Settling Into a Sustainable Pace of Economic Growth

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The world suffered an economic slowdown in 1999 but the United States economy powered ahead, almost entirely unscathed by the lingering effects of the Asian crisis. Though the demand for U.S. goods and services from abroad did slow in 1999, any resulting decrease in external aggregate demand was more than compensated by a healthy increase in domestic consumer and business spending.

On the eve of the new millennium, the U.S. economy is strong, but set to return to a slower and more sustainable pace of growth. As we move closer to the New Year, we find interest rates moving up and equity prices stabilizing. There is speculation that the Federal Reserve will increase interest rates again in the near future. As the economies of our trading partners continue their recoveries from the Asian crisis, they should also attract more foreign investment-money that temporarily flowed in record amounts into the U.S. in 1999. In short, expected domestic monetary policy and world financial flows in the coming year could lead to financial conditions that will rein in spending and growth.

The upshot is that we expect GDP to increase by 2.8% in 2000, considerably slower than the 4 percent plus rate that prevailed over the past three years. The unemployment rate should be little changed, averaging 4.3% for the year. Other highlights of the 2000 outlook include:

- GDP inflation of no greater than 2%
- An employment increase of more than one million jobs
- A modest deterioration of the U.S. balance of trade in goods and services
- Short-term interest rates rising to 5.5%
- Interest rates on long-term treasuries approaching 7%
- Housing starts down to 1.56 million units
- Indiana nominal income growth of 4.7%
- Indiana job growth of 25,000 jobs
- Indiana exports growing by nearly 10%

Y2K: The U.S. Economy at the Millennium

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The final years of the old millennium will go down as one of the most remarkable and impressive periods in United States economic history. Since the end of the last major recession in 1982, real GDP growth has averaged 3.5 percent per year, well above the 2.9 percent per year rate recorded in the preceding seventeen. Once the great recession of 1980-1982 was completed, only one very short recession was recorded in the next seventeen years, an achievement unprecedented in the more than 150 years over which recessions have been measured.

The good news goes far beyond real economic growth. The unemployment rate has generally fallen over the period to low levels not seen in decades. Inflation, which had been particularly severe in the 1970s, has also generally fallen from near double-digit levels to less than two percent per year, a level generally consistent with the notion of price stability. This development is all the more remarkable, and frankly unexpected, because it accompanied swift economic growth and a declining unemployment rate.

The three major keys to these positive economic trends are the emergence of a truly global economy, the fall of Communism, and the explosion of technology, particularly in communications and information processing. These trends are related. The new forms of communication helped bring about the fall of Communism, as did the emergence of a world economy. The fall of Communism in turn accelerated the globalization of industry.

A few statistics give a feel for the strength of these events. Globalization can be measured in a variety of ways, but one simple measure is the share of constant dollar exports in constant dollar GDP. This ratio rose from 6.7 percent in 1982 to an estimate of 12.9 percent in 1999 as real exports grew at an average rate of 7.6 percent per year, making exports one of the key engines of economic growth.

Likewise, the fall of Communism has led to many changes. One of the most dramatic has been the opportunity for the Federal government to reduce defense expenditures. Right after the Gulf War in 1991, defense expenditures were 6.1 percent of GDP.

By 1999, we estimate the ratio has fallen to 3.8 percent. This change represents over a $200 billion per year reduction in the level of Federal government spending by 1999 and is a big part of the shift in the Federal budget from deficit to surplus.

Finally, the explosion of communication and information processing technologies has profoundly changed the economy in the last two decades. One dramatic measure of the magnitude of this force is growth in real investment by firms in these technologies. Since 1982, real expenditures for communication and information processing equipment have grown at an average annual rate of almost 13 percent. Clearly, it has been the lead sector throughout this extraordinary period.

These three forces remain important for the future as well as an explanation of the past. The growth of information technologies and the trend to globalization of business are far from complete. The fall of Communism will not be reversed, and while further defense cuts are problematic, major increases seem unlikely as well. That means that the good news powering the current expansion is not over and, as a result, the fundamental outlook for next year and several years thereafter is bright. Our estimate is that the trend rate of growth of real GDP has risen to the 2.75 to 3.00 percent range from just over 2 percent a decade ago.

The past few years real GDP has grown at a rate well above trend. Last year the economy grew almost 4 percent and we estimate that growth for all of 1999 will average just under 4 percent. The basic reasons are that the underlying growth in the economy has been augmented by a surge in consumer spending and a residential investment boom. Real consumer spending is expected to grow by over 5 percent in 1999 with consumers spending virtually all of their non capital gains income. Part of this growth is undoubtedly due to the extraordinary increases in consumer wealth brought about by the stock market boom of the 1990s. The housing boom, which produced an increase of real residential investment of nearly 9 percent in 1999, is probably also related to the rise in equity markets.

We believe both the consumer goods and housing sectors will slow next year. The Fed has engineered two increases in interest rates this year and one or two more moves are likely. Housing markets are already beginning to show signs of slower growth. Predicting where equity markets will go is always hazardous, but interest rate increases typically cool equity markets, and the tremendous growth seen in the past few years seems unlikely to continue.

With housing weakening and consumer spending growth slowing, we anticipate real GDP growth will slow to around 2.8 percent next year, very close to a trend rate. Any inventory accumulation in late 1999 in anticipation of Y2K troubles will be worked off in early 2000 thus lowering the year 2000 growth rate. Since the underlying sources of growth continue, particularly for investment in computer and information technologies and for exports, we believe a recession is not in the cards,

The Bureau of Economic Analysis in the U.S. Department of Commerce released a set of major revisions to the National Income and Product Accounts in late October. Included in the revisions were several changes in methodology that produced significant changes in GDP over the past few years. Business and government expenditures on software are now included in GDP. They had been treated as intermediate goods in the past and not included in GDP. The effect is to raise the level of real GDP. Government retirement programs are now treated in a similar fashion as private plans. The result is to raise measured income and saving. Improved methods of measuring the real value of bank services have been adopted which tends to raise real GDP.

The net effect of these revisions is to raise estimates of real GDP for the past several years and to raise our estimate of the trend rate of growth in the U.S. economy. In summary, the new economic notion show an economy stronger through out the 1990s, with a greater capacity for growth. Our outlook for 2000 is that we will reach but not exceed that growth rate and so continue the expansion without producing major inflationary pressures.

Financial Outlook for 2000

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After taking a year off to atone for my sin of caution in a world of exuberance I am back attempting to peer into the future.

First, we must appreciate the past five years. The operating earnings for the Standard and Poor's 500 is up nearly 60% and the P/E ratio on trailing 12 month earnings have expanded from 15.3 to 29.3 and the P/E on 12 month future earnings have grown from 12.7 to 25.2. Thus operating earnings have grown at a 13.9% rate while the multiple has doubled!! The 13.9% is well above the long-term growth rate and is above any sustainable rate this side of nirvana. On top of this many forecasts are calling for an even higher growth in earnings, 16% for the next year. In the shorter run forecasts are calling for 3rd and 4th quarter results to top 1998 figures by 24% and 21% respectively. Corporations have generated profits at an extraordinary rate and the market is currently expecting and pricing an even better performance.

The other part of the evaluation puzzle is the expectation for interest rates. An analysis of the yield curve and futures markets is indicating that rates are expected to rise to around 7% for long-term instruments and to about 5.65% for the short end. This represents about a 90 basis point rise on the long end and 40 points on the short end.

It is important that we realize that the Federal Reserve had to operate as a World central bank after the Asian crisis. With the flight from local currencies to the dollar the Fed was very expansive and is now returning to a more normal policy. This should not be mistaken as tightening. Their performance over the past 6 years has been masterful. Can we count on such performance in the future? The market is betting heavily that this mastery will continue.

Are the markets right? I believe that long rates will not go as high as 7% but that short rates will edge up about 50 basis points. Inflation is a monetary phenomenon. It results from mistakes in policy, usually because of bad information or a misinterpretation of good data and only rarely as a policy of "the lesser of two evils."The biggest difficulty, as I see it, is still the problem of predicting the strength of the recoveries in Japan and Europe. If the Fed underestimates the pace of these overseas economies then we will face rising inflation and ultimately higher rates.

The market's optimism about earnings is more troubling. I don't think that we will get the growth in operating earnings that it seems to be expecting. By no means am I expecting a contraction in the general economy but any disappointment could cause a significant decline in stock prices since there is no margin for error built in to these high P/Es.

Finally, the next 12 months should see returns on stocks in the single digits with a fair amount of volatility. The total return in the long-term bond market may not even achieve positive returns. Given the market's past performance this is not bad but it may not feel good.

The International Economy

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Economic growth around the world in 1998 fell below long-run trend; 1999 will not be better than 1998. **Table 1**, based on data available in May 1999, indicates that world output is growing below the average growth rate of the last twenty years. The proximate reasons are that, while the United States is booming, the rest of the world is not. Japan has been in a deep recession and is now struggling to make a come back. The South East Asian economies, swept by a currency crisis in 1997, suffered a sharp growth slowdown. The Russian economy imploded after its government defaulted on its debt and could not prevent a massive devaluation of the ruble in 1998. Brazil as well had a currency crisis in 1999, although with modest consequences on the real sector. Finally, a couple of critical countries (Germany and Italy) of the European Union were scoring disappointing performances.

The outlook for 2000 is good for economic growth. **Table 1** reproduces the real GDP forecast for next year by the International Monetary Fund (IMF). The forecast was made in May 1999. Since then news has been positive for economic growth. Activity is picking up in Japan, although hampered by a tight monetary policy by the Bank of Japan. Improved conditions are emerging in Germany and Italy. The South East Asian economies, in particular South Korea, have made an impressive recovery fueled by expansive fiscal policies and devaluation-led export growth. Finally, economic growth in the United States shows no sign of abating.

The *Economist*'s poll of forecasts (see **Table 2**) suggests that the world will have at least two growth locomotives in 2000: the United States and the 11 countries that have formed the European Monetary Union (France, Germany, Italy, Spain, Portugal, Belgium, Luxembourg, Netherlands, Austria, Finland, and Ireland). Both areas will be running close to their sustainable pace. For Japan recovery appears still slow, but there is growing optimism that the country is seeing the light at the end of a long tunnel of disappointment and under performance. For almost 10 years the Japanese economy has been a pale resemblance of mighty Japan Inc. The long crisis started with a deflation of a real estate bubble, which led to a

Table 1
Summary of World Output (Annual Percent Change)

Average	1991-2000	1996	1997	1998	1999 (Est.)	2000 (For.)
World	3.1	4.3	4.2	2.5	2.3	3.4
Advanced Economies	2.3	3.2	3.2	2.2	2.0	2.3
Japan	1.0	5.0	1.4	-2.8	-1.4	0.3
European Union	1.9	1.8	2.7	2.8	1.8	2.7
Canada	2.2	1.2	3.8	3.0	2.6	2.5
Developing Countries	5.4	6.5	5.7	3.3	3.1	4.9
Asia	7.3	8.2	6.6	3.8	4.7	5.7

Source: International Monetary Fund, World Economic Outlook, May 1999

Table 2
The Economist Poll of Forecasters (October Averages)

	GDP Forecast		Consumer Prices Forecast		Current Account % of GDP, Forecast	
	1999	2000	1999	2000	1999	2000
U.S.	+3.9	+3.0	+2.2	+2.6	-3.6	-3.8
Japan	+1.0	+0.8	-0.3	-0.2	2.9	3.1
Euro 11	+2.0	+2.9	+1.2	+1.5	1.1	1.0
Canada	+3.6	+3.0	+1.7	+2.1	-0.8	-0.4
United Kingdom	+1.7	+3.0	+1.9	+2.4	-1.3	-1.7

Source: The Economist, 16 October 1999

deterioration of the quality of bank assets. Politicians were slow and negligent in recognizing the severity of the problem. This festered, revealing cracks in Japan Inc. An appreciating yen put pressure on the economy to reduce its current-account surplus. The restructuring process from an export-oriented to a domestic-oriented economy turned out to be slower than anticipated. The consensus approach underlying much of Japanese society became an impediment for change. Things had to become much worse before turning for the better. There is some evidence that the corner has been turned, although doubts remain about the character of economic policy in the country.

Improved economic conditions abroad will give a boost to U.S. exports. Based on the latest figures, real exports of goods were 14 per cent higher than a year ago. But a turnaround in the U.S. current account is distant in the future. And this for two reasons. The first is that the U.S. appetite for imports, fueled by a robust economy, is larger than foreign appetite for U.S. exports. In 1999, U.S. imports are rising much faster than U.S. exports. Given that imported goods and services are approximately 30 percent larger than exports of goods and services, the higher growth of imports over exports adds a dynamic force on top of a static one, exacerbating the trade deficit. The second reason for a large deficit in the current account has to do with our large negative net international investment position. At the end of 1997, U.S. assets abroad were $5 trillion and foreign assets in the United States $6.32 trillion, giving a negative imbalance of $1.32 trillion. This imbalance –by far the largest of any single country in the world—implies that the U.S. will be a net payer of dividends and interest to the rest of the world. The negative investment income flow is recorded in the current account. In turn, today's current account deficit implies a larger net negative international investment position and tomorrow's larger negative investment income flows and larger current account deficit, and so on. The *Economist*'s poll of forecasters puts the U.S. current account deficit at 3.8 per cent of U.S. GDP. Given our forecast for GDP, this translates to approximately $360 billion deficit, which will have to be financed by a net capital inflow and a rise in our net foreign indebtedness.

The interesting question is how long can the U.S. continue to borrow from the rest of the world? We know for sure that we cannot do it forever; we also know that if we did not have the most important currency in the world we would have already been forced to make adjustments. What we do not know is when the world capital markets will pull the plug on us. Suppose, for argument's sake, that in the year 2000 the U.S. could not attract 3.8 per cent of GDP in net capital inflows to finance the projected current account deficit. The current account would be forced to zero by a combination of more exports and fewer imports. For exports to rise substantially, the dollar would have to depreciate significantly in the exchange markets with the obvious consequences on domestic price inflation. For imports to fall sharply, the U.S. would have to suffer a cut in income. This is what usually happens in countries that have to correct a current account deficit: unpleasant but necessary consequences. The U.S. has had current account deficits for almost 20 years. It may continue to have them for several more, but not forever. Sooner or later the adjustment will have to be made. Capital flows are notoriously fickle; when they move they do it fast, without pre-announcements. In sum, the above adjustment scenario is one of the possible risks of the forecast: perhaps a low probability event, but certainly not zero.

