

# South Bend and Elkhart Area Forecast 2010

Grant C. Black: Director of the Bureau of Business and Economic Research and Assistant Professor of Economics, Indiana University South Bend

November 2009

The Michiana region, comprised largely of the South Bend-Mishawaka and Elkhart-Goshen metropolitan areas, faced significant setbacks during the recent recession, including slowed production, substantial job loss, and shrinking real wages. Recovery in 2010 will come slowly, particularly for employment.

## Gross Domestic Product

Real gross domestic product (RGDP) for the region dropped substantially due to the recession, particularly in manufacturing-dominated Elkhart.<sup>1</sup> RGDP decreased 9.1 percent in 2008 in Elkhart and decreased 0.5 percent in South Bend. Based on the percentage change in RGDP, Elkhart ranked 365 (second worst) out of the 366 metropolitan areas in the United States, and South Bend ranked 278th. The size of the local metropolitan economies in 2008 was \$10.6 billion (in chained 2001 dollars) in South Bend and \$8.9 billion in Elkhart.

## Employment

The recession adversely affected local labor conditions. One cause of concern is the region's shrinking labor force. In September 2009, there

*“The Michiana region should experience falling unemployment rates, modest job growth, some improvement in real wages, and increased activity in housing markets.”*

were 11,609 fewer people in the labor force of the combined South Bend and Elkhart metropolitan areas than in September 2007.<sup>2</sup> South Bend's labor force shrank 4 percent during this period, while Elkhart's labor force contracted by over 6 percent. The reduction in the labor force could be a sign of growth in the number of discouraged workers and the out-migration of workers from the area.

Figure 1 shows metropolitan unemployment rates for 1990 to 2009. Local unemployment rates continued their rapid ascent since 2008, reaching their peaks in early to mid-2009. Due to substantial declines in employment caused by the slowdown of the RV industry, Elkhart faced some of the worst labor market conditions in the United States, with its unemployment rate reaching 19 percent in March 2009. Insulated somewhat by its more diverse economic base, including a

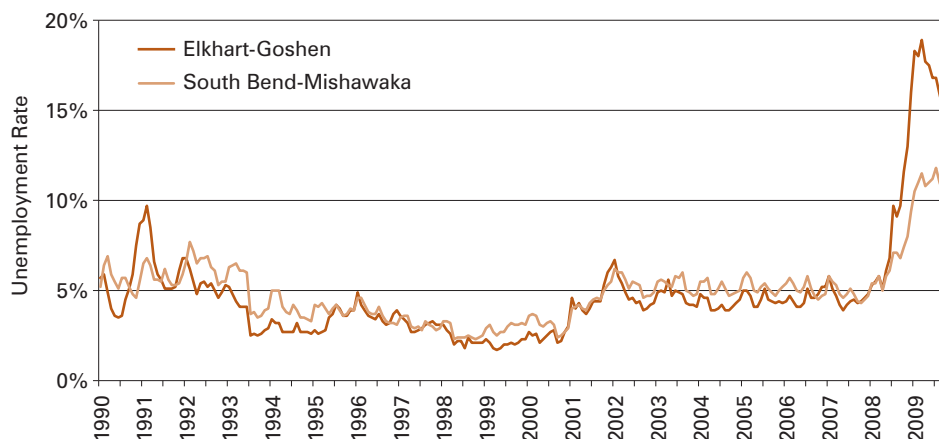
concentration in education and health care, South Bend's unemployment rates were relatively lower—though still high—in 2009.

Table 1 reports employment data by industry for the region's metropolitan areas. The region has lost a staggering number of jobs as a result of the recession that officially began in the fourth quarter of 2007. Approximately 245,800 people were employed in nonfarm sectors across the region in September 2009, with employment being about 31,800 higher in South Bend compared to Elkhart. From September 2007 to September 2009, total nonfarm employment decreased more than 11 percent, with a loss of 7,700 jobs in South Bend and 23,600 jobs in Elkhart. Much of this job loss occurred since the fourth quarter of 2008.

