

# Michiana Business®

## OUTLOOK FOR 2006

The Michiana region's economy sent mixed signals in 2005, but the overall outlook for 2006 is encouraging. In 2005 the region tended to hold relatively steady with minor movements in employment, low but fluctuating unemployment, active real estate markets, and increased productivity.

### Employment

From January 2004 to August 2005, a seasonally adjusted index of total non-farm employment increased modestly, rising 7.8 percent in Elkhart-Goshen and 8.8 percent in South Bend. Unemployment rates increased in volatility but remained relatively low in 2005. The declines in the third quarter of 2005 suggest labor demand has picked up again after a slight decline earlier in 2005.

The overall employment growth in 2005 was driven by a significant jump in manufacturing employment in South Bend, whose index rose approximately 20 percent from January 2004 to September 2005. Elkhart-Goshen saw much more modest, though also positive, growth of 7 percent during the same period.

While manufacturing grew over the past year and a half, it faced shakier ground in 2005. The RV industry, which dominates Elkhart County employment, has experienced record growth in the past couple years, but it faced declines in the first half of 2005, particularly for luxury motor homes. This was possibly caused by rising interest rates and escalating fuel prices. Rising fuel costs have dampened large-sized SUV sales nationwide, which has impacted AM General's local production. Moreover, the introduction of the smaller-sized H3 Hummer produced outside the region may also reduce sales on the

larger, locally produced models in the long run.

The second half of 2005 looked more promising for the region's transportation equipment industry. Demand for towable RVs continued to expand, and the manufactured housing industry rebounded from its slump due to increased demand for temporary housing caused by recent hurricanes. Soon after Hurricane Katrina hit, FEMA initially ordered 125,000 mobile homes and travel trailers, including many from local producers. This increased production will continue through at least the first half of 2006. In addition, new manufacturing developments in the region will require more workers and increase productivity. For example, Bennington Marine is constructing a new pontoon boat manufacturing plant in Elkhart that will employ 300 to 400 people.

Non-manufacturing employment also showed growth, expanding 6.7 percent in South Bend and 9 percent in Elkhart-Goshen from January 2004 to September 2005. Like manufacturing, non-manufacturing employment was also more volatile in 2005. This is partly due to a decline in the retail sector in South Bend in terms of the number of establishments and employment from the first quarter of 2004 to the first quarter of 2005. Retail employment, however, should rise in 2006 as new major retail spaces open, particularly in South Bend. Continued growth in health care and social services should contribute to ongoing growth in the service sector. For example, health care and social services employment grew 5.5 percent from the first quarter of 2004 to the first quarter of 2005 in Elkhart County. In addition, growth in two of the region's hottest sectors – construction and administrative services – will likely continue in 2006.

### Wages

The average weekly wage rose 2 percent from the first quarter of 2004 to the first quarter of 2005 in St. Joseph County but jumped 4.3 percent in Elkhart County. Manufacturing wages grew 5.2 percent in St. Joseph County and 2 percent in Elkhart. *(Continued on page 4)*

## 3<sup>RD</sup> QUARTER SUMMARY

The Michiana region's economy showed no drastic change in the third quarter of 2005. Employment levels fluctuated minimally but unemployment rates noticeably decreased, while real estate remained active, industrial electricity usage grew, and demand for labor continued to expand. The table on page 2 reports regional economic indicators for July through September of 2005. The graphs on pages 2 and 3 show trends in regional economic indicators beginning in January 2004. (Note that these data are for seasonally adjusted indexes and not unadjusted levels.)

In the South Bend metropolitan area, total non-farm employment fell less than one percent from July to September 2005. Manufacturing employment held steady while employment in the non-manufacturing sector fell slightly by 0.6 percent. The plateau in manufacturing employment signaled a hold in the employment losses in the second quarter. The mild drop in non-manufacturing employment continued the decline in the previous quarter.

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Michiana Economic Indicators

