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South Bend and Elkhart forecast 2019



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The South Bend-Mishawaka Metropolitan Statistical Area (MSA) in 2018 experienced some economic growth, lower unemployment rates, a minor increase in the wage rate and a more prosperous housing market. The Elkhart-Goshen MSA in 2018 demonstrated stunning growth in aggregate production and job creation. The unemployment rate remained steadily low, and income grew moderately in 2018.

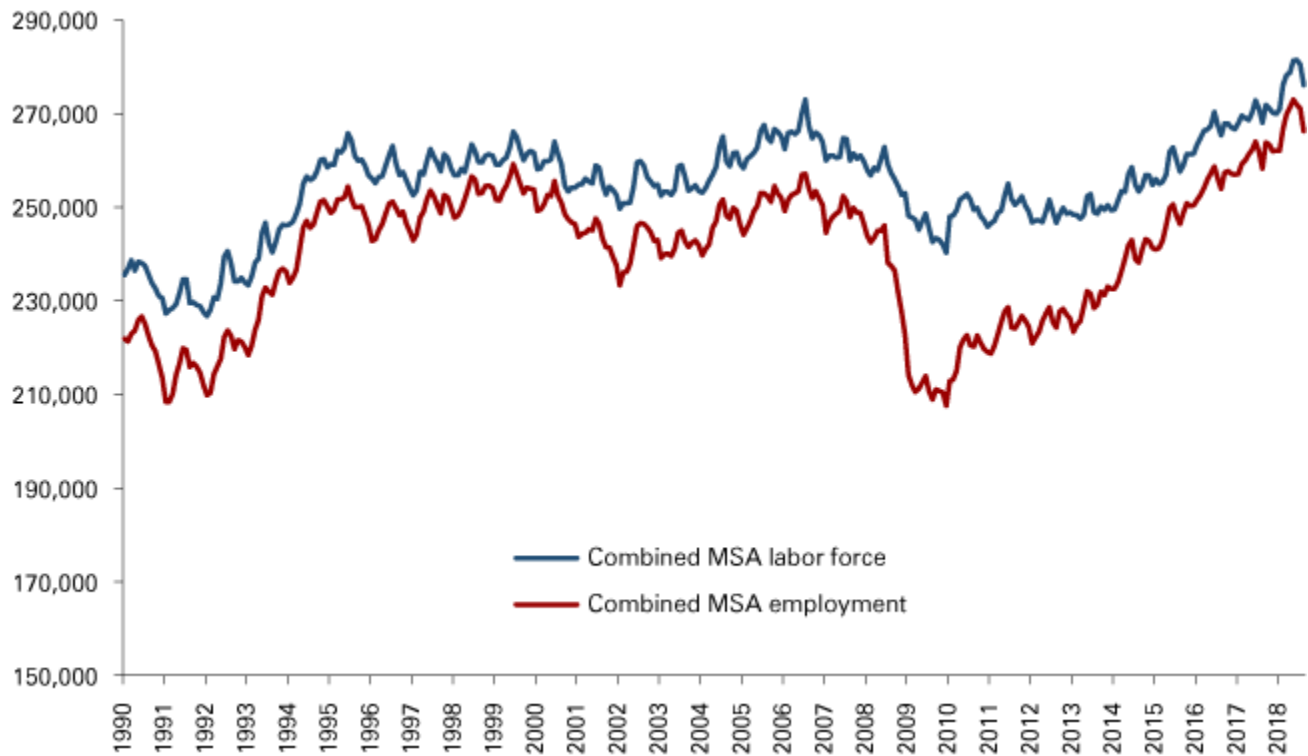
Real metropolitan GDP

The combined economy of the South Bend-Mishawaka and Elkhart-Goshen MSAs had a very strong year of growth in 2017 with total real metropolitan gross domestic product (GDP) exceeding 2016 by \$1.6 billion, a rise of 6.3 percent.¹ The majority of this regional growth came from Elkhart-Goshen, which added \$1.5 billion in its real GDP, a magical rate of 11.3 percent output growth.² Real GDP in the South Bend-Mishawaka MSA only expanded by \$71 million, a 0.6 percent increase from 2016. Moreover, compared with real GDP in 2007, aggregate production in South Bend-Mishawaka was still \$269 million below its pre-recession peak.

Labor force and employment

The labor market in the combined areas expanded strongly over the year, with a total labor force of 276,118 workers in August 2018 (see **Figure 1**).³ Compared to August 2017, the total labor force in the two metropolitan areas added 8,068 workers and surpassed the June 2007 pre-recession level of 264,700 workers. A bigger labor force indicates improved economic conditions that stimulate more residents to actively look for work. More specifically, Elkhart-Goshen's labor force grew by an additional 6,362, while South Bend-Mishawaka gained an additional 1,706 people in the labor force in the past year.

