

The Economic Outlook for the U.S. and Indiana

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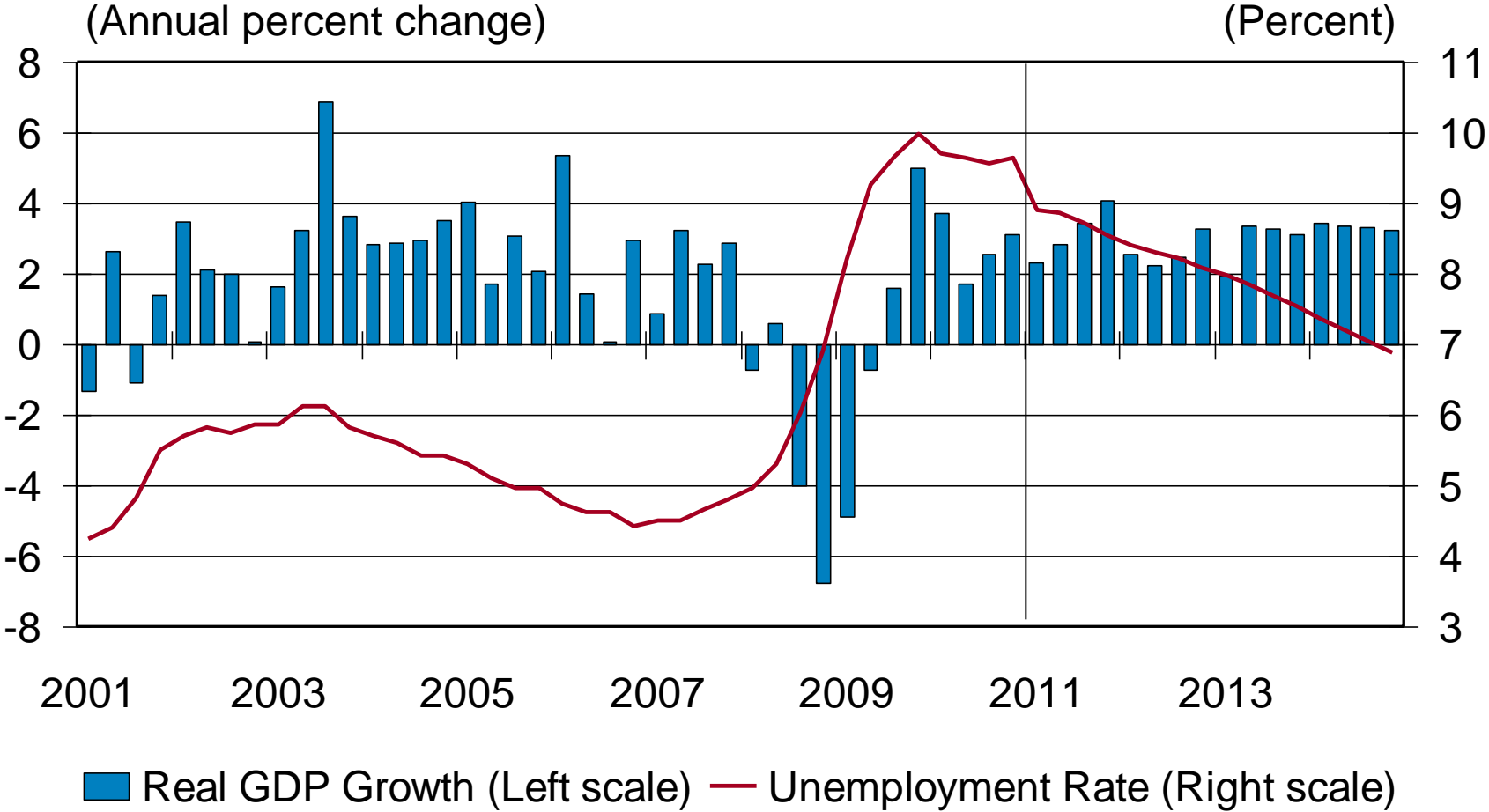


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Global Outlook Summary

- The global economic expansion is continuing at a healthy pace, but risks are mounting.
- Japan's economy will recover from the devastating March 11 earthquake; global supply chains face near-term disruptions.
- Turbulence in MENA presents risks to oil supplies and prices.
- Europe faces an extended period of weak growth as sovereign debt problems are resolved.
- Emerging markets continue to offer the best growth prospects.

A Growing U.S. Economy Will Cut Unemployment



U.S. Economic Growth by Sector

(Percent change)

