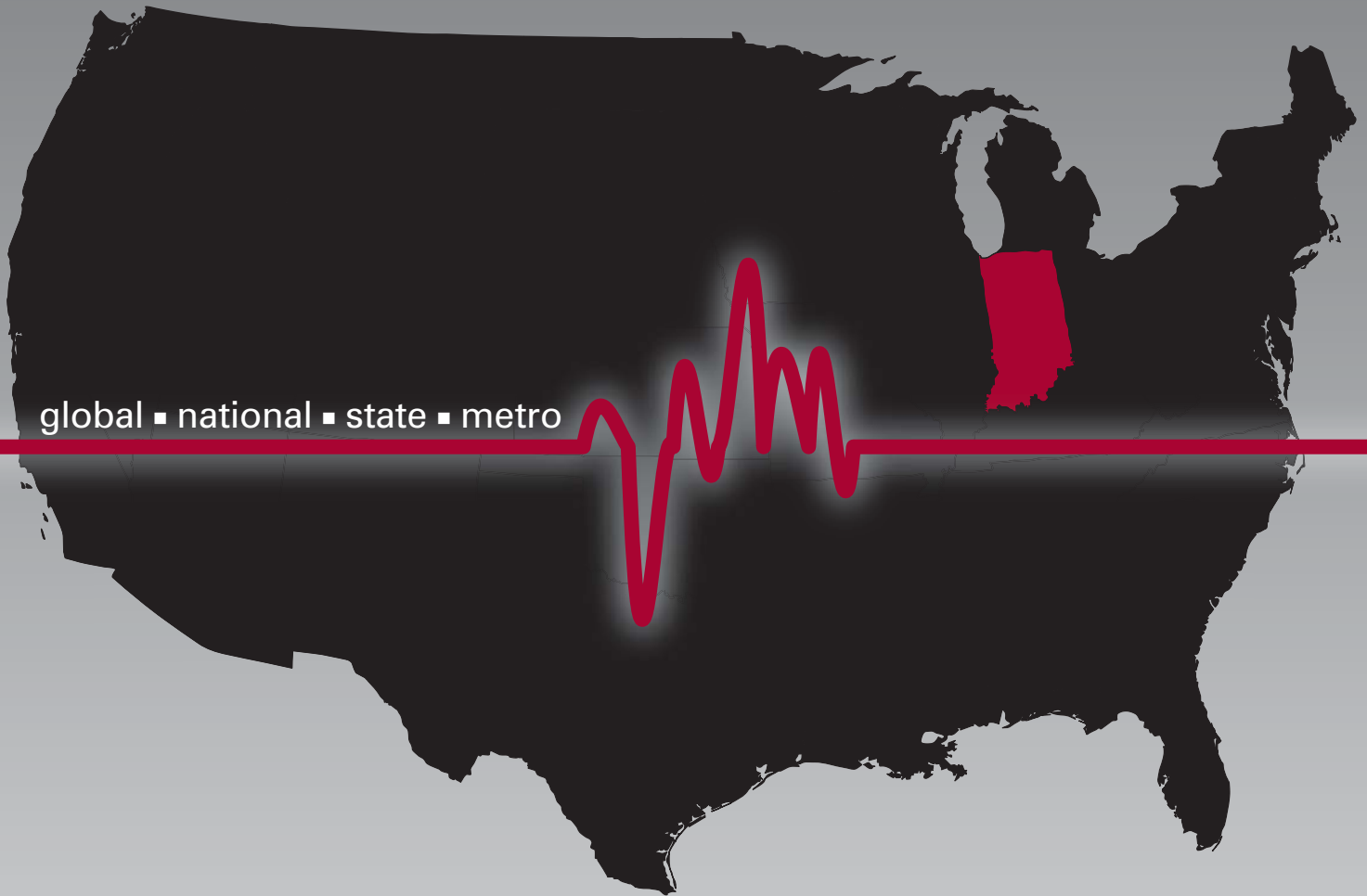


Indiana Business Review

Outlook 2007

Top Economists Take Pulse of the Economy



global ■ national ■ state ■ metro

Winter 2006

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Outlook for 2007

Jerry N. Conover, Ph.D.

Director, Indiana Business Research Center, Kelley School of Business, Indiana University

For more than a third of a century, a group of IU faculty has gathered at the Kelley School of Business each fall to consider the economic outlook for the coming year. In the process, they forecast the prospects in terms of global, national, state, metropolitan and agriculture perspectives, and they also assess the outlooks for the financial and housing markets.

This year's discussion began with a review of the latest forecast based on the econometric model of the United States developed by Indiana University's Center for Econometric Model Research (CEMR). The researchers then made adjustments to the model's predictions to accommodate expectations about key underlying variables. The CEMR model of Indiana's economy similarly provided a basis for projecting the outlook for the state.

These economists and selected colleagues presented their predictions to audiences across Indiana through the Kelley School's Business Outlook Panel program. In each city, the panel was joined by an expert on the local economy who discussed the outlook for the metro area. The 2007 predictions of all the Business Outlook panelists are presented in this issue of the Indiana Business Review, along with additional supporting detail.

The 2006 economy has wound up fairly close to the panel's forecasts of a year ago, and even better in some respects, but with a tendency toward slower growth. This year's outlook, while still calling for growth, is not as optimistic as last year's as the housing market, consumer spending, and volatile energy

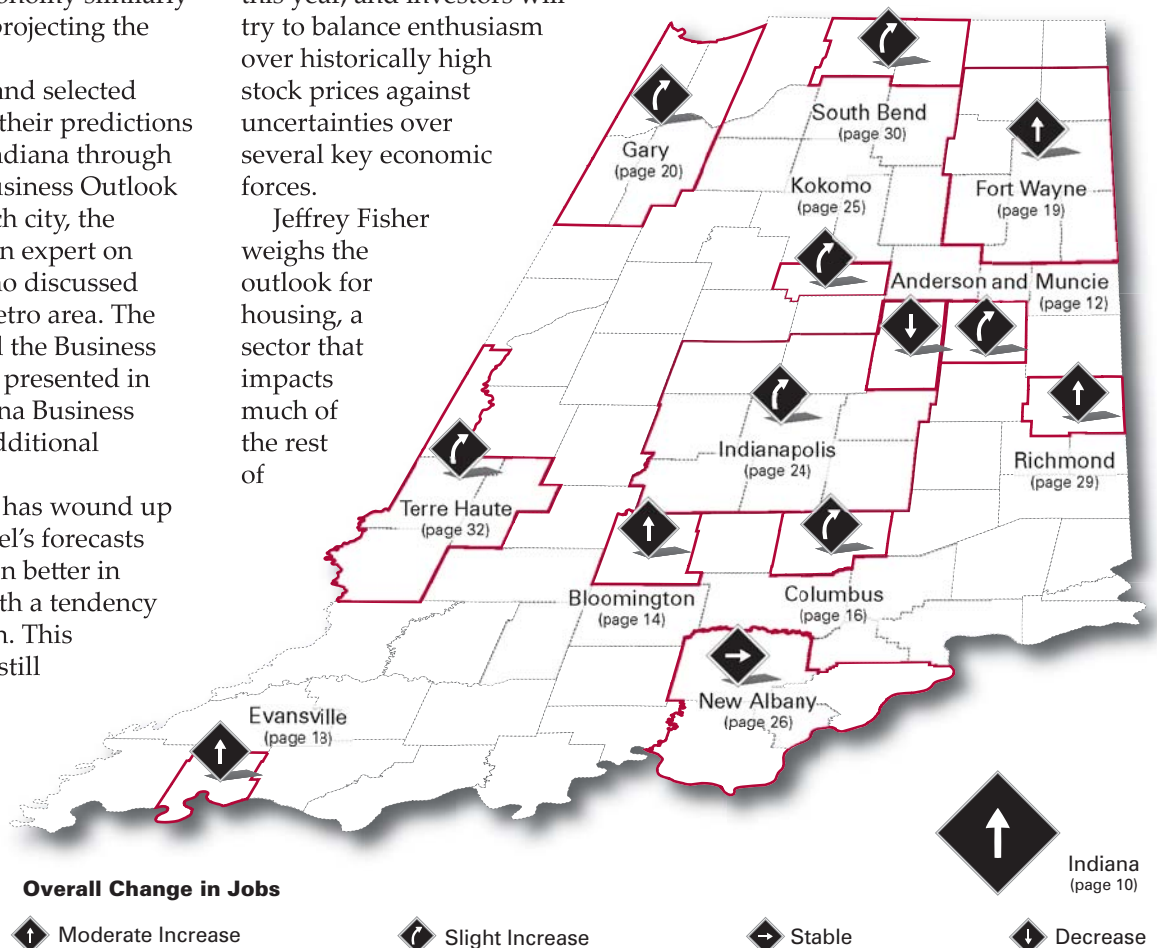
prices pose notable risks to the economy.

The 2007 outlook issue of the *Indiana Business Review* begins with Andreas Hauskrecht's assessment of the international outlook, predicting growth at a strong pace throughout much of the world. Bill Witte comments on the U.S. economy, which he views with "guarded optimism." That is, the nation's economy is still growing, but it could stall or weaken if any of several factors operate adversely for a sustained period. The outlook for the financial markets is reviewed by John Boquist, Robert Neal, and Bill Sartoris. They project that interest rates have peaked, corporate profits will rise more slowly than they did this year, and investors will try to balance enthusiasm over historically high stock prices against uncertainties over several key economic forces.

Jeffrey Fisher weighs the outlook for housing, a sector that impacts much of the rest of

the economy, anticipating that home sales and prices will drop slightly in 2007. Corinne Alexander looks at what is expected for the Hoosier agriculture sector, predicting some interesting impacts of the boom in biofuels. The prospects for Indiana's economy, reviewed by Jerry Conover, remain reasonably good, with modest growth expected for the state as a whole. Finally, a group of economists and business leaders from around the state share their insights into what 2007 holds in store for most of Indiana's metropolitan areas (see **Figure 1**). ■

Figure 1
Projected Directional Change in Jobs, 2007



The International Economy

Andreas Hauskrecht

Clinical Assistant Professor of Business Economics and Public Policy, Kelley School of Business, Indiana University, Bloomington

World economic growth for 2006 is projected at 5.1 percent (measured in terms of real GDP), compared to growth rates of 5.3 percent in 2004 and 4.9 percent in 2005. The International Monetary Fund in Washington forecasts world economic growth for 2007 at 4.9 percent; so global expansion is to continue for the fourth consecutive year at a level significantly above the historical trend of 3 percent.¹

While in the past economic output growth was strongly dependent on the performance of the U.S. economy, the forecast for 2007 predicts robust economic growth all around the world (see **Table 1**).

Europe

The long awaited European recovery finally materialized in 2006.

Corporate restructuring improved competitiveness and increased consumption and investment spending (particularly in France and Germany), contributing to the turnaround. Consumer confidence is robust. Real output growth is forecasted at 2 percent for 2007, compared to 2.4 percent in 2006.

A big question mark lingers over the effects of the 3 percent increase in Germany's value-added tax in 2007 that might dampen consumer demand. As a net oil importer, the outlook depends significantly on future crude oil prices. Similar to U.S. house prices, housing prices in Spain, France, and Ireland are still elevated and a rapid downturn could cool off the economy.

Two long-term trends are alarming: first, productivity growth in most European countries has declined in recent years and jeopardizes future competitiveness in a global market. Second, economic fundamentals among member countries of the Euro area are drifting

apart. While countries like Germany and France effectively managed an economic restructuring toward higher value-added production, other countries like Italy or Spain have been less successful. While per unit labor costs decreased in Germany and stayed more or less flat in France since the introduction of the euro, they have increased significantly in Italy and Spain. Over the long run, this might undermine the commitment to the Euro currency because depreciation might be too tempting for populist politicians.

The United Kingdom will do slightly better than continental Europe with an expected economic

expansion of 2.7 percent. Job creation, consumption, and investment spending are robust and the economy expands around its potential output growth.

Far East

Japan's economy is slowly recovering from deflation and is expected to grow a hearty 2.7 percent in 2006 and around 2.1 percent in 2007. The Bank of Japan has begun slowly redeeming excess liquidity and is expected to slightly increase interest rates in the year to come. However, it will be crucial not to increase rates too fast, as doing so would risk the economy falling back into deflation. The

Table 1
World Output and Unemployment

	GDP		Inflation*		Current Account (Percent of GDP)		Unemployment (Percent of Labor Force)	
	2006	2007	2006	2007	2006	2007	2006	2007
World Output	5.1 ▼	4.9	n/a	n/a	n/a	n/a	n/a	n/a
Advanced Economies ^a	3.1 ▼	2.7	2.6 ▼	2.3	-1.6 ▼	-1.7	5.6 ▼	5.5
Emerging Europe	5.4 ▼	5.0	5.4 ▼	4.7	-5.7 ▲	-5.2	n/a	n/a
Emerging Asia ^b	8.3 ▼	8.2	3.6 ▼	3.5	4.3 ▼	4.2	n/a	n/a
Western Hemisphere	4.8 ▼	4.2	5.6 ▼	5.2	1.2 ▼	1.0	n/a	n/a
Middle East	5.8 —	5.8	7.1 ▲	7.9	23.2 ▼	22.5	n/a	n/a
Africa	5.4 ▲	5.7	9.9 ▲	10.6	3.6 ▲	4.2	n/a	n/a
United States	3.4 ▼	2.9	3.6 ▼	2.9	-6.6 ▼	-6.7	4.8 ▲	4.9
Japan	2.7 ▼	2.1	0.3 ▲	0.7	3.5	n/a	4.1 ▼	4.0
Euro area	2.4 ▼	2.0	2.3 ▲	2.4	-0.1 ▼	-0.2	7.9 ▼	7.7
Germany	2.2 ▼	1.4	2.0 ▲	2.6	4.2 ▼	4.0	8.0 ▼	7.8
France	2.4 ▼	2.3	2.0 ▼	1.9	-1.7 —	-1.7	9.0 ▼	8.5
Italy	1.5 ▼	1.3	2.4 ▼	2.1	-1.4 ▲	-1.0	7.6 ▼	7.5
United Kingdom	2.7 —	2.7	2.3 ▲	2.4	-2.4 ▲	-2.3	5.3 ▼	5.1
Canada	3.1 ▼	3.0	2.2 ▼	1.9	2.0 ▼	1.9	6.3 —	6.3
Mexico	4.0 ▼	3.5	3.5 ▼	3.3	-0.1 ▼	-0.2	3.9	n/a
Brazil	3.6 ▲	4.0	4.5 ▼	4.1	0.6 ▼	0.4	n/a	n/a
China	10.0 —	10.0	1.5 ▲	2.2	7.2 —	7.2	9.3	n/a
India	8.3 ▼	7.3	5.6 ▼	5.3	-2.1 ▼	-2.7	9.3	n/a
South Korea	5.0 ▼	4.3	2.5 ▲	2.7	0.4 ▼	0.3	3.5 ▼	3.3
Taiwan	4.0 ▲	4.2	1.7 ▼	1.5	5.8 ▲	5.9	3.9 ▼	3.7
Russia	6.5 —	6.5	9.7 ▼	8.5	12.3 ▼	10.7	7.4	n/a

*Consumer Price Index

^aAdvanced economies include the United States, the Euro area, Japan, United Kingdom, Canada, Korea, Australia, Taiwan, Sweden, Switzerland, Hong Kong, Denmark, Norway, Israel, Singapore, New Zealand, Cyprus, and Iceland.

^bEmerging Asia includes developing Asia, the newly industrialized Asian economies, and Mongolia.

Sources: Center for Econometric Model Research, Indiana University; IMF World Economic Outlook, Fall 2006; The Economist Intelligence Unit, Country Reports

Japanese society is rapidly aging and the existing government debt burden of around 180 percent of GDP asks for a reduction of fiscal deficits and potentially future tax increases that might jeopardize economic growth.

While many experts expected a cooling down of the Chinese economy, the opposite has happened—it is growing even faster at around 10 percent in 2006, and the same is projected for 2007. With GDP well over \$2 trillion, China is currently the worldwide economic growth engine. Trade relations are rapidly expanding with the United States, Europe, Japan, and other Asian neighbor countries.

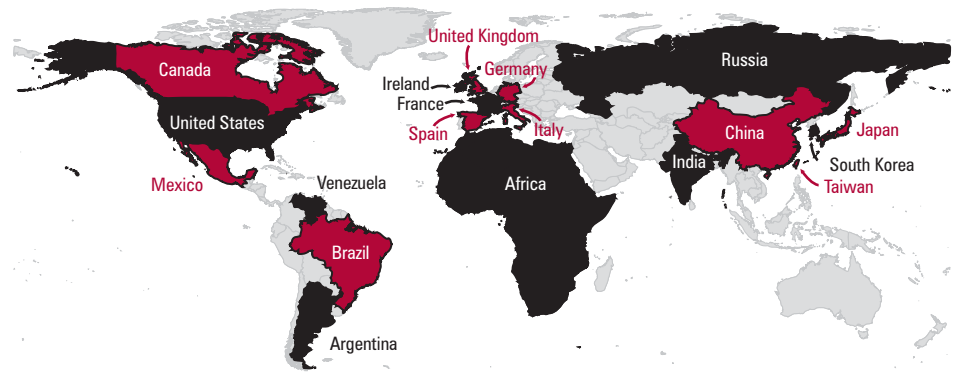
India is expected to continue its outstanding growth performance, with an expected real growth rate of 8.3 percent in 2006 and a slightly lower 7.3 percent in 2007.

Overall, emerging Asia is doing particularly well and the area is expected to grow in 2007 by more than 8 percent. Intra-regional trade and capital flows are increasing dynamically. Several Asian economies—China, South Korea, Taiwan, and others—continued to buy dollars in the foreign exchange market in order to avoid an appreciation of their currencies and jeopardizing export-led growth. This contributes significantly to the worldwide current account imbalances. For the region, an overall current account surplus of 4.2 percent is projected for 2007. It is problematic, however, to determine how long these countries can pursue this strategy without sooner or later losing control over their domestic money supply and causing an unhealthy inflationary trend.

North America

The economies of the NAFTA members are increasingly integrated. Strong demand from the United States caused a further increase of Mexican and Canadian exports to America and contributes to a robust economic development in both countries. High commodity prices supported Canadian export

Figure 1
Countries Discussed in the 2007 International Economy Outlook



performance. Both economies are expected to grow in real terms between 3 and 3.5 percent in 2007.

Russia/East Europe

Russia and most Middle and East European countries are continuing to do well and the outlook is optimistic into 2007. The common explanation is the booming crude oil price. Such high current account surpluses are not easy to manage and Russian inflation is creeping toward an expected 9.7 percent in 2006, slightly lower than what is predicted for 2007.

Latin America

Latin America is expected to see output growth of 4.8 percent in 2006 and 4.2 percent in 2007. Compared to Asian emerging countries, however, this growth rate is modest. The accelerated world market integration continues; the regional current account is expected to remain in modest surplus, although the Brazilian currency (the real) has significantly appreciated against the U.S. dollar and the euro. This is caused by large capital inflows that make it easier to finance and restructure the still significant government debt. In Argentina and Venezuela, inflation has reached double-digit levels and several populist governments in the region seem to deviate more and more from the best economic practices.

The Risks

High oil prices are the biggest risk for world economic activity in 2007.

A rapid price increase would have significant negative effects for all oil-importing economies.

