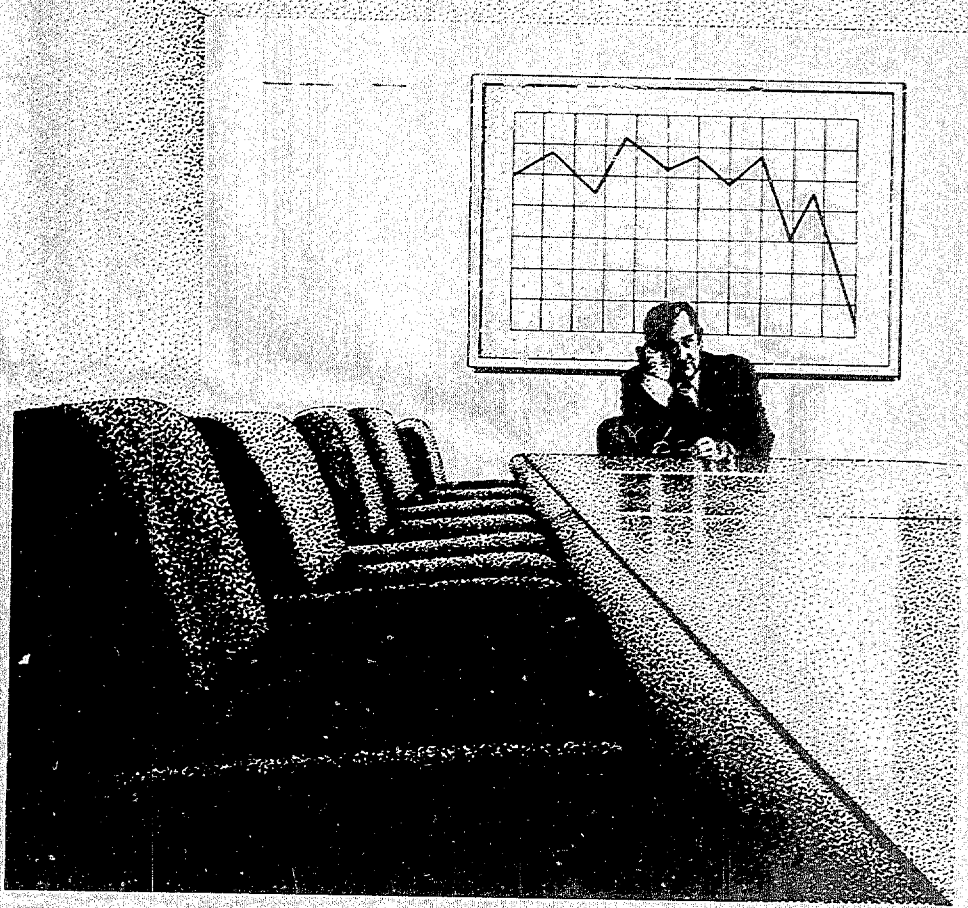
Indiana Business Review



The 1990 Midyear Outlook

A publication of the Indiana Business Research Center, Indiana University School of Business

July 1990

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Midyear Review of the Outlook for 1990

Bruce L. Jaffee

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

Last fall the forecast team predicted a slow growth year for 1990, with only a 2% real growth in GNP but with no recession. Fourth quarter 1989 and first quarter 1990 were expected to be especially weak. While the economy has not performed smoothly or consistently in the last six months, the broad outlines of the forecast appear to be on target. Real GNP grew at a 1.1% annual rate in 1989's fourth quarter, and the most recent data indicate first quarter real growth of 1.3%. Both these anemic growth rates are less than half the levels of the previous year. Unemployment rates have moved upward, domestic Big Three automobile sales are down significantly, businesses and consumers have become more cautious about spending on investment goods and big-ticket items, and there is little optimism about improvements in our federal trade and budget deficits.

Yet there are some signs of optimism. Inventory levels, which grew at undesirable rates in the beginning of the year, have now become more moderate. Interest rates have also moderated after rising unexpectedly in the first quarter, although real rates are still quite high. Inflation rates, which were boosted by weather- and energy-related factors in the beginning of the year, now appear to be headed toward a 4% annual rate for the rest of the year.

Many of the economic surprises in the last six months have come in the international sphere. German unification and economic restructuring in Central Europe bode well for domestic and world economic growth. However, most of the effects on the U.S. will occur at the end of this year at the earliest and will be important factors to consider in later years.

The collapse of the Japanese stock market reflects political instability, monetary problems, and personal and financial scandals more than weaknesses in that country's real economy. The declines in the value of the yen and limited real progress in trade barrier negotiations between the U.S. and Japan suggest little substantive improvement will be made in reducing the real bilateral trade deficit.

The cutbacks in U.S. defense spending are likely to be significant, but not until the 1991 fiscal year. Even then, the impacts are likely to be relatively small as adjustments are made to alternative uses of resources except in specific areas of the country, such as Texas, New York, and parts of New England.

In summary, we continue to hold to our forecast of no recession, slow growth, and reasonable balance among all the major sectors of the economy.

Consumer Expenditures

R. Jeffery Green

Professor of Economics, Indiana University

Last winter our forecast for real consumer expenditures was one of weak growth in fourth quarter 1989 followed by moderate growth through 1990. So far, that forecast is right on track. **Table 1** shows the forecast for total real consumer expenditures made last winter together with the actual results for fourth quarter 1989 and first quarter 1990. Because the forecast errors in our November forecast are so small for fourth quarter 1989 and first quarter 1990, our forecast for the remainder of 1990 for total real consumption remains the same as last November. As in November, this forecast is consistent with a fairly constant savings rate of about 5.5% and growth in real disposable personal income of just over 2% at an annual rate.

Despite the lack of revisions in our overall forecast for consumer spending, a number of developments in the last six months warrant discussion. The first is the continued volatility in automobile expenditures. Real purchases of new autos rose at a 50% annual rate in third quarter 1989, spurred by dealer incentives. In fourth quarter 1989, real new auto purchases fell at a 59% rate as dealer incentives were terminated. Renewed dealer incentives produced a 58% annual rate increase in new auto purchases in first quarter 1990, and partial data from early in the second quarter indicate that another decline, though smaller, may be under way. Comparable swings in dealer inventories and auto company profits also occurred. Consumers now apparently wait for inventories to reach excessive levels and force dealers to offer incentives before buying. It looks like volatility in auto purchases will continue for some time.

Consumer purchases of clothing and shoes have been very weak over the past six months, declining at an average annual rate of 2.9% from third quarter 1989 through first quarter 1990. A major reason for this decline is the rapid rise—9.1% at an annual rate—in clothing prices over the same period. The depreciation of the dollar may have played a role in

Table 1
Forecast and Actual Values, 4th Quarter 1989 through 4th Quarter 1990
(Billions of 1982 dollars)

	4th Quarter 1989	*1st Quarter 1990*	*2nd Quarter 1990*	*3rd Quarter 1990*	*4th Quarter 1990*
Total Real Consumer Expenditures					
November Forecast	2694.0	2710.0	2725.0	2740.0	2755.0
Actual	2693.7	2710.1	n/a	n/a	n/a
Percent Change (AR)					
November Forecast	0.4	2.4	2.2	2.2	2.2
Actual	0.5	2.5	n/a	n/a	n/a

these price increases because a large percentage of clothing and shoes are imported. As a result, there has been a major decline in imports of clothing and shoes in first quarter 1990.

Consumption of energy products is often volatile and has been especially so over the last several months. Very cold weather in December 1989 raised the consumption of fuel oil, electricity, and natural gas. Warmer than usual weather in January and February 1990 had the opposite effect. The result was to make consumer spending larger than it otherwise would have been in fourth quarter 1989 and smaller than it would have been in first quarter 1990. Real consumption of gasoline in first quarter 1990 fell to the lowest level since the end of 1985 as gasoline prices rose sharply.

The recent volatility in several consumption categories suggests that, although our forecast of total real consumer expenditures is for a smooth increase of about 2.2% for the rest of 1990, the total will mask swings in many components as they adjust to short-run changes in prices and weather-related shocks.

Nonresidential Investment

Lawrence S. Davidson

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

Nonresidential investment includes business fixed investment (BFI) and inventory change. After leading the country's economic growth since 1982, mostly through strong equipment sales, BFI began to slow in 1989. Last December we predicted a continuation of this sluggish growth in 1990, so when coupled with modest inventory accumulation, nonresidential investment would grow by around 4%.

Since that writing we have received data on fourth quarter 1989 and first quarter 1990. The level of BFI fell from its third quarter value and then picked up again in first quarter 1990, growing by more than 4% per annum during the first quarter. Inventories piled up in fourth quarter 1989 and then fell dramatically, to a seasonally adjusted accumulation of only $2.6 billion in first quarter 1990. The increases in BFI, as throughout most of the recovery, have largely come through the equipment sector. Growth in business structures continues to be weak. The upshot is that while first quarter numbers were somewhat rosy, the slow growth scenario envisioned last December is hardly changed by recent events. In addition, the volatile weather of early 1990 played havoc with construction activity, so the numbers for the first quarter offer at best an opaque window for future prognostication.

If anything, there may be reason to pare down our 4% forecast a notch. First, the auto industry has problems. First quarter profits for the Big Three showed big reductions. The inventory numbers for the first quarter show how the industry reacted—by producing less. Although the inventory numbers may return to normal by midyear, we predict caution on the production side. And less output means less demand for tools and equipment. Second, cost factors do not bode well for more investment spending. Economy-wide wage and unit labor costs accelerated in 1989, growing at a rate of about 4.5%. Then unit labor costs rose another 4.9% at an annual rate in first quarter 1990. Demand for industrial goods is climbing rapidly and there is a growing potential for price increases from this sector. These rising costs of labor and materials may lead to a more widespread profit and liquidity squeeze as the year progresses.

Finally, macroeconomic policy continues to send warning signals to managers. Interest rates crept up until the second quarter even though the Fed has allowed M2 to grow at the top of its range for almost a year. With inflation not subsiding, this leaves less doubt about the future course of interest rates. The government seems hamstrung by politics, but business can't help but worry a little about which taxes will be raised as part of the new fiscal package. And as the savings and loan bailout numbers get scarier, the wait-and-see attitude about plant and equipment spending may be strengthened. Taken together, these recent events suggest that we revise our previous prediction for nonresidential investment downward. We expect no higher than a 3% rate of growth.

Government Monetary and Fiscal Policy, Unemployment, Inflation, and Interest Rates

George W. Wilson

Distinguished Professor of Business Economics and Public Policy and Professor of Economics, Indiana University

As noted here last December, the absence of a sensible fiscal policy won't make much difference for the real economy during 1990. The most recent bout of deficit mania, including discussions between the White House and Congressional leaders in May, probably won't amount to much either, though one hopes that sooner or later a real policy reflecting legitimate priorities will be forthcoming. The S&L bailouts have put more pressure on the participants to "do something" about the deficit, but in itself the bailout is an income transfer whose real effects are not especially consequential. The real damage to the economy has already been done in the form of wasted and misdirected investment in construction. Furthermore, attempts are now going forward to make the S&L transfer payments exempt from GRH deficit calculations. So much for the relevance of the size and meaning of the "official" deficit! Politically the deficit issues, from "read-my-lips" nonsense to fussing about which additional taxes to raise, which party will get the blame, and how much further to cut military spending, will be very important. Fortunately for the economy, these are mostly smoke, although they will restrain productive expenditures in many needed areas and create more anxiety and pessimism throughout the system than is necessary. However, we've seen it all before.

Monetary policy remains poised to prevent any further inflationary outbreaks following unacceptably high first quarter rates, which were largely weather related. Further inflation rates promise to be far lower over the rest of the year because the unemployment rate is up to 5.4% (the highest in more than a year), overall real growth of spending remains well below the system's capacity, industrial raw materials prices are far below last year's levels, and the higher value of the dollar has reduced import price increases, to mention only some of the more obvious deflationary pressures. The slow turnaround in real output growth, apparent from more recent data on factory orders and leading indicators, is not expected to sustain inflation rates already experienced during the first quarter. The Fed should resume a policy of moderate ease to encourage the tepid turnaround and prevent a recession.

