

2020 Economic Outlook: Indiana

A presentation to
Kruggel Lawton CPAs 13th Annual CFO Summit

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W.E. Upjohn Institute for Employment Research

November 10, 2020

W.E. Upjohn Institute for Employment Research

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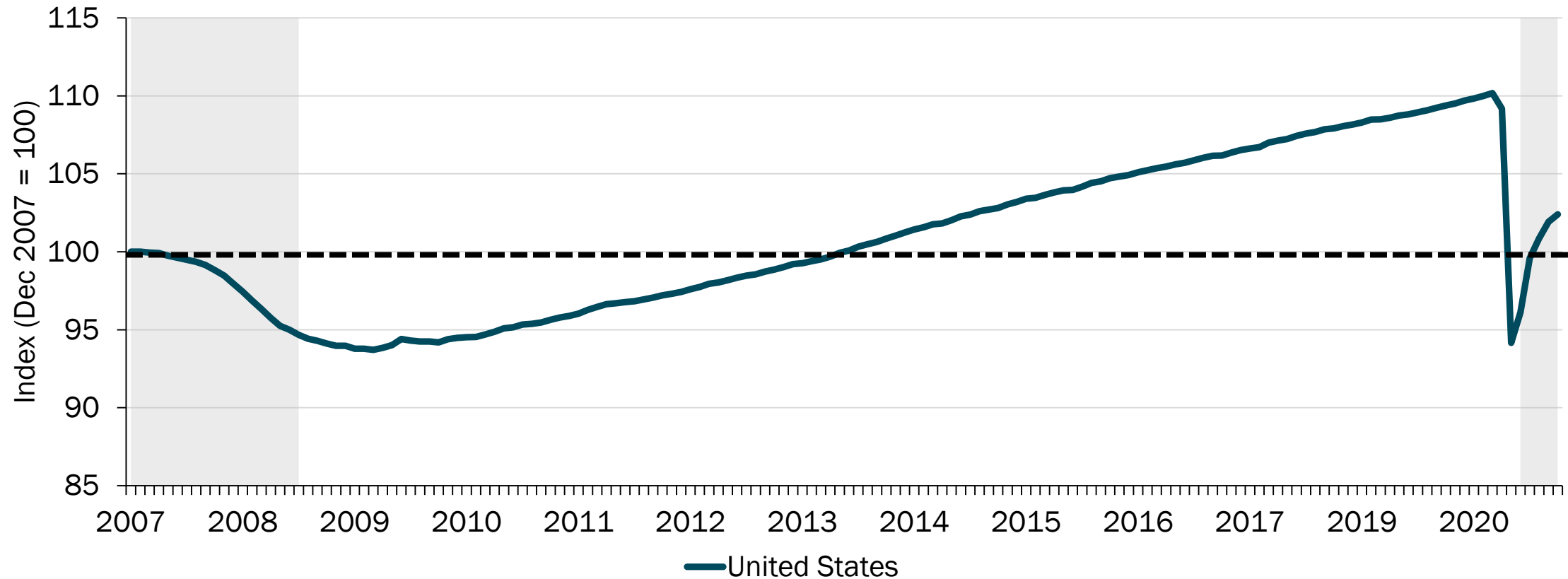
The W.E. Upjohn Institute for Employment Research is a private, nonprofit, nonpartisan, independent research organization devoted to investigating the causes and effects of unemployment, to identifying feasible methods of insuring against unemployment, and to devising ways and means of alleviating the distress and hardship caused by unemployment.

We're at the end of the longest business cycle (contraction and expansion) and the longest expansion, while experiencing the longest recession since measurement began

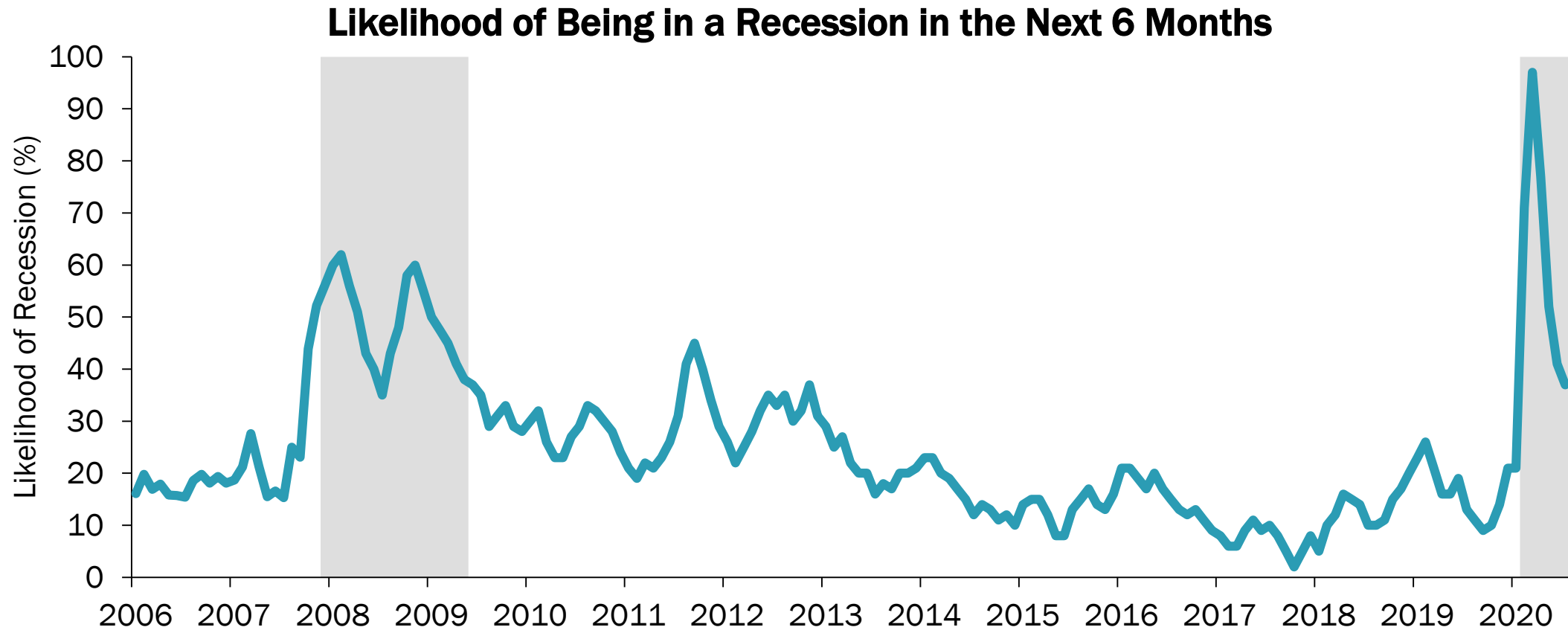
Length of:	1945-1948	1949-1953	1954-1957	1958-1960	1961-1969	1970-1973	1975-1980	1980-1981	1982-1990	1991-2001	2002-2007	2007-2020	2020-?
Contraction	8	11	10	8	10	11	16	6	16	8	8	18	?
Expansion	37	45	39	24	106	36	58	12	92	120	73	128	
Business Cycle	45	56	49	32	116	47	74	18	108	128	81	146	

Employment is just only slightly higher than December 2007

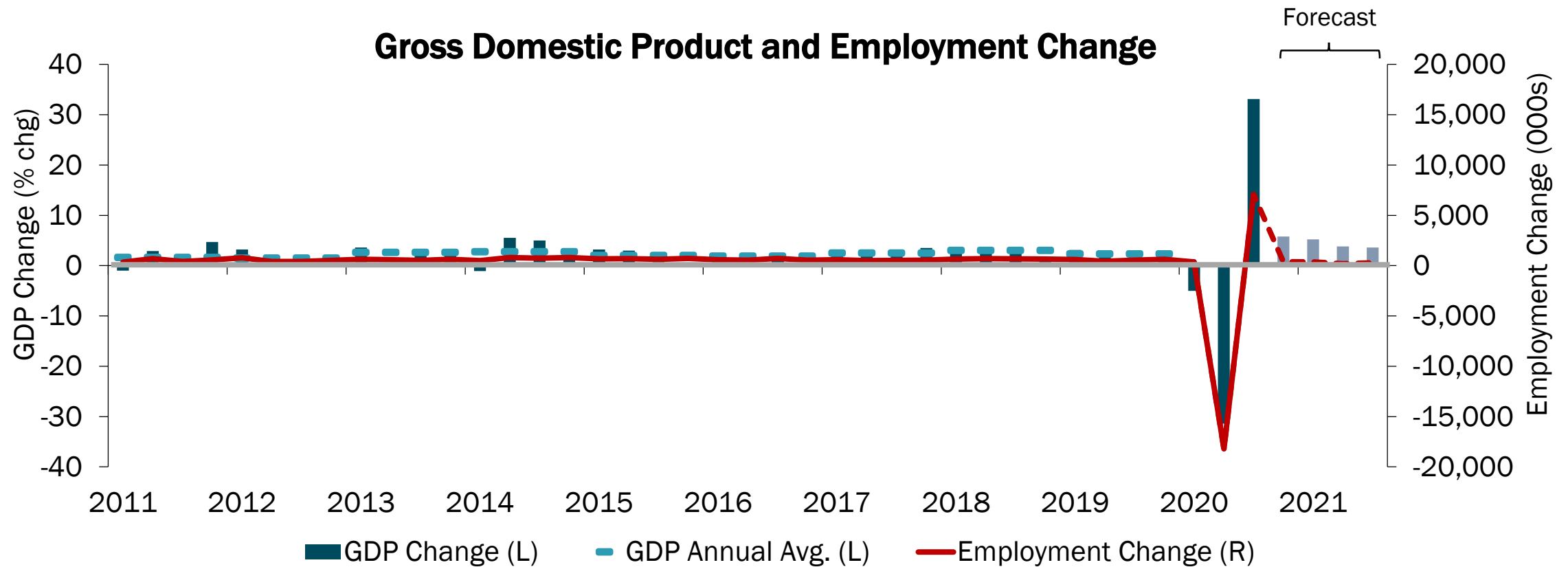
Non-Farm Employment Index



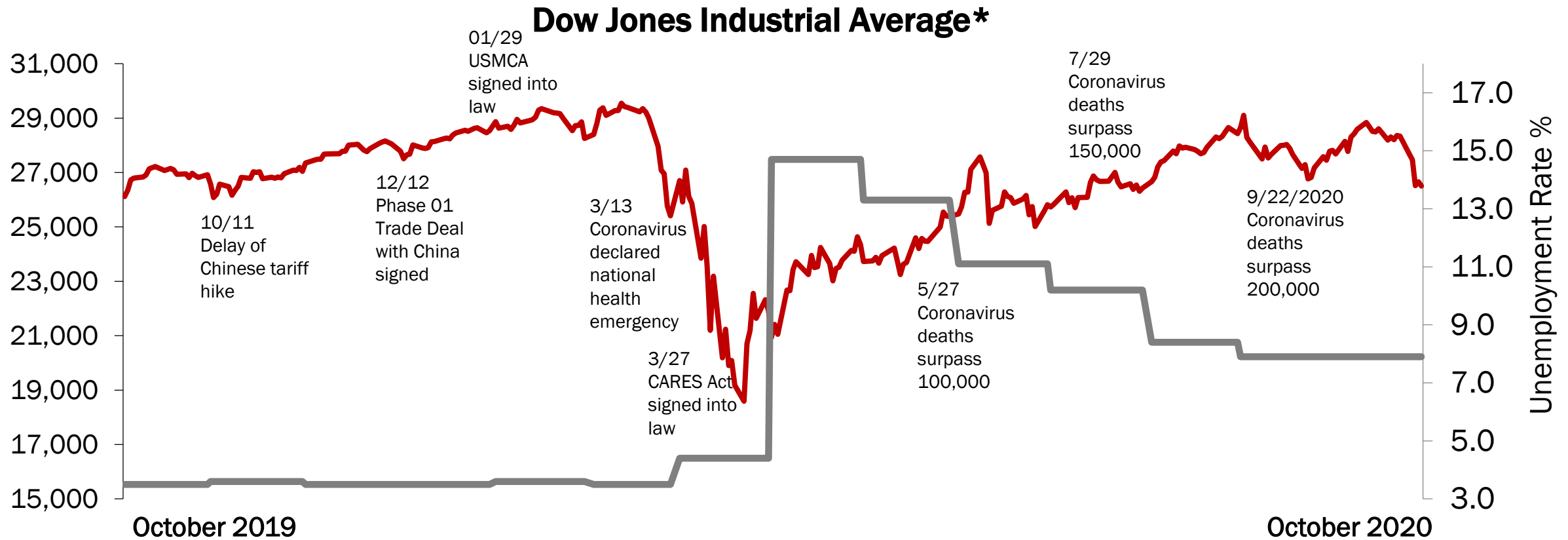
Moody's predictions of a recession are trending downward: 37% in August



GDP growth is projected to remain solid, although employment growth is slowing



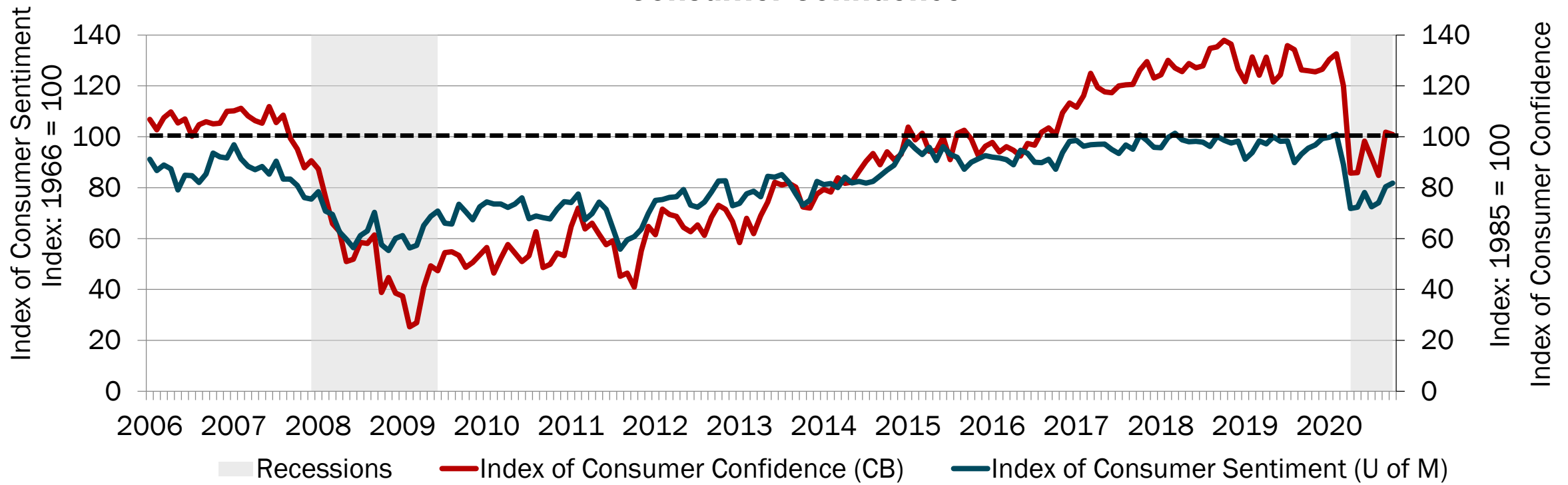
The stock market has reacted to various events this year, and the recent ride has been surprisingly good



*As of 10/30/2020

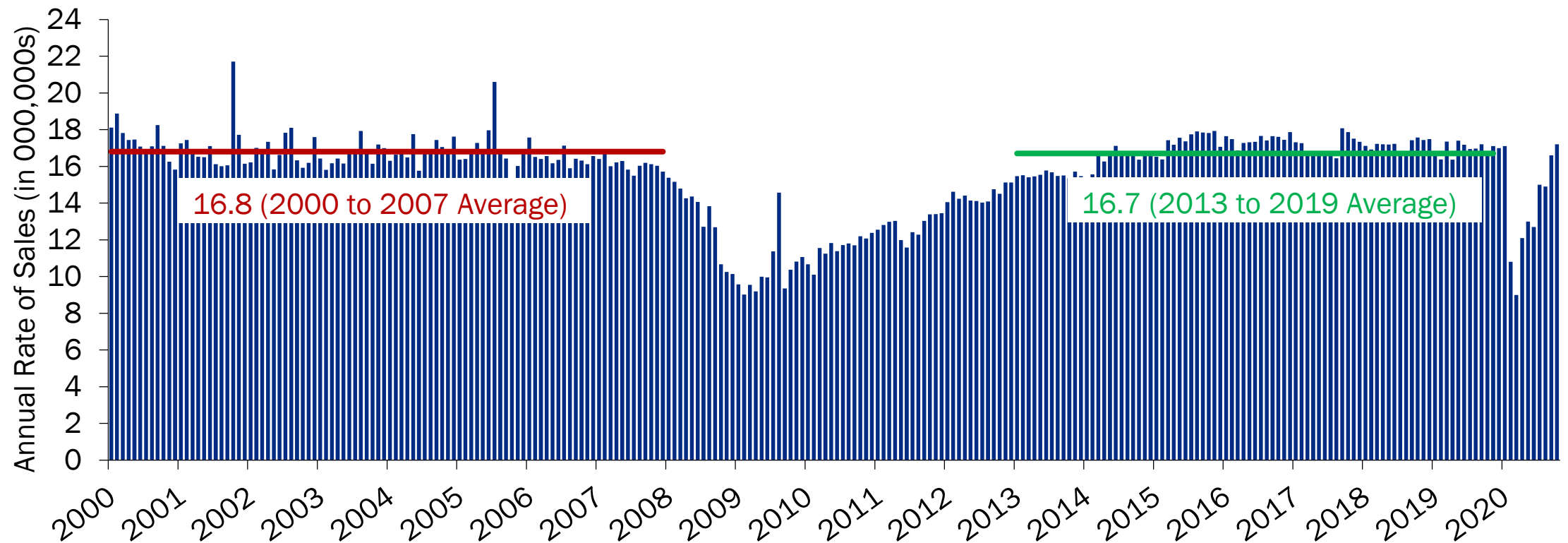
Consumer confidence and sentiment are bouncing around, after falling precipitously between February and April

