V2160-1

Indiana Business Review

December 1995

OUTLOOK '96

Indiana School of Business

IBRC

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Indiana Business Review
Volume 70, Number 4
December 1995

Published by the Indiana University School of Business, Indiana Business Research Center

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The annual outlook edition of the *Indiana Business Review* has been published for more than a quarter of a century. We believe you will find this year's edition among the most geographically comprehensive (combining global and national trends with local analysis) and one of the more insightful. We hope to increase the number of regional articles for the 1997 outlook, bringing readers news from areas of the state not represented in this issue.

For those readers who may not have noticed, the *Indiana Business Review* is now published monthly. It comes to you in the form you now hold in your hands, in the form of the *Update* (a four-page review of current trends in the national and state economies), or both together, with the *Update* as an insert. Quite simply, content determines what form the IBR will take in a given month. Suggestions? Comments? Criticism? Please let us know by e-mail (rogersc@indiana.edu) or by mail: C.O. Rogers, IBRC, IU School of Business, 10th and Fee Lane, Bloomington IN 47405.

The 1996 Outlook: Introduction and Overview

Bruce Jaffee

Chairperson and Professor of Business Economics & Public Policy, Indiana University School of Business

The short and generally mild recession of 1990-91 has now been followed by four years of recovery and expansion. In 1995 we have seen solid growth led by business investment in equipment, coupled with low inflation, rising personal incomes, and near full employment. Though the growth rate in the overall economy is expected to slacken to about 2.5% in 1996, we generally see a continuation of most current trends into next year. In one sense, this "more of the same" forecast is not very exciting. On the other hand, a fifth year in a row that is recession-free, near capacity, with inflation under control, is an enviable record. Our forecast is summarized in the **Table** below.

The key "driver" of the economy in 1996 is likely to be business equipment spending. Although the 10% expected growth rate in this investment category is below 1995's approximately 15% rate, it is still impressive. Housing investment is likely to be up only slightly, while business construction will likely grow by 4%, albeit still from very low levels as it recovers from overbuilding in the 1980s and the corporate downsizing and consolidation of the 1990s.

The large consumer spending sector is another key to the performance of the overall economy in 1996. Moderate but solid levels of consumer confidence, an increase in real disposable income of 2.3%, modest declines in interest rates, and small but positive wealth effects from the spectacular performance of the stock market in 1995 all presage solid growth in consumer spending.

The international sector will probably continue to grow in importance for the U.S. in 1996. The vote against separating Quebec from Canada and the recovery and stabilization of the Mexican economy, at least haltingly, are good news for the outlook for trade with those key trading partners. Growth will be modest but positive for all major industrial economies. Japan still has serious financial and real estate problems, but the worst is probably over.

The big uncertainty for 1996 is the federal budget. A budget compromise will be reached, of course, and there will be another plan to balance the budget. The new plan will be more credible (and painful) than its progenitors, but the Holy Grail of *revenue = expenditure* will not be reached until sometime in the future. Ironically, the impact of the plan will be small in 1996 and will probably add to the deficit and contribute fiscal stimuli in 1996, as tax cuts take hold before spending reductions.

Monetary policy will be an area to watch closely in 1996. The Federal Reserve engineered (or watched over, depending on your perspective) a soft landing to the economy in early 1995. Interest rates remain high relative to expected inflation. The Fed is likely to leave them there unless it sees both stronger-than-expected economic growth and what it considers to be an effective budget agreement.

Table
Summary of U.S. Forecast

	1994 (\$billion)	1995	1996
Gross Domestic Product (GDP)	5.344	3.0%	2.5%
Personal Consumption Expenditures	3.580	2.9	2.3
Investment	952	8.7	6.6
Government Purchases	923	-0.3	0.0
Exports	657	10.0	6.8
Imports	767	11.1	7.8

NOTE: All GDP components are in 1987 dollars or are inflation-adjusted changes from the previous year.

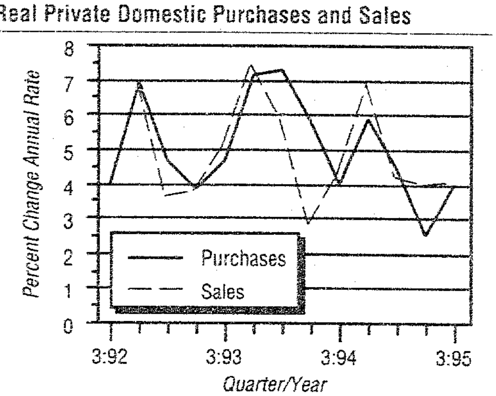
Private Domestic Demand

R. Jeffery Green

Professor of Business Economics & Public Policy and Associate Dean, Research & Operations, Indiana University School of Business

Gross Private Domestic Purchases (PDP) is total demand less government purchases and exports. It is also the sum of consumer and investment expenditures. PDP was just under 85% of Gross Domestic Product (GDP) in 1994. Gross Private Domestic Sales (PDS) is defined as PDP less inventory investment and so represents the sum of consumer purchases, purchases of plant and equipment by firms, and new residential construction. The **Figure** below shows the quarterly movements in PDP and PDS over the past three years.

Figure
Real Private Domestic Purchases and Sales



Over the last three years, the growth rate for PDP has averaged 4.9%, whereas that for PDS has averaged 4.7%. This is a very strong performance. From 1959 through 1994, growth in PDP and PDS averaged 3.2%. Because consumer spending is an important measure of the standard of living, and because investment spending is important for future growth and productivity improvements, the recent rapid growth of PDP and PDS is great news.

One note of caution is in order. Whenever relative prices change dramatically, our conventional measures of growth, including PDP and PDS, will overstate the actual rate of growth. The large decline in computer prices in recent years has introduced this bias into the conventional measures, and the Bureau of Economic Analysis of the U.S. Department of Commerce plans to release new measures that correct for this bias by year-end. Even with this caution, the new measures will likely continue to show strong growth in PDP and PDS over the last three years

Consumer Spending
In the last year, real consumer spending rose 3.2%, which was more or less in line with the growth in real GDP. The consumption growth was fueled by a 3.7% rise in real disposable personal income. This n, was a product of a rise in both real compensati... per hour and in hours worked.

The pattern of growth across categories of consumer spending has shown great variation this last year. For example, expenditures on autos have fluctuated greatly from quarter to quarter, but have not shown sustained growth. The level of real spending on autos was lower in third quarter 1995 than in first quarter 1994. Expenditures for furniture and household appliances, on the other hand, have grown 12.4% over the last year in real terms.

Investment Expenditures
Led by a 27.5% increase in real business spending for information processing and related equipment, overall real spending on business equipment rose more than 16% in the last year. This was the main reason private domestic purchases have been so strong. Real expenditures on structures rose 10.2% in the last year, the strongest performance for structures since the commercial real estate boom and bust of the 1980s. Businesses also added to inventories this year with accumulation in excess of $40 billion over the last year.

The Forecast
What does all this imply for the rest of 1995 and 1996? The economy is now at full employment and inflation remains moderate. We see no great shocks in store for the economy. Even the major fiscal policy moves being contemplated by Congress will not have much effect in 1996. Thus, we expect continued growth without a recession through the coming year.

Because the economy is at full employment, growth will slow to something like the rate of growth of capacity for the economy, which we estimate is close to 2.5%. Real disposable income and real consumer spending are expected to rise by about 2.3% in 1996. Hence, there will be little change in the saving rate. We expect autos to show steady but not growing demand, with unit sales of new autos averaging 8.9 million in 1995 and 9.0 million in 1996.

Investment expenditures should again lead the economy in 1996, with real spending on business equipment rising more than 10%. Spending on structures will also show some strength, growing at a 4% rate in 1996. The inventory accumulation that was observed through most of 1994 and 1995 should slow in 1996, as the pipeline becomes full and growth in demand slows.

Finally, overall real PDP should increase 3.2%, faster than the growth of overall GDP. This is primarily because the government sector, which is part of GDP but not part of PDP, is expected to show little or no growth in 1996.

Fiscal and Monetary Policy

Carol A. Lehr

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At the time of this writing it remains unclear what form the deficit reduction will assume as Congress and the Administration battle over the final form of the fiscal year 1996 budget. Currently, it appears as though Congress will send to the White House a bill that seeks to balance the budget over a period of seven years, with a combination of tax cuts and deep cuts in projected spending. Though the House has passed a resolution budget, many differences still remain between the House and Senate versions of the budget. It remains to be seen which portions of either version will be contained in the final piece of legislation that will be presented to the President.

However, the major outline of the landmark legislation is similar across the House and Senate versions. The centerpiece of each bill is a cut in the capital gains tax coupled with a tax credit for children. The versions differ in their income cutoffs for eligibility for the tax credit and the extent of the projected cuts into Medicaid, Medicare, and other social programs. However, both plans contain large cuts in government provision of medical care to the elderly and the poor, as well as declines in Social Security payments.

Whatever the details of the plan, at this juncture it seems likely that the Republicans are going to demand tax cuts, including the child-tax credit and some form of capital gains tax reduction. And there is no avoiding government spending cuts if the budget is to be balanced. However, it is also likely that the tax cuts will precede the spending cuts, meaning that for the 1996 budget year one possible outcome will be a short-run stimulus before the subsequent years' draconian tightening. While some may predict that expected government spending cuts will increase current savings to compensate for future liabilities, I believe that any increase in savings is likely to be small relative to the projected declines in government spending.

The most likely contribution of the budget outcome to economic performance in 1996 will be a modest drag. The positive contributions to spending will come not only from the tax cuts, but also from an increased sense of optimism from a segment of the population that the budget deficit will shrink considerably over the subsequent years. However, there will be other segments of the population feeling increasingly uneasy about their economic future. These include the elderly and the poor, whose real income (which includes government transfers) will decline. When considering that there is already a widespread malaise among the middle-class, who see economic prospects for themselves and their children diminishing, a budget that could spread the pessimism to a wider group of people is not good news for the long term. Furthermore, the budget cuts in their present form include eliminating or significantly cutting back in government contributions to educational assistance, which does not bode well for future economic performance. The future of these programs depends crucially on the administration's political maneuvering and tenacity in the upcoming post-veto battle.

Monetary Policy

Of course, the above discussion on the 1996 outlook due to fiscal policy actions was incomplete in the sense that it failed to account for any reaction to the Federal Reserve. Recently, the Fed has looked favorably on credible actions to lower the budget deficit. Chairman Greenspan has repeatedly linked further interest rate reductions to budget deficit reductions.

Therefore, if the budget resolution gives the appearance of producing significant declines in the deficit, then monetary policy will most likely react by decreasing interest rates over the long run. Moreover, as government borrowing needs fall, the market itself will adjust to lower credit demand by pushing down yields. A further stimulus to lower long-term interest rates could result from lower inflationary expectations engendered by the contractionary fiscal policy.

However, for 1996 the path of interest rates will also be influenced by the state of economic growth and other inflationary pressures. The 1995 environment has been one of almost surprisingly low inflation, coupled with decent output growth rates. While the preliminary third quarter GDP growth numbers were high relative to expectations, it is not likely that the overall annual growth rate for 1995 will continue at that pace. When the Fed's policy-making committee next meets, chances are it will react cautiously given third-quarter growth numbers and the uncertainty surrounding the budget scenario. So the next likely Fed-induced interest rate change will not come until 1996, at which time there will be more information available on fourth quarter economic performance, as well as the fiscal stance.

In summary, as long as fourth quarter indicators are not too strong and deficit reduction continues at its current pace, the scenario is favorable for a modest decline in both short- and long-term interest rates over the 1996 calendar year.

The International Economy

Michele Fratianni

AMOCO Faculty Fellow & Professor of Business Economics and Public Policy, Indiana University School of Business

Economic growth around the world improved in 1994 and has kept pace in 1995. **Table 1**, based on data available in May 1995, indicates that world output is now growing above long-run trends. This performance, in turn, reflects the fact that several industrial countries are in the expansion phase of the business cycle, while developing countries as a whole continue to grow twice as fast as the industrial countries. Of the so-called G7 countries (the elite of the industrial countries, which account for a large share of world output), only Japan is falling below the trend.

