

for Indianapolis (rank 13) and \$1,370 for Los Angeles (rank 1). What are the options? The Texas analysts observe:

If building additional roadway capacity were the only option, the cities in the study would have to add an average of 37 more lane miles than they currently do to keep pace with only one year of increased traffic demand.

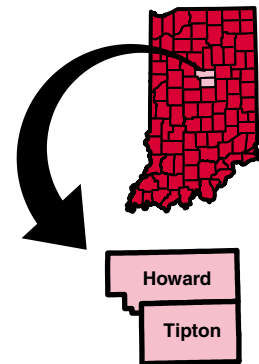
If carpooling were the only answer, the average city would have to increase its annual number of carpool trips by at least 100,000 every year. They note that "...There is not a need for a specific option so much as there is a need for consensus that transportation is an important element of our cities, and something will be done to address the mobility issues."<sup>2</sup> In the short run, we can use our existing highway capacity more efficiently with intelligent transportation system activities and commuter van services (under federal law, the first \$65 provided to an employee monthly for vanpooling is tax-free income). Long run options include capacity enhancements—freeway expansion and commuter/light rail transit. Congestion reduction options come with a variety of price tags. What price are we willing, and able, to pay?

So, in 2001 the residents and the leadership of the business, government, and nonprofit sectors of Indianapolis face major infrastructure issues in "getting fit" for the coming decade. How creatively and constructively we respond will influence our economic future.

#### Endnotes

<sup>1</sup>Martin Kenney, "A Note on the Comparison between Cambridge, England and Silicon Valley, Berkeley Roundtable on the International Economy," Research Note #6, July 2000.

<sup>2</sup>David Schrank and Tim Lomax, "Study Shows Traffic Worsening in a Variety of Ways and Places," 1999 Annual Mobility Report, Texas Transportation Institute, <http://mobility.tamu.edu>.



## Kokomo

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Kokomo is experiencing its longest period of economic expansion since 1992. Recently, Industry Week magazine stated that Kokomo is among the top 15 manufacturing centers in the U.S. According to the U.S. Department of Labor's Bureau of Economic Analysis, Kokomo's average salary ranks among the top 15 MSAs in the nation. The same source reports that Kokomo MSA has held #1 ranking in Indiana in terms of average salary for the past 16 years! Kokomo has a prosperous business partnership with DaimlerChrysler, the world's 3<sup>rd</sup> largest auto manufacturer. In addition, Kokomo's housing is affordable, its population is growing, its property values keep rising, and its credit rating is high. Optimism abounds in Kokomo!

Although the Kokomo economy is barreling along, it is not as super-charged as it was during the previous several years. Apparently, it is showing some signs of economic growth fatigue. There are, however, no signs of a significant slowdown. Manufacturing still remains strong. There is no significant reduction in factory overtime. The jobless rate remains low. The labor market is super tight. Payrolls are high. The retail sector is vibrant. Nonresidential construction is up (see **Table 1**).

**Table 1**  
**The Kokomo Economy That Keeps Surprising**

	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001**
Average Jobless Rate (%)	7.2	6.0	5.7	4.4	3.7	3.4	3.3	2.7	2.9	3.1
Avg Mfg Wk Week (hrs)	40.5	43.3	47.5	47.3	52.4	48.9	51.2	48.5	47.5	45.5
Av Weekly Wages (\$)	839	878	1064	1079	1081	1103	106	1103	1065	1050
Single-family housing permits	196	208	302	265	312	272	218	332	290	270
Total building permits	766	783	990	937	984	1033	960	1066	1075	1060
Retail sales (\$mil)	844	919	950	1035	1084	1093	1132	1424	1700	2000

\*Projection based upon available data

\*\*Forecast based upon trends observed

DaimlerChrysler's new investment plans have elevated Kokomo's image in the state and in the U.S. It is a win-win situation for Kokomo. This new investment in Kokomo (close to \$1 billion) will: (1) retain existing jobs; (2) create additional jobs in the near future; (3) provide additional sources of property revenue to the local government in the long run; (4) generate business opportunities for local suppliers; and (5) create construction-related jobs during the expansion and renovation phase.

### **Kokomo is Indiana's #1 Manufacturing Center**

What do San Jose, CA, and Kokomo, IN, have in common? According to *Industry Week* magazine, they are two of the nation's top 15 manufacturing centers in the nation. While San Jose was ranked #1 in the U.S., Kokomo was ranked #14. In the *Industry Week* ranking, Kokomo not only outpaced the state's Elkhart-Goshen (23<sup>rd</sup>) and Indianapolis (25<sup>th</sup>), but also surpassed St. Louis, MO, Cleveland, OH, New York, NY, Detroit, MI, and Lexington, KY.

