incontext

INDIANA'S WORKFORCE AND ECONOMY

JULY 2005

inside

Indiana's Manufacturing Advantage

With General Motors Corp. announcing that it will cut 25,000 jobs, many Hoosiers are concerned about the impact on our state. Local leaders tend to be optimistic about the prospects for their individual communities because GM has made significant investments in local plants in recent years. At this point, however, for anyone outside GM, the information the company will use to make its final determination of plant reductions or closings is not available.

We may gain a better understanding from what has been happening to employment in Indiana and the United States over the past 10 years. With data for May 1995 and 2005, we can see how Indiana has tracked with, or differed from, the nation.

In 1995, Indiana had 2.4 percent of the nation's nonfarm employment; by 2005, this figure had fallen to 2.2 percent (see **Figure 1**). Manufacturing was, and still is, where Indiana is most differentiated from the nation. In 1995, the Hoosier state had 3.8 percent of U.S. manufacturing jobs, compared to just over 4 percent in 2005. Only Indiana's manufacturing and miscellaneous sectors saw an increase in Indiana's share of U.S. employment.

Ten years ago, the largest sector in Indiana was manufacturing with 651,400 jobs—79,900 above trade,

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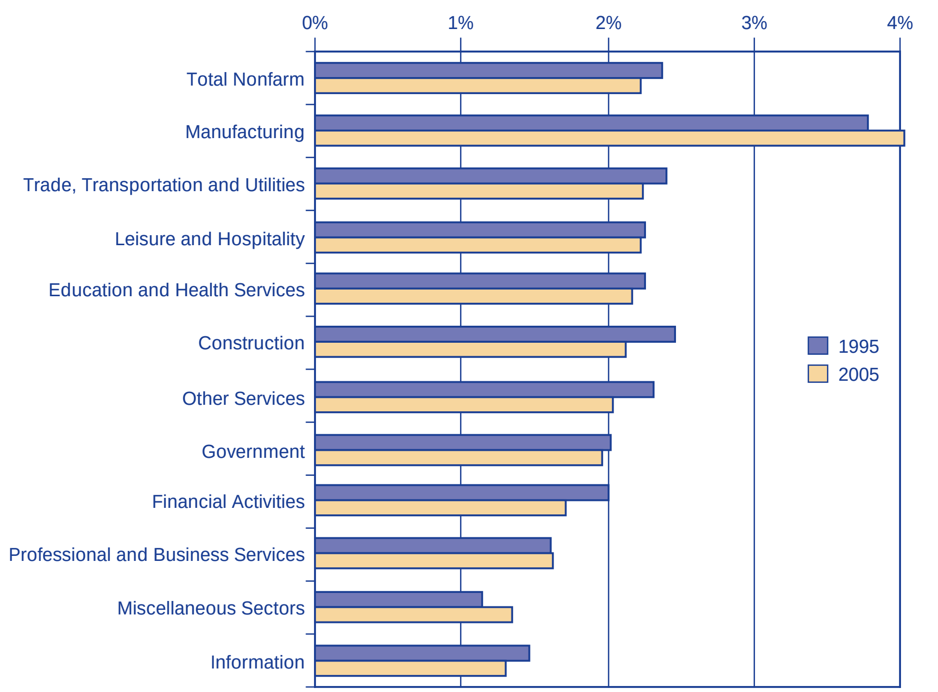
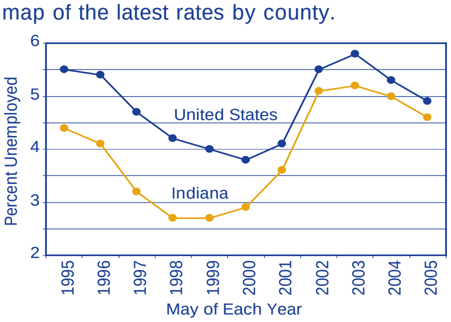
FIGURE 1: **INDIANA'S SHARE OF U.S. EMPLOYMENT,* 1995 AND 2005**



*Seasonally adjusted
Source: IBRC, using Current Employment Statistics

Unemployment: May 2005

Indiana's unemployment rate for May was 4.6, compared to 5 percent for the same month last year.* Visit www.incontext.indiana.edu for a map of the latest rates by county.



