

INDIANA UPDATE

BUSINESS REVIEW



A MONTHLY OVERVIEW
OF ECONOMIC TRENDS

INDIANA BUSINESS RESEARCH CENTER
INDIANA UNIVERSITY SCHOOL OF BUSINESS

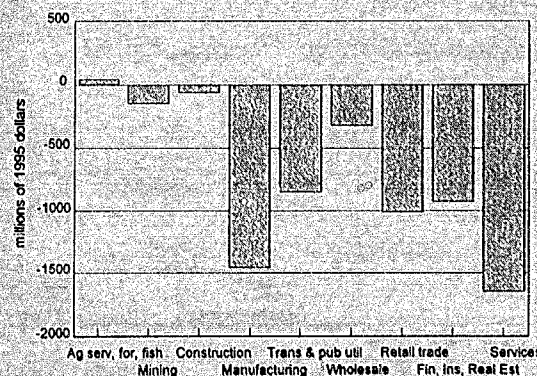
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WHAT WAS THE PROBLEM?

By most measures, Indiana's economy hit a peak relative to the nation in 1978, went into a long slump through the 1980s, and has been doing well in this decade. In 1978, Indiana had 2.46% of all earnings in the U.S.¹ By 1995, Indiana's share of earnings in the nation had declined to 2.11%. This difference of just 0.35% was equal to \$15.3 billion dollars in 1995, or about \$5,000 for each Indiana worker.

If you ask the citizen on the street, "What caused this deficit for Hoosier workers?" you are likely to be told, "It was the result of restructuring in manufacturing, particularly the steel industry."

Fig. 1 Indiana Earnings Differences, by Industry
(1995 actual earnings less constant share of U.S.)



¹ Earnings are payments received by individuals working for themselves or for others and include wages, salaries, health insurance, and funds for future pensions.

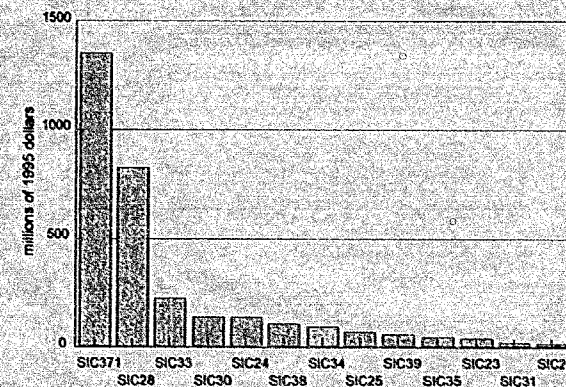
An examination of the data, however, shows that explanation is wrong. Of the \$15.3 billion dollars Hoosiers would have earned in 1995 (had our industries grown at the national rate between 1978 and 1995), only 9.5% was due to a shortfall in manufacturing. Indiana lagged behind the nation in almost every area of economic activity. Farming contributed 5.8% of that deficit. In addition, earnings from business and personal services (including health care) grew less rapidly in Indiana than in the U.S., accounting for \$1.7 billion (or 10.8%) of the Indiana earnings deficit.

Figure 1 shows the earnings differences for the private non-farm sectors of the state's economy. It is clear that Indiana's difficulties were not in manufacturing alone. The failure of the service sector to grow as rapidly as the nation was the biggest contributor to the earnings deficit, followed by manufacturing, retail trade, finance, insurance, and real estate, and then transportation and public utilities.

Why didn't these sectors grow as fast in Indiana as elsewhere in the nation between 1978 and 1995? One interpretation puts all the blame on manufacturing and other exporting sectors. We derive our basic income from selling our goods and services to others. Everything else is dependent on that flow of income. The local-serving sectors live off the exporting or basic industries.

But the economy also grows when we provide services to ourselves rather than buying them from others. If Hoosiers go to Chicago, Louisville, Cincinnati, Dayton, Detroit, or other foreign places for services, we will not gain earnings from the spending of our own citizens.

