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"I have no way of judging the future but by the past," said Patrick Henry in 1775—and most would agree with it even today. I know I do. But we also know that the future, particularly for those making capital-intensive decisions about the future of business or government, holds greater interest. This Outlook edition of the *Indiana Business Review* has long been our most widely read issue. As the 1996 calendar year winds down, more and more people are seeking prognostications on the future of the 1997 economy. We and our readers are grateful to the faculty of our business school and from other schools and universities around the state who are able to look at past performance and formulate likely possibilities for the future.

These articles and other economic and demographic information are available through our World Wide Web site: http://www.bus.indiana.edu/research/ For more information, please contact us by phone at 317-274-0897; fax 317-274-3312. My electronic e-mail address is rogersc@indiana.edu

The National Economic Outlook

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and Willard E. Witte

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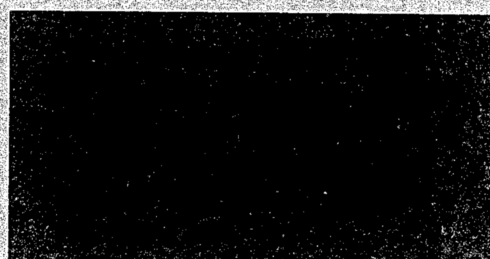
The American economy shifted direction in the third quarter of 1996. After roaring ahead in the second quarter, sales fell drastically in the third. Growth in final sales was only 0.3% at an annual rate, compared with 4.1% in the previous quarter. Except for business investment, demand was weak across the board. Growth of consumption purchases fell from 3.4% to 0.4%, while spending on goods, both durable and nondurable, actually declined. Exports grew only 0.6% (down from 5.7%), producing an increase of $17.5 billion in the net export deficit. Finally, government purchases, which were distorted upward in the second quarter by the aftermath of the government shutdown, declined at a 1.4% rate.

With the current expansion now nearly six years old, it is possible that the third quarter weakness represents the beginning of a more severe downturn. There was a substantial buildup of inventories during the quarter (accounting for virtually all of the 2.2% growth in real GDP), which could set the stage for lower production during the present quarter, especially if demand does not turn around.

An additional element in this gloomy scenario could be the situation in the labor market. The unemployment rate has fallen to 5.2% and labor compensation rose at a 4.6% rate, whereas labor productivity fell slightly, implying a significant increase in unit labor costs. These potentially inflationary developments make it at least conceivable that the Federal Reserve might move toward higher interest rates in the near future.



The third quarter, however, was only a pause in the expansion. It is our forecast that demand will indeed revive during the fourth quarter, allowing the economy to continue the unexciting but adequate growth that has characterized the past year and a half. During this period, the year-over-year rise in real GDP has fluctuated narrowly around the long-run growth of potential output. Over the same period, the increase in overall prices has remained in a very narrow range at just over 2%. In fact, the increase in prices has moderated slightly in the past year and a half.

Recent monthly data are partly responsible for this optimism. The behavior of employment and income is particularly important. Over the past six months, payroll employment has risen over 1.3 million—a monthly average of 218,000. The data from the household survey for civilian employment show an even stronger increase of 255,000 per month. This strong job market performance translates into healthy income growth. Real disposable income is up at a 3.6% annual rate over the past half year. It is unlikely that consumption will collapse in the face of rising income and a good labor market.

Data on auto sales and consumer confidence confirm this view. After weakening in July, auto sales have rebounded this fall, and sales of light trucks even more so. Consumer confidence has also remained at high levels. September orders for durable goods rose by a very good 4.9%. Demand for capital goods was especially strong, indicating a continuation of the strong business investment of the past three years.

At the same time, we do not foresee a real boom in economic activity. Government expenditures—nearly a fifth of the economy—are unlikely to register any significant increases for the foreseeable future. In the trade sector, import growth will probably match any renewed growth in exports, leaving the net export deficit stable at best. Housing will also be a drag on activity. Housing starts have fallen in three of the past five months. We expect no growth in residential investment until mid-1997.

The upshot is that we expect more of the same: an economy that grows slowly, in line with productive capacity. This growth is sufficient to generate some elevation of inflationary pressures, leading to the possibility of Federal Reserve tightening during 1997. Some of the details include the following:

• We see real GDP growth at a 2% rate in the fourth quarter, with final sales rising at a 2.3% rate. Growth during both 1997 and 1998 should be 2.2% (year over year).

• This expansion is sufficient to keep the unemployment rate at or slightly below its current level, resulting in a further increase in wage rates, with hourly compensation increases edging above 5% during 1997.

• Rising costs will slowly find their way into prices of goods. We are forecasting a fourth quarter to fourth quarter increase in the GDP deflator of 2.7% in 1997 and 3.3% in 1998.

The economic expansion continues to be led by business investment. There is reasonable strength in consumption, particularly in durable goods. Exports also show moderate growth, but less so than in the past two years and matched by rising imports. Residential investment is generally weak, with a very modest recovery in mid-1997 before weakening in 1998 in the face of rising interest rates. Government purchases will see little change in real terms over the next two years. This outlook is underpinned by a set of assumptions for policy and the international environment, which are little changed from our framework of the past year or so.

Fiscal Policy

Our forecast incorporates an approximation of the welfare reform package. Federal transfer payments will be lowered by about $35 billion, and grants to states will be raised by about $25 billion. At the state level, transfer payments will rise by about $30 billion (implying some budget squeeze at that level). All of these changes should be phased in during 1997.

The control forecast also contains some modest reductions in federal taxes during 1997, to the tune of about $25 billion. This is roughly the magnitude of the cuts proposed during the election campaign by President Clinton.

Monetary Policy

At its September meeting, the Federal Reserve again maintained its stance on short-term interest rates, holding its target for the federal funds rate at 5.25%. With recent data more subdued, it is unlikely that the Fed will upset the status quo during the next several months. Indeed, the sustained moderate growth in our control forecast produces little rationale for a change in the Fed's stance until late in 1997, when rising inflation should produce a modest increase in short-term rates.

International Assumptions

Exports of goods and services were stagnant in the third quarter. The outlook here is one major risk to our forecast. We anticipate a revival of export growth to rates above 6% over the next two years. Economic conditions abroad are relatively good, but the prospect looking ahead has clear uncertainties. One is the pressure for fiscal restraint in Europe in preparation for the European Monetary System. Another is the state of recovery in Mexico.

The value of the dollar on a trade-weighted basis has moved in a relatively narrow range for the past two years, and we expect this to continue.

Summary

The slow growth we foresee is not exciting, but it is actually a relatively optimistic forecast. Any significant deviation in either direction would probably spell trouble. One alternative would be a continuation of the weak demand of the third quarter. This could involve some shock, which would cause consumption spending to stagnate, accompanied by continued weakness in exports. This in turn could lead to deterioration of the labor market situation, with unemployment rising.

Risks to the Forecast and Economic Policy Issues for the President and Congress

Bruce L. Jaffee

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Our forecast of real growth in the overall U.S. economy of between 2.25 and 2.5% is impressive, especially in light of the fact that we have had only one short and relatively mild recession in the last 15 years. The economy used to be described as an elevator with often sharp movements upward and downward. Its performance in recent years has been more like an escalator, with gradual upward movements interrupted only occasionally by small adjustments to "a lower floor."

Though we certainly will see pauses and recoveries in future years, the U.S. economy will likely demonstrate less volatility in the next ten years than it has experienced in the decades immediately following the end of World War II. Key factors that have caused more stability in the U.S. economy include a greater share of economic output coming from the service sector, a stable and cautious monetary policy followed by the Federal Reserve, better control over traditionally volatile inventory levels by businesses, and the expansion of many markets internationally, broadening both the customer base and sources of supply for many critical products.

For 1997, there are a few clouds on the horizon that may cause some turmoil in the economy. Overall, there is more downside risk to our forecast than there is upside potential. Of some worry is the sharp increases in energy prices in the last 12 months. For example, oil prices are up about 30% and natural gas prices are up about 40%, compared to last year. Although the increases for ultimate customers will, in general, be much smaller than these rates of increase, they could still reach the double digit level.

Wage pressure is likely to increase as the economy continues to push close to capacity, especially if inflation moves above the 3% annual level. Growth in labor productivity has slowed dramatically. With new low-skilled workers forced to enter the job market because of welfare reform legislation, productivity improvement at the national level is unlikely in the near future. Consumer debt delinquency, especially for credit cards, is inching up toward trouble-some levels. Declines in consumer confidence, increases in inflation, and the likelihood of higher interest rates are all of some concern.

With the re-election of President Clinton and with the Republicans retaining control of both the House and the Senate in Washington, there may be an opportunity to consider policies and other initiatives that could be the keys to sustaining the growth record of the last 15 years—possibly even to increasing the rate of growth up to the 2.5 to 3% level. Four objectives can be offered to Congress and the President as critical to sustaining long-term economic growth:

- Encourage additional savings.
- Enhance human and nonhuman capital formation, especially in the business and public sectors.
- Reduce regulatory taxes and rules.
- Further promote free trade.

Key policies in this area that need quick attention include topics that have been discussed by economists and policy makers for years. However, there may now be an opportunity to make significant changes. One important element is to replace or supplement our income-based tax system with a consumption-based one and reduce tax breaks and other preferences that encourage consumption, including spending on housing. The complexity and unpopularity of the income tax system require a major reform, not just simplification. It is time for serious consideration of options ranging from flat taxes, broader definitions of income, and the value added tax (VAT).

[illegible]

A second challenge facing Washington is to reduce the growth in major entitlement programs, including social security, Medicare, and Medicaid. The review must include eligibility rules, further taxation of social security benefits, and even privatization. Another critical element facing policy makers is further promotion of free trade. The greatest potential gain in this area will probably be expanding NAFTA to include Central and South America. Latin American countries are growing rapidly and have many industries that are complementary to the U.S. economy. Moreover, the seasonal differences between the hemispheres create logical gains for trade that have yet to be fully exploited.

The year 1997 is likely to be a solid year in terms of economic performance, but also a watershed year in terms of policy. The President and Congress have an opportunity to work together to solve some of the long-term problems facing the U.S. economy without the pressure of a near-term election or the need for a short-term fix to an ailing economy. Our leaders have seldom taken advantage of these opportunities, but we can nevertheless remain hopeful.

Housing

Jeffrey D. Fisher

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The housing sector was a key element of the third-quarter slowdown process. Now it promises to be a drag on growth in the fourth quarter as well. Housing starts declined by 6% in September to an annual rate of 1.4 million—still a robust figure. The starts estimate for September was the lowest of the year, but it was well ahead of the 1995 total of 1.35 million. The estimate for building permits indicates a 2.9% decline from August to September.

The decline in August was driven by a reduction in single-family housing starts. Although multifamily production remained relatively strong, the single-family data reflect the Housing Market Index, which has shown a steady drop in builders' reported sales, customer traffic, and expected sales over the past six months. At an annual rate of 1.1 million, single-family starts in September were down by almost 9% from August, falling to the lowest rate of the year. Single-family permits fell 3.6% to 1 million—also the lowest of the year. In August, starts had been high relative to permits, so the two September values were more in line.

The September meeting of the Fed's Open Market Committee resulted in no action to boost short-term interest rates, and mortgage rates began to ease. Several indications of slowing economic growth have now appeared, lowering the rates further and justifying the Fed's decision.

The rate of multifamily housing starts continues to average over 300,000, and the total for 1996 should be as high as any year in the 1990s. Recent multifamily production has been dominated by larger, market-rate rental units in low-rise structures, with an apparent concentration on the high end of the rent market continuing. Whether there is a demand for more luxury rentals is unclear, and the test will come when the many units now in the pipeline are completed. Builders are hoping enhanced services and amenities, combined with desirable locations, will lure residents even though many of their potential customers are able to buy homes instead.

The national median home price rose 6.5 percent—from $107,000 to $114,000—during the period from second quarter 1995 to second quarter 1996. In Indiana, the median home price over the same period had risen from $79,000 to $86,500, representing a jump of 9.5%. Such continued strength in the Indiana housing market results from the state's housing being more affordable relative to the rest of the nation. The housing affordability index in the second quarter dropped to 161 from 168 the year before. For the nation, the increase was eight points to 133.

At an index of 161, a Hoosier family with a median income of $38,465 can afford to purchase a home costing $139,265, or 61 percent more than the median-priced home. This means Indiana homeowners are earning more on their housing investments than in most other places they could put their money. A look at **Table 1** gives an idea of the price and affordability of homes in selected areas of Indiana.

(Adapted from *Housing Market Statistics* (Overview), National Association of Home Builders, November 1996; additional source: *Housing Economics*, NAHB, November 1996.)