Housing Outlook

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Existing single-family home sales fell along with consensus expectations in September. Record levels of home sales are virtually assured for 1999, with the pace expected to ease only slightly next year, according to the National Association of Realtors. While volume is now 10 percent below June's record, sales remain strong, as they have all year. Mortgage rates pulled back slightly in September from their August high. The dramatic increase in borrowing costs seems to finally be having an effect on the red-hot housing market.

Both average and median prices fell as excess demand for housing fell. Builders have been rapidly catching up with declining demand. Consumer confidence continues to buoy the market, but the impact of higher interest rates and bearish financial markets is taking hold.

Sales are expected to fall again in October as mortgage rates are pushed up by the prospect of Fed tightening and the weakening dollar. Moderation in the volatile residential construction industry could remove one of the most serious inflationary threats. A slowdown in home price appreciation would force consumers to spend within their means, as they can no longer count on rapid gains in real or financial asset prices.

The combination of rapid price appreciation and increased mortgage rates has been cutting into housing demand. Potential home shoppers can no longer assume double-digit asset price gains and low mortgage rates. This is exactly what the Fed intended when it began tightening policy this summer. As there is little besides consumer confidence maintaining high levels of home sales, further Fed tightening could quickly shrink the housing market.

While sales remain at a high level, price appreciation has stalled, except on the West Coast. The stock market's September struggles are especially impacting demand for high-end homes. With housing supply increasing faster than demand, rapid and broad-based price appreciation is unlikely. Consumers remain confident, but simply can no longer afford as much house as they could a few months ago.

The Fed's efforts are having an impact. The most immediate casualty has been the mortgage refinancing market. Refinancings, which soared to a record $800 billion last year, are currently running at a $200 billion annual pace and are sure to weaken further with fixed mortgage rates now near 8%. The refinancing boom was one of the catalysts for the recent consumer spending binge, as homeowners lowered their mortgage payments and many took cash out of their homes by increasing their mortgage balance.

The housing market will also soon begin to feel the impact of higher rates. The market has largely shrugged off the higher rates as fence sitters have recently surged into the market in an effort to buy before mortgage rates move even higher. This activity will wane in coming weeks, however.

Housing starts for 1999 as a whole will probably total 1.66 million units, up about 2 percent from last year's historically high figure. Housing starts were down in three out of four regions of the country, with the largest decline – 25.7 percent – occurring in the Northeast. With mortgage rates back up to the 8 percent range, builders are seeing fewer current home sales and are less optimistic about sales in the near future. Housing starts are expected to slip to 1.56 million in 2000.

Existing-home sales are expected to total 5.20 million this year, which will be a 4.8 percent increase over the record 4.96 million sales in 1998. New-home sales are likely to match last year's record of 890,000, then ease to about 831,000 in the year 2000. The median-price of an existing home for 1999 is projected to be $132,700, up 3.7 percent from 1998. At the same time, the median new-home price is expected to be $158,500 for 1999, up 4.3 percent from last year. The median existing-home price is expected to rise only 1.4 percent to $134,500 in the year 2000.

While rising interest rates made U.S. housing slightly less affordable in the second quarter, Kokomo, Ind., made national news by reclaiming its standing as the country's most affordable housing market for the eighth time in the past two and a half years, according to the Housing Opportunity Index (HOI) produced by the National Association of Home Builders (NAHB).

The HOI is a quarterly measure of the percentage of homes sold that a family earning the median income can afford to buy. The HOI ranks 184 metro areas on the basis of recorded home prices. The nationwide score was 67.0. What this means is that families earning the median U.S. household income of $47,800 could afford to buy 67 percent of homes sold nationwide in the second quarter. That's down from the record high HOI of 69.6 in the first quarter, but still an exceptionally good reading on an historic basis. The national HOI has been above 67.0 in just four quarterly periods since the beginning of 1992.

Higher interest rates on mortgages are a significant factor in the recent decline. The interest rate used in second quarter HOI calculations, representing a national weighted average of adjustable and fixed-rate loans, was 7.10 percent-up one and a half basis points from the previous quarter. The median price of homes sold also rose in the second quarter, to $138,000 from $134,000 in the previous three months.

For the eighth time in the past 10 quarters, Kokomo, Ind., was the most affordable individual market covered by the HOI. In the consistently affordable Kokomo housing market, families earning the local median annual income of $53,500 could afford to buy 93.5 percent of the homes sold there where the median home sale price is $90,000.

The most consistently affordable region in the new HOI rankings was the Midwest, where 13 markets made the "25 Most Affordable Metro Areas" list. The South had eight markets in the top 25, while the Northeast had three and the West had just one. The Housing Opportunity Index is based on the median family income, interest rates, and the price distributions of homes sold for each market in a particular quarter of a year.

Indiana In the New Century

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Indiana's path in the 21st century may be very different from the pattern of the last 30 years. The Hoosier state has seen dramatic changes in its relationship with the nation as witnessed by **Figure 1**.

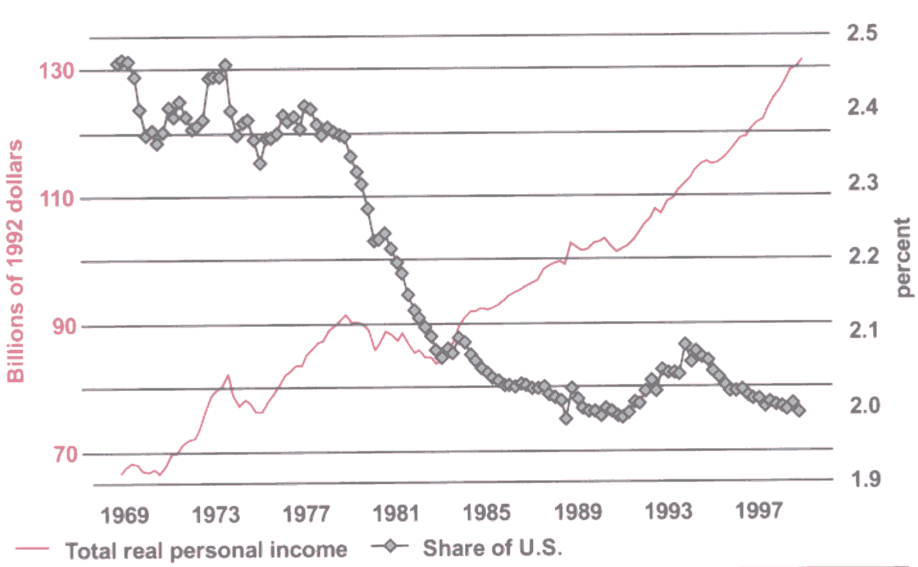
Although we have averaged 2.3% annual real growth, the nation averaged 3.0%. The result has been a significant decline in Indiana's share of the nation's total personal income from 2.5% to 2.0%. While one half of one percent does not seem like a big number, it translates into $30.6 billion or 23% of Indiana's current level of personal income. That is one cost of not keeping pace with the nation.

The Year Ahead

With no major changes on the horizon at the national level, Indiana can expect another year of progress in 2000. But we will be fortunate to add as many jobs (35,000) in 2000 as in 1999. Recent months have shown a decline in the monthly employment gains compared to a year earlier. In addition, weakness in durable goods purchases forecast at the national level, plus higher petroleum prices, both threaten to make 2000 a year of uncertainties.

Added to these concerns is the persistent delay in resolving the questions of property tax assessment practices. The current attractiveness of border counties for workers of other states depends on low property taxes. But how long can homeowners shift the tax burden to business taxpayers without increasing the state's relative losses of employment and income? Lurking behind this issue is the question of restructuring school and poor relief financing. It is doubtful that any resolution of these factors is on the horizon.

Figure 1
Indiana's Real Personal Income



Lessons from the 1990s

The 1990s appear to have differed from the '70s and the '80s. We have become accustomed to seeing Indiana experiencing more severe recessions than the nation. But the most recent recession in 1990-91 seems to have broken that pattern.

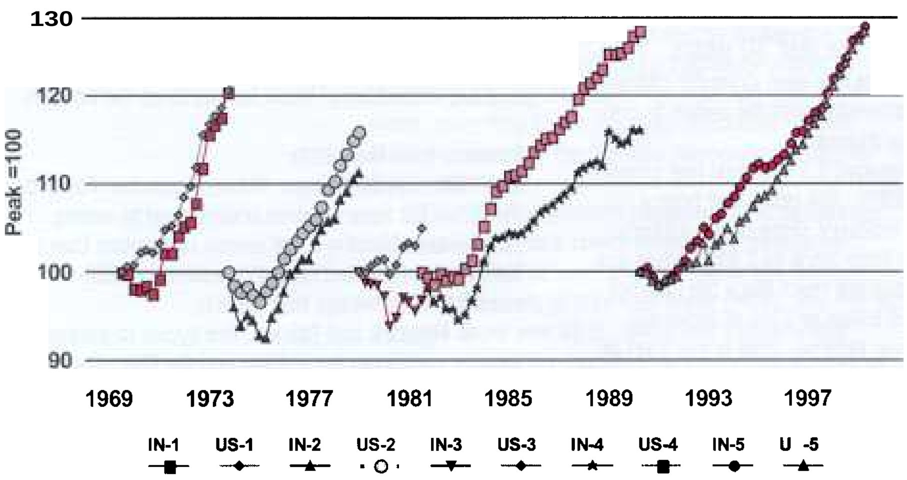
In **Figure 2** and **Table 1**, five cycles in personal income are shown for Indiana and the U.S. The recession in Indiana in early 1970 was not part of the national experience, but by the next peak in 1973, Indiana had matched the nation's growth for the period.

Our decline in the 1974-75 recession was greater in severity and duration than the nation's. We did not achieve parity with the nation before the next recession at the end of the '70s. In that instance (cycle III), Indiana did not even complete its recovery or experience any expansion beyond the previous peak before we were plunged into the 1981-82 recession.

Again Indiana's decline was deeper than the nation's (-8.5% vs. –1.3%) and greater in duration (6 quarters vs. 2 quarters). By the time this long cycle was over, Indiana had expanded by 16% compared to the nation's more vigorous growth of 27.3%.
Then came the short recession of 1990-91 and the recovery plus expansion we now enjoy. Here is where the pattern has changed. Indiana 's decline was neither steeper nor longer than the nation's. And our expansion outpaced the nation in the early years of the decade.

Indiana's more rapid growth in the early 1990s (and our somewhat sluggish performance since 1995) may be an aberration or a true change in the nature of our economy. Therefore, our look to the next century must begin with an inquiry into the economic performance of Indiana in this decade.
Preliminary estimates show that Indiana has added 473,000 jobs during the decade (see **Figure 3**). Our average annual rate of growth (1.76%) was virtually identical with the nation's growth (1.75%) for the period. The result is that, despite a strong growth in employment in the early 1990s, whatever advantage Indiana possessed has dissipated. Our share of the nation's employment was 2.29% in January 1989 and again in April 1990. It peaked at 2.39% in March 1995 and stood back at 2.29% in September 1999. What happened?

Figure 2
Cycles in Personal Income



Consistency in Growth

The answer is that Indiana was consistent in its employment growth while other states (particularly the largest states in the union) experienced considerable swings in their growth.

Between 1990 and 1994, Indiana's employment grew by 7.57% and between 1994 and 1998 the state advanced by 7.56%, a swing in the growth rate of a mere -.01%. The nation, however, went from a 4.1% increase to 10.3%, a swing of 6.2% (see **Table 2**). States larger in size than Indiana (with a greater share of the nation's employment) had large positive swings in their growth between the two periods (see figure 4). California, with more than 11% of the nation's employment in 1990, had a swing of nearly 15% in its growth. Nine other major states (shown in **Figure 4**) all had positive swings greater than Indiana. Hence, the apparent surge of Indiana between 1990 and 1994 was a relative advantage. When other states got back on course, after the recession of 1990-91, Indiana continued to grow at the same rate and lost the relative ground it had gained.

The State's Strength

Indiana differs from the rest of the nation in its continuing dependence on manufacturing employment (see **Figure 5**). Manufacturing lost just 1.9% of its share of the state's employment between 1990 and 1998 while that decline was 2.5% at the national level. The difference was more than taken up by services (3.5% in Indiana and 4.2% in the U.S.).

