingering effects of the most recent recession.

In the coming year, we expect small gains in employment (1 percent) and income (in the 2 percent range) as the economy continues its slow recovery.[2]

Notes

1. Inflation rate for the Midwest region using the CPI for all urban consumers.
2. Forecast from the Center for Econometric Model Research, Indiana University, Bloomington, August 2012.

Richmond Forecast 2013

Litao Zhong, Ph.D.: Assistant Professor of Economics and Finance and Director of Business and Economic Research Center, School of Business and Economics, Indiana University East

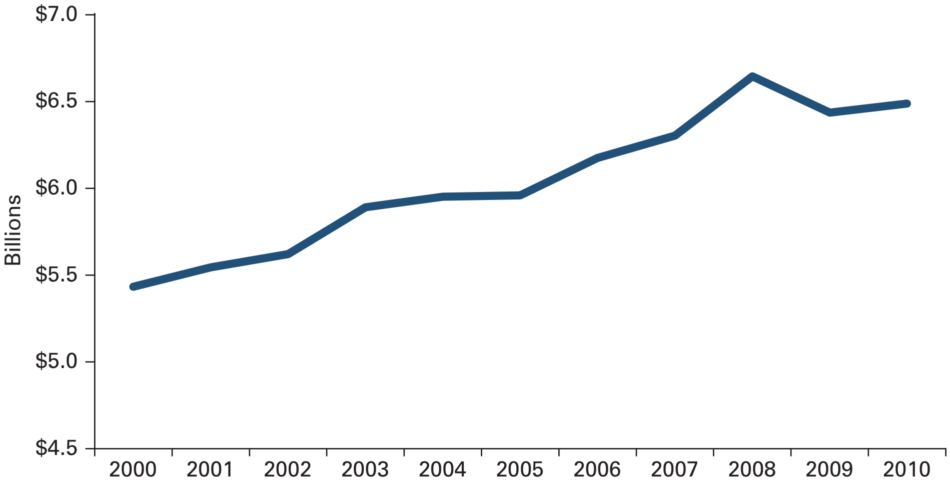
Richmond (Wayne County) is at an intersection to redefine itself after a large-scale loss of its historically dominant manufacturing jobs in recent years. The overall economy in Wayne County continues to recover after the Great Recession, but at a much slower pace than the state and other counties. There are several big problems hanging over our region: high unemployment, a declining and aging population, a tepid housing market, and the shortage of skilled workers. The main question Wayne County faces today is not just how to recover from the recession, but how to reshape its economic structure and revitalize its economy and community.

This article provides an overview of Wayne County and surrounding counties in regard to recent economic performance and an outlook for 2013. The surrounding counties are Fayette, Franklin, Henry, Randolph, Rush and Union. This article mainly focuses on Wayne County, but also analyzes some key economic indicators for these surrounding counties.

Total Personal Income

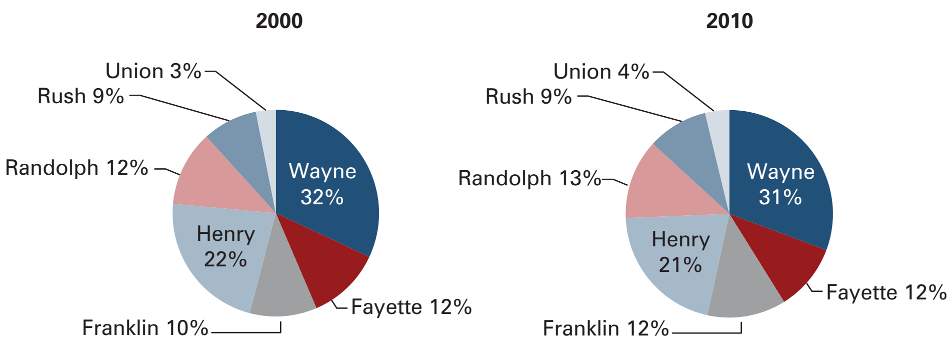
Since the public regional gross domestic product (GDP) data are unavailable for Wayne County and surrounding counties, we used total personal income (TPI),[1] as an approximation for GDP to measure the overall economic activity in our region. The regional total TPI bounced back in 2010 after the 2009 slump (see **Figure 1**). Our region had a TPI of $6.5 billion in 2010 and accounted for 2.9 percent of the state total. Comparatively, the TPI of our

Figure 1: Richmond Region's Total Personal Income, 2000 to 2010



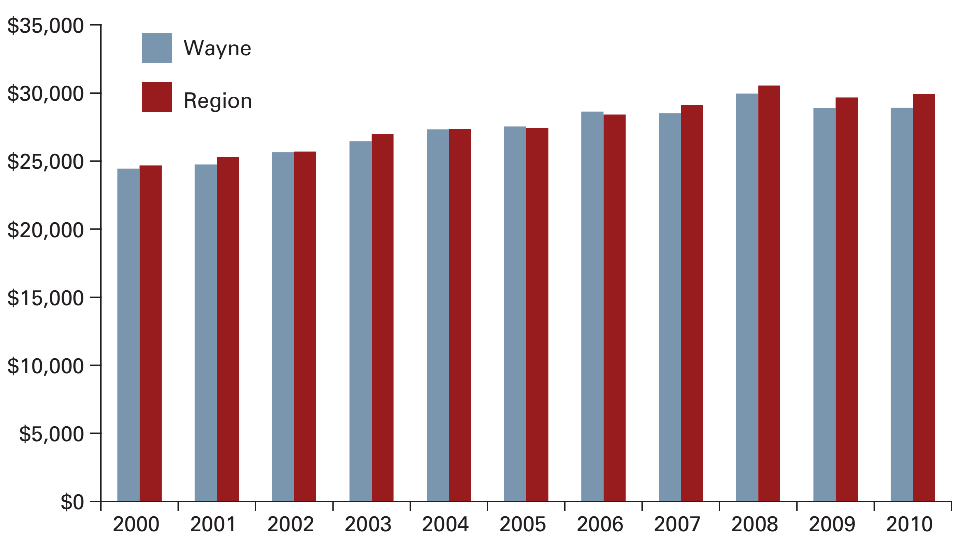
Note: The Richmond region includes Fayette, Franklin, Henry, Randolph, Rush, Union and Wayne counties.
Source: Bureau of Economic Analysis Regional Fact Sheets

Figure 2: The Breakdown of Regional Total Personal Income, 2000 and 2010



Source: Bureau of Economic Analysis Regional Fact Sheets

Figure 3: Per Capita Personal Income for Wayne County and Region, 2000 to 2010



Source: STATS Indiana, using Bureau of Economic Analysis data

region was $5.4 billion in 2000 and accounted for 3.3 percent of the state total. At the county level, Wayne still has the largest share of TPI in our regional economy, but its share fell from 32 percent in 2000 to 31 percent in 2010 (see **Figure 2**). Fayette and Henry counties also declined in their economic weights, while Franklin, Randolph and Union counties gained more shares in the regional economy. Rush County remained the same.

