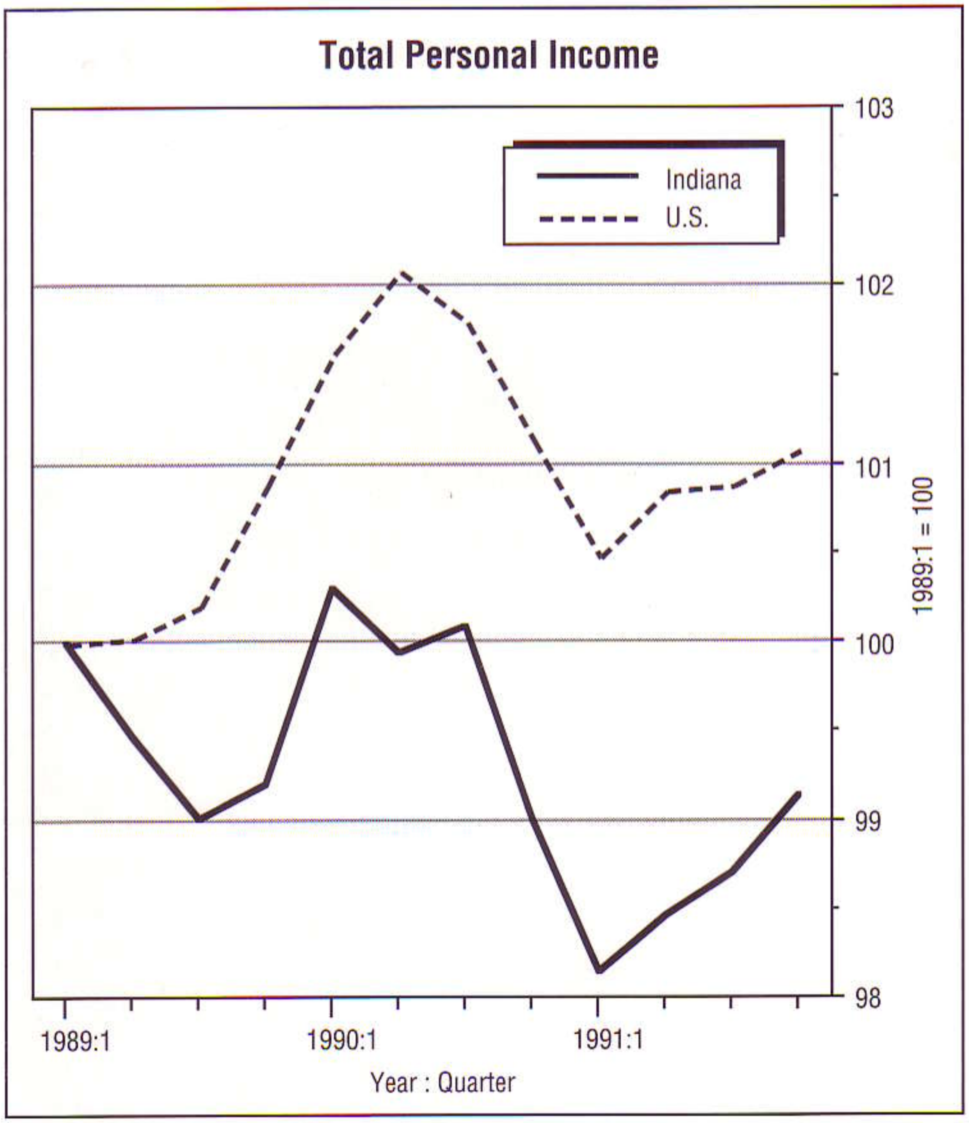
Indiana Business Review



1992 Midyear Outlook

Was the Last Recession Different for Indiana?

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A Midyear Look at the National Economy in 1992: Introduction and Overview

Bruce L. Jaffee

Chairperson & Professor, Department of Business Economics & Public Policy, School of Business, Indiana University

Last fall we predicted that the economy would not fall back into recession, but that growth in 1992 would be fitful and sluggish. As we review the national economy at midyear, it seems that this overall forecast is right on the mark. The latest estimate of first quarter growth of real GDP (Gross Domestic Product) is 2.4%, the strongest annual rate since first quarter 1989. While we believe the economy is clearly in a growth phase, the recovery is quite slow compared to most other recoveries, and it is uneven in terms of sectors of the economy and regions of the country. The economic situation in the Midwest, for example, is relatively bright compared to the continuing weakness of the economies of New England and California.

There has been a recent pickup in consumer spending that appears to be motivated by increases in personal income, smaller tax withholdings, and improved consumer confidence. The decline in interest rates has also stimulated some consumer spending and business investment. There have been modest improvements in the important housing and automobile sectors of the economy, but the current levels are well below the peaks that were achieved years ago for both those important sectors. The huge surplus of retail and office space at the national level will continue for at least another year. While this surplus means low levels of construction spending, it also will lead to continued declines in the rental cost of office and retail space.

The declines in interest rates and many strong first quarter earnings reports continued to move the stock and bond markets upward. Since price-earnings ratios in the stock market are quite high, it will take strong earnings growth to propel the stock market to a significantly higher level—since we think further stimulus from lower interest rates is unlikely.

A bright spot appears to be net exports. The U.S. economy has continued to experience improvements in its international competitiveness due to changes in exchange rates, productivity improvements, and cost containment efforts. However, the slowdown of the economies of our major trading partners may postpone significant improvements in U.S. exports until late in the year or until 1993.

Inflation is another positive factor. Consumer prices should be in the 3-4% range for the year and the broader GDP deflator should be about a half percentage point less. We see no significant rise in oil prices, one of the positive legacies of the Gulf War. However, the prices of other raw materials, such as lumber and electricity, will rise above the average inflation rate due to environmental regulations and supply restraints.

Monetary policy was slow to react to the severity of the recession, but it is now at least modestly accommodating the recovery. Interest rates are probably now at or near their low points for the year. But even as the economy shows increasing strength, we expect rates to rise only modestly, especially at the long end.

Fiscal policy is a different story. Our federal government is mired in fruitless discussions about reducing the national budget deficit, even resorting to the possibility of a "leaky" constitutional amendment to require a balanced budget. Fortunately, leaders had the good sense (and enough votes) to kill the amendment in the House of Representatives. Continuing to speak of leadership for a moment, we cannot be very optimistic when we review the two candidates from the "traditional" parties and the "independent" Ross Perot. There seems to be little enthusiasm or confidence in the leadership abilities, legislative plans, or consensus building capabilities of any of these candidates. And of course, many of the voters think even less of their congressmen and senators.

> *"Based on the performance of the economy in the last six months, we continue to forecast that the 1992 economy will grow by about 2% as measured by real GDP on a year-over-year basis. . . . Though it is too early to be very definitive about 1993, we see no reason for anything but an improving economy into next year."*

Based on the performance of the economy in the last six months, we continue to forecast that the 1992 economy will grow by about 2% as measured by real GDP on a year-over-year basis. We continue to see weaknesses in the housing and real estate markets, but we think the strong sectors of the economy are likely to be business investment in equipment and machinery and exports. Though it is too early to be very definitive about 1993, we see no reason for anything but an improving economy into next year.

Personal Consumption Expenditures

George W. Wilson

Professor Emeritus of Business Economics & Public Policy, School of Business, Indiana University

In the earlier outlook written before the data for fourth quarter 1991 were available, the behavior of the largest component of GDP, personal consumption expenditures (C), appeared to be lagging for reasons that if continued would contribute greatly to a perpetuation of the economy's snail-like propensities. Indeed, I even opined that "consumption cannot be expected to be the dynamic leader out of the current recession" (*Indiana Business Review*, Winter 1991-92, p. 4).

Since I wrote this, the National Income and Product Accounts (NIPA) data have been changed in significant ways that are difficult to reconcile with what went before in any detailed sense unless one has access to the inner sanctum of the Bureau of Economic Analysis of the Department of Commerce. The constant or "real" data series have been switched to a new base using 1987 rather than 1982 dollars. The U.S. NIPA have finally joined the "new world economic order" by stressing GDP rather than GNP as a more useful aggregate measure of production. A series of detailed refinements of specific measures and concepts have been introduced at the same time. Even an intelligent layperson who cares has some serious perception problems and great difficulty in making conversions from the old to the new series. I have no doubt that the NIPA are improved by these revisions, but doing them all at once creates a degree of confusion about the "reality" we seek to measure that is a little disconcerting.

But even such well-intentioned and obviously nonpolitical technical data revisions as these cannot hide the underlying economic malaise, not all of which is confused by the alleged "facts"—some of which are deliberately and accurately dubbed as "preliminary." The **Table** summarizes the newest version of the recent past and provides a comparison with the evidence of GDP and personal consumption expenditures changes for the recession in the early 1980s using the new concepts, revisions, and the updated 1987 constant dollar series.

The Table indicates several things relevant to the present discussion. First, the severity of the earlier recession in terms of reduction in GDP is apparent. Quarterly declines were nearly twice as great as in the current contraction. This comparatively mild feature is also confirmed by unemployment data and other indicators. Yet the current recession has evoked far more outrage and protest than the earlier one for reasons noted in the winter issue of the *Indiana Business Review.* Second, the behavior of C in 1991 was distinctly more unfavorable than during late 1981 and 1982. The growth of C has in general been more of a drag on real GDP growth than earlier. This is especially noticeable in first quarter 1982, when GDP fell sharply by 4.9% while C rose 2.5%. In a comparable phase of the business cycle, first quarter 1991, a less dramatic fall in GDP (only 2.5%) was accompanied by a decrease in C of 1.3%. A similar kind of contrast appears in fourth quarter 1982 when a modest GDP growth of only 0.6% was associated with a large 5.9% rise in C; fourth quarter 1991 exhibited virtually zero change in C despite an almost equally modest growth of GDP as nine years earlier.

Third, the apparently greater drag of C on GDP during 1991 than in the previous cycle may have dramatically changed during first quarter 1992, when C increased by 5.3%, according to preliminary figures. This was associated with a 2.4% growth in GDP, the best quarterly performance in three years. If this can be sustained, prospects look much better for the rest of 1992 and beyond. It is worth noting that the rapid recovery during second quarter 1983 was preceded by an almost equivalent surge of consumption two quarters earlier.

There are several reasons for believing that this surge in consumption may be something more than a statistical fluke, even though the 5.3% is a preliminary estimate and hence subject to revision. There is an equal probability that it could be revised upwards

Table
GDP and Consumption in Two Cycles

	GDP		Personal Consumption	
Quarter/Year	*1990-92*	*1981-83*	*1990-92*	*1981-83*
4Q 1990 or 1981	-3.9	-6.2	-3.5	-3.0
1Q 1991 or 1982	-2.5	-4.9	-1.3	2.5
2Q 1991 or 1982	1.4	1.6	1.4	0.8
3Q 1991 or 1982	1.8	-1.8	2.3	2.1
4Q 1991 or 1982	0.4	0.6	0.0	5.9
1Q 1992 or 1983	2.0	2.6	5.3	2.7
2Q 1992 or 1983	---	11.3	---	7.4

Percentage change from previous quarter. Seasonally adjusted at annual rates. Constant dollars of 1987.
Note: Data for 1Q 1992 are preliminary.
Sources: The data for the period 1959 through 1990 consistent with the GDP concepts in constant 1987 dollars and the other recent revisions are from Survey of Current Business, *November 1991, pp. 37-38. Later data from* Economic Indicators *(Washington, DC: U.S. GPO, April 1992).*

as well as down. But there are more solid grounds for optimism. For example, household and business balance sheets are much healthier now than they were a year or so ago when the talk of having "bottomed out" was prematurely and widely proclaimed. Similar hopes are again being expressed but this time with more foundation. Associated with the improved balance sheets are lower interest rates and inflation rates, both of which should help sustain consumption growth. There has been a large improvement in consumer confidence since the start of this year, according to several indices, even though existing levels are below what is referred to as "normal." Real disposable personal income has risen steadily but slowly throughout 1991, although for the year as a whole it averaged marginally less than in 1990. The rise in this key determinant accelerated during first quarter 1992, partially accounting for the surge in C. This may well be sustainable since the unemployment rate appears to have peaked and should begin to decline if GDP growth continues at between 2-3% or more.

Before becoming positively euphoric about the outlook we need to recall that a series of other conditions noted in the earlier *IBR* that sought to explain the 1991 sluggish performance of consumption have not improved much. At the very best they have not worsened. It should also be noted that the surge in C in first quarter 1992 was in part accomplished by a large decrease in the already low personal savings ratio. Such a large drop in household savings does not imply sustainability of consumption growth for long without even higher growth in personal incomes and GDP as part of the process of expansion. Although this did occur during the previous turnaround, it is scarcely to be applauded in any economy that seeks to raise its overall savings ratio to support a higher proportion of private and public investment in GDP as the only practicable means of achieving a higher sustainable rate of productivity and real growth of output per capita.

Since few other sectors seem poised for sharp increases in expenditures and many big ticket consumer items such as autos remain sluggish, the prospects for sustaining the growth of C at or even close to the current estimate is not propitious. Nevertheless, the possibility for a double-dip recession à la 1981-83, while always weak, is now virtually eliminated. Indeed, many forecasters are revising upward their prognostications for 1992. Conditions have changed for the better, if only marginally, so it seems reasonable to project somewhat of an increase in personal consumption expenditures from $3.259 billion in 1991 (in 1987 dollars) to $3.330 billion for calendar year 1992—a growth rate of almost 2.2%. This is still below what is needed for a decent recovery and even over the long run, given the trends in population growth and other demographic changes. But it does reflect some improvements in the general milieu that can be viewed as harbingers of better things to come, including a slightly faster but more sustainable growth rate of C than typified 1991.

Nonresidential Investment and Inventory Change

Lawrence S. Davidson

Professor of Business Economics & Public Policy and Director, Indiana Center for Global Business, School of Business, Indiana University

Last fall we predicted that nonresidential fixed investment (NRI) would grow by no more than 2% in 1992. Spending on structures would essentially remain flat while a modest recovery in equipment spending would be the main source of growth for NRI. We also forecast that inventory levels would grow about $5 billion in 1992. Little has happened since last fall to change these assessments.

The economy has performed as most of us expected. A recovery, but one that is weaker than normal, is firmly in place. GDP has been growing at an annual rate of a little more than 1% since the middle of 1991. While that rate should increase during this year, the average growth in 1992 ought to meet our expected 2% growth rate. NRI contracted in 1991 by about 7%. Equipment slowed by around 3% and structures by 13%. The rate of contraction, however, slowed as the year progressed. This leaves the level of NRI at the start of 1992 a little above $500 billion—not much more than it was in the beginning of 1987.

That situation means we started 1992 at a pretty low base. A 2% increase in NRI during 1992 will only push GDP up by a little more than $10 billion. That is about the most we should expect, given the slow economic growth predicted for the short run and the significant restructuring expected in the longer haul. There was some rumination in the early part of this year that Congress might enact a quick dose of stimulus, but that outcome seems ever more improbable as the presidential election date nears. This leaves business firms in more than the usual state of uncertainty about government policy after January 1993. It is surprising how optimistic some managers are in this environment. The latest Commerce Department survey suggests that real NRI will grow by almost 6% in 1992. While most of this optimism comes from the nonmanufacturing sector, we are not ready to accept that firms will follow through with these plans.

This lack of optimism stems from the same conclusion we arrived at last fall—that what will be happening to NRI in 1992 has more to do with longer-term forces than with the short-term recovery. Tax changes levied in 1986 still constrain the investment process. International competition, restructuring, and consolidation evoke images of tightening and conservative behavior. The currently slightly improved but still precarious banking and financial environment means that finding funds for expansion continues to be more difficult and costly. With governments strapped for funds, it is hard to forecast significant increases in publicly funded construction projects. Of course, the office glut is also not quickly dissipating.

Should growth remain positive in 1992 and inflation and long-term interest rates continue at current or even lower levels, the outlook for NRI towards the end of 1992 and most of 1993 is more sanguine.