Table 1
Cycles in Personal Income

Cycles	Peak-to-Peak	Quarters		Decline	Recovery	Expansion	Decline from previous peak	New peak over previous peak
	1969:3 to 73:4	17	Indiana	5	2	10	-2.4%	20.5%
			U.S.	0	0	17	0.0%	20.6%
II	1973:4 to 79:1	21	Indiana	6	5	10	-7.5%	11.2%
			U.S.	5	4	12	-3.3%	15.8%
III	1979:1 to 81:3	10	Indiana	5	5*	0	-6.1%	-3.2%
			U.S.	0	0	10	0.0%	5.0%
IV	1981:3 to 90:2	35	Indiana	6	4	26	-8.5%	16.0%
			U.S.	2	5	28	-1.3%	27.3%
V	1990:2 to 99:2	37	Indiana	3	3	31	-1.51%	16.0%
			U.S.	3	4	30	-1.55%	15.5%

*failed to reach previous peak

Figure 3
Changes in Indiana's Non-farm Employment

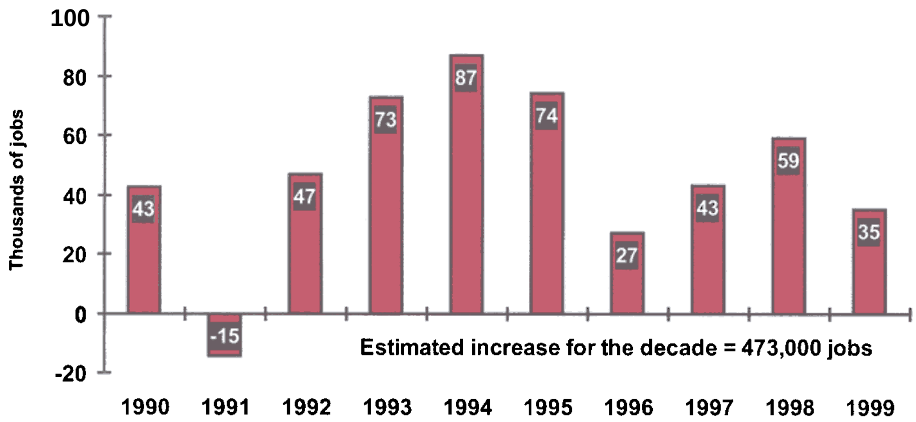


Table 2
Employment Changes in the 1990s

	Percent Change in U.S. Employment			Percent Change in Indiana Employment			
Major Industry	1990 to 1994	1994 to 1998	**Swing**	1990 to 1994	1994 to 1998	**Swing**	Rank in U.S.
Total	4.11	10.3	6.2	7.57	7.56	-0.01	38
Mining	-15.08	-1.5	13.58	-16.05	1.22	17.27	15
Construction	-1.66	21.52	23.17	9.25	15.02	5.78	32
Manufacturing	-4.17	2.87	7.05	4.14	2.89	-1.25	37
Durable Goods	-6.12	7.46	13.58	5.13	4.43	-0.7	41
Nondurable Goods	-1.46	-3.22	-1.76	1.76	-0.94	-2.7	24
Transportation & Public Utilities	3.41	10.38	6.97	3.77	4.57	0.81	43
Wholesale Trade	-0.59	10.91	11.5	4.43	8.7	4.27	38
Retail Trade	4.36	8.81	4.45	7.83	6.49	-1.34	39
Finance, Insurance, Real Estate	1.74	8.27	6.52	6.67	7.67	1.01	37
Services	12.84	18.55	5.71	16.56	15.7	-0.86	34
Government	4.14	3.71	-0.43	3.2	2.47	-0.73	28

Figure 4
Relationship Between State Size and Growth Swing

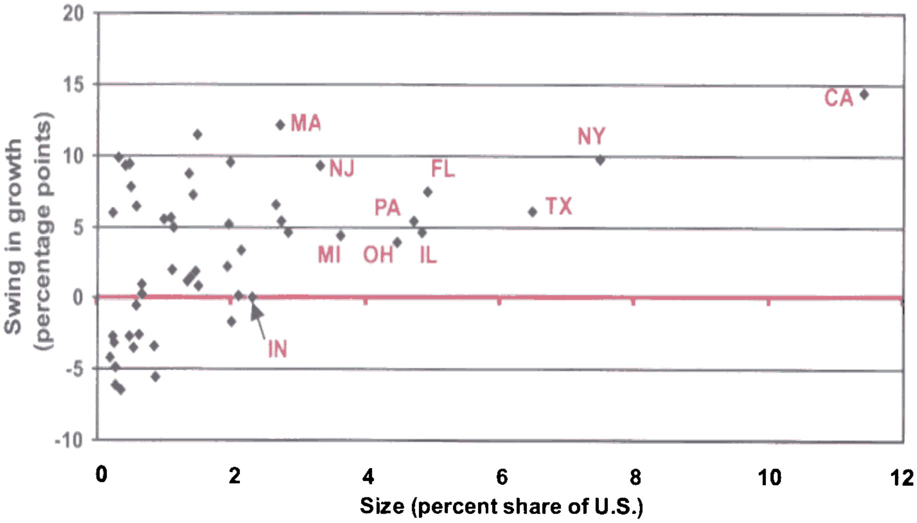
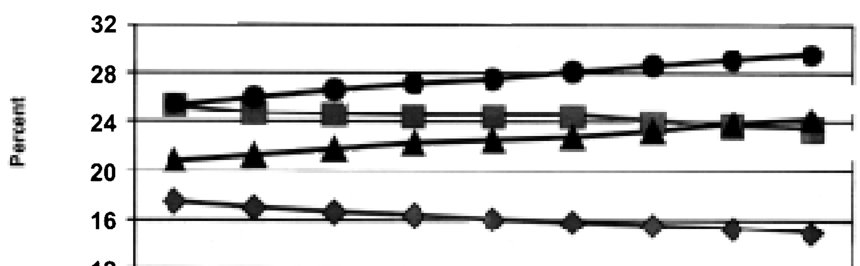
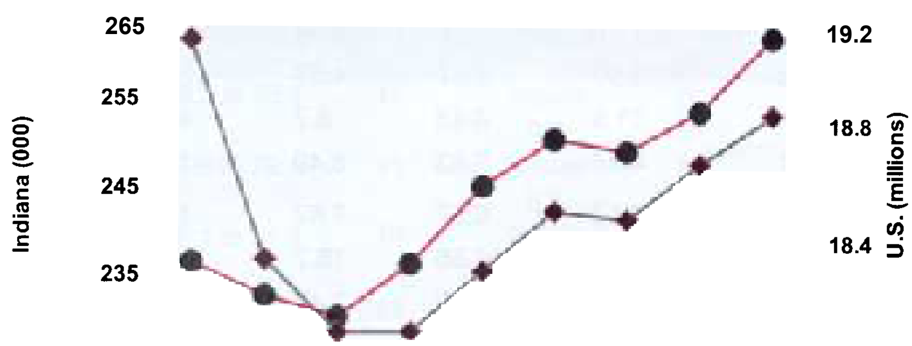


Figure 5
Manufacturing and Service Jobs as a Percent Total of Non-farm Employment



	1990	1991	1992	1993	1994	1995	1996	1997	1998
IN Manf	25.3	24.7	24.6	24.5	24.5	24.5	24.0	23.7	23.4
U.S. Manf	17.4	16.9	16.6	16.3	16.0	15.8	15.5	15.2	15.0
IN Services	20.8	21.3	21.8	22.3	22.6	22.7	23.3	23.9	24.3
U.S.Services	25.4	26.0	26.7	27.2	27.5	28.1	28.6	29.1	29.6

Figure 6
Manufacturing Jobs



	1990	1991	1992	1993	1994	1995	1996	1997	1998
Indiana	236,400	232,500	230,200	236,100	244,900	250,300	248,700	253.300	261,600
U.S.	19,103,9	18,350,9	18,102,4	18.101,2	18,306,6	18,508,6	18,483,3	18,671,1	18,832,5

Figure 7
Average Weekly Hours in Manufacturing

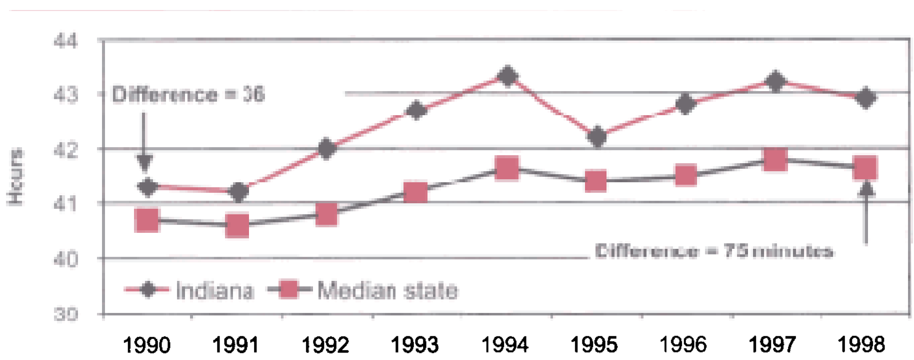


Figure 8
Average Hourly Earnings in Manufacturing

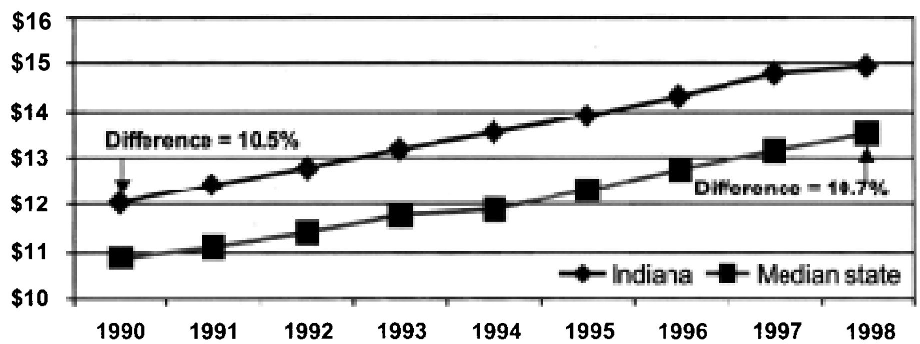
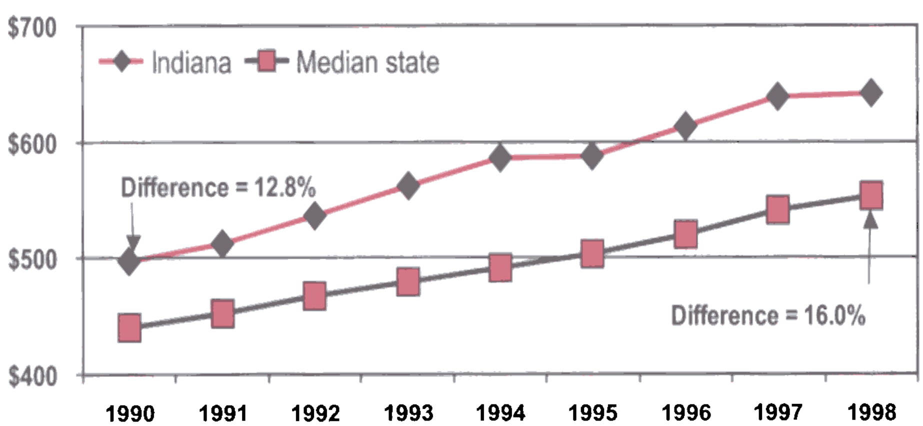


Figure 9
Average Weekly Earnings in Manufacturing



Where Indiana lost some manufacturing jobs in the early years of the decade, it had gained 45.600 such jobs (7.1%) by 1998. The nation, however, lost 271,400 manufacturing jobs between 1990 and 1998 (-1.4%) (see **Figure 6**).

Manufacturing workers have done well in Indiana during the 1990s. Figure 7 reveals that Hoosier manufacturing workers have increasing amounts of overtime work available and that the number of hours worked in Indiana, compared to the median state, is growing. In **Figure 8** and **Figure 9**, we see that Indiana manufacturing workers have increased their lead on manufacturing workers in the median state in average hourly earnings and in average weekly earnings. With employment growing in manufacturing, it is hard to argue that Hoosier workers are pricing themselves out of the market. These increased earnings may reflect increased productivity as a result of capital investment, effective training, and improved management.

Caution should be taken, however, since the higher level of earnings and the growing differential between Indiana and the nation could encourage firms to move their activities to other locations in the future. Thus, the ongoing concern for Indiana in the next few years will remain emphasis on continued improvements in labor productivity in the state's manufacturing productivity as well as an accelerated drive to bring other workers' earnings up to higher levels should some manufacturing jobs be lost.

Concluding Note

The evidence seems to support the idea that Indiana has *not* changed its relationship to the nation during the 1990s. Our relative surge in employment growth during the early years of the '90s was the result of slow growth in other states more than strong advances by Indiana. That may have been a consequence of declines in federal spending on defense following the end of the Cold War. Indiana is known for its consumer goods rather than its military outputs.

Manufacturing continues to be the major player in our state's economic base. The growth of services is not likely to contribute to the state's economic base. Hence, our attention must continue to focus on our existing strengths while we attempt to expand that base with new goods and services that will attract buyers from domestic and international markets alike.

Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University, Indianapolis

The Indianapolis metropolitan (nine-county) economy will continue to grow in 2000 at a rate that is strong compared to the Midwest region but somewhat less than the national rate. The employment growth will be moderate—increasing 10,000 to 15,000 jobs. In 1999, the high rate of growth in consumer spending was a major source of strength nationally and locally. Is it sustainable?

In 1998 and part of 1999, consumer spending was very strong due to wealth gains from the stock and real estate markets, reduced prices for energy and imports, stable health care costs, and reduced monthly mortgage payments due to refinancing. National consumer spending will not be as strong in 2000. The reduced rate of spending will affect spending on cars/trucks. In 1999 in Indianapolis, construction and motor vehicle employment were engines of growth, but will make lesser contributions in 2000.

Exports nationally are expected to be stronger in 2000 and will benefit local firms. However, the data on exports are based on the zip code of the reporting unit, usually the marketing group at the corporate headquarters. An Indianapolis firm may have plants located in other parts of the country. Therefore, the positive production and employment effects arising from increased exports may occur elsewhere than Indianapolis—the reporting location of the exports. Expanding exports should offset some of the slowing consumer durables spending.

Entrepreneurial Momentum

As Indianapolis enters the 21st century, a high-tech initiative has been launched. In a national ranking, Indianapolis was ranked number 1 in entrepreneurship in the Midwest. Under former Mayor Goldsmith's initiative, a Central Indiana Technology Partnership was developed. The Lilly Endowment made a grant of $29.9 million to the Indiana University Foundation for research in fundamental information technologies. Three research laboratories will be established in Indianapolis based on this grant. Central Indiana institutions and firms expect to be well-represented in the competition for the Indiana General Assembly $50 million 21st Century Research and Technology Fund.

Indianapolis has been known as the crossroads of America with its many interstate highways passing through. Now, it is the crossroads of America in

Table 1
Growth Rates for Labor Force and Employment for Selected Metropolitan Areas, 1996 (2nd quarter) to 1999 (2nd quarter)

Metropolitan Area	Labor Force Percent Change	Employment Percent Change
Indianapolis	3.5	4.7
Charlotte	4.4	5.9
Cincinnati	6.3	7.5
Columbus	5.6	6.1
Fort Worth	8.9	10.0
San Jose	9.3	9.6
Orlando	13.0	14.0
Kansas City	6.5	7.9
Portland	4.9	5.3
San Antonio	6.5	8.0
Salt Lake City	9.0	9.3
Milwaukee	0.9	1.3

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 2
Net Migration by Region and Selected States, 1997-1998, per 1000 population as of January 1st 1998

Regions/States	Net Migration Per 1,000 People
Regions	
Northeast	-5.7*
Midwest	-2.2
South	4.0
West	1.0
States	
Illinois	-5.9
Indiana	-0.2
Kentucky	2.0
Michigan	-2.8
Ohio	-3.3
Wisconsin	-0.2

*a negative sign means that outmigration exceeded inmigration; a positive sign means inmigration exceeded outmigration

Source: Population Estimates Program, U.S. Bureau of the Census

terms of the Information Superhighway because the operations centers for Abilene and TransPAC are located on the IUPUI campus. Abilene is the world's most advanced network for research and education; TransPAC is a high-performance research and education network connecting U.S. institutions with those in the Asian Pacific. Only time will determine to what extent the potential of these initiatives can be realized in terms of patents issued to Indianapolis residents and assigned to Indianapolis firms, and new research synergies, firms, and high-paying jobs.