Table 1
Growth of World Output, 1977 to 1995

Average	*1977-86*	*1991*	*1992*	*1993*	*1994*	*1995 (est)*
World	**3.4**	**1.3**	**2**	**2.5**	**3.7**	**3.8**
Industrial Countries	2.7	0.8	1.5	1.2	3.0	3.0
United States	2.7	-0.6	2.3	3.1	4.1	3.2
Japan	4.0	4.3	1.1	-0.2	0.6	1.8
Germany	1.9	2.8	2.2	-1.1	2.9	3.2
France	2.2	0.8	1.2	-1.0	2.5	3.2
Italy	2.7	1.2	0.7	-0.7	2.5	3.0
United Kingdom	2.1	-2.0	-0.5	2.2	3.8	3.2
Canada	3.1	-1.8	0.6	2.2	4.5	4.3
Developing Countries	4.6	4.9	5.9	6.1	6.3	5.6
Asia	6.9	6.4	8.2	8.7	8.6	7.6

Source: International Monetary Fund, World Economic Outlook, May 1995.

Table 2
The *Economist* Poll of Forecasters—October Averages

	Real GDP 1995	*% Change 1996*	*CPI 1995*	*% Change 1996*	*C.A. balance 1995*	*% of GDP 1996*
United States	3.0	2.5	3.0	3.1	-2.3	-2.1
Japan	0.4	2.0	-0.1	0.2	2.3	2.0
Germany	2.5	2.8	1.9	2.2	-0.9	-1.0
France	2.9	2.6	1.9	2.3	1.1	0.7
Italy	3.1	2.8	5.4	5.2	1.8	1.9
United Kingdom	2.8	2.8	3.4	3.5	-0.7	-0.8
Canada	2.2	2.5	2.3	2.5	-2.6	-2.2

Source: The Economist, October 14, 1995.

The United States, Canada and the United Kingdom have been in an expansion phase since 1992; Germany, France, Italy, and Japan, since 1994. Hence, the three English-speaking countries lead the other four countries by approximately two years and are more likely to experience flattening or even a reversal of economic growth. There are no signs of an impending recession, however. The consensus of the forecasters polled by the weekly *Economist* is that the "real economies" of the U.S., Germany, France, Italy, the U.K., and Canada will expand at approximately the same rate as in 1995 (see **Table 2**).

Japanese growth will improve in 1996. Nevertheless, this economy continues to underperform relative to its long-term trend. The factors at work are the deflation of the real estate price bubble, the deterioration of the quality of bank assets, the sharp slowdown of Japanese exports following an appreciating yen, and pressures on Japan to reduce its current-account surplus. The restructuring process from an export-oriented to a domestic-oriented economy is slower than anticipated and is responsible for part of the economic slowdown. But another reason for Japan's poor performance has to do with a lethargic economic policy that has failed to recognize the importance of a healthy financial system for the economy as a whole. Unlike the U.S., which took stock of the gravity of the S&L crisis and took appropriate action, the Japanese authorities have tried to buy time, hoping that banks and financial firms would grow spontaneously out of the crisis.

Although there is no plan for rescuing Japanese banks, the monetary policy action taken in September of this year suggests that the Bank of Japan and the Ministry of Finance have come to the conclusion that the "time buying" strategy was not working. The Bank of Japan reduced the discount rate to an all-time historical minimum of 0.5%. The expansionary monetary policy has reduced the probability of major bank failures and will have a positive impact on economic growth in the next 6 to 12 months. Fiscal policy is also expansionary. In sum, economic policy seems to have lifted a weight on Japanese growth.

The 15 countries of the European Union (EU) are preparing for European Monetary Union at the end of the century. Membership in the union is not automatic, but rather depends on meeting convergence benchmarks of inflation rates, interest rates, government debt, and government budget deficits. The vast majority of the countries are "way off" these convergence benchmarks, especially those concerning public finance. A few countries, such as Belgium and Italy, have debt-to-GDP ratios that are more than twice as large as the required ones. In an attempt to satisfy the convergence criteria, EU governments will have to implement restrictive policies that would undo some of the effects of the fiscal profligacy of the 1970s and the 1980s. Failure to implement corrective fiscal policies is bound to exacerbate the consequence on future generations of citizens.

France is a good example of this conflict. Adherence to the convergence benchmarks requires a tight fiscal policy. Yet a tight policy will raise the already high unemployment rate in France. Democracies have tended to postpone severe economic adjustments simply because future generations of individuals do not vote and are not adequately represented by current generations. Democracies, furthermore, have found it easier to raise taxes than to cut the growth of public spending. Higher tax rates reduce budget deficits only temporarily. As time goes by, the growth of public spending creates larger deficits and renewed calls for higher tax rates. The relative size of government is such that the correction cannot be postponed for many more years.

Inflation rates in the industrial countries remain at historically low levels (below 3%). Those in the developing world, which have been much higher historically, are still coming down. In the fast-growing

Asian countries, inflation rates average about 7%. Low rates, in turn, enhance the prospects of a protracted expansion phase of the business cycle.

Short-term rates of interest have fallen in Germany and Japan, are rising in Canada, France, Italy and the U.K., and remain approximately the same in the United States. Long-term interest rates are higher than short-term rates in virtually all industrial countries. The positive spread between long- and short-term rates is typical of an expansion phase of the business cycle and can be interpreted as a market forecast that future short-term interest rates will be higher than they are now. Long-term interest rates in the G7 countries range from a minimum of 2.9% in Japan to a maximum of 11.5% in Italy.

Given the high degree of capital mobility among industrial countries, real rates of interest cannot diverge too much from one another. Assuming a real rate of interest of 3%, we can infer that expected inflation is very contained in the industrial world. While the average is low, the dispersion is still relatively large. For example, the markets view Japan's expected inflation as nonexistent, whereas Italy's expected inflation is approximately 8%.

Since 1985 the U.S. government, both alone and in cooperation with the other members of the G7 group, has pursued a policy of dollar depreciation with the aim of correcting its external imbalance. Furthermore, it has progressively engaged in an active trade policy, particularly with respect to Japan. The motivation underlying this policy is the belief that the U.S. has a trade deficit because other countries—but especially Japan—do not play "fairly." This is a misguided concept. Our trade deficit has little to do with unfair trade practices and a great deal to do with the fact that the U.S. saves too little relative to its investment needs. Trade deficits will persist so long as the saving/investment imbalance remains. Further devaluations of the dollar and a more aggressive trade policy are a minor force in rectifying our trade deficit.

Table 3 presents a summary of our forecast.

Table 3
Summary of International Forecast
(In Billions of 1987 dollars, NIA Avg.)

	1995 Estimated	*1996 Forecast*
Exports	730	794
Imports	847	914
Net exports	-117	-120

Capital Markets

Michael Simkowitz

Professor of Finance and Chair of Alumni Programs, Indiana University School of Business

The stock market continues to climb a wall of worry. Most of that worry is generated by your author, who is concerned as to whether he did not sell some stocks too early. The market's action over the last 12 months has been quite impressive, but more about the stock market later.

Our forecast is calling for a rather quiet year on the economic scene. Since growth should continue at much the same rate as the long-term capacity of the economy, it is not surprising that we are looking for interest rates to remain approximately where they are. This means we expect long-term treasury bonds to remain in the 6-1/4 to 6-5/8 range and for 90-day treasury bills to decline by 1/4 to 1/2 point from their current levels of 5.5%.

The weakness of the Japanese and German economies means foreign rates should not be aggressive competitors for investment. This will allow the Fed to determine policy mainly on domestic factors.

The outlook for corporate earnings is not quite as sanguine. Earnings have grown at a rather impressive rate in 1995. The operating earnings for the Standard & Poors 500 should be up approximately 14% over 1994. But in looking ahead at next year, it appears that operating earnings for the S&P may struggle to manage a 4 to 5% growth. A very large part of the improvement of U.S. corporate earnings over the past few years has been the result of an extremely successful campaign of cutting costs, primarily in the area of overhead. The downside of improving earnings through cost-cutting is that there is a definite limit to how low one can cut costs.

This reminds me of the story of a man who came upon a farmer with a cart that had been pulled by a horse. The horse was still in its traces, but was lying dead in the road. The man asked the farmer what the problem was and the farmer replied, "Well, I thought I had a good thing going. About a year ago I began to cut back on the horse's feed, fed him a little less each day, and he continued to work just fine. Finally, last week I got down to where I wasn't feeding him at all, and just then the darn thing died on me!" There is both a moral and a lesson here for corporate management as to how far one can cut costs before the horse dies.

The last two months have been characterized by more downward revisions of earnings than upward revisions by analysts. If we look at the pattern, we see there was a sudden surge in the number of upward revisions of earnings starting back in October 1994—coinciding with the beginning of this most recent leg of the bull market. The upward revisions quickly reached their peak toward the end of November 1994, and since then we have had more downward revisions than upward, though the pattern has not been a steady one. However, in early September 1995 the number of downward revisions caught up and surpassed the number of upward revisions. What we are seeing is the end of this leg of the bull market, which to a great extent was driven by the surprisingly good earnings in early 1995.

The other and very major impact on the market for the last few years (especially the past 18 months) has been the virtual flood of money from individual investors coming into the market. The primary vehicle for this has been mutual funds, and a large volume of the money is in 401k plans. Investors will be slow to alter their commitment to their 401k plans; when they do, it will not be to reduce their contributions but possibly to reduce their commitment to equities. It is interesting to note that as American pensions shift slowly but steadily from defined benefits to defined contributions (i.e., 401k plans), the flow into the capital markets becomes steadier. Corporate pension contributions are notoriously irregular. Keep in mind that corporate plans can become underfunded and that the determination of proper funding is subject to some manipulation of the assumptions of interest rates and expected returns. The net result is that, to a great extent, corporations can make the actual transfer of funds to the pension fund when it is convenient for them, as opposed to doing it every quarter or every month or even every year. But the 401k plans and their potential matching contributions by the employer are much steadier. This institutional structure is relevant when we think about what some of the risks are to our forecast.

It is our general consensus that the forecast is subject to more downside risk than upside risk. In other words, we believe there is a large chance that the growth may be less than what we are forecasting. If that is true, corporate earnings would struggle to show much positive growth, at least for the S&P 500. Under that scenario, we could see the investor begin to pull away from equity markets. At the same time, the slowness in the economy will most likely encourage the Federal Reserve to increase the growth in money supply and reduce interest rates. If we are right that the 401k money will not decline in the aggregate, but possibly switch from equities to bonds, this will allow the Fed to reduce interest rates quickly; thus, the market would be receptive as some of the 401k money that is pouring into equities is diverted into bonds. The net result will be that any decline in the stock market will be dampened by a significant decline in interest rates, which should help stabilize the stock market.

Although our best forecast is for long-term rates to be fairly stable and short-term rates to decline slightly, if the economy does weaken we could see an additional 50 basis point drop in short-term rates and possibly a 60 basis point drop on long-term rates.

In summary, long-term investors should stay strongly committed to the equity market, though they may want to be cautious about adding to their positions, keeping some powder-dry to take advantage of any market corrections. These market corrections should, at most, be in the 15% range from current levels, with the Dow Jones now at 4750 and the S&P 500 close to 580.

Housing

Jeffrey D. Fisher

Associate Professor of Finance & Real Estate and Director of the Center for Real Estate Studies, Indiana University School of Business

The outlook for housing is much better than it was one year ago. At that time, mortgage rates had just risen about 200 basis points from the previous year, 1993, when they hit a 28-year low. Mortgage rates have fallen again this year (**Figure 1**), though not quite to the level reached two years ago. This decrease has pushed sales of previously owned homes to a 4.15 million annual rate, which is up 7.2% from last year—a leap that represents five months of consecutive increases in home sales.

Pent-up demand from the early 1990s recession had helped propel single-family housing starts over the one million unit mark during 1993-94. But we have remained at that level through 1995 and will probably remain there through the coming year. The good news is that the principal home-buying age group, those aged 35 to 54, has expanded by 10 million people during the first half of the 1990s, implying continued demographic support for this market. Thus, although a significant increase in single-family housing starts is not likely, a decrease is equally unlikely.