The revolutionary events in Eastern Europe and the ending of the Cold War in 1989 will translate into demand for U.S. exports as the nations seek to modernize their industries, improve infrastructure, clean up the environmental disasters left by an unprincipled industrialization process, and otherwise struggle to achieve sustainable growth rates well above population growth. The detente dividend is also real and substantial. Not much stimulus to the U.S. economy will be felt by year's end, but many domestic industries will be gearing up before that time. The investment needs for Eastern Europe and the Soviet Union will be enormous over the next decade, and the U.S. will provide a substantial share. But for the rest of 1990, additional demands from this source will be meager. Growth rates of the other GNP components are envisaged to be small enough to average barely 2% for the year as a whole, as previously forecast.

Unemployment rates may rise even higher, partly in response to reductions in military outlays and personnel needs, but they should end up averaging about 5.5% for all of 1990. Interest rates should fall slightly in the next several months, depending of course upon inflation expectations (already down) and Fed policy (always vigilant), then drift up modestly.

It thus seems that in macroeconomic terms, the economy should be rather well positioned to reach a higher growth plateau. This will be triggered by a more buoyant world economy and more substantial investments and technological improvements as U.S. business and government respond to the continuing economic threat of Japan, the Asian "gang of four," a resurgent Western and Eastern Europe, and a sea-change in the world investment climate that will progressively substitute economic competition for military in most areas. But this is a scenario for another occasion.

The International Economy

Jürgen von Hagen

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

Since our last forecast, the international economy has been shaped by two dramatic, unforeseen developments, both spurred by political change. The first is the revolutionary change in the political and economic systems of Central Europe, especially in East Germany. The second is the financial crisis currently shaking Japan's business sector.

The political changes in Central Europe have started a process of modernization and liberalization in these countries that is necessary to revitalize the economies after four decades of socialist mismanagement. Only as Western businesses have started to consider investment in these countries as a promising alternative have the size and severity of their economic problems become clear: chronic pollution, outdated and obsolete capital stocks, and a lack of necessary infrastructure. The need for capital, both private and public, is therefore immense. However, as the political risks appear to become more tolerable, investment opportunities also promise good profitability. The economies' biggest asset is probably their relatively well-educated work force.

With German monetary union a reality, and with a virtual certainty of German political unification, East and West Germany are in key strategic positions. German monetary union went into effect on July 1, following agreement on an exchange rate of 1:1 for a limited amount of East German marks for West German DM, and 1:2 for the remainder. West German companies have already started to move into the country, and several U.S. companies have participated in the move through their West German subsidiaries. These changes find West Germany in the middle of a booming economic expansion fueled by the large inflow of immigrants from East German and other Eastern countries during the last two years.

Apart from rising West German real growth, which will spill over to Germany's main trading partners, a notable consequence of these changes has been a distinct rise in German interest rates, which are now above U.S. rates for the first time in 20 years. High German interest rates reflect two factors: the expected high real rate of return on investment in East Germany and other Central European countries financed through West Germany's capital market, and increased uncertainty about inflation, as the West German Bundesbank embarks on the difficult task of managing monetary policy for both countries. The Bundesbank's reputation and historical performance indicate little reason to fear that monetary union will increase Germany's trend inflation rate in the long run; yet the variability of inflation is likely to rise as very little is known about the demand for money in East Germany.

The international repercussions of these developments are twofold. In the near future, high interest rates will attract capital to Germany and Central Europe and push up interest rates in the U.S. and elsewhere. The U.S. will find it more difficult to attract the capital necessary to finance its current account deficit. The higher attractiveness of investment in Germany will also be reflected in a stronger DM, which has already appreciated about 10% against the dollar since fall. More than the U.S., the developing countries will feel the increased burden of higher world interest rates. This may damage their financial stability and reduce their growth prospects in the near future. On the other hand, a weaker dollar and growing demand for investment and consumer goods from Central Europe will improve the export opportunities of the U.S. and the developing countries.

The current economic developments of Japan are of a very different nature. Japan is now paying the price for participating in an ill-conceived effort of international monetary policy coordination between 1985 and 1988. Japan's policy of cheap money aimed at supporting the dollar caused stock and property prices to soar. These tendencies have been reversed as Japanese monetary policy has become more restrictive to fight the revival of inflation. The underlying real economy remains healthy, but the Japanese business sector has suffered a significant financial downturn—reflected in a drastic decline in the Tokyo stock market, with the result of a weakening yen and a fall in the current account surplus to an estimated $40 billion in 1990. Japan is likely to cut back the supply of capital to the world's financial markets, which contributed largely to the financing of the U.S. current account deficits of the past decade.

The dollar is thus torn between two tendencies: depreciation against the DM and other European currencies, and appreciation against the yen. Given the predominance of U.S. trade with Asia and Canada and the current weakness of the Canadian dollar, we foresee a slight to moderate appreciation in the trade-weighted value of the dollar. At the same time, however, the reorientation of international capital flows away from the U.S. should lead to a stagnation if not a slight improvement of the U.S. current account.

Interest Rates and Financial Markets

Donald L. Tuttle

Professor of Finance, Indiana University School of Business

The easing of interest rates for 1990 that was forecast last December had not materialized by the end of May for a number of reasons. They include the Federal Reserve's continued concern with inflation, the large supply of debt coming to market, the continued overhang of junk bonds, and the concern over financing both a larger-than-forecast federal government deficit and an expanding S&L bailout. Long-term government bond yields rose from about 8.0% to 8.6% in the first five months of 1990. The steepening of the yield curve that had been projected did materialize during these same months, with the spread between short- and long-term government rates moving from zero to 100 basis points by late May.

The most likely scenario for the remainder of 1990 is no change—relatively moderate and stable real growth, inflation, and monetary policy. The only exception would be if the economy shows signs of significant weakness toward the end of the year, in which case rates will fall as monetary policy eases. A possible cause of such a scenario would be a continuation of the constraints on lending imposed by banks, which have caused credit growth over the last several months to be the lowest in decades.

The forecast for a relatively lackluster equity market and a total return in the 10-13% range still holds. In 1990 the stock market has been characterized by two phenomena. One is the sharp decline in some overseas markets, especially the Japanese market, followed by sizeable recoveries. The other is the large difference in performance between large-capitalization U.S. stocks and small-capitalization issues, accentuating a trend that began in 1983. The difference in total return between these two groups approximated 4.5% in the first five months of 1990.

The ingredients that support a moderate return in the stock market for the balance of 1990 include a low-growth economy with moderate inflation and stable interest rates, strong dividend growth to counterbalance a weak corporate profit picture, and large liquidity of institutional investors coupled with equity ownership by institutions at historically low levels relative to other holdings.

Housing

George H. Lentz

Assistant Professor of Finance and Real Estate, Indiana University School of Business

Mortgage rates fell in the third and fourth quarters of 1989. But instead of continuing to fall, as we forecast six months ago, rates for both fixed-rate and adjustable-rate mortgages have risen slightly during the first four months of 1990. There are signs, however, that they have begun to level off, and they may have even decreased slightly recently. In December 1989, fixed rates had fallen below 10%, but they had risen to slightly over 10.5% at the end of April 1990. In the previous forecast we predicted that the average interest rate for fixed-rate mortgages would be 9.5-9.75% for 1990, and we thought that most of the downward movement would occur in the first half of the year. We now feel it is unlikely that rates will fall into the single digits before the fourth quarter. Rates should level off or even decrease slightly for the remainder of the year because of the expected softening of the economy, unless an overriding factor, such as a credit shortage, should have a countervailing effect.

A credit shortage may affect mortgage rates in two ways. First, in the wake of both the S&L debacle and severe overbuilding in many real estate markets, there are signs that financial institutions (especially banks) have been pulling in their real estate lending horns. Most of the complaints of a "credit crunch" are coming from those in the acquisition, development, and construction side of the real estate market. Second, and more important with respect to the economy in general, is the possible diversion of international capital flows from the U.S. toward Europe. This diversion of funds, coupled with a federal budget deficit in constant need of funding, could exert upward pressure on interest rates that would dominate the downward pressure exerted by a soft economy.

The National Association of Home Builders reported that total housing starts for 1989 were approximately 1.376 million units, which represents an approximate 7.5% decline from 1988 and the third consecutive annual decline in housing starts. After rebounding to a seasonally adjusted annualized total of 1.57 million units in January 1990, total starts fell in each successive month to 1.245 million units in April—the lowest level since October 1982. The slight decline in mortgage rates at the end of 1989 seemed to fuel the relatively sharp increase in housing starts in January. But this rise was choked off by the increase in rates that occurred during the rest of the first part of the year. We have no reason to adjust our previous forecast of 1.4 million units at this time.

The National Association of Realtors reports that sales of both new and existing single-family homes declined in 1989. Sales of new homes were down 3.8% (676,000 to 650,000 homes) and sales of existing homes were down 4.3% (3.594 to 3.440 million homes). An interesting note is that sales of existing homes for 1988 were the largest number since 1979.

Sales of new and existing homes in the Midwest during 1989 moved in opposite directions. Sales of new homes in the Midwest were 5.2% higher than for 1988 (the only region in the country to show a net increase). Sales of existing homes, on the other hand, were down 1.07%. The number of sales in the Midwest seemed strong relative to starts, at least compared to national figures. Expectations of a weakening regional economy may have limited building activity even though sales remained relatively strong.

Data indicate that, nationally, the median price of existing homes increased approximately 5.1% (from $91,200 to $95,900) from first quarter 1989 to first quarter 1990. The median price of new homes increased approximately 5.6% over the same period (from $118,000 to $124,600). During first quarter 1990 the median price of existing homes increased about 3.4% over fourth quarter 1989 (from $92,700 to $95,900).

The construction of multifamily housing has declined substantially since 1985. For 1989, multifamily housing starts were 372,000, a decline of 8.6% from 1988. Multifamily starts have declined every year since 1985 and in first quarter 1990 were 77,000 (a quarterly, not annualized, number), a decline of 9.4% from fourth quarter 1989. The trend of declining investment in multifamily housing that characterized most of the 1980s is apparently continuing into the 1990s. In the previous forecast we said that the decline in multifamily housing construction should begin to bring vacancies down and thus put upward pressure on rents, stimulating construction. Though vacancy rates have declined slightly in the last two years, they remain high in the face of a low level of production, which does not bode well for new construction, at least in the short term.

A Closer Look at Indiana's Economy

Morton J. Marcus

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

By most accounts, Indiana's economy in 1989 steamed ahead. The evidence is coming in, but is it clear? Employment, the magical touchstone indicator, reached an all-time record level of more than 2,760,000, with a growth of more than 93,000. For the second year in a row, Indiana's rate of growth in employment outpaced the nation. In 1989 Hoosier employment grew by 3.5% while the nation's employment advanced only 2% (see **Table 1**). As a result, Indiana's 1989 share of total employment in the U.S. (2.35%) was above the 1986 level.

This good news is diminished somewhat when the year is examined in more detail. **Figure 1** offers a view of employment through the percent change for each month from the same month a year earlier. This technique allows us to move around the sticky issues of seasonal adjustment. For the nation, there is a slight downward trend in the data since mid-1987 and a clearer downward tendency since late spring 1989. For Indiana, the downward trend is most evident since mid-1989. The growth observed in the annual data is seen to be proceeding at a declining rate through the latter part of 1989 and into first quarter 1990. In March 1990, our latest observation at this writing, we have, for the first time since December 1987, a month that was below the same month a year earlier. The run of 26 advancing months was over.

When first quarter 1990 is taken as a whole, Indiana's employment declined by a minor amount—just 1,900 persons, or less than one-tenth of one percent. Thirty-seven states had employment gains in first quarter 1990 compared to the same quarter 1989. Indiana ranked 38th, with the smallest decline of those with lower levels of employment (**Figure 2**).