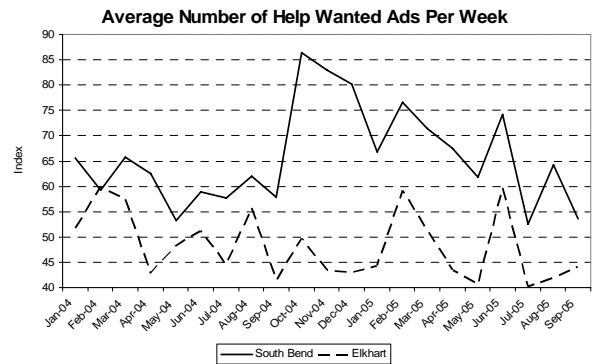
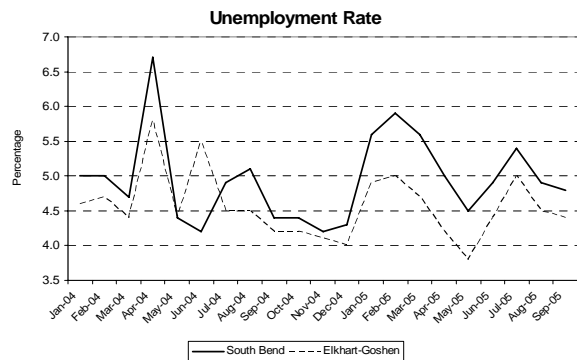
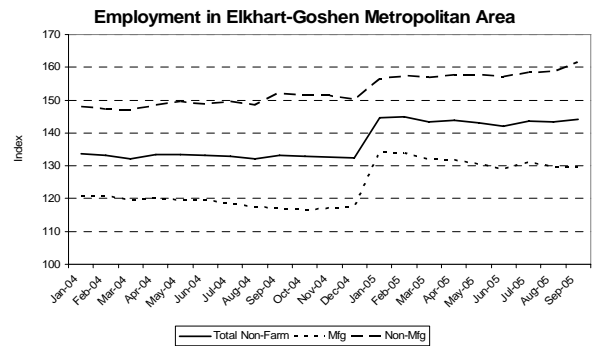
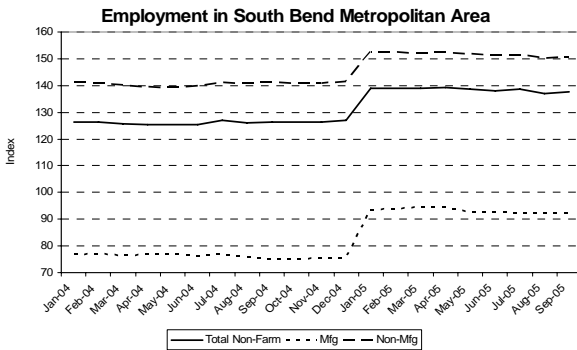
		2005			
		July	August	September	Monthly Average
South Bend	Employment <sup>1</sup>				
	Total non-farm Index	138.6	137.1	137.6	137.8
	Manufacturing Index	92.2	92.3	92.2	92.2
	Non-manufacturing Index	151.7	150.2	150.8	150.9
	Unemployment rate	5.4%	4.9%	4.8%	5.0%
	Help Wanted Ads Index <sup>2</sup>	52.5	64.1	53.6	56.7
	Industrial Electricity Usage Index	109.6	106.7	112.1	109.5
	Single-Family Housing <sup>3</sup>				
	Total Value of New Permits Index	149.6	144.8	120.9	138.4
	Number of New Permits Index	57.7	69.0	85.8	70.8
Average Value of a New Permit Index	242.1	198.4	189.9	210.1	
Elkhart-Goshen	Employment <sup>1</sup>				
	Total non-farm Index	143.7	143.5	144.1	143.8
	Manufacturing Index	131.1	129.8	129.7	130.2
	Non-manufacturing Index	158.5	158.8	161.5	159.6
	Unemployment rate	5.0%	4.5%	4.4%	4.6%
	Help Wanted Ads Index <sup>2</sup>	40.1	41.9	44.1	42.0
	Industrial Electricity Usage Index	66.0	71.7	68.6	68.8

Notes: All figures except for unemployment rates are seasonally adjusted indexes with a base year of 1986=100 using the U.S. Bureau of the Census X11DR seasonal adjustment program.

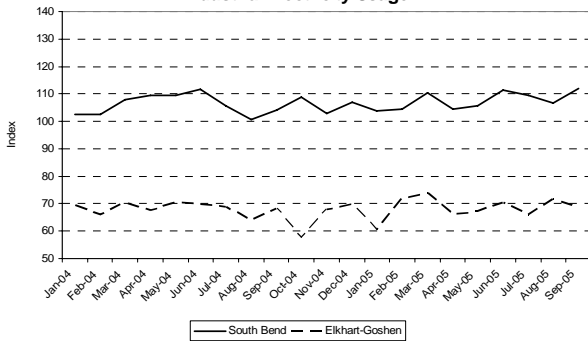
<sup>1</sup>For South Bend and Elkhart-Goshen metropolitan statistical areas, respectively.

<sup>2</sup>Based on ads listed in the *South Bend Tribune* and *Elkhart Truth*, respectively.

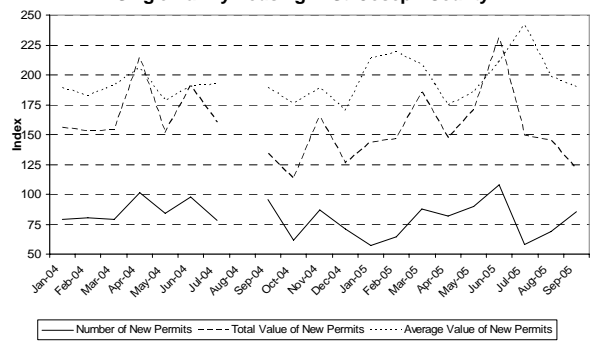
<sup>3</sup>For St. Joseph County; housing data unavailable for Elkhart County.



**Industrial Electricity Usage**



**Single-Family Housing in St. Joseph County**



\*Data unavailable for August 2004

The Elkhart-Goshen metropolitan area saw quite different changes in employment compared to the South Bend area. Total non-farm employment in the third quarter rose slightly by 0.3 percent, which was largely driven by opposing changes in the manufacturing and non-manufacturing sectors. Manufacturing employment fell 1.1 percent, too early to reflect the positive effect of increased demand in the RV and manufactured housing industries caused by the hurricanes. Non-manufacturing employment expanded by almost 2 percent. Growth in construction, administrative services, and health care services spurred much of this expansion.

