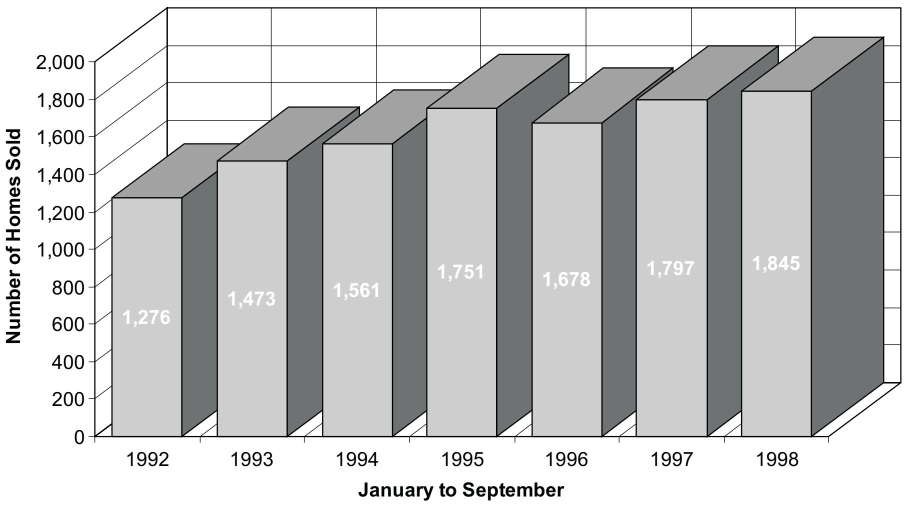
Figure 4
Real Estate Sales (Homes) in Clark, Floyd, Crawford, and Harrison Counties



NOTE: Sales activity reflects only Multiple Listing service sales.
Source: Southern Indiana Realtors Association

The robust southern Indiana housing market is also evident in record sales of existing homes (see **Figure 4**). Through September of this year, nearly 1,850 homes were sold through multiple listing services in Clark, Floyd, Harrison, and Crawford counties—a 3% increase over last year's record sales for the same period. On the Kentucky side of the Ohio River, sales of existing homes jumped 8% over last year's sales, with more than 7,000 houses sold through September.

One indicator of consumer spending is purchases of new cars and light trucks. Data for the three largest metro area counties over the first nine months of the year show a different trend than most of the areas discussed above. For the second year in a row, sales of both new cars and light trucks fell in Jefferson County. Car sales were down nearly 6%, or about 1,000 vehicles. Sales of light trucks (pickups, minivans, and sport utilities) fell only 1%, or about 100 vehicles, but this is contrary to the national trend and to what has gone on locally for most of this decade.

For the first time since 1993, new car sales declined in Floyd and Clark Counties—also down nearly 1,000 vehicles, or about 19%. Light truck sales increased very slightly (less than 1%). Overall, new car and truck sales in the three large counties were about 6% lower than in the first nine months of 1997. It is possible that a shift to other consumer expenditures has occurred, rather than a drop in total purchasing.

Overall, the local economy still appears quite sound. The labor market remains very tight. Demand for workers is high, and it is hard to see where we will get the work force to sustain another year of job growth as vigorous as this one has been. But then I did not expect this year's rate of expansion to be possible either.

A lot of industrial, commercial, and civic capital expansion is under way, injecting money into the economy now and providing additional jobs in the near future. Examples include Caesar's riverboat casino, which just opened with some 2,000 employees. More will be added when the $275 million complex is completed, probably in late 1999, and the eventual payroll is anticipated to be around $50 million. Also in Harrison County, Tower Automotive recently announced a $71 million expansion that will bring 40 new jobs to Corydon.

The Clark Maritime Center has several new tenants; capital investments totaling well over $100 million and at least 600 new jobs are anticipated. Among the new developments, Vogt Valve and GEA Parts opened new facilities this year, and GalvStar, RPS, ScanSteel, & Gateway Galvanizing are building at the Center. Floyd County activity includes the Community Bank headquarters building in downtown New Albany and investments by Accent Marketing Services and Tilton Equipment Company. These are only a few of the new and expanding commercial and industrial projects going on in the area. In addition, many public projects are under construction.

All of this points to continued economic vigor in the months ahead. Though we will be affected by any national slowdown, I expect this area to fare better than the average of the nation or the state in 1999.

Muncie

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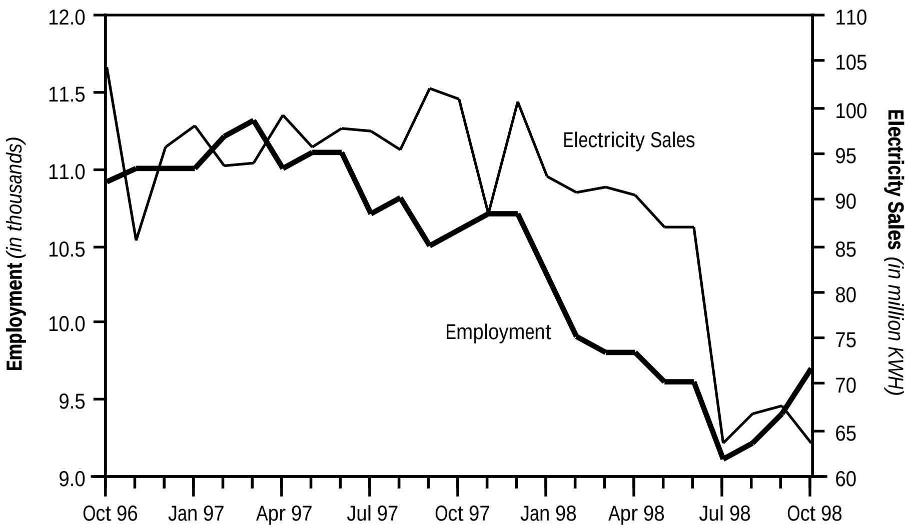
The Muncie economy got more than its proverbial 15 minutes of fame during the last year, but it was the kind of attention its civic leaders could have done without. The announced closure or downsizing of five major manufacturing employers took a sizable chunk out of the economy's manufacturing base and gave economic development efforts a new sense of urgency.

