

# MICHIANA BUSINESS

## INSIDE THIS ISSUE

- *Introduction 3<sup>rd</sup> Quarter 2023 Summary*
- *Summary of Regional Economic Conditions in the 3<sup>rd</sup> Quarter of 2023*
- *Regional Economic Indicators*

### 3<sup>rd</sup> Quarter 2023 Summary

This issue presents an analysis of economic conditions in the South Bend-Mishawaka and Elkhart-Goshen metropolitan statistical areas (MSAs) as of September 2023, the latest month during the quarter for which all data are available for the indicators shown in the tables and graphs on pages 4-8. These indicators are for the most part, seasonally adjusted index numbers that permit a comparison of conditions in the two metropolitan areas. The data are collected and processed by the Judd Leighton School of Business and Economics' Bureau of Business and Economic Research.

## 1. REGIONAL ECONOMIC CONDITIONS IN THE THIRD QUARTER OF 2023

U.S. Bureau of Labor Statistics<sup>1</sup> data in the third quarter of 2023 saw a small easing in the local labor market. The labor force and employment in the South Bend-Mishawaka MSA declined by 401 (-0.3%) and 1,192 (-0.93%), respectively, and the number of unemployed increased by 790 (+15.56%). Meanwhile, the Elkhart-Goshen MSA's labor force and employment decreased by 926 (-0.8%) and 1,859 (-1.67%), respectively, and unemployment rose by 933 (+22.19%). Under the above labor market dynamics, the jobless rates in the two areas were higher in the third quarter of 2023. In the South Bend-Mishawaka MSA, the average unemployment rate in July-September was 4.43%, 0.63 percentage points up from the last quarter. Elkhart-Goshen's quarterly unemployment rate was 4.47%, 0.83 percentage points above the second quarter rate of 2023.

Total nonfarm payroll employment in the South Bend-Mishawaka MSA was essentially unchanged in the third quarter (+67 jobs or +0.05%). The employment data by industry<sup>2</sup> showed employment gains in natural resources, mining, and construction (+133 jobs); trade, transportation, and utilities (+167 jobs); professional and business services (+67 jobs); leisure and hospitality (+300 jobs), and other services (+200 jobs). Jobs were lost in private educational and health services (-133 jobs) and government (-667 jobs). Employment remained unchanged in manufacturing, information, and financial activities.

However, total nonfarm employment in the Elkhart-Goshen MSA lost 1033 jobs over July-September 2023, a 0.73% decline from

the last quarter. Notable job losses occurred in manufacturing (-700 jobs); government (-667 jobs); and trade, transportation, and utilities (-100 jobs). Employment increased in natural resources, mining, and construction (+200 jobs); financial activities (+67 jobs); professional and business services (+67 jobs); leisure and hospitality (+33 jobs), and other services (+67 jobs). There were no job changes in information and private educational and health services.

## 2. REGIONAL ECONOMIC INDICATORS

As the table below displays, the monthly total nonfarm employment index in South Bend-Mishawaka averaged 132.55 in the third quarter of 2023, 1.16 points up from the last quarter. In particular, the manufacturing employment index of the area gained 0.55 points to 63.11 and the non-manufacturing employment index increased by 1.22 points to 152.68. In addition, the index of industrial electricity usage in South Bend-Mishawaka rose by 1.19 points to 84.42 in the third quarter of 2023.

The housing sector of St. Joseph County was mixed in the third quarter of 2023. The average index of new building permits for single-family houses gained 7.42 points to 39.33. The average index of the total value of these permits increased significantly by 59.73 points to a quarterly average of 205.06. The mean seasonally adjusted index of the average value of new permits was up 7.01 points to a quarterly average of 51.39.

Additional data from the Indiana Association of Realtors<sup>3</sup> showed that new listings of existing single-family homes dropped by 10.7% in July-September 2023 compared to one year ago, and closed sales plummeted by 21.2%. Despite the tanked sales, the median sales price rose by 1.6% in the third quarter of 2023 compared to one year ago. Furthermore, the year-over-year comparison shows that the region's inventory of homes for sale fell by 4.7% in July but

increased by 6.2% and 7.3% in August and September, respectively.