Resource Endowment

Indianapolis is a place on the national economic landscape. How it responds to national economic forces depends on its resource endowment—labor, labor, capital, and entrepreneurship. Labor, capital, and entrepreneurship are mobile. Capital, in the form of corporate offices and plants, moves within the metropolitan area, state, nation, and globally. Labor, similarly, migrates internally within the U.S. and internationally. Because the property tax is the primary revenue source for local governments, local officials are especially sensitive about maintaining and increasing the property tax base. This means that attracting and holding labor, capital, and entrepreneurship become a primary concern. Highly-skilled individuals are especially mobile.

The way in which these resources are combined to produce goods and services depends on their relative prices. For example, land is relatively expensive in an urban area. In housing construction, increases in the price of land relative to other housing inputs have induced developers to economize on the use of land by reducing the size of the average lot. On the other hand, rapidly growing communities have used zoning to restrict the number of lots per acre as a way of constraining rising fiscal demands.

The availability and quality of labor have been widely discussed topics. One reason why employers have been concerned about the problems of attracting labor is the comparatively slow growth rate of the Indianapolis labor force. **Table 1** shows rates of growth for Indianapolis and selected metropolitan areas of similar size.

For each metropolitan area, the rate of employment growth exceeded the rate of the labor force growth. The unemployment rate fell because the labor force is the sum of the employed and the unemployed.

Labor force growth depends on the rate of population growth and the labor force participation rate—the proportion of the population that is in the labor force. The population growth depends on births minus deaths plus net migration. Let's look at migration at the state level for 1997-98, the most recent period

Table 3
Cost of Living Index

Metropolitan Area	Fourth Quarter 1998
Indianapolis (Marion County)	94.9*
Atlanta, GA	103.3
Phoenix-Mesa, AZ	101.6
Dallas, TX	100.6
Houston, TX	93.6
San Antonio, TX	90.7
Fort Lauderdale, FL	107.7
Miami, FL	107.7
Orlando, FL	100.5

*Index based on average (=100) of participating areas; no taxes are included in the index

Source: American Chamber of Commerce

Table 4
Per Capita State Tax Revenue and State Tax Revenue as Percent of Personal Income, 1998

State	State Tax Revenue Per Capita	Rank	State Tax Revenue as a Percent of Personal Income	Rank
Indiana	1,652	27th	7.2	28th
Florida	1,509	41st	6.2	42nd
Georgia	1,517	38th	6.5	37th
Texas	1,246	48th	5.4	49th
Arizona	1,488	42nd	6.9	31st
All states combined	1,761		7.0	

Source: U.S. Bureau of the Census and Bureau of Economic Analysis

available in **Table 2**.

Indiana is in the Midwest region, a region in which more people moved out of the region than moved in. For Hoosier outmigrants, the South was the biggest draw followed by other Midwest states, and then the West. Migration is caused by both economic and noneconomic factors. From a cost of living perspective, Indianapolis compares well as shown in **Table 3**. Indianapolis' cost of living was 94.9 percent of the average of participating areas. Because taxes were excluded from the index in **Table 3** , information about state taxes is reviewed in **Table 4**. Population shifts affect the rate of household formation, an important demographic driver of the housing industry.

Housing

New home construction has been very strong for the past several years. The baby boomers (born 1946-64) played an important role in stimulating housing demand during the 1970s. However, the baby boomers' children, the echo boom, are considerably different. **Table 5** compares baby boomers and the echo boom at the national level based on each group at ages 18-22.

Those echo boomers who marry will more likely be dual-earners than their parents at the same ages. The echo boomers may have fewer children and will probably have wealthier parents, and might receive more help in making the downpayment on a home. Home prices have been rising. To help pay the higher prices, low downpayment loans have been expanded—the percent of loans with downpayments of five percent or less has increased from one percent in 1985 to seven percent in 1998 nationally. Debt-to-income ratios, cash reserve requirements, and documentation of credit history have been relaxed. In an economic slowdown, low-downpayment loans could pose some problems.

U.S. Housing and Urban Development (HUD) long-term subsidy contracts with owners of Section 8 project-based properties will be expiring. Owners will chose between renewing these contracts or opting out of them to convert to unsubsidized housing. Under a HUD initiative, market rents will be provided to below-market properties most likely to opt-out to minimize the numbers of renters who might be forced to relocate.

Efficiency and Equity Tradeoffs

Two major issues will face Indianapolis Mayor Bart Peterson in 2000. One is capturing wet weather discharges from the combined sewer system; the other is transportation.

Sewers

Capture of these flows is an economic efficiency is-

Table 5
Baby Boomers and the Echo Boom Compared, Percent in Each Category at Ages 18 to 22, (national data)

	Baby Boom	Echo Boom
Population		
Minority	16.8	34.0
Foreign-born	3.4	10.1
Second-Generation	9.8	11.7
Never Married	67.0	88.4
Women in Labor Force	52.3	66.1
Households		
Single-Person	13.7	23.1
Married-Couple	69.0	21.4
Any Household with Children	43.5	32.4
Homeowner Rate	16.2	15.2
Single-Person	8.5	11.4

Sources: The State of the Nation's Housing, 1999, Joint Center for Housing Studies of Harvard University

Table 6
Risk and Return Characteristics of Selected Nonbank Activities

	Relative to Banking	
Activity	**Profitability**	**Risk**
Securities		
overall	higher	higher
underwriting	varies	higher
trading	higher	higher
Insurance		
agency underwriting	higher	varies
property and causalty	higher	varies
life	varies	varies

Source: Kwan and Laderman, "On the Portfolio Effects of Financial Convergence," Economic Review of San Francisco Federal Reserve Bank, 1999, No. 2, p.22.

sue—as the percentage of capture in gallons increases, the cost of capture increases at an increasing rate. The issue becomes: How much to capture at what cost, and how are these costs shared by homeowners and businesspeople? The City of Indianapolis is developing a long-term plan that will consist of a set of options to reduce the flows.

Transportation

A major transportation issue is the Northeast Corridor Transportation Study—how to deal with the projected increase in the number of trips in the area from downtown Indianapolis northeastward to Noblesville. In 2000, choices will be made from a list of alternative strategies including light rail transit, conventional bus, exclusive busways, high occupancy vehicle lanes, and road improvements. These strategies vary in their average operating speed (efficiency) and their cost (operating $ per vehicle mile). Transportation is a multicounty issue. Both sewer and transportation issues will be costly to resolve and take time. Therefore, a broad base of political and economic support will need to be generated. How much are we willing and able to pay for the benefits of a better environment?

Industrial structure

The Indianapolis economy consists of a mix of industries. What happens to the area's economy depends on the performance of these industries. Two will be given attention.

Automotive

We might think of the automotive industry as an example of the traditional, industrial economy in comparison to the new information economy. The information economy has been characterized as one in which the fixed costs of production are large, but the variable costs of reproduction are small. Once the first copy of software is produced, many more can be produced at a very small unit cost. The information economy is one that places a premium on experiencing the good or service to find out what it is. So, it is distributed free via the Internet.

The traditional, industrial economy as represented by the automobile is one in which there are economies of scale too, but as capacity constraints are approached, the cost of producing an additional car will eventually increase. For the information economy, the economics of networks has become popular. However, the "network" is becoming important for automobile production and distribution too. Synchronization of the elements in the supply and demand chain is becoming critical for survival. The Internet in the automobile industry is becoming a powerful tool to facilitate this synchronization.

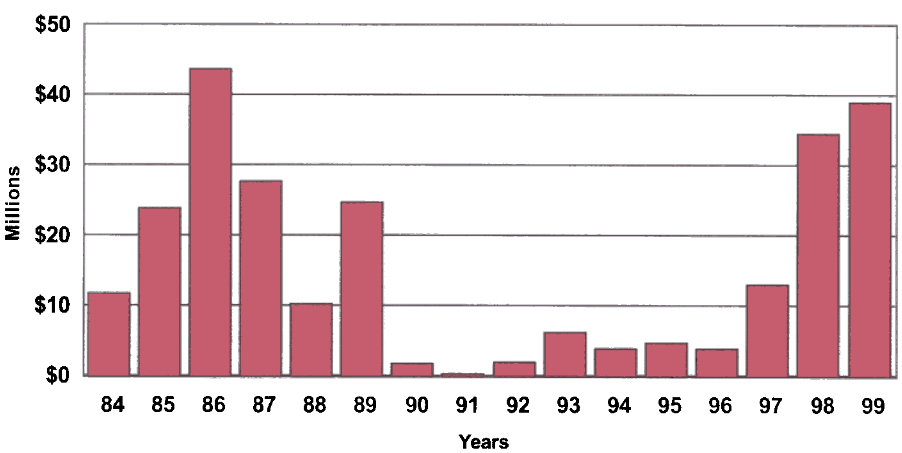
Financial services

During the 1990s, commercial banks have increased their profit productivity substantially. Banks have offered wider varieties of financial services. These additional services or higher service quality may have increased costs but also increased revenues by more than the cost increases. Although the evidence is still being generated, it appears that those banks involved in merger activity had greater profit productivity improvements than other banks. Merging banks may have been able to shift their portfolios into higher risk and therefore higher expected return investments to exploit the advantage of diversification gains from the merger.

What will integration of financial services between banks, brokerages, and insurance companies mean? A review of the empirical evidence of the risk-return tradeoffs in increasing banking services to include other financial activities is summarized in **Table 6**. It is important to note that the evidence is based on nonbank financial institutions not affiliated with banks. It appears that by broadening banking firms' revenue base, earnings can be improved. On the other hand, we must be careful to not compromise bank safety and soundness.

As we move into the 21st century, public and private organizations in other cities and states are being as aggressive as Indianapolis in the promotion of new technologies and product development. As economist Hal Varian writes, "The great fortunes of the information age lie in the hands of companies that have successfully established proprietary architectures that are used by a large installed based of locked-in customers."

Figure 1
Annual Dollar Value of Condominium and Apartment Construction in Allen County, 1984 to 1999



1999 is annualized using data through October
SOURCE: Fort Wayne/Allen County Building Department

Fort Wayne

Thomas L. Guthrie

Associate Professor of Business and Economics and Director, Community Research Institute, Indiana University-Purdue University, Fort Wayne

Last year's *Outlook* article noted, "It is difficult to identify a likely source of significant growth for the area economy in 1999…. The twin problems from the Asian flu—lackluster demand for our exports and increased competition from imports—will be quite troublesome to the manufacturing sector…."

According to preliminary employment data, the six-county Fort Wayne area economy experienced no growth in 1999. Specifically, the preliminary estimate of employment in September 1999 was 274,900 versus 275,000 a year ago.[1]

As forecast, the trouble spot has been manufacturing employment. It decreased 1,000 during the period. The preliminary estimate of manufacturing employment in September was 75,100. Wholesale and retail trade employment also declined 600 to 63,800 as of September.

According to the preliminary data, those losses were largely offset by an increase of 1,300 in the catchall services category. It includes both business and personal services employment.

Is the preliminary judgment of no growth in employment accurate? Housing construction data cast some doubt. Construction of new housing is at a record pace in 1999. Permits for new, single-family housing in Allen County in 1998 almost beat the record of 1,984 set 20-years earlier, and 1999 permits are currently on a pace to beat the record nominally.

Additionally, the previously moribund condominium and apartment construction has been resuscitated. Two years ago, there was essentially no new construction and now the record spending of approximately $44 million set back in 1986 is being challenged (see **Figure 1**). Certainly, $44 million in 1986 dollars produced more housing than $44 million in 1999 dollars; however, the recovery is still impressive.

Factors favoring a robust new housing market abounded in 1999: favorable mortgage rates, appreciation in housing prices (causing equity to increase), and outsized gains in the stock market.

Not so understandable is who is occupying either the new houses and/or the older houses being traded in if the preliminary employment data are correct. The data suggest no increased demand from new hires. Are the preliminary employment data low, or is their some unusual phenomenon occurring within the housing sector? Maybe older housing is being destroyed at an atypical rate or maybe builder speculation is driving the sector.

Having an answer would certainly be helpful in developing a forecast for 2000, but that's not possible at this time. My bias is that 1999 employment ultimately will be revised upward, and that probably speculation has crept into the new housing market. Ten years of uninterrupted success will do that.

Even if 1999 employment ultimately is revised upward it won't be large, and therein also lies the logic for what is likely to happen to the area economy in 2000. That the cupboard of excess labor in the Fort Wayne area is bare is obvious. The unemployment rate in the Fort Wayne area has been running approximately two percentage points below the U.S. unemployment rate since 1993. In September it was 2.5 percent, not seasonally adjusted.

Yearly population estimates since the 1990 census suggest that the Fort Wayne area population is growing between 0.5 and 0.7 percent annually. This is about half the growth rate for the U.S., and it is consistent with the fact that the Fort Wayne area has not been a mecca for in-migration. Thus, the principal source of population growth is the excess of births over deaths.

If everyone wanting a job is already employed, then the labor force is likely to grow at approximately the same rate as the population, ignoring age discrepancies. This means an increase of between 875 (.005 X 175,000) and 1,225 (.007 X 175,000) per year.

Now the only question relative to the 2000 forecast for the Fort Wayne area economy is whether the U.S. economy will grow sufficiently to create demand for increased employment between 875 and 1,225. Probably, any balanced growth in U.S. GDP of at least three percent will do that. The logic also suggests that whether U.S. GDP growth is three percent or five percent won't make that much difference to area economic performance.