### **Christmas in September**

Juergen Schrempp, CEO of DaimlerChrysler's worldwide operations, recently sent Kokomo an early Christmas gift. Despite disappointing earnings, a declining stock price, and sluggish sales, DaimlerChrysler announced in September 2000 that it plans to invest \$853 million in Kokomo's three operations. The economic windfall came unexpectedly, because DaimlerChrysler invested \$1 billion in creating its new Indiana Transmission Plant (ITP) just five years ago. The latest spending decision was a calculated, strategic move. Since installing its first manufacturing facility in Kokomo in 1937, Chrysler has gradually and systematically boosted its manufacturing base here. As a result, outside of Detroit, Kokomo now has DaimlerChrysler's second largest number of plants. Although about 12,000 Hoosiers work for DaimlerChrysler, nearly 75 percent of them work in Kokomo. DaimlerChrysler is Kokomo's largest single employer.

This latest massive investment will result in a 600,000 square feet expansion at ITP, installation of \$400 million worth of machinery, and renovations at the Kokomo Transmission Plant and Kokomo Casting Plant. Along with producing Chrysler-engineered transmissions, the expanded Kokomo operation will produce German-engineered Mercedes-Benz transmissions, which were previously produced in Hedelfingen, Germany.

### **Kokomo Remains #1 in Indiana**

In terms of average salary, Kokomo ranks #1 in the state and very high at the national level. The average salary in the Kokomo MSA soared from \$35,880 in 1997 to \$37,517 in 1998, a gain of 4.6 percent, according to U.S. Department of Labor's Bureau of Economic Analysis. The percent gain in 1998 was the highest in last three years. The 1998 average salary ranked #1 in the state and #13 in the nation. In fact, since 1981, Kokomo's state rank has not changed. At the national level, the ranking of Kokomo's average salary has remained under 15 for the past five consecutive years. The July 2000 issue of the trade publication *Sales & Marketing Management* reported that Kokomo MSA's median household after-tax income in 1999 was \$38,579, the 5<sup>th</sup> best in the state's 11 metropolitan areas and 104<sup>th</sup> nationally.

The weekly manufacturing earnings during the first nine months of 2000 averaged \$1,086, the best in Hoosierland. If this trend continued for the rest of 2000, an average factory worker easily pocketed \$56,500 before year's end. The average manufacturing work-week dipped slightly to 47.7 hours, but this still resulted in almost eight hours of overtime per week. Kokomo's average factory work-week ranks #1 among in Indiana's factory towns.

### Retail Sector Approaching \$2 Billion Mark

Kokomo has become a shopping mecca for nearly 300,000 people living in the greater Kokomo area. Kokomo's retail sector will grow further because of the expansion of Wal-Mart into a Super store and Marsh's construction of its Super store, as well as the arrival of Old Navy, Pier 1, and Menard's. The 2000 grocery wars will intensify in 2001 with the opening of Marsh's super store. Hardware store wars are on the horizon! In the last six years, more than a dozen restaurants have made U.S.31 their home. The good news for consumers is that competition will stiffen as a result of the arrival of Donatos, Don Pancho, and Golden Corral. Competition has already caused the closing of Boston Market, Colorado Steak House, Lincoln Square Restaurant, Blimpie, and Shenanigans.

Kokomo MSA's service-producing sector employed 31,400 people during the first nine months of the year 2000, compared with 30,200 in 1999. The retail and service producing sectors accounted for nearly two-thirds of these jobs. After breaking the \$1 billion barrier in 1995, Kokomo MSA's retail sales are fast approaching the \$2 billion mark. According to *Sales & Marketing Management*, Kokomo MSA retail sales totaled \$1.4 billion in 1999, up a whopping 26 percent from a year earlier! While the 2000 sales figures will not be known until next July, I project that retail sales in Kokomo will be \$1.7 billion. Retail sales in Kokomo MSA averaged \$35,350 per household in 1999 and ranked 7<sup>th</sup> among the state's 11 MSAs. **Table 2** below shows retail sales per household in selected categories:

**Table 2**  
**Kokomo MSA Retail Sales per Household in Selected Categories, 1999**

Category	Sale per Household	Rank Among 11 MSAs
Eating and drinking places	\$ 3,989	1
Motor vehicle parts dealers	\$12,733	3
Food and beverage stores	\$ 3,789	4
General merchandise	\$ 5,855	5

### Payrolls on the Rise

The latest issue of the *Indiana Employment Review* reported that in September 2000, non-farm employment in the Kokomo MSA stood at 54,500; this is a gain of 1,500 jobs since the beginning of the year. The current total non-farm employment is the largest in recent years! The ability of Kokomo's economy to create 167 jobs per month is remarkable given that the economic fatigue factor has showed up in other sectors of the local economy. While manufacturing registered small losses, other sectors posted 2.8 to 37.5 percent gains, as shown in **Table 3**.