We predicted that inventories would probably rise by about $5 billion in 1992. That is a conservative estimate given the wild swings inventories often take. It is not too different from predicting no change at all. Inventories fell by $14 billion in 1991, despite the recession. Managers did not let inventories get out of control for long. But consider the volatility: inventories fell by $30 billion (at an annual rate) or more in the first and second quarters of last year. They fell again by a small amount in the third quarter, rose by around $8 billion in the fourth, then took a nosedive again in first quarter 1992. Obviously there is no real clear pattern here. There does, however, appear to be a longer-term trend towards getting inventories quickly in line with sales.

With the outlook being for only modest increases in sales in 1992, we expect firms to continue to be especially conservative with inventories. The large inventory contraction in early 1992 is bound to be temporary and followed by more swings. We expect, however, that when 1992 is over, we will find that firms held slightly more inventories in 1991 than they did in 1992.

Table
World Economic Indicators

	OUTPUT GROWTH			CPI INFLATION		
	1991 Actual	*1992 Last Forecast*	*1992 Revised Forecast*	*1991 Actual*	*1992 Last Forecast*	*1992 Revised Forecast*
WORLD	0.9%	3.0%	2.6%	4.5%	4.0%	3.5%
U.S.	-0.3%	2.1%	2.1%	4.5%	3.9%	3.8%
Japan	4.5%	3.5%	2.8%	2.8%	1.9%	1.4%
Germany	3.2%	2.2%	1.5%	3.5%	3.9%	3.9%

The International Economy

Jürgen von Hagen

Adjunct Associate Professor of Business Economics & Public Policy, School of Business, Indiana University, and Professor of Economics, University of Mannheim

The industrial economies continued their lackluster performance through the winter and the spring. The recovery of the U.S. economy, which now seems in sight, began later and at a slower pace than anticipated, and Japan's and Germany's economic downswings were more pronounced than expected. Economic growth came to a halt in Japan during the winter, and the West German economy has declined since last summer. While Great Britain managed to overcome its recession of last year, real growth rates fell in the rest of Western Europe and unemployment rates crept upwards to a West European average of about 9%. Thus, the general performance of production and employment is now again more in line in all industrial countries. At the same time, inflation rates generally came down to an average of 3%.

The general slowdown and recession of the early 1990s can be attributed to the general tightening of monetary policies in the Western world, which came as a response to the rise in inflation in the late 1980s. Inflation improved, yet the downswing was certainly more pronounced and prolonged than what the monetary authorities had expected. One may attribute this to the fact that the monetary restriction came at a time of increasing economic and political uncertainty—a result of the Gulf War and the falling apart of the Eastern block—which dampened consumption and investment spending and made people more clearly aware of the financial risks incurred by heavy loads of household, business, and public debt.

While the Fed started to ease U.S. monetary policy several months ago, the opposite happened in Europe. Germany's unification in 1990 created a surge in demand and a rapid turnaround of the country's current account surplus. The adjustment to these external consequences demanded an increase in the price of German goods relative to other countries' output. Vis-à-vis the U.S., this happened by way of an appreciation of the DMark against the dollar. Within the European Community, however, exchange rates are fixed and the relative price adjustment can only come through output price changes. But, in an effort to defend its low-inflation reputation, the Bundesbank was keen not to allow German prices to adjust quickly. As a result, German monetary policy was very tight in 1991, and even tightened further towards the end of the year. The fixed exchange rate system then forced the other European central banks to adopt a similar stance. As long as no central bank in Europe is willing to accept a revaluation of the DMark in the exchange rate system, no easing of monetary policy is likely to occur in Europe in the near future. Fiscal policies have not been able to provide any active stimulus in the recession either. As in the U.S., the need for consolidation of the deficit and the larger share of debt service in public budget leaves most fiscal authorities with very little room to maneuver. The only exceptions are Japan and Great Britain, which enjoy more active fiscal policies.

Overall, we expect the industrial countries to come out of their sluggishness in the second half of 1992. The beginning U.S. recovery will help Japan more than Western Europe in that process. As the **Table** indicates, we revise our winter forecast of 3% world real output growth slightly downwards to 2.6%, and world consumer price inflation from 3.9% to 3.5%. Both forecasts reflect the later-than-expected recovery in 1992—that is, real growth should exceed these averages towards the end of the year for a more dynamic 1993. We continue to expect no significant increase in oil or raw materials prices.

The economic performance of the former Soviet Union and Eastern Europe remains mostly a disaster. Output and employment continue to fall rapidly. Because the governments do not have sufficient tax bases to finance their expenditures and cannot borrow, large budget deficits are financed by printing money, with the consequence of rampant inflation. One positive result of the American electoral campaign is that the West cannot agree on large-scale financial help, which in the absence of clear and determined reform policies would have been a waste. The good news continues to arrive from Mexico and Argentina, which, based on the support of the Bush administration's Brady plan to cope with their debt problems as well as on deregulation of large parts of their economies, have managed to attract new capital and produce vigorous output and employment growth.

In Western Europe, last year's euphoria over European integration, which culminated in the Maastricht treaty on economic, monetary, and political union, has been overcome by a more sober assessment. Governments now realize that the ratification of the treaty requires politically difficult constitutional changes and, in some countries, public referenda of no certain outcome. The recent public rejection of the treaty in Denmark has set the tone: there and in other countries the public is not willing to simply accept political union from the hands of the politicians. The response to the Danish vote should be above all a greater effort to let the public participate in the debate and the decision-making process. Nonetheless, the British parliament ratified Maastricht even before the Danish vote, and the remaining EC members are still determined to go ahead with it.

Real Estate Markets

R. Brian Webb

Assistant Professor of Finance, School of Business, Indiana University

As discussed in the winter edition of this publication, construction activity remained light throughout 1991 even though housing affordability was on the rise. With structural unemployment (a measure of permanent rather than cyclical layoffs) and household debt both at uncharacteristically high levels, housing starts of 1.02 million for 1991 were lower than for any year since World War II. Housing starts increased to a seasonally adjusted level of 1.34 million in March of this year, which suggested that lower mortgage rates were finally having an impact on construction activity. This increase in activity proved to be unsustainable, however, because it was primarily due to unusually warm and dry weather across the U.S. that allowed construction activity to begin earlier in the year than normal, and to an anticipated $5,000 tax credit for first-time home buyers (a tax credit that was suggested by President Bush but which now looks highly unlikely). Housing starts fell to a seasonally adjusted annual level of 1.12 million in April, so our prediction last winter of 1.2 million starts for 1992 still looks reasonable.

Mortgage rates have been as volatile as housing starts during the early part of 1992. The rate on 30-year mortgages increased to 9.12% in March of this year after reaching a 15-year low of 8.25% at the end of 1991. Demand for refinancings and new mortgages declined, however, and mortgage rates fell once again to the current level of 8.5%. This fluctuating pattern will continue throughout 1992, with 30-year fixed rates remaining in the 8.25% to 9.25% range. The Federal Reserve Board has been more successful in sustaining lower short-term interest rates, making 15-year fixed-rate mortgages, seven-year balloon mortgages, and adjustable-rate mortgages popular given the relatively large spread between short-term and long-term rates at the present time. The popularity of traditional 30-year fixed-rate mortgages will return when this spread narrows.

While construction activity has been weak, sales of existing homes have been positively affected by the increase in housing affordability. Sales of existing homes held steady at a seasonally adjusted annual rate of 3.5 million from February through April 1992, the highest level of home sales attained for the last several years. It will take another big drop in mortgage rates (or a significant improvement in employment) to achieve further gains, however. Housing prices have risen slightly this spring, and should continue to appreciate at roughly the growth rate of the economy for the next few years.

Commercial Real Estate

Construction activity in the commercial real estate industry is virtually nonexistent, with estimates ranging from five to ten years on how long it will take the current 20% vacancy rate in office space (19% in central business districts and 21% in the suburbs) to be reduced to "natural" levels of less than 10%. Demand for office space has been weak due to the sluggish economy and the continuing trend toward corporate consolidations, but absorption of vacant space in 1991 was greater than construction of new space for the first time in ten years as U.S. office construction fell to only 36 million square feet (54% of the 67 million square feet built in 1990). Expect this supply and demand relation (small increases in demand but with even smaller increases in supply) to continue in 1992, and for vacancy rates to gradually fall to single-digit levels by 1997. Prices are near their cyclical lows but will remain depressed in most metropolitan areas through 1993. Much lower vacancy rates are needed to restore balance in the rental markets, and prices will not improve significantly until that happens.

Construction activity (primarily residential) should gradually increase through 1993—but the credit crunch, the lumber crunch, and low consumer confidence in the long-term outlook of the U.S. economy will keep the construction industry from returning to the heady levels of the mid-1980s. The construction industry is in the process of "downsizing," and the recent growth in the economy will be slower than normal without the surge in this industry that typically leads economic recovery. A less prominent construction industry in the U.S. economy will persist for many years to come due to the aging of the population (and the corresponding reduction in the pool of first-time home buyers), and the current over-supply of commercial space.

The Government Sector, Monetary Policy, Inflation, and Unemployment

R. Jeffery Green

Professor of Business Economics and Public Policy and Director, Center for Econometric Model Research, School of Business, Indiana University

In our forecast last December, we expected:

- both Federal and state and local purchases of goods and services to grow very slowly in 1992;
- the rate of growth of M2 to gradually increase to above 5% at an annual rate in 1992;
- inflation, as measured by the GDP deflator, to average near 3.5% during 1992;
- the unemployment rate to remain stuck near 7% throughout 1992.

Over the last six months real federal purchases of goods and services have declined while purchases by state and local governments have grown slowly. From third quarter 1991 through first quarter 1992, total real government purchases declined by $5.8 billion. Thus, as expected, the government sector has been a drag on economic growth.

Monetary growth has been somewhat slower than expected over the past six months, with M2 increasing at only about a 3.5% annual rate. Even with slow money growth, however, short-term interest rates continued to decline, and the three-month treasury bill rate is down by more than a full percentage point in the last six months. It appears the federal reserve is content to allow M2 to grow slowly as long as short-term interest rates remain low. Long-term interest rates, which depend on investor expectations of future inflation, have been almost constant over the past six months. They are unlikely to decline until there is strong enough evidence of low and stable inflation rates to convince investors inflation will remain low.

The broadest measure of the price level, the implicit deflator for Gross Domestic Product, rose at only a 2.4% rate from third quarter 1991 through first quarter 1992, the latest period for which data are available. The personal consumption deflator, which is available monthly, increased at about a 3.5% annual rate for the six months ending in April. These recent data indicate inflation is currently under control.

The unemployment rate rose gradually through the early months of 1992, reaching 7.3% in February and March before declining to 7.2% in April. The rate jumped to 7.5% in May. These rates were slightly above our forecast last December.

In summary, economic performance in the past six months has been broadly consistent with our December forecast. Economic growth has been slow as expected and the recovery continued. The government sector was slightly weaker than expected, money growth and inflation were slightly lower than expected, and the unemployment was slightly higher than expected. None of these differences were large.

The Outlook

The updated forecast values for the government sector, money supply, inflation, and unemployment are shown in the **Table**.

The combination of political gridlock in an election year and a deficit that exceeds $300 billion this year should produce some fiscal restraint on further federal government spending. Most of the restraint is in the form of defense cuts as a result of the collapse of the Soviet Union. Many states and localities are also facing large deficits, and that will constrain the growth in state and local government purchases. There is one ray of sunshine in this picture. Because many states and localities have been enacting spending cuts and tax increases over the past year, deficits are beginning to decline. If the economy continues to grow, as we expect, state and local governments in the aggregate should be showing a small surplus by the end of the year. That will still mean some governmental units will show significant surpluses while others will still be in deficit and total spending may increase modestly.

Continued economic growth should soon begin to put upward pressure on short-term interest rates. Since the Federal Reserve seems interested in keeping rates low, we expect the growth rate of M2 to gradually increase over the rest of the year to keep rates near current levels. The continued good news we have seen recently should cause longer-term rates to gradually decline.

Inflation should remain near 3% throughout 1992. Labor costs are the single most important cost to most firms, and a combination of slow wage increases and some productivity growth should enable unit labor costs to rise less than 2.5% during 1992. There is little likelihood of large increases in food or energy prices this year, so if prices rise by about 3% (as expected), profit margins will improve.

With economic growth expected to continue at low rates, employment growth will be modest and the unemployment should decline only gradually to about 7% by the end of the year.

In summary, our forecast made last December is basically on track and 1992 should be a year of slow growth but recovery, low inflation, and little improvement in the unemployment rate.

Table
Forecasts of Selected Variables (Billions of 1987 dollars, except where noted)

	1Q1992[1]	*2Q1992*	*3Q1992*	*4Q1992*
Federal purchases of goods and services	373	371	369	366
State and local government purchases	557	557	557	558
Rate of change of M2 (SAAR[2])	4.3%	2.9%	4.5%	5.0%
Rate of change of GDP def. (SAAR[2])	2.9%	3.4%	2.9%	3.0%
Unemployment rate	7.2%	7.2%	7.1%	7.0%

[1]*Actual*
[2]*Seasonally adjusted annual rate*

Financial Markets and Corporate Earnings

Michael Simkowitz

Professor of Finance, School of Business, Indiana University

The forecast George Hettenhouse and I presented to you last fall has turned out to be quite accurate. Among the fundamentals, we were basically right on our five points, with the exception that auto sales have continued to be weaker than we expected. But auto stocks were great performers nevertheless, and the growth in export sales has begun to slow a little sooner than we expected. Inventory balances and profit margins have turned out to be approximately what we thought and the coming capital equipment boom, although it has not materialized, will be stronger in the second half than in the first half and possibly stronger than most forecasters are predicting.

What is more important to you readers is whether our forecast of movements in the financial markets proves correct. We don't like to brag, but you could not have hit it any better than we did. Back in November 1990 we were predicting that long-term rates would stay in the range of 7-8% and that was right on the nose. We were a little too conservative in expecting short-term rates to stay in the 4-5% range when they have actually declined another 80 or 90 basis points. We warned investors that it would be hard to achieve high rates of return in either cash, bonds, or stocks, and experience has proved us right.

We did warn readers that the stock market might become vulnerable as the Dow Jones approached 3400 in the first half of the year and 3600 in the last part of the year and when the S&P average approached 430 in the first part of the year and 445 in the latter part of the year. The S&P 500 did get up to approximately 420+ before slipping back down to 405 and subsequently recovering to close to 420. The Dow Jones Industrial Average has begun to flirt with what we considered to be levels at which investors might think about taking some profits and seeking safer haven. We still feel that way but we would also like to reiterate our advice in our original column that for the long-term investor we still believe there is a greater risk of being out of the market than being in the market. And if you do become conservative and wish to take some profits, do not abandon equities altogether. Human nature is such that it is much harder to get back in the market when it is a bargain, and failure to get back in the market when it is a bargain has resulted in lost profit opportunities such that long-term return is substantially diminished.

For the intermediate-term investor with horizons of two to five years, it would be prudent to reduce the exposure to equities and move money into intermediate term bonds with four- to eight-year maturities. The stock market is at a level vulnerable to corrections of some magnitude. Investors with the shorter-term horizon could be damaged significantly if they must liquidate and consume their capital before the market has time to recover from such a decline.

At the midpoint of the year we see little reason to change our major conclusions and advice. Some of the cash raised by profit taking should be reinvested in some of the bargains that have appeared. An example of such bargains might be found in a pharmaceutical company located close to home that is selling at a two-year low. Another place where some bargains are appearing is in the well-run prudently managed casualty insurance companies.

Was the Last Recession Different for Indiana?

Morton J. Marcus

Director, Indiana Business Research Center

Data revisions have altered our view of Indiana's performance over the past several years. Just a few months ago we were hailing Indiana's new performance mode in the business cycle. Whereas in past recessions Indiana experienced more serious declines than did the nation, in this recent recession Indiana was seen as escaping the nation's distress. New data from the U.S. Bureau of Economic Analysis (BEA) have voided this view.

