Outlook

The Michiana economy has benefitted from the long expansion in the national economy. Durable goods—auto parts, recreational vehicles, manufactured housing, boats, and so on—are an important part of regional output. High levels of consumer confidence, low national unemployment rates, and low interest rates during the past year have spurred the sales of durable goods, keeping local labor markets tight and leading to reasonable economic growth. International developments threaten to slow the growth in national GDP by reducing U.S. exports and increasing U.S. imports, as well as by reducing the sales and profits of U.S. corporations. This slowdown in the national economy, together with the recent drop in consumer confidence, will likely affect the demand for durable goods and the Michiana economy, especially in the next two quarters. The Elkhart-Goshen area, which has the highest percentage of manufacturing employment of any MSA in the U.S., will probably feel the effects of the drop in durable goods sales quicker and stronger than the South Bend-Mishawaka area. We expect to see rising unemployment rates, although still low by historical standards, and much slower growth in employment.

Louisville–Jeffersonville–New Albany

Fay Ross Greckel

Professor of Economics at Indiana University Southeast

This has been a year of considerable growth for the Louisville metropolitan area economy. Our seven counties (Clark, Floyd, Harrison, and Scott counties in Indiana, and Jefferson, Oldham, and Bullitt counties in Kentucky) generally out-performed the state of Indiana, though not all sectors of our economy were equally robust.

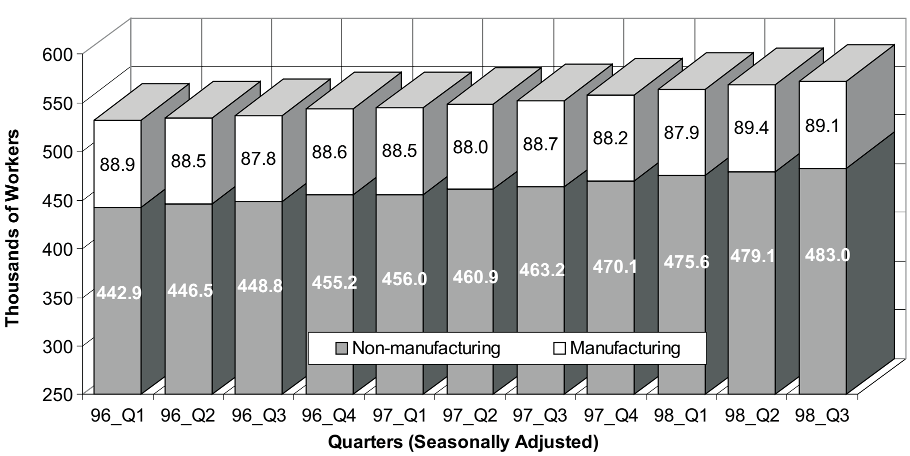
Total nonfarm employment grew at a surprisingly strong rate, adding about 17,000 filled jobs between third quarter 1997 and third quarter 1998 (see **Figure 1**). Revised employment data for the previous two years revealed that nearly the same number of jobs were added in the 12 months ending with September 1997, so we have had two years of very substantial job growth—well above the growth rate of the middle of the decade.

The magnitude of the employment growth attests to the vigor of the regional economy. It is surprising only because of the tightness of the local labor market. Local unemployment rates, which were already historically very low, declined about a percentage point from year-ago levels. The preliminary September unemployment rate reported for residents of the four metropolitan area Indiana counties was 2.3%. For residents of the three Kentucky counties, the rate was 3.0%. These rates are not seasonally adjusted, and they compare with 2.8% for Indiana and 4.4% for the nation as a whole.

Although some of the employment growth can obviously be explained by the lower unemployment rate, that does not account for the entire increase. The labor force itself has grown, partly from new residents and perhaps partly from new participants among the existing population. In addition, there has probably been some increase in commuting from outlying counties, as well as more residents holding multiple jobs. The upcoming decennial census should help reveal the relative importance of these various factors.

Virtually all the net job growth was concentrated in the nonmanufacturing sectors, which now provide about 84% of the nonagricultural jobs located in the area. The sector with the largest increase by far was services, which added about 7,000 jobs. As has been the case in recent years, business and health services led this jump. Trade employment rose by about 4,000 jobs, nearly all in the retail sector. Construction added

