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 per-
sonnel to its work force next year. The Miami Correc-
tional 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 pros-
perity 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

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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%). How-
ever, 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 substan-
tial 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 North-
west Indiana.

In the past year, a number of countries, espe-
cially 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 68,700 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 struc-
ture 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.
Employment, hours, and earnings in manufacturing will likely continue to fall in 1999. A decline in manufacturing employment of around 600–1,000 jobs is a big possibility; it also seems likely that weekly hours will at best remain constant. This implies a decline in local income generated in manufacturing of around 2% in 1999.

Primary metals. In the case of the steel industry, imports have surged. For the first eight months of 1998, imports totaled 26.7 million net tons of steel, up 24% from the first eight months of 1997. Imports from Asia in particular rose dramatically; Japan, Korea, and Indonesia accounted for nearly 25%, up from 13% in 1997. We have already observed the consequences for employment in steel. Hours and hourly earnings also both fell, with weekly earnings dropping by 5.5% since October 1997.

Continued declines in employment seem likely in primary metals in 1999. It would not be surprising if employment were to drop by around 600 jobs, even in the absence of continued turmoil in world markets for steel. Weekly hours will likely fall modestly as well, leading to income losses in metals of 3% or more.

Chemicals and petroleum products. Total employment in chemicals and petroleum products has held steady at 4,400 since October 1996. However, weekly hours have declined, particularly in chemicals. As a consequence, weekly earnings have fallen by about 3%. Assuming exports of chemicals and petroleum products are not adversely affected by world economic conditions, employment will probably hold its own. However, declines in weekly hours may continue leading to modest drops in income generated in these industries in 1999.

Service-Producing Industries

The service sector has fueled Northwest Indiana's employment growth over the past four years, but that stimulus appears to have run its course. Following extremely strong growth between October 1997 and October 1998 (a gain of 4,200 jobs, with 3,500 of those in business and personal services), service employment rose by only 1,300 over the past year, and by only 400 in business and personal services.

Clearly, the rapid increases in service employment—nearly 20% over 4.5 years—are a result of the opening of the lake-based casino operations. This development will not be repeated in the near future, so the service sector probably will not provide the kind of stimulus in the future that it has over the past several years. Employment growth such as that seen over the past year seems most likely, with perhaps 1,000 new jobs to be generated. These jobs should be relatively widely distributed across the service sector (trade, finance, business, and personal services), rather than concentrated in one area.

Conclusions

The year 1999 is shaping up, at best, as one of slow growth for Northwest Indiana. If the international situation remains unsettled, or if further declines occur in Asia (either in levels of output or in the value of currencies), the region may experience decline rather than stability or modest growth. Given its continued specialization in manufacturing, its economy remains more cyclically sensitive than the state or the nation. With the prospect of continued weakness in the world economy and a potentially slower-growing national economy, a recession is more of a possibility for Northwest Indiana, even if it is not yet highly likely.

South Bend/Mishawaka–Elkhart/Goshen

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This review and outlook for the economies of the South Bend/Mishawaka and Elkhart/Goshen communities includes analysis of the latest available economic indicators for the area, tracked by IUSB's Bureau of Business and Economic Research (BBER).

Table 1 reports several indicators of local economic activity. These figures, with the exception of unemployment rates and real estate data, are seasonally adjusted index numbers, expressed as a percentage of base year 1986 values. The latest month for which all indicators were available at the time of writing was June 1998. Note that the table includes comparable figures for May 1998 and June 1997, along with percentage changes to indicate possible trends.

South Bend/Mishawaka

The labor market in St. Joseph County has grown and tightened in 1998. Average monthly employment has increased almost 1.5% over 1997, with nonmanufacturing jobs growing slightly faster than manufacturing jobs. Whereas monthly unemployment rates have dipped to an average of 3%, help wanted advertising continues to rise. So far in 1998, South Bend and Mishawaka enjoy full employment, and more employers are seeking additional workers.