

# WCER

Reporting on the economic status and opportunities of Wabash County.

## The Wabash County Economic Report



This is the first issue of the Wabash County Economic Report. The WCER provides periodic snapshots of the economic health and environment of Wabash County. The aim is to provide businesses, policy makers, non-profit organizations, and residents data and trends that can facilitate good decision-making. Each issue will follow important trends and interpret them in light of state and national data. An important part of the report will be to indicate the areas where the county has a strategic advantage.

Four Manchester University students working under the supervision of two of the economics faculty of the University prepare the report three times a year. Two of the reports (February and May) will focus on trends and the data, while the third (October) will focus on special reports about different aspects of the Wabash County economy.

This report is a continuation and extension of the efforts of Dick Harshbarger, professor emeritus of Manchester College, who tracked economic trends in the county for over twenty-five years.

This first report will focus on employment, housing, and prices, as well as provide an overall analysis of the comparative advantages present in Wabash County.

### Prices

The measures in the Report concerning food, fuel, and other consumer goods were generated using a varied sample of those goods thought to be representative of the purchasing habits of consumers in the region. A list was created, including the name of the good, the package weight, and a label reflecting the item's category as defined in the Consumer Price Index (CPI) published by the Bureau of Labor Statistics. A total of 141 items was sampled. The price of each good was collected monthly at the selected stores stocking it at the specified quantity. The average price (or unit price) of each good was computed monthly and compared to its average in the prior month to calculate the month's percent change. These calculations were performed for all items, as well as for food alone and for all items excluding food and energy.

Food prices increased markedly between January and April, but this can be attributed to the high volatility of food markets throughout seasons and the sensitivity of food prices to changes in the cost of fuel and agricultural goods.

The average annualized inflation rate for non-food and non-energy items was -12.9% between January and February, 22.48% between February and March, and -6.16% between March and April. The net over the quarter was an annualized rate of 3.42%. This exceeds the national average (2.8%) and suggests that the economic recovery in the county is sufficiently strong that businesses feel capable of raising their prices faster than the national norm. However, this inflation rate is building on base prices that are lower than national prices, so that the increase still leaves Wabash County a relative bargain in terms of consumer purchasing power.

Gas prices increased markedly over the three month period which matched the national trends. Gas prices are notorious for exhibiting wide fluctuations, but the overall trend is upward. We expect the usual continuation of an upward trend in the next two quarters as historically these two quarters register higher than average prices.

One of the surprises in the non-gas, non-food price data was the extreme volatility. As we monitor the prices in the quarters ahead, it will be interesting to see if this volatility persists. The spectrum of goods we used should be sufficiently broad to capture the actual trends, and the high fluctuations were not caused by a few items — the prices of numerous items fluctuated wildly.

## Housing and Property

The housing sector is one of the most important in the US economy constituting as much as one sixth of the total economy. To observe the changes in demand and the changes in the prices of residential, commercial, and agricultural property, we used measures based on assessed values compared to sale price. Assessed values are very stable and to a great extent are comparatively correct. In other words a property with twice the assessed value of another should be twice as valuable.

Looking at the price paid per dollar of assessed value is our measure of the price level of the property. Since supply and demand ultimately generate the price, our measure captures the net result of the interaction of the two sides of the market.