In the third quarter of 2023, the Elkhart-Goshen metro area saw its seasonally adjusted index of monthly nonfarm employment down 0.64 points to 154.09. Specifically, Elkhart-Goshen's monthly average manufacturing employment index decreased by 1.21 points to 141.78, and the monthly average non-manufacturing employment index edged up 0.16 points to 168.68. Lastly, the average index of electricity usage rose by 1.7 points to 63.0.

## 3. SUMMARY

Overall, both areas were impacted by the Fed's contractionary monetary policy in the third quarter of 2023. This influence manifested in a smaller labor force, increased unemployment, and a higher unemployment rate. Upon closer examination of month-to-month variations, it becomes apparent that the decline in the unemployment rate from July to September was not indicative of improving conditions. Instead, it resulted from more workers exiting the labor force. Conversely, a higher unemployment rate could be viewed positively for employers, making it easier for them to find qualified workers and potentially slowing the rise in wages, thus alleviating tight labor market conditions.

The service sector, which holds a significant share of employment in the South Bend-Mishawaka MSA, experienced growth in the third quarter of 2023. In contrast, the Elkhart-Goshen MSA, with its strong manufacturing sector focused on RV production, faced challenges. Higher interest rates and an increasing price level led to reduced demand for durable goods, particularly evident in a 20.1% reduction in RV shipments from July to September 2023 compared to the previous year, according to the RV Industry Association's market report.<sup>4</sup> The manufacturing sector in Elkhart-Goshen lost 1% of employment

during this period due to decreased demand for RVs. If the shift in consumer preferences away from RVs persists, the future labor market conditions in Elkhart-Goshen may not be optimistic.

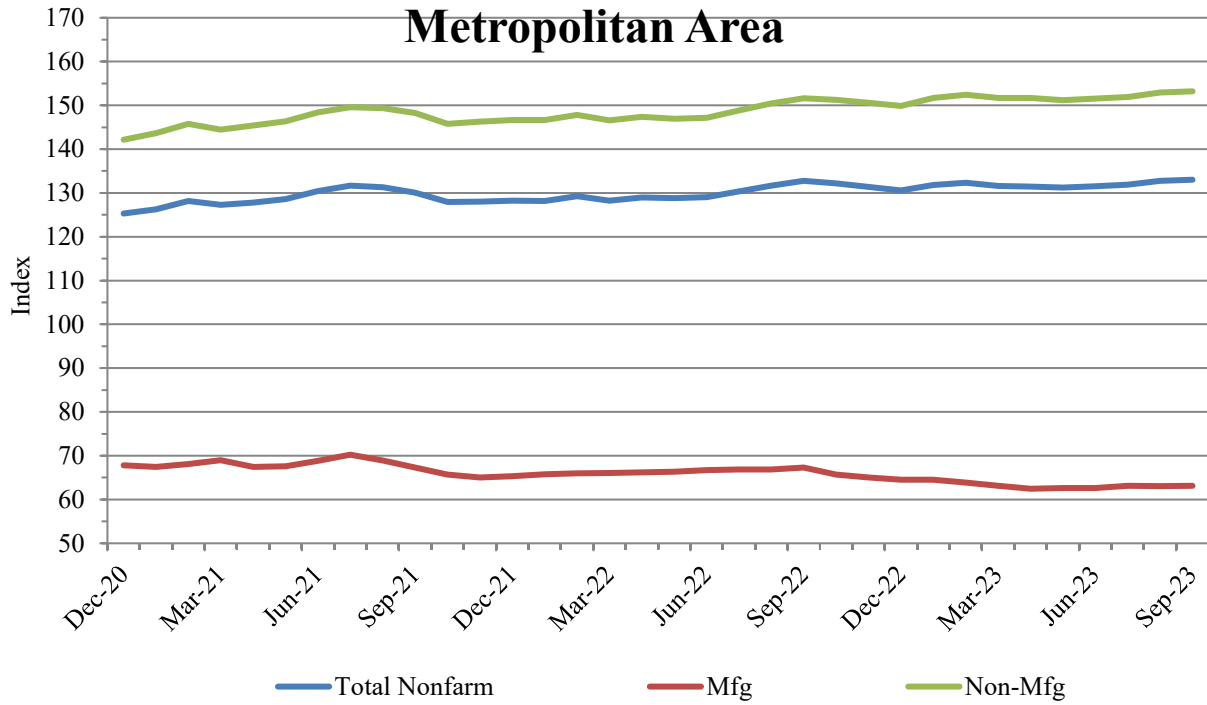
The housing market was also affected by higher interest rates and prices in the third quarter of 2023. St. Joseph County's housing prices reached a historic high, with the median sales price in July-September at \$218,500, the highest in local history. Simultaneously, the Federal Reserve increased the federal funds rate target range by 25 basis points in July 2023, from 5.25% to 5.50%, resulting in higher mortgage rates. According to Freddie Mac statistics, 30-year fixed mortgage rates rose from 5.70% to 7.31% from July to September.<sup>5</sup> These elevated mortgage rates

