

Employment

January 2013

Our second issue of the Wabash County Economic Report focuses on specific topics of economic interest. The first piece deals with employment and explains how to interpret the statistics. Employment probably ranks as one of the best measures of the economic health of the county. We also include an extensive look at Living Well, an organization providing important services like transportation, food, and support for the elderly. The shorter pieces look at prices, education, and population trends.

Our first issue looked at trends of employment, prices, and housing to provide an overview of recent changes in the county. All back issues are available in the archive maintained at www.manchester.edu/WCER.

The economic conditions in Wabash County improved over the course of 2012. The county has made considerable headway since the 2007 recession but still has a long way to go to reach the levels of economic activity of 2005. The most important variables for measuring these conditions are the various unemployment statistics.

The only way for employment to increase is through an increase in hiring; this only occurs when firms produce more or new firms are formed. Thus the various measures of employment capture the overall level of economic activity. However, changes in employment usually lag behind the changes in the overall economy as firms are reluctant to commit to more employees until they are certain the improvements in economic conditions are likely to persist. They are also reluctant to lay-off workers in a downturn until they

are certain that it is not just a temporary phenomena. So the economy will start to improve – more production, longer shifts, more orders – before the employment numbers indicate this trend. Since the unemployment rate has moved downward since January, 2012, it is fair to assume that the Wabash County economy started improving some time during the previous year.

We have four series of employment numbers that combine to give a reasonably complete picture of what is occurring in the economy. Each statistic provides slightly different insights into the level of economic activity in the county.

The first statistic is the unemployment rate; it measures the percentage of the labor force not currently employed. This is the most commonly cited employment number. In order to comprehend what this rate really describes, one must first know how economists define the labor force and understand how the size of the labor force varies through time. To be counted as a member of the labor force, one must either be employed or actively searching for work. As an economy goes through the business cycle, the number of people searching for work fluctuates. Those who give up on finding a job – and thus stop searching –

Unemployment	
Date	%
2011-11-01	9.0
2011-12-01	8.9
2012-01-01	9.4
2012-02-01	9.1
2012-03-01	8.7
2012-04-01	7.7
2012-05-01	8.0
2012-06-01	8.8
2012-07-01	8.6
2012-08-01	8.2
2012-09-01	7.6
2012-10-01	7.4

Source: Federal Reserve Bank of St. Louis

are called discouraged workers. These discouraged workers are no longer counted as a part of the labor force and are consequently not included in the measure of unemployment.

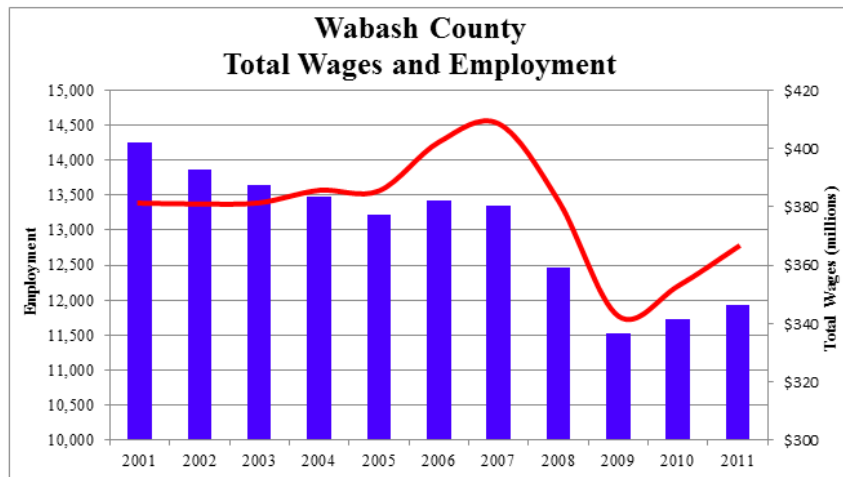
In an economic downturn when employment prospects look particularly bleak, more unemployed workers become discouraged and are no longer counted as part of the unemployed. Thus, the unemployment rate does not capture the full magnitude of the problem. Because of the slow recovery since the recession and the corresponding shortage of jobs, the number of discouraged workers remains particularly high. As the economy improves the discouraged workers start searching and return to the labor force. After a recovery, the unemployment rate more accurately reflects the real situation. However, currently Wabash County still has a lot of discouraged workers, and so the unemployment rate still understates the magnitude of the problem.

