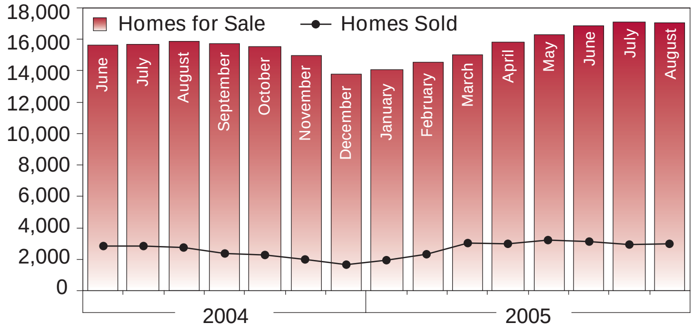
Figure 1
Metro Homes Sold Compared to Homes for Sale, 2004 to 2005



Source: www.fctucker.com/news/index.html

professional and scientific services. Finance and insurance jobs shrank by 2.8 percent and growth in government jobs was flat. All other sectors of the local economy saw job growth of 3 percent or less.

Real Estate

Between April 1, 2000, and July 1, 2003, the U.S. Census Bureau estimates that the population of the Indianapolis metropolitan area increased by 70,273 individuals (4.6 percent). From the beginning of 2001 to the end of 2003, enough building permits were approved to house an estimated 211,507 individuals in new structures.[1] This trend suggests that housing capacity is expanding at three times the rate of population growth. Employment in construction remained steady at 45,000 jobs between the first quarters of 2004 and 2005, but the average wage fell from $788 to $770 per week.

Figure 1 shows home sales in the past year. A situation of excess supply explains why the real value of residential real estate in the metro has fallen 1.5 percent over the last four years.[2] Only 40 percent of the new housing being constructed is in Marion County. Between April 1, 2000, and July 1, 2003, the U.S. Census Bureau estimates that the population of Marion County grew by 3,407 while the populations of Hendricks and Hamilton counties grew by 14,787 and 38,124, respectively. These numbers underscore massive migration out of Marion County townships and into suburban communities. In an environment of excess housing supply, this type of population movement negatively impacts the real wealth of both urban and suburban residents. Real estate values in Marion County fall because there is no increase in population. Real estate values in suburban communities do not appreciate because the construction of new homes floods local markets and keeps prices low.

Forecast

The current Indianapolis economy is anemic and will continue to fall behind the nation in 2006. Permanently higher energy prices, cheaper labor in foreign countries, and a possible General Motors bankruptcy place worrisome pressure on a local economy that remains too dependent on non-vibrant industries. Job growth will occur, but at an unimpressive rate and not in high-paying occupations. Real household income is expected to shrink locally by 1 percent in 2006. Real estate wealth will also shrink as developers continue to build in over-supplied communities and deflate the price of homes in neighborhoods that are already established. Growth among local life science and technology enterprises will be notable, but their small presence in the Indianapolis economy will not reverse a more general malaise. If the current trend continues, Indianapolis risks becoming an economic satellite of cities that demonstrate a more energetic and pioneering approach to economic development.

Notes

1. This calculation assumes 2.6 individuals per household, as estimated by the U.S. Census Bureau.
2. Calculation based on data from "Bringing Down the House," *Indianapolis Star* 16 October 2005.

Kokomo

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The short-term economic forecast for Kokomo can be summed up with one word: uncertainty. The local Kokomo economy will suffer in 2006 more from the apprehension and fear of impending local manufacturing changes rather than from the changes themselves, which will not occur for some time.

