

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 the General Motors one, 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.

Honeywell International, Inc., one of our largest employers, is a subcontractor for the new joint strike fighter plane from Lockheed Martin Corp., which recently won a major defense contract. This new contract should help solidify Honeywell's local employment. These jobs, like the ones mentioned above, are export-oriented and high paying, so the multiplier effect will be large if the expansions take place. The combined effect of these special situations is clearly positive for our local economy. 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.

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 has 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. These economic trends have caused a decline in manufacturing employment in the South Bend economy and a small decline in total employment. In Elkhart, the declines in both manufacturing employment and total employment are much larger—nearly 3,000 jobs. If the national economy begins to recover in the spring of 2002, then we should see improvement in both local economies. Until then, we expect both local economies to remain weak. Unemployment rates in both local economies will be well above the averages for the last couple of years, averaging in the 4 to 5 percent range.

Terre Haute

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Terre Haute was one of the first Indiana metropolitan areas to feel the effects of the 2001-2002 recession. The level of payroll employment in Terre Haute declined steadily beginning in early 2001. The recession is likely to be more severe in the Terre Haute area than in most other parts of the state.

To see why, look first at the area's population growth. The Terre Haute metropolitan area, which includes Vigo, Clay and Vermillion counties, managed almost no population growth in the ten years between the 1990 census and the 2000 census. The latest census found 149,192 people in the metro area, up just 1 percent over 1990.

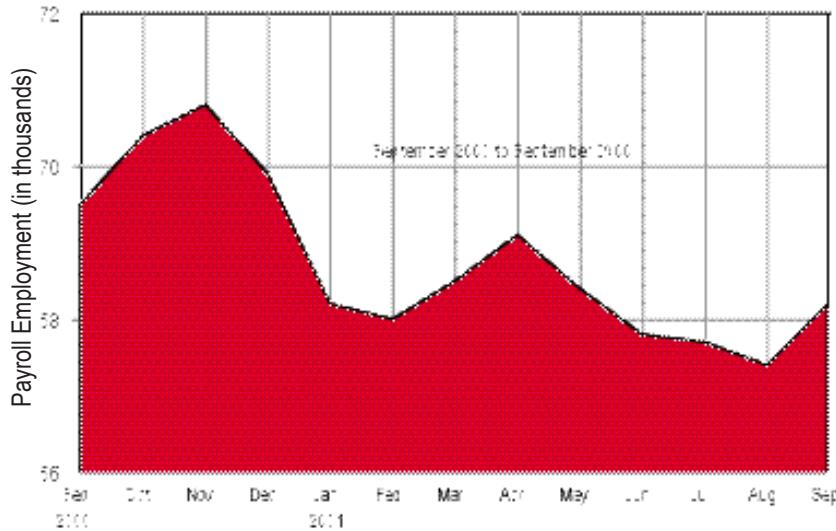
Then note the downward trend in the number of jobs in the area (see **Figure 1**). From its most recent peak in November 2000, the metro area lost 2,600 jobs by the end of September. In fact, employment in Terre Haute and surrounding counties at the end of the third quarter of 2001 was 5 percent less than it was in 1995.

As you might expect, these two factors combine to produce unemployment. In the third quarter of 2001, the Terre Haute metro area averaged a 4.7 percent unemployment rate, second highest after Kokomo among all Indiana metro areas. The statewide average for the quarter was 4 percent.

Consequently, though the recession nationwide in 2002 is predicted to be a mild one, it is likely that the Terre Haute metro area will experience more than the average level of pain. We can expect unemployment rates near 7 percent by the middle of 2002. And since most IU economists believe the nationwide recovery from the recession will be slow, unemployment rates will stay high in Terre Haute throughout next year.

A mild winter should help the region. Good weather will allow more construction work to be done and will reduce upward pressure on energy prices. Lower energy prices, on balance, are good for Terre Haute. Located relatively far from other population centers, Terre Haute derives economic benefits from

Figure 1
Payroll Employment in Terre Haute Metro Area
 September 2000 to September 2001



Source: U.S. Bureau of Labor Statistics

the traffic on I-70. If fuel prices stay low, that traffic will hold up better. And while higher energy prices may help Indiana's coal industry, the Terre Haute area does not have as many direct economic ties to coal as it has had in the past.

Conversely, a severe winter could worsen the effects of the recession in Terre Haute. And since the music industry is a significant employer in the region, shifts in the technology of music delivery could hurt those Terre Haute firms that supply that industry.