in northwest Indiana makes it unlikely that even expanded federal government activity will provide any direct local economic stimulus.

Tax Restructuring

The state seems poised to enact a comprehensive restructuring of its tax system, a restructuring that will involve not just funding for state government, but also, by reducing local government reliance on property taxes, funding for local government units. A key provision here is the assumption by the state of additional funding responsibilities for local schools. The restructuring plan is complex, and already a number of industry groups have identified aspects of it that may lead to higher business taxes (while, it seems, ignoring the parts of the plan that will reduce business taxes). Overall, the plan will apparently shift the tax burden from business to individuals. It will also shift taxes from property taxes to tax sources that are more responsive to changes in economic conditions.

Of major importance for northwest Indiana is the proposed replacement of the inventory tax by other sources of revenue and the assumption of local (township) welfare costs by the state. Both of these changes will reduce business tax burdens.

Among the unanswered questions in the proposed restructuring plan are the formulas to be used to increase state funding of local schools and the mechanism by which local welfare expenditures are to become the responsibility of the state.

Conclusion

The northwest Indiana economy will continue in recession during the next six to nine months. Total employment will decline by 1 percent to 3.5 percent, primarily as a result of declining manufacturing employment, and the resolution of LTV's bankruptcy filing. Declining weekly hours in manufacturing will contribute to declining local incomes as well. Even continued increases in services employment will not be sufficient to prevent the local economy from continuing in a recession, which will have a total duration (from its beginning in late 1999) of more than two years. Unemployment will rise, with the unemployment rate peaking between 6.5 percent and 9 percent. As the national economy recovers (probably in the second quarter of 2002), the local recession is likely to end as well. In the longer-term, the tax restructuring may have substantial consequences for businesses, and therefore for business activity.

Finally, we need to remain aware of the potential vulnerability of the economic infrastructure to continued terrorist acts. While in countries in which there is an extended history of such acts (Israel, Ireland, the Basque region of Spain) most of the attacks have not targeted the economic infrastructure, that is by no means a guarantee for the future.

Notes and References

1. *Business Week*, October 29th, p. 40.

A note on data sources. Local employment and unemployment data are drawn from the Labor Market Letters for Lake and Porter counties issued by the Indiana Department of Workforce Development. Data on steel output and imports comes from data on the web site of the American Iron and Steel Institute (www.asisi.org).

Indianapolis

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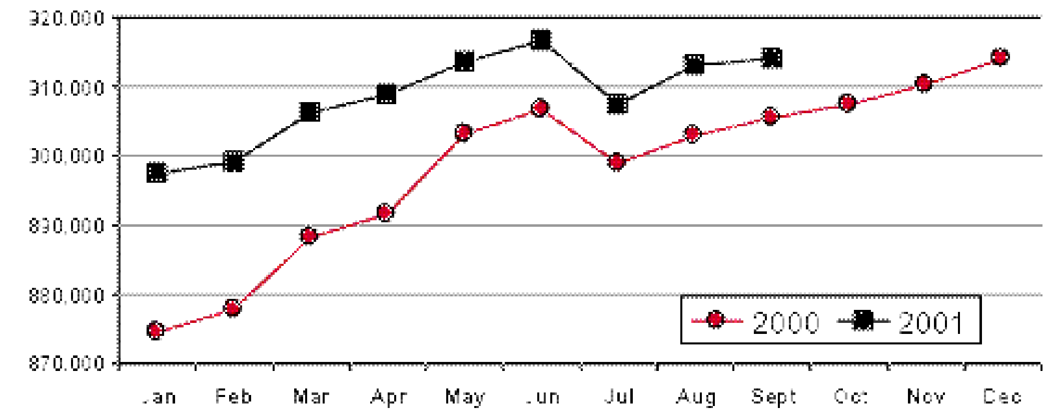
As of the week of September 11th, Indianapolis employment was still running ahead of the same month a year earlier (see **Figure 1**). More recent data are not available as we go to press.