Balanced growth requires that the manufacturing sector participate fully, and that appears likely in 2000. The twin problems noted in the opening paragraph are reversing. Foreign demand—especially Asian and European—for U.S. manufactured goods is growing again and a falling dollar is making U.S. manufactured goods more competitive.

Trying to analyze the manufacturing sector can be confusing. For the U.S., manufacturing employment decreased 19,000 monthly in 1998 and it has decreased 29,000 monthly in 1999. One might assume then that production of manufactured goods has been decreasing, but that isn't the case. Actually, production has been increasing at approximately a five percent annualized rate. How can this be? The answer is that productivity in the manufacturing sector has also been increasing at approximately a five percent annualized rate, so the increased production can be obtained with the same or fewer employees.

Obviously, these trends have a tremendous impact on the potential for employment growth in the Fort Wayne area because it has an outsized dependence on manufacturing.

Can Fort Wayne employment grow faster than 1,250 annually? It's possible, but not probable. Possibilities include a company moving to the area and bringing its employees or $100,000 jobs to be filled locally. The latter would cause a one-time increase in the labor force as additional people chose work over leisure, but the interesting question is whether the Fort Wayne area has a sufficiently skilled labor force to fill the $100,000 jobs.

What's the downside risk to the forecast? Accelerating inflation and the rising interest rates that will result! Wage growth is accelerating. For example, the UAW just signed an agreement that gives three percent annual increases plus a cost of living adjustment. Crude oil prices have doubled and OPEC's share of the market (and resulting pricing power) has increased. As the managed part of managed care is reigned it, it appears likely that the health care industry may start adding to inflation again rather than subtracting from it. Finally, commodity prices are starting to increase.

Note

1. Not seasonally adjusted

Columbus

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THE PREDICATOR, 1999[1]

State of the National Economy

After successfully avoiding last year's global financial crisis, the U.S. economy continued to steam along at a remarkable rate. While the Asian, Russian, and (to a lesser degree) Latin American economies were trying to climb out of their financial debacle, the U.S. economy posted an astonishing 6.01% annual growth rate in the fourth quarter of 1998, followed by a strong 4.3% in the first quarter of this year. While growth in the second quarter of 1999 leveled off to a modest but positive annual rate of 1.9%, growth in the third quarter beat expectations as it rebounded to a robust 4.8%.

With fears of further international financial crises receding, worries of higher inflation in the United States have resurfaced.The chain-type price index for the Gross Domestic Product (GDP)—which covers prices of all goods and services produced in the U.S.—rose at about a 1.5% annual rate in the first quarter, up from an increase of about 1% last year. Also, after increasing by only 1.6% over 1998, the Consumer Price Index (CPI) rose at a 2.6% annual rate for the year ending in September 1999. Although the core rate (inflation minus energy and food components) of inflation remained somewhat subdued at 2%, recent Producer Price Index (PPI) and CPI figures show a sharp increase in some commodity prices. For example, the September CPI increased by 0.4% while the PPI rose by 1.1%, driven by sharp increases in food, energy, tobacco, and car prices. A large part of the increase can be attributed to the jump in global oil prices, as OPEC was successful in curbing production levels; and, at the same time, energy demand by Asian nations rebounded. After hitting a bottom of $11 per barrel by the end of 1998, oil prices have moved this year to a high of over $22 per barrel.

The increase in the Employment Cost Index (ECI) came in at 0.8% in the third quarter, lower than the 1.1% rise in the second quarter. Overall, the ECI is hovering around a steady rate of 3% in 1999, down from 3.5% over 1998. Although lower than earlier increases, the 3% rise in the ECI is well above the rise in prices over the same period and therefore is enough to generate solid real wage gains. These cost increases did not translate into higher prices partially because of higher gains in productivity. For example, labor productivity in the nonfarm business sector posted another sizable gain in the first quarter of 1999, and the increase over the four quarters ending with the first quarter of 1999 was 2.5%. Indeed, productivity has increased at a 2% pace since 1995-well above the trend of roughly 1% per year that had prevailed over the preceding two decades. In fact, the Fed estimates that the rate of potential growth implied by this improvement in productivity has gone from 2.3% a few years ago to as high as 3%.

Labor demand remained very strong during the first three quarters of 1999. The unemployment rate edged down further from 4.5% in 1998 to a low of 4.1% in October of this year and an average of 4.3% for the period ending in September—the lowest unemployment rate seen in the U.S. in almost 29 years. While employment gains are evident in the technology, service, and construction sectors, in the manufacturing sector, where employment began declining more than a year ago in the wake of a drop in export demand, payrolls continued to fall in the first half of 1999. In all, nearly half a million factory jobs have been lost since March 1998. Despite these job losses, manufacturing output continued to rise in the first half of this year, reflecting large gains in labor productivity. Also, factory orders are up 6%, on a year-to-date basis, a significant rebound from the 0.8% rise posted over the first eight months of 1998.

Real personal consumption expenditure surged at an annual rate of 6.5% in the first quarter and 5.1% in the second quarter. Also, real income continued to rise with strong growth of employment and real wages, and consumers have benefited from substantial gains in wealth mainly because of strong stock market performance. The market's sharp rise and the associated increase in wealth have helped to foster a high level of consumer confidence and willingness to spend. This seemingly unstoppable demand by consumers refueled dormant fears of a resurfacing of inflation. These fears prompted the Fed to switch its official stance from a neutral to a restrictive bias. Already, the Fed has raised short-term interest rates twice this year (0.25% each time) to the current 5.25%. Long-term interest rates have risen by more than 1% in the last year. In addition, the Fed has repeatedly indicated its readiness to act preemptively in order to slow down the economy on signs of impending inflation or "excessive" valuation in the equity market. The stock market, reacting to the chairman's comments, first plummeted by almost 10%, but then rebounded somewhat on calming news of good corporate earnings, "acceptable" September's CPI figures, and, more recently, the robust but non-inflationary third quarter growth. Despite this reassuring recovery, the Fed is watching the equity market closely as stock market holdings now make up an even greater portion of household wealth. The Fed believes that rising stock prices fuel consumption, and robust consumer spending has been a major concern of the Central Bank this year.

The federal budget posted a $66.6 billion surplus in the 1999 fiscal year compared to a $31.8 billion surplus last fiscal year. As a result of this performance, the federal government is now contributing positively to the pool of national savings. This increase in national savings, as well as the foreign investors' eagerness to finance our current account deficit, has kept a lid on the cost of capital, thus contributing to our nation's investment boom.

As for the Balance of Payment, the current account deficit is expected to easily top $320 billion (3.5% of GDP) this year as compared with $221 billion (2.5% of GDP) for 1998. The balance of trade in goods and services is running an annual deficit of $259 billion as compared to $173 billion last year. This is partially due to relatively low world commodity prices and a strong dollar. Recent recovery in world demand combined with a weakening dollar may reverse this trend by stimulating U.S. exports. However, American consumers' appetite for imports shows no signs of tapering off.

State of the Local Economy
Despite record-setting employment performances on the state and national levels, once again the local economy outpaced them both (see **Figure 1**). The year-to-August average monthly unemployment rate for Bartholomew County stood at 2% (versus 2.1% for 1998), compared with 2.5% for the state (versus 2.7% for 1998) and 4.4% for the whole nation (versus 4.5% in 1998). Bartholomew County's unemployment rate for the months of July and August was only 1.5% and 1.6%, respectively. Only Brown and Jennings Counties posted a lower unemployment rate in the month of August. Also, the unemployment insurance claims filed in August in Columbus are down 16.6% from the same month last year. It is noteworthy also that Indiana's unemployment rate of 2.5% in August is currently lower than that of the four surrounding states.

Figure 1
Unemployment Compensation

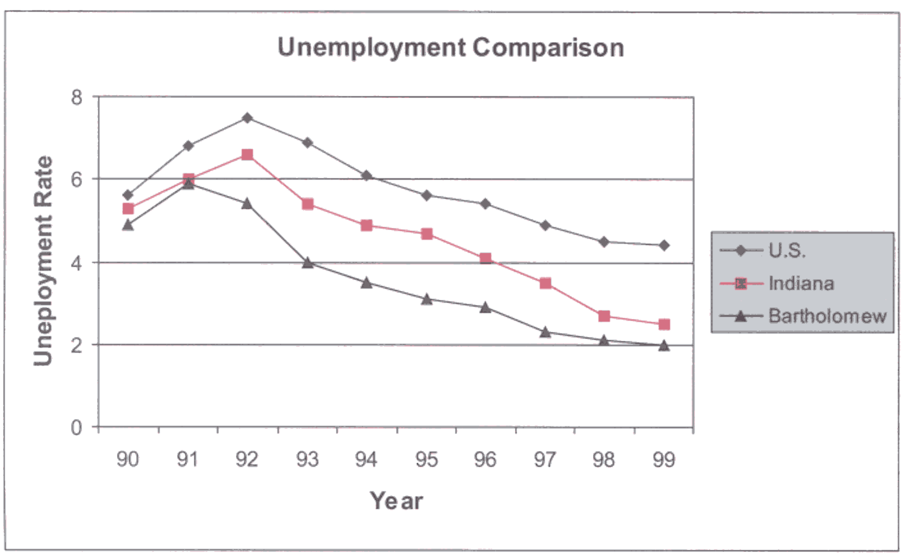

Table 1 shows the unemployment rates, the number employed, the number unemployed, and the annualized employment growth rates through the 1980s and 1990s for Bartholomew County. Note that from 1990 to the most recent period available, the number employed has grown by 22% (from 31,922 to 39,035), and the unemployment rate fell from 4.9% to the current rate of 2%.

Cummins announced two new records for the third quarter, with earnings before interest and taxes of $91 million on sales of $1.63 billion. Net earnings for the quarter rose to $53 million, or $1.35 per share, up by 160% from the 52 cents per share reported in the third quarter of 1998, exclusive of special charges. Including special charges of $174 million in the third quarter of 1998, Cummins reported a loss of $110 million, or a loss of $2.86 cents per share, on sales of $1.53 billion. For the first nine months of 1999, Cummins reported net earnings of $135 million, or $3.48 per share, on revenues of $4.8 billion. This compares to the first nine months of 1998, when Cummins reported a net loss of $50 million, or a loss of $1.30 per share, including special charges of $217 million, on revenues of $4.7 billion.

Arvin Industries, Inc. reported a third quarter net earnings increase of 20% to $20.1 million, or $0.82 per share. Sales for the quarter rose to $744 million, an increase of 30% over the comparable quarter in 1998. Net earnings and sales for last year's third quarter were $16.8 million, or $0.69 per share, and $574 million, respectively. Both sales and earnings for the 1999 period were records for the third quarter and represented the sixth consecutive record quarter for sales and earnings. For the first nine months of 1999, net earnings before one-time items increased to $69.8 million, or $2.85 per share, versus net earnings before one-time items, of $57 million, or $2.36 per share, for the comparable period of 1998. Sales for the first nine months of 1999 increased to $2.32 billion from $1.81 billion last year.

According to the Columbus Economic Development Board, two companies—National Health Care Recovery Services and B.F. Composites, Inc.—joined the Bartholomew County area in 1999. The first added 200 jobs with an average hourly wage of $12.00 and an undisclosed amount of investment, while the second added five jobs with an average hourly wage of $10.00 and $1 million in investment. Also, since October of last year, five existing companies—LNP Corporation, Cunningham Pattern, TIEM, Applied Labs, and Toyota Tsusho—spent a total of $26.4 million in their expansion efforts and hired an additional 96 workers with a weighted average wage of $13.40.

The local housing market is still experiencing a relative glut. As of the last week in September, the

Table 1

Year	Unemployment Rate (%)	Number Employed (Monthly Average)	Number Unemployed (Monthly Average)	Annual Employment Growth Rate (%)[2]
1980-1989	8.2	27,700	2,450	1.2
1990-1995	4.9	31,890	1,580	4.4
1996	2.8	38,029	1,120	2.1
1997	2.2	38,395	888	1.0
1998	2.1	39,000	837	1.6
1999 (as of August)	2.0	39,035	778	0.0

[2]The annual employment growth rate is the percentage change for each quarter in a year compared to the same quarter in the previous year.

Table 2
Forecast Summary

Forecast Summary		
Expected Outcome		**Probability**
Robust Growth	3--5%	75%
Modest Growth	2--3%	25%
Slow Growth	0--2%	0%

number of houses sold was down to 680 from 770. However, the average property selling price stood at $130,135 versus $129,584 (a 0.4% increase). This could be explained by the fact that residential housing tends to be segmented between new, highly desirable, mid-range houses and old, less expensive, less desirable ones. The increase in the average prices can then be explained by the shift in demand from the old to the new houses. The average number of days on the market continues its upward trend from 131 days last year to 143 this year and the sold-to-list price ratio remains around 96%.

Forecast (See **Table 2**)

The state of the local economy in the new millenium depends largely on the health of the U.S. and, to a lesser extent, the global economy. The last two years have seen two significant developments. First is a growing conviction that the U.S. economy has moved to a higher sustainable growth path. Second, there has been an unusual combination of international events that has temporarily enabled the economy to grow even faster than the new growth rate without generating inflation.

While I expect the higher growth trend to continue, the international environment is less likely to produce the same favorable conditions in the near future. In fact, I predict the international environment will offer new challenges as well as opportunities. The opportunities are embedded in the potentially higher world demand for U.S. products buoyed by a revived global economy. As the weakened Asian and Russian economies regain strength, their incomes will increase, thus increasing their demand for imports.

On the other hand, the emergence of the euro as a viable international currency could present a major challenge for the dollar. Despite the fact that the euro lost a lot of ground against the dollar early in 1999, it has recently rebounded significantly. This could make the dollar and U.S. financial assets potentially less attractive to international investors, thus drying up the capital pool available to U.S. investors.

