

# Indianapolis

**Robert Kirk**

*Professor of Economics, Indiana University-Purdue University at Indianapolis*

Employment growth in the Indianapolis metropolitan area (Marion County and the surrounding eight counties) is expected to grow at a moderate rate (1–1.5%) in 1999. This slower rate is based on a 2% rate of GDP growth, reflecting the impact of the turmoil in the foreign trade sector on some manufacturing industries, a related profit squeeze, and a resulting reduced rate of growth in capital spending.

## Foreign Exposure

How does Indianapolis rank in terms of export sales? **Table 1** ranks it by 1996 dollar values (the most recent year for data availability) and export sales per manufacturing employee.

The city's primary industries for export sales are electrical and electronic equipment, chemical products, and transportation equipment. The primary destinations are Canada and Mexico (representing 53% of the total) and Europe. Care must be taken in interpretation because many of these exports are intermediate goods—parts are exported to another country, such as Canada or Mexico, and then the assembled product is returned to the United States. Moreover, the export sales data involve the marketing location, not the production location, of exports. If there is a downturn in foreign sales, the negative production employment impact may be felt somewhere other than Indianapolis, the marketing/reporting location.

**Table 1**  
**Export Sales of Selected Metropolitan Areas, Ranked by 1996 Dollar Values, and Export Sales Per Manufacturing Employee in 1996**

<i>Metropolitan Area</i>	<i>Rank</i>	<i>Export Sales per Manufacturing Employee</i>
Detroit	3	\$50,627
Chicago	5	30,290
Cincinnati	26	29,477
St. Louis	28	22,958
<b>Indianapolis</b>	<b>31</b>	<b>31,898</b>
Louisville	48	26,324
Columbus, OH	69	16,344

*Source: Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce*

## Consumption

The national economy has been driven by growth in personal consumption expenditures. So an outlook for 1999 depends critically on what we as consumers do. With the personal savings rate having fallen, one may ask, "Where did the money go?" It went to support consumption of services. The primary one was medical services, which consists of not only consumers' out-of-pocket costs but also third-party payments made by insurers such as private health insurance plans, Medicare, and medical public assistance (Medicaid) on behalf of consumers.

Other types of services households spent money on were personal business, education, religious activities, and recreation. Personal business consists of brokerage fees, investment counseling, bank service charges, life insurance, and legal expenses. Education includes expenditures for private educational institutions—preschool through university—and tuition paid to publicly assisted universities. Some of the personal business expenditures (brokerage fees and investment counseling) could be viewed as the costs of saving; educational expenditures could be viewed as investment in human capital. Therefore, it is only the recreation expenditures that fit the customary image of consumption.

Many of the expenditures above tend to be located in urban areas. So it is not surprising that in 1998 the industries that primarily contributed to Indianapolis's employment growth were health and financial services. Although the demographics are favorable to the expansion of health services, certain issues should be considered: How should the rate of growth in health expenditures be controlled, and who should determine the quality of service provided—insurance companies, physicians, or certifying professional organizations?

Health insurance premiums are expected to rise in 1999. The "low-hanging fruit" (for cost savings in health care) has been picked. Drug costs are rising. Direct consumer advertising is inducing patients to ask physicians for the advertised drugs. New drugs have replaced old standbys in the oft-prescribed list of drugs, but there are no generics yet for the new ones. The Balanced Budget Act of 1997 included a slowing of Medicare growth and changes in Medicaid, which will reduce outlays to hospitals, managed care plans, and other providers by \$12.3 billion nationally in 1999 (and \$26.9 billion in 2000). Moreover, those eligible for Medicare will pay higher monthly premiums for Part B, which pays physicians' bills. Additional spending for children's health insurance initiatives will make pediatric care relatively more attractive for health care providers. Local providers will be affected by these financing changes, which may slow the growth of the industry in the short run.