Consumer Confidence



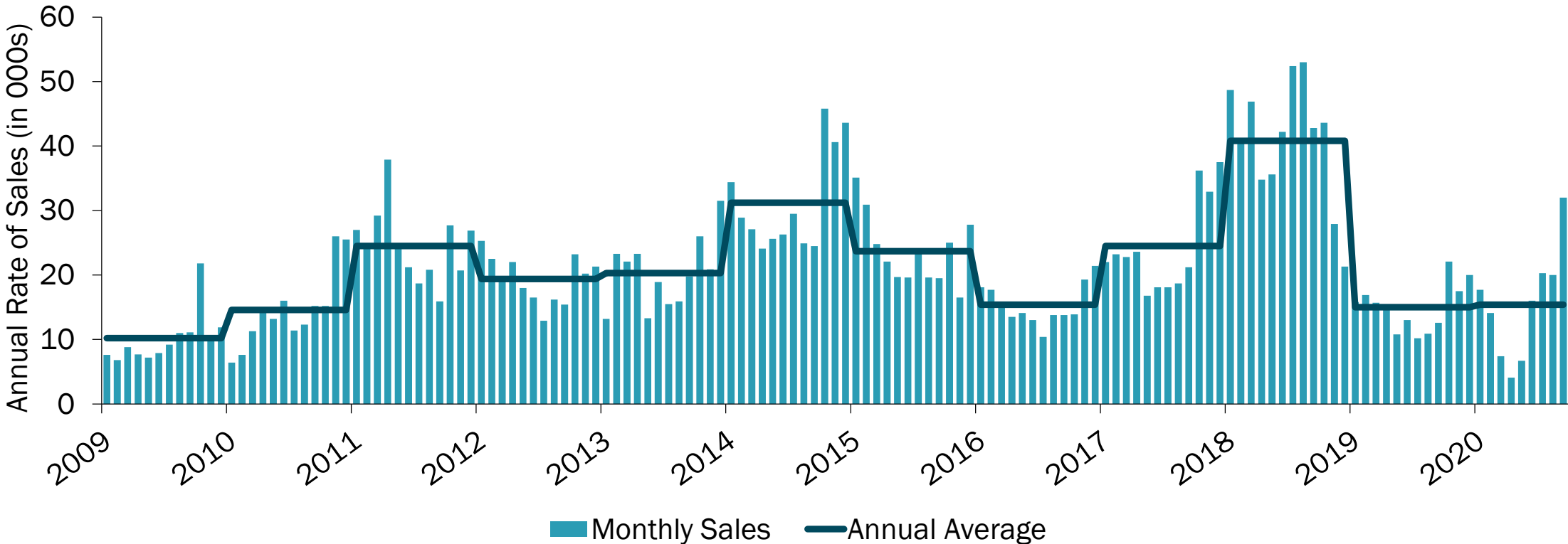
Light vehicle sales are starting to rebound; will work from home change consumption patterns?

Annualized Rate of U.S. Light Vehicle Sales (in millions)



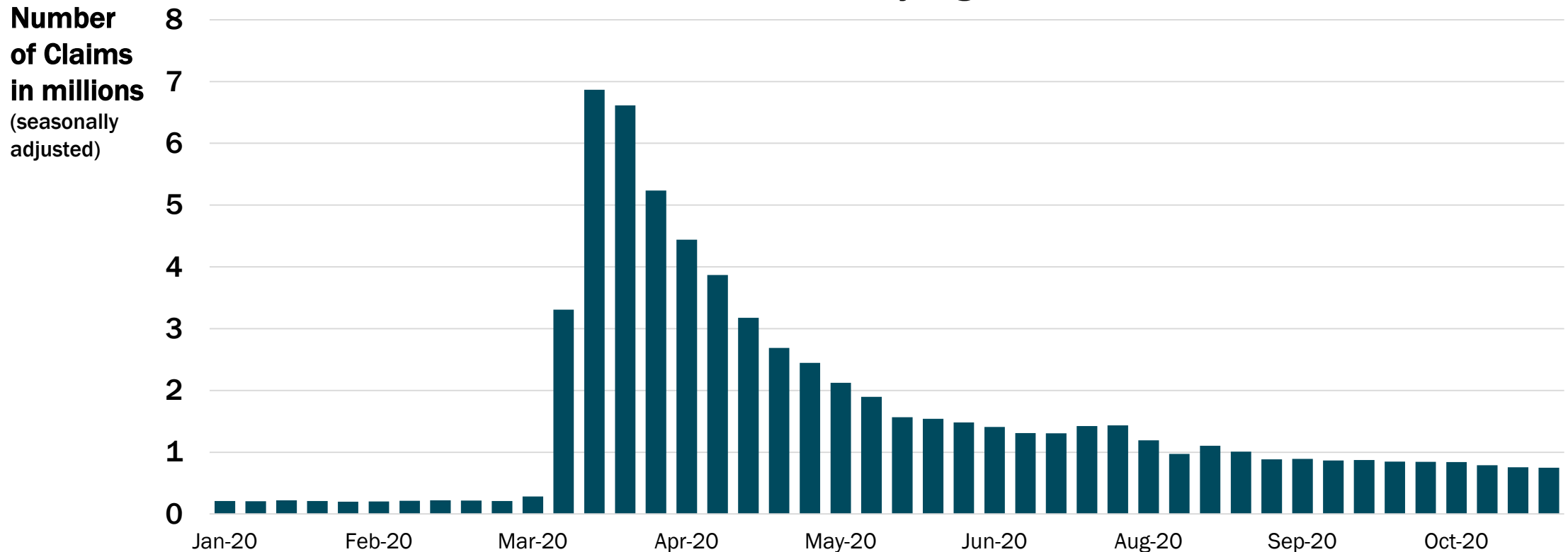
Class 8 Truck Orders reach highest level since 2019

Class 8 Truck Orders



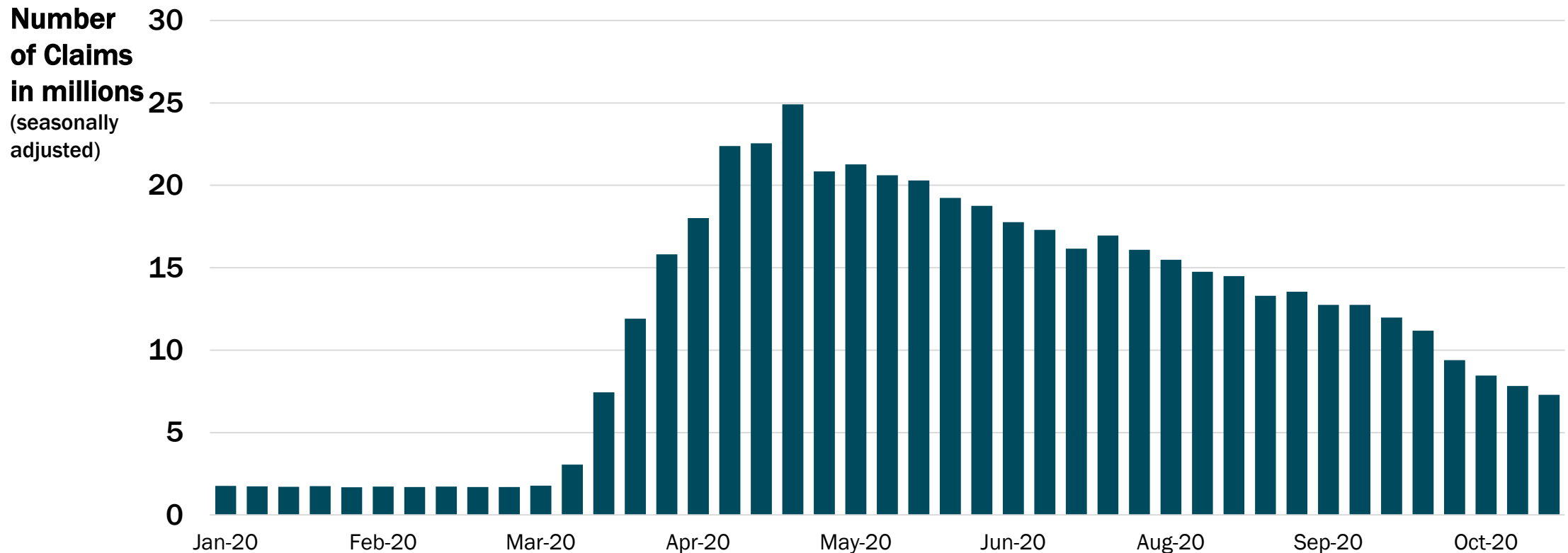
The number of UI filings have stabilized after trending downward

Weekly initial claim filings for unemployment insurance are slowing, but remain at historically high levels

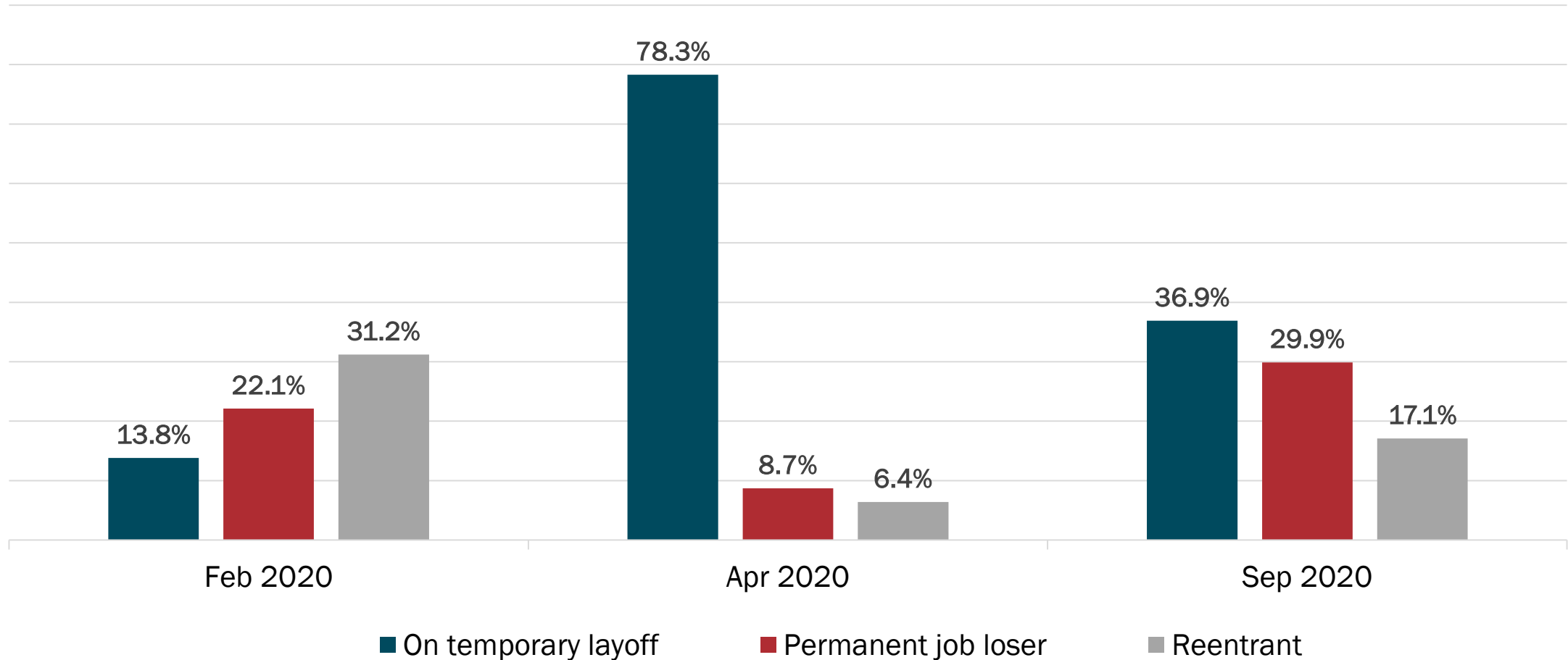


The number of continuing claims are trending downward

Weekly continuing claims for unemployment insurance



Distribution of unemployment by selected reason, February to September 2020, seasonally adjusted





News Release

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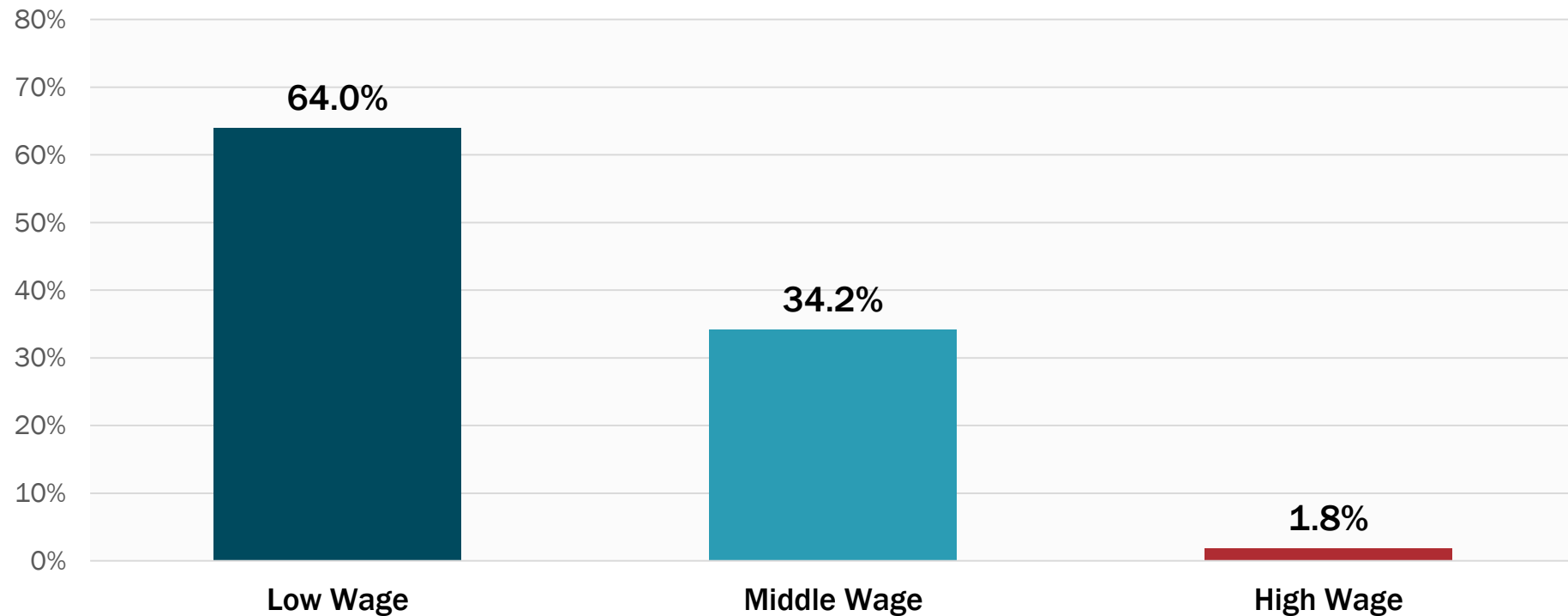
TRANSMISSION OF MATERIALS IN THIS RELEASE IS EMBARGOED UNTIL
8:30 A.M. (Eastern) Thursday, October 15, 2020

TECHNICAL NOTE: In response to recommendations resulting from an internal review of state operations, the state of California has announced a two week pause in its processing of initial claims for unemployment insurance benefits. The state will use this time to reduce its claims processing backlog and implement fraud prevention technology. Recognizing that the pause will likely result in significant week to week swings in initial claims for California and the nation unrelated to any changes in economic conditions, California's initial claims published in the UI Claims News Release will reflect the level reported during the last week prior to the pause. Upon completion of the pause and the post-pause processing, the state will submit revised reports to reflect claims in the week during which they were filed.

