

## ECONOMY AT A GLANCE

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Though one of 12 finalists, the city didn't win. Mayor Shawna Girgis said the city was exploring alternative sources of funds, including other state grants, to finance some of the projects. Increases in GM's property taxes could possibly be set aside to restore the rail spur, she said.

McCracken described the spur as key to industrial development in general and, specifically, to any possible further expansion of the GM plant, which will still have space to spare when the current renovation is completed. Even as technology makes it possible for plants to do more work with fewer people, manufacturing remains crucial to Bedford's economy, he said.

### "A Step Ahead"

The city's planning consultants foresaw proportionately fewer future jobs in manufacturing and more in the professions, sciences, technical fields, social services, real estate and health care in the coming years.

Health care is already a conspicuous growth industry. Bedford has two hospitals, both "critical access," a special category of rural hospitals qualifying for extra Medicare reimbursement and limited to 25 beds each. St. Vincent Dunn Hospital has about half the employees of Bedford Hospital, which is affiliated with Indiana University Health. President Brad Dykes said it has increased its staff by 10 percent over the past 10 years.

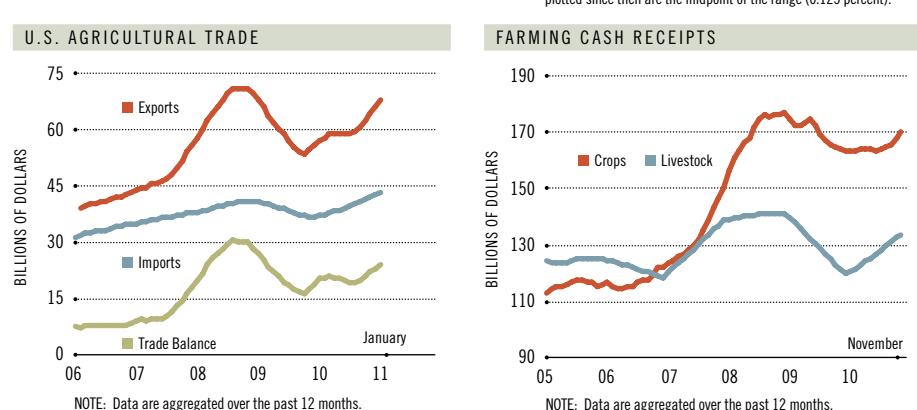
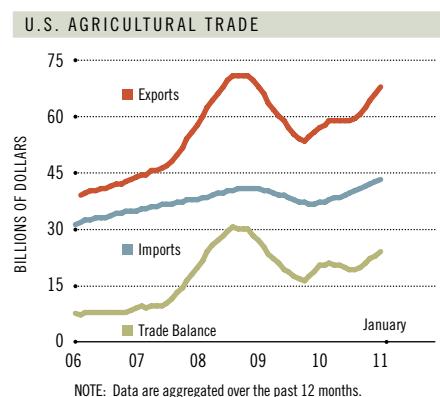
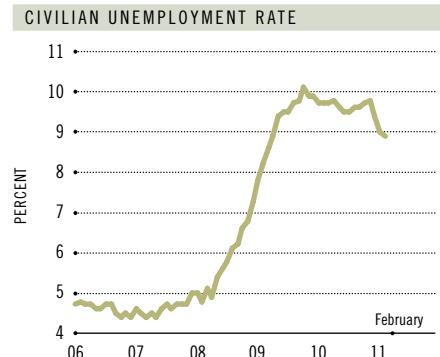
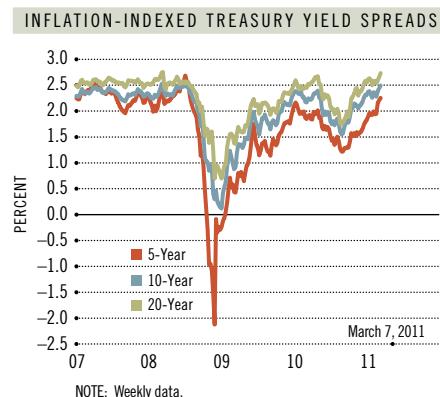
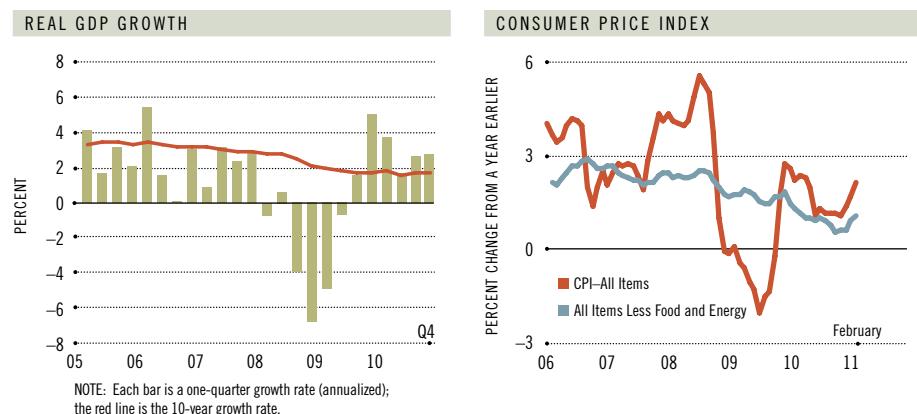
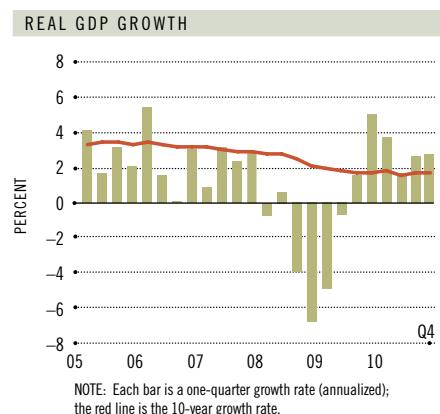
Bedford's unemployment rate hovers a point or so above the national average. But Jack A. Kenworthy, president of Bedford Federal Savings Bank, noted that it dropped by 1.3 points over the past year. That decline, along with the new jobs at the East Gate Business & Technology Center and the promise of more still at the GM plant, shows that the local economy is improving, he said.

