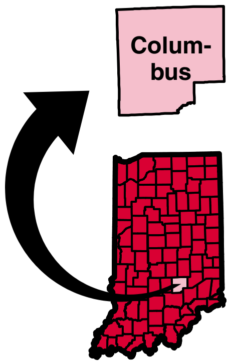

Columbus

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Forecast Summary		
Expected Outcome	Probablity	
Robust Growth	(4-5%)	80%
Modest Growth	(3-4%)	20%
Slow Growth	(0-3%)	0%

The State of the Local Economy

The Bartholomew County monthly unemployment rate in 2000 averaged 2.4 percent from January through the month of September. Comparatively, the unemployment rates for the state and the nation over the same period were 3.3 percent and 4.0 percent, respectively (see **Figure 1**). Despite being higher than the average for all of 1999, which stood at 2.0 percent, this rate is still historically low. In fact, the September unemployment rate bottomed at an all time low of 1.2 percent (1.8 percent in 1999), compared with the state's 2.1 percent (2.5 percent in 1999) and the nation's 3.9 percent (4.4 percent in 1999) (see Figure 1). Regionally, only the counties of Hamilton (0.9%) and Brown (1%) posted a lower unemployment rate in the month of September. It is noteworthy also that Indiana's unemployment rate of 2.1 percent in September is currently lower than that of the four surrounding states.

Table 1 shows the year to August unemployment rates, the number employed, the number unemployed, and the annualized employment growth rates through the 1980s and 1990s for Bartholomew County. Note that from 1990 to the most recent period available, the number employed has grown by 23 percent (from 31,922 to 39,142), and the unemployment rate fell from 4.9 percent to the current rate of 2.6 percent. August's unemployment claims in Columbus stood at 3,114, a whopping 51 percent increase from a year ago. Combined with a higher number of average monthly-unemployed workers, 1,003 (versus 784 in 1999), these figures signal a relative loosening of the local labor market. This is due to recent layoffs in the manufacturing sector, which may become a mixed blessing as the local businesses are in need of skilled labor.

After an all-time record earning before interest and taxes of $107 million on sales of $1.77 billion in the second quarter, Cummins Inc. reported earnings of $25 million on sales of $1.57 billion in the third quarter. For the first nine months of 2000, Cummins reported net earnings of $128 million or $3.36 per share, compared to net earnings of $135 million, or $3.48 per share, for the same period in 1999. Revenues increased from $4.8 billion to $5 billion. The relatively weak third quarter performance and the even worse performance expected in the fourth quarter are due to a glut in the North American heavy-duty truck market. To address this downturn, Cummins recently announced the layoff of 150 hourly and the termination of an additional 350 salaried employees from the engine business, 85 percent of which is located in Bartholomew and Jackson Counties. Since the beginning of the year, Cummins reduced its engine business workforce by 900 employees.

Arvin Industries, Inc. merged with Meritor Automotive effective July 2000. The new company, ArvinMeritor, reported 2000 sales of $7.7 billion, a 3 percent increase over fiscal year 1999. Despite a decline of 11 percent in sales in the fourth quarter, net income for the year rose by 3 percent to $254 million, or $3.56 per share. The fourth quarter earnings, at $29 million, were 66 percent lower than those in 1999. These disappointing results signal a continuing softening of the North American commercial vehicle markets. To realign itself with these changing market conditions, ArvinMeritor announced plans to lay off 1,500 employees, 4 percent of their worldwide workforce. This comes on the heels of the very recent layoff of 250 workers. It is not clear how many of these cutbacks will affect the Columbus based workforce, but it is safe to expect that some portion of these layoffs will hit the local ArvinMeritor workers. In general, because of the merger and the consequent relocation of the Arvin management cadre, elimination of duplicate processes, and the newly unified balance sheet, it is difficult to assess the new firm's performance and its effect on the local economy relative to that of 1999.