Rising current account imbalances are a second concern for the world economy. The U.S. current account for the first six months of 2006 reached a deficit of \$431 billion and will probably reach 7 percent of GDP at the end of the year, while other regions, such as emerging Asia, Japan, and oil-exporting countries, further increase their current account surpluses. Over the long run, this is not sustainable and unavoidable adjustments will be made. The question is how smoothly these adjustments will occur. A fast and significant depreciation of the U.S. dollar would not hurt the U.S. economy as much as it would hurt China and other big exporters to the U.S. market.

Private capital is increasingly flowing from the developed world into emerging economies, causing the yield spreads of emerging countries' debt to decline. These low-risk spreads seem—at least in some cases—unaligned with economic fundamentals. A financial crisis in one country could trigger a domino effect and a rapid turnaround of worldwide capital flows. ■

Notes

1. International Monetary Fund, *World Economic Outlook: Financial Systems and Economic Cycles*, September 2006. Available at www.imf.org/external/pubs/ft/weo/2006/02/index.htm.

The U.S. Economy

Willard E. Witte

Associate Professor of Economics and Co-Director at the Center for Econometric Model Research, Indiana University, Bloomington

Overall, 2006 will end up as a pretty good year for the U.S. economy, although not in all dimensions. Growth in total output (GDP) should be close to 3.3 percent (see **Figure 1**). Payroll employment will have grown by about 1.8 million, and the unemployment rate will have declined by about one-half point (see **Figure 2**). The output and employment numbers come close to matching our relatively optimistic outlook from a year ago, while the unemployment result is better than we expected.

But there are also some less positive aspects to the current situation. To begin with, the growth in both output and employment decelerated during 2006. At the same time, inflation increased. This was driven in part by a tightening labor market and in part by a significant jump in energy prices. Elevated inflation caused the Federal Reserve to push short-term interest rates upward by more than we anticipated a year ago. (On the other hand, long-term rates have risen only slightly and are actually below our expectation.) Finally, the situation in the housing sector has deteriorated more than we foresaw.

Given this somewhat ambiguous state of affairs, we expect an acceptable performance from the economy in 2007, but not up to the standards of the past few years. There are enough risks in the current situation, however, that a weaker outcome is a clear possibility.

The key to this unfolding drama will be the American consumer. From the end of the recession in 2001 through the end of 2005, consumption spending accounted for 78 percent of the increase in output, with spending on housing construction comprising another 13 percent. Consumption has held up pretty well during the past year, comprising 70 percent of

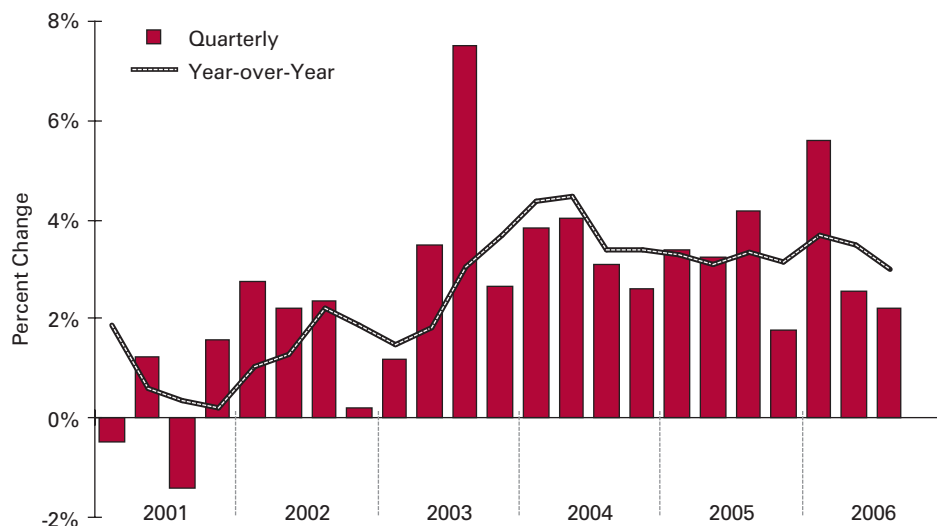
growth in the first three quarters of 2006. Housing, on the other hand has become severely negative, cutting about 0.6 percent from the output growth rate. Part of the decline in residential investment has been made up by business investment and by healthy growth in exports.

We expect a continuation of this basic pattern—consumption at a level

that is adequate to maintain forward momentum in spite of continuing declines in the housing sector. Some details:

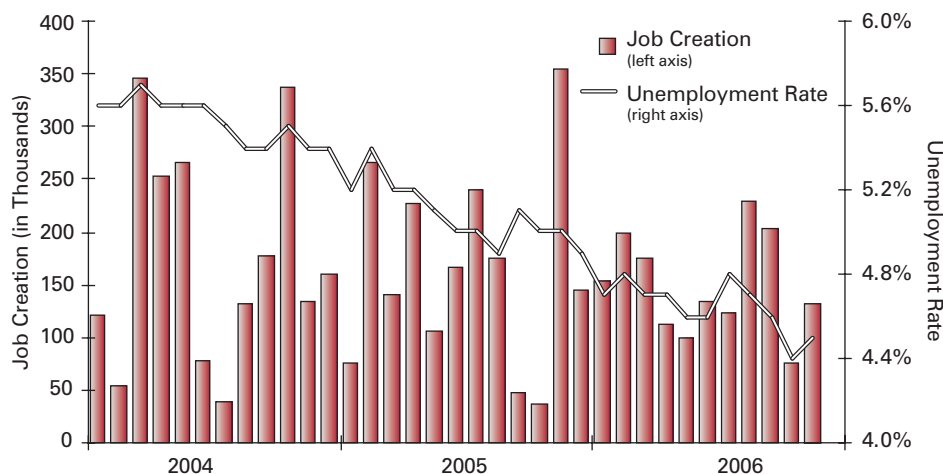
- We expect real output to grow about 3 percent in 2007. That will be below the 2006 figures and also somewhat below the long-run potential of the economy.

Figure 1
U.S. Real Output



Note: Data are seasonally adjusted
Source: Bureau of Economic Analysis

Figure 2
U.S. Job Creation and Unemployment



Note: Data are seasonally adjusted
Source: Bureau of Labor Statistics

- Employment will expand by about 1.7 million. This may be enough to bring the unemployment rate down slightly. For Indiana, this national situation will imply a continuation of the pattern shown in **Figure 3**.
- Inflation will moderate a little from 2006, with an assist from relative stability in energy prices. The consumer price index will increase about 3 percent.
- The Federal Reserve will keep the federal funds rate at its current 5.25 percent for most of 2007. There may be some reduction late in the year. Long-term rates, on the other hand, may increase somewhat.

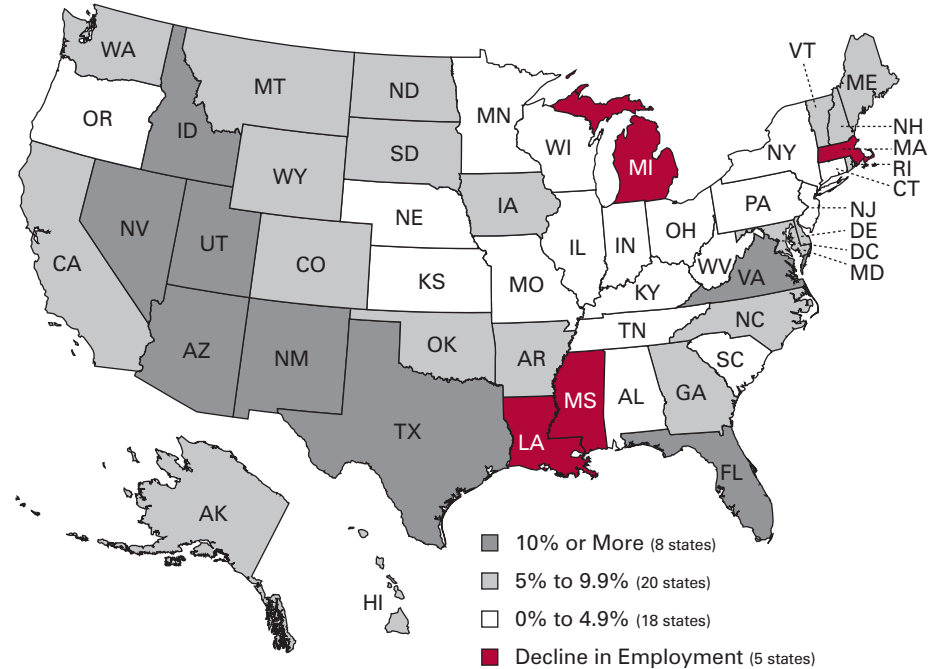
As mentioned earlier, the key to this outcome is the economic behavior (and psyche) of U.S. households. The household sector is currently being buffeted by a variety of opposing forces.

The most important of these is the labor market situation—employment growth and the income it produces. Although job creation recently has been nothing like the late 1990s, it has been sufficient to pull unemployment lower, to keep income growing, and to keep workers relatively optimistic about their prospects. We expect these trends to continue. Our outlook implies about 140,000 new jobs per month. If job creation were to slow to 100,000 per month or lower, the economic growth we expect for next year would be unlikely.

A second important factor will be the evolution of the housing sector retrenchment. We expect that housing construction will continue to weaken through most of 2007. But as 2006 has demonstrated, this alone is not sufficient to bring the overall economy down. What will be crucial is the behavior of housing values. If home prices start to decline significantly in more than just a few

Figure 3

Percent Change in Employment by State, September 2000 to September 2006



Note: Data are seasonally adjusted
Source: IBRC, using Bureau of Labor Statistics data

markets, it could become a significant drag on the willingness and ability of households to continue to spend. Any further increases in interest rates by the Federal Reserve would raise the probability of this scenario.

A third risk is the possibility that energy prices again head higher. This would pressure households from several directions. To begin with, it would tighten budgets and drain spending power away from other things. It could also reverse the moderation in inflation we expect. This in turn would very likely force the Fed to further raise interest rates, which would put still more strain on household budgets.

Beyond the household sector, there is a long list of risks to the economic outlook—both short-term and long-term. The geopolitical environment has certainly not improved during the past year. At home, the federal budget has improved; but even after

three years of strong growth and a rapid increase in revenues, there are still large deficits. In addition, personal saving has fallen steadily during the past decade, meaning that total national saving is very low. The flip side of the low national saving is our large trade deficit, which continued to grow during 2006 and now accounts for more than 6 percent of GDP. At some future point, these trends will have to be reversed.

Returning to the here and now, in spite of the problems on the horizon, we feel that the U.S. economy will come through 2007 with an acceptable performance. The crucial household sector faces pressures on several fronts, but recent developments are mildly encouraging. While there are definitely risks, there are enough positives to sustain moderate economic growth. ■

Financial Forecast

John Boquist

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Professor of Finance, Kelley School of Business, Indiana University, Indianapolis

William Sartoris

Professor of Finance, Kelley School of Business, Indiana University, Bloomington

The Dow Jones Industrial Index hit a record high in October by crossing over the 12,000 threshold, yet investors are not wildly celebrating. Part of the reason is that the Dow does not denote the “stock market,” since the thirty stocks comprising the index are not fully representative of the entire market. For example, the broader S&P 500 Index reached a high of over 1,527 in March 2000 and currently stands at only 1,377. More discouraging, the current NASDAQ Index for smaller, over-the-counter stocks is at 2,350, less than one half of its record of 5,048 also set in March 2000. These broader indexes clearly suggest that many investors retain bitter memories of the bursting stock market bubble and indicate that the markets have a long way to go before recouping their realized losses.

After the stock market collapse, many investors shifted to real estate speculation fueled by low interest rates, double-digit price increases, and intense baby boomer participation. Unfortunately, the real estate market has recently cooled, with the August median sales price for an existing home down 1.7 percent from a year earlier, the first yearly drop in over a decade. As investors search for the next hot investment, they never seem to heed Kin Hubbard’s advice, “The safest way to double your money is to fold it over once and put it in your pocket.” Since consumer spending continues to grow, investors are not putting money in their pockets and they certainly are not saving it—the U.S. savings rate on a national income account basis is now -1.7 percent,

down from 12 percent in the early 1980s!

Of course, there are some notable bright spots in the financial picture:

- Energy and commodity prices are now dropping, providing welcome material and psychological relief to consumers and businesses.
- The Fed appears to be finished with interest rate increases.
- Corporate income and balance sheets remain strong.

With this as a backdrop, the question on everyone’s mind is, “What does the future hold?”

Interest Rates

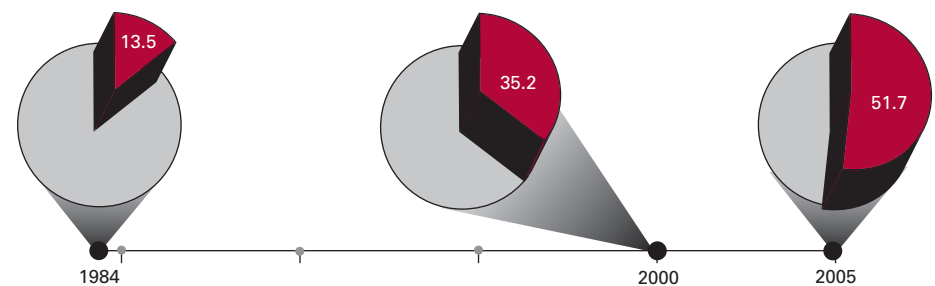
The new Federal Reserve Chairman, Ben Bernanke, continued the Greenspan initiative of increasing the short-term federal funds rate until August 2006, ending with 17 consecutive 25 basis point increases to a level of 5.25 percent. Such increases are likely to be finished if the economy’s core inflation rate has moderated and the Fed no longer sees its main job as fighting inflationary pressure. We believe that job is completed and that the federal funds rate will remain at 5.25 percent

for most of the year, with a possible increase later in 2007.

Since short-term rates have risen much more than long-term rates, the yield curve is now downward sloping, with short-term interest rates above long-term rates. Historically, the spread between long and short-term rates is a predictor to economic activity and the currently observed negative spread is generally followed by a downturn in the economy. In fact, each of the six previous recessions were preceded by an inverted yield curve.

However, we do not think the current inverted yield curve is indicative of an upcoming recession because it is as much a creature of foreign holdings of U.S. Treasury debt as it is investor expectations. The percentage of outstanding Treasury bonds held by foreigners has increased from 13.5 percent in 1984, to 35.2 percent in 2000, to 51.7 percent in 2005 (see **Figure 1**). In particular, Japan and China have purchased massive quantities of Treasury bonds to forestall the dollar’s depreciation against their currencies. This strategy protects their export industries

Figure 1
Percentage of Outstanding Treasury Bonds Held by Foreigners



Source: U.S. Department of the Treasury

by keeping the price low for U.S. consumers.

Our forecast of inflation at about 3 percent for the upcoming year implies that short-term real interest rates will approximate 2.25 percent, which is within historical norms. The anticipated small decrease in inflation we are projecting suggests that ten-year Treasury yields will remain at the current 5 percent level, inching up to around 5.25 percent by the end of 2007. Corporate interest rates will exhibit similar small increases by the end of the year. However, the prime rate is expected to remain stable at a level of 8.25 percent. On the other hand, we anticipate mortgage interest rates to remain at current 6.3 to 6.4 percent rates for awhile and then creep up to the 6.7 percent level by the end of the year as borrower credit quality diminishes.

Corporate Profits

Corporate profits have had a historic run, with S&P 500 operating profits showing double-digit yearly gains for a record seventeen quarters. We expect that the run will end this year. Rising costs of inputs, including material, energy, and labor, plus the continual increase in health costs and fringe benefits will push profit growth down to the 6 percent to 8 percent level in 2007, less than half the growth rate for 2006. Since productivity growth will fall to a level of 1.65 percent in 2007, it is not enough to offset these rising costs. Productivity will be hurt by slower growth in the economy and the limited opportunities to cut costs since they have already been pared to the bone in most organizations. Global competition remains fierce in virtually all markets, but the continued weakness in the dollar will help U.S. exporters remain competitive. Although we see very few reasons to expect a major

“The continual increase in health costs and fringe benefits will push profit growth down to the 6 percent to 8 percent level in 2007, less than half the growth rate for 2006.”

business slowdown at this time, we also do not see a major upturn either.

The U.S. automakers, however, will be relatively hard hit as General Motors, Ford, and DaimlerChrysler have recently announced large production cutbacks to get their inventory levels back in order. In spite of closing facilities and buying out employment contracts with white-collar and blue-collar employees, the domestic producers are still struggling to get their labor costs in line. For example, General Motors' old SUV plant in Arlington, Texas, had total labor costs (including benefits) of \$81 per hour, whereas Toyota's total labor cost at its new truck plant in San Antonio is estimated at \$35 per hour—even though the factory is 40 percent smaller than the old GM facility. Furthermore, higher gasoline prices have hurt the sales of the profitable truck and SUV segments of U.S. auto companies.

Corporate balance sheets are strong with plenty of cash and borrowing power available to fund capital investments, which are expected to grow in line with the economy. Some of this financial muscle will be used to fund merger and acquisition activity as some firms adjust their strategies. The mountain of funds in private equity firms will add to the deal flow activity. In addition, a quantity of the cash flow will be dedicated to increased dividends or share repurchases.

Stock Market

The stock market enjoyed an excellent October, rising 3.5 percent for the month, and, as of this writing, the Dow Jones Industrials were up 12.8

percent in 2006. The results throughout the year were all over the map—up, down, and sideways. The slow growth in the economy that we envision suggests that the stock market will continue to make gains.

Some sectors (such as energy) will outperform others (such as autos), but the overall trend is up. If corporations disperse their cash hoard by paying increased dividends or buying back stock, the market will benefit. There is also some evidence that real estate and gold speculators are returning to the financial markets. Lower commodity prices are helpful to the market since empirical evidence suggests that price-earnings ratios are inversely related to commodity prices. Lumber prices are down to their lowest level in three years, and gasoline actually sells for less than it did last year, the first year-to-year drop since 2002. In the long run, we expect the stock market will offer returns of 6 percent to 8 percent above Treasury bonds, which is in line with the market's historical average performance since 1926—but well below the returns investors were experiencing during the bubble in the late 1990s. As always, prudent investors should continue to diversify their portfolios to guard against excessive exposure to any individual stock, market, or asset category. It may not be exciting, but one can sleep well at night by avoiding major losses.

Summary

The financial markets will mirror the slowly growing economy with relatively stable interest rates and normal increases in valuations in face of the global and domestic challenges outlined above. As always, there will be ups and downs along the way. Recall what Mark Twain so wisely noted, “There are two times in a man's life when he should not speculate: when he can't afford it and when he can.” ■

Housing

Jeffrey D. Fisher

Director, Center for Real Estate Studies and Charles H. and Barbara F. Dunn Professor of Finance and Real Estate, Kelley School of Business, Indiana University, Bloomington

The big question as we approach the end of 2006 is whether the housing slump is over. Sales of new single-family homes rose 5.3 percent in September to a seasonally adjusted annual rate of 1.075 million units, according to figures released by the U.S. Commerce Department. The increase followed downward revisions to the sales rate for the previous three months, and the sales pace was down 14.2 percent from a year ago.

Total existing-home sales (including single-family, townhomes, condominiums, and co-ops) dipped 1.9 percent to a seasonally adjusted annual rate of 6.18 million units in September from a level of 6.30 million in August. This was 14.2 percent below the 7.20 million-unit pace in September 2005, which was the third strongest month on record.

The median price of new homes sold in September was \$217,000, down almost 10 percent from a year earlier. This was the largest drop in

thirty-five years and the median price for existing homes also fell.

