

within the housing sector? Maybe older housing is being destroyed at an atypical rate or maybe builder speculation is driving the sector.

Having an answer would certainly be helpful in developing a forecast for 2000, but that's not possible at this time. My bias is that 1999 employment ultimately will be revised upward, and that probably speculation has crept into the new housing market. Ten years of uninterrupted success will do that.

Even if 1999 employment ultimately is revised upward it won't be large, and therein also lies the logic for what is likely to happen to the area economy in 2000. That the cupboard of excess labor in the Fort Wayne area is bare is obvious. The unemployment rate in the Fort Wayne area has been running approximately two percentage points below the U.S. unemployment rate since 1993. In September it was 2.5 percent, not seasonally adjusted.

Yearly population estimates since the 1990 census suggest that the Fort Wayne area population is growing between 0.5 and 0.7 percent annually. This is about half the growth rate for the U.S., and it is consistent with the fact that the Fort Wayne area has not been a mecca for in-migration. Thus, the principal source of population growth is the excess of births over deaths.

If everyone wanting a job is already employed, then the labor force is likely to grow at approximately the same rate as the population, ignoring age discrepancies. This means an increase of between 875 ( $.005 \times 175,000$ ) and 1,225 ( $.007 \times 175,000$ ) per year.

Now the only question relative to the 2000 forecast for the Fort Wayne area economy is whether the U.S. economy will grow sufficiently to create demand for increased employment between 875 and 1,225. Probably, any balanced growth in U.S. GDP of at least three percent will do that. The logic also suggests that whether U.S. GDP growth is three percent or five percent won't make that much difference to area economic performance.

Balanced growth requires that the manufacturing sector participate fully, and that appears likely in 2000. The twin problems noted in the opening paragraph are reversing. Foreign demand—especially Asian and European—for U.S. manufactured goods is growing again and a falling dollar is making U.S. manufactured goods more competitive.

Trying to analyze the manufacturing sector can be confusing. For the U.S., manufacturing employment decreased 19,000 monthly in 1998 and it has decreased 29,000 monthly in 1999. One might assume then that production of manufactured goods has been decreasing, but that isn't the case. Actually, production has been increasing at approximately a five percent annualized rate. How can this be? The answer is that productivity in the manufacturing sec-

tor has also been increasing at approximately a five percent annualized rate, so the increased production can be obtained with the same or fewer employees.

Obviously, these trends have a tremendous impact on the potential for employment growth in the Fort Wayne area because it has an outsized dependence on manufacturing.

Can Fort Wayne employment grow faster than 1,250 annually? It's possible, but not probable. Possibilities include a company moving to the area and bringing its employees or \$100,000 jobs to be filled locally. The latter would cause a one-time increase in the labor force as additional people chose work over leisure, but the interesting question is whether the Fort Wayne area has a sufficiently skilled labor force to fill the \$100,000 jobs.

What's the downside risk to the forecast? Accelerating inflation and the rising interest rates that will result! Wage growth is accelerating. For example, the UAW just signed an agreement that gives three percent annual increases plus a cost of living adjustment. Crude oil prices have doubled and OPEC's share of the market (and resulting pricing power) has increased. As the managed part of managed care is reigned in, it appears likely that the health care industry may start adding to inflation again rather than subtracting from it. Finally, commodity prices are starting to increase.

Note

1. Not seasonally adjusted

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## Columbus

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### THE PREDICATOR, 1999<sup>1</sup>

#### State of the National Economy

After successfully avoiding last year's global financial crisis, the U.S. economy continued to steam along at a remarkable rate. While the Asian, Russian, and (to a lesser degree) Latin American economies were trying to climb out of their financial debacle, the U.S. economy posted an astonishing 6.01% annual growth rate in the fourth quarter of 1998, followed by a strong 4.3% in the first quarter of this year. While growth in the second quarter of 1999 leveled off to a modest but positive annual rate of 1.9%, growth in the third quarter beat expectations as it rebounded to a robust 4.8%.

