

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 millenium.

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

Table 1

	Labor Force		Employment		Unemployment		Rate	
	Sept. '99	Sept. '98	Sept. '99	Sept. '98	Sept. '99	Sept. '98	Sept. '99	Sept. '98
Fayette	10,750	11,160	10,170	10,480	580	680	5.4	6.0
Henry	24,830	25,030	23,990	23,970	840	1,060	3.4	4.2
Wayne	38,830	39,330	37,690	37,660	1,140	1,670	2.9	4.3
Indiana	3,075,000	3,100,400	2,991,700	3,011,400	83,300	89,500	2.7	2.9
United States	139,217,000	137,903,000	133,555,000	131,864,000	56,551,000	6,039,000	4.1	4.4

Source: Indiana Workforce Development

adjustable rate mortgages averaging 7.64, 8.18 and 6.56 percent respectively at the end of October. The spread between the rate on fixed-rate mortgages and adjustable-rate mortgages has narrowed in recent years because interest rates have decreased. But slower overall economic growth and higher mortgage rates are likely to affect housing activity.

Fueling consumption activity is personal income. Real per capita personal income growth in Wayne, Fayette and Henry counties between 1987 and 1997 was 25.6, 15.1 and 24.3 percent respectively compared to Indiana's rate of 21.2 percent and the nation's rate of 18.7 percent. Both Wayne and Henry counties were in the top fifteen with ranking of 9th and 12th respectively. Fayette county ranked 70th while Newton county trailed in last place with a 2.7 percent increase. Ohio county led the way with a 36.1 percent increase. Some of this is due to the counties' slower population growth. Real per capita in RCNC is expected to increase by 2 percent in 2000 and would contribute to economic well-being.

The retail sector, like housing, can expect a strong fourth quarter in that consumer confidence is relatively high, coupled with low unemployment and rising income. Consumers are buying big-ticket items, such as automobiles, appliances, carpets, consumer electronics, and furniture. They are already in the holiday spirit compounded by the millennium celebration, and retailers are capitalizing on it. Local merchants will have improved profit margins in the final

quarter of 1999. Consumer spending will grow more slowly in 2000, mimicking the national economy.

Furthermore, the large number of jobs in the retail and service sectors tend to be low-value added and thus have lower wages. The labor market transition partly explains the slower income growth. Add to this the shortage of qualified and skilled workers. "Help Wanted" ads are a daily feature in the RCNC's media. In a tight labor market, even for unskilled jobs, it is extremely difficult to hire workers at \$7 or \$9 per hour. The jobs today and in the future are becoming highly computerized, automated, and technical, and employers are more demanding in their requirements. Generation Xers may have adjustment problems in the work environment.

Finally, in a recent survey by the IU East Center for Economic Education, 73 percent of the firms hired new employees in 1999, 84 percent do not anticipate Y2K problems, and 50 percent plan to expand in 2000. An overwhelmingly majority of the respondents (92 percent) are optimistic about business conditions in 2000.

On that positive note, RCNC can expect another year of growth and prosperity. And that alone deserves a champagne toast.

Kokomo

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Resilient Kokomo Economy Will Barrel Along in 2000

When the auto sector moves, Kokomo's economy grooves. Since 1991, Kokomo's economic growth has been phenomenal. Each year, it has reached new highs on different fronts. For example, for the last 10 consecutive quarters, the National Home Builders Association has rated Kokomo's housing market the most affordable in the nation. Last year, *Industry Week* magazine ranked Kokomo 1st among its 25 U.S. manufacturing Metropolitan Statistical Areas (MSAs) and 8th best worldwide. Although the U.S. may be approaching the end of the longest peacetime expansion in its history, Kokomo's hot-rod economy continues growing as if there is no limit to economic expansion.

Kokomo's economy has defied obituaries written in the early 80s. It has performed beyond expecta-