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- Area Wage and Income
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From the Director

Insight on Economic Multipliers

Introduction

In this issue, the quarterly focus recaps the recent 2012 year end release of employment and wage data from the Bureau of Labor Statistics. The Director’s Corner offers insight into the logic behind economic multipliers.

This newsletter is also available on our website: http://new.ipfw.edu/centers/cri/reports.

2012 Year End Bureau of Labor Statistics Employment & Wage Data

With every issue, CRI recaps the situation on employment and wage or earnings data, usually from various sources which use different methods to define or collect the data. One of the most compete measures is the Quarterly Census of Employment and Wages (QCEW) from the Bureau of Labor Statistics. This data is based on reports received from business establishments that participate in the unemployment insurance program. It is not a survey and what it offers in terms of accuracy is counterbalanced by the long lag time—often six to seven months. At the end of June 2013, preliminary data was released for 2012.

The charts below identify the average annual pay for Allen County, the state, and the US from 2001-2012. In 2012, the average pay in Allen County was $39,803, up from $39,535 in 2011, a 0.7 percent increase.

![Average Annual Pay](Image)

After leveling out the pay gap with the state and nation the last four years, 2012 data indicates that the gap is once again widening. Average pay in Allen County was 80.8 percent of the US total in 2012, down from 82 percent the last four years.

![Allen County Pay as a Percentage of State, Nation, and MSAs](Image)
Allen County at a Glance

Employment

As in prior editions, both the county employment and MSA employment are shown to fully illustrate employment, although these two sources have differences in who is included as employed. The MSA data is available on a timelier basis (through May, compared to December for the county data). Allen County represents approximately 89 percent of the MSA employment.


Wages and Income

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<tbody>
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<td>Allen County</td>
<td>$39,803</td>
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Unemployment Rate

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<td>U.S.</td>
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Note: Data is not seasonally adjusted.


*2013 is the annualized average using the first 5 months of data, and although not shown in this chart, 2013 is projected to be 1.6 percent higher than 2012.
**Labor Force**

Those actively looking for work and those employed make up the labor force, and in Allen County, a downward trend has been the norm since the start of the Great Recession. As the chart below illustrates, Indiana's labor force has also decreased since 2008, but its downward slide has either stopped or slowed considerably since 2011, unlike Allen County’s. While this is going on here, nationwide, the labor force is increasing. The decrease in the labor force means that most likely persons are dropping out of the labor force. This can be for a variety of reasons, and the common ones identified nationally include: between assignments or temp jobs, retirement, school, family responsibilities, discouraged worker, lack of training, and transportation limitations.

![Changes in Labor Force Since 2003](image)

**Year-Over-Year Changes in Allen County Labor Force**

![Year-Over-Year Changes in Allen County Labor Force](image)

**Unemployment Claims**

In addition to the initial unemployment claims which are usually reported as an economic indicator, there are several other continued unemployment claims programs—extended benefits and emergency unemployment claims. The EU08 (emergency claims) is a federal benefits program payable to those who have exhausted all rights to regular compensation. In Indiana, a resident can qualify for emergency claims after using all 26 weeks of initial unemployment compensation. This program was signed into law June 30, 2008, and a resident can receive an additional 34 weeks of compensation, and may qualify for up to a total of 47 or 53 depending on the three-month average unemployment rate of the state. Following use of EU, a resident may qualify for another program—the EB, or Extended Benefits unemployment claim which will be discussed in a future edition of *Insight*.

![Initial Unemployment Claims Filed: Through June 30 of Each Year](image)

![Emergency Unemployment Claims, Allen County](image)
**Director’s Corner**

*The Economic Impact of Business that Export Goods and Service Beyond the Local Economy*

Why are economic development incentives provided to some types of businesses and not to others? Why do some businesses have a greater impact on economic growth than do others? These and many similar questions all tie back to some fundamental economic development principals.

Let’s envision the economy of Allen County as a pie. If our goal is to increase job and investment opportunities within our community, then we want to grow the size of the pie. There are two basic ways to do this. First, we can seek to increase the volume of goods and services businesses located within Allen County sell to the rest of the world. This will bring net new dollars into our community. The pie grows in size. The second basic way is to reduce the amount of dollars that leak out of the local economy. Every time each one of us travels out of Allen County and spends money elsewhere, or each time one of us purchased something on the internet from a non-local business, those dollars spent “leak” out of our local economy. The same is true for local businesses – every time they purchase something they need to produce their respective good or service from a supplier not located here in Allen County dollars exit our local economy and the pie shrinks.

