2. Data on home sales from the Southern Indiana counties of the metro area. Consumer activity has dampened a bit. Retail spending in the Louisville metro continues to increase but at a slower rate and housing sales have increased relative to the previous year. The number of single-family residential building permits actually decreased in all counties except Clark and Washington, suggesting that the housing market is cooling. Cautious optimism is in order. Over the coming year, employment in the health care and transportation sectors are expected to remain strong. The dark cloud on the horizon is manufacturing employment, which continues to decrease. With the closing of the Colgate plant by January 2008, manufacturing will undoubtedly continue its decline. Retail spending will likely grow but at a slower rate, while activity in the housing market will continue to slow.

Notes
1. In 2003, the Office of Management and Budget redefined the counties in the Louisville metropolitan area. They are Clark, Floyd, Harrison, and Washington counties in southern Indiana and Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, Spencer, and Trimble counties in Kentucky.
2. Data on home sales from the Southern Indiana Realtors Association Multiple Listing Service, which covers Clark, Crawford, Floyd, Harrison, Jefferson, Scott, and Washington counties.
front. Growth in health care and education services, professional and business services, and personal services adds jobs and helps offset job losses in other sectors of the economy. It is important to note that Reid Hospital and Health Care Services, apart from its $250 million complex on Chester Boulevard, is Wayne County’s largest employer with 1,517 employees, followed by Richmond Community Schools with 853 employees.

Housing
The housing sector is doing reasonably well after a slowdown in the first half of the year. There is an uptick in home sales partly due to the influx of professional and management people in RCNC. There is also upscale movement among existing homeowners. Interest rates are still relatively attractive. Local financial institutions reported on October 31, 2005, rates of 5.95 percent for fifteen-year mortgages, 6.32 percent for thirty-year mortgages, and 5.35 percent for one-year adjustable mortgages. Long-term rates on conventional mortgages are slightly lower than they were when the Fed began tightening policy in June 2004.

The City of Richmond issued 1,083 building permits with an investment value of $17.2 million between January and September 2005. The local median price of a home is $93,000, well below the national median of $204,600. Home price increases are expected to slow with the market cycle, and if the Fed continues tightening policy, it will affect mortgage origination and equity extraction which, in turn, will affect personal consumption expenditures and gross local product.

Related to housing is banking. Banking activity is picking up. It is much better than a year ago. Profit margins are somewhat compressed because of low interest rates. There is also disintermediation of funds to brokerage houses. Disintermediation follows as depositors take their funds out of intermediaries and invest in open market instruments such as Treasury bills, commercial paper, and corporate bonds.

Barring external shocks to the U.S. economy, the RCNC economy is expected to perform better in 2006. There is, however, some degree of skepticism regarding consumer confidence and the future course of the national economy.

Figure 1
Unemployment Rate, 1995 to 2005

Source: STATS Indiana

Grant C. Black
Director of Bureau of Business and Economic Research and Assistant Professor of Economics, School of Business and Economics, Indiana University, South Bend

The Michiana region’s economy sent mixed signals in 2005, but the outlook for 2006 is encouraging. This analysis examines the major metropolitan areas in the Michiana region, South Bend and Elkhart–Goshen, to provide an overview of the region’s economic conditions and an indication of its future.

Employment
Table 1 reports monthly employment data for the region’s metropolitan areas. From January 2004 to August 2005, total nonfarm employment (measured by a seasonally adjusted index with 1986 as the base year) has decreased slightly. Total employment fell 1.5 percent in South Bend and 0.7 percent in Elkhart-Goshen. Unemployment rates across the region have remained below the national and state averages. The drop in unemployment rates in August 2005 indicates that labor demand has picked up again after a slight decline earlier in the year.

The overall employment decline was largely driven by a gradual drop in manufacturing employment through most of 2005. Manufacturing employment fell 2.5 percent in South Bend and 3.3 percent in Elkhart-Goshen from January 2005 to August 2005. While the recreational vehicle (RV) industry, which dominates Elkhart County employment, has experienced record growth in the past couple years, it faced declines in the first half of 2005, particularly for luxury motor homes. This was possibly caused by rising interest rates and escalating fuel prices. Rising fuel costs have dampened large-sized SUV sales nationwide, which likely impacted AM General’s local production. The introduction of the