of households increased, the average number of persons per household decreased in all counties of the metro area and the southern Indiana labor market area.

During 2001, Louisville and the southern Indiana area have settled into a period of slower growth. With the exception of housing sales, consumer activity, as measured by single-family residential building permits and retail sales, has leveled off. Employment growth in southern Indiana appears to have leveled off over the past year with stable manufacturing and non-manufacturing employment. In the Kentucky counties, there have been decreases in manufacturing employment and significant increases in non-manufacturing employment. The unemployment rate is still relatively low in the metro counties. National indicators released over the past few weeks indicate that the U.S. economy is in recession. Undoubtedly the economy of the Louisville region will begin to show signs over the next few months.

Notes

1. Data on home sales from the Southern Indiana Realtors Association multiple listing service cover the counties of Clark, Crawford, Floyd, Jefferson, Scott and Washington.

Richmond

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The Richmond-Connersville-New Castle (RCNC) area economy can expect a rebound in 2002. The erstwhile slowdown or current downturn in the United States economy is affecting local employment, income and growth.The manufacturing sector is in recession. Manufacturers in October 2000 turned in their worst performance since February 1991, when the United States was mired in its last recession. The National Association of Purchasing Management noted that its manufacturing activity index sank to 39.8 from 47 in September, the 15th consecutive month of decline. An index above 50 comprises growth in manufacturing, while a figure below 50 shows contraction.

At the local level, there was a loss of a few hundred jobs, particularly in durable goods manufacturing, such as wire, machine tools, heavy trucks and other transportation-related equipment. Consequently, companies will have poor profit performance, which in turn will affect their capital spending. Prior to September 11th, companies were prepared for a pared-down cost structure because of lower commodity and energy prices, cheaper borrowing costs, and slower wage growth. They now face, in addition to weak demand, a new layer of costs because of increased security measures and distribution problems. It is important to note that the manufacturing sector is the backbone of RCNC's economy, accounting for at least 25 percent of its total employment.

Given the manufacturing situation, employment growth in Wayne, Fayette and Henry counties was weak in 2000, with unemployment rates running higher than the state rate of 3.2 percent (see **Table 1**).

Compared to a year ago, there has been a steady increase in RCNC's unemployment rates (see **Figure 1**). However, two existing businesses, Fickenscher America and Delta Entertainment, are building new facilities costing $11 million in the Midwest Industrial Park. One will produce multi-shot injection molding to create movable plastic parts for automotive and consumer products, while the other will produce compact discs and digital video discs for the entertainment industry. Both businesses expect to create about 90 new jobs. The employment picture is expected to improve with a rebound in economic activity during 2002.

The services sector, unlike manufacturing, is holding steady. There is growth in business and personal services, transportation and public utilities, and finance, insurance and real estate. There is also increased activity in food, entertainment and financial management. Growth is not as robust as in 1999 but is expected to improve in 2002.

The housing sector, in contrast, remains relatively strong against the backdrop of plunging consumer confidence and soaring unemployment. The number of building permits issued in RCNC during the first nine months of 2001 totaled 2,612. Their total investment value is an estimated $95.3 million. In Richmond, there were 1,488 permits with an investment value of

Table 1
Labor Force Estimates

	SEPTEMBER	Fayette	Henry	Wayne	Indiana	U.S.
Labor Force	2001	10,140	23,430	35,760	3,111,500	141,576,000
	2000	9,855	23,440	35,640	3,076,200	140,357,000
Employment	2001	9,210	22,430	34,110	2,991,550	134,868,000
	2000	9,445	22,650	34,560	3,002,277	135,033,000
Unemployment	2001	930	1,000	1,650	120,000	6,708,000
	2000	410	790	1,080	74,000	5,324,000
Rate	2001	9.2	4.3	4.6	3.9	4.7
	2000	4.2	3.4	3.0	2.4	3.8

Source: Indiana Department of Workforce Development

$11.8 million; 22 of these permits were residential and 15 were commercial. The overall investment value is estimated at $41.6 million, which is much higher than last year's (see **Table 2**).

