

# South Bend and Elkhart-Goshen

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. ■

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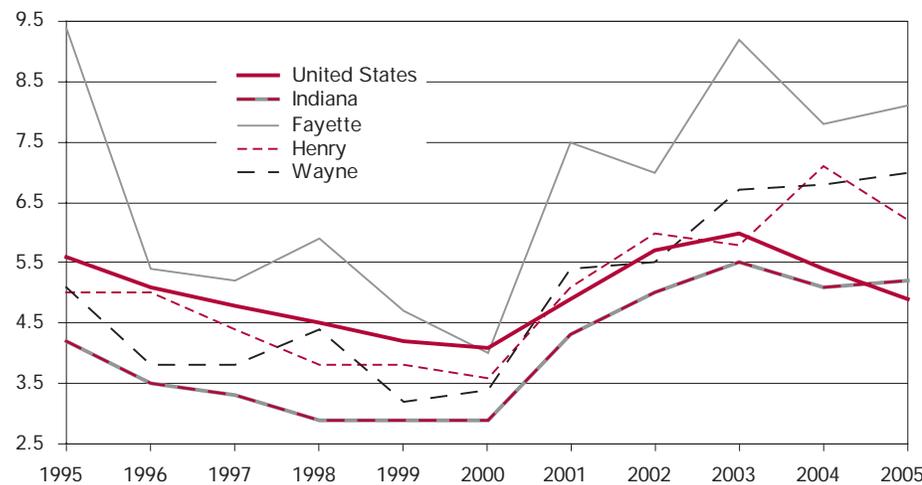
The Michiana region's economy sent mixed signals in 2005, but the outlook for 2006 is encouraging. This analysis examines the major metropolitan areas in the Michiana region, South Bend and Elkhart-Goshen, to provide an overview of the region's economic conditions and an indication of its future.

## 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

Figure 1  
Unemployment Rate, 1995 to 2005



Source: STATS Indiana

smaller-sized H3 Hummer produced outside the metro may reduce sales on the larger, locally produced models.

The second half of 2005 looked more promising for the transportation equipment industry. Demand for towable RVs continued to expand, and the manufactured housing industry rebounded from its slump due to increased demand for temporary housing caused by recent hurricanes. Soon after Hurricane Katrina hit, FEMA initially ordered 125,000 mobile homes and travel trailers, including many from local producers.<sup>1</sup> This increased production will continue well into 2006. In addition, new manufacturing developments in the region will require more workers. For example, Bennington Marine is constructing a new pontoon boat manufacturing plant in Elkhart that will employ 300 to 400 people.

Nonmanufacturing employment has also shown mixed results, falling 1.7 percent in South Bend but expanding 1.9 percent in Elkhart–Goshen from January 2005 to August 2005. This is partly due to a decline in the retail sector in South

Bend in terms of the number of establishments and employment from the first quarter of 2004 to the first quarter of 2005.<sup>2</sup> Retail employment, however, should rise in 2006 as new major retail spaces open, particularly in South Bend.

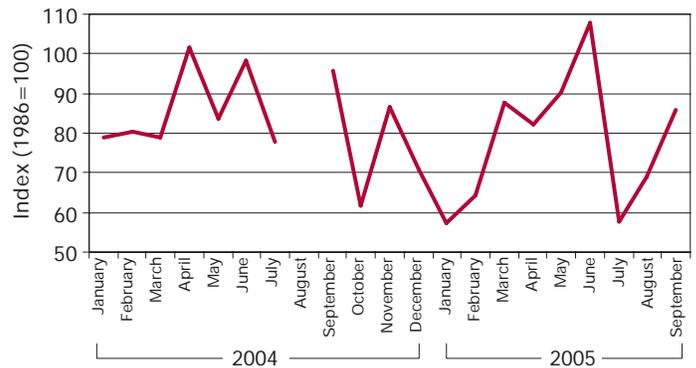
Moreover, continued growth in health care and social services contributed to positive expansion in nonmanufacturing. Health care and social services employment grew 5.5 percent from the first quarter of 2004 to the first quarter of 2005 in Elkhart County.