Figure 1
Mortgage Interest Rate Time Series, 1994-1995

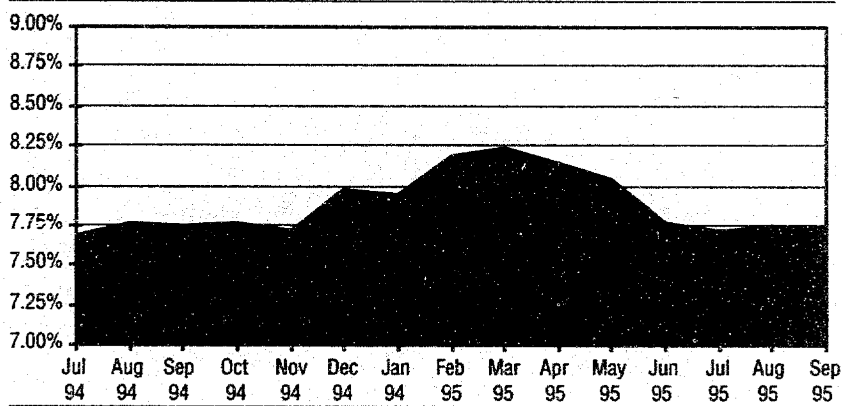
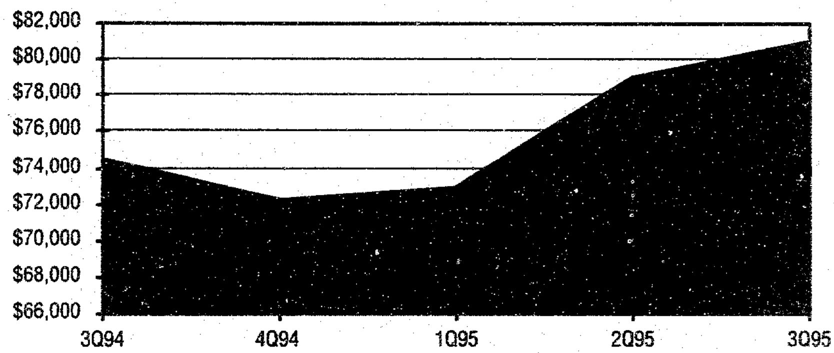


Figure 2
Median Home Price, 1994-1995



Multi-family housing starts have benefited from the increased availability of capital from banks and other sources, such as real estate investment trusts (REITs), for new construction. Although the decrease in mortgage rates has lured some people to own rather than rent, multi-family housing starts will likely remain at the current level. Total housing starts (single and multi-family) will probably remain flat during 1996, at an annual rate of about 1.4 million units. Housing starts peaked at 1,972,000 in January 1972 and reached a low of 837,000 units in late 1981.

Last year, to mitigate the rise in the rate for fixed-rate mortgages, many borrowers took advantage of the steep yield curve by choosing adjustable rate mortgages (ARMs) rather than fixed-rate mortgages. As rates fell this year, borrowers switched back to fixed-rate mortgages and the percent of ARMs dropped from 60% a year ago to 23% in recent months. This is expected, given the narrower gap between ARM and fixed-rate mortgages we see in the current market.

The median home price in Indiana (**Figure 2**) was $79,500 during second quarter 1995—an increase of almost 9% from second quarter 1994. This compares to a slight decrease in the median home price for the nation during the same time period. The median price in Indiana is still considerably less than that for the rest of the nation—$109,000 for second quarter 1995. The gap between home prices in Indiana and those of the U.S. suggests much room for growth, which we have predicted for several years and which has been coming true.

Economic Expansion Continues in Indiana

Morton J. Marcus

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Over the past year, from mid-1994 to mid-1995, total real earnings in Indiana (what people make as a result of working for themselves or someone else, after adjustment for inflation) grew by 3.4%. This was well ahead of the nation's 2.1% growth. Indiana ranked 13th in the nation, beating out Illinois (2.8%), Kentucky (2.1%), and Ohio (2.3%), but falling short of neighboring Michigan (6%), which ranked 4th behind number one Utah (6.7%).

Leading the way for Indiana was durable goods manufacturing, with a 6.6% increase (see **Figure 1**). Also showing strength were construction, wholesale trade, and finance, insurance, and real estate. Federal military and civilian cuts hit Indiana harder than other states. In addition, earnings in farming and mining declined more sharply in the Hoosier state than across the nation.

This generally upbeat view is modified by the effect of the soft landing engineered by the Federal Reserve to avoid inflation. Because Indiana continues to depend heavily on manufacturing durable goods, increased interest rates reduced total Hoosier earnings during second quarter 1995 (see **Figure 2**). The state's loss of 1.6% in earnings was more severe than the national decline of 0.2%. When interest rates rise, big ticket consumer purchases are particularly affected. These include autos and appliances—the types of goods Indiana makes. We anticipate, though, that this decline will prove to be of very limited duration, considering the lowering of interest rates and the continued growth of the national economy.

The Longer View

The setback also is slight in view of the long upward path the state has followed since third quarter 1983. Over that period of 47 quarters, total real earnings in Indiana have grown at an average annual rate of 2.9%, compared to the nation's 2.6% increase.

In 1983, Indiana reached the bottom of its steep absolute decline in real earnings (fig. 2), but was still more than five years from its low point relative to the nation (see **Figure 3**). For nearly five years (1986 through 1990) the state flirted with a 2% share of U.S. earnings as restructuring swept through the manufacturing sector. Recently, however, the state climbed above a 2.1% share again, though still well below its 2.5% peak of 1978. To put that in current dollars, earnings in Indiana in second quarter 1995 stood at $89.6 billion. If we were at the 1978 peak in our share of the nation, earnings would have been $104.6 billion, or nearly 17% higher.

The decline was clearly associated with manufacturing (see **Figure 4**). From a high approaching a 4% share of the nation's earnings in manufacturing at the close of 1978, Indiana fell to 3.3% eight years later. Now, in 1995, the state has achieved a 3.7% share, which returns us to where we were at the end of 1979. This recovery, however, did not begin until after the recession of 1990-91. Our resurgence is of recent origin and may partly reflect declines in other states where defense spending cutbacks have been felt most heavily.

Figure 1
Percent Change in Real Earnings: 2Q1994 to 2Q1995

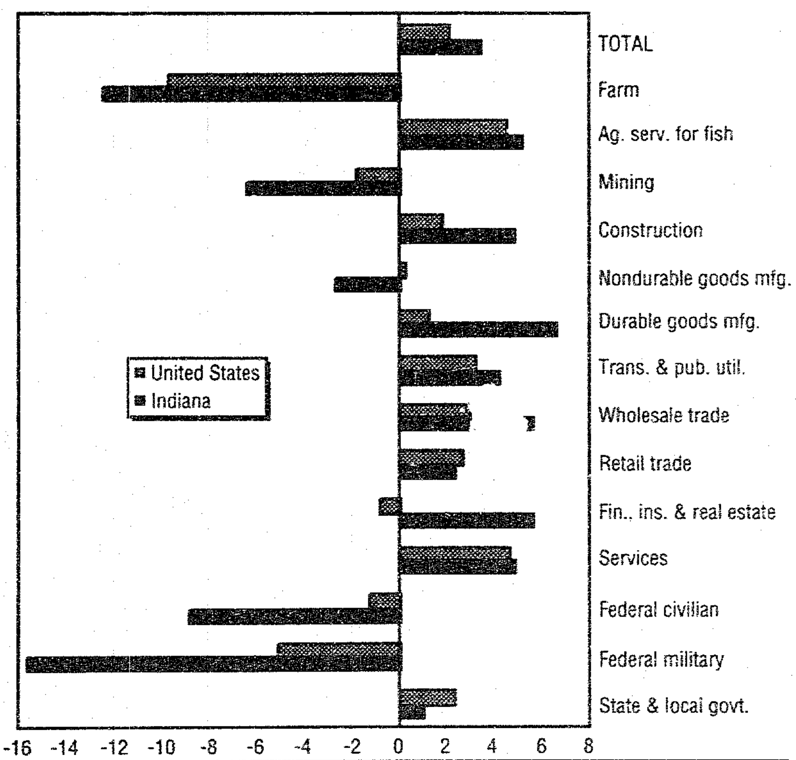
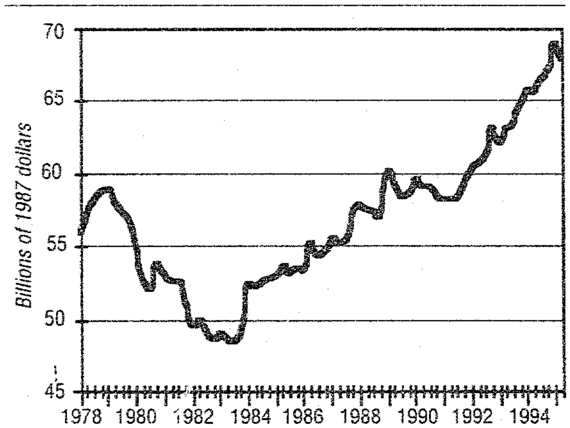


Figure 2
Indiana Real Total Earnings



Quarterly data, seasonally adjusted at annual rates

The previous absolute peak in earnings for Indiana was reached in first quarter 1979, just before the second oil price increase of the 1970s sent American industry into its historic tailspin. If we measure from that peak, the people of Indiana still have not recovered their lost earnings (see **Figure 5**). The cumulative deficit began in second quarter 1979 and continued to grow without interruption through the end of 1988. Then we had alternating periods of advances and setbacks, with no perceivable improvement through the recession of 1990-91. It is only since fourth quarter 1991 that total real earnings in Indiana have exceeded the level of early 1979 consistently and reached new highs.

Employment Prospects for 1996

The Indiana economy has added about 350,000 jobs since first quarter 1989. Most of this progress has occurred in just the last few years (see **Figure 6**).

The pattern of establishment employment in Indiana is highly seasonal. The first quarter is usually the low point of the year. Then, as the weather improves, employment rises in the second quarter, adds a bit more in the third quarter, and surges at the end of the year. In 1989, 100,000 jobs had been added by the fourth quarter. But a year later the cumulative growth was up just 11,400 from the 1989 level. Fourth quarter 1991 was only 13,800 ahead of 1990.

Then, in 1992, employment began to surge, finishing the year 61,000 jobs ahead of 1991. Increases of more than 83,000 in fourth quarter employment occurred in 1993 and 1994. The same is not expected for 1995, however. The soft landing of 1995 has cut year-to-year employment gains to about 45,000. The fourth quarter should come in stronger than that number, but we expect all of 1996 to average out at that level.

Indiana will experience continued growth in 1996, but at a slower rate than in the past few years. The restraints on the national economy will keep employers from expanding production and inventory growth while maintaining a stable labor force. Our anticipation is for a year of steady but moderate advances for Indiana. This is good news for employers who have been having difficulty finding suitable employees. The coming year will provide some breathing room to train existing employees for the work to be done. However, workers seeking new positions may find the search for employment takes longer than in the heady days of 1994. Unemployment rates in most counties should rise slightly by the end of 1996. Despite this slowing of the economy's growth, 1996 will sustain the economic expansion that has been so favorable to Indiana for more than four years.