For additional information on California's efforts: https://www.edd.ca.gov/About_EDD/pdf/news-20-49.pdf

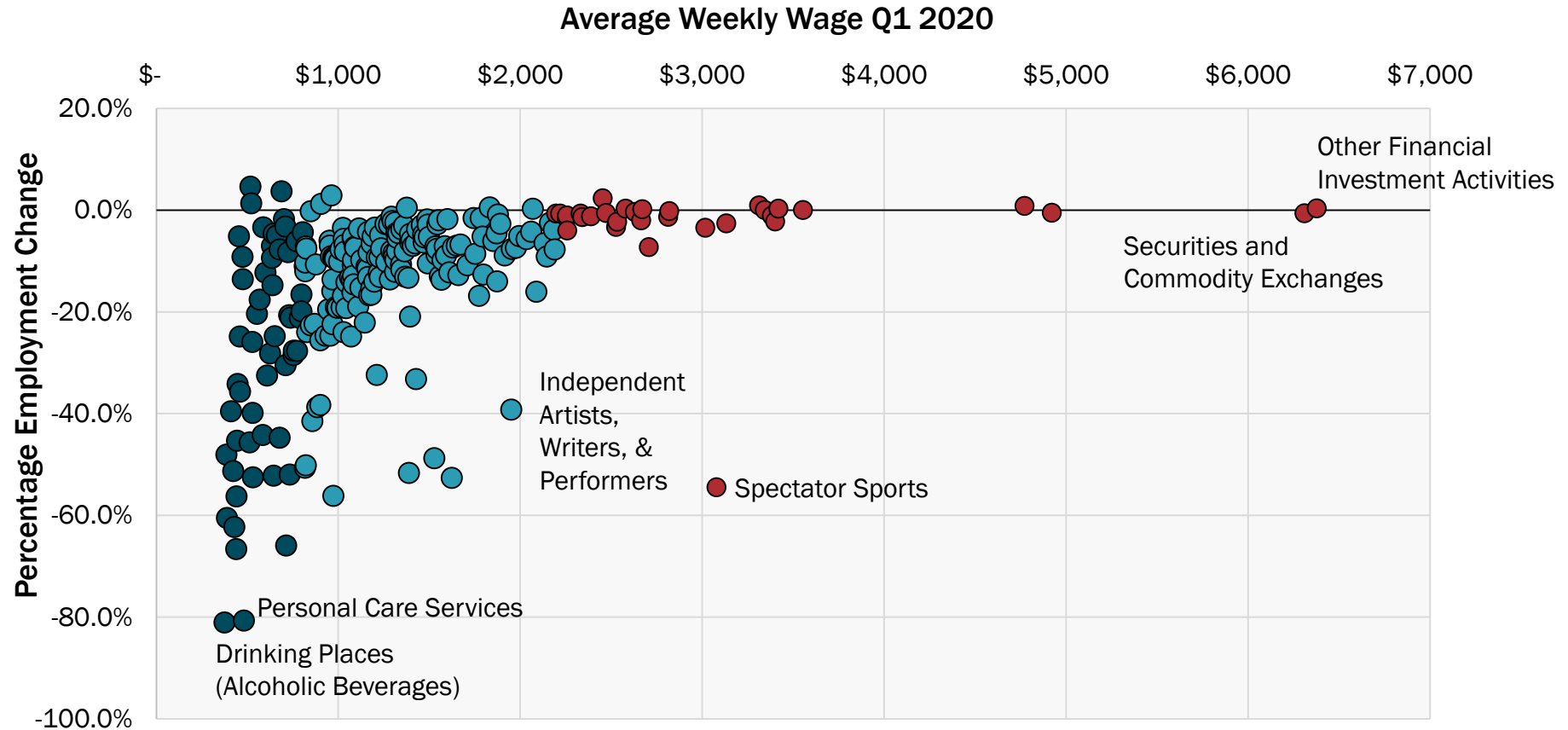
UNEMPLOYMENT INSURANCE WEEKLY CLAIMS

Employment losses of low, medium, and high wage private industry establishments as a percentage of total employment loss,* February to April 2020, seasonally adjusted data



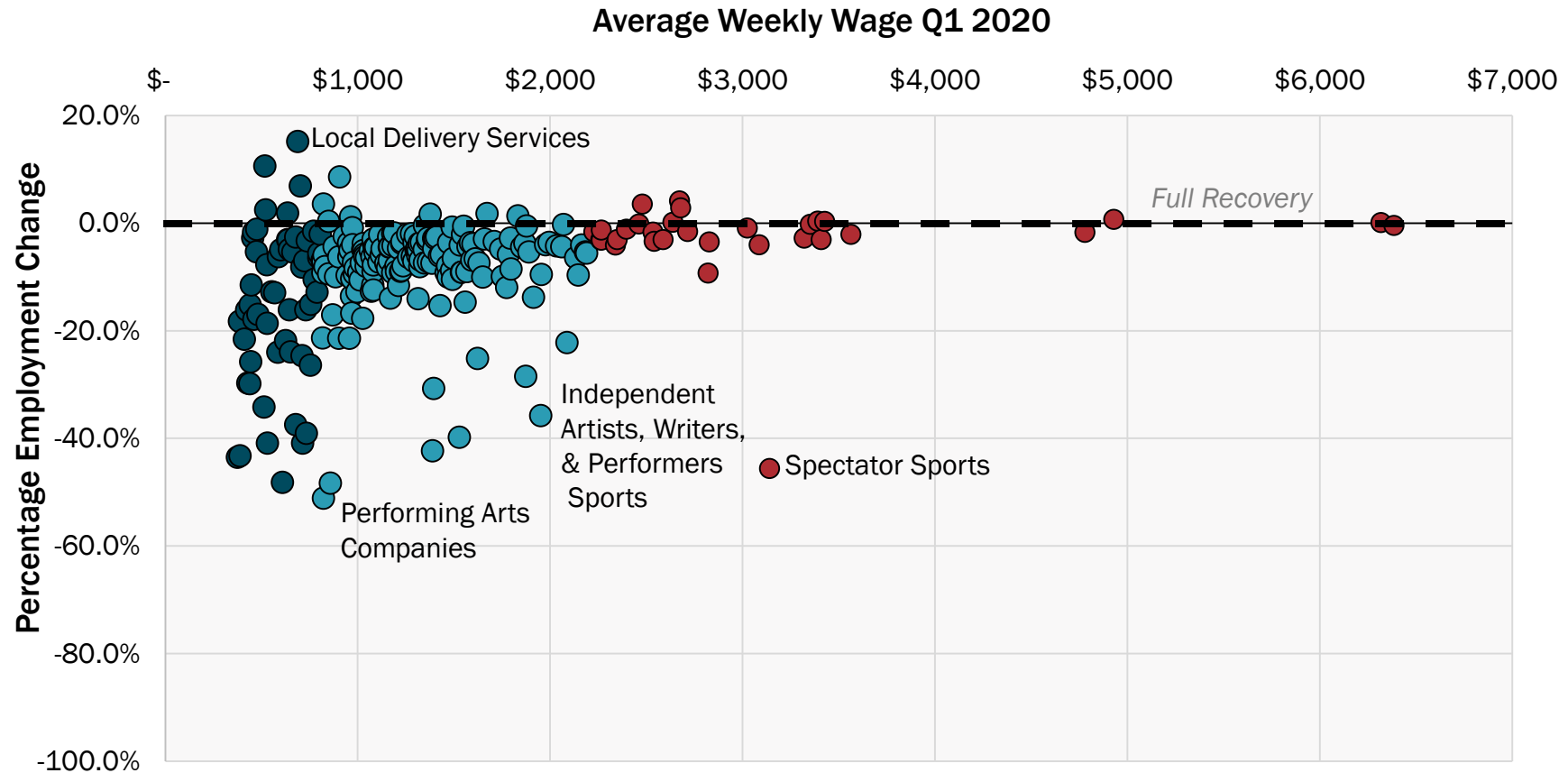
* Derived from 3- and 4-digit NAICS industries with employment losses from Feb – Apr 2020; low, medium and high wage industries based on average weekly wages, 2020 Q1. Thresholds based on percentages of the overall average weekly wage (Low $\leq .67$, $.67 < \text{Medium} \leq 1.8$, High > 1.8).

Percentage Employment Change February 2020 to April 2020



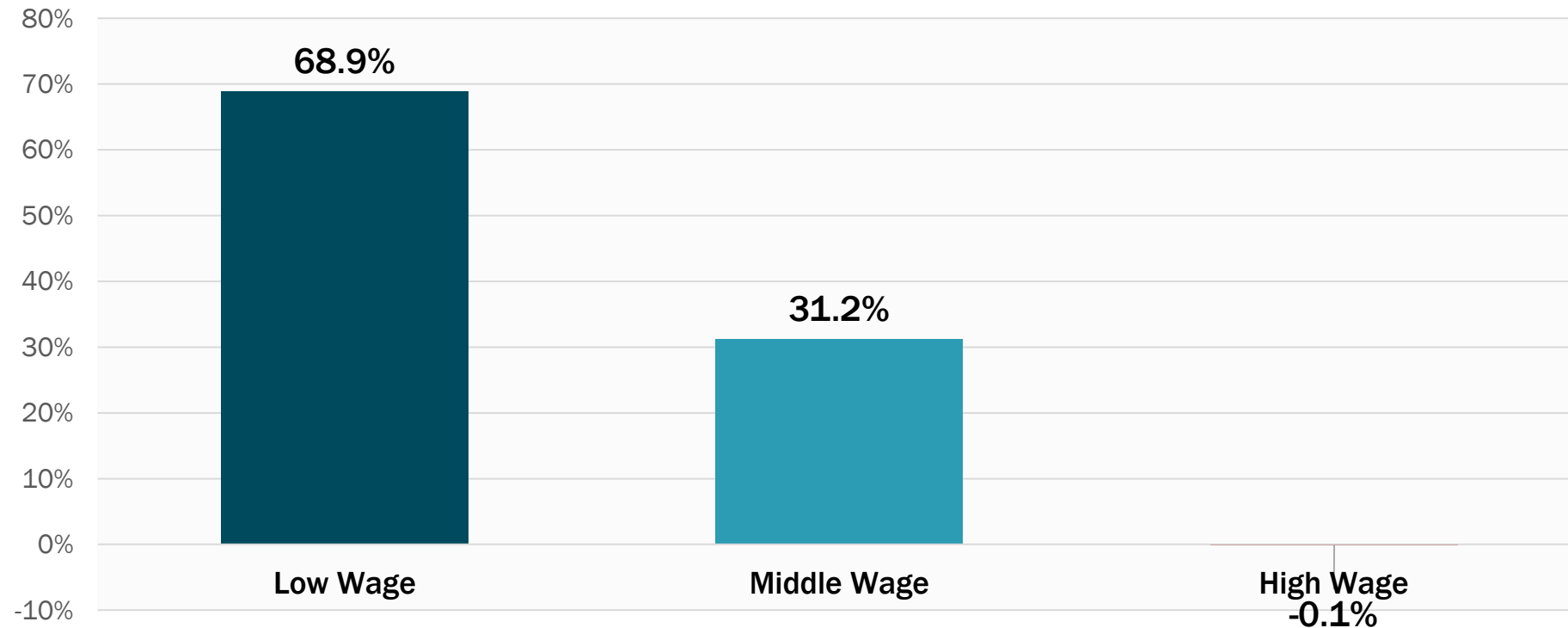
* Based on percentage employment changes of 3- or 4-digit NAICS industries using seasonally adjusted data. Low, medium, and high wage industries based on average Q1 2020 (QCEW) weekly wages. Thresholds based on industry percentages of the overall average weekly wage (Low < .67, .67 ≤ Medium < 1.8, High ≥ 1.8).

Percentage Employment Change February 2020 to August/September 2020



* Based on percentage employment changes of 3- or 4-digit NAICS industries using seasonally adjusted data. Low, medium, and high wage industries based on average Q1 2020 (QCEW) weekly wages. Thresholds based on industry percentages of the overall average weekly wage (Low < .67, .67 ≤ Medium < 1.8, High ≥ 1.8).

Employment gains of low, medium, and high wage private industry establishments as a percentage of total employment loss,* April to August/September 2020, seasonally adjusted data



* Derived from net employment changes among CES 4-digit NAICS industries (or higher-level aggregations as relevant) from Feb – Apr 2020. Low, medium and high wage industries are based on QCEW average weekly wages, 2020 Q1. Thresholds are based on percentages of the overall average weekly wage (Low $\leq .67$, $.67 < \text{Medium} \leq 1.8$, High > 1.8).

National Economy REMI Forecasts

Methodology

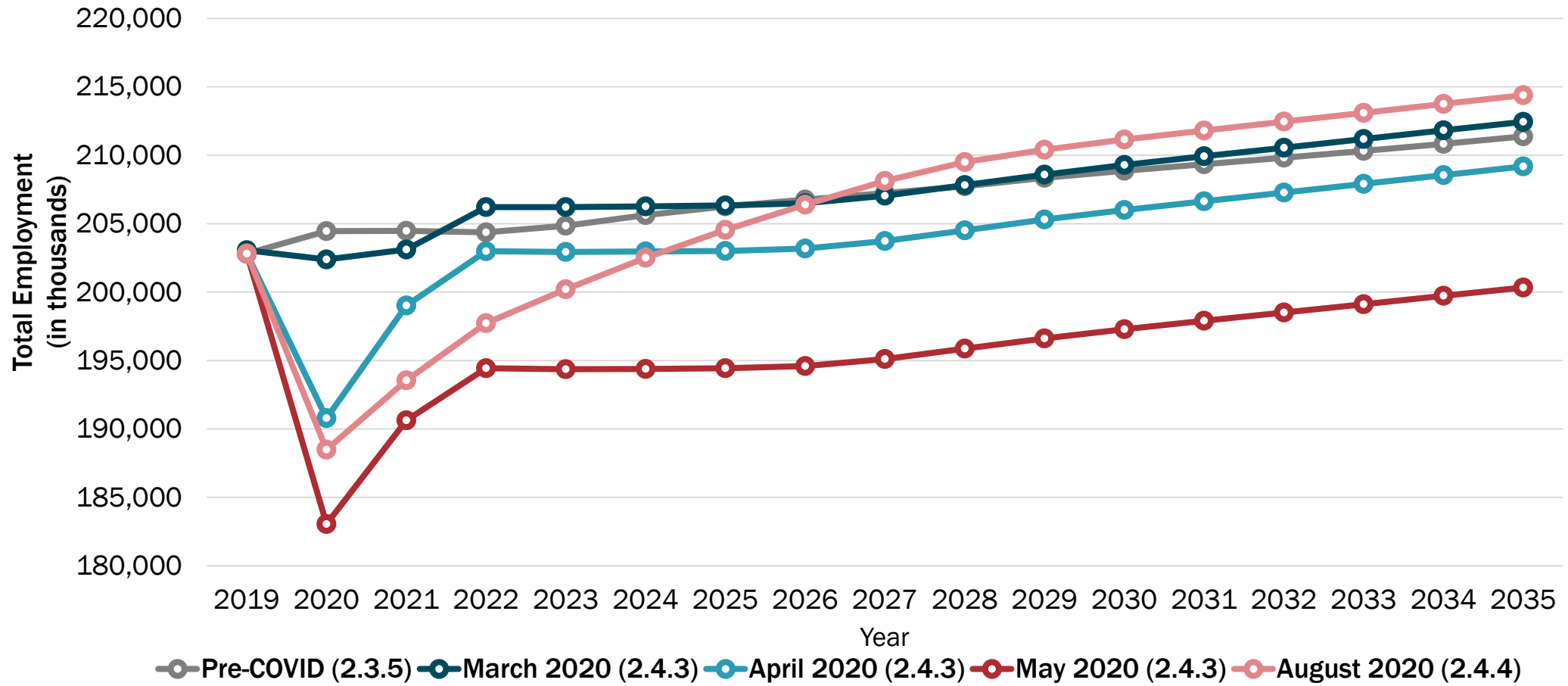
- Upjohn uses a REMI model (www.REMI.com)
 - To estimate economic impacts from projects and events
 - Forecast regional changes in trends
- Pre-COVID-19 baseline using a prior version of REMI (version 2.3.5)
- As new forecasts were produced the latest REMI model was updated (2.4.3)
 - National forecast is updated
 - Regional forecasts are updated
 - Revised forecasts come from:
 - Research Seminar in Quantitative Economics at UofM
 - Congressional Budget Office

University of Michigan RSQE current* national forecast: Note that these estimates are annualized

	2019	2020 (Forecast)	2021 (Forecast)
GDP	2.3%	-4.9%	3.6%
Employment	1.3%	-5.8%	2.1%
Light Vehicle Sales (Millions)	16.9	13.8	15.0
Unemployment Rate	3.7%	9.2%	8.1%
Housing Starts (Millions)	1.30	1.18	1.08
CPI/Inflation	1.8%	0.7%	1.2%