Another concern is the increased competitiveness of Europe, Southeast Asia, Japan, China, and India. Some analysts argue that in the wake of the global financial crisis, it is possible that these countries will restructure their economies and become more effective world suppliers of consumer goods and services, thus competing for U.S. export markets. This scenario is unlikely, at least in the short to medium term. For example, despite a marked progress toward a one-currency zone, Europe is still struggling with major organizational and structural issues. Heavily unionized labor markets, rigid tax and labor laws, and internal dissent continue to be obstacles to the formation of an efficient economic federation. The economies of Southeast Asia will still have to contend with corruption, cronyism, and pseudo-capitalism. While I expect their economies to rebound significantly, it is unlikely that they will gain a much larger share in export markets, especially in the high-tech areas. According to many analysts, Japan has failed in meeting the restructuring challenge it faced in the post-crisis environment. The private sector remains entrenched in a traditionally inflexible organizational structure and is still heavily dependent on government subsidies and spending. China and India may still prove quite competitive in the future, but they face, at least in the short term, insurmountable demographic, economic, and political challenges. All this bodes well for the future competitiveness of the U.S. economy. The one remaining challenge, though, is supplying this dynamic, constantly evolving economy with skilled labor. While selective immigration laws can help alleviate the shortage in skilled labor, fundamental policy changes are needed in the field of education and labor training.

For the immediate term, the Fed is likely to restrict credit even further upon signs of accelerating inflation or a major rally in the stock market. If these signs do not appear, the Fed is not likely to act. One mitigating factor may be the impact of the century date change on computer systems and interpreting economic data. I believe that the potential impact will be minimal or transitory, at the worst. At any rate, I predict that all the factors leading to the current impressive performance of the U.S. economy will remain in place during the coming year, producing a continued healthy, if not robust, economy. This translates to a growth rate in real GDP of at least 3.5%, inflation around 2.3%, and an unemployment rate remaining at or below 4.5%.

As for the local economy, I expect further growth in sales for the local firms, driven by stronger international demand. Unfortunately, the local labor market is stretched to the limit, and no further gains in employment should be expected. Hopefully, higher net earnings for local firms will translate to higher incomes and maybe importation of labor, which should boost the local demand for housing and help alleviate the existing housing glut. All in all, I foresee a rosy beginning to the new millenium.

Note

1. The views expressed herein are those of the author and do not necessarily reflect those of Indiana University-Purdue University Columbus, the Columbus Area Chamber of Commerce, or the Predicator Advisory Board members (Paul Bippen, Claude Davis, James Dittoe, Gordon Peteres, Richard Smith, and Brooke Tuttle).

Richmond-Connersville-New Castle

Ashton I. Veramallay

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The Richmond-Connersville-New Castle (RCNC) area economy had a good year in 1999. There were existing business expansions, new businesses and new jobs. The September unemployment rates were 2.9, 5.4 and 3.4 percent respectively for Wayne, Fayette and Henry counties compared to the statewide rate of 2.7 percent and the national rate of 4.1 percent (see **Table 1**). It is a welcome relief to the local region accustomed to double-digit unemployment rates. Most of the gains in employment growth have occurred in service producing industries.

The service sector is expanding because of the increased demand for various kinds of services, ranging from personal and health to educational and entertainment. Employment growth in Wayne, Fayette, and Henry counties between 1987 and 1999 registered an increase of 21.4, 5.2 and 11.8 percent respectively. Wayne county's increase was below the statewide increase of 22.4 percent, but above the national increase of 20 percent. Between 1998 and 1999 over 1000 jobs have been added, most of which were in services, reflecting RCNC's demographic profile and consumption pattern. However, there will be a loss of 300 high-paying jobs at Roots/Dresser Industries which will significantly impact Connersville given the high manufacturing intensity.

The manufacturing sector is recovering from the Asian and Brazilian/Latin American crises. Progress toward economic recovery in these developing regions has been advanced by financial stabilization, with strengthening exchange rates, and by supportive monetary and fiscal policies. Consequently, local firms will be in a favorable position to sell their products in these markets compared to a year ago. The dollar depreciation will also boost export sales as the global economy improves. A weakening dollar makes U.S. exports less expensive to foreign buyers and imports more expensive to American buyers, which will eventually help improve the trade deficit.

The housing sector is continuing its healthy pace. There is a good inventory of houses in the \$75,000-\$150,000 price range. Mortgage interest rates are still attractive in a high employment-low inflationary environment. Most local financial institutions had 15-year and 30-year mortgages and 1-year

Table 1

	Labor Force		Employment		Unemployment		Rate	
	Sept. '99	Sept. '98	Sept. '99	Sept. '98	Sept. '99	Sept. '98	Sept. '99	Sept. '98
Fayette	10,750	11,160	10,170	10,480	580	680	5.4	6.0
Henry	24,830	25,030	23,990	23,970	840	1,060	3.4	4.2
Wayne	38,830	39,330	37,690	37,660	1,140	1,670	2.9	4.3
Indiana	3,075,000	3,100,400	2,991,700	3,011,400	83,300	89,500	2.7	2.9
United States	139,217,000	137,903,000	133,555,000	131,864,000	56,551,000	6,039,000	4.1	4.4

Source: Indiana Workforce Development

adjustable rate mortgages averaging 7.64,8.18 and 6.56 percent respectively at the end of October. The spread between the rate on fixed-rate mortgages and adjustable-rate mortgages has narrowed in recent years because interest rates have decreased. But slower overall economic growth and higher mortgage rates are likely to affect housing activity.

Fueling consumption activity is personal income. Real per capita personal income growth in Wayne, Fayette and Henry counties between 1987 and 1997 was 25.6, 15.1 and 24.3 percent respectively compared to Indiana's rate of 21.2 percent and the nation's rate of 18.7 percent. Both Wayne and Henry counties were in the top fifteen with ranking of 9th and 12th respectively. Fayette county ranked 70th while Newton county trailed in last place with a 2.7 percent increase. Ohio county led the way with a 36.1 percent increase. Some of this is due to the counties' slower population growth. Real per capita in RCNC is expected to increase by 2 percent in 2000 and would contribute to economic well-being.

The retail sector, like housing, can expect a strong fourth quarter in that consumer confidence is relatively high, coupled with low unemployment and rising income. Consumers are buying big-ticket items, such as automobiles, appliances, carpets, consumer electronics, and furniture. They are already in the holiday spirit compounded by the millennium celebration, and retailers are capitalizing on it. Local merchants will have improved profit margins in the final quarter of 1999.Consumer spending will grow more slowly in 2000, mimicking the national economy.

Furthermore, the large number of jobs in the retail and service sectors tend to be low-value added and thus have lower wages. The labor market transition partly explains the slower income growth. Add to this the shortage of qualified and skilled workers. "Help Wanted" ads are a daily feature in the RCNC's media. In a tight labor market, even for unskilled jobs, it is extremely difficult to hire workers at $7 or$9 per hour. The jobs today and in the future are becoming highly computerized, automated, and technical, and employers are more demanding in their requirements. Generation Xers may have adjustment problems in the work environment.

Finally, in a recent survey by the IU East Center for Economic Education, 73 percent of the firms hired new employees in 1999, 84 percent do not anticipate Y2K problems, and 50 percent plan to expand in 2000. An overwhelmingly majority of the respondents (92 percent) are optimistic about business conditions in 2000.

On that positive not, RCNC can expect another year of growth and prosperity. And that alone deserves a champagne toast.

Kokomo

Dilip Pendse

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Resilient Kokomo Economy Will Barrel Along in 2000

When the auto sector moves, Kokomo's economy grooves. Since 1991, Kokomo's economic growth has been phenomenal. Each year, it has reached new highs on different fronts. For example, for the last 10 consecutive quarters, the National Home Builders Association has rated Kokomo's housing market the most affordable in the nation. Last year, *Industry Week* magazine ranked Kokomo 1st among its 25 U.S. manufacturing Metropolitan Statistical Areas (MSAs) and 8th best worldwide. Although the U.S. may be approaching the end of the longest peacetime expansion in its history, Kokomo's hot-rod economy continues growing as if there is no limit to economic expansion.

Kokomo's economy has defied obituaries written in the early 80s. It has performed beyond expectations and thus confounded experts. The economy's incredible run during the last decade of the millennium is owed to a strong national economy, vibrant auto sector, and expansion and modernization plans instituted by existing industries. It all adds up to an economy that can boast predominantly manufacturing oriented economy, high manufacturing wages, plenty of overtime, high incomes, swollen payrolls, very low unemployment, vibrant retail sector, and affordable housing (see**Table 1**).

Table 1
The Kokomo Economy That Keeps Surprising

	1991	1992	1993	1994	1995	1996	1997	1998	1999*	2000**
Average Jobless Rate (%)	8.3	7.2	6.0	5.7	4.4	3.7	3.4	3.3	2.5	2.1
Av. Mfg. Wk Week (hrs)	39.4	40.5	43.3	46.5	47.3	52.4	48.9	51.2	49.0	48.0
Average Weekly Wages ($)	843	839	878	1064	1079	1081	1103	1086	1076	1070
Single-family housing permits	147	196	208	302	265	312	272	218	300	290
Total building permits	712	766	783	990	937	984	1033	960	1130	1050
Retail sales ($mil)	822	844	919	950	1035	1084	1093	1132	1177	1225

*Projection based upon available data
**Forecast based upon trends observed

Historical Low Jobless Rate
The economic expansion that began in 1991 has remained brisk through 1999, which resulted in Kokomo's July jobless rate hitting a historical low of 1.9%. In fact, Howard County's unemployment rate in July was among the 20 lowest in the state's 92 counties. Moreover, in the same month, the Kokomo MSA was among the top 25 MSAs in the country with a jobless rate at or below 2%. Currently, 54,100 Kokomoans remain on payrolls, which is a record number. Employers are encountering a shortage of job seekers. No wonder "Help Wanted" signs are visible everywhere.

Incidentally, the Kokomo MSA, which comprises of Howard and Tipton counties, is the baby of the 11 MSAs in Indiana in terms of population, total number of people on payroll, civilian labor force, and total number of households. And, yet it is a giant in terms of earning potential, and strength of the manufacturing sector.

DaimlerChrysler is #1 in Kokomo
The Kokomo economy is blessed with two main anchors of prosperity and stability: Delphi Automotive Systems, the world's largest producer of automotive parts; and DaimlerChrysler, the world's fifth largest producer of automobiles. Delphi Delco Electronics Systems is the largest employer among Delphi Automotive Systems' several worldwide operations. The stunning manufacturing sector performance this year obscures an even bigger story. For almost 60 years, Delco Electronics Systems (renamed Delphi Delco Electronics Systems) remained the state's largest single employer. Kokomo's economy depended on one engine—the turbo charged Delco Electronics. Not any more! With about 8,500 employees, DaimlerChrysler is now Kokomo's largest single employer. Meanwhile, with about 4,100 salaried employees, Delphi Delco Electronics System will continue to be Kokomo's largest employer of salaried employees.

Interestingly, on November 2, DaimlerChrysler's first minivan turned 16! More than 8 million of them have been sold since 1984. All minivans were fitted with transmissions made in Kokomo!

With about 40% of its jobs in the manufacturing sector, Kokomo is the state's second most manufacturing-oriented city. In addition, for the past two years in a row, *Industry Week* magazine has listed Kokomo among the top 10 manufacturing centers in the country. What distinguishes Kokomo from the Elkhart-Goshen area, the State's most manufacturing-oriented region, is the high paying jobs and average work week. The average factory work-week clocked 48.01 hours during the first three quarters of 1999, about two hours below the same period a year earlier. Inspite of that, Kokomo's average workweek was highest in the state and 20% above the national level. The hourly earnings in the local factories averaged $22.74 during the first nine months of the year, a gain of 9.3% above the same period a year ago. On the average, Kokomo factory workers earned $1,093 per week during the first nine months of the year, the highest in Hoosier land. At current weekly wages, the average factory worker in Kokomo will pocket $57,000 before this year's end. Not bad at all! Kokomo autoworkers have gotten dramatically wealthier in the past 6 years, thanks to high wages, profit-sharing bonuses, and almost 10 hours of weekly overtime pay. Their wealth is filling the coffers of area retailers, service providers, restaurant owners, and all levels of government.

According to the July 1999 issue of *Sales and Marketing Management* magazine, 289 households in the Kokomo area in 1998 earned at least $150,000 in disposable income. In the last decade, rising income have lifted 6,216 households into $50,000+ spendable income bracket. In 1998, 34% of area households earned at least $50,000 in disposable income, compared with 19% in 1989.

Swelling Payrolls

Kokomo's economy remained rambunctious throughout the first 9 months of 1999. The current issue of *Indiana Employment Review* reported that September nonfarm payrolls in the Kokomo area stood at 54,100 compared with 51,400 at the beginning of the year. In other words, during January-September 1999, the job gains averaged 300 per month. No wonder, the unemployment dipped below 2% level. These job gains are remarkable, given the fact that the U.S. is probably near the end of the longest economic expansion. Job growth has been broad based. All major sectors, including manufacturing, retail, business services, and government, have registered solid gains as shown in **Table 2**.

The main contributors to Kokomo's job growth in 1999 were: DaimlerChrysler, Delphi Delco Electronics Systems, Haynes International, Ameritech, Cracker Barrel, and Chili's. Although the construction sector registered job gains, its total employment remained far below levels reached a year ago. The decline in construction employment resulted from completion of several school construction and expansion projects, as well as a decrease in the number of multi-unit housing construction.

More Mullah on the Way to Kokomo

The recent signing of the 4-year labor contract between union workers and GM, and DaimlerChrysler will represent a bonanza to Kokomo. About 12,500 auto union workers in the area will benefit from the contract. UAW officials estimate that each autoworker currently earning approximately $70,000 per year will earn an additional $29,000 over the life of the contract. This means almost $365 million will be funneled into the Kokomo economy in the form of annual increments, cost-of-living adjustments, profit-sharing bonuses, and lump-sum bonus payments. This will further boost Kokomo's retail, housing, and business services sectors.