Manufacturing was the hardest hit sector, losing 21,500 jobs largely due to massive layoffs and closings in transportation and related manufacturing sectors. Heavily affected by plummeting RV production, Elkhart lost 18,500 manufacturing jobs since September 2007. Manufacturing employment will likely remain low in the year ahead as the RV and automotive markets remain weaker than previous years, consumer confidence remains shaky, and credit markets stay tight.

Even among non-manufacturing sectors, all experienced employment losses from September 2007 to September 2009, except private educational and health services that saw a modest gain of 500 jobs in the

■ FIGURE 1: Elkhart-Goshen and South Bend-Mishawaka Unemployment Rates, 1990 to 2009



Source: Bureau of Labor Statistics

■ TABLE 1: Employment by Industry and Metro Area, September 2009\*

Industry	South Bend		Elkhart		Combined	
	Employment	Change since September 2007	Employment	Change since September 2007	Employment	Change since September 2007
Total Nonfarm	138,800	-7,700	107,000	-23,600	245,800	-31,300
Manufacturing	16,800	-3,000	44,000	-18,500	60,800	-21,500
Professional and Business Services	13,000	-1,200	7,200	-1,900	20,200	-3,100
Trade, Transportation, and Utilities	27,200	-1,200	17,400	-1,200	44,600	-2,400
Natural Resources, Mining, and Construction	5,600	-1,000	3,800	-700	9,400	-1,700
Leisure and Hospitality	12,600	0	6,700	-900	19,300	-900
Other Services	5,400	-400	3,600	-400	9,000	-800
Government	16,300	-900	9,200	200	25,500	-700
Financial Services	6,600	-400	3,100	-100	9,700	-500
Information	2,000	-100	700	-100	2,700	-200
Educational and Health Services	33,300	500	11,300	0	44,600	500

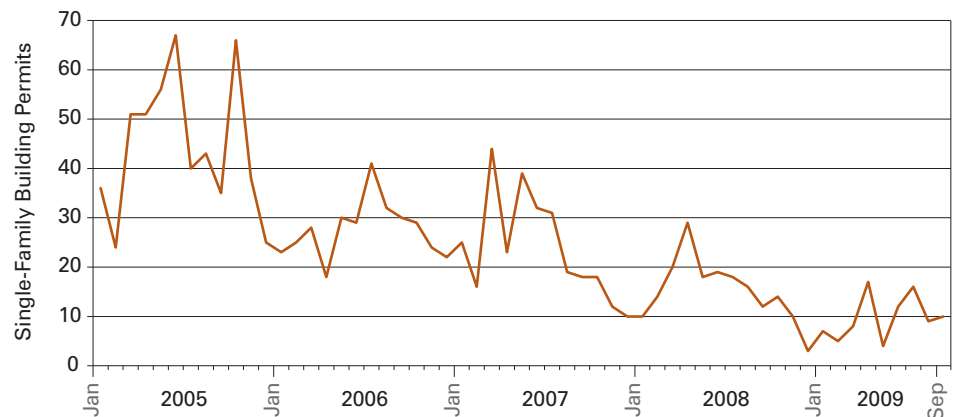
\*September 2009 data are preliminary  
Source: Bureau of Labor Statistics

South Bend metro area. The largest non-manufacturing losses were in professional and business services, with a combined loss of 3,100 jobs in the region. Other sectors suffering sizeable losses included trade, transportation and utilities (-2,400 jobs); natural resources, mining and construction (-1,700 jobs); leisure and hospitality (-900 jobs); other services (-800 jobs); and government (-700 jobs). The only sector expanding in Elkhart was government. Employment in services and trade will likely remain weak as consumer demand continues to be relatively low. The government sector, which includes public education and hospitals, will likely stagnate or fall as public budgets continue to tighten.

### Wages

Unlike the previous year, real wages saw a clear decline in the past year across the region.<sup>3</sup> The real average weekly wage fell 4.7 percent to \$683 (in constant 2009 dollars) from the first quarter of 2008 to the first quarter of 2009 in the two metropolitan areas combined. Wages, however, did not fall at the same pace across the region. The real average

■ FIGURE 2: Single-Family Residential Building Permits in St. Joseph County, 2005 to 2009



Source: St. Joseph County Building Department

weekly wage decreased 4.1 percent in South Bend and 9.2 percent in Elkhart. The overall decline in wages reflects the slowdown in economic activity during the recession, while the relatively stronger decline in Elkhart comes from the more severe reduction in labor demand in that area. Despite the overall decline in wages, changes in wages varied considerably across sectors. Among the nineteen sectors for which data are available across the region, eleven saw positive growth. Given the expected sluggish rebound of labor demand as the economy begins to

recover, wage growth will be minimal in the coming year, particularly in sectors with sizeable labor surpluses.

