

Kelley School Forecasts Solid 2001

The Kelley School of Business at Indiana University recently issued its forecast for the national and state economic situation in 2001. The forecast is based on a large econometric model of the United States, a model constructed and operated by the Center for Econometric Model Research (CEMR) at the Kelley School in Bloomington.

Based on the results of the model, CEMR predicts continued expansion of overall economic activity in both the nation and Indiana, but with slower growth than has occurred in recent years.

Real U.S. gross domestic product is forecast to rise just over 3% next year, in contrast to an expected 5% jump in 2000. While this decline in growth rate is significant, it's also true that a GDP growth rate of 3% is still very healthy.

Businesses are expected to continue the rapid rate of investment in new equipment that has characterized the last three years. The CEMR forecast calls for a 10% increase in equipment investment. Assuming that takes place, the strong productivity gains of recent years will continue, and inflation should remain low.

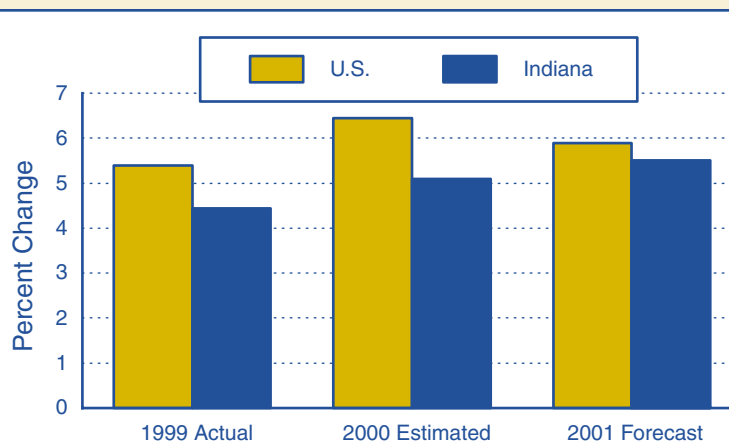
The Indiana economy is forecast to grow somewhat more slowly than the U.S. economy, as weakening nationwide demand for autos and housing hits Indiana's large manufacturing sector. Outside those two industries, however, economic activity in our state should remain at high levels.

For information on subscribing to the CEMR quarterly forecasts, send e-mail to ibrc@iupui.edu or call the Kelley School in Bloomington at (812) 855-5507.

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Kelley School Forecast: Change in Personal Income, Current Dollars



Source: Center for Econometric Model Research, Indiana University

**Indiana
Unemployment Rate
for October 2000:
2.1%
Down markedly
from 2.7% in
October 1999**

The Busiest Month

December — the biggest shopping month of the year. For those of us who like facts and figures to support our clichés, this statement is borne out by annual retail sales figures from the U.S. Department of Commerce (see Figure 1).

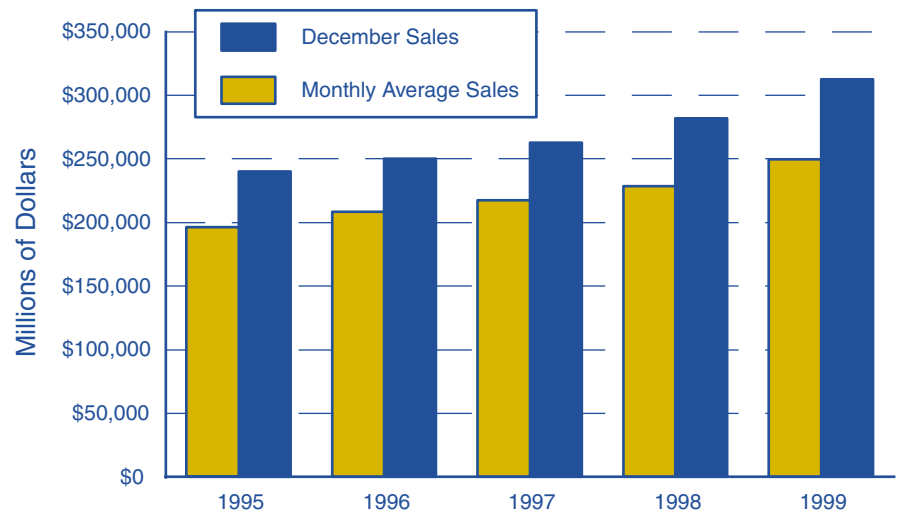
Where did millions of Hoosiers shop during the first December of the 21st century — or was it the last December of the 20th century? We went to press before the December 2000 figures were released, but we can use statistical history as our guide. Looking at the 12 sectors that comprise the retail trade industry (see Table 1), we see that car dealers rank first in both annual sales and in the number of establishments. However, it is unlikely that a new car was found under very many Christmas trees, particularly when the National Retail Federation’s annual *Holiday Mood Survey*

(www.nrf.com) estimates consumers will spend an average of \$836 each on holiday gifts. Based on sales (again see Table 1), most people will likely

frequent stores in the general merchandise sector, and quite possibly they will purchase their holiday gifts and groceries at one of the many new

Figure 1: December IS the Biggest Retail Month

December vs. monthly average sales for U.S., 1995–99



Source: U.S. Bureau of the Census

Table 1: Selling Goods in Indiana: The 12 Sectors of Retailing

Sales Rank	Sales (in mil)	Sector	Rank in Number of Estab.	Number of Estab.	Rank in Number of Paid Employees	Number of Paid Employees	Average Number of Employees per Estab.
1	\$15.30	Motor Vehicles (& Parts) Dealers	1	3,202	2	40,300	12.6
2	\$8.80	General Merchandise	12	940	1	73,621	78.3
3	\$7.80	Food & Beverage	5	2,827	3	59,909	21.2
4	\$6.00	Building Materials, Garden Supplies, etc.	6	2,511	4	31,127	12.4
5	\$5.30	Gasoline Stations	3	2,973	5	26,427	8.9
6	\$3.80	Nonstore Retailers	10	1,006	9	14,638	14.6
7	\$2.80	Health & Personal Care	7	1,695	7	21,406	12.6
8	\$2.20	Clothing	4	2,923	6	23,949	8.2
9	\$1.70	Misc. Store Retailers	2	2,992	8	18,083	6.0
10	\$1.30	Furniture	9	1,410	11	10,166	7.2
11	\$1.20	Electronics / Appliances	11	963	12	7,322	7.6
12	\$1.10	Sporting Goods, Hobby, Book & Music Stores	8	1,512	10	10,919	7.2

Source: U.S. Bureau of the Census, 1997 Economic Census of Retail Trade

While warehouse clubs and superstores comprise less than 1% of all retail establishments in the state, they account for \$2.5 billion in annual sales.

warehouse clubs and superstores (a category within the general merchandise sector) that are dotting the retail landscape throughout Indiana and the nation.