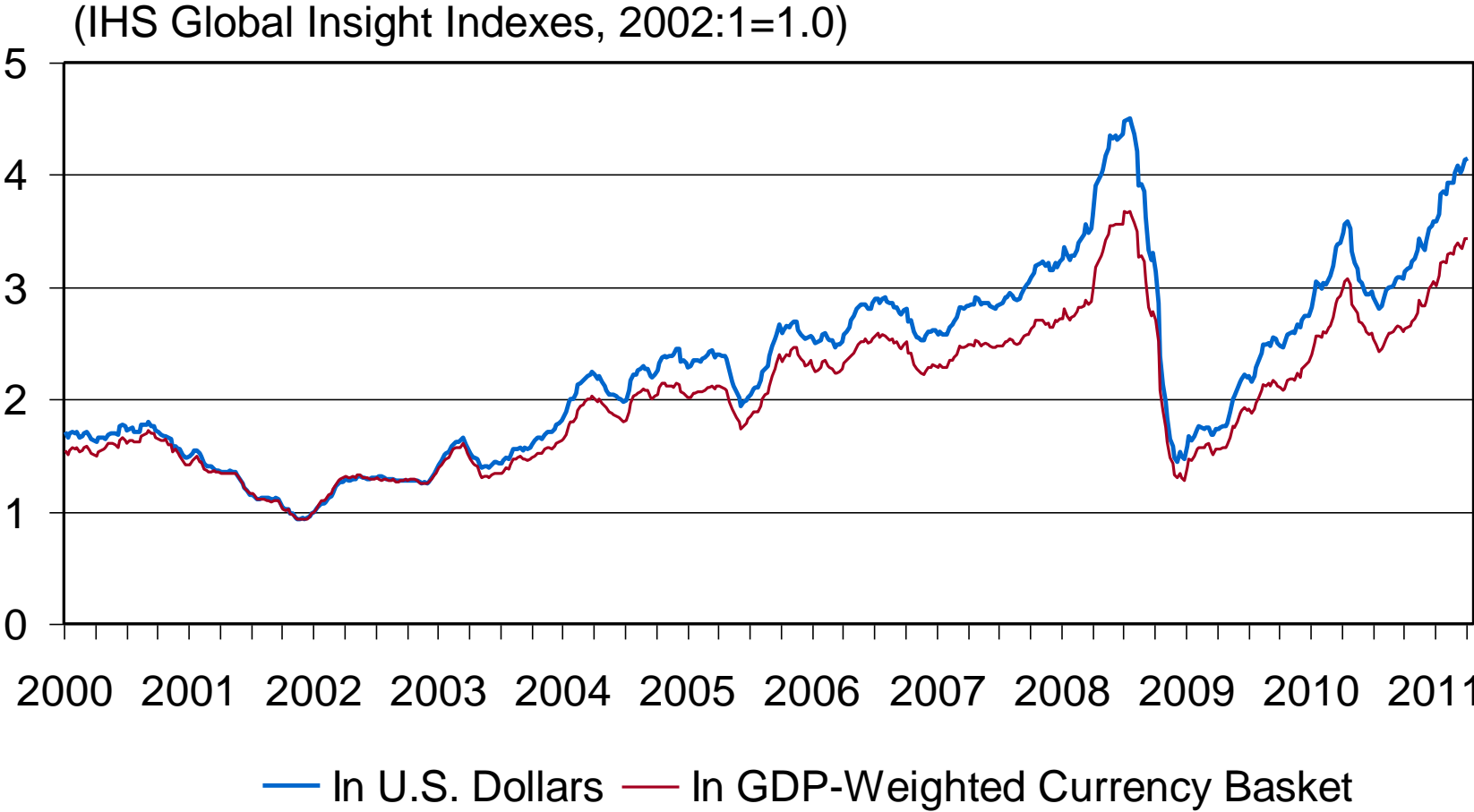
	2009	2010	2011	2012
Real GDP	-2.6	2.9	2.8	2.9
Consumption	-1.2	1.7	2.6	2.6
Residential Investment	-22.9	-3.0	-1.0	25.9
Business Fixed Investment	-17.1	5.7	9.0	7.7
Federal Government	5.7	4.8	-0.1	-3.3
State & Local Govt.	-0.9	-1.4	-1.8	-1.0
Exports	-9.5	11.7	9.9	9.6
Imports	-13.8	12.6	5.8	6.7

Is Inflation Heating Up?

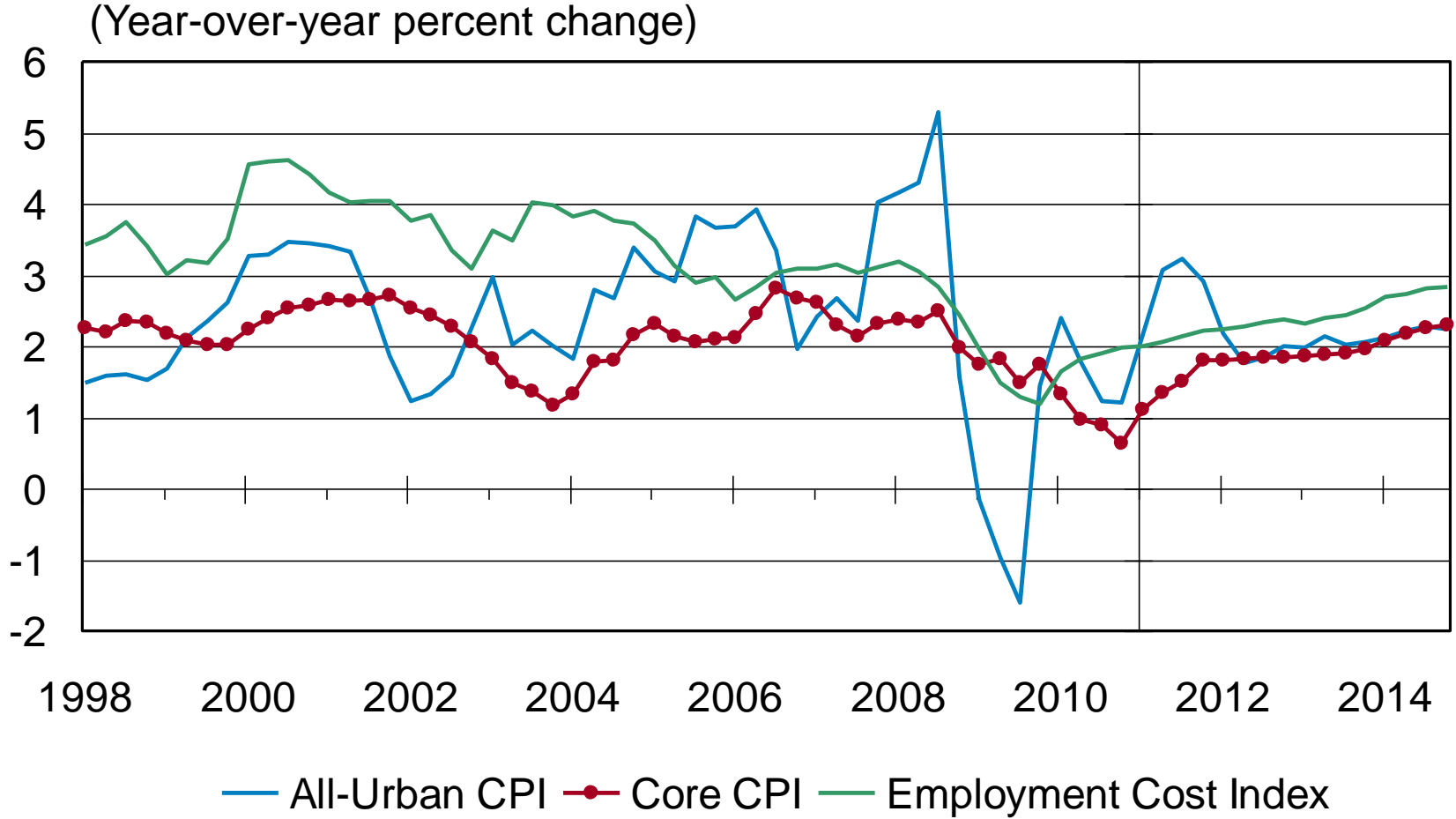
- Inflationary pressures
 - Rapid growth in emerging markets
 - Expansionary monetary policies
 - Oil supply disruptions in Libya
 - Rising commodity prices
- Countervailing restraints
 - Excess productive capacity
 - Slack labor markets
 - Global competition