**Table 2**  
**Population Growth 1990–1997 for Selected Metropolitan Areas**

Metropolitan Area	Percent Change, 1990–1997	Rank Among 273 Metropolitan Areas
Minneapolis-St. Paul	10.0	91
<b>Indianapolis</b>	<b>8.9</b>	<b>115</b>
Columbus, OH	8.5	122
Kansas City	8.0	125
Memphis	7.5	141
Cincinnati	6.4	163
Chicago	4.9	175
Detroit	4.9	176
Louisville	4.7	177
St. Louis	2.6	205
Milwaukee	1.8	216

Source: U.S. Census Bureau, *State and Metropolitan Area Data Book*

**Table 3**  
**Percent Change in the Indianapolis Metropolitan Area's Population by Age Group, 1992–1997, and by County**

County	AGE GROUPS							All Ages
	0–4	5–17	18–24	25–44	45–64	65–84	85+	
Boone	5.4	7.4	-2.7	7.1	19.0	7.1	13.5	8.9
Hamilton	23.9	27.2	13.8	26.0	40.6	24.4	30.8	28.0
Hancock	8.0	10.8	-0.4	10.2	22.5	8.8	17.4	11.9
Hendricks	12.5	15.4	3.4	14.1	27.4	13.1	21.7	16.1
Johnson	11.7	13.9	0.4	13.2	26.2	11.1	13.2	14.2
Madison	-3.6	-0.4	-8.1	-0.9	8.5	-1.7	9.4	0.3
Marion	-3.5	1.5	-8.9	-1.0	9.4	-1.1	8.6	0.4
Morgan	7.1	10.0	-1.2	-9.0	21.2	8.6	18.0	10.8
Shelby	1.7	4.5	-6.6	2.8	14.3	3.4	15.3	4.8
TOTAL	1.8	6.5	-5.4	4.3	15.7	2.9	12.0	5.7

Source: Estimates by U.S. Census Bureau

**Table 4**  
**Absolute Change in the Indianapolis Metropolitan Area's Population by Age Group, 1992–1997, and by County**

County	AGE GROUPS							All Ages
	0–4	5–17	18–24	25–44	45–64	65–84	85+	
Boone	158	564	-78	908	1,544	305	105	3,506
Hamilton	2,337	6,637	1,233	11,393	9,742	2,188	321	33,851
Hancock	247	1,044	-16	1,566	2,327	394	89	5,651
Hendricks	686	2,471	236	3,790	4,524	921	160	12,788
Johnson	758	2,534	38	4,078	4,786	949	192	13,335
Madison	-303	-99	-1,087	-348	2,379	-293	166	415
Marion	-2,253	2,093	-7,612	-2,770	13,697	-897	844	3,102
Morgan	291	1,179	-68	1,676	2,640	469	108	6,295
Shelby	52	363	-242	369	1,190	152	84	1,968
TOTAL	1,973	16,786	-7,596	20,662	42,829	4,188	2,069	80,911

Source: Estimates by U.S. Census Bureau

In financial services, the banking component did not show employment growth. Insurance and real estate were the primary contributors. Housing circumstances were especially favorable in 1998, but are not expected to be quite as favorable in 1999. Bank mergers were driven by technological advances in communications and data processing. Economics of scale are possible in the management of very large databases. To take advantage of these economies, the large scale of the bank becomes important.

Does large scale mean diminished service, high fees, and questions of credit availability? Not necessarily. Banks are being forced to differentiate their products by service level, thereby giving consumers more options. So there will be expanding services as consolidation occurs. Cross-subsidies and minimal fees will be replaced by fees and interest rates that reflect customer balances and activity—matching more closely the costs of services provided. Large banks will specialize in standardized small-business lending and community banks in more tailored lending. The concern with bank mergers is the problem of dealing with the failure of a large merged banking organization—the “too big to fail” problem.

#### Population Growth and Labor Markets

One of the problems facing businesses has been the availability of labor. **Table 2** compares Indianapolis's population growth rate during the 1990s with other Midwestern metropolitan areas. Indianapolis has done very well in the region. However, the estimate for growth (1996–1997) was slower than the previous years; the rate of employment growth slowed as well. Indianapolis had one of the lowest unemployment rates among the 50 largest metropolitan areas in 1998. This was good for finding work, but a challenge to the employer who was hiring.

A look at Indianapolis's population change by age cohort is helpful in understanding this labor market situation. **Table 3** provides percent change in the metropolitan area's population by age group, 1992–1997, and by county.

We observe suburbanization (Marion compared to the other counties), although it has not been uniform among the fringe counties. There was a lot of variation across the nine counties in the all-ages cohort—from 0.3% in Marion to 28.0% in Hamilton. People in strategic planning and marketing and would-be entrepreneurs who measure the size of the market would want to know the absolute change as well as the percent change, so **Table 4** is provided.