With fears of further international financial crises receding, worries of higher inflation in the United States have resurfaced. The chain-type price index for the Gross Domestic Product (GDP)—which covers prices of all goods and services produced in the U.S.—rose at about a 1.5% annual rate in the first quarter, up from an increase of about 1% last year. Also, after increasing by only 1.6% over 1998, the Consumer Price Index (CPI) rose at a 2.6% annual rate for the year ending in September 1999. Although the core rate (inflation minus energy and food components) of inflation remained somewhat subdued at 2%, recent Producer Price Index (PPI) and CPI figures show a sharp increase in some commodity prices. For example, the September CPI increased by 0.4% while the PPI rose by 1.1%, driven by sharp increases in food, energy, tobacco, and car prices. A large part of the increase can be attributed to the jump in global oil prices, as OPEC was successful in curbing production levels; and, at the same time, energy demand by Asian nations rebounded. After hitting a bottom of \$11 per barrel by the end of 1998, oil prices have moved this year to a high of over \$22 per barrel.

The increase in the Employment Cost Index (ECI) came in at 0.8% in the third quarter, lower than the 1.1% rise in the second quarter. Overall, the ECI is hovering around a steady rate of 3% in 1999, down from 3.5% over 1998. Although lower than earlier increases, the 3% rise in the ECI is well above the rise in prices over the same period and therefore is enough to generate solid real wage gains. These cost increases did not translate into higher prices partially because of higher gains in productivity. For example, labor productivity in the nonfarm business sector posted another sizable gain in the first quarter of 1999, and the increase over the four quarters ending with the first quarter of 1999 was 2.5%. Indeed, productivity has increased at a 2% pace since 1995—well above the trend of roughly 1% per year that had prevailed over the preceding two decades. In fact, the Fed estimates that the rate of potential growth implied by this improvement in productivity has gone from 2.3% a few years ago to as high as 3%.

Labor demand remained very strong during the first three quarters of 1999. The unemployment rate edged down further from 4.5% in 1998 to a low of 4.1% in October of this year and an average of 4.3% for the period ending in September—the lowest unemployment rate seen in the U.S. in almost 29 years. While employment gains are evident in the technology, service, and construction sectors, in the manufacturing sector, where employment began declining more than a year ago in the wake of a drop in export demand, payrolls continued to fall in the first half of

1999. In all, nearly half a million factory jobs have been lost since March 1998. Despite these job losses, manufacturing output continued to rise in the first half of this year, reflecting large gains in labor productivity. Also, factory orders are up 6%, on a year-to-date basis, a significant rebound from the 0.8% rise posted over the first eight months of 1998.

Real personal consumption expenditure surged at an annual rate of 6.5% in the first quarter and 5.1% in the second quarter. Also, real income continued to rise with strong growth of employment and real wages, and consumers have benefited from substantial gains in wealth mainly because of strong stock market performance. The market's sharp rise and the associated increase in wealth have helped to foster a high level of consumer confidence and willingness to spend. This seemingly unstoppable demand by consumers refueled dormant fears of a resurfacing of inflation. These fears prompted the Fed to switch its official stance from a neutral to a restrictive bias. Already, the Fed has raised short-term interest rates twice this year (0.25% each time) to the current 5.25%. Long-term interest rates have risen by more than 1% in the last year. In addition, the Fed has repeatedly indicated its readiness to act preemptively in order to slow down the economy on signs of impending inflation or "excessive" valuation in the equity market. The stock market, reacting to the chairman's comments, first plummeted by almost 10%, but then rebounded somewhat on calming news of good corporate earnings, "acceptable" September's CPI figures, and, more recently, the robust but non-inflationary third quarter growth. Despite this reassuring recovery, the Fed is watching the equity market closely as stock market holdings now make up an even greater portion of household wealth. The Fed believes that rising stock prices fuel consumption, and robust consumer spending has been a major concern of the Central Bank this year.

The federal budget posted a \$66.6 billion surplus in the 1999 fiscal year compared to a \$31.8 billion surplus last fiscal year. As a result of this performance, the federal government is now contributing positively to the pool of national savings. This increase in national savings, as well as the foreign investors' eagerness to finance our current account deficit, has kept a lid on the cost of capital, thus contributing to our nation's investment boom.