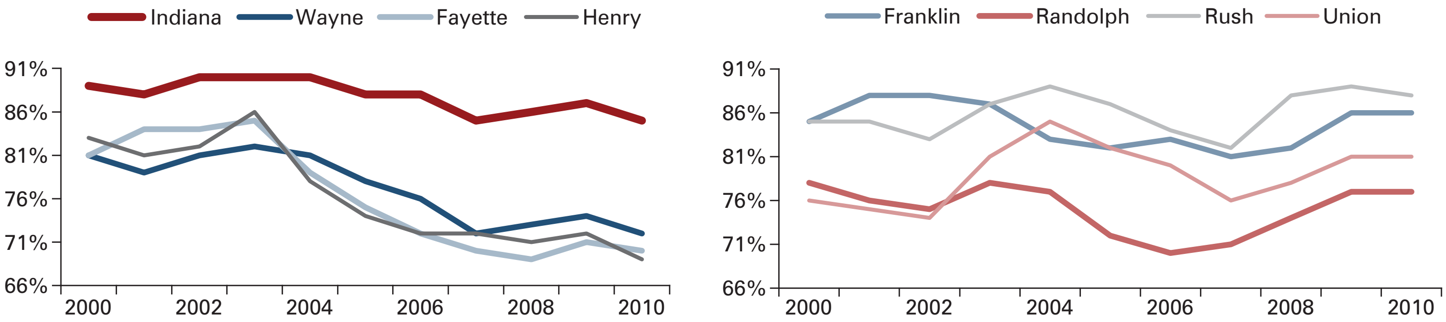
Per capita personal income (PCPI) has gradually improved in the past decade (see **Figure 3**). In 2010, the regional PCPI was $29,928, about 88 percent of the state average ($34,028) and 75 percent of the national average ($39,791). Wayne County had a PCPI of $28,916 in 2010, ranking 74th in the state and reflecting an increase of 0.1 percent from 2009. The 2009-2010 state change was 2.0 percent and the national change was 2.8 percent. In 2000, the PCPI of Wayne County was $24,442 and ranked 46th in the state. Wayne County's 2000-2010 annual growth rate for PCPI was 1.7 percent, compared to 2.2 percent for the state and 2.8 percent for the nation.[2]

Interestingly, the surrounding counties' PCPIs fall into two distinct groups (see **Figure 4**). Fayette County and Henry County have the same downward trend on their PCPIs as a percent of the national average as Wayne County does. In contrast, Franklin, Randolph, Rush and Union have a notable uptick on their PCPIs in terms of percent of the national average since 2007. This outcome echoes the percentage changes of regional TPI shown in **Figure 2**.

Population

Like other rural areas in the Midwest, Wayne County has been experiencing a sustained population decline, and the spiral down will continue in the foreseeable future (see **Table 1**). The population in 2011 was 68,643, which was 4.6 percent lower than in 1990. The projected population in 2030 according to the Indiana Business

FIGURE 4: Per Capita Income as a Percent of the United States, 2000 to 2010



Source: Bureau of Economic Analysis's Regional Fact Sheets

TABLE 1: Population over Time and Projections for Wayne County, 1990 to 2030

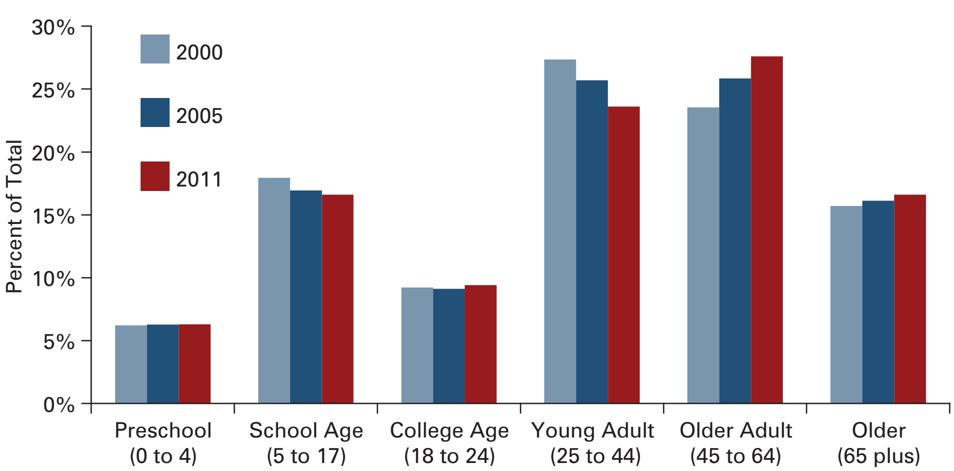
	1990	1996	2001	2006	2011	2015*	2020*	2025*	2030*
Total Population	71,951	72,019	70,513	68,551	68,643	68,110	67,142	66,250	65,321
Change since 1990	n/a	68	-1,438	-3,400	-3,308	-3,841	-4,809	-5,701	-6,630
Percent Change since 1990	n/a	0.1%	-2.0%	-4.7%	-4.6%	-5.3%	-6.7%	-7.9%	-9.2%

*Data are projected.
Source: Hoosiers by the Numbers, using U.S. Census Bureau and Indiana Business Research Center data

Research Center (IBRC) is 65,321, down 9.2 percent from 1990. The surrounding counties' population will follow the same path as that of Wayne County except Franklin and Union counties. Both Franklin and Union have had a steady increase in their population since 1990, and this upward trend is projected to continue.

