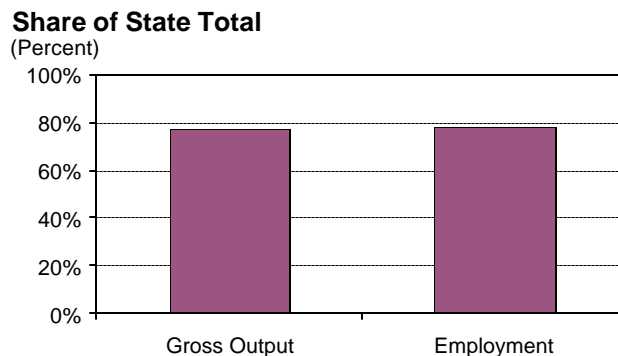


## INTRODUCTION

As the focal points of Indiana's economic activity, metropolitan areas are vital to the state's economic development. The concentration of people and business in metro areas creates unique economic conditions that give rise to new industries, speed the diffusion of knowledge, spur technological innovation, increase productivity, and promote growth. When metro areas struggle, however, business development slows, and the state's and even the nation's economy follows.

The economic dynamism and creativity found in metro areas enables American industries to thrive in global competition. Today, thirteen metro areas (Indianapolis, Fort Wayne, Gary, Bloomington, Elkhart-Goshen, Evansville, Kokomo, South Bend, Lafayette, Muncie, Terre Haute, and the Indiana portions of Cincinnati and Louisville) generate over 75% of Indiana's employment, income, and production of goods and services. They drive the state's growth during good times, and their continued weakness has stalled Indiana's recovery since early 2001.

**TABLE 1: METROS HAVE AN IMPORTANT ROLE IN INDIANA'S ECONOMIC ACTIVITY**



## ECONOMIC OUTPUT AND EMPLOYMENT

As noted in Table 1, Indiana's gross output is almost entirely generated in metro areas. This report provides the most up to date estimates of Indiana metro areas' gross metropolitan product (GMP) performance in 2002. Indianapolis is the largest metro area, with over 30% of the state's economic activity—a total of \$61.3 billion in 2002, 2.3% rise from 2001. Fort Wayne generated \$19.2 billion last year (a 2.6% gain over 2001), followed by Gary at \$16.5 billion (unchanged from 2001). Taken together, these 3 metros represented almost 49% of the state of Indiana's economic output. (See Appendix Table 1.)

Over the past 10 years, Indiana's metro economy output increased from \$93.5 billion to \$153.3 billion. In nominal (current) dollars, the 2002 gain for the 13 metros was only 2.3%, well below their average of 5.9% during the boom years of 1992-99. In real (constant) dollar terms, the 2002 gain for metro areas was only 1.0%, as high energy prices and other inflationary pressures ate away much of the nominal gain.

Despite the difficulties of the past year, the metros did add \$59.8 billion to the state's economy over the past 10 years, 79.1% of the total economic growth of the state.

Appendix Table 4 shows the addition in billions that the 13 metros added annually to the economy compared to the remainder of the state.

During the economic expansion of the 90's, the more developed and urbanized metros of Indiana led and drove the state's economic boom. In fact, from 1992-1999, three metros, Elkhart-Goshen and Indiana's portions of Cincinnati and Louisville, matched the rest of the state's economic performance. These three metros expanded 5.8%, the same rate as the state as a whole. And during the recent downturn from 2000 to 2002, these three areas outpaced the state's growth, averaging a 3.4% annual gain compared to Indiana's 2.9%. In addition, several urban areas, Evansville, Lafayette, Indianapolis, and Indiana's portion of Cincinnati, showed their resilience and importance to the rest of the state by growing at 5.0%, 4.5%, 4.0% and 4.1% respectively, while the state as a whole only expanded at 2.9%. (See Appendix Table 3)

From 1992-1999, the 13 Indiana metro areas added the vast majority of new jobs to the state's economy. However, those same metros have been prevented from exiting the recession of 2001 by terrorist fears and the costs associated with meeting this new threat, the war with Iraq, and the continued slump of the heavy manufacturing industries. Although the rest of the state has begun to add jobs, Indiana will not be able to fully recover until these 13 metros recover.

