

Manufacturing & Logistics

2010 INDIANA REPORT



Scorecard: Indiana and Neighboring States

	IN	IL	KY	MI	OH	WI
Manufacturing	A	C	A	A	A	B+
Logistics	B+	A	B	C	A	C+
Human Capital	C-	C	D-	C-	C	B+
Benefit Costs	C	D-	B	C-	D	F
Global Position	A	C	A	B	B	C+
Productivity & Innovation	C	B	D-	C+	C	C-
Tax Climate	A	D	C	D	D-	C-
Diversification	C-	C	C	F	C	C+
Venture Capital	C	C	D	C	C	D+

Methodology

The variables in this report were chosen to represent those state level items most likely to be considered by site selection experts for manufacturing and logistics firms, and by the prevailing economic research on growth. Each category was ranked ordinally by state and assigned a rank—lowest being the best. Within each category, the lowest total score assigned provided overall ranking. Grades were assigned using an approximate logistic distribution of grades, “A” through “F”. Plus and minus scores were not assigned to “A” or “F” grades.

See the 2010 National Report for a detailed explanation of variables and scores for all fifty states.

The Manufacturing and Logistics 2010 Indiana Report grades our state in several areas of the economy that underlie the success of manufacturing and logistics. These include specific measures of manufacturing and logistics health; human capital; the cost of benefits; the global position and diversification of the industries; state level productivity and innovation; the tax climate; and venture capital activities.

The recession of 2008-2009 was particularly trying for manufacturers and those who moved manufactured goods. Indiana—heavily blessed with both industries—suffered significant job losses, a decline in income and fiscal stress. While 2009 was a period of much reduced energy costs—down as much as 60 percent from the peaks of 2008—difficulties with access to credit and continued uncertainty about the recovery weighed heavily on investment and hiring decisions by manufacturing and logistics firms.

The recession is clearly over and the United States, as a whole, has seen more than half a year of economic growth. Here in Indiana, job growth has returned and accelerated. As of this writing, the state has experienced three consecutive months of job growth pushing the state to the national leader in new jobs as a share of total employment. At the same time new workers are flooding the labor market. These include high school and college students and workers who had temporarily opted out of labor markets due to dismal demand. Both of these hopeful signs suggest the worst of the global downturn is behind us, and that Indiana will emerge from the recession ahead of most other states. As we noted last year, a longer term view of manufacturing and logistics should provide considerable optimism for investors, workers and communities which rely upon manufacturing and the transportation of goods here in Indiana.

Indiana’s Scorecard

The 2010 Indiana Scorecard illustrates areas in which the state does well, and those in which significant policy and private sector work must be focused to sustain the important economic role manufacturing and logistics plays in the state.

Indiana continues to do well in terms of the total share of manufacturing, ranking No. 1 in the nation and receiving an “A” grade. Indiana’s global position continues to be a high point for the state—as measured by the size and spread of exports across the globe, the state ranks second and received a well-deserved “A.”

Our tax climate also is an enormously important facet of the strength of manufacturing and logistics in Indiana, earning an “A” grade. The state currently ranks fifth nationally for overall tax climate, making it a location of significant interest for firms wishing to relocate or expand in the United States. Indiana’s logistics industry ranks 6th nationally, earning a solid “B+.” While we can improve in each of these areas, these rankings represent significant strengths for Hoosiers who invest, work and live near manufacturing and logistics firms.

The state fares less well in some aspects. A “C” in the cost of worker benefits and overall productivity and innovation are not consistent with long term leadership in manufacturing and logistics. Both of these issues factor deeply into business location and expansion decisions and warrant more focus by state and local policymakers. Likewise, a “C” in venture capital speaks to a climate of weak support for innovative businesses and ideas.

Indiana must be concerned with the diversification of the manufacturing sector, which earns a “C-” grade. The heavy dependency on manufacturing of automotive parts, and assembly increases the volatility of many local economies, a circumstance that is fresh in the mind of civic leaders and residents alike of such hubs of manufacturing as Kokomo, Elkhart and Ft. Wayne.

Perhaps the single biggest factor in business location decisions is the abundance of a well-trained and ready workforce, which makes human capital the most difficult matter facing the state. While Indiana is not at the bottom of the pack, the C- grade is points to a great worry with respect to workforce readiness. This grade also weighs heavily on other areas in which the state does less well: diversification; and productivity and innovation.

Indiana’s Forecast

We expect Indiana to feel the full weight of the recovery in 2010, and return to robust manufacturing growth in 2011. The corresponding table illustrates the year-to-year percentage change in manufacturing income forecast across Indiana and eight major manufacturing cities in the state. We expect 2010 to see small increases in income, with most cities seeing very slow manufacturing growth through 2010. Only Kokomo, Muncie and South Bend will continue to see declines in manufacturing income. We expect a dramatic increase in manufacturing incomes in 2011, with the state seeing a roughly 7.3 percent increase, and Kokomo, Columbus and Elkhart seeing double-digit growth in manufacturing income.

Manufacturing Income Forecast (year-to-year percent change)

City	2010	2011
Columbus	0.022%	12.534%
Elkhart	2.401%	14.312%
Evansville	0.004%	4.215%
Ft. Wayne	0.009%	6.649%
Indianapolis	0.004%	6.344%
Kokomo	-1.180%	17.967%
Muncie	-13.301%	2.943%
South Bend	-0.001%	9.023%
Indiana	0.002%	7.310%

State Manufacturing Compensation (\$M)