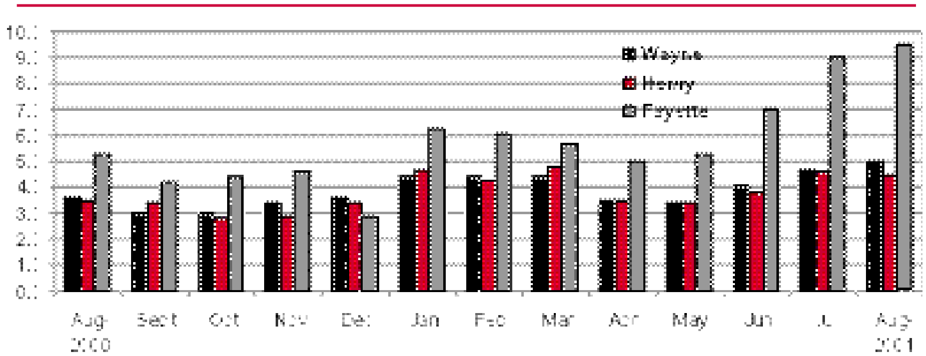
Aiding construction activity are interest rates. Responding to the anemic economy, the Federal Open Market Committee reduced its federal funds rate target to 2.0 percent in three steps of 50 basis points each, one on September 17th and the others on October 3rd and November 6th, stating that "the terrorist attacks have significantly heightened uncertainty in an economy that was already weak." The federal funds rate is the interest rate charged to commercial banks for overnight borrowing which is then filtered to other interest-sensitive sectors.

Local financial institutions, for example, had 15-year, 30-year and 1-year adjustable-rate mortgages averaging 6.54 percent, 6.78 percent and 5.93 percent, respectively, at the end of October (see **Table 3**). These rates are much lower than last year's and are fueling consumption. The housing market is enjoying the benefits of lower mortgage rates. There is brisk activity in homes priced between $75,000 and $150,000. The median RCNC home price is $89,000 ($148,000 nationally, and $131,000 regionally). Although home resales plunged 12 percent last month, reflecting a housing market in decline prior to September 11th, the local market is bucking that trend. Home buyers and mortgage refinancers are benefiting from the Treasury Department's decision to stop issuing 30-year bonds. The move immediately pushed long-term mortgage rates lower. The 10-year Treasury note, which is the basis for pricing long-term mortgages, increased in price. As price increases, yield moves in the opposite direction.

A word of caution is in order. Before the September 11th attacks, consumers, whose spending accounts for two-thirds of all economic activity, had been the main force keeping the economy afloat for more than a year. But spending declined 1.8 percent in September as Americans stayed away from stores. If there is retrenchment in consumer spending, it will have far-reaching consequences for an already wobbly economy. However, at the local level, there could be at least a 2 percent increase in consumer spending, especially during the holiday season. Such spending would cheer local retailers who have been experiencing slow sales performance.

Further, a fallout of the attacks is likely to put globalization, that is, the linking of national economies, at risk. Increased security measures will not only raise firms' costs of production but will also diminish firms' competitiveness in the global economy. Tighter border controls and immigration restrictions will slow the free movement of goods, services, capital and people, which will affect economic growth.