For the third quarter as a whole, the Commerce Department reported that the median sales price was down by 1.7 percent on a year-over-year basis. There was a relatively rare year-over-year drop in median home prices with the September decline of 2.2 percent, the largest on record.

The supply of homes on the market is at its highest level in over thirteen years. The good news is that the number of homes on the market is starting to decline and home sales appear to be bottoming out with lower home prices. Recent declines in mortgage interest rates, reversing the trend of increasing rates, and a decline in energy prices have helped restore home buyer demand.

Existing-home sales are forecast to be fairly stable in the fourth quarter and sales for all of 2006 are expected to drop 8.9 percent to 6.45 million—still the third strongest year after consecutive records in 2004 and 2005.

“Existing home sales are likely to finish 2006 at around 6.4 million ... For 2007, sales are expected to be slightly under 6.4 million.”

New-home sales are forecast to fall 17.3 percent this year to 1.06 million, the fourth highest year on record. Housing starts should be down 10.9 percent to 1.84 million in 2006.

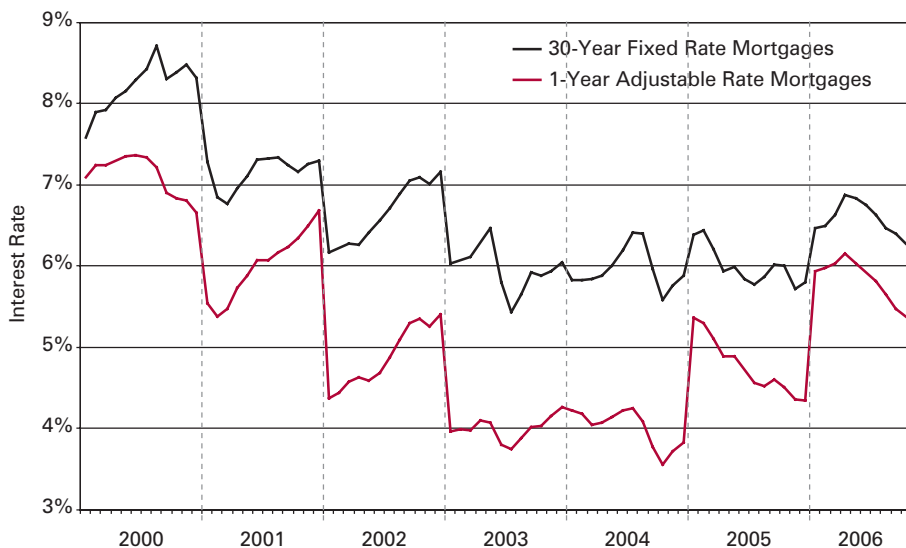
With the recent correction in the market, the national median existing-home price is likely to rise 1.6 percent to \$223,000 for all of 2006; it's anticipated that prices will remain slightly below year-ago levels before gaining positive traction in the first quarter of 2007. The median new-home price is projected to decline 0.2 percent—largely the result of builder price cuts to move unsold inventory.

The thirty-year fixed rate is hovering around 6.3 percent and likely to stay at that level or slightly higher during 2007. Adjustable rate mortgages are in the 5.6 percent range for a one-year adjustable rate (see **Figure 1**).

Existing home sales are likely to finish 2006 at around 6.4 million, down from slightly over 7 million during 2005. For 2007, sales are expected to be slightly under 6.4 million. New single-family unit sales are expected to be about 1.1 million for 2006, down from about 1.3 million in 2005 and are likely to be under a million in 2007. Housing starts should end up at around 1.8 million for 2006, down from slightly over 2 million in 2005 and are expected to drop to about 1.6 million in 2007.

Housing affordability has dropped steadily since peaking at 134 in 2004, which means that the median family

Figure 1
Indiana's Thirty-Year Fixed Rate Mortgages and One-Year Adjustable Rate Mortgages, 2000 to 2006



Source: HSH Associates

Indiana Agriculture

Corinne Alexander

Assistant Professor, Department of Agricultural Economics,
Purdue University, West Lafayette

has 34 percent more income than necessary to qualify for a mortgage on the median priced home. The affordability index dropped to 122 in 2005, is likely to end 2006 at around 106, and should remain at that level during 2007.

There are some risks to the economy if the housing market is not bottoming. Real estate downturns have a way of leading to recessions and stock market slumps. With home values falling, homeowners lose a source of spending money from refinancing, which has fueled consumer spending when home prices were rising. If cash-out refinancing (refi) by homeowners falls back to 2001 levels, it would drain \$300 billion from the economy — which would have roughly the same impact as a \$60 jump in the price of a barrel of oil. Cash-out refis were the only reason the economy weathered the gas-price hikes this year and last. The disappearance of cash-out refi money could dampen the economy.

Homebuilder stocks, including KB Home, DH Horton, and Lennar, have all traded at four or five times their earnings for the past twelve months — making homebuilding the cheapest sector in the S&P 500. But, of course, the question is what earnings will be over the next year.

In Indiana, the weakening of the housing market will continue, but to a lesser extent, according to Jerry Conover, director of the Indiana Business Research Center (see page 10). ■

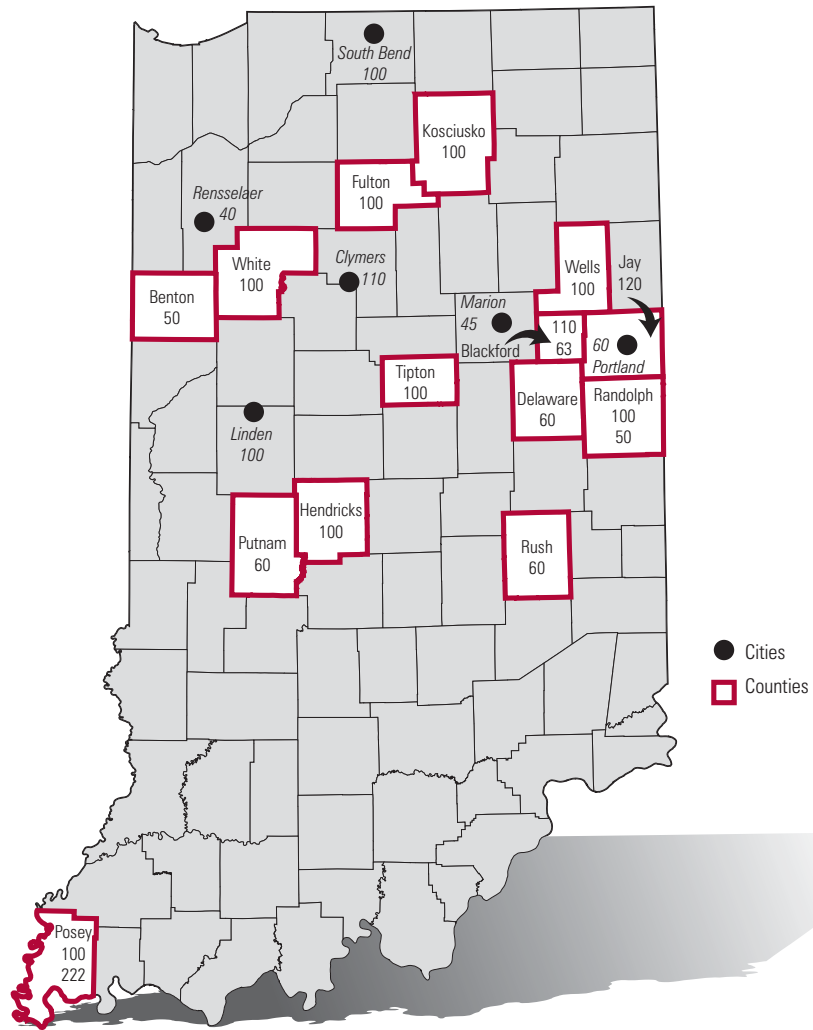
“If cash-out refinancing by homeowners falls back to 2001 levels, it would drain \$300 billion from the economy — which would have roughly the same impact as a \$60 jump in the price of a barrel of oil.”

Indiana agriculture is undergoing a massive transition and entering the energy business. Going forward, this leap into farming for fuel means that the price of gasoline will have a large impact on Indiana farm incomes and farmland values.

Ethanol produced from corn is leading the way. Right now, there is an existing ethanol plant in South Bend, with an additional four plants at Rensselaer, Marion, Clymers, and

Linden that will be on-line in 2007. These four new ethanol plants will utilize about 160 million bushels of corn, equivalent to 12 percent of Indiana’s 2006 corn production. The State of Indiana is working with an additional eight plants located in Blackford, Jay, Putnam, Posey, Tipton, Randolph, and Rush counties. The Purdue list indicates at least another ten groups considering plant sites. If all of the proposed plants are built,

Figure 1
Ethanol Plant Locations and Plant Size in Millions of Gallons of Ethanol per Year



Note: City labels indicate places where plants are either in operation or under construction. County outlines represent proposed plant locations
Source: Professor Chris Hurt, Purdue University, November 2006

the demand for corn for these plants will be the equivalent of 81 percent of Indiana's 2006 corn production. Even if only a fraction of these plants are built, this new usage for corn will dramatically alter Indiana's agriculture (see **Figure 1**).

Biodiesel produced from soybean oil is not developing as quickly as ethanol. The largest facility will be a new soybean crushing facility being built at Claypool in Kosciusko County by Louis Dreyfus, Inc. That plant will process 50 million bushels of soybeans per year, equivalent to 17 percent of Indiana's 2006 soybean production.

Why has interest in biofuels approached "gold rush" status in the last year? With crude oil prices above \$50 a barrel, biofuels, and ethanol in particular, have become extremely profitable. As recently as 2004, crude oil was well below \$40 a barrel, a point where biofuels are not profitable. In 2006, with crude oil in the \$60 to \$70 a barrel range, the outlook for the ethanol market is rosy. However, profitability in the ethanol market is vulnerable to the price of crude oil.

Farm Income and Farmland Values

How will the development of ethanol and biodiesel plants in Indiana affect farm incomes and farmland values? The answer for farm incomes depends on the enterprise, with grain operations benefiting from the biofuels boom and livestock operations who must buy grain to feed their animals struggling. To highlight this point, between October

12, 2006 (when World Agricultural Supply and Demand Estimates were released), and November 3, 2006, the December 2006 corn futures price had increased about 67 cents from \$2.77 to \$3.44 because U.S. corn production was revised downward. This large increase in the price of corn will

translate into an additional \$112 per acre of income for the projected 2006 state average corn yield of 167 bushels per acre. However, Dr. Chris Hurt estimates that the typical Indiana hog

operation will not be profitable if the price of corn (the primary cost for hog operations) is above \$3.50. For Indiana hog producers, this 67 cent increase in the price of corn means that the profitability in their operations is quickly disappearing.

Farmland value depends on many factors, including long-term interest rates, government price support payments, real estate taxes, and most importantly, on the returns to crop production. Looking to 2007, the biofuels boom can be expected to increase the value of farmland with its large impact on the returns to crop production. Given the current price levels for corn and soybeans, prices are well above the level where government price support payments would be triggered, reducing the influence of government programs. Long-term interest rates can be expected to increase, which would put downward pressure on land prices, but this increase is happening slowly. Overall, the biofuels boom will increase the value of Indiana farmland for 2007 and beyond. ■

For more information about Indiana farmland values, see the Purdue Land Value Survey at: www.agecon.purdue.edu/extension/pubs/paer/2006/august/paer0806.pdf

More information about the Indiana agricultural outlook can be found at: www.agecon.purdue.edu/extension/pubs/paer/2006/october/paer1006.pdf

Indiana

Jerry N. Conover, Ph.D.

Director, Indiana Business Research Center, Kelley School of Business, Indiana University

With the end of 2006 in sight, the year is shaping up to be one of even tamer growth than we predicted a year ago. As shown in **Figure 1**, Indiana's total nonfarm payroll employment in 2006 has continued its relatively steady climb that began in July 2003. As of September 2006, nonfarm payrolls accounted for 2,980,200 Indiana jobs. This level is barely 1 percent below the state's all-time employment peak reached in May 2000, and it's almost 100,000 jobs higher than the post-recession low of three years ago.

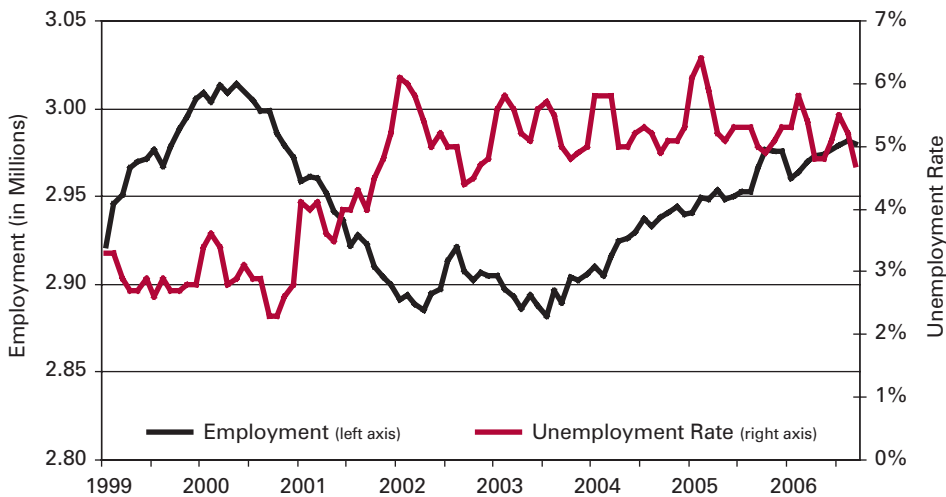
Employment

Employment growth began the year at a fairly slow pace of about 20,000 new jobs annually compared to a year earlier. Then the pace picked up to a year-over-year rate of about 25,000 to 30,000 new jobs during the summer, but it slowed substantially in September. This continues a trend of decelerating job growth over the past two years, but at least we're still adding jobs in most months.

Indiana's modest job growth has been shared across most industries. The sectors with the largest contributions to new jobs over the past twelve months have been education and health services (averaging 6,742 new jobs year-over-year); leisure and hospitality (4,718 jobs); trade, transportation, and utilities (3,742 jobs); professional and business services (3,017 jobs); and construction (2,917 jobs).

The traditional bastion of the Hoosier economy, manufacturing, averaged an annual growth rate of only 383 jobs over the past twelve months, and overall factory employment has not budged much for the past two years. Even with this slow growth, however, Indiana is

Figure 1
Indiana's Monthly Nonfarm Employment and Unemployment Rate



Note: Employment is seasonally adjusted; unemployment rates are not.
 Source: Bureau of Labor Statistics

still the nation's most manufacturing-intensive state with respect to employment, which accounted for 19.1 percent of all payroll jobs in September.

The overall pattern evident in Indiana employment this year is neither strongly encouraging nor discouraging. Most sectors are experiencing slow growth, with a bit more momentum evident in the trends for health care and education, professional and business services, and leisure and hospitality. The government, manufacturing, and information sectors' employment, meanwhile, remains relatively flat on average. Finally, there has been some recent acceleration in the financial activities sector that bears watching.

Indiana's unemployment rate in 2006 continued to meander in the general range of 5 percent, as it has for several years. However, the unemployment rate has declined over the last few months, and the number of people unemployed has dropped by nearly 30,000 since July to 153,550.

Other Indicators

A state's economic health is measured by more than just jobs. Growth in

Indiana's gross state product¹ (GSP, the broadest measure of total output of a state's economy) was 1.3 percent last year, compared to 3.6 percent for the nation. Only five states had slower growth in GSP in 2005. The size of Indiana's economy now ranks sixteenth nationally, overtaken last year by Maryland.

Preliminary data from the Bureau of Economic Analysis (BEA) indicate that, interestingly, manufacturing was a major contributor to Indiana's year-over-year GSP growth. Continued improvements in manufacturing productivity help Hoosier factories produce more output without having to hire many more workers. Only seven states in 2005 had higher output than Indiana in total manufacturing, and only four states in durable goods manufacturing.

Indiana's per capita personal income, which reflects individual

earnings from all sources, slipped nearly a percentage point last year to 90.3 percent of the national average, below thirty-four other states. While total income of Hoosiers is growing in the aggregate, Indiana has not grown as fast as other states on a per capita basis. Early figures for personal income in the first half of 2006, however, indicate that Indiana's performance relative to other states may be improving slightly.

Finally, the elimination of Indiana's major budget deficit and generation of a surplus has enabled the state to put funds back into a wide range of neglected programs. This government spending in turn represents a stimulus to economic activity in many areas.

Indiana's Outlook for 2007

Indiana's economy should grow modestly in 2007, but there are challenges to this forecast. The domestic automobile industry is cutting back production, which will reduce demand for the goods and services of many Indiana firms. However, as supplier firms strive to broaden their customer base, they may be able to lessen the impact of the Big Three's cutbacks.

Indiana's housing market has not yet experienced the shock of falling prices and weakening demand that has hit some other parts of the nation, just as home prices here generally have not appreciated nearly as much as in those regions. As a result,

Indiana isn't likely to see a major downturn in the housing market, which drives much of the other activity in the economy. The pace of new home construction in Indiana, however, will likely slow down a bit in the year ahead.

“The elimination of Indiana's major budget deficit and generation of a surplus has enabled the state to put funds back into a wide range of neglected programs.”

Anderson and Muncie

Patrick M. Barkey

Director of Economic and Policy Studies, Ball State University

The construction sector appears poised to grow at a faster pace next year as work on several fronts kicks into gear. New construction planned for the Major Moves transportation program is scheduled to rise significantly in 2007, which could stimulate thousands of new jobs throughout the state. Construction should also get under way on several major new plant locations or expansions that have been announced, involving several thousand additional jobs.

Some specialized industries have shown strong signs of vitality in recent months and are likely to fare well in the coming year. These include life sciences firms and biofuels production and research, among others.

Major risks to the state outlook are not overly troubling, although the economy may be hit by curve balls from any direction. Energy costs are not expected to rise greatly, and consumers have become somewhat used to gasoline prices well over \$2 per gallon. As long as we don't see a sudden large jump, consumers will likely maintain a fair level of discretionary spending. But unexpected shocks to the economy could dampen this outlook with little notice.

In conclusion, Indiana should gain about 20,000 to 25,000 jobs in 2007, and the state's unemployment rate should remain about where it is, in line with the expectation nationally. Manufacturing jobs are not likely to grow substantially in 2007, which will be a year of preparation for stronger manufacturing growth ahead. The sectors likely to account for much of the expected job growth are health and education services, construction, trade and transportation, and leisure and hospitality. In addition, the state's per capita personal income should level off or improve slightly as a percentage of the national figure. ■

Notes

1. The BEA now calls this "Gross Domestic Product by State."

Forecasting is an exercise fraught with risk, and that risk doubles with forecasting the performance of small-sized urban economies. Not only are the data that we use to assess and project the future for smaller metro areas of uncertain quality, the comparatively small geographies involved also make it possible for one or two unforeseen events to undo even the best efforts at prediction.

But the businesses, governments, and families in Anderson and Muncie are nonetheless more concerned than most about the future of their economies. Since the mid-1990s, both of these communities—as well as neighboring Kokomo and Richmond—have seen stagnation and decline, as transition in the manufacturing economy continues to erode their economic base.

The past year (2006) saw several dramatic announcements of new investment and significant projected employment gains for both Anderson and Muncie. Unfortunately, those announcements were offset by negative developments in several established manufacturing companies. The upshot is that the slow declines in employment that

have occurred during most of the last decade are likely to continue in 2007.