The big gains in employment in first quarter

Figure 1
Number of Persons Employed—Percent Change from Year Before

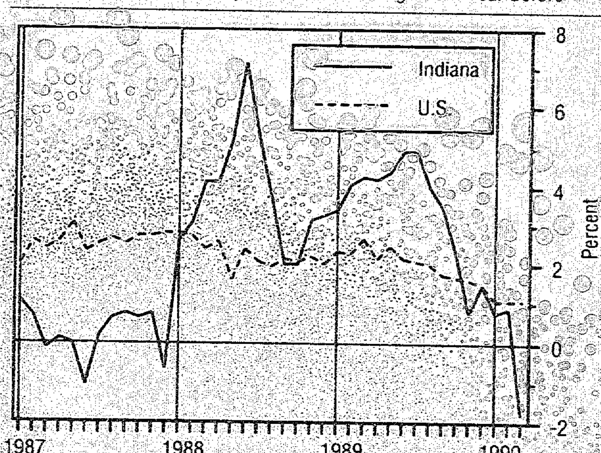


Table 1
Number of Persons Employed (000s)

	Indiana	*U.S.*	*Percent of U.S.*	*Percent Change Indiana*	*Percent Change U.S.*
1986	2,564.2	109,597.5	2.34		
1987	2,570.3	112,440.4	2.29	0.24	2.59
1988	2,668.0	114,968.3	2.32	3.80	2.25
1989	2,761.4	117,326.1	2.35	3.50	2.05

Source: U.S. Bureau of Labor Statistics via EDIN (LFME)

1990 were in southern and western states. Nationally employment grew by 1.1%, with the state of Washington leading at 6.9%. The other extreme was the District of Columbia, with a 3.9% decline.

Employment losses were recorded in states from New England and the Mid-Atlantic regions to the Midwest. Massachusetts, its "miracle" in remission, had a loss of 66,000, or 2.2%. Auto industry layoffs may have been a factor in the negative numbers for states from Pennsylvania to Wisconsin. The trauma of the paper economy, those back-room layoffs from financial firms, may be the contributing factors in Connecticut and New Jersey, as well as Massachusetts.

Earnings

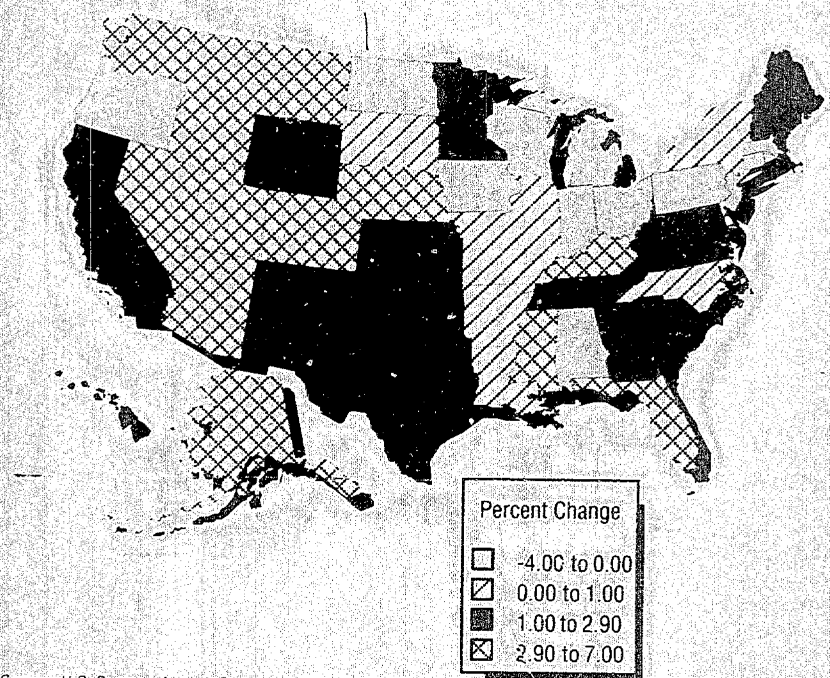
Employment earned the people of Indiana $65.5 billion in 1989. This was up nearly 8% from 1988, compared to a 6.4% rise nationally. It was the first time since the end of the recession earlier in the decade that Hoosier earnings grew at a faster rate than earnings nationwide. (Data reported in this section are in nominal rather than real terms.)

The most favorable aspect of this growth is how widespread it was. Indiana outpaced the nation in all but three categories of earnings (see **Table 2**): services, and federal civilian and military earnings. The state has lagged the nation in rate of earnings growth for business and personal services for four years.

In all other classifications, Indiana's earnings in 1989 exceeded the national rate of growth. Of note were mining and construction, where the state was a full 5% ahead of the national rate of increase. Indiana has exceeded the national rate of growth in construction and in transportation and public utilities earnings for the past four years. For the first time in several years, earnings in Indiana from finance, insurance, and real estate were growing faster than in the U.S.

The most dramatic change came in farming. Because of the drought in 1988, Hoosier farm earnings in that year were down nearly 30% compared with a national decline of only 3%. On the rebound, Indiana grew in 1989 by 102%, doubling the 1988 level of earnings and surpassing the nation's modest, ordinary 5.5% increase. The rebound in farm earnings gave Indiana 2.6% of all farm earnings in the

Figure 2
Percent Change in Number of Persons Employed from First Quarter 1989 to First Quarter 1990



Source: U.S. Bureau of Labor Statistics via EDIN (Table LFME)

nation. This is the highest share Indiana has of any national industry other than the manufacture of durable goods, where the share is 4% (see Table 2).

Farm earnings accounted for 13.2% of the increase enjoyed by the state in 1989 (see **Table 3**). Farming, however, constitutes only 1.9% of all earnings in the state. Services, despite their slower than national rate of growth, made a greater contribution to the state's advance. In 1989 they were 19% of total earnings and contributed nearly 23% of the growth in earnings. The $1.1 billion growth of Services was the greatest magnitude increase for the state in 1989.

State and local government also generated a portion of the 1989 surge. With barely 10% of all earnings, these units accounted for 11.6% of growth; their contribution was just shy of $560 million.

Despite their importance (24.3% of earnings), the durable goods industries provided just 14.3% of the growth—though still in excess of $688 million.

Considerations

The data reported above are encouraging, but as annual numbers they can hide important trends. From the quarterly data we can note a few points worth observing in the months ahead.

One way of following trends is to note the percent each sector in Indiana has of the nation's earnings—in effect, the Hoosier market share. **Figure 3** provides a close-up view of Indiana's share of total U.S. earnings. At this scale the changes are dramatic;

Table 2
Earnings by Industry, 1989

	Indiana (Millions of dollars)	U.S. (Millions of dollars)	Ind./U.S. (percent)	1988-89 Percent change Ind.	1988-89 Percent change U.S.	Difference Ind.-U.S.
Total Earnings	65,477	3,164,244	2.0693	7.9	6.4	1.6
Farm Earnings	1,259	48,334	2.6038	101.8	5.5	96.3
Non-Farm Earnings	64,219	3,115,910	2.0610	7.0	6.4	0.6
Private	55,831	2,616,542	2.1338	6.7	6.2	0.5
Ag Serv., For., Fish. & Other	269	19,102	1.4083	5.0	3.8	1.2
Mining	374	30,498	1.2271	4.5	-0.7	5.2
Construction	4,038	195,699	2.0631	8.2	2.7	5.6
Manufacturing	21,292	627,217	3.3946	5.0	3.9	1.0
Non-durable Goods	5,360	233,773	2.2926	6.3	4.6	1.8
Durable Goods	15,932	393,445	4.0493	4.5	3.6	1.0
Trans. & Public Utilities	4,599	210,884	2.1808	5.5	5.4	0.1
Wholesale Trade	3,611	208,739	1.7299	8.8	7.7	1.1
Retail Trade	6,095	299,828	2.0329	6.4	5.7	0.7
Fin., Ins., & Real Estate	3,077	224,253	1.3722	5.9	3.8	2.1
Services	12,478	800,325	1.5591	9.7	10.2	-0.5
Government/Govt. Enterprises	8,388	499,368	1.6796	8.6	7.4	1.2
Federal Civilian	1,462	104,788	1.3950	7.3	8.0	-0.7
Federal Military	339	44,770	0.7572	1.6	3.6	-2.1
State and Local	6,587	349,810	1.8829	9.3	7.7	1.6

Source: U.S. Bureau of Economic Analysis via EDIN (Table PITE)

Table 3
Change in Earnings, Indiana, 1988 to 1989

	$ millions	% of total change	% of total earnings
Total Earnings	4,817.50	100.00	100.00
Farm Earnings	634.75	13.18	1.92
Non-Farm Earnings	4,182.50	86.82	98.08
Private	3,518.25	73.03	85.27
Ag Serv., For., Fish. & Other	12.75	0.26	0.41
Mining	16.00	0.33	0.57
Construction	307.50	6.38	6.17
Manufacturing	1,008.50	20.93	32.52
Non-durable Goods	319.50	6.63	[illegible]
Durable Goods	688.25	14.29	24.33
Trans. & Public Utilities	240.50	4.99	7.02
Wholesale Trade	291.50	6.05	5.51
Retail Trade	367.25	7.62	9.31
Fin., Ins., & Real Estate	171.75	3.57	4.70
Services	1,104.25	22.92	19.06
Government/Govt. Enterprises	664.25	13.79	12.81
Federal Civilian	99.25	2.06	2.23
Federal Military	5.25	0.11	0.52
State and Local	559.50	11.61	10.06

Source: U.S. Bureau of Economic Analysis via EDIN (Table PITE) if the y-axis scale were 0 to 3, then the line would show virtually no change, but it would also provide little information. The sharpest spikes are closely associated with changes in farm earnings, as depicted in **Figure 4**. Despite the small share farm earnings represent in the Indiana total, they contribute strongly to the volatility of the state's economy.

But other forces are to be noted. Private sector non-farm earnings showed a strong surge in first quarter 1990—during what appears to be a downward trend, which resumed soon thereafter (see **Figure 5**). So it was not farm earnings alone that have driven the variations in the state's share of the nation. Durable goods manufacturing (**Figure 6**) experienced very strong growth relative to the nation in early 1989, but those gains were lost in the second half of the year. Similar patterns can be found in finance, insurance and real estate, as well as wholesale trade, for the first three months of 1989.

These observations give rise to some questions: Did Indiana have an unusually strong first quarter while the rest of the nation was stolidly going about its business? For example, the growth rate in earnings for first quarter 1989 for wholesale trade was 4.9%, preceded by a rate of 0.5% and followed by a rate of 0.2%. That is clearly a spike. During the same time the respective rates for the nation were 1.85%, 1.75%, and 1.78%. Why should Indiana's wholesale trade sector demonstrate such vigor? Similar questions can be asked of the data for other sectors.

We doubt that the data are wrong. There could be some subsequent revisions, designed to drive analysts insane, but the numbers presented here are those currently available. The seasonal factors used to delete normal variations could be faulty. Or, it is possible that we had a great boom in the Indiana economy during first quarter 1989 and this writer played Rip Van Winkle while the rest of you experienced it.

If the last of these reasons is correct, apologies are extended. If some other explanation is in order, then the euphoric response to the 1989 annual data needs to be put on hold.

