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Indianapolis-Carmel-Anderson forecast 2022

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The Indianapolis-Carmel-Anderson Metropolitan Statistical Area (MSA) continues to lead the state in economic growth during the long pandemic recovery. This recovery should continue throughout 2022, even though there are significant risk factors.

The potential is there for strong economic growth in the region. The Indianapolis economy has survived the pandemic pretty well, and it has a number of good things going for it as 2022 approaches. Households have a good amount of cash and some pent-up demand from consumers who have held back spending. The Indianapolis population is growing, and the area has a stronger labor force than other parts of the state. Indianapolis will benefit greatly from increased travel and tourism in 2022, due to its reliance on conventions and other large events.

Of course, there are potential headwinds in this recovery as well. A tight labor market means that businesses will struggle to find workers—and will need to pay higher wages when they do. Supply chain disruptions will also hinder growth in an area that is heavily reliant on manufacturing and transportation and logistics. These two factors are contributing to higher inflation readings and suggest that the economy may be overheating in a way that could threaten future economic growth. While these risks are significant, the most likely scenario is that they will slow growth rather than lead to a recession.

Employment and wages

Last year, we forecast that the Indianapolis MSA would fully recover its pre-pandemic employment levels by the end of 2021. This appeared to have been optimistic, as the area is still at a lower level of employment compared to February 2020. As of September 2021, there were approximately 34,000 fewer nonfarm workers in the Indianapolis MSA relative to before the pandemic. While good job growth in the fourth quarter of 2021 will likely close this gap somewhat, we will still finish the year lower than pre-pandemic levels.

Even though employment is lower than pre-pandemic levels, the unemployment rate is still quite low. Unemployment is 3.4% at the time of this writing and falling.[1] This is still higher than two years ago (when unemployment was 2.6%), but the job market is reflecting a full employment level. Last year, we forecast that the unemployment rate would be between 4.0% and 4.5% by the end of 2021, so we can see that the economy has improved faster than expected.

The primary challenge facing managers, business owners and the economy in general is finding qualified workers. Labor force participation remains lower than pre-pandemic levels. This is due to some combination of accelerated retirements, health and family concerns, child care availability, and stimulus/household payments. While some of these challenges won't be resolved in 2022, we expect to see the Indianapolis labor market continue to grow.

Projecting out over the near term, the Indianapolis MSA is poised to grow employment by an annual rate of 2.9% from 2021 2024, based on estimates from the Indiana University Center for Econometric Model Research (CEMR).[2] This rate is higher than any other MSA in Indiana and is stronger than the state average of 2.0%.

Employment sectors

As mentioned above, employment has yet to fully recover back to 2019 levels. **Table 1** shows total jobs and the percentage change over a one year and two year period for some of the larger sectors.[3]

Table 1: Employment by sector, September 2021

Sector	Total jobs (000s)	12-month change in jobs	24-month change in jobs
All employees	1,068.3	1.9%	-2.4%
Trade, transportation and utilities	229.6	1.2%	1.1%
Education, health care and social services	144.5	1.7%	-0.5%
Government	136.3	0.8%	-0.5%
Retail	104.2	4.8%	3.5%
Leisure and hospitality	95.4	5.0%	-13.9%
Manufacturing	94.1	4.7%	0.0%
Construction	61.3	11.0%	13.5%

Source: U.S. Bureau of Labor Statistics

Overall job growth was decent in 2021 relative to a depressed 2020 economy, but employment still trails pre-pandemic levels in a number of sectors. Manufacturing bounced back in 2021, but the number of manufacturing jobs in the Indianapolis MSA is the same as it was in 2019.

Leisure and hospitality jobs are 13.9% lower than 2019, representing a loss of more than 15,000 jobs. This number should see some significant recovery in 2022 as conventions and tourism recover more strongly. Government, education and manufacturing are all negative to flat relative to pre-pandemic levels.

The trade, transportation and utilities sector is the largest job sector in the area. Those jobs have only grown by 1.2% over the last year, but this likely reflects challenges in finding available workers rather than any issues on the demand side. Large distributors, such as Amazon, FedEx, and UPS, continue to look for workers in the area. Supply chain problems are creating challenges for these businesses, but they are still creating jobs in the area. Over the longer term, these businesses are likely to increase their automation levels so that they can reduce their reliance on the large numbers of scarce workers.