Anderson

The Anderson metro (Madison County) was reborn after the 2000 Census, after spending a decade as part of the Indianapolis (now Indianapolis–Carmel) metro area. That means that very current estimates of employment by major industry are available from the Current Employment Survey (CES), the same source for state and national level payroll employment estimates. Those data portray the Anderson economy as having stabilized in 2006 from the job declines suffered in previous years.

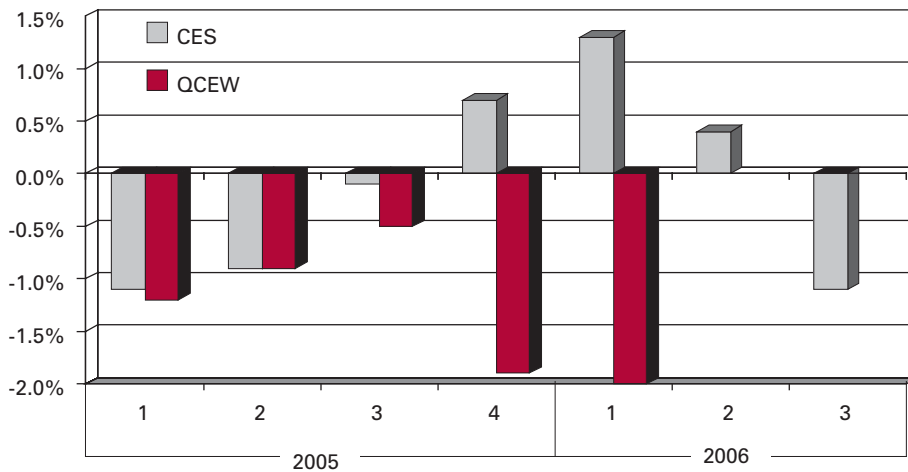
In the first three quarters of 2006, employment averaged about 100 jobs, or 0.2 percent, higher than the same period in 2005. That stability was largely due to a 300-job increase officially estimated for Madison County manufacturing employers. This 4.7 percent growth in factory jobs, if it survives the coming revisions, would eclipse the manufacturing job growth of every other metro area in Indiana over the same period.

Unfortunately, the CES employment estimates are almost

Facts about Madison and Delaware Counties

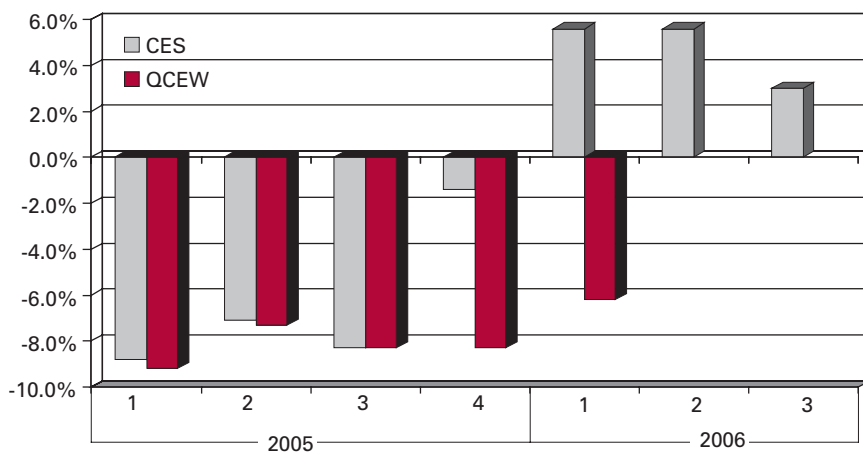
People and Income	Madison County (Anderson)	Delaware County (Muncie)
Population (2005)	130,412	116,362
Change Since 1990	-0.20%	-2.80%
Land Area (in square miles)	452.1	393.3
Population Density (2005)	288.5	295.9
Households (2000)	53,052	47,131
Per Capita Personal Income (2004)	\$28,337	\$26,825
Poverty Rate (2003)	10.6	12.5

Figure 1
Percent Change in Total Employment from Last Year, Anderson MSA



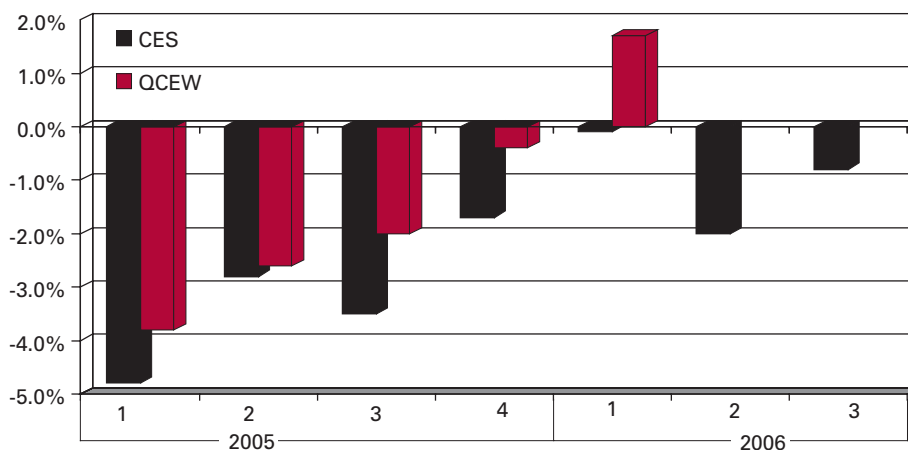
Sources: Current Employment Survey and Quarterly Census of Employment and Wages

Figure 2
Percent Change in Manufacturing Employment from Last Year, Anderson MSA



Sources: Current Employment Survey and Quarterly Census of Employment and Wages

Figure 3
Percent Change in Total Employment from Last Year, Muncie



Sources: Current Employment Survey and Quarterly Census of Employment and Wages

certainly too high. A comparison of recent quarterly growth to the UI-based Quarterly Census of Employment and Wages employment estimates, shown in **Figure 1**, reveals a considerable disagreement between the two growth estimates since the midpoint of last year. The QCEW data, available only through March 2006 at the time of this writing, will form the basis for revisions due in February 2007.

The data disagreement is particularly noticeable for Anderson's manufacturing employers. The CES data shown in **Figure 2** portray a mild rebound in goods production employment in 2006, whereas the less timely, but more reliable QCEW data show sizable job declines continued into the first three months of the year.

Given the declines in building activity, and the increase in filings for claims for unemployment insurance, our assessment is that Anderson's job base has continued to decline in 2006.

The \$359 million investment by Nestlé in a food processing facility in Anderson is welcome news to this hard-pressed community. The company will employ at least 300 workers on a 190-acre site beginning in early 2008. The Flagship Enterprise Center, a partnership between the city and Anderson University, has continued to land new businesses, most lately in emerging energy technologies.

But with the announced closure of Guide (1,325 jobs) and the likely sale or closure of bankrupt-Delphi's last Anderson factory (700 jobs), the preponderance of economic news remains bad for this hard-hit community. We project employment declines of approximately 2 percent for 2007.

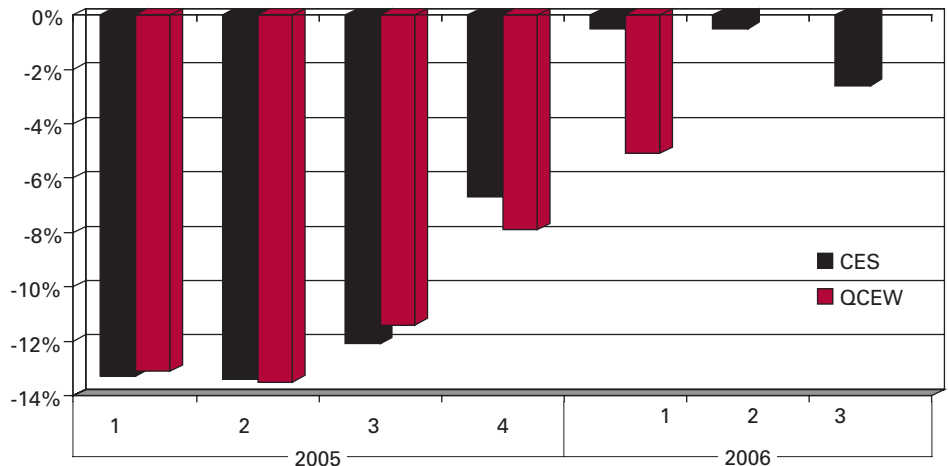
Muncie

The recent declines in payroll employment in the Muncie metro (Delaware County) have softened only slightly in 2006, as depicted in **Figure 3**. With a decline in

Bloomington

Jerry N. Conover, Ph.D.
 Director, Indiana Business Research Center, Kelley School of Business, Indiana University

Figure 4
Percent Change in Manufacturing Employment from Last Year, Muncie



Sources: Current Employment Survey and Quarterly Census of Employment and Wages

employment of 1 percent in the Muncie metro through September, it ranked second to last among Indiana metros, exceeded only by Kokomo, as ranked by the CES data. Certainly the long-anticipated closure of the manual transmission facility, once jointly operated by General Motors and Chrysler, contributed to the decline.

Meanwhile, the QCEW employment data are a bit more optimistic. Muncie's CES-reported job decline in the first quarter of 2006 is depicted as a gain in the QCEW data, and earlier quarterly losses are similarly less harsh. That first quarter gain in the QCEW reported employment is particularly heartening when considering the manufacturing job loss shown for the same period (see **Figure 4**).

Although building permits are down from last year, unemployment claims through November are running at levels comparable to 2005. Based on the incomplete information

available, our assessment is that Muncie's employment declines have leveled off.

The outlook for 2007 is clouded by the uncertainty over the status of Borg-Warner's transfer case manufacturing facility on the city's west side, which the company has threatened to close unless the current labor contract is reopened and concessions are made. The facility's product is closely linked to Ford truck sales, which have suffered greatly in recent months.

However, the opening of a 700-worker Sallie Mae loan processing center in Muncie and the ground breaking of a \$120 million expansion and renovation project at Ball Memorial Hospital, as well as other developments, have raised hopes that any job losses can be offset by gains elsewhere in the economy. Our projection calls for very modest growth in Muncie's job base in 2007, amounting for approximately 200 net new jobs, or about 0.4 percent. ■

“The opening of a loan processing center and renovation of Ball Memorial Hospital, as well as other developments, have raised hopes that any job losses can be offset by gains elsewhere in the Muncie economy.”

The Bloomington area's economy followed in the state's footsteps in 2006, and it appears on track for moderate growth in the year ahead.

Monroe County's population, estimated at 121,407 in 2005, continued its slow growth, adding nearly 500 residents over the preceding year (but gaining only 844, or 0.7 percent, since the 2000 Census). Though the county is growing, Monroe's neighbors are all growing at a faster rate, as shown in **Figure 1**. In contrast, the city of Bloomington's population (estimated at 69,017 in 2005) continued its gradual shrinkage, dropping over the year by about 300 and down 2,600 (3.5 percent) since 2000.

Employment in the area has continued growing at a moderate but encouraging pace, with the annual average for the Bloomington metropolitan area hitting an all-time high in 2005 at 81,436 nonfarm jobs. To date, 2006 is on track to surpass this mark, averaging more than 700 jobs above the year-earlier period on a seasonally adjusted basis through September.

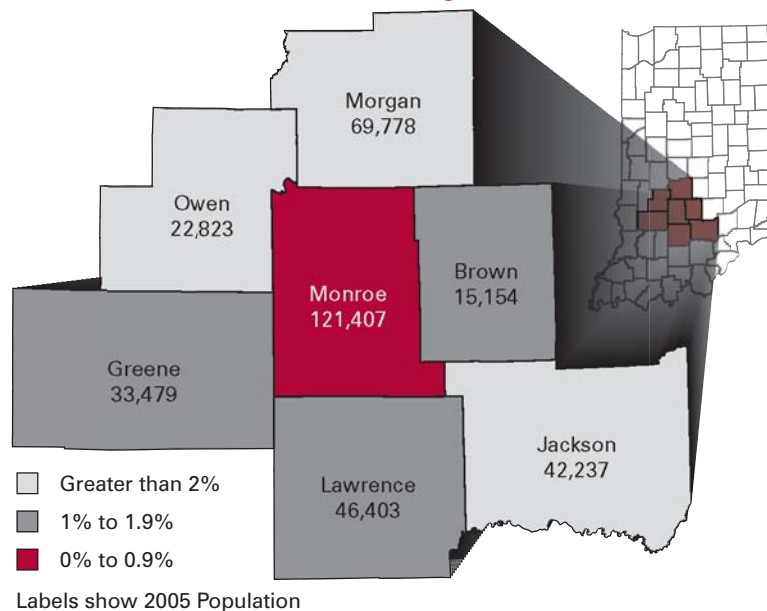
This moderate employment growth has outpaced population growth over the past several years. Sustaining this trend required either more workers commuting to the Bloomington metro area from surrounding communities or a decrease in the unemployment rate, and both actually occurred. According to Indiana Department of Revenue data, 15,748 Monroe County workers commuted in 2004 from residences in other counties, up a slight 2.4 percent since 2000. The county's unemployment rate, meanwhile, has been down every month in 2006 compared to a year earlier, a welcome trend as more

“help wanted” signs are visible all over town. The September figure of 3.7 percent was Monroe County’s lowest unemployment rate in two years.

The local employment outlook for 2007 calls for a moderate gain in the range of 600 to 1,000 jobs. At this writing, no major plant expansions or closures have been announced for Bloomington in the coming year, although it appears that several firms in the automotive parts industry are considering locating in this general region of the state (in anticipation of the new Honda plant to be built in Greensburg and demand from other nearby auto plants).

The area’s manufacturing sector has declined substantially in recent decades, though the rate of manufacturing job shrinkage slowed significantly over the past year. As shown in **Figure 2**, the county lost nearly 1,000 factory jobs during the first half of 2001, and levels have since fluctuated in the low-7,000 range. With luck, we may actually see modest growth in local manufacturing jobs in 2007. Average wages paid to manufacturing workers in Monroe County have stabilized somewhat over the past

Figure 1
Population Growth in Monroe and Surrounding Counties, 2000 to 2005



Source: IBRC, using U.S. Census Bureau data

several quarters after several years of sizable fluctuations. However, the overall trend for manufacturing wages is still slowly decreasing.

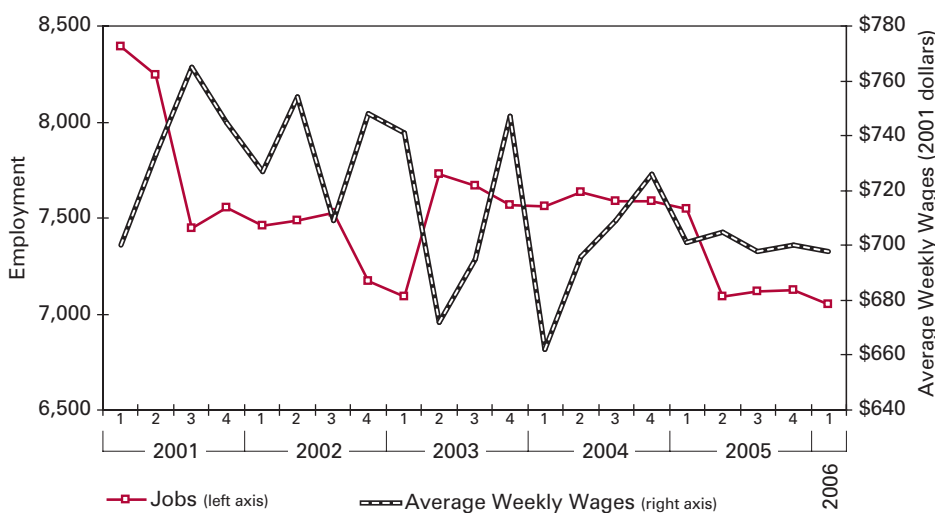
Respectable growth is expected in Bloomington’s life sciences industry, accounting for perhaps 300 to 500 new jobs in 2007 spread among the larger firms in this sector. Even more

new jobs are likely in the health care services sector. Feeding the new hospital and growing demand for health care generally, this trend is not likely to abate anytime soon. Maintaining growth in health services and life sciences implies a growing demand for skilled workers; fortunately, new initiatives to meet this demand on the part of Indiana University (IU) and Ivy Tech should support continued growth.

With IU enrollments rebounding this fall and some significant investments in campus construction, research and other activities, businesses that cater to the higher education community have decent prospects for the coming year.

Finally, the Bloomington housing market is on track to finish 2006 with sales at about the same level as 2005, while prices to date are up about 4 percent and inventory on the market is slowly rising. Given the broader outlook for interest rates and the economy generally, 2007 should see home prices and sales leveling off and a gradual slowing of new housing construction. ■

Figure 2
Monroe County Manufacturing: Jobs and Real Wages, 2001 to 2006



Source: IBRC, using U.S. Census Bureau ES-202 data

Columbus

Morton J. Marcus

Director Emeritus, Indiana Business Research Center, Kelley School of Business, Indiana University

The Columbus Metropolitan Statistical Area (metro) includes only Bartholomew County. It is the smallest of the fourteen Indiana-based metros, with employment in September 2006 of 43,800.¹

Jobs

Manufacturing accounted for 35.2 percent of total nonfarm jobs in Bartholomew County in September 2006. This is far above the 16.4 percent figure for Indiana's fourteen metros and the 9.4 percent level of the nation's 388 metros.

As a manufacturing center, Bartholomew County is more subject to wide swings in its unemployment rate than many other areas. From a recession high of 5 percent in 1991, the percent of the labor force seeking employment declined to 1.6 percent in 1998. As the recession of the early 2000s took hold, the rate rose sharply, ranging from 3.9 percent to 4.5 percent over the past five years (see **Figure 1**).

Between September 1996 and 2006, the number of jobs in the Columbus metro grew by 900 or just 90 jobs per year on average. This growth is not

sufficient to accommodate the annual graduation of high school seniors in the county. Jobs in the Columbus metro grew by 0.18 percent per year on average between 1996 and 2006. This growth rate ranked 333rd among the 388 metro areas of the nation, which averaged 1.35 percent; Indiana's metro areas averaged 0.67 percent.

As seen in **Figure 2**, the average annual number of jobs in the Columbus metro peaked at 45,000 in 1999 before hitting a cyclical low point in 2003 of 40,600. We estimate that the 2006 annual average number of jobs will be 43,600. Our forecast for 2007 is an increase of 200 jobs for an annual average of 43,800. Thus, the metro will still be 1,200 jobs below its 1999 peak.

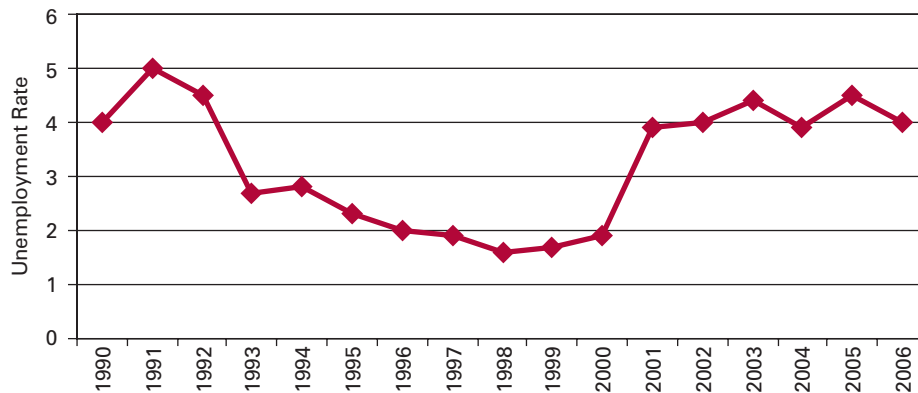
As another result of its manufacturing intensity, the Columbus metro may outperform the U.S. and Indiana economies in years of general economic expansion. However, it tends to go into slowdowns sooner and may emerge more slowly into growth than other areas. **Figure 3** illustrates this behavior over the past decade. When the economy was expanding, the Columbus metro grew faster than the state, but it began to slow more than the state when growth began to lag. Furthermore, Columbus turned negative before the state and remained below the state through 2003; when the economy turned up, Columbus advanced at a faster rate.