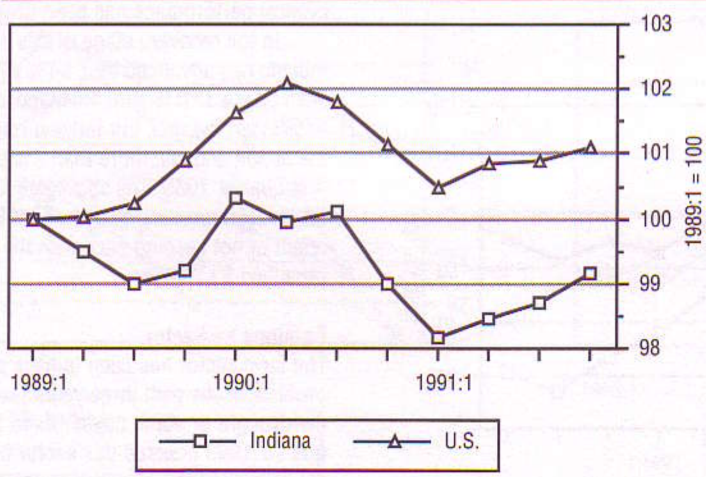
Part of the problem the economist has with the recession is, "When did it start?" The most readily available, comprehensive measure of the state's economy is personal income,[1] made available with about a six-month lag by BEA. If we take two consecutive quarters of decline in real personal income as being a recession, then Indiana had a recession in 1989 and again in 1990 (see **Figure 1**). The nation did not have a similar recession in 1989 but did experience a much publicized decline in 1990. For Indiana the decline in real personal income in the 1989 recession was just under 1%. During the same first two quarters of 1989, real personal income in the nation advanced by 0.22%. Is this difference of any consequence? In 1987 dollars, the personal income of Hoosiers was down $361.5 million in the first half of 1989 as a result of the recession in that year.[2]

For the 50 states, the cyclical peak was reached in second quarter 1990 when the index of personal income stood at 102, or 2% above the base period in first quarter 1989. From that point to the bottom of the recession in first quarter 1991, personal income in the U.S. declined by 1.59%. How far did Indiana fall? That question depends on where we set the peak.

If we set the peak where it appears in Figure 1 as first quarter 1990, then Indiana had a decline in real personal income of 2.15%, which exceeded the national decline. Once again, we could say, Indiana felt the recession earlier and harder than the nation. But if we insist on measuring the recession by national standards—by the movement into Kuwait of Iraq on August 2, 1990—then Indiana declined by 1.8%, just 0.2% more than the nation during the same period. In either case, Indiana did not outperform the nation on the downside. In line with previous recessions, Indiana experienced more of a decline than did the nation.

On the up side, in the current recovery Indiana is doing better than the nation. From the bottom of the recession in first quarter 1991 to the latest information on the fourth quarter, Indiana has advanced by 1% compared with a national improvement of just 0.6%. But Indiana's double dip, despite its recent superiority, has left the state well behind the nation and below where it was in first quarter 1989. If Indiana were even with the nation in fourth quarter 1991, personal income would be nearly 2% higher or nearly $400 million more than realized. This deficit means lost business for Hoosier firms, lost consumption for families, and lost revenues for governments. Over the course of the past three years, the Indiana personal income deficit has totaled more than $4 billion, or 1.6%.

Figure 1
Total Personal Income



Components of Income

Where have these deficiencies originated? Personal income has three major components: earnings (the returns to labor), dividends, interest, and rent (the returns to assets), and transfers (government payments to individuals). When this recessionary period began for Indiana in first quarter 1989, the Hoosier state had a higher dependence on earnings than did the nation (see the **Table**). With 71% of total personal income derived from earnings (versus 68.5% nationally), Indiana depends more on its workers than does the country as a whole. Thus, in a recession, the behavior of earnings—which are the dominant component of income—can be the foremost influence on performance, even if other components are more volatile.

Table
Components of Real Income: Indiana and the U.S., First Quarter 1989

	Indiana	*U.S.*
Earnings	71.0%	68.5%
Transfers	13.5%	14.4%
Dividends/Interest/Rent	15.5%	17.1%

Figure 2
Dividends, Interest, Rent (DIR) and Transfer Payments (TP)

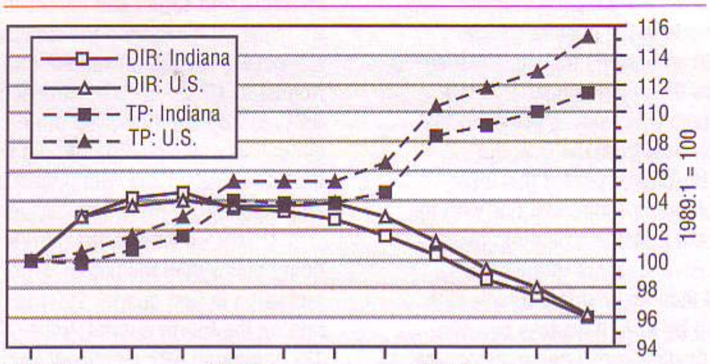


Figure 3
Total Earnings from Employment

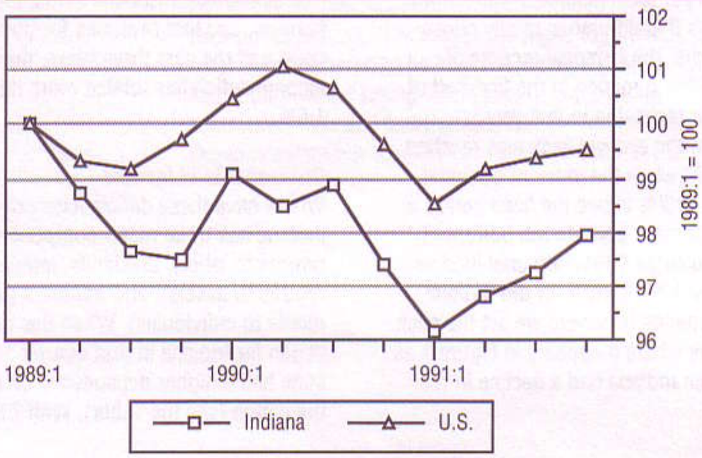
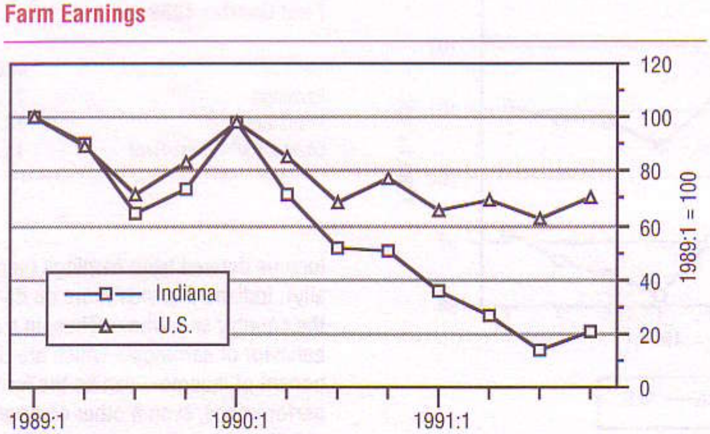


Figure 4
Farm Earnings



Dividends, interest, and rent depend on corporate profits, interest rates, and the competitive forces of the real estate market. All have been under stress since the end of 1989. The downward trend for Indiana and the nation can be seen in **Figure 2**. Since fourth quarter 1989 this component of personal income has fallen by 8.1% in Indiana and 7.4% in the nation. Hence, although dividends, interest, and rent are not dominant in Indiana, this state has been harder hit than the nation from weak returns on assets.

Transfers include social security, unemployment compensation, certain federal pensions, and a variety of other government payments. Since the start of 1989 Indiana has lagged the nation in the growth of transfer payments (see Figure 2). In 1989 and 1990 the path was parallel, with Indiana growing by 8.4% as the nation advanced by 10.5% through first quarter 1991. However, in the last three quarters of 1991, transfers to Hoosiers grew by 2.7% and climbed 4.3% nationally. In this component of income as well, Indiana has fallen behind the nation.

Earnings from employment, as the most important component, have a pattern similar to total personal income (compare Figure 1 with **Figure 3**). We have the same question of identifying the peak. Here we find reason to question how Indiana performed when compared to the nation. In the 1989 recession, which did not show up for the nation in total personal income, earnings declined by 0.85% for the U.S. and by 2.49% for Indiana. Clearly, our state felt that first downturn with considerable force.

The second dip produced a 2.52% drop in earnings for the U.S. and an even sharper 2.94% decline in Indiana. However, if both the nation and the state are measured from the same 1990 point, the decline for Indiana was 2.38%, which was less than the nation's decrease. Only by adopting this ambiguous approach can we claim that the historic pattern of cyclical performance has been broken.

In the recovery stage of this business cycle, Indiana has advanced by 1.84% while the nation has seen only a 1.03% rise. This vigorous improvement has closed the gap, but Indiana remains well below the nation and still more than 2% below its level in first quarter 1989. The aggregate loss of real earnings for Hoosier workers over the past three years, as a result of not keeping pace with the nation, has approached $3.2 billion.

Earnings by Sector

The farm sector has been Indiana's major earnings problem in the past three years (see **Figure 4**). After the drought of 1988, payments to farmers in the first quarter 1989 boosted this sector from the losses of the previous year. However, since the start of 1990 farm earnings have been in progressive decline, sinking to just 14.1% of that 1989 high. Nationally, farm earnings have stabilized at a much higher level, although they are significantly off from their highs.

Non-farm earnings in Indiana, by contrast, at the end of 1991 were back to their first quarter 1989 level and almost fully recovered from the recession (see **Figure 5**). The nation, however, was still 1.2% below its prior peak. The farm problems are related to international commodity prices and export demand. The non-farm picture reflects the domestic recession and is one reason most economists felt the recession was over and the cyclical recovery was progressing well.

Earnings from private sector employment in Indiana had not fully recovered when the second dip hit in 1990. Overall, Indiana took a more serious hit than did the nation, but we have shown a better recovery than has the rest of the country, which stalled at the end of 1991 (see **Figure 6**). Government has, with starts and stops, generally been a positive factor in the growth of earnings for both the nation and the state (see Figure 6). The federal government, in both the civilian and military areas, has been cutting back. In the past year, Indiana was harder hit by these cutbacks than was the nation as a whole, even though we do not have major federal establishments in this

Figure 5
Non-Farm Earnings

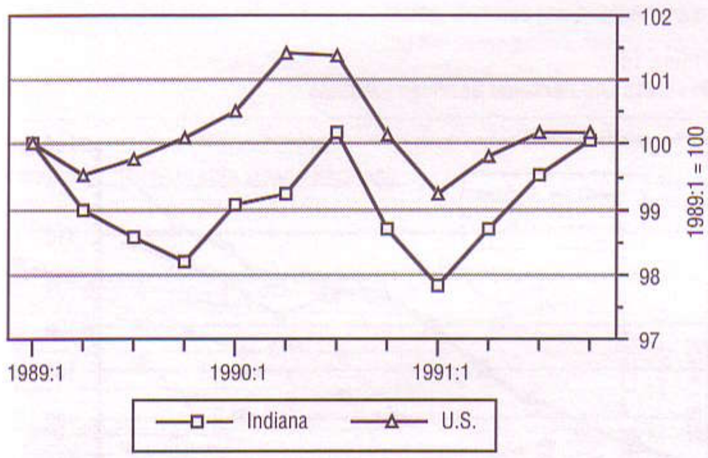


Figure 6
Private Non-Farm and Government Earnings

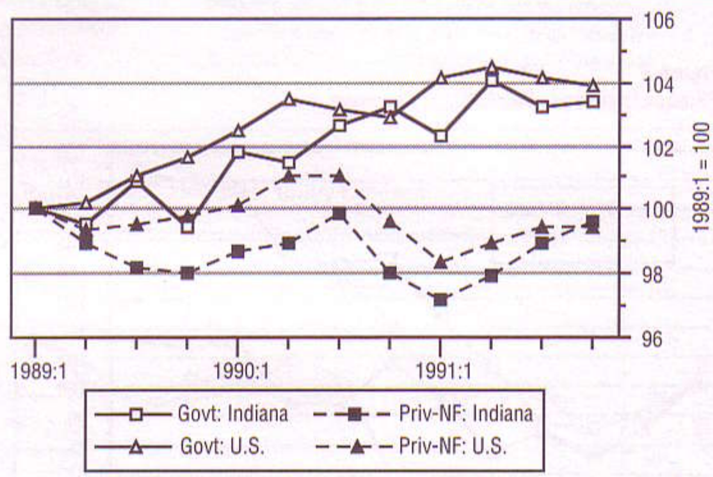


Figure 7
Federal Earnings: Civilian and Military

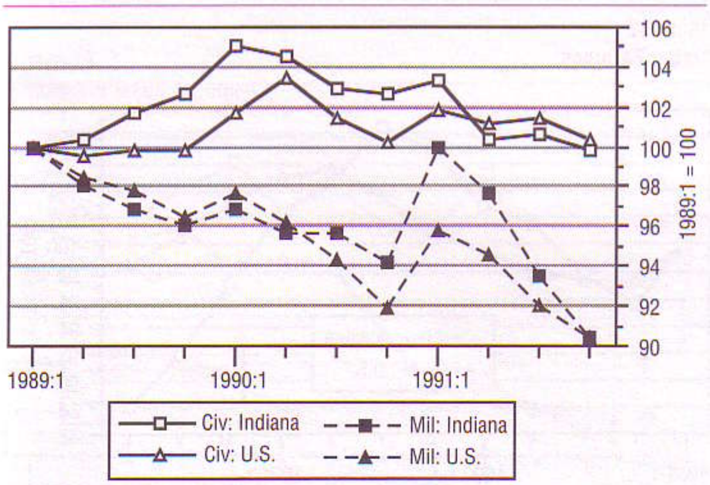
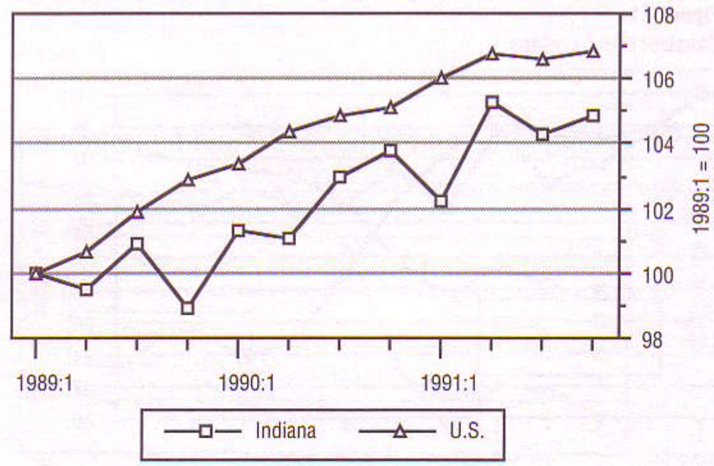


Figure 8
State and Local Government Earnings



state (see **Figure 7**). State and local government have shown continued expansion during the past three years, although Indiana has not contributed to this trend as strongly as have other states (see **Figure 8**).

In two areas of growth, Indiana showed less impact from the recession and better performance than the nation during the past three years. In both Finance, Insurance, and Real Estate and Business and Personal Services, Indiana has forged advances of 7% and 12%, respectively, since first quarter 1989, compared with less than 2% and 10% for the U.S. (see **Figures 9** and **10**).

The building surge of the 1980s is one factor contributing to the nation's current economic problems. Since Indiana did not have the same booming conditions as the U.S. in the past decade, we have not seen the same decline as has the nation (see **Figure 11**). Indiana has realized improved construction earnings since the initial shock of 1991, while the nation sustained a dramatic decline.

Less fortunate than construction in Indiana has been the mining industry, which had done relatively well in 1989 and 1990. But in the second half of 1990 and throughout 1991, real earnings from mining declined by 19.2% in Indiana compared with 6.8% nationally (see **Figure 12**).