The age makeup of Wayne County's population has also changed in the past decade. The median age was 37.8 in 2000, 39.5 in 2005 and 40.5 in 2011. The largest population group by age was young adults (age 25 to 44) in 2000, about 27 percent, while it was older adults (age 45 to 64) in 2011, about 28 percent (see **Figure 5**). This trend shows that the population in Wayne County is aging, which has implications for economic growth. Compared to its six neighboring counties, Wayne County had the lowest median age in 2011, while Henry County had the highest median age of 41.8. At the same time, our region's median age of 41 was much higher than the state (37.1) and national (37.3) median ages.[3]

FIGURE 5: Population by Age for Wayne County, 2000, 2005 and 2011

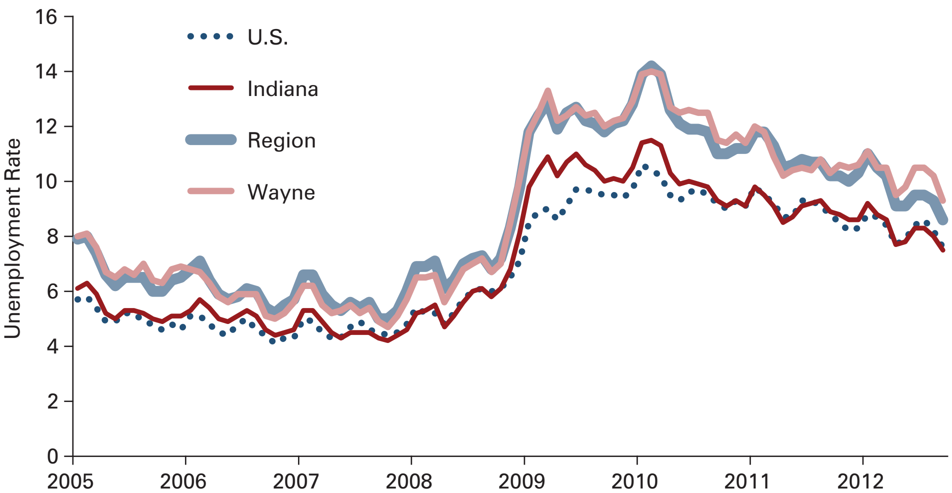


Source: STATS Indiana, using U.S. Census Bureau data

Labor Market

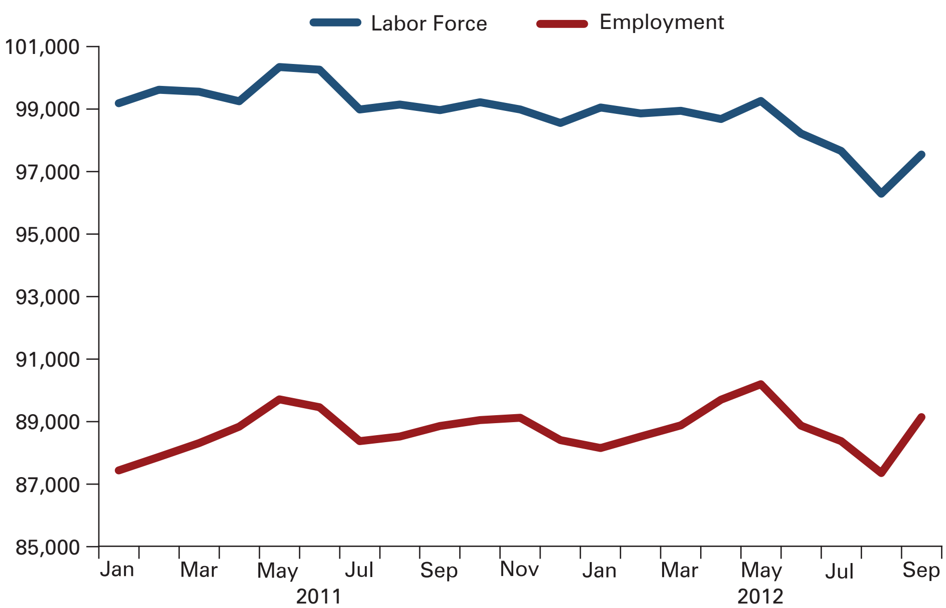
The overall unemployment rate has slowly trended down since 2010 in this area (see **Figure 6**). The regional unemployment rate for September 2012 was 8.6 percent. Although the regional unemployment rate is on a downward trend, it is still higher than the national rate of 7.6 percent and the state's 7.5 percent rate (not seasonally adjusted). Among all seven counties, the unemployment rates of Fayette, Henry, Randolph and Wayne are above the state and national levels, while Franklin, Rush and Union have unemployment rates lower than the state and national rates.

Figure 6: Unemployment Rates, January 2005 to September 2012



Note: Data are not seasonally adjusted.
Source: STATS Indiana, using Bureau of Labor Statistics data

Figure 7: Labor Force and Employment for the Region, January 2011 to September 2012



Source: Indiana Department of Workforce Development, Local Area Unemployment Statistics (LAUS)

The downward trend in the unemployment rate does not tell the whole story about the regional labor market. The data on the labor force and employment for all seven counties actually may raise some eyebrows. The labor force and employment numbers have both seen a substantial decrease, particularly since May 2012 (see **Figure 7**). Before May 2012, the labor force stayed around 99,000 with employment around 89,000, but in August 2012, the labor force slumped to 96,281 with employment of 87,344. This suggests that the local labor market is weakening with fewer available jobs, causing job seekers to drop out of the labor market or move out of the area.

The employment pattern has also been shifting in our region. Total nonfarm jobs totaled 64,114 in 2011, about an 11 percent slide since 2007 (see **Table 2**). The top five local employment sectors are: government, manufacturing, health care and social assistance, retail trade, and accommodation and food service.

Manufacturing used to be the largest employment source in this area, but its weight in overall employment has gradually declined from 21.5 percent in 2007 to 18.5 percent in 2011. Most sectors experienced job cuts during this time frame with the exception of health care and social assistance. There has been a steady increase in employment in health care and social assistance over the years in our region. We anticipate this economic sector will keep growing in the future and will become the largest source of employment in the region.

Earnings

In contrast to the weakening labor market, our region sees a positive change in the average annual income for most industries. In 2011, the average annual earnings for all industries was $30,703 (see **Table 3**), a 1.8 percent increase from 2007; however, that is about 23 percent lower than the state average. Although the manufacturing sector still has the highest wage in this region, comparatively its average annual earnings dropped by about 2 percent in the past five years. We anticipate the average income will grow steadily under the current economic circumstances, but the earning disparity between our region and the state average will persist for a long time.