Figure 1
Employment in the Louisville Metropolitan Area

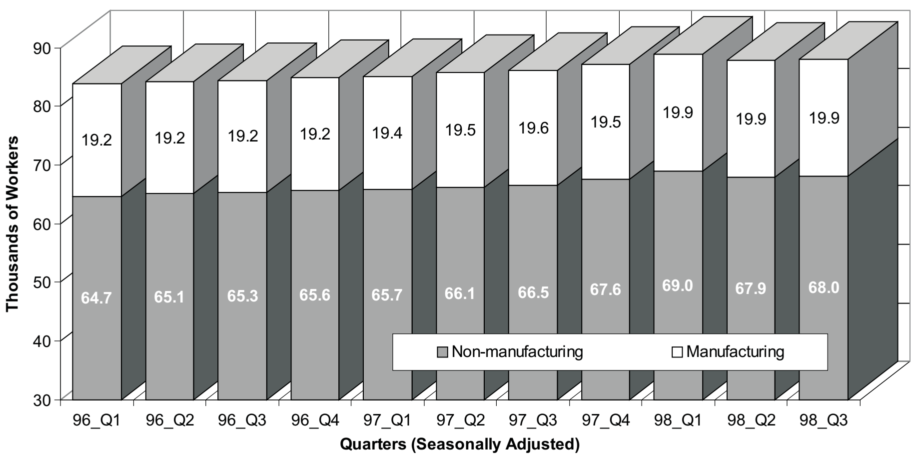


The Louisville area comprises Clark, Floyd, Harrison, and Scott counties in Indiana, and Jefferson, Bullitt, and Oldham counties in Kentucky. Data source: Kentucky Cabinet for Human Resources.

about 1,500 jobs, particularly in the special trades area. Local government expanded by about 1,000 jobs, mostly in education.

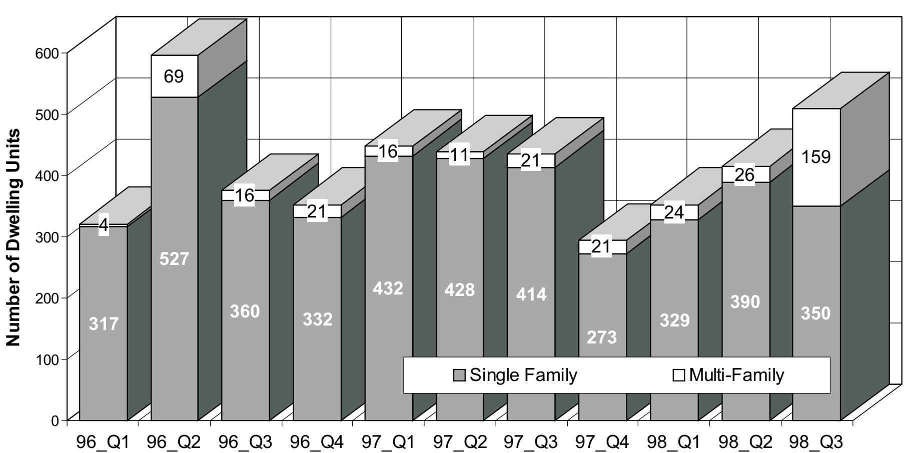
Employment data for just the four Indiana counties in the metro area show a decline for second and third quarters 1998 (see **Figure 2**). However, it is premature to be too concerned about that picture. The preliminary estimates on which these statistics are based will be revised next year. Over the past three years we saw the same initial downtrend pattern, but later revisions turned that into a gently rising trend. I expect next year's revisions to show a positive picture once again. Also, with Caesar's riverboat casino opening in November and employing 2,000 people, the employment year should end on an upswing.

Figure 2
Employment in Southern Indiana (Clark, Floyd, Harrison, and Scott Counties



Source: Indiana Department of Workforce Development

Figure 3
Residential Building Permits, Clark, Floyd, Scott, and Harrison Counties



Source: Kentuckiana Regional Planning and Development Agency

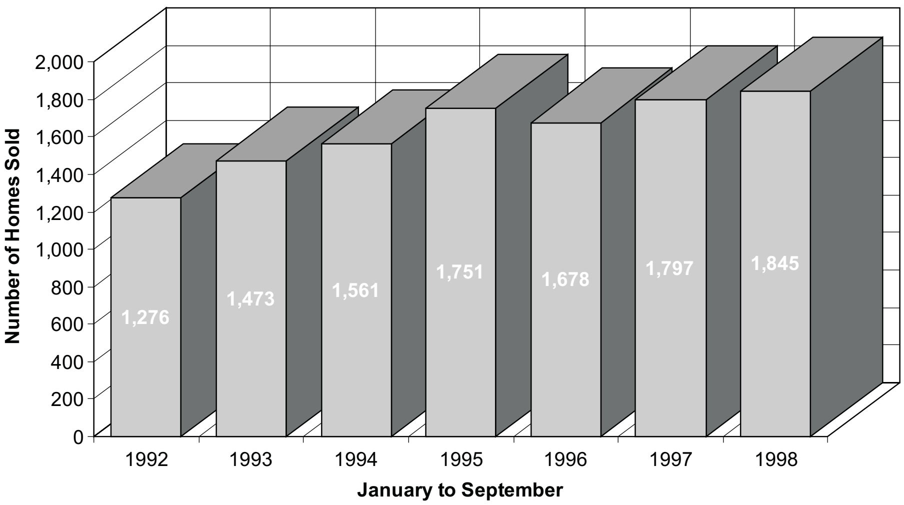
Even with the current statistics, the southern Indiana counties had 2,000 more jobs filled in third quarter 1998 than in third quarter 1997, and average employment for the first nine months of this year was running a robust 2,800 jobs ahead of the same period last year. The manufacturing sector added about 400 jobs. The nonmanufacturing sector accounting for the remaining gains was services, state and local government (including education), and construction.

