INDIANA INCOME and NATIONAL PROJECTIONS

1st Quarter 2005 through 2nd Quarter 2007

Prepared by
ECONOMIC FORECAST COMMITTEE

APRIL 11, 2005

GDP, U.S. PERSONAL INCOME, and INDIANA NON-FARM PERSONAL INCOME PROJECTIONS

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PREVIOUS FORECAST EVALUATION

In our December forecast we predicted that U.S. economic growth would slow slightly and that inflation would increase significantly in last year's fourth quarter. While both of these trends proved correct, the actual results were slightly stronger than our projections, resulting in Nominal GDP growth that was a modest 0.6% points higher than our forecast.

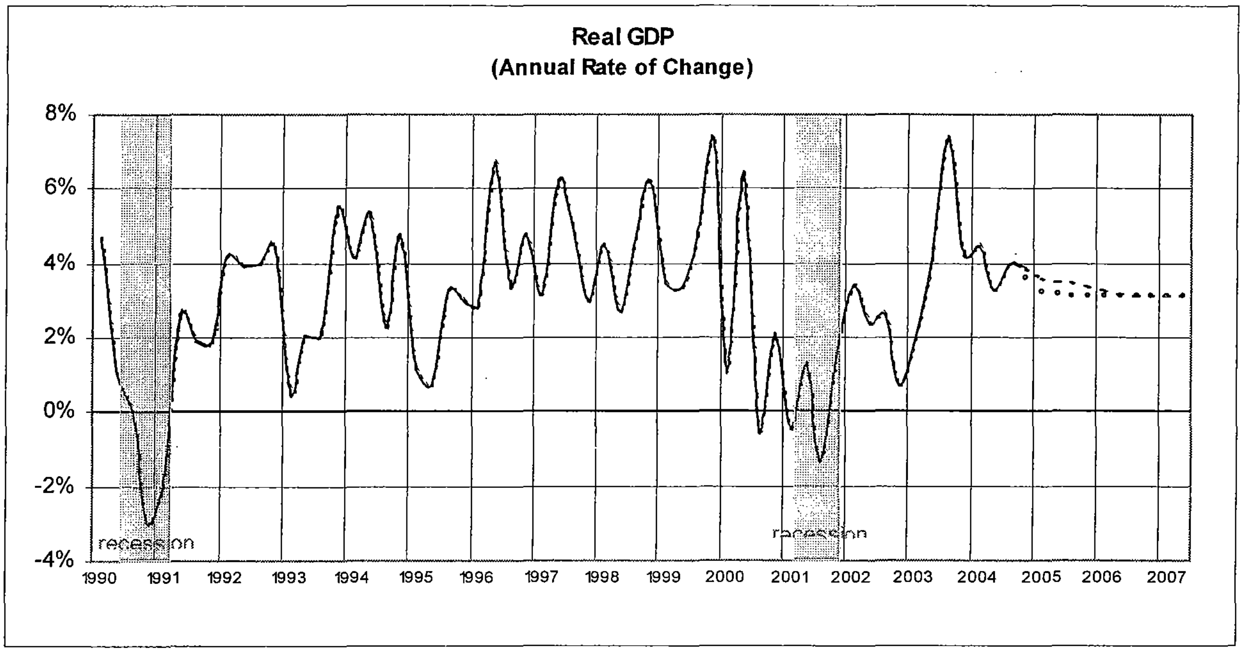
U.S. Personal Income growth, however, was double what we predicted - primarily due to a special dividend paid by Microsoft in December. The $32 billion dividend boosted personal income $24.85 billion, a $99.4 billion annual rate. Without the one time dividend, personal income would have grown at a 6.5% annual rate instead of the 10.9% reported. The dividend also raised Indiana's personal income, which contributed to our 1.6% point underestimate. GDP was not affected by the dividend.