Table 1
Indiana Housing Affordability Index, Selected Regions, Second Quarter 1996

	Median Home Price			*HAI*		
Geographic Area (with Region Number)	*2Q96*	*1Q96*	*2Q95*	*2Q96*	*1Q96*	*2Q95*
United States	$114,000	$114,300	$107,000	133	127	125
Indiana	86,500	82,000	79,000	161	180	168
1 - Gary/Hammond-Valparaiso	95,000	95,000	89,000	158	167	162
2 - Michigan City-LaPorte	77,250	67,900	73,000	175	211	177
3 - South Bend-Mishawaka	72,000	67,500	63,950	193	218	207
4 - Elkhart-Goshen	80,000	78,900	78,200	183	196	177
5 - Fort Wayne and Region	79,000	80,000	76,900	187	196	185
6 - Lafayette	102,000	93,500	93,752	141	162	146
7 - Kokomo	69,950	73,000	63,000	209	211	221
8 - Marion	49,900	52,500	45,000	256	257	271
9 - Anderson	73,900	71,500	62,000	179	195	203
10 - Muncie	66,900	62,500	63,000	193	219	197
11 - Terre Haute-Vincennes	59,000	56,700	51,125	200	219	220
12 - Greencastle	84,434	91,000	84,312	159	155	151
13 - Indianapolis and Region	102,500	96,300	94,900	156	175	160
14 - Bloomington	107,500	101,500	96,000	126	141	135
15 - Columbus	105,700	105,216	93,750	145	153	154
16 - Southeast Indiana	85,000	85,000	81,000	153	161	152
17 - Evansville Region	79,100	71,000	66,000	172	203	199
18 - Jasper Area	93,975	57,000	72,500	158	275	194
19 - Southern Indiana	79,950	78,398	68,500	164	177	182
20 - Northeast Indiana	0	66,500	71,000	n/a	213	178
21 - Warsaw-Kosciusko County	77,275	82,000	72,250	183	182	186
22 - Richmond	67,500	63,000	57,000	174	197	198

Median Family Income for 2Q96: State = $38,465; U.S. = $39,900
Median home prices are revised quarterly as additional data become available.
U.S. figures provided by the National Association of Realtors® "Real Estate Outlook" report; Indiana home prices are produced by the Center for Real Estate Studies, IU School of Business

Indiana's Economy

Morton J. Marcus

Director, Indiana Business Research Center; Co-director, Indiana Center for Econometric Model Research; and Lecturer, Business Economics and Public Policy

The economy of the Hoosier state is seen as booming. Certainly, all-time records are being set. Total personal income, employment, and earnings are all higher than at any time in the past. Nevertheless, caution is advised.

Taking the long-term view, **Figure 1** shows that the real earnings of Indiana's workers have risen dramatically since 1983. It should be noted, however, that real earnings did not surpass their previous peak achieved in first quarter 1979 until ten years later. This left Hoosiers with a cumulative loss of earnings that still totaled $25.7 billion in mid-1996, or 30% of the annual rate of earnings at that time (see **Figure 2**).

Although Indiana's real earnings began to rise steadily in 1983, the state's share of earnings in the U.S. failed to show any significant and permanent improvement until 1990 (see **Figure 3**). Recent events have begun to erode those gains, as discussed below.

Today, Indiana is in the fourth business cycle since 1969. Our longest contract occurred between the start of 1979 and mid-1983 and lasted for 18 quarters (see **Figure 4**). This was followed by an expansion of 28 quarters that ended in mid-1990. The current expansion has reached 21 quarters and continues.

During expansions, Indiana's economy usually grows faster than the national economy (see **Figure 5**). But from mid-1983 to mid-1990, Indiana did not keep pace with the nation, resulting in the weak relative performance noted in Figure 3 for that period.

In contrast, during contractions of the national economy, Indiana has more severe declines (see **Figure 6**). Both of these patterns are derived from our state's dependence on durable goods manufacturing. Consumers and businesses find they can easily defer buying cars, trucks, elevators, refrigerators, heating and cooling equipment, and other investment items when the economy is weak.

Thus, changes in the national economy produce strong swings in the earnings of Hoosiers. But as **Figure 7** reveals, Indiana's percent changes in real earnings (measured from quarter to quarter at annual rates) are greatest when the national economy is growing rapidly. Moderate changes in the national

Figure 1
Indiana's Real Total Earnings

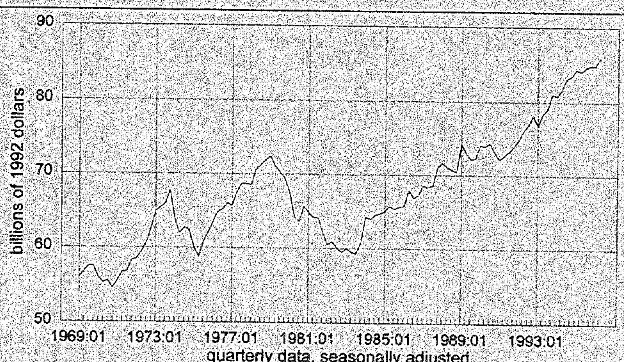


Figure 2
Cumulative Loss of Indiana Earnings

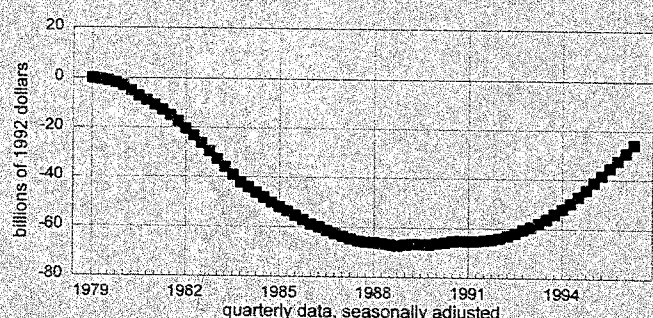


Figure 3
Indiana's Share of Real Earnings in the U.S.

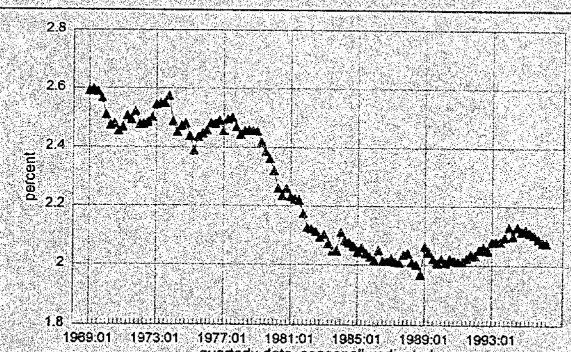
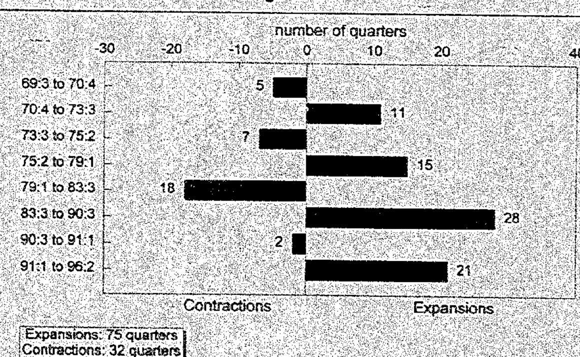


Figure 4
Cycles in Indiana's Real Earnings



economy—under 5%—produce slower growth in Indiana. Then, when the ~~national~~ economy declines, Indiana declines faster. This suggests that Indiana relies on robust national economic progress to outperform the nation. With quarterly growth rates under 5%, our share of the nation's earnings would decline.

Recent Experience

Lackluster U.S. economic growth tends to work against Indiana. As the nation recovered from the 1990-91 recession, Indiana's economy gained relative to the nation (see **Figure 8**). But since the start of 1994, and particularly since first quarter 1995, Indiana has been losing ground as the nation's economy makes less vigorous advances.

From the beginning of 1995 until mid-'96, Indiana has managed a 1.5% average annual rate of growth in real earnings, compared with a 3.3% rate nationally. Our state is among the ten slowest growing areas of the nation (see **Figure 9**).

An analysis by sector (**Figure 10**) shows that durable goods declined in Indiana despite growth in the nation. We also saw a decrease in construction and mining earnings. (It should be remembered that stone and gravel, which are products mined in our state, are used in construction activities.) In addition, we realized lower real earnings in the government sector while a modest gain was recorded nationally.

The fastest growing sector in Indiana and across the nation continues to be services. Indiana outperformed the U.S. in both the retail and non-durable manufacturing sectors.

In 1995 and 1996, Indiana did not add jobs as rapidly as did the rest of the nation (see **Figure 11**). In addition, the number of people employed in the state has fallen for the first time since the recession year of 1991 (see **Figure 12**).

Although questions may be raised about the reliability of the data, employment figures for Indiana show that 67 counties had fewer people employed in September 1996 than in the same month a year earlier. Nevertheless, unemployment rates fell during that year in 54 counties. This occurred because the labor force is also reported to be declining in 71 counties.

Figure 5
Indiana Earnings in Expansions

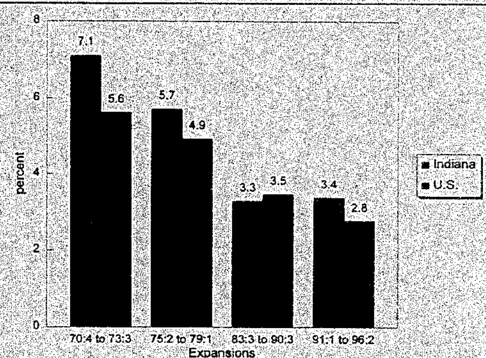


Figure 6
Indiana Earnings in Contractions

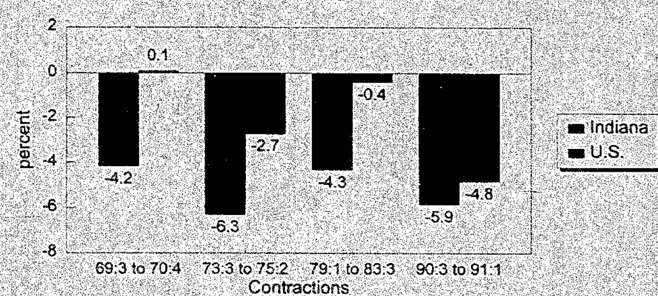


Figure 7
Comparative Growth Rates in Real Earnings

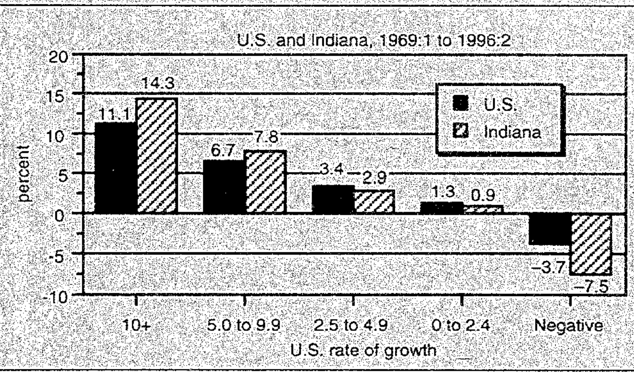


Figure 8
Real Earnings in Indiana

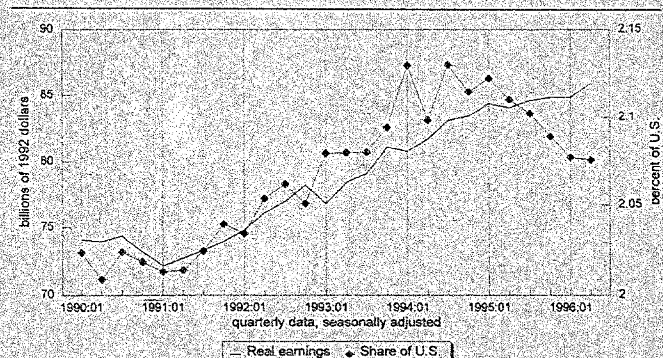


Figure 9
U.S. Economic Growth

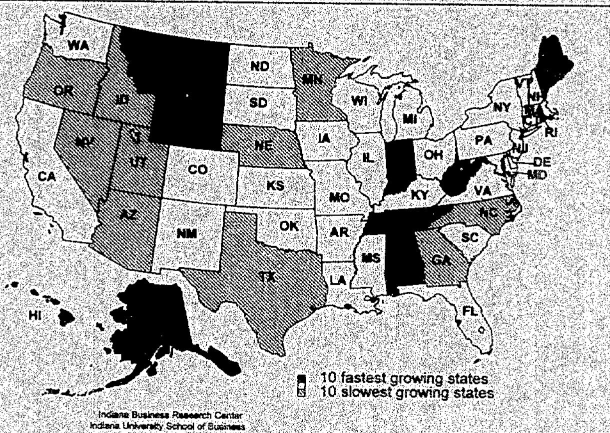


Figure 10
Comparative Growth by Sector, 1Q95 to 2Q96

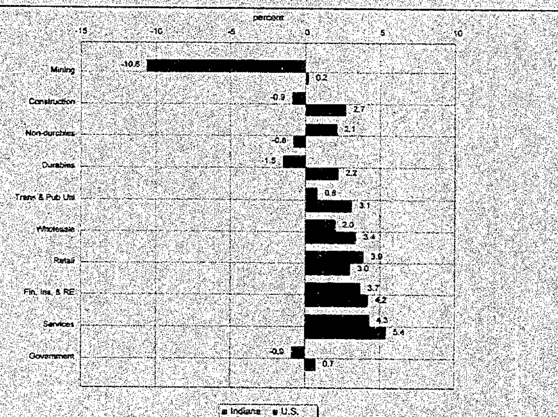
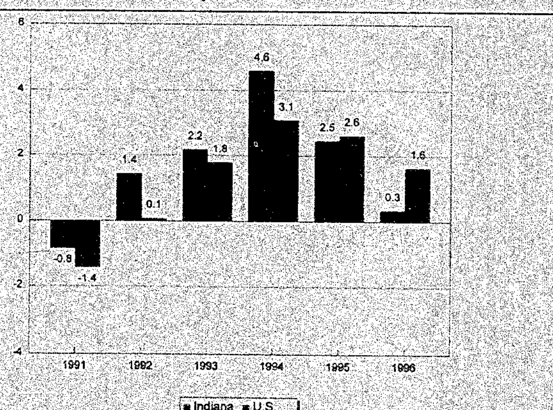


Figure 11
Growth of Establishment Employment



County level data are notoriously suspect. Unfortunately we have no better indicators. Businesses across the state tell tales of difficulty in finding qualified workers. Such stories are reinforced by data that show 12 counties with unemployment rates under 2.5%, while only 17 counties remain above 5% (see **Figure 13**).