Because of the growth in non-farm payrolls, Howard County's unemployment fell to 2.3 percent in May 2000, the lowest in recent history. However, for the first nine months of the year, the jobless rate in Howard County stayed at 2.9 percent, compared with 2.8 percent during the same period in 1999. The two major reasons behind 2000's slightly higher unemployment rate are: closing of the Cannon Valley Woodworking operation, and layoffs at DaimlerChrysler. The layoffs at DaimlerChrysler's Indiana Transmission and Kokomo Transmission plants began in the early months of the year. Currently, 300-400 employees are still not reporting to work. The permanent shut-down of the Cannon Valley Woodworking operation, resulted in a loss of 189 jobs. In the absence of these developments, the jobless rate could have easily dipped below the 2 percent mark.

### Construction Sector Cooling Down

During the first nine months of the year 2000, the economy's interest-sensitive construction sector showed signs of cooling off. Rising interest rates, or the eight-year growth fatigue, may have put the damper on construction activity. During the first three-quarters of 2000, non-residential construction activity was more vibrant than residential construction. The number of construction-related jobs increased gradually from 1,600 at the start of the year to 2,200 at the end of September. Nonetheless, total construction-related jobs for the year 2000 remained at a lower level than a year ago. The housing and construction sector is important to the local retail sector. According to *Sales & Marketing Management*, retail sales of furniture and home furnishings, appliances, building materials and hardware totaled 123.2 million in 1999, up 16.9 percent from 1998.

During January to September of 2000, the number of building permits issued totaled 816, down

4.4 percent from the same period in 1999. The dollar value registered on these permits totaled \$75.25 million, 5 percent above 1999's level, thanks to a surge in non-residential building activity.

With a total of 218 building permits issued during January-September 2000, the non-residential building sector posted a 2.3 percent increase over the same period in 1999. The major non-residential building construction projects include IUK's science building, a surgical center at Howard Community hospital, a public library, a motel, two restaurants, three commercial warehouses, and 14 commercial buildings.

In May 2000, Kokomoans learned of the shut-down of Cannon Valley Woodworking operation, which was owned by a Minnesota-based cabinet manufacturer. The closing of Cannon Valley's operation resulted in 189 people losing their jobs. It was a blow to Kokomo's efforts to diversify its economic base.

**Table 3**  
**Employment by Selected Sectors**

Kokomo MSA Payroll	January '00	September '00	Gains/Losses	% Change
Total non-farm jobs	53,000	54,500	1,500	Up 2.8
Manufacturing	22,900	22,800	(100)	Dn 0.4
Retail Trade	9,900	10,600	700	Up 7.1
Business Services	9,300	10,000	700	Up 7.5
Construction	1,600	2,200	500	Up 37.5

**Economic Prospects for 2001**

Kokomo's economic fortunes depend heavily upon the strength of the national economy and that of the auto industry. The national economy is expected to slow down a bit, and the aggregate motor-vehicle production is likely to be in the 17 millions range, somewhat lower than in each of the past two years. For the year 2001, I foresee the following for Kokomo: (1) DaimlerChrysler's cost-cutting efforts will adversely affect Kokomo. There will likely be a hiring freeze. DaimlerChrysler workers will have to brace for short-term layoffs. Their overtime will be shortened. Profit-sharing bonus checks to be received in the early months of 2001 will be 25-40 percent below the amounts for 2000. (2) The labor market will remain tight. It will hamper small businesses' ability to grow. Howard County's jobless rate will range between 2.2 and 3.6 percent, compared to an average yearly rate of 3 percent. (3) Construction-related jobs will increase due to expansion and renovation at DaimlerChrysler's three operations. (4) The housing sector will cruise along without any dramatic changes. (5) The retail sector will remain vibrant.

In summary, the economic nirvana of 2000 will continue in 2001. Kokomo will remain at the top of the economic mountain.

Residential building permits issued during the first nine months of 2000 totaled 598, down 6.4 percent from the same period the previous year. Permits issued for single-family houses declined 9 percent to 243. The year-end number of permits for single-family houses will probably be about 290, compared with 332 in 1999. Nonetheless, this will be the 5<sup>th</sup> best performance in the past 22 years. The average dollar value registered on these single-family housing permits increased marginally to \$136,049 from 1999. After growing vigorously for the past three years, multi-unit housing construction activity slowed dramatically in 2000. Only 26 permits valued at \$7.12 million were issued, compared with 45 permits, valued at \$10.1 million, in 1999. The number of permits issued for residential storage buildings declined to 28, from 50 the previous year. Interestingly, permits for swimming pools jumped by 18 to 53.