PREVIOUS FORECAST ERRORS (at annual rates)
One quarter ending 4th Quarter 2004

	Forecast	Actual	Error
Real Gross Domestic Product	3.6%	3.8%	-0.2%
GDP Deflator	1.9%	2.3%	-0.4%
Nominal Gross Domestic Product	5.6%	6.2%	-0.6%
U.S. Total Personal Income	5.5%	10.9%	-5.4%
IN Non-Farm Personal Income (2 quarters)	4.2%	5.8%	-1.6%

REAL GROSS DOMESTIC PRODUCT

In December, we forecasted a gradual slowing in economic activity over the forecast period as the business expansion matures. We have raised our near term forecast modestly due to a somewhat stronger view of business investment and consumer spending. However, we believe higher energy prices, less accommodative monetary policy, and the twin Federal and international deficits will have a moderating effect over time. [Circles are previous forecast]



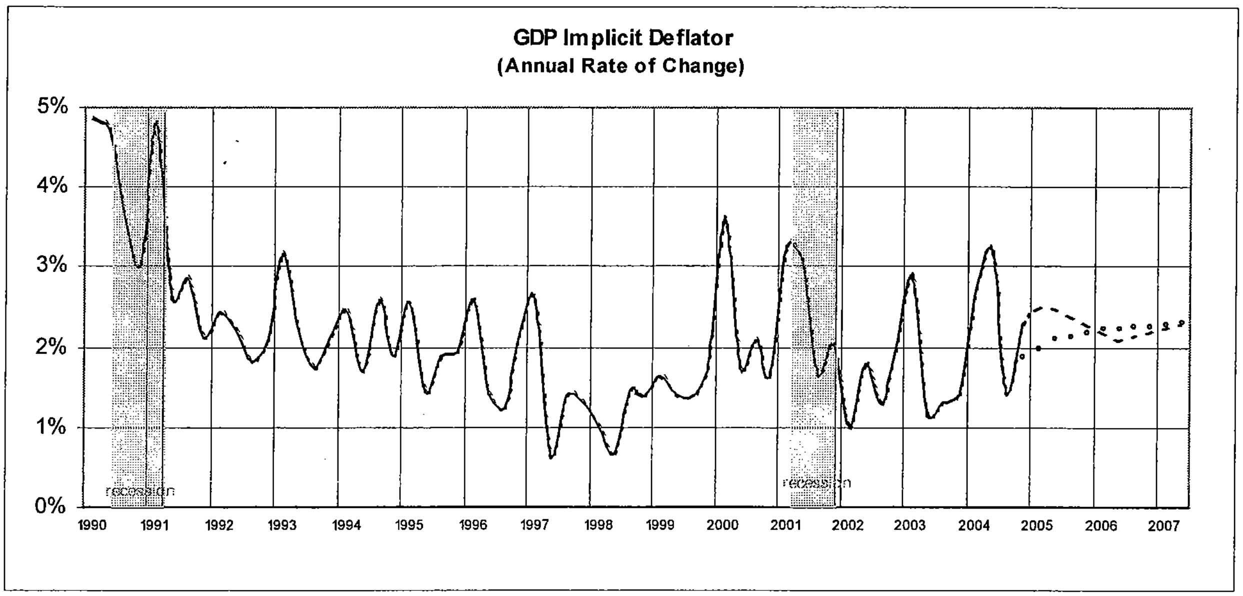
The table below shows that the forecast for this fiscal year and next is 0.2% higher than our previous forecast.

Real GDP
Current and Previous Forecast
(2nd Quarter to 2nd Quarter)

	Current 4/11/05	Previous 12/14/04	% Point Difference
FY 2004-05	3.7%	3.5%	0.2%
FY 2005-06	3.3%	3.1%	0.2%
FY 2006-07	3.1%	3.1%	0.0%

GDP IMPLICIT DEFLATOR

Previously, we expected a significant increase in inflation due primarily to higher oil prices and higher import prices associated with a declining dollar. Our forecast was based, in part, upon oil trading in the $35 - $45 per barrel range. Now we are hoping that it doesn't exceed $60 per barrel. Higher energy prices forced up our inflation forecast for this year. While we expect oil and gasoline prices to be volatile, we anticipate them stabilizing and perhaps declining some by next year. If oil prices were to spike to $100 a barrel as some are predicting, then this entire forecast would be invalid. Recently the dollar has strengthened some, but we expect further declines due to our record trade deficit and very large Federal budget deficit.