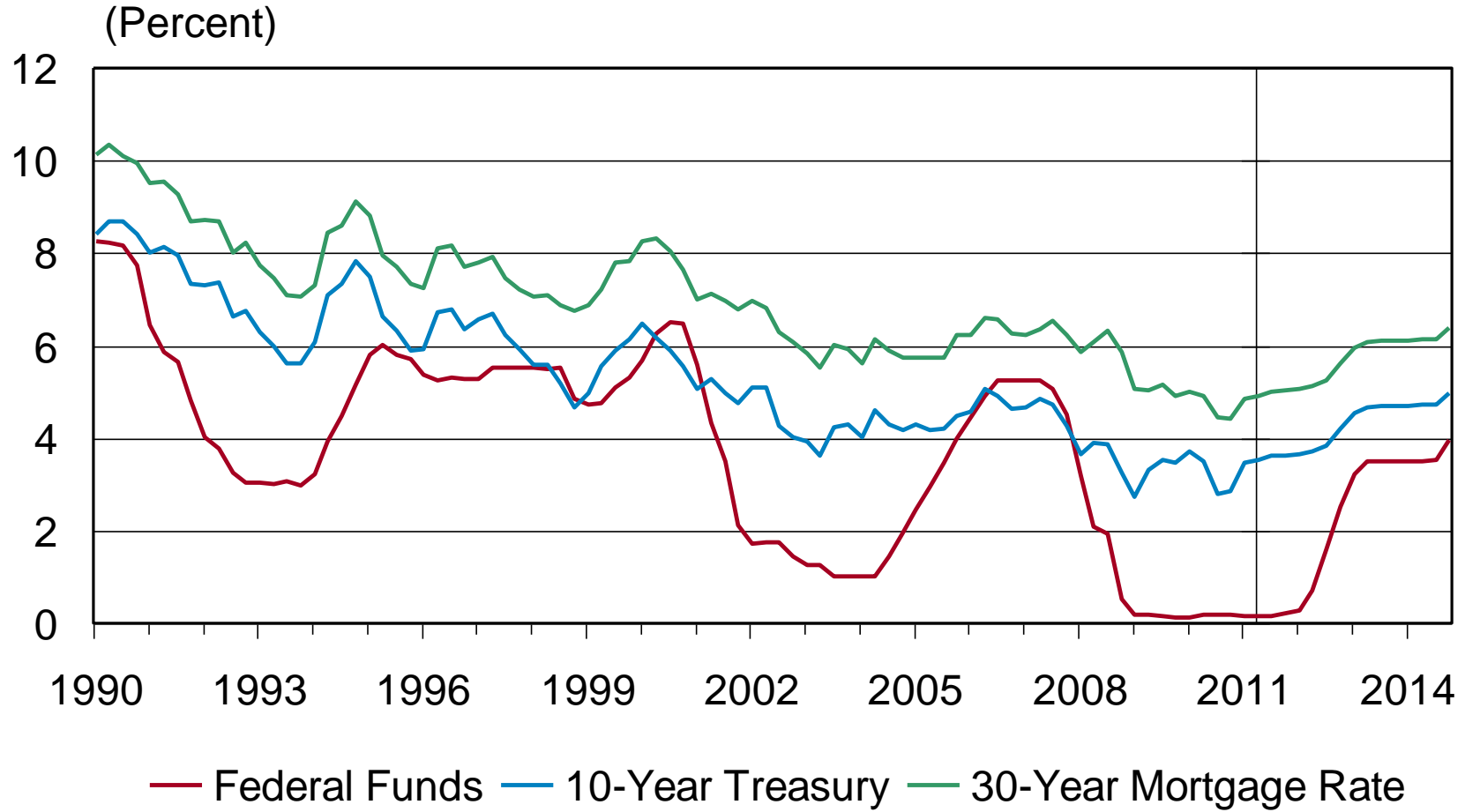
Industrial Materials Prices Have Surged



U.S. Core Inflation Will Drift Upward



U.S. Interest Rates Will Rise in 2012



Cross-Currents Affecting Consumer Finances

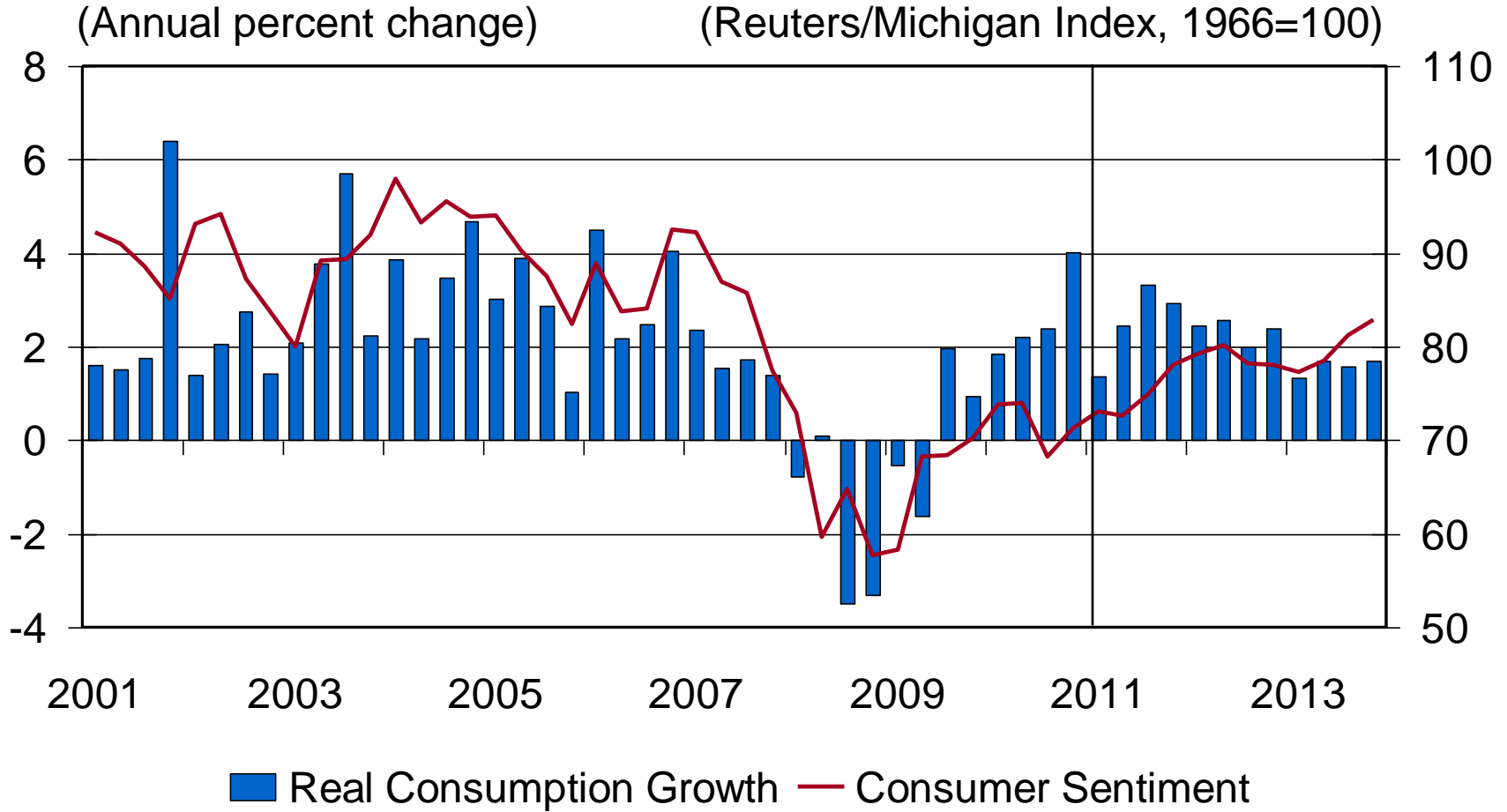