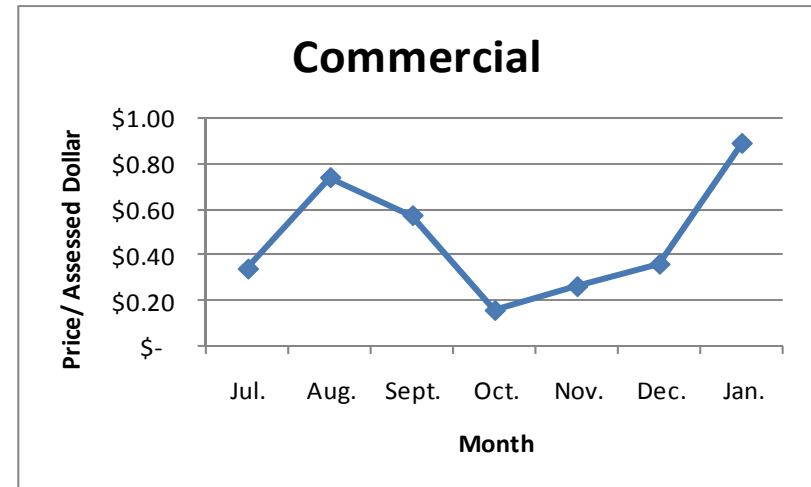
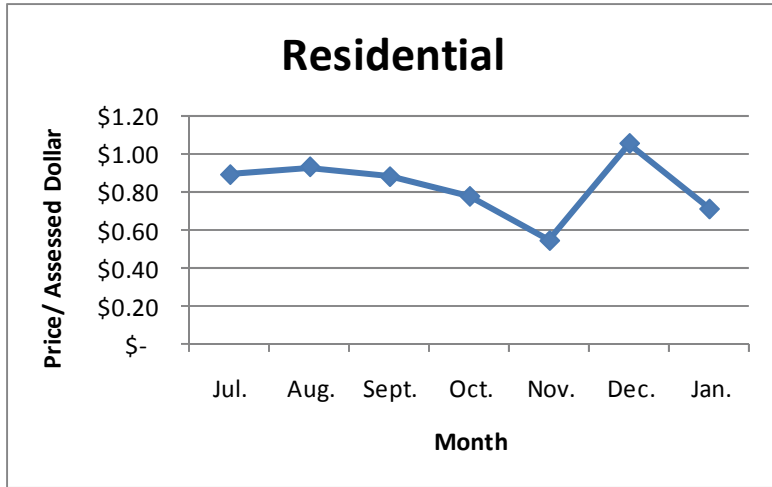
<b>Prices/Assessed Value</b>	
<b>Month</b>	<b>Price</b>
July	\$0.89
August	\$0.93
September	\$0.88
October	\$0.78
November	\$0.54
December	\$1.05
January	\$0.71

We used data from all sales that occurred in a particular month.

Overall we found the pattern of residential prices one would expect with one exception. Residential prices tend to cycle with a peak in August and a general decline through the Fall. Much of this is demand driven as families wish to move when children are not in school, when the weather for moving is decent, and when they are on their summer vacation.

The first graph illustrates this trend in residential prices for the months between July 2011 and January 2012. The only

anomaly in the trend is December. As there are relatively fewer sales in December, a few high priced properties can



distort the measure. In the succeeding months we expect to see prices rise toward an August high. Once we have more than a years worth of numbers, we will be able to de-trend the numbers and compare August to August for example and capture a more accurate picture of what is happening to housing prices and demand over time.

Prices/Assessed Value	
Month	Price
July	\$0.34
August	\$0.73
September	\$0.57
October	\$0.16
November	
December	\$0.36
January	\$0.88

For the commercial property bought over the six month span, the dollar value paid per assessed value varied between \$.16 in October to \$.88 in January. There is no information available about the sales prices of property bought in November, so the measure is an extrapolated

value.

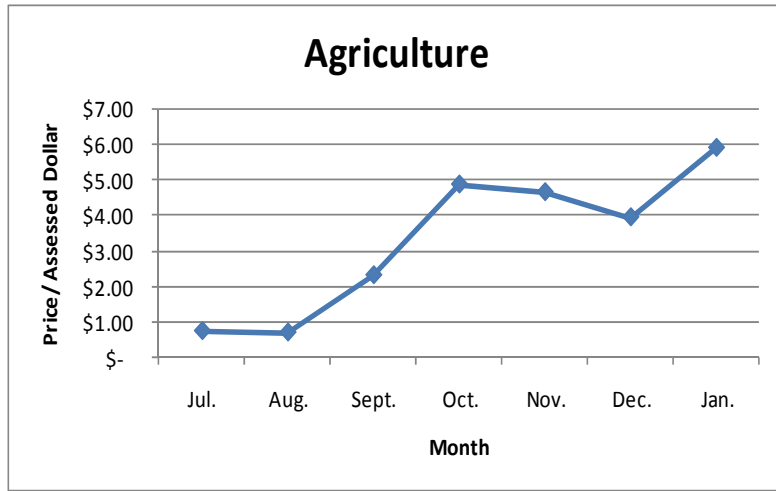
Commercial property values fluctuate and are less prone to specific cycles. Part of the difficulty in tracking commercial sales is the lower numbers of transactions that occur. However, as the time line of numbers we have collected increases we will be able to more accurately determine longer term trends.