significantly increased borrowing costs, making it more challenging for first-time buyers to secure loans. Existing homeowners, who locked in lower mortgage rates, have less incentive to sell, contributing to a decline in demand. New housing constructions have lagged, with third-quarter building permits higher than the second quarter but lower in year-over-year comparison and notably lower than 2005-2006 levels. Inflation in building materials and labor costs has led to more expensive new homes, further tightening supply and reducing housing affordability. The combination of low demand, constrained supply, and persistent inflation suggests that the housing market stagnation will persist until the inflation rate returns to the target range, and the Fed reduces the federal funds rate.

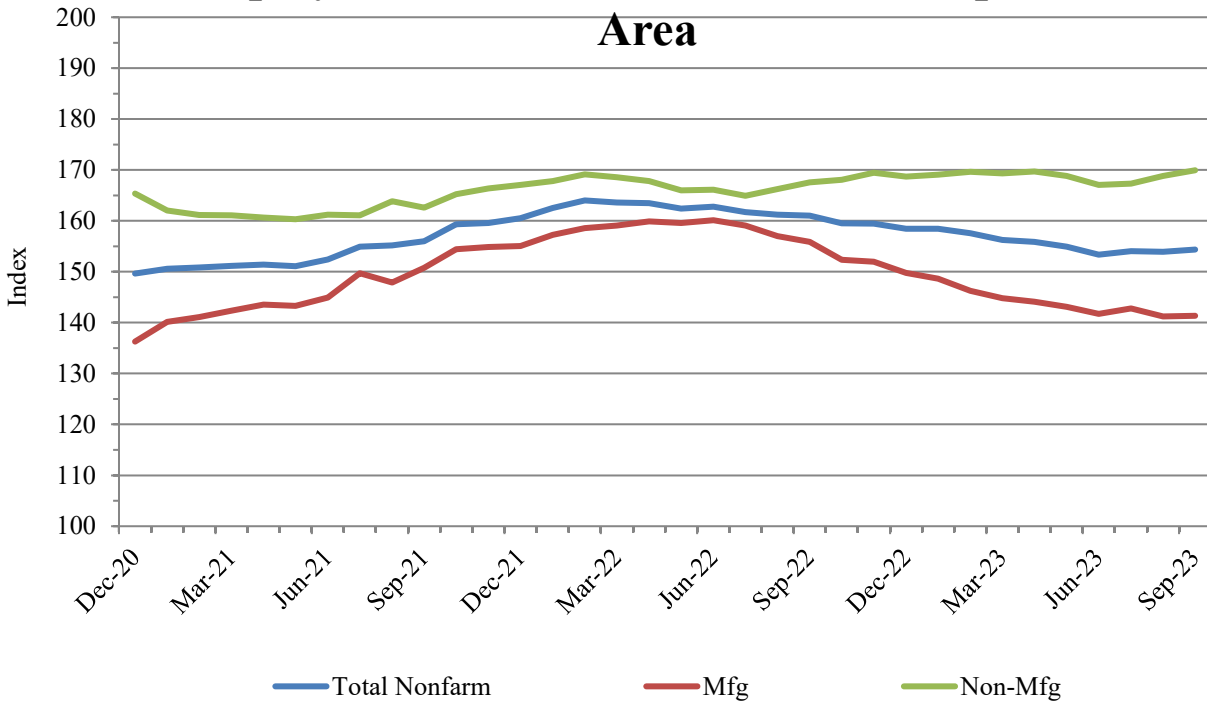
	3rd Quarter 2023				
	July	August	September	Monthly Average	
South Bend-Mishawaka	<b>Employment</b>				
	Total Nonfarm Employment	131.89	132.73	133.02	132.55
	Manufacturing Employment	63.13	63.08	63.13	63.11
	Non-manufacturing Employment	151.90	152.93	153.21	152.68
	Unemployment Rate	4.80	4.60	3.90	4.43
	Electricity Usage	84.11	85.60	83.55	84.42
	<b>Single-Family Housing</b>				
	Number of New Permits	26.94	42.99	48.06	39.33
	Total Value of New Permits	130.60	288.84	195.75	205.06
	Average Value of a New Permit	46.74	60.70	46.75	51.39
Elkhart-Goshen	<b>Employment</b>				
	Total Nonfarm Employment	154.04	153.89	154.33	154.09
	Manufacturing Employment	142.77	141.20	141.36	141.78
	Non-manufacturing Employment	167.29	168.83	169.94	168.68
	Unemployment Rate	5.2	4.4	3.8	4.47
	Electricity Usage	58.86	61.63	67.96	63.00