Positive Forces

- Upturn in Employment
- Real Income Growth
- Stock Market Recovery
- Low Interest Rates

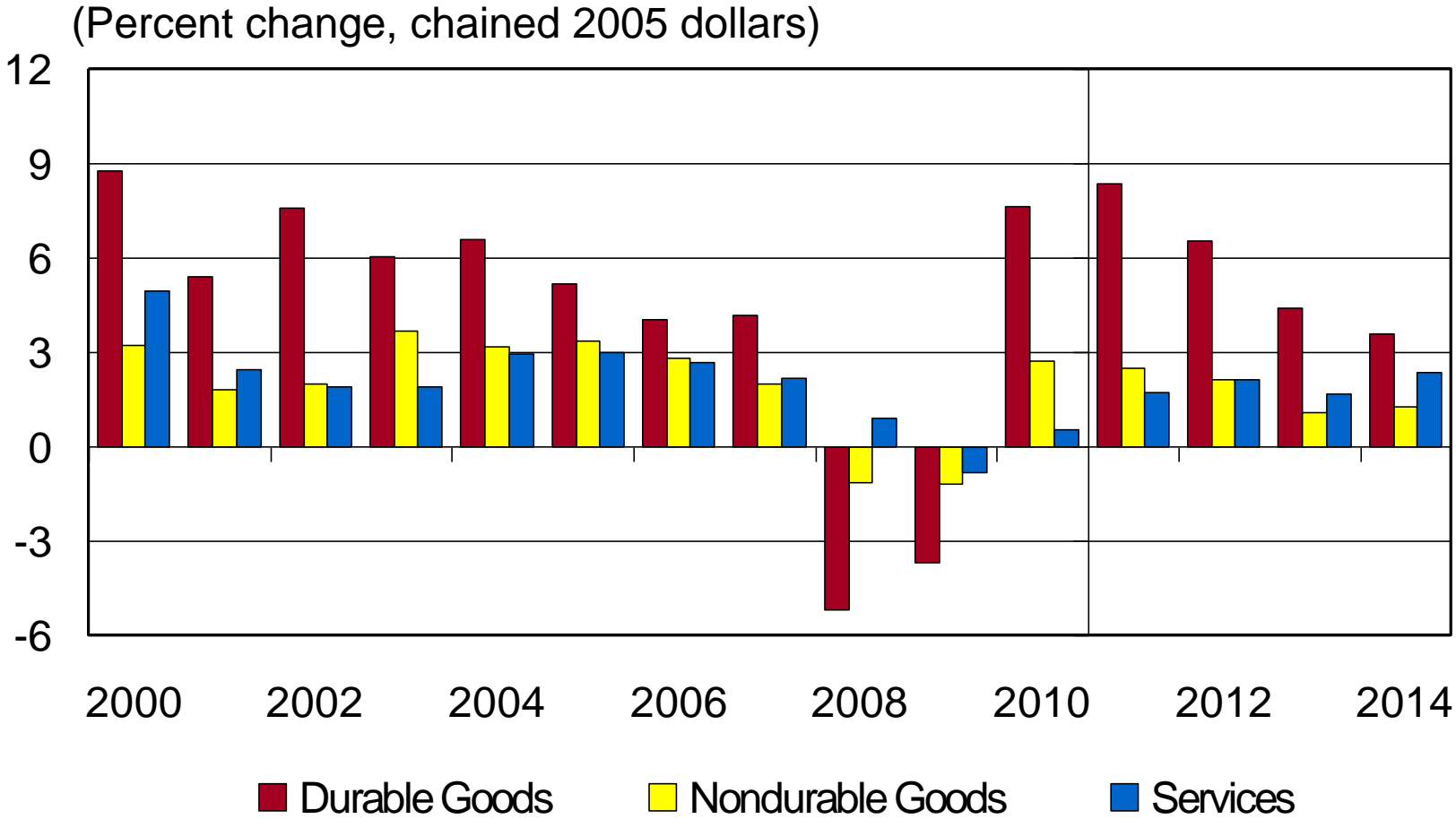
Negative Forces

- Rising Gasoline Prices
- High Unemployment
- Reduced Housing Wealth
- High Debt Burdens