Manufacturing, which accounted for nearly one-third of all Hoosier earnings at the start of 1989, suggests that the second recessionary dip was an extension of the first. But this sector is complex. As **Figure 13** demonstrates, nondurable goods in this state have followed a tortured path over the past three years and ended 1991 higher than it started 1989. Nationally, nondurables were on a downward path

Figure 9
Finance/Insurance/Real Estate Earnings

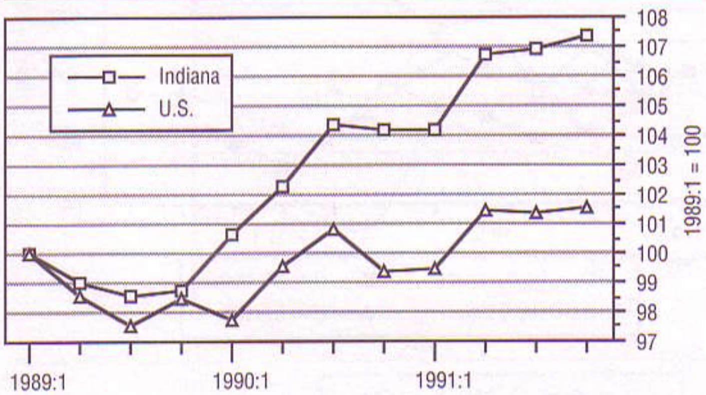


Figure 10
Business and Personal Services Earnings

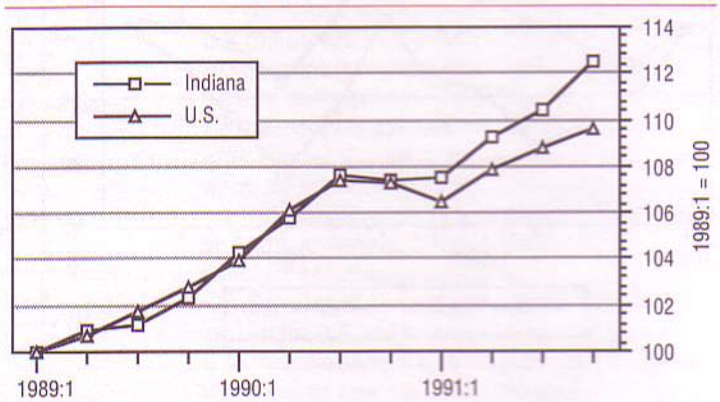


Figure 11
Construction Earnings

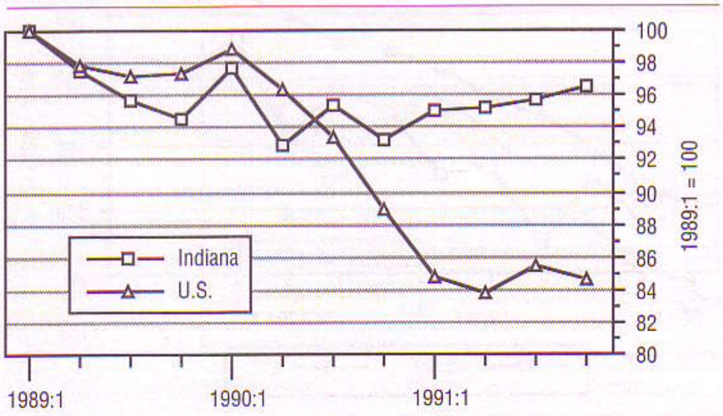
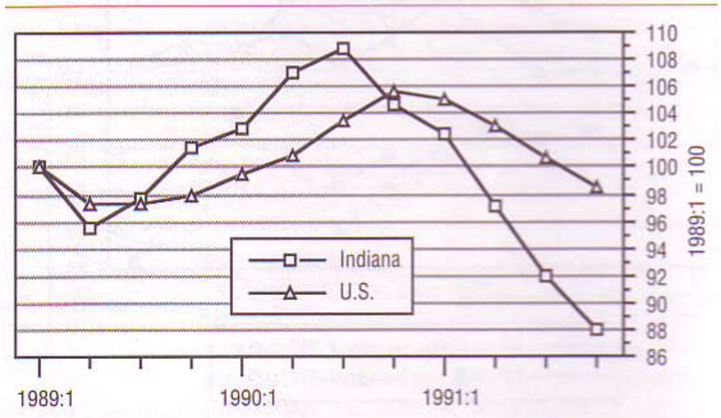


Figure 12
Mining Earnings



through both recessionary dips and have not recovered with the vigor of Indiana. Durable goods in the nation and the state followed similar courses, with Indiana showing a stronger recovery but also sharing in the nation's late 1991 stagnation (see Figure 13).

Transportation and public utilities follow manufacturing activity but without the same strength. In both the state and the nation no recovery is evident (see **Figure 14**). Nor is recovery evident in the trade sectors (see **Figures 15** and **16**). Earnings in wholesale trade nationally continue to decline, although Indiana has shown little movement. In the retail sector the slide continues in both the U.S. and the state.

Where Now?

From these results, it is easy to see why the recovery is viewed so differently by people working in different sectors of the economy. For durable goods manufacturing, this was just another Indiana recession. During the same period, farming was seeing income decline while other sectors continued their growth.

It is no wonder people are confused about our future course. Each daily news report provides conflicting information; the sluggish economic performance of the nation confounds most observers. Each state and sub-state region has had different experiences in this period, depending on its particular mix of industries. For clarification we turn to our regional writers in the hope that their views of Indiana in the balance of 1992 will provide a sense of direction.

Notes

1. All dollar figures used in this article are in real or constant dollars, adjusted to the base year 1987 by the Personal Consumption Deflator of the National Income and Product Accounts.

2. This sum is derived by taking the difference between Indiana's realized personal income and the amount that would have been received over those same two quarters if the state had grown at the same rate as did the nation.

Figure 13
Durable and Nondurable Goods Earnings

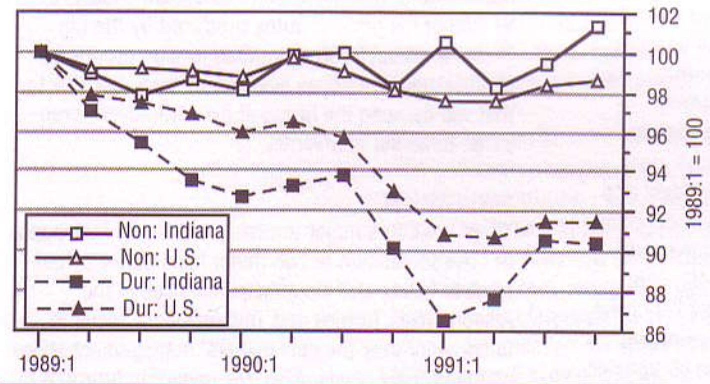


Figure 14
Transportation and Public Utility Earnings

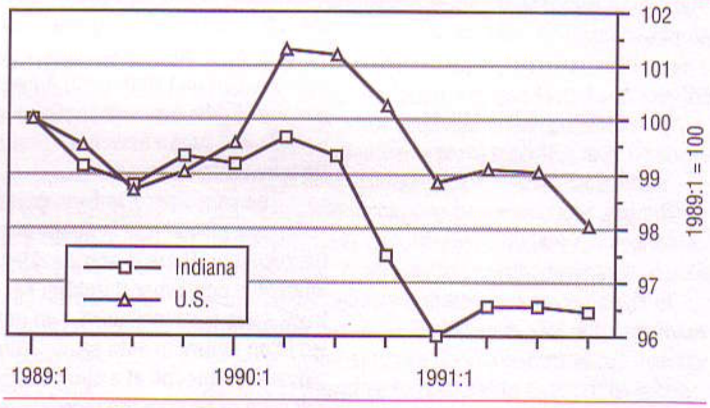


Figure 15
Wholesale Trade Earnings

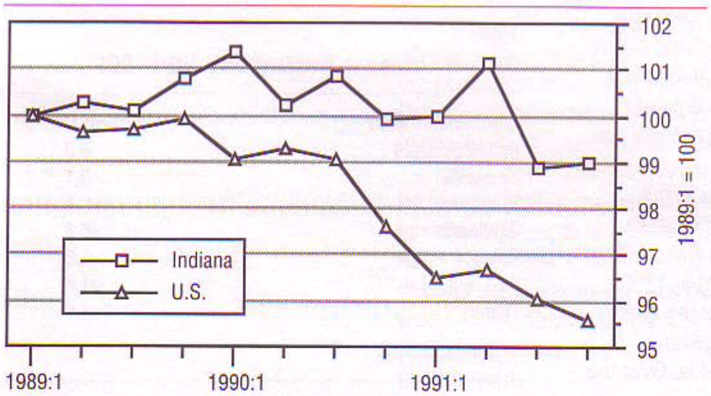
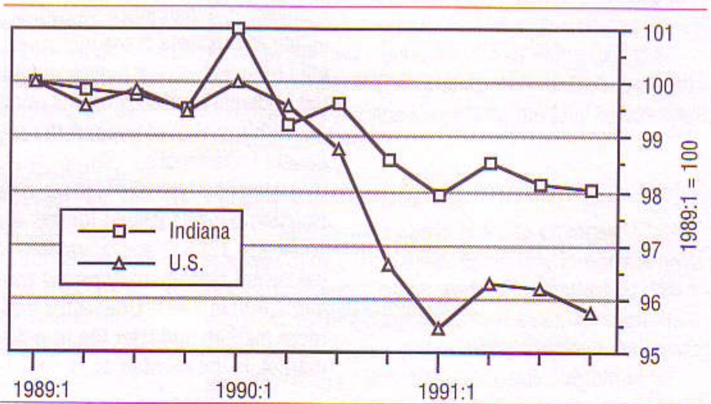


Figure 15
Retail Trade Earnings



Indianapolis

Robert Kirk

Professor of Economics, Indiana University-Purdue University at Indianapolis, with data assistance from the Statistical Services Division of the Indiana Department of Employment and Training Services

Employment for the eight-county Indianapolis metropolitan area expanded at a 0.6% rate from 1991 to 1992 and is expected to grow at a 1.5-2% rate during the second half of 1992. Real wage and salary disbursements increased at a 1% rate from 1991-92 and should increase at a 5% rate during 1992. Real personal income increased by less than 1% from 1991-92 and is expected to increase at a 4-4.5% rate this year.

Exports have become increasingly important for the Indianapolis economy. In recent years, growth in real U.S. exports has been greater than growth in real GDP. During the recession, U.S. demand for imports fell, whereas our trading partners' demand for U.S. exports increased. In 1992 the cycle is changing as the U.S. recovers from recession. Demand for our exports in Japan, Europe, and Canada will be weak, whereas demand from Latin America, Southeast Asia, and the Middle East will continue to be strong. Canada and Japan have been primary markets for Hoosier companies.

The consumer has been paying down debt and will play a pivotal role in determining the strength of the recovery. There is some evidence of renewed interest in consumer durables. For example, light truck sales have increased, and in the past they have led to an upturn in auto sales. With increasing employment—though at a slow rate because companies will want to be sure the recovery is for real before hiring—consumers will gain increased confidence and begin to spend more freely.

Another sector expected to contribute to the recovery is expenditure on capital goods. As profitability of business firms increases, those firms will be able to invest in new plants and equipment. Because the Midwest produces capital goods, this type of expenditure should support the regional recovery and benefit Indianapolis.

Housing typically leads in a recovery phase. Housing permits issued for the metropolitan area peaked in 1986 at approximately 11,800, and during the recent recessionary period were 8,100 in 1990 and 7,400 in 1991. One factor that affects the apartment market, and later the first-time home buyer market, is the number of 18-to-24-year-olds. Over the 1980s, this age group declined 18% in Indiana and 16% in metropolitan Indianapolis.

Compared to other metropolitan areas in the region, how well did Indianapolis do during the 1990-91 recession? **Table 1** shows that Indianapolis "led the pack." Among the largest U.S. metropolitan areas, Indianapolis's performance was in the top 15. Can this relatively strong performance be maintained?

Construction

Construction contracts are being announced for the United Airlines maintenance base, with UAL needing the first hangars in late 1993—an accelerated timetable that will stimulate local activity sooner than expected. Local hospitals have either recently completed, are in the process of constructing, or have announced plans for major new expansions. Whereas the issue of financing health care calls for reform, in the near term the construction of additional hospitals locally will generate income and maintain construction employment because many of the inputs in construction are derived locally. This means that the dollars will remain in the local economy to generate additional income and employment. Another dimension of the health care industry that relates to Indianapolis (and Indiana) is that health care costs are $1,000 of the price of autos produced by the Big Three, or about $500 more than foreign producers' health costs. Employee health care costs are a factor that will dampen the hiring of new employees compared to earlier recoveries.

Uncertainties

There are some major uncertainties facing Indianapolis. The acquisition of two major local banks by out-of-state banks and the anticipated sales of the Allisons (Gas Turbine and Transmission) result in uncertainty over the new owners' management styles and personnel needs. Also, the uncertain future of the finance center at Fort Benjamin Harrison and the downsizing of General Motors nationally have implica-

Table 1
Percent Change in Employment, 1990-1991

Metropolitan Area	*Percent Change*
INDIANAPOLIS	0.6
Louisville	0.1
Columbus, OH	-0.5
Cincinnati	-0.8
Chicago	-1.3
St. Louis	-1.9
Detroit	-3.0

(Establishment Data)

Table 2
Population Changes in Indianapolis, 1980-1990

	Population Density		Median Age		Percent of Total Under 5		Percent of Total 25-44	
County	*1980*	*1990*	*1980*	*1990*	*1980*	*1990*	*1980*	*1990*
Boone	86	90	31.0	34.4	7.2	7.5	26.8	32.4
Hamilton	206	274	30.1	32.9	7.4	8.2	31.7	36.0
Hancock	143	149	30.0	34.2	7.4	6.6	30.1	32.1
Hendricks	171	185	29.4	33.3	7.5	7.0	30.9	33.5
Johnson	240	275	28.7	32.6	7.6	7.1	29.9	33.0
Marion	1,932	2,011	29.2	31.8	7.4	7.9	27.9	34.7
Morgan	127	138	29.0	32.9	6.8	7.1	28.9	31.7
Shelby	97	98	30.0	33.1	7.6	7.3	27.3	31.6

Source: U.S. Census of Population, 1980 and 1990

tions for "What is done (produced) where?" The continuing uncertainty concerning the resumption of construction of the Circle Centre Mall impedes planning and making commitments. Hopefully, some of these uncertainties will be resolved soon.

Labor negotiations will be in the news. The city's contract with policemen and firefighters expires at the end of 1992. The national GM-UAW contract expires in September 1993. Given GM's announced closing of 21 assembly plants and layoffs of 74,000 workers nationwide by 1995, Indianapolis residents have an interest in the outcomes of these negotiations.

Population Shifts

The economic changes of the 1980s have affected the location of population in the Indianapolis metropolitan area. The decline in the inflation-adjusted price of gasoline, relatively low land costs, diffusion of employment centers, rising incomes for some households, and preferences for lower density living changed population densities and commuting patterns. **Table 2** provides some of these demographic changes for the eight-county metropolitan area.

Increases in population densities ranged from a high of 33% in Hamilton County to a low of 1% in Shelby County. The population aged in all counties, with Boone being the oldest and Marion the youngest. All counties experienced increases in the percent of the population 25-44 years old, which reflects the Baby Boom generation. However, not all counties had increases in population under five years.

What does Table 2 imply? If you're a local government official, it means "challenges" to meet the increased demands in an anti-tax environment. It can mean that people vote with their feet for that package of taxes and government-provided services they wish—although sometimes they are surprised to find that tax increases are necessary to finance the new service needs.