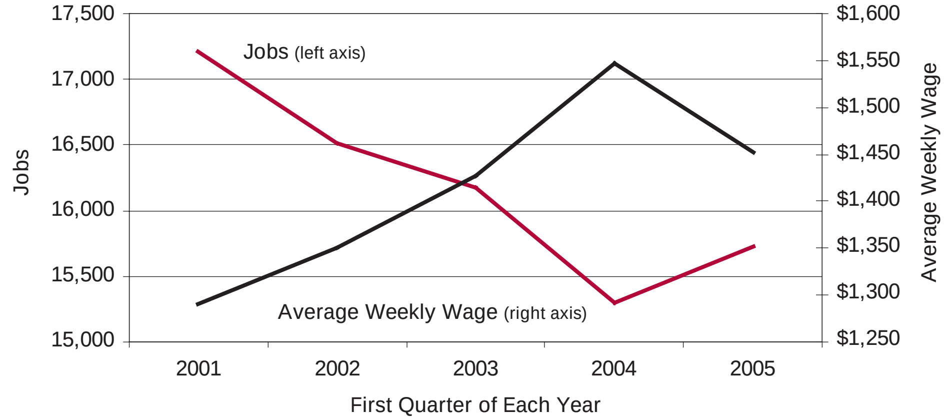
It is difficult to focus on the local economy when it is so heavily dependent on global markets, since our largest local employers have locations and vendors scattered across the world. As our largest employers go, so goes the city. With that said, a large amount of apprehension exists in the local economy while the second largest employer, Delphi, works through a reorganization plan that will most likely drag out to the end of 2006. Meanwhile, the largest employer, DaimlerChrysler, is financially sound and continues to benefit from its large capital investments in Kokomo. Kokomo was at one time number one in the nation for European investment, almost entirely due to DaimlerChrysler. However, DaimlerChrysler will be closely monitoring the wage negations with Delphi as their next contract negotiations near in 2007. Workers are one of the most important and expensive commodities to the majority of large corporations, and the most efficient productivity for the lowest price will prevail in their strategic planning in nearly all instances. Compensation restructuring and/or job reductions at Delphi will negatively affect Kokomo.

Kokomo's economy remains heavily tied to the manufacturing industry, specifically the automotive industry. Manufacturing jobs in the area and the state as a whole continue to be lost permanently to competition, mainly from overseas facilities as their productivity and operations in general continue to improve (see **Figure 1**). The auto industry is volatile, but has been very strong in the past twelve months, as loan rates remained low and incentive pricing, including offering employee discounts to everyone, kept sales strong. This kept demand high for a second year in a row with a different marketing approach to the 0 percent financing that was offered in 2004. This has helped protect jobs in the area, but the automakers may not be able to maintain this sales pace and the demand may fall back to normal levels as interest rates increase and they prepare a new marketing approach in 2006. The automakers have been showing signs of a shift in strategies to being more focused on productivity and cost of production to remain competitive for some time. Changes have been slow because of strong sales and long-term union contracts. Changes are inevitable and will have large consequences on the local manufacturing job market.

Our local charities will also feel the brunt of the community's apprehension and most are already searching for additional funds. A slump in the local economy will only increase the need for their services and decrease the amounts of money that they will have to operate.

Job creation will continue to lag well behind the state averages and will remain difficult due to the strong union influences and higher than average wages. The city would like to attract more high-paying jobs but

Figure 1
Howard County Manufacturing Jobs and Average Weekly Wages, 2001:1 to 2005:1



Source: STATS Indiana

as the economy changes, those types of jobs will require a higher level of skills and education than we may be able to offer at this point in time. The focus shifts to education, the quality of our schools and teachers and attracting the businesses that will hire the college graduates before they leave the area. Our local middle-class workers are being slowly reduced to just the working class, as wages and benefits are squeezed downward. The current Delphi situation will speed up this occurrence, which will have severe consequences in the short-run, but may make Kokomo much more attractive to outside investment in the long-run depending on the outcomes.

> "The Delphi bankruptcy reorganization will be the major cause of uncertainty and fear in the local economy for most of the year, causing a decrease in local customer spending and outside business investments."

The local real estate market will remain soft in the coming year as apprehension and speculation on salaries and job security remain the main topic of discussion. That, along with the anticipation of higher mortgage interest rates, will have the biggest impact on an individual's decisions to buy or build a home in the area. The housing market has been averaging over eight hundred listings per month with only an average of just over one hundred sold per month through the third quarter of this year. There are also more than four hundred completed building lots available in the county at the present time with more being developed. These figures along with very low appreciation rates of homes and slowly declining population trends, make it difficult for homeowners to move within the county as well as elsewhere.

The trend for the upper middle-class wage earners in recent years has been to buy or build in counties south of Kokomo and commute. Nearly 5,000 people commute to Kokomo from Tipton and Hamilton counties alone. Compare this to the 1,400 workers commuting out of Howard County to Tipton, Hamilton and Marion counties.