Consumers Are Cautious: Real Spending Growth



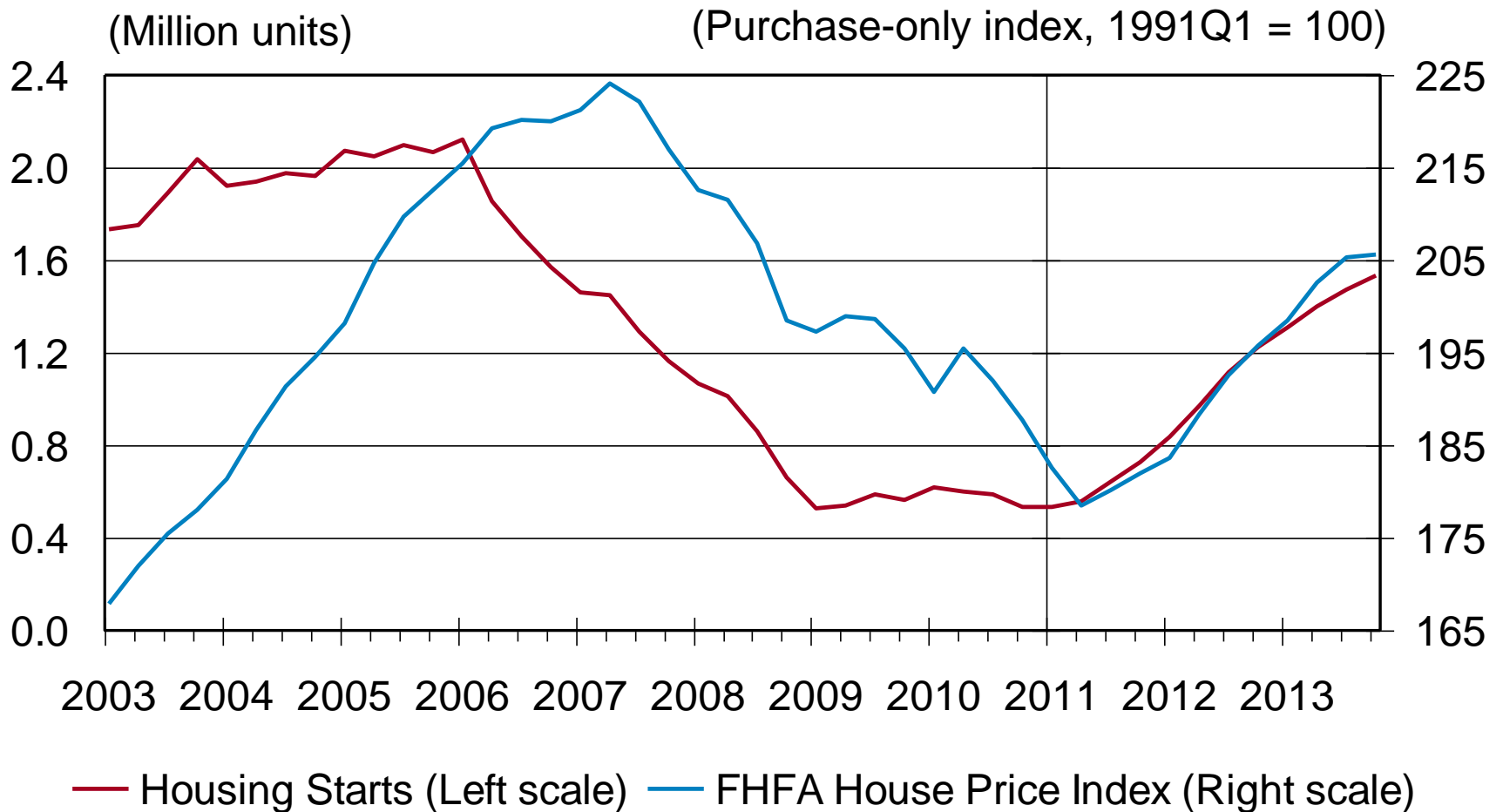
Durable Goods Lead the Ups and Downs in Real U.S. Consumer Spending



A Delayed Recovery in Housing Markets

- The recession led to a drop-off in household formation.
- Home affordability has greatly improved, boosting demand.
- High mortgage foreclosure rates are adding to excess supply, depressing prices and holding back new construction.
- Sustained job growth will spark a housing market recovery.
- Multifamily units' share of housing starts will rise.

