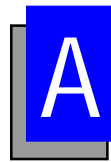


# Indiana on the Brink?



As the nation skirts the rim of a recession in 1999, Indiana will be even closer to that edge. The question marks for the nation have exclamation points after them in the Hoosier state.

As one of the three states most heavily dependent on the manufacture of durable goods, Indiana could experience a decline in earnings and employment during the first half of 1999. Should the national forecast of a decline in consumer spending for durable goods be on target, Indiana could face a year with little or no employment growth. This would be the first flat or declining year since the end of the recession in 1991. In 1998, we estimate, the state gained more than 36,000 jobs, the seventh consecutive year of such increases. No such expectations, however, are being entertained for 1999.

## Growth and Decline

The year just past has been another year of employment growth in Indiana. As seen in **Figure 1**, total establishment employment has been rising since 1991's slump.<sup>1</sup> This has been a source of both pride and consternation for Indiana. Politicians have felt pride (and parents relief) in the growth of employment opportunities, whereas employers have been

concerned and frustrated in their attempts to hire qualified employees.

Indiana has added 350,000 jobs since 1991. But our share of employment nationally (now 2.26%) has dropped from the high point reached in 1994 (2.36%). If Indiana had retained its 1991 recession-level share of 2.31% (not being greedy and trying to retain the higher 1994 position), there would be 63,000 more jobs in the state today. Lost employment share is the consequence of growing less rapidly than the nation.

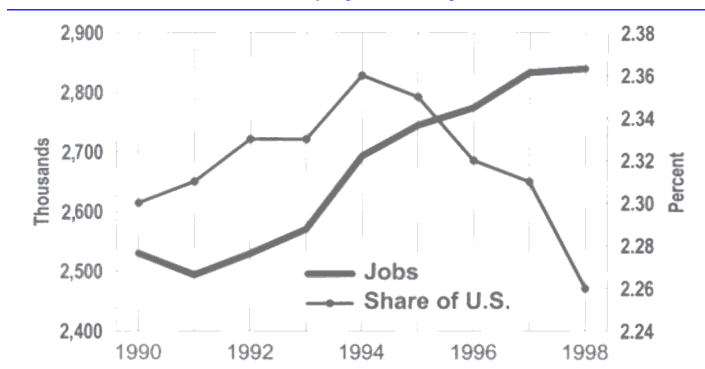
From 1990 to 1994, jobs grew in Indiana by 6.4%, compared to just 3.7% nationally. However, between 1994 and 1998, Indiana advanced only 5.5% while the U.S. grew by 10.1%. Thus, even though Indiana lauds and laments its good economic performance, our record was below the national level.

We can expect a similar deficit in 1999. The question is, how widespread will the problems be? Manufacturing is an obvious area of concern. Hoosier employment in manufacturing peaked, for this business cycle, in 1995 (see **Figure 2**). Construction employment and jobs in wholesale and retail trade have flattened after enjoying a cyclical rise (see **Figures 3** and **4**). But three sectors show continuing rising trends: business and personal services (**Figure 5**),

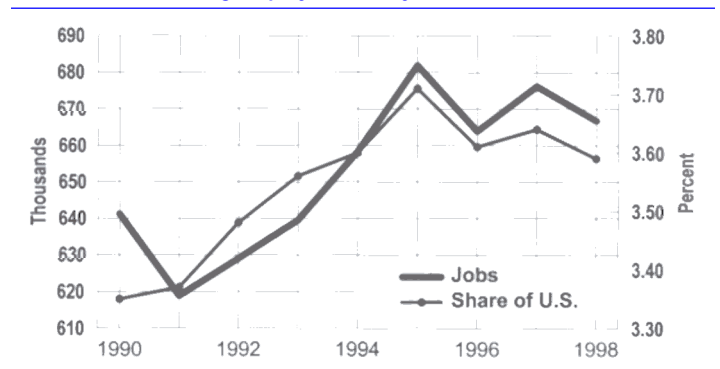
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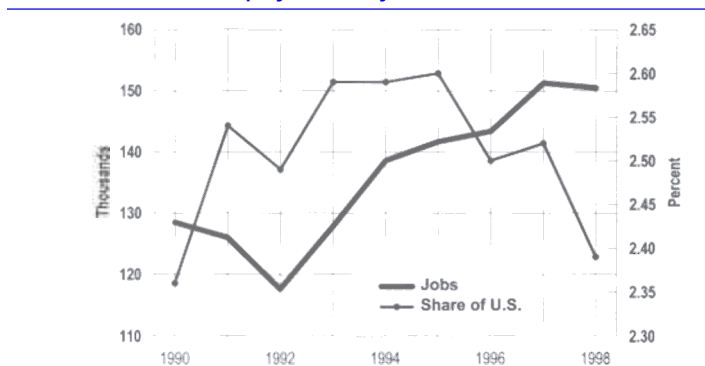
**Figure 1**  
Total Indiana Establishment Employment, July 1990 to 1998