Figure 3
Indiana as a Percent of U.S. Real Earnings

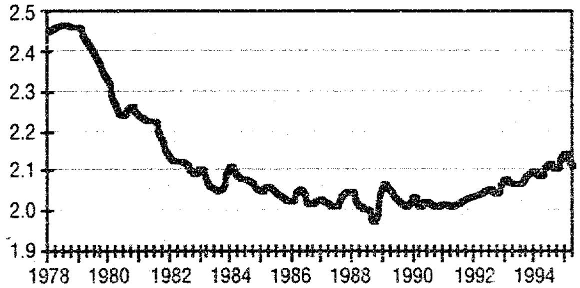


Figure 4
Indiana's Percent Share of U.S. Manufacturing Earnings

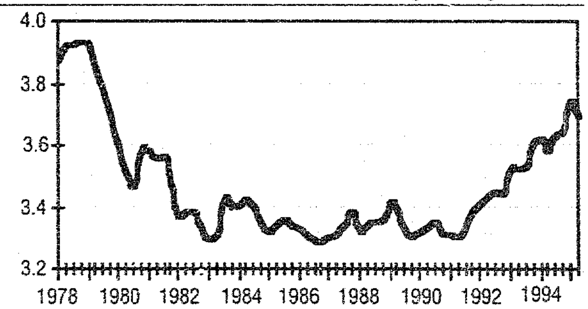
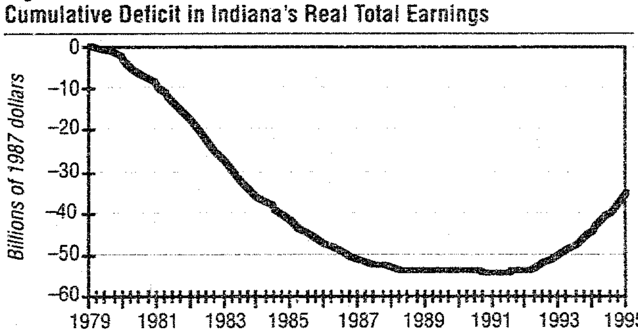
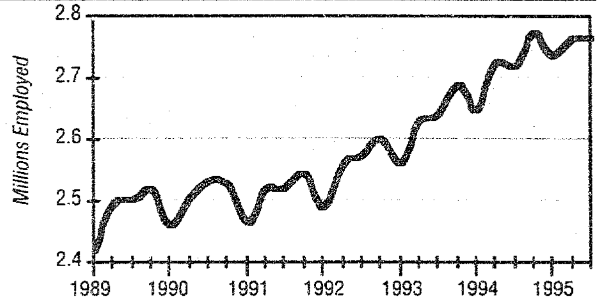


Figure 5
Cumulative Deficit in Indiana's Real Total Earnings



Based on 1Q1979 peak

Figure 6
Indiana Establishment Employment



Quarterly data, not seasonally adjusted

Anderson

Barry Ritchey

Associate Professor of Economics, Anderson University

Like many other areas in Indiana and around the nation, Madison County has experienced a decline in unemployment, which began in 1993 and has continued through September 1995. After hitting a decade low of 5.2% in 1994, the local labor market has continued to tighten to an average of 4.5% for the first nine months of this year. By the end of September, the rate had declined to a mere 3.7%. This performance far exceeded expectations. The local labor market is beginning to show signs of being stretched too thinly, however, as many local businesses are beginning to have difficulty filling vacant positions.

Total employment in the county rebounded from a decrease in 1993, to show a net increase for 1994 of 1,028 jobs. The number of jobs in the manufacturing sector did not decrease in 1994. In fact, there was a slight increase. Nevertheless, we must be careful not to misinterpret this outcome. Rather than a signal of a new trend, it is likely that 1994 was the result of local policies in early retirement and the age mix of the manufacturing work force.

Local construction has again been a source of economic stimulus. Higher interest rates did not choke off the building activity in the county for either 1994 or the first eight months of 1995. At this time last year, we knew 1994 was going to be a great year for nonresidential construction. The total amount of building permits issued hit $49.6 million by year's end—more than four times that of the previous year. This was simply an unusual year for local construction. The first eight months of 1995 have shown some cooling off. Still, the $16 million plus in permits issued (through August) are higher than any yearly total for each of the last 10 years, except for 1994.

The housing market continues to be just as encouraging. For 1994, $38.5 million in permits were issued. This value has increased every year for more than a decade. More than $30 million in permits were issued through the first eight months of 1995. Again, this is the best eight-month total for more than a decade.

Our local economy has shown a strong expansion for the first half of this decade. This is reflected in the movement of personal income and the stability of wages. Personal income rose 7.3% from 1991 to 1992 and then increased again from 1992 to 1993 by 5.3%. Despite the loss of manufacturing jobs in the first three years of the decade, wages have remained above the state average. Most of the economic signs from 1994 and 1995 indicate these trends will continue.

As the 1980s ushered in a decade of contraction, the first half of the 1990s has introduced a decade of expansion. There has been a clear confidence and direction reflected in the housing, construction, and employment markets. The income side has shown more stability than in the 1980s. If there is any downside to all of this, it is that we have certainly reached capacity in the labor market. This may prove to be an inhibitor to further expansion. Still, there are sufficient signs to remain positive about our future.

Columbus

Patrick Michael Rooney and Ammar Askari

Associate Professor, Assistant Director for Academic Affairs, and Special Assistant to the IU Vice President for Long-Range Planning, Indiana University-Purdue University Columbus; and Visiting Assistant Professor, IUPUC

The exceptionally strong employment performance of the past four years continues in the Columbus area (see the **Table**). The first three quarters of 1995 posted lower unemployment rates than the same period in 1994. For example, the 3.0% unemployment rate of third quarter 1995 (the lowest in the past two and a half years) is half a percentage point lower than that of third quarter 1994. By the same token, the number of people employed has grown 5% for the third quarter over the period beginning in third quarter 1994.

It is noteworthy that the number employed has jumped an amazing 31% in the two-year span between first quarter 1993 and first quarter 1995. These figures are more than double the percentage increase in Columbus' city population of 13.6%—from 33,000 in 1990 to an estimated 37,500 in 1995. At any rate, a local unemployment rate close to 3.0% (3.5% a year ago) compares very favorably with the national unemployment rate of 5.6% (5.8% a year ago) and the state's 3.9% (5% a year ago). Regionally, with the exception of Brown (2.6%) and Jennings (3.1%)

counties, Bartholomew County's July unemployment rate of 3.2% (3.9% a year ago) is the lowest in south central Indiana.

Residential construction continues its vigorous growth. The estimated value of permits issued in the third quarter averaged $5.4 million a month. August, with an estimated permit value of $7.3 million, posted the highest monthly permit value in 16 months. This peak in construction activities is reflected in four new mid-priced housing developments within the Columbus area. It is reported that these developments will put almost 900 new lots on the market.

The real estate market does not seem to be slowing down. The average selling price in 1995 (year to date) stands at $111,969, while the third quarter posted an average of $112,332, a 6% increase over third quarter 1994. The number of houses sold in 1995 up to the first week of October was 652, including 254 for the third quarter. Sellers received 98% of the list price, which is almost identical to last year's sales-to-list price ratio. For the past five months, including October, the average listing duration for a sold property was 120 days.

Cummins announced a restructuring program that will cut about 10% of its worldwide work force, along with potential closing or consolidation of plants. Locally, this may mean a loss of jobs for 650 workers in southern Indiana. However, this development may not be as disheartening as one might think, given the previously announced plans for investing $35 million in expanding the fuel system plant in Columbus and the $70 million new engine block manufacturing line in Walesboro. All in all, Cummins' "diet program" may be a welcome indicator of a trimmer, healthier, and more competitive future.

Table
Bartholomew County Employment Statistics

Year	*Unemployment Rate (mean)*	*Number Employed*	*% Annual Employment Growth (mean)*
1974-1994	6.7	27,600	2.4
1974-1979	5.2	25,500	3.0
1980-1989	8.2	27,700	1.2
1990-1994	5.3	30,400	4.8
1Q94	4.3	36,700	25.2
2Q94	4.0	38,100	21.3
3Q94	3.5	38,500	15.9
4Q94	3.9	37,800	20.7
1Q95	3.6	38,500	4.8
2Q95	3.3	39,300	3.2
3Q95	3.0	39,700	5.0

Note: The third quarter figures used preliminary September figures published by the South Central Indiana Workforce Development Services agency.

Local Forecast

Overall, we are predicting a continuation of the current recovery, along with an 85% probability that the economy will continue to experience moderate, sustainable growth of about 3% for the next year or so. This implies continued downward pressure on the national and local unemployment rates but relatively little pressure on inflation.

Because the national unemployment rate has fallen 0.2% from a year ago, our simple econometric forecast would predict that the local unemployment rate would fall 0.36%. The local annualized unemployment rate fell half a percentage point from a year ago and 0.6% from the beginning of this year. Given that we are operating at historically low unemployment rates, our forecast is that the local rate cannot be expected to fall much further.

There is about a 10% chance that the economy will grow more rapidly than expected (around 4%). If this happens, the bond market will react unfavorably and long-term interest rates will be driven higher fairly quickly as investors brace for an increase in inflation. This would choke off further excessive growth fairly quickly.

Finally, there remains a very small (5%) probability that the Fed will overreact to the recent GDP growth rates and raise interest rates too rapidly. This would create "recessionary growth" (i.e., real growth between 0 and 2% and slowly rising unemployment rates) or a recession (negative real growth), pushing the national unemployment rate back up. In this case, the local unemployment rate would worsen at almost twice the speed of the national rate.

Evansville

Maurice Tsai

Professor of Economics, University of Evansville

The past year has been a slow growth year for the Evansville area economy, with greater expansion in services industries than in goods-producing industries. As seen in the **Table** on the next page, the economy grew at 1.6% in 1995, below the annual growth rates of the past three years. The national economy also performed below the previous year's level.

Evansville began 1995 with a strong first quarter in most sectors, followed by a weak second quarter,

Table
Evansville Area Business Index *(Revised 1992 = 100)*

Period	*Industrial Product*	*Trade & Services*	*Construction*	*Transportation*	*Finance*	*Employment*	*Composite Index*
QUARTERLY INDEX							
1Q1994	104.67	104.57	109.49	101.04	105.51	104.03	104.70
2Q1994	106.50	107.13	109.30	104.31	108.88	105.99	106.92
3Q1994	110.24	106.06	117.51	104.51	107.70	105.26	107.85
4Q1994	97.74	107.20	125.53	105.01	109.75	105.12	104.95
1Q1995	106.30	106.69	112.55	100.84	109.18	105.19	106.33
2Q1995	102.55	107.52	115.38	101.84	111.89	105.30	106.12
3Q1995	106.43	108.14	123.33	101.27	117.30	105.86	108.23
4Q1995	106.00	110.00	125.00	102.00	110.00	108.16	109.37
ANNUAL INDEX							
1990	99.26	98.21	98.89	105.50	96.17	97.86	98.98
1991	97.83	98.75	86.16	100.26	98.81	98.16	97.78
1992	99.96	100.07	100.44	99.95	99.71	100.08	100.04
1993	102.66	102.69	104.47	100.40	106.20	101.72	102.68
1994	104.79	106.24	115.46	103.72	107.96	105.10	106.10
1995 *(est)*	106.00	108.09	119.37	101.49	114.34	106.28	107.79
1996 *(proj)*	107.30	112.20	125.00	103.72	117.00	109.00	111.00
ANNUAL GROWTH RATES (%)							
1991	−1.4	0.6	−12.9	−5.0	2.7	0.3	−1.2
1992	2.2	1.5	16.6	−0.3	0.9	2.0	2.3
1993	2.7	2.6	4.0	0.5	6.5	1.6	2.6
1994	2.1	3.5	10.5	3.3	1.7	3.3	3.3
1995 *(est)*	1.2	1.7	3.4	−2.1	5.8	1.1	1.6
1996 *(proj)*	1.2	3.8	4.7	2.2	3.2	2.6	3.0

and moderately strong third and fourth quarters. The manufacturing sector posted a growth rate of 1.2%, below the rates of the previous three years. Manufacturing employment maintained the same level as in 1994, but the share of durable goods production declined while the share of nondurables production gained. The current employment in primary metal production shows a decline of 18% from its 1992 levels, and the employment in electrical equipment is 14% lower than its peak in 1993. In nondurable goods production, plastic production employment rose by 800 from 1993 levels.

In 1995, the region showed a continuing tendency toward becoming increasingly service-oriented and less goods-production oriented. Trade and services posted a 1.7% growth in 1995, which is below 1993 and 1994 levels. During 1995, retail and wholesale trade added 500 to 700 workers to their payrolls. The medical sector added 1,400 employees in 1994 and another 200 in 1995. Activities in the trade and services sector will really begin to surge in December 1995, as the riverboat gambling industry opens its doors.

Another growing industry in this area in 1995 was construction. The construction index registered a 10.5% growth in 1994 and another estimated 3.4% in 1995. Residential construction was below the 1994 level for the first half of the year, but regained that level in the second half. Business construction has been stronger than in 1994 from the beginning of the year.

Finance was also strong in 1995. The finance index rose by an impressive 5.8% and financial employment gained 3.2%, including all finance, insurance, and real estate. Activities in transportation declined by 2.1% in 1995. Employment in this sector rose 14% from 1992 to 1994, then remained at this level in 1995. Air transportation activity has been lower in 1995 than in previous years.