The Year Ahead

The year 1997 is expected to be a year of slower national growth. If past patterns are followed, Indiana should experience very slow earnings and employment growth. The evidence presented above suggests the slowdown has already begun in Indiana, though it may not yet be perceived by many firms or communities. The variety of our local area reports suggests that 1997 will reveal different faces to the many communities of our state. As ever, diverse local conditions can form a confusing mosaic of the state's economy.

Figure 12
Growth of Indiana's Employment

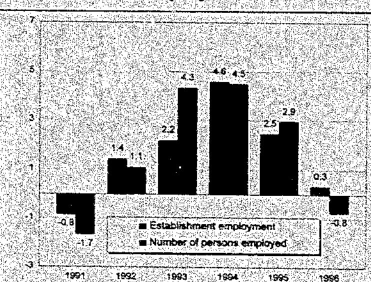
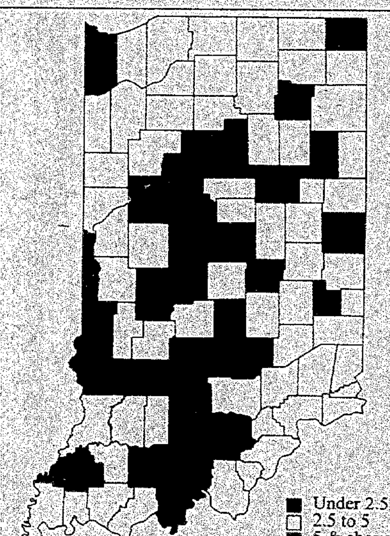


Figure 13
Unemployment in Indiana Counties



Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University at Indianapolis

Employment in the nine-county Indianapolis metropolitan area is expected to increase 1 to 1.5 percent for 1997. This is a smaller rate of increase than in recent years, and reflects a slowdown that appeared in 1996. Real personal income is forecasted to increase 2.5%.

The Track Record

How has the Indianapolis metropolitan economy done compared to other metropolitan areas? **Table 1** shows employment change by industrial sector for selected metropolitan areas between 1993 and 1995.

Table 1
Employment Percent Change for Selected Metropolitan Areas by Industrial Sector Change: 1993 to 1995

	TOTAL	*Const.*	*Mfg.*	*TCPU*	*Trade*	*FIRE*	*Services*	*Govt*
Columbus, OH	7.8	13.9	1.2	12.0	11.1	5.6	11.0	1.5
Detroit	6.0	18.2	7.5	7.5	4.6	-1.0	9.7	-2.8
INDIANAPOLIS	**5.9**	**9.7**	**2.8**	**8.4**	**7.6**	**2.9**	**8.5**	**0.9**
Louisville	5.7	7.4	2.8	10.2	8.9	-1.1	7.6	-0.3
Cincinnati	5.1	8.1	-0.7	7.0	7.2	9.4	6.6	2.3
Chicago	4.9	4.8	2.9	5.0	4.8	0.1	7.9	4.2
St. Louis	4.8	10.9	1.1	3.7	5.2	3.4	7.7	1.1
United States	5.3	12.4	1.8	6.2	5.5	2.8	8.6	2.3
Seattle	3.3	-0.2	-8.1	4.8	6.2	-2.5	9.7	3.9

KEY: TCPU = transportation, communications, and public utilities; Trade = wholesale and retail; FIRE = finance, insurance, and real estate; Govt = federal, state and local

Source: U.S. Bureau of Labor Statistics

Table 2
Population Change for Selected Metropolitan Areas: 1993 to 1995

Columbus, OH	2.0%
Detroit	0.4%
INDIANAPOLIS	2.4%
Louisville	1.4%
Cincinnati	1.2%
Chicago	1.5%
St. Louis	0.8%
United States	1.9%
Seattle	1.9%

Source: U.S. Bureau of the Census

Table 3
Population Change for Indianapolis MSA Counties: 1993 to 1995

Boone	3.9%
Hamilton	10.2%
Hancock	5.4%
Hendricks	5.6%
Johnson	5.2%
Madison	0.6%
Marion	0.4%
Morgan	4.5%
Shelby	4.5%

Source: U.S. Bureau of the Census

Why these particular areas? The U.S. is there for overall comparative purposes; Seattle because *Fortune* ranked Seattle, Denver, and Philadelphia as the best cities in the nation for work and family; St. Louis and Cincinnati were ranked 6th and 7th in the same ranking. These rankings were based on quality of life, accessibility, and state and local taxes—as well as the cost of a martini.

Back to Table 1: Indianapolis ranked third in total employment change. The industrial sectors exhibit much more volatility than the total. With the exception of Detroit (automotive) and Seattle (aerospace), manufacturing was not a major contributor in employment change, although its earnings per employee are relatively high. The FIRE (finance, insurance, real estate) sector showed quite a range of change, with mergers, acquisitions, and downsizing playing a role. Government's magnitude of change was relatively low as elected officials and public administrators have been working to control the size of government and make it more efficient.

Labor Shortages and Population Change

The availability of labor has become a significant issue. Changes in labor supply may come from decreases in unemployment rates, increases in labor force participation rates, and population change. Estimates of population change are based on natural increase (births minus deaths) and net migration (which can be either positive—more births than deaths—or negative—more deaths than births). **Table 2** shows population change among these selected metro areas.

Indianapolis leads competing areas in the Midwest (including St. Louis and Cincinnati), the U.S., and Seattle. Detroit is an example of an employment increase being met primarily by decreases in the unemployment rates and increases in labor force participation rather than population growth.

How has the population growth been distributed across the Indianapolis metropolitan area? **Table 3** shows the spatial variation among the nine counties that comprise the Indianapolis MSA. This differential pattern has put pressure on municipalities to build infrastructure and seek ways to finance the improvements, especially in areas where the growth in tax base has been primarily residential. The Indiana General Assembly provided legislation enabling municipalities to impose impact fees. This has caused some developers to question the ways in which the fees have been imposed by these municipalities. For some school corporations, the growth in residence has meant significant growth in the number of school age children and the need for expanded school capacity. In some cases the scale of the proposals has generated taxpayer opposition.

With regard to the property tax, the Indiana Tax Court found that the method by which Indiana assesses the value of real property violated the uniformity provisions of the Indiana Constitution. The State of Indiana has appealed the decision to the Indiana Supreme Court, where a final decision is anticipated soon. Study committees of the Indiana General Assembly are considering alternative assessment methods. Until this issue is resolved, there will be uncertainty about the tax burden shifts that can inhibit economic decision making. Similarly, if there is discussion about major state-level tax reform, consumer decision making may be cautious until the shifts in tax burdens are identified.

Table 4
Major Consumption Expenditure Categories as a Percent of Personal Income for the U.S.

Selected Years	*Durable Goods*	*Nondurable Goods*	*Services*
1959	10.8	37.7	32.3
1965	11.4	34.5	34.1
1975	10.1	32.0	36.1
1985	10.5	27.0	41.2
1995	9.9	24.3	46.4

Source: Federal Reserve Bank of Boston

Table 5
Annual Change Rate in Expenditures, 1985 to 1995

Expenditures	*Durable Goods*	*Nondurable Goods*	*Services*
Total Expenditures	5.3%	4.8%	7.2%
Price	1.7%	2.9%	4.4%
Quantity	3.5%	1.9%	2.7%

Source: Federal Reserve Bank of Boston

Table 6
Major Service Expenditures as a Percent of Personal Income

Selected Years	*Medical*	*Personal Business*	*Education & Research*	*Religious & Welfare*	*Recreation*
1959	4.2%	3.5%	1.0%	1.3%	1.6%
1995	12.9%	6.1%	1.8%	2.3%	2.7%

KEY: Medical = hospitals, physicians, other professional services; Personal business = brokerage fees, investment counseling, bank service charges, life insurance, legal expenses.

The Decline in Saving, or, Where did the Money Go?
Personal saving as a percent of GDP declined during the 1980s and 1990s. The money went instead into increased consumption expenditures. In what forms did these expenditures occur and how do they relate to the employment changes in Table 1? In **Table 4**, major consumption expenditure categories (as a percent of personal income) are shown as they have changed nationally since the late 1950s.

This table shows that we are allocating relatively more of our expenditures for services than for nondurable goods. Expenditures are price per unit multiplied by the number of units. Annual rates of change in expenditures, with the components, price, and quantity are listed in **Table 5**.

For durable goods, the rate of increase in quantity was greater than the rate in price, whereas for services the opposite occurred. How does this table contribute to an explanation of the relative success of the rise of the Rust Belt, including Indianapolis, during the 1980s and 1990s? Because our region produces a lot of durable goods, we benefitted from the strong increase in the quantity of durable goods. Upward price pressure has been dampened by increases in labor productivity and competitive pressures. However, there is concern about the strength of new car sales for 1997, because the retail price of used cars has been falling. This means consumers will have less credit from their trade-ins when determining the price on new vehicles.

We can see in Table 5 that the pattern for service expenditures was the opposite of durables—the rate of price increase was greater than the rate of quantity increase. As the durable goods sector faced stiff competitive pressures in the 1980s, those same pressures are now having to be faced by the service sector in the 1990s.

Changes in Service Expenditure Patterns
What kinds of services do we purchase? The major expenditures and their composition (relative to personal income) are shown in **Table 6**. In 1959, 4.2% of personal income was spent on medical services; in 1995 the amount was 12.9%. What is the implication for Indianapolis and other urban areas? Many of these activities have been urban-located, so during the 1980s and 1990s urban areas in general and Indianapolis in particular experienced strong employment growth in these areas.

Efforts are now being made to reduce the rates of increase in the prices of these services. Health care is an example of where attention has been directed toward dampening rates of growth in both price and quantity. Thus, we are not getting the same stimulus to employment growth in services as we did in recent years.

Do Urban Areas Have a Future?
During the 1980s, metropolitan population growth rates exceeded non-metropolitan rates nationally. However, non-metropolitan growth rates have recently been exceeding metropolitan ones. Bill Gates of Microsoft writes about the information highway in *The Highway Ahead:*

> Over the past hundred years most of the population of the industrialized world has chosen to live in urban areas, after consciously or unconsciously balancing the pluses and minuses. The information highway changes that balance. For those who have a connection to it, the highway will substantially reduce the drawbacks of living outside a big city.

In terms of population growth, as the information in Table 2 indicates, Indianapolis did well during 1993 to 1995 relative to Indiana and the United States. However, as the nation moves toward the year 2000, we may increase our rate of saving because of the aging of the Baby Boomers and because of incentives from proposed tax reforms to promote capital formation and maintain the financial stability of entitlement programs. If we do, then we may see a different composition of employment gains than we did based on the shift to consumption expenditures when the saving rate declined. We will need to develop new goods and services and control costs of production relative to other metropolitan and non-metropolitan areas to maintain our employment base.

Anderson

Barry Ritchey

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Economic stability is a good thing to have, but Madison County hasn't always experienced that luxury. In the 1990s, the local economy has improved over the performance of the last decade. The growth toward a more stable environment can be seen in three important aspects of this local economy: the labor market, personal income, and new construction.