The unemployment table on the left shows the conventional unemployment rate for the county over the last twelve months. The downward trend implies the economy is improving. In fact in September and October, the rate was actually below the national averages (7.9 and 7.7 respectively). This assumption of improvement is reinforced by the fact that this trend is occurring simultaneously with an increase in the size of the labor force as workers start searching for work.

Because the unemployment rate does not capture the changes in the size of the labor force, it is important to look at further statistics that measure population

changes, employment levels, and wages. The first decade of the new century was hard on the county as employment levels (the blue bars in the graph below) declined gradually through 2007, and then abruptly plummeted with the recession. Starting in 2009 the employment levels began to slowly climb back but are still short of pre-recession levels. It would appear that the county has nearly 1500 jobs to make up to reach its former level of employment, but this overstates the problem due to population loss. (More on this later.)

A third perspective on employment is provided by total wages. Total wages combines the wages and



Source: Quarterly Census of Employment and Wages

salaries of all workers and proprietors. As better paying jobs become available, wages can rise without any increase in employment. More typically total wages go up as workers are paid for more hours at the same job. From 2001 until 2005, the total wages stayed steady as fewer workers earned more, and so the average income

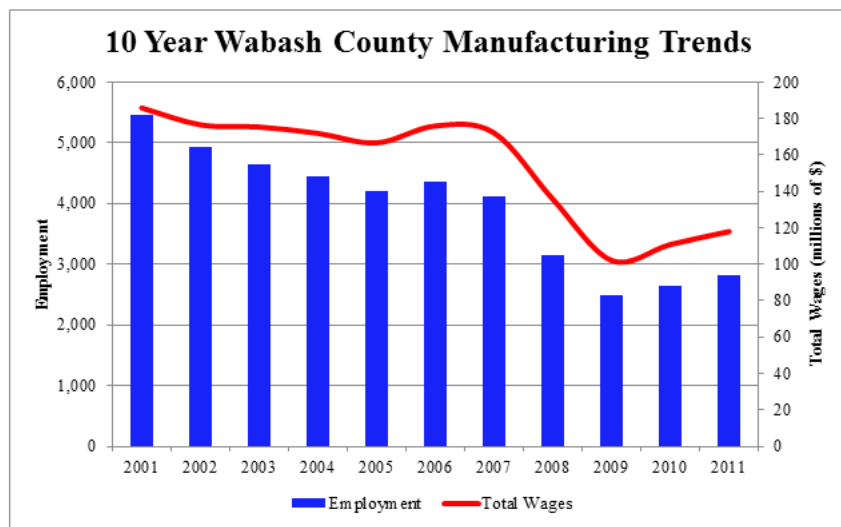
of Wabash County residents was maintained. (See the red line in the graph on the left.)

The period that followed, 2005 to 2008, saw a surge in total wages. This was accompanied by a slight increase in employment. This corresponds to the time when the county had the highest proportion of its population employed during the last decade. (See discussion that follows.) When the housing bubble burst in 2007 and the economy headed into recession, the surge ceased. The recession caused total wages to drop even faster than employment levels as even those still employed were working fewer hours.

Since the recession, total wages have once again grown faster than employment levels. Some of this is due to an increase in higher paying jobs, but the more likely reason is that people already working are earning more as they move from part-time to full-time and full time to over time work. The divergence of these two measures – total wages growing faster than employment – suggests firms are demanding higher productivity of their current workers (and paying them more) as opposed to hiring more workers. Firms typically do not want to commit to new workers unless they are certain the economy will remain the same or improve. Thus the recovery is not shared equally across the entire labor force.

Breaking down the employment numbers by sector provides a more nuanced picture of the county's economy. The two most important sectors are manufacturing and construction. Throughout the most

recent decade, the Wabash County manufacturing sector has experienced a decline in both employment and total wages. In 2001 37% of the labor force worked in the sector while by 2011 it was down to just over 20%. Not surprisingly, the lowest levels of employment and wages correspond to the recession years. There have been modest gains in employment and wages in the past few years; however, the Wabash County manufacturing sector is still a long way from returning to the levels it reached in the early 2000s. (See graph below.) The manufacturing sector will never regain its prominence, but its expansion is essential to a full recovery in the county's economy.