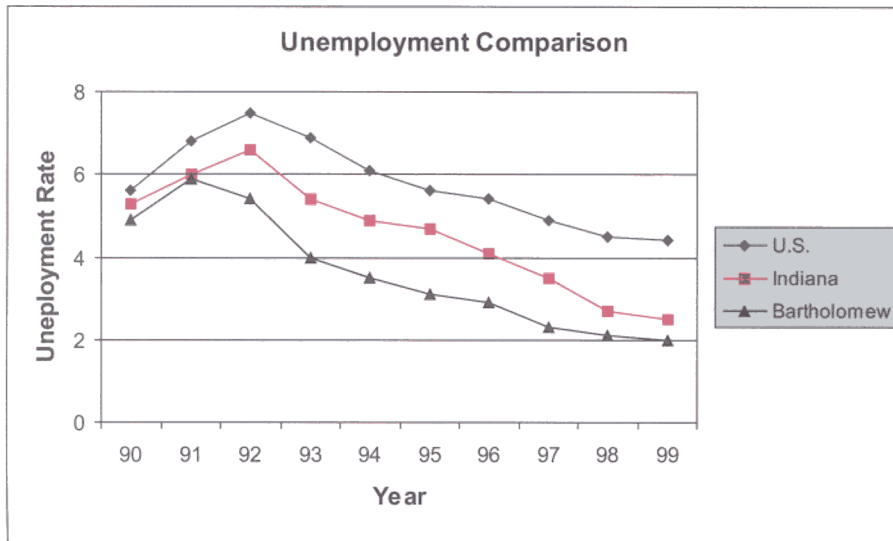
As for the Balance of Payment, the current account deficit is expected to easily top \$320 billion (3.5% of GDP) this year as compared with \$221 billion (2.5% of GDP) for 1998. The balance of trade in goods and services is running an annual deficit of \$259 billion as compared to \$173 billion last year. This is partially due to relatively low world commodity prices and a strong dollar. Recent recovery in world

demand combined with a weakening dollar may reverse this trend by stimulating U.S. exports. However, American consumers' appetite for imports shows no signs of tapering off.

### State of the Local Economy

Despite record-setting employment performances on the state and national levels, once again the local economy outpaced them both (see **Figure 1**). The year-to-August average monthly unemployment rate for Bartholomew County stood at 2% (versus 2.1% for 1998), compared with 2.5% for the state (versus 2.7% for 1998) and 4.4% for the whole nation (versus 4.5% in 1998). Bartholomew County's unemployment rate for the months of July and August was only 1.5% and 1.6%, respectively. Only Brown and Jennings Counties posted a lower unemployment rate in the month of August. Also, the unemployment insurance claims filed in August in Columbus are down 16.6% from the same month last year. It is noteworthy also that Indiana's unemployment rate of 2.5% in August is currently lower than that of the four surrounding states.

**Figure 1**  
Unemployment Compensation



**Table 1** shows the unemployment rates, the number employed, the number unemployed, and the annualized employment growth rates through the 1980s and 1990s for Bartholomew County. Note that from 1990 to the most recent period available, the number employed has grown by 22% (from 31,922 to 39,035), and the unemployment rate fell from 4.9% to the current rate of 2%.

Cummins announced two new records for the third quarter, with earnings before interest and taxes of \$91 million on sales of \$1.63 billion. Net earnings for the quarter rose to \$53 million, or \$1.35 per share, up by 160% from the 52 cents per share reported in the third quarter of 1998, exclusive of special charges. Including special charges of \$174 million in the third quarter of 1998, Cummins reported a loss of \$110 million, or a loss of \$2.86 cents per share, on sales of \$1.53 billion. For the first nine months of 1999, Cummins reported net earnings of \$135 million, or \$3.48 per share, on revenues of \$4.8 billion. This compares to the first nine months of 1998, when Cummins reported a net loss of \$50 million, or a loss of \$1.30 per share, including special charges of \$217 million, on revenues of \$4.7 billion.