Figure 3
Indiana's Share of U.S. Total Earnings

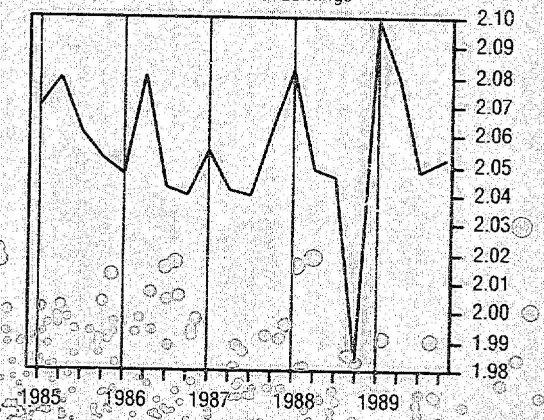


Figure 4
Indiana's Share of Farm Earnings

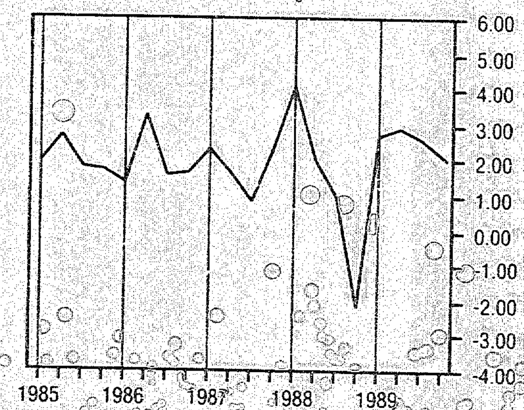


Figure 5
Indiana's Share of Private Non-Farm Earnings

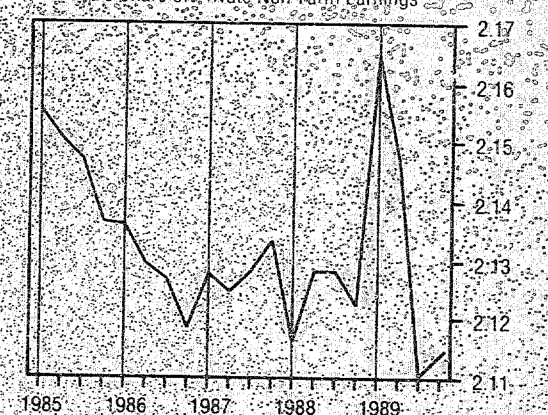
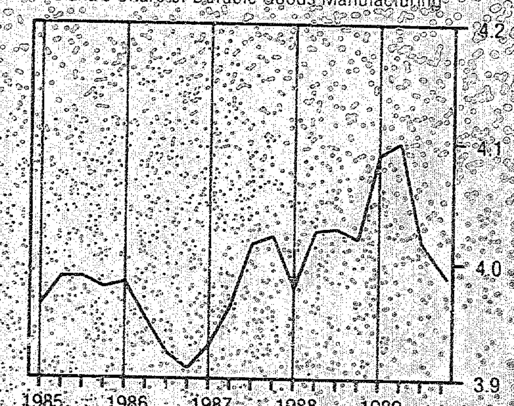


Figure 6
Indiana's Share of Durable Goods Manufacturing



Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University at Indianapolis

The Indianapolis metropolitan economy will continue to grow, but at a slower rate as we approach 1991. The primary reason is a slow-growth national economy. Although a sluggish national economy would suggest weakness in loan demand and, therefore, downward pressure on interest rates, there are other factors that may result in less downward movement than expected. These factors include, for example, the Resolution Trust Corporation's need for "working capital" to purchase assets of insolvent thrifts. The consequence of this interest rate scenario is a 2% growth rate in employment and personal income for Indianapolis as we move through the second half of 1990 and into 1991, rather than the more-than-3% rate that we have enjoyed recently.

Recent Performance

Indianapolis has been a strong performer throughout the 1980s, as indicated by per capita personal income rankings in **Table 1**, which provides information about levels of income and rates of change. Public and private officials responsible for economic development may take satisfaction in the comparatively high rate of change for Indianapolis. Since the data are *per capita* personal income, different rates of population change have been accounted for.

Table 1
Per Capita Personal Income for Selected Metropolitan Areas, 1983-88

Metropolitan Area	*% of National Average 1983*	*1988*	*Rank 1983*	*1988*	*% Change 1983-88*
United States	100.0	100.0	---	---	36.3
INDIANAPOLIS	**100.0**	**103.0**	**106**	**75**	**40.4**
Chicago	115.9	115.6	34	34	35.9
Cincinnati	100.8	100.9	102	92	36.4
Cleveland	111.0	110.2	44	51	35.3
Columbus	97.5	98.6	137	110	37.7
Dayton	97.3	97.7	138	114	36.9
Detroit	106.8	112.5	65	45	43.5
Kansas City	106.9	103.6	64	70	32.1
Louisville	95.5	95.1	155	129	35.7
Memphis	90.6	93.7	192	137	40.9
Nashville	93.6	98.6	170	109	43.6
St. Louis	108.7	108.0	53	57	35.4

Source: U.S. Department of Commerce

Population change is equal to natural increase (births minus deaths) plus net migration. **Table 2** illustrates components of population change for the Indianapolis metropolitan area and its component counties, 1983-88.

Concerns Facing Indianapolis

Tables 1 and 2 describe the past; what about the future? The economic record of the past has provided confidence and momentum, but it has also created some concerns. One concern is excess inventory in office space. Forces that drive demand for office space at the national level include growth in the adult population, share of the population working in offices, and amount of space per office employee. At the local level, demand is derived from expansion of existing firms, and new firms generated locally or attracted from other areas. Although more of the population will be working in offices and space per office employee will grow, the national rates of growth will decrease in the 1990s. Indianapolis has had a comparative advantage due to its central location and the lower cost of office space. However, costs associated with infrastructure and environmental improvement may somewhat diminish this advantage. In the short run, to reduce vacancy rates, production will trail absorptions.

Retailing will become increasingly competitive as stores such as Wal-Mart enter the metropolitan area and Melvin Simon seeks (as of mid-June) final commitments from anchors to fill the Circle Centre Mall. Retailing has tended to follow residential development; Circle Centre Mall is expected to depend upon an estimated 20-25% of its sales receipts from a radius beyond 75 miles of Indianapolis. Thus, a continuous flow of conventioneers and other visitors is required.

Table 2
Components of Population Change, Indianapolis Metropolitan Area and Component Counties, 1983-88

County	*Change in Population*	*Natural Increase*	*Net Migration*
Marion	19,900	32,700	-12,800
Hamilton	16,300	3,900	+12,400
Johnson	5,600	2,700	+2,900
Boone	1,000	1,000	0
Hancock	1,700	900	+800
Hendricks	4,700	2,300	+2,400
Shelby	0	1,200	-1,200
Morgan	2,000	1,600	+400
METROPOLITAN AREA	*51,200*	*46,300*	*+4,900*

Source: Indiana Business Research Center, Indiana University

A second concern also arises from the population shifts in Table 2, which show an increased need for a multicounty approach to problems arising from this growth. To deal with this, the Indiana General Assembly has conferred on all counties the authority to establish multiple county infrastructure authorities (MCIAs). These authorities have the power of eminent domain, to enter into contracts with a political subdivision, borrow money and issue bonds, operate and charge fees for the use of infrastructure improvements, and enter into a lease of infrastructures. Infrastructure means sewage works, thoroughfares, solid waste disposal facilities, and any other capital project.

As the number of vehicles increases faster than the capacity of the transportation system, costs (time and environmental) arise at peak load times. Since transportation problems involve several counties, a multicounty framework is required. The governmental structure has been provided. Short-run solutions involve mechanisms to manage existing capacity; long-run solutions involve increases in capacity and alternative modes—and are much more costly.

A third concern is today's auto-dependent transportation system. For example, the Circle Centre Mall must be "auto-friendly." However, the large number of autos for a relatively small area makes it more difficult for the city to attain air quality standards. The autos emit carbon monoxide downtown and, due to prevailing wind patterns, contribute to the production of ozone in the surrounding counties.

Consumption

Nationally, consumption has been a major contributor to the economic expansion during the 1980s, rising from 62.8% of real GNP in 1979 to 64.4% in 1989. I have examined some components of consumption at the state level and make the following observations:

1. Building supplies, automobile expenditures, furniture, and restaurant dining are responsive to the proportion of a state's population aged 18-35 (the baby boomers) during the 1980s. This age group was then in the household formation phase of life, purchasing the first home and incurring household-formation expenditures.

2. Women's clothing is very responsive to the increase in state disposable income per household. As the demand for eating out has increased, with the women in this age group being gainfully employed, so has their demand for suitable clothing.

As the baby boomers age, will these patterns of consumption continue? The life-cycle analysis of saving suggests that households borrow in the early years, save during the peak earning years, and then dissave during retirement. The decade of the 1980s has been characterized by historically low private saving rates (saving excluding the accumulation of government pension funds and the social security trust fund). The legacy of the 1980s has been to burden future generations by a public and private consumption experience of unprecedented proportions.

At the micro level, not all groups have benefited equally. High-wage workers have shown increases in real earnings, workers around the middle have shown only small changes in real earnings, and low-wage workers have experienced decreases. Changes in the industrial composition of jobs have disadvantaged less-educated minority males relative to other population groups and resulted in problems in family formation and nurturing.

For Indianapolis to continue as a strong performer in the 1990s, we will need to modify attitudes and institutional incentives to bring about a better labor market demand and supply match. Indianapolis's for-profit, governmental, and nonprofit institutions can make important contributions by developing a constructive response to this challenge.

Northwest Indiana

Leslie P. Singer

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There is not much drama to report for the remainder of 1990. We have an essentially stable manufacturing sector and continuous growth in the nonmanufacturing sector. The expansion rate is pretty much as we had predicted. No significant changes from the aforementioned growth patterns are anticipated.

We may take this opportunity to focus on persistent structural changes that are altering the features of the Northwest Indiana economy. We have for many years referred to the region as the Gary-Hammond-East Chicago regional economy. We have identified the region, and notably Lake County, by those three principal urban communities. Such a characterization may no longer be appropriate, even if we do not include Porter County, which is, of course, part of the primary metropolitan statistical area (PMSA).

Consider the following: Projections for 1992 indicate that more than 50% of households will reside in nonurban surroundings. The population outside the three cities will account for 57.3% of aggregate personal income. Moreover, 66.3% of retail square footage planned and in place will be in nonurban areas. Almost 70% of all financial, medical, and similar service jobs will be located in nonurban areas. More than 67% of all retail sales, other than groceries and drug store sales, and close to 69% of nonmanufacturing jobs, will occur outside the urban centers. Over one million square feet of commercial expansion will occur at both the east and west ends of Lake County.

More than 80% of all popular cultural events and entertainment such as movie theaters, exhibitions, concerts, and conventions occur outside the urban centers. This does not mean that nothing takes place in the cities anymore. The two major universities, Indiana and Purdue, are still in the cities and are likely to remain there. The new university, Park Medical Center, is a splendid example of vibrant black entrepreneurship. The marinas in Hammond and East Chicago will breathe new life into the Michigan shoreline, circling the urban regions of Lake County. Nevertheless, the character of Lake County which we have always identified as urban, is changing. De-urbanization has altered its economic and social fiber.

De-urbanization in Lake County is underscored by the fact that of the 1,100 to more than 1,300 single-family residential structures that are built each year, more than 99% are located in non-urban areas. The average of nine to 12 structures built in urban areas is significantly fewer than the number of structures deserted, torn down, or abandoned in the cities. If single-family dwelling units and commercial buildings are totaled, the percentage is still around 95%. We also note that more than 85% of the buildings and offices are located south of or in close proximity to Highway 30, where new communities are emerging.

One could easily brush this off by contending that such events take place in all cities. However, that would be an incorrect assessment. Chicago is still expanding and so is Indianapolis; these cities remain the cultural, economic, and financial hubs of their respective hinterlands. In Lake County, however, the next century will witness a dramatic shift of identity from the cities to the new communities in the south. Here political, economic, and social power may articulate a commonality of interest that, unfortunately and to their detriment, the cities of Gary, Hammond, and East Chicago have never achieved.

Is the erosion of the industrial base a factor? To some degree that is the case. Of the almost $6 billion of annual personal income in Lake County, only 23.8% is contributed by the manufacturing payroll. In addition to the nonmanufacturing payroll, the remainder comes from pensions, transfers, the health care industry (mostly supported by public and private insurance), business profits, retirees' liquid assets, and exports of human resources (labor to Chicago).