Source: Quarterly Census of Employment and Wages

In our previous issue we discussed the fact that Wabash County has a comparative advantage in manufacturing since it has a large number of experienced workers looking for work and considerable plant and

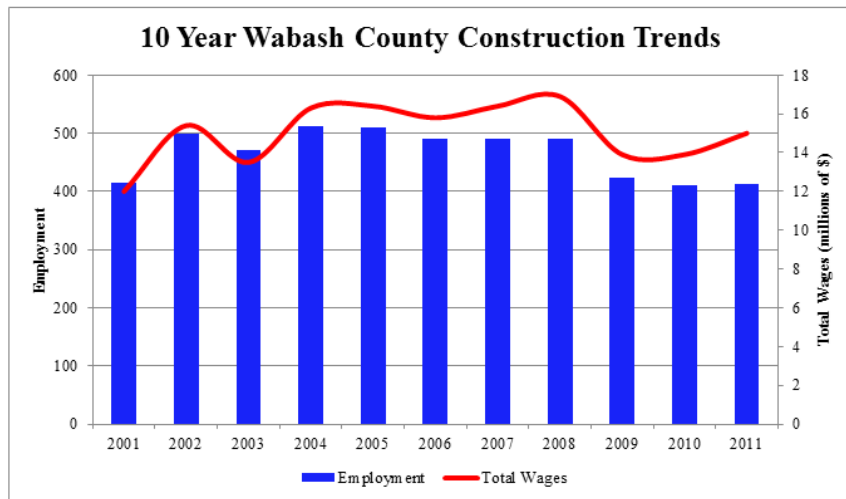
industrial park space. There are fewer and fewer manufacturers who employ large numbers of workers in the United States, but contrary to popular perception, manufacturing continues to grow in the United States. What has changed is the configuration of most firms. The modern plant involves the use of many fewer workers and much more capital.

Drawing these capital intensive firms to the county could have a significant impact on employment and income levels and subsequently the economic health of the county. A healthy Wabash County economy would have more firms than it has had historically with each employing fewer workers at higher wages. This is the national trend, and Wabash County is well-positioned to participate in this phenomena.

A much smaller but important sector is construction. The construction industry's employment levels rose in the middle of the decade but since then have settled at a lower level. The employment levels in this sector have not shown any of the recovery evident in the manufacturing sector.

This is not surprising. Construction depends on the housing market and the demand for new homes. In the U.S. economy as a whole, housing construction is just now beginning to show signs of renewed strength. In addition, the fact that Wabash County is losing population means there is less demand for new houses. In our opinion it is unlikely that the construction sector will see much expansion in the months and maybe even years ahead.

One of the surprises in looking at the numbers for the construction sector is seeing how robust they remained throughout the recession. Not many sectors are resistant to an overall downturn in the economy, and construction is usually very vulnerable to economic hard times. However, in Wabash County, employment remained stable and wages increased. The drop in construction occurred after the recession and has persisted for the past three years.



Source: Quarterly Census of Employment and Wages

One expects that overall employment levels should grow or shrink according to the changes in the total population. Wabash County's population has declined by 6% over the last ten years. (See the piece on population later in this issue.) Employment levels should contract by this same percentage in times of steady economic conditions.

A seldom reported but useful statistic is to look at

the percentage of the total population that is employed at any given point in time. This percentage adjusts for changes in population size. So for a county that experienced a 6% decline in population there should be a corresponding decline in employment. This statistic accounts for that.

There are problems using this number when looking over longer historical periods since it is susceptible to distortions caused by changing demographics. These include changes in the percentage of people who are working-age adults, the number of secondary workers (mostly women) who decide to work, and the changing numbers of full-time students. But for

shorter intervals, these factors tend to shift very little; therefore they help us to look at recent trends.

To the left and below we have the percentages and a graph of Wabash County's population that are employed as either part-time or full-time workers. The pre-recession numbers hover around 48% of the population – slightly less than the national average. In 2006 participation rates hit their maximum, and the impact of the recession is evident in the numbers that follow. What is heartening is the growth since the low level in

