

Evansville

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Economic activity, as measured by the index kept at the University of Evansville School of Business, continued its expansion through the year 2000. The index, shown in the table below, stood at 110 at year-end compared to 105 in the year prior. This 4.7 percent growth was slightly higher than the 4.1 percent growth of the national economy during the same time period.

Strongest growth was recorded in industrial production with an increase of 8.7 percent from 1999. The finance component of the index was next strongest with growth of 5.2 percent.

Anecdotal evidence suggests continued strength in industrial production and finance. It also suggests continued weakness in transportation. Only uncertainty characterizes the outlook for construction and trade.

Fort Wayne

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The new world of the U.S. economy—the post September 11th terrorist-attack economy—looks similar to the old world of the Fort Wayne area economy. Stated differently, it is now a given that the U.S. economy cannot escape recession, but the area economy has been languishing there for months.

That U.S. manufacturing has been and continues to be in recession is no longer debated. Likewise, Fort Wayne area manufacturing employment has suffered significantly. Manufacturing employment has declined more than 8.3 percent in the last two years (see Figure 1). Specifically, average third quarter 1999 seasonally-adjusted manufacturing employment was 75,276 jobs, compared with 69,015 during the third quarter 2001.

Given the relative importance of manufacturing—one of every four jobs in the six-county metro area (and one of every three jobs in northeast Indiana)—the area economy long ago succumbed to recession. Seasonally-adjusted total employment in the Fort Wayne area has decreased by 9,355 jobs—or 3.3 percent—between January and September (see Figure 1). Total employment has recorded year-over-year declines for the last eight months. In September 2001, total employment was 273,700 jobs (not seasonally adjusted), compared with 281,000 in September 2000.

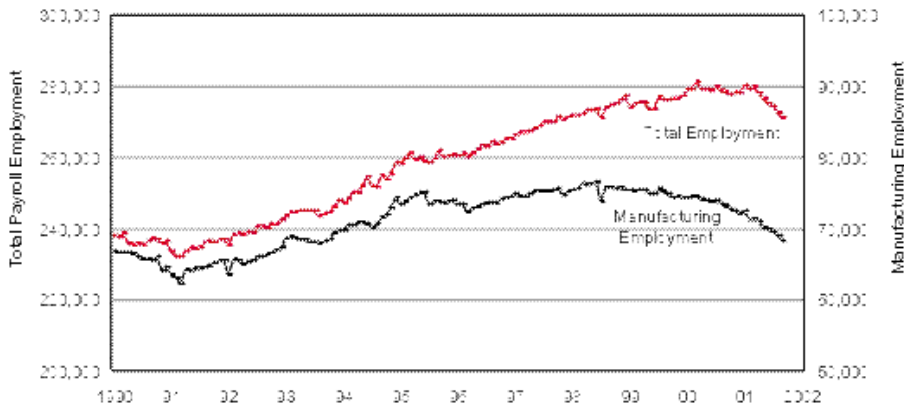
Ironically, the net effect on the area economy of the September 11th terrorist bombing may be positive despite deepening the recession in the short run. The point is that prior to September 11th the area economy was doing a slow bleed but few noticed (or were concerned if they did notice). Since September 11th, national political debate has been focused not on the elusive social security surplus, but on a stimulus package to rescue the suddenly sick U.S. economy.

Unfortunately, an economic stimulus package has not yet been agreed to (as of the writing of this article), but it will occur.

The Evansville Economic Index

	Industrial Production	Construction	Trade	Transportation	Finance	Index	Index Growth
1995	0.32	0.04	0.27	0.05	0.23	0.90	
1996	0.33	0.06	0.27	0.05	0.24	0.94	0.05
1997	0.33	0.05	0.28	0.06	0.23	0.94	0.00
1998	0.36	0.07	0.28	0.06	0.23	1.00	0.06
1999	0.37	0.09	0.28	0.06	0.25	1.05	0.05
2000	0.40	0.09	0.29	0.06	0.26	1.10	0.05

Figure 1
Fort Wayne Total Payroll and Manufacturing Employment



Data seasonally adjusted by Community Research Institute.
 Source: U.S. Bureau of Labor Statistics and Indiana Department of Workforce Development

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Meanwhile, the U.S. and Fort Wayne area economies are reeling from the initial shock and significant negative multiplier effects of the terrorist bombing. At this juncture, the U.S. and area recessions appear destined to continue through at least the first quarter of 2002.

Furthermore, the Fort Wayne area economy likely will lag behind the U.S. economy in recovery. Typically, the interest sensitive housing and vehicle sectors lead a recovery and the area economy is well represented in those sectors. However, sales in both sectors have held up well this year thanks primarily to the record-setting 2.75 point decline in short term interest rates engineered by the Federal Reserve since the beginning of the year. Compared to all of 2001—not just post September 11th—the upside potential for those two sectors in 2002 is limited.

The Fort Wayne area economy's best hope for significant recovery is a marked increase in capital goods expenditures—e.g., heavy-duty trucks and machinery. But that will not occur until capacity utilization of factories is considerably above the 73.8 percent seen in September and business profits recover. Those will not occur until after the U.S. economy turns—so there will be abundant forewarning. One policy shift that could change the forecasted lag in the area economy's recovery would be passage of a significant but temporary investment tax credit.

In summary, the Fort Wayne area economy is likely to incur a short-run shock to employment of at least another percentage point—3,000 jobs—before beginning a tepid recovery probably in the second quarter of the year. To recover in the second half of 2002 the jobs lost since September 11th will be quite an accomplishment. That will leave the area economy at the end of 2002 still below the last cyclical peak—likely to be identified as January 2001—by approximately 9,000 jobs.

In 2001, northwest Indiana (Lake and Porter Counties) experienced a noticeable decline in total employment and in manufacturing employment (especially in steel); clearly, the recession that we believe has hit the U.S. economy arrived here some time ago. Before LTV's filing in bankruptcy court, seeking permission to cease steel making operations, it appeared likely that 2002 would bring more of the same, with total employment likely to fall by 1 percent to 1.5 percent (2500 to 3500 jobs), with virtually all the decline coming in manufacturing (with more than half the employment decline in manufacturing coming in steel). If LTV closes, employment may fall by an additional 4,000 to 6,000 jobs, for a total decline in employment of 6,500 to 9,500, transforming a moderate downturn locally into a reasonably severe recession.

Service employment seems likely to continue to rise modestly, as the casinos experience a strong year; however, retail employment may decline modestly, or, at best, remain unchanged. If LTV continues operations, the unemployment rate is likely to rise, peaking at 6.5 percent to 7 percent in 2002; if LTV does close, look for the local unemployment rate to peak at 8.5 percent to 9 percent.

The causes for continued difficult economic times in northwest Indiana are not hard to identify. National forecasts suggest declining automobile and truck sales (down from about 16 million in 2001 to around 15 million in 2002—and the 2001 sales already mark a decline from 2000). The continued reliance of Northwest Indiana on steel suggests that this will translate into declining output and employment locally. A national recession, if it extends into the second half of 2002, is likely to reduce the demand for gasoline and other fuels, also with predictable local results. Even if the national economy recovers more quickly, or more strongly, the local economy's recovery is likely to depend on developments in the steel industry. If LTV ceases operations and the property is not acquired and operated by another steel producer, then the local economy is likely to recover slowly, if at all, during 2002.