As in the first half of the year, the region's unemployment rates in the third quarter remained at or below the state and national rates, continuing to signal that this region's employment prospects are relatively comparable or better than in most other areas of Indiana and many areas across the nation. The average monthly unemployment rate in the third quarter of 2005 was 4.6 percent in Elkhart-Goshen and 5 percent in South Bend. In July the unemployment rates in South Bend and Elkhart-Goshen followed the upswing begun in June 2005 but turned down in August. The unemployment rate in the South Bend area peaked at 5.4 percent in July but quickly fell below 5 percent in August and remained there through September. Unemployment in the Elkhart-Goshen metropolitan area followed a similar pattern but remained relatively low compared to South Bend. Unemployment peaked in June

at 5 percent but began to fall in August and continued through September, ending the quarter at 4.4 percent

Demand for labor, based on employment ads in local newspapers, declined from July to August but rebounded in September. This coincides with the fall in South Bend's total employment and Elkhart-Goshen's manufacturing employment during the same period. From July to September, the South Bend area saw ads in the *South Bend Tribune* increase modestly by 2.1 percent, far slower than the 9.9 percent in the second quarter. The average number of ads was slightly lower in this period compared to the same quarter one year ago. The Elkhart-Goshen area saw growth in labor demand throughout the third quarter. Employment ads listed in the *Elkhart Truth* rose 10 percent from July to September. However, the number of ads was somewhat lower in July and August of 2005 compared to the same months in 2004, an indication of the lower overall demand for labor in the summer of 2005 compared to 2004. September saw a turnaround with its ad count higher than in September 2004, a good sign that the employment declines seen in 2005 may not persist.

Industrial electricity usage, as an indicator of productivity, held its course in the third quarter of 2005 but did not grow as quickly as in the first half of the year. This is consistent with the concurrent slowdown in the region's manufacturing sector. Industrial electricity usage in South Bend expanded 2.3 percent from July to September, less than the over 6

percent growth seen in the first two quarters. Industrial electricity usage in Elkhart-Goshen also increased but at a faster rate than in South Bend. Elkhart-Goshen's industrial electricity usage expanded by 3.9 percent during the third quarter of 2005. This growth was more modest than the almost 7 percent in the second quarter. Compared to the same period one year ago, industrial electricity usage in South Bend was greater and nearly the same in Elkhart-Goshen.

Activity in the new housing market continued to provide a boost to the local economy but not as strongly as in the first half of 2005. Moreover, third-quarter activity proved a bit down from the same period in 2004. Perhaps trends in rising interest rates, slightly dampened local employment, and concerns about rising energy costs began to have a noticeable negative impact on new housing markets. Optimistically, however, the seasonally adjusted index of the number of new building permits for single-family dwellings issued each month grew by 48.7 percent between July and September – even more than the substantial 31 percent seen in the second quarter. Unlike the earlier months of 2005, the value of new housing permits fell despite the increase in the number of permits, indicating that less expensive properties accounted for new developments in the third quarter. The total value of new housing permits fell approximately 19 percent in the third quarter, and the average value of a housing permit dropped over 21 percent.

Based on these indicators, the third quarter of 2005 proved relatively uneventful for the Michiana economy. Most economic indicators tended to hold their course set in the first half of 2005. The next issue of *Michiana Business* will report on the region's economic performance during the fourth quarter of 2005.

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*Outlook continued from page 1...*

Wages in retail moved slightly, falling 0.3 percent in St. Joseph County but rising 0.7 percent in Elkhart. Wages in the healthcare and social services industry moved in opposite directions across the region, likely due to differing demand for workers. Wages in this sector fell 1.4 percent in St. Joseph County but increased 6.3 percent in Elkhart County. Given expected regional growth in manufacturing and non-manufacturing in 2006, average wages will likely continue to rise over the next year – even more so if national expectations of inflation cause upward pressure on wages. However, faster rising inflation would erode the purchasing power of rising wages.

## Real Estate

Regional real estate markets remained strong in 2005 despite rising interest rates over the past year. Occupancy rates rose for many commercial developments in the region, and significant commercial development will continue in 2006 with new retail and industrial developments throughout the region. Residential construction, measured by a seasonally adjusted index of new single-dwelling housing permits issued in St. Joseph County, remained active. From January 2004 to September 2005, new housing permits increased 8.2 percent. It remains to be seen, however, if demand for new homes will be dampened by expected interest rate hikes in the near future, which are made more uncertain by the appointment of a new Federal Reserve chairman.

In 2005 the Michiana region experienced mixed economic signals: fairly flat employment, relatively low but fluctuating unemployment rates, rising wages, increased production in certain sectors, and active real estate markets. The outlook for the new year is optimistic, with the region seeing

expanding production in some manufacturing and non-manufacturing sectors, growth in retail, higher employment, continued growth in wages, and considerable real estate activity.

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## **Michiana Business**

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