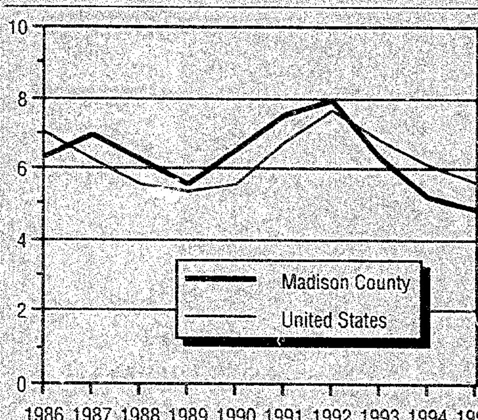
It is helpful to separate the labor market into issues of unemployment and employment mix. Looking first at unemployment, we see some strong evidence of more stability for Madison County. **Figure 1** relates the local unemployment rate against the national rate. When the nation entered the recession of 1986-87, Madison County fell into a deeper recession. This is not uncommon for a durable goods-based economy. Quickly into a recession, quickly out would be common for such an area. However, the national recovery came more slowly to Madison County. Slow recoveries had characterized this local economy for both recessions of the 1980s.

Not only was it quick to contract and slow to recover, the depths of its business cycles were stronger than the nation's during the 1980s. Our highest unemployment rate during the 1980s was 16.7% (1982) and the lowest was 5.5% (1986). From high to low was an 11.2% swing. The nation's widest cycle was only 4.4% (1982 = 9.7%, 1989 = 5.3%).

Fast contraction, slow recovery, and deep cyclical swings are all characteristic of a weak and unstable economy. Looking at **Figure 1**, we see a different picture emerging for the 1990s. As the nation recovered from the mild recession of 1991-92, Madison County unemployment fell below the national level and has remained there for the balance of the new decade. Through the first half of 1996, our unemployment rate (5%) continues at a half percentage point below the national rate. In the new decade, the nation has experienced a high of 7.6% and a low of 5.6%—a swing of only 2 percentage points. The local economy has had a high of 7.9% and a low of 4.8%, for a swing of only about 3 percentage points.

So what is different now? Certainly, the local UAW contracts with General Motors influence our unemployment picture. The GM policies of massive layoffs were discontinued after the recession of the early 1980s. The long-term reduction of the local GM

Figure 1
Madison County and U.S. Unemployment Rates



work force over the past several years could have had a larger impact, but that contraction has been accomplished more through attrition (retirement) than by other more volatile methods. The stronger mix of non-manufacturing jobs also affects our reaction to national cycles. Add to that the improving record of job creation locally, and you get a much more stable picture for local unemployment.

The other side of the labor market, employment mix, reflects moderate growth through 1995. The latest numbers reveal growth in the service, construction, government, and retail sectors. The manufacturing sector has continued its two decades-long contraction. The total number of jobs in the county increased to 48,459 in 1995 from 47,789 in 1994. This is the highest number of jobs over the past ten years. The number of manufacturing jobs remained stable for the second year in a row, which is probably a function of the demographics at the local manufacturing facilities. Short-term losses in manufacturing are becoming a function of the retirement rate. A large retirement in 1993 was followed by moderate changes over the next two years.

Personal income growth in the 1990s has been encouraging for the county. Income in 1994 grew at a rate of 7.4%. This growth occurred despite the lower mix of high-wage manufacturing jobs and a heavy reliance on transfer payments. The strong growth of personal income was likely driven by the high employment in all sectors of the local economy. Moreover, the county continues to benefit from the high wages paid to manufacturing workers. The average manufacturing job paid $52,653 in Madison County in 1994, while the state average was $33,937. Only 29% of the jobs in the county are manufacturing, yet the manufacturing payroll is 48% of the total payroll in the county.

Construction continues to reflect confidence in the local economy. Through 1995, Madison County residential construction maintained a brisk pace. The 390 permits issued constituted more than twice the number issued in 1991 and the most issued for any year since the 1970s.

Nonresidential construction also performed well in 1995, with more than $23 million in permits issued. Although this was less than half the amount for 1995, it was still larger than any of the past 15 years, other than 1994.

All things considered, the local economy in Madison County is performing well. Given the moderate forecasts for the national economy, we should expect to see little change in the local unemployment rate. Do not expect any significant increases for the next 12 months. Employment seems to be stable, but demographics at the major manufacturing facilities pose a constant threat to that stability. With high employment and a prosperous durable goods industry, expect income to continue to grow. However, a drop in auto sales nationally could cause that growth to level out.

Local residential construction is difficult to predict. New home buys like to build when price (interest rates) is low, instability (inflation) is controlled, and risk (growing income) is minimized. All of these issues have been favorable and there is no strong evidence to suggest any change. However, the largest school system in the county has failed to come to a concrete conclusion about its future. This indecisiveness may lead to some moderation in the housing market, as those families in the new home market may choose to avoid uncertainty and simply build elsewhere.

Bloomington

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From September 1991 (roughly when the recovery began) to September 1996, payroll employment in Bloomington increased by 16.3%. This was substantially greater than the 11.1% for Indiana and 11.4% for the United States. Such a percentage growth for Bloomington translates into 9,300 additional jobs over the five-year period. As shown in **Table 1**, during 1993 and 1994 the growth rates for employment in Bloomington (3.7% and 4.4%, respectively) were well above the rates for Indiana and the nation. In 1995, however, Bloomington's growth rate slipped to 1.5%, somewhat below the rates for Indiana and the nation.

Table 1
Annual Growth Rates of Employment:

Year	*Bloomington MSA*	*Indiana*	*U.S.*
1992	1.3	1.7	0.3
1993	3.7	3.2	1.7
1994	4.4	3.3	2.7
1995	1.5	2.9	3.4
1996*	3.0	0.6	1.9

** Calculation based on monthly averages for the first nine months of 1995 and 1996.*

Table 2
Percentage Changes in Monthly Employment, 1995 to 1996

Month	Bloomington MSA	Indiana	U.S.
January	3.1	1.6	1.6
February	2.4	1.3	1.8
March	1.8	0.6	1.7
April	1.3	0.5	1.8
May	2.9	0.5	2.1
June	4.5	0.3	2.1
July	2.6	0.4	2.2
August	4.3	0.9	2.2
September	3.4	0.4	2.2

More rapid growth resumed in the first nine months of 1996. Bloomington's average monthly employment for that period was 3.0% above the monthly average for the same period of 1995. The comparable percentages for the state and nation were 0.6% and 1.9%, respectively.

The percentage growth over previous-year levels for each of the first nine months of 1996 is shown in **Table 2** for Bloomington, the state, and the nation. In all months the local economy exceeded the state average, and it exceeded the national figure in all but one month. From September 1995 to September 1996, Bloomington's payroll employment grew by 2,200—an increase of 3.4%, as shown in Table 2. Despite the aging of the recovery, the local economy shows no evidence of running out of steam. If the final quarter continues at the pace of the first three quarters, 1996 will be Bloomington's strongest of the recovery years.

An encouraging aspect of the current growth is that it is broadly based. During the early years of the recovery, most of the employment growth was in retail trade and selected services. Growth in these two categories has leveled off in the last couple of years. Manufacturing employment declined slowly for several years before beginning a comeback in 1994. The employment level for this sector in September 1996 was up by 1,000 over that in September 1995. Employment in the other broad categories (wholesale; transportation, communication, and public utilities; finance, insurance, and real estate; mining and construction; and government) has, in nearly all cases, grown steadily over the past couple of years.

The unemployment rate for Bloomington remains low, as it has been for several years. There are lots of "now hiring" signs in the windows of many trade and service establishments in the city. Initial claims for unemployment insurance are relatively low and have been for the last few years.

The construction industry is showing strength so far in 1996. The F. W. Dodge estimate of contracts for residential building is up by 30% for January to September 1996, compared to the same period in 1995. Contracts for nonresidential construction are up by 34% over the same period. The value of building permits for single family homes is up by just over 10% for the first nine months of 1996. There is, however, some evidence of an overhang of more homes in Bloomington, which could lead to a slowing of home building in the near future.

Although the local economy appears to be healthy, there is one major concern: the future of the Thomson plant, expected to be taken over by the Daewoo Group of South Korea. Many fear the plant might be shut down and operations moved elsewhere. If that should happen, it would jolt the Bloomington economy, wiping out the gains in manufacturing employment of the last three years. In a dynamic, competitive economy, such job losses occur from time to time. Most local economies, if they are otherwise healthy, can recover from these job losses within a couple of years. There is, of course, still hope that the Thomson plant will remain open; some observers believe Daewoo will use the plan as part of its drive to increase its market share of consumer electronics in the United States.

Finally, Bloomington is not an isolated economy. It can continue to grow only if the state and national economies continue to grow. The growth that is forecast for both Indiana and the U.S. for 1997 should be enough to keep the Bloomington economy on a steady growth path.

Columbus

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Bartholomew County's comparatively low unemployment levels may not be sustainable over the long run. Eventually, the shortage of skilled labor will either drive up local real wages and/or slow the growth of new jobs. This may become a pivotal factor for businesses considering Bartholomew County as their new home. Clearly, educating, attracting, and retaining a pool of skilled and unskilled labor sufficient to meet the needs of local employers will be a major challenge and priority for the community now and in the future. Some firms for example, are already using aggressive recruiting techniques, such as signing bonuses and paying relocation expenses. **Table 1** shows the unemployment rates, the number employed, and the annual employment growth rates through the 1980s and 90s.

Although revenue for Cummins Engine remained stable from second quarter 1995 through third quarter 1996, its earnings per share fell by 41%—from \$1.14 to \$0.67 a share—during that time. This is primarily because of the decline in the high-margin,

Table 1
Employment Data for Columbus Area

Quarters/Years	Unemployment Rate (%)	Number Employed	Annual Employment Growth Rate (%)
1980-1989	8.2	27,700	1.2
1990-1994	5.3	30,400	4.8
1Q1995	3.9	38,410	4.7
2Q1995	3.1	39,463	3.6
3Q1995	2.6	29,876	3.6
4Q1995	2.5	39,623	4.8
1Q1996	3.6	38,793	1.0
2Q1996	2.8	39,940	1.2
3Q1996	2.5	40,415	1.4
4Q1996	n/a	n/a	n/a

**The annual employment growth rate was figured by calculating the percentage of change from a particular quarter in a year to the same quarter in the following year.*

heavy duty truck market. Declining engine sales were partially offset by increased sales in power-generation and industrial markets. The third quarter is typically the slowest quarter during a slow year, so for the first nine months, earnings were down 35% whereas revenues remained stable.

Arvin Industries reported net earnings of $8.3 million in third quarter 1996 compared to $1 million (an 88% increase) over the same period in 1995. Third quarter sales rose to $557 million from $462 million a year before—a 21% increase. Also, for the first nine months of 1996, net earnings were $28.3 million (up 143%) compared to $11.6 million of the comparable period in 1995. Sales were $1.65 billion, compared to $1.47 billion in 1995, for an increase of 13%.

Local existing companies in 1996 expanded by investing a total of $423 million into the local economy and adding a total of 810 gross new positions. (Gross does not net out any voluntary or involuntary severance.) This compares to $168 million and 499 positions in 1995.

Is There Any Bad News?

Although there is no "bad news" per se, there are a few economic variables that are out of sync with the overall growth in the economy. For example, housing starts in September went down by 6% from their August level, though they are still 3% higher than in September 1995. The sale of existing homes in September was down 2.9% from August and 1.7% from a year ago. New orders for manufactured durable goods fell in August by 3.2% (the largest decline since April 1995). Here again, though, the year-to-date change is 6% above the same period in 1995. While durable goods rose 4.6% in September, most of the increase was attributed to one-time aircraft orders. In addition, productivity growth went down in the second quarter to 1.1% from 2% in the first quarter for the business sector and to 0.5% from 1.8% for non-farm businesses.

Finally, the seasonally adjusted Employment Cost Index (ECI) rose 0.8% in the March-June 1996 period—a rate identical to the same period in 1995. However, the ECI rose only 0.6% in the third quarter, which fueled the stock and bond markets. The ECI has grown only 2.8% from a year ago, which is below the 3% rise in inflation in the same period. This is rather surprising, given the tightness of the labor market. Moreover, the Unit Labor Cost (ULC) went up by 2.9% in the second quarter (1% in the first quarter), and the implicit price deflator for business rose by 2.4% in the second quarter (1.5% in the first quarter). The fact that the increase in PPI is less than the rise in the ULC reflects the inability (or unwillingness) of businesses to pass along higher costs to consumers.

Is There Any Good News?

Perhaps the most impressive good news is the fact that the "misery index" (unemployment rate plus CPI) is at its lowest point in 27 years (pre-OPEC). Furthermore, the percentage of workers unemployed for 15 weeks or longer is less than 2%. The administration recently announced that the federal budget deficit has dropped consecutively for the past four years to $107 billion (FY96) from $290 billion (FY92). This 63% drop has created the smallest deficit as a percentage of GDP since 1974.