### Wages

The average weekly wage rose 2 percent from the first quarter of 2004 to the first quarter of 2005 in St. Joseph County but jumped 4.3 percent in Elkhart County. Manufacturing

wages grew 5.2 percent in St. Joseph County and 2 percent in Elkhart. Wages in retail moved slightly, falling 0.3 percent in St. Joseph County and rising 0.7 percent in Elkhart. Wages in the health care and social services industry moved in opposite directions across the region, likely due to differing demand for workers. Wages in this sector fell 1.4 percent in St. Joseph County but increased 6.3 percent in Elkhart County. Given expected regional growth in

**Figure 1**  
New Housing Index for St. Joseph County



Notes: All housing figures are a seasonally adjusted index with 1986 as the base year. August 2004 is not available.

Source: St. Joseph County Building Department

**Table 1**  
Employment Indices with Unemployment Rates, 2005

	January	February	March	April	May	June	July	August	September	October	November	December
<b>2004</b>												
<b>South Bend</b>												
Total Nonfarm	126.3	126.2	125.6	125.4	125.3	125.5	127.1	126.1	126.4	126.2	126.3	126.8
Manufacturing	76.8	77.3	76.6	76.7	76.7	76.2	76.7	75.8	75.3	75.1	75.4	75.4
Nonmanufacturing	141.2	140.9	140.2	139.6	139.4	139.8	141.4	140.8	141.3	140.9	141.0	141.6
Unemployment Rate	5.0	5.0	4.7	6.7	4.4	4.2	4.9	5.1	4.4	4.4	4.2	4.3
<b>Elkhart-Goshen</b>												
Total Nonfarm	133.7	133.2	132.3	133.3	133.5	133.1	132.9	132.1	133.2	132.8	132.8	132.3
Manufacturing	120.8	121.0	119.7	120.1	119.5	119.6	118.7	117.5	117.3	116.4	117.2	117.6
Nonmanufacturing	148.1	147.3	147.1	148.7	149.6	148.9	149.6	148.6	152.2	151.6	151.6	150.1
Unemployment Rate	4.6	4.7	4.4	5.8	4.4	5.5	4.5	4.5	4.2	4.2	4.1	4.0
<b>2005</b>												
<b>South Bend</b>												
Total Nonfarm	138.9	138.9	138.9	139.4	138.5	138.0	138.6	136.8				
Manufacturing	93.8	93.9	94.5	94.5	92.6	92.8	92.2	91.5				
Nonmanufacturing	152.5	152.5	152.2	152.4	151.8	151.2	151.7	149.9				
Unemployment Rate	5.6	5.9	5.6	5.0	4.5	4.9	5.4	4.9				
<b>Elkhart-Goshen</b>												
Total Nonfarm	144.7	144.9	143.5	143.9	143.1	142.0	143.7	143.7				
Manufacturing	134.2	134.0	132.2	132.0	130.6	128.9	131.1	129.8				
Nonmanufacturing	156.3	157.4	156.9	157.7	157.6	157.3	158.5	159.3				
Unemployment Rate	4.9	5.0	4.7	4.2	3.8	4.4	5.0	4.5				

Notes: All employment figures except for unemployment rates are seasonally adjusted indices with 1986 as the base year. All underlying employment data are derived from a monthly survey of establishments.  
Source: Indiana Department of Workforce Development

“The overall employment decline was largely driven by a gradual drop in manufacturing employment through most of 2005.”

# Terre Haute

manufacturing and nonmanufacturing in 2006, average wages will likely continue to rise over the next year—even more so if national expectations of inflation cause upward pressure on wages.

## Commercial Real Estate

Regional real estate markets have remained strong despite rising interest rates over the past year.<sup>3</sup> Occupancy rates rose for many commercial developments in the region. Significant commercial development will continue in 2006 with new retail and industrial developments throughout the region.

## Housing

Residential construction, measured by a seasonally adjusted index of new single-dwelling housing permits issued in St. Joseph County, remains active (see **Figure 1**). From January 2004 to September 2005, new housing permits increased 8.2 percent. More dramatic is the substantial growth of 49.2 percent in the first nine months of 2005. It remains to be seen if demand for homes will be dampened by expected interest rate hikes in the near future.