Figure 1: Labor force and employment in the Elkhart-Goshen and South Bend-Mishawaka MSAs combined, January 1990 to August 2018



Note: Data are not seasonally adjusted.

Source: STATS Indiana, using U.S. Bureau of Labor Statistics data

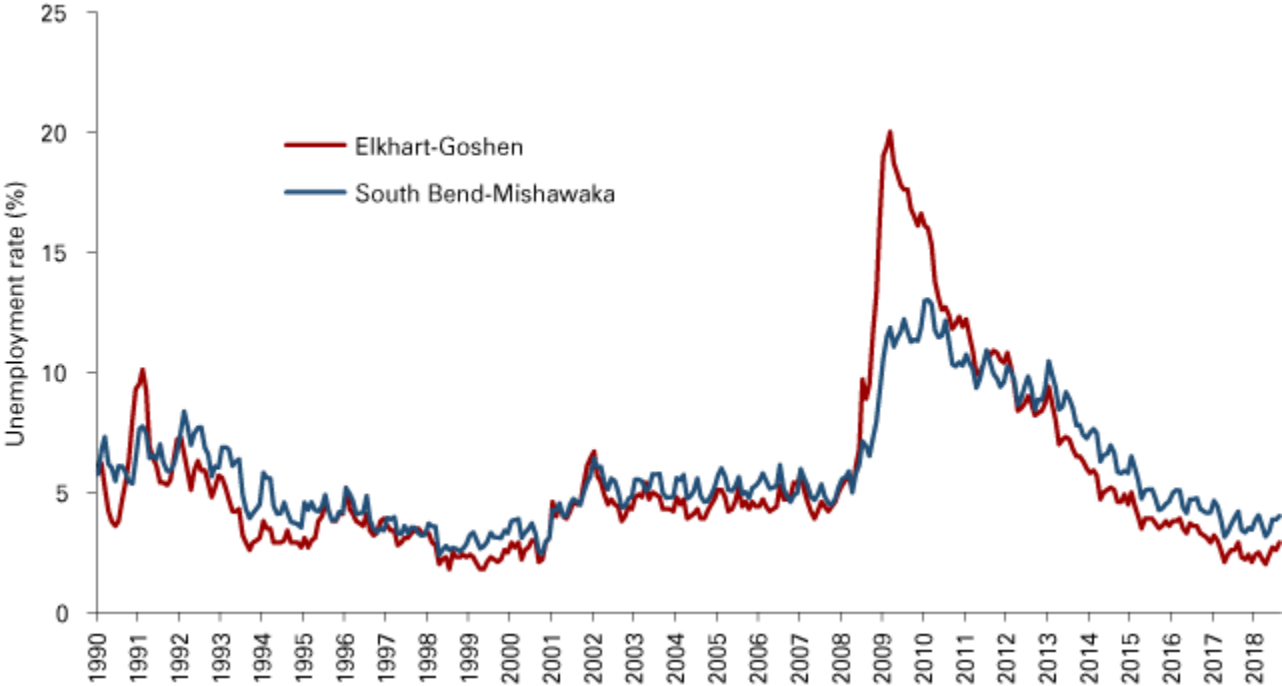
Employment expanded in the combined region as well with 266,322 workers employed in August 2018, compared to 258,314 workers employed in August 2017. The bulk of the employment increase came from the Elkhart-Goshen MSA, which added 6,106 new employees. The contribution from the South Bend-Mishawaka MSA was 1,902 new employees. The year-over-year employment growth rate in August 2018 was approximately 5.6 percent in Elkhart-Goshen, far above the national average growth rate of 1.3 percent and the state average rate of 2.5 percent. On the other hand, the year-over-year employment growth rate in August 2018 was 1.3 percent in South Bend-Mishawaka, on par with the national rate but less than the state rate.

Unemployment

Since the labor force and employment have increased at a similar pace, unemployment rates in both MSAs were relatively stable over the year. The South Bend-Mishawaka MSA's unemployment rate settled at 4.0 percent in August 2018, 0.2 percentage points down from August 2017.⁴ Meanwhile, the jobless rate in Elkhart-Goshen was 2.9 percent in August 2018, remaining the same as that in August 2017.

Figure 2 illustrates the unemployment rates in the Elkhart-Goshen and South Bend-Mishawaka MSAs since 1990 and finds that the current unemployment rates are the lowest in 15 years for both areas. Elkhart-Goshen’s rate is much lower than the U.S. figure of 3.9 percent and the Indiana rate of 3.7 percent in August 2018. However, the unemployment rate in the South Bend-Mishawaka area was higher than both the state and the nation.