The composite index of leading indicators went up in August by 0.2% to a historic high of 103.3 (1987=100). This followed a sustained increase of 1.7% in the February-to-August period and 0.5% and 0.2% increases in June and July, respectively. Median family income increased 2.7% in real terms last year to $34,076. This is the first increase in six years.

Local Economic Trends

The biggest problem that faces the local community may not be just how to create more jobs, but also how to find more qualified workers to fill those jobs. For example, Bartholomew County's unemployment rate for August is estimated at 2.4%, which is virtually unchanged from the same period in 1995 (2.5%). This compares favorably to the state's rate of 4.1% (4.6% in 1995) and the national rate of 5.1% (5.6 % in 1995). Similarly, continued unemployment insurance claims declined by an estimated 14.5% in the third quarter from second quarter 1996 versus a 16% decline over the same period in 1995. Initial unemployment insurance claims rose by an estimated 1.3% from second to third quarter 1996, compared to a 4.5% increase for the same period in 1995.

Very few of the neighboring counties are doing as well. In fact, in all of the State of Indiana, only three counties—Brown, Hamilton, and Hendricks—had lower unemployment rates for August than did Bartholomew County. Brown County is experiencing low rates because of its population composition and its tendency to be a desirable place for retirement; Hamilton and Hendricks counties are experiencing high growth rates and correspondingly low unemployment because of their proximity to Indianapolis.

Contrary to perception, the local real estate market through the first three quarters of this year has outperformed last year's market. The third quarter saw more home sales than the year before, on average the homes were on the market for fewer days before selling, and they sold for a 5% higher average price ($117,935 vs. 112,332). The only negative change has been a very modest decrease in the sale-to-list price ratio, which has fallen from 97.8% to 97.1%. However, look for some downward pressure on residential home prices, especially on existing homes. The production of new homes will soften a market that appears to be weakening in the fourth quarter. The growing inventory has prompted one analyst to predict a 1% depreciation per month for existing homes on the market.

The average quarterly number of residential building permits for Bartholomew County declined in third quarter 1996 to 35 units from its previous level of 37 in the second quarter. Overall, residential building permits for the first eight months of 1996 lag behind the levels for the same period in 1995 by 41 units. And the estimated values of residential construction increased by 24% from second to third quarter 1996. This is slightly lower than the 30% increase in 1995 for the same period.

Forecast

We anticipate a 75% probability that the national economy will grow at the rate of 2.25 to 2.75% in 1997; note that the ten-year moving average has been approximately 2.5% during all of the 1990s. Real growth next year is expected to be slightly lower than this year because both the expected slowdown in investment and the relatively high levels of consumer debt will discourage consumers from rekindling consumer spending. This moderate growth rate is both sustainable and consistent with current non-inflationary growth conditions. Real growth rates in this range imply continued, moderate increases in total employment, stable unemployment rates (as the labor force grows), and stable inflation rates. Do not expect the national unemployment rate to fall below the 5% level. In fact, we may have just witnessed the lowest unemployment levels for a while. On the other hand, there is no reason to believe the rate will increase drastically in the next six months or so. The local economy will remain strong under this scenario.

Given the deficit reduction laws and attitudes, the upcoming Congress and the President are not likely to have much fiscal impact on the growth of the economy. This is good and bad. It categorically enjoins profligate spending. However, given the size and the intractability of non-means tested programs (primarily Social Security, Medicare, and federal/military pensions), there is little room for government spending that increases productivity, profitability, and our standard of living, such as infrastructure and human capital. Similarly, given the strong record of the Federal Reserve Board in permitting growth consistent with non-acceleration inflation, the Fed is unlikely to accommodate rapid growth rates.

There is a 15% chance that the Fed will overreact to any inflationary signals and slow monetary growth to such a degree that it may induce a recession or recessionary growth (real growth that, though positive, it is so anemic that unemployment rates increase). Because of its concentration in the durable goods sector, the local economy is likely to worsen more than the national economy in such a scenario. For example, if the national unemployment rate increases 1% point, the local unemployment rate can be expected to increase by 1.8% points.

Finally, there remains a 10% chance that the economy will grow faster than 3%. This is not likely, as the Fed is not inclined to enable growth rates above 3% for very long. However, even if the national economy temporarily grows above 3%, the local unemployment rate cannot fall much below current rates, which are already quite low. Given these rates and the diversification both of the employer base and within the portfolios of the major employers, it is hard to imagine the local economy improving very much.

Fort Wayne

Thomas L. Guthrie

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In the last ten years, employment in the Fort Wayne metropolitan area (which includes Adams, De Kalb, Allen, Huntington, Wells, and Whitley counties) has increased 25.2% to 266,300 (through October 1996). The average increase has been 5,356 per year. It outpaced U.S. employment by exactly five percentage points in the comparable period and in its own independent way. Manufacturing employment in the area increased 10.7% (to 74,000 in October) in the ten years versus a decrease of 3.4% in the nation.

The increase in area employment has "soaked up" the unemployed labor created during the early part of the 1980s. The unemployment rate declined from 13% at the height of the 1981-82 recession, to 7% at the height of the 1990-91 recession, to 3.4% as of September 1996. (The non-seasonally-adjusted rate was 3.2%). The area unemployment rate has been running about two percentage points below the U.S. rate for the last year.

Given that the area economy is now labor constrained, its ability to continue to outperform the U.S. economy also is constrained. In fact, an argument can be made for underperformance. Estimates are that the population of the Fort Wayne metro area has been growing by approximately half a percent per year in the 1990s. This contrasts with U.S. population growth of approximately 1% per year. If the local metro area estimates are correct—which they often are not—the argument for underperformance is compelling. Coincidentally, area employment growth for the last 12 months (through October) is estimated to be 2,600—half the ten-year average. Supply side constraints are now an important consideration in forecasting the Fort Wayne area's economic performance.

The 1997 demand-side outlook for the area is equally tepid. National sales of light vehicles—such an important part of the area's manufacturing base—are likely to decline in 1997. Offsetting this negative is the fact that North American production of light vehicles has persistently outpaced sales as foreign producers have increased their North American sourcing (transplants). Although difficult to quantify, this undoubtedly has been a source of increased sales for area OEM manufacturers. Offsetting the forecasted softness in light-vehicle sales will be forecasted strong industrial machinery sales and exports.

The flip side of the labor supply problem is increased demand for industrial machinery to substitute for labor. As a major manufacturer of industrial machinery, the Fort Wayne economy will continue to benefit from this persistent trend.

The economies of our major trading partners appear to be strong going into 1997, so we should see continued strong growth in exports. Predominant among exports are high value-added products such as vehicles and industrial machinery. A recently released study from the U.S. Commerce Department reported Fort Wayne area exports growing 61% between 1993 and 1995. This trend will continue in 1997. And finally, employment in the Fort Wayne area is forecast to expand only 1,000 to 2,000 in 1997.

Kokomo

Dilip Pendse

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Kokomo's economy deserves a gold medal for its exemplary performance during the Olympic games this past year. A mountain of economic statistics ranging from soaring single-family home building permits, the lowest unemployment rate and discomfort index in years, a growing population, surging exports, an unbelievably high average factory work week, swelling non-farm payrolls, and rising incomes provide undeniable proof that judges of any background should bestow upon Kokomo the coveted gold medal. The economy continues to demonstrate strength not found elsewhere in Indiana.

Low Joblessness and a Brawny Labor Market

For the fifth straight year, Howard County's labor force increased, ballooning to a high of 46,660 in August, just 110 people shy of the peak of 46,770 reached in November 1995. Based on past trends, I predict that the number by year's end will be 46,142—nearly 2% higher than one year ago. It is noteworthy that, despite the growing labor force, the economy created enough jobs to bring the October 1996 unemployment rate down to 3%, the lowest monthly rate in Howard County in the past 18 years. During the first eight months of 1996, the number of jobless people stayed at 1,716 per month, down 18% from 1995. The average monthly jobless rate in Howard County stood at 3.7% during the first eight months, one percentage point below the level reached a year earlier.

Interestingly, since June 1995 Howard County's unemployment rate has continuously remained below state and national levels. For an economy that was battered and bruised in the early 1980s, this certainly is a miracle. For the year as a whole, I expect the rate to remain at 3.5%, almost one percentage point below the previous year's 4.4%.

The low unemployment rate in Howard County has been caused mainly by solid growth in the job market. During the 12 months ending in August 1996, the Kokomo MSA's perky job market posted a 6% jump in non-farm payroll growth, second only to a 12% growth in the Louisville/New Albany area. In August 1996 there were 55,700 people on the non-farm payrolls in the Kokomo MSA—3,300 more than during the same period a year ago. Simply put, Kokomo's job machine created an average of 275 jobs per month. No wonder the jobless rate reached a historical low. Job growth remained hottest in the service-producing sector, with 2,600 jobs; that was followed by manufacturing (1,600 jobs); government (1,100 jobs); business services (1,000 jobs); and retail (400 jobs). Manufacturing's job growth was, in fact, the best in recent years. The payroll numbers in construction and mining and in wholesale trade remained unchanged, while the finance/insurance/real estate and transportation/public utilities sectors each lost 100 jobs.

Because of a strong pick-up in factory orders, Kokomo's 22,600 manufacturing job holders worked almost around the clock during the first eight months of 1996. On two occasions, in May and July, the average factory work week stayed at or above 56 months. For the first eight months of 1996, the average was 52 hours, the longest in history and 5.4 hours more than last year's 46.6 hours. This means that with nearly 15 hours of overtime pay per week, factory workers hit a monetary jackpot.

During first quarter 1996, the average weekly pay in manufacturing in Howard County leaped to $1,193, the highest in the Hoosier land. For the past three consecutive years, Howard County's first quarterly weekly wages remained at the top in Indiana. If history is any reliable guide for the future, I project that for the whole year Howard County's average weekly manufacturing earnings will be $1,393. At this pay scale, an average factory worker could easily pocket over $72,000 before the year's end, and some could easily earn in excess of $100,000. For all workers, manufacturing and non-manufacturing, the first quarterly weekly pay scale in the county was $729. This was the highest in the state and 46% above the state average.

Because of higher factory wages and solid job growth, Kokomo's median household income rose again in 1995. Last year, the median effective buying income (spendable, after-tax money) was $34,034, ranking it fourth best in Indiana. Almost 30% of the households in the Kokomo MSA earned at least $50,000 in 1995, falling slightly behind Indianapolis (31.2%) and Gary (29.2%). For the 15th straight year, the average annual pay in Kokomo ranked at the top in Indiana. According to the U.S. Bureau of Labor, the average annual pay in the Kokomo MSA in 1995 was $33,957—not only number one in the state, but also 12th highest in the nation's 320 MSAs.

Construction and Real Estate

Population, job, and income growth fueled growth in Kokomo's housing sector this year and created jobs for 1,800 construction workers. During the first three quarters, the number of building permits issued (excluding sign permits) totaled 691, which was 5% above the previous year's total. The dollar volume registered on all permits came to $223 million, surpassing the previous year's volume by 204%—thanks largely to a building permit with a construction value estimated at $150 million issued to Chrysler Corporations' mammoth transmission plant.

The residential permits issued during January to September totaled 619, also 5% above the same period the year before. Non-residential construction permits fell 3% below the 1995 level. Based on past trends, all building permits issued in 1996 will likely total 958, just 2.2% above last year's total of 937.

The single-family home construction market snapped back in 1996, after declining in 1995. During the first three quarters, 29% more building permits were issued for single-family homes than during the same period a year ago. The total number will likely hit 321, the best performance since 1978. The construction value registered on these permits averaged $129,072, a new high and 11% ahead of a year ago. The higher construction value reflects Kokomoans' penchant for upscale, trendy luxury homes. A strong pick-up in single-family home construction should also be seen as a measure of optimism that people in Kokomo are willing and able to make a long-term financial commitment.

On the other hand, the multi-unit housing construction activity—often volatile and not so sensitive to interest rates—plunged in 1996. Only 32 permits were issued during the first three quarters of 1996. This was 32% below the level reached a year ago.

Existing home sales took a big hit during the first quarter. Kokomo's realtors sold 158 homes for $13.1 million, with a median price of $73,500. Although this price is an advance of 26% from the median price of $58,500 during first quarter 1995, the sales volume was the lowest in nine years. Interestingly, Kokomo's median home price during the first quarter was 9% below the state's median price, yet it exceeded those in the South Bend, Marion, Anderson, Muncie, Terre Haute, and Evansville housing markets. At the current rate, 870 homes will likely be sold in 1996, the lowest number ever. Meanwhile, Kokomo's housing market, touted for its affordability by the National Home Builders Association for the past two years, received no mention in NHBA's quarterly survey this year.