In 2006, we estimate that Columbus' increase in jobs will equal the state's increase of 1.1 percent but will lag the state's rise in the year ahead as the general economy once again slows.

Housing

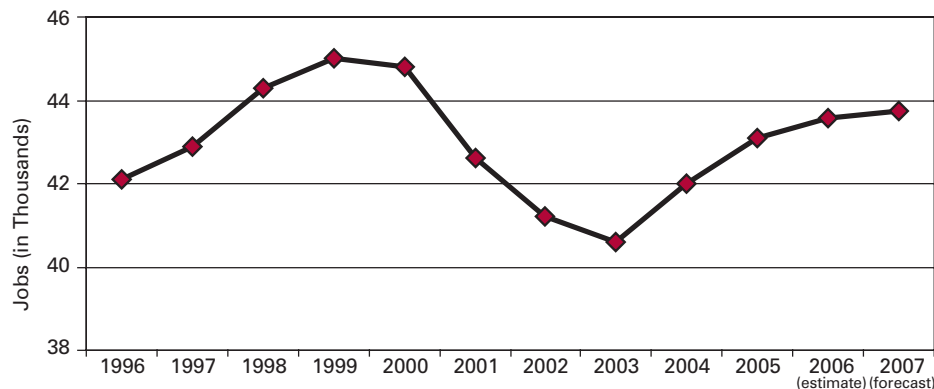
The slow down in the housing sector has already reached the Columbus

Figure 1
September Unemployment Rates for Bartholomew County



Source: Bureau of Labor Statistics

Figure 2
Number of Jobs in Bartholomew County



Source: Bureau of Labor Statistics

metro, although it seems to be a decline of only 5 percent to date from last year's levels. We may expect a decline of 15 percent in the coming year, bringing the number of new units down to the mid-230s from the high 270s estimated for this year.

Single family units dominate the Columbus market. However, as seen in **Figure 4**, there were a few years when large numbers of duplexes and multi-family units were built. Such construction is not likely in 2007 with the current housing market.

Labor Market and Population

In the past decade, the labor force of Bartholomew County has declined by 2,100 people—from 39,900 to 37,800. Some may have retired; others may have chosen to leave and not re-enter the labor market in order to stay home to attend to family needs. This decline in the labor force has kept the unemployment rate low even though the number of employed persons has also dropped by 2,800.²

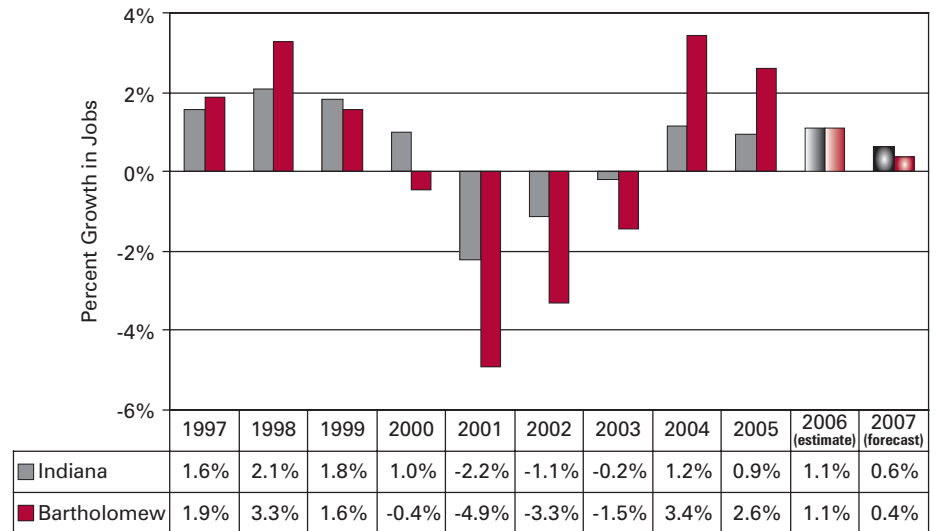
These changes were occurring while Bartholomew County was realizing a natural increase (births exceeding deaths) of 4,000 persons and net in-migration of 860 persons. Hence, the decrease in the size of the labor force and in the number of persons employed is contrary to our expectations of a community with a growing population.

Summary

In light of the moderate growth anticipated for the national and Indiana economies, the Columbus metro is not likely to see much of an increase in jobs over the next year. Although housing will not be anywhere near its highs of several years ago, the downturn will not be severe.

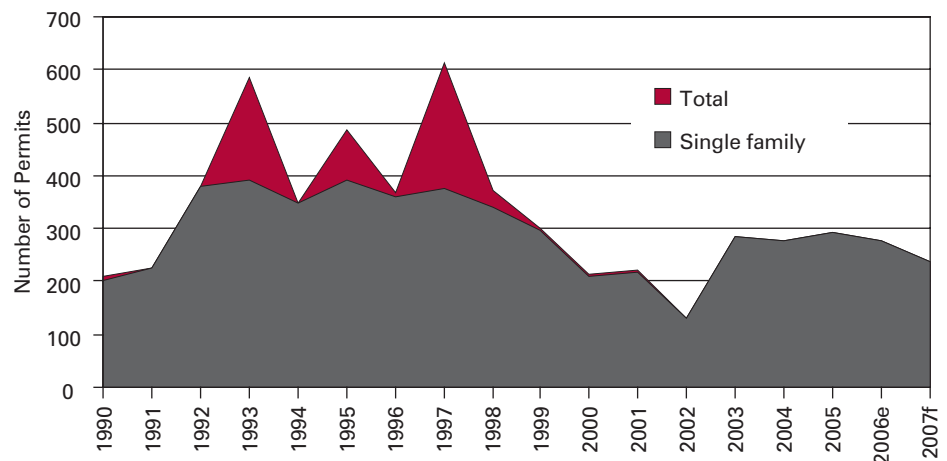
The development pattern of the Columbus metro over the past decade shows an economy demonstrating little growth. This weakness might be perceived as a bigger problem in the county, except that much of the

Figure 3
Job Growth Rates



Source: Bureau of Labor Statistics

Figure 4
Columbus MSA Building Permits



Source: U.S. Census Bureau

job decrease has been felt by people commuting into the county from elsewhere. In 1997, those individuals accounted for 13,100 of the workers in Bartholomew County; by 2004, the number was down to 11,800.

Strengthening the attractiveness of Columbus as a place to live and shop has long been a part of the community's objectives. It would seem that keeping that goal strong remains a good strategy for the future. ■

Notes

1. September 2006 figures are preliminary and subject to revision. Experience shows those revisions are upward, but generally by slight amounts.
2. The number of residents who are employed is not equal to the number of jobs in the county. Residents may work outside the county and persons living in other counties may commute into Bartholomew. In addition, some jobs are part-time and a given person may hold more than one job.

Evansville

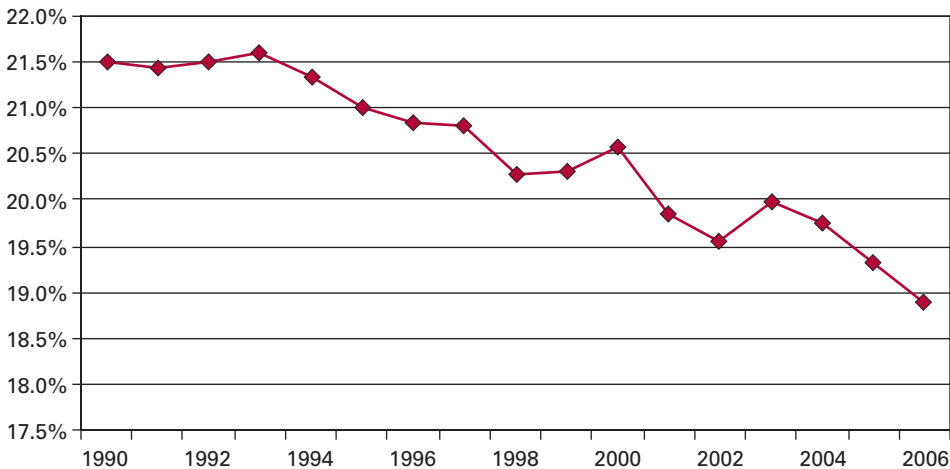
Mohammed Khayum

Professor of Economics and Dean of Business, College of Business, University of Southern Indiana

The Evansville economy continues to exhibit positive year-over-year growth. In 2006, personal income is estimated to increase by 5.75 percent compared to an average annual growth rate of 4.25 percent between 2001 and 2004 (see **Figure 1**). Economic performance in 2006 was driven by job creation in professional and business services, as well as in the leisure and hospitality sector. The manufacturing sector continues to be important to metro area household incomes and consumer spending activity—even as the economy adjusts to an ongoing diversification away from dependence on the manufacturing industry (see **Figure 2**).

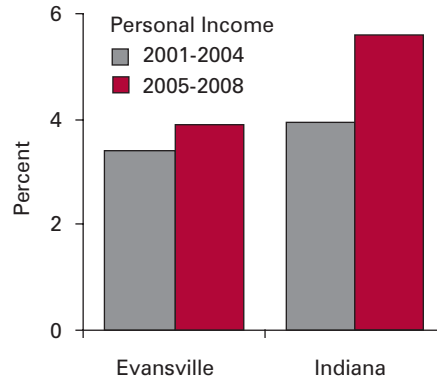
Although the Evansville economy is one of the most manufacturing-dependent metro areas in the nation, it has not experienced the same degree of hardship as other manufacturing-dependent Midwestern metro areas. Since 2000, Evansville’s manufacturing workforce has fallen by 7 percent (or about 2,500 workers), compared to the 16 percent reduction in Indiana’s manufacturing workforce over the same period.

Figure 2
Manufacturing Employment as a Percent of Total Nonfarm Employment in the Evansville Metro



Source: IBRC

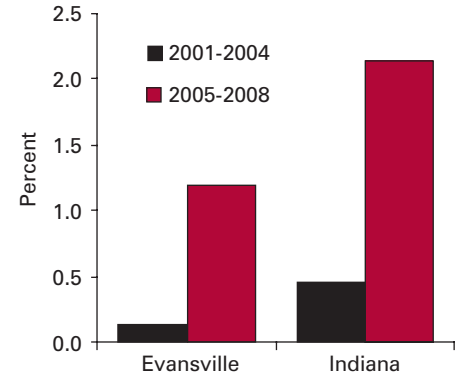
Figure 1
Average Growth in Personal Income



Source: Center for Econometric Model Research

At the same time, manufacturing earnings as a share of total earnings has remained stable at about 29 percent between 2001 and 2006 in the Evansville metro economy. The resiliency of Evansville’s manufacturing sector is explained in part by the growth of the local auto industry headed by top employer Toyota as well as to the strong demand for primary metals in recent years, which has kept Alcoa among the largest local employers.

Figure 3
Average Growth in Total Employment



Source: Center for Econometric Model Research

During the summer of 2006, the hospitality and retail sectors benefited from a number of conventions that resulted in bookings of about 12,000 hotel rooms and an estimated \$7.8 million boost to the metro area economy. The increase in tourist-related activity provided added momentum to the near-term services-led expansion, particularly aiding investment and hiring activity in the leisure/hospitality and retail trade industries.

Current efforts to attract future high-tech related industry via the creation of a downtown technology park, an emphasis on workforce development, and relatively low office rents are sources of momentum for economic expansion in the next few years. The outlook is for increased momentum in the Evansville metro economy as a result of hiring and investment activity in the service sector and relative stability in the manufacturing sector.

In 2007, output is forecasted to increase by 2.7 percent, the number of jobs is projected to increase by 2,400, and the forecast for personal income growth is 5 percent. **Figures 1 and 3** provide a comparison of forecasts for the Evansville economy and the state of Indiana for the 2005–2008 period. ■

Fort Wayne

John Stafford

Director, Community Research Institute, Indiana University Purdue University, Fort Wayne

Last year's Outlook edition suggested that the Fort Wayne area economy was experiencing a "steady but gradual rebound" from the recession that occurred in the early years of this decade. The job creation numbers for the last twelve months appear to support that assessment. Indeed, 2006 is looking very much like 2005—good but not great news for northeast Indiana. It has become clear that it will take sustained job creation over several years to fully replace the number and quality of jobs lost between 2000 and 2003. For purposes of this article, we will again use the seven county Fort Wayne-Auburn-Huntington Combined Statistical Area (CSA) to geographically define the "Fort Wayne area." The CSA includes the counties of Adams, Allen, DeKalb, Huntington, Noble, Wells, and Whitley.

Based on employer-reported data (the Quarterly Census of Employment and Wages or QCEW), total employment in the area began to increase in the second quarter of 2004 and has increased each of the last eight quarters compared with

the same quarter of the previous year. Between the first quarter of 2005 and the first quarter of 2006, the area gained 2,203 total jobs, a growth rate of 0.8 percent. During the same time period, Indiana's total employment grew by a just slightly higher rate of 0.9 percent. Compared with employment in the first quarter of 2000, a time of peak employment for the Fort Wayne area, we are still down over 15,000 jobs.¹

Figure 1 tracks the QCEW quarterly total "covered" employment with the comparable quarter from the previous year for both the Fort Wayne CSA and the state of Indiana. As the graph illustrates, the Fort Wayne area was more severely impacted by the 2000-2001 economic downturn than the state and also experienced relatively greater job loss in the 2003-2004 downturn than the state. Fort Wayne's current employment recovery appears to be on a nearly parallel path with the state of Indiana.

In the Fort Wayne area, nearly half of the net job gain between the first quarters of 2005 and 2006 occurred

in the health care/social assistance sector with a gain of nearly 1,000 jobs. Conversely, the manufacturing sector lost nearly 1,400 jobs over the same time period. Area manufacturing employment had been on the increase in the second half of 2004 and the first half of 2005, but reversed course in the third quarter of 2005.

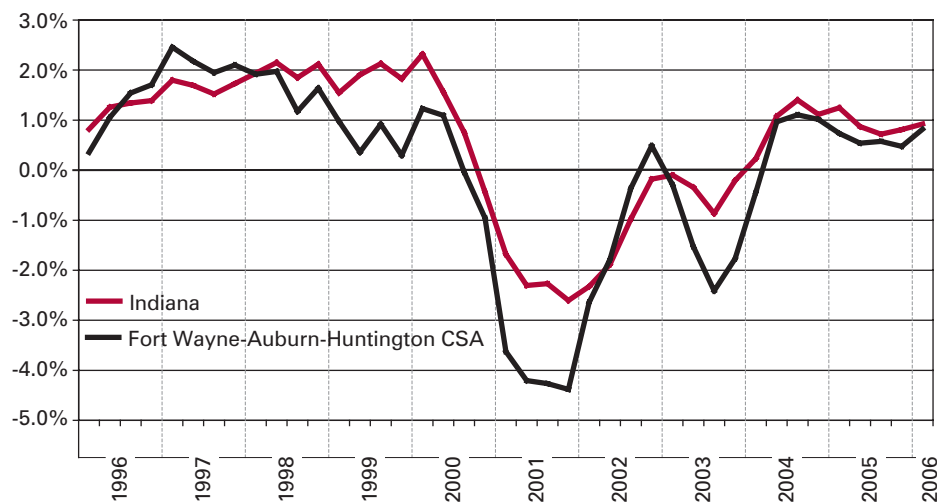
The other primary source of employment data, the monthly household survey (Local Area Unemployment Statistics), supports the premise that the Fort Wayne area is in a relatively sustained period of modest job growth. Comparing each month's employment estimate with that for the same month of the previous year shows that the CSA has experienced employment growth in sixteen of the past seventeen months. This trend is illustrated in **Figure 2** and indicates that the current growth period is both longer and more productive in terms of jobs created than was the short-lived 2003 rebound.

In addition to tracking the changes in total employment in the region, increasingly more attention is being placed on the "quality" of those jobs. The average annual wage reported with the QCEW data has indicated that wages in the area have, for some time, been falling behind the nation in relative terms. Data for 2005 (the most recent available on an annual basis) indicate that this trend is continuing. In 2004, the Fort Wayne CSA average annual wage was 84.8 percent of that for the United States. By 2005, the region's wages had fallen to 83.2 percent of the national average.

The Forecast

What lies ahead for 2007? First, the Fort Wayne area is likely to see a continued loss in automotive-related manufacturing jobs as the supply network continues to react

Figure 1
Percent Change in Employment from the Same Quarter of the Previous Year



Source: Bureau of Labor Statistics

to production contractions by the Big Three domestic automakers. Secondly, we are very likely to experience more of the gradual but continuous transformation within the manufacturing sector to a more diversified market mix being served by northeast Indiana companies. Two recent announcements within days of each other typify this transformation—Tower Automotive announced the closing of its Kendallville chassis and suspension components facility eliminating 114 jobs and Micropulse, a Columbia City medical device manufacturer, announced an expansion that should add 100 jobs to its workforce over the next four years. Given this ongoing “churn” in the manufacturing sector and the region’s relatively slow ability to replace manufacturing jobs with higher-paying components of the service sector (such as financial services and professional and business services), the Fort Wayne area will work hard to continue total employment expansion in 2007 at the current rate of approximately 2,000 jobs per year.

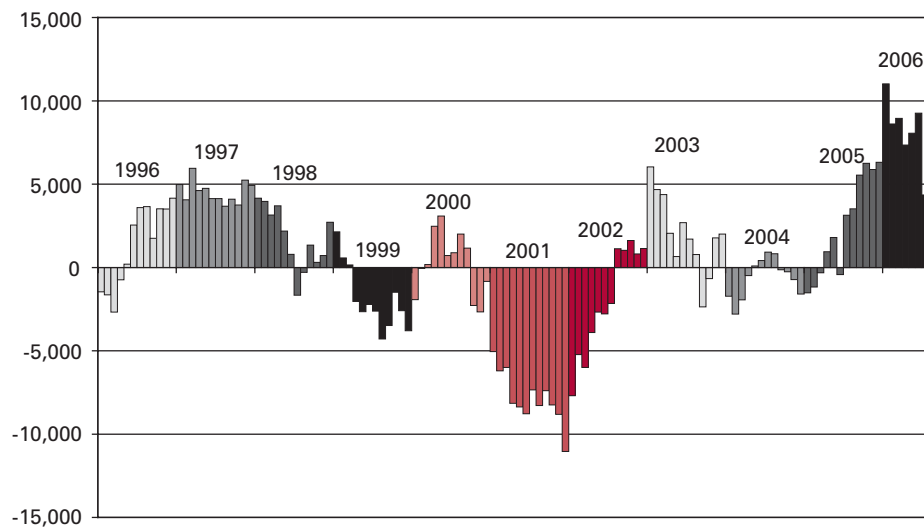
From a longer-term perspective, northeast Indiana is in the process

of putting in place a substantially more robust economic development system than the region has previously supported. For the first time ever, every county in the northeast corner of this state has an active local economic development organization with a full-time professional staff. Entrepreneurial and small business support efforts are gaining momentum. Workforce and economic development initiatives are becoming more closely aligned and a newly-created regional marketing organization has been formed in recent months and is being generously supported by private, public, and foundation capital. Over time, this more aggressive, multi-dimensional effort should pay dividends in both job creation and in increasing relative average wage levels in northeast Indiana. ■

Notes

1. Employment actually peaked in the second quarter of 2000, with Indiana jobs totaling 2,969,508 and Fort Wayne CSA jobs totaling 291,770.