U.S. Housing Starts Have Hit Bottom: Prices Not Quite There Yet



Risks to the US Forecast

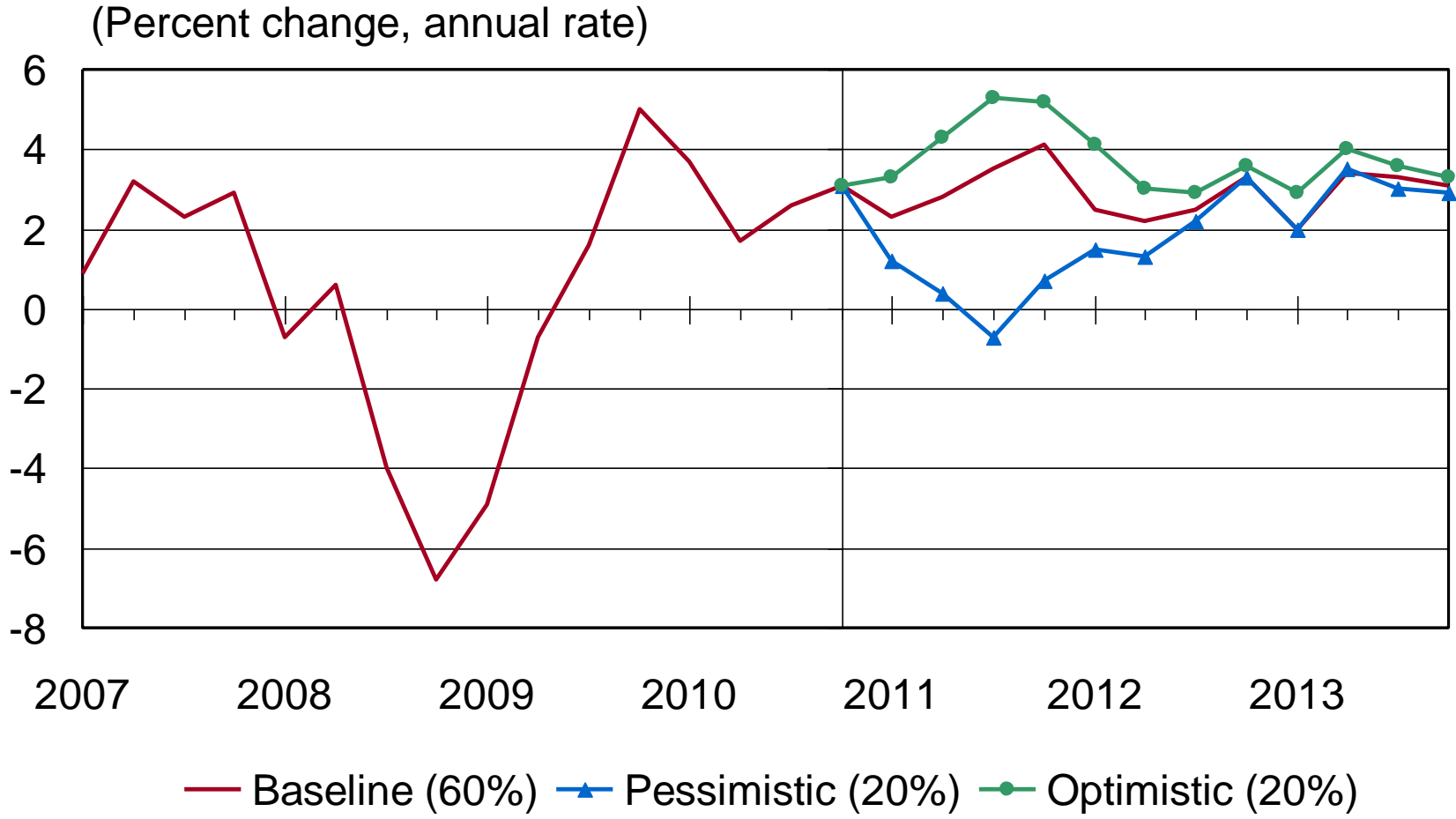
Downside Risks

- Oil supply disruptions spread, causing prices to soar.
- Financial instability returns; housing recession drags on.
- Consumers retrench after setbacks to asset values and purchasing power.
- Businesses are reluctant to hire or invest.

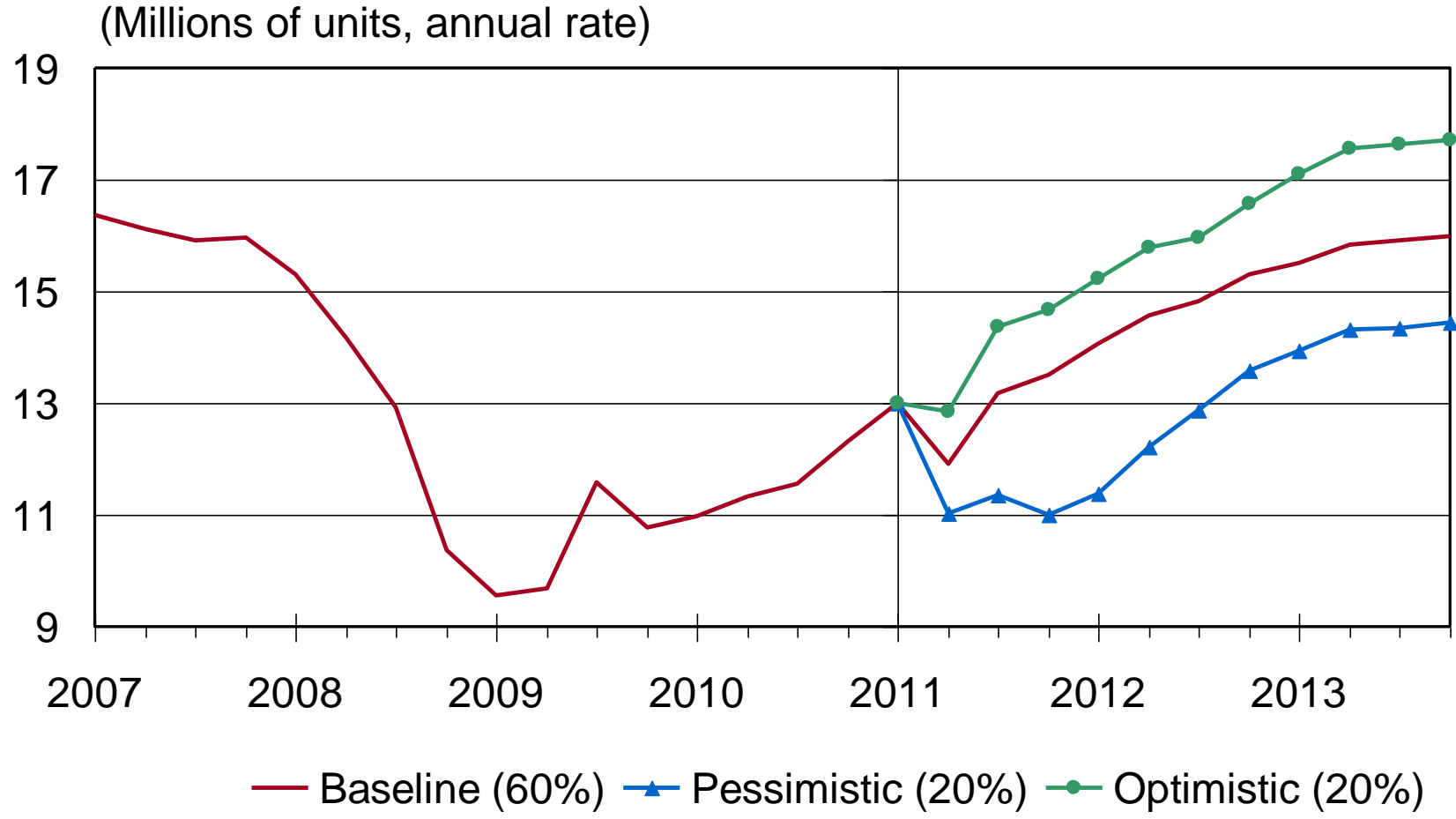
Upside Risks

- Credit channels function smoothly, supporting investment.
- Rapid technological progress boosts real income growth.
- Robust growth in many emerging markets fuels exports.