Good News from Economic Giants

At the beginning of the year, Delco Electronics and Chrysler Corporation pumped in employee profit-sharing bonuses worth $27 million, providing an added boost to already rising incomes. Chrysler embarked on its ambitious plan to pour $1 billion into Kokomo's economy in the form of a huge transmission plant equipped with sophisticated machinery and equipment. With 500 construction workers at the site, the work is on schedule and the plan is expected to roll out its first batch of rear-wheel drive transmissions in 1997. In October, Chrysler unveiled another plan to expand its casting plant with a 60,000 square-foot building and modern machinery. The whole $478 million project is expected to create 94 new jobs. Chrysler's current employment stands at 7,672, with nearly 85% working at the transmission plant.

Delco rolled out one of its most profitable years in 1995. And despite a production schedule disrupted briefly by strikes, 1996 will probably surpass last year's sales volume of $6 billion. Its management indicated a strong possibility of adding 150 new jobs to Kokomo operations through reshuffling of product lines and reallocation of workers between Kokomo, Milwaukee, Singapore, and Mexico. No plant expansion plans were announced this year.

Peru, Kokomo's neighbor to the north, provided some good economic news. The 3,200-acre Grissom Aeroplex, downsized in October 1994, sprang back into activity this year. One site on the former air force base was chosen for the state's new 2,000-bed medium security prison. Occupying about 5% of the base's total area and expected to open in 1999, the prison will pump $25 million annually into the local economy and create jobs for 400 to 500 people.

Grissom will also be the site of an apartment complex, two manufacturers of locomotive parts, various business facilities, and more. With these and other improvements, Peru's population, school enrollments, and overall economy will improve in the immediate future.

Rising Retail Sales and Sunny Skies Ahead

Retail sales totaled $1.03 billion in the Kokomo MSA, the smallest volume among the 11 MSAs in Indiana. When converted to a per household basis, however, a new picture emerges. With sales of $26,402 per household, Kokomo ranks fourth behind Terre Haute, Indianapolis, and South Bend. And the existence of a tight labor market, higher incomes, population growth, and a low misery index suggest that this year's Christmas shopping season should be a dandy one.

Looking ahead, my instincts tell me the local economy's upward momentum will continue through the first half of 1997. The fundamentals are in place. Potential exists for continued growth because of the expansion plans of existing plants, the opening of new businesses, and major developments in the Greater Kokomo area. Locally, the labor market will still remain tight, the employment situation will improve further, and the housing and retail sectors will perform well. For the sixth year in a row, the economy will glide through sunny economic skies. Kokomoans will be singing and dancing the Macarena. Who said Kokomo's 150th birthday party was over?

Louisville-Jeffersonville-New Albany

Fay Ross Greckel

Professor of Economics, Indiana University Southeast, New Albany

The Louisville metropolitan area economy fared quite well in 1996. For the third straight year, the seven-county metropolitan area (Clark, Floyd, Harrison, and Scott counties in Indiana, and Jefferson, Oldham, and Bullitt counties in Kentucky) generally outperformed both the Indiana and the national economies. The moderate overall growth of the past several years continued, though not all sectors were equally robust.

Total non-farm employment grew at a healthy rate, although not as fast as the preceding year. Preliminary third quarter data for the metropolitan area shows a gain of about 9,500 jobs over the third quarter of 1995, compared with a 10,700-job increase in the previous 12-month period (see **Figure 1**). Job growth was concentrated in the non-manufacturing sectors. Overall manufacturing employment actually declined by some 1,000 jobs. Gains in industries such as transportation equipment were more than offset by job losses in other industries, such as electrical equipment and textiles.

The non-manufacturing sector with the greatest increases by far was services. It added more than 7,000 employees, about half of them in health and business services. Retailing and local public education each added about 1,700 jobs. The transportation and warehousing sectors also saw very strong job growth, while smaller employment gains occurred throughout the other non-manufacturing areas.

Current data for the Indiana portion of the metropolitan area shows a somewhat different pattern. Although overall employment in Southern Indiana establishments is about 1,100 jobs higher than a year ago, it is nonetheless a little weaker, after adjusting to normal seasonal fluctuations, than at the beginning of 1996. Total manufacturing employment, seasonally adjusted, has not changed much during the year. However, the average factory work week is now 42.5 hours, about 1–1/4 hours longer than a year ago. Because average hourly pay is also up about 30 cents per hour, factory earnings have definitely risen. This is significant, because manufacturing still accounts for 23% of all non-agricultural jobs in the four Indiana counties—a higher percentage than for the metropolitan area as a whole, and well above the national average.

Figure 1
Employment in Metropolitan Area (Seasonally Adjusted)

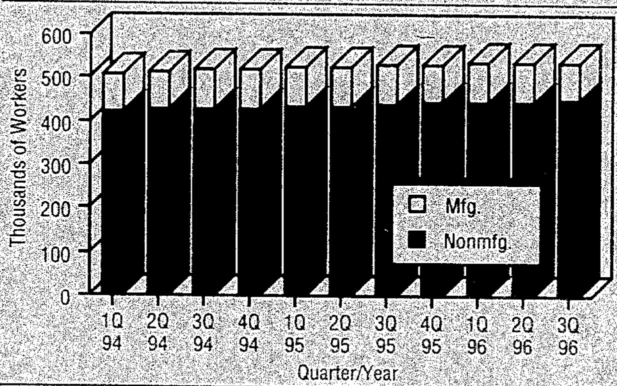


Figure 2
Residential Building Permits: Jefferson County, Kentucky

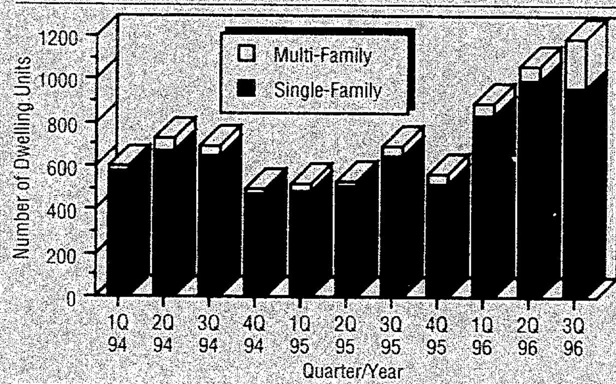


Figure 3
Residential Building Permits: Southern Indiana Counties

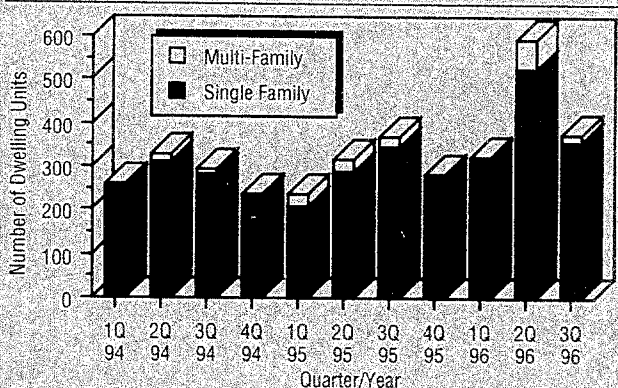
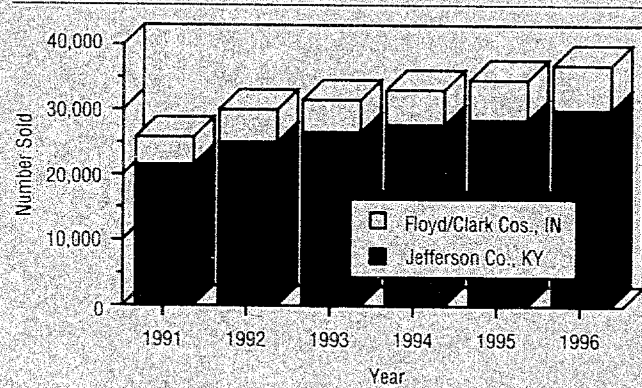


Figure 4
New Car and Light Truck Sales in Three Area Counties



Preliminary data for non-manufacturing show small employment increases in the transportation/utilities and the finance/insurance sectors. These are offset, however, by somewhat larger employment declines in both trade and services, counter to the trend in the rest of the metropolitan area. The net job growth in the Indiana counties came in government sector employment, particularly in state employment and in one of the recurring temporary work expansions at the Census Bureau in Jeffersonville. When more complete data become available and these statistics are revised a few months from now, I expect to see a more positive growth pattern in private sector employment in these four counties.

Throughout the metropolitan area, overall demand for workers remains strong. Jeffboat, UPS, Beach Mold, Discount Labels, and many other companies are expanding output, but are having difficulty finding qualified workers. Unemployment is quite low and the calculated local unemployment rate is well below the relatively low national rate. Labor supply problems are widespread. Manufacturing and construction firms complain about the difficulty of finding and keeping good workers. Recent news articles explored the inadequate supply of experienced computer programmers. Signs in windows of a great many retailers and service providers testify to shortages of both entry-level and experienced workers in those fields. Some employers are exploring means of recruiting skilled workers from regions with higher unemployment. As economics teaches us to expect under such circumstances, wages in these areas are rising, though not dramatically so.

Residential construction has been a particularly dynamic sector of the area economy. Despite complaints about the difficulty of finding additional workers, home builders managed to produce a substantial increase in new houses. In the first nine months of 1996, Louisville and the surrounding Jefferson County had issued 70% more permits for single-family dwellings than in the first nine months of 1995. (**Figure 2** illustrates this growth.) In fact, by the end of September, 600 more single-family dwelling permits had been issued than in all of 1995.

There has been a similar building boom in the metro area's Indiana counties. Each quarter of 1996 saw more single-family dwelling permits issued than in the corresponding quarter of 1995. Here, too, the permits issued by the end of September 1996 exceeded the total issued in 1995. **Figure 3**, which depicts these quarterly trends, shows a particularly dramatic spurt of building permit activity in the spring quarter of this year. The big jump occurred in Harrison County, where builders were gearing up for the county's first Homerama exhibit (a display of newly built homes, fully decorated and equipped with special features). In the month of June alone, Harrison County issued 110 building permits for single-family houses. The relatively low interest rates and the "discovery" of Southern Indiana by former Kentucky residents have buoyed residential construction in the region for the last three years. National data are indicating a slowdown in this sector for the fourth quarter; it is too early to tell whether that is happening in the local area as well.

The other major component of the real estate market, sales of existing homes, presented a more mixed picture. Multiple listing sales in Southern Indiana, which had enjoyed a steady increase for the preceding four years, were running behind the record 1995 levels through the third quarter, though they were well ahead of other years. On the Kentucky side of the river, multiple listing sales through the first nine months were about 100 houses higher than the same period of 1995, but were running behind the 1994 totals. Incomplete October data do not suggest a fourth quarter surge in home purchases. This is consistent with the national trends for late fall housing sales.

A more consistent expansion is evident in the market for new motor vehicles. As can be seen in **Figure 4**, sales of new cars and light trucks for the first nine months of the year have risen steadily each year since 1991. In Clark and Floyd counties (Indiana), sales were up 8% for this period, while in Jefferson County (Kentucky) sales increased by 6%. As usual, the largest increases were in sales of light trucks, which rose 12.5%, while new car sales were only up by 3%. This differential has gone on for several years. As a result, light trucks account for 35% of new vehicle sales today, compared to only 25% just five years ago.

The outlook for 1997 is for another year of moderate growth. Obviously there is still considerable vigor in the regional economy. Despite some concern about levels of indebtedness, the combination of high local employment levels and a favorable interest rate scenario should continue to support consumer spending and housing investment. Of course, we are not immune to national and international developments. A major slowdown in the national economy or a noticeable rise in interest rates would have negative effects here, but at present that does not appear to be in the offing.

In addition to factors already mentioned, the Louisville area economy will be stimulated by a rather large number of substantial commercial, industrial, and civic building projects that are either under way or about to begin. These include a new national corporate headquarters for Vencor, the Community Bank building in New Albany, the Commonwealth Convention Center expansion, the new University of Louisville stadium, the airport expansion project, the riverfront development project, the Speed Museum renovation, and the $200 million Caesar's World Riverboat Casino complex on the Harrison/Floyd county border. And this is only a partial list.

These projects will put additional strains on the already tight labor market, and not only during the construction phase. As a result of the efforts employers are likely to make to respond to these pressures, I expect both employment and productivity to continue to expand. The year ahead should be a very interesting and challenging one.