*Not seasonally adjusted

Manufacturing Powerhouses

Average Weekly Manufacturing Wages over $1,000

Rank	County	Average Weekly Wage
1	Howard	$1,641
2	Posey	$1,418
3	Porter	$1,358
4	Gibson	$1,345
5	Lake	$1,328
6	Marion	$1,313
7	Vermillion	$1,309
8	Warrick	$1,201
9	Grant	$1,086
10	Tippecanoe	$1,054
11	Fayette	$1,047
12	Perry	$1,038
13	Madison	$1,023
14	Hancock	$1,019
15	Kosciusko	$1,016
16	Bartholomew	$1,009

Source: Indiana Department of Workforce Development, Census of Employment and Wages, 2004:4

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TABLE 1: **U.S. and Indiana Employment,* 1995 and 2005**

Sectors	United States		Indiana	
	May 1995	May 2005	April 1995	April 2005
Total Nonfarm	116,962,000	133,347,000	2,775,900	2,968,600
Manufacturing	17,260,000	14,299,000	651,400	575,300
Trade, Transportation and Utilities	23,779,000	25,824,000	571,500	579,700
Leisure and Hospitality	10,459,000	12,719,000	235,300	283,100
Education and Health Services	13,241,000	17,284,000	299,700	374,300
Construction	5,220,000	7,227,000	128,500	153,400
Other Services	4,555,000	5,468,000	105,400	111,500
Government	19,418,000	21,749,000	392,500	428,500
Financial Activities	6,808,000	8,185,000	137,000	140,700
Professional and Business Services	12,747,000	16,828,000	205,900	272,900
Miscellaneous Sectors	641,000	623,000	7,300	8,400
Information	2,834,000	3,141,000	41,400	40,800

*Seasonally adjusted
Source: IBRC, using Current Employment Statistics

transportation and utilities. Today the positions are reversed. Trade, transportation and utilities are on top with 579,700 jobs—4,400 above manufacturing (see **Table 1**).

During the decade, from 1995 to 2005, manufacturing declined from 23.5 percent of all nonfarm jobs in Indiana to 19.4 percent. **Figure 2** shows how several sectors of the state's economy increased their shares. For example, professional and business services (accountants, attorneys, architects, etc.) increased from 7.4 percent to 9.2 percent of the state's nonfarm jobs. Nationally, manufacturing's share of nonfarm employment went from 14.8 percent to 10.7 percent.

Another way to look at these changes is to ask, "What portion of jobs would have to be shifted to other sectors to obtain identical distributions?" For example, in 1995, 9.1 percent of Indiana jobs would have to have been shifted to other sectors to obtain the same percentage distribution as the United States in that year. In 2005, 8.8 percent of the state's jobs would have to have been changed among the various sectors. This tells us that Indiana's employment structure is moving toward the national pattern.

Between 1995 and 2005, most Indiana sectors did not grow as rapidly as their U.S. counterparts (see **Figure 3**). The differences in growth rates can be converted into jobs. This is the traditional "shift-share analysis," where a state or community is compared with a larger unit (the nation or a state).

First, we calculate the number of jobs Indiana would have gained if it had grown at the national rate (see **Column A** in **Table 2**). This would be Indiana's share of national growth. The actual change in employment is shown in **Column B**. Subtracting the hypothetical change from the actual change gives us the shift in employment that took place, as shown in **Column C**.