But what happens if a local business just sells to local residents? The Allen County economic pie neither grows nor shrinks. We just circulate money within the local economy. That is not at all a bad activity. Many of us make our livings by selling goods and services to each other – it just does not grow the pie any larger. For example, a local grocery store will sell nearly all of its food to local residents, an absolutely essential service. However, if we attract a new grocery store to the community, that event will not likely grow the pie any larger. If we have the same number of residents (customers for the grocery business) then the new store will likely displace business from some existing groceries. This type of economic competition occurs every day and most economists would say that this competition is generally a healthy component of the free market economy. But it does not grow the pie and our economic development goal is to grow the pie. In economic development lingo we call these businesses the “non-basic” or “secondary” sector.

For now, let’s concentrate on the first approach to economic development. How do we increase the volume of goods and services that our Allen County businesses “export” outside the local economy? We can either attract new “export” businesses to Allen County or we can assist companies that are already here in expanding their businesses. In economic development speak we call these businesses the “basic” or “primary” sector. These businesses, as they increase the volume of goods and services sold to the outside world, will have a positive economic impact on the Allen County economy and thus we want to encourage this activity.
More attention is frequently drawn to the attraction of a new “basic-sector” business to a community than is usually given to the expansion of an existing business, but all things being equal, they will both have the same impact on growing the local economy. And the latter is usually much easier to do than the former. Across the United States in any given year there are relatively few new projects attracted to a community and thousands of local expansions.

What happens when a basic sector business grows? First it creates new jobs and investment in the local economy. In economist terms this is referred to as the direct impact. These are the numbers that generally accompany a news release about a business expansion or attraction. But for “basic” sector businesses the impact does not stop there. The spending by that business as it buys from local suppliers can cause new investment and job creation by that supplier. This is known as the indirect impact. But the benefits go beyond both the direct and indirect impacts. The new employees at our initial basic sector business will also spend a substantial portion of their wages at local businesses – including buying groceries and other necessities of life. This spending causes some additional new job creation and investment by those businesses which supply goods and services to employees of the “basic” sector business. This third wave of impact is known as the induced impact. The new money brought into the local economy by the expansion of our basic sector business ripples through the Allen County economic several times.

Not all basic sector businesses have the same economic impact on the community. Each has a unique pattern of how much it will purchase locally (impacting the indirect effect) and how much spending will come from its employees (here wage levels of the new employees makes a significant difference). The impact a given basic sector employer will have on the local economy through its direct, indirect and induced impacts is known as the multiplier effect. In the real world, each industry expansion will have a unique multiplier in each given community depending on many variables. Generally speaking the higher the wages paid by the original industry and the more that business purchases its production inputs from local supplier, the higher the multiplier effect is likely to be.

**Multiplier Effect**

\[
\text{Direct Impact} + \text{Indirect Impact} + \text{Induced Impact} = \text{Total Impact}
\]

It would, in most instances, be too difficult to actually measure the indirect and induced impacts of a given business expansion (or economic development project). To provide an estimate of the impact of a given project, we utilize a model of the economy to provide insight on what these indirect and induced effects may be. The Community Research Institute utilizes multipliers provided by Economic Modeling Specialist International (EMSI) when assessing the impact of a given project.

The estimating of the full impact of a given economic development project is best understood by providing an example. Assume a manufacturer that supplies interior trim to be installed in automobiles opens a new facility in Allen County that will employ 100 individuals. This company falls within a specific industry classification (North American Industrial Classification System category 336360). Our EMSI data source tells us average annual earnings in this category in Allen County were $34,054 in 2011. It also tells us that the jobs multiplier is 1.45 for measuring the full impact on the Allen County economy. In addition to the initial 100 jobs created by the new auto parts supplier, an additional 45 jobs will subsequently be added to the local economy through the indirect and induced impacts described above, 18 through the indirect impact and 27 through the induced impact. In addition, the model estimates that in addition to the $3,405,380 of new employee earnings added to the local economy ($34,054 * 100), the indirect impact will add an additional $816,178 earnings to the local economy and an additional $948,556 of induced earnings. Thus the total impact of the new company on the Allen County economy would be 145 new jobs and $5,170,114 in additional employee earnings.

Like any community, Allen County has only a limited amount of funds it can allocate for economic development incentives. If the overall objective is to grow the local economic pie, then it would be appropriate to target these incentives on basic sector business expansion and attraction projects. They will increase the size of the Allen County economy. It also makes sense to further target those limited resources to projects which have relatively high multiplier effects. While there are many other factors that go into the decision of what incentives to offer for each potential project – there is certainly an important role for understanding the estimated economic impact of the given project.