Figure 2: Unemployment rate in the Elkhart-Goshen and South Bend-Mishawaka MSAs, January 1990 to August 2018



Note: Data are not seasonally adjusted.
 Source: STATS Indiana, using U.S. Bureau of Labor Statistics data

Employment by industry

Table 1 presents industrial employment data in Elkhart-Goshen, South Bend-Mishawaka and the combined region in August 2018, as well as the year-over-year changes from August 2017. The employment in nonfarm sectors of the combined region was 284,100 workers in August 2018, an increase of 7,300 workers from one year ago, which is greater than the job creation in 2017.

Industries experiencing job expansion since 2017 included manufacturing; leisure and hospitality; government; trade, transportation and utilities; natural resources, mining, and construction; financial activities; and other services. Job losses were observed in private educational and health services; professional and business services; and information.

Table 1: Employment by industry and metro area, August 2018

Industry	Elkhart-Goshen		South Bend-Mishawaka		Combined MSAs	
	Emploment	Change since August 2017	Emploment	Change since August 2017	Emploment	Change since August 2017
Total nonfarm	146,000	7,100	138,100	200	284,100	7,300
Natural resources, mining and construction	3,900	200	6,100	0	10,000	200
Manufacturing	74,200	5,500	18,000	0	92,200	5,500
Trade, transportation and utilities	20,600	400	25,700	200	46,300	600
Information	400	0	1,400	-100	1,800	-100
Financial activities	2,800	0	6,100	100	8,900	100
Professional and business services	11,200	400	13,400	-600	24,600	-200
Private educational and health services	12,200	100	31,200	-2,100	43,400	-2,000
Leisure and hospitality	8,700	600	15,900	1,500	24,600	2,100
Other services	4,200	100	6,200	0	10,400	100
Government (includes public schools and hospitals)	7,800	-200	14,100	1,200	21,900	1,000

Source: STATS Indiana, using Current Employment Statistics (CES) data from the U.S. Bureau of Labor Statistics

However, a closer examination of **Table 1** reveals a divided regional job growth picture. On one hand, Elkhart-Goshen showed a stunning capacity of creating jobs, adding 7,100 new jobs in 2018—especially in manufacturing (+5,500 jobs); leisure and hospitality (+600 jobs); trade, transportation and utilities (+400 jobs) and professional and business services (+400 jobs). Job loss was found in government (-200 jobs).

On the other hand, South Bend-Mishawaka only gained 200 net jobs in the nonfarm sectors. While leisure and hospitality added 1,500 jobs and the government sector added 1,200, there was significant job shrinkage in private educational and health services (-2,100 jobs) and moderate job loss in professional and business services (-600 jobs).

Local wages and hours worked

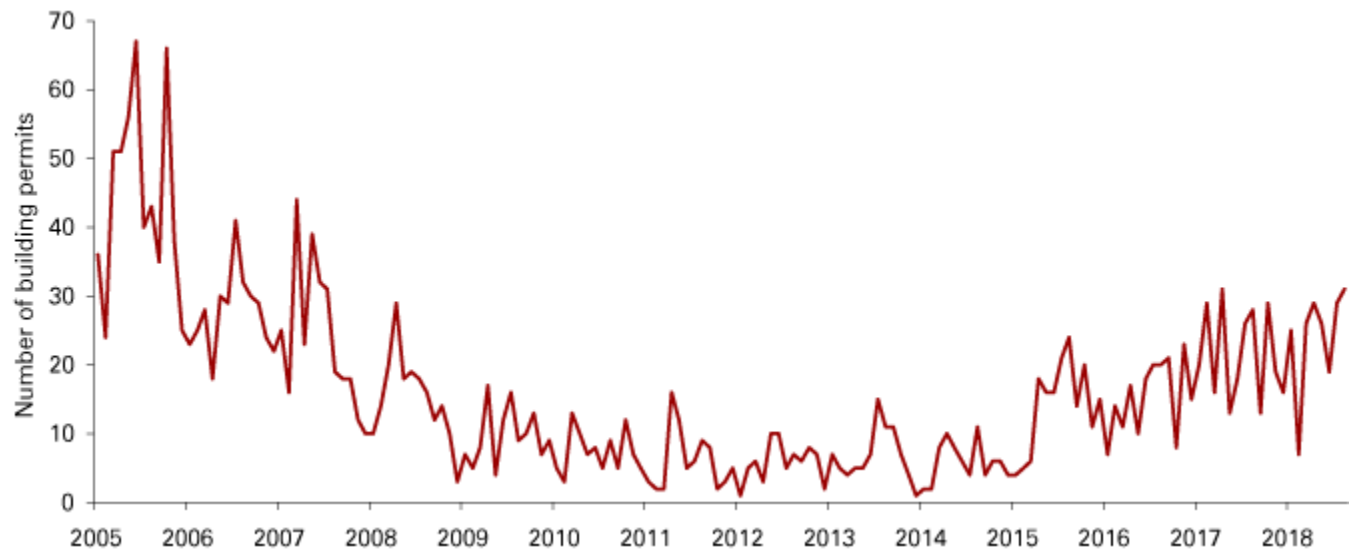
The hourly wage rate has increased from August 2017 to August 2018 due to the tightening job market. The average hourly earnings of Elkhart-Goshen workers in August 2018 were \$24.09, up 5.7 percent from August 2017. The average hourly earnings of South Bend-Mishawaka workers in August 2018 were \$23.80, 0.2 percent higher than last year. However, offset by the decline in