Housing

The local housing market reveals mixed information. Building permits

Table 2: Employment by Sector for the Richmond Region, 2007 to 2011

	2007	2008	2009	2010	2011	Change since 2007	Percent Change 2007–2011
Total Employment	72,125	70,093	65,211	63,369	64,114	-8,011	-11.1%
Manufacturing	15,502	14,051	11,783	11,550	11,854	-3,648	-23.5%
Retail Trade	8,902	8,665	8,207	8,088	8,146	-756	-8.5%
Health Care and Social Assistance	8,617	8,530	8,806	9,067	9,535	918	10.7%
Accommodation and Food Service	5,657	5,955	5,795	5,532	5,657	0	0.0%
Federal, State, and Local Government	13,307	13,294	13,117	12,697	12,380	-927	-7.0%

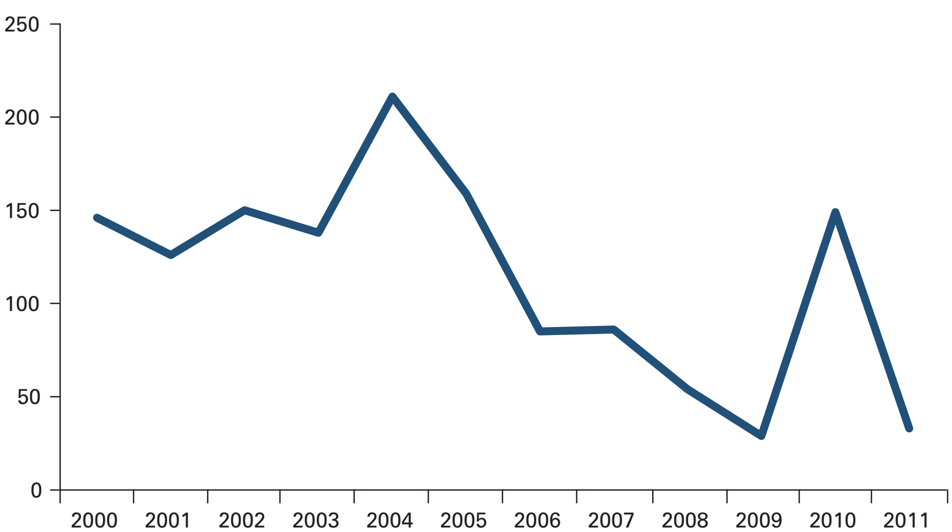
Note: The Richmond region includes Fayette, Franklin, Henry, Randolph, Rush, Union and Wayne counties.
Source: Indiana Department of Workforce Development data aggregated by the author

Table 3: Average Annual Earnings by Industry for the Richmond Region, 2007 and 2011

	2007	2011	Change	Percent Change	2011 State Average	Percent of State
All Industry	$30,156	$30,703	$547	1.8%	$39,969	76.8%
Manufacturing	$45,185	$44,322	-$863	-1.9%	$55,401	80.0%
Retail Trade	$19,241	$20,364	$1,123	5.8%	$23,442	86.9%
Health Care and Social Assistance	$28,564	$29,805	$1,241	4.3%	$40,838	73.0%
Accommodation and Food Service	$10,310	$11,535	$1,225	11.9%	$13,528	85.3%
Federal, State, and Local Government	$29,669	$31,573	$1,904	6.4%	$40,086	78.8%

Note: The Richmond region includes Fayette, Franklin, Henry, Randolph, Rush, Union and Wayne counties.
Source: Indiana Department of Workforce Development data aggregated by the author

Figure 8: Wayne County Building Permits, 2000 to 2011



Source: STATS Indiana, using Bureau of Labor Statistics data

were way off the peak of 211 in 2004. However, there was a surprising jump in 2010 to 149 permits from 29 in 2009 (see **Figure 8**), followed by a disappointing drop in 2011 to 33 permits. There were 503 house sales in Wayne County in 2012 (through October 1)—an increase of 56 sales relative to 2011. Furthermore, the average sale price of $91,465 represents a 10.7 percent increase over 2011 (see **Figure 9**). Even with the exciting news of increased home sales, there is a longer waiting period to dispose of remaining houses for sale. The average number of market days is 155, up from 128 days in 2005. Surely, the housing market, which has experienced the adverse effects of the 2008 financial crisis, is moving toward the bright side of full recovery.

Business and Investment Activity for 2012

In 2012, the Economic Development Corporation (EDC) of Wayne County did an excellent job partnering with existing companies to expand their production lines, as well as attracting new investments.

The EDC closed eight projects in 2012 which anticipate generating $39.5 million in new private investments. Those projects created or retained about 458 jobs. The new projects invested in by the EDC through 2012 were:

- Golden Engineering, Inc. purchased new manufacturing equipment to add new product lines.
- Silgan White Cap purchased new equipment and provided training for employees using the equipment to increase technological advantage.
- Hill's Pet Nutrition trained its employees and will create 12 new jobs by 2013.
- Transilwrap Company added new equipment that will lead to new technology and jobs.
- Suncall America, Inc. expanded its operation for its new automotive orders. It will create 10 new jobs.
- Berry Plastics Corporation created 10 new jobs and invested $4.4 million in a new project.
- B & F Plastics, Inc. added a new product line and created eight new full-time jobs.
- Sugar Creek Packing Company announced the relocation to Wayne County. The new business will create 400 jobs and install five cooking lines by 2016.

Outlook

The global economy has much more impact on the regional economy today than 20 years ago. The World Bank's new chief economist, Kaushik Basu, said "The ongoing European debt crisis could weigh on the world economy for years, forcing policy makers to rethink their approaches to restoring growth and boosting job creation."[4]