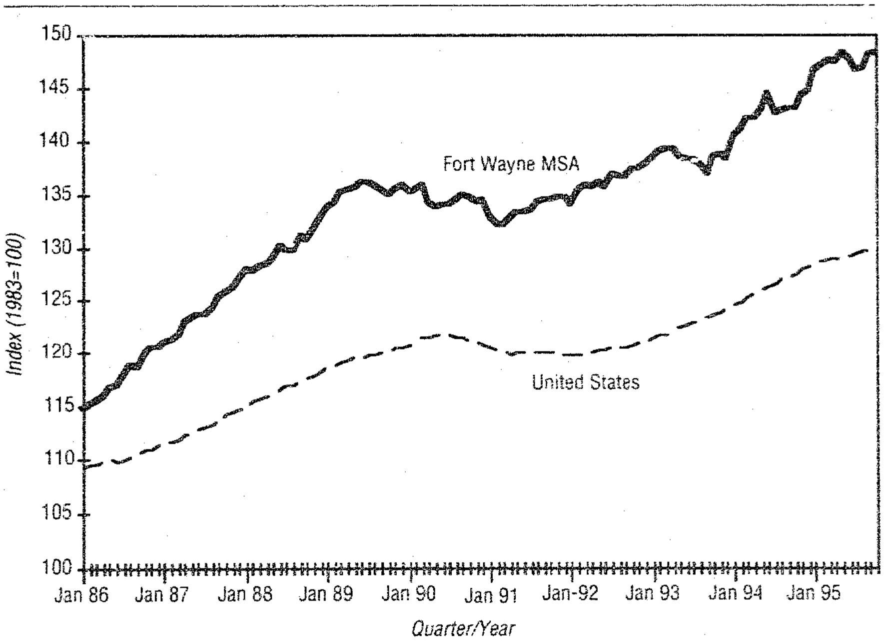
The regional employment index in 1995 posted a 1.1% growth compared to 1994's 3.3%. Slow growth in employment was coupled with a low unemployment rate, which averaged 5.4% for the first five months before falling to 4.6% in August. Tightening of the labor market may be coming to Evansville in the near future.

Outlook for 1996

The outlook for 1996 is quite bright, probably the brightest in recent years. Riverboat gambling began its operation on December 8, 1995. This new industry is a shot in the arm for the Evansville economy, especially to the growth-thirsty downtown area. One thousand workers will begin their work in December and another 800 workers will be added in December 1996 when the 44,000 square-foot pavilion, 250-room hotel, and 1,660-space parking garage go into operation. Not only will substantial employment and income gains benefit the community, but a large amount of revenue will flow into state and local government coffers, which can be used for the improvement of structures in the downtown area and other related services.

In 1996, the construction of a Super Wal-Mart on the east side of Evansville will be completed, bringing another increase in employment and income to the community. Although some of these gains may be partially offset by losses of existing firms, Toyota has announced that it is locating its new truck plant in Gibson County, near the Evansville area. The decision, announced on November 30, will have a significant economic impact on the area, creating far greater benefits to the regional economy than the riverboat operations. In short, the near future of the Evansville economy is very promising. Investments in the new airport, transportation networks, and living environments in the past years will soon be rewarded handsomely.

Figure
Fort Wayne Metropolitan Area and U.S. Payroll Employment



Fort Wayne

Thomas L. Guthrie

Associate Professor of Business and Economics, Indiana University-Purdue University at Fort Wayne

For the six years between 1983 and the end of 1988, payroll employment in the six-county Fort Wayne metropolitan area grew at a compounded annual rate of 6.3% (see the **Figure**). National payroll employment growth for the comparable period was 3.7% annually. After a two-year hiatus, employment growth in the Fort Wayne area resumed at a 1.9% annualized rate between 1991 and the end of 1994. National employment growth for the comparable period was 1.6% annually.

There is no economic law that restricts a particular geographic region from consistently growing faster than the national economy. Fort Wayne has done it for more than 20 years.* However, evidence is growing that the area economy is bumping up against capacity constraints. This is especially true with respect to labor. In the just concluded annual policy survey conducted by the Greater Fort Wayne Chamber of Commerce, 65% of the respondents identified a "shortage of adequately qualified labor" as the most important business-related problem currently facing northeast Indiana. That is up from 19% two years ago. Furthermore, 102 of the 170 responding companies indicated they planned to increase employment in 1996. Only nine companies indicated a planned decrease.

The upper limit of the Fort Wayne area economy's growth rate is likely determined now by its ability to add capacity—both physical and human. To that end, it may be well to remember the 1.9% annualized growth rate in employment experienced between 1991 and 1994. Given the capacity constraints discussed above, it is extremely unlikely that the area economy can grow faster than the 1.9% for a sustained period of time. More likely, it will approach the U.S. potential of 1.6%. Of course, a necessary condition to an increase in the Fort Wayne area economy in 1996 is an increase in demand. Again, the outlook is modest at best.

Employment in the health industry—a traditional growth market in the Fort Wayne area—is likely to

*It should be noted that from 1979 to 1982, the Fort Wayne area economy declined precipitously compared to the national economy; therefore, the area economy undoubtedly had more excess capacity (e.g., labor) than did the U.S. economy in 1983.

shrink in 1996, given the pressures for cost containment emanating from Washington, D.C. It is estimated that HMOs (health maintenance organizations) have only 25% of the local market. This suggests substantial potential for downsizing.

National downsizing in the financial and insurance industries will probably continue unabated in 1996. Both are important segments of the Fort Wayne area economy. Whether the area wins or loses depends on individual company decisions. To the extent that government spending at all levels is under attack, it is difficult to envision the government sector growing in 1996.

Construction employment is likely to increase in 1996 given the need to add physical capacity and the relatively low interest rates (compared to the last 10 to 15 years). But the estimated 20% increase in employment in 1995 is not likely to be duplicated. Furthermore, the sector isn't large to begin with, so even a 20% increase equates to only 2,000 jobs. Development of the Steel Dynamics, Inc. complex near Butler continues, and the recent announcement by General Motors to build a sheet metal plant adjacent to its assembly plant should be noted. The completion—finally—of a bypass around Fort Wayne offers new opportunities for business-related development.

The 1996 outlook for manufacturing (which employs one of every four people in the Fort Wayne area) is mixed. Auto and light-truck sales—the bread-and-butter industry—will be extremely lucky in 1996 to match 1995 sales of what now looks like 14.7 million units, including both domestic and import sales. Although the opportunity exists to continue to increase penetration of the original equipment market of the transplanted auto companies, the extreme pressure on the transplants has subsided, at least temporarily, because of a strengthening dollar.

The two sources of strength in manufacturing in 1996 are likely to be business equipment manufacturing and exports. Equipment spending will continue to be strong, though probably not at the double-digit growth rate that has prevailed. The case for improved export growth is made in the national forecast related earlier.

In conclusion, the Fort Wayne area economy will be fortunate to experience a 1 to 2% increase in area employment in 1996, with one percentage point equaling about 2,600 jobs currently. Such a forecast is much more in line with the national forecast (assuming it materializes). This is not a relationship to which we are now accustomed, but it is one that is likely to prevail.

Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University Indianapolis (IUPUI)

The performance of the Indianapolis metropolitan area economy has been relatively strong over the past year and is expected to continue, though at a somewhat lesser rate, in 1996. (Nine counties—Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan, and Shelby—comprise the Indianapolis Metropolitan Statistical Area, as defined by the U.S. Office of Management and Budget.) Employment is expected to increase 1.5 to 2%, with real personal income increasing at 3%.

Compared to other large metropolitan areas in the region, Indianapolis' employment growth ranked second, as indicated in **Table 1**. Its performance was balanced, with strength in both the manufacturing and nonmanufacturing sectors. The Detroit metropolitan area has benefited from the automobile cycle and the shift to lean manufacturing, which encourages close relationships between the assembler and tier one suppliers.

When the Indianapolis employment [illegible] is disaggregated by industry, the primary contributors are nondurable goods (especially printing and publishing) and retailing (especially building materials, general merchandise, and restaurants). Part of the retailing strength has been driven by strong population growth. **Table 2** presents the percent change in population between 1990 and 1994 for the same set of metropolitan areas in Table 1.

Indianapolis' change exceeded that of Indiana and the United States. Estimates of population change are based on natural increase (births minus deaths) plus net migration. Net migration is *positive* when more people move to an area than away and *negative* when more move away than to the area. In the case of Indianapolis, it was positive. Employment change and net migration are interrelated. For example, it has been estimated that two extra jobs attract about one additional net migrant; and one additional net migrant has a direct effect on area employment of almost 1.4 jobs. Apparently Detroit met most of its increased employment by an increase in its labor force participation rate rather than in migration.

Population Projections

Will area businesses find it easier to attract labor? What will be the expanding market for goods and services? These questions will be answered, in part, through population projections by age group. **Table 3** provides population projections for 1995 and 2000 by specific age groups for the Indianapolis metropolitan area. A few observations based on Table 3 include:

• Retailers looking for new employees can expect a small increase in the 15–19 and 20–24 age groups.

• Home builders can expect a little contraction in the 25–34, first-time home buyer age group.

• The vanguard of the Baby Boomers enters the Nifty Fifties.

Of course, other factors will affect the labor supply available to local businesses, such as the wage rate offered and efforts to facilitate the movement of people from welfare to work. Similarly, mortgage rates will play a key role in determining housing demand.

How well off are Baby Boomers? A national study of their economic position in 1989 compared to that of their parents' generation when their parents were the same age in the early 1960s has found that the Baby Boomers had accumulated more wealth relative to income. The exceptions to this pattern were single people and those in the lowest income group. The comparison of before-tax incomes indicates that Boomers' real incomes were significantly higher (55%) than those of their parents' generation 30 years earlier, whereas consumption was only 27% higher. Some reasons for the difference between the increases in before-tax income and consumption (55% vs. 27%) include: (1) the more than doubling of the payroll tax to finance Social Security and Medicare; (2) higher expenditures for owner-occupied housing services in 1989 compared to 1960; and (3) an increasing proportion of compensation in the form of benefits other than wages and salaries.

This last reason has been affected recently by efforts to reduce the expenditures for health care. Through managed care and larger deductibles and co-payments, the rate of annual increase in the benefits component of employee compensation has declined significantly. This means more out-of-pocket expenditures on health care and thus reduced expenditures for other goods and services—or reduced savings. With Medicare beneficiaries expected to pay higher premiums and the rate of increase in the earned income tax credit expected to be reduced, some households may find themselves in a more challenging position to maintain their level of consumption.

What does this mean for Indianapolis? First, retailing (building materials, general merchandise, and restaurants) has made a disproportionately large contribution to employment growth—growth fueled by strong overall employment and population growth, as mentioned earlier. Second, the first of the Baby Boomers are entering their 50s, a period of life when one's budget allocations tend to shift somewhat from consumption toward saving. Third, some of the proposed federal tax law changes attempt to encourage saving with more attractive IRAs, a new savings account, and a capital gains tax cut. To create new businesses, the entrepreneur needs financial capital. "Startup" companies rely heavily on equity finance from families, friends, and other informal sources.

Table 1
Percent Change, 2Q1994 to 2Q1995, in Total and Manufacturing Employment by Selected Cities

Metropolitan Area	*Total Employment*	*Manufacturing Employment*
Detroit	3.0	3.4
Indianapolis	2.4	1.9
Louisville	2.3	0.6
Chicago	1.8	0.9
St. Louis	1.7	1.8
Columbus, OH	1.4	0.5
Cincinnati	1.2	1.7

Source: Area state employment agencies.

Table 2
Percent Change in Population 1990 to 1994 by Selected Cities, the State of Indiana, and the United States

Area	*Percent Change*
Indianapolis	5.9
Columbus, OH	5.8
Cincinnati	3.6
Chicago	3.5
Louisville	3.3
St. Louis	1.8
Detroit	0.9
Indiana	3.8
United States	4.7

Source: U.S. Bureau of the Census

Table 3
Population Projections by Age, 1995-2000, for the Indianapolis Metropolitan Area

Age Group	*Percent Change, 1995 to 2000*
0 to 4	-10.9
5 to 14	3.3
15 to 19	3.2
20 to 24	3.0
25 to 34	-2.0
35 to 39	-7.2
40 to 49	8.8
50 to 59	20.4
60-69	-0.1
70 to 84	1.6
85 and older	4.2

Source: IBRC, Indiana County Population Projections: 1995 to 2030.

Individuals who provide startup financial capital pay capital gains taxes and are sensitive to the capital gains tax rate. So we have many ways to spend our money with the new retail opportunities, as well as on the lottery and off-track betting. On the other hand, we are being encouraged to save more. It is hoped that a continually growing economy will support both the expanded local retail industry as well as the local pool of entrepreneurs.