In 2005, the Michiana region has experienced mixed economic signals: fairly flat employment, relatively low but fluctuating unemployment rates, rising wages, increased production in certain sectors, and active real estate markets. The outlook for the coming year is optimistic, with the region expanding production in some manufacturing and nonmanufacturing sectors, growth in retail, higher employment, continued growth in wages, and considerable real estate activity. ■

## Notes

1. Linda Lipp, "Indiana's RV, housing manufacturers prepare to aid Katrina's victims," *Indiana Economic Digest* 5 September 2005.
2. [www.stats.indiana.edu/cew/simple\\_cew\\_naics.asp](http://www.stats.indiana.edu/cew/simple_cew_naics.asp).
3. CB Richard Ellis, *2004 Real Estate Market Study: Northcentral Indiana and Southwestern Michigan* Summer 2005.

## Robert Guell

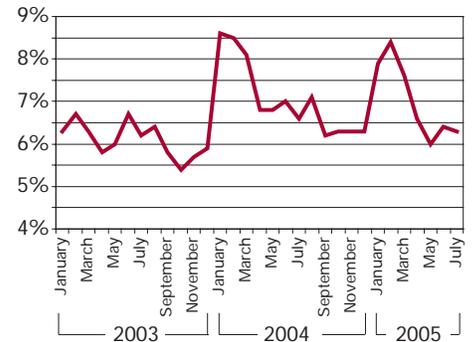
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**A**fter decades of steady decline, the Terre Haute economic horizon has noticeable signs of economic progress but a few lingering clouds. The demolition of the city's iconic Terre Haute House, a retail construction boom, and a significant expansion at Aisin Brake suggest a new economic vitality to the city. Still, the uncertain future of Sony's Blu-ray technology for the high definition home movie market, the uncertain future of Pfizer's yet-to-be approved inhaled insulin, and the almost certain total closure of Columbia House prevent unbridled enthusiasm.

As 2005 opened, Mayor Kevin Burke announced the city had secured an option on the Terre Haute House. The hotel, closed since the early 1970s, was an icon for many. Those who loved its Mayflower Room considered it a potential cornerstone to a revitalized downtown, while others viewed it as a symbol of the city's inability to move forward. By April, several plans had been submitted but none were judged by the city to have sufficient financial backing to succeed. By fall, the Hulman family sold the building to Terre Haute's Greg Gibson for \$1 and demolition began shortly thereafter. Amid demolition came the November announcement of plans for a new "Hilton Garden Inn—Terre Haute House" to open in the summer of 2007.

Also in 2005, retail construction began a boom not seen in the city for decades. South of the existing Wal-Mart Supercenter, construction began on a retail complex that will ultimately include a Kohl's, a TJ Maxx, and several small stores and restaurants. Meanwhile, construction of a new Wal-Mart Supercenter on the east side of the city (near the I-70–Indiana 46 interchange) promises to bring a significant

**Figure 1**  
Terre Haute Unemployment Rate



Note: Data are not seasonally adjusted.  
Source: Bureau of Labor Statistics

expansion of retail activity. Several other smaller construction endeavors also significantly upgraded the retail options in the city.

It is not entirely clear that there will be good-paying jobs to support these new retail ventures. Though Aisin Brake announced a significant planned expansion of its workforce during the year, the BMG purchase of Columbia House makes it all but certain that one of the city's former employment mainstays will ultimately abandon its Terre Haute northeast location. As shown in **Figure 1**, the city's unemployment rate jumped markedly in early 2004 and 2005 with Columbia House job-cut announcements. Each time it has returned near its previous levels.

In 2006, two decisions—one made by the Food and Drug Administration (FDA) and one made by movie studios and consumers worldwide—will provide significant clarity for Terre Haute's economic future. The FDA stands ready to approve Pfizer's inhaled insulin. Terre Haute's southside Pfizer plant would likely manufacture much of these delivery systems, adding significant jobs in the process. On the other end of the city, Terre Haute's northside Sony plant stands ready to produce a significant portion of the high definition movies that will be sold throughout the world. The uncertainty here is that Sony's Blu-ray technology is incompatible with Toshiba's HD DVD and a BetaMax vs. VHS type war is likely in the offing. If Blu-ray wins, so will Terre Haute. ■