There were 49 such warehouse clubs and superstores counted in the 1997 Economic Census in Indiana, according to recently released results. This segment of the retail trade’s general merchandising sector (see Figure 2) consists of “warehouse clubs, superstores or supercenters that are primarily engaged in selling a general line of groceries in combination with general lines of new merchandise such as clothing, furniture and appliances” (see www.census.gov/epcd/www/econ97.html for details).

While such stores comprise less than 1% of all retail establishments in the state, they account for \$2.5 billion in annual sales — or 28% of all general merchandise sales in Indiana. Put

another way, each of those 49 superstores or warehouse clubs sold an average of \$50 million in goods in 1997 (the latest year for which such detailed sales information is available from the federal government).

What are these stores? While the Economic Census, under strict federal rules of confidentiality, cannot divulge names or locations, we can surmise from the definition cited above that stores such as Sam’s Club, Meijer, and Super Wal-Marts and Super K-Marts would fall into this category. Some quick research on the Internet provided information on specific superstores in Indiana that meet the criteria of the Census definition.

There are 24 Meijer superstores in Indiana today (compared to five in Illinois, eight in Kentucky, 35 in Ohio

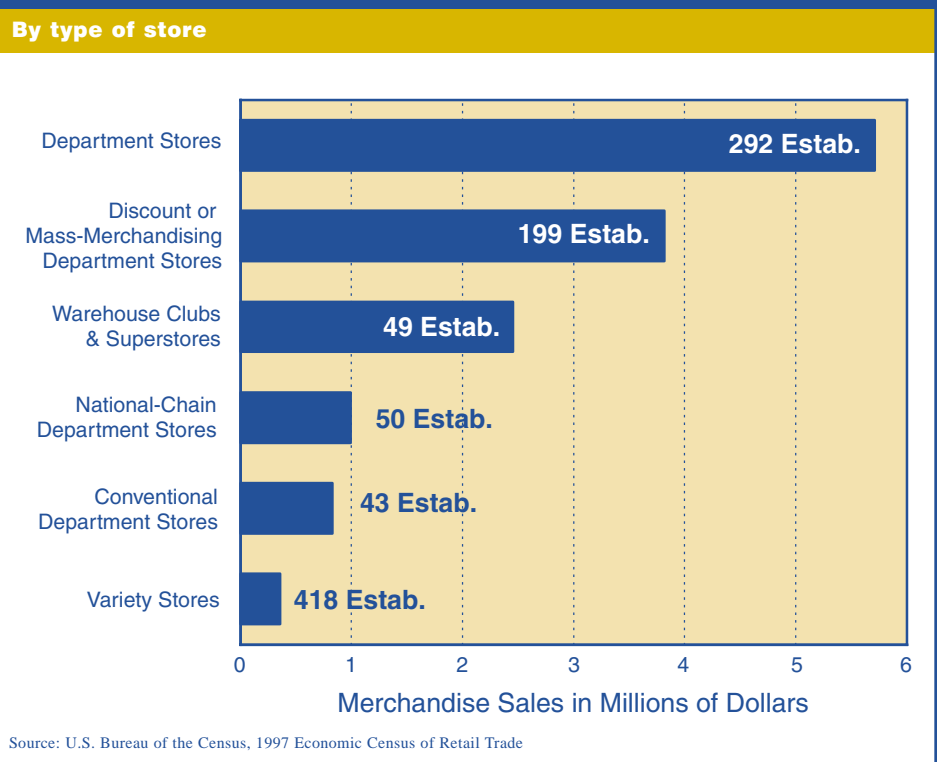
and 71 in Michigan — its home state). They are located in large and medium-size cities across the state — from Michigan City to Merrillville and Richmond to Jeffersonville. The walmart.com Web site yielded a list of approximately 26 Wal-Mart Super Stores (as opposed to regular Wal-Marts) in Indiana.

In the warehouse club category, Sam’s Club listed 14 locations in Indiana, 27 in Illinois, five in Kentucky, 21 in Michigan and 24 in Ohio. On the K-Mart Web, it was not possible to cull out the “Super” (or Big K) stores.

What About Holid’e’ Commerce?

E-commerce is the hot topic among retailers (while they in turn hope it is a *(continued on page 4)*

Figure 2: General Merchandise Sales and Establishments



IN the Spotlight

(continued from page 3)

hot item among consumers). The big question among merchandisers is “can we succeed by cyber-trying?” The Retail Institute at Purdue University predicted in November 2000 that the “amount of Christmas shopping consumers will do online ... will triple from last year’s \$2 billion to more than \$6 billion.”

The Retail Trade Census, based on NAICS, the new industrial coding system, gives us a glimmer of e-commerce from 1997. Electronic shopping and mail-order houses are within a category called non-store retailers. These retailers sell all types of merchandise by means of mail or electronic media such as interactive

television or the Internet. There were 176 such establishments in Indiana, with sales of \$2.9 billion and with 8,269 paid employees. These electronic shopping/mail-order houses averaged annual sales of \$16.5 million per establishment, based on the 1997 Census. These sales figures do not, of course, include Internet sales by establishments that are classified elsewhere in the Retail Trade industry (such as warehouse clubs, superstores, clothing stores or car dealers).