The changing age distribution of the population means possibly a shift from consumption to saving-oriented activities, as well as demands for a different mix of government-provided services. A critical question is: Does government have the capacity to respond? On the revenue side, local governments have faced shifts in their revenue sources. For example, the city of Indianapolis has become more dependent over the past decade on the property tax, the local option income tax, and charges for services. The local option income tax was introduced as a replacement for federal revenue sharing dollars when Congress terminated the program. The tax revenues have been used, for example, for police and firefighter pensions and other operating expenses. The income tax revenue flow was pledged when the city issued bonds to finance its share of the UAL maintenance facility. To lessen the burden on the city, the Indianapolis Airport Authority will pay, in lieu of taxes, for some services it now receives free from the city. Increased charges for services have arisen via user fees for trash collection, for example.

During the 1980s, the manufacturing sector made tremendous strides in increasing labor productivity. In recent years, other sectors, including government, have been restructuring to increase productivity. Under the new mayor, Stephen Goldsmith, alternative delivery systems for supplying government services are being examined. For goods and services that have "private good" characteristics, private sector firms operating under a profit incentive may be contracted to produce the good or service at a lesser cost. Competitive bidding between public and private sector providers can increase efficiency. If economies of scale exist, consolidating small governmental units into a larger delivery unit can reduce unit costs of production. However, if citizens prefer different levels of government services, then a decentralized delivery system is desirable to respond to those differences. We can expect greater diversity in the ways in which government services are provided in the 1990s.

As issues facing cities and towns receive more attention nationwide, efforts will be made locally to assist Indiana governments and organizations through the new Center for Urban Policy and the Environment at IUPUI. The Center will be supported financially by Indiana University, the Lilly Endowment, and external sources.

Labor Market Adjustments

A lot of attention has been given to changes in labor markets during the 1980s. Especially important have been changes by gender and race. Analysis of differentials in earnings indicates that a combination of shifts of occupation and industry employment have played primary roles. Based on data submitted by

Table 3
Percent Change in Indianapolis Private Sector Employment by Occupation, Gender, and Race, 1981-90

Selected Occupations	*Total*	*White Male*	*White Female*	*Black Male*	*Black Female*
Managers, all industries	-1.5	-10.2	30.3	-3.9	27.6
Professionals, all industries	62.9	25.0	119.9	56.2	149.7
Craftsworkers, manufacturing only	-19.9	-22.7	12.3	-6.7	28.9
Operatives, manufacturing only	-43.2	-38.1	-56.3	-30.6	-54.9

Source: U.S. Equal Employment Opportunity Commission and author's calculations

private employers to the U.S. Equal Employment Opportunity Commission, **Table 3** shows percent changes in private sector employment by occupation, gender, and race, 1981-90, for Indianapolis.

Caution is urged in interpreting these data because they include firms with 100 or more employees, or 50 or more with a federal contract or a first-tier subcontract worth $50,000 or more. Thus, the small firm, whose numbers grew rapidly in the 1980s, is excluded. Also, when using percent changes, the numbers are affected by the size of the initial year value. For example, there were many more white male managers than black female managers in 1981.

In spite of these cautions, the changes are consistent with changes in relative earnings nationally during the 1980s. For men, annual growth in real hourly earnings has been negative (except for the top quintile). For women, the top three quintiles in earnings growth were positive, with slight declines for the other two. These changes by gender and race reflect a variety of factors, such as international competition, industrial restructuring (i.e., the closure of the Western Electric plant), and changes in patterns of consumer demand. In a more speculative spirit, these changes may be contributing factors in changes in family structure—a topic of major local and national interest and concern.

Northwest Indiana

Leslie P. Singer

Professor of Economics, Indiana University Northwest

It appears that the projections we made at the beginning of the year are pretty much on target, so only minor revisions are necessary. The basic national problem of slow growth still remains, although Northwest Indiana is less affected by the economic sluggishness than other parts of the country. We show continued moderate recovery (see **Tables 1** and **2**).

Table 1
Seasonally Adjusted Forecasts of Employment in Lake and Porter Counties (in 000s)

	ACTUAL		*PREDICTED*	*FORECAST*					
	*1Q 1991**	*1Q 1992**	*2Q 1992*	*3Q 1992*	*4Q 1992*	*1Q 1993*	*2Q 1993*	*3Q 1993*	*4Q 1993*
Total Employment	243.9	248.9	250.1	251.9	252.8	252.8	253.7	254.5	255.9
Nonmanufacturing	189.3	195.7	195.3	197.2	198.9	199.0	199.7	200.6	202.3
Manufacturing	54.6	53.2	54.8	54.7	53.9	53.8	54.0	53.9	53.6
Steel	32.7	31.9	32.0	31.7	31.7	31.4	31.6	31.4	30.9
Non-Steel	21.9	21.3	22.8	23.0	22.2	22.4	22.4	22.5	22.7
Services	59.1	60.3	62.8	63.2	64.2	64.8	65.7	65.8	66.1

**Not seasonally adjusted.*

Table 2
Annualized Wages and Weekly Hours

	ACTUAL		*PREDICTED*	*FORECAST*					
	*1Q 1991**	*1Q 1992**	*2Q 1992*	*3Q 1992*	*4Q 1992*	*1Q 1993*	*2Q 1993*	*3Q 1993*	*4Q 1993*
Manufacturing	$1.848	$1.998	$2.035	$2.047	$2.061	$2.058	$2.072	$2.104	$2.112
Steel	$1.145	$1.301	$1.281	$1.272	$1.312	$1.319	$1.331	$1.368	$1.336
Other	$0.731	$0.724	$0.758	$0.759	$0.742	$0.747	$0.782	$0.788	$0.787
Hours	38.91	41.75	41.97	41.43	41.57	41.61	41.99	40.64	40.71

(Wages are in billions of nominal dollars.)
**Not seasonally adjusted.*

Table 3
Trade Between Cities and Towns

	Proportion Black	Net Retail (Imp.)/Exp.	Net Food (Imp.)/Exp.	Net Apparel (Imp.)/Exp.	Net Furniture (Imp.)/Exp.	Drugs (Imp.)/Exp.	General (Imp.)/Exp.
Lake County	24.54%	($.039)	($.033)	$.168	$.013	($.092)	$.052
Porter County	0.35%	($.212)	($.192)	($.547)	($.189)	($.189)	($.462)
Hammond	9.19%	($.239)	($.462)	($.176)	($.336)	($.127)	($.284)
East Chicago	33.57%	($.504)	($.572)	($.825)	($.679)	($.179)	($.499)
Gary	80.57%	($.581)	($.665)	($.727)	($.746)	($.301)	($.645)
Incorporated Towns	1.49%	$.499	$.447	$.534	$.558	$.546	$.754
Valparaiso	0.50%	$.477	$.458	$.329	$.586	$.509	$.371
Michigan City	22.54%	$.246	$.185	$.236	$.572	$.410	$.360
Jobs per $100,000 of weekly gross sales		63	48	84	78	89	58

Note: Values in parentheses are imports.
Source: U.S. Census and I.U.N. Data Bank

The decline in the manufacturing sector is offset by continued growth in nonmanufacturing as well as housing, both commercial and residential.

Retail jobs are very important as start-up jobs for young entrants to acquire the discipline of the labor force. Trade also provides part-time or full-time jobs for second and third workers. While these jobs do not provide high incomes, they are often the indispensable cushion or margin that permits discretionary spending (or sometimes saving) for the average household. Service and trade is where the seeds of future entrepreneurship are sown.

We have conducted a study of the distribution of retail outlets in Northwest Indiana with a view to determining the segments of the overall metropolitan market that are net exporters of retail merchandise and services as opposed to segments that are net importers of retail merchandise and services. We based our study on the U.S. Census of Retailing, which was supplemented from our own data banks on Northwest Indiana retail and service activities.

A geographical unit such as a city or an incorporated town is classified as a net exporter if the per capita sales in the city or town exceed the per capita retail purchases of the residents. If the reverse is the case, then the geographical unit is a net importer. In other words, if the residents of a city spend, on the average, $7,000 per capita per annum on retail merchandise, and the per capita annual sales in the city is $5,000, then the balance of $2,000 must have been spent outside city limits. Therefore, the city is a net importer.

Given that retail outlets generally draw their employees from a narrow region surrounding the location of the outlet, cities or towns that are net importers of retail merchandise tend to lose non-goods producing jobs, whereas cities and towns that are net exporters tend to gain nonmanufacturing jobs. We are, of course, ignoring the fact that retail imports may significantly benefit consumers who may gain from lower prices and a greater selection of merchandise.

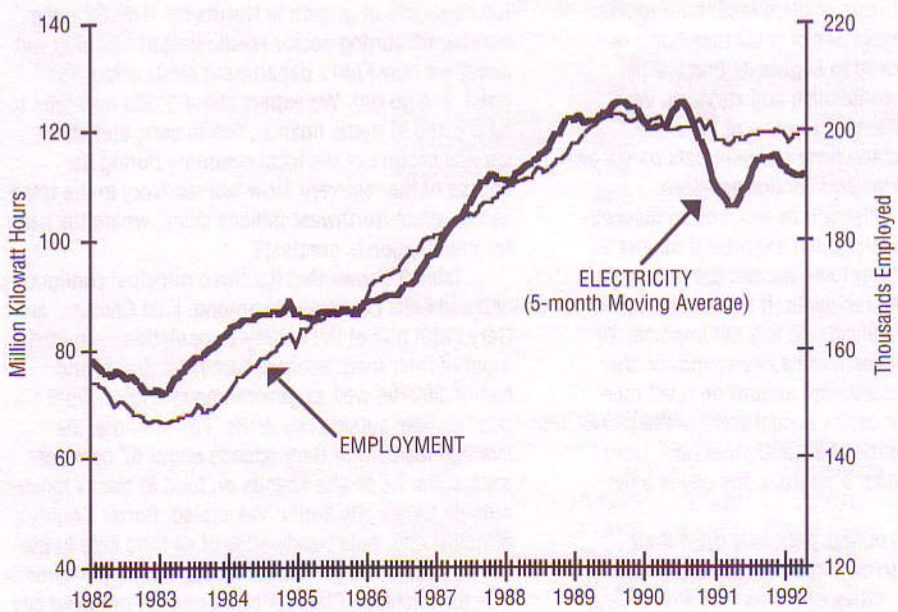
In **Table 3** we show the number of jobs that are created by each $100,000 of weekly sales. In addition, there are maintenance and repair jobs for appliances, auto, and furniture, as well as installation of household furnishings and so forth. These jobs provide skills for new entrants in economically depressed urban sites, but only if the urban regions of Lake County succeed in what economists refer to as import substitution.

As we have so often emphasized, the current and future engine of growth in Northwest Indiana is the nonmanufacturing sector (southern Lake County will acquire a new Kohl's department store, a Marriott hotel, and so on). We expect about 3,000 new jobs to be created in trade, finance, health care, and other service sectors of the local economy during the course of the recovery. How will recovery in the retail sector affect Northwest Indiana cities, where the need for job creation is greatest?

Table 3 shows that the three principal contiguous cities of Lake County—Hammond, East Chicago, and Gary (with half of the county's population)—import most of their food, apparel, furniture, drugs, and health care, as well as general merchandise, from retail outlets outside city limits. For example, the average resident of Gary spends about 67 cents of each dollar he or she spends on food in stores located outside Gary's city limits. Valparaiso, Porter County's principal city, sells nearly 50% of all food sold in the city to people living outside the city limits; the same is true for Michigan City, LaPorte County's principal city. This is what would be considered the normal situation: cities export retail merchandise to their respective economic hinterlands. This relationship exists between urban Lake County and the adjacent, semi-rural Porter County—which imports about 30 cents of each retail dollar spent from the incorporated towns and shopping centers of Lake County.

It is clear from Table 3 that the proportion of imports is highly correlated with the proportion of black residents. However, racism aside, import substitution can succeed only if the urban areas can be made attractive to entrepreneurs. We have assembled confidential information on the differential cost of doing business in central cities. Our figures indicate that higher labor costs relative to productivity, higher costs of supervision, higher insurance and outlays on security, loss to pilferage, other incidental costs, and higher present value discounts for increased risk would require average prices to be 11-18% higher in urban markets than in non-urban markets. Some locations remain unattractive because adequate market share is not sustainable at such price differentials. This is because, except for the poorest (served by small local outlets), urban dwellers are mobile. Moreover, none of the current public urban subsidies offer sufficient incentives to compensate potential entrepreneurs for the higher cost of doing business if better alternatives exist in non-urban regions of Lake County.

Figure
Fort Wayne Area: Payroll Employment and Industrial Use of Electricity



Data seasonally adjusted by the Community Research Institute, IPFW.
Sources: Indiana Department of Employment and Training Services and Indiana Michigan Power Company.

However, as the number of available prime non-urban locations is depleted, retail outlets will be expanding, first into Hammond and, to a lesser degree, into East Chicago. This will help improve the urban vs. non-urban trade balance in 1992-93.

Fort Wayne

Thomas L. Guthrie

Director, Community Research Institute, and Associate Professor of Business and Economics at Indiana University-Purdue University at Fort Wayne

The initial forecast in the winter 1991-92 issue of the *IBR* was for employment in the Fort Wayne metro area[1] ". . . to increase 2-3%—that is, 4,000 to 6,000 jobs. The area economy appears positioned to garner more than its share of the subdued increase in U.S. economic activity forecasted." Nothing on the current economic landscape suggests that the forecast should be altered.

One perennial problem with using employment as the proxy of overall economic activity is that its accuracy will not be known for sure until midyear 1994. Although monthly employment data are available after a 2-3 month lag, those data are subject to two revisions. Thus, an initial assessment of the economy can change substantially a year or even two years later, after the first and second revisions.

A good example of this phenomenon has occurred since the initial 1992 forecast. At that time employment data suggested that the area economy had sidestepped the latest national recession. Employment had decreased approximately 2,500 in 1990, but an equal number of jobs were added in 1991.

The recent revision eliminated approximately 5,000 jobs beginning in March 1991. Consequently, area employment as of March 1992 was approximately 5,000 below the last cyclical peak (see the **Figure**). But remember, both 1991 and 1992 data will be revised next year, possibly yielding a different interpretation of the current state of the area's economy.

The percentage decrease in area employment during the last business cycle was still less than at the national level—1.0% compared with 1.4%. These decreases occurred between July 1990 and March 1991. One obvious way to eliminate this problem is to analyze data series not subject to revisions, but few exist that are as representative of overall economic activity as employment is. Two examples are industrial use of electricity and housing permits.

Permits for the construction of new, single-family houses in Allen County increased from roughly 100 per month to 150 per month between first quarter 1991 and first quarter 1992. This sector typically leads an economy out of a recession, so the recovery in housing is encouraging. As shown in the Figure, industrial use of electricity has tended to move in tandem with employment. Industrial use of electricity has increased significantly, although haltingly, from its first quarter 1991 low. In summary, both the housing permits and industrial use of electricity data series suggest that the area economy is recovering.

The next logical question is, "How strong will the recovery be?" The forecast continues to be, "Not very," compared to previous recoveries. As noted above, the percentage decrease in area employment (from the last cyclical peak) currently is less than at the national level. This is atypical. Cyclical losses in employment typically are concentrated in manufacturing, and Fort Wayne is overrepresented in manufacturing compared to the nation.

Some economists argue that most of the jobs lost during the last recession were not cyclical but permanent losses. "That is, our current economic landscape is almost entirely the product of permanent structural change."[2] These *same* jobs will not return with an increase in economic activity. If this is true, Fort Wayne will not experience in 1992 a boom in employment due to cyclical rehiring, as has typically occurred in previous recoveries.

The continuing problems in the Japanese and European (especially German) economies is another reason for forecasting a slow recovery. The initial forecast opined that the relative strength of the area economy during the last recession probably was due partly to strong growth in export sales. (Relevant data at the local level are not readily available.) The forecast was for continued growth in exports due to a forecasted continuance of a low exchange rate of the dollar (compared to the mid 1980s). The exchange rate remains favorable but the lagging Japanese and European economies are muting its effect.