Table 2
Employment by Selected Sectors, January-September 1999

Kokomo Area Payroll	January 1999	Septermber 1999	Jobs Added	% Change
Total Nonfarm Jobs	51,400	54,100	2,700	5.3
Manufacturing	20,400	21,500	1,100	5.4
Retail Trade	10,000	10,200	200	2.0
Business Services	8,800	9,500	700	7.9
Mining and Construction	1,600	1,900	300	18.8

Upbeat Retail Sector

Kokomo's service-producing sector employs 30,200 people. The retail and business services sectors account for 65% of these jobs. The July 1999 issue of the *Sales and Marketing Management* magazine reported that Kokomo's total retail sales rose 3.6% in 1998 to $1,132 million. Kokomo's retail sales averaged $27,569 per household , and ranked 6th among the state's eleven MSAs. Apparently with high incomes, overtime pay, and fat profit-sharing bonuses, Kokomoans snapped up new automobiles at a rapid clip. Automotive sales per Kokomo household remained second best in Indiana's eleven MSAs. Besides automotive sale, general merchandise and food store sales ranked 3rd and 6th, respectively, in the state. While the 1999 sales figures will not be known until next July, I project that retail sales in Kokomo will hit the $1,200 million mark, or 6% higher than last year.

Growing Population

Howard County lost 7% of its population in the 80s. Despite the loss, it is the state's 19th largest county with a population in excess of 80,000. Since 1991, however, the population has gradually increased. Based upon past trends, one can estimate Howard County's current population to be about 84,400. While Howard County will not regain the population it lost in the 80s, it will reclaim about 85% of the lost population before the end of 2000. This prognosis is based upon job growth, single-family and multi-unit housing growth, migration trends, and commercial development. Interestingly, while Howard County is regaining lost population, Cass, Miami, and Grant counties are losing population.

Construction-Related Employment Down, Single-Family Housing Construction Up

Last year, construction cranes dotted Kokomo's landscape, and construction-related employment zoomed to about 3,000. This year, however, because of the lack of new school construction/expansion, and public projects, construction-related employment declined by one-third to 2,000.

Single-family and multi-housing unit construction activity remained strong. Single-family building permits issued jumped 47% during the first nine months of the year. The number of these permits totaled 267 during January-September 1999, compared with 182 during the same period a year ago. The average value registered on the building permit fell from $196,000 in 1998 to $135,000 in 1999. One can surmise that more medium-scale houses are being built this year than a year ago. The final number of single-family permits issued this year will be about 310, compared with 218 in 1998.

Multi-unit housing construction activity remained strong for the second consecutive year. Valued at $19.1 million, the number of building permits issued during the first three quarters of 1999 totaled 45, compared with 48 a year earlier. Additionally, ground was broken for two new office buildings and a nursing home.

All told, the number of permits issued during January-September totaled 852, compared with 777 a year ago. Before the end of the year, the total number of permits could easily pass the 1,130 mark.

The Year of Demolitions

This year was significant in the lives of Kokomoans who worked at Delphi Delco Electronics Systems' Plant 1 site, and at Continental Steel Corporation. The two plants' demolition was a personal loss to many. During its hay day, Continental Steel Corporation, with more than 1,000 employees, was Kokomo's 3rd largest employer. After nearly 80 years in existence, the plant shut down in 1986. In 1936, the General Motors Corporation, parent Delco Electronics Systems purchased Plant 1 from Crosley Radio Corporation, and GM'S Delco Radio Division was housed in Plant 1. While the Continental Steel plant manufactured steel rods, barbed wires, steel wire fences, nails, and other steel products, Delphi Delco Electronics Systems' Plant 1 manufactured and assembled circuit boards, and electronic components.

The demolition work on Plant 1's manufacturing/assembly site began in the early months of 1999, while Continental's demolition began in May. The former steel plant's 183-acre site with 74 buildings is heavily contaminated. Clean-up work and demolition will cost $80-110 million, and will be completed in 2000. The demolition work at Delphi Delco Electronics Systems' Plant 1 will be completed before the year's end.

No year passes by without the loss of a longtime fixture in the local economic landscape. This year was no exception. Hills store, a fixture since 1978, changed hands and became Ames store. With the closure of Roselyn Bakery, Kokomo downtown lost more than a half century-old business. Service Merchandise, a fixture since 1975, employing about 50 people, permanently shut down in February.

The Resilient Kokomo Economy has Lots of Oomph Left

Kokomoans should not be sad as they bid goodbye to the millennium's last decade of fabulous, and memorable economic performance. Alan Greenspan can huff, and he can puff, but the economic house of Kokomo will not come down in 2000. The rip-roaring economy will barrel along through the first year of the millennium. In fact, Y2K promises to surpass the stunning performance of 1999. Here are a few reasons. First, the probability of the national economy sliding into a recession next year is very low. Second, Kokomo's primary growth engine, manufacturing, will not slow down because of economic fatigue. The pillars of the Kokomo economy—DaimlerChrysler, Delphi-Delco Electronics Systems, Haynes International, DuPont Photomasks, and Syndicate Sales—are financially strong. They can add new products to their product mix and increase production capacity. As per its four-year hiring plan, DaimlerChrysler will add 300-400 jobs to its pay rolls. In addition, 175-200 new jobs will be created with the opening of Menards, and expansion at Wal-Mart. Third, some of the existing businesses in Kokomo—WIS Sheet Metal, Olympic Foods, and Ambassador Steel—are expanding and modernizing their operations, thus creating new job opportunities and/or securing existing jobs. Finally, after a long spell, Peru and Tipton, Kokomo's neighbors on the north and south, respectively, are flexing their economic muscle and creating job opportunities. Hiring prospects remain bright at the minimum-security prison facility in the Grissom Aeroplex. Peru's new manufacturer of recreational vehicles, Timberland RV Company, has the potential to create 300-400 jobs in the coming years. In addition, with the relocation of L&M Metal Stamping Inc. from Logansport to Peru, new manufacturing jobs will become available to residents of north central Indiana. Tipton has landed a major manufacturer of automotive filters and avionics and electronics, which will create another 300-500 jobs.

In a nutshell, Kokomo will be on the road again for more growth in 2000. It has proved to be the resurgent economy. The continued economic growth will drain the pool of job seekers, causing the unemployment rate to hover at or below 2%, a new milestone. The housing and retail sectors will remain vibrant, and the economic environment will remain festive.

Louisville-Jeffersonville-New Albany

Fay Ross Greckel

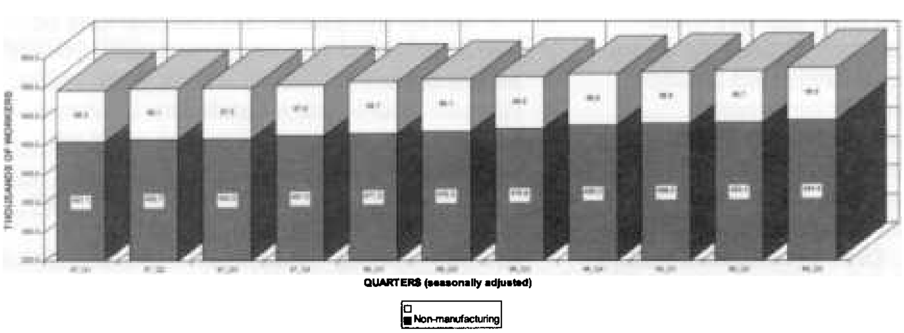
Professor Emeritus, Economics, Indiana University Southeast

Like the national economy, the Louisville metropolitan area economy has been humming along briskly this year—as it did in 1998. Our seven counties (Clark, Floyd, Harrison, and Scott counties in Indiana and Jefferson, Oldham, and Bullitt counties in Kentucky) out-performed the state of Indiana in many respects.

Employment

Nonfarm employment in the Louisville metropolitan area grew by about 16,000 jobs between the third quarter of 1998 and the third quarter of this year. That is more jobs than the entire state of Indiana is estimated to have added in 1999. This is the third straight year of job growth of this magnitude, despite the very tight labor market conditions. **Figure 1** shows this employment growth over the last three years, with the data seasonally adjusted to smooth out normal seasonal fluctuations.

Figure 1
Local Area Economic Data
Employment in Metropolitan Area



How have businesses been able to fill so many new jobs? There appear to be several factors making this possible. Workers are taking on additional jobs; more people are commuting in to work from outside the seven metropolitan counties; retirees, labor force dropouts, and others are continuing to enter or re-enter the labor force because of the strong job availability; and during the last two or three years jobs and other attractions have apparently induced more people to move into this area.

As usual, nearly all the net job growth occurred in nonmanufacturing, with the largest increases occurring in retail trade, business services, health services, and education. Manufacturing now accounts for only about 15% of the more than 580,000 nonfarm jobs located in the seven counties.

If we focus only on the Indiana portion of the metropolitan area, we find that manufacturing accounts for about 21% of the 90,000 jobs in those four counties. Despite new plants locating here and others expanding, job losses at other manufacturers have kept total manufacturing employment hovering around 19,400 jobs (on a seasonally adjusted basis) since the first quarter of 1997. Nonmanufacturing employment grew steadily throughout this period, adding more than 8,000 jobs between the first quarter of 1997 and the first quarter of 1999. Most of the net job growth occurred in the trade and services sectors.

Employment estimates for the Indiana counties in the second quarter (the latest quarter for which complete data for these counties are available, as of this writing) indicate a decline in nonmanufacturing jobs. However, it is likely that this apparent decline will disappear when employment data are revised by the state next year. This same pattern of declining mid-year employment has appeared in the initial estimates each of the past three years, but revisions the following year have shown seasonally adjusted employment rising steadily rather than falling.

Residential Construction

One of the more visible signs of economic activity is residential construction, which continued at a brisk pace this year on both sides of the Ohio River. The 1990s have been a phenomenal decade for home building in this area. In the nine years from 1990 through1998 nearly twice as many single family homes were built as in the preceding nine years (1981-89). About 75% of our households now own their own homes, well above the national average.

In **1998** Jefferson County, Kentucky, jurisdictions issued **25% more** building permits for single family homes than in any other year on record. Preliminary data show the first three quarters of 1999 matching that pace, despite a decline in September mirroring the national decline for that month.

The Indiana portion of the metropolitan area also had a busy year for home building, although not a record-setting year. **Figure 2** shows residential building permits issued in Clark, Floyd, Harrison, and Scott counties during the past three years. The first quarter was not up to the pace of the last few years, but the number of single family building permits issued in the next six months (April through September) matched the number issued in the same period last year. Fourth quarter data is not yet available, but informal reports from builders indicate that they are still having a hard time keeping up with demand.

Figure 2
Residential Building Permits
Clark/Floyd/Scott/Harrison Counties, Indiana

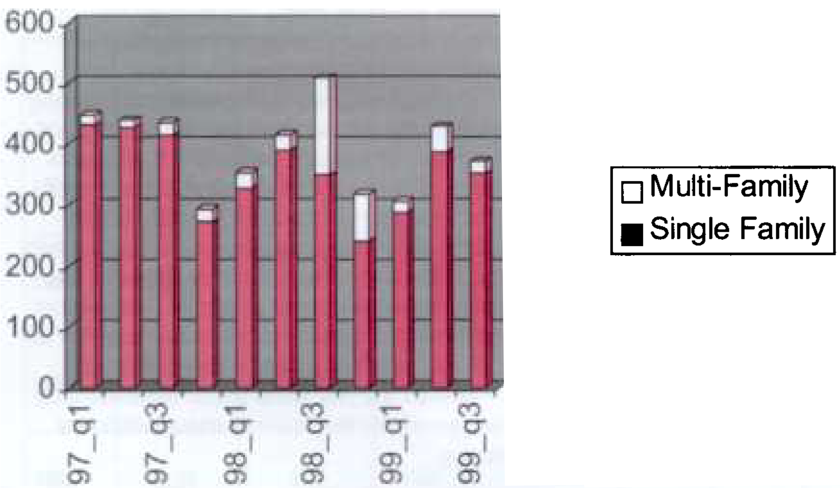
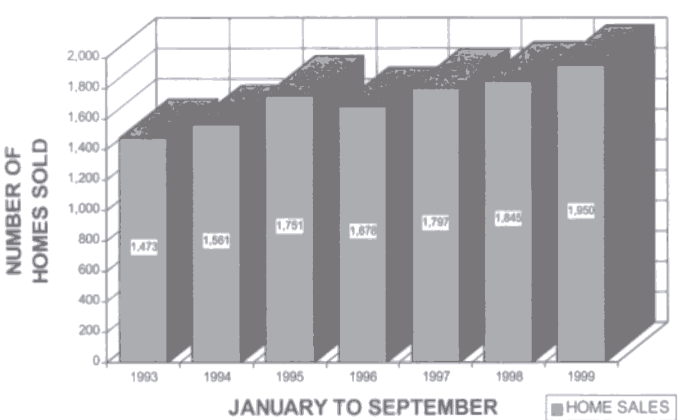


Figure 3
Real Estate Sales (Homes)
Clark/Crawford/Floyd/Harrison/Jefferson/Scott/Washington Counties



Home Sales

That strong demand was also evident in the market for existing homes. Through September of this year 1,950 homes were sold through multiple listing services in the seven southern Indiana counties indicated in **Figure 3**. That was nearly 6% higher than last year's record sales for the same period. Preliminary October data suggests a slowdown, particularly among repeat buyers. However, demand from first time home buyers and from buyers moving across the river from Kentucky appears to be holding up.

Despite that exodus, home sales in the Kentucky portion of the metropolitan area were also at record levels, with sales for the first 9 months running about 850 homes ahead of last year—an increase of just over 1%.

Car Sales

Car sales, like home sales, provide an indicator of trends in income, spending, and consumer outlook. With the tight labor market boosting incomes, the rising stock market increasing wealth, and low interest rates keeping borrowing costs down, consumer demand for cars has been strong. As a result, a record level of new cars and light trucks were sold during the first nine months of 1999 on both sides of the Ohio River (see **Figure 4**). Light trucks (which include pickups, sport utility vehicles, etc.) accounted for more than a third of the nearly 40,000 new vehicles sold through September.

Those Left Behind

While the economy has been very strong overall, not everyone has shared equally in the benefits. Dare to Care, the local "Second Harvest" volunteer agency, which keeps careful records of the food aid dispersed at its several centers, serves as one indicator of this problem. During the third quarter of 1999 Dare to Care provided emergency food relief to nearly 22,000 persons. This was about 3,400 more men, women, and children than were served during the same period last year—despite the higher level of employment.