Figure 1

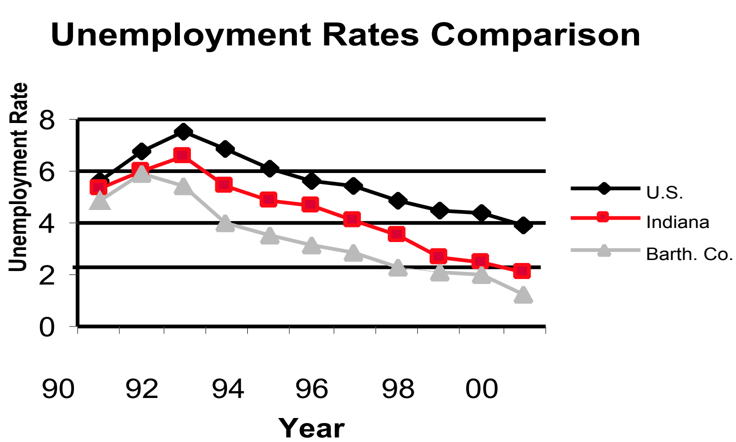

Table 1
Employment Rates for Bartholomew County, 1980-August 2000

Year	Unemployment Rate (%)	# Employed (Monthly Average)	# Unemployed (Monthly Average)	Annual Employment Growth Rate (%)*
1980-1989	8.2	27,700	2,450	1.2
1990-1995	4.9	31,890	1,580	4.4
1996	2.8	38,029	1,120	2.1
1997	2.2	38,395	888	1.0
1998	2.1	39,000	837	1.6
1999	2.0	39,143	784	0.0
2000 (as of Aug.)	2.6	39,142	1,003	0.3

*The average annual employment growth rate is the percentage change in the monthly average for a period compared to the monthly average over the same period in the previous year.

According to the Columbus Economic Development Board, three companies—Tata Consultancy Services, Indiana Die Technologies, and ArvinMeritor—joined the Bartholomew County area since December of 1999. The first added 100 jobs with an average hourly wage of $21.63, the second added two jobs with an average hourly wage of $21.63, and the third added 94 jobs with an average hourly wage of $27.10. Also, since October of 1999, eight existing companies—Arvin Industries, Top Seal, Quality Machine & Tool, Rightway Fasteners, Maumee Industries, Hewitt Soap, TIEM, and Analytical Engineering—spent a total of $21.43 million in their expansion efforts and hired an additional 84 workers with a weighted average wage of $14.12.

The local housing market is still experiencing a relative glut. As of the end of October, the number of houses sold was slightly up from 783, in the same period last year, to 804 this year. The average property-selling price stood at $132,461 versus $131,222 last year and the average number of days on the market stood at 126. As of October 19th, there were 642 actively listed houses with an average price of $136,902 and average number of days on the market of 178. The sold-to-list price ratio decreased to 95.5 percent as compared to 96 percent in 1999. By comparing the first three quarters of each year, the number of new listings has declined steadily since 1998. Conversely, over the same period, the ratio of houses sold to houses listed has increased from 52 percent and 56 percent in 1998 and 1999, respectively, to 60 percent in 2000. The declining trend in new listings is a welcome development and may be a sign that the local housing market is working itself out of the surplus of the past few years. Unfortunately, news of local industry layoffs and terminations may reverse this positive development.

Forecast

The fortunes of the local economy will follow those of the national economy. I project the current U.S. economic expansion to continue, but at a more moderate pace. The only worry is a reversal upward in inflationary trends. Continually rising oil prices (exacerbated by cold-weather-driven higher energy demand), taut labor markets, rejuvenated financial markets, and improving economic conditions abroad may cause domestic inflationary pressures to rise again.

Barring this possibility, the outlook is once again bright. I expect the extraordinary levels of business investment and technological discovery and the consequent gains in productivity to continue. It is unlikely that financial markets will regain the sky-scraping levels reached in the past few years. Also, hawkish monetary policymakers are likely to keep a close watch on the price level and react at the first sign of trouble. Both of these factors will ameliorate consumer demand for goods and services. Combine this with a higher cost of borrowing and more restrictive credit conditions, and the domestic spending is likely to subside.

All of this means that we will see high real GDP growth rates upwards of 4.5 percent for the whole of 2000, and somewhat lower rates (still historically high), around 4 percent for 2001. Inflation will be higher than the levels witnessed in the past few years. The GDP chain price index will end 2000 up 2.8 percent and slightly lower at 2.6 percent for 2001. Expect CPI inflation to be around 3.7 percent for 2000 and upwards of 3.5 percent for 2001. Unemployment rates are likely to remain low. For all of 2000, expect the rate to remain around 4 percent and 4.3 percent for 2001.

Locally, the fortunes of the labor force depend largely on the fortunes of the local manufacturers. The glut in the heavy-engine North American Market and the weakness in the commercial vehicle markets should subside within a year or two. Expect buoyant economic conditions abroad to pick up some of the slack for the domestic market. Even at current levels, the unemployment picture remains relatively healthy. Those employees that were terminated should have a relatively easy time finding employment locally, although perhaps not at their previous wages. Regardless, expect the local unemployment rate to remain around 2 percent.