Real GDP Growth in Alternative Scenarios



Light Vehicle Sales in Alternative Scenarios



Bottom Line

- The economic recovery is on a self-sustaining course, barring a major oil market disruption.
- Job growth will enable consumers to spend more confidently.
- Business equipment investment, exports, consumer durables, and housing construction will drive the expansion.
- Although food and energy prices are accelerating, high unemployment will restrain wage gains and core inflation
- The federal government needs an “exit strategy” from deficit spending or financial markets will eventually impose one.

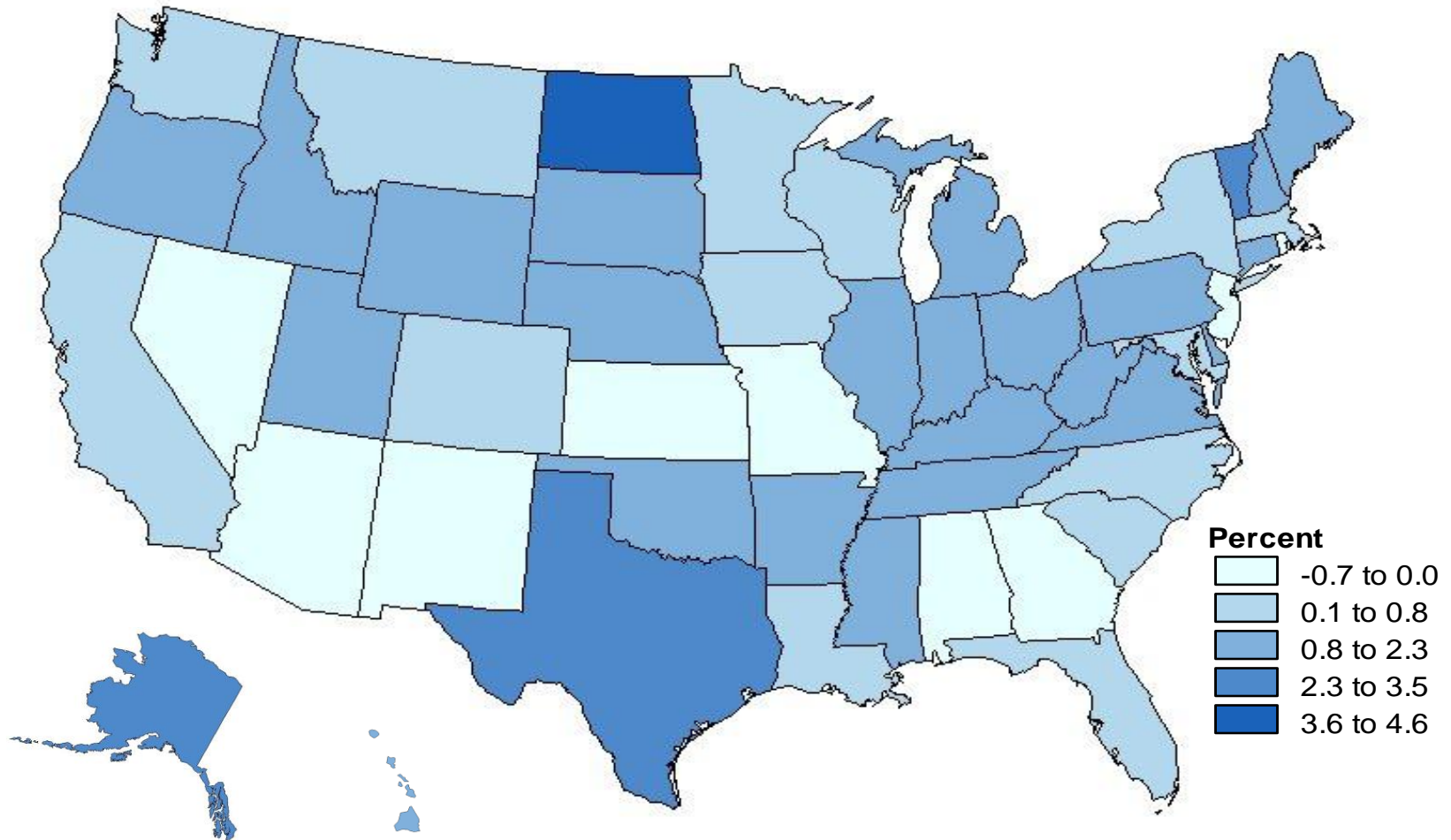
Regional Outlook



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Labor markets reverse coursed in 2010