The size of metro area economies illustrates their importance to the state and to the nation. For example, if Indiana's 13 metro areas were counted as a single country, they would rank among the top global economies. In fact, they would rank as the 29th largest economy in the world, just after Turkey and Hong Kong and ahead of Finland and Greece.

The importance of metro area economies can also be illustrated by their size relative to the output of U.S. states. The gross product of the 13 largest Indiana metro areas exceeds the combined output of the 6 smallest states. (See Appendix Table 5)

Within a particular state, a single metropolitan area often dominates the state's economy. In the U.S., sixteen metro areas account for over 50% of the output in the state in which they are located. In Indiana, the Indianapolis metro area provides 36.6% of the state's employment and 30.6% of gross state product. In 31 U.S. states, the combined metro economies contribute 75% or more of the total economic output of the state. Indiana is certainly one of those states—the 13 metro areas combined equal almost 80% of its employment and output.

**TABLE 2: MOST OF INDIANA'S ECONOMIC ACTIVITY OCCURS IN ITS METROS (THOUSANDS)**

|                        | Metro Areas | Rest of Indiana | Indiana |
|------------------------|-------------|-----------------|---------|
| Population             | 4820.2      | 1367.8          | 6187.9  |
| Share of Indiana       | 77.9%       | 22.1%           |         |
| Employment             | 2230.8      | 626.2           | 2857.0  |
| Share of Indiana       | 78.1%       | 21.9%           |         |
| Information Technology | 41.6        | 0               | 41.6    |
| Share of Indiana       | 100.0%      | 0%              |         |
| Financial Activities   | 132.7       | 6.9             | 139.6   |
| Share of Indiana       | 95.1%       | 4.9%            |         |

*Note: Data is averaged from Jan-May 2003*

### THE RECENT PERFORMANCE OF METROPOLITAN AREA ECONOMIES

The jobless nature of the recovery thus far has severely tested the resources of cities and counties, since for the first time in a decade they are encountering increasing demands for social services for those who have remained in the ranks of the unemployed or have dropped out of the labor force altogether. Furthermore, cities have brand new burdens to bear that do not apply to non-urban areas. Terrorist attacks thus far have only occurred in metro areas, and due to the nature of terrorism will likely only occur in large, densely populated cities. Much of the front line defense against these threats falls squarely on the budgets of metro areas in the form of new terrorist units, extra police work, and most importantly, training for first responders and hospitals. As Indiana's metro areas are transportation hubs and tourist destinations, the war with Iraq and terrorism have had a significant economic impact, particularly on Indianapolis.

### METRO AREA EMPLOYMENT CONDITIONS

With the recession hitting Indiana's manufacturing sector first and hardest, heavy industrial areas such as Elkhart, Kokomo, Fort Wayne, and others suffered early. In terms of share of total employment, Elkhart's manufacturing sector ranks the highest of the nation's 319 largest metro areas, at 46.1%. Kokomo's ranks 4<sup>th</sup>, at 30.4%. Since 2000, Fort Wayne has lost over 15,000 manufacturing jobs.

Table 3 examines annual employment gains and losses from 1999 to 2003. The most striking information in this graph is the difference between the metro areas and the rest of the state both during boom years and in the recession. The rest of Indiana began the recession earlier, hit bottom in 2001, and had mostly exited by 2002. In the 13 metros, the recession has been more protracted, and even the timing of the trough is one year later. Indeed, the 13 metros are still saddled with job losses today. (The levels shown for 2003 are annualized numbers, meaning they are estimated figures based on the rate growth during the first four months of the year.) Indiana's economy cannot recover while the locomotive of its economy, its metro areas, is stalled. The rest of Indiana—only 23% of the total state economy—cannot jumpstart the entire state.