Thus, Indiana may be said to have had a competitive advantage

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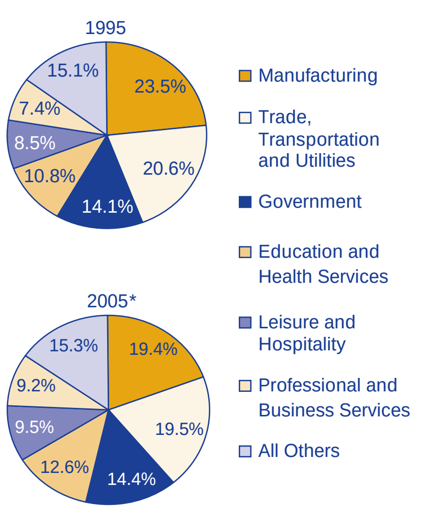
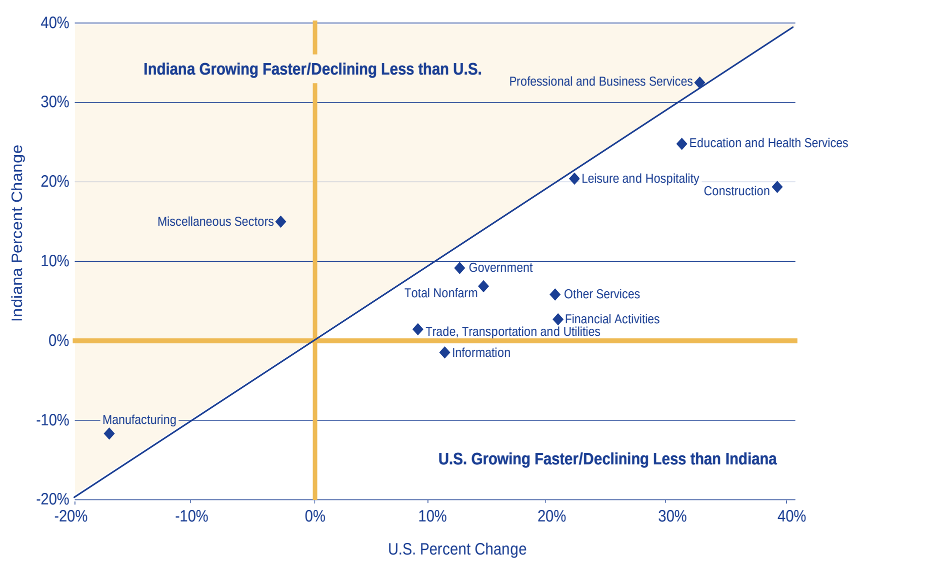
FIGURE 2: **Indiana's Job Distribution**



*Due to rounding, percentages shown do not total 100.
Source: IBRC, using Current Employment Statistics

FIGURE 3: **Percent Change in Employment, 1995 to 2005**



Source: IBRC, using Current Employment Statistics

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TABLE 2: **Shift-Share Analysis, 1995 to 2005**

Sector	Column A Indiana at U.S. Rate	Column B Actual Change	Column C Advantage/Deficit
Total Nonfarm	388,871	192,700	-196,171
Manufacturing	-111,749	-76,100	35,649
Trade, Transportation and Utilities	49,149	8,200	-40,949
Leisure and Hospitality	50,844	47,800	-3,044
Education and Health Services	91,510	74,600	-16,910
Construction	49,406	24,900	-24,506
Other Services	21,126	6,100	-15,026
Government	47,117	36,000	-11,117
Financial Activities	27,710	3,700	-24,010
Professional and Business Services	65,920	67,000	1,080
Miscellaneous Sectors	-205	1,100	1,305
Information	4,485	-600	-5,085

Source: IBRC, using Current Employment Statistics

in professional and business services. Had the state experienced the same growth rate as the nation's 32 percent, it would have added about 65,900 jobs in this sector. However, the state's growth rate was 32.5 percent, and it actually gained 67,000 jobs in professional and business services. Thus, we say that the state had a differential advantage of nearly 1,100 jobs in this sector.

Manufacturing was our best performing sector over the past 10 years in these terms. If the Hoosier state had lost manufacturing jobs at the national rate, it would have seen a decline of over 111,700 jobs. But the state lost 76,100 which left a differential advantage of 35,649 jobs.

If these data are indicative of future changes, we may expect that the GM job cuts will not be as much to the state's disadvantage as might be expected. There seems to be something about Indiana that says this state remains a good place for manufacturing activity.

—Morton Marcus, Director Emeritus, Indiana Business Research Center, Kelley School of Business, Indiana University

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