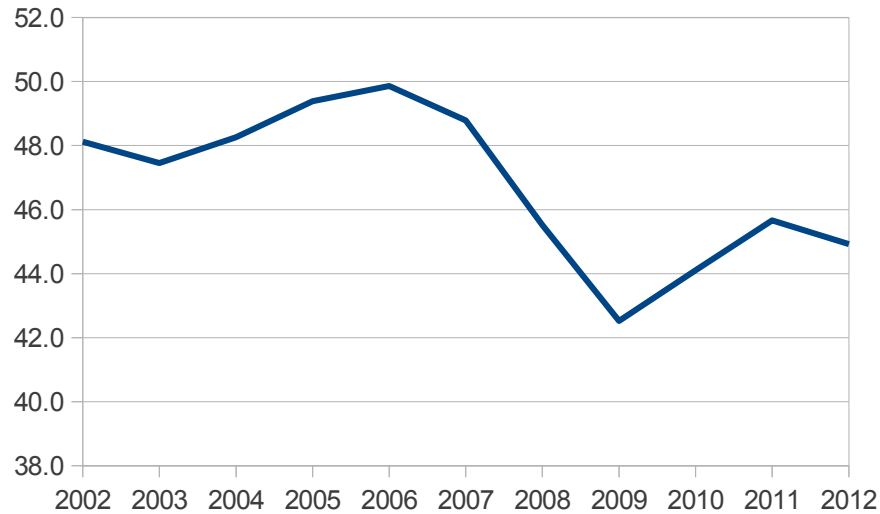
Employment as % of population	
2001	48.4
2002	48.1
2003	47.5
2004	48.3
2005	49.4
2006	49.9
2007	48.8
2008	45.5
2009	42.5
2010	44.1
2011	45.7
2012	44.9

Source: BLS

2009, though there was a decline last year.

These percentages suggest that the county is only about 1250 jobs short of where it needs to be to return to

Employment as % of Population



pre-recession levels. This number probably more accurately reflects the situation in the county than the 1500 jobs suggested by employment levels and the unemployment statistics.

In conclusion, the county has a long way to go before employment and the level of economic activity returns to pre-recession equivalents. Most of the county's workers who continue to be unemployed are in the manufacturing sector. As the economy improves existing employers will be able to hire more workers, but it is probably more critical that new firms establish themselves in Wabash County. Fortunately, given its

comparative advantage in manufacturing, the county is poised to attract such firms.

Living Well

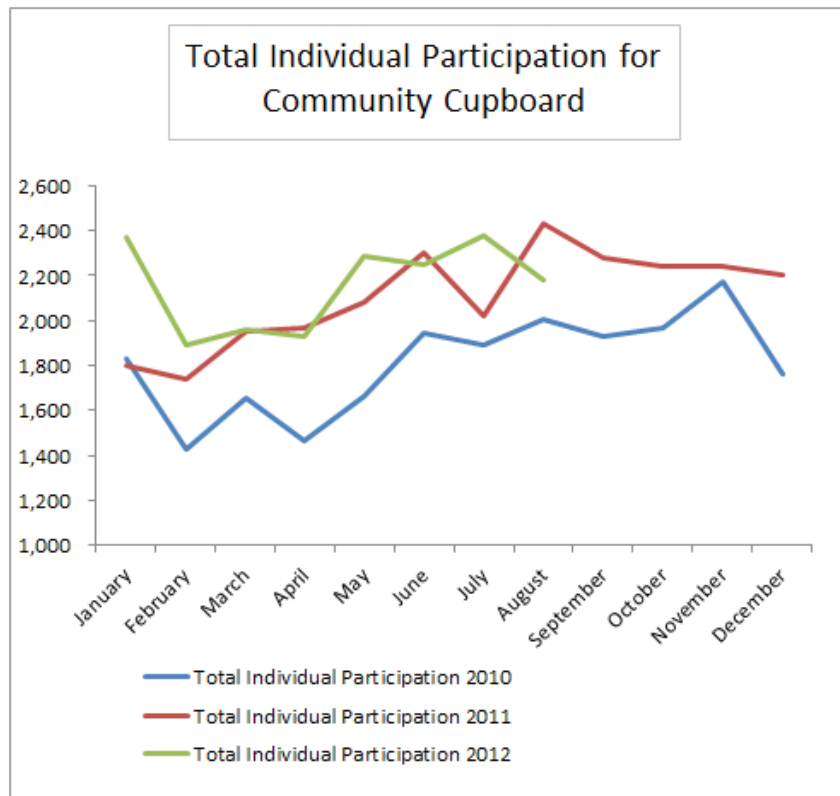
Living Well in Wabash County, CoA, Inc. is an organization that helps residents – particularly on those over sixty – meet their social, physical, economic, and mobility needs. The organization was established in 1974 exclusively for senior citizens. The initial services provided were transportation, the Department of Agriculture commodity program, and meeting nutritional needs. Since then Living Well has grown both in size and in the breadth of services it provides. Today its services include meals, caregiver support, a recreational center for seniors, and other social activities.