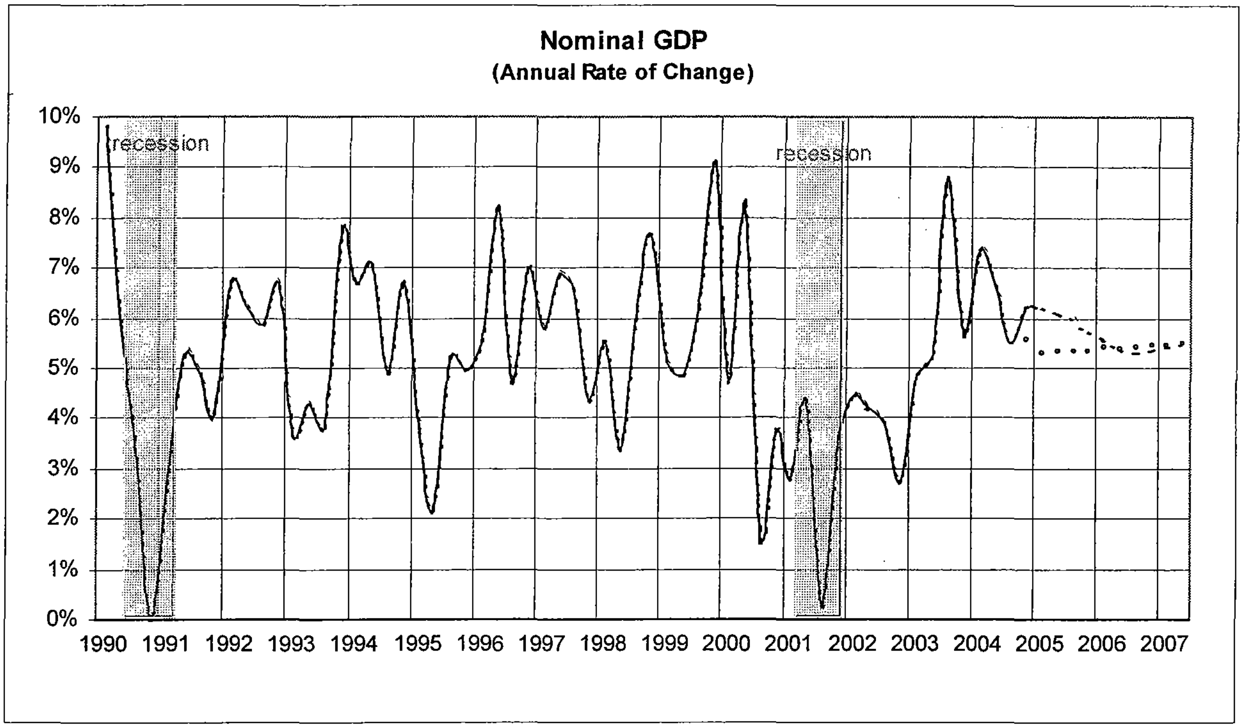


GDP Implicit Price Deflator
Current and Previous Forecast
(2nd Quarter to 2nd Quarter)

	Current 4/11/05	Previous 12/1/04	% Point Difference
FY 2004-05	2.2%	1.8%	0.4%
FY 2005-06	2.3%	2.2%	0.1%
FY 2006-07	2.2%	2.3%	-0.1%

NOMINAL GROSS DOMESTIC PRODUCT

Combining our higher forecast for both the real economy and inflation, results in a more sizable increase in the nominal GDP numbers.