Because e-commerce data were not captured in the economic census the way it actually works now, the Census Bureau has begun collecting national e-commerce retail sales figures as part of its monthly retail survey (www.census.gov/mrts/www.html). That

survey, in its infancy, shows sales of \$5.5 billion for the second quarter of 2000, an increase of 5.3% from first quarter 2000. Firms included in this survey are asked each month to report e-commerce sales separately from other sales. Over time, this approach to e-commerce should provide us with a realistic view of Web-based retail sales, as more and more traditional retailers begin to use the Web as another outlet for their goods.

County Highlights

The majority of merchandise sales are still handled in person — that is, the buyer goes to the physical location of the establishment, pays for the goods and takes them away. Modern mail-order sales have been with us since the 19th century, but have never comprised the percentage of sales that Web-based retailers hope to capture from traditional in-store, in-person sales. It is no surprise that generally, our most populous counties also generate the most retail sales (see Table 2).

In the meantime, because population size has such a big impact on sales, how does one compare counties? One way is to try to eliminate the population-size factor by creating a per capita comparison. Figure 3 shows this comparative statistic, arrived at by dividing sales by the total population (in this case, the estimate for 1997). One should not assume this figure compares the consumptive habits of a state’s or county’s people, as the sales could be coming from people living outside the county. Certainly this will be the case among counties that share state lines or in retail hubs, such as Marion County. And we come back to

Table 2: County Retail Sales: Top Five Counties

County	Sales (000s)	Rank in Sales	Rank in Population
Marion	\$10,757,363	1	1
Lake	\$4,380,617	2	2
Allen	\$3,534,612	3	3
St. Joseph	\$2,782,925	4	4
Vigo*	\$2,321,321	5	14

*Note that Vigo County doesn’t fit the picture, ranking 14th in population, while generating substantial retail sales. More on why this might be is explained in the ‘County Highlights’ section on this page.

Source: U.S. Bureau of the Census, 1997 Economic Census of Retail Trade

Table 3: County Retail Sales: Top Five in Sales per Establishment

County	Sales (000s)	Rank in Sales per Establishment	Rank in Establishments
Vigo	\$4,560,522	1	13
Hamilton	\$3,112,376	2	7
Marion	\$2,943,996	3	1
Allen	\$2,677,736	4	3
Clark	\$2,677,355	5	15

Source: U.S. Bureau of the Census, 1997 Economic Census of Retail Trade

Vigo County, with its estimated population of 105,313 (about one-eighth the size of Marion County), ranking No. 5 in sales and No. 1 in retail sales per capita (see Table 3). Why is this? Does Terre Haute offer a broader selection of goods than those offered at the malls and discount centers in Indianapolis? Investigation among other sources (because the census cannot, by penalty of law, divulge specific company information) finds that Vigo County is home to a retailer that provides goods many Americans want — music and videos. That retailer is Columbia House, one of the nation’s largest direct-sales mail-order music publishing concerns.