Notes

1. The Fort Wayne metro area consists of Allen, Dekalb, and Whitley counties.

2. David Altig and Michael F. Bryan, "Can Conventional Theory Explain the Unconventional Recovery?" *Economic Commentary*, Federal Reserve Bank of Cleveland, April 15, 1992.

Kokomo

Dilip Pendse

Associate Professor of Economics, Indiana University Kokomo

There are more signs now that Kokomo's economy, which took it on the chin in the early months of 1991, has shaken off the recession and is revving up. It has received a strong boost from a surge in the housing sector. The manufacturing sector—the area's mainstay—has gained momentum too. Positive contributing factors include a declining jobless rate, a longer manufacturing work week, stronger first quarter earnings by Delco Electronics, the end of strikes by pottery and pork plant workers, a higher number of building permits issued, a higher volume of sales of existing homes, and an improved national economy, to name a few.

A Surge in the Housing Sector

The housing sector has taken off splendidly in the early months of 1992. For the first four months of the year, 209 residential/nonresidential building permits were issued—up a whopping 54% from the same period a year ago. The dollar value of building permits issued totaled $41.6 million, four times higher than a year ago. While residential permits rose 55%, nonresidential permits jumped 44%. Single-family building permits totaled 63, which is 53% higher than the same period a year earlier. The home improvement market posted solid gains—126 permits were issued, up 68% from a year ago, for room additions/alterations, garages, swimming pools, porches, patios, and storage sheds.

Altogether, 20 commercial/industrial construction permits (valued at $4.1 million) were issued during January-April—54% more than in 1991. This category includes permits issued for new businesses and offices, additions or alterations to existing ones, restaurants, shopping centers, storage sheds, and many more. Among the major construction projects that got under way are two day-care facilities, a bank branch office, a new shopping center, and a truck maintenance building. Three permits valued at $30 million were issued for public works/utilities projects. Kokomo is going to have a new jail and juvenile detention center. Also, a local utility company embarked on a new construction project.

Housing remains very affordable in Kokomo, according to the National Association of Home Builders (NAHB). Kokomo's housing affordability index compiled by the NAHB remained fourth highest nationwide in third quarter 1991. Kokomo and Elkhart-Goshen tied for first place at the state level, according to the same source.

Establishment Employment Skidded in 1991

The data released by the Indiana Department of Employment and Training Services indicate that the average monthly establishment employment slipped 3.2% in 1991 to 47,200. While the goods-producing sector registered a 6.9% drop in average monthly employment in 1991, the service-producing sector posted a minuscule 0.7% decline. Overall, job losses were widespread. Only the government sector defied the trend. Within the service-producing sector, the transportation/utilities sector posted a 12.5% decline, while the retail trade, finance/insurance/real estate, and business services sectors posted losses ranging from 2 to 4%. The government sector registered a 12% gain in employment to 6,600.

Longer Work Week, More Workers on the Job, Strikers Back to Work

First quarter 1992 registered encouraging signs on the job front. The average unemployment rate of 7.8% during January-March was 4.1 percentage points below the same period a year ago. It was 1 and 1.5 percentage points below the same period in 1990 and 1989, respectively, yet 1 percentage point lower than in 1988. On the average, 3,000 people remained jobless during first quarter 1992, compared with 4,700 in 1991. Although Howard County's unemployment rate exceeded the state and national rates, the gap narrowed considerably from a year ago. Surprisingly, not too many people are getting drawn into the labor market. Compared to a year ago, the average labor force shrank 4.2% during the first three months of 1992 to 38,167.

Not only are more people working now, they are working longer hours too. The average manufacturing work week, a key gauge of an economy's health, is on the rise. Since fourth quarter 1991 the average manufacturing work week stayed at or above 40 hours. Another encouraging sign is the hiring upturn. Local Manpower Inc.'s quarterly survey suggests that the percentage of businesses planning to add workers during the second quarter was four times higher than those anticipating cutbacks. And there is more.

Striking workers in Kokomo and Logansport are back on their jobs. A 16-week strike by 180 workers of Kokomo Sanitary Pottery Corporation, a maker of vitreous china plumbing and sanitary products, ended in March. Similarly, a four-week strike by 1,018 workers at Wilson Food Corporation's Logansport plant ended in May. The Logansport plant daily processes 6,000 head of hogs. Also in May, Delco Electronics' management and the workers' union reached an agreement to keep 236 audioboard assembly jobs in Kokomo through the 1993 model year. In the absence of such an agreement, the jobs would have gone to Delco's Matamoras and Reynosa plants in Mexico.

Unlike a year ago, when temporary layoffs at local auto plants remained part of the rhythm of economic life in the early months, the rhythm this year has been low-keyed. Most of the temporary layoffs thus far pertain to fine tuning of inventories. Not only that, the layoffs have been fewer in number and shorter in duration. At no time has Delco Electronics, Kokomo's largest employer, temporarily idled more than 300 workers. On the other hand, Chrysler Corporation's 1,000 transmission plant workers were idled for a week in February. It also laid off 110 transmission plant workers indefinitely in March.

During the first five months of 1991, Delco Electronics had placed 610 workers in its JOBS Bank program. This year, however, fewer than 160 workers remained in the JOBS Bank program, 75% less than a year ago. The JOBS Bank program, a joint UAW-GM project, provides a safety net for idled workers.

Personal Income Approaching the $2,000,000,000 Mark

Data released by the U.S. Department of Commerce in May indicate that in per capita terms, Kokomo is still one of the most affluent cities in the state. Kokomo's per capita income in 1990 stood at $17,803—3.4% higher than at the stable level and one of the top five in the Hoosier land. The area personal income totaled $1.72 billion in 1990 compared to $1.67 billion in 1989. Interestingly, during the 1980s per capita income in Kokomo rose from $9,688 in 1980 to $17,803 in 1990—a jump of 84%.

Chrysler and Mitsubishi: A Big Piece of the Pie

In April, Chrysler Corporation signed a deal to supply $1.2 billion worth of engines, transmissions, and other auto parts to Mitsubishi Motor Corporation. Kokomo's transmission plant is expected to get a big piece of that procurement pie. For Kokomoans, the deal is significant for at least three reasons. First, it is an indirect recognition of the quality of transmissions built in Kokomo. Second, it is morale-boosting news. Third, it will significantly boost and streamline the local transmission production schedule.

And that's not all. Chrysler Corporation is also exploring the option of selling Kokomo-made transmissions to Audi and Volkswagen manufacturers. At a time when Chrysler is expected to eliminate many jobs in its cost-cutting measures, Kokomo's transmission and casting plants have apparently been spared the axe. In fact, in May Chrysler announced a realignment of its casting and transmission operations in Kokomo.

Some Major Developments

Four area hospitals—two in Kokomo and one each in Cass and Clinton counties—announced plans to launch a $2.2 million laundry and linen service project in Kokomo. The construction work is expected to be completed in September and the new facility will create up to 20 jobs.

In April, Pittsburgh Plate Glass Co. celebrated the 25th anniversary of its Kokomo plant. The Pittsburgh-based PPG, one of Kokomo's oldest corporate entities, has run its operation at different locations in Kokomo since 1896. It was the city's largest employer with 1,800 workers during the 1920s!

Kokomo-based Central Railroad Co. of Indiana purchased part of a railroad line between Shelbyville and Cincinnati from Philadelphia-based Consolidated Rail Corp. for $7.5 million. In the long run, Cincinnati being a major rail center, this purchase is expected to be beneficial to Central Railroad's Kokomo customers.

Not all news was positive during the early months of 1992. After five years in operation, the Delphi-based Wallman Food Inc., which employed 15 people, closed its westside grocery store in Kokomo. The ripple effects of the realignment of the Grissom Air Force Base in Peru have finally started showing up in the area. In April, 17 permanent and seasonal employees were pink-slipped at the base. In the following month, Maconaquah School Corporation let go 14 teachers because of the expected loss of students during the 1992-93 academic year. Nearly 40% of Maconaquah School's students are base dependents. Fuji Heavy Industries, Ltd., a part owner of Lafayette's Subaru-Isuzu operation, dashed hopes of Peruvians to have a large auto manufacturer in Miami County. It scrapped its proposed engine plant in Peru.

What's in Store in Late 1992?

The economy has gained momentum that will continue through the rest of the year. Continued low interest rates and higher auto production levels should keep the economy moving forward at a respectable pace. In my winter outlook forecast I had predicted that the unemployment rate in 1992 would hover around 7.5%, with a range of 6-12%. I was too cautious in my forecast; the worst is behind now. It is highly unlikely that Kokomo's unemployment will vault into the double-digit zone. I expect the unemployment rate to range between 6-10%, with the average hovering around 7%. The manufacturing work week will stay at or above 40 hours throughout 1992. Instead of enduring losses, as I had predicted in November 1991, I believe the retail trade sector will post modest gains. The construction related jobs should see increases in job opportunities. Overall, unlike a year ago, a majority of economic sectors should register modest gains in 1992.

Falling mortgage rates will keep enlivening the housing sector. Overall, sales of existing homes should post considerable gains over 1991. First-timers as well as trade-up buyers should generate momentum during the peak real estate market season. At the current rate, single-family home permits will perk up to 180, not 160 as I had predicted last winter. The number of residential and non-residential building permits issued, excluding sign permits, should exceed the levels reached in 1991 by 15-20%.

The sounds of bells, whistles, and firecrackers are gradually building up, and Kokomo's economy will keep cruising along through the remaining months of 1992, despite possible shocks and disturbances.

Terre Haute

Marvin Fischbaum

Professor of Economics, Indiana State University

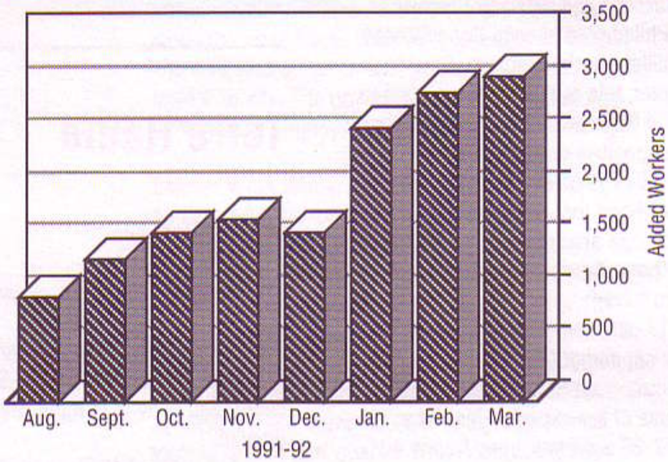
The Terre Haute economy seems to be drifting along. The local impact of the 1990-91 recession had been slight, and slow in coming. Recovery is modest, and uneven.

For most of 1991, the unemployment rate for the Terre Haute MSA remained between 4.6 and 5.6%. That rate bounced up to 5.9% in October, and has remained at a 6-6.1% plateau through March. One should not read too much into that bump. Much of the increase reflects seasonal factors. Further, a divergence has arisen once again between household survey data, on which unemployment estimates are based, and establishment employment data, which are considered more reliable for small local areas.

Establishment employment enjoyed a sharp seasonal gain in September with the start of the new school year, then bucked the seasonal pattern and held on to those gains in the months that followed. So year-to-year establishment employment comparisons have shown steady improvement (see **Figure 1**). Establishment based comparisons between March 1992 and March 1991 show construction employment up by 300, manufacturing employment up by 1,000, and service employment up by 1,800 (half of that in retailing). The overall increase of 3,100 is 5.3% of the 1991 base. The employment picture conveyed by household survey data appears rather more erratic and somewhat less positive (see **Figure 2**).

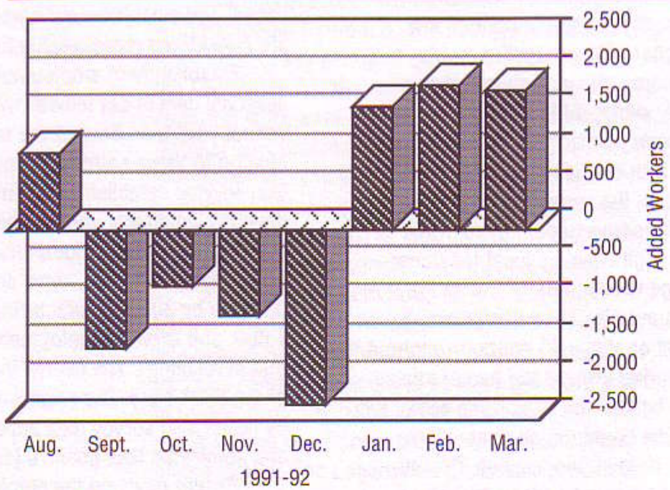
Recent news on the employment front has not been positive. Pressured by cutbacks in state funding, Indiana State University is retrenching. Its Laboratory School has been terminated, and elsewhere on campus non-tenure track appointments are not being renewed. Staff are also being reduced through attrition. Pitman-Moore has eliminated research programs and reduced its professional staff by 20. Thus the sluggishness in the local economy is beginning to take on a distinguishing characteristic of the 1990-91 national recession. Production jobs have fared relatively well, while managerial and professional positions have been more vulnerable than in the past.

Figure 1
Terre Haute Area Establishment Employment Year-to-Year Change



Source: Indiana Employment and Training Services

Figure 2
Terre Haute Area Household Survey Year-to-Year Change



Source: STATIS

Announcements of new commercial or industrial projects—and thus the promise of new sources for future jobs—have all but ceased. Copper and Brass Sales, Inc., will build a modest facility employing perhaps 15 or 20. Bemis is putting up a new office building, and will expand its graphic arts capability. Also, some construction activity will take place at the airport in an attempt to attract new business. It is now definite, though, that Terre Haute has lost its scheduled airline service to Chicago-O'Hare. This slowdown in new activity is reflected in the value of nonresidential construction permits, which fell by more than 40% in the 12 months ending in March. The highest value nonresidential building permit issued to date in 1992 was for remodeling Graham Grain at a cost of under $800,000.

Building permits for residential construction provide a more positive picture. Whereas for the 12 months ending in March the value of Vigo County permits fell 6% from the previous 12-month period, a comparison of first quarter 1992 with first quarter 1991 shows the value of permits increasing by 34%. At least part of the improvement derives from a mild winter and an early start on the building season. Fewer permits were issued in April and early May.

In contrast to mixed signals elsewhere, the real estate resale market has been very strong. Comparing first quarter 1992 with the same period a year ago, the local multilist reports that the number of houses sold increased 33%, at an average price that rose 11% to $55,000. Thus, the total value of homes sold spurted 46%. These data may actually understate the improvement, because with a tightening market more homes are sold by originating agencies without recourse to multilist, and more homes are sold by owner. Terre Haute still has an abundance of homes available at $50,000 and under, but with low interest rates and thus increased affordability, buyers are looking for something better.

News reports indicate that with the remodeling of Honey Creek Mall, general merchandise sales have been strong, and above projections. Automobile sales remain weak. Demand for commercial loans has been concentrated in Mom-and-Pop type ventures.

In the coming months, commercial and industrial construction activity should slow. The modest uptrend in manufacturing employment may continue. On balance, one expects little change in local economic activity.

Columbus

Patrick M. Rooney

Assistant Professor of Economics, IUPUI Columbus

The local employment picture deteriorated somewhat between fourth quarter 1991 and first quarter 1992, but it has improved considerably from first quarter 1991 (see **Table 1**). Although the number employed fell 3.3% from the fourth quarter and almost 1% from first quarter 1991, the number of unemployed has fallen 15% from a year ago, driving the unemployment rate down to 5.7% in the first quarter versus 6.5% in first quarter 1991. The changes from fourth to first quarter may be partially due to seasonal changes, as these data are not seasonally adjusted.

Unemployment insurance claims have followed the same pattern. Both continued and initial unemployment insurance claims rose from fourth quarter 1991 but are down substantially from first quarter 1991. Our local Help Wanted Advertising Index is up 4% from fourth quarter 1991 and almost 47% from first quarter 1991.