**TABLE 3: MOST OF THE JOB LOSSES WERE IN METRO AREAS**

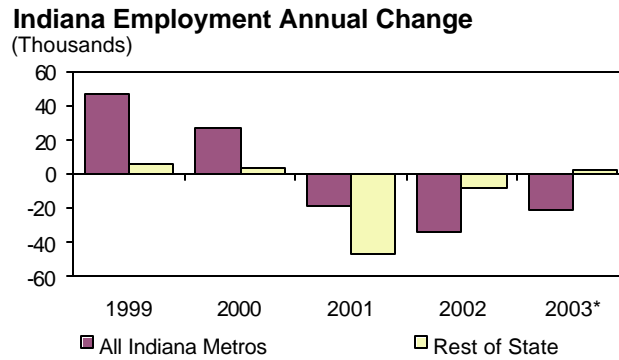


Table 4, below, brings into detail the last two columns of Table 3. It shows how in the last year, the 13 metros shed jobs while the rest of the state actually began to add jobs. Metro areas lost jobs not only in the manufacturing sector, but also the high value added and highly paid sectors of professional and business services and in the financial sector. In addition, government cutbacks are affecting the metros far more than the rest of the state. Shouldering the cost of the war and terrorism has squeezed the transportation and leisure sectors in the metros, while the rest of the state has been largely unaffected.

**TABLE 4: METRO AREAS MUST RECOVER BEFORE INDIANA CAN RECOVER**

**Annual\* Job Additions to the Indiana Economy (2002-2003)**

|                                      | Metro %<br>Total State | Metro Areas | Rest<br>of Indiana | Indiana |
|--------------------------------------|------------------------|-------------|--------------------|---------|
| Total Employment                     | 78%                    | -22,800     | 2,700              | -20,100 |
| Trade, Transportation, and Utilities | 81%                    | -10,500     | 400                | -10,100 |
| Information                          | 100%                   | -1,700      | 0                  | -1,700  |
| Financial Activities                 | 95%                    | -2,800      | 1,200              | -1,600  |
| Professional and Business Services   | 90%                    | -4,300      | 400                | -3,900  |
| Leisure and Hospitality              | 78%                    | -2,500      | 1,900              | -600    |
| Other Services                       | 81%                    | 300         | 1,700              | 2,000   |

*Note: Annual in this chart is a trailing 12 month average (June 2001-May 2002 vs. June 2002-May 2003)*

**THE ROLE OF INDIANA'S METROPOLITAN AREAS IN THE GLOBAL ECONOMY**

Indiana's metro areas provide many competitive advantages that have allowed them to become increasingly important players in the global marketplace. The state's metro areas, particularly Indianapolis, are transportation hubs, serving as the primary point of exit for goods headed for national and international markets. The concentration of transportation infrastructure in metro areas lowers transportation costs, in turn lowering the cost of production inputs, and ultimately providing goods and services to final customers at a lower price.

Telecommunications infrastructure, like transportation infrastructure, is more heavily concentrated in metro areas, providing all of the same benefits. Metro areas have well-developed labor markets that are attractive to both households and businesses. And because centers of higher learning are clustered in its metro areas, Indiana's metros provide essential knowledge workers to the labor force.

Because of all of these advantages, metro areas are the core of new industry development. Metro areas are crucial for the rise of innovation and invention and allow for higher wages than non-urban areas. Developing a new industry, or economic cluster, in a metro area provides benefits to that industry and to the local economy:

- Reduced operating costs of the suppliers of warehousing, transportation, communications, and utilities.
- Increased knowledge and technology transfers between companies, increasing the rate of innovation, growth, and expansion of economic clusters
- Knowledge spillovers create an environment in which ideas move from person to person and from firm to firm, improving productivity and quality of life.
- Increased demand for an economic cluster's output. Part of this demand is internal, created by local businesses and consumers. A large portion is external, exports to other regions and countries.

Indiana's metros are centers of new ideas and creativity. A Federal Reserve study published at the end of 2001 determined that metro areas in general developed and patented far more per person than non-urban areas. Of the top 50 metros in patents per 10,000 persons (per year in the 1990's), two Indiana metros made the list. Kokomo was 27<sup>th</sup> with 4.5 patents per 10,000 persons, and Lafayette was 40<sup>th</sup> with 4.0. The simple factor of having many people work in close proximity to one another was a significantly positive attribute, and contributed to greater innovation and higher productivity. Indiana's metros drive the state economy, provide the lion's share of the employment in the state and are the centers of innovation and creativity that create a greater standard of living for the citizens of the state. As such policy makers should heed the needs and concerns of cities and develop policy that nurture dynamic urban centers.