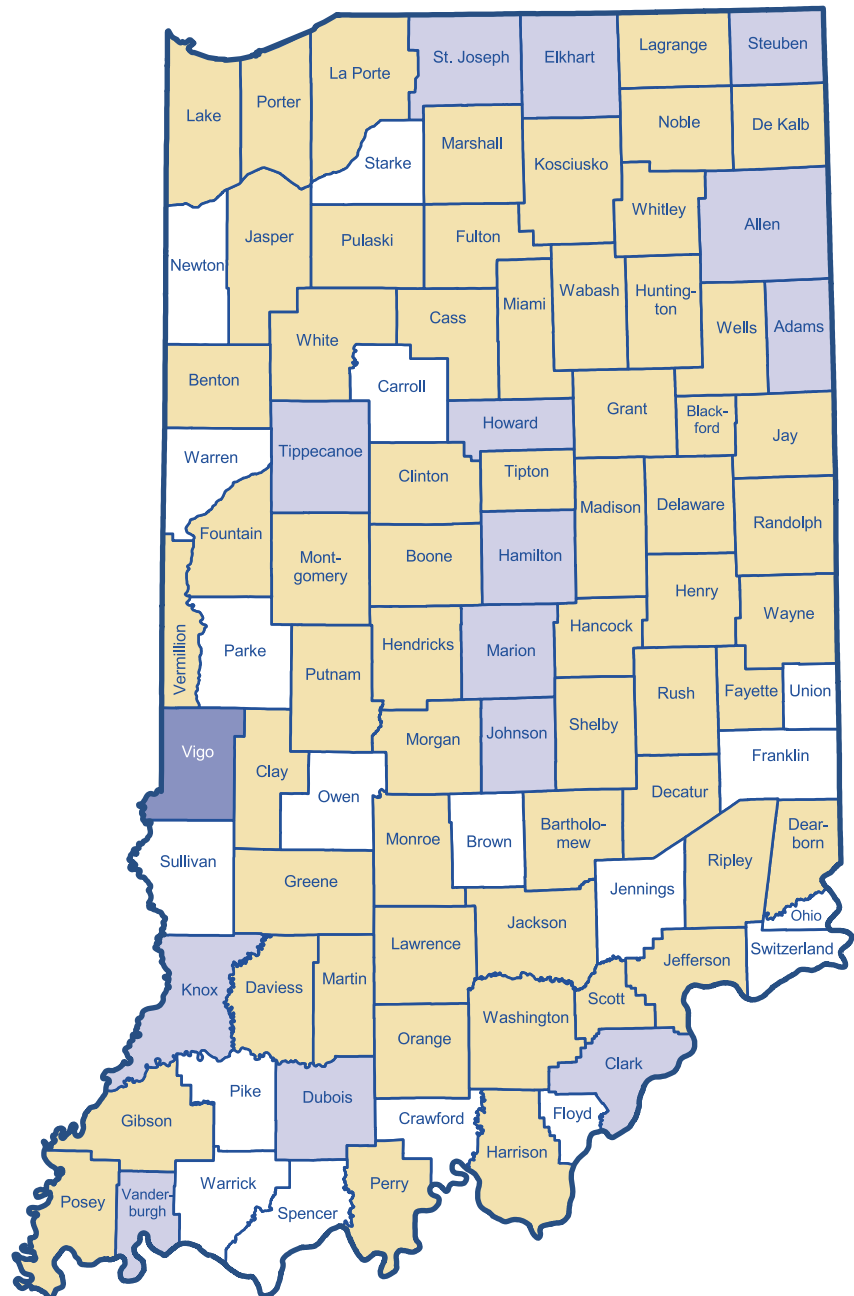
Conclusion

Once the gift wrap had hit the waste bin, we were not thinking of buying but rather of paying. Consumer debt as a percent of disposable income was at 13.70 in the second quarter of 2000, compared to 13.39 in the second quarter of 1999, according to the Federal Reserve Board. Even with the traditional January white sales to tempt us back to the stores, sales typically return to a more usual monthly average. But our main point here was to illustrate the depth that can be obtained from the 1997 Economic Census, a depth that offsets the datedness of the material.

Figure 3: Retail Sales per Capita

Direct-mail-order houses in Vigo County spur high sales per capita

- \$22,042 (1 county)
- \$10,000 to \$14,124 (14 counties)
- \$5,000 to \$9,999 (59 counties)
- Less than \$5,000 (18 counties)



Source: U.S. Bureau of the Census, 1997 Economic Census of Retail Trade

Personal Income Growth Strong in Second Quarter 2000

Indiana's real personal income grew in the second quarter of 2000 at a 5.6% annual rate, which was 14th in the nation. The United States as a whole advanced by 4.7% (see Figure 1).

The Great Lakes states of Michigan, Wisconsin and Illinois were also national leaders, while Ohio and Kentucky trailed Indiana.

As shown in Figure 2, real personal income growth rates have not been

very stable of late. In the first quarter of 2000, Indiana and 19 other states had a decline in real personal income, although the nation experienced a 3.2% increase. A similar occurrence can be found in the first quarter of 1999, but not in the first quarter of 1998, a year when Indiana led the nation most of the year.

These first-quarter declines in Indiana are particularly noteworthy

because in the immediately preceding quarters — the closing quarters of 1998 and 1999 — Indiana outgrew both the nation and the region. What is the cause of these variations in income growth?

Often the variability of farm income is listed as the cause of changes in Indiana personal income. That farm income is highly variable can be seen easily in Figure 3, where the bars show

Figure 1: Real Personal Income Growth Rates by State

Second quarter of 2000, at annual rates

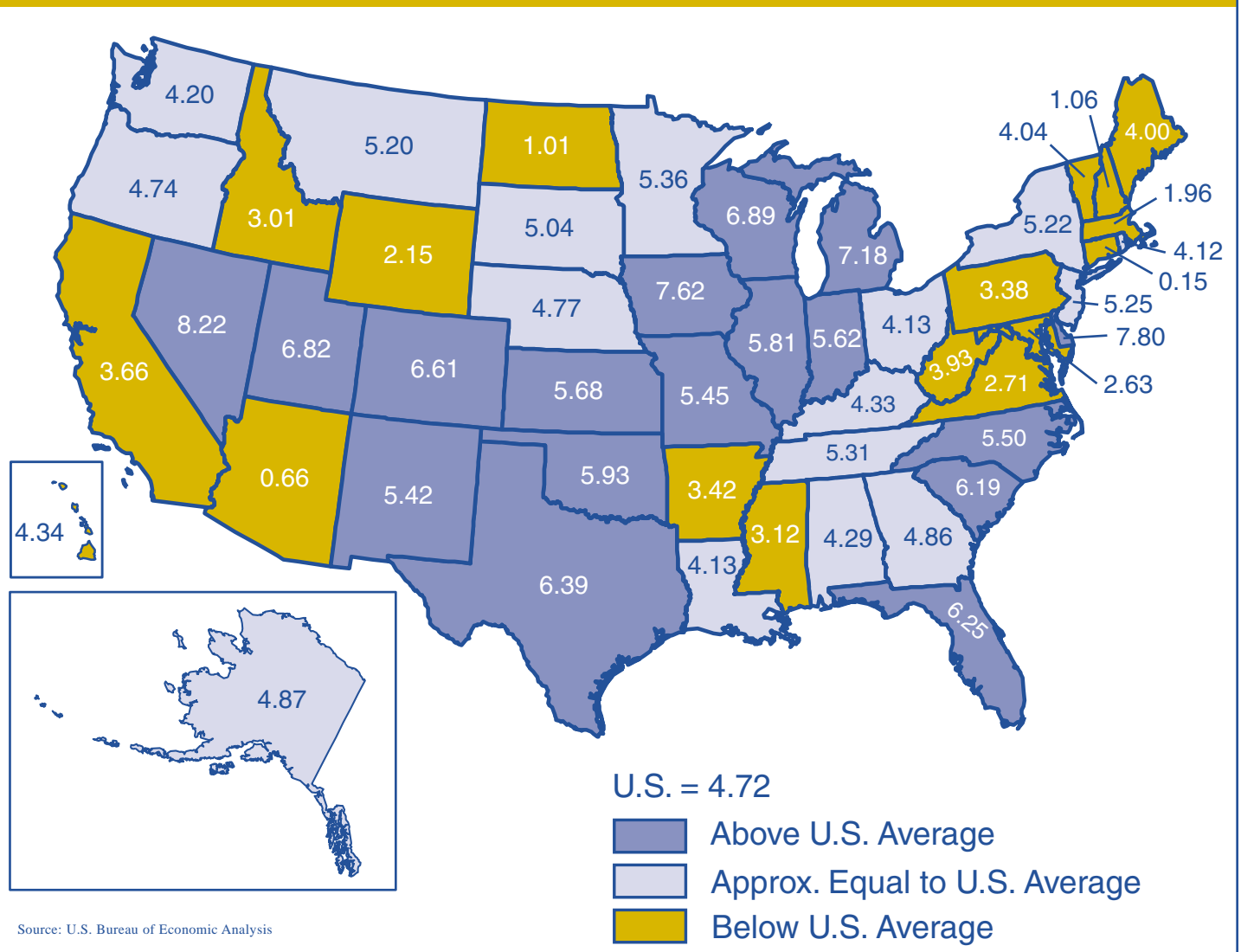
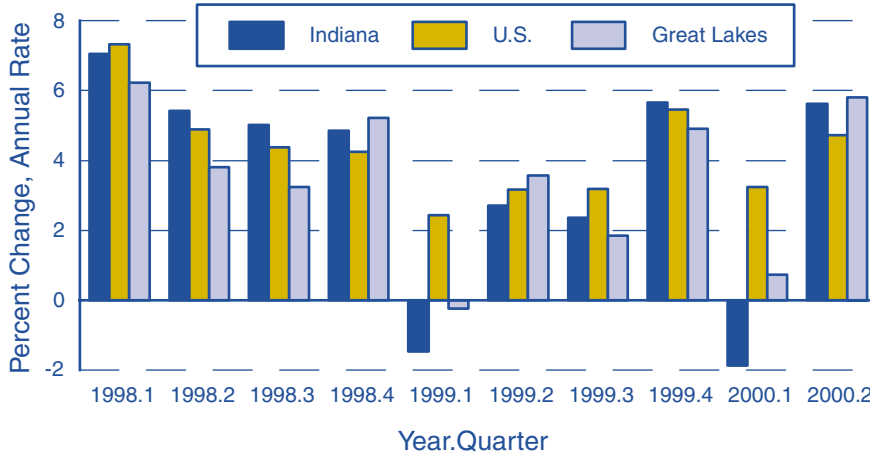