Figure 1
Indiana Unemployment Rate Trends



Source: Indiana Department of Workforce Development

Table 2
Building Permits Issued in the RCNC Area

2001 (Jan to Sep)	Total Permits	Estimated Cost
RCNC Area Total	2,612	$95,295,530
Richmond	1,488	$41,579,404
January	102	$1,063,905
February	93	$1,120,339
March	124	$8,939,262
April	171	$1,918,024
May	156	$16,488,269
June	186	$3,670,868
July	165	$1,470,480
August	351	$5,385,044
September	140	$1,523,213
Connersville	221	$20,012,549
New Castle	903	$33,703,577

Table 3
RCNC Area Mortgage Rates (as of October 28th, 2001)

	15-year		30-year		1-year ARM	
	This Week	Last Week	This Week	Last Week	This Week	Last Week
Advantage Home Mortgage	6.25	6.25	6.625	6.625	6.25	N/A
Capitol Mortgage	6.0	6.125	6.5	6.5	7.0	7.125
Edward Jones	6.25	6.125	6.875	6.75	5.875	5.875
Firstar Home Mortgage	6.25	6.25	6.875	6.875	5.875	5.875
First Liberty Mortgage	6.125	6.25	6.625	6.75	5.875	5.75
Galaxy Mortgage	6.125	6.125	6.625	6.625	6.0	6,0
Harrington Bank	6.25	6.5	7.0	6.875	5.75	5.75
Kenrick Financial	N/A	N/A	N/A	N/A	N/A	N/A
Merrill Lynch	6.324	6.324	6.796	6.796	N/A	N/A
Old National Bank	6.25	6.125	9.875	6.75	5.75	5.75
Peoples Trust	6.375	6.125	7.0	6.75	5.375	5.375
Premier Mortgage	6.25	6.25	6.75	6.75	6.375	6.5
Union County National Bank	6.375	6.375	6.875	6.875	6.625	6.625
Wayne Bank & Trust	6.125	6.25	6.75	6.875	4.375	4.375

In addition, the Center for Economic Education survey finds 26 percent of firms in the RCNC area have hired new employees in 2001; that 95 percent are adversely affected by current economic conditions; 36 percent plan to expand in 2002; 82 percent have good labor-management relations; and 85 percent have continuing education programs for their employees. An overwhelming majority of the firms rate RCNC favorably for doing business, but have reservations on workforce development, heath care costs, and market uncertainty.

Despite the mixed economic picture, the prospects for economic growth at both the national and local levels in 2002 are good. Fed easing, low inflation, lower energy prices, and slower wage growth, along with fiscal stimulus, could all conspire to give the economy a much needed boost in 2002, barring adverse external shocks. Consequently, RCNC is expected to have an increase in employment, income and growth.

South Bend/Mishawaka Elkhart/Goshen

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In the early 1950s, both the South Bend-Mishawaka and Elkhart-Goshen local economies featured very strong manufacturing sectors. More than half of all employment in both economies was in manufacturing. In the 1960s and 1970s, employment in the South Bend-Mishawaka local economy, like most local economies in the U.S., shifted from manufacturing to non-manufacturing. By 2000, manufacturing employment made up only 16 percent of total employment. In contrast, manufacturing employment in the Elkhart-Goshen economy, led by the recreational vehicle and manufactured housing industries, continued to grow as fast as non-manufacturing employment. In 2000, manufacturing employment made up 51 percent of total employment, the highest percentage of any MSA in the U.S. **Table 1** shows average unemployment rates and uses seasonally-adjusted index numbers to show average levels of employment for the years 1994 through the first half of 2001. Data in Table 1 indicate that the trends mentioned above were continuing until the current year, with manufacturing employment in South Bend growing 1.6 percent from 1994 through 2000, and manufacturing employment in Elkhart growing 11.4 percent during the same period. Recently, manufacturing employment has declined in both local economies.

The South Bend-Mishawaka economy has performed well since 1994. Total employment grew rapidly from 1994 to 1995, leveled off in 1996, and grew again, at a slower rate, from 1997 through the first half of 2001. Employment grew 9 percent during this period. Non-manufacturing employment increased consistently during this period, but manufacturing was up and down depending upon the national economy and specific situations facing local firms. The current downturn in manufacturing at the national level is reflected locally by a nearly 5 percent drop in manufacturing employment. Unemployment rates dropped from an average of 4.4 percent in 1994 to 3.3 percent in 1997, and have remained at very low levels