For the agricultural purchases, the spread of dollar paid

Prices/Assessed Value	
Month	Price
July	\$0.73
August	\$0.69
September	\$2.31
October	\$4.87
November	\$4.65
December	\$3.94
January	\$5.91

Transactions	
Month	Number
July	10
August	8
September	12
October	10
November	25
December	41
January	33

per dollar of value is between \$.69 in August and \$5.91 in January. These are significantly higher than the residential



and commercial results because assessed values of agricultural land are evaluated differently than those of residential and commercial properties. In the six months recorded, there was a significant spike in total number of sales during November, December, and January. The total number of sales recorded during these three months was four times the sales made in July. Since it makes most sense to trade farm land when it is fallow it is not surprising to have this spike in sales. The table Transactions on the previous page gives the total sales for each month.

Property prices in Wabash County are low compared to state and national levels. This provides an incentive for those outside the county to purchase property in the area even if they do not move here. The property may serve as an investment, rental, or second home. Corporations may purchase farm land and hire the farmer instead of the farmer owning the land outright. The purchase of properties by non-residents provides an

initial surge in income to the community, but there are downsides to this trend.

The shift in ownership from within the county to those outside the county has important economic ramifications. Revenues and profits that might have been spent within the county are no longer available. The diminished demand for local goods and services prevents businesses within the county from growing and prospering.

Secondly, the owners residing outside the county are not available to participate in forming economic partnerships with other businesses, community, or government organizations. The potential for joint ventures and economic interactions that strengthen the local economy are lost.

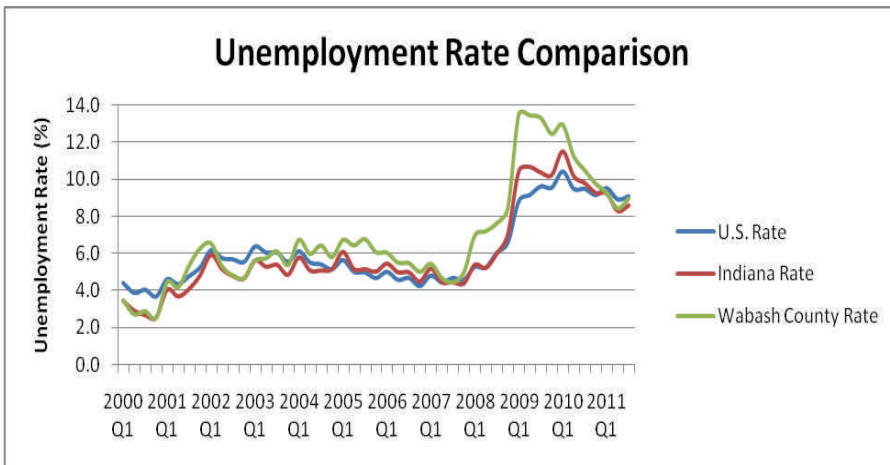
The chart below records the percentage of properties for each month that were purchased by those residing outside the county. The numbers unfortunately are only half the story. We do not have the numbers for how many properties owned by those residing outside the county were sold to those living inside the county. Without those numbers, we are unable to esti-

Month	Residential	Commercial	Agricultural
July	8%	43%	10%
August	19%	36%	38%
September	14%	25%	17%
October	16%	9%	20%
November	20%	0%	32%
December	42%	33%	27%
January	27%	33%	18%

mate a net effect. However, we suspect that the shift to outside ownership would dominate the reverse effect.