Figure 2: Quarterly Percent Change in Real Personal Income

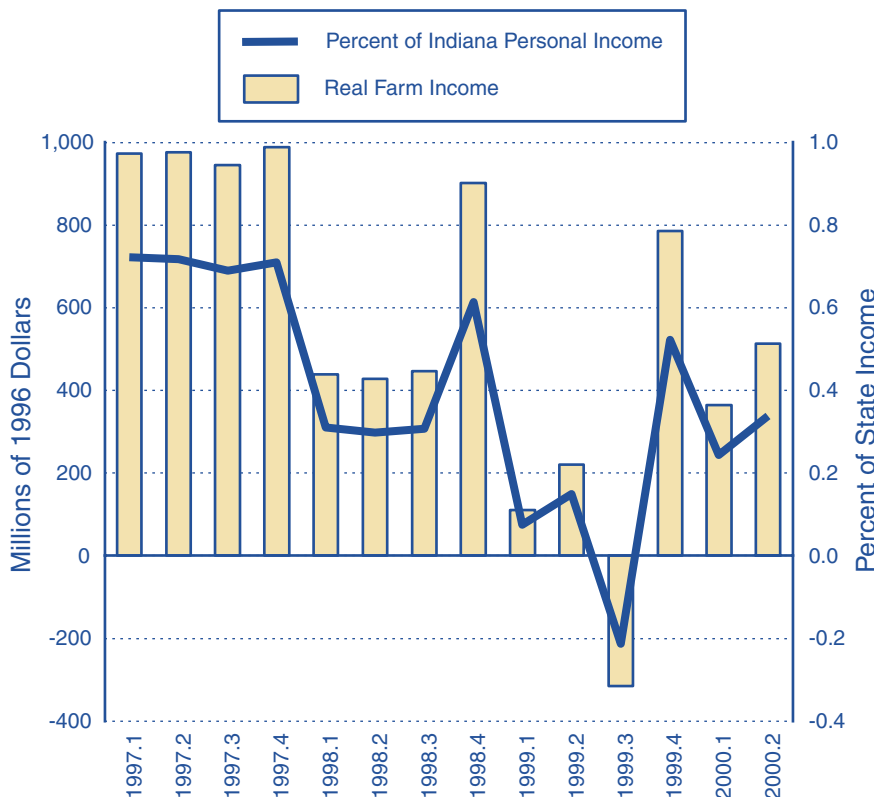
Indiana tops U.S. rate in second quarter 2000



Source: U.S. Bureau of Economic Analysis

Figure 3: Indiana Farm Income

Farm income has been less than 1% of total state personal income



Source: U.S. Bureau of Economic Analysis

the real value (at annual rates) of farm income by quarter.

In the first quarter of 1998, farm income in Indiana fell by 55%, then remained steady, and then jumped in the last quarter of the year before plummeting again in the first quarter of 1999. Much of that instability is due to the irregularities of federal farm subsidies.

But it is difficult for the farm sector to be the sole factor in Indiana's personal income fluctuations. As the line (using the right-hand scale) in Figure 3 shows, farm income in this period (1997 through the midpoint of 2000) has not exceeded eight-tenths of one percent of the state's total income. Simply put, there are not enough peanuts here to power the elephant.

The best way to see what is contributing to change is the change itself. In Figure 4 (see page 8), the contribution to the change in 2000.2 in total personal income is shown for each component. Manufacturing contributed \$495 million (at an annual rate) to Indiana's \$2.1 billion income advance. This was 24% of the total gain – the result of a 1.67% increase in manufacturing earnings on a base that accounted for 20% of total income in the first quarter of the year. The amount of the contribution is determined not only by the rate of growth, but by the initial share of the total.

Hence, farming, despite its dramatic 41% gain in the second quarter, added only \$149 million (7.2%) to the total change because its base was less than 1% of that total.

However, the second quarter of 2000 was unlike any other quarter since the

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IN the News

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start of 1999. It was the only quarter when farming, manufacturing and the sum of all other sectors made positive contributions to the change in the state's real personal income (see Figure 5).

When both farming and manufacturing income grew in the same quarter, Indiana was among the growth leaders in the nation.

Both farming and manufacturing have had three down quarters in the past year and a half. The dramatic swings in these sectors give the state high variability in its personal income. When both sectors were in decline (as in the first quarter of 2000), the growth of other sectors was not sufficient to offset the downward force of farming and manufacturing. When both were advancing, Indiana was among the leaders in national growth.