Construction and retail are the only sectors to see significant gains over the last two years. Construction jobs are up 11% in 2021, which represents a 13.5% increase over 2019. Looking to 2022, growth will likely be much slower as the potential for interest rate pressure could ease demand for new construction projects.

Real estate

Residential real estate development continues to be a strong driver of growth in the Indianapolis MSA. Permits for new housing are up 14.7% in 2021, on top of strong growth in 2020. Low interest rates and strong household savings are driving demand for new housing in the area. The hot real estate market will likely ease in 2022, especially if mortgage rates rise as expected.

House prices have increased during the pandemic, with prices up about 13.1% over the prior year.[4] Furthermore, the supply of homes for sale has decreased significantly.

Entrepreneurship and small business

While Indianapolis performs well along many dimensions, it lags the country in many entrepreneurship and small business development measures. Indiana (0.25%) ranks well below the national average (0.38%) in the rate of new entrepreneurs each month.[5] This measure tracks the percentage of the population that starts a new business in a given month. While Indianapolis benefits from large corporate employers, a strong economy requires new business creation.

Downtown Indianapolis challenges

Downtown Indianapolis will need to reinvent itself in some ways. Tourism and convention business will definitely pick up in 2022, bringing in welcome dollars from across the country. Residential development in the area marks a shift toward a more balanced and healthy economy. Additionally, a few high-profile development projects, such as Elanco moving its global headquarters to the downtown area, will spur investments in some various areas adjacent to downtown. Continued development along Mass Avenue from the Bottleworks project will drive growth and activity. Investment along Indiana Avenue in the 16 Tech Innovation District brings growth on the northwest side of downtown.

However, these gains risk being offset by transitions in the heart of downtown. Due to continuing work from home trends for professional workers, office real estate will remain underutilized, limiting economic growth for the city. The departure of the criminal justice center will also leave an opening and will hurt businesses that depend on those workers and visitors. Iconic institutions, such as the Indianapolis City Market, struggle to grow and retain customers.

City leaders should focus on increasing residential development of all types directly in the downtown area. In addition to accommodative zoning, city leaders do well to invest in amenities. One such beneficial project is the expansion of the Indianapolis Cultural Trail along the south and west sides of downtown. The North Split construction project is likely dampening downtown's appeal at the moment, but completion of that project by the end of 2022 will improve flow and create better space around downtown.

Forecast

The Indianapolis MSA economy grew more quickly in 2021 than we had forecast the year before. The effectiveness and availability of the COVID-19 vaccines have enabled a strong recovery that will continue for the coming year.

Output in Indianapolis will continue to recover and grow throughout 2022. Output growth will be between 3% and 4%, likely higher in the first half of the year and then slowing later in the year. Unemployment will remain low, and some workers will rejoin the workforce as pandemic effects subside, household savings dwindle and higher wages attract workers back into the market.

Personal incomes will continue to grow as employment grows and wages rise. Total personal income in the area is forecast to rise by 6.3% per year from 2021-2024. These income increases will continue to fuel demand for goods and services in the area, keeping the Indianapolis economy strong.

Notes

1. U.S. Bureau of Labor Statistics, Unemployment Rate in Indianapolis-Carmel-Anderson, IN (MSA) [INDI918URN], retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/INDI918URN
2. Forecasts come from the Indiana University Center for Econometric Model Research (https://ibrc.kelley.iu.edu/analysis/cemr/), September 2021.
3. U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Indianapolis-Carmel-Anderson, IN (MSA) [INDI918NA], retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/INDI918NA

4 U S Federal Hou ing Finance Agency, All Tran action   Hou e Price Inde   for Indianapoli   Carmel Ander on, IN (MSA) [ATNHPIUS26900Q], retrieved from FRED, Federal Re erve Bank of St Loui , https://fred.stlouisfed.org/series/ATNHPIUS26900Q

5 See report   from the Kauffman Indicator   of Entrepreneur hip project at https://indicators.kauffman.org/reports.