The Automotive Industry
The good news is that the motor vehicle share of consumer expenditures has increased at a slower rate in the current recovery than previously. This means the current recovery may be more sustainable. On the other hand, some analysts wonder if the long-term trend line for new auto sales has shifted permanently in a downward direction. Two possible reasons for this are suggested: (1) the quality and durability of autos and light trucks have improved, so consumers are not in the market as frequently as before; and (2) there are more high-quality used cars on the market in two-year lease programs that substitute for new cars. Although employment in the Indianapolis automobile manufacturing industry has declined, it continues to be important in terms of earnings generated and linkages with other local industries. Retailing could be affected if auto sales and workers' earnings weaken.

A dynamic economy is one that is continually developing new goods, services and production processes. In this light, IUPUI is a key participant in Electricore, the Mid-America Electric Vehicle Consortium and one of seven congressionally mandated consortia dedicated to public-private partnerships in developing advanced electric vehicle technologies. Electricore is responsible for more than 20 million dollars of advanced research and development (R&D) applications, primarily in Indianapolis.

Welfare Reform
In June 1994, the State of Indiana submitted its list of waiver applications to the U.S. Department of Health and Human Services, and received the waivers in December. A waiver means that a federal regulation does not have to be followed. Thus, Indiana joined several other states in being able to make significant changes in its welfare system. The Indiana waivers were classified in four areas: personal responsibility, accountability, work, and partnerships. For example, under personal responsibility, a welfare recipient must sign an agreement to accept any reasonable employment as soon as it becomes available. Under accountability, there are sanctions, including the termination of AFDC assistance, for a recipient who refuses to participate in an employment or job training opportunity. As a result, there is now some evidence that the size of the caseload and the number of food stamp recipients declined in 1995.

Challenges in moving people off welfare include the need for child care, transportation, and health care. It has been estimated that a private sector job paying $7.50 to $8.00 per hour, plus health insurance, is necessary to replace the value of the various welfare benefits. On the demand side, the challenge is to produce jobs that pay at least this level of compensation. On the supply side, workers need to have the skills and work habits to meet the job requirements. A recent study determined that basic cognitive skills (as distinct from formal schooling) are becoming more important in determining wages because of the changing pattern of demand for labor. In a related study, analysis of a 1992 eighth-grade national mathematics test showed that variation in scores across states can be associated with readiness to learn in kindergarten (rather than school characteristics). Readiness to learn was predicted primarily by the mother's education—the higher her educational level, the greater the child's degree of readiness. The policy implication is that the preschool nurturing years are important for later labor market productivity and the economic viability of the communit s the twig is bent, so the tree will grow.

Louisville–Jeffersonville–New Albany

Fay Ross Greckel

Professor of Economics, Indiana University Southeast

The Louisville metropolitan area economy fared quite well in 1995 and the outlook for 1996 is also good. In both of the past two years, the seven-county metropolitan statistical area (Clark, Floyd, Harrison, and Scott counties in Indiana and Jefferson, Oldham, and Bullitt counties in Kentucky) generally outperformed both the Indiana and national economies.

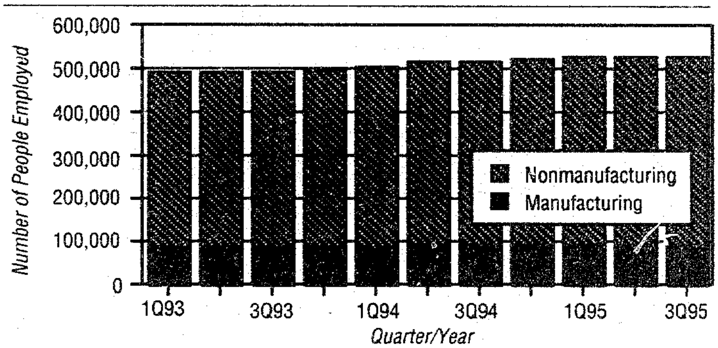
Employment
Employment continues to expand at a healthy rate, despite the still-occurring layoffs at larger firms as they attempt to cut costs through work force reductions. On the basis of preliminary third quarter data, it

appears that metropolitan area employment increased by about 11,000 jobs, concentrated in the nonmanufacturing sectors (see **Figure 1**). Overall manufacturing employment remained about the same. Gains in some industries were offset by job losses in others.

The nonmanufacturing sector with the greatest increase was retailing, which added more than 3,000 employees. Construction, with more than 2,000 new jobs, was also strong. Three other sectors—trucking and warehousing, wholesale trade, and services—each grew by more than 1,000 jobs.

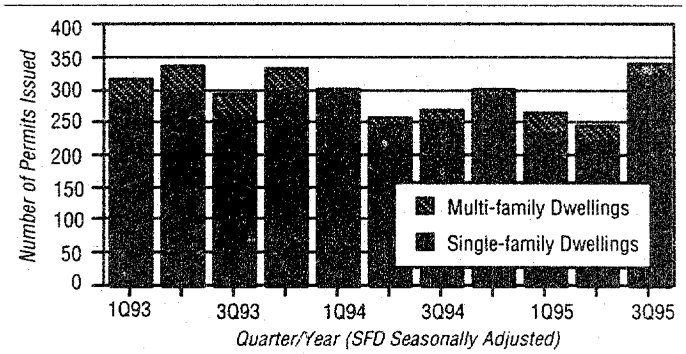
A note of caution about local employment statistics is in order here. Each year the state agencies that gather and report these statistics *revise* their reports for the preceding two years, based on new population data and other factors. Sometimes these revisions result in dramatic changes. For example, the "new" 1994 statistics that were reported in the spring of 1995 showed the metro area employment level growing by 24,000 jobs, instead of by the 12,000 that had been indicated in their monthly reports during 1994.

Figure 1
Louisville Area Employment (Seasonally Adjusted)



Source: Kentucky Cabinet for Human Resources

Figure 2
Residential Building Permits: Clark, Floyd, Harrison, and Scott Counties



Source: Kentuckiana Regional Planning and Development Agency

The 1995 employment picture will probably look different when the revised numbers appear a few months hence—but I do not anticipate nearly as great a change as that which occurred for 1994.

Current data for the Indiana portion of the metropolitan area show a rather different pattern. Overall employment appears to have been fairly stable for the last half of 1994 and the first half of 1995, and below the level reached in the first half of 1994. These official statistics are probably misleading, though, and I hope future revisions will show what I think is the more accurate picture of growth parallel to the rest of the Louisville area.

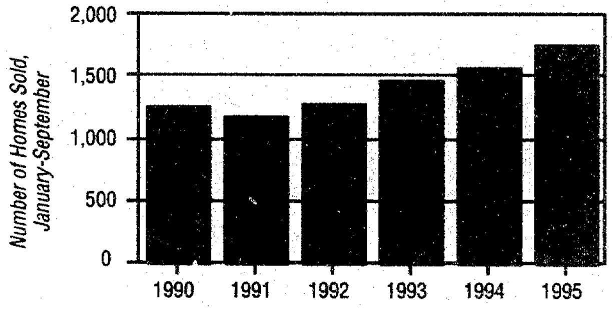
Even current statistics, on closer examination, show a strong private economy in the four Indiana counties. Manufacturing, wholesale and retail trade, and services together added more than 3,000 employees. Some net job losses occurred in transportation and utilities. However, most of the reported losses were concentrated in the government sector, particularly public education, where the reported declines are of a magnitude difficult to substantiate.

Throughout the metropolitan area, employment growth will face two hurdles in the months ahead. Corporate downsizing will continue to create problems for workers in isolated areas. Some banks are still consolidating; layoffs announced at Colgate and some other companies will materialize. But overall, demand for workers remains very strong. Jeffboat, UPS, Beach Mold, Discount Labels, and many other companies are expanding. Unemployment is quite low and the calculated local unemployment rate is well below the relatively low national rate. Labor supply problems are widespread. Manufacturers and construction firms complain about the difficulty of finding and keeping good workers. Signs in the windows of a great many retailers and service providers testify to shortages of both entry level and experienced workers. And as economics teaches us to expect under such circumstances, wages in these areas are rising.

Construction and Home Sales

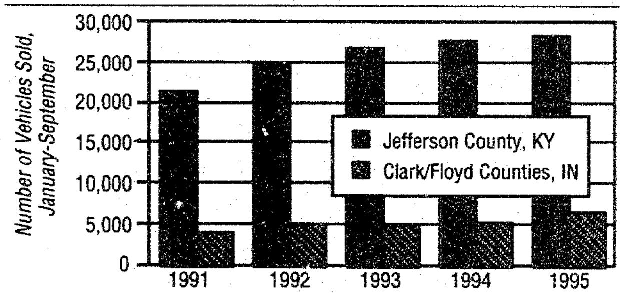
Single-family home construction has been strong in the southern Indiana portion of the MSA for more than two years. Though not as low as in 1994, interest rates have remained favorable to the housing sector as a whole, and the growing number of Kentuckians deciding to settle north of the Ohio River has added to the demand here. As **Figure 2** shows, an unusually high number of building permits were issued in third quarter 1995, indicating a healthy level of construction activity into the beginning of 1996. Jefferson County, Kentucky, which had seen a slowdown in single-family housing permits in late 1994 and early 1995 (after adjusting for seasonal factors), also had a very strong third quarter.

Figure 3
Home Sales: Clark, Floyd, Harrison, and Crawford Counties



Source: Southern Indiana Board of Realtors

Figure 4
New Car and Light Truck Sales, Louisville Area



Source: Greater Louisville Automobile Dealers Association

The other component of the real estate market, sales of existing homes, has enjoyed a steady increase for the last four years. Multiple listing sales in four southern Indiana counties, for example, rose from 1,170 homes in the first nine months of 1991 (the year of the last recession) to 1,750 homes in the first nine months of 1995 (see **Figure 3**). Sales in 1995 are running 12% (nearly 200 homes) ahead of 1994, and average prices are also higher.

Automobile Market

A similar pattern is evident in the automotive market. As can be seen in **Figure 4**, sales of new cars and light trucks for the first nine months of the year have risen steadily since 1991. In 1995, for the first time, major gains occurred in southern Indiana. Through October, new car dealerships in Floyd and Clark counties sold about 2,000 more vehicles than in the same period of 1994—an increase of nearly 40%. In Jefferson County, Kentucky, sales of new cars actually declined by about 800 vehicles, while light truck sales increased by a little more than 1,000.

That last fact highlights one trend that is not visible in Fig. 4: the changing composition of the market. While new car sales have risen modestly since 1991, light truck sales have almost doubled. In 1991, light trucks accounted for one out of four new vehicles sold; today it is one out of every three.

Outlook for 1996

As we move into 1996, the Louisville area economy still looks basically quite solid. Corporate belt-tightening will continue to result in some job losses, creating hardships for affected families and casting a broader shadow over consumer confidence. Nevertheless, expansion or holding one's own will be far more prevalent, despite the picture all too often conveyed by the local media. Area firms are increasingly finding new markets abroad. Many are also becoming more and more technologically sophisticated and able to develop or maintain niche markets domestically.

The relatively low interest rate scenario is likely to continue, encouraging investment and spending on durable goods. Consumers are likely, however, to be somewhat conservative about many of their retail purchases. The possibility always exists of some major negative developments on the national or international scene, but that seems less likely in an election year. Labor shortages will continue to be a drag on expansion for many firms, a problem that will likely become somewhat more widespread as the year progresses. All in all, though, we appear to be headed for another year of moderate growth.

Northwest Indiana

Leslie P. Singer and Gary Lynch

Professors of Economics, Indiana University Northwest

The Northwest Indiana economy has been growing a little more slowly in the high-wage manufacturing and steel sectors, where employment was just a tad below our predicted 12-month moving averages (see the **Table**). However, the nonmanufacturing sector of service-producing firms hired more employees than we have anticipated. The increases were mainly in the volatile construction industry, which had experienced a boom. We anticipate a slowdown in this sector, with employment moving closer to the long-run trend as both the rate of inflation and interest rates show a slight upward tick in the second half of 1996.