Figure 4: Change in Indiana Personal Income Components

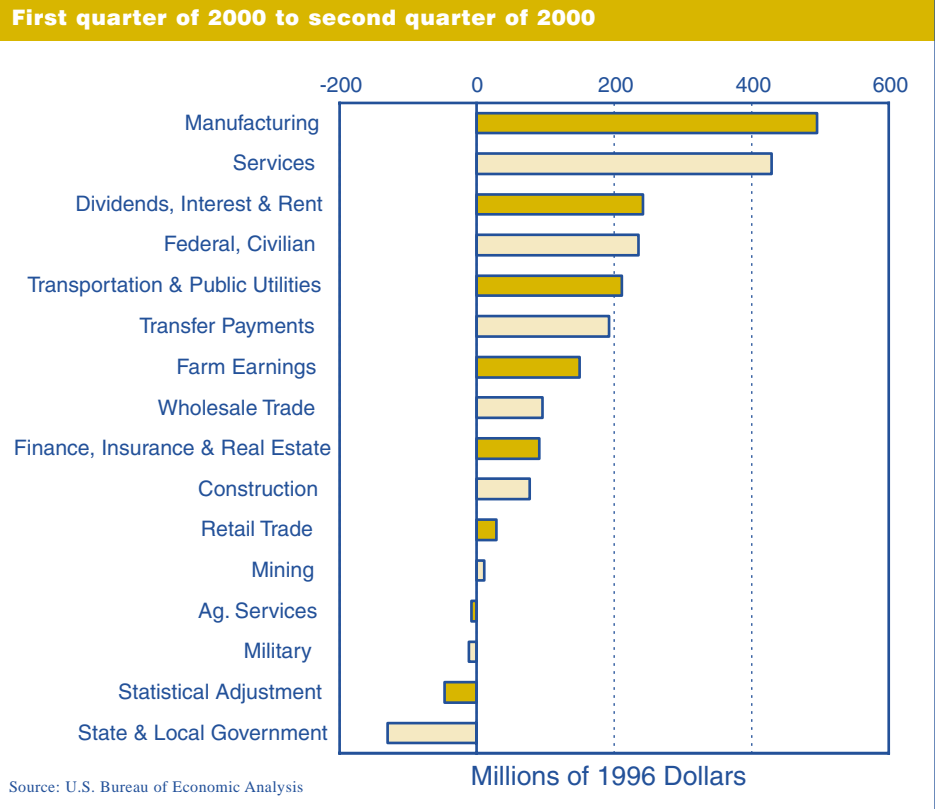
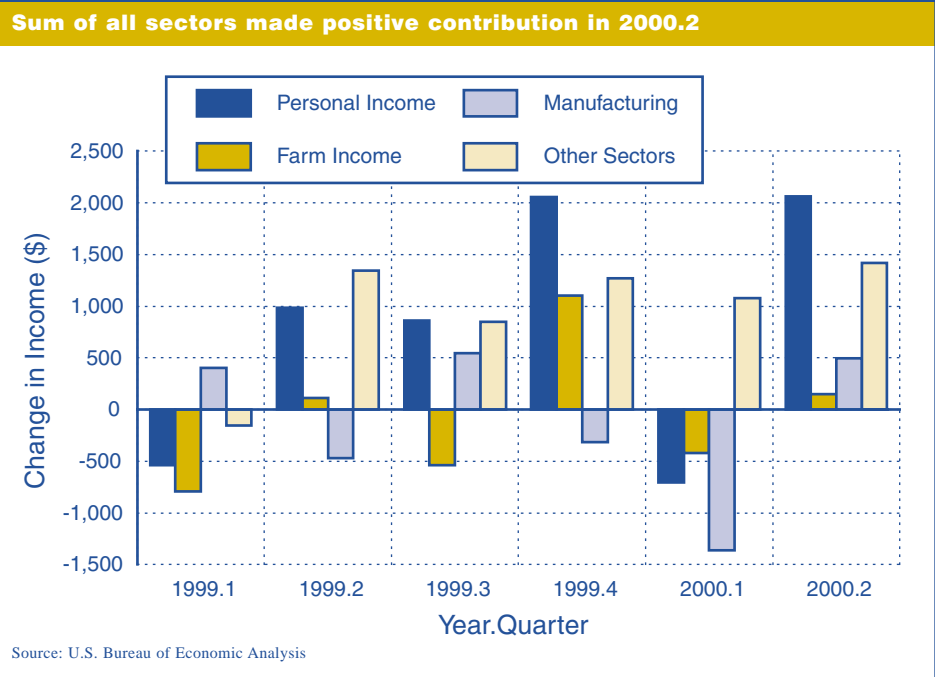