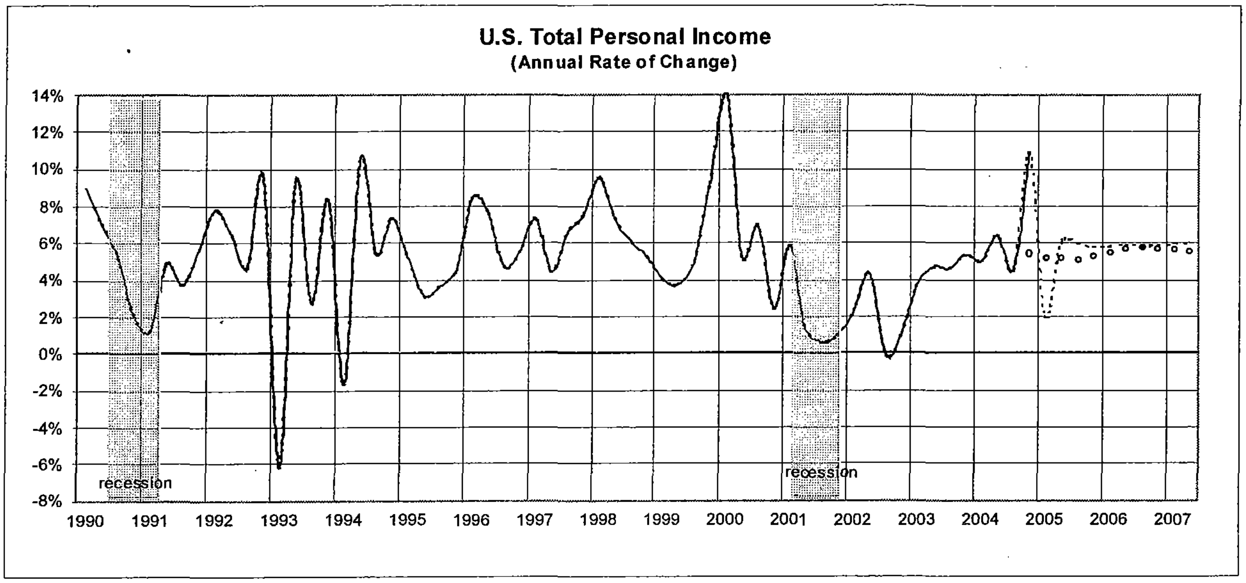


Nominal GDP
Current and Previous Forecast
(2nd Quarter to 2nd Quarter)

	Current 4/11/05	Previous 12/14/04	% Point Difference
FY 2004-05	6.0%	5.4%	0.6%
FY 2005-06	5.7%	5.4%	0.3%
FY 2006-07	5.4%	5.5%	-0.1%

U.S. TOTAL PERSONAL INCOME

The primary reason for the surge in growth in the fourth quarter was the Microsoft dividend, which added 4.9% points at an annual rate. Since we do not expect a repeat of this, the first quarter growth rate is depressed. We have also raised our personal income forecast somewhat to reflect higher wage income associated with better employment prospects. The net result of these factors plus higher inflation is a 1% point addition to our 2004-05 FY growth, 0.5% next FY, and 0.2% in the final FY.



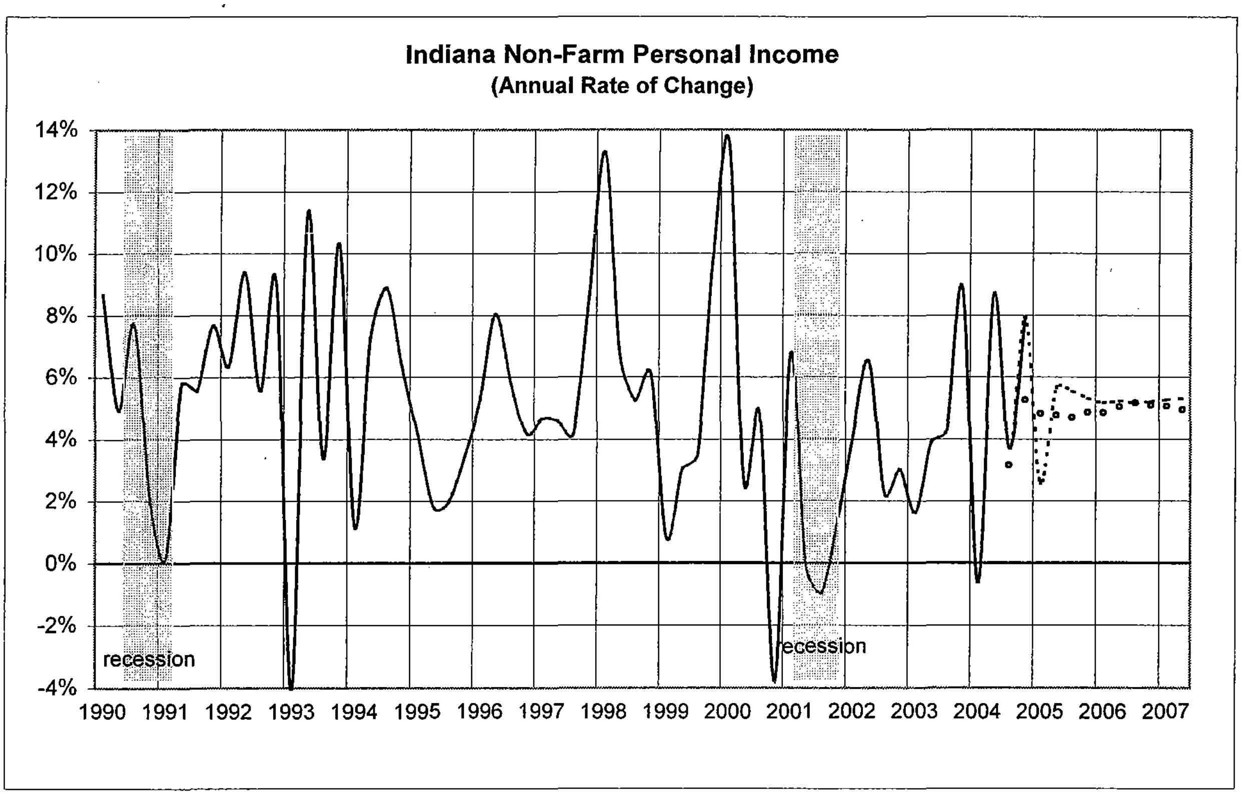
U.S. Total Personal Income
Current and Previous Forecast
(2nd Quarter to 2nd Quarter)