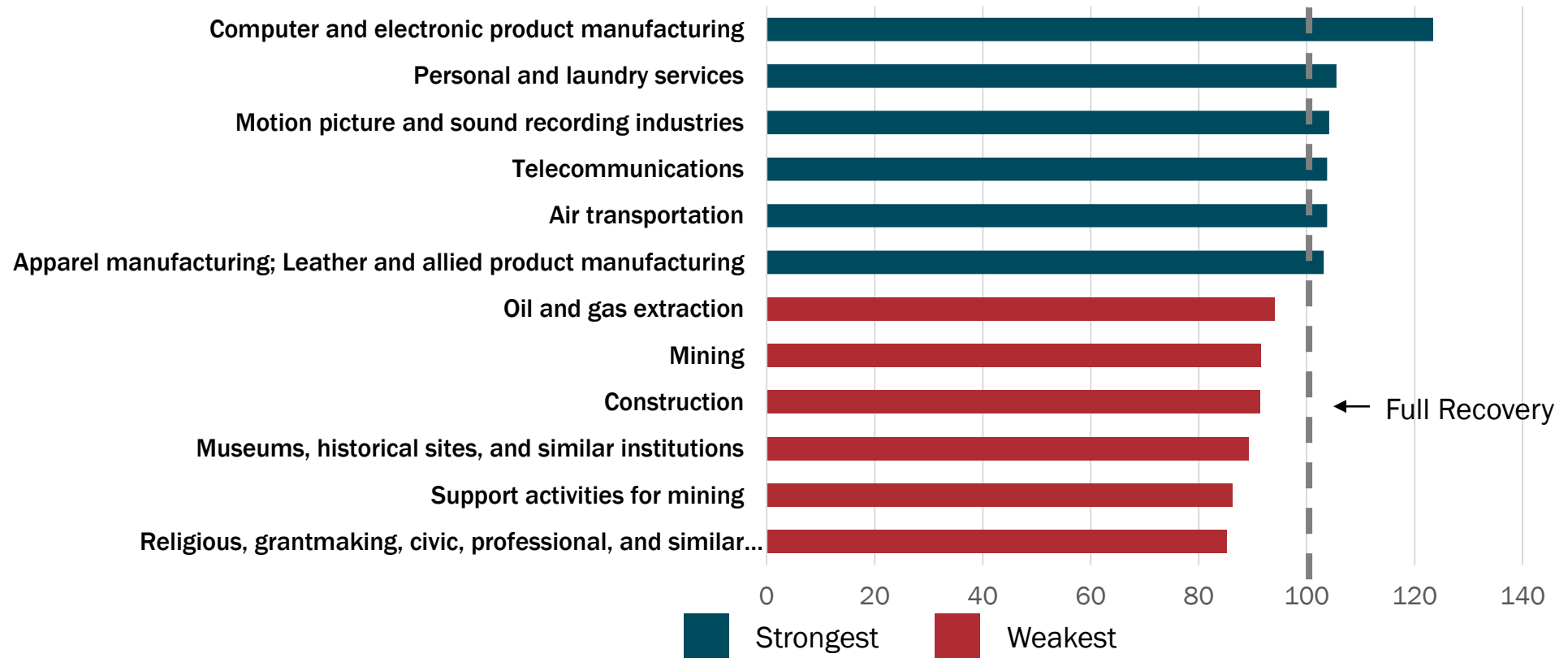
* August 2020 forecast

Total Projected National Employment

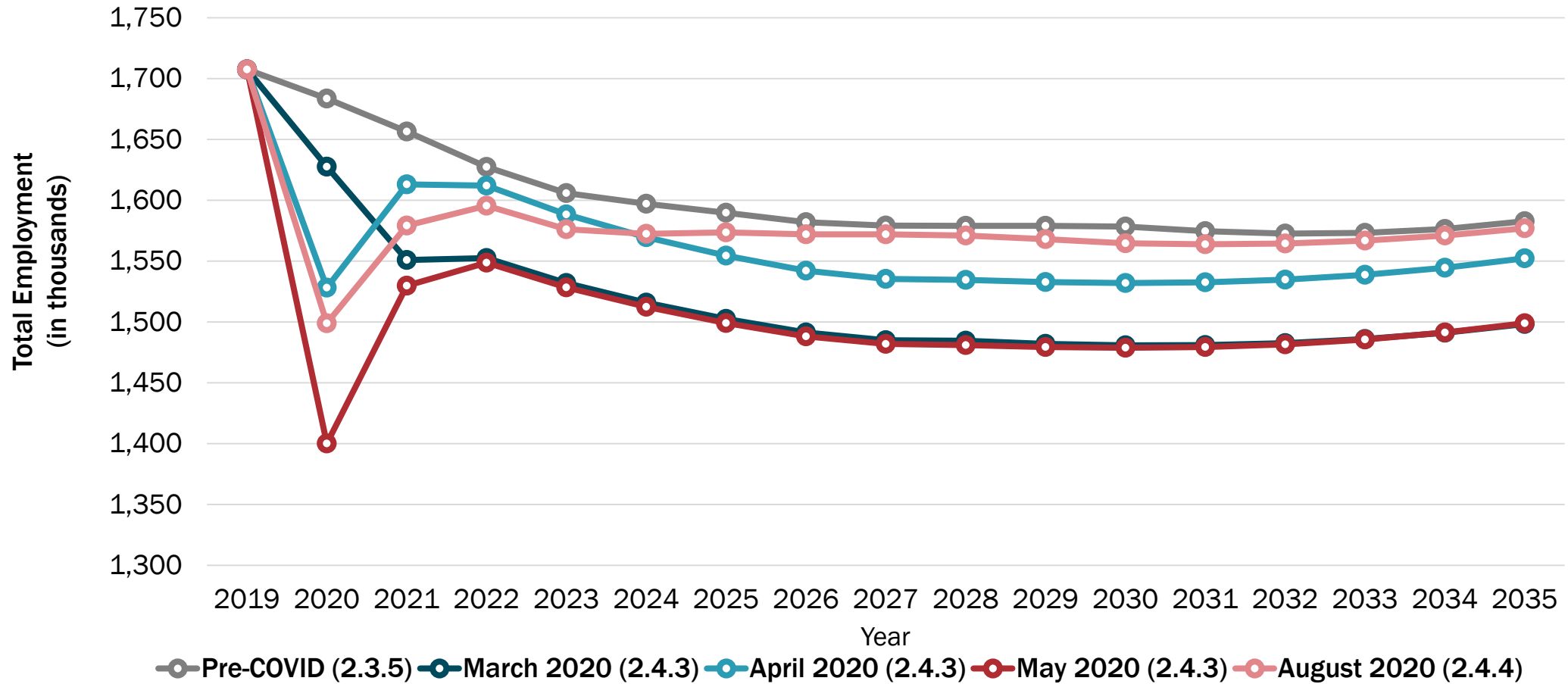


Industry Recovery Forecast

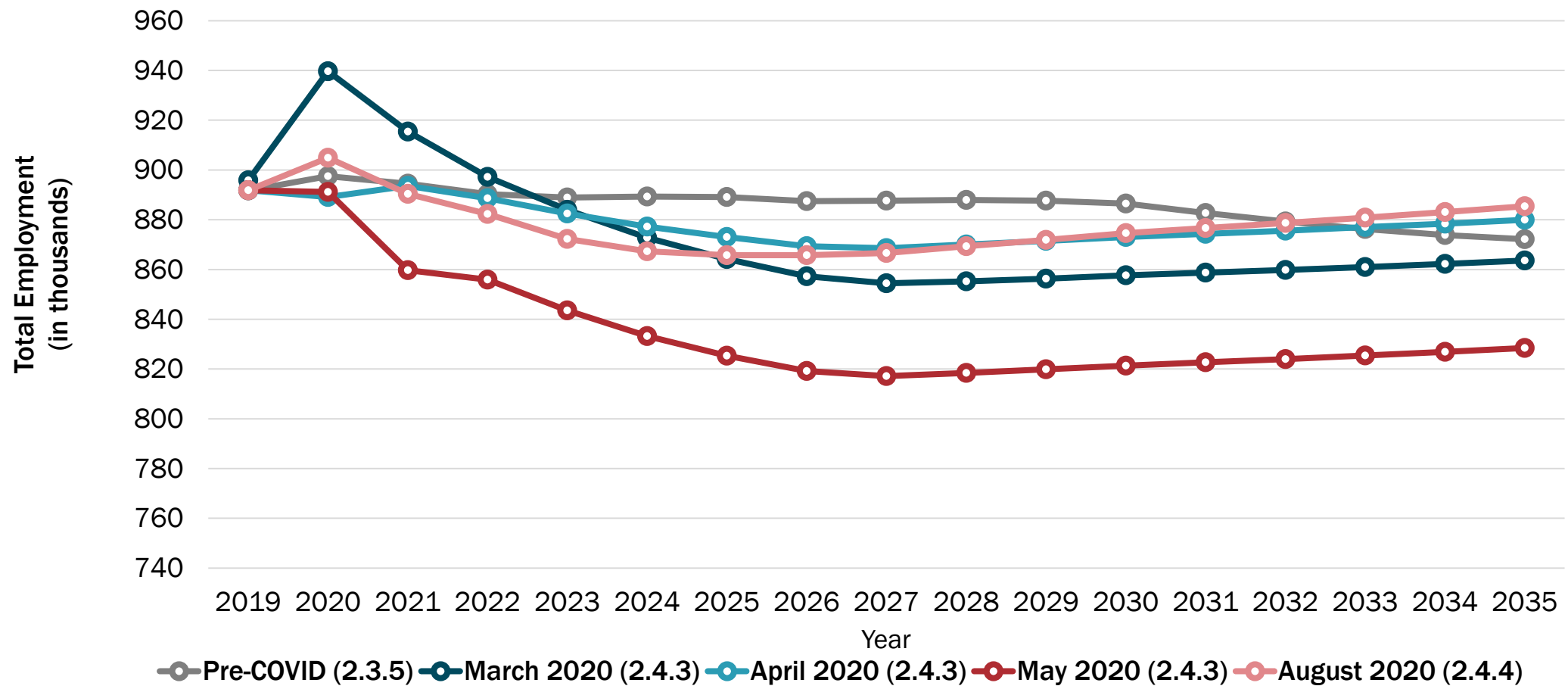
Selected sectors and subsectors with the strongest and weakest projected recoveries nationally by 2025



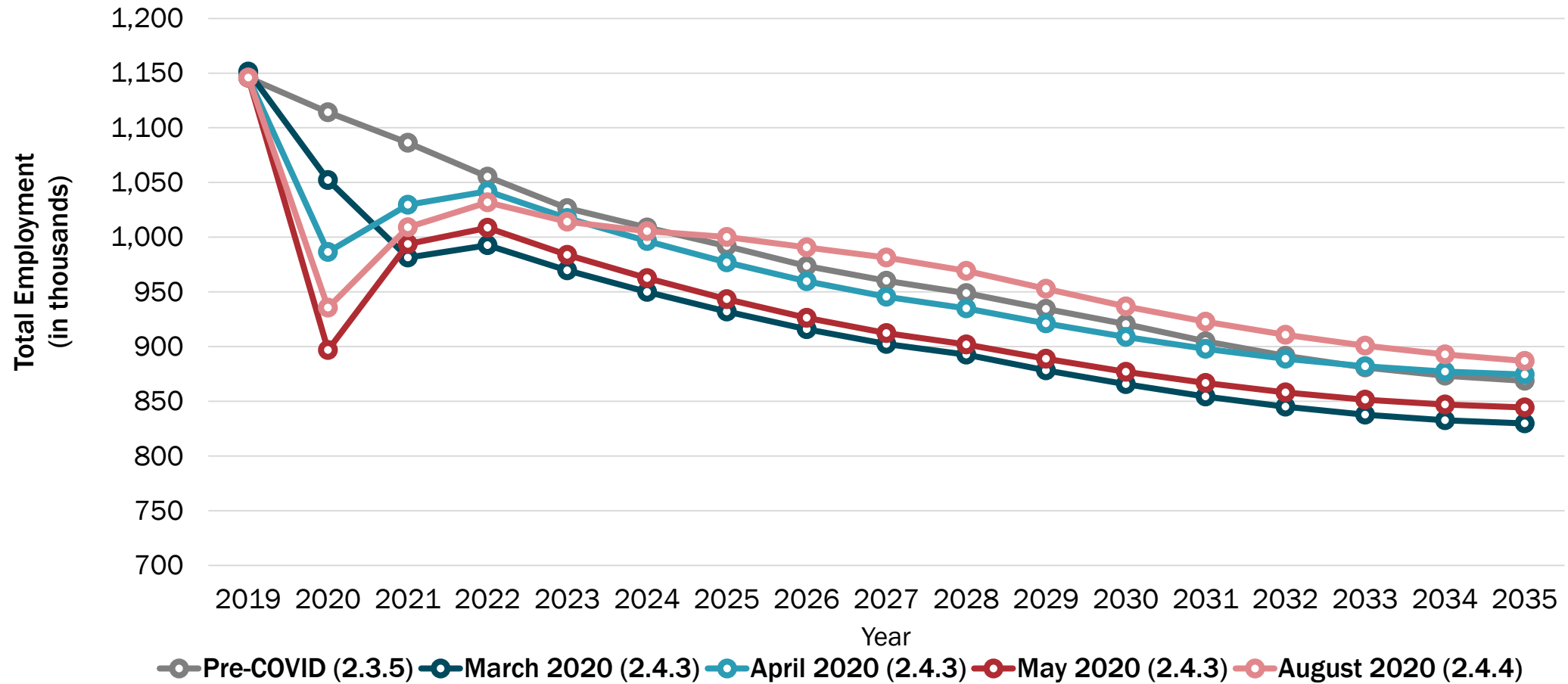
Total Projected National Transportation Equipment Manufacturing Employment



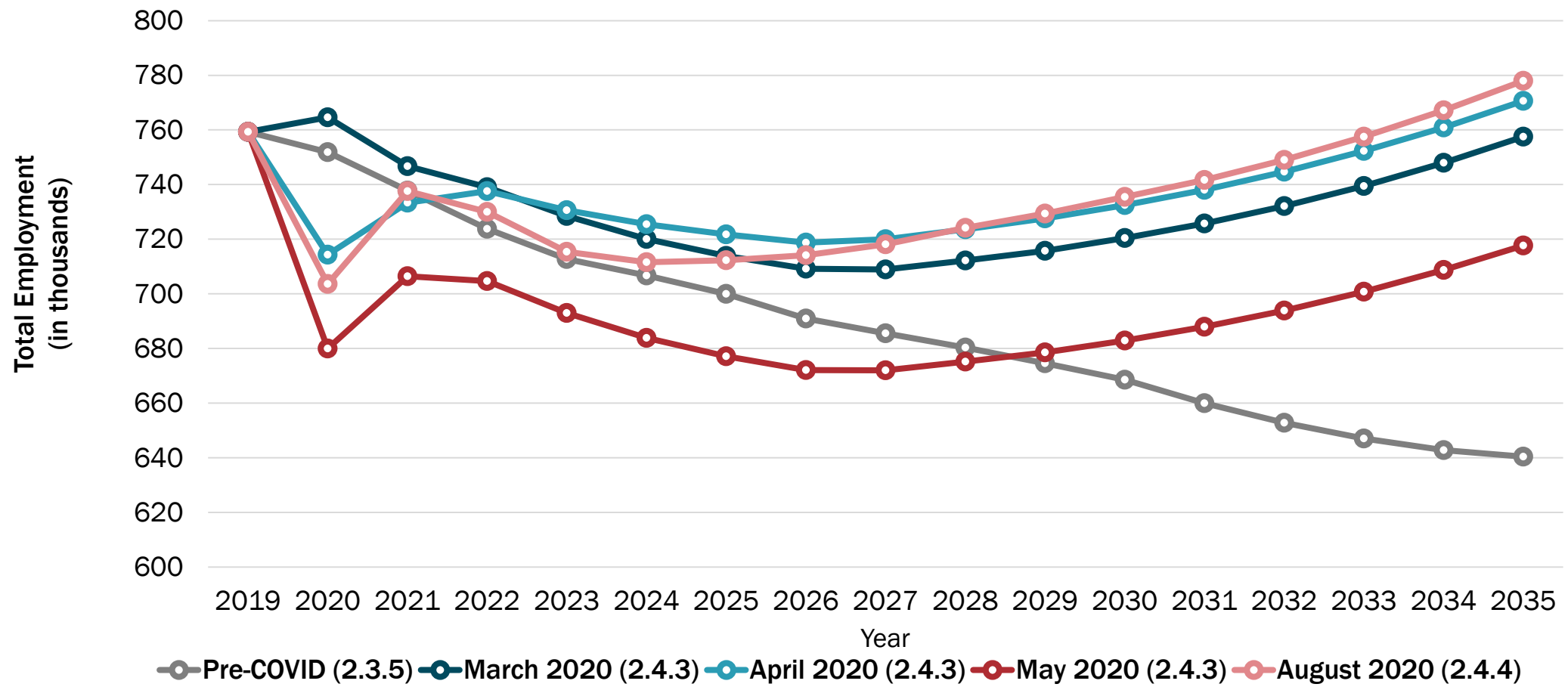
Total Projected National Chemical Manufacturing Employment



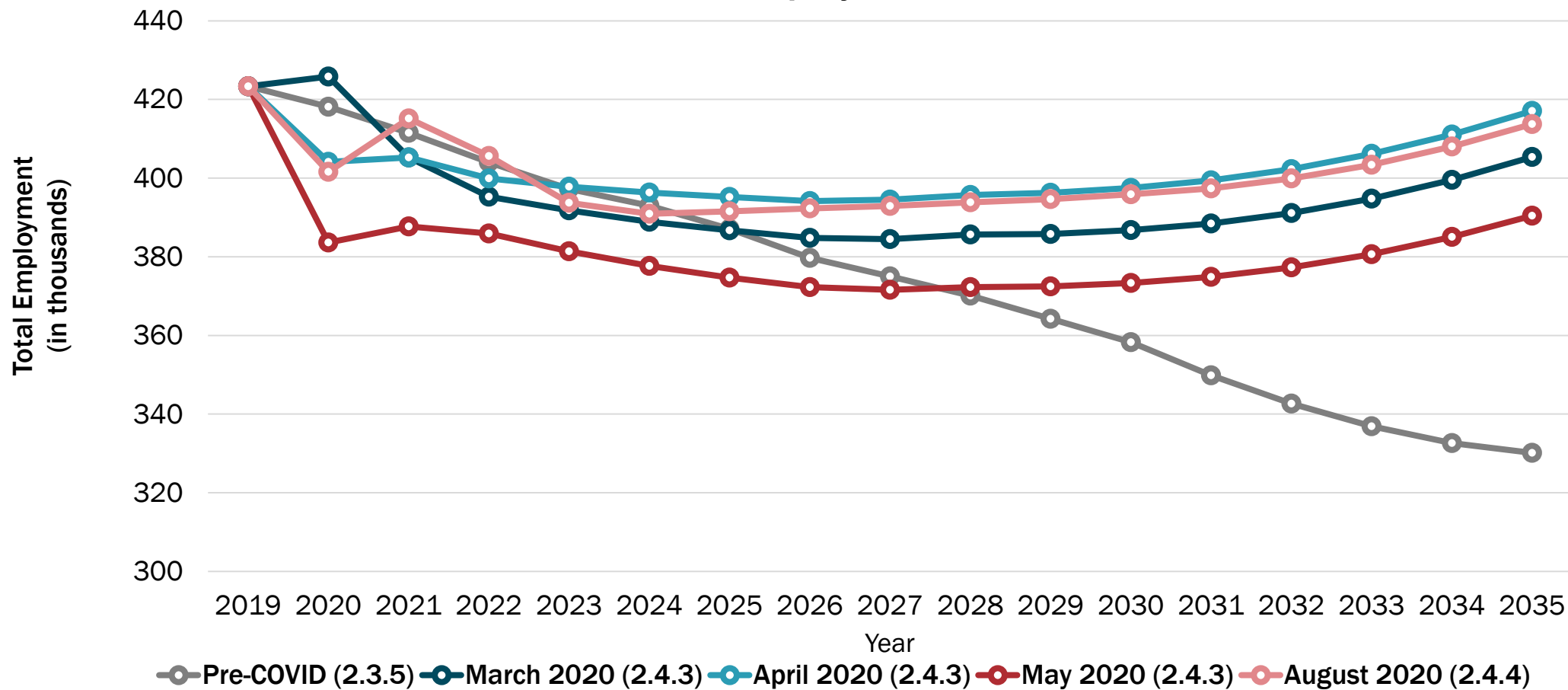
Total Projected National Machinery Manufacturing Employment