The highly skilled labor force, once the pride of the cities and a major attraction for industry to locate here, is aging and retiring. The new skills required by modern industry are no longer produced in abundance in the urban sectors. Those skills can now be found mainly in the nonurban communities. Eventually, new small plants will locate where the skills exist, which is the nonurban sector of Lake County.

Our computer programs have made only minute revisions of our 1989 forecast. The most volatile sector of the local economy has been construction, and that is where revisions were required. We predict continued strength in construction, barring an unforeseen surge in interest rates, which we do not anticipate.

The manufacturing sector remains uninspired. Steel employment does not seem to have been affected by the national decline in auto sales. The steel payroll declined less than 6% in the months when the downturn in the auto industry was most pronounced.

The non-goods producing sector—a new term in the Indiana State Employment reports—is still going strong. At some point, possibly after 1992 or 1993, the manufacturing sector will have to expand; otherwise, the growth in local employment will not be sustainable. We may have a local recession even though the national economy may still be forging ahead.

Table

Seasonally Adjusted Data for Northern Indiana (Employment in 000s, payroll in $ billion)

	Actual				Forecast				
	January 1988	*January 1989*	*January 1990*	*1Q 1990*	*2Q 1990*	*3Q 1990*	*4Q 1990*	*1Q 1991*	*2Q 1991*
Total Employment	221.00	230.60	238.20	242.25	244.90	246.97	247.57	247.93	247.98
Manufacturing	56.20	57.40	56.30	57.50	58.18	57.04	56.83	57.32	57.84
Steel	35.30	35.20	35.10	35.70	36.10	35.12	35.44	35.89	36.19
Non-Steel	20.90	21.80	21.21	21.80	22.08	21.92	21.39	21.43	21.65
Non-Goods Producing	154.20	161.00	167.90	169.22	170.69	171.71	171.42	172.08	172.61
Trade	52.10	54.90	56.70	55.71	58.52	59.15	60.32	58.91	58.95
Government	31.60	31.80	31.90	31.60	30.87	31.93	32.10	31.72	32.31
Services	47.60	50.50	55.10	54.91	54.39	56.23	57.99	57.49	56.99
Payroll (Annualized)									
Manufacturing	1.87	1.87	1.98	1.93	2.05	2.04	2.01	2.11	2.15
Steel	1.22	1.22	1.37	1.28	1.34	1.33	1.31	1.38	1.41
Construction	10.60	12.60	14.70	15.53	16.03	17.08	16.32	15.53	17.53

Note: Total Employment = Manufacturing + Construction + Non-Goods Producing employment.

Fort Wayne

Thomas L. Guthrie

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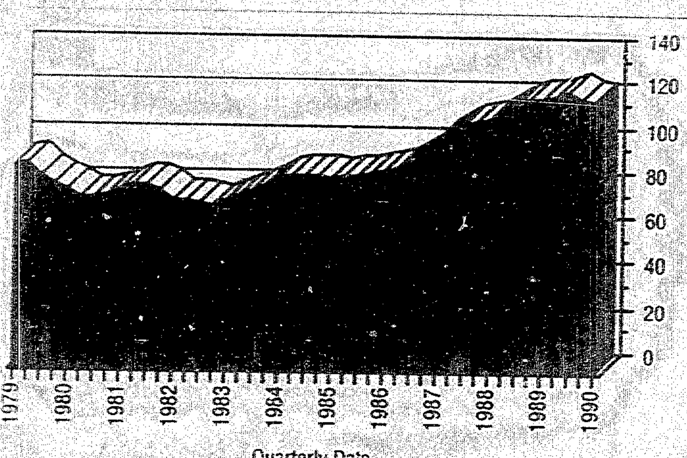
The Fort Wayne area economy continued to eke out a gain through May 1990, according to preliminary data. Seasonally adjusted nonagricultural payroll employment totaled 204,600—an increase of 900 from December 1989. This is consistent with the original forecast (*IBR*, December 1989) of a "tepid" 1990 area economy—1-2% growth by year-end 1990.

The original forecast suggested the likelihood of a slight decrease in employment the first half of the year resulting from an anticipated downturn in auto/truck production. Industrial use of electricity declined through May (see the **Figure**), but employment did not. However, that the data are subject to significant revisions was reinforced with the release of newly "benchmarked" data for 1988 and 1989. (Benchmarking is the process by which the preliminary employment estimates—which are based on a sample of employers—are reconciled with employment reports that must be submitted quarterly by all employers.)

The 1988 employment increase in the Fort Wayne area was revised to 8,900 from 5,500, and 1989 was revised to 5,700 from 4,700. As a result of the revisions, the annual percentage growth in employment in the Fort Wayne area now has exceeded growth in U.S. employment for six consecutive years.

Figure
[illegible] Industry in the Fort Wayne Area
[illegible] Moving Average



Source: Indiana Michigan Power Co. Data seasonally adjusted by the Community Research Institute, IPFW.

Based on the preliminary data, the string was broken in 1988, but the revisions reversed that. Since 1982—the end of the last recession—Fort Wayne area employment has increased 38.3%. The comparable data series for U.S. employment has increased 23.5%.

Internally, the area economy continues its long-term restructuring trend—trading goods-producing jobs for service-producing jobs. In the last year (ending in March), transportation equipment shed 1,600 jobs and business and personal services added 1,100 jobs. Personal and business services account for approximately one-third of the employment in the service-producing sector in the Fort Wayne area. More importantly, the service-producing sector of the area economy now accounts for more than two of every three jobs.

The ever-growing question is to what extent the service jobs are "basic" to the area economy—producing services being purchased by individuals/companies residing outside the geographical area. This would provide additional information as to the sensitivity of the area economy to an economic downturn.

We probably won't get an answer to that question in 1990, since a major national recession still doesn't appear likely in the near term. Tepid still characterizes the Fort Wayne area forecast.

Columbus

Patrick M. Rooney

Assistant Professor of Economics, Indiana University-Purdue University at Indianapolis, Columbus

The local labor market is weaker than it has been for several years. With the exception of our Help Wanted Advertising Index, which is up 9% from first quarter 1989, all labor market indicators have worsened when compared to fourth quarter 1989 and first quarter 1989. For example, the number of persons employed has fallen 3% from a year ago. During this time, the number of persons unemployed has increased 33%. Consequently, the unemployment rate has grown 35% from a 5.4% monthly average in first quarter 1989 to a 7.3% monthly average in first quarter 1990. Likewise, the number of unemployment insurance claims, both continued and new, have grown quite rapidly.

The recent trends in the labor market dramatize the boom-bust nature of a community that relies upon durable goods manufacturing as its employment core. As the national unemployment rate fell to 5.2%, the local unemployment rate fell even faster into the 4.0-4.5% range. Unfortunately, as the national unemploy-

Table
Columbus Area Data

	1Q 1990	2Q 1989	% Change	1Q 1989	% Change 1Q1989-90
Employment Data:					
Number of Persons Employed	28,427	30,023	-5	29,267	-3
Number of Persons Unemployed	2,233	1,733	29	1,680	33
Unemployment Rate	7.3%	5.5%	33	5.4%	35
Continued Unemployment Insurance Claims—Columbus	3,996	1,786	124	2,486	61
New Unemployment Insurance Claims—Columbus	530	400	33	396	34
Help Wanted Advertising (1987=100)	146	144	1	134	9
Housing Construction Data:					
Estimated Value of Permits Issued (000s)	5,431.1	4,585.3	18	3,085.0	76
Number of Permits Issued	49	43	14	36	36
Average Value per Permit	110.8	106.6	4	86	29
Residential Real Estate Data:					
Sold	198	---	---	164	21
Average Days Listed	110	---	---	123	-11
Average Market Price	$73,667	---	---	$61,894	19
Sales Data:					
New Car Sales	401	357	12	488	-18
Used Car Sales	1,938	2,047	-5	2,672	-27

Sources: Indiana Business Research Center, Indiana University; The Republic; *Department of Technical Code Enforcement; Indiana Bureau of Motor Vehicles; Multiple Listing Service; Indiana Department of Revenue; Indiana Bureau of Economic Analysis.*

ment rate edges up, the local rate tends to shoot up, reaching 8.7% in March, which is almost 3.5% above March 1989.

So far, the labor market information has not adversely affected housing construction data. The estimated value of permits issued has grown 18% from fourth quarter 1989 and 76% from a year ago. Because the number of permits issued did not grow as rapidly as the estimated value of permits issued, the average value per permit has grown a robust 29% from first quarter 1989.

Similarly, the local real estate market demonstrated healthy gains from a year ago. The number of houses sold grew 21%. The average days listed (of houses sold) fell 11%. Most importantly, the average market price (of houses sold) increased 19% from a year ago. Columbus's real estate market demonstrated considerable affordability last year; the median home price ranged from $48,000-$63,000 (quarterly averages) and Housing Affordability Index (HAI) scores ranged from 195 to 146. So far this year, the median-priced home in Columbus averaged $55,000, compared to $57,500 for all of Indiana and $69,900 in Indianapolis. Our HAI for the first quarter of 1990 was 171, which suggests that housing in Columbus was slightly more affordable than the rest of the state (160 average) and much more affordable than Indianapolis, which had an HAI of 138. (An HAI of 100 indicates that the median-income earner in an area can just afford the median-priced home, given current interest rates. A higher score suggests one could more easily afford the median-priced home.)

The labor market decline has definitely had an adverse effect on sales. New car sales are off 18% from last year, and used car sales are down 27% from a year ago. Total sales of $19.2 billion for first quarter 1990 are down 42% from the $32.9 billion in first quarter 1989. Likewise, taxable sales are off 47%, falling from $8.5 billion in first quarter 1989 to $4.5 billion in first quarter 1990.

On a more upbeat note, Columbus's quality of life tied for 27th of all 219 "micropolitan" areas (areas with 15,000-50,000 people). Columbus scored well on its proximity to urban areas, public safety, and the local economy. Its per capita income ranked 9th of all 219 areas. Its weakest area was "diversions." (We just have to be more creative.)

On the financial front, Arvin reported record sales in first quarter 1990, but falling net earnings. Although Cummins lost $6.1 million in 1989, it posted a profit of $8.9 million (net earnings) for first quarter 1990. This is down 54% from the $19.5 million net earnings in first quarter 1989, following a 23% decline in the production of heavy trucks.

Local Forecast

The last decade was difficult for many manufacturing communities. Columbus has probably fared better than most. Whether this decade is better depends on a large number of factors, both local and national. Nationally, if the budget summit generates substantial real deficit reductions, then interest rates should fall, making investment more attractive and the dollar less so. Both would help local firms. If the budget talks fail, interest rates and the dollar will remain relatively high, making it more difficult for local firms to compete in the international marketplace.

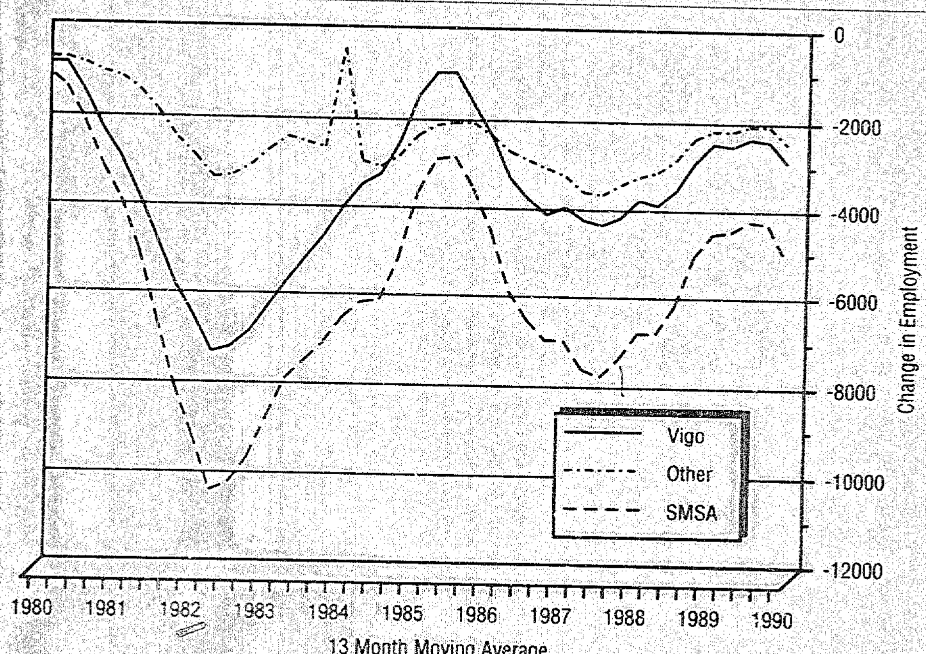
Locally, Arvin finally settled a protracted strike. It remains to be seen whether this can be translated into consistently higher productivity and profitability. Furthermore, Arvin's new strategy of internal growth, rather than growth by acquisition, should benefit the community substantially—if it is successful. However, given that the real output of autos is down 12% from a year ago and that car and truck sales were 17.7% lower for mid-May than a year ago, Arvin and other auto-related local firms may face a difficult year.