	Current 4/11/05	Previous 12/14/04	% Point Difference
FY 2004-05	5.8%	4.8%	1.0%
FY 2005-06	5.9%	5.4%	0.5%
FY 2006-07	5.9 %	5.7%	0.2%

INDIANA NON-FARM PERSONAL INCOME

Indiana personal income was also affected by the Microsoft dividend, but to a lesser extent than nationally. The Indiana forecast was raised 0.5% points this FY, 0.4% next FY, and only 0.1% in the final FY due to the Microsoft dividend, higher inflation, and a slightly improved job outlook. While the improvement attributed to higher inflation raises revenues, it has an equally negative impact on the state's operating costs.

A concern we have is that the financial problems that General Motors is having could have a significant effect in Indiana over the forecast period. It is likely that GM will restructure its North America operations, which could be either negative or positive for Indiana.



Indiana Non-Farm Personal Income
Current and Previous Forecast
(Quarterly Data Annualized
(Fiscal Years are 2nd Quarter to 2nd Quarter)

	Current 4/11/05	Previous 12/14/04	% Point Difference
2005:1	2.6%	4.8%	-2.2%
2005:2	5.6%	4.8%	0.8%
2005:3	5.6%	4.7%	0.9%
2005:4	5.3%	4.9%	0.4%
2006:1	5.2%	4.9%	0.3%
2006:2	5.2%	5.1%	0.1%
2006:3	5.2%	5.2%	0.0%
2006:4	5.2%	5.1%	0.1%
2007:1	5.3%	5.1%	0.2%
2007:2	5.3%	4.9%	0.4%
FY 2004-05	5.0%	4.5%	0.5%
FY 2005-06	5.3%	4.9%	0.4%
FY 2006-07	5.2%	5.1%	0.1%

GROSS DOMESTIC PRODUCT PROJECTIONS

April 11, 2005

		Gross Domestic Product Billions of $		GDP Implicit Price Deflator	Quarterly Percent Changes At Annual Rates		
		Real	**Nominal**	**1996=100**	**Real**	**Deflator**	**Nominal**
Actual:							
2000	Q1	9,695.6	9,629.4	99.3172	1.0	3.6	4.7
	Q2	9,847.9	9,822.8	99.7451	6.4	1.7	8.3
	Q3	9,836.6	9,862.1	100.2592	-0.5	2.1	1.6
	Q4	9,887.7	9,953.6	100.6665	2.1	1.6	3.8
2001	Q1	9,875.6	10,021.5	101.4774	-0.5	3.3	2.8
	Q2	9,905.9	10,128.9	102.2512	1.2	3.1	4.4
	Q3	9,871.1	10,135.1	102.6745	-1.4	1.7	0.2
	Q4	9,910.0	10,226.3	103.1917	1.6	2.0	3.6
2002	Q1	9,993.5	10,338.2	103.4492	3.4	1.0	4.4
	Q2	10,052.6	10,445.7	103.9104	2.4	1.8	4.2
	Q3	10,117.3	10,546.5	104.2422	2.6	1.3	3.9
	Q4	10,135.9	10,617.5	104.7514	0.7	2.0	2.7
2003	Q1	10,184.4	10,744.6	105.5006	1.9	2.9	4.9
	Q2	10,287.4	10,884.0	105.7993	4.1	1.1	5.3
	Q3	10,472.8	11,116.7	106.1483	7.4	1.3	8.8
	Q4	10,580.7	11,270.9	106.5232	4.2	1.4	5.7
2004	Q1	10,697.5	11,472.6	107.2456	4.5	2.7	7.4
	Q2	10,784.7	11,657.5	108.0929	3.3	3.2	6.6
	Q3	10,891.0	11,814.9	108.4832	4.0	1.5	5.5
	Q4	10,994.3	11,994.8	109.1002	3.8	2.3	6.2
Projections:							
2005	*Q1*	*11,091.9*	*12,176.7*	*109.78*	*3.6*	*2.5*	*6.2*
	Q2	*11,187.7*	*12,357.9*	*110.46*	*3.5*	*2.5*	*6.1*
	Q3	*11,284.3*	*12,539.1*	*111.12*	*3.5*	*2.4*	*6.0*
	Q4	*11,379.0*	*12,716.0*	*111.75*	*3.4*	*2.3*	*5.8*
2006	*Q1*	*11,471.7*	*12,889.6*	*112.36*	*3.3*	*2.2*	*5.6*
	Q2	*11,562.4*	*13,059.7*	*112.95*	*3.2*	*2.1*	*5.4*
	Q3	*11,651.0*	*13,229.7*	*113.55*	*3.1*	*2.1*	*5.3*
	Q4	*11,740.3*	*13,403.9*	*114.17*	*3.1*	*2.2*	*5.4*
2007	*Q1*	*11,830.2*	*13,582.3*	*114.81*	*3.1*	*2.3*	*5.4*
	Q2	*11,920.8*	*13,763.8*	*115.46*	*3.1*	*2.3*	*5.5*