Prior to 2011, Living Well was known as the Wabash County Council on Aging, Inc. They changed their name to better reflect their broader mission of serving all citizens in the county. The current head of the agency is Beverly Ferry. In this piece we focus on two of the goals of the organization – meeting nutritional and mobility needs. These Living Well programs have the most significant economic impact.

Though it receives little press, rural counties contend with large numbers of people who need assistance due to low income. Rural poverty is sometimes referred to as the “hidden” poverty in the United States. Many of those in or near poverty are malnourished. According to recent estimates between

16% and 17% of the U.S. population receives inadequate nutrition. Wabash County has a lower percentage of its population that is below the poverty line (13.6%) than the nation (15%), but the need for nutritional support is still significant as there are over four thousand people in poverty in this county.

Living Well works to mitigate some of these consequences of poverty by pursuing various approaches to delivering food to needy citizens. They facilitate the



commodity supplemental food program sponsored by the Department of Agriculture for low income seniors. A

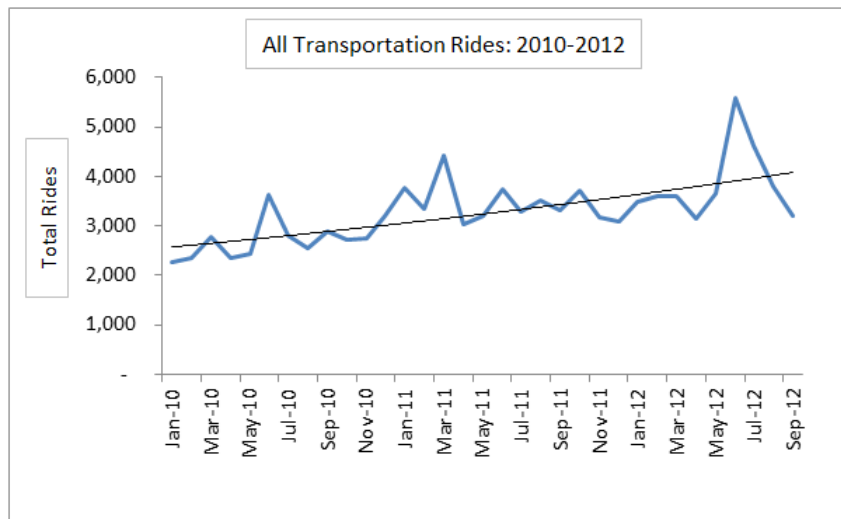
second program Living Well hosts is “tail gates” where food is made available and people in need can drive up and receive an allotment. There is no verification of need, but everyone is limited to one bag per time.

A third program is the Community Cupboard which is available to all county residents with limited income. The service provides these residents with a selection of basic food items. Qualified individuals may come to the Community Cupboard and select a total of 40 pounds of food to sustain their families. Although individuals may use the service once a month, most only use this service every five months. Living Well has found that those seeking assistance try to only use the service when it is absolutely necessary. This limited use is important to keep in mind when examining data on participation and using it to gauge the amount of need in the county.

The graph detailing the numbers of users of the Community Cupboard shows the trend lines for the most recent three years. There is a consistent cycle in usage where February and March are low while the number of users in late summer and fall months are higher. Over the three years there has been a clear increase in participation levels. This is not surprising. As the years since the recession accrue without a complete economic recovery, families exhaust their financial reserves. When these are depleted, they are forced to turn to options such as the Community Cupboard for assistance as a last resort.

Living Well also provides transportation services;

these are critical for the elderly but also provide a valuable service to people of all ages. The lack of personal transportation and/or the loss of the ability to drive in a rural county make a wide range of activities extraordinarily difficult. Employment, access to health services, and basic activities such as grocery shopping all require access to transportation. Living Well has met this challenge by providing a county-wide transportation system.



Today the service provides all citizens with transportation to anywhere in Wabash County for \$4 and within the city of Wabash or North Manchester for \$2 for a one-way trip. The agency still provides free transportation to the Wabash County soup kitchens, pantries, and 85 Hope. Living Well encourages carpooling and only charges once for a group of people if they are both picked up and dropped off at the same location. The service is free by law for citizens sixty and older

although they are encouraged to donate what they can afford.