One may ask how long the disparity can last between the slow growth or decline in the manufacturing sectors and the more rapid growth in the ser-

Table
Lake and Porter County Employment: 12-month Moving Averages

	ACTUAL EMPLOYMENT			12-MONTH MOVING AVERAGES			
	1Q95	*2Q95*	*3Q95*	*4Q95*	*1Q96*	*2Q96*	*3Q96*
TOTAL	248,400	247,888	252,800	250,905	249,874	249,439	249,043
Manufacturing	52,800	52,954	52,700*	52,580	52,664	52,689	52,643
Steel	30,700	30,810	30,600*	30,393	30,389	30,370	30,280
Non-Steel	22,100	22,144	22,100*	22,187	22,275	22,319	22,363
Non-Mfg.	195,600	194,934	200,100*	198,325	197,210	196,750	196,400
Trade	57,800	58,262	61,000	60,197	59,670	60,146	60,627
Service	59,300	58,966	59,100	60,102	59,372	59,643	59,915
Health	24,000	24,118	24,700	24,356	24,475	24,596	24,716
Government	35,700	35,705	36,400	35,713	35,718	35,722	35,727
Local Govt.	29,700	29,698	30,500	29,694	29,692	29,690	29,687
Education	17,200	16,915*	18,100	17,744	17,758	17,773	17,787

** Denotes 12-month moving average, rather than actual employment.*

vice and retail sectors. Much of the growth in retail employment was made possible by low prices of imported consumer goods. The high-wage industrial firms were able to pump a rising payroll into the local economy. Consequently, the mounting nominal dollars emerging from a shrinking employment base afforded a larger real flow of varied consumer goods. This in turn generated an internal multiplier effect. Lower-paying retail and service jobs were created throughout the southern fringe of Lake and Porter counties, south and east of the urban centers.

The non-steel manufacturing sector has held steady and is expected to register a modest increase in 1996. Most new firms entering the region tend to move into this sector.

The 12-month moving average of the nominal industrial payroll showed an increase of 3.5% for January 1994 to January 1995, rising from $2.09 billion to $2.16 billion. This rise was higher than the long-run trend and was due mainly to bonuses and long weekly hours in the steel industry. We expect weekly hours to decline in 1996 and the nominal manufacturing payroll to advance about 2.8% to 2.9%, below the anticipated rate of inflation.

The Steel Industry

The U.S. steel industry had a spectacular upswing in production from 1993 to 1994. In January 1993 Indiana-Chicago mills poured an average of 471 net tons of raw steel per week. By the end of 1994 average weekly production had reached 521 net tons, an increase of 12% in two years. The rate of capacity use grew from 83% at the beginning of 1993 to 95% by the beginning of 1995. However, productive capacity has hardly increased at all, going from an average of 27.2 million tons in first quarter 1993 to 27.3 million tons in fourth quarter 1994. For Indiana, most of the expansion in productive capacity was in the minimills, particularly Nucor in Crawfordsville. In 1996 there will be some reduction in integrated steel production and corresponding losses in steel employment.

The high rate of capacity use by local integrated mills along with innovations in productive technologies has raised productivity and improved profits. Comparing 12-month moving averages, we note that in January 1993 it took almost 3.5 hours to produce one net ton of steel, whereas in December 1994 it took under 2.8 hours. This is almost a 25% increase in productivity in a two-year period, from the least to the most productive weeks. We expect local plants to maintain these high levels of productivity in the remainder of 1995; however, the spectacular increases witnessed in 1993-94 are no longer attainable. We expect productivity gains to level out in 1996, or even slip a bit, toward the end of the year.

Steel employment has continued its slide each year since 1989. That was the last year it held steady at about 35,200 employees. In 1989 productivity gains, which reduce employment, were offset by gains in output. In subsequent years 12-month moving average steel employment dropped to 34,758 in January 1990, 32,308 in January 1991, 32,191 in January 1993, 31,217 in January 1994, and 30,992 in January 1995; and we project a decline to 30,280 steel workers by third quarter 1996.

Globally, Japanese steel production is expected to fall from 112 million metric tons in 1995 to 106 million tons by 2000. European production is expected to decline from 157 million to 149 million tons by 2000. However, the emerging countries are expected to increase steel output from 151 million to 193 million tons in 2000, and the former communist countries will raise output from 225 million to 261 million tons by 2000. The growth in third world steel output may dampen local steel production as we approach the year 2000. We predict drastic changes in global steel markets.

The 12-month moving average of nominal hourly wages in steel rose 3.7% in 1994—higher than the total manufacturing wage. We expect the nominal steel wage to rise at about 3.5% in 1995-96 as overtime and incentive pay bonuses level off. In the past, hourly wages in steel kept abreast of the rate of inflation; however, we anticipate the real hourly wage will fall slightly in 1995-96 on account of a somewhat higher rate of inflation. Nominal steel wages average about $20.00, which is triple the average hourly wage in the service-producing sector. Moreover, rising fringe benefits exceed 70%. It follows that it will be increasingly more difficult to offset continuous losses in manufacturing employment by new jobs created in the expanding service sector due to these wage differentials.

Richmond-Connersville-New Castle

Ashton Veramallay

Professor of Economics and Director, Center for Economic Education, Indiana University East

The Richmond-Connersville-New Castle (RCNC) area economy is poised for a repeat performance of continuing growth in 1996. This forecast hinges on the national economy, given the region's interdependence with it. The current expansion still has steam in the fifth year and the key macroeconomic indicators are favorable. The expected 2.5% growth in real gross domestic product, a 3% inflation rate, an unemployment rate of 5.6%, and a modest 2.3% increase in real disposable income bode well for the economy.

RCNC's unemployment rate will fluctuate between 5 and 7.5%. The manufacturing sector will experience a significant increase in employment as local firms, particularly in Richmond, complete their expansion projects. Also, the entry of new firms into the local area will add to the employment roster by providing high-paying jobs. Because of a shortage of skilled workers, employers are seeking people from outside RCNC to meet the growing need for workers. As the manufacturing cylinder clicks, it means stable employment and increased sales for local firms, especially those supplying valuable inputs to the transportation, housing, and information industries. It seems as if happy days, reminiscent of the late 1970s, are here again under the current growth mode. Creative diversification of the local economy is paying off; now the task is to sustain it.

Like manufacturing, employment growth in the service sector will increase as the transformation of RCNC's economy continues. The increasing demand for various services—financial, health care, professional, recreational, fast food, tourism—means more jobs, which are an integral part of the overall growth trend. If Richmond gets the new state prison—another service frontier—it will have at least 500 recession-proof, high-paying jobs because of a captive clientele. There will also be multiplier effects on the knowledge, housing, and health care industries, helping to dispel the negative image of a prison in the community. Further, the types of food consumed often serve as indices of per capita income, location features, agricultural production, and other societal conditions. The local growth in eating and drinking establishments partly reflects this phenomenon.

Related to employment is construction activity. In Richmond, the number of building permits issued through the first ten months of 1995 totaled 985, of which 44 were residential. Their total investment value is an estimated $26.5 million, reflecting a decrease of $8.5 million compared to the first ten months of 1994. In 1995, the total estimated cost of construction in the fringe and non-fringe areas of Wayne County is $11.7 million. Together, such investment spending creates jobs and positively affects the local economy, considering the sales dollar volume.

The outlook for the housing market is very favorable because of high employment, low inflation, attractive rates of interest, and in-migration of new workers. Newcomers find housing here relatively cheap; the median home price is $56,500, and activity in the $60,000 to $150,000 market continues to be brisk. However, it is anemic for homes priced above $150,000, though there is some upscale movement among homeowners.

Apart from housing, the retail trade sector can expect a good holiday season. Consumers are optimistic about their jobs and the future course of the national economy. The expected rise in their real disposable income will translate into more consumption activity, though at a less robust pace than last year's. Early sales, discounts, and other promotions can halt shopper retrenchment. Local cash registers should be ringing a jolly tune in spite of the national prognostication of poor retail sales.

Finally, if the dollar remains at its present exchange level in international markets, the manufacturing sector will rebound from some pockets of softness. As the EU, Japan, Canada, and Mexico recover from their economic doldrums, there would be positive effects for both the local and national economies in terms of output, employment, and income. Barring any adverse external shocks, the clicking of all RCNC's cylinders ensure sustained economic growth in 1996.

South Bend/Mishawaka and Elkhart/Goshen

David Vollrath and Paul Joray

Associate Professor of Management and Professor of Economics, Indiana University South Bend (IUSB)

This year-end assessment of the economic condition of the South Bend/Mishawaka and Elkhart/Goshen communities is based on analysis of the latest available economic indicators for the area, tracked by

IUSB's Bureau of Business and Economic Research (BBER). The **Table** below summarizes various indicators of local economic activity compiled by the BBER. These figures, with the exception of unemployment rates and real estate data, are seasonally adjusted index numbers expressed as a percentage of base year 1986 values. The latest month for which all indicators were available was August 1995. Note that the table includes comparable figures for July 1995 and August 1994, along with percent changes to indicate possible trends.

South Bend/Mishawaka

Employment indices for the South Bend/Mishawaka area maintained their pattern of the last several months. August employment showed little change from the prior month, but was ahead of a year earlier. Unemployment rates were below those of July 1995, August 1994, and the nation for August 1995. In August, the help wanted advertising index was below its levels of the year before and 1986. A longer view shows that total employment has grown about 20% beyond its 1986 level. Though manufacturing employment declined slightly over those years, nonmanufacturing employment has increased substantially.

Most other August indicators remained in their ranges of the recent past. Figures for energy sales again showed a mixed pattern of changes. Indices of new car and truck registrations for the county declined from July to August, but were well above their August 1994 trough. The nonbusiness bankruptcy index increased markedly from July to August, rising above its previous high of January 1995. Housing construction indicators for August were down from the previous month and from a year earlier. Average market price for residential real estate increased to a new high in August. The number of active listings remained well below the level of a year earlier.

Elkhart/Goshen

Employment indicators for the Elkhart County area increased very slightly from July to August and re-

Table
South Bend Area Economic Indicators

	SOUTH BEND/MISHAWAKA					ELKHART/GOSHEN				
				% Change From					*% Change From*	
	Aug 95	*July 95*	*Aug 94*	*July 95*	*Aug 94*	*Aug 95*	*July 95*	*Aug 94*	*July 95*	*Aug 94*
EMPLOYMENT INDICATORS										
Nonagricultural Employment [1]	120.6	120.5	116.9	0.1%	3.2%	128.8	127.8	120.8	0.8%	6.6%
Manufacturing Employment	96.4	96.0	92.0	0.4%	4.8%	118.3	117.8	116.5	0.4%	1.5%
Nonmanufacturing Employment	127.6	127.6	123.9	0.0%	3.0%	141.2	139.6	125.7	1.1%	12.3%
Unemployment Rate	4.1%	4.7%	4.2%	---	---	4.3%	4.9%	3.9%	---	---
Help Wanted Advertising Index[2]	94.2	88.0	112.5	7.0%	−16.3%	114.4	114.6	150.3	−0.2%	−23.9%
UTILITIES[3]										
Industrial Electricity Sales	116.8	106.2	113.4	10.0%	3.0%	131.4	119.9	128.2	9.6%	2.5%
Commercial Gas Sales	91.1	100.4	103.0	−9.3%	−11.6%	97.9	92.5	110.5	5.8%	−11.4%
Industrial Gas Sales	54.3	61.0	46.8	−11.0%	16.0%	49.2	75.5	59.4	−34.8%	−17.2%
CAR & TRUCK REGISTRATION[1]										
New Passenger Cars	62.2	64.7	49.4	−3.9%	25.9%	55.2	64.3	50.8	−14.2%	8.7%
New Trucks	93.4	140.4	77.3	−33.5%	20.8%	101.8	130.0	91.5	−21.7%	11.3%
BANKRUPTCIES—SOUTH BEND DIVISION[4]										
Business	41.6	25.9	34.4	60.6%	20.9%			*(Included in South Bend Division)*		
Nonbusiness	223.4	184.3	183.5	21.2%	21.7%					
HOUSING CONSTRUCTION DATA[5]										
Estimated Value of Permits	116.2	141.0	169.1	−17.6%	−31.3%					
Number of Permits Issued	89.1	105.1	127.5	−15.2%	−30.1%			*(Not available)*		
Average Value per Permit	132.6	135.8	131.7	−2.4%	0.7%					
RESIDENTIAL REAL ESTATE DATA										
Number of Active Listings	1,117	1,176	1,813	−5.0%	−38.4%	1,143	1,142	1,300	0.1%	−12.1%
Average Days Listed	98	119	66	−17.6%	48.5%	76	88	90	−13.6%	−15.6%
Average Market Price	$90,478	$84,423	$80,629	7.2%	12.2%	$83,371	$79,042	$79,880	5.5%	4.4%
% of Sale to List Price	95.3	96.0	106.0	---	---	96.0	96.0	96.0	---	---

NOTE: All figures except Unemployment Rate and residential Real Estate Data are seasonally adjusted index numbers with base year 1986 = 100.
[1]*St. Joseph and Elkhart Counties.*
[2]*South Bend* Tribune *and Elkhart* Truth.
[3]*Electricity Sales are cities of south Bend and Elkhart. Gas Sales are St. Joseph and Elkhart Counties.*
[4]*South Bend Division comprises Cass, Elkhart, Fulton, Kosciusko, La Porte, Marshall, Miami, Pulaski, St. Joseph, Starke, and Wabash Counties.*
[5]*St. Joseph County, excluding cities of South Bend, Mishawaka, Osceola, Walkerton, and New Carlisle. Elkhart County, excluding cities of Elkhart, Goshen, Nappanee, and Millersburg.*

mained above levels of a year earlier. Following marked increases in January of this year, manufacturing employment has smoothly declined to 1994 levels, while nonmanufacturing employment has remained very strong. Compared to 1986, this area's total employment has risen approximately 30%, manufacturing employment has increased 15 to 20%, and nonmanufacturing employment has grown by more than 40%. The unemployment rate decreased from July to August, but was still above the August 1994 rate. The help wanted advertising index declined negligibly from July to August, remaining well below its level of a year earlier.

