Introduction

This analysis offers a long-term projection of the Indiana and East Central Indiana economy, with occasional reference to the Indianapolis Metropolitan Statistical Area (MSA). A long-term economic forecast differs from a short-term forecast in that it ignores the transient elements of a business cycle. So, this projection looks past the boom-bust cycle of the moment, towards the longer-term factors that contribute to economic growth.

This type of forecast does not ignore the business cycle entirely. The long-term effects of a downturn, such as the COVID pandemic recession, may be significant and play a role in long-run outcomes. Likewise, the policy response to a recession may have long-term effects on output, employment, and population growth. Indeed, I argue in this analysis that deep structural changes to labor markets are settling into the current economy. They will impose a large and persistent effect upon the location of households and businesses. This will carry both risks and opportunities for Indiana and its regions.

State Performance

I briefly begin by offering a short-run forecast, which provides an assumption about the long-term trend in Indiana.

Applying the Indiana Econometric Model, I forecast slowing economic performance across the state and nation (Figure 1). This model projects real annualized GDP growth to slow in 2023 to between 1.1 percent and 1.3 percent in the first half of the year, and recover slightly in the remainder of the year and in 2024. Growth in Indiana will not exceed 2.0 percent in any quarter. This will be slower than the nation as a whole, which will exhibit the same pattern, but with growth averaging roughly 0.25 percent higher over the next eight quarters.

Employment in Indiana recovered to pre-pandemic levels in March, and expansion has continued. However, there are warning signs. Manufacturing employment remains persistently below pre-pandemic levels and has been in decline since May. Job growth will slow, and I project very slow total growth to continue over the next eight quarters (Figure 2).

Figure 1. Real GDP Growth, Annualized Rate, 2022Q4-2024Q4
Source: Bureau of Economic Analysis and the Indiana Econometric Model

Figure 2. Quarterly Job Growth in Indiana, 2021-2024
Source: Bureau of Labor Statistics and the Indiana Econometric Model
Regional Growth

These factors establish the baseline conditions for our long-run projections. For this long-run forecast, I define the East Central Indiana region as Blackford, Delaware, Grant, Henry, Jay, and Randolph counties. Significant analysis of the ECI region is provided in a recent study, “The State of the Rural Economy in Indiana.” However, the choice of counties has no meaningful effect on the overall analysis (Hicks et al., 2022).

I also consider the nearby Indianapolis metropolitan area, which includes Marion, Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Madison, Morgan, Putnam, and Shelby counties. I project population growth through 2040 for ECI, the Indianapolis region, and Indiana (Figure 3).

The Indianapolis region will grow by 20 percent in the four decades preceding 2040. This includes a 3.5 percent increase due to the 2013 addition of Madison County into the official metropolitan statistical area (Indianapolis-Carmel-Anderson, IN MSA). With those considerations, real growth in the Indianapolis region will be about 16.5 percent for 2001-2040.

Indiana’s overall growth during that time will be much slower, at 6.5 percent. However, movement into the Indianapolis region will account for nearly 9 of every 10 new residents to the state. So, Indiana’s population growth is really a story of the economic performance of the greater Indianapolis area.

East Central Indiana can expect a very different story, with its population continuing a long-term decline that has been in place since the 1950s. However, the results of our model suggest that the region’s losses will begin to stabilize over the next two decades. This will occur primarily due to population expansion from the Indianapolis region. In fact, the expansion of the Indianapolis region is already contributing to growth in western Henry and Delaware counties.

Declining population has resulted in decreasing real home prices across the region. These data, extracted from the Census reveal the effects of population decline on the overall demand for housing and, hence, housing prices. The COVID-19 pandemic led to a significant increase in nominal home prices across the nation. The resulting home price increase is currently correcting. I anticipate a return to trend in real home prices in the coming decades.

As of 2019, the median home in the East Central Indiana region was valued lower than it was in 1980, using inflation-adjusted terms (Figure 4). The proximal cause of lower home prices is excess supply of housing.

East Central Indiana has a glut of available housing across most municipal areas. This housing stock suppresses the sale price for new homes. This is explained this in some detail in the recent rural study (Hicks et al., 2022).

I illustrate the excess supply of housing (Figure 5). Again, this excess supply places continued downward pressure on prices, as
homes are a durable investment. This makes new home construction unprofitable for the private sector without substantial subsidies. The combination of continued employment decline and an increase in supply of publicly subsidized homes will exacerbate the decline in long-term housing values of the region.

Economic growth, measured as per capita Growth Domestic Product has stalled in ECI (Figure 6). It is lower today than it was in 2015 and is about 40 percent below the state average. The gap between Indiana and ECI will continue to expand through our forecast horizon. Both Indiana and ECI are substantially below the national average.