Cummins has had a rough time, but the outlook yields hope. While Cummins has laid off approximately 4,000 workers in the past decade, it has cut costs 22% since 1983. Unfortunately, this is less than the increase in the value of the dollar against the yen in the last 17 months. Finally, given that Cummins has reached a truce with its largest shareholder, the firm's management can focus on managing the firm and turning a profit, rather than fighting battles in court.

The Columbus economy is poised at a delicate transition point. If the national economy slows further, our local unemployment rate will continue its dramatic increase. If the local companies cannot prosper in an age of increasingly international competition, then the local service firms and real estate market will also suffer. Conversely, if the federal fiscal crisis can be controlled, then the local economy should rise with the rising tide.

Figure 1

Terre Haute Area Four-County Employment—Change from July 1979



Note: The Terre Haute SMSA now includes Vigo and Clay Counties only. "Other" includes Clay, Sullivan, and Vermillion Counties.

Source: INDIRS.

Terre Haute

Marvin Fischbaum

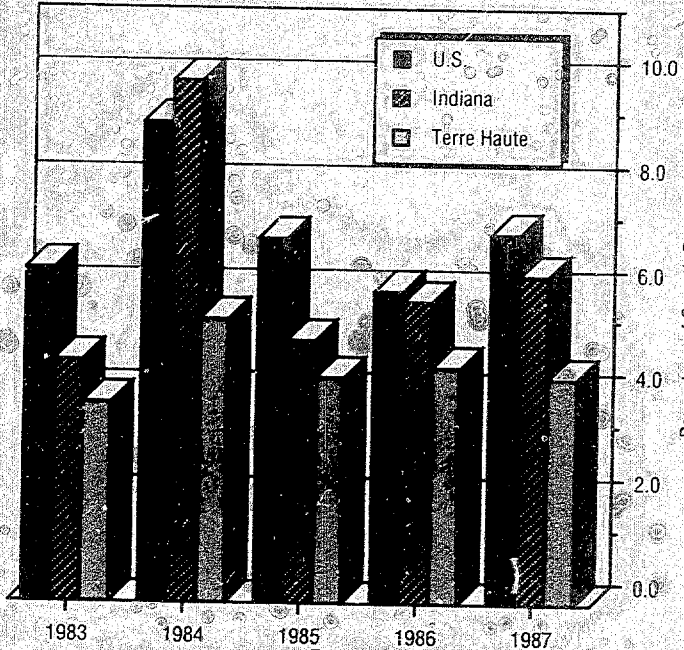
Professor of Economics, Indiana State University

Employment data suggest that the Terre Haute economy experienced a mild setback over fourth quarter 1989 and first quarter 1990. However, local business conditions last year never felt as strong as the employment numbers had indicated, and one finds little collaborative evidence of a downturn. From a longer-run perspective, recent developments lend credibility to the conjecture that the region is recovering from the shocks of the early and mid-1980s.

The unemployment rate for the Terre Haute MSA bottomed at 3.6% in June and July of 1989, rose to 4.7% by November, and then, in line with seasonal patterns, increased further to 5.7% in January. A decline to 5.0% in February was also typical of the season, but the preliminary March numbers brought an unpleasant surprise—a pop to a 6.0% rate. Establishment employment peaked at 59,600 in June 1989. Employment of 58,600 in September stood 2,400 higher than the level 12 months earlier. The gain from February 1989 to February 1990 was 200 jobs, and a March-to-March comparison shows that both jobs and labor force declined by 1,500.

Business relocations continued to have a negative impact on the region. Last January, Pillsbury announced that it will phase out local production of dry groceries over a period of 12 to 18 months. Eventually 270 jobs will be lost, but cutbacks to date have been modest. The gas, electric, and telephone companies all eliminated Terre Haute as a district office in moves that sent jobs to Richmond, Bloomington, and Lafayette, respectively. The number of positions involved is slight, but collectively these utility moves may reflect perceptions regarding Terre Haute's long-run prospects.

Figure 2
Personal Income—Annual Growth Rate



But these prospects may be turning around, as the export base is improving. Some recent consolidations involved moving people to Terre Haute. When UNC Aerospace took over Terre Haute's Tri Industries, it moved work here from Norwich, Connecticut. General Housewares Corporation, after acquiring Chicago Cutlery, is centralizing office operations in Terre Haute. Shenango Industries, another newcomer to the area, has also expanded beyond its initial projections. B.F. Goodrich announced a $19 million expansion of a facility for producing vinyl compounds that will add 40 workers. Bemis Co., in return for a seven-year no-strike labor contract, will invest $40 million in expanding its polyethylene film plant with a projected gain in employment of 200. Added to recently increased capacity at Tredegar for polyethylene film, at Hercules for polypropylene film, and at Alcan for aluminum foil, Terre Haute is rapidly becoming a major center for the production of packaging materials.

The Wabash Valley will also profit from $180 million in construction at Eli Lilly's Clinton Laboratory, largely for the purpose of pollution abatement. A $56-million, 600-bed prison will be located at Carlisle in southern Sullivan County. The prison will employ about 350, equivalent to 5% of the Sullivan County work force. In a county that has had a persistently high rate of unemployment—its rate in March was 9.5%—these jobs are most welcome.

Other new construction includes renovation of the main shopping centers: Honey Creek Mall in the south and Plaza North on the north side. A new strip shopping center along with a Toys-R-Us is underway just south of Honey Creek Mall. On a year-to-year basis, permits for residential construction were flat in dollar terms and off 12% in units. However, with the volume of nonresidential work started last year and still in progress, growth in construction employment has been dramatic, and projects announced this year assure that it will remain strong for some time to come.

The resale housing market continues to show modest improvement. Comparing the first quarter of 1990 with the corresponding quarter a year ago, the number of units sold declined slightly, but so did listings. Average days listed dropped from 169 to 159, while the average selling price rose from $40,304 to $50,850. That increase in selling prices reflects primarily a change in the mix of houses sold. Currently the market is strongest for a four-bedroom colonial in the $150,000 range.

Other indicators also point to continuing strength in the Terre Haute economy. Bank lending remains strong, although the quality of consumer loans may be uneven. Average weekly hours in manufacturing have been rising, reaching a strong 43.2 hours in February. The average weekly manufacturing wage at $438.38 in February increased 6.4% in a year.

Figures 1 and **2** aim at a longer-run perspective. They illustrate anemic economic performance in the 1980s for Terre Haute and for the surrounding counties—Vigo, Clay, Sullivan, and Vermillion. They suggest, though, at least modest improvement toward the end of the decade.

Evansville

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In 1989, the Evansville economy posted a growth rate of 1.8% in the Area Business Index (see the **Table**). The earlier estimate of 2% growth did not materialize due to slower growth in industrial production and weakness in the finance sector. Growth in 1989 was spearheaded by sustained growth in trade and service sectors (3.6%) and in area employment (2.8%). The expected growth in transportation would be delayed until 1990. The decline in construction from the 1986 peak was reversed in 1989 with moderate growth of 0.8%. Area employment lengthened its growth streak to three years. The 1989 unemployment rate was 5%, the lowest since the 1981-82 national recession.

In 1990 the area economy should grow at 2.7%, higher than the national average. The major sources of growth will be in trade and services, revived public construction, and a new surge in transportation activities. The manufacturing activities are expected to grow at less than 1% because of the weak national economic conditions. The manufacturing employment in 1990 is about 1% below that of 1989. However, the recent decision by the Scott Paper Company to build a plant in the area will boost manufacturing employment and regional incomes in coming years.

Evansville's trade and service (private and public) activities are estimated to expand at 5.7% in 1990. In January 1990 the combined employment in these two sectors had a 65% share of local employment, overshadowing manufacturing's share of 23%. Increases in employment in wholesale trade, retail trade, and services from 1988 to 1989 were 4.1%, 4.2%, and 8.5%, respectively.

The construction index in 1990 will be 2.3% higher than in 1989. The residential construction in 1990 will be weaker than in 1989. Residential permit values in first quarter 1990 fell 2% from the same period in 1989. Business and public construction will revive slightly in 1990. Several business construction and expansion projects are still under way. So are public construction projects, such as the completion of the remaining portion of I-164 and the expansion of Roberts Stadium.

The transportation sector became much more active in 1990 after several years of low performance. Now that the Lloyd Expressway, the new airport terminal, and citywide street improvements have been completed, the impact has finally begun to be felt. The transportation index is estimated to rise by 4% in 1990, in contrast to no growth in the past several years. This trend should continue in years to come.

The financial sector still remains stagnant for 1990, although three major local banks have been very active in acquisition activities. The S&L institutions in the area have been soundly managed. This sector should begin to grow as national economic conditions improve.

The growth in local employment for the past four years has been quite satisfactory. The employment index gained 3% a year in the last two years. In 1990, the growth rate is estimated to be 3.7%. Although improvements in employment have been mostly in trade and services, manufacturing employment will begin to rise with the building of the Scott Paper Company plant in Posey County.

In summary, the Evansville economy will continue to grow in 1990, at an anticipated 2.7%, better than in the past three years. Trade and services are major forces in stimulating local growth. Transportation began to join forces in 1990. The manufacturing and finance sectors will not become very active until the national economic conditions improve.

Table
Evansville Area Business Index (1977=100)

	Industrial Production	*Trade & Services*	*Construction*	*Transportation*	*Finance*	*Employment*	*Composite Index*
Quarterly							
1Q 1989	126.03	123.34	120.41	99.72	108.17	114.39	120.78
2Q 1989	123.15	123.73	127.89	99.24	107.81	114.53	120.77
3Q 1989	125.12	123.28	109.08	99.78	106.91	115.70	119.75
4Q 1989	123.64	125.67	108.26	99.83	107.47	118.65	120.29
1Q 1990	125.55	128.69	124.37	104.51	106.38	118.38	123.65
2Q 1990*	122.93	129.76	128.62	102.25	106.53	118.03	122.63
Annual							
1986	116.92	110.70	174.44	99.48	109.91	107.36	117.33
1987	120.57	115.24	131.46	98.04	109.99	109.52	116.58
1988	123.76	119.71	115.54	98.58	108.38	112.67	118.22
1989	124.48	124.00	116.41	99.64	107.59	115.82	120.40
1990*	125.35	131.03	119.12	103.61	107.38	120.09	123.62
Annual Growth Rates (%)							
1985-86	2.3	1.7	60.5	0.3	4.4	0.5	7.1
1986-87	3.9	4.1	-24.6	-1.4	0.1	2	-0.5
1987-88	2.6	3.9	-12.1	0.6	-1.5	2.9	1.4
1988-89	0.6	3.6	0.8	0.1	-0.7	2.8	1.8
1989-90*	0.7	5.7	2.3	4	-0.2	3.7	2.7

Source: School of Business, University of Evansville.
** denotes estimates.*

Kokomo

Dilip Pendse

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Last December I predicted (60-40 odds) that Kokomo's economy would slide into a short recessionary phase in early 1990. The first five months' economic statistics, however, paint a different picture. The economy may not be robust, but it is not weak, either.