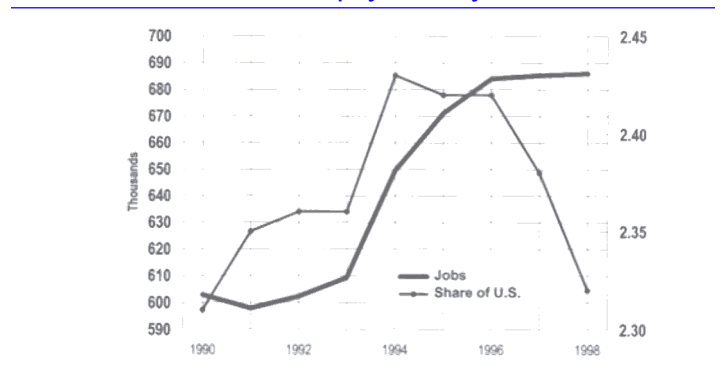
**Figure 2**  
Indiana Manufacturing Employment, July 1990 to 1998



**Figure 3**  
Indiana Construction Employment, July 1990 to 1998



**Figure 4**  
Indiana Wholesale and Retail Employment, July 1990 to 1998



transportation and public utilities (Figure 6), and finance, insurance, and real estate (Figure 7). In each of these cases, however, whether employment is rising or falling, Indiana's share of the nation's jobs is in decline.

In 1999, along with declines in manufacturing, we might reasonably expect transportation and construction employment to be adversely affected by reduced demand. Wholesale and retail trade, which has shown flatness in recent years, will not be growing aggressively. Together, this presents a picture of an economy-in-waiting—waiting to see the full effects of the Asian flu, the high dollar, and an expansion that seems to have run its course. Although we may not experience a recession in Indiana in 1999, we can not expect to enjoy the growth that has characterized recent years. And somewhere along the line, we will have to consider the implications of a declining share of the nation's employment opportunities.

**Where Will We Be Hurting?**

Any flatness or decline that may be realized next year will not be spread evenly over the state. If history is a

guide, then the following analysis may be helpful in identifying where problems are most likely to occur. Three elements should be considered:

1. *Wage and salary (W&S) disbursements* represent the money paid to employees. They do not include health or retirement benefits such workers may receive, or income earned by proprietors of businesses. They are what people make because they work for someone else.

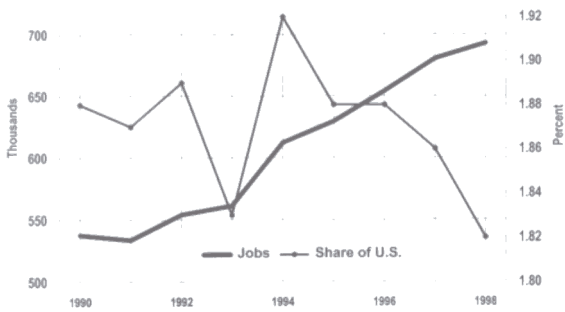
2. *W&S employment* is the number of people who work in the state for someone else.

3. *Wages per job* is disbursements (1) divided by employment (2). (We refer to "wages" per job, although both wages and salaries are included.)