Figure 5: Change in Income from Preceding Quarter

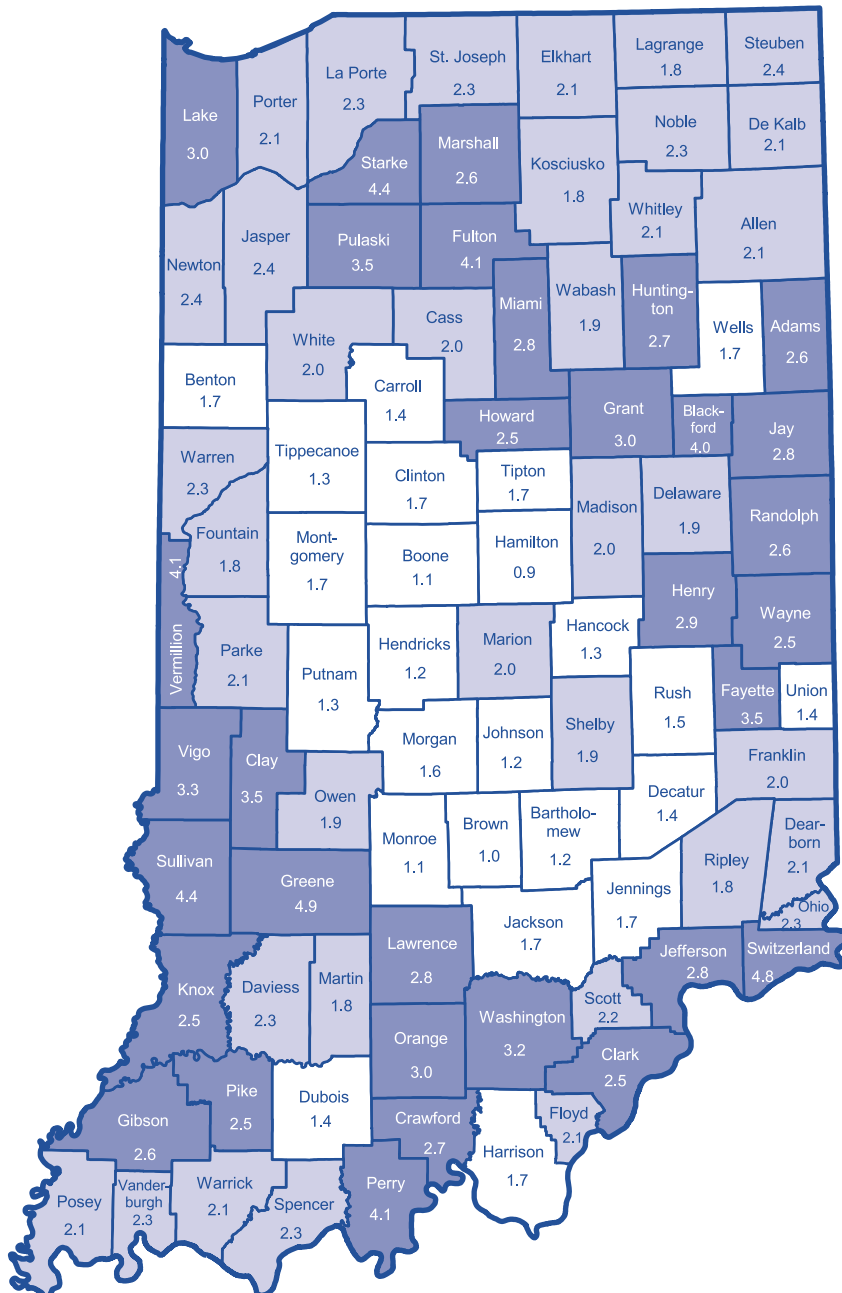


Unemployment Estimates Remain at Record-Low Levels

Figure 1: October Unemployment Rates by County

The national unemployment rate for October was 3.6%

- Indiana Unemployment Rate = 2.1%
- Above State Rate (32 counties)
- Approx. Equal to State Rate (36 counties)
- Below State Rate (24 counties)



Source: Indiana Department of Workforce Development

Indiana’s unemployment rate continued at a record-low level of 2.1% in October for the non-seasonally adjusted figure, unchanged from September’s figure.

The rate calculation for October was based mainly on the same sample of 800 Indiana residents as was used in

The statewide unemployment rate estimate remained at 2.1% for October, though some county rates moved up, some down.

September. It’s not surprising, then, that the unadjusted state rate remained the same.

At the county level, minor variations in the estimated size of the labor force contributed to some swings in the unemployment rate calculation in smaller counties. October’s estimated rate dropped between 0.4 and 0.7 percentage points in Perry, Adams, Pike, Henry and Starke counties. The calculated estimate rose 0.6 percentage points in Jefferson County.

BEA Issues Benchmark Revisions to Local Personal Income Data

On June 15, 2000, the U.S. Bureau of Economic Analysis released the results of a comprehensive, or benchmark, revision of personal income for local areas. In general, the estimates for local areas for 1969–97 were revised up.

A comprehensive revision of estimates of personal income for local areas is made every four or five years. It incorporates newly available benchmark source data; improved methods for preparing the estimates; and newly available local area data that consist of quarterly data, annual data and data that are available less frequently — for example, data from the most recent quinquennial census of agriculture.

This year's benchmark revision resulted in large percentage revisions to the estimates of personal income for a few metropolitan areas. For all years, personal income for the nation and for most metropolitan areas was revised up. The primary source of the revisions was the reclassification of government employee retirement plans. As a result of the reclassification, other labor income, personal interest income and personal dividend income were raised, and personal contributions for social insurance (which is subtracted in calculating personal income) and transfer payments to persons were reduced.

Effects of the benchmark revisions

For 1991–97, the comprehensive revision had little effect on growth rates. The rankings of the fastest- and the slowest-growing metropolitan areas

changed little. Las Vegas, at 10.6%, still has the fastest growth rate, and Binghamton, N.Y., at 2.2%, still has the slowest growth rate.

San Francisco, at \$45,199, had the highest per capita personal income in 1998, 166% of the per capita personal income for the nation. McAllen-Edinburg-Mission, Texas, at \$12,759, had the lowest per capita personal income, at 47% of the national average. Indianapolis ranked 55th in the nation, the highest ranking of any Indiana metropolitan area. Terre Haute, at 279th, was the lowest ranking in Indiana.

Austin-San Marcos, Texas, and Seattle-Bellevue-Everett, Wash., had the fastest rates of growth in personal income in 1998. Personal income grew 15.1% in Austin-San Marcos and 10.4% in Seattle-Bellevue-Everett, substantially faster than the 5.9% growth of the nation. The rapid growth of personal income reflected large increases in net earnings: For Austin-San Marcos, it reflected large increases in earnings in industrial machinery and equipment manufacturing and in wholesale trade; for Seattle-Bellevue-Everett, it reflected large increases in earnings in the business services sector, which includes computer software.

State figures allocated to counties

This comprehensive benchmark revision incorporates the statistical changes that were introduced as part of the comprehensive revision of state personal income. In some cases, however, the state estimating procedures could not be replicated

because county data for these items were not available. The improved state estimates of employer contributions for workers' compensation insurance were allocated to counties on the basis of private wages and salaries, the state estimates of dividends for S-corporations are allocated to counties on the basis of tabulations of dividends received by individuals from the IRS, and the state estimates of the payments for foster care are distributed to counties on the basis of civilian population.