## Employment and Wages

To put the unemployment numbers in context, it is best to look over the last decade at rates that compare the county to US and state rates. In light of these numbers it is clear the county suffered more in the Great Recession than the rest of the state and country, but it has recovered and returned to a



level below the national rate though still slightly above the state rate.

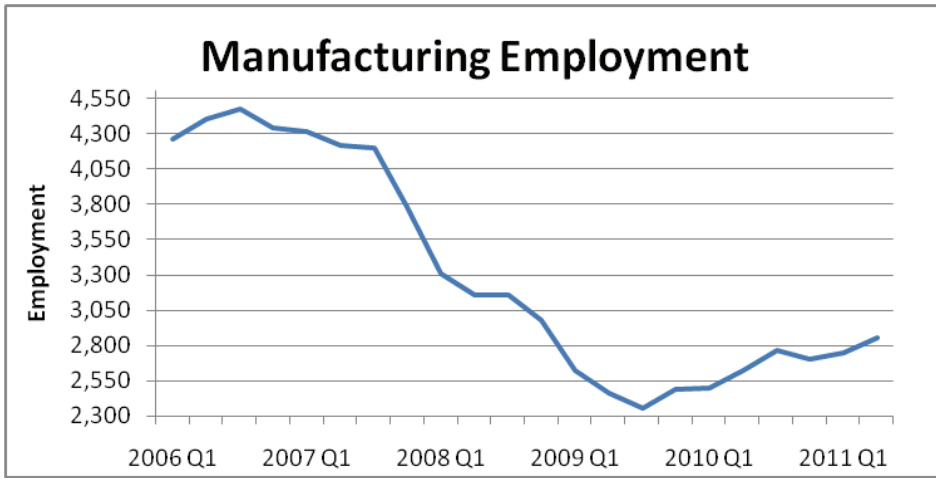
From 2000 until the end of 2003, Wabash County's unemployment rate closely mirrored the changes in the rates of both Indiana and the United States. Then, from the first quarter of 2004 until the middle of 2007 Wabash County's unemployment rate tended to be between a 0.5% and 1.5% above the corresponding state and country rates. Early 2008 marked

the beginning of a large spike in Wabash County's unemployment rates; they peaked in the first two quarters of 2009 at approximately 13.5%, jumping over 5% from the 8.4% rate in the fourth quarter of 2008. This large leap in unemployment was due in large part to manufacturing and construction. During the first two quarters of 2009 the Indiana unemployment rate hovered around 10.5% while the U.S. rate was slightly better at about 9.0%. More recently, Wabash County's unemployment rates have regressed back to an unemployment rate of approximately 8.5%, similar to that of both Indiana and the United States

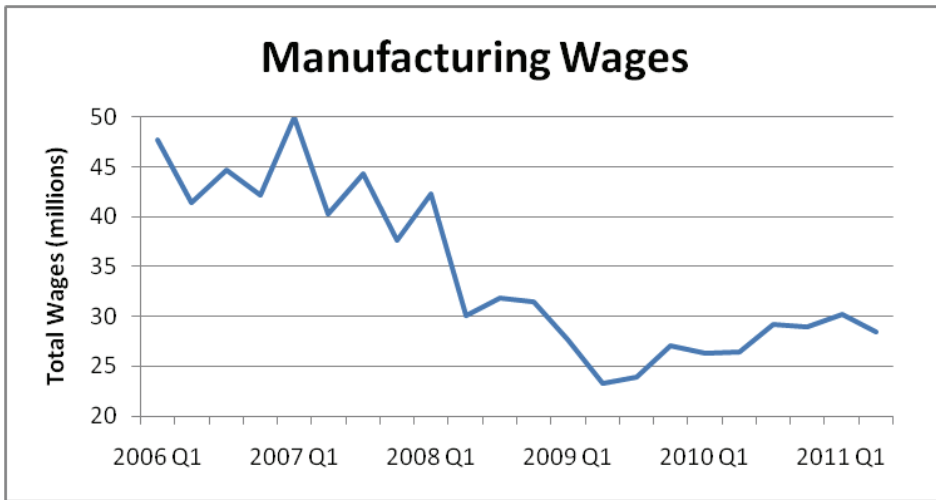
The two sectors primarily responsible for the decline were construction and manufacturing. Manufacturing in particular fell and has been slow to recover. Neither sector had recovered much by the first quarter of 2011 even though the employment rate had declined. Unfortunately, this implies a rise in discouraged workers. Discouraged workers are those who are no longer counted as part of the labor force and therefore are not counted as unemployed. A discouraged worker is one who no longer is looking for work because he or she believes there are no positions to be found. As former workers move from being counted as unemployed (looking for work) to being counted as discouraged workers (no longer looking for work) the unemployment rate declines despite the fact few jobs have been added. Thus the unemployment rate may not capture the true picture of the degree of unemployment.