Nevertheless, the most recently released payroll data for October 1998 find employment totals actually up 100 jobs from their levels of the previous year. Moreover, the Muncie unemployment rate remains

Figure 1
Muncie MSA Manufacturing Employment and Electricity Sales



very close to its low level of 1997. This raises the question: When will the economy see the effects of the disruptions?

The answer, of course, is that the disruptions have already been felt, and will continue to exert a strong influence on the economy in the coming years. Two of the basic indicators of manufacturing economic activity, employment and electricity sales, have taken a nosedive in the last 12 months, the latter by more than 30% (see **Figure 1**). But a variety of special circumstances have prevented those effects from being felt in the most commonly used measures of overall economic activity. The most important of these are the relatively high age of some of the affected workers, the ability of some others to transfer to other facilities, and the strength of the economy itself.

The plant closings have not only thrown the basic economic identity of the Muncie MSA into doubt, they add a generous dose of uncertainty to the economic forecast as well. Unlike previous downturns in durable manufacturing, this one occurs at a time when the national economy is performing exceptionally well. Taken together with the fact that in some instances the recently vacated facilities are potentially very attractive to new employers, any forecast that projects the continued inactivity of these plants risks being overly pessimistic.

My forecast for Muncie's prospects in 1999 does exactly that, however. As a purely practical matter, it is doubtful that any new prospect that might be brought into those facilities could have any meaningful impact on the economy in the space of 12 months. More important, the trends in manufacturing employment, both locally and nationally, make it difficult for Muncie, or any other community, to attract a new manufacturer of the size and scale to match those that recently withdrew.

Trends in Muncie MSA Employment

Any reasonable forecast must take account of historical trends, but in the case of the Muncie MSA, the trends performed an about-face around 1996. In the seven years prior to that year, the economy saw robust growth, as can be seen from **Table 1**. Indeed, the 2.6% annual growth in total payroll employment between 1988 and 1995 exceeded the U.S. average over the same period. At the close of this period, Muncie actually garnered a "Blue Chip" award as one of the best-performing mid-sized economies in the nation.

Since 1995, however, it has been a completely different story. Total employment has fallen by an average of 1.6% per year. It is important to note, moreover, that the beginning of this downturn predates the closing of manufacturing facilities that received so much attention over the last year. And the slowdown in employment growth around this time point is not unique to Muncie; almost every major city in the state, with the important exception of Indianapolis, has also shown a dramatic drop-off in its economic performance at or around this year.

The pattern of growth within industries before and after this break point is also illuminating. As might be expected, the pattern is amplified for construction industry employment, where the pre-1996 employment growth of 3.2% tumbled into a 2.0% decline in the last three years. Manufacturing and retail trade employment also seesawed around 1996, although the latter managed at least to average zero growth since 1995.

Bucking the pattern is the performance of service industry employment, the largest sector in the county. Thanks in part to the stepped-up pace of

Table 1
Muncie MSA Employment, 1988-1998, Average Annual Growth (Percent)

Industry	*1988-95*	*Since 1995*
TOTAL	2.6	–1.6
Construction	3.2	–2.0
Manufacturing	0.5	–0.9
Retail	1.7	0.0
Services	4.2	6.1
All but TCPU	1.9	0.5

expansion at Muncie's largest employer, Cardinal Health Care Systems, services not only led the way in growth in both periods, it actually managed to accelerate—from 4.2% to 6.1% average annual growth—on either side of the 1996 break point. It was precisely this upturn in service growth that enabled the overall employment total to hold its head above water in 1998.

In truth, the abrupt change in total employment growth noted on the first line of Table 1 probably overstates the magnitude of the real changes that took place in the Muncie economy around 1996. That is because of the very large swings in employment in a single industry, Transportation, Communications and Public Utilities (TCPU), due to the rapid growth, and subsequent decline, in a single company in the trucking industry. While the swings in employment in this category were real, their effects on Delaware County were dubious, since many of the affected employees were truck drivers whose residence may have been several states away, but whose employment was counted geographically by the location of company headquarters.

For this reason, the pattern of growth in total employment minus TCPU industries, shown on the last line of Table 1, is perhaps a more representative indicator of the underlying growth in the economy of the MSA. This shows somewhat slower growth prior to 1996 of 1.9%, down to a lower—but still positive—average annual growth of 0.5% in the three years since that point.

My baseline forecast, therefore, calls for a continuation of this post-1995 trend growth of roughly half a percentage point per year. At current employment levels, this translates into a net addition of only 200–300 jobs in 1999. In the wake of a national economy that is expanding at nearly four times that pace, solving the underlying problems that have led to this weaker growth in our county will be a major challenge for political and business leaders.