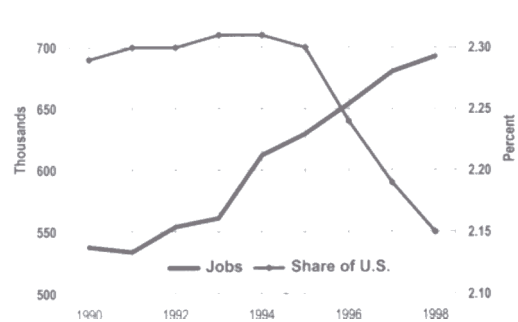
As businesses adjust to new conditions, we might find employment shrinking with no change in wages per job, if those losing their jobs are representative of the entire work force. But if those who are displaced are in low-wage jobs, wages per job could rise.

If businesses tend to release more highly paid workers (perhaps because they are older and have the accumulation of seniority), but replace them with less

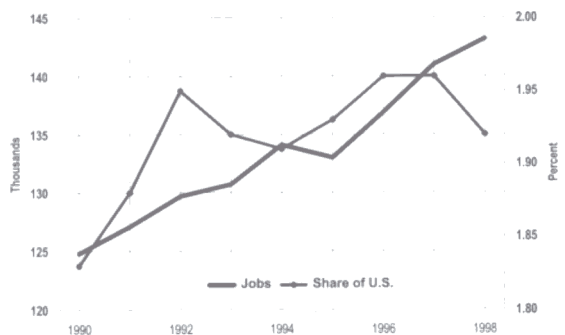
**Figure 5**  
Indiana Business and Personal Services Employment, July 1990 to 1998



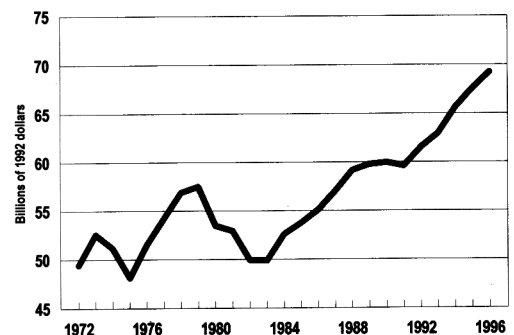
**Figure 6**  
Indiana Transportation and Public Utility Employment, July 1990 to 1998



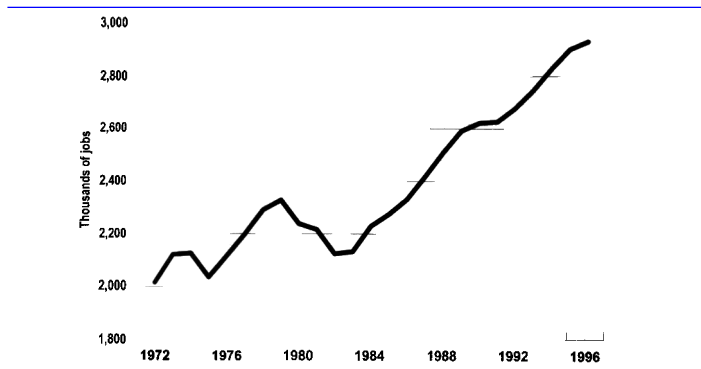
**Figure 7**  
Finance, Insurance & Real Estate Employment, July 1990 to 1998



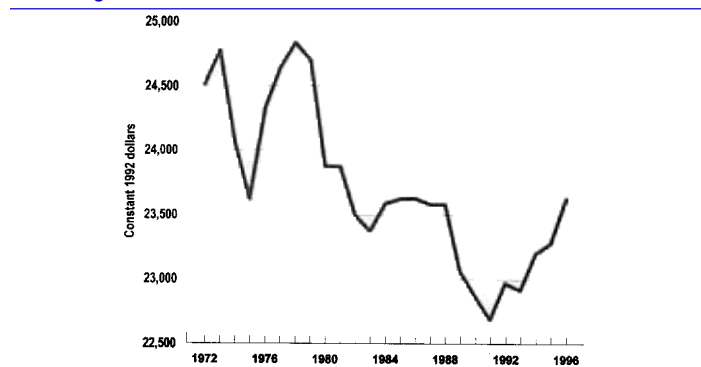
**Figure 8**  
Indiana Real Wage and Salary Disbursements, 1972 to 1996



