The county’s median age is 34.9 years, and about 16% of the population is 65 years and over. Per capita income is about $17,500, which means a steady demand for services.

In a recent survey by the Center for Economic Education, 73% of the firms have hired new employees in 1998, 84% are affected in varying degrees by current economic conditions, and 40% plan to expand in 1999. Most of the firms (80% of them) rate RCNC favorably for doing business, but are concerned with work force development and global competition.

Coupled with employment is gross fixed capital formation, which is investment in plant, equipment, and commercial and residential structures. Such capital formation will have a positive effect on RCNC, tempered by setbacks in business operations. In Richmond, the number of building permits issued through the first nine months of 1998 totaled 2,188, of which 45 and 20 were residential and commercial, respectively (see Table 2). Their total investment value is an estimated $39.6 million, reflecting a slight increase of 2.2% over 1997.

The housing market is faring well because of low unemployment and favorable interest rates. The unemployment rate in Wayne County has remained below 5.5% during 1998. Most financial institutions had 15-year and 30-year mortgages and one-year adjustable rate mortgages at 6.5%, 7%, and 6.2%, respectively, at the end of October. Upscale houses priced above $150,000 are doing much better than last year, though most of the housing activity is in the $75,000–$150,000 price range. It is both a buyer’s and a seller’s market, which may help cushion other sectoral side effects during 1999.

The retail sector, like housing, can expect a good fourth quarter as consumers get a head start on holiday shopping. Consumer confidence in the economy is still strong, which bodes well for local merchants. Early sales, discounts, and other promotions have sustained consumer sentiment and shopping. The Monica Lewinsky factor has not generated consumer retrenchment in the marketplace. Local merchants can expect at least a 3% increase in retail sales in the fourth quarter, with the customary lull in succeeding quarters.

Given the forecast of a slowdown in the national economy, combined with a less than robust manufacturing sector, I expect RCNC to prevail against any recessionary cloud. Economic activity should proceed at a subdued pace provided there are no further external shocks.

Kokomo

Dilip Pendse
Associate Professor of Economics and Director, MBA Program, Indiana University Kokomo

Looking back at the economy’s performance during the first nine months of 1998, the good news is that the Kokomo area remained vibrant in the midst of El Niño’s unusual weather effects: Wildcat Creek running over its banks, a tornado that destroyed homes and school buildings and knocked down electric lines in eastern Howard County. Two hundred new jobs were created each month. This is remarkable, considering we are at the tail end of an eight-year-old economic expansion. In addition, payrolls have swollen, unemployment reached a rock-bottom level, the job market is ultra tight, factory overtime and incomes have remained high, and the influx of people has continued. Kokomo also made Industry Week’s top ranking in manufacturing, housing is most affordable, and the multi-unit housing construction is booming.

Kokomoans deserve this high ride to the top of the economic mountain after struggling through the
chills of recession and the pains of downsizing in the early '80s. It is time to celebrate economic ebullience.

**Kokomo Glowing in the National Spotlight**

The year began with bursts of good news. Kokomo being ranked among the world’s gold medalists in manufacturing came first. In its March 1998 issue, *Industry Week* magazine ranked Kokomo at the top of its list of 25 U.S. manufacturing MSAs and 8th best worldwide. The magazine placed Kokomo ahead of Detroit and Indiana’s Elkhart-Goshen, Lafayette, and Fort Wayne MSAs, as well as among the ranks of such long-established manufacturing meccas as São Paulo (Brazil), Tokyo and Osaka (Japan).

A high ranking in the housing market followed Kokomo’s top ranking in manufacturing. In its quarterly survey of nation’s housing markets, the National Home Builders Association ranked Kokomo’s housing market most affordable for the sixth quarter in a row.

**Brawny Labor Market**

The November *IBR Update* noted that Kokomo’s MSA posted the highest job growth rate (5%) among the state’s 11 MSAs for the 12 months ending June 1998. Kokomo’s economy created 2,500 jobs during August 1997–98, a remarkable feat indeed.

The local job market, however, remained tight. Employers anxiously await job seekers to walk through their doors, and “Now Hiring” signs are all over town. Since May 1991, Howard County’s jobless rate has gradually declined, dropping to a 26-year low of 2.2% in August. Throughout the first eight months of the year, the unemployment rate stayed below the state and national levels, except in July. The eight-week strike by auto workers in Flint, Michigan caused massive layoffs at Delphi Delco Electronics, resulting in the tripling of Howard County’s unemployment rate to 6.6%. The average monthly rate in Howard County (except for July) stood at 2.9%, compared with 3.4% during the same period the year before. This has been the lowest average unemployment rate since 1972.

