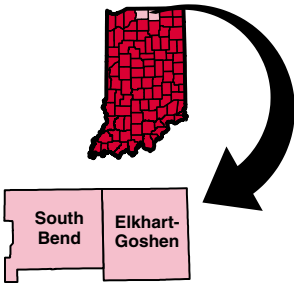


South Bend



South Bend/Mishawaka Elkhart/Goshen

In the early 1950s, both the South Bend/Mishawaka and Elkhart/Goshen local economies featured very strong manufacturing sectors. More than half of all employment in both economies was in manufacturing. In the 1960s and 1970s, employment in the South Bend/Mishawaka local economy, like most local economies in the United States, shifted from manufacturing to non-manufacturing. By December 1986, manufacturing employment made up only 22 percent of total employment. Manufacturing employment in the Elkhart/Goshen economy, led by the recreational vehicle and manufactured housing industries, continued to grow as fast as non-manufacturing employment. In 1999, manufacturing employment made up 51 percent of total employment, the highest percentage of any Metropolitan Area (MSA) in the United States. **Table 1** shows average unemployment rates and uses seasonally adjusted index numbers to show average levels of employment for each year since our last recession. Data in Table 1 indicate the trends mentioned above are continuing with manufacturing employment in South Bend growing 6 percent since 1993, and manufacturing employment in Elkhart growing 19 percent during the same period.

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The South Bend/Mishawaka economy has performed well since 1993. Total employment grew rapidly in 1994 and 1995, leveled off in 1996, and grew again, at a slower rate, in 1997, 1998, and 1999. From 1993 through 1999, employment grew 13.4 percent. Non-manufacturing employment increased consistently during this period, but manufacturing was up and down depending upon the situations facing local firms. Unemployment rates dropped significantly from an average of 6.1 percent in 1993 to 4.4 in 1994, and have remained at very low levels since then. The local labor market has been very tight since 1994.

The Elkhart/Goshen economy has also performed well since 1993. Total employment grew rapidly in every year since 1993 except for a slight decline in 1996 and slow growth in 1997. From 1993 through 1999 employment grew 16.4 percent. Non-manufacturing employment increased in every year, except for a slight decline in 1996. Manufacturing employment increased in every year except for 1996 and 1997. Unemployment rates dropped significantly from 5.9 percent in 1993 to 3.8 percent in 1994, and have remained at very low levels since then. The unemployment rates for the Elkhart/Goshen economy indicate its labor market has been even tighter than the South Bend/Mishawaka labor market.

Data from Table 1 for the first six months of 2000 together with recently released data for August 2000 suggest both local economies are slowing down. In South Bend, average employment is down slightly for the first six months of 2000 versus 1999, and August 2000 employment is down slightly compared to August 1999. The average unemployment rate is up from 2.9 percent in 1999 to 3.6 percent for the first six months of 2000, and the August 2000 unemployment rate is up .4 percent from August 1999. Employment levels in the South Bend economy are declining slightly, and unemployment rates are rising, but are still very low by historical standards.

In Elkhart, average employment was up for the first six months of 2000 versus all of 1999, but the average unemployment rate is also up from 2.1 percent to 2.5 percent. Unemployment rate data for July and August 2000 show significant increases to 3.7 percent and 3.6 percent, and August 2000 employment data show a decline from August 1999. Data on recreational vehicle production nationally show increased production for the first three months of 2000 compared to the first three months of 1999, but a drop in production for the rest of the year through September 2000.

Table 1
Employment and Unemployment Rates for Selected Years

| | | | | | | | | |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| South Bend/Mishawaka | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* |
| Total Non-agricultural | 114.2 | 119.5 | 124.1 | 124.1 | 126.0 | 128.6 | 129.5 | 129.4 |
| Manufacturing | 89.8 | 93.4 | 97.5 | 92.9 | 93.1 | 94.5 | 92.9 | 95.2 |
| Non-manufacturing | 121.3 | 127.1 | 132.1 | 133.3 | 135.7 | 138.5 | 140.3 | 139.4 |
| Unemployment Rate | 6.1% | 4.4% | 4.3% | 4.0% | 3.3% | 2.7% | 2.9% | 3.6% |
| Elkhart/Goshen | | | | | | | | |
| Total Non-agricultural | 117.4 | 125.1 | 129.2 | 127.4 | 128.0 | 132.7 | 136.6 | 140.1 |
| Manufacturing | 112.3 | 120.2 | 122.0 | 119.3 | 119.1 | 124.1 | 129.6 | 133.7 |
| Non-manufacturing | 123.4 | 130.7 | 136.9 | 136.7 | 138.5 | 142.7 | 145.0 | 147.0 |
| Unemployment Rate | 5.9% | 3.8% | 4.5% | 3.8% | 3.3% | 2.6% | 2.1% | 2.5% |