Indiana Fiscal Years (Ending June 30th)	Percent Changes (Q2-Q2)		
2000-01	0.6	2.5	3.1
2001-02	1.5	1.6	3.1
2002-03	2.3	1.8	4.2
2003-04	4.8	2.2	7.1
2004-05	3.7	2.2	6.0
2005-06	*3.3*	2.3	*5.7*
2006-07	*3.1*	2.2	*5.4*

PERSONAL INCOME PROJECTIONS
April 11, 2005

		U.S. Total Billions of $	Indiana Nonfarm Millions of $	Quarterly Percent Changes At Annual Rates U.S.	Indiana
Actual:					
2000	Q1	8,266.2	163,366	14.1	13.5
	Q2	8,372.3	164,421	5.2	2.6
	Q3	8,514.4	166,392	7.0	4.9
	Q4	8,565.8	164,803	2.4	-3.8
2001	Q1	8,688.7	167,520	5.9	6.8
	Q2	8,719.9	167,478	1.4	-0.1
	Q3	8,733.1	167,073	0.6	-1.0
	Q4	8,754.8	167,627	1.0	1.3
2002	Q1	8,803.6	169,337	2.2	4.1
	Q2	8,897.1	172,028	4.3	6.5
	Q3	8,895.7	172,986	-0.1	2.2
	Q4	8,919.2	174,274	1.1	3.0
2003	Q1	9,002.2	174,981	3.8	1.6
	Q2	9,105.7	176,665	4.7	3.9
	Q3	9,209.3	178,542	4.6	4.3
	Q4	9,330.0	182,384	5.3	8.9
2004	Q1	9,445.0	182,097	5.0	-0.6
	Q2	9,592.7	185,913	6.4	8.6
	Q3	9,700.4	187,611	4.6	3.7
	Q4	9,953.8	191,226	10.9	7.9
Projections:					
2005	*Q1*	*10,003.2*	*192,462*	*2.0*	*2.6*
	Q2	*10,152.0*	*195,121*	*6.1*	*5.6*
	Q3	*10,300.9*	*197,777*	*6.0*	*5.6*
	Q4	*10,446.2*	*200,358*	*5.8*	*5.3*
2006	*Q1*	*10,595.3*	*202,900*	*5.8*	*5.2*
	Q2	*10,748.1*	*205,504*	*5.9*	*5.2*
	Q3	*10,901.3*	*208,106*	*5.8*	*5.2*
	Q4	*11,058.2*	*210,769*	*5.9*	*5.2*
2007	*Q1*	*11,219.0*	*213,498*	*5.9*	*5.3*
	Q2	*11,382.7*	*216,271*	*6.0*	*5.3*

Indiana Fiscal Years (Ending June 30th)	Percent Changes (Q2-Q2)	
2000-01	4.2	1.9
2001-02	2.0	2.7
2002-03	2.3	2.7
2003-04	*5.3*	*5.2*
2004-05	*5.8*	*5.0*
2005-06	*5.9*	*5.3*
2006-07	*5.9*	*5.2*