Other August indicators remained within the ranges of the last year and a half. Utilities indicators remained level. New car and truck registrations in Elkhart County decreased from July to August, but were still above levels of a year earlier. The market price for residential real estate in the Elkhart/Goshen area also reached a record high in August. The number of active listings remained steady, at a level below that of a year earlier.

Outlook

Both the South Bend and Elkhart economies have prospered during the past year, with unemployment rates in the 4–5% range. Employment growth has been slower than in 1994, especially in Elkhart. The national forecast for slow growth in GDP and slightly lower interest rates suggest that we should see slow but positive growth in both the South Bend and Elkhart economies. Lower interest rates should help the demand for consumer durables, which are very important to both local economies, though we expect slight declines in recreational vehicle sales. Total employment should grow slowly, but we expect some weakness in manufacturing employment. Finally, unemployment rates in both economies should remain at the relatively low levels of the last two years.

Terre Haute

Marvin Fischbaum

Professor of Economics, Indiana State University

A candidate for the Terre Haute City Council recently moved to Florida. His replacement works for Reuben H. Donnelley. Donnelley is moving to North Carolina. It's been that kind of year in the Terre Haute area.

While the loss of Donnelley, a publisher of telephone directories that had employed more than 500, clearly hurt, it is the cumulative mass of closings, relocations, and reorganizations that has been most disquieting. Pillsbury shuttered a relatively modern facility located in a suburb east of Terre Haute and terminated the employment of 160 hourly workers. Both product lines coming out of Seelyville continue to be successful; production of Hungry Jack Pancake Mixes moved to Ohio, and frozen pizza crust production was transferred to Minneapolis. Hulman and Company, which dates back to 1850, started in Terre Haute as a wholesale grocery business. Today, family holdings are quite diverse and include the Indianapolis Speedway. But the wholesale grocery business, which at the end still employed 65, is no more. The Pfizer pharmaceutical company is not leaving town, but is negotiating the sale of its food products division to Culvert Ltd., hoping that most of the 135 jobs will remain in the community. Roadway Services sold most of the assets of Roadway Global Air to Burlington Air Express. That company is not interested in operating out of Terre Haute, so upwards of 400 mostly part-time jobs will be lost to the community.

Three firms associated with Terre Haute entered into receivership. Elder Berman is headquartered in Dayton, Ohio, but it operates one of the two traditional full-line department stores in the city. Hilman Jewelers is a locally owned family enterprise that had branches throughout west central Indiana and eastern Illinois. Applied Computing Devices (ACD) supplies esoteric equipment to the telecommunications industry. Since its beginning in 1974 it had grown rapidly and had established a position at the very vortex of the technological revolution. Locally owned, it became a focus of civic pride. Citing cash flow problems stemming from difficulties with accounts receivable, ACD cut back its highly trained work force from 125 to 35. International Centers for Telecommunications Technology, Inc., a joint venture of ACD and Rose Hulman Institute of Technology, also had to retrench.

Though not quite a match in numbers affected by the retrenchments and closings, startups and expansions also occurred at a faster than normal pace. The Vigo County Industrial Park has its first tenant: Futurex, a plastics extruder, will start small but hopes to employ 200 people by the year 2001. The airport is once again home to a scheduled commuter service, United Express. Roadway Global Air attracted a complementary firm, American International Freight, to what has become a very busy airport. Icon, a trucking firm whose presence in Vigo County has grown rapidly, purchased the old Pillsbury factory in downtown Terre Haute and is using much of its 287,000 square feet for warehousing. Pfizer has built a number of relatively modest structures on its property, and Specialty Blanks, needing more room, took over the building that had previously housed the making of Chesty Potato Chips.

Great Dane, which had enjoyed strong business and healthy backlogs at its truck trailer fabrication plant in Brazil, was the source of both good and bad news. Thermo King, which produces refrigeration units for trailers, set up a small facility in the new Brazil Industrial Park located just behind Great Dane. Great Dane, in turn, started up a new line for making trailers in a large factory in northern Vigo County that had been vacant for a number of years. Initially, the Terre Haute factory employed 385 people. However, a once robust order backlog evaporated and the Brazil plant recently laid off 100 of its 1,600 employees.

A number of retail establishments also moved into the community or expanded. Super Wal-Mart, Ryan's Steak House, Thornton Gas, and Aldi Supermarkets moved into new buildings. Walgreen Drugs and MCL Cafeteria are under construction. Steinmart, Electric Avenue and More, and Office Max moved into existing structures. Faced with increasing competition, Safeway supermarket closed.

Statistics on employment and real estate activity held up well through August and September. However, one should caution that most positive developments occurred early in the year, while the impact of negative developments was felt and will be felt during a period for which data were not yet available. The September unemployment rate of 4.7% compared favorably with the 6% rate of much of 1994, the 5.5% rate typical of much of 1995, and the national rate of 5%. Although Terre Haute had the highest unemployment rate of any MSA in Indiana, employment markets in most regions of the state may be overly tight. Place of residence-based survey employment data, which form the basis for the unemployment estimates, indicate that a sharp jump in year-to-year employment levels occurred in January. Though they backed off some, September employment estimates still stood almost 6.8% higher than the year before.

Establishment employment data also indicated a sharp increase from October 1994 through January 1995, but has experienced steady attrition since then. The place of employment-based establishment data indicated a September 1995 level just 0.4% higher than the level 12 months earlier. If survey and establishment data are both accurate—a big IF—many workers found jobs in 1995, but not in the region.

Year-to-year third quarter comparisons of existing home real estate transactions in Vigo County placed the number of homes sold up by 4.3%; the average sales price was up 2.8%, but average time on the market was also up, by 15.3%. New construction activity clearly slowed during the year and resale activity appears to have slowed starting in September.

Judging from data available for the first eight months of 1995, Terre Haute had a relatively good year. The last quarter may not look so good, however, and there is reason to be concerned about 1996.

Wabash County

Richard B. Harshbarger

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Rising economic growth began in 1994 in Wabash County, and has increased 13.5% in the past two years. In 1995, the economic level grew 6.3% in just the first nine months. This expansion has been continuous, with minimal seasonal interruptions during the winter of 1994-95. The Index of Economic Indicators for Wabash County rose to 123.4 (1985=100) in the third quarter—a record level since the start of data collection in 1982. The driving forces for this expansion have been employment and bank deposits (adjusted for inflation).

Job creation has been the driving force in Wabash County. The peak in employment came in July 1995, with 19,820 people employed. This is an increase of 30% in job holders since December 1993. In the first nine months of 1995, employment grew by 16.2%. This growth is in contrast to the period from 1988 to 1993, when almost no jobs were created. Income generation has been supported with this major increase in employment for the past two years.

Bank deposits (adjusted for inflation) showed slower growth rates of 1.2% in the first nine months of 1995—comparable to 2.5% in 1994. But while the growth in deposits has supported economic expansion in the county, this potential spending power has not been the driving force.

Industrial electricity sales, used as a proxy for manufacturing production, have shown limited growth in the past nine months. This indicator has had a 0.3% growth rate for the three quarters of 1995. There was a 14% growth rate in industrial electricity usage for Wabash County in 1993-94. Since then, demand for electricity in the industrial sector has been stable with no growth. This would imply that the major growth rate in jobs was not driven by the manufacturing sector.

New home construction is showing impressive growth, but there are not large numbers of permits being issued for new homes. The average number of new permits for the third quarter was 14.6 starts per month in 1995, compared to eight in 1994. This is not a major economic force for Wabash County, but these new home permits underline a growing economy.

Despite a late start coming out of the 1990-91 recession, Wabash County has had good expansion since 1993. Future growth will be dependent on the growing northern Indiana economy, which has exceeded national and state levels. Unique to this two-year expansion has been the lack of seasonal declines during the previous two winters. The winter of 1995-96 may see a decline in employment and output; however, 1996 should show continued expansion in Wabash County.

Moving Up & Moving On: Best Business Moves for the 21st Century

The 50th Annual IU Business Conference in Indianapolis

Since its inception in 1946 as a small gathering on campus for IU business faculty and alumni, the conference has expanded to a program for all men and women in the business community.

The conference fee, including registration and lunch, is $85 per person. Company-sponsored table registration for 10 people is $750, including lunch at a reserved table. Company-sponsored table registration for five people is $400. Registration deadline is February 19. For more information about the Annual Business Conference, call the Business School at (812) 855-8010.

Make plans now to attend the 50th Annual Indiana University Business Conference March 5 at the Indiana Convention Center and hear what four top-notch speakers have to say about business moves for the 21st century.

Former Bush Cabinet Member Kicks Off Conference
Sam Skinner, an expert on business and government relations, will share his insights about how increasingly important it has become for business to work effectively with government. Prior to taking office as president of Commonwealth Edison, one of the nation's largest electric utilities serving more than 3.3 million customers in northern Illinois, Skinner served as chief of staff to former President George Bush. Skinner is the first to hold the Harold A. "Red" Poling Chair of Business and Government at the IU School of Business. In this capacity he will be on campus throughout the year to address how successful firms are effectively managing organizational change in the 1990s.

ServiceMaster: A Story of Quality and Truth
Bill Pollard, chairman of the $4.2 billion market leader, joined ServiceMaster in 1977 and served as CEO from 1983 through 1992. On average, ServiceMaster touches a life every six seconds. Most of the time, the millions of people in all 50 states and 28 countries around the world who benefit from its services are not even aware of the corporation that was recognized by the *Wall Street Journal* in its 1989 centennial issue as a "star of the future." Some of the firm's most recognizable subsidiaries include Terminix, TruGreen-ChemLawn, and Merry Maids.

Entrepreneurial Idea Based On Instinct
Like most entrepreneurs, Paul Orfalea founded Kinko's Copy Centers in 1970 with a simple idea based on instinct: provide college students with products and services they need at a competitive price. The space he rented for his copying business was so small the copy machine had to be wheeled onto the sidewalk. Today Orfalea is chairperson for Kinko's Inc., headquarters for more than 800 Kinko's Copy Centers in the U.S., Canada, Japan and the Netherlands.

The Art of Caring Leadership
James A. Autry, a nationally recognized author, consultant and successful *Fortune* 500 executive, will provide insight relevant to humane management and caring leadership. The author of four books, Autry has had significant influence on leadership thinking. During times of change and upheaval, he is known for daring to be different by providing guidelines for leaders who want to rebuild a sense of trust within their firms. Before taking early retirement in 1991 to pursue his current career, Autry was senior vice president of Meredith Corporation and president of its magazine group.

Workshops
A special feature of the day is four concurrent workshops on topics led by business specialists:
- Surfing the Information Highway
- How Businesses are Using the Internet: Personal Investing
- Managing the Human Side of Organizational Change
- Career Management in a "What Have you Done for Me Lately?" Economy

Indiana Business Review
December 1995

Indiana Business Research Center
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1309 E. 10th Street
Bloomington, IN 47405-1701

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