McCracken acknowledged challenges ahead. "We've got to replace what we've lost and grow with the new and emerging," he said.

At the same time, he saw an advantage in the area's early and rough experience with the recession. "We're a step ahead because we started facing challenges before everybody else," he said.  $\Omega$

Susan C. Thomson is a freelancer.

Eleven more charts are available on the web version of this issue. Among the areas they cover are agriculture, commercial banking, housing permits, income and jobs. Much of the data is specific to the Eighth District. To go directly to these charts, use this URL: [www.stlouisfed.org/publications/pub\\_assets/pdf/re/2011/b4/11data.pdf](http://www.stlouisfed.org/publications/pub_assets/pdf/re/2011/b4/11data.pdf)



## READER EXCHANGE

### ASK AN ECONOMIST

**Maria E. Canon** is an economist in the Research division at the Federal Reserve Bank of St. Louis. She joined the St. Louis Fed last August after earning her Ph.D. from the University of Rochester. Her research focuses primarily on the economics of education and labor markets. She was born in Argentina, is married to Juan and has a 2-year-old son, Jose. Canon enjoys reading and cooking for family and friends. To read more on her work, see <http://research.stlouisfed.org/econ/canon/>



**Q. Why do vacancies and unemployment coexist in the current recovery?**

**A. In short, there is a mismatch between the skills employers need and the skills of unemployed workers.**

There are at least three views as to why economic growth is positive but unemployment remains persistently high. The first view is that the aggregate demand for labor is still low. An alternative view is that extensions of unemployment insurance benefits reduce the incentives of unemployed workers to find a job (or accept a job with lower pay). Others, including myself, view the high unemployment rate as a result of a mismatch between unemployed workers and vacant jobs.