Prospective riders can contact Living Well and make an appointment for the van to pick them up. Those needing transportation on a regular basis, say to work or training, can set up a standing appointment.

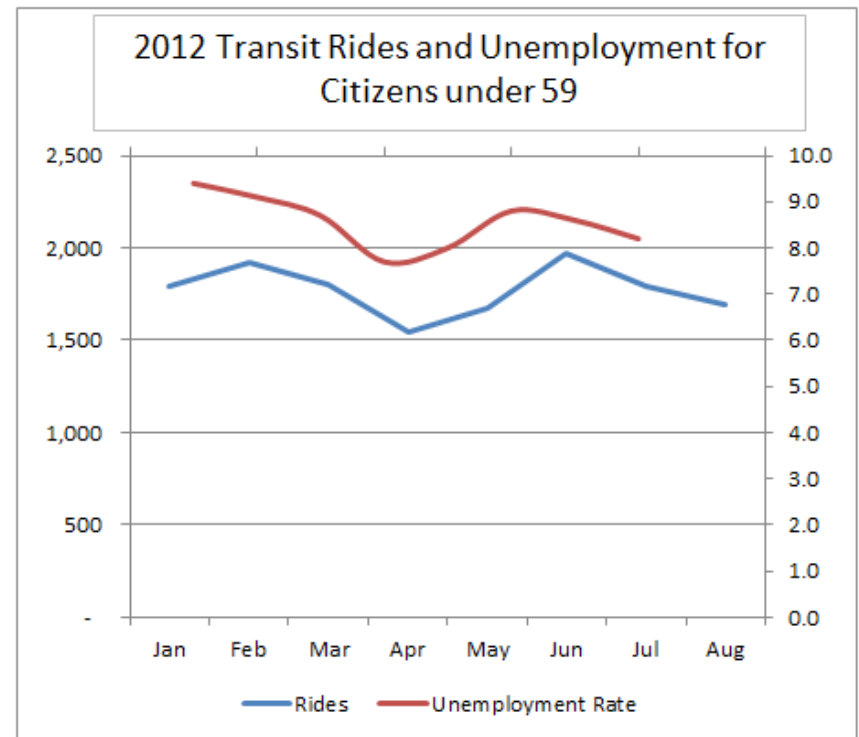
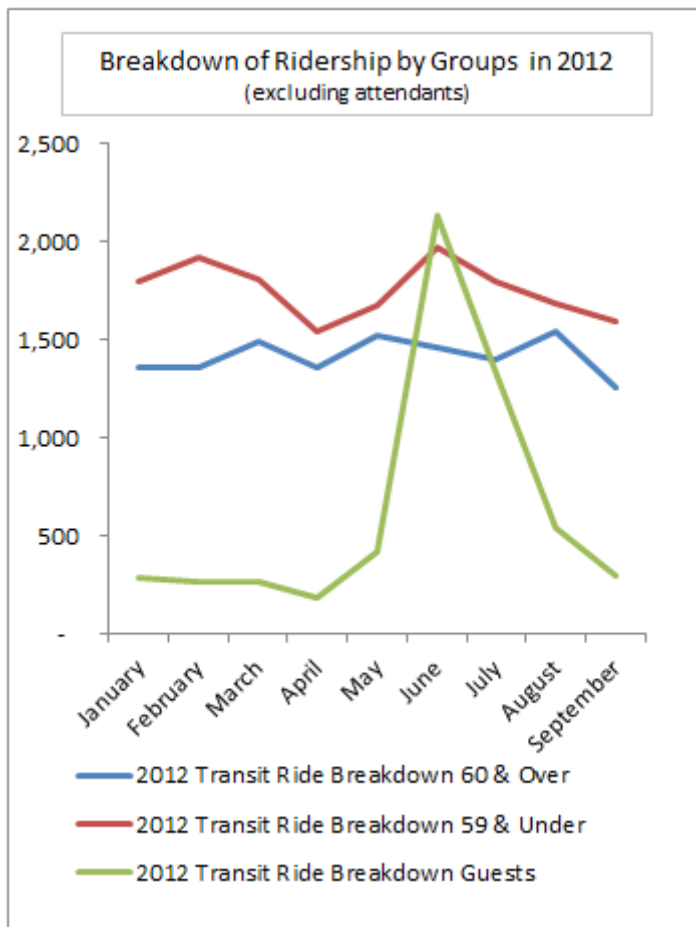
The graph at the left shows the total number of riders over the last three years. As the graph makes clear, the demand for this service has been growing steadily. Living Well believes most of the increase is due to a rise in public awareness of their service. Ridership peaked at over 5,000 for the month of June, 2012. This is an average of approximately 170 rides per day.