With a low unemployment rate, work rosters swelled throughout the year. In the 12 months ending in September, the Kokomo metropolitan area created 200 jobs a month. Unlike the year before, the goods-producing sector remained strong. Although it posted robust gains of 1,300 jobs, the service-producing sector actually lost 100 jobs. Manufacturing posted solid gains of 800 jobs, followed by hefty gains of 500 jobs in the construction sector. The service sector’s job losses occurred primarily in trade, followed by government and transportation & public utilities.

For the fifth year in a row, Kokomo’s 21,500 workers engaged in the production of durable and nondurable goods earned handsome overtime pay. The weekly working hours in manufacturing averaged 51 hours during the first eight months of the year, three hours more than a year before. Not only that, the average manufacturing work week remained higher than any other MSA in Indiana. Average weekly earnings in manufacturing were $1,054 during the first eight months—$150 more than the same period a year earlier. At these wages, an average blue-collar worker could pocket about $55,000 for 1998.

According to *Sales and Marketing Management*, the median spendable income in the Kokomo metropolitan area rose 5% in 1997 to $37,258. The magazine also ranked Kokomo’s median income third in the state and 84th nationally. Another source placed Kokomo’s average annual pay at the top in Indiana for the 17th consecutive year. According to the U.S. Bureau of Labor Statistics, Kokomo’s average annual pay of $34,779 in 1996 was 13th highest among the nation’s 313 metropolitan areas, and second highest among 55 metropolitan areas in the Great Lakes Region. In 1996, Kokomo’s average annual income increased 2.4%, compared with 2.2% the year before.

Finally, in terms of income, the average wage and salary paid to Kokomoans in 1996 remained among the top three in the state and about $5,000 above the state average of $25,920. During 1991–96, the percent change in per capita income in Howard County far exceeded the state’s overall gain of 28%.

**Mediocre Growth in the Housing Sector**

Construction cranes dotted the Kokomo landscape. Thanks to several school building projects and a multi-unit housing boom, Kokomo’s construction sector soared. Construction employment zoomed to a new peak of 2,700 in September, up 500 from 12 months before, and 125% higher than in 1994. The bright spot in the residential construction sector was the rapid growth in multi-unit construction. Valued at $13.4 million, the number of permits issued for multi-unit housing totaled 48, compared with 42 permits issued a year ago and valued at $8.1 million.

Overall, however, residential construction declined. Building permits issued totaled only 519, which was 14% of the number during the same period in 1997. Permits issued for single-family homes numbered only 181—13% below the level reached a year earlier. But average construction value registered on the permits skyrocketed to $196,000, a whopping 68% jump from the year before.

For the second consecutive year, nonresidential building permits issued outnumbered the permits issued for residential purposes, soaring 41% from 181 a year ago to 261. Among the permits of note are a hospital expansion (valued at $8.5 million), additions to school buildings ($22.8 million), and 35 business buildings and additions ($8.8 million).
Overall, despite low interest rates, low joblessness, an influx of people, and higher incomes, the housing sector remained listless. During the first nine months of 1998, the number of building permits issued totaled 780, which was 1% below the same period a year ago. The dollar value reported on all permits issued totaled $99.5 million, $5.5 million below last year’s level.

Growth in the Retail Sector
Since 1994, Kokomo has added 1,300 new retailing jobs. Now employing 10,100 people, the retail sector continues its upward growth. Total sales in the metropolitan area rose $9 million to $1.093 billion in 1997. At an average of $27,472 in retail sales per household, Kokomo ranked fourth in the state. While automotive sales per household topped the state’s metro markets in 1997, the general merchandise and food store sales ranked third and fourth, respectively.

This year is going to be a banner year for the retail sector. Kokomo’s economy is strong, incomes are high, and the number of job holders is larger than ever before. The sector got a shot in the arm early in 1998 when Chrysler and Delphi Delco employees received their bonus checks or flexible pay raises totaling $50 million. In September, another boost came from the Farm Progress Show held in Tipton County, which attracted more than 300 exhibitors and up to 500,000 visitors nationwide and pumped between $6–8 million into the local economy.

Local Business Activity
A new “merger mania” era has dawned in Kokomo. At the beginning of the year, the Delco Electronics (DE) sign, a landmark on U.S. 31, was replaced with a sign reading “Delphi Automotive Systems,” making Delco one of the seven DAS units worldwide. DE is likely to remain DAS’s strongest and most profitable unit. Chrysler Corporation, Kokomo’s second largest employer, officially merged with Germany’s Daimler-Benz AG. The Daimler-Chrysler (DC) merger, together with the DE-DAS merger, give Kokomo a more prominent spot on the world map. In addition, the Sullivan-based Syndicate Sales, a supplier of floral products and Kokomo’s fourth largest employer, acquired Nestlé Food Co.’s 132,000-square-foot facility—an acquisition that could create new job opportunities.