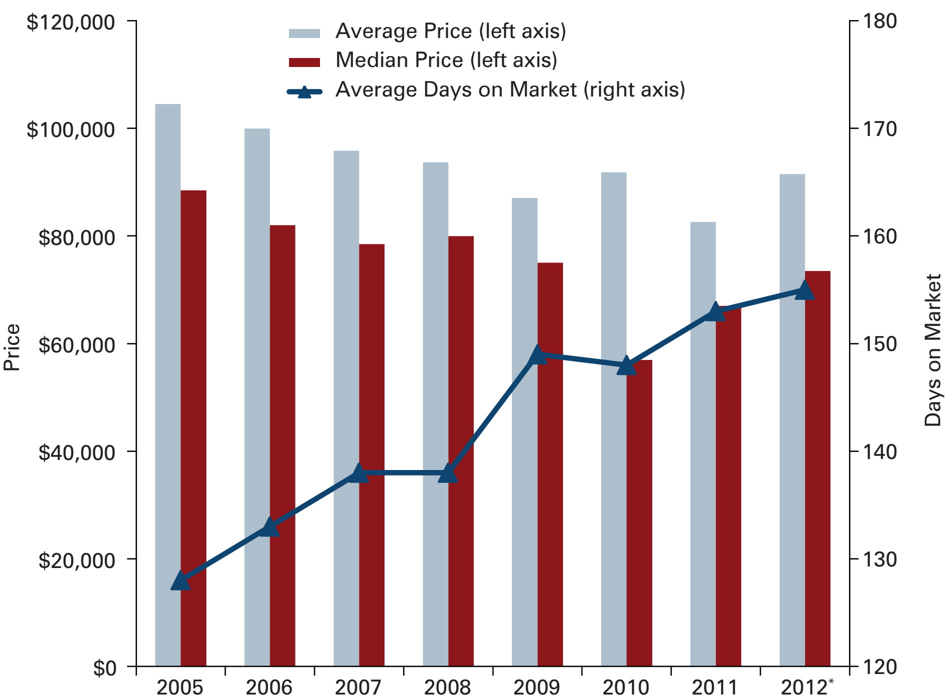
The sluggish global economic growth will impact the U.S. economy, which in turn will impact Richmond's regional economy given their interdependence. Furthermore, many businesses have been waiting for clearer economic policies to be defined by the outcome of the general election.

In summary, due to policy uncertainty in the global and national economies, the outlook for the regional economy in 2013 is mixed. Overall, we expect moderate economic growth; however, in some sectors, such as health care and social assistance, we might see faster growth.

Notes

1. Total personal income includes net earnings by place of residence; dividends, interest, and rent; and personal current transfer receipts received by residents in the area.
2. Source: Bureau of Economic Analysis Regional Fact Sheets
3. Median age was calculated by the IBRC and by the author using U.S. Census Bureau data.
4. "World Bank Sees Long Crisis Effect," *Wall Street Journal*, October 2, 2012.

Figure 9: Housing Sales Details for Wayne County, 2005 to 2012



*2012 data are from January to October 1.
Source: Paragon-Wayne County MLS Service

South Bend and Elkhart Area Forecast 2013

Douglas Agbetsiafa, Ph.D.: Director, Bureau of Business and Economic Research, Chair and Professor of Economics, Judd Leighton School of Business and Economics, Indiana University South Bend

The Michiana regional economy, which includes the South Bend-Mishawaka Metropolitan Statistical Area (MSA) and the Elkhart-Goshen MSA, continues its recovery from the setbacks from the 2007-2009 recession. We expect the region's economic growth to continue well into 2013.

Metropolitan Gross Domestic Product

From its combined real gross domestic product (RGDP) of $19.45 billion (in chained 2001 dollars) in 2010, the region's economy expanded thanks to the strong recovery in the Elkhart MSA's durable goods-producing manufacturing sector. After declining 15.3 percent in 2009, its growth continues to improve—reaching 13 percent growth in 2010 and later.

The South Bend-Mishawaka metropolitan area's RGDP grew 1.0 percent in 2010 after declining 6.9 percent in 2009, according to Bureau of Economic Analysis data. Overall, the size of the local metropolitan economies, while higher in 2012 than in 2009, has remained below pre-recession levels.

Labor Force and Employment

The decline in the labor force of the local economy has abated. The combined labor force of the two metros fell by 836 workers between September 2011 and September 2012, compared to a decline of 1,494 workers between September 2010 and September 2011. This improvement is unevenly distributed between the two metropolitan areas. From September 2011 to September 2012, the South Bend-Mishawaka MSA labor force declined by 2 percent (2,711 workers), while the Elkhart-Goshen MSA labor force added 2 percent (1,875 workers).

Combined employment for both metros rose by 8,800 from 243,800 jobs in September 2011 to 252,600 in September 2012. The Elkhart-Goshen MSA added 8,600 of those jobs, while the South Bend-Mishawaka MSA added the other 200 jobs. During the same period, the number of unemployed dropped 25 percent (2,581) in the Elkhart-Goshen area, and 18 percent (2,703) in the South Bend-Mishawaka MSA.

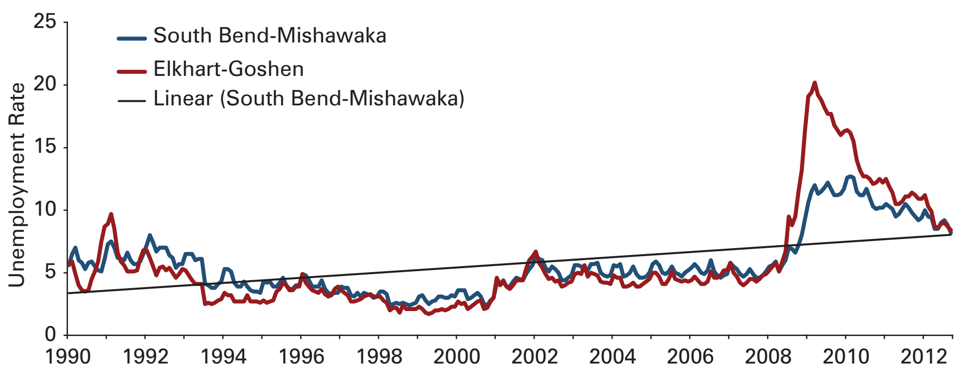
As a result, the unemployment rate fell sharply in both MSAs between September 2011 and September 2012—3 full percentage points in Elkhart-Goshen and 1.6 percentage points in South Bend-Mishawaka. **Figure 1** presents monthly unemployment rates from 1990 to 2012. These rates were lower by the third quarter of 2012 than they were in 2009 and 2010.

The recovery that began in June 2009 spurred economic growth, a reduction in the number of unemployed and a decline in unemployment rates across the two metro areas. By the third quarter of 2012, the Elkhart-Goshen MSA saw its unemployment rate fall 11.8 percentage points from its March 2009 peak of 20.2 percent. Similarly, the South Bend-Mishawaka MSA's unemployment rate fell from its peak of 12.7 percent reached in February 2010 to 8.2 percent by the end of the third quarter 2012.

"The recovery that began in June 2009 spurred economic growth, a reduction in the number of unemployed and a decline in unemployment rates across the two metro areas."

Table 1 shows the metropolitan areas' employment data by industry. After losing a staggering number of jobs during the 2007-2009 recession, the combined MSAs employed 252,600 workers in the nonfarm sectors in September 2012. South Bend-Mishawaka MSA's employment

Figure 1: Unemployment Rates in the Elkhart-Goshen and South Bend-Mishawaka MSAs, January 1990 to September 2012



Source: STATS Indiana, using Bureau of Labor Statistics data was 19,800 workers higher than Elkhart-Goshen.