working hours, the average weekly earnings increased by about 1 percent to \$874 in Elkhart-Goshen, but declined by 1.5 percent to \$828 in South Bend-Mishawaka.

Housing

The housing market in St. Joseph County continued to recover in 2018. The number of single-family building permits issued, an indicator for new residential construction, totaled 192 in the period of January-August 2018, rising modestly by 6.1 percent as compared to August 2017 (see **Figure 3**). This was the most single-family building permits issued during the first eight months over the past 10 years. However, the region is not back to pre-recession levels (e.g., 229 permits were issued in the first eight months of 2007).

Figure 3: Single-family residential building permits in St. Joseph County, January 2005 to August 2018



Source: St. Joseph County Building Department

Statistics from the Indiana Association of Realtors also indicated an active housing market in St. Joseph County in 2018.⁵ The year-over-year analysis shows that the cumulative number of new houses listed for sale from January to August 2018 increased by 1.7 percent, while the cumulative number of closed sales rose by 4.8 percent. The median sales price was also 4.5 percent higher.

Summary

Looking into 2019, the economy of South Bend-Mishawaka will continue to grow at a fairly modest rate. Industries in this area are more diversified, with a focus on services. In this regard, the local economy is more immune to the ongoing trade war with China and will be less impacted when hit by external shocks. With the growing labor force and the slow catch-up in

employment, the unemployment rate in 2019 is forecast to be similar to 2018—about 4 percent with seasonal fluctuations.

Moderate output growth is forecast for Elkhart-Goshen in 2019. In general, Elkhart-Goshen's economy is affected by the national economy. The up factor is the continuous growth in the U.S. economy of 2019 at an expected rate of 2.5 percent.⁶ Higher consumer spending and business investment should increase production in Elkhart-Goshen. However, national output, consumer spending and business investment will grow slower next year.⁷ Consequently, aggregate output in Elkhart-Goshen in 2019 could slow down as well.

The down factor is in the international realm and monetary policy. Elkhart-Goshen's reliance on manufacturing will make its economic future in 2019 less optimistic. First, the tariff imposed on imported steel and aluminum in 2018 will increase production costs for the RV industry. Second, the retaliatory tariff placed by China on U.S. exports may reduce the demand for its manufacturing products. Third, the Federal Reserve is expected to raise the base interest rate at the end of this year. It is likely that the base interest rate will increase again in early 2019. The higher interest rate indicates a higher interest payment and will have a negative impact on RV demand. Hence, concerns of the waning boom cycle for this region are rising. Jobs in manufacturing and related sectors, such as transportation, could be affected. The unemployment rate in Elkhart-Goshen may rise above its 2018 level to about 3.5 percent.

In 2019, the hourly wage rate will continue to rise in both MSAs due to the tight labor market, which would pose upward pressure on hiring costs to employers. The use of automation in business and production could alleviate the cost pressure and cause working hours to decline. But income growth is forecast for both areas. As a result, the demand for housing will still remain robust in 2019, which helps the continuous recovery in the housing market. The uncertainty in how much the interest rate will go up in 2019 puts some concern on the rising trend of the housing market.

Notes

1. The data on metropolitan gross domestic product are from the U.S. Bureau of Economic Analysis. The latest data available are 2017.
2. In 2017, real metropolitan GDP in Elkhart-Goshen and South Bend-Mishawaka was \$27,431 million.
3. Labor force and employment data can be accessed on the website of STATS Indiana at www.stats.indiana.edu/laus/laus_view3.html.
4. The unemployment rate of the South Bend-Mishawaka MSA in August 2017 was 4.2 percent.
5. Source: Indiana Housing Market Update, August 2018.
6. This forecast is from the *World Economic Outlook, October 2018*, published by International Monetary Fund.
7. The October 2018 IMF World Economic Outlook for the U.S. forecast 2.9 percent output growth in 2018, slowing to 2.5 percent output growth in 2019. According to the United States Economic Forecast for third quarter 2018 published by Deloitte Insights, real consumer spending and real business investment is projected to increase by 2.1 percent

and 3.3 percent in 2019, respectively. These two indicators are expected to grow by 2.7 percent