Note: All figures except unemployment rates are seasonally adjusted indexes with the base year of 2002 = 100 using the BLS seasonal adjustment program.

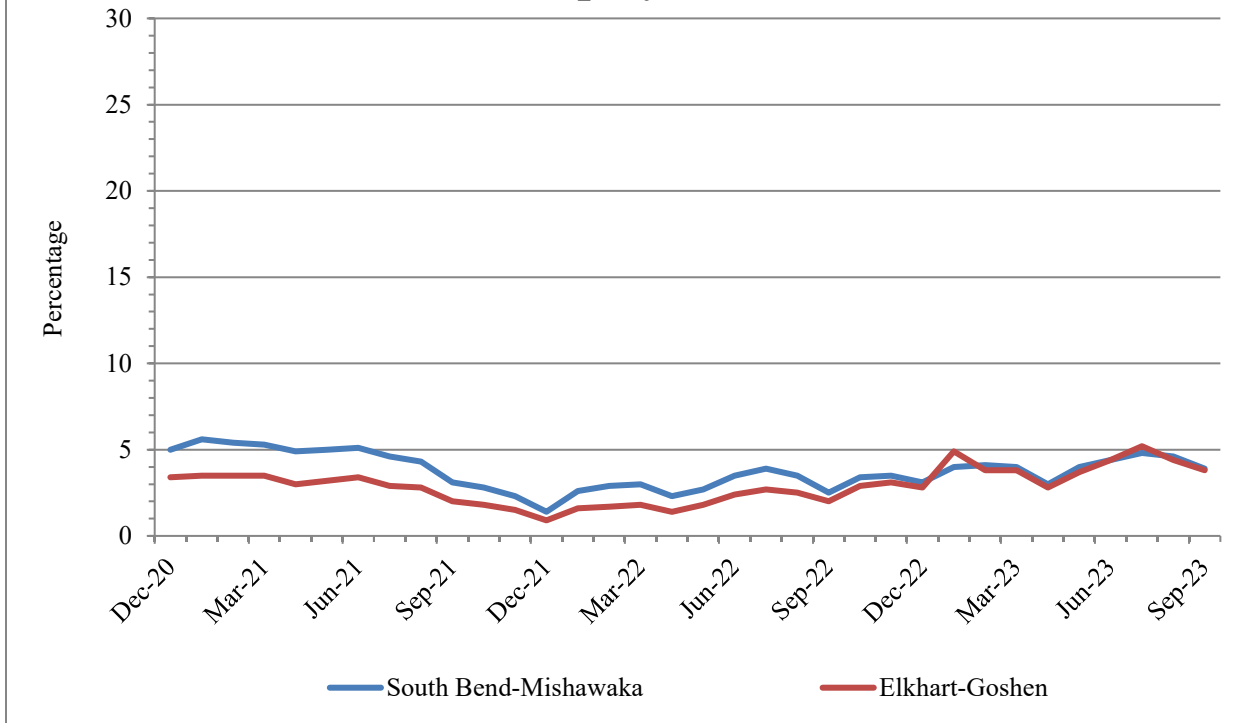
## Employment in South Bend-Mishawaka Metropolitan Area