Muncie

Patrick Barkey

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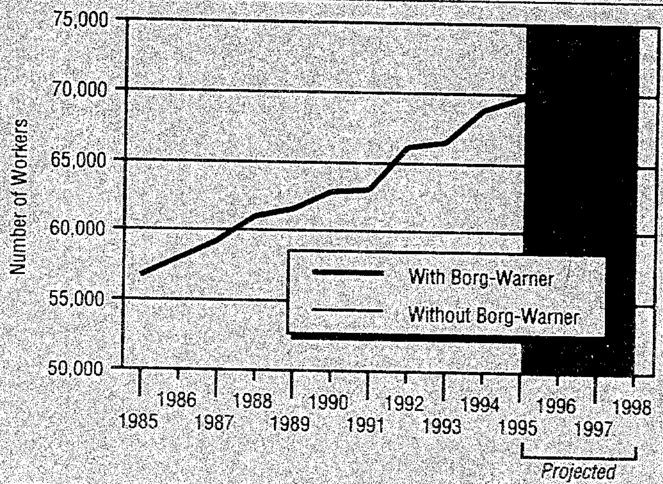
The economy of the Muncie MSA, which coincides with the borders of Delaware County, received two different kinds of bad news in 1996. The first came from the statisticians at the Department of Workforce Development, who revised the establishment employment data sharply downward, turning what was previously thought to be stellar growth into an actual job decline. At the close of 1995, Muncie business leaders were congratulating themselves on their 5.6% growth in total employment, but the data revisions cut 3,100 jobs out of those estimates and sliced the growth rate by two-thirds.

Much more serious, however, was a second piece of bad news the Muncie community received in

Figure 1
Impact of Borg-Warner Decision on Total Employment in Muncie MSA



late fall. The sale of the Borg-Warner manual transmission business to Tremac, a subsidiary of a Mexican firm, will cost the economy 800 of its highest paying manufacturing jobs. This is the largest single job loss since the shutdown of the Marhoefer meat packing plant in 1977. Although there will be a modest expansion of the company's remaining transfer case manufacturing facilities in Muncie, the net loss remains sizable, representing almost 8% of the economy's manufacturing job base.

A third event in 1996 played havoc with the economic data for Delaware County, although its real impact on economic activity was probably a good deal smaller. This was the rapid expansion and contraction in employment related to the activities of Burlington Motor Carriers, an interstate trucking firm located in Daleville. As the company expanded, employment in the transportation, communications, and public utilities (TCPU) sector peaked at 7,000 jobs in July, only to crash down to a level of 4,500 in mid-1996, where it has remained. The bulk of these jobs were truck drivers, who reside outside the MSA but whose place of employment is considered to be inside the county.

All of these things culminated in making 1996 a very bad year for the Muncie economy, at least as far as the official employment statistics were concerned. The most recent data on employment at business establishments put the county job total at 60,900 in October, down 3.8% from the 63,300-job total for the same month in 1995. This was the worst performance of any of the state's 12 MSAs over this period.

These gloomy figures, however, are out of line with what other economic indicators are showing. The unemployment rate has remained low, resting at 4.2% in September, and unemployment insurance claims so far in 1996 have been running at about the same levels as 1995. Moreover, the recent expansion and renovation of both the Muncie Mall and the Indiana Factory Shops Outlet Mall are at odds with the Department of Workforce Development data on employment in retail trade, which show a drop of 700 retail jobs in 1996.

Our assessment is that the Muncie economy probably showed at least very modest growth in 1996, despite what the establishment employment estimates currently say. This will probably be recognized the next time these data are revised, early in 1997.

The outlook for the coming year, however, is considerably darker, owing to the shutdown at Borg-Warner. The estimated total impact of this shutdown will be about 1,420 jobs, with the bulk of the additional job losses coming from local services and retail trade establishments.

Our forecast of employment for 1997 calls for a decline of 1,150 jobs in the Muncie MSA compared to the previous year. This is a radical departure from the 800–1,000 per year job gain the economy has experienced since 1985. It will put a strain on many private and public institutions. As **Figure 1** indicates, were it not for the Borg-Warner developments, the economy would have been expected to continue its modest expansion.

If there can be any consolation, it is that the vacuum created in the manufacturing economy may make Muncie slightly more attractive to other prospective employers. As other communities know too well, however, a bird in the hand is worth several dozen in the bushes.

Northwest Indiana

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The year 1996 was a relatively good one for Northwest Indiana, even though the gradual decline of jobs in manufacturing and steel has continued. Non-steel manufacturing, with mostly smaller plants employing about 20 to 100 workers, has stopped expanding for the first time in ten years. We predict a continuation of the gradual erosion of manufacturing jobs in 1997 and 1998. Payrolls will rise slightly ahead of our predicted low rate of inflation of about 2.8%. The real wage in manufacturing should then rise in 1997-98—for the first time in almost a decade.

The relative stagnation in manufacturing employment will be partially offset by a veritable boom in the non-manufacturing (or so-called non-goods-producing) sector of the Northwest Indiana economy. The retail trade, services, health, and even education sectors are predicted to register significant increases in employment in both 1997 and 1998. The construction industry, both residential and commercial, will see a continuation of 1996's high rate of expansion without slowing significantly until the end of 1997.

One sees in Northwest Indiana a new spirit of economic revival, particularly in the suburbs. However, the cities are also participating in the expansion of services at an ever-increasing rate. The offshore casinos have had a beneficial effect so far, with no indication of any substitution effect. Namely, gambling dollars do not seem to be drawing away income from other entertainment or retail establishments, except for restaurants along the Lake Michigan shore, which have experienced some reduction in customer traffic.

In summary, Northwest Indiana is participating in the slow-growth U.S. economy. Regional incomes are rising, though not spectacularly. There is a perception of stability that attracts new investment in commercial ventures. In the long run, the new spirit may also attract more manufacturing firms from out of state. Detailed forecasts of regional employment for different sectors of the local economy are shown in **Table 1**.

Table 1
Establishment Employment in Northwest Indiana

	ACTUAL EMPLOYMENT			*12-MONTH MOVING AVERAGES*			
	3Q96	*4Q96*	*1Q97*	*2Q97*	*3Q97*	*4Q97*	*1Q98*
TOTAL	263,600	264,540	265,500	266,460	267,420	268,400	9,390
Manufacturing	51,400	51,110	50,830	50,540	50,260	49,980	49,700
Steel	28,800	28,540	28,280	28,020	27,770	27,510	27,260
Non-Steel	22,600	22,570	22,550	22,520	22,490	22,460	22,430
Non-Mfg.	212,200	213,430	214,670	215,910	217,170	218,430	219,690
Trade	64,000	64,260	64,530	64,790	65,060	65,323	65,590
Services	68,500	68,930	69,370	69,800	70,240	70,690	71,130
Health	26,800	27,060	27,320	27,580	27,850	28,110	28,380
Government	35,800	35,720	35,640	35,560	35,490	35,410	35,330
Local Govt.	30,200	30,100	30,000	29,890	29,790	29,690	29,590
Education	17,900	17,960	18,020	18,080	18,140	18,200	18,260

Note: Items may not sum to totals due to rounding.

Richmond-Connersville-New Castle

Ashton I. Veramallay

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The national economy sets the pace for the local economy. Given this interdependence, the Richmond-Connersville-New Castle (RCNC) area economy can expect continuing growth in 1997. The current expansion still has momentum. The expected 2.5% growth in real GDP, a 3.2% inflation rate, a 5.2% unemployment rate, and a 3% increase in real disposable income will favorably influence economic activity in the local region.

RCNC's unemployment rate will hover in the 5.5 to 7.8% range. The manufacturing sector will experience a slight increase in employment as local firms, particularly in Richmond, complete their expansion projects. Moreover, new plant openings will brighten the employment picture by providing good-paying jobs. In a recent survey by the Center for Economic Education, 73% of the firms hired new employees in 1996, 40% plan to expand, and 86% are optimistic about business conditions in 1997. An overwhelming majority of firms give the local region a favorable rating for doing business in, despite a shortage of skilled workers.

Employment growth in the service sector, on the other hand, will continue to expand as the demand for various services, particularly financial, health care, professional, and entertainment, increases. Service jobs are often part-time and their wage rate is below that of the manufacturing sector. Therefore, temporary workers are less costly to hire and are more flexible in meeting employer schedules. There will be a net gain in regional employment in spite of the less-than-robust GDP performance.

In concert with employment is gross fixed capital formation. Investment in plant, equipment, and commercial and residential structures will have a positive effect on RCNC. In Richmond, the number of building permits issued through the first ten months of 1996 was 2,668, of which 47 were residential. Their total investment value is more than $25 million, which creates multiplier effects on gross local product.

The housing market continues to remain relatively strong. Despite the pre-election slowdown, there is brisk activity for homes in the $30,000 to $125,000 price range. It is slow for homes priced above $125,000, although there is some upscale movement among homeowners into Backmeyer Terrace, Meadow Park, and Hunters Pointe.

In addition to housing, the retail sector can expect a very good holiday season. Given the fundamentals of stable employment, rising disposable income, and consumer optimism, there will be at least a 5% increase in retail trade over last year's performance. No Grinch lurks on the horizon to depress shoppers. Local merchants are already luring shoppers through early sales, discounts, and other promotions since Halloween. And there is nothing spooky about it: Consumption spending accounts for two-thirds of local economic activity.

Finally, the public policy emanating from Washington will facilitate RCNC's growth. The Clinton plan of tax cuts for education and training should eventually increase human capital, boost productivity, and lower production cost. Local firms will then become more competitive in both the national and international economies. On both fronts the economic outlook is favorable, with increasing free trade.

South Bend/Mishawaka and Elkhart/Goshen

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This year-end assessment of the economic condition of the South Bend/Mishawaka and Elkhart/Goshen communities includes analysis of the latest available economic indicators for the area, tracked by Indiana University-South Bend's Bureau of Business and Economic Research (BBER).

Table 1 summarizes various indicators of local economic activity compiled by the BBER. These figures, with the exception of unemployment rates and real estate data, are essentially adjusted index num-

Table 1
South Bend Area Economic Indicators

	SOUTH BEND/MISHAWAKA					ELKHART/GOSHEN				
				% Change from					*% Change from*	
	Aug 96	*July 96*	*Aug 95*	*July 96*	*Aug 95*	*Aug 96*	*July 96*	*Aug 96*	*July 96*	*Aug 95*
EMPLOYMENT INDICATORS										
Nonagricultural Employment [1]	123.0	121.9	124.0	0.9%	-0.8%	131.8	129.9	127.5	1.5%	3.4%
Manufacturing Employment	94.1	95.4	97.5	–1.3%	–3.4%	118.1	117.7	120.2	0.3%	–1.8%
Nonmanufacturing Employment	129.8	129.0	130.4	0.6%	–0.5%	147.7	144.9	135.6	2.0%	8.9%
Unemployment Rate	4.0%	4.6%	4.1%	---	---	3.5%	3.9%	4.1%	---	---
Help Wanted Advertising Index [2]	99.8	91.4	94.9	9.2%	5.2%	115.6	110.1	117.8	5.0%	–1.9%
UTILITIES [3]										
Industrial Electricity Sales	97.4	111.0	113.1	–12.3%	–13.9%	117.0	127.0	126.8	–7.8%	–7.7%
Commercial Gas Sales	129.5	125.0	95.8	3.6%	35.2%	104.5	94.5	100.8	10.6%	–3.7%
Industrial Gas Sales	63.5	48.0	58.0	32.4%	9.6%	68.2	66.1	51.0	3.2%	33.8%
CAR & TRUCK REGISTRATION [1]										
New Passenger Cars	53.8	57.0	64.3	–5.6%	–16.3%	54.9	58.2	57.2	–5.7%	–4.1%
New Trucks	87.4	94.2	97.5	–7.2%	–10.3%	114.3	108.5	108.4	5.3%	5.4%
BANKRUPTCIES—SOUTH BEND DIVISION [4]										
Business	24.7	15.1	36.0	63.8%	–31.3%	*(Included in South Bend Division)*				
Non-business	258.5	270.0	214.2	–4.3%	20.7%					
HOUSING CONSTRUCTION DATA [5]										
Estimated Value of Permits	121.7	181.6	115.7	–33.0%	5.1%					
Number of Permits Issued	102.1	133.9	88.9	–23.7%	14.9%	*(Not available)*				
Average Value per Permit	121.0	137.3	131.9	–11.9%	–8.3%					
RESIDENTIAL REAL ESTATE DATA										
Number of Active Listings	1,160	1,099	1,117	5.6%	3.8%	1,179	1,145	1,143	3.0%	3.1%
Average Days Listed	81	88	98	–8.0%	–17.3%	68	69	76	–1.4%	–10.5%
Average Market Price	$99,227	$98,225	$90,478	1.0%	9.7%	$93,004	$91,527	$83,371	7.6%	11.6%
% of Sale to List Price	96.3	96.4	95.3	---	---	97.0	96.0	96.0	---	---

NOTE: All figures except Unemployment Rate and residential Real Estate Data are seasonally adjusted index numbers with base year 1986 = 100.
[1] *St. Joseph and Elkhart Counties.*
[2] *South Bend* Tribune *and Elkhart* Truth.
[3] *Electricity Sales are cities of south Bend and Elkhart. Gas Sales are St. Joseph and Elkhart Counties.*
[4] *South Bend Division comprises Cass, Elkhart, Fulton, Kosciusko, La Porte, Marshall, Miami, Pulaski, St. Joseph, Starke, and Wabash Counties.*
[5] *St. Joseph County, excluding cities of South Bend, Mishawaka, Osceola, Walkerton, and New Carlisle. Elkhart County, excluding cities of Elkhart, Goshen, Nappanee, and Millersburg.*

bers, expressed as a percentage of base year 1986 values. The latest month for which all indicators were available at the time of writing was August 1996. Note that **Table 1** includes comparable figures for July 1996 and August 1995, along with percentage changes, to indicate possible trends.