Fig. 2 Indiana Manufacturing Industries with Growing Shares of U.S. Earnings, 1978 to 1995



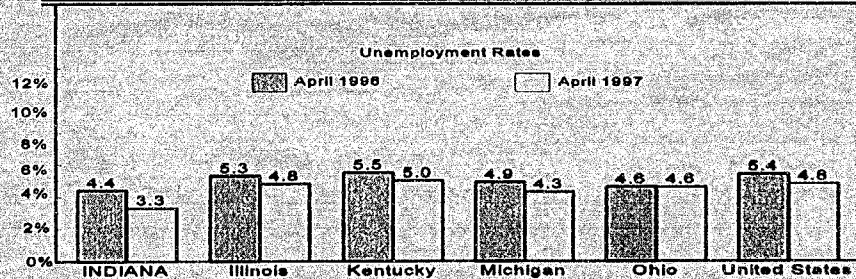
Inside Manufacturing

When we look at manufacturing, as in figures 2 and 3, we see that only a very few Hoosier industries lagged behind the nation by any substantial dollar amount. The Indiana industrial sectors shown in figure 2 had growing shares of the nation's earnings in those lines of business, nationwide. Notice that the leader in adding to Indiana's earnings was the motor vehicle industry. For all the talk of restructuring in the auto industry, Indiana saw substantial relative benefits in the period under study. Another leader was the chemical and allied products industry which includes pharmaceuticals. Please note that primary metals (which includes the steel mills) is among the "winners."

In figure 3 we have the Indiana industries which lagged the nation in growth from 1978 to 1995. Here again

The Regional Employment Situation

Total Persons Employed	April 1996	April 1997	Number Change	% Change	Rank in US
INDIANA	2,940,000	2,987,100	47,100	1.60%	37
Illinois	5,737,000	5,815,400	78,400	1.37%	39
Kentucky	1,742,900	1,809,900	67,000	3.84%	7
Michigan	4,493,900	4,604,200	110,300	2.45%	22
Ohio	5,304,400	5,431,900	127,500	2.40%	23
United States	125,388,000	128,629,000	3,241,000	2.58%	N/A



Employment - Hours - Earnings by Industry

INDIANA	Establishment Related Employment		Average Weekly Hours		Average Weekly (Real) Earnings	
	April 1997	% Chg. 96/97	April 1997	% Chg. 96/97	April 1997	% Chg. 97/97
Total Non-Ag	2,834,900	0.9%	NA	NA	NA	NA
Mining	6,400	3.2%	49.0	4.0%	\$836.92	4.8%
Construction	133,100	3.0%	40.8	0.0%	\$697.27	-1.6%
Manufacturing	670,500	-0.4%	43.0	0.9%	\$631.24	1.2%
Durable	481,700	-0.4%	43.9	1.4%	\$664.65	1.6%
Non-durable	188,800	-0.2%	40.5	-1.0%	\$541.08	-0.4%
Wholesale	139,400	0.8%	37.8	0.8%	\$465.32	1.6%
Retail	536,400	0.7%	29.0	2.1%	\$227.07	2.5%
Finance, Insurance & Real Estate	137,600	3.2%	36.1	0.3%	\$423.45	9.3%
Services*	671,000	3.3%	32.2	-1.8%	\$350.98	2.5%

Employment - Hours - Earnings

(Not seasonally adjusted)

Metropolitan Statistical Areas (MSAs) in Indiana

NON-AG WAGE & SALARIED EMPLOYMENT	April 1996	April 1997	Change	
			Number	Percent
Bloomington MSA	64,700	65,100	400	0.6%
Elkhart-Goshen MSA	115,600	116,100	500	0.4%
Evansville MSA	150,000	151,100	1,100	0.7%
Fort Wayne MSA	261,000	266,600	5,600	2.1%
Gary MSA	255,700	265,500	9,800	3.8%
Indianapolis MSA	807,300	825,100	17,800	2.2%
Kokomo MSA	52,300	52,400	100	0.2%
Lafayette MSA	91,900	91,500	-400	-0.4%
Muncie MSA	60,300	61,100	800	1.3%
New Albany Area*	83,500	87,000	3,500	4.2%
South Bend MSA	130,200	132,600	2,400	1.8%
Terre Haute MSA	69,100	69,600	500	0.7%

MANUFACTURING

April 1997	Employment	Average Weekly Hours	Average Hourly Earnings	Average Weekly Earnings
Bloomington MSA	9,700	40.6	\$12.98	\$526.99
Elkhart-Goshen MSA	58,600	40.0	\$12.30	\$492.00
Evansville MSA	31,200	43.1	\$14.14	\$609.43
Fort Wayne MSA	73,400	41.5	\$14.68	\$609.22
Gary MSA	50,800	42.0	\$18.35	\$770.70
Indianapolis MSA	125,500	44.5	\$15.70	\$698.65
Kokomo MSA	20,800	48.8	\$18.55	\$905.24
Lafayette MSA	22,100	42.5	\$14.67	\$623.48
Muncie MSA	10,900	43.7	\$14.37	\$627.97
New Albany Area*	19,600	43.1	\$11.71	\$504.70
South Bend MSA	21,700	42.5	\$12.83	\$545.28
Terre Haute MSA	11,500	43.2	\$14.63	\$632.02