During 2006 and most of 2007 Wabash County had a strong manufacturing industry, which at one point reached nearly \$50 million in quarterly wages and employed nearly

4,500 workers. However, in late 2007 and early 2008 the



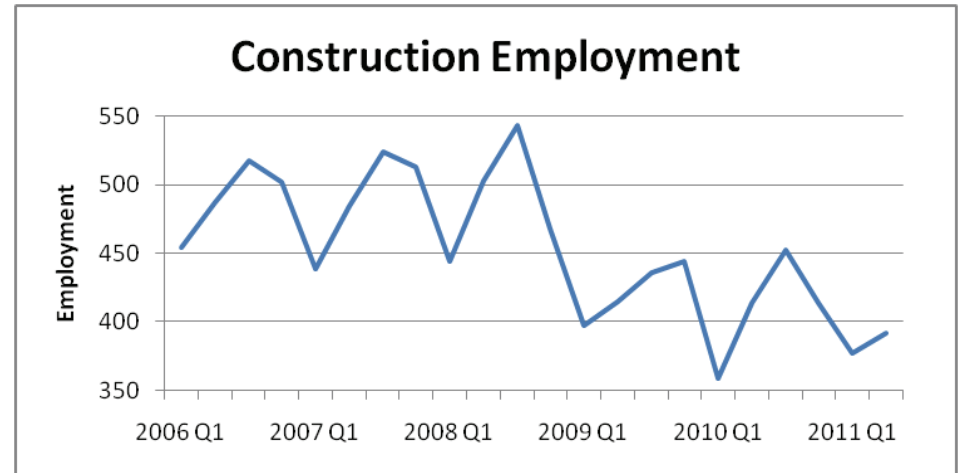
manufacturing industry in Wabash County took a big hit. By the end of the third quarter in 2009 employment had declined to 2,356 and wages had fallen to \$23.9 million, both numbers



representing a decline of approximately 50% from just two

years earlier. The good news is that Wabash County is slowly recovering from the recession and wages and employment numbers have been trending upward over the past seven quarters. Considering its past capacity for manufacturing and its recent trend towards recovery, Wabash County offers excellent opportunities for firms looking to start or expand in the manufacturing industry in the near future.

The construction industry in Wabash County is cyclical in nature, generally employing the largest number of individuals in the third quarter and the fewest during the first quarter of each year. This makes sense because construction generally takes place during the summer and fall months and greatly drops off



during the winter months. The construction industry of Wabash County peaked in the third quarter of 2008, employing 543 individuals and generating \$4.7 million quarterly in wages. Its lowest point over the last five years came in the first quarter of 2010 when employment fell to 359 and wages declined to \$2.7 million. The largest one year change was between the third quarters of 2008 and 2009 when employment



fell from 543 to 436 workers (-19.7%) and quarterly wages dropped from \$4.7 million to \$3.7 million (-21.3%).