These are unwelcome trends to be sure, and are further reflected in cumulative employment growth. Employment growth nationally is heavily concentrated among college graduates who account for nearly 8 in 10 of all new jobs created over the past three decades. Unlike the national trend, employment growth in Indiana is less concentrated among college graduates. Only 1 in 4 new jobs in Indiana since the late 1990s have gone to college graduates (Figure 7). The lower share of college graduate job growth suppresses per capita GDP and personal income. It also reduces demand for housing.

Most of the sluggish job growth among Indiana college graduates is a supply-side issue. Today, Indiana is sending only 53 percent of high school graduates to colleges, down 13 percent since 2015. This is well below the national average and has pushed Indiana into the bottom 10 nationwide for educational attainment. The full effect of this startling decline has yet to be felt; the majority of lost students have yet to emerge from the four-to-six-year college experience.

The decline in college graduates is uniquely a funding issue. Since 2015, the cumulative change in Hoosier kids heading to private colleges and out-of-state schools has actually increased. At Indiana's public universities, first-time freshman enrollment is down by more than 5,100 students per year—a full 6.4 percent of a typical high school cohort. The problem in ECI is worse. There has been only a 0.5 percent increase since the early 1990s.

The mix of employment growth in ECI has reflected the bifurcation of jobs (Figure 8). Net job growth has been positive only for those among the highly and poorly educated workers (age 25 and older). For 25 years, there has been no net growth for workers with a high school diploma or some training short of a bachelor’s degree. This is the ‘flattening’ of the middle class that has captured so much discussion in recent decades.

Unlike the growth of college graduate jobs, this is not primarily a supply-side issue. While some businesses might find it difficult to hire some occupations, there is not the shortage of adults with a high school degree or less in our region.

I know this is not a happy forecast. It is very much like the projections I offered shortly after the Great Recession. One
big difference is that economic conditions in Indiana and East Central Indiana have deteriorated relative to the nation as a whole over that time period. Both the state and our region are in relatively worse shape than they were in the immediate aftermath of the 2007-2009 downturn.

There is no economic analysis that would suggest a turnaround is underway, or that the relative prospects for both ECI and the state as a whole will differ substantially in the next two decades. However, changes to labor markets in the post-COVID period introduce a very different dynamic upon the nation, state, and region. There has been a marked change in the share of workers engaged in remote work (Figure 9). The numbers here are stunning.

Pre-COVID there were maybe 140,000 out of 3.1 million folks in Indiana engaged in work-from-home (home production and remote work). Today there are roughly 1.03 million, a whopping one out of three workers in the state. Of these, 548,000 are full-time remote workers, which is identical to the total number of factory workers in the state. If remote work was a separate industry, it would today be the largest industry in the state’s history. There are more remote workers in Indiana than there have ever been in manufacturing and transportation combined. There are more people working remotely today than people who worked on farms at any time in our state’s history.

Today, almost exactly half of all college graduates in Indiana are working remotely, with one in four full-time remote. Nationwide there are 36 million remote workers. Today there are nearly as many remote workers as there were babies born during the Baby Boom, 1946-1964. Remote work presents the largest, fastest, and most unusual labor market shock we’ve ever experienced.

The issue for Indiana is that remote work uncouples the work and home locations. Even part-time remote work, perhaps one or two days per week, extends the commuter range for employees and removes significant congestion in urban places. As workers, families and businesses begin to better adapt, household location decisions will be increasingly influenced by the opportunities of remote work.

This is preliminary data extracted from a study I’m working on regarding remote work and quality of life nationally. Figure 10 depicts my measurement of quality of life, and population growth pre-COVID and post-COVID in Indiana counties. Pre-COVID population change (2010-2020, annualized) is marked in blue, and post-COVID population change (2020-2021) is marked in red.

Most population change is not due to migration, but to natural change. However, over the recent decades, the role of quality of life has grown substantially and now plays a significant role in both population growth and migration. However, in the first year after the COVID recession, it is clear that the effect of quality of life is now almost three times as large as it was in the decade prior to COVID (0.0006 versus 0.0016 in the two trend lines of Figure 10).

The upshot of this is that the long-term projections offered here are largely at the mercy of the effect of remote work on Indiana and the East Central Indiana region. Places that capture an outsized share of remote workers will perform substantially better than places that attract a smaller share. Today, it is clear that smaller urban places, micropolitan areas, and rural areas are absorbing an unusually large share of population growth.

Indiana is well-positioned geographically to absorb large numbers of remote workers. But, there is a catch—the quality of life effect will dominate much of the future location choices. Quality of life means many different things to different people; in aggregate, it primarily means high-quality schools, good local infrastructure, low crime rates, and a robust opportunity for diverse recreational options.