The ridership numbers can be further broken down by categories. The graph on the next page shows the participation for three groups: 60 and over, 59 and under, and guests. A group of riders are considered guests if someone pays their fare and they are making the same trip. The spike in guests in June and July can be attributed to a more recent program established by Living Well. To encourage more use of the transit service, Living Well established Youth on the Move in 2011. Youth on the Move offers transportation for groups of children to recreational centers such as the YMCA or summer theater. The group is charged as a single rider, even though the bus is often filled. Clearly the program has been a success with guests accounting for over 2,000 of the rides in June, 2012.

The trend for non-guest riders has remained fairly stable with a slight decline in recent months for those under 59. This is to be expected as one of the major determinants of under 59 year old ridership is the level of unemployment. The graph (on the right) of the two trends – unemployment and ridership – shows how the two parallel one another. Unemployment is what economists call a leading indicator of ridership. In other

words changes in the unemployment rate result in a change in ridership a short time later. Typically people take time to adjust their behavior to changing circumstances, and thus the lag in altering their mode of transportation as their employment situation changes.

Living Well adds valuable services that are not available in every rural county. Besides the important social impact of these services, they have a tremendous economic impact as they support people in need and allow transportation to employment that would otherwise not be possible.



Prices

We started tracking prices in January, 2012, and have kept track for most months since. Using the serial data we are able to estimate an annual rate of inflation.

The Consumer Price Index (CPI) core inflation rate, established by the Federal government, is defined as the price level change in a set list of goods and services excluding gas and food. The prices of these last two categories exhibit tremendous volatility and are omitted as their variability gives a misleading picture of actual price changes. We found that the annual core inflation rate for 2012 in Wabash County was 8.76%. The corresponding national number was 2.1%. These are dramatically different numbers.

The most plausible explanation of the discrepancy is that prices in the county are playing catch-up. Though we do not have data before January 2012, it is most likely that inflation in Wabash County was significantly below national trends during the 2007-9 recession and in the years immediately after. Wabash County's economy was hit more severely than many areas of the country, and this may have led to a decline in prices pushing down local inflation rates. Now, as the economy here is recovering, the prices in the county are catching up. This generates an inflation rate above the national average. If this is the case, we expect to see the difference between the national and county inflation rates decrease in the months and years ahead.

Population trends and composition

In the United States increasing population is associated with economic growth. Much of the recent population growth in the country has been in large metropolitan areas and these areas have become more prosperous while rural areas have continued to lose population and their economies have grown more slowly.

Wabash County is no exception to these trends. During the past 11 years, Wabash County has seen its population decrease from approximately 35,000 people to less than 33,000 people – a 6% decrease. In the same period, Marion County (Indianapolis) has seen its population grow by 4.9%.

The group migrating from rural counties is predominantly young adults; they leave to seek better employment opportunities in the more affluent, urbanized parts of the country. So as one would expect,

Age	Wabash	Chicago	Indiana
18 and under	22.4	23.1	24.5
19-64	59.2	66.6	62.3
65 and older	18.4	10.3	13.2

Source: U.S. Census

the age demographic profile of Wabash County differs from that of a large city such as Chicago or even the state of Indiana as a whole.

The working age adults (19-64) have moved in significant numbers from places like Wabash to employment centers such as Chicago. Retirees are less

likely to move away from the community where they have established roots, and as the younger generation moves away, the elderly constitute a larger portion of the population. In addition to the loss of working age population, part of the explanation for the high percentage of elderly is the presence of a number of large retirement communities in the county. Since these do attract retirees from around the country, they are a net addition to the economic strength of the county. So the heightened percentage of elderly is not necessarily a negative.

It is unreasonable to expect Wabash County to buck the flow of workers from rural to urban centers; however, these demographic trends can suggest profitable areas for economic development. What this shift does imply is that the demand for those businesses that serve the elderly will increase over time. The increased pressure for expansion of retirement communities and nursing homes will go hand-in-hand with more demand for the amenities that retirees consume. The elderly of today are active and desire a range of entertainment, eateries, and leisure activities that communities in Wabash County can provide.