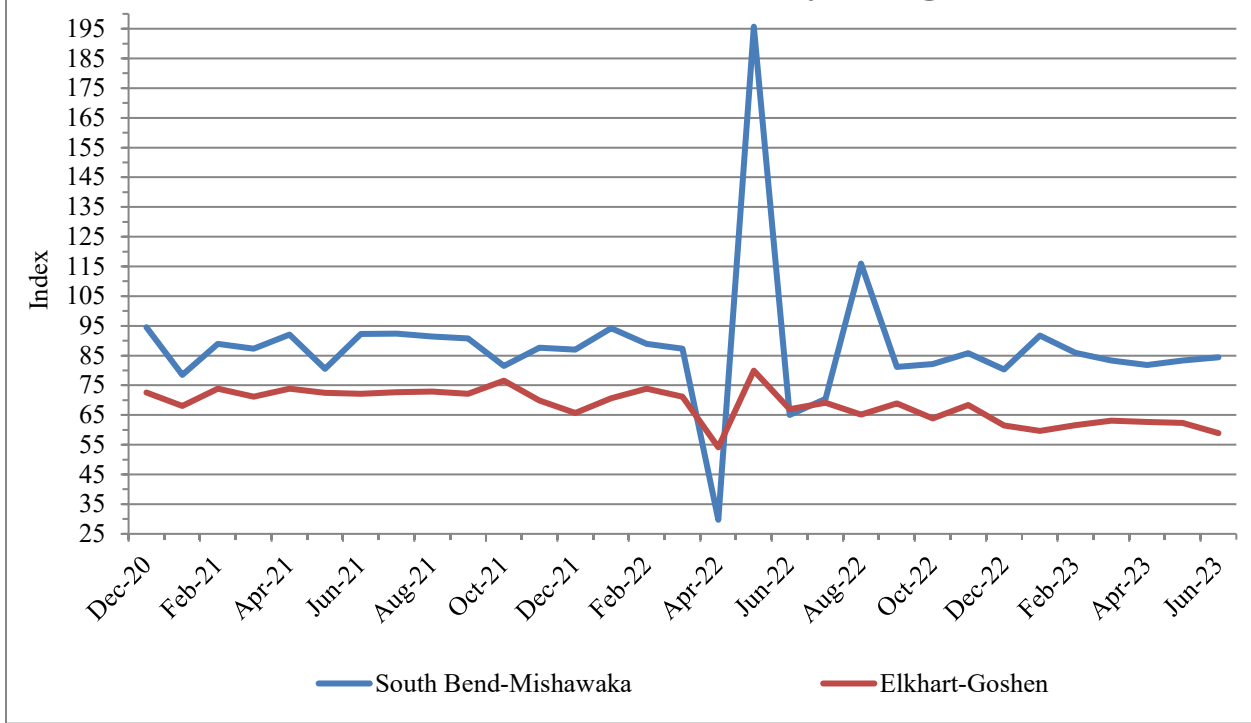
## Employment in Elkhart-Goshen Metropolitan Area