The year began with massive layoffs, reminiscent of 1980-82, at Delco Electronics and Chrysler Corporation, Kokomo's two largest manufacturing operations with approximately 16,500 employees between them. In addition, Delco instituted a hiring freeze in January. Fortunately, the layoffs, caused by softness in the auto market, turned out to be temporary. During the first two months as many as 1,500 hourly workers at Delco, nearly 21% of the hourly work force, remained temporarily idled (one week at most). Chrysler's story was no different. In the first week of January it indefinitely laid off 150 transmission plant workers. Three weeks later, 3,850 hourly workers—nearly 80% of the hourly work force—were temporarily furloughed (one week at most).

Due to their temporary nature, these massive layoffs had no lasting impact on the unemployment statistics. Howard County's unemployment rate averaged 6.7% for first quarter 1990, compared to 5.9% the year before. Again, compared to first quarter 1989, Howard County's average monthly labor statistics for 1990 indicate a shrinkage in the labor force, a reduction in the number of job holders, and a swelling of the number of job seekers.

What has kept mid-north-central Indiana's industrial hub alive and ticking is the service-producing sector. During first quarter 1990, on the average, 26,400 people per month held jobs in the service-producing sector, 5% more than the year before. The largest average monthly gain was registered in the service sector (700), followed by retail trade (500), transmission, communication, and utilities (200), finance, insurance, and real estate (200), wholesale trade (100), and government (no change).

Unlike the service-producing sector, the manufacturing sector registered a decline. The monthly average number of manufacturing jobs during first quarter 1990 was 3% lower than during the same period a year ago. Manufacturing jobs accounted for 43% of total jobs, compared to 45% in 1989. Not only did fewer people work in the manufacturing sector, they worked fewer hours due to production cuts. Through March 1990, the average manufacturing work week stood at 41.7 hours, 2.1 hours less than during the same period a year earlier. Naturally, because of the shorter work week, average weekly earnings in the manufacturing sector remained at $680, 5% below last year's first quarter level.

Data released by the U.S. Department of Commerce in May indicate that in per capita terms, Kokomo is still one of the most affluent areas in the state. Its per capita income rose 10% in 1988 to $15,786, the third highest in the state. Interestingly, 23 years ago Kokomo's per capita income was $3,578, also ranking the third highest in Indiana. Thus, per capita income in Kokomo has risen almost fivefold in a little over two decades!

Housing follows jobs, and although the job market in Kokomo is not hot, it is not subdued either. In fact, it is surprisingly stable. While the building construction activity remained considerably stable, the market for existing houses eased quite a bit. According to IU's Center for Real Estate Studies, Kokomo's realtors sold 141 homes during first quarter 1990, down 15% from the year before, and registering the second lowest first quarter volume since 1979.

Despite a low home sale volume, the median home sale price edged higher. The first quarter's median home price of $49,350 was 15% higher than first quarter 1989, and at least 10% higher than in 1987-88. It was 17% below the state level, however.

The building construction market appears to have gotten off to a strong start in the early months of 1990. During January-May 1990, Kokomo's City Plan Committee issued 231 building and home improvement permits (valued at $22.35 million), excluding permits for signs/billboards, compared to 233 permits (valued at $10.23 million) in 1989, and 194 permits (valued at $14.76 million) in 1988.

Since the strict enforcement of the sign ordinance that began in March 1990, the number of sign/billboard permits skyrocketed to 155 (valued at $255,000) during the first five months of the year. Interestingly, a total of 168 sign/billboard permits was issued during the 1980s—an average of only 17 permits per year.

Compared with last year's first five months, January-May 1990 registered the following:

Stable residential building market: While at the national level there appears to be some concern about a "credit crunch" or "credit contraction" and a cooling economy, it doesn't seem to be a big problem in the Kokomo area. One-family and multiunit residential building permits totaled 66, the same as in 1989, 32% higher than in 1988, but 28% below the peak reached in 1986. The average dollar value of a single-family building permit reached an all-time high of $103,085, 15% higher than the same period a year ago, and 43% higher than 10 years ago. However, the average dollar value of a single-family building permit in the city area was $62,857, compared to $108,500 in outlying areas. The difference is mainly due to the large lot size and the upscale nature of the house.

A strong home-improvement market: The home-improvement market posted strong gains—124 permits were issued for additions/alterations, swimming pools, porches, patios, garages, and garage additions, compared to 118 in 1989 and 111 in 1988. Perhaps because of a slow-down in home price appreciation in the last few years and high interest rates, Kokomoans seem to have refocused on home improvement. Permits were issued for seven duplexes (valued at $1.3 million) compared to four in 1989.

Solid gains in commercial and industrial construction: Altogether, 17 commercial-industrial construction permits (valued in excess of $2.7 million) were issued, 42% more than in 1989. This category includes permits issued for new businesses/offices, and additions/alterations to existing offices, stores, restaurants, shopping centers, and factories.

Improvements in the institutional construction sector: The number of institutional construction permits jumped to three (valued at $6 million) from two in 1989 and only one in 1988. This sector includes permits for hospitals, medical offices, public administration structures, churches, and additions/alterations to those existing institutional structures.

A significant gain in nonbuilding construction (public works, utilities): Four permits (valued at $5.4 million) were issued, compared to two each in 1989 and 1988. These included a permit for a $5.4 million water filtering structure for the local water company.

Other major developments in the early months of 1990 include the following:

1. Property tax assessments in Howard County's 16 townships leaped more than 20%, some as high as 61%. This means a sharper tax bite for property owners.

2. As a result of the action taken in March by the Kokomo Common Council, the city's County Option Income Tax jumped 0.1 percent to 0.7 percent, effective January 1990. All job holders will feel its pinch!

3. In June, the United Presidential Life Insurance Co. broke ground on their $11.5 million headquarters. In the same month, the Pennsylvania-based Continental Medical Systems, Inc. unveiled plans for an $8.7 million rehabilitation hospital in Kokomo.

4. Chrysler embarked on a $162 million expansion and modernization plan of its transmission and casting plants—its fourth capital spending in the past eight years. The company is also expected to spend an additional $200 million in the local plants in the coming years. After the last capital investment installment is materialized, Chrysler will have poured nearly $1 billion into its Kokomo operations since 1982.

Outlook

Is the economy headed for the doldrums? Of course not. Despite fears of softness in the nation's economy in general and the auto industry in particular, as well as relatively high interest rates, things are looking good for the Kokomo area.

It appears that Delco has lifted its self-imposed hiring freeze. More engineers and technical personnel are being hired on a regular basis. United Presidential Insurance, the new rehabilitation hospital, and a planned shopping center should add up to 300 jobs in the next several months, thus brightening the job environment. Jobs in retail and service sectors will be on the rise. Local businesses, especially department stores, furniture, furnishing, and appliance stores, grocery stores, and restaurants, will likely see more customer traffic and higher sales volume. Enrollments in the local public schools will edge higher for the second consecutive year. Vacancy rates in the local apartment complexes will likely ease. Cash registers will ring louder during this year's Christmas season.

The housing sector will remain soft. Based on the first five months' data, I expect to see the total number of building permits to reach the low- to mid-600s level, quite in line with the trend in the past three years. In the home market, mortgage rates, still relatively higher, are discouraging prospective home buyers from entering the market. Sales will pick up if the rates taper off. However, given the Fed's desire to keep a tight reign on inflation, the prospects are not bright enough for a sizable drop in interest rates in the coming months. The yearly existing home sale volume will likely be in the low to high 800s.

In a nutshell, Kokomo's economy will keep rolling along through the remaining months of 1990, despite possible shocks and disturbances.

South Bend/Mishawaka-Elkhart/Goshen

John E. Peck

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This mid-year assessment of the economic condition of the South Bend/Mishawaka and Elkhart/Goshen communities is based on an analysis of the latest available economic indicators for the area tracked by Indiana University at South Bend's Bureau of Business and Economic Research (BBER). A look at the indicators, particularly those relating to local employment, suggests that both communities continue to experience the relatively slow pace of economic activity that had become apparent in late 1989 and was the basis for the 1990 area outlook in December.

The accompanying **Table** summarizes the various indicators of local economic activity compiled by the BBER. These figures are seasonally adjusted and, with the exception of the unemployment rates and real estate data, are index numbers expressed as a percentage of 1986 base year values. It is noted that comparative indicators along with percentage changes are given for January and February 1990—the latest months for which the full range of data are available. To highlight longer-term trends, the same figures are also provided for February 1989.

South Bend/Mishawaka

Reflecting the economic slowdown that characterized much of 1989, the table of indicators reveals that conditions in the South Bend/Mishawaka economy provide a mixed picture overall—slowing in some sectors, but obvious strength in others. The nonagricultural employment index reached its historic high, 115.4, in February—up a full 2% from the previous month. However, the manufacturing component was down 1.3%, principally because of a cutback in military truck production at AM General's Mishawaka plant. Nevertheless, 5,900 more people were employed in St. Joseph County in February 1990 than in February 1989. Service industries, construction, and nondurable goods manufacturing accounted for the increase. Although the employment numbers in aggregate are very encouraging, a continuing decline in the help wanted advertising index suggests that a softening of the local economy has been under way since late summer 1989.

Table
Economic Indicators

	South Bend/Mishawaka					**Elkhart/Goshen**				
				% Change	*From*				*% Change*	*From*
	February 1990	*January 1990*	*February 1989*	*January 1990*	*February 1989*	*February 1990*	*January 1990*	*February 1989*	*January 1990*	*February 1989*
Employment Data										
Establishment Employment[1]										
Nonagricultural	115.4	113.1	110.8	2.0%	4.2%	117.2	118.3	116.0	-0.9%	1.0%
Manufacturing	94.1	95.3	97.1	-1.3%	-3.1%	108.2	110.1	117.4	-1.7%	-7.8%
Nonmanufacturing	121.7	118.6	114.9	2.6%	5.9%	127.7	127.8	114.2	-0.1%	11.8%
Unemployment Rate	5.8	5.5	5.0	n/a	n/a	5.5	5.7	4.3	n/a	n/a
Help Wanted Advertising[2]	88.2	94.6	110.6	-6.8%	-20.3%	77.0	87.5	130.5	-12.0%	-41.0%
Utilities[3]										
Industrial Electricity Sales	98.8	106.7	101.6	-7.4%	-2.8%	111.7	110.6	112.3	1.0%	-0.5%
Commercial Gas Sales	84.0	110.7	92.2	-24.1%	-8.9%	79.0	108.8	89.6	-27.4%	-11.8%
Industrial Gas Sales	68.1	83.5	61.5	-18.4%	10.7%	56.5	67.0	73.1	-15.7%	-22.7%
Retail Car & Truck Sales[1]										
New Passenger Car Sales	64.1	59.9	78.2	7.0%	-18.0%	57.0	66.3	91.8	-14.0%	-37.9%
New Truck Sales	69.3	79.6	84.6	-12.9%	-18.1%	73.5	93.5	121.2	-21.4%	-39.4%
Housing Construction Data[4]										
Estimated Value of Permits	135.1	122.5	104.2	10.3%	29.7%	125.6	229.7	165.2	-45.3%	-24.0%
Number of Permits Issued	109.8	105.5	95.4	4.1%	15.1%	84.6	159.8	123.4	-47.1%	-31.4%
Average Value Per Permit	125.1	104.0	110.1	20.3%	13.6%	140.6	140.9	127.4	-0.2%	10.4%
Residential Real Estate Data										
Number of Active Listings	1,125	1,060	995	6.1%	13.1%	1,477	1,386	1,168	6.6%	26.5%
Closed Sales										
Average Days Listed	88	68	60	29.4%	46.7%	71	70	71	1.4%	0.0%
Average Market Price	$70,526	$67,384	$64,672	4.7%	9.1%	$65,431	$66,663	$63,107	-1.8%	3.7%
% of Sale to List Price	95.0	95.0	95.0	0.0%	0.0%	96.0	96.0	95.0	0.0%	1.1%

All figures except for 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 South Bend and Elkhart. Gas sales are St. Joseph and Elkhart Counties.*
[4] *St. Joseph County, excluding cities of South Bend, Mishawaka, Osceola, Walkerton, and New Carlisle. Elkhart County, excluding cities of Elkhart, Goshen, Nappanee, and Millersburg.*

That conclusion is supported by several other indicators covered in the Table. All three energy sales indices decreased in February to levels below the 1986 base year. New car and truck sales continued to be depressed. The car sales index has not reached 100 in more than three years. Residential real estate listings and average days listed both increased. The increase in the number of new housing permits issued was about the only bright spot in the housing industry recorded in February.