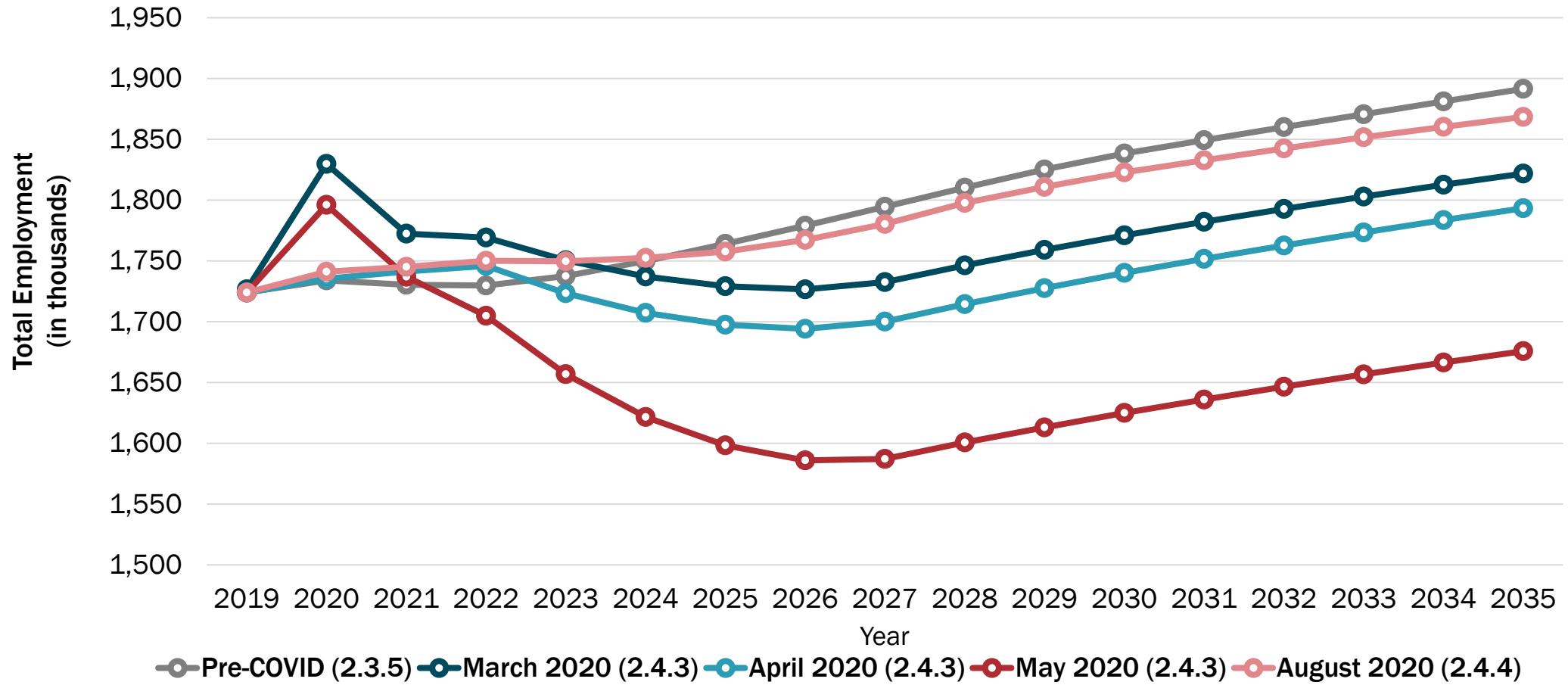
Total Projected National Miscellaneous Manufacturing Employment



Total Projected National Electrical Equipment Manufacturing Employment



Total Projected National Food Manufacturing Employment

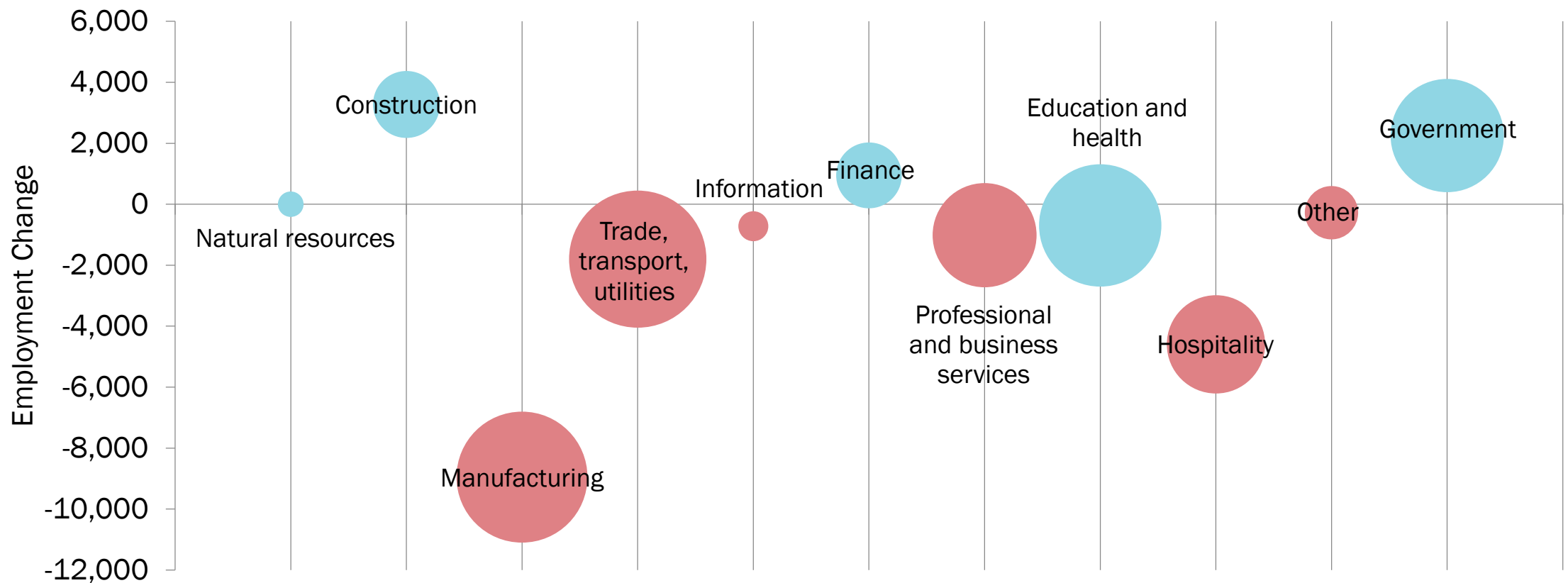


State Conditions

Indiana

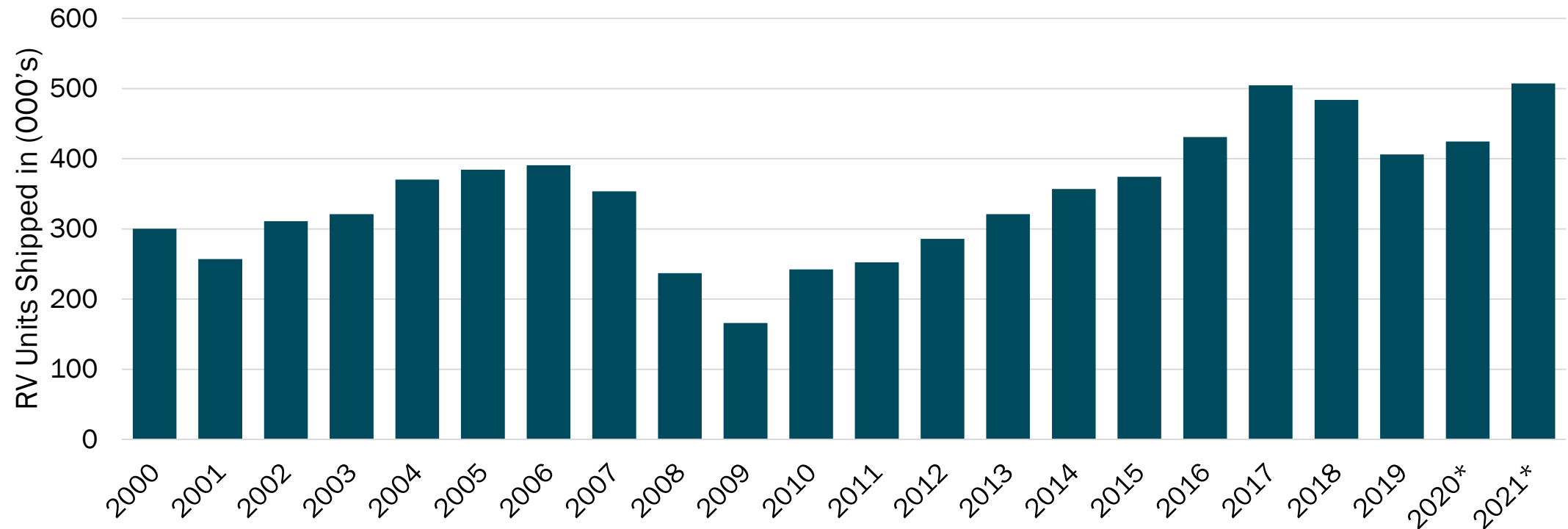
Construction and Government added the most jobs last year in the state of Indiana

State of Indiana Employment Change, Q1 2019 to Q1 2020



RV unit shipments are showing a recent increase

Total RV Unit Shipments



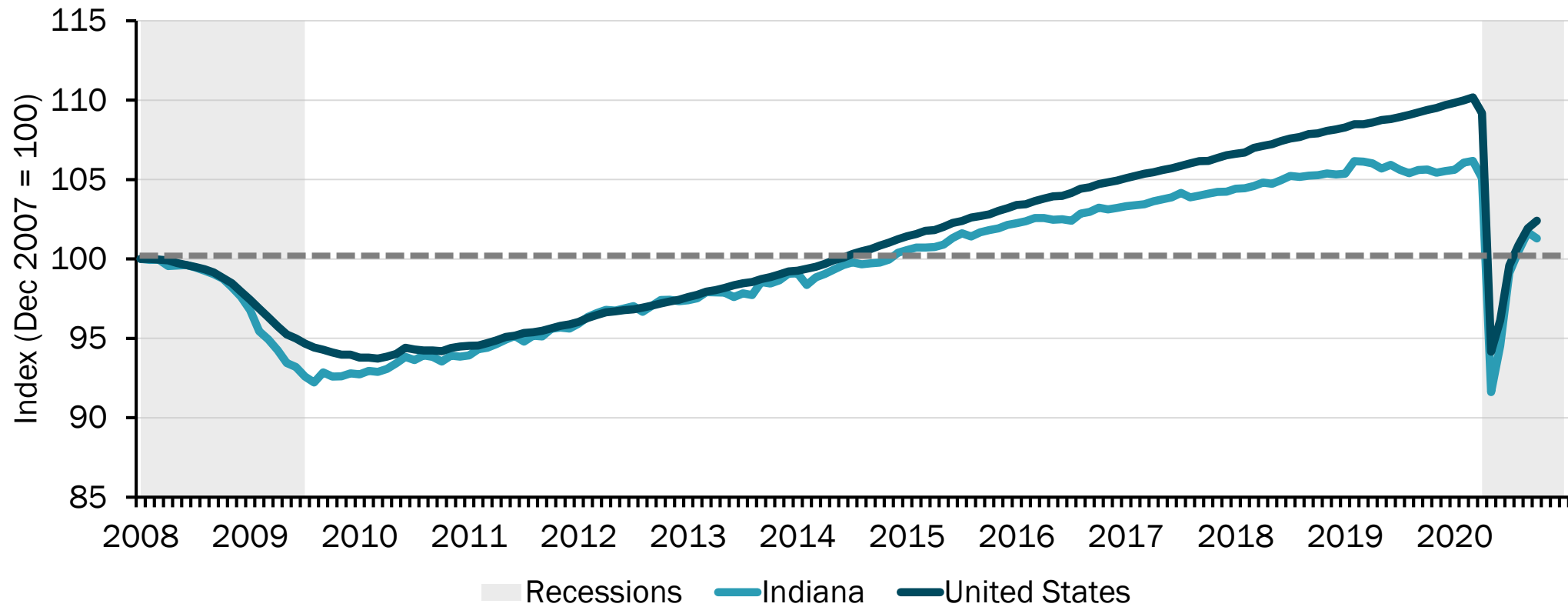
*Projected

Exports matter to Indiana

Industry	Total	China	Canada	Mexico	EU
TOTAL	\$39,282,727,412	5.1%	33.7%	14.4%	23.2%
Transportation equipment	\$12,485,122,696	1.8%	58.4%	14.1%	13.0%
Chemicals	\$9,056,435,916	8.1%	8.1%	3.9%	43.6%
Machinery	\$4,735,239,253	4.1%	21.2%	42.1%	12.6%
Miscellaneous manufactures	\$2,676,732,300	9.0%	12.1%	1.6%	48.2%
Computer and electronic products	\$1,683,603,575	6.9%	27.0%	8.8%	28.5%
Electrical equipment	\$1,599,021,936	7.7%	20.2%	14.6%	15.9%
Food manufacturing	\$1,415,601,545	9.4%	31.9%	14.5%	4.5%

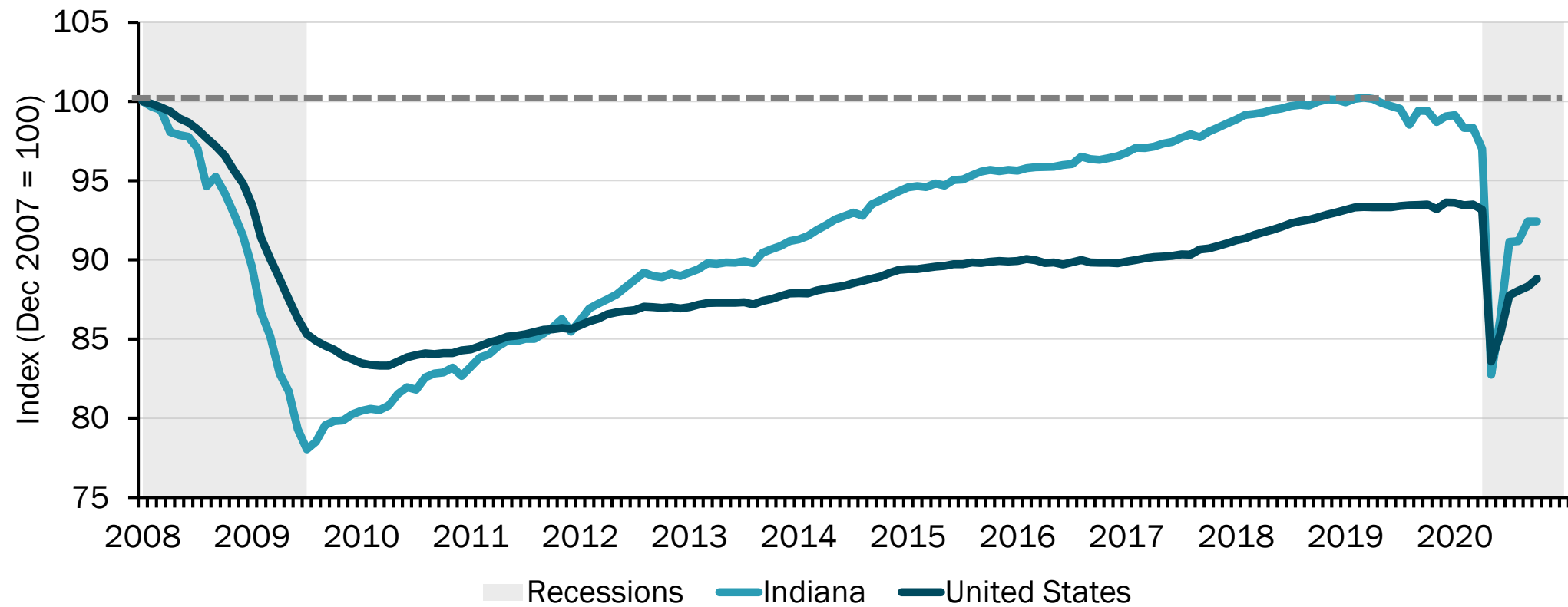
Indiana has followed the national trend in the recovery of jobs displaced in the Covid-19 recession

Total Employment Index



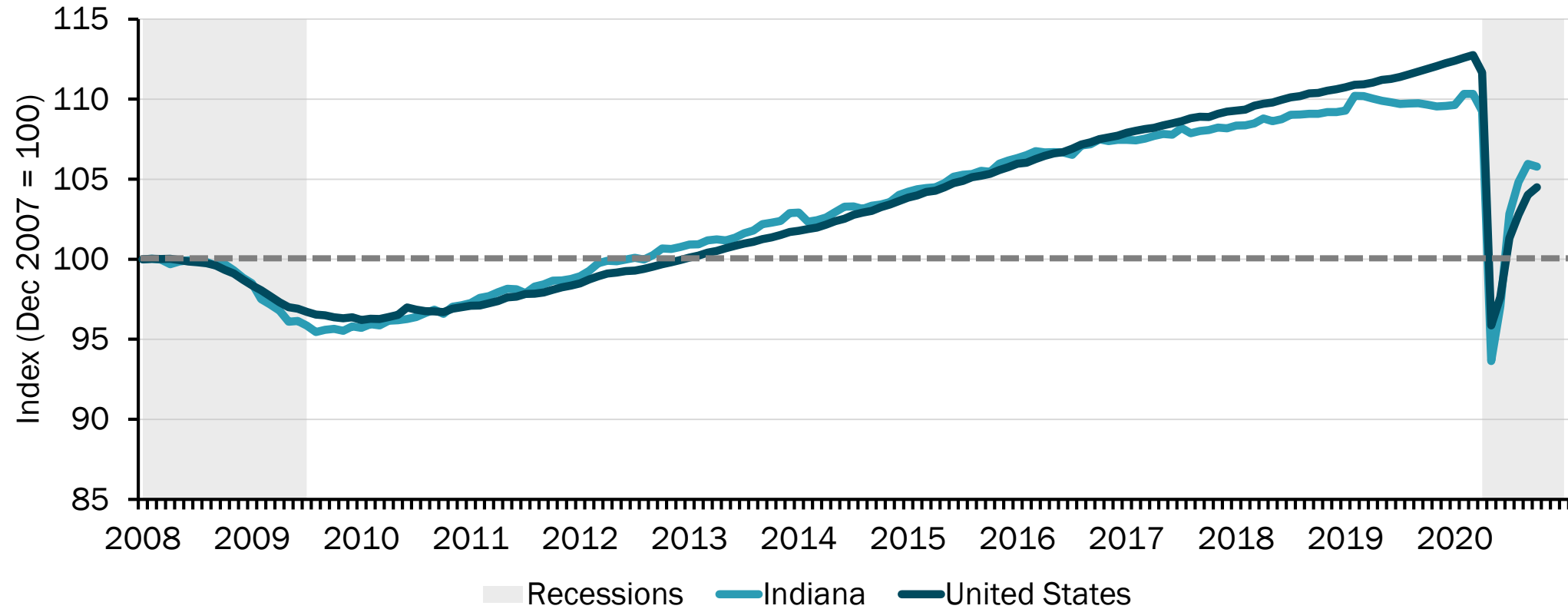
The manufacturing sector in Indiana is rebounding more strongly than the nation

