

range. A modest cooling of the national economy should not be enough to push local auto unemployment upward significantly. It will likely mean less overtime and therefore less local manufacturing income and lower average manufacturing wages. We shouldn't expect large changes in the local employment mix or unemployment for the coming year. Of course, some wild cards could surprise us. The changing ownership of local auto factories gives us some uncertainty in the near future. Existing contracts will be honored, but we cannot begin to predict what will happen at the end of those contracts.

On balance, the current assessment of our local economy should include a significant recovery from the poor performance of the 1980s. We have seen some improvement over the past decade. But the comparison between us and the rest of Indiana indicates that we have some distance to go in maintaining a standard of living commensurate with other, more prosperous Hoosier communities. The quality of employment growth will be a key for us in 1999 and on into the next century. Because our future as a manufacturing center is at best uncertain, a focus on providing the infrastructure needed to attract high-value-added jobs is essential for long-term growth.

Columbus

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Despite marked improvement in employment performance on the state and national fronts, once again the Columbus area economy outpaced them both. The year-to-August average monthly unemployment rate for Bartholomew County stood at 2.2% (2.3% for the same period in 1997), compared to 3.1% for the state (3.6% for the same period in 1997) and 4.5% for the U.S. (5% in 1997). The county's unemployment rate for the months of July and August was only 1.6%. And its initial unemployment insurance claims posted lower numbers in 1998 than in 1997—down by 22% and 18% for the first and second quarters, respectively. August 1998 initial claims were 14% lower than those for August 1997. Moreover, total unemployment claims filed decreased by 30% from 3,527 in July to 2,471 in August.

Table 1 shows the unemployment rates, the number employed, the number unemployed, and the annualized employment growth rates through the 1980s and '90s for Bartholomew County. Note that from 1990 to the most recent period available (third quarter 1998), the number employed has grown by 23% (from 31,922 to 39,395) and the unemployment rate fell from 4.9% to the current rate of 1.6%.

For the first nine months of 1998, Cummins Engine reported a 25% decrease in net earnings to \$111 million (from \$148 million in 1997), or \$2.86 per share (from \$3.82 in 1997), on sales of \$4.7 billion (from \$4.1 billion in 1997). These earnings exclude a pretax charge of \$114 million for restructuring costs and \$35 million associated with a methodology change in calculating product coverage costs for extended warranty programs. The restructuring plan, along with expected savings from economies of scale (a decrease in the firm's long-run average cost) in the new product lines, should reflect positively on the firm's financial position in the future. On the other hand, Cummins agreed to a consent decree with the government that requires it to pay a fine of \$25 million and comply with new environmental standards (along with six other engine manufacturers, whose collective fine amounted to \$1 billion). This is expected to put upward pressure on the cost of production in the next millennium.

Table 1
Columbus Area Employment Data

Period	Unemployment Rate (%)	Number Employed (Monthly Avg.)	Number Unemployed (Monthly Avg.)	Annual Employment Growth Rate (%) ¹
1980-1989	8.2	27,700	2,450	1.2
1990-1995	4.9	31,890	1,580	4.4
1996	2.8	38,029	1,120	2.1
1997	2.2	38,395	888	1.0
3Q98 ²	1.6	39,395	645	1.3

¹The annual employment growth rate is the percentage change for each quarter in a year compared to the same quarter in the previous year.

²For some of the figures reported, September's numbers were not available at the time of writing. Consequently, we extrapolated third-quarter averages by assuming that September's figures are equal to the average of the data from August and July.

For the first nine months of 1998, Arvin reported that its net earnings increased by 22% to \$58 million (from \$47.7 million in 1997), or \$2.40 per share (from \$2.06 in 1997) on sales of \$1.8 billion (from \$1.75 billion in 1997). This was the 11th consecutive quarter in which Arvin's earnings grew faster than sales. The company's plan to double its size by the end of 2002 remains on track.

Based on a survey conducted in July of every year by the Columbus Economic Development Board, employment in the old top five manufacturing companies (Arvin, Cosco, Cummins, Golden, and Rockwell) has continued its declining trend. Total employment in these companies went down from 11,082 in 1997 to 10,925 in 1998—a 1.5% decrease. On the other hand, employment by the top five new manufacturing companies (Enkei, Impact, NTN, Onkyo, and TIEM) has increased from 2,477 in 1997 to 2,617 in 1998—a 5.7% increase. In addition, four new companies (Crescent Manufacturing, MACtac, Inc., Maumee Industries, Inc., and Hamilton Foundry & Machine Co.) moved into the area, adding a total of \$24.6 million in investment and creating 98 new jobs with a weighted average hourly wage of \$13.40. Finally, expansions by other existing companies led to total new investments of \$418 million and the hiring of 124 new employees with a weighted average hourly wage of \$12.90.

For Bartholomew County, the number of building permits issued for residential buildings was 240 units for the eight-month period ending in August, compared to 257 for the same period last year. Although the number of units is down, their total cost for the same period increased by 2.7%, from \$32.4 million to \$33.3 million. As for the local housing market, for the first three quarters of 1998 the number of houses sold was almost identical to the year before: 770, compared to 767 in 1997. For the period ending on October 22, the average selling price in 1998 was \$129,584, compared to \$124,543 for third quarter 1997 (a 4% increase). This is despite the fact that the average number of days on the market increased from 121 to 131. Further, the sold-to-list-price ratio has inched upward to 96.2% from last year's 95.5%. Overall, the housing sector continues to experience a relative excess supply, although some housing appreciated at a rate exceeding the inflation rate.

Forecast

How the local economy evolves depends greatly on what scenario takes place. Assuming that the national economy will grow moderately (the most likely scenario), this should leave the Columbus area economy at more or less its current state. If the nation grows at above the expected level, then we should experience further shortages in local labor markets and higher

employment costs. If, on the other hand, global recession contaminates the domestic economy, then we believe the Columbus area will be adversely affected, with sales, profitability, incomes, and employment all declining.

Richmond–Connersville– New Castle

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The Richmond-Connersville-New Castle (RCNC) area economy can expect a slowdown in economic activity in 1999. This forecast hinges on the U.S. economy, given the area's interconnectedness and interdependence with the latter, especially in durable goods manufacturing. The expected 2.1% growth in real gross domestic product (the market value of final goods and services), a 1.7% inflation rate, an unemployment rate of 5%, and a 2.2% increase in real disposable income (personal income minus personal taxes) suggest that the robust economic performance of previous years will not be repeated in 1999. The national economy is slowing down, and so is the regional economy.

The manufacturing sector is reeling from the Asian crisis. Devaluation and recession are adversely affecting local firms that sell their products to Asian economies, which have been experiencing large external deficits and excessive exposure to foreign exchange risk. Local products become more expensive to foreigners as the purchasing power of their currencies declines relative to the dollar. The softness in demand, particularly in durables, translates into layoffs and job losses. Consequently, RCNC's unemployment will increase during the first two quarters of 1999 because of the Asian contagion (see **Table 1** on the following page). However, stability in Asia and other markets would eventually halt a significant increase in the local unemployment rates. Protracted double-digit unemployment rates are unlikely.

The service industry, unlike manufacturing, will experience more employment in 1999 because of sustained demand for various services, ranging from business, personal, and health to professional and social. The current sectoral expansion reflects this phenomenon, coupled with the demographic profile