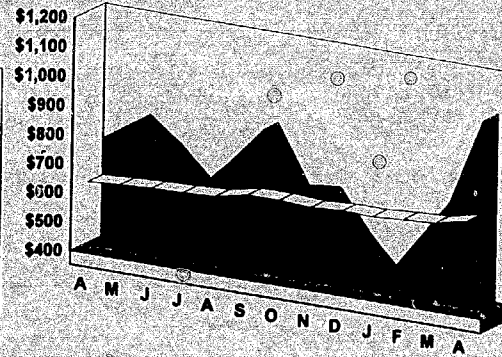
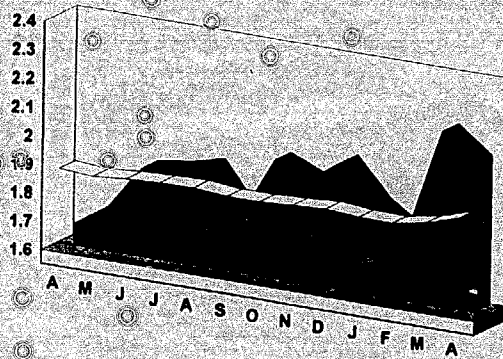
*Employment includes schools; Hours and Earnings excludes schools. *The New Albany Area (Clark, Floyd, Harrison, Scott counties) is part of the larger Louisville MSA. (Real) indicates dollars adjusted for changes in consumer prices to 1997 level. *Employment and earnings data based on preliminary and revised series provided by the Indiana Department of Workforce Development.

CURRENT TRENDS IN INDIANA'S ECONOMY

April 1996—April 1997

Raw Steel Production

American Iron and Steel Institute
 Year to date: 6.2 million net tons
 12-month total: 23.5 million net tons
 Peak month: March 1997

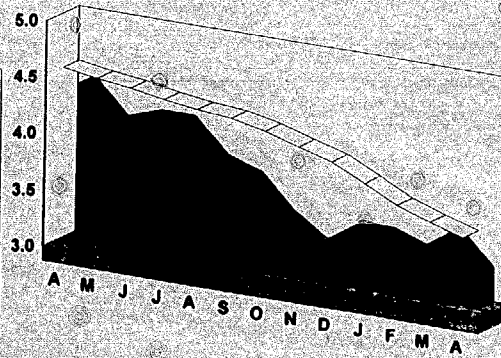
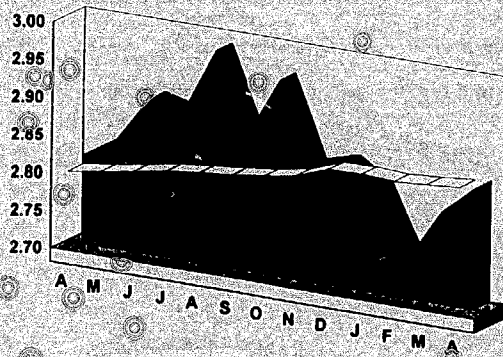


Total Construction Activity (\$MIL)

F.W. Dodge Construction Potentials Bulletin
 Year to date: \$2,407.6 million
 12-month total: \$8,747.5 million
 Peak month: April 1997

Industrial Electricity Sales (Billions)

The 5 investor owned utilities
 Year to date: 8.4 billion kwh
 12-month total: 34.4 billion kwh
 Peak month: August 1996