Manufacturing Employment Index



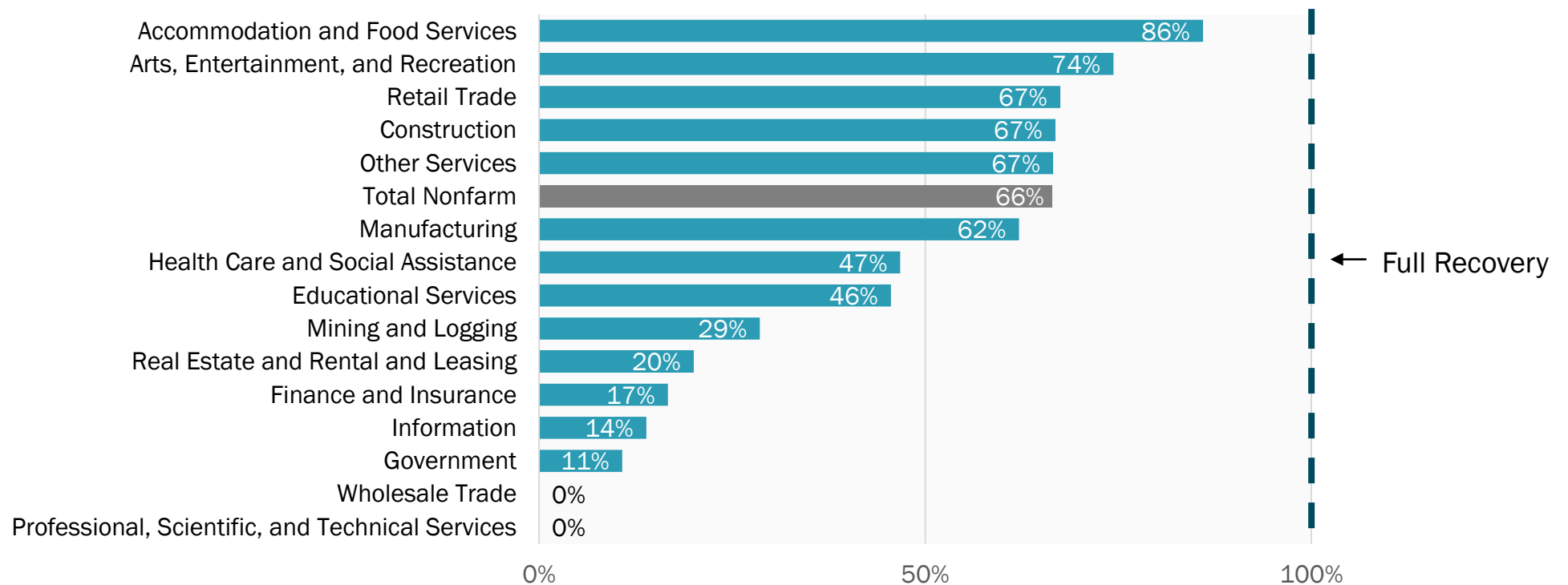
The service sector in Indiana is rebounding quickly

Service Providing Employment Index



Many industries have yet to fully recover their employment losses

Percent of jobs regained by September 2020 following employment losses beginning in March in Indiana by major industry sector

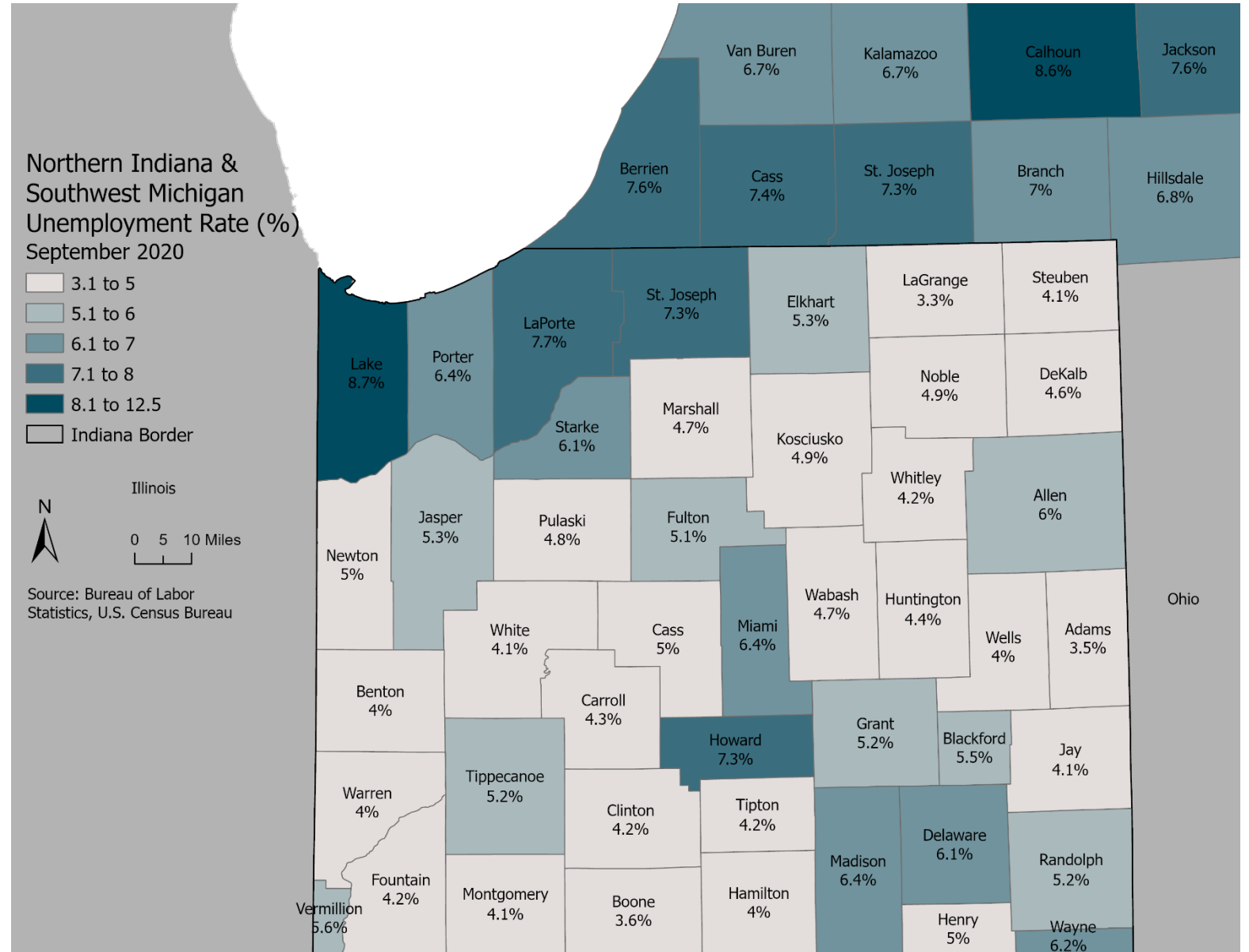


Regional Conditions

Northcentral Indiana

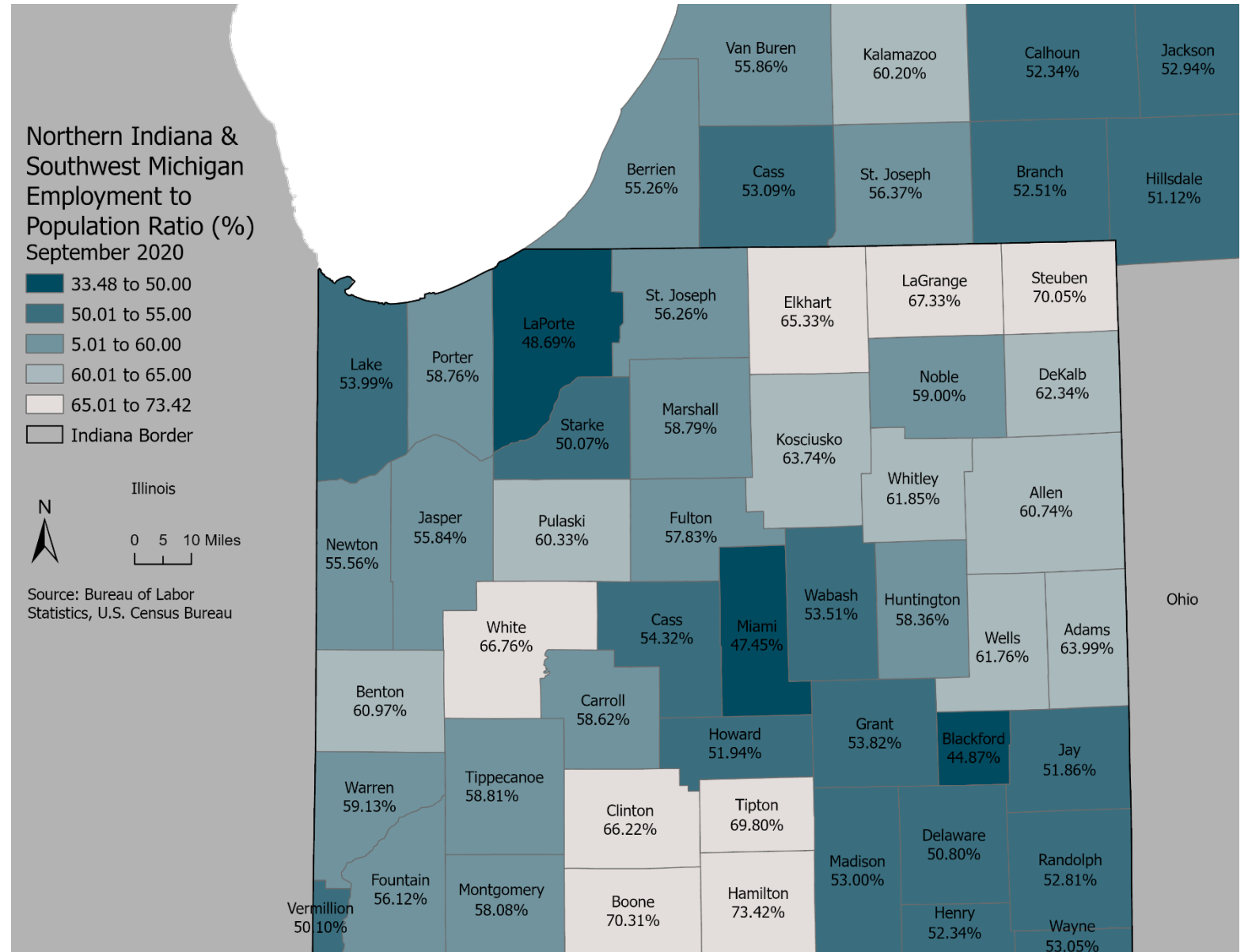
Unemployment Rate September 2020

- Michigan is at 8.5%
- Indiana is at 6.2%
- The United States is at 7.9%



Employment to Population Ratio September 2020

- Michigan is at 54.9%
- Indiana is at 58.4%
- The United States is at 56.7%

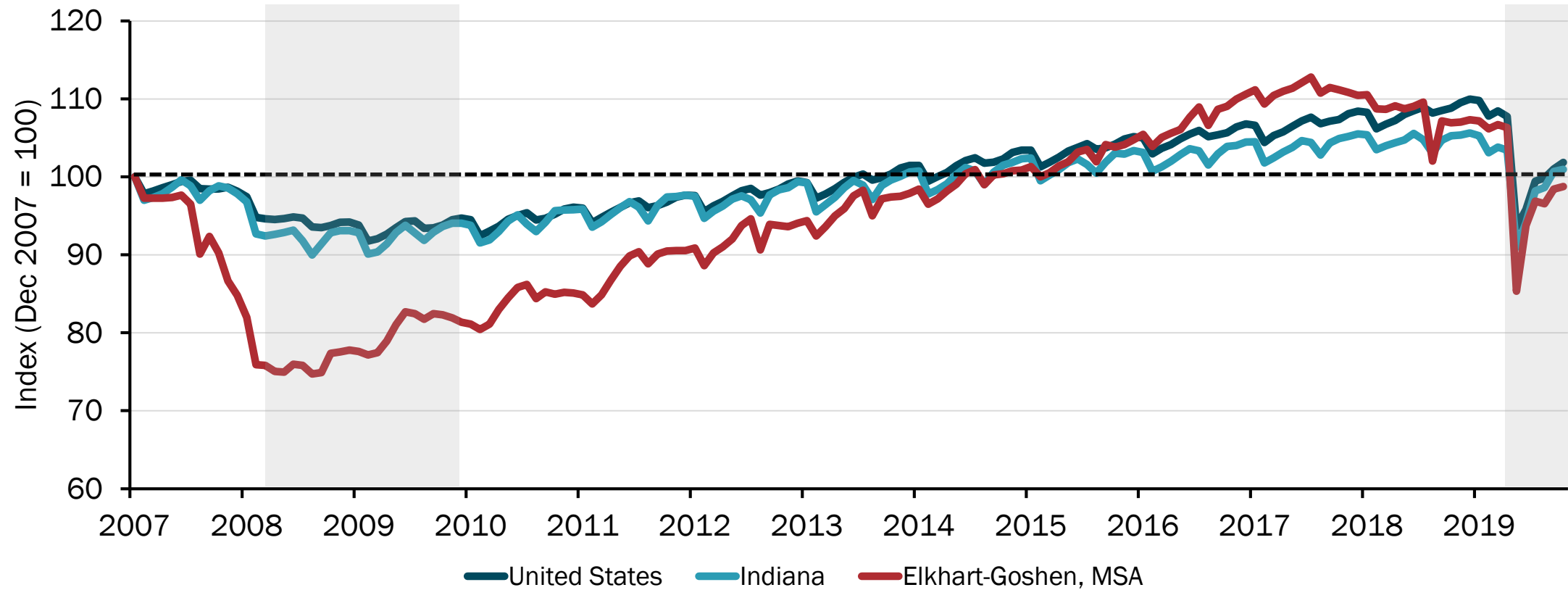


Metro Conditions

Elkhart-Goshen MSA

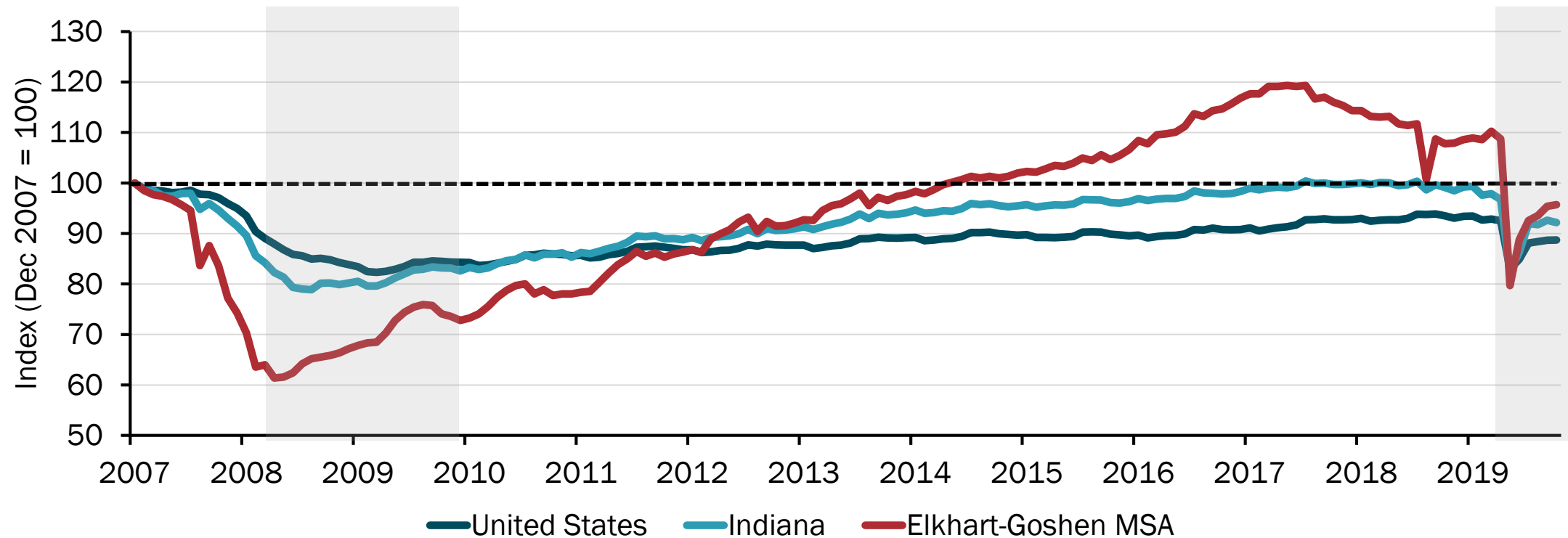
The Elkhart-Goshen MSA is making a strong recovery post-lockdown