South Bend/Mishawaka

Seasonally adjusted employment indices for the South Bend/Mishawaka area have changed very little during the past several months. During 1996, total and manufacturing jobs have remained basically flat (after seasonal changes have been removed)—at about 120% and 95%, respectively, of 1986 employment levels. Non-manufacturing employment has declined slightly during 1996, but remains about 30% ahead of its levels a decade ago. Monthly unemployment rates have varied between 3.7% and 4.8% during 1996, essentially the same range as during 1995. In August the help wanted advertising index climbed back to its 1986 level, out of the trough it entered 14 months ago.

Seasonally adjusted figures for energy sales, which tend to be volatile, again showed a mixed pattern of changes in August. These indicators have remained in the same wide ranges as in 1995. Indices of new car and truck registrations for the county declined from July to August. Although monthly vehicle registrations have followed no clear trend thus far in 1996, they have displayed somewhat greater volatility than in 1995. Throughout 1995 and 1996, while the business bankruptcy index remained low, the non-business bankruptcy index has been on an upward trend. In August, non-business bankruptcies stood at 258.5% of their 1986 level. Seasonally adjusted housing construction indicators declined from July to August, after a relatively strong showing in the spring. August was also a rather good month for the residential real estate market, with the unadjusted numbers improved from a month and from a year earlier.

Elkhart/Goshen

On a seasonally adjusted basis, total employment during 1996 has remained at about the same level as in 1995. Within this picture of total jobs, an increase in non-manufacturing employment has offset a decline in manufacturing jobs. Monthly unemployment rates have remained very low so far in 1996, with the August figure at 3.5%. The seasonally adjusted help wanted advertising index rose from July to August but remains well below the level of early 1995.

Seasonally adjusted utility indicators, which tend to change quite dramatically, remained within their (wide) ranges of the recent past. As in neighboring St. Joseph County, new car and truck registrations in Elkhart County have displayed somewhat greater volatility in 1996 than in 1995. Among unadjusted residential real estate data for the Elkhart/Goshen area, the number of listings has climbed at lower levels, following a peak in early 1995.

Outlook

During the past year, both the South Bend/Mishawaka and Elkhart/Goshen economies have performed well. South Bend experienced low unemployment rates with relatively stable employment, and Elkhart experienced low unemployment rates with rising employment. Manufacturing employment declined in both local economies. In South Bend/Mishawaka, the small manufacturing sector together with stable non-manufacturing employment led to a very small decline in total employment. Elkhart's manufacturing sector is very large, but the decline in manufacturing jobs was more than offset by a substantial increase in non-manufacturing jobs, so total employment increased by more than 3%.

Given the forecast of slow growth in the national economy combined with the weak durable goods sector, we expect to see little growth in either local economy. Continued weakness in manufacturing employment in South Bend/Mishawaka should be balanced by slow growth in non-manufacturing employment. Elkhart's manufacturing is closely tied to durable goods demand, so a weak durable goods sector will likely lead to further declines in manufacturing employment, especially in the first half of the year. The rapid growth in Elkhart's non-manufacturing employment will not likely continue at the same pace as in 1996, but we should see moderate growth. As a result, we should see little growth, but not major declines, in total employment. While neither local economy is expected to grow rapidly, economic activity should remain solid, and unemployment rates should remain relatively low.

Terre Haute

Marvin Fischbaum

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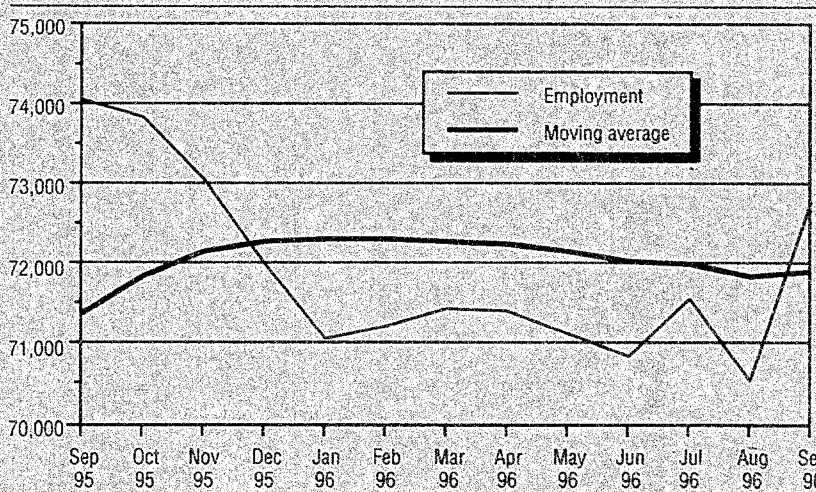
The year 1995 in Terre Haute was an extraordinarily active year both in terms of new business coming in and old business moving out or shutting down. Unfortunately, the businesses that ceased operations or were in the process of phasing out tended to be larger and more important to the local economy than the firms that were starting up. Terre Haute faced the likelihood of a soft economy for much of 1996. And to date, the year has brought few newsworthy developments, confirming last year's diminished expectations.

Employment figures have been soft. The MSA unemployment rate was at or near the highest in the state through most of 1995, tending upward by more than the seasonal pattern as 1995 came to a close. The unemployment rate peaked at 7.4% in April 1996, compared to 6.2% the previous April. For the past six months, year-to-year differentials in the unemployment rate steadily narrowed to the point of disappearing. The preliminary September 1996 unemployment rate and the benchmarked rate for September 1995 both stand at 5.5%. Recovery to the levels of the summer and fall of 1995 is not quite complete.

The household survey on which the unemployment rate estimate is based indicates that departures from the labor force, not additional jobs, pushed the rate down. From September to September the number of jobs held by residents of the Terre Haute MSA fell by 1,280, but the number in the labor force fell by 1,330. **Figure 1** compares actual household employment to a 13-month moving average. For most of the year actual employment was below the moving average, so the trend was slightly negative. In September the lines recrossed, portending a possible trend reversal. Establishment employment estimates also fell from 1995 levels, but by a modest amount.

The manufacturing sector has been quiet. In contrast to 1995, only one manufacturer commenced operations in 1996. Indybake Products purchased the shut-down Pillsbury Plant, east of Terre Haute. There were no plant closings or sizable announced layoffs during 1996. Still, manufacturing employment fell 7% for the year ending in October.

Figure 1
Household Employment—Terre Haute Metropolitan Statistical Area



Source: Indiana Department of Workforce Development and EDIN.

Retail employment did not fall, but employment growth in that sector stalled to a virtual standstill. In recent years the steady growth of retailing had been the one constant in the local economic equation. One factor in this shift was Columbia House's shift from steady expansion to scattered layoffs, resulting from a recent slowdown in music sales. Workers are concerned, in part because Sony, impatient with continuing losses from Columbia Pictures, is in the process of replacing the top management of its entertainment division. It has not denied the possibility that it will spin off the division in a public offering. Sony does deny that changes in function are contemplated for the local facility.

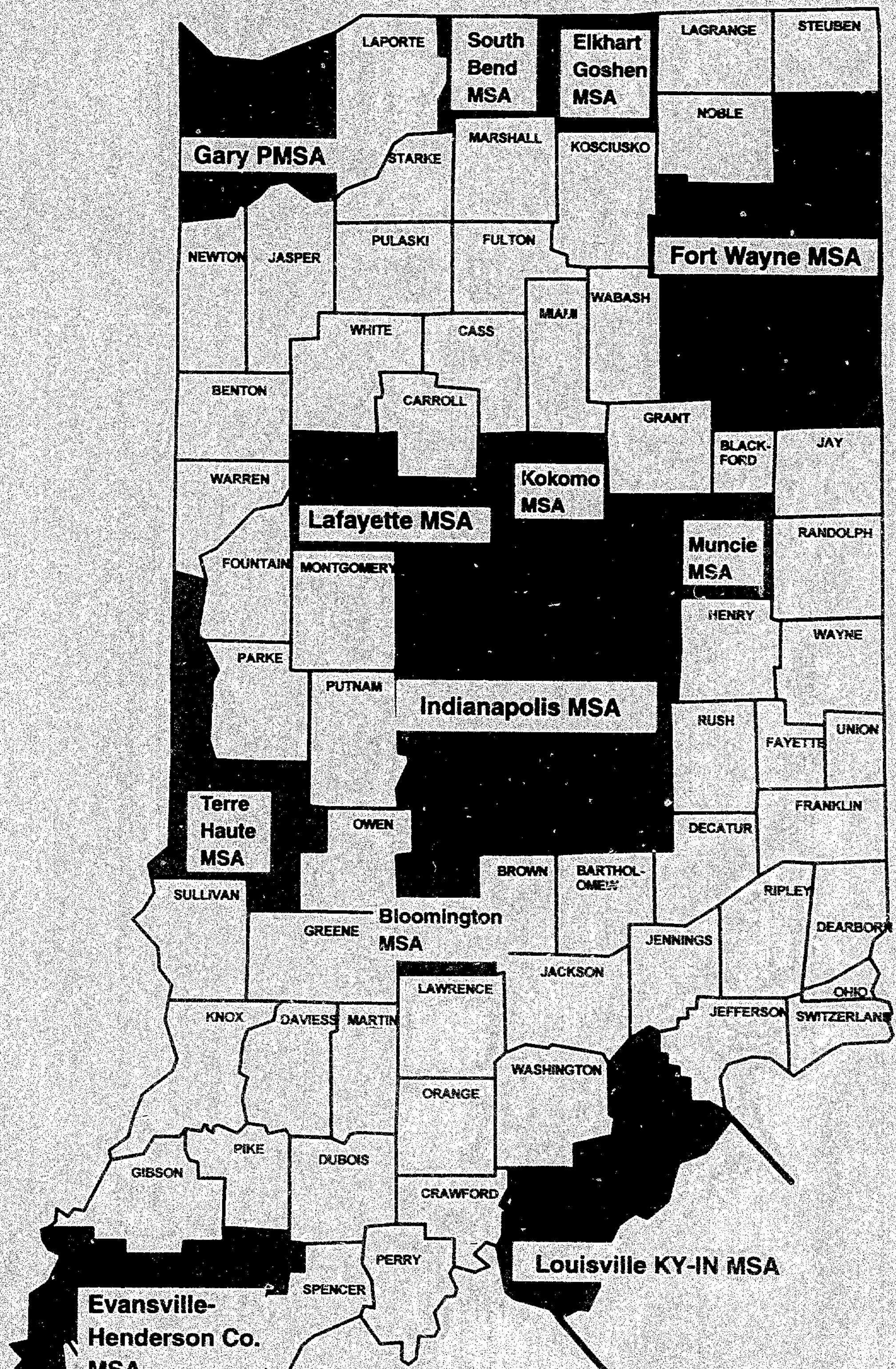
Auto sales are also slow, and elsewhere in retailing the news is that there is no news. Paitson Hardware moving to larger quarters is the most noteworthy event. At the wholesale level, Brentlinger Distributing Company is building a much larger warehouse in Terre Haute's newest industrial park.

Construction, the most cyclical of sectors, extended its retrenchment during 1996. Year to year, the imputed value of Vigo County building permits fell 19%, while the number of units fell 25%. The value of residential permits is down by more than 50% from its peak in 1993. Two new apartment complexes, the larger at the site of the old St. Anthony Hospital, may add to an existing glut of apartments. Sales of new homes are down, but the resale market may be holding up. Vigo County realtor listings show the average selling price up 9.4% for the year, with the number of houses sold essentially unchanged, but homes staying on the market 7.5% longer.

Expansion at Applied Extrusion Technologies, along with a new office for the Tribune Star Newspaper, topped the list of commercial projects. Noncommercial construction was perhaps more robust. Both Indiana State University and Rose Hulman Institute of Technology have new classroom buildings under construction. Several new churches have been built. The new year may see a further tilt toward noncommercial construction, with a new regional distribution center for the post office and an ambitious building program from the Vigo County School Corporation. Most 1996 construction employment stood well below levels of the previous year, but activity picked up late in the year.

Plant closings announced in 1995 and scheduled to take effect through 1996 made the forecast of a softening local economy an easy call last year. Terre Haute has not recovered from its setbacks, but it has adjusted to them. The direction for 1997 is not at all clear, but another lackluster year is certainly possible.

INDIANA METROPOLITAN STATISTICAL AREAS



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