The estimated value of residential building permits has grown tremendously in first quarter 1992—32.4% ahead of the fourth quarter and 92.4% above a year ago. The number of units has also grown at a rapid pace.

The local real estate market was much more active in first quarter 1992 than in first quarter 1991. Although the average number of days on the market increased 22%, the number of listings sold increased almost 63%. Of the houses that did sell, the average selling price increased more than 5%. One result of the increased price of homes is that the Housing Affordability Index fell from 160 in fourth quarter 1990 to 151 in fourth quarter 1991. Although interest rates fell during this period, the median home price increased almost 20%, thus reducing the affordability.

New and used car sales have shown a much stronger recovery locally than they have nationally. New car registrations for Bartholomew County are 19.5% higher in first quarter 1992 than in the same period of 1991. Used car sales are almost 22% higher over the same period.

Looking at **Table 2**, the "new" Arvin has significantly outperformed its sub-industry grouping (auto parts) in all but one measure. The price-earnings ratio (P-E) for Arvin is a very respectable 24, which is nearly equal to the all-industry average of 25. The auto parts sub-sector has an unsustainable (and inexplicable) P-E of 50. When compared to the all-industry composite, Arvin does not fare as well on any of the measures except sales growth. Since sales of autos and auto parts are cyclical, one would expect Arvin to have a faster sales growth rate coming out of the recession than is the average for all industries.

Arvin hopes to translate record sales and increased profits in first quarter 1992 into enhanced profitability for the year. The company boosted sales by both gaining new customers and increasing business with its existing customer base. The $8 million

Table 1
Columbus Area Data

	1Q 1992	4Q 1991	% Change 4Q-1Q	1Q 1991	% Change 1Q91-1Q92
Labor Market					
Number Employed	28,990	29,980	-3.3%	29,247	-0.9%
Number Unemployed	1,743	1,727	0.9%	2,053	-15.1%
Unemployment Rate	5.7	5.4	5.6%	6.5	-12.3%
Cont'd Unemployment Ins. Claims	5,747	3,599	59.7%	8,357	-31.2%
Initial Unemployment Ins. Claims	781	754	3.6%	1,373	-43.1%
Help Wanted Advertising (1987=100)	132	127	3.9%	90	46.7%
Residential Construction					
Estimated Value of Permits Issued ($ million)	2.371	1.791	32.4%	1.232	92.4%
Number of Permits Issued	27	18	50.0%	16	68.8%
Average Value per Permit ($ million)	0.088	0.100	-11.8%	0.077	14.0%
Real Estate					
Number of Homes Sold	254	NA	NA	156	62.8%
Average Number of Days Listed	141	NA	NA	116	21.9%
Average Market Price (sold)	$74,965	NA	NA	$71,205	5.3%

Sources: Indiana Business Research Center, Indiana University; The Republic; *Multiple Listing Service; Indiana Bureau of Motor Vehicles*

Table 2
Columbus Area Financial Performance

	INDUSTRY OR FIRM				
CRITERIA	*All Industry Average*	*Special Machines Industry*	*Cummins*	*Auto Parts Industry*	*Arvin*
% Change Sales from 1Q91-1Q92	3	-4	9	12	20
% Change Profits from 1Q91-1Q92	7	N.M.	N.M.	N.M.	N.M.
Return on Equity (most recent 12 months)	8.8	0.9	-6.0	3.8	5.0
Price Earnings Ratio (based on April 24 stock price and earnings for latest 12 mos.)	25	N.M.	N.M.	50	24
12 Months' Earnings Share	$1.59	$.21	-$2.07	$.72	$1.03

Note: N.M. = Not Meaningful (implication is usually negative earnings).
Source: Business Week, *May 18, 1992.*

expansion of its Walesboro Technical Center may be an auspice of things to come, as auto producers turn over more of the R&D efforts to their suppliers. Arvin's diversification and globalization have helped it survive the shakeout in the auto parts industry. It is estimated that there are only one-half as many auto parts suppliers now as in 1980.

Cummins has significantly lagged both the all-industry composite and its reference group, special machinery. The one promising exception is sales growth from first quarter 1991 to first quarter 1992. Cummins' 9% sales growth during this period is solid, but it is troublesome that earnings per share during the past year was -$2.07. This is offset at least partially by the $8.6 million profit ($.45 per share) in first quarter 1992, and by the fact that these figures represent five consecutive quarters of improved profit performance. The bad news is that it is the first time in seven quarters that Cummins has reported a profit, and its 1991 results were a $14.1 million loss (-$1.49 per share) after accounting changes.

Given its investment in cutting costs, Cummins should be poised for the recovery. North American heavy-duty truck sales were about one-third below their average in 1991. Truck sales in 1992 and 1993 should be above average as truckers seek to replace trucks they postponed replacing during the recession, and as they try to avoid the uncertainty of the new federal emissions regulations, which will hit in 1994. Cummins has seen strong growth in the demand for smaller engines. As a result, the Walesboro engine plant was reopened and some 350 workers are expected to be employed there by the end of 1992. Furthermore, Cummins has had six recalls totaling about 300 workers since November 1991.

Several other local firms have announced expansions that will have positive effects on the local labor market. For example, Enkei announced plans to expand its export business and to increase its monthly production by 25%. NTN Driveshaft now employs 150 but plans to grow to 275 employees by the end of 1993. The hospital expansion is expected to create 200 jobs. Finally, other local expansions have added more than $15 million in new investments and more than 140 new jobs since December 1991.

Local Forecast

The most likely scenario (I estimate it to be a 70% probability) for the national economy is modest growth in the 2-4% per year range. Under these conditions, we can expect the national inflation rate to continue to gyrate in the 3-4% range and the unemployment rate to edge down slowly to around 6%. If these projections hold, Columbus will do better than the national average. Given the pro-cyclical nature of durable goods manufacturing, local employment will grow at a faster rate than the national average, with a concomitant faster fall in the local unemployment rate. Even at this point in the recovery, our local unemployment rate was almost a percentage point lower in this year's first quarter than in last year's. With modest growth, the local unemployment rate should continue to fall another .5% in the next six months and should be below 5% a year from now.

There is an outside chance (20%) that the national economy will heat up to something close to the 6.7% average annual growth rate for the first four quarters following a recession. This would drive the national unemployment rate down to the 5.0-5.5% range and could push inflation up to the 5% range. In turn, the local economy would take off under such conditions, and the local unemployment rate would fall to 4% or below.

Unfortunately, there is a slim chance (10%) that the Federal Reserve Board will overreact to the first indication of inflationary pressures. If this happens, it remains possible to have a "double-dip" recession. In this case, the national unemployment rate is likely to go over 7.5%. Consumer and business pessimism would choke off auto and truck sales. Our local unemployment rate would rise to between 6-8%, depending on the length and severity of the second dip.

Given the 47% increase in our local Help Wanted Advertising Index, the 92.4% increase in the estimated value of residential building permits, the recall of 300 workers at Cummins, and the expansion by more than 140 workers at other local firms, we can expect the second half of 1992 to be a relatively prosperous period for Columbus and the surrounding area. Furthermore, given the projected pent-up demand in the auto market and the heavy-duty truck market, we can expect 1993 to be an even better year for our local economy, provided the national economy is growing even modestly. Finally, it must be pointed out that the increased demand for labor will not translate into higher wages. Arvin and Cummins both face tremendous international competition and cannot afford to erode their competitive stance with substantial increases in their labor costs just because demand for their goods increases.

Bloomington

Richard L. Pfister

Professor Emeritus of Business Economics and Public Policy, Indiana University, Bloomington

In the "Outlook for 1992" (*IBR*, Winter 1991-92), I reported that employment for the first nine months of 1991 showed increases in all but one month over the same months of 1990. Such increases suggested that a recovery was probably under way, especially since 1990 employment had declined in most months over the 1989 levels. The revised figures issued by the Indiana Department of Employment (IDETS) in March 1992 now tell a different story. Column 3 of the **Table** gives the growth rates before the revision, whereas Column 6 gives the rates for 1991 after the revisions. The first nine months of 1991 now show declines over the same months of 1990, except for no change in June 1991.

When the year-over-year monthly changes are small, data revisions can alter the direction of the changes. In March of each year IDETS revises the employment estimates for the preceding two years. The initial estimates are based on a sample of employers; the revisions are based on more complete reports from employers. The initial estimates are frequently revised downward during recessions and upward during expansions.

The Table shows how the revisions can affect the growth rates. The first three columns contain the percentage changes compared to the same month of the previous year using the initial employment estimates of IDETS. Columns 4 through 6 show the percentage changes using the revised data. The data in Column 7 result from using the revised employment for 1991, but the initial estimates for the first four months of 1992.

The changes based on the initial employment estimates suggested that 1989 was a boom year, 1990 was a bust, and 1991 was a recovery year with fairly good growth. The picture that emerges with the revised data is that 1989 had only moderate growth and that 1990, instead of being a recession year in terms of employment, also had moderate growth. Clear evidence of a recession now shows up in 1991, with the first ten months showing declines or no change over the same months of 1990. This changed picture results from a substantial downward revision of the initial employment estimates for 1989, not much change in the estimates for 1990, but considerable downward revision again for 1991. We will now have to qualify our interpretations of employment changes to say "unless subsequently subject to major revision."

With that caveat in mind, what can we say about the most recent monthly employment estimates? I will go out on a limb again and say that it appears the recovery is under way in Bloomington. Employment has increased over year-ago levels in each of the last six months (see the Table). This time, however, there is more than just employment growth to support the belief that a recovery is underway. Construction is starting out strongly in 1992, and initial claims for unemployment insurance are down from year-ago levels.

Not all measures show recovery. Manufacturing employment remains weak as it continues to decline from the levels of a year ago. The unemployment rate, although still low, has risen from the even lower levels of the last couple of years.

Table
Year-to-Year % Changes in Monthly Establishment Employment, Bloomington MSA, 1989-92

	Before Revisions			*After Revisions*			
Month	*1989* (1)	*1990* (2)	*1991* (3)	*1989* (4)	*1990* (5)	*1991* (6)	*1992* (7)
Jan.	7.2	0.7	1.1	4.5	3.5	-0.9	0.7
Feb.	6.9	0.0	1.2	2.9	3.7	-0.9	2.2
Mar.	7.2	-1.4	1.1	2.7	2.8	-0.7	2.8
Apr.	8.1	-2.1	1.6	3.0	2.6	-0.9	2.5
May	8.3	-2.6	-1.6	2.4	2.8	-3.8	---
June	9.2	-3.1	2.6	3.5	2.5	0.0	---
July	11.2	-5.3	2.6	2.6	2.9	-0.4	---
Aug.	16.4	-4.9	2.8	2.0	3.5	-0.7	---
Sept.	9.1	-4.0	1.7	1.8	2.7	-0.5	---
Oct.	7.8	-3.3	2.0	1.2	3.0	0.0	---
Nov.	7.9	-3.5	2.6	1.4	2.1	0.7	---
Dec.	3.1	0.7	0.7	1.5	2.5	0.5	---

In the last six months, total establishment employment has increased over year-ago levels, though the increases have been small. The slow decline in manufacturing employment has held back the growth in this total. Among nonmanufacturing activities, the strongest growth in employment has occurred in services and miscellaneous and in retail trade. For the first four months of 1992, all the non-goods-producing sectors showed some increase over the same period last year except for government. Government employment exceeded its year-ago levels only in April; it was lower in January and February, and it was the same in March. Service employment has increased rather steadily over the same month a year ago since the weak first quarter 1991. Retail trade employment began to improve in October 1991 after a slump of five months.

Despite the overall growth in employment, unemployment rates have been creeping up. In the last few months the rates have been around 4%, except for a spike to 7.1% in March. This spike was caused by temporary layoffs during the week the statistics were compiled. Although a 4% unemployment rate is substantially below the state average, it is somewhat higher than it was in 1990, when it was around 2.7% for Monroe County. The labor force is simply growing faster than employment. Such an occurrence is not unusual during a recovery. Initial unemployment claims have dropped from year-ago levels in each of the last six months—an encouraging sign.

Construction activity was weak in 1991. The value of contracts (as reported by F.W. Dodge) was down 20% for nonresidential but up 3% for residential construction. These changes were from the fairly low levels of 1990. For the first three months of 1992, however, the value of contracts was up sharply over the same period of 1991 for both residential (up 80%) and non-residential construction (up fivefold). Data on building permits tell essentially the same story for residential construction. But for nonresidential construction, the two series diverge somewhat. The value of permits for nonresidential building did not decline as much in 1991 as did the value of contracts. The permit value for first quarter 1992 was double that for the same period of 1991 (versus the fivefold increase for contracts). Despite these differences, the picture remains the same for 1992—construction is off to a good start. A casual empiricist driving around the community would notice a lot of construction activity and would probably predict that construction will be a strong sector for Bloomington in 1992. Local realtors report a shortage of houses for sale, given the current demand. The result is a rather sharp increase in house prices.

In conclusion, the data indicate that Bloomington is off to a promising start in 1992. As long as the national economy continues to recover, the local economy should keep pace. The local manufacturing sector will probably not show much growth until the national economy grows more vigorously than it has in recent months.

Evansville

Maurice Tsai

Professor of Economics, University of Evansville

The Evansville economy declined in 1991 as the nation struggled through the recession. After reaching a trough in the first quarter, the national and regional economies were projected to be on their way to a slow recovery. However, the feared double-dip recession did materialize in the fourth quarter. Weak manufacturing and trade activities were triggered by a credit crunch and by grand-scale layoffs in major national firms in the automobile, steel, and merchandise industries. Evansville was one of the victims of this economic blow.

The Evansville Area Business Index fell 1.4% in 1991 (see the **Table**). The industrial production index dropped 2.3% for the entire year. Manufacturing activities grew during the first eight months of the year but began to descend sharply in September. The fall in the fourth quarter was 7% from the third quarter level. Construction activities had been below the 1977 base period level in the first three quarters but began to improve slowly in the last quarter, thus declining 12.8% for the year. The transportation sector showed sporadic weakness in February, May, and November, and the loss in the transportation index for the entire year was 4.8% after a 1% drop in 1990. Even the trade and services sector, which had been the strong base of local economic growth, weakened in 1991. The index for these areas grew by only 0.2%, the lowest rate since the 1981-82 recession. Only the financial sector escaped the recession by posting a 4.9% growth rate for the year. Bank deposits rose by 9% while the financial employment level rose by 5.4%. Evansville area employment grew by only 500 (0.4%), the smallest increase since 1982.

In first quarter 1992, regional economic activities improved slightly over fourth quarter 1991 but were below the overall 1991 levels. Industrial production and construction activities edged upward by 1.9% and 7.4% from the earlier quarter. The signs of

Table
Evansville Area Business Index (1977=100)

	Industrial Production	Trade and Services	Construction	Transportation	Finance	Employment	Composite Index
Quarterly Index							
1Q1991	117.55	129.68	95.21	105.81	129.25	119.79	120.24
2Q1991	121.96	129.22	97.76	106.01	128.52	117.14	121.02
3Q1991	127.34	127.05	97.37	108.73	127.40	118.60	122.38
4Q1991	118.44	130.36	102.42	106.88	125.01	121.86	121.08
1Q1992	120.72	129.99	110.00	106.00	124.93	119.56	122.13
Annual Index							
1988	123.76	119.71	115.54	110.82	121.39	112.67	119.34
1989	123.57	121.78	118.76	113.86	122.86	116.55	121.11
1990	124.00	128.82	112.62	112.25	121.64	118.35	122.35
1991	121.32	129.08	98.19	106.86	127.54	118.85	121.18
1992*	124.00	131.00	113.00	108.00	125.60	120.60	123.10
Annual Growth Rate (%)							
1988	2.6	3.9	-12.1	2.6	-3.2	2.9	1.6
1989	0.4	1.7	2.8	2.7	1.2	3.4	1.5
1990	0.4	5.8	-5.2	-1.4	-1.0	1.5	1.4
1991	-2.3	0.2	-12.8	-4.8	4.9	0.4	-1.4
1992*	2.2	1.5	15.1	1.1	-1.5	1.5	1.6

** Forecast*
Source: School of Business Administration, University of Evansville.

substantive recovery became clear in March, but the pace of local recovery is expected to be slow, especially in trade and services. The sudden surge in consumer confidence and purchasing power observed in past recoveries is now missing. The closing of a few local industrial firms and retail outlets and mass layoffs by national firms will adversely affect the national and regional recovery processes.