Total Employment Index



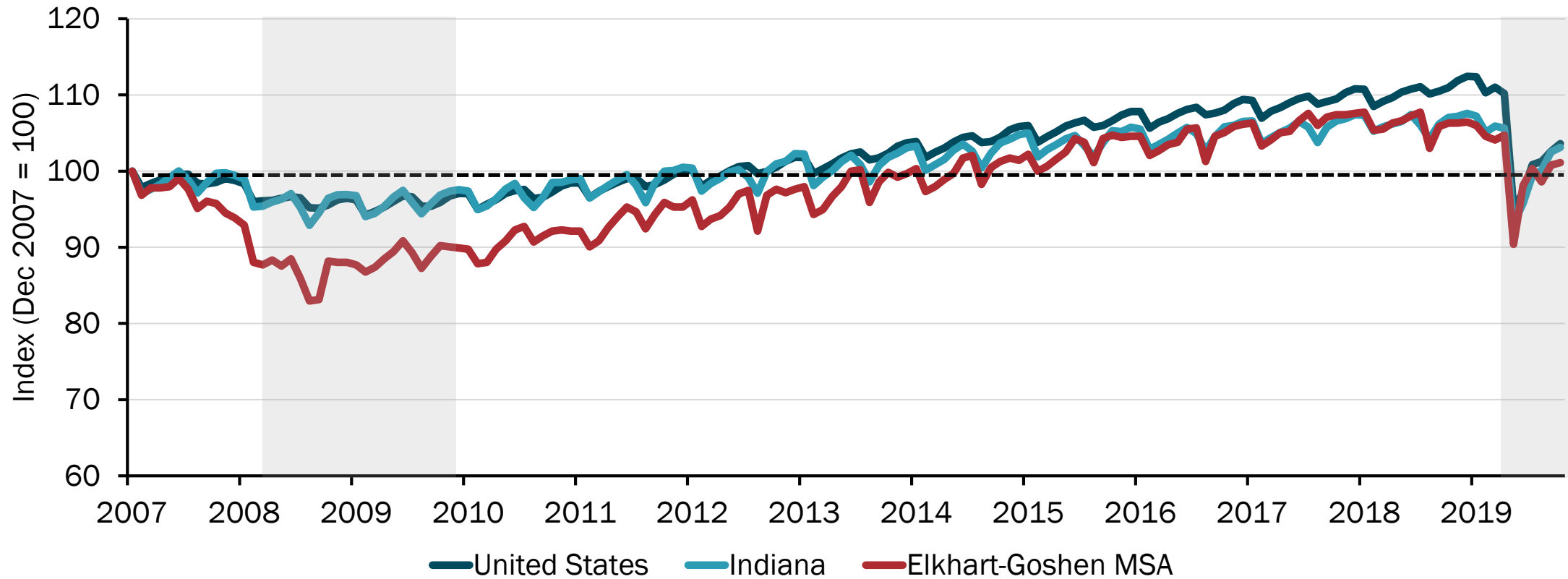
The manufacturing employment rebound in the Elkhart-Goshen MSA has exceeded that of the state and nation

Manufacturing Employment Index



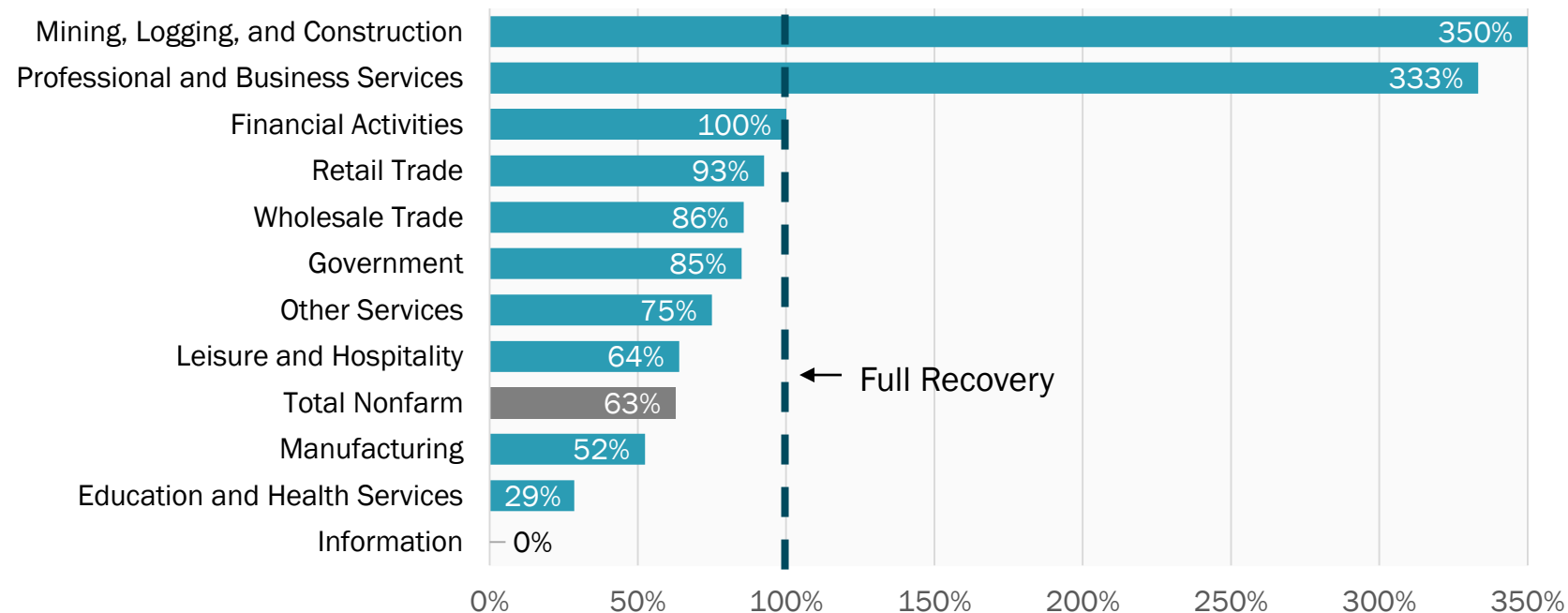
Service employment growth is improving in the Elkhart-Goshen MSA...

Services Employment Index



Some industries have grown quite a lot in the past few months

Percent of jobs regained* by September 2020 following employment losses beginning in March in the Elkhart-Goshen MSA by major industry



Percent of jobs regained* by September 2020

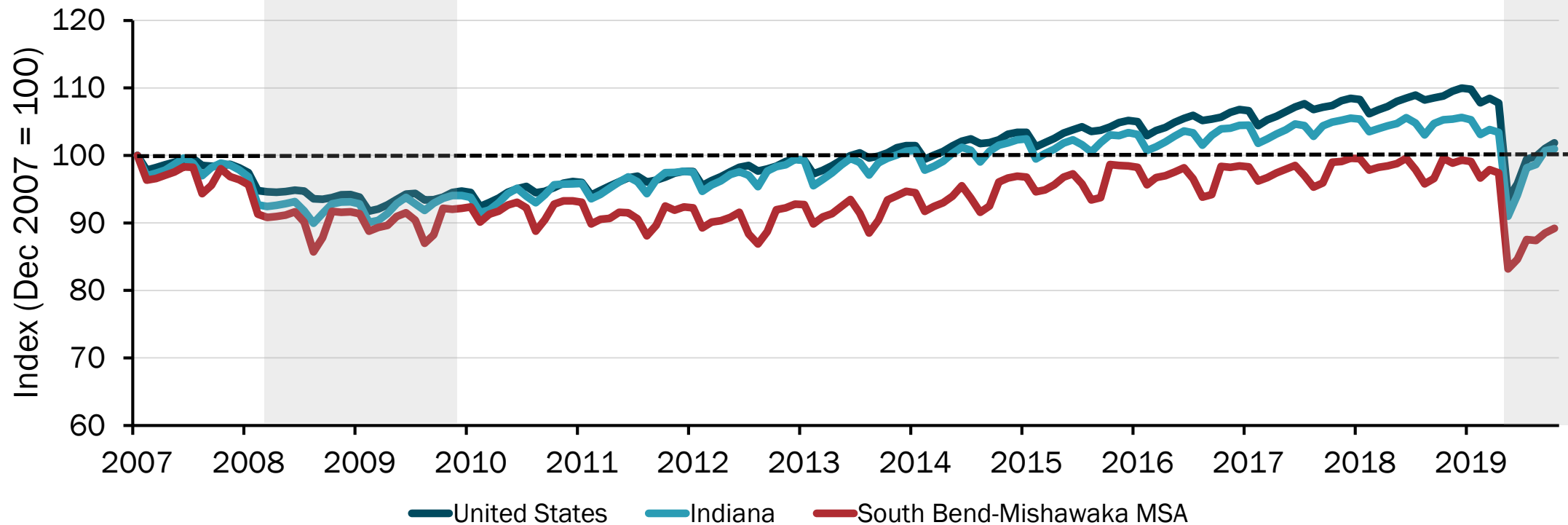
*Data are not seasonally adjusted

Metro Conditions

South Bend-Mishawaka MSA

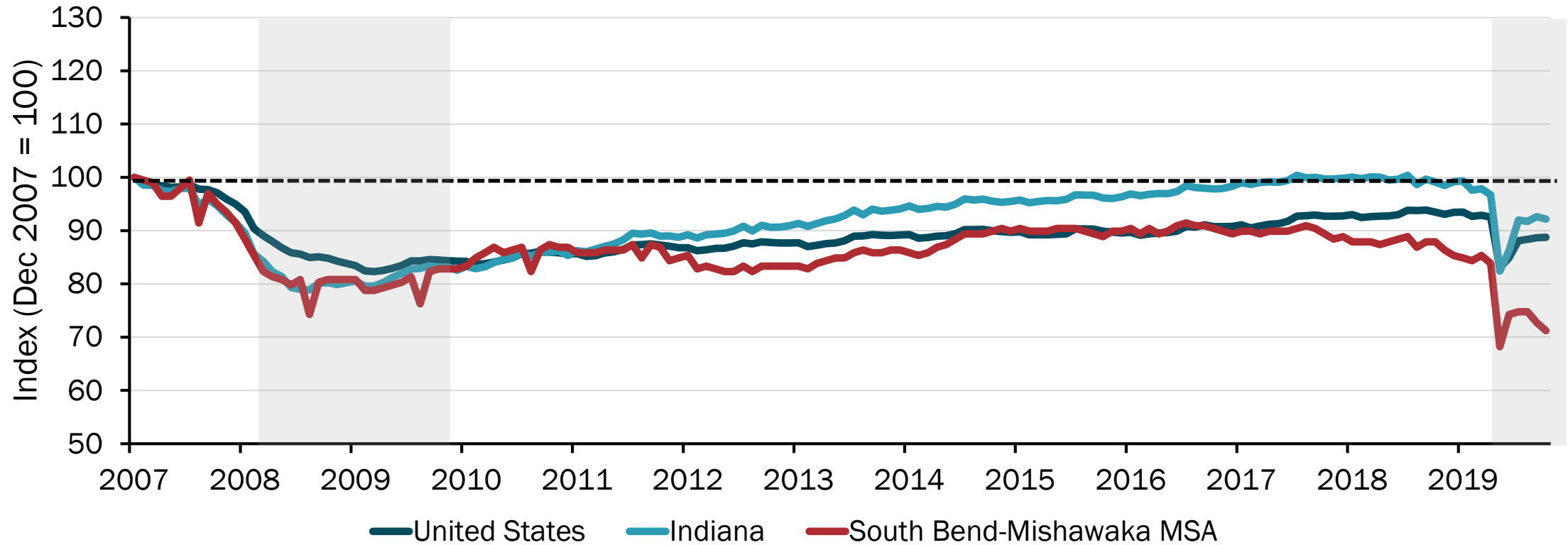
The South Bend-Mishawaka MSA has only recently reached prerecession employment levels and is experiencing a slow recovery

Total Employment Index

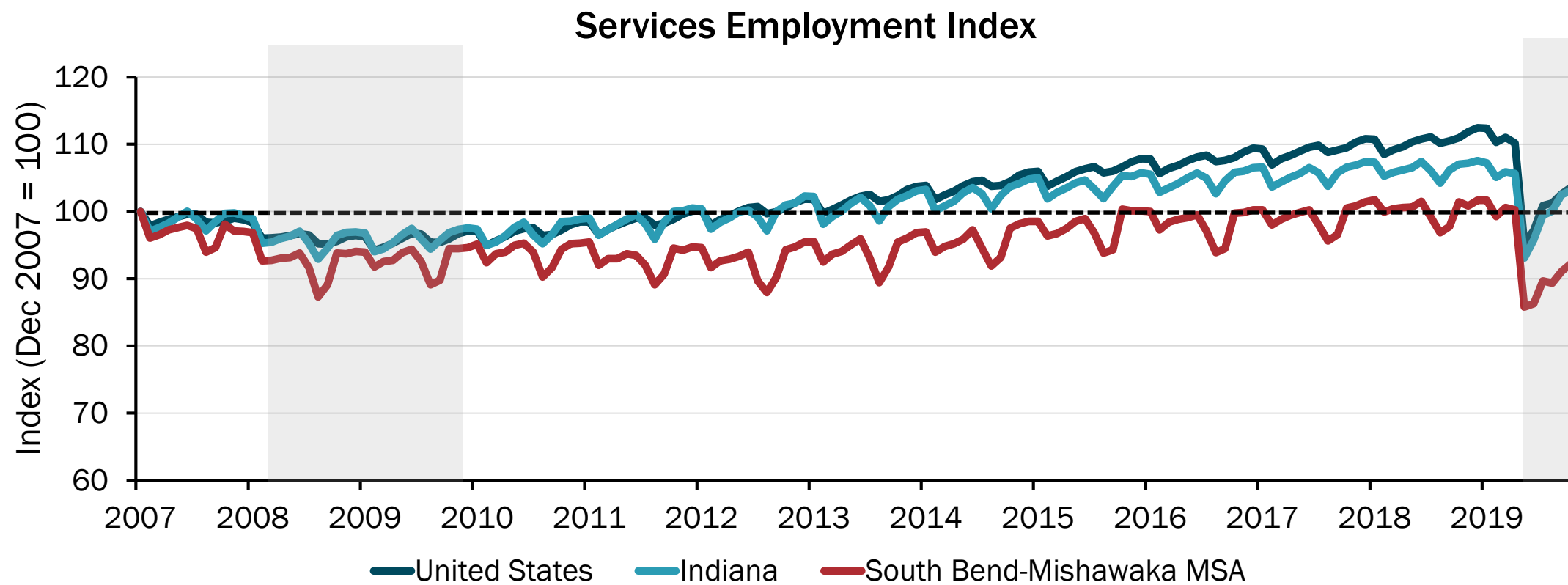


Manufacturing employment in the South Bend-Mishawaka MSA is struggling to recover

Manufacturing Employment Index

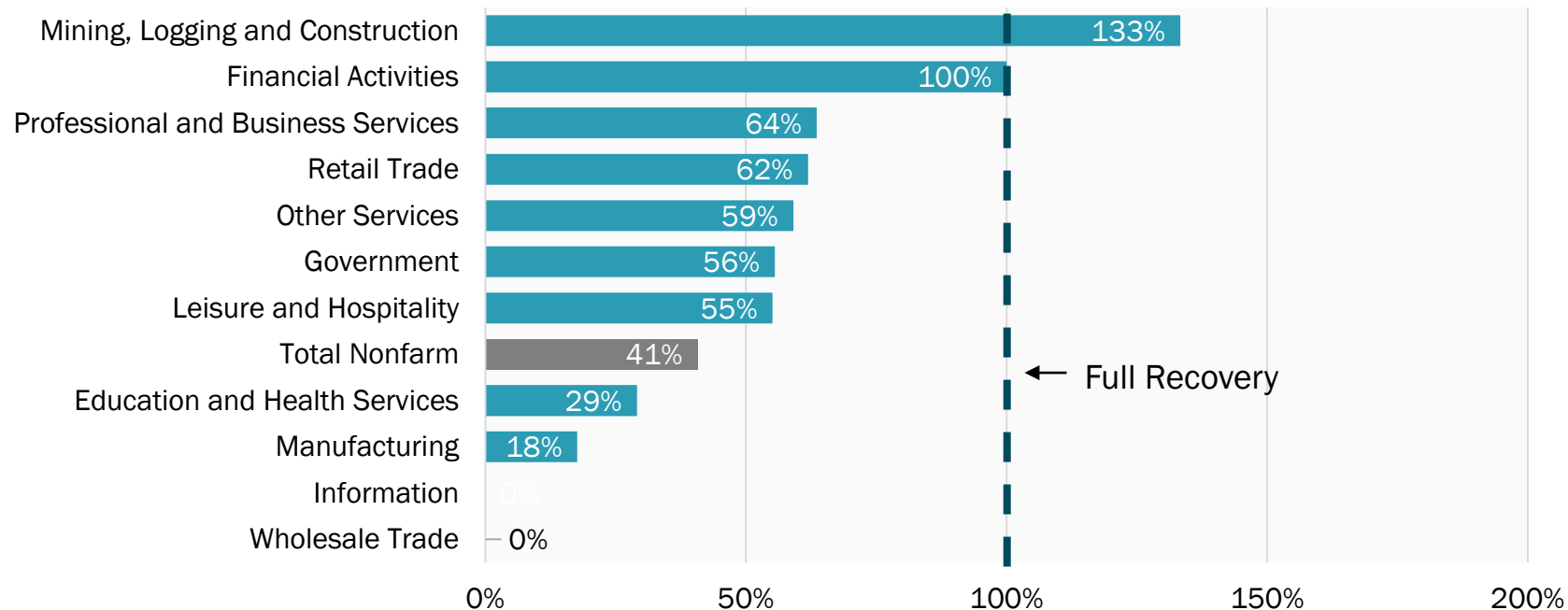


Service employment recovery has been below the State and Nation in the South Bend-Mishawaka MSA...