Figure 2
Total Employment Change Since the Previous Year’s Total Employment in the Fort Wayne–Auburn–Huntington CSA



Source: Bureau of Labor Statistics

Gary

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Looking Back

Establishment-Based Estimates of Employment and Earnings:

The northwest Indiana¹ economy has generally lagged the state and the nation over the last decade and more. Between 1995 and 2006, employment in northwest Indiana grew at an average annual rate of 0.22 percent, compared with Indiana’s relatively meager 0.60 average annual growth and the nation’s 1.32 percent. This disappointing overall performance conceals much stronger performance in some sectors and much weaker performance in others.

Table 1 compares average annual employment growth for northwest Indiana with the state and the nation, for selected industries. While employment in construction and in health care services were quite strong, no industry in northwest Indiana experienced faster employment growth than both the state and the nation.

Real weekly earnings also grew more slowly in northwest Indiana (0.25 percent per year) than in the state (0.79 percent per year). Locally, weekly earnings grew more rapidly than the state in construction, manufacturing, and wholesale trade, and more slowly than the state in transportation and utilities, finance, and health care (see **Table 2**).

During the past year, employment growth in northwest Indiana has modestly outpaced the state, 1.02 percent to 0.92 percent (see **Table 3**). Real weekly earnings however, have increased by 3.68 percent at the state level, but only by 2.76 percent in northwest Indiana.²

Household-Based Estimates of the Labor Force, Employment, and Unemployment: Labor force growth locally has also substantially lagged. Between January 1990 and September

2006, the northwest Indiana labor force grew by only 8.4 percent, compared with 16.0 percent for the state and 20.8 percent for the United States. The household-based measure of employment yields an increase of 9.5 percent in northwest Indiana, 17.2 percent in the state, and 21.6 percent for the nation during the same time period.³ **Figure 1** provides data on the size of the local labor force, household-based employment, and establishment employment for the recent past.

The unemployment rate in northwest Indiana has generally tracked the U.S. unemployment rate quite closely and has generally been slightly higher (see **Figure 2**). The relatively steady decline in the national unemployment rate (it has declined from 6.3 percent in March 2003 to 4.5 percent in September 2006) has not, it seems, helped to drive the local unemployment rate down.

The Challenges: Northwest Indiana continues to be a challenging place for new businesses to locate. The environmental issues surrounding many available industrial sites near Lake Michigan reduce the attractiveness of the region to outside firms, along with the continued traffic congestion and lack of regularly scheduled airline service at the Gary–Chicago Airport. However, the vitality of the Port of Indiana remains an extremely strong plus for location in the region.

Slow population growth in the region (averaging 0.29 percent per year between 1990 and 2005, and a more rapid, but still quite slow 0.51 percent per year since the 2000 census) and equally slow labor force growth (0.50 percent per year since 1991) also make northwest Indiana a less-than-desirable location for businesses looking for expansion or relocation sites, because it almost certainly makes recruiting workers more difficult. Of course, the slow growth in the economy only serves

Table 1
Average Annual Growth Rates in Employment for Selected Industries, First Quarter 1995 to 2006

Industry	Northwest Indiana	Indiana	United States
Total Nonfarm Employment	+0.22%	+0.60%	+1.32%
Construction	+1.56%	+1.45%	+5.15%
Manufacturing	-3.17%	-1.65%	-1.76%
Primary Metals	-4.92%	-3.29%	-2.78%
Chemicals	-3.27%	+0.80%	-0.97%
Transportation and Utilities	-0.70%	-0.31%	-0.31%
Wholesale Trade	-0.84%	-0.90%	+0.53%
Retail Trade	+0.36%	+0.40%	+1.37%
Eating and Drinking Places	+0.70%	+1.28%	+2.13%
Financial Services	+0.48%	+0.56%	+1.64%
Health Services	+2.30%	+3.16%	+2.55%

Sources: STATS Indiana and the Bureau of Labor Statistics

Table 2
Average Annual Growth in Real Weekly Earnings for Selected Industries, First Quarter 1995 to 2006

Industry	Northwest Indiana	Indiana
Total Nonfarm Employment	+0.25%	+0.79%
Construction	+1.31%	+1.11%
Manufacturing	+0.46%	-1.65%
Primary Metals	+0.89%	+0.17%
Chemicals	+4.88%	+2.72%
Transportation and Utilities	+0.04%	-0.22%
Wholesale Trade	+2.19%	+1.60%
Retail Trade	+0.54%	+0.63%
Eating and Drinking Places	+0.61%	+0.59%
Financial Services	+1.67%	+2.21%
Health Services	+1.32%	+0.44%

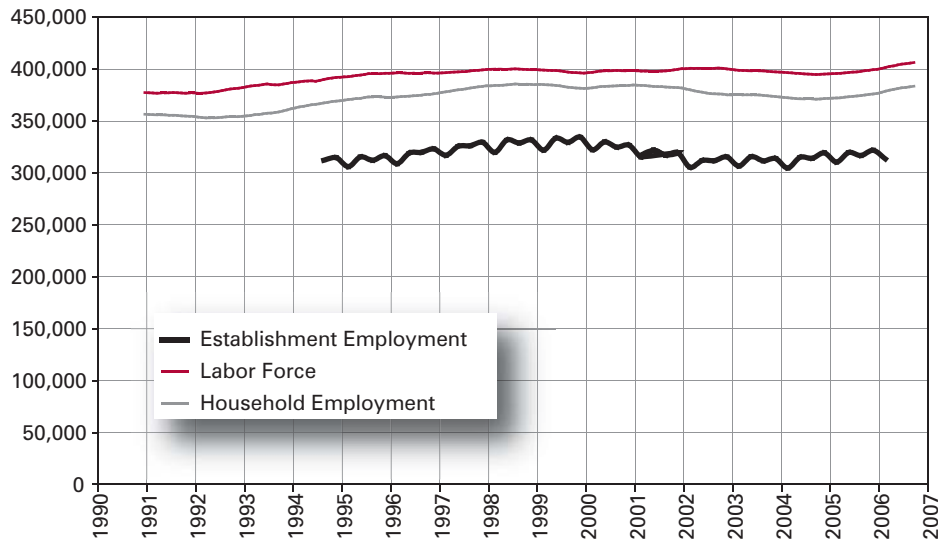
Source: STATS Indiana

Table 3
Employment Growth in Selected Industries, 2005 to 2006

Industry	Northwest Indiana	Indiana
Total Nonfarm Employment	+1.02%	+0.92%
Construction	+9.2%	+3.12%
Manufacturing	+0.47%	-0.56%
Primary Metals	-1.43%	-3.20%
Chemicals	+2.47%	-2.72%
Transportation and Utilities	+0.57%	+2.12%
Wholesale Trade	-0.32%	+1.57%
Retail Trade	+2.71%	+1.25%
Eating and Drinking Places	+3.29%	+2.72%
Financial Services	+0.22%	+0.47%
Health Services	+4.27%	+2.44%

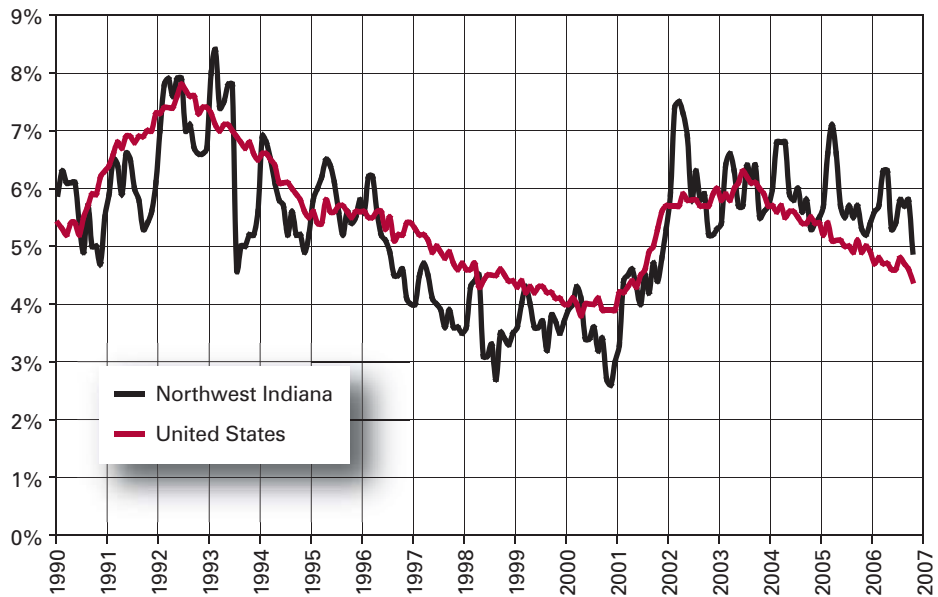
Source: STATS Indiana

Figure 1
Establishment Employment, Household Employment, and the Labor Force in Northwest Indiana



Sources: STATS Indiana and the Bureau of Labor Statistics

Figure 2
Unemployment Rates in Northwest Indiana and the United States, 1990 to 2006



Sources: STATS Indiana and the Bureau of Labor Statistics

to reinforce both slow population growth and slow labor force growth, because people have a greater incentive to look elsewhere for economic opportunities.

One consequence of these factors is that the number of business establishments in northwest Indiana has grown by only 0.18 percent per year between 1995 (16,047 establishments) and 2006 (16,381 establishments). By way of contrast, the number of business establishments in Indiana has grown by a not-very-impressive 0.4 percent per year during the same period, but more than two times the rate of growth in northwest Indiana.

Looking Ahead

The Kelley School of Business forecast for 2007 calls for about 3 percent growth in the gross domestic product of the U.S. economy, which would be another year of fairly solid growth. However, the most recent two quarters of data on the U.S. economy (2.6 percent growth in the second quarter of 2006 and a preliminary estimate of 1.6 percent in the third quarter) may give us pause. We can expect the local economy, in general, to generate smaller increases in employment than the national economy does, and, should the United States slide into a recession, we can expect that recession to be worse locally than nationally.

Last year, I forecast employment growth of 0.2 percent, and the local economy provided a pleasant surprise, growing considerably more rapidly than that, bolstered by a stronger national economy. Based on the slowdown in the national economy, my current forecast is for 0.4 percent employment growth, or about 1,900 net new jobs (see **Table 4**).

A recession could make this much worse. In the extremely mild recession in 2001, local employment fell by about 3.6 percent (2.5 times the national average) and recovered only

“The relatively steady decline in the national unemployment rate (it has declined from 6.3 percent in March 2003 to 4.5 percent in September 2006) has not, it seems, helped to drive the local unemployment rate down.”

slowly. Should the growth of output in the U.S. economy remain at the rate estimated for the third quarter of 2006 (1.6 percent) and should productivity growth remain strong, total national employment might fall by as much as 1 percent, which would be likely to cause as much as a 2.5 percent decline in employment locally (nearly 8,000 jobs).

If, on the other hand, we manage to avoid a national recession, and if the economy grows at 3 percent, we might see national employment rise by as much as 1.5 percent. This would be likely to lead to a local employment increase of around 0.6 percent, or about 1,900 new jobs.

Strongest employment growth is likely to continue to be in construction and in health care services. Both the continued reconstruction of the regional highway systems and BP's recent announcement of major expansion in its Whiting refinery suggest that construction is one sector that will probably not experience any serious setbacks. However, a continued decline in residential construction nationwide would almost certainly have a local impact. Based on recent changes in employment in the construction subcategory of "construction of buildings," it appears that employment growth has already peaked. Construction of buildings accounts for about one-third of construction employment in northwest Indiana, so a serious slowdown in residential construction could make this forecast somewhat optimistic.

We can expect growth in health care employment to be between 2 percent and 4 percent for the next year, adding 800 jobs to 1,600 jobs. This represents something of a slowdown in employment growth, which is predicated both on continued productivity increases and on changes in state and federal funding practices. It appears likely that Indiana Medicare spending will

contract in the coming year, and continued rising health care costs (and insurance premiums) are likely to reduce real health care spending modestly.

Manufacturing employment seems likely to resume its decline in 2007, albeit at a slower rate. I expect, in fact, a modest increase in non-steel manufacturing employment, which will be more than offset by a continuing, significant decline in steel employment. The employment decline in primary metals will probably be accompanied by an increase in steel output, as productivity gains continue to outpace output increases. The situation in steel is likely to be complex. On the one hand, Mittal's continuing strategy of growth-through-acquisition creates opportunities and risks. As Mittal has extended the scope of its holdings geographically, it is increasingly better positioned to shift production to newer, more productive, lower-cost facilities. On the other hand, this also creates some upside. If the global economy remains strong, then Mittal is also better positioned to expand output everywhere without, in the short-run, having to build new facilities. The second complicating factor is the threat of a recession. Should that happen, the typical large decline in production and sales of consumer durables (such as cars and appliances) will create downward pressure on output, and on employment, in steel. The decline in steel employment during and immediately following the 2001 recession (about 15 percent) indicates the potential for a small decline

Table 4
Projected Employment Change in Northwest Indiana, 2006 to 2007

Industry	Change
Total Nonfarm Employment	+1,900
Construction	+590 to +790
Manufacturing	-250 to -750
Primary Metals	-490 to -980
Chemicals	+10 to -270
Transportation and Utilities	0 to -90
Wholesale Trade	-30 to -60
Retail Trade	+160 to +950
Eating and Drinking Places	+60 to +100
Financial Services	0 to +30
Health Services	+800 to +1,600

Source: Author's calculations

to turn into a much larger one.⁴ The potential exists for that sort of decline—if a recession does occur—which would drive steel employment down by something more like 2,500 jobs, rather than the expected decline of anywhere from zero jobs to 1,000 jobs.

Retail trade is something of a wild card. Growth in employment is likely to be between 0.25 percent and 1.5 percent, resulting in a wide range in the employment forecast (160 to 960); a reasonable performance would lead to employment gains of about 550. If households continue to spend an extremely high percentage of their incomes, we should be nearer the top of this range. However, any move from consumption to saving could lead to a much smaller gain in local employment.

A preliminary look at county-by-county data indicated that there should be little change in the distribution of economic activity by county in the coming year. Total employment in Porter County, for example, has grown by only 0.25 percent per year in the last five years, only slightly faster than the region's growth.

The unemployment outlook is the least clear. If the national unemployment rate remains unchanged at 4.4 percent, we might see the local unemployment rate

rise modestly to 5 percent or 5.1 percent. A recession that lifts the national unemployment rate to 6 percent is likely to cause the local unemployment rate to rise to around 7 percent. Moderate slowing of the U.S. economy is likely to result in a local unemployment rate of between 5.5 percent and 6 percent.

Conclusions

More than in any recent year, the uncertainties surrounding the path of the national economy matter. Since 2001, the national economy has grown steadily, if not always briskly. For the first time in this century, however, the prospects of a recession must be factored into our expectations for the local economy. Given our still-considerable concentration of economic activity in cyclically sensitive industries (steel and other metals; chemicals; petroleum products), a mild national recession could lead to significant slowdown in the local economy. The national economic forecast presented in this issue of the *Indiana Business Review* suggests that we may dodge that bullet; other forecasts are less optimistic. This is, then, a much more cautious forecast than usual, because more than usual depends on which way the national economy jumps. Continued moderate growth in the national economy will lead to very modest growth in northwest Indiana. That is the best to expect. ■

Notes

1. In what follows, the northwest Indiana economy is Lake, LaPorte, Porter, Jasper, Newton, Pulaski, and Starke counties, unless otherwise specified.
2. In the preceding discussion, I compare the first quarter of 2006 (the most recent period for which data are currently available) with the first quarter of 1995.
3. Measured between January 1990 and September 2006 (the most recent month for which local data are available. Sources for northwest Indiana and Indiana: www.stats.indiana.edu; and the United States: www.bls.gov).
4. The 2001–2002 decline also involved some industry restructuring, but was mostly a response to the recession.

Indianapolis

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The following data and forecasts refer to the nine-county Indianapolis area, including Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan, and Shelby counties. Unless otherwise noted, data comes from STATS Indiana at www.stats.indiana.edu, maintained by the Indiana Business Research Center at the Indiana University Kelley School of Business.

Income

Between the first quarters of 2005 and 2006, income growth impressively outpaced the rest of the country and reversed last year's local downward trend. Real average weekly compensation increased 5.1 percent in Indianapolis, compared to just 0.2 percent nationwide.¹ Both agriculture and manufacturing witnessed double-digit wage growth. Overall, compensation data suggest a 6.4 percent real growth rate in the local economy. Real growth in the U.S. economy over the same period was only 3.7 percent.² Between the first quarters of 2004 and 2005, economic activity in metropolitan Indianapolis shrank 0.5 percent. The Indianapolis economy posted an impressive turnaround in its ability to generate money.

Employment

Indianapolis lagged the nation in job growth. Between August 2005 and August 2006, local employment grew only 0.3 percent, compared to a 1.6 percent expansion nationwide. Local unemployment matches national unemployment at 4.6 percent of the labor force. Manufacturing

employment shrank 1.1 percent and the number of management jobs fell 3.1 percent. The areas of highest job growth were agriculture at 4.5 percent, food service and accommodation at 4.4 percent, and construction at 3.3 percent.

Real Estate

Building activity is slowing like the rest of the country, but Indianapolis has not seen the fall in real estate value witnessed in other markets. Year-to-date building permits fell 17 percent between September 2005 and September 2006. The local median home price increased from \$134,900 to \$139,900, but the inventory of unsold homes increased 14 percent.³

Quality of Life

Data suggest a rise in community stress among those who live and work in the central city. Marion County's unemployment rate of 5.4 percent is higher than that of the larger metropolitan area. Between July 2005 and July 2006, total crime incidents (in the area patrolled by the Indianapolis Police Department) increased 10.5 percent.⁴ ■

Notes

1. Nationwide wage growth data from the Bureau of Labor Statistics.
2. Real gross domestic product growth data from the Bureau of Economic Analysis.
3. Indianapolis housing market data from www.housingtracker.net. Note that data for the real estate portion of this article uses the actual Indianapolis–Carmel metro data rather than the nine-county region referred to at the beginning of this article. The Indianapolis–Carmel metro includes the following counties: Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby.
4. Crime trend data from the Indianapolis Police Department.

“Indianapolis outpaced the nation in income growth but had a slower rate of job growth.”

Kokomo

Kathy Parkison, Ph.D.

Professor of Economics, Director of the Center for Economic Education, Indiana University Kokomo

The recovery is officially on, the economy is perking upward, and we expect continued growth in the world, nation, and state. However, the Kokomo economy, while improving, is still lagging a bit behind the national and state economies.