## Comparative Advantage

Comparative advantage is the realization that every economic region has relative strengths and weaknesses. It is in the best economic interests of a region to specialize in those activities in which it has relative strengths no matter how it might compare in some absolute sense with another region.

Manufacturing remains the heart and soul of Wabash County. The county has a manufacturing tradition and this remains one of its areas of relative strength. Manufacturing oriented businesses would do well to consider Wabash County as a place to locate. There is a pool of more than fifteen hundred people with manufacturing experience who stand ready to be employed by new businesses. Wages are relatively low in the county and price levels for people relocating to the county

compare favorably with the rest of the state and country.

In addition the county has a pool of approximately one hundred experienced construction workers available to any firm or residential builder working in the area.

Another area of comparative advantage for the county is any business oriented toward the elderly. Wabash is an aging population, and the demands specific to this demographic such as healthcare, retirement communities, and recreational activities would do well to locate in the county. Though many of the young would choose to remain in the community if employment were available, the truth of the matter is that for the foreseeable future the demographic makeup will be shifting to the elderly.

In every economy education and health care loom large, and this is no different in Wabash County. With Manchester University bringing fourteen hundred students into the county, they are a significant contributor to the health of the economy. Despite the declining number of children, the kindergarten through secondary education system remains a substantial part of the economy. Salaries have held constant and student teacher ratios have not increased as they have elsewhere in the country with the cutbacks in resources. The education sector remains vibrant throughout the county.

In recent years the city of Wabash has experienced an increase in high tech businesses. As a critical mass of these businesses locate in Wabash, it becomes more and more appealing for additional and related businesses to come to the county. High tech businesses need to be proximate to other

related businesses as each specializes in a fairly narrow range of activities. The ready availability of other firms that can handle the details of things beyond a single firm's purview markedly increases efficiency and is the logic behind such phenomena as Silicon Valley. A micro version of such an environment is emerging in Wabash.

Though there are tremendous economic gains to the community from such businesses, they will never be the large employers that historically have been provided by large scale manufacturing.

Though the county suffered severely in the Great Recession, it is showing great signs of recovery. It has untapped labor resources, competitive wages, low prices, and an environment conducive to both high tech and traditional manufacturing businesses. Our expectation is that the county will experience an economic expansion parallel to what is observed in the state and nationally. Though this is likely to be a slow recovery, we are optimistic that the worst is over.

#### Biographies of those who worked on the WCER.

Matt Hendryx is Visiting Associate Professor of Economics at Manchester University. He received degrees from Indiana University, London School of Economics, and the University of Wisconsin. He has taught at SUNY-Fredonia, Manchester University, Ivy Tech, and Indiana Institute of Technology over the last twenty-five years. He serves as one of the two principal supervisors of the WCER.

John Deal is Associate Professor of Economics at Manchester University. He received his Ph.D. from North Carolina State. He taught at Humboldt State before coming to Manchester. He serves as one of the two principal advisors of the WCER.

Thomas Blake is currently a Junior at Manchester University majoring in Accounting and Economics. He graduated from Plymouth High School in Plymouth, Indiana. He focused on the labor and employment sections of the WCER.

Kari Huang is currently a Sophomore at Manchester University majoring in accounting. She graduated from Elkhart Central in Elkhart, Indiana. She has worked mostly on the housing sector portion of the WCER.

Brianna Martinez is a Freshman at Manchester University who plans to double-major in Economics and Sports Management with a minor in Spanish. She attended Andrean High School in Merrillville, Indiana. Her responsibilities concerning the WCER have centered on aspects of the housing market as well as the commercial and agricultural real-estate markets.

John Topsoglou is currently a Senior at Manchester University majoring in Environmental Studies with a Policy Concentration. He graduated from Homestead High School in Fort Wayne, Indiana. In terms of the Wabash County Economic Report he has focused on the cost of living looking at food, household products, personal care items, clothing, electronics, and toys.

This report is also available at [www.manchester.edu/WCER](http://www.manchester.edu/WCER).