Many industries have yet to fully recover

Percent of jobs regained* by September 2020 following employment losses beginning in March in the South Bend-Mishawaka MSA by major industry



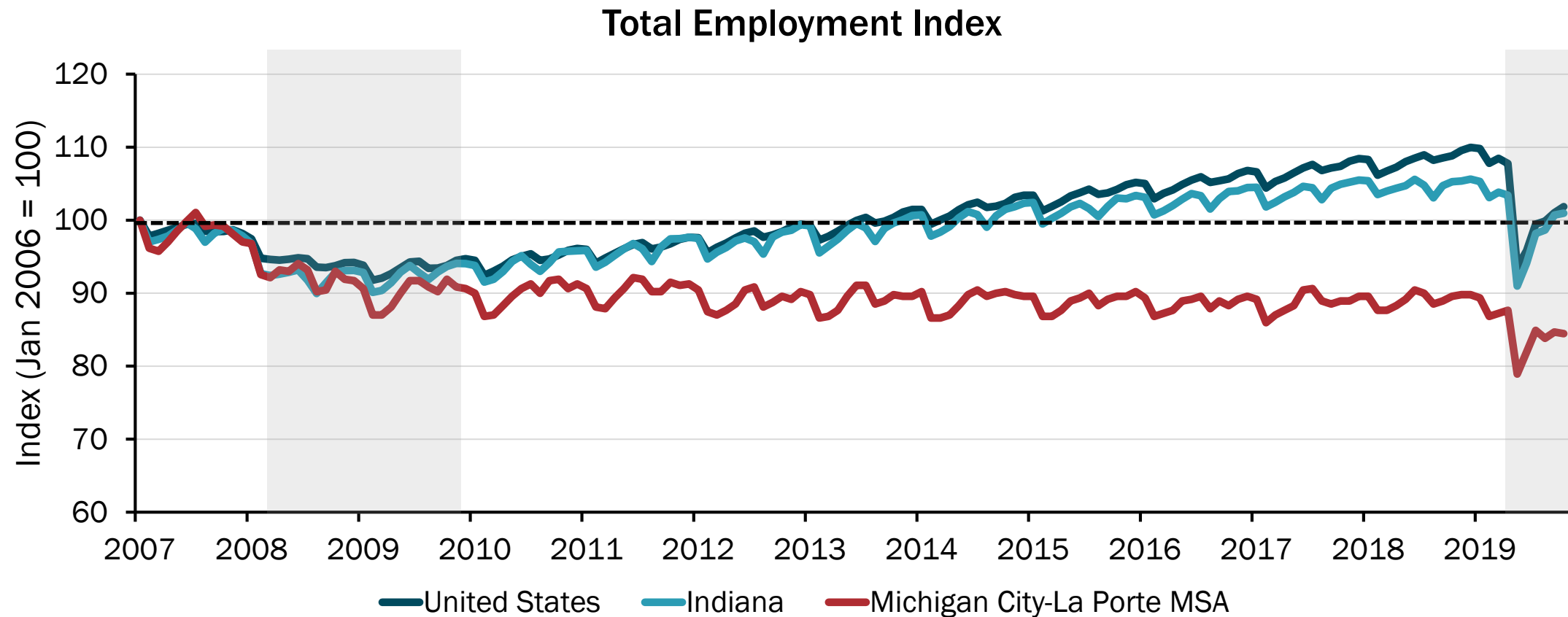
Percent of jobs regained* by September 2020

*Data not seasonally adjusted

Metro Conditions

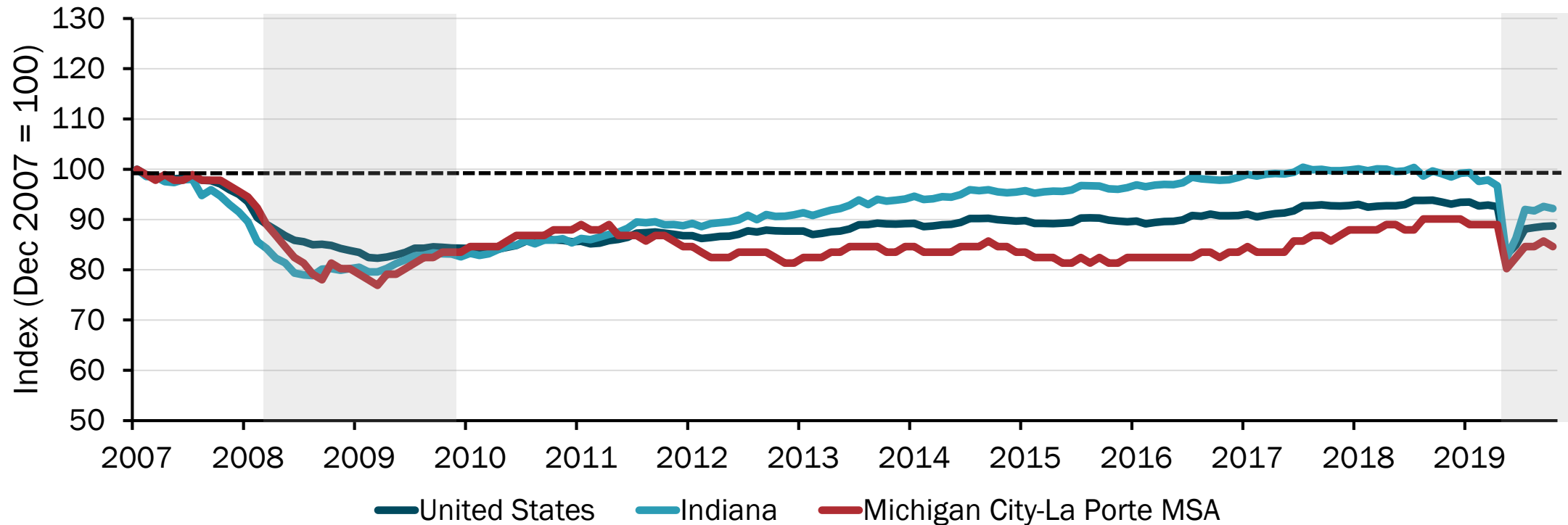
Michigan City-La Porte MSA

The Michigan City-La Porte MSA has continued to see its employment stable but below 2007...



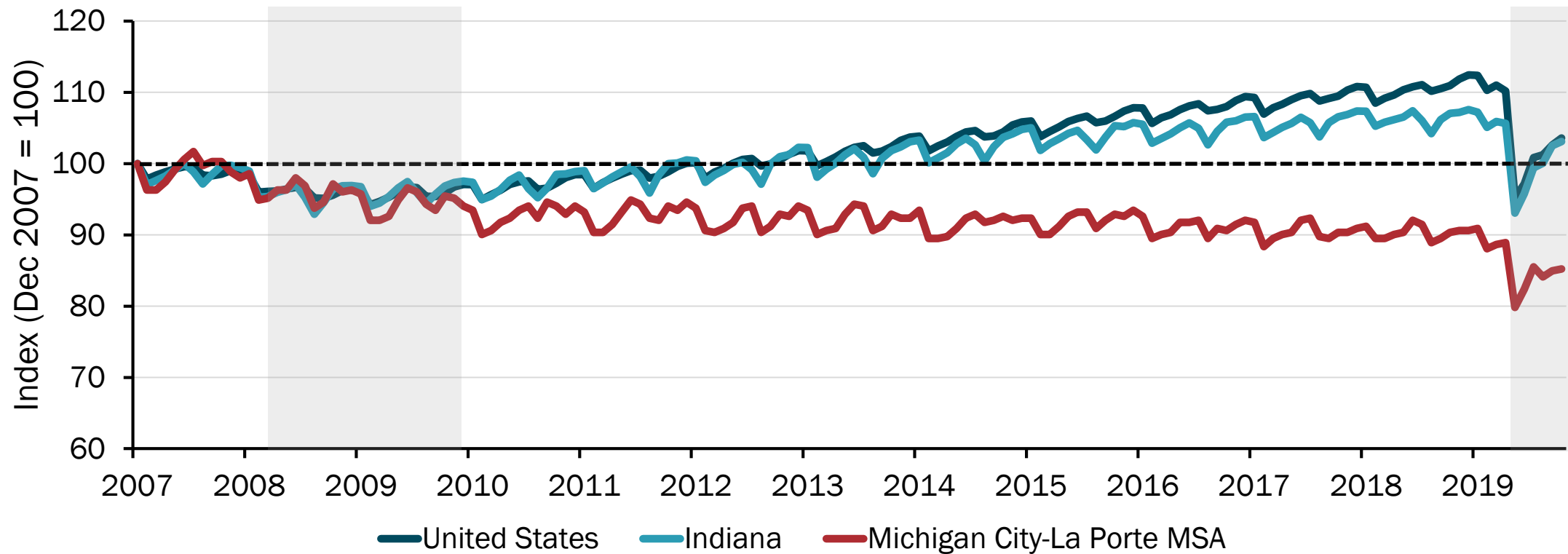
Manufacturing employment in the Michigan City-La Porte MSA has remained relatively steady and is recently trending upward

Manufacturing Employment Index



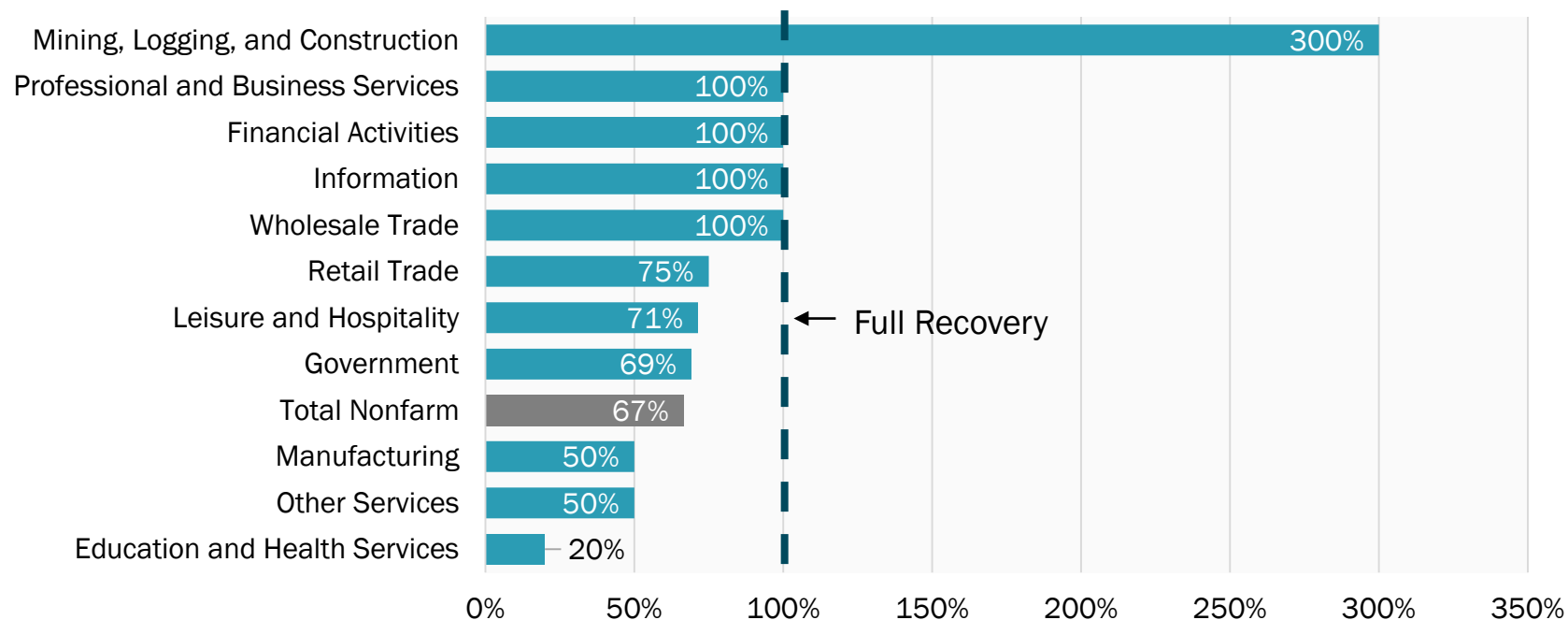
Employment in Services in the Michigan City-La Porte MSA has continued to decline

Services Employment Index



There has been a strong recovery for many industries

Percent of jobs regained* by September 2020 following employment losses beginning in March in the Michigan City-La Porte MSA by major industry

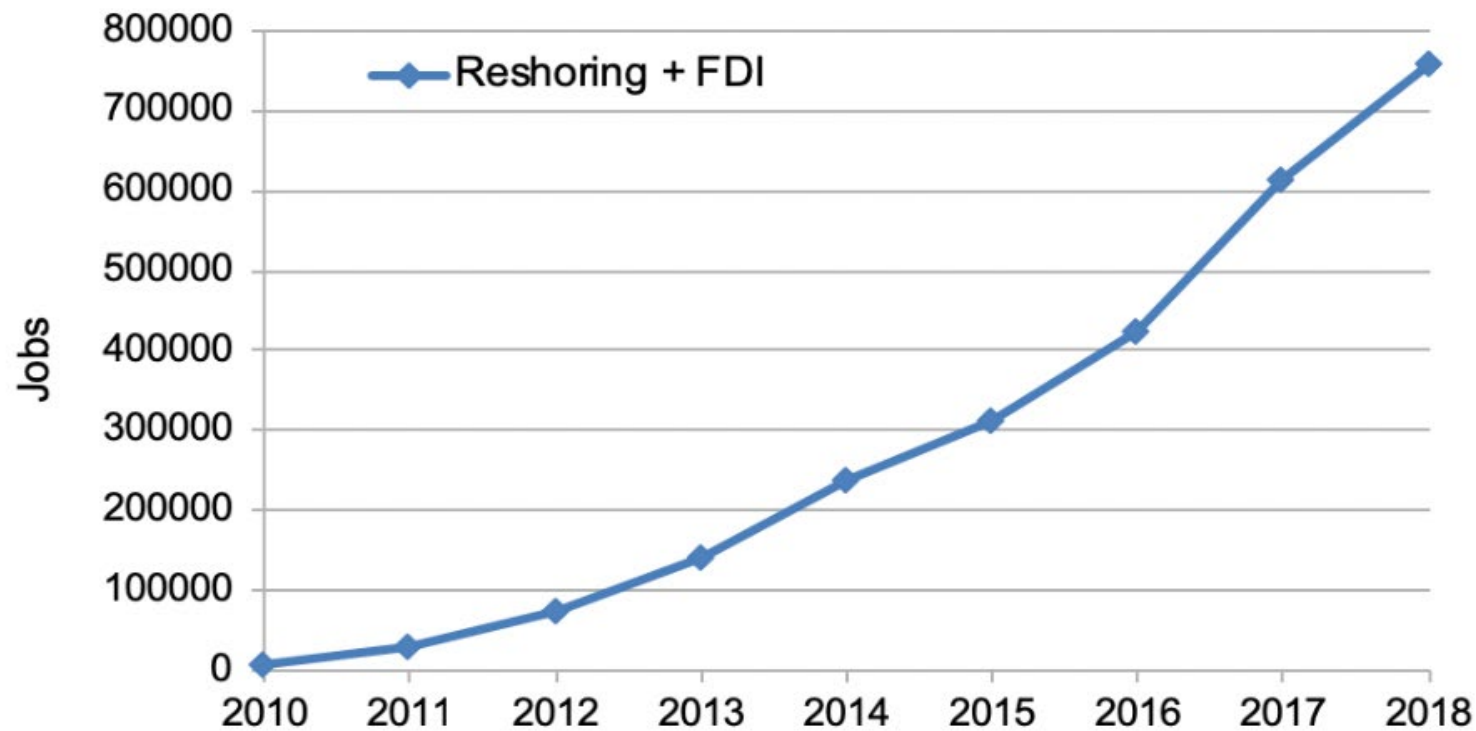


Percent of jobs regained* by September 2020

*Data not seasonally adjusted

Reshoring: What We Are Watching

Reshoring, the relocation of production processes that had been offshored back to the home country, has accelerated over the past decade



Reshoring primarily results in jobs for higher-skilled workers whose labor complements the increased automation within production facilities

- A lack of high-skilled workers may serve as a disincentive for firms to reshore.



Several public policies such as the Tax Cuts and Jobs Act, tariffs on goods from China, and state and local tax incentives are encouraging firms to reshore



There are likely more unknowns than knowns as to why some firms choose to reshore

- The miscalculation and underestimation of the full costs of offshoring
- Increasing costs in developing countries
- A need to balance cost savings and risk
- Benefits to the production process:
 - Improved product quality
 - Locate near R&D
 - Increased flexibility of production
- Proximity to markets
- Growing digitalization and automation in manufacturing
- Branding: Made in America



Some caveats to the return of the economy and jobs

- There are likely structural changes to new investment
 - Fewer jobs coming back
 - Increased levels of automation
 - Increased demands of higher skill levels of workers
- There is some question of how firms will make location decisions
 - We have assumed agglomeration economies would be an attraction factor
 - In a Post-COVID-19/recovering place, will firms and people seek lower density places?
- Will there be trade-offs?
 - Will some domestic production be moved offshore?
 - How will politics affect the decisions?
- Changes in supply and demand



Moving Forward

Considerations for the Economy

- The shape of the recovery curve?
- Is there another stimulus on way?
 - How large
 - Affected groups, industries, and sectors
- What will be the impact of a second wave?
- Supply versus demand?
 - How have and will SMEs fare?
- Is re-shoring real?
 - Supply chain issues
- How will technology impact employment?
- Will people go back to work?
 - Fear of illness
 - Barriers, notably childcare, in returning
 - Uncertainty around unemployment benefits

Regional Email Updates

- Are you interested in keeping up to date on the Regional Team's latest projects, reports, literature reviews, and data/analysis?
 - Sign up for the Regional Team's email list to receive alerts and updates on our latest work.
 - To subscribe to our email list, contact Emily Boyle at boyle@upjohn.org.

Questions?

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