*2000 figures cover the first six months of the year.

All employment figures are seasonally adjusted numbers with 1986=100.

Total production was down 2.5 percent for the year through September. The Elkhart economy appears to be slowing significantly.

Outlook

Accurately forecasting economic conditions for local economies is very difficult for two reasons. First, we have much less economic information available for local economies than for larger economies, and the data we do have tends to be less accurate. Secondly, special situations affecting individual firms, which would have little impact on a regional or national forecast, can have a major impact on a local economy. The uncertainty surrounding these special situations creates uncertainty about the forecast. At the present time, we have four special situations that have the potential to impact our local economies over the next couple of years. General Motors is building a production facility in St. Joseph County to produce Hummers. Approximately 1500 workers will be hired at wages well above the local average for production workers. Since almost all of the sales will be outside our area, and since it is likely additional new jobs will be created to supply this plant the multiplier effect will be substantial. This development will have a very substantial impact on local employment and local income.

Crowe Chizek and Company, one of our largest local employers, has announced an expansion in South Bend. The company plans to hire one hundred to two hundred new employees in this area over the next three to five years. Since this is the company's national headquarters, much of the income supporting these new positions will come from outside our area. Many of these jobs will be high paying with excellent fringe benefits. While the multiplier effect will be smaller than General Motors', it will still be substantial. Local employment and income will increase from Crowe Chizek's expansion, although most of the impact will occur beyond our forecast period.

On September 6, 2000, Citigroup, Inc. and Associates First Capital Corporation announced that Citigroup is acquiring Associates. Associates Corporation is another large local employer with several hundred employees in our area, mostly involved in computer support services. Once again, the income supporting these jobs comes from outside our area, and these are excellent high paying jobs, so the multiplier effect will be substantial. Since Citigroup, Inc. has similar computer operations, there is serious concern that the Associates jobs will be lost. If this

happens, then there will be a loss of employment and income in our area.

Honeywell, Inc., another of the area's largest employers, has recently accepted a \$45 billion stock takeover bid from General Electric Co. The two companies have a number of similar operations, and there is concern that some or all of the local jobs will be at risk. These jobs, like the ones mentioned above, are export oriented and high paying, so the multiplier effect will be very large if these jobs are lost. At this time, there has been some speculation, but no real information concerning the likelihood of losing these jobs.

The combined effect of these four situations is likely to be positive, because the General Motors and Crowe Chizek impacts are reasonably certain and larger than the Associates negative impact. The major uncertainty concerns the Honeywell impact. At it's worst, it could make a real dent in the positive effects of the first two developments, but if the Honeywell impact is small, then both local economies will benefit significantly from these special situations. It will take time for these developments to affect our local economies, so most of the effects will be felt in 2002 and later years, although we may see some impact at the end of 2001.

Like most local economies, the South Bend/ Mishawaka and Elkhart/Goshen economies are greatly influenced by the national economy. The durable goods component of the national economy, and especially the automobile, manufactured housing, recreational vehicle, and steel industries have a big impact on our local economies. Since the Elkhart economy has very substantial manufacturing employment it tends to be affected quickly and significantly by movements in the national economy. Recent national data show declines in durable goods spending in general and in the sales of autos, recreational vehicles and manufactured housing. If these economic trends continue into 2001, we should see little or no employment growth in the South Bend economy and possibly some decline in employment in Elkhart. Unemployment rates in both local economies will be well above the averages for the last couple of years, averaging in the 3.3 to 4.8 percent range. While this slowdown will likely lead to some layoffs in selected manufacturing industries, both local labor markets will remain tight by historical standards.