As Tables 3 and 4 indicate, the percent increase for the entire metropolitan area for all age groups is 5.7% (80,911 people). It is this percent with which the age- and county-specific cohorts should be compared. The 0–4 years (preschool) cohort increased

1.8%, showing a wide range across the counties, and the county-specific cohort change was positively correlated with the county-specific total change. The 5–17 years (kindergarten–12th grade) cohort grew 6.5% and was positively correlated with the total change. It is not surprising to hear that financing was an issue in local school board elections (such as in Johnson County, which had a 13.9% population increase).

For the 18–24 years cohort, we see why there have been a lot of “help wanted” signs. People in this age group typically enter the labor market for the first time, and their percent change was a *decrease*. What can be done to increase the quantity of labor supplied? We need to promote industry-based networks as a means of addressing the collective problem of individual employers. For example, firms are hesitant to invest heavily in employee training because of the risk of losing the employee to a competitor shortly after completion of the training. By coming together *at the industry level*, firms in the same industry may reap a higher return on their training investment dollar because training is industry-networked.

Some American firms have adopted the “just-in-time” approach to inventory management, requiring a close coordination between Tier 1, Tier 2, and Tier 3 suppliers. Similarly, we need a just-in-time approach to employee development, which requires coordination between employers, educational institutions, trade schools, trainers, and community groups. There are school-to-work and welfare-to-work initiatives—though as Wisconsin has shown in its welfare reform, welfare-to-work does not come cheaply.

For the 25–44 years cohort, we have to think about how child care, housing, and transportation all fit into the problem of employee recruitment and development. Being recognized as “family-friendly” helps a firm bond workers to it and increase their productivity. The 25–44 age cohort is the one that includes the first-time home buyer, typically 25 to 34 years old. Its percent increase was a little less than the overall percent increase. Although low mortgage rates drive the housing market, other factors, such as the demographic one, play a role too.

The 45–64 years cohort is where the leading edge of the Baby Boomers is found. Both in percent change (15.7%) and absolute change (42,829, or 53% of the total population change), this is where the bulk of the consumption expenditures is. How this cohort spends affects, and will continue to affect, the economy. In a life-cycle-of-saving framework, this is the age group that has historically shifted from a high consumption mode to a saving mode. This group, therefore, patronizes the personal business services mentioned above.

Finally, the 65–84 and 85+ years cohorts are large consumers of health services. Although the

percent increase is large, the absolute number is smaller (the 85+ cohort is roughly 10% of the 45–64 years absolute change). How much of our resources, nationally and locally, will we be willing to allocate to health care? This question raises intergenerational issues (How much should the young be asked to pay for the health care of seniors?) and intersectoral issues (What proportion of our resource endowment should be allocated to health care?).

### Suburbanization

Economic growth has a spatial and environmental dimension that is receiving increased attention. Trade-offs exist between the benefits of agglomeration and the costs of congestion. A major transportation study of the northeast corridor (downtown Indianapolis northeast to just north of Noblesville) is examining mobility options based on projected twenty-first century transportation patterns. Meeting this challenge creatively will be a major factor in determining the quality of life of citizens and the productivity of the Indianapolis metropolitan area's economy.

---

## Fort Wayne

Thomas L. Guthrie

*Associate Professor of Business and Economics and Director, Community Research Institute, Indiana University-Purdue University at Fort Wayne*

The first task in forecasting is always to determine the current status of the economy. However, that task is even more difficult than usual this time because of the impact of the GM strike on the data. By late June, 93% of all GM domestic operations had ceased, and employment data are collected the second week of the month. Comparing non-seasonally adjusted data for June (before the strike) and September (after the strike), it is hoped, eliminates most summer seasonal jobs from the calculation. That comparison reveals a loss of 5,500 jobs in the Fort Wayne metropolitan area (Adams, Allen, DeKalb, Huntington, Wells, and Whitley counties), of which 2,500 are manufacturing jobs. Those losses are likely the result of some undetermined combination of “Asian flu” and lingering GM strike effects. The area economy will need to recoup at least half of those jobs by the end of the year to match year-end 1997 employment—that is, to register no loss in employment for 1998.