Elkhart/Goshen

The softness found in the South Bend/Mishawaka figures was matched—and in some respects exceeded—by that found in the Elkhart/Goshen economy. While the absolute numbers of workers employed increased, all seasonally adjusted measures of employment declined in the month of February, with manufacturing employment dropping a full 1.7% from January. The drop in help wanted advertising on both the monthly and year-to-year comparisons gave additional emphasis to labor market softness.

All other Elkhart/Goshen indicators covered in the table supported the conclusion that local conditions overall were soft. Natural gas sales declined on both the month-to-month and year-to-year bases, as did both retail car and truck sales and the number of new housing permits issued. Residential real estate listings expanded and the average days listed increased marginally.

Outlook

We continue to feel that cyclical factors in the national outlook suggest that after slow conditions predominated through the spring months, a pickup in the pace of employment will occur in both communities in the last half of the year. Uniquely local factors, such as strength in residential and commercial construction sectors, provide a stimulus locally that is not found in the national picture. For the year as a whole, we expect nonagricultural employment to rise by about 2% in both communities.

Lafayette

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Over the last few years the economic news in the Lafayette area has been dominated by the expanding activity at the Subaru-Isuzu plant. This news has masked the fact that two intermediate-sized manufacturers have departed the Lafayette area. In 1989-90 both General Foods and N.V. Phillips shut down their local plants, amounting to a loss of over 900 jobs. The good news is that some of those jobs may be recovered. The makers of SlimFast, a diet drink, have begun negotiations to buy the vacant General Foods plant and start operations there. Talks are far enough along that by the time this is published, the sale should be consummated. If the plant opens, it is expected to provide about 300 jobs, roughly half the number employed when General Foods was in full operation but close to the number of jobs available there when the plant closed.

Although there have been stories that Subaru is not doing well financially on a national level, there appears to have been little effect on the local plant. The plant was scheduled to employ 1,700 by May 1990, and it reached that number at that time. Phase II for the plant, which entails putting on a second shift that will increase employment up to 3,000, is proceeding as planned. Much of the impetus for this added shift comes from two new vehicles—the Rodeo, a small truck from Isuzu, and a new sedan from Subaru. This activity continues to put pressure on housing markets as builders work hard to keep up with the growth, and it has pushed along a planned expansion of the local mall.

The strength of the Lafayette economy continues to be its diversity in manufacturing, services, and education, which shelters it from ups and downs in the economy. Unless there is a major downturn in a number of sectors of the national economy, the local economy should progress nicely for the coming year.

Richmond-Connersville-New Castle

Ashton I. Veramallay

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The midyear economic outlook for Richmond-Connersville-New Castle (RCNC) calls for continued growth at a slower pace for the final two quarters of 1990. No recession is in the offing. But as national economic performance remains sluggish, the local area is going to experience the side effects.

Manufacturing employment, for example, will not register any significant gain. Pockets of soft demand exist for locally manufactured goods of transportation equipment, electronics, electrical machinery, and nonelectrical machinery. RCNC is heavily dependent on the transportation sector, for which it is a major supplier of requisite inputs. Consequently, when Detroit catches a cold, RCNC gets pneumonia, because of the area's high sensitivity to this sector's economic vicissitudes. Higher rates of interest compound the problem by curtailing investment in plant and equipment.

Retail employment, on the other hand, will show moderate increases. It will follow normal seasonal patterns, especially in fast food establishments, grocery stores, consumer malls, health care, recreational amenities, and financial enterprises. Retailers, however, will have to devise creative ways such as sales, trips, and other bargains to sustain consumer spending. Such spending accounts for the largest component of RCNC's gross product, and a continuing tight monetary policy by the Fed will weaken consumer demand.

Furthermore, RCNC has to adapt to the structural changes taking place in the national economy. There is a sustained erosion of its manufacturing base. High-paying jobs are being replaced by low-paying jobs in the service sector. This trend, if unchecked, will eventually affect the quality of life in the region. Increasing human capital and diversifying the traditional base in RCNC are vitally important in dealing with the economic challenges during this decade.

Jeffersonville-New Albany (Louisville Area)

Fay Ross Greckel

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The Louisville area economy grew fairly strongly in late 1989, and that pace has continued into the current year. Total employment in the seven-county metropolitan area increased by nearly 15,000 jobs in 1989, according to revised government statistics. Although that was about 2,500 fewer jobs than were

Table 1
Louisville Area Establishment Employment[1], 1986-1990

	Total Nonfarm	Manufacturing	Nonmanufacturing
Entire Metropolitan Area[2]			
Annual Averages			
1986	421,200	86,200	335,100
1987	437,400	87,100	350,300
1988	454,600	88,500	366,100
1989[3]	469,200	88,400	380,800
Quarterly Averages			
1Q 1989	464,370	89,380	374,990
2Q 1989	466,690	88,540	378,150
3Q 1989	468,950	87,260	381,690
4Q 1989	476,760	88,400	388,360
1Q 1990	483,240	87,900	395,340
Clark, Floyd, and Harrison Counties (Indiana) Only			
Annual Averages			
1986	55,600	13,200	45,900
1987	59,300	13,400	46,300
1988	61,100	13,800	47,300
1989[3]	61,400	13,500	47,900
Quarterly Averages[3]			
1Q 1989	60,990	13,640	47,350
2Q 1989	61,130	13,370	47,760
3Q 1989	61,230	13,510	47,720
4Q 1989	62,150	13,520	48,630
1Q 1990	62,570	13,840	48,730

[1]Employment in establishments located in the area specified; quarterly data are seasonally adjusted by the author.
[2]Consists of Clark, Floyd and Harrison counties in Indiana, and Jefferson, Oldham, Bullitt, and Shelby counties in Kentucky.
[3]Subject to revision by data sources in 1991.

Sources: Indiana Department of Employment and Training Services, Kentucky Cabinet for Human Resources.

added the previous year; it was still a quite respectable rate of growth, considering how far into the expansion phase the national economy is. The timing of the job growth is particularly encouraging, as we look ahead. After adjusting the currently available statistics for normal seasonal fluctuations, it appears that about half of the new jobs were added in fourth quarter 1989. Strong growth occurred again in first quarter 1990.

Unfortunately, manufacturing employment, which had been growing very slowly during the preceding three years, remained virtually unchanged in 1989 and declined in early 1990—at least in the Kentucky portion of the metropolitan area (see **Table 1**). The greatest employment growth occurred in health services, which added about 3,500 jobs in the metropolitan area over the past 12 months. Other sectors with employment gains of 1,000 jobs or more included business services, food stores, eating and drinking establishments, transportation services, construction, and state and local government.

Although Indiana employment statistics originally showed a decline in the number of jobs in the Clark/Floyd/Harrison County area during 1989, official employment estimates for those counties were recently revised upward. Table 1 shows the revised figures, with quarterly data adjusted to eliminate normal seasonal fluctuations. As in the rest of the metropolitan area, southern Indiana employment grew very slowly during the first three quarters of 1989, then posted strong gains in fourth quarter 1989 and first quarter 1990. As a result, nearly 1,600 more workers were employed in the three Indiana counties in first quarter 1990 than in first quarter 1989. Employment increased in nearly all sectors, with the largest gains occurring in wholesale and retail trade and in construction. The only Indiana sector showing substantial job losses was educational services.

The increase in construction employment was reflected somewhat imperfectly in residential building statistics. As **Table 2** shows, Jefferson County, Kentucky issued fewer building permits in 1989 than in 1988, but permit approvals accelerated sharply in the first four months of 1990. The mild winter obviously played some part in that development, so one should be cautious about projecting such large gains forward for the remainder of the year.

Floyd County issued permits for 35% more dwelling units in 1989 than in 1988, with apartment complexes accounting for much of the increase. The first four months of 1990 were only slightly behind 1989's record level. Although permits declined in Clark County, the number issued in 1989 was still the second highest of the decade, and 1990 started off at about the average issuance rate. (The partial data available for Harrison County suggest a slight decline in activity there.)

The number of multiple-listing real estate sales in the Louisville area declined very slightly in 1989, but the dollar volume of those sales reached a record $638 million—a 10% increase over 1988. In first quarter 1990 southern Indiana realtors enjoyed a 7% increase in the number of properties sold and a 10% increase in total dollar sales; Louisville dollar sales volume was up 9%. Again, the mild winter may have contributed to greater activity than normally occurs during those months.

Nonresidential construction appears to have declined somewhat last year as some major projects neared completion, but seems to be picking up again in 1990, as more of the previously announced commercial building projects come on line. The Louisville

Table 2

Residential Building Permits, 1987-1990[1] (number of dwelling units)

	Jefferson Co. Kentucky	*Clark Co. Indiana*	*Floyd Co. Indiana*	*Harrison Co.[2] Indiana*	*4-County Total*
Totals for Year					
1987	3,169	224	397	157	3,947
1988	2,686	341	387	148	3,562
1989	2,304	321	548	140	3,313
Totals for first four months					
1987	1,816	72	127	50	2,065
1988	601	64	141	46	852
1989	645	93	212	41	991
1990	1,048	55	209	38	1,361

[1]Number of residential units for which building permits were issued, including single-family dwellings, apartment units, and condominium units.
[2]Excluding Corydon, for which data were not available.

Source: Kentuckiana Regional Planning and Development Agency.

Chamber of Commerce's tabulation of major capital investment projects announced during 1989 produced the following totals: 169 industrial firms planned to spend about $237 million on new or expanded facilities, and 484 commercial enterprises planned to spend about $294 million on such projects. When completed, these projects are expected to produce more than 6,000 new jobs. Although these are impressive totals, they are substantially below the spending levels and job projections announced for the prior two years.

The automobile market continues to be weak, although there is some possibility of improvement this year. Car dealers in Clark, Floyd, and Jefferson counties sold fewer new cars and light trucks in 1989 than in 1988. However, during first quarter 1990, dealers in Floyd and Clark counties sold about the same number of cars as in first quarter 1989, and dealers in Jefferson County had a 2% increase in sales. It is too early to tell whether that was a temporary improvement attributable to dealer incentives and the milder weather, or an indicator of better times ahead. The good news locally is that national demand has been very strong for Ford's Explorer pickup, which is manufactured in Louisville.

Unfortunately there continue to be signs that poverty is increasing rather than diminishing. Dare To Care, the emergency food relief agency, provided food supplies for 95,000 individuals in 1989, a 14% increase over the nearly 84,000 serviced in 1988. (These totals overstate the number of people needing emergency food assistance, since agency rules allow individuals to receive supplies up to four times in a year, if circumstances warrant it. Starting next year, agency data collection should permit us to determine whether higher totals are due to more people receiving assistance or to more aid being given per person.)

For the local economy as a whole, the revised employment statistics and other indicators suggest a growth rate for 1990 comparable to that of 1989. The demand for housing continues to look fairly robust. Commercial construction will also be strong, with important projects going forward on both sides of the Ohio River. In fact, the banks of the river will be the site of some of this activity, as waterfront development projects move ahead, particularly in Clark County. Barring a precipitate decline in the national economy, which does not appear to be in the cards, the Louisville metropolitan area should experience moderate growth for the remainder of 1990.

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