In some cases, the state estimates were allocated to the counties by related source data. The following series could not replicate the state estimating procedures because county data for these items are not available: For employer contributions for state and local government employees, the state controls are allocated to the counties in proportion to state and local government wages and salaries by place-of-work; for dividends and interest received by state and local government employee retirement plans, the state controls are allocated to the counties by state and local government wages and salaries by place-of-residence; and for WIC benefits, the state controls are allocated to the counties by family assistance payments.

Source: This article was adapted from an article in the July 2000 issue of SURVEY OF CURRENT BUSINESS, published by the U.S. Bureau of Economic Analysis. Authors were Jeffrey L. Newman, Kathy A. Albetski, Robert L. Brown and Adrienne T. Pilot.

Small Businesses Are Big Part of Indiana Economy

Small businesses made up 97% of all employers in Indiana in 1998, according to statistics recently released by the U.S. Small Business Administration.

Of Indiana's 124,400 businesses with employees, the SBA estimated

more than 120,500 were small businesses. (Small businesses are defined as firms with fewer than 500 employees.)

In addition, there were an estimated 207,000 self-employed persons in Indiana in 1998.

Small businesses dominate employment growth

In 1996, the latest year for which a detailed breakdown by firm size is available, small businesses dominated employment growth in the state, according to the SBA's analysis. From 1995 to 1996, small businesses added a net total of 26,800 employees (see Table 1), which accounted for essentially the entire amount of private nonfarm employment growth in Indiana.

The net change in the state's employment comes from combining employment gains at new establishments and expanding establishments with employment losses at downsized or closed establishments.

Small businesses produced more than half the employment gains from new establishments and 63% of the total expanding establishment gain.

Firm size varies across sectors

The mix of firm size varies across sectors of the Indiana economy. As measured by employment, some sectors consist mainly of small firms. In others, such as manufacturing, two-thirds or more of the jobs are in large firms.

In 1997, the SBA found that small businesses accounted for 50.5% of the state's 2.5 million nonfarm employees. The percentage was much higher, though, in construction and wholesale trade (see Figure 1). In fact, about 90% of all employees in the construction industry worked for small businesses. The share in wholesale trade was 68%.

The services sector had 58% of its employees in small business. Some
(continued on back cover)

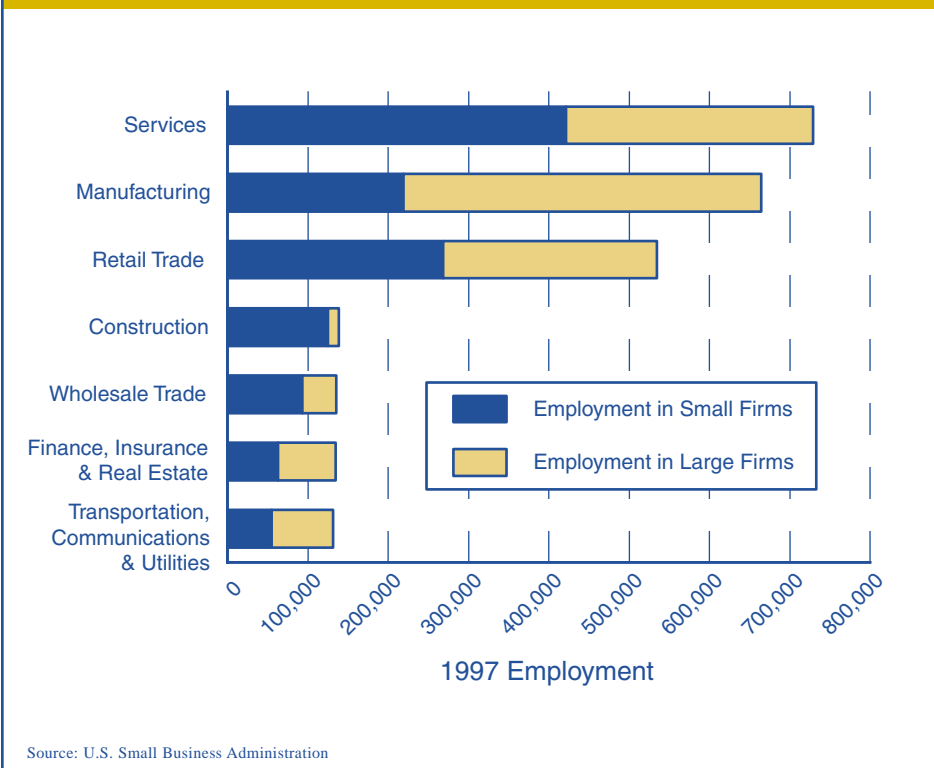
Table 1: Nonfarm Job Gains and Losses by Firm Size, 1996

	Total	Small Businesses	Percent
Gains			
New establishments	127,800	70,200	55%
Expanding establishments	225,400	142,400	63%
Losses			
Downsized establishments	(220,500)	(121,500)	55%
Closed establishments	(106,600)	(64,300)	60%
Net change in employment	26,100	26,800	

Source: U.S. Small Business Administration

Figure 1: Small Businesses' Share of Indiana Employment

By industry, 1997



INCONTEXT

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IN Business

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service sectors, however, had much higher concentrations of employment in small businesses. For example, automotive repair services and social services both were above 80%. In the finance, insurance and real estate sector, small businesses produced 83% of real estate jobs and 75% of insurance agent employment.

The picture was much different in manufacturing. Just 33% of manu-

facturing employment was found at small businesses. Employment in the transportation equipment sector was 16% in small business.

In retail trade, 81% of employment at auto dealers was found at small businesses. But small businesses claimed only 2% of employment at general-merchandise stores. Transportation also exhibited variations. Small businesses accounted for 56% of motor freight employment but only 10% in air transportation.

IN Depth:

For all the latest state and county figures and complete time series data sets related to the Indiana economy, visit the following Internet sites:

- www.ibrc.indiana.edu/incontext
- www.stats.indiana.edu
- www.indianacommerce.com
- www.dwd.state.in.us

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