Kokomo's economy remains heavily weighted toward manufacturing. Employment in manufacturing industries peaked statewide in June 2000, and while recent losses have been much less than before (and some months have even posted gains), employment has still not regained anywhere close to its peak. Like the rest of the state, individuals and firms in the area remain apprehensive about the economy and what it holds for them personally. This area remains heavily invested in industrial production and is very subject to economic disruptions as industrial production increases and decreases. The really important news is that many of these job losses will be permanent due to increasing productivity, job losses to overseas, the troubles in the automobile industry, etc. This means that manufacturing production, while increasing somewhat, is unlikely to return to the glory days of the past. In the first quarter of 2005, Howard County had 15,728 manufacturing

jobs paying an average of \$1,452 per week. In the first quarter of 2006, the number of manufacturing employers had risen from 74 to 77; the job totals had fallen to 14,436 (a net loss of 1,292 jobs or 8.2 percent); and the pay had risen to \$1,640 per week (which is a 13 percent increase).

Many other categories show small improvements (for example, transportation and warehousing had forty or so new jobs paying weekly salaries of \$737). However, these new jobs in categories other than manufacturing do not pay the same high wages as manufacturing. Thus, while job growth is occurring, it is not in the same high paid industries that drove the Kokomo economy for so long. This has an impact on stores and restaurants, as the buying habits of workers making \$800 per week may not be equivalent to those earning \$1,640 per week. Economic theory says that the lower paid workers may dine out less, buy less clothing (or buy clothing at less-expensive stores), travel less, buy less-expensive electronics, etc. (all of those goods being what economic theory calls normal goods). So service-oriented businesses need to be aware of these trends and plan accordingly.

“There are new businesses starting in the area, and Indiana has had some success in attracting new large businesses.”

There are some bright spots—agriculture is doing reasonably well. The 10-31 land swaps have put quite a few dollars into the local economies as land has changed hands. There are new businesses starting in the area, and Indiana, as noted in the state report, has had some success in attracting new large business operations.

Overall, steady growth for the Kokomo economy that is certainly not spectacular is projected for 2007. Trends in the automobile and other manufacturing industries will need to be watched carefully, and local authorities will need to remain proactive on preparing their stakeholders for the future. In particular, school-age students will need to be reminded that their futures lie in industries very different from those of their parents and that they need to acquire the skills required for their future. ■

“The Kokomo area remains heavily invested in industrial production and is very subject to economic disruptions as industrial production increases and decreases.”

Facts about Howard County

People and Income	Value	Rank (among Indiana's 92 counties)
Population (2005)	84,977	18
Growth (%) since 1990	5.1%	62
Households (2000)	34,800	18
Labor Force (2005)	39,102	19
Per Capita Personal Income (2004)	\$31,134	18
Median Household Income (2003)	\$45,856	17
Poverty Rate (2003)	10.3	26

New Albany

Uric Dufrene

Judge Carlton and Sue Sanders Chair in Business, Indiana University Southeast

During 2006, the southern Indiana economy showed mixed signals. Job growth was up in Floyd and Clark counties, but down in the rural counties (see **Figure 1**). Manufacturing job losses continued in six southern Indiana counties, but we observed gains in Floyd and Clark. While southern Indiana unemployment rates remained above Indiana and U.S. averages, overall employment and labor force estimates were up compared to September 2005. Recent expansion announcements by local companies should contribute to further gains in the number of jobs. However, a decline in construction investment as a result of the drop in housing permits may contribute to a loss of construction jobs and also dampen retail sector growth and jobs. Signals are mixed, and therefore

the outlook for southern Indiana is guarded.

Labor Markets

The Unemployment Picture:

Unemployment rates showed a slight increase in the four southern Indiana metro counties when comparing third quarter 2005 to third quarter 2006. A similar pattern was also observed in the non-metro counties.

On a positive note, labor force participation and the number of employed persons are up across all four southern Indiana metro counties and the four nonmetro counties. Despite the gains in employment, southern Indiana rates continue to hover above state and national averages. The unemployment picture showed an improvement in September 2006, thus signaling a positive trend (see **Figure 2**).

“Labor force participation and the number of employed persons are up across all four southern Indiana metro counties and the four nonmetro counties.”

Industry Sectors: Of the approximately 1,643 jobs added in the southern Indiana metro counties, from first quarter 2005 to first quarter 2006, Clark County alone was responsible for a net gain exceeding 1,440 jobs.

Job creation in Clark County was again fueled by the retail sector. Almost 700 of the approximate 800 new retail jobs in the four southern Indiana metro counties were added in Clark County, the bulk of these in sporting goods and building materials, with recent additions to the Veteran’s Parkway commercial corridor.

Other employment gains in the southern Indiana metro include 144 new construction jobs, 174 in finance and insurance, 443 in administrative, support and waste management, 299 in accommodation and food services, and 113 in public administration. Health care added only 80 jobs, and education was flat. A discouraging number was the loss of 150 jobs in the transportation and warehousing sector.

A net loss in jobs again occurred in the manufacturing sector with the four southern Indiana metro counties losing a combined 549 manufacturing jobs (see **Table 1**). This overall loss occurred despite the fact that Floyd and Clark counties added 161 manufacturing jobs, primarily in plastics and metals sectors. And even though overall manufacturing in the four total counties continues its downward trend, the four-county

Figure 1
Louisville, KY-IN Metro Area

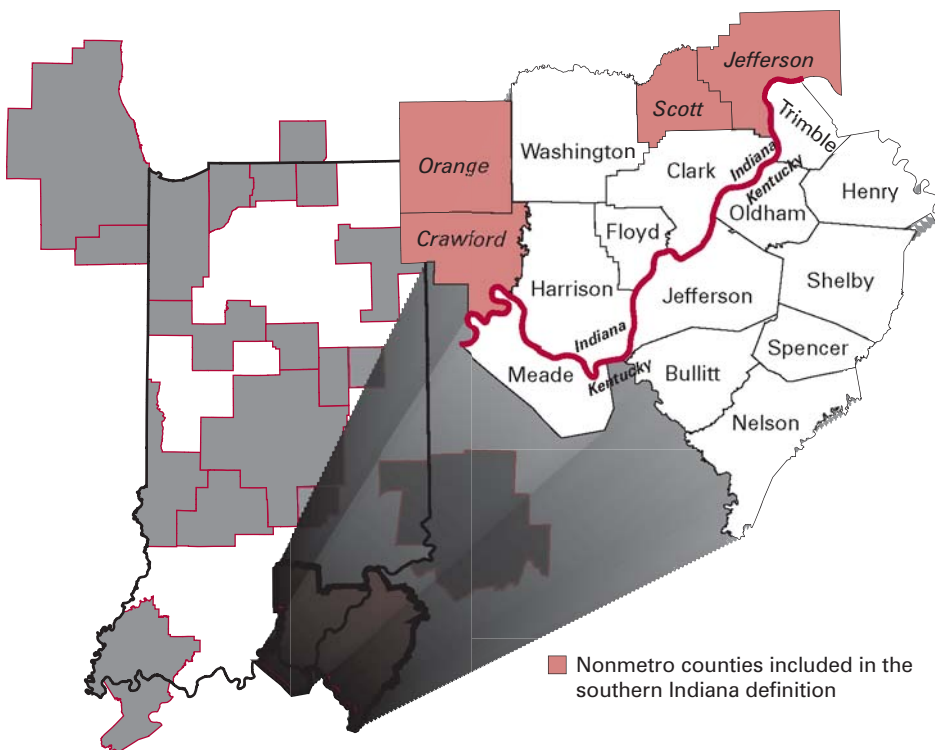
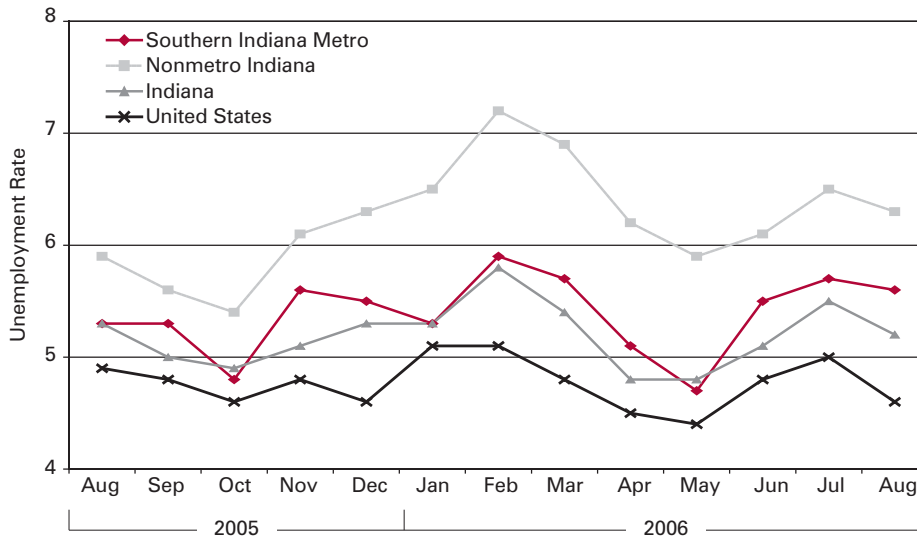


Figure 2
Monthly Unemployment Rates



Note: Data are not seasonally adjusted
Source: STATS Indiana

Table 1
Employment by Industry in Southern Indiana's Metro Counties

Industry	2005:1	2006:1	Change	Percent Change
Total	89,585	91,228	1,643	1.8%
Administrative, Support, and Waste Management	3,927	4,370	443	11.3%
Retail Trade	11,688	12,474	786	6.7%
Finance and Insurance	2,876	3,050	174	6.1%
Wholesale Trade	2,425	2,538	113	4.7%
Real Estate	906	947	41	4.5%
Accommodation and Food Services	7,298	7,597	299	4.1%
Construction	4,975	5,119	144	2.9%
Public Administration	4,422	4,535	113	2.6%
Professional, Scientific, and Technical Services	2,045	2,087	42	2.1%
Information	806	814	8	1.0%
Health Care	11,021	11,101	80	0.7%
Other Services	2,317	2,323	6	0.3%
Educational Services	7,122	7,123	1	0.0%
Transportation and Warehousing	5,812	5,653	-159	-2.7%
Manufacturing	18,042	17,493	-549	-3.0%
Utilities	492	474	-18	-3.7%

Source: STATS Indiana

Table 2
Job Growth by Suburban and Rural Counties

Geography	2001:1	2005:1	2006:1	One-Year Change	Five-Year Change
Floyd and Clark	71,956	71,950	73,918	1,968	1,953
Six Other Southern Indiana Counties ¹	47,080	46,420	46,018	-402	-1,062

1. Harrison, Washington, Crawford, Orange, Jefferson and Scott
Source: STATS Indiana

region did observe an increase in the wood products and metals sectors.

Floyd, Clark, Orange, and Jefferson counties observed an increase in the number of jobs from 2005 to 2006, while the four other southern Indiana counties (Washington, Harrison, Scott, and Crawford) experienced a loss of approximately 540 jobs, primarily the result of a decline in manufacturing jobs (see **Table 2**). Looking beyond a single year, since the first quarter of 2001, the six rural southern Indiana counties have lost approximately 1,000 jobs, with 800 of these job losses occurring in the manufacturing sector.

Bringing positive news to the southern Indiana labor picture, average weekly wages increased in southern Indiana counties. For southern Indiana metro counties, weekly wages saw an increase of about 9 percent between 2005:1 and 2006:1, from \$556 to \$606 per week. Nonmetro counties in southern Indiana saw an increase in the weekly wage from \$528 to \$569, for an increase of 7.8 percent.

Louisville Metro Employment: As a whole, the unemployment picture for the Louisville metro seems to be about the same as earlier in the year. The August unemployment rate of 5.6 percent equals the first quarter average for the metro and last year's August rate.

Preliminary estimates by the Bureau of Labor Statistics show that the Louisville metro added 4,300 jobs from September 2005 to September 2006 (see **Table 3**). The bulk of these jobs were in service-providing industries. Overall, job gains were softened by continued losses in the manufacturing sector. Over that same time period, Louisville lost approximately 2,400 manufacturing jobs, continuing a persistent trend. These job losses were offset by gains of 2,400 jobs in transportation and utilities and 1,800 jobs in professional and business services.

Consumer Activity

The retail sector continues to show job gains in southern Indiana, particularly the retail center of Clark County. However, preliminary retail sector data for Louisville metro point

in the direction of a small decline for retail sector jobs in the four southern Indiana metro counties. While a decline in residential construction may cause a decline or only flat growth in retail sector jobs, continued

expansion of the Veterans Highway corridor will potentially mitigate a decline in retail sector jobs. As Floyd and Clark County continue to emerge as a retail destination, retail activity in the nonmetro counties will be challenged.

Table 3
Employment in the Louisville Metro Area, September of Each Year

	2005	2006 (p)	Change
Total Nonfarm	612,200	616,500	4,300
Service Providing	497,900	503,600	5,700
Goods-Producing	114,300	112,900	-1,400
Selected Sectors			
Specialty Trade Contractors	23,400	23,200	-200
Manufacturing	7,800	75,600	-2,400
Wholesale Trade	29,600	29,900	300
Retail Trade	65,500	65,000	-500
Transportation and Utilities	37,800	40,200	2,400
Financial Activities	4,000	40,200	200
Business and Professional Services	71,400	73,200	1,800
Education and Health Services	76,500	76,800	300
Leisure and Hospitality	59,700	60,000	300

p = preliminary
Source: Bureau of Labor Statistics

Table 4
Building Permits, January through September 2006

	2002	2003	2004	2005	2006
Single Family Permits, January–September Totals					
Clark	689	621	611	766	534
Floyd	254	331	268	264	246
Harrison	162	146	179	142	120
Washington	n/a	n/a	24	80	56
Jefferson–Oldham–Bullitt, KY	3,184	3,555	3,784	3,214	1,984
Multi-Family Permits, January–September Totals					
Clark	76	122	94	12	73
Floyd	10	8	23	4	33
Harrison	4	6	0	0	0
Washington	n/a	n/a	10	0	2
Jefferson–Oldham–Bullitt, KY	677	857	635	453	435

Sources: STATS Indiana and U.S. Census Bureau

Table 5
Caesar's Indiana, Admissions and Total Taxes, January through September

	2004	2005	Percent Change 2004–2005	2006	Percent Change 2005–2006
Admissions	910,754	896,319	-1.60%	871,386	-2.78%
Total Tax*	\$18,197,891	\$18,940,290	4.10%	\$20,500,925	8.24%

*Total tax includes admissions taxes and wagering taxes
Source: Indiana Gaming Commission monthly reports

Housing Market: The housing market in southern Indiana and the Louisville metro area has cooled considerably since last year. September data for new housing permits show marked declines in all four southern Indiana metro counties (see **Table 4**). Single family permits were down 24 percent in the four southern Indiana metro counties and 38 percent for Kentucky's Bullitt, Jefferson, and Oldham counties. As of mid-October, median home prices were flat, and the average days on the market for existing home sales declined from 108 to 102.¹ The decline in housing construction will exert downward pressure on overall retail activity.

Caesars Indiana: Caesars Indiana observed another decline in turnstile counts. January to September totals were down two consecutive years (see **Table 5**). Plans for a change in theme and significant renovations should reverse this trend for 2007. We shall see next year the impact the new French Lick casino will have on Caesars admissions and employment in the Orange County region. ■

Notes

1. Data on home sales from the southern Indiana Realtors Association Multiple Listing Service covers Clark, Crawford, Floyd, Harrison, Jefferson, Scott, and Washington counties.

“Caesars Indiana observed another decline in turnstile counts. January to September totals were down two consecutive years.”

Richmond

Bill Martus

Vice President, Economic Development Corporation of Wayne County, Indiana

National and world trends continue to impact the economy in Wayne County, although actions taken in the past several years to encourage business growth appear to be paying off. Many developments in the past eighteen months are positively impacting the local economy.

In the retail sector, Richmond Village is providing valuable new expansion space in the commercial corridor along East Main Street. New businesses located there include Kohl's and Walgreens, while Frisch's Big Boy moved there from a location on the north side.

The development of the IU East, Ivy Tech, Purdue and Reid Hospital campuses is expected to have a major impact. The direct connection from the academic campus to the hospital campus will help strengthen the connection between the health care industry and academic institutions. IU East is placing renewed emphasis on biosciences and Ivy Tech is strengthening its health care programs, in addition to adding agriculture and agribusiness programs.

Redevelopment of the current Reid Hospital by its new owners will not only add jobs to the economy but may also help provide new business services that are currently not sufficiently available in the community, such as lab space for life science research.

Vitality in the community is indicated by the redevelopment of the former Carpenter Bus factory into the Rose City Business Park, as well as the attraction of Dot Foods, a major distributor of foods. Additionally, two more Japanese auto parts companies have opened here this year, Yukiya USA Gasket & Sealing Co. and TBK America.

The county's location within the hundred-mile area attractive

to suppliers for Honda's new plant at Greensburg should draw more auto parts manufacturers. Some local manufacturers are already supplying parts to automotive companies elsewhere in Indiana, including Toyota, Subaru, and Honda.

Indeed, the manufacturing sector has been strong this year, with expansions reported at many local plants including Autocar, Taconic Farms, Osborne International, Howa, Johns Manville, and Innatech.

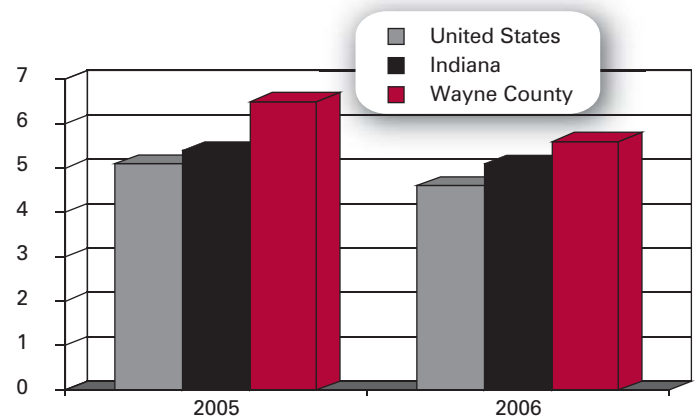
Housing and building has also proceeded at a fast pace. In the first nine months of 2006, the city of Richmond had thirty-three new one- or two-family residential starts valued at \$6.28 million and twenty-one new commercial starts valued at \$14.3 million.

Planning for Growth

Wayne County has, over the past decade, become known for its aggressive approach to seeking new jobs. Existing businesses have generally been expanding in the past year but several trends work against real economic progress.

While the number of local companies engaged in manufacturing is expected to grow, the number of manufacturing jobs may only stay even or perhaps shrink. Innovation has led to large increases in productivity per employee.¹ The Bureau of Economic Analysis (BEA) reports that from 1997 to 2005, Indiana employment in

Figure 1
Unemployment Rates, September of Each Year



Note: Data are seasonally adjusted
Source: STATS Indiana

manufacturing declined 15.1 percent (from 689,575 to 585,438),² while the gross state product (newly renamed by the BEA as the gross domestic product by state) in that sector grew 38.9 percent (from \$48.4 billion to \$67.2 billion) for the same period. Many local companies have reported similar results.

This is important because average pay in manufacturing is higher than for most other segments. For instance, the health care and social services industry pays an average weekly wage of \$614 and employs more people locally than any other segment besides manufacturing. Compare this to \$760 a week for manufacturing jobs. This is significantly higher than the average weekly rate of \$211 that accommodation and food services employees earn.

The county's unemployment rate in the past ten years has generally maintained a range of 0.3 to 1 percentage points higher than the state average. In August, the state rate of 5.3 percent was 1.1 percent less than Wayne County's 6.4 percent. In September, the state rate was 5.1 percent, while Wayne County registered 5.6 percent (see **Figure 1**).