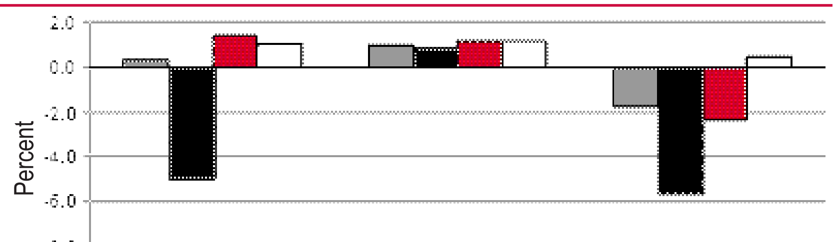
The nine county metro area had 8,500 more jobs in September 2001 than in 2000. This was a shallow 0.9 percent increase over a year earlier and ranked 100th among the nation's 275 metro areas. But in a Midwestern perspective, the Indianapolis metro area looked far better, ranking 17th of 75 metro areas, with only one larger metro area doing better (Kansas City ranked 6th).

Figure 1
Metropolitan Indianapolis Total Non-farm Employment



Source: U. S. Bureau of Labor Statistics

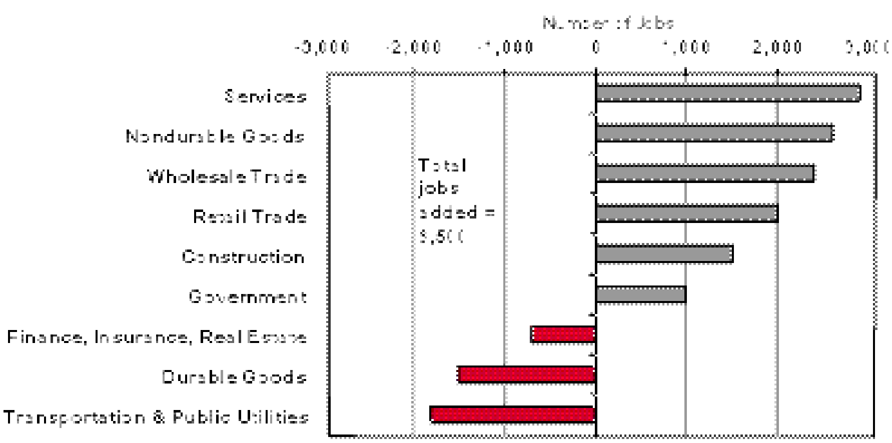
Figure 2
Employment Changes September 2000 to 2001



	United States	Indianapolis MSA	Balance of Indiana
Total	0.34	0.34	(1.75)
Manufacturing	(5.02)	0.95	(5.65)
Retail	1.41	1.16	(2.33)
Services	1.06	1.13	0.47

Source: U. S. Bureau of Labor Statistics

Figure 3
Employment Changes, Indianapolis MSA, September 2000 to 2001



Source: U. S. Bureau of Labor Statistics

Among Indiana metro areas, Indianapolis had no peer. Only Muncie showed an increase (0.3 percent) in jobs while each of the other metro areas declined in jobs over the year. The difference between Indianapolis and the rest of the state is shown in **Figure 2**. In total employment and key sectors, Indianapolis outperformed the rest of Indiana and even the nation.

Business and personal services accounted for nearly 3,000 of the 8,500 jobs added in the Indianapolis metro area (see **Figure 3**). Manufacturing was mixed, with job gains in non-durable goods exceeding the losses of durable manufacturing.

The strengths of the past year should be a good guide to the year ahead. Added stimulus from security spending will boost the services area and might reverse the loss in durable goods. In addition, the insurance industry might benefit from added security concerns as firms and households reexamine their exposure to risks.

However, weakness in adjacent regions of the state does not bode well for the Indianapolis metro area. As the services, transportation and retail hub of the state, Indianapolis depends to some extent on the economic vitality of Kokomo, Bloomington, Richmond, Columbus and other nearby centers of employment and housing.

Overall, the recession of 2001-2002 will not be a major setback for the Indianapolis metro area. Recovery at the national level in the spring of 2002 may even mean no noticeable recession in central Indiana.