It has been widely noted that southern Indiana is becoming more of a bedroom community for Louisville than it used to be. However, we should be careful not to overstate that trend. The southern Indiana counties account for more than one out of seven (15%) metropolitan area jobs, and for nearly one out of four (22.5%) of the manufacturing jobs. One of the more visible signs of economic activity is residential construction, which continues at a strong pace. In Jefferson County, Kentucky, the first three quarters of 1998 saw a record number of building permits issued for new single-family dwellings—well over 2,100 homes. That was a 19% increase over the record 1997 total for the first nine months of the year. Most of the building is occurring in the unincorporated sections of the county. Permits for multi-family units also rose strongly this year: nearly 40% higher than last year. But the totals are not high by historical standards, and the construction focus is still mainly on single-family homes.

Apartment-building also increased on the Indiana side of the river, but here too, most of the activity is in single-family construction. In the first nine months of this year, the four metro counties in Indiana reported issuing permits for nearly 1,100 single-family houses (see **Figure 3**). This was a high level of building activity by historical standards, but about 200 homes *fewer* than in the same period last year. Reporting of building permits has been rather slow from some jurisdictions, and the above total may understate the amount of home building going on. Construction employment is up, and people in the field do not see any building slowdown—if anything, they see the opposite.

Both the building activity and housing sales underscore the heightened interest in developing the more rural areas of the Indiana counties. There is also a growing realization that these locations are often more accessible to job sites than are most parts of Jefferson, Oldham, and Bullitt counties.

Figure 4
Real Estate Sales (Homes) in Clark, Floyd, Crawford, and Harrison Counties



NOTE: Sales activity reflects only Multiple Listing service sales.
Source: Southern Indiana Realtors Association

The robust southern Indiana housing market is also evident in record sales of existing homes (see **Figure 4**). Through September of this year, nearly 1,850 homes were sold through multiple listing services in Clark, Floyd, Harrison, and Crawford counties—a 3% increase over last year's record sales for the same period. On the Kentucky side of the Ohio River, sales of existing homes jumped 8% over last year's sales, with more than 7,000 houses sold through September.

One indicator of consumer spending is purchases of new cars and light trucks. Data for the three largest metro area counties over the first nine months of the year show a different trend than most of the areas discussed above. For the second year in a row, sales of both new cars and light trucks fell in Jefferson County. Car sales were down nearly 6%, or about 1,000 vehicles. Sales of light trucks (pickups, minivans, and sport utilities) fell only 1%, or about 100 vehicles, but this is contrary to the national trend and to what has gone on locally for most of this decade.

For the first time since 1993, new car sales declined in Floyd and Clark Counties—also down nearly 1,000 vehicles, or about 19%. Light truck sales increased very slightly (less than 1%). Overall, new car and truck sales in the three large counties were about 6% lower than in the first nine months of 1997. It is possible that a shift to other consumer expenditures has occurred, rather than a drop in total purchasing.

Overall, the local economy still appears quite sound. The labor market remains very tight. Demand for workers is high, and it is hard to see where we will get the work force to sustain another year of job growth as vigorous as this one has been. But then I did not expect this year's rate of expansion to be possible either.

A lot of industrial, commercial, and civic capital expansion is under way, injecting money into the economy now and providing additional jobs in the near future. Examples include Caesar's riverboat casino, which just opened with some 2,000 employees. More will be added when the $275 million complex is completed, probably in late 1999, and the eventual payroll is anticipated to be around $50 million. Also in Harrison County, Tower Automotive recently announced a $71 million expansion that will bring 40 new jobs to Corydon.

The Clark Maritime Center has several new tenants; capital investments totaling well over $100 million and at least 600 new jobs are anticipated. Among the new developments, Vogt Valve and GEA Parts opened new facilities this year, and GalvStar, RPS, ScanSteel, & Gateway Galvanizing are building at the Center. Floyd County activity includes the Community Bank headquarters building in downtown New Albany and investments by Accent Marketing Services and Tilton Equipment Company. These are only a few of the new and expanding commercial and industrial projects going on in the area. In addition, many public projects are under construction.

All of this points to continued economic vigor in the months ahead. Though we will be affected by any national slowdown, I expect this area to fare better than the average of the nation or the state in 1999.

Muncie

Patrick M. Barkey

Director, Bureau of Business Research, Ball State University

The Muncie economy got more than its proverbial 15 minutes of fame during the last year, but it was the kind of attention its civic leaders could have done without. The announced closure or downsizing of five major manufacturing employers took a sizable chunk out of the economy's manufacturing base and gave economic development efforts a new sense of urgency.

Nevertheless, the most recently released payroll data for October 1998 find employment totals actually up 100 jobs from their levels of the previous year. Moreover, the Muncie unemployment rate remains