### Housing

Residential construction, measured by the number of new single-dwelling housing permits issued in St. Joseph County, remained soft in 2009 but exhibited some signs of improvement beginning in the summer. From January 2009 to September 2009, only 88 new housing permits were issued, compared to 156 during the same period in 2008 and 247 in 2007 (see Figure 2). While low in number, 2009

# Terre Haute Forecast 2010

**Kevin Christ: Associate Professor of Economics,** Rose-Hulman Institute of Technology

**Robert Guell: Professor of Economics,** Indiana State University

November 2009

saw some growth in new permits, particularly in April, June, and July, with intermittent downturns in February, May, and August. The region should experience modest growth in housing demand due to the expected upturn in economic activity, stabilized financial markets, and the availability of federal stimulus incentives in the short term. Continued tight credit conditions and high local unemployment will work against this growth.

## Summary

In 2009, the Michiana region continued to bear the burden of a sluggish economy that began declining in 2007: significant job loss, high unemployment rates, lower real wages on average, and weak new home construction. Yet, 2009 showed signs of improvement, with production improving in some sectors, unemployment rates beginning to fall, and real wages expanding in certain sectors. The outlook for 2010 is optimistic, though not overly so. The worst effects of the recession have likely occurred and economic conditions should improve as the national economy recovers. The Michiana region should experience falling unemployment rates, modest job growth, some improvement in real wages, and increased activity in housing markets. The local rate of recovery will depend on the speed and depth of the national upturn, the health of the manufacturing sector, and the ability to re-employ the substantial local labor surplus. The impact of the recovery will depend on the ability to sustain economic growth in the future. ■

## Notes

1. Data from the Bureau of Economic Analysis: [www.bea.gov/newsreleases/regional/gdp\\_state/2009/pdf/gsp0609.pdf](http://www.bea.gov/newsreleases/regional/gdp_state/2009/pdf/gsp0609.pdf).
2. Data from STATS Indiana, Labor Force Estimates Time Series View: [www.stats.indiana.edu/laus/laus\\_view3.html](http://www.stats.indiana.edu/laus/laus_view3.html).
3. Data from STATS Indiana, Covered Employment and Wages: [www.stats.indiana.edu/cew/](http://www.stats.indiana.edu/cew/).

The Terre Haute metro area exits the recession of 2007–2009 in much worse shape economically than when the recession began, due largely to the departure of Pfizer. As **Figure 1** shows, the area unemployment rate began escalating when Pfizer laid off all of the production workers associated with the ill-fated drug Exubera in the fall of 2007, and continued its upward climb when Pfizer announced (in 2008) that it was closing its Terre Haute facility. Combined with a national recession that hit Terre Haute’s retail sector hard, as well as diminished demand for products from local manufacturing firms such as Sony DADC, Boral Brick, Certainteed, Bemis, Applied Extrusion Technology, and Great Dane, the Wabash Valley economy will enter 2010 in the worst condition in decades.

While the rise in the local unemployment rate largely mirrors the cyclical national pattern, the reduction in the total number of jobs in the Terre Haute area is more troubling. Total employment

“Having said all this, there are a few potential “green shoots” that may spring from what has been an otherwise tremendously difficult recession for the city and region.”

is down more than 10 percent (from 77,460 to 69,615) from the beginning of the recession, and the local labor force, while essentially remaining stagnant since 1998, has experienced a noticeable decline over the last two years (see **Figure 2**). This decline illustrates what economists call the “discouraged worker effect,” and helps explain the dip in the local unemployment rate

■ **FIGURE 1: Terre Haute Metro Unemployment Rate (Seasonally Adjusted), 1990 to 2009**



Note: Tick marks indicate January of each year. Seasonal adjustment calculated by the authors. Source: Bureau of Labor Statistics