If the current recovery pace continues, the Evansville economy may be able to regain its 1990 activity levels in 1992. The local recovery will be spearheaded by industrial production and construction. The growth rate of the Evansville economy in 1992 will be 1.6% at best. The industrial production sector is projected to grow by 2.2% and construction by 15%. Trade and services, transportation, and employment will grow by 1-2%. The financial sector, however, may decline by 1.5%, even with the lowest interest rates in years.

In short, 1992 will be a year of slow economic recovery, with more recovery in the second than in the first half of the year. The Evansville economy has been subject to slow economic growth for the last six years. The area has lost several manufacturing firms to the South and to Mexico. The expansion in trade and services in past years has contributed to creating more jobs, but it has not created much disposable income. This area needs new direction in its economic growth.

Jeffersonville-New Albany (Louisville Area)

Fay Ross Greckel

Professor of Economics, Indiana University Southeast

The Louisville area appears to have weathered the recession rather well, and signs of the upturn are now evident. The area's "soft landing" contrasts with its experience in most earlier national recessions. Explanations include: a more diverse economy than in previous decades, with durable goods manufacturing no longer dominating the economy; some good fortune even in the durable goods sector, since the large Ford plant produces a highly demanded model; a prominent, expanding health-care sector; and a construction sector that did not overbuild during the preceding several years.

Indiana and Kentucky recently revised their 1990 and 1991 employment statistics. **Table 1**, based on these new data, shows the recession hitting the seven-county metropolitan area (Clark, Floyd, and Harrison counties in Indiana, and Jefferson, Oldham, Bullitt, and Shelby counties in Kentucky) one quarter later than reported in the *IBR* last winter. Total metro-

Table 1
Louisville Area Employment and Unemployment, 1990-92[1]

	Total Non-Farm Employment	Manufacturing Employment	Nonmanufacturing Employment
Louisville Metropolitan Area[2]			
1Q1990	476,500	88,700	387,800
2Q1990	479,100	89,700	389,400
3Q1990	484,700	89,700	395,000
4Q1990	484,200	89,800	394,400
1Q1991	479,900	87,500	392,400
2Q1991	479,500	86,800	392,700
3Q1991	483,300	86,200	397,100
4Q1991	486,900	87,000	399,900
1Q1992	493,000	87,400	405,600
Clark/Floyd/Harrison Counties (IN)			
1Q1990	64,100	13,500	50,600
2Q1990	64,900	13,600	51,300
3Q1990	66,200	14,000	52,200
4Q1990	66,600	14,100	52,500
1Q1991	65,700	13,700	52,000
2Q1991	64,600	13,500	51,100
3Q1991	64,700	13,500	51,200
4Q1991	67,900	13,700	54,200
1Q1992	68,400	13,600	54,800

[1]Number of people employed in establishments located in the designated area. Data are seasonally adjusted.
[2]Includes Clark, Floyd, and Harrison Counties in Indiana, and Jefferson, Oldham, Bullitt, and Shelby Counties in Kentucky.
Source: Indiana Department of Employment and Training Services; Kentucky Cabinet for Human Resources

Table 2
Louisville Area Residential Building Permits Issued, 1990-92

	Single-Family	Multi-Family[1]	Total
Clark/Floyd/Harrison Counties (IN)			
1Q1990	159	102	261
2Q1990	234	9	243
3Q1990	232	77	309
4Q1990	147	94	241
1Q1991	118	15	133
2Q1991	285	18	303
3Q1991	249	183	432
4Q1991	148	36	184
1Q1992	265	18	283
Jefferson County (KY)			
1Q1990	462	331	793
2Q1990	474	186	660
3Q1990	382	323	705
4Q1990	274	49	323
1Q1991	314	137	451
2Q1991	408	169	577
3Q1991	447	300	747
4Q1991	369	298	667
1Q1992	521	553	1,074

[1]Number of units for which permits were issued includes apartments, condominiums, and duplex units.
Source: Kentuckiana Planning and Regional Development Agency

politan area employment declined during fourth quarter 1990 and reached its lowest level on a seasonally adjusted basis during second quarter 1991, the number of jobs having fallen by about 5,000—a little more than 1% of the total area labor force.

By fourth quarter 1991 employment had risen again to a record high, with a gain of more than 7,000 jobs in that six-month period. However, as Table 1 shows, many of the new jobs were in different sectors than those that contracted in the recession. By first quarter 1992, manufacturing jobs were still 2,400 below their late 1990 high, whereas nonmanufacturing jobs increased by more than 10,000 during that period. Though not all of the jobs lost were high-wage ones and not all of those created were in low-wage occupations, some of that shift is occurring here, as it is in other parts of the nation. Still, there were 13,000 more jobs in the first quarter of this year than in the first quarter of last year. This was a somewhat larger-than-normal increase for the metropolitan area.

The revised data for Clark, Floyd, and Harrison counties show that they followed approximately the same recession pattern as the overall metro area, but with the employment downturn occurring one quarter later and with the rebound proportionately stronger. Preliminary statistics indicate that establishments in the three-county area employed nearly 3,000 more workers in first quarter 1992 than in first quarter 1991—a larger 12-month increase than in the past several years.

Residential construction mirrored the employment pattern to some extent. Building permits, particularly for multi-family units, fell in late 1990 and early 1991 (see **Table 2**). However, permits for single-family dwellings quickly regained their accustomed levels in the more populous metro counties on both sides of the Ohio River. The large number of building permits issued during first quarter 1992—nearly two and a half times as many as in first quarter 1991—point to an active year for builders and their suppliers. One cautionary note: the relatively mild winter probably speeded up some building plans. Preliminary April data suggest that second quarter permit totals may not be quite as strong.

Car sales also improved noticeably from their very weak showing in 1991. For the first five months of 1992, sales of new cars and light trucks increased 7% in Clark and Floyd counties and 21% in Jefferson County, compared with year-earlier totals. The strongest growth occurred during the first quarter.

One of the casualties of the leaner work force that has evolved over the last few years is data collection and reporting, which is doubtless seen by most public and private employers as less imperative than many other tasks. As a result, it is now more difficult to obtain timely data on the local economy. Therefore, both reflection of the recent past and contemplation of the near future are more impressionistic than in previous articles.

Those impressions, together with developments on the national scene, lead to a forecast that is guardedly optimistic. Though no strong engine of growth is apparent, there is forward movement in most sectors. The local recession was brief and shallow—though that is no great comfort to those who lost their jobs or businesses. The recovery seems to be well under way and more robust than in many other parts of the country. Expansion seems likely to continue and to spread in the months ahead, although I expect the rate of expansion to slow somewhat. All in all, the outlook is favorable for the remainder of 1992.

Richmond-Connersville-New Castle

Ashton I. Veramallay

Professor of Economics, Indiana University East

The Richmond-Connersville-New Castle (RCNC) area economy can expect moderate growth during the remaining quarters of 1992. As the national economic recovery gains momentum, it will affect local employment, income, and output.

There will be an easing of the region's double-digit unemployment rate, which will be a welcome relief. Consumers, becoming more confident about the future course of the economy, are reentering the market at pre-Gulf War levels. They find the current environment of low inflation and falling interest rates very attractive. Consequently, retail trade will follow seasonal patterns as Hoosiers explore the outdoors. Travel, entertainment, catering, and recreational activity in particular will post a slight increase over the previous quarters. The Memorial Day weekend, highlighted by the Indianapolis 500, provided RCNC merchants with a head start. Sales, discounts, and rebates have been effective in luring shoppers and improving retail performance.

Furthermore, manufacturing activity in RCNC will rebound at a less robust level. Since real gross domestic product is expected to rise by less than 3%, its effects will be felt at the local level. For example, businesses associated with the automobile and housing industries will see improved activity. The legacy in leveraging and real estate in the 1980s continues to require businesses in the 1990s to restructure by eliminating excess capacity, reducing overhead staff, and destocking inventory to reduce the burden of debt service. It also requires households to control their installment debt, especially on mortgages, auto loans, and credit cards. Overall, the regional economy will fare better than the rest of the Midwest given its relative size and attendant economies of scale.

To facilitate competitive posture, the RCNC area must work together to increase productivity, the measure of average output or real output per unit of input. An educated labor force boosts productivity, reduces costs, and increases standards of living. Thus, education in both academic and technical fields is extremely important for the continuing progress of the regional economy within a global context. Too often we place undue emphasis on athletics rather than academics. Our foreign competitors place it in reverse order to effectively participate in a global economy.

Finally, conscious public policy should help communities like RCNC enhance multifaceted economic development. Economic development is not the opening of a video rental store or a fast food establishment. Rather, it is a sustained increase in real local domestic product or per capita income. Here again, human capital is vital in achieving this end. The real hidden treasures of Indiana are its people, whose potential has yet to be fully tapped. In this presidential election year, beware of politicians who promise no new taxes; it is a prescription for doing nothing. Beware also of voter apathy; it is a prescription for mediocrity. However, as Americans we can forge a consensus to address the old domestic order to ensure a vibrant economy.

South Bend-Mishawaka/ Elkhart-Goshen

John E. Peck

Professor of Economics and Director, Bureau of Business & Economic Research, Indiana University at South Bend

This midyear assessment of the economic condition of the South Bend-Mishawaka and Elkhart-Goshen communities is based on an analysis of the latest available economic indicators for the area tracked by Indiana University at South Bend's Bureau of Business and Economic Research (BBER). A look at the indicators suggests that through the early months of 1992 the area economies were performing about as expected in the year-end forecast (*IBR*, Winter 1991-92). Employment gains continued to suggest that the recovery, as for the nation as a whole, was holding, but at a relatively slow pace. The slowness in this area of the state was particularly evident in the South Bend-Mishawaka economy.

The accompanying **Table** summarizes the various indicators of local economic activity compiled by the BBER. These figures are seasonally adjusted and, with the exception of the unemployment rates and real estate data, are index numbers expressed as a percentage of base year 1986 values. It is noted that comparative indicators along with percentage changes are given for February and March 1992. To highlight longer-term trends, the same figures are also provided for March 1991.

South Bend-Mishawaka

We continue to be encouraged by trends appearing in area employment data. After seasonal adjustment, the overall nonagricultural employment indicator for South Bend-Mishawaka showed a modest 0.4% gain for March to a level 2.6% above that of March 1991. This is the highest reading since the pre-recession months of 1989. It will be noted, however, that gains have been unbalanced between manufacturing and nonmanufacturing employment. We would be much more encouraged if the manufacturing index in St. Joseph County would make a decisive turn upward, as has been the case in Elkhart. To date, however, that turn has been elusive.

Other South Bend-Mishawaka indicators tend to be positive overall. The large month-to-month declines in the housing construction data, though very large, merely reflect the return to more normal ranges than found in the figures that were unusually inflated

Table
Economic Indicators: South Bend-Mishawaka and Elkhart-Goshen

	SOUTH BEND-MISHAWAKA					ELKHART-GOSHEN				
				% Change From:					*% Change From:*	
	March 1992	*February 1992*	*March 1991*	*February 1992*	*March 1991*	*March 1992*	*February 1992*	*March 1991*	*February 1992*	*March 1991*
Employment Indicators										
Nonagricultural Employment[1]	113.7	113.3	110.8	0.4%	2.6%	109.3	108.7	104.7	0.6%	4.4%
Manufacturing	85.7	86.4	87.8	-0.8%	-2.4%	101.2	100.2	95.2	1.0%	6.3%
Nonmanufacturing	121.8	121.8	117.5	0.0%	3.7%	119.0	118.5	115.8	0.4%	2.8%
Unemployment Rate	6.2%	6.5%	6.2%			5.4%	5.9%	8.1%		
Help Wanted Advertising[2]	63.3	66.2	62.9	-4.4%	0.6%	95.1	90.0	55.7	5.7%	70.7%
Utilities[3]										
Industrial Electricity Sales	97.4	94.1	95.8	3.5%	1.7%	109.1	106.2	105.7	2.7%	3.2%
Commercial Gas Sales	86.7	97.8	90.5	-11.3%	-4.2%	88.6	92.7	90.7	-4.4%	-2.3%
Industrial Gas Sales	53.8	64.8	60.2	-17.0%	-10.6%	50.6	60.6	51.9	-16.5%	-2.5%
Car and Truck Registrations[1]										
New Passenger Cars	62.5	46.9	56.5	33.3%	10.6%	41.9	49.1	47.7	-14.7%	-12.2%
New Trucks	72.4	58.3	62.8	24.2%	15.3%	76.1	67.2	55.1	13.2%	38.1%
Housing Construction Data[4]										
Estimated Value of Permits	128.6	365.8	116.7	-64.8%	10.2%	159.5	159.9	85.8	-0.3%	85.9%
Number of Permits Issued	114.7	261.0	88.9	-56.1%	29.0%	109.6	102.1	62.2	7.3%	76.2%
Average Value per Permit	117.7	138.1	139.5	-14.8%	-15.6%	148.4	160.3	140.1	-7.4%	5.9%
Residential Real Estate Data										
Number of Active Listings	1,523	1,465	1,329	4.0%	14.6%	1,862	1,822	1,806	2.2%	3.1%
Average Days Listed	110	96	85	14.6%	29.4%	100	97	96	3.1%	4.2%
Average Market Price	$74,847	$71,665	$70,383	4.4%	6.3%	$71,053	$71,094	$68,706	-0.1%	3.4%
% of Sales to List Price	95.2	95.0	96.0	0.2%	-0.8%	94.0	94.0	95.0	0.0%	-1.1%

Index numbers seasonally adjusted.
[1] *St. Joseph and Elkhart counties.*
[2] *South Bend* Tribune *and Elkhart* Truth.
[3] *Electricity sales are South Bend and Elkhart. Gas sales are St. Joseph and Elkhart counties.*
[4] *St. Joseph County, excluding cities of South Bend, Mishawaka, Osceola, Walkerton, and New Carlisle. Elkhart County, excluding cities of Elkhart, Goshen, Nappanee, and Millersburg.*

in February. We have noted many times during the recent recession that the number of new housing permits issued index, which averaged 99.2 last year, was nearly unchanged from pre-recession performance. The March 1992 index of 114.7 suggests continued strong activity in the current period.

Elkhart-Goshen

The Elkhart-Goshen employment picture is also very encouraging—and in this case manufacturing employment is leading the way. From the depths of the recession in early 1991, manufacturing employment in Elkhart County has risen 6.5%, whereas overall employment has increased 4.7%. Recent gains in the help wanted advertising index support these other signs of recovery. In terms of fully recovering to 1990 peaks, however, both indices have some distance to go—8 and 4.3 points, respectively. Employment gains in the transportation equipment sector of durable goods manufacturing, due principally to recovery in the recreational vehicle industry, have outperformed other sectors, manufacturing and nonmanufacturing alike, by substantial amounts.

Remaining Elkhart-Goshen indicators are somewhat of a mixed bag. Car registrations continue to be severely depressed, whereas truck registrations have trended favorably in recent months. As in neighboring St. Joseph County, the volume of new housing permits issued suggests that housing construction has been less affected by the recession than other local sectors. Activity is somewhat slower in the existing housing market, though not nearly as slow as in the recessionary phase of previous business cycles.

Outlook

Local trends continue to point to recovery, albeit slower in South Bend-Mishawaka than in Elkhart-Goshen. A recovery scenario in the area is strengthened by generally favorable signs being reported on the national scene. In our view, the lagging manufacturing employment situation in St. Joseph County is the most significant item of concern for the area economy. Developments over the next few months should help answer questions relating to the long-term strength of St. Joseph County's manufacturing base.

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