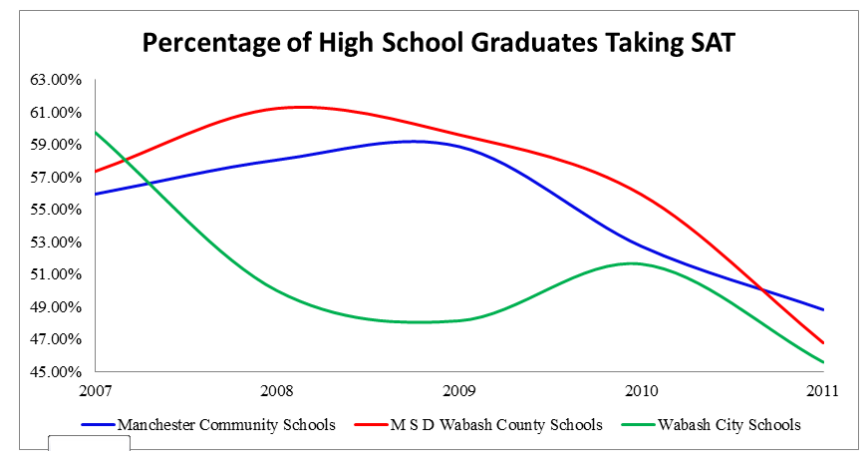
Education

It is a common observation that jobs today are requiring more education. Graduation from high school is a necessity, and post-secondary schooling is increasingly necessary for entry level jobs. One measure

of the number of students intending to pursue higher education is the number of those taking the Scholastic Achievement Test (SAT) while still in high school. Though not everyone who sits for the exam proceeds to college, trends in the number taking the exam are indicative of the educational achievements and plans of young people over time.

One of the more disconcerting trends over the past five years in Wabash County has been the recent decline in high school graduates sitting for the SAT exam. All three Wabash County school corporations have had significant decreases in the percentage of students taking the SAT. From 2007 to 2011, the percentage of students taking the SAT at Manchester Community Schools, MSD Wabash County Schools, and Wabash City Schools fell 7.13%, 10.57%, and 14.16% respectively.

Usually recessions cause increases in the percentage of high school graduates going on for post-secondary education. When the alternative to further



Source: Department of Education

schooling is unemployment, the additional training has greater appeal. Both the Manchester Community Schools and the Wabash County Schools followed this pattern as the percentage of students taking the SAT during the economic slow down of 2007 to 2009 increased. The puzzle is the sharp decline in the numbers of students taking the SAT in the Wabash City Schools between 2007 and 2009. One possible cause for the decline could be the impact of the recession on family incomes. Parents and students from the Wabash City schools may have felt that they could not afford a post-secondary education at that time, and therefore, fewer students sat for the exam.

The more disconcerting trend is the fact that the percentage in all three districts have declined markedly in the last two years when one would hope the rates would be rising. If Wabash County hopes to attract cutting edge firms that require more highly educated workers, it will be necessary to increase the number of people with post-secondary training. The county has Manchester University and Ivy Tech providing a whole range of levels and types of post-secondary possibilities. It is vital that we reverse this trend and better prepare and encourage high school students to pursue further education.

Contributors

Tom Blake is a senior accounting and economics major at Manchester University. He is in his second year

as a WCER intern.

James Harry is a sophomore economics major at Manchester University. He joined the WCER team in the Fall of 2012.

Kari Huang is a junior accounting major at Manchester University. She is in her second year as an intern on the WCER team.

Vasin “Thew” Pasda is a first year economics major at Manchester University. He began this year as an intern on the WCER team.

Allison Weber is a first year student at Manchester University. She became a WCER intern in the Fall of 2012.

Matt Hendryx is Visiting Associate Professor of Economics at Manchester University and is supervisor of the interns working on the WCER.

This report is available both in hard copy and as a .pdf on our website, www.manchester.edu/WCER. Click the “Current” button for this issue, and you can find our first issue under “Archive”.

Our contributors are available for presentations to local groups. If you have questions about this or would like a free hard copy of the report, please contact Matt Hendryx at mnhendryx@manchester.edu.

We are open to suggestions for topics that you would like to see covered in future reports. We wish to thank The Ball Brothers Foundation for financing the first eighteen months of the project. We are always looking for sponsors for our project in the hopes that we can continue providing these reports in the years ahead.