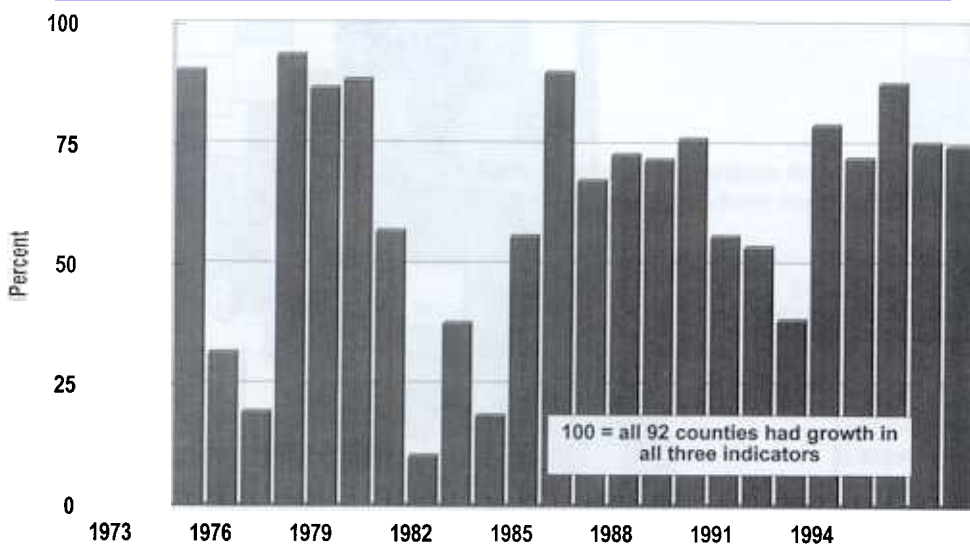
**Figure 9**  
Indiana Wage and Salary Employment, 1972 to 1996



**Figure 10**  
Real Wages Per Job in Indiana, 1972 to 1996



**Figure 11**  
Indiana Index of County Economic Performance, 1973 to 1996



well-paid workers, then wages per job can fall even though employment may remain constant.

Finally, disbursements may remain uniform as firms hold the payroll constant and drop workers to reduce benefit payouts. (For example, health benefits generally do not vary with pay level, so it is cheaper to pay 100 workers 10% more than to hire 10 more people at the same wage.)

What has happened in past recessions in Indiana? **Figure 8** shows that real wage and salary disbursements<sup>2</sup> fell in seven of the 24 years shown. That decline averaged 3.3%. But in any given year, not all counties declined together. In 1991, the last recession in Indiana, 61 of the state's 92 counties declined in W&S disbursements, whereas 31 had increases. In 1980, the worst of the 24 years, W&S disbursements fell in 88 counties.

**Figure 9** presents the record for W&S employment. Here there were just four declining years, with (coincidentally) an average decrease of 3.3%. Yet only 38 counties lost jobs in 1991; the worst year was 1982, when 81 counties had employment decreases. Hence, the pattern for employment losses is not the same as the pattern of real disbursement declines.

Therefore, we would not expect the pattern of changes in real wages per job to be the same as the two preceding factors. **Figure 10** shows decreases in wages per job in 13 years between 1973 and 1996; the average decrease was 1.1%. But in 1989, though only eight counties lost employment and 30 counties saw decreases in real disbursements, 84 Indiana counties saw real wages per job fall.

When we combine these three factors (in **Figure 11**), we see the pattern of the Indiana economy as measured by changes in the 92 counties.<sup>3</sup> Whereas 1980 was the low point, with an index value of just 10.1%, 1973 was the best year, with an index of 93.5%. From 1983 forward, there has been just one year in which the index dipped below 50%. We have been over 67%<sup>4</sup> in 11 of those 14 years.