Arvin Industries, Inc. reported a third quarter net earnings increase of 20% to \$20.1 million, or \$0.82 per share. Sales for the quarter rose to \$744 million, an increase of 30% over the comparable quarter in 1998. Net earnings and sales for last year's third quarter were \$16.8 million, or \$0.69 per share, and \$574 million, respectively. Both sales and earnings for the 1999 period were records for the third quarter and represented the sixth consecutive record quarter for sales and earnings. For the first nine months of 1999, net earnings before one-time items increased to \$69.8 million, or \$2.85 per share, versus net earnings before one-time items, of \$57 million, or \$2.36 per share, for the comparable period of 1998. Sales for the first nine months of 1999 increased to \$2.32 billion from \$1.81 billion last year.

According to the Columbus Economic Development Board, two companies—National Health Care Recovery Services and B.F. Composites, Inc.—joined the Bartholomew County area in 1999. The first added 200 jobs with an average hourly wage of \$12.00 and an undisclosed amount of investment, while the second added five jobs with an average hourly wage of \$10.00 and \$1 million in investment. Also, since October of last year, five existing companies—LNP Corporation, Cunningham Pattern, TIEM, Applied Labs, and Toyota Tsusho—spent a total of \$26.4 million in their expansion efforts and hired an additional 96 workers with a weighted average wage of \$13.40.

The local housing market is still experiencing a relative glut. As of the last week in September, the

**Table 1**

Year	Unemployment Rate (%)	Number Employed (Monthly Average)	Number Unemployed (Monthly Average)	Annual Employment Growth Rate (%) <sup>2</sup>
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
1998	2.1	39,000	837	1.6
1999 (as of August)	2.0	39,035	778	0.0

<sup>2</sup>The annual employment growth rate is the percentage change for each quarter in a year compared to the same quarter in the previous year.

**Table 2**  
**Forecast Summary**

Forecast Summary		
Expected Outcome	Probability	
Robust Growth	3--5%	75%
Modest Growth	2--3%	25%
Slow Growth	0--2%	0%

number of houses sold was down to 680 from 770. However, the average property selling price stood at \$130,135 versus \$129,584 (a 0.4% increase). This could be explained by the fact that residential housing tends to be segmented between new, highly desirable, mid-range houses and old, less expensive, less desirable ones. The increase in the average prices can then be explained by the shift in demand from the old to the new houses. The average number of days on the market continues its upward trend from 131 days last year to 143 this year and the sold-to-list price ratio remains around 96%.

**Forecast (See Table 2)**

The state of the local economy in the new millenium depends largely on the health of the U.S. and, to a lesser extent, the global economy. The last two years have seen two significant developments. First is a growing conviction that the U.S. economy has moved to a higher sustainable growth path. Second, there has been an unusual combination of international events that has temporarily enabled the economy to grow even faster than the new growth rate without generating inflation.

While I expect the higher growth trend to continue, the international environment is less likely to produce the same favorable conditions in the near future. In fact, I predict the international environment will offer new challenges as well as opportunities. The opportunities are embedded in the potentially higher world demand for U.S. products buoyed by a revived global economy. As the weakened Asian and Russian economies regain strength, their incomes will increase, thus increasing their demand for imports.

On the other hand, the emergence of the euro as a viable international currency could present a major challenge for the dollar. Despite the fact that the euro lost a lot of ground against the dollar early in 1999, it has recently rebounded significantly. This could make the dollar and U.S. financial assets potentially less attractive to international investors, thus drying up the capital pool available to U.S. investors.

Another concern is the increased competitiveness of Europe, Southeast Asia, Japan, China, and India. Some analysts argue that in the wake of the global financial crisis, it is possible that these countries will restructure their economies and become more effective world suppliers of consumer goods and services, thus competing for U.S. export markets. This scenario is unlikely, at least in the short to medium term. For example, despite a marked progress toward a one-currency zone, Europe is still struggling with major organizational and structural issues.