While jobs in the two metropolitan areas were down 24,500 from where they were in September 2007, according to Bureau of Labor Statistics (BLS) data, third quarter 2012 employment data indicate solid job gains for the local economy. For example, the combined total nonfarm jobs were up 8,800 from 2011 levels. In the most recent data, five industries added jobs, four industries suffered job losses and one industry saw no change in employment. Industries adding jobs include natural resources, mining, and construction; manufacturing; trade, transportation and utilities; professional and business services; and leisure and hospitality. Industries that recorded job losses include financial activities; private educational and health services; other services; and government. Employment in the information activities sector remained flat.

The Elkhart-Goshen MSA added 400 new jobs in natural resources, mining and construction; 6,600 jobs in manufacturing; 200 jobs in trade, transportation and utilities; 1,000 jobs in professional and business services; 100 jobs in leisure and hospitality; 500 jobs in government; and 100 job losses in other services.

The South Bend-Mishawaka MSA added 100 jobs in natural resources, mining and construction; 500 jobs in manufacturing; 500 jobs in trade, transportation and utilities; 500 jobs in leisure and hospitality; and 100 jobs in professional services. All the 100 job losses in private educational and health services and the 1,300 job losses in government services were in the South Bend-Mishawaka MSA.

Both MSAs share the combined financial activities job losses equally, with 100 job losses in the South Bend-Mishawaka MSA, and 100 job losses in the Elkhart-Goshen MSA.

We forecast overall employment gains of 1.2 percent for the South Bend-Mishawaka MSA and 2 percent for the Elkhart-Goshen MSA during the fourth quarter of 2012 and in 2013.

Local Wages and Hours Worked

Average weekly wages in the combined MSAs increased steadily since 2009, according to BLS data. Average weekly wages rose at a 3 percent annual rate to $751 in the Elkhart-Goshen MSA, compared to a 2 percent annual rate rise in the South Bend-Mishawaka MSA to $748 by the first quarter of 2012. Similar to average weekly wages, average weekly hours expanded gradually since January 2011. In addition, by September 2012, the Elkhart-Goshen MSA's average weekly hours jumped 10 percent to 37.4 hours from the index's low of 33.9 hours recorded in December 2008. Similarly, the South Bend-Mishawaka MSA's average weekly hours climbed 4 percent from 34 hours (April 2009) to 35.5 hours (September 2012). We forecast that these trends in wages and hours will continue as the local economy continues its modest recovery.

Housing

By 2011, the two metropolitan areas saw a housing sector recovery.

Table 1: Employment by Industry and Metro Area, September 2012

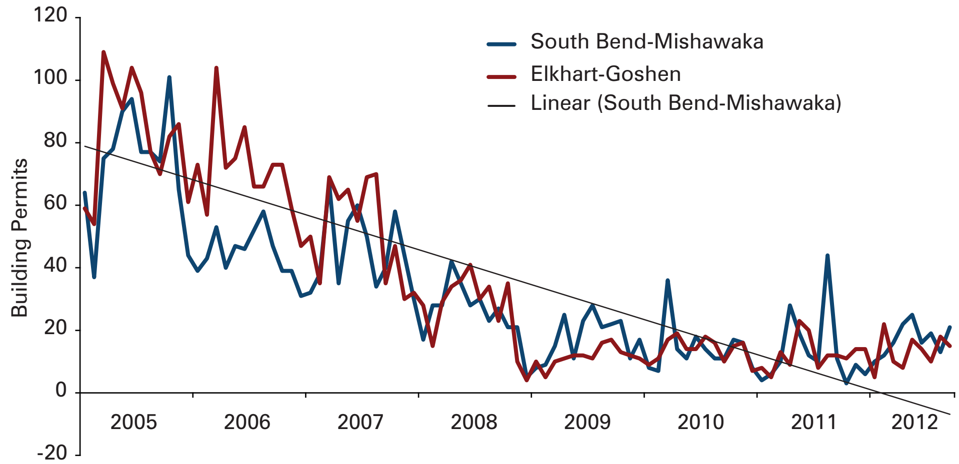
	Elkhart-Goshen		South Bend-Mishawaka		Combined Region		
Industry	Employment	Change since September 2011	Employment	Change since September 2011	Employment	Change since September 2007	Change since September 2011
Total Nonfarm	116,400	8,600	136,200	200	252,600	-24,500	8,800
Natural Resources, Mining and Construction	3,600	400	4,800	100	8,400	-2,700	500
Manufacturing	53,400	6,600	17,900	500	71,300	-11,000	7,100
Trade, Transportation and Utilities	16,900	200	24,800	500	41,700	-5,300	700
Information	600	0	1,500	0	2,100	-800	0
Financial Activities	2,900	-100	5,600	-100	8,500	-1,700	-200
Professional and Business Services	9,000	1,000	13,200	100	22,200	-1,100	1,100
Private Educational and Health Services	10,800	0	35,000	-100	45,800	1,700	-100
Leisure and Hospitality	7,000	100	13,100	500	20,100	-100	600
Other Services	3,300	-100	5,500	0	8,800	-1,000	-100
Government (Includes Public Schools and Hospitals)	8,900	500	14,800	-1,300	23,700	-2,500	-800

Source: STATS Indiana, using Current Employment Statistics data

Recent housing market indicators remained positive during the first three quarters of 2012. The number of single-family housing permits in both MSAs showed moderate improvement. From January 2012 to September 2012, the Elkhart-Goshen MSA had 119 single-family building permits filed. This number is 8.2 percent higher than the 110 recorded during the first nine months of 2011 (see **Figure 2**). During the first nine months of 2012, South Bend-Mishawaka's number of single-family building permits filed was 6.9 percent higher than its 144 total during the same period in 2011.

Current data provided by the Indiana Association of Realtors indicate improvement in local housing markets. Inventory of homes for sale fell 15.6 percent while closed sales jumped 10.3 percent in Elkhart-Goshen. During the same period, the inventory of homes for sale fell 14.3 percent while closed sales climbed 7.9 percent in South Bend-Mishawaka. In addition, median home prices jumped 5.9 percent from $92,500 in September 2011 to $98,000 in September 2012 in the Elkhart-Goshen MSA, while declining 2.8 percent from $106,000 to $103,000 during the same period in South Bend-Mishawaka. We expect the continuation of moderate growth in the local housing markets.