That's fine for describing the state, but which counties have had the best and the worst records since 1973? There are two ways to look at that question. **Figure 12** shows that five counties had index values below 50% (Miami, Pike, Grant, Madison, and Randolph). During the same period, 11 counties enjoyed index values at or above 75%, led by Hamilton (83.3%), Johnson, Morgan, and Porter (all at 79.2%).

The picture changes somewhat, though, as we look at the degree of decline rather than the frequency of decline. **Figure 13** shows the counties that have been hit hardest by the sum of their average declines in each of the three factors discussed above. Henry, Randolph, Perry, Madison, Fayette, and Fulton counties lead this list. Twenty counties had aggregate average percent declines of 10% or more.

But eight counties had positive aggregate values. These were led by Pike County, which enjoyed major gains during the recessions of the 1970s, when energy prices soared. Pike, where coal mining is of great consequence, benefitted while other counties, which are energy-using areas, suffered. Also in the positive range were Jasper, Jefferson, and Spencer counties.

There is no guarantee that those that led either list or those at the bottom will enjoy (suffer) similar experiences in 1999. But these representations certainly show the areas we should be watching most closely in the year ahead.

Our regional writers have more detailed views. Their wrap-ups and outlooks follow.

**Notes**

1. The data used in this section are based on jobs reported by employers to the Indiana Department of Workforce Development. Although its coverage is less than the

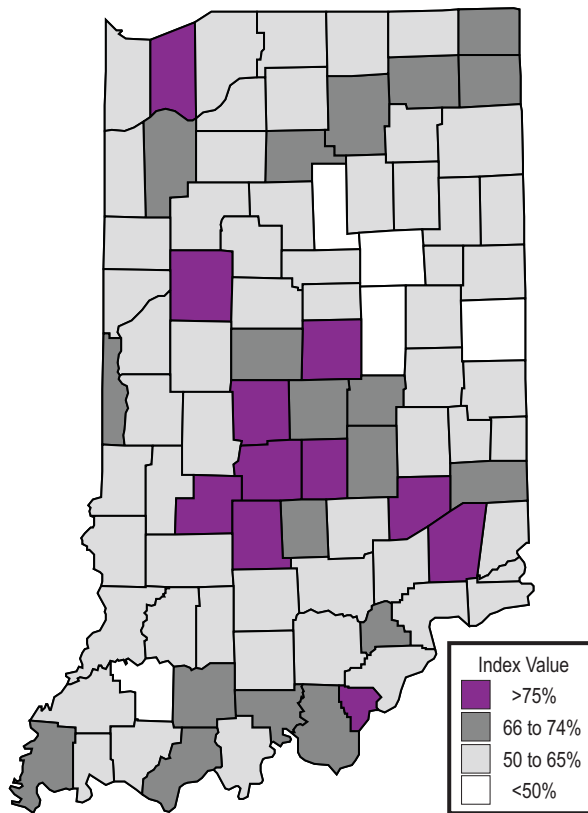
household survey, which yields the number of people employed and the unemployment rate, the establishment data may be a better indicator of economic activity in the state. A more comprehensive statement will appear in the next *Indiana Business Review Update*. The figures show data for the months of July, which in 1998 were affected by a strike in the automotive industry. The trends, however, are not seriously compromised by this fact.

2. That is, W&S disbursements adjusted for changes in the prices paid by consumers for goods and services.

3. To obtain the index value (which ranges from 0 to 100%), we take the number of counties with negative values in each year, sum them, and subtract that from the total of all such values in that year (92 x 3=276) divided by that total. For example, in 1996, real W&S disbursements fell in 21 counties, W&S employment fell in 32 counties, and real wages per job fell in 17 counties. These sum to 70, or 74.6% of the 276 possible values for that year. Hence the bar for 1996 sits just below the 75% line in Figure 11.

4. The state index value was 66.7% for the period 1973 to 1996.

**Figure 12**  
Index of Indiana County Economic Performance, 1973 to 1996, by Frequency of Increase



**Figure 13**  
Hardest Hit Counties, 1973 to 1996, by Degree of Decrease