Building permits have also declined in the past three years, from 448 in 2002, to 353 in 2003 to 268 in 2004. As of the third quarter of 2005, less than 125 residential building permits have been issued. Home values can also be directly related to the average family incomes of the area, especially since we don't have a major tourist attraction or any major natural draws such as lakes, mountains or an ocean to inflate demand and pricing. It is also unfortunate that the number one individual seller of homes in Howard County at the present time has been the sheriff and his numbers could increase in 2006.

Overall, the Delphi proceedings may benefit Kokomo in the long run as pieces of the company are consolidated and Kokomo has the opportunity benefit from some of those contractions. Unfortunately, in the short run, local consumer confidence levels are low while the community waits on the outcome. This will affect small business owners the most as they compete for fewer disposable dollars from consumers. The consumers will most likely be a little more conservative for now and the total manufacturing salaries and wages in the county will inevitably see a reduction of some amount. Factor in increasing short-term interest rates, health care costs, and fuel and energy costs (compared to the twelve-month period just ended) and the most likely outcome will be a net loss of businesses in Kokomo during 2006. This is a domino effect as the small business owners do what they must to survive, cutting expenses themselves, which could be a reduction of hours or workforce as well. The key to their success will be the number of businesses that draw the transient or destination consumer from the north, east and west and those simply traveling through town.

Kokomo has always been resilient. Examples of past struggles would include the Continental Steel closing, the Chrysler bankruptcy in the 1980s and more recently the Haynes bankruptcy filing. The current troubles within the U.S. auto industry have been compared to the U.S. steel industry. The year 2006 will be another that tests the resiliency of Kokomo, as the second-largest employer makes drastic changes in its corporation. However, Delphi has a well-trained and skilled workforce with one of the best divisions of the company located in Kokomo. Kokomo should be able to rise to the occasion, reinvent itself, and actually come out of this better than it was going in.

New Albany

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Economic indicators for southern Indiana show mixed results for 2005. Average employment in the Louisville Metropolitan Statistical Area (metro), and in southern Indiana in particular, increased for the second year in a row. Yet, indicators of consumer activity suggest that consumers may be starting to reign in spending. In this analysis, various measures of economic activity are examined for counties in the Louisville metro. Particular attention is paid to Clark, Floyd, Harrison, and Washington counties in southern Indiana and Bullitt, Jefferson, and Oldham counties in northern Kentucky.[1] Four additional Indiana counties—Crawford, Jefferson, Orange, and Scott—in the southern Indiana labor market area are included when available.

Labor Markets

September unemployment rates in many of the Indiana counties of the Louisville area increased from September 2004 to 2005. From month to month, unemployment rates in many of these counties have actually decreased from earlier this year but continue to be quite volatile. Over the past year, unemployment rates in these counties grew to exceed that of the United States and the Indiana state average. **Table 1** suggests that part of the increase in unemployment rates in these counties can be attributed to increasing labor force participation; as job opportunities have increased, people who had dropped out of the labor force have begun looking for jobs. Clark, Floyd, and Scott counties, in particular, have shown substantial increases in labor force participation.

Recent data for the Louisville metro indicates that the average level of nonagricultural employment was 603,600 for the January–September 2005 period, an increase of approximately 6,600 jobs from the same period last year and approximately 16,000 jobs below the 2000 peak of 620,000. Manufacturing jobs decreased by approximately 200 jobs in the metro area, while average weekly earnings in that sector declined an additional $30 to $766 for the January–September period. Metro area employment in retail sales continued its decline to 64,200 from a high of 70,500 in 1999.

Total employment has steadily increased in the southern Indiana counties, gaining over 1,000 jobs in the first quarter of 2005 from the same quarter in 2004 (see **Figure 1**). Job growth in the southern Indiana counties was led by transportation and warehousing (367 jobs) and health care and social services (261 jobs). Positive growth continued in several other sectors, including construction, retail trade, finance and insurance, administrative and support services, and educational services.

Manufacturing employment in the southern Indiana metro counties continues to decline (although at a slower rate), averaging just over 18,000 jobs for the first quarter 2005, a decline of just over 70 jobs over the same period in 2004. Manufacturing employment has steadily decreased from the 2001 peak of approximately 21,000 jobs. Despite significant job losses over the past several years, manufacturing remains the largest employment sector in southern Indiana with over 20 percent of total employment. The average weekly wage for manufacturing workers in southern Indiana has continued to increase, but remains consistently lower than that of the Louisville metro as a whole and the state of Indiana. While there is no standard measure of labor productivity for metropolitan areas, national averages suggest that labor productivity in manufacturing