Heavily unionized labor markets, rigid tax and labor laws, and internal dissent continue to be obstacles to

the formation of an efficient economic federation. The economies of Southeast Asia will still have to contend with corruption, cronyism, and pseudo-capitalism. While I expect their economies to rebound significantly, it is unlikely that they will gain a much larger share in export markets, especially in the high-tech areas. According to many analysts, Japan has failed in meeting the restructuring challenge it faced in the post-crisis environment. The private sector remains entrenched in a traditionally inflexible organizational structure and is still heavily dependent on government subsidies and spending. China and India may still prove quite competitive in the future, but they face, at least in the short term, insurmountable demographic, economic, and political challenges. All this bodes well for the future competitiveness of the U.S. economy. The one remaining challenge, though, is supplying this dynamic, constantly evolving economy with skilled labor. While selective immigration laws can help alleviate the shortage in skilled labor, fundamental policy changes are needed in the field of education and labor training.

For the immediate term, the Fed is likely to restrict credit even further upon signs of accelerating inflation or a major rally in the stock market. If these signs do not appear, the Fed is not likely to act. One mitigating factor may be the impact of the century date change on computer systems and interpreting economic data. I believe that the potential impact will be minimal or transitory, at the worst. At any rate, I predict that all the factors leading to the current impressive performance of the U.S. economy will remain in place during the coming year, producing a continued healthy, if not robust, economy. This translates to a growth rate in real GDP of at least 3.5%, inflation around 2.3%, and an unemployment rate remaining at or below 4.5%.

As for the local economy, I expect further growth in sales for the local firms, driven by stronger international demand. Unfortunately, the local labor market is stretched to the limit, and no further gains in employment should be expected. Hopefully, higher net earnings for local firms will translate to higher incomes and maybe importation of labor, which should boost the local demand for housing and help alleviate the existing housing glut. All in all, I foresee a rosy beginning to the new millennium.

#### Note

1. The views expressed herein are those of the author and do not necessarily reflect those of Indiana University-Purdue University Columbus, the Columbus Area Chamber of Commerce, or the Predicator Advisory Board members (Paul Bippen, Claude Davis, James Dittoe, Gordon Peteres, Richard Smith, and Brooke Tuttle).

## Richmond-Connersville-New Castle

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The Richmond-Connersville-New Castle (RCNC) area economy had a good year in 1999. There were existing business expansions, new businesses and new jobs. The September unemployment rates were 2.9, 5.4 and 3.4 percent respectively for Wayne, Fayette and Henry counties compared to the statewide rate of 2.7 percent and the national rate of 4.1 percent (see **Table 1**). It is a welcome relief to the local region accustomed to double-digit unemployment rates. Most of the gains in employment growth have occurred in service producing industries.

The service sector is expanding because of the increased demand for various kinds of services, ranging from personal and health to educational and entertainment. Employment growth in Wayne, Fayette, and Henry counties between 1987 and 1999 registered an increase of 21.4, 5.2 and 11.8 percent respectively. Wayne county's increase was below the statewide increase of 22.4 percent, but above the national increase of 20 percent. Between 1998 and 1999 over 1000 jobs have been added, most of which were in services, reflecting RCNC's demographic profile and consumption pattern. However, there will be a loss of 300 high-paying jobs at Roots/Dresser Industries which will significantly impact Connersville given the high manufacturing intensity.

The manufacturing sector is recovering from the Asian and Brazilian/Latin American crises. Progress toward economic recovery in these developing regions has been advanced by financial stabilization, with strengthening exchange rates, and by supportive monetary and fiscal policies. Consequently, local firms will be in a favorable position to sell their products in these markets compared to a year ago. The dollar depreciation will also boost export sales as the global economy improves. A weakening dollar makes U.S. exports less expensive to foreign buyers and imports more expensive to American buyers, which will eventually help improve the trade deficit.

The housing sector is continuing its healthy pace. There is a good inventory of houses in the \$75,000-\$150,000 price range. Mortgage interest rates are still attractive in a high employment-low inflationary environment. Most local financial institutions had 15-year and 30-year mortgages and 1-year