Economist Robert Shimer argues that vacancies and unemployment coexist when the skills and geographical location of unemployed workers are poorly matched with job requirements and location of job openings.<sup>1</sup> Shimer found that the rate at which unemployed workers find jobs depends on three factors: (i) the rate at which they move to locations with available jobs; (ii) the rate at which jobs open in locations with available workers; (iii) the rate at which employed workers vacate jobs in locations with suitable unemployed workers.

In a recent paper, economist Aysegül Sahin and co-authors found that, while most of the jobs lost during the latest recession occurred in the construction sector, most of the newly created jobs have been in the health care and education sectors.<sup>2</sup> Additionally, the authors point out that the crisis in the housing market left many mortgage holders with negative home equity, a condition that may slow down geographical mobility as homeowners are less likely to sell their house. These factors suggest that the component of mismatch in the latest recession is significantly larger than in previous recessions. In fact, economists Justin Weidner and John Williams estimate that mismatch (along with other factors) has pushed the "normal" unemployment rate from 5 percent up near 7 percent.<sup>3</sup>

<sup>1</sup> Shimer, Robert. "Mismatch." *The American Economic Review*, Vol. 97, No. 4, pp. 1,074-1,101, September 2007.

<sup>2</sup> Sahin, Aysegül; Song, Joseph; Topa, Giorgio; and Violante, Giovanni L. "Mismatch in the Labor Market: Evidence from the U.K. and the U.S." Manuscript, revised November 2010.

<sup>3</sup> Weidner, Justin; and Williams, John C. "What Is the New Normal Unemployment Rate?" *Federal Reserve Bank of San Francisco Economic Letter*, Feb. 14, 2011. See [www.frbsf.org/publications/economics/letter/2011/el2011-05.htm](http://www.frbsf.org/publications/economics/letter/2011/el2011-05.htm)

**Submit your question to the editor. (See Page 2.)**  
**One question will be answered by the appropriate economist in each issue.**



### REGISTER NOW FOR ST. LOUIS FED CONFERENCE IN MAY

The St. Louis Fed's Community Development department will host its biennial conference on community development finance May 9-11 at the Chase Park Plaza hotel in St. Louis. The "Exploring Innovation" conference is recommended for bank CEOs, bank Community Reinvestment Act officers, philanthropic leaders, government leaders, community economic developers, leaders of nonprofits and of Community Development Financial Institutions, and students who are studying business, government or sociology.

Among the major speakers will be Elizabeth Duke, a member of the Federal Reserve's Board of Governors; Jessica Jackley, co-founder of Kiva, the world's first peer-to-peer microlending service; and AC Wharton Jr., mayor of Memphis, Tenn.

This year's conference is being presented in partnership with the Federal Reserve banks of Atlanta, Dallas and Minneapolis.

For more information, see <http://2011.exploringinnovation.org>



### LISTEN TO PODCASTS ON ECONOMICS AND RELATED SUBJECTS

The St. Louis Fed's Economic Education department is producing a series of short podcasts about topics in economics, personal finance, banking and monetary policy. Although aimed at high school students, the podcasts would be beneficial to many others who either have little knowledge of these topics or want a refresher on them.

So far, there are seven episodes in the "Economic Lowdown" series. The first seven cover opportunity cost, factors of production, the role of self-interest and competition in a market economy, inflation, unemployment, demand and supply. More episodes are in the works, and videos will soon supplement some of the audiocasts.

To listen to these short podcasts, go to [www.stlouisfed.org/education\\_resources/podcasts.cfm](http://www.stlouisfed.org/education_resources/podcasts.cfm)

### CORRECTION

In the January issue, an article on housing trends stated that housing starts had bottomed out in January 2009 at a bit less than 500,000 a month and had risen to 519,000 in October 2010. Both figures were on an annualized basis. An accompanying chart also should have made clear that the starts were on an annualized basis and were not per month.