Figure 2: Single-Family Residential Building Permits by Metropolitan Area, January 2005 to September 2012



Source: U.S. Census Bureau

Summary

Recent economic indicators indicate the local economy has improved since the 2007-2009 recession that resulted in significant job losses, high unemployment rates, falling real wages and weak housing markets. Beginning in 2011, the two MSAs have witnessed modest job growth, a significant decline in the jobless rates, and rising average weekly wages and hours. We are guardedly optimistic about the outlook for 2013, expecting employment gains of 1.2 percent in the South Bend-Mishawaka MSA and 2 percent in the Elkhart-Goshen MSA.

Looking ahead, we are beginning to see some increased business growth and expansions, including Utilimaster, ACC Climate Control Inc., Champagne Metals LLC, Colbert Packaging, Custom Wood Product Inc., LOOK Founders and Supreme Industries in the Elkhart-Goshen MSA. The same is happening in the South-Mishawaka MSA where new start-up firms, Data Realty and F Cubed, expanded to new locations from the Innovation Park in South Bend.

Both MSAs have established strong and effective private-public partnerships to accelerate growth in the region. The Corporate Partnership for Economic Growth (CPEG) was formed to support entrepreneurship in four counties in the region. The Economic Development Corporation of Elkhart County established a task force to promote entrepreneurship, innovation and diversification of the Elkhart-Goshen economy. With these growth initiatives, we expect the Michiana region's economic activity to pick up, wages to rise and unemployment rates to fall below current levels.

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Terre Haute Forecast 2013

Robert Guell: **Professor of Economics**, Indiana State University

Kevin Christ: **Associate Professor of Economics**, Rose-Hulman Institute of Technology

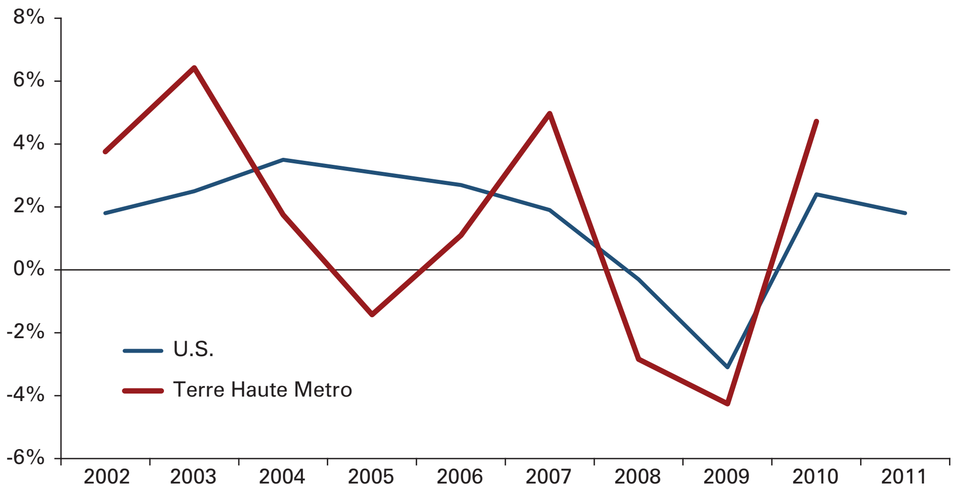
The Terre Haute regional economy is struggling to generate a rate of growth above "stall speed." The unemployment rate remains stubbornly high, and history suggests that unless the national economy grows more than 2.5 percent, the Terre Haute regional unemployment rate is unlikely to fall. Unfortunately, consensus forecasts for national economic growth are just in the 2.5 percent range, and the downside risks currently seem greater than the upside potential. Hence, the outlook for the Terre Haute regional economy remains much as it was last year: weak and susceptible to outside shocks.

If the national economy were to slip into recession, whether as a result of a failure to avoid the "fiscal cliff" or because of global disruptions in Europe or China, such a decline would constitute the third dip in output for the local economy since 2004. As can be seen in **Figure 1**, the Terre Haute metropolitan area experienced its first dip when Pfizer announced its departure, and experienced a second, more dramatic downturn in 2008, along with the rest of the country. Since that second downturn, total output of the local economy, measured by inflation-adjusted gross domestic product (GDP) for the metropolitan area had barely regained its pre-2008 levels by 2010. Another setback at this stage could be troubling indeed.

As one would expect, the employment picture remains clouded. As can be seen in **Figure 2**, even though unemployment rates in Terre Haute were higher than national and state rates during the expansion between 2002 and 2007, they were at relatively low levels in the 5 percent to 6 percent range as the recession began. As the recession deepened, unemployment quickly spiked in Terre Haute as it did elsewhere, peaking well above the national 10 percent peak (in seasonally adjusted terms). Though the recovery has lowered the national and state rates, Terre Haute's unemployment rate remains about 2 percentage points higher than state and national rates. In short, the recovery has simply not been sufficiently robust to produce the jobs necessary to significantly reduce the local unemployment rate. Moreover, there are 5,000 fewer jobs in the area than there were a decade ago with a labor force that is approximately the same size (about 80,000).

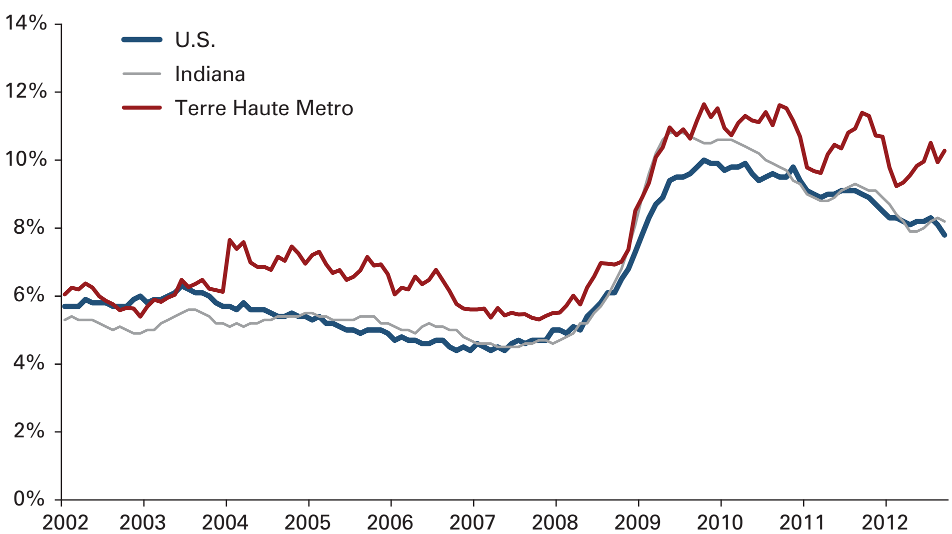
Furthermore, the sectoral composition of jobs in Terre Haute has also changed in notable ways over the decade. Collectively,