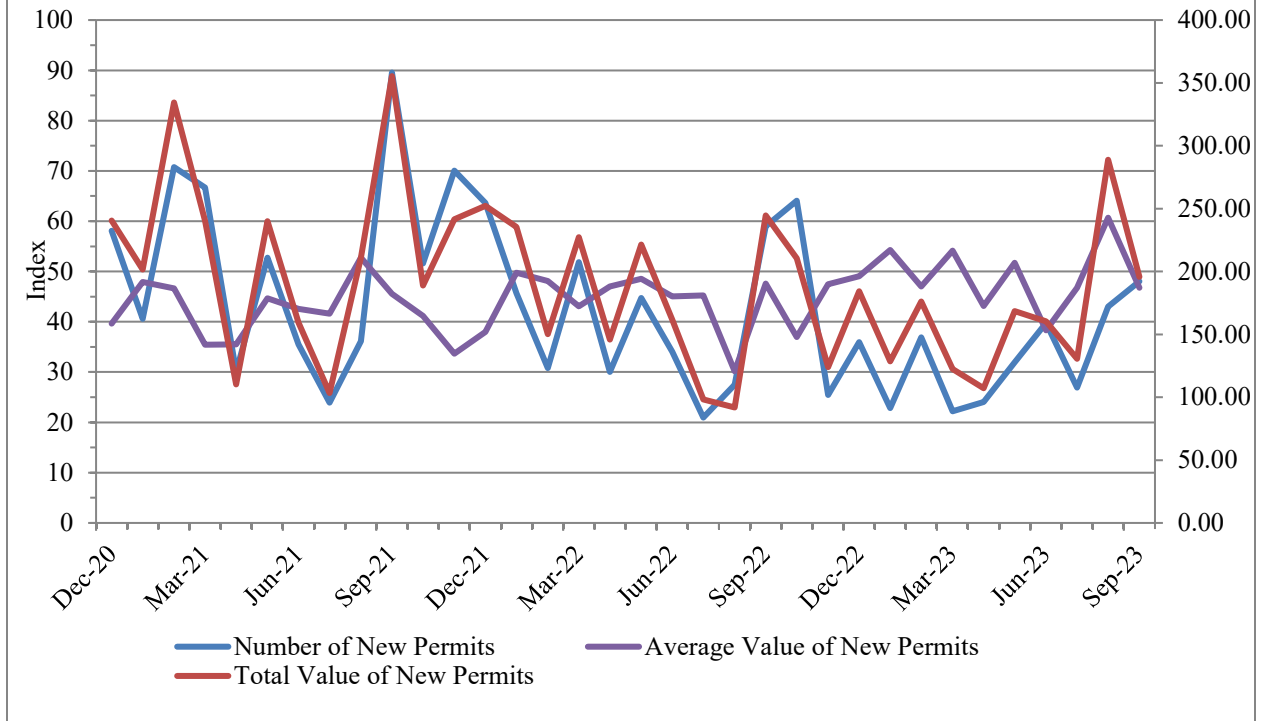
## Unemployment Rate



## Industrial Electricity Usage



## Single-Family Housing in St. Joseph County



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- (1) Labor Force Estimates and Unemployment Rates, [http://www.stats.indiana.edu/laus/laus\\_view3.html](http://www.stats.indiana.edu/laus/laus_view3.html)
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[http://www.stats.indiana.edu/ces/ces\\_naics/](http://www.stats.indiana.edu/ces/ces_naics/)
- (3) Indiana Housing Market Update, <http://www.10kresearch.com/reports/IAR/Main.htm>
- (4) R.V. Industry Association Historical Data, <https://www.rvia.org/historical-rv-data>
- (5) Freddie Mac, <https://www.freddiemac.com/pmms>

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