Some of this improvement is because of a temporary spike in construction, where work on the new Reid Hospital will employ 450 people by this winter. The new retail outlets on the east side also account for about 200 more new jobs.

If Wayne County is to maintain current employment levels at pay levels that are attractive to workers, new kinds of jobs must be developed by existing employers or new companies. To that end, the Life Science Initiative, a project of the Richmond–Wayne County Chamber of Commerce that is supported by the Economic Growth Group, will become more important.

The county must lay the groundwork and develop a support system for entrepreneurial ideas so that they can become viable businesses in life sciences and other advanced manufacturing.

The county is experiencing some development in agriculture and agribusiness and is now involved in a process of planning for economic development related to agriculture. The goal, as in other sectors of the economy, is to be prepared when opportunities are available to expand existing businesses or attract new ones.

Additionally, Richmond and area towns have tough decisions to make to prepare for growth. Already, some are facing a dilemma about how to pay for improvements that are needed for their sanitary sewage systems and other infrastructure.

Traditionally, Wayne County's economy has risen and fallen on the tides of the state, national, and worldwide economies. Although the picture appears to be good moving into 2007, it is likely that the county's economy will still be largely dependent upon outside factors. ■

Notes

1. Thomas P. Miller and Associates, "What Indiana Makes, Makes Indiana: Analysis of Indiana Manufacturing," January 17, 2005.
2. The 1997 data are based on the SIC classification system.

South Bend and Elkhart–Goshen

Grant C. Black

Director, Bureau of Business and Economic Research and Assistant Professor of Economics, School of Business and Economics, Indiana University, South Bend

The Michiana region, composed of the metropolitan areas of South Bend–Mishawaka and Elkhart–Goshen, faced a modest economy in 2006. The year started with promise that weakened in late spring and summer. However, hope has rekindled as conditions improve late in the year. Given ongoing uncertainties about the local economy, as well as predictions for slower growth at the state and national levels, the outlook for 2007 is less promising than recent years.

Employment

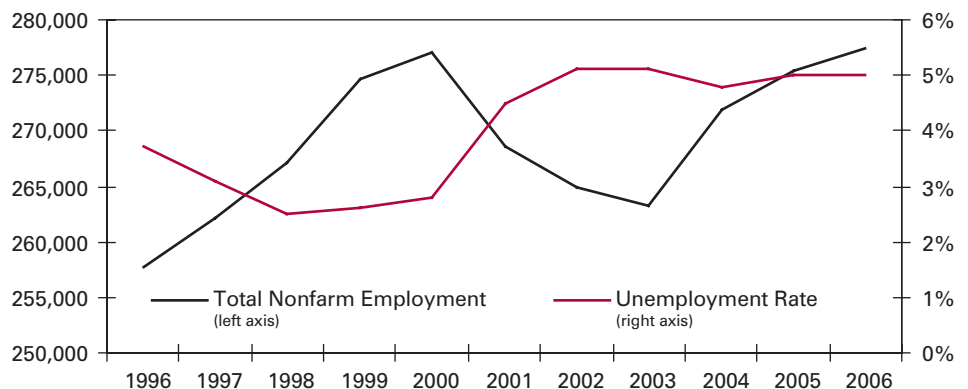
Figure 1 shows the overall slowdown in the region's employment growth. Unemployment rates throughout the region were generally lower in 2006 compared to 2005. Unemployment rates rose in the summer but turned downward again in August. Unlike in 2005, unemployment rates in South Bend exceeded the national and state averages throughout the year, while the unemployment rate in Elkhart remained below the national and state averages for the first half of 2006. While employment expanded, rising wages in the region may have attracted new entrants into the labor

market that did not have sufficient demand to match.

Table 1 reports employment data by industry for the region's metropolitan areas. From September 2005 to September 2006, total nonfarm employment increased modestly by 0.3 percent: Elkhart experienced a relatively larger gain, adding more than 1,400 jobs while South Bend lost 594 jobs. Approximately 279,900 people are employed in nonfarm sectors across South Bend and Elkhart, with employment being about 15,500 higher in South Bend.

Manufacturing employment grew by 1,300 jobs due in part to a strong first quarter in 2006 for the RV industry that disproportionately benefited Elkhart. Manufacturing employment may be more uncertain in the year ahead, as local labor relations remain unstable, plant closings take affect, and side effects from the domestic auto industry's downturn on local producers and suppliers are yet to be fully felt. As an indicator, RV shipments in August 2006 were 2.4 percent lower than in August 2005, though cumulative 2006 shipments exceeded 2005 shipments by approximately 29,000

Figure 1
Total Nonfarm Employment and Unemployment Rate in St. Joseph and Elkhart Counties Combined, 1996 to 2006



Source: Bureau of Labor Statistics

units. Additionally, two local vehicle suppliers, Adapto and Gunit, announced plant closings that could see 276 workers to 376 workers laid off, and AM General has initiated temporary shutdowns in response to weakening demand for the commercial Hummer H2. Moreover, the Bach labor strike continues, lasting eight months to date.

Nonmanufacturing employment saw mixed results. Sectors gaining the most were trade, transportation, and utilities in Elkhart; leisure and hospitality in South Bend; and professional and business services in Elkhart. Sizeable job losses occurred in government, construction,

education, and information services across the region. Professional and business services lost jobs in South Bend, while financial services suffered losses in Elkhart. Continued growth in health care, retail, and other services and a resurgence of construction due to new projects, such as Major Moves, should contribute to nonmanufacturing employment growth in 2007.

Wages

The average weekly wage rose 6.3 percent from the first quarter of 2005 to the first quarter of 2006 in South Bend but jumped 10.5 percent in Elkhart. This represented much

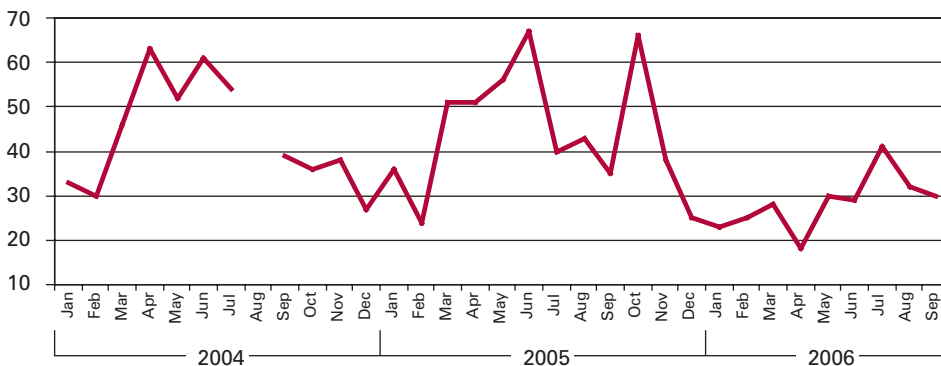
faster growth than seen the previous year, which saw a 0.3 percent rise in South Bend and a 1.6 percent rise in Elkhart. Wage growth varied by industry. Manufacturing wages grew 6 percent in South Bend but 14.7 percent in Elkhart. Wages in retail also rose, 6 percent in South Bend and 4.8 percent in Elkhart. Wages in the health care and social services industry grew at a much slower pace, 3.6 percent in South Bend and 1.7 percent in Elkhart. The sizeable wage increases in 2006 were driven largely by inflationary adjustments and increases in productivity. If inflationary pressures diminish as expected, wage growth will likely slow in 2007, particularly if economic conditions slow productivity.

Table 1
Employment by Industry, September 2006

Industry	South Bend		Elkhart		Combined	
	Employment	Change 2005-2006	Employment	Change 2005-2006	Employment	Change 2005-2006
Total Nonfarm	147,700	-594	132,200	1,410	279,900	816
Manufacturing	21,500	99	64,900	1,201	86,400	1,300
Trade, Transportation, and Utilities	28,500	-199	19,000	553	47,500	354
Educational and Health Services	31,900	-215	10,500	-70	42,400	-285
Government	16,300	-581	8,600	-133	24,900	-714
Professional and Business Services	14,500	-132	8,900	209	23,400	77
Leisure and Hospitality	13,500	848	7,500	-81	21,000	767
Natural Resources, Mining, and Construction	6,400	-349	5,100	-128	11,500	-477
Financial Services	7,200	71	3,000	-96	10,200	-25
Other Services	5,800	44	3,900	-11	9,700	33
Information	2,100	-134	800	-34	2,900	-168

Source: Bureau of Labor Statistics

Figure 2
Single-Family Residential Building Permits, 2004 to 2006



Note: Data are not available for August, 2004
Source: St. Joseph County Building Department

Housing

Residential construction, measured by the number of new single-dwelling housing permits issued in St. Joseph County, changed dramatically in 2006 compared to 2005. From January 2006 to September 2006, 313 new housing permits were issued, compared to 482 during the same period in 2005. While local housing prices have not fluctuated to the extent in other areas around the country, this slowing of new housing suggests the Michiana market is not immune to the national housing slowdown driven by weakening demand, falling housing prices, and growing inventories of existing homes (see **Figure 2**).

Summary

In 2006, the Michiana region experienced mixed economic signals: fairly flat employment, relatively low but fluctuating unemployment rates, rising wages, and slower real estate markets. The outlook for the coming year is encouraging but cautious, with the region seeing expanded production in some manufacturing and nonmanufacturing sectors, higher employment, and slowing growth in wages, along with uncertainties about future economic conditions. ■

Terre Haute

Carol O. Rogers

Associate Director, Indiana Business Research Center, Kelley School of Business, Indiana University

The national economy is expected to grow at a rate of 3 percent in 2007. Terre Haute's economy will grow in terms of income, but the picture for job gains is mixed because of continued volatility in the manufacturing sector. Population growth in the area is declining, even with news of the expansion of significant companies in the area, including Pfizer's plans to add 450 jobs by 2009 and two automotive parts companies plans for an additional 200 jobs.

Population

The Terre Haute metropolitan area ranks tenth among Indiana's metro areas with a population of 168,000 estimated in 2005. The metro as a whole declined by 1.7 percent between 2000 and 2005, a loss counteracted in part by growth in Clay County, which saw its population grow by slightly more than 2 percent during the same period (see **Figure 1**).

Employment

Terre Haute has made a number of significant job announcements during the past year regarding expansions in manufacturing and health services.

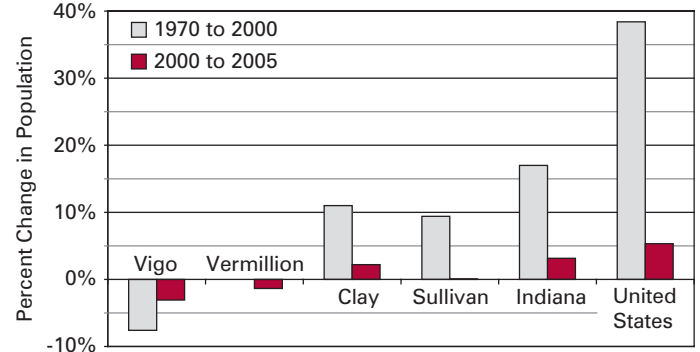
Manufacturing makes up 20 percent of employment in the private sector but is matched now by the education and health services sectors. With the addition of new restaurants and at least one hotel in the area, the food and accommodation sector is supplying 12 percent of the metro areas jobs based on the latest job estimates (October) from the Indiana Department of Workforce Development. Those same estimates show a job level of more than 75,000 jobs, still shy of the October peak of 79,000 in 1995 but part of a continued positive trend for this measure (see **Figures 2 and 3**).

Conclusion

Job levels in the Terre Haute metro area should climb above 76,000 by the fall of 2007, with most of the increases due to health, education and other business services. Manufacturing

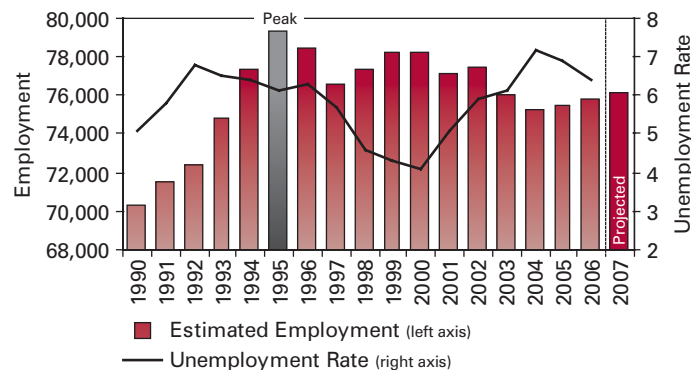
employment gains during the year are likely to be offset somewhat by losses, but we anticipate a net increase of goods-producing jobs for the coming year. Terre Haute's manufacturing strengths are complemented by its continued initiatives in broadening the economic base of the area. Population movement will continue in the surrounding counties while Vigo County will continue to show what we consider to be short-term losses because of out-migration; however, as a job hub for this part of the state, Terre Haute's potential is beginning to emerge. ■

Figure 1
Population Trends in the Terre Haute Metro Area



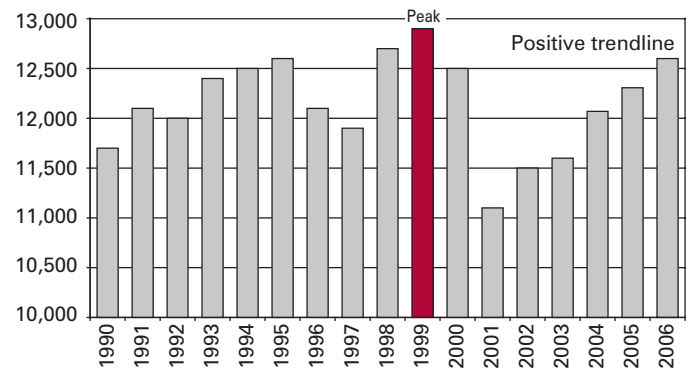
Source: IBRC, using U.S. Census Bureau data

Figure 2
Estimated Employment Levels, October of Each Year



Note: The 2006 unemployment rate is calculated based on the average of monthly data from January through October, as it was latest data when written.
Source: IBRC, using Bureau of Labor Statistics data

Figure 3
Estimated Manufacturing Employment, October of Each Year



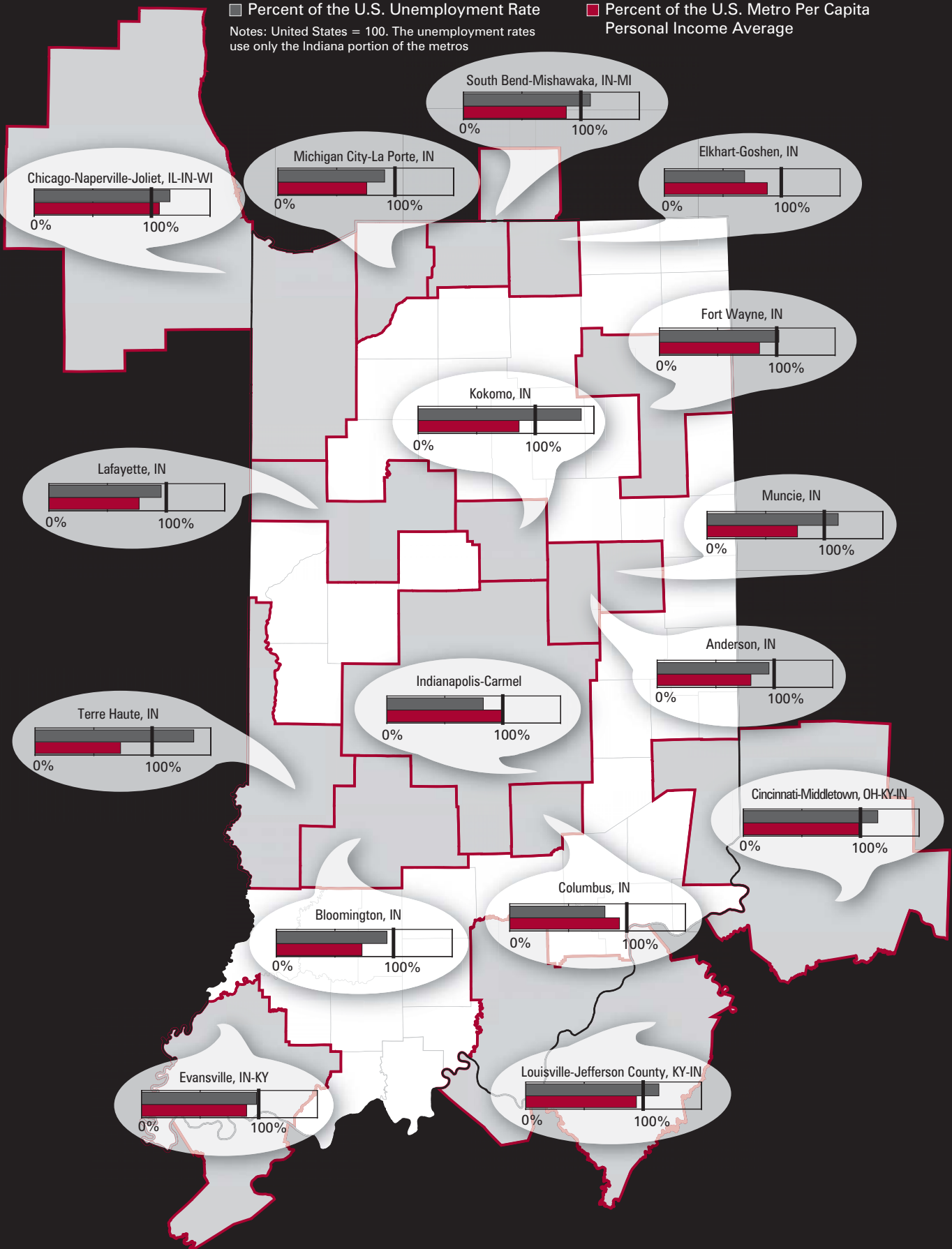
Source: IBRC, using Bureau of Labor Statistics data

Indiana Metro Economies at a Glance

■ Percent of the U.S. Unemployment Rate

Notes: United States = 100. The unemployment rates use only the Indiana portion of the metros

■ Percent of the U.S. Metro Per Capita Personal Income Average



Timeline Trivia

	1915	1967	2006
U.S. Population (Millions)	100	200	300
World Population (Billions)	1.8	3.5	6.5
Prices: (current dollars in parenthesis)			
New Home	\$3,200 (\$64,158)	\$24,600 (\$149,147)	\$290,600
Gallon of Regular Gas	25 cents (\$5.01)	33 cents (\$2.00)	\$2.32 (December 18)
Gallon of Milk	36 cents (\$7.22)	\$1.03 (\$6.24)	\$3.00
First Class Stamp	2 cents	5 cents	39 cents
Demographic and Socioeconomic Data			
Foreign-Born (Millions)	13.5 (15%)	9.7 (5%)	34.3 (12%)
Leading Country of Origin	Germany	Italy	Mexico
Household Size	4.5	3.3	2.6
Homeownership Rate	45.9	63.6	68.9
Working Women	23%	41%	59%
High School Diploma	14%	51%	85%
Median Age	24.1	29.5	36.2
Life Expectancy	55	71	78
More Facts			
Registered Vehicles (Millions)	3	99	237
Traffic Fatalities	6,779	51,559	42,643
Active Duty Military	174,000	3.4 million	1.4 million
Farms (Millions)	6.5	3.2	2.1

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