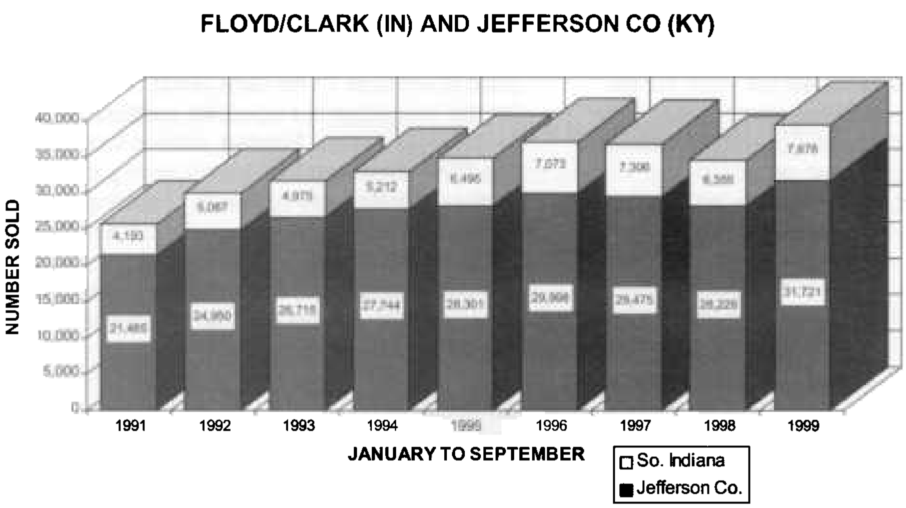
Economic Outlook for 2000

All indicators point toward continued growth in the Louisville-southern Indiana economy during the year 2000, although it may not be quite as strong as it has been in this banner year.

There are two main concerns in our local area. First, as noted above, there have been some recent signs of weakening demand in our very strong housing market. Until more data is available it is impossible to tell whether that is just a temporary blip, or whether it indicates a longer trend.

Second, the local labor market continues to be very tight. If businesses add another 16 or 17,000

Figure 4
New Car and Light Truck Sales
Floyd/Clark (IN) and Jefferson Co. (KY)



jobs next year, will the workers be there to fill them yet again? Equally important, will the available workers have the qualities and skills needed?

Also, there is the possibility of national developments leading to higher interest rates or to other problems that could slow local consumption or output growth. We are, of course, tied into the larger economic world.

Still, the underlying fundamentals for continued growth appear strong. While it is possible that these areas of concern could dampen the growth somewhat, there is no reason to expect them to derail it. The area economy is much more diversified than in previous decades, which can cushion the impact of problems affecting one or two sectors. New firms continue to locate here and existing firms continue to announce expansion plans. The international economy should be stronger next year, which will benefit many of our businesses.

The labor force has shown much greater supply elasticity in the last two years than we expected and will probably do so again, particularly if employers continue to be resourceful in their efforts to attract and retain workers. Employers have also been resourceful about increasing efficiency and productivity, thereby offsetting some of the labor shortages and contributing to the low rate of inflation. Competitive pressures in our increasingly integrated economy will induce this beneficial activity to continue as well.

All in all, the year ahead should see moderately strong growth for the Louisville metropolitan area economy.

Evansville

M. Gale Blalock

Chair, Department of Accounting, Economics and Finance, University of Evansville

Evansville finds itself in a sea of economic growth. There are steel mills growing to our east and an automobile producer growing to our North. Firms in the area continue to grow, and local firms selling abroad are also likely to experience increases in demand as Asia recovers and Europe takes off.

Indiana workforce development reports annual pay levels have been recently rising at rates exceeding six percent. They report earnings in southwest Indiana to have averaged $23,800 in 1996, $25,200 in

1997 and $26,900 in 1998.

Unemployment continues to fall. It is at a thirty year low for the nation at about 4.5%, for the State, it is about 2.5% as it is for our fair city as well.

The question this begs is, "Can we continue to grow with fewer than 5,000 people looking for jobs?" If we are to continue our growth, it is obvious that we must rely on increased productivity from the workers we now employ. This will mean new capital, new technology and probably substantial investment in training or we must attract more workers. This will not be without cost as parts of our infrastructure are approaching capacity.

Table 1

	Industrial Production	Construction	Trade	Transportation	Finance	Index	Index Growth
1995	0.32	0.04	0.27	0.05	0.23	0.90	
1996	0.33	0.06	0.27	0.05	0.24	0.94	0.00
1997	0.33	0.05	0.28	0.06	0.23	0.94	0.00
1998	0.36	0.07	0.28	0.06	0.23	1.00	0.06

To attempt to quantify the growth record of the Evansville economy, I have attempted to resurrect the economic index calculated for years by my colleague Maurice Tsai. To date, I have used the same sectors as Dr. Tsai, Industrial Production, Construction, Trade, Finance, and Transportation. As a proxy for Industrial Production, I have gathered a series of data on sales of electricity to industrial customers from the SIGECORP annual report. The proxy I have used for construction is the total value of building permits issued in Vanderburgh County collected from the Vanderburgh County Building Commission. As proxy for Wholesale and Retail Trade, I have used the sum of employment in each of those sectors as reported the annual summary of Indiana Employment Review published by Indiana Workforce Development. Similarly, I have used employment in the finance, insurance and real estate sector as a proxy for activity in that sector. I have used boardings at Evansville Regional Airport as the transportation proxy. I have chosen 1998 as a base year, and weighted each series at its according to its relative real gross domestic product importance. And have reported the results in **Table 1**.

Initial analysis shows growth in the index at 6% rate from 1997 to 1998, which seems to be consistent with the data from Workforce Development on income growth in southwest Indiana.

South Bend/Mishawaka/ Elkhart

David Vollrath

Director, Bureau of Business and Economic Research, Indiana University, South Bend

Our review of the economies of the South Bend / Mishawaka and Elkhart / Goshen communities is based on the local economic indicators tracked by IUSB's Bureau of Business and Economic Research (BBER). **Table 1** reports several of these indicators which are, with the exception of unemployment rates, seasonally adjusted index numbers, expressed as a percentage of base year 1986 values. The table shows the monthly average for each year from 1993 through 1998. Figures for 1999 are preliminary in that they are not based on the entire year.

Table 1

South Bend/Mishawaka	1993	1994	1995	1996	1997	1998	1999*
Non-agricultural Employment	114.2	119.5	124.1	124.1	126.0	128.6	130.2
Manufacturing Employment	89.8	93.4	97.5	92.9	93.1	94.5	94.3
Non-Manufacturing Employment	121.3	127.1	132.1	133.3	135.7	138.5	140.9
Unemployment Rate	6.1%	4.4%	4.3%	4.0%	3.3%	2.7%	2.8%
Help Wanted Advertising	85.2	121.3	103.1	90.2	98.4	109.9	125.2
Industrial Electricity Sales	101.1	106.4	111.2	105.3	108.0	110.0	112.6
New Car Registrations	63.0	64.8	60.9	62.6	58.3	53.0	51.7
New Truck Registrations	96.1	111.3	107.8	104.8	107.8	111.1	114.8
Business Bankruptcies	65.0	33.0	31.0	20.3	34.0	20.4	14.8
Non-business Bankruptcies	175.1	170.6	194.9	246.3	309.2	332.7	313.7
Total Value of Housing Permits	182.4	162.4	129.8	165.8	170.5	164.3	170.7
Number of Housing Permits Issued	139.1	123.3	100.0	117.3	111.3	104.5	103.7
Average Value of Housing Permits	128.4	131.3	129.6	139.5	151.3	153.7	159.2
Elkhart/Goshen	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999***
Non-agricultural Employment	117.4	125.1	129.2	127.4	128.0	132.7	136.2
Manufacturing Employment	112.3	120.2	122.0	119.3	119.1	124.1	129.0
Non-Manufacturing Employment	123.4	130.7	136.9	136.7	138.5	142.7	144.7
Unemployment Rate	5.9%	3.8%	4.5%	3.8%	3.3%	2.6%	1.9%
Help Wanted Advertising	123.1	167.1	125.6	102.2	103.9	122.8	130.6
Industrial Electricity Sales	113.3	115.6	119.0	119.4	120.7	110.9	92.0
New Car Registrations	55.7	60.7	60.9	61.3	54.2	51.8	51.2
New Truck Registrations	93.2	107.8	118.4	120.8	123.0	127.2	138.8

*1999 figures do not cover the later months of the year
All indicators *except unemployment rate* are seasonally adjusted index numbers, with 1986=100

South Bend / Mishawaka
Since the last recession, the labor market in St. Joseph County has expanded at a slow, steady pace, with nonmanufacturing jobs leading the growth. This trend has continued into 1999, with the possible exception of manufacturing employment which has dipped slightly from last year's level. Monthly unemployment rates seem to have bottomed out at around 2.7%. Help wanted advertising has surged in the first part of 1999, reflecting employers' attempts to attract scarce labor.

Monthly sales of industrial electricity have risen slightly this year, to 15% above their 1986 level. Monthly registrations of new trucks (including minivans and SUVs) have moved ahead again in 1999, while registrations of new cars have continued to slide. The worrisome rise of nonbusiness bankruptcies in this part of Indiana may finally be leveling off, albeit at more than triple the level of 1986. Business bankruptcies, which have occurred at a much lower level, appear to be decreasing again this year. The numbers of new housing permits seem to have continued their decade-long decline. Compared to the base year of 1986, levels of total and average values of new housing permits are only slightly ahead of the rate of inflation.

Elkhart / Goshen

Elkhart County's labor market has a larger portion of its jobs (about 50%) in manufacturing than any other urban area in the U.S. To date in 1999, manufacturing jobs in the county have enjoyed the strongest growth rate, increasing almost 4% over the prior year's level. Monthly unemployment rates have so far averaged less than 2%, while help wanted advertising continues to soar. Even more than in St. Joseph County, the labor market has grown stronger and tighter throughout this decade.

Despite the robust employment growth in manufacturing, sales of industrial electricity have dropped sharply in the first part of 1999. And while monthly registrations of new trucks have increased by almost 10%, new car registrations have declined again this year.

Outlook

The Michiana economy has benefitted from the long expansion of the national economy. The high levels of consumer confidence, low unemployment rates, and low interest rates have spurred the sales of durable goods which are important to our area's prosperity. Given the mixed prospects for the national economy — continued low unemployment rates and low inflation, but higher interest rates and somewhat lower economic growth — we expect to see slower growth in the Michiana economy when compared to last year. The slowdown in growth in the national economy will lead to much slower growth in the sales of durable goods next year. The Elkhart-Goshen area, with its very high level of employment in manufacturing, will be affected more than the South Bend-Mishawaka area. During the past year, we have seen a substantial growth in the number of manufacturing jobs in the Elkhart-Goshen area, but the increases in manufacturing will be much smaller in 2000. While employment growth will slow in both area economies, it should remain positive, and unemployment rates should remain at low levels. The South Bend-Mishawaka and Elkhart-Goshen local economies should experience another prosperous year in 2000.

Census 2000 Update
Less Than Four Months to Census Day 2000 (April 1st)

Carol O. Rogers

Editor, and Information Services Director, Indiana Business Research Center, Kelley School of Business, Indiana University, Bloomington

The State of Indiana is putting an Indiana face on awareness for Census 2000 by funding an awareness program ensuring that the census word gets out to as many Indiana residents as possible. The *Indiana Census Awareness and Use Statewide Effort* (ICAUSE) has a team of awareness specialists working with the Indiana Statewide Complete Count Committee and, where needed, with local communities throughout the state. The focus is on general awareness and targeted awareness for those people or areas in our state that Census Bureau studies have shown may be difficult to enumerate. More than one hundred contacts have been made with major employers, not-for-profit organizations, trade associations, cities, towns, and counties since the project got underway in October. This project is managed by the Indiana Business Research Center at the Indiana University Kelley School of Business.

ICAUSE Contact Information

Chris Linn, Field Coordinator can be reached at 317-274-2206 or email at nzlinn@iquest.net. We have a team of specialists covering the state: Joe Gomezstagle, Northwest Indiana; Gloria Johnson, Southern Indiana; Reva Torrence, Northeast Indiana; Scott Blanchard, Central Indiana; and Christy Gibson, statewide organizations. Bob Holliday is the communications coordinator and can put you in touch with any of these Indiana Census Awareness Specialists by calling 317-278-1009 or emailing him at rjhollid@iupui.edu.

Important Dates

January 2000:
National Awareness Campaign
Census Workers field check U.S. Post Office Lists
March 3-6:
Advance Letter from Census Director delivered to households, alerting them to the coming delivery of the Census questionnaire
March 9-April 14:
Questionnaire Assistance Centers open
March 13-16:
Questionnaires are mailed out
March 20-22:
Reminder/Thank you card mailed out
March 27:
Census workers enumerate clients/residents of homeless shelters
March 28:
Census workers visit and enumerate people at soup kitchens and mobile food vans at designated street locations
March 29:
Census workers visit and interview targeted non-sheltered outdoor locations from 4am-7am
March 31:
Transient Enumeration at commercial and public RV campgrounds, parks, racetracks, fairs, carnivals and marinas
March 31-April 1:
BE COUNTED operation
questionnaires dropped off and picked up at local places such as libraries
April 1:
Census Day-Every Hoosier Counts!
April 1-May 6:
Group quarters are enumerated (dormitories, nursing homes, jails, etc.)
April 11-July 7:
Non-response follow-up, where the Bureau identifies non-responding housing units and conducts follow up
December 31:
Delivery of Apportionment Data to the President of the U.S.

The U.S. Bureau of the Census and its regional office in Chicago is in the middle of its recruitment drive. The Bureau must have thousands of applicants for enumerators between now and April 2000. They have already opened ten local offices in Indiana to cover the state:

Clarksville – Lucien Polk (812-282-3008)
Evansville – Jane Albin (812-434-8000)
Fort Wayne – Jim Mitch (219-424-9561)
Gary – Rodney Jackson (219-884-3163)
Indianapolis – David Kimball (317-226-0402)
Marion County – Mark Fiddler (317-890-7632)
Kokomo – Joyce Smith (765-864-8950)
Muncie – Susan Byers (765-286-1501)
South Bend – Melvin Spiegel (219-245-5170)
Terre Haute – Don McVeigh (812-242-2937)

Want to keep current as the clock ticks closer to Census Day? Be sure to use Indiana's Official Census web site: www.census.indiana.edu or call the ICAUSE staff at 317-278-1009.