Figure 1: Real GDP Growth Rates, National Economy and Terre Haute Metro, 2002 to 2011



Source: Bureau of Economic Analysis

Figure 2: Seasonally Adjusted Unemployment Rates, January 2002 to September 2012



Source: Bureau of Labor Statistics and authors' calculations manufacturing, retail, and health and education have consistently accounted for about 45 percent of area employment. As **Figure 3** shows, in 2002 these three sectors were equally important sources of area employment. In 2012, while still accounting for about the same level of employment collectively, the composition has changed significantly—with retailing becoming relatively less important. Terre Haute's historic position as a regional shopping hub may continue, but as a source of employment, the retail sector's prominence in the region has been sharply curtailed. Whether that is because shoppers are headed to their computers or to other cities we do not know, but one thing is clear: in terms of regional employment, retailing is no longer as important as it once was.

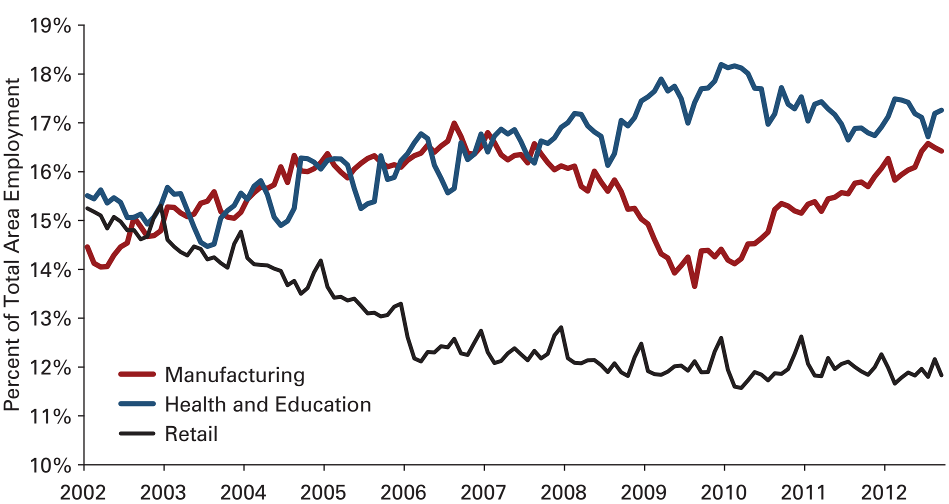
On the plus side, **Figure 3** also highlights the fact that manufacturing employment has actually recovered quite well since the low point of the most recent recession in late 2009 and anecdotal evidence supports this conclusion. Major area employers are beginning to step up employment. For example, Sony DADC is taking steps to broaden the appeal of its Blu-Ray DVDs. This is allowing Sony to increase sales. As a result, hiring (albeit temporary hiring) has increased employment at Sony.

Expansion by some of Terre Haute's other major employers is also contributing to a modest rebound. Alorica has continued to expand both its client base as well as its employment prospects for its call center operation on the north side of the city. In February, Eli Lilly acquired ChemGen, a Maryland animal science company. Prospects are good that this will result in greater opportunities for Terre Haute's production facility. In March, Bemis announced plans to create 40 new positions in Terre Haute as part of a consolidation of production at other facilities, and in April ThyssenKrupp Presta announced plans to add 120 workers as a result of a $22 million expansion. ADVICS (formerly Aisin Brake and Chassis) has invested heavily in its Terre Haute facility, adding 135 new jobs in two years. Though disappointed to see its joint strike-fighter engine opportunities disappear, Unison continues to add jobs in Terre Haute for its GEnx engine parts manufacturing. Finally, Applied Extrusion Technologies is adding equipment and employees to "metalize" its oriented polypropylene packaging materials.

In terms of new investments by companies new to the region, Menard's is building a distribution center in Terre Haute for block, trusses and lumber. The $12 million facility will employ 80 people. The year's most significant economic news in the city was that the old Pfizer facility will soon see a new occupant. Transferred to the Vigo County Redevelopment Commission when Pfizer ceased operations on the south side of the city, the facility was sold in April to NantWorks, a California-based pharmaceutical manufacturing company. Contingent upon FDA approval, the company plans to produce critical-care injectable drugs and oncological drugs on the site, with the expectations of eventually creating more than 200 new high-wage positions. Such a development would represent a significant infusion

> *While Terre Haute's manufacturing base has recovered nicely since the recession, recent history demonstrates that such growth is susceptible to adverse shocks in the national and global economy.*

Figure 3: Share of Terre Haute Regional Employment, Selected Sectors, January 2002 to September 2012



Source: Bureau of Labor Statistics and authors' calculations of new investment and jobs into the community.

Outlook

However hopeful these investments may make us, Terre Haute's near-term economic future remains cloudy. The area's institutions of higher education have, on net, growing enrollments and stable employment. The area's hospitals and other health care providers remain important sources of good employment in the city. Neither of these sectors appears threatened, although neither appears poised for significant expansion.

While Terre Haute's manufacturing base has recovered nicely since the recession, recent history demonstrates that such growth is susceptible to adverse shocks in the national and global economy. These two sectors collectively account for about 34 percent of area employment and 43 percent of private sector output. One is stable, while the other is regaining strength but subject to national and global economic headwinds.

In terms of long-term economic prospects, the picture is also somewhat gloomy. The population of the area and its labor force have barely changed in the past decade, while the number of jobs has declined by more than 7 percent. This decline has been both secular and cyclical, creating a situation in which brain drain is a real problem. If the area is to provide meaningful employment to its residents in the future, new sources of employment must emerge. Outside investments of the scale NantWorks and ThyssenKrupp Presta are planning are of the type required for this to occur. The Terre Haute Economic Development Corporation's efforts in this area are laudable, but even assuming a large employment multiplier, it will take several more such investments for the region to regenerate the 5,000 jobs lost in the last decade. Unless and until more new investments occur, Terre Haute's prospects will remain modest.