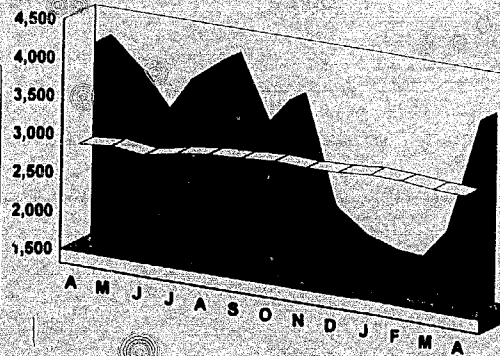
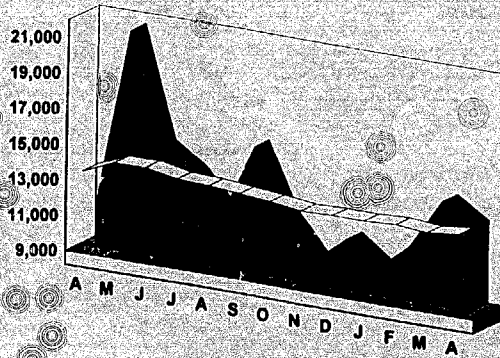


Unemployment Rate

Indiana Department of Workforce Dev.
 Year to date: NA
 12-month total: NA
 Peak month: Feb/March 1992

New Car Registrations

R.L. Polk and Company
 Year to date: 40,454
 12-month total: 163,760
 Peak month: May 1996



Housing Starts

F.W. Dodge Construction Potentials Bulletin
 Year to date: 8,372
 12-month total: 36,967
 Peak month: August 1996

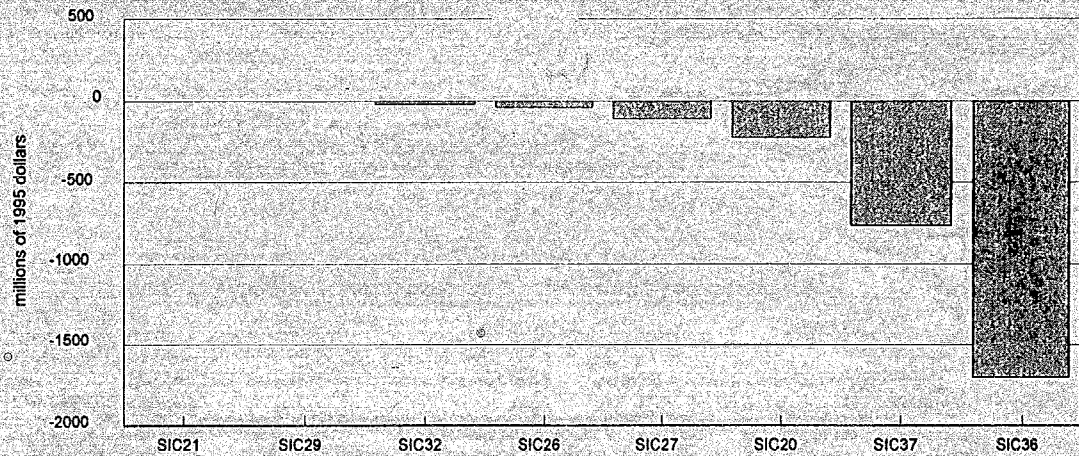
Moving Average

Peak = since 1992

Monthly

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Fig. 3 Indiana Manufacturing Industries with Negative Shares of U.S. Earnings, 1978 to 1995



just two sectors are prominent: transportation equipment excluding motor vehicles, and electric and electronic equipment. In both cases, Indiana does not have significant players in these industries. We do not manufacture much transportation equipment that moves through the air or water. Our output goes over land. And the Hoosier state has not participated in the electronic/computer revolution as has California, Washington, and other states.

In sum, manufacturing alone was not Indiana's problem in the 1980s and steel was not the cause of our state's failure to keep pace with the nation. As we try to reshape our economy, it is best not to carry erroneous ideas along with us.

- SIC20 Food & Kindred Products
- SIC21 Tobacco Manufacturing
- SIC22 Textile Mill Products
- SIC23 Apparel & Other Textiles
- SIC24 Wood & Lumber Products
- SIC25 Furniture & Fixtures
- SIC26 Paper & Allied Products
- SIC27 Printing & Publishing
- SIC28 Chemicals & Allied
- SIC29 Petroleum & Coal Products
- SIC30 Rubber & Miscellaneous Plastics
- SIC31 Leather & Leather Products
- SIC32 Stone, Clay & Glass Products
- SIC33 Primary Metal Industries
- SIC34 Fabricated Metal Products
- SIC35 Machinery, Except Electrical
- SIC36 Electric & Electronic Equipment
- SIC37 Transportation Equipment Except Motor Vehicles
- SIC371 Motor Vehicles & Equipment
- SIC38 Instruments & Related Products
- SIC39 Miscellaneous Manufacturing Industries

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