With the grand opening of the Auto Heritage Museum, Kokomo now has two museums. The number of Kokomo businesses increased with the arrival of Save-a-Lot, Goody’s Family Clothing, Advance Auto Parts, Pep Boys, Bimpee’s, and Grindstone Charley’s. And while several new stores arrived, Shoney’s and Lowry Lanes East closed.

Some of the major developments in the surrounding area include the signing of the joint-use agreement at the Grissom Aeroplex, paving the way for the civilian use of Grissom’s 12,500-foot landing strip for air cargo operators, maintenance providers, auto parts manufacturers and distributors, and other businesses. The Miami County Correctional Facility administrators hired about 500 people for the newly built facility and is slated to begin its operations in July 1999. D.C. Coates Inc. acquired the Muncie-
based Engineered Technology Corporation. And with the ratification of a five-year labor pact by Logansport's IBP, workers will receive higher pay and other benefits.

Economic Outlook for 1999

No dark clouds lurk on Kokomo's economic horizon. Despite rumblings of a recession at the national level, Kokomo's economy should remain strong for three reasons: jobs, jobs, and jobs. In addition to this year's hiring of about 600 workers, Chrysler will add 400 more to its work force in 1999. Although GM will spin off Delphi Automotive Systems in 1999, the local unit will add about 300–400 production and salaried personnel to its work force next year. The Miami Correctional Facility will create another 150–300 jobs in the service sector.

The unemployment rate will hover around the 2.5–3.5% range. More new businesses will open on the north side of Kokomo. The average work week will fall a bit to 49 hours. Overall, retail sales and incomes will register strong gains. While multi-unit housing construction will slow next year, single-family home building activity will pick up. The specific economic forecasts for 1999 are listed in Table 1.

In summary, no major threat to Kokomo's prosperity exists in 1999. The economy will cruise along at a comfortable pace, attracting new businesses, extending job opportunities to hundreds, and raising incomes and retail sales to new levels. The days of glory will continue for at least one more year.

Northwest Indiana

Donald A. Coffin* and Gary A. Lynch**

*Associate Professor of Economics, Indiana University Northwest
**Professor of Economics, Indiana University Northwest

Following four years of robust growth, the economy of Northwest Indiana appears likely to grow much more slowly in 1999. Between the beginning of 1994 and October 1998, total employment in the region grew by 12% (an annual rate of nearly 2.4%). However, growth has slowed recently, to 0.4% between October 1997 and October 1998. For the coming year, we expect total employment to remain essentially unchanged at its current level of around 268,000 jobs in Lake and Porter counties. However, some substantial downside risks suggest this may be the best that can be expected over the coming year. These risks arise from an unsettled international picture, raising the possibility of both increased import competition (especially in the steel industry) and reduced export opportunities for a broad range of industries in Northwest Indiana.

In the past year, a number of countries, especially in Asia, have experienced sharp declines in output and employment—hence, the so-called "Asian Flu." Producers in these countries, seeking sales outlets in other countries, have increased their sales to the U.S.; in a number of cases, these increased sales have come at the expense of domestic U.S. producers.

In part, these increased imports have been driven by increases in the international value of the U.S. dollar. A strengthening dollar makes imports less expensive for U.S. buyers (and U.S. exports more expensive for foreign customers). For example, the Japanese yen fell from ¥120.65 to the dollar at the end of August 1997, to ¥140.90 to the dollar at the end of August 1998. That is a 17% appreciation against the yen in one year. Other things being equal, this would reduce the price of Japanese imports by 17%—and the yen was one of the stronger Asian currencies during this period.

In addition, a potential weakening of the U.S. economy raises the possibility that demand for steel and petrochemical products may slow or decline. This has obvious implications for the Northwest Indiana economy.

Goods-Producing Industries

Employment in goods production (construction and manufacturing) has declined over the past two years by nearly 3%—from 88,700 to 66,700. Manufacturing claimed 1,700 of those lost jobs, a decline of 3.3%.

On balance, all of the loss can be attributed to declines in primary metals employment, down from 30,800 to 29,100 over the two years (a 5.5% drop).

Of equal significance for incomes generated in manufacturing, average weekly hours have declined from 42.4 in October 1996 to 41.4 in October 1998. In addition to declining overtime, shifts in the structure of employment have driven hourly earnings down from $18.56 to $18.43; the consequence is a 3% decline in average weekly earnings. Indeed, the 1997–98 drop is even more severe: hours dropped from 43.3 in 1997 to 41.4 in 1998, while hourly earnings fell from $18.72 and weekly earnings fell by nearly 6%. Combined with lower employment numbers, this suggests a decline in local income generated in manufacturing of nearly 10% over two years.

Table 1
Kokomo Area Economic Forecast

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