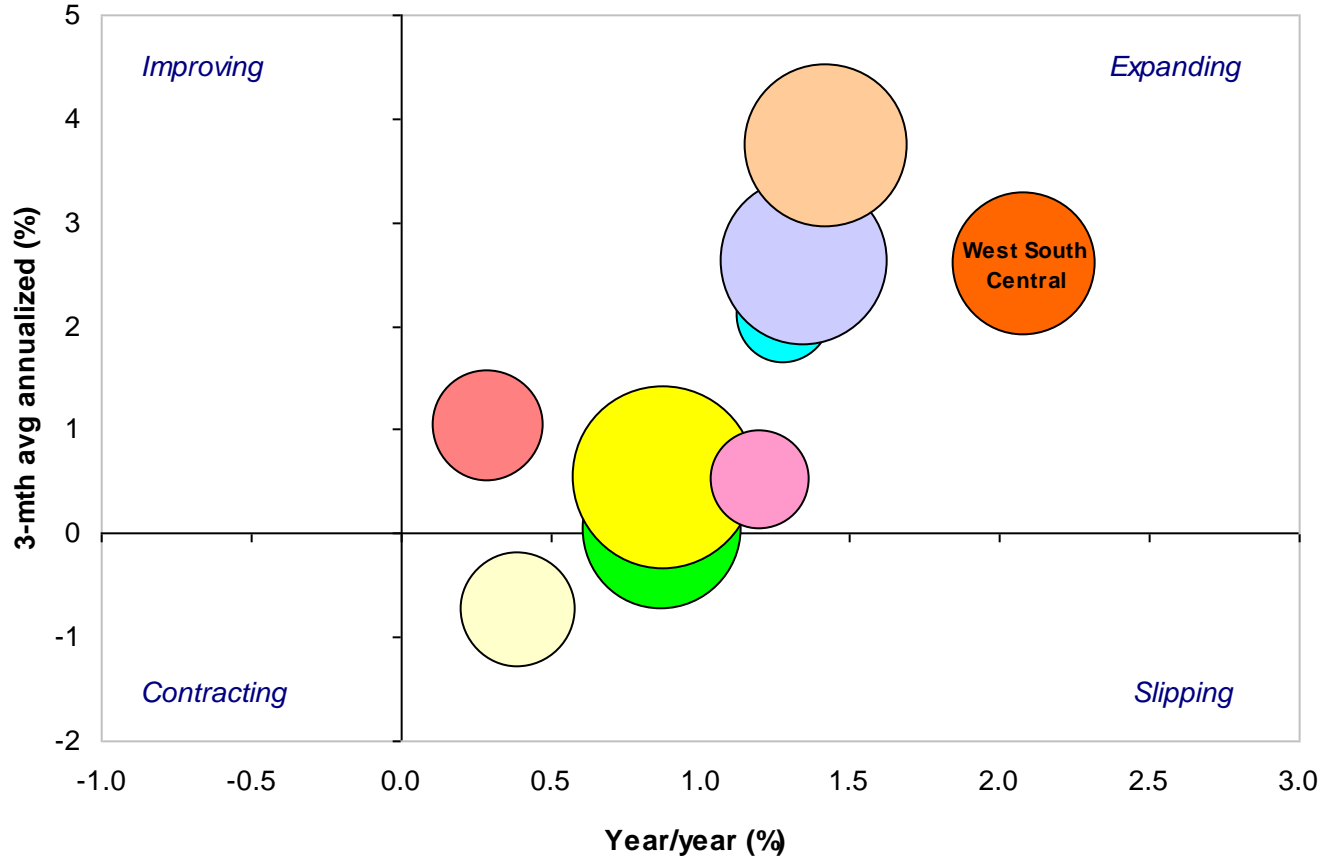
Year-over-year Employment Change, December 2010, %; Indiana 0.8%



Momentum is building in most regions

Employment Momentum

February 2011



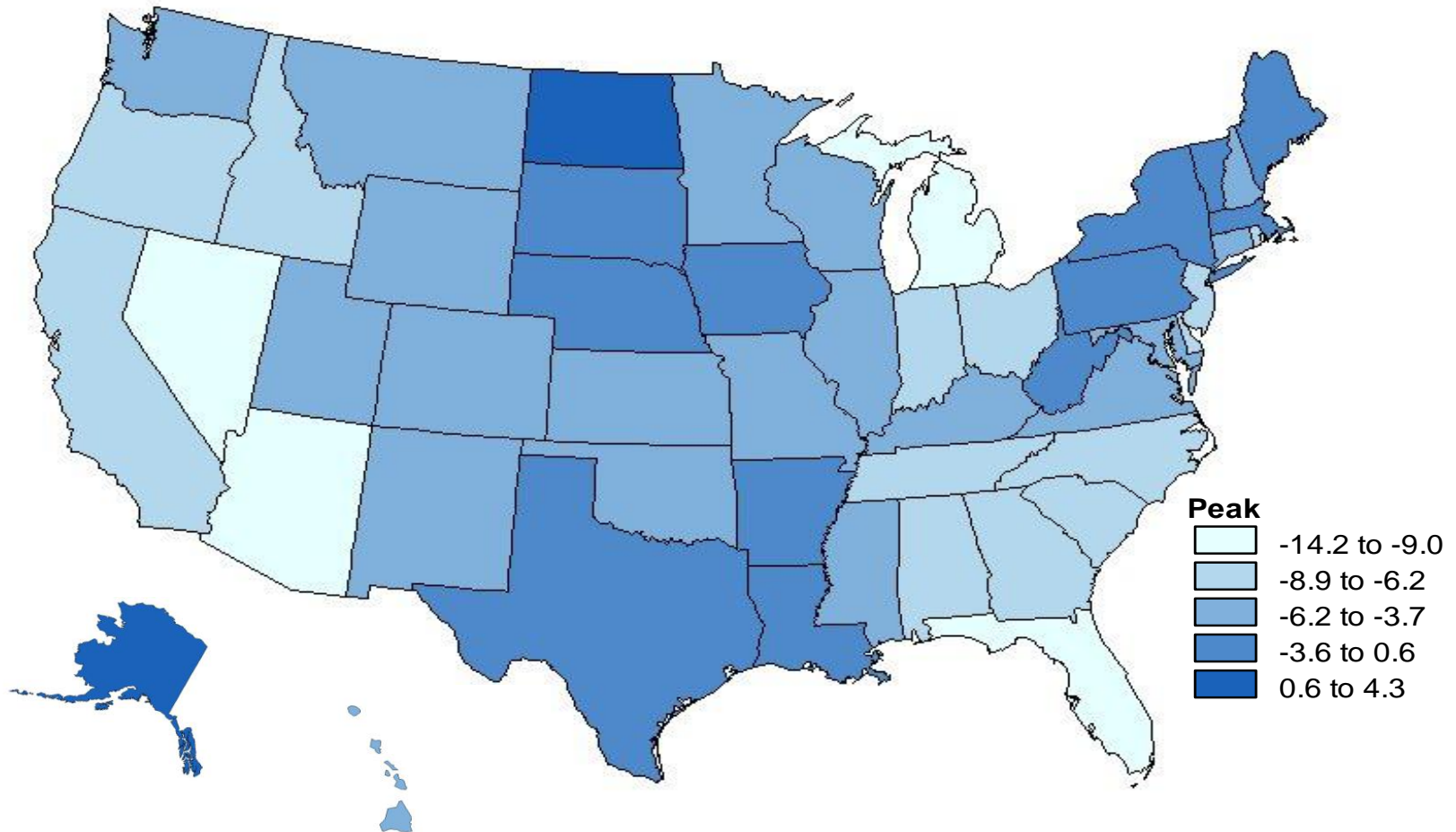
- New England
- East North Central
- West South Central
- Mid Atlantic
- West North Central
- Mountain
- South Atlantic
- East South Central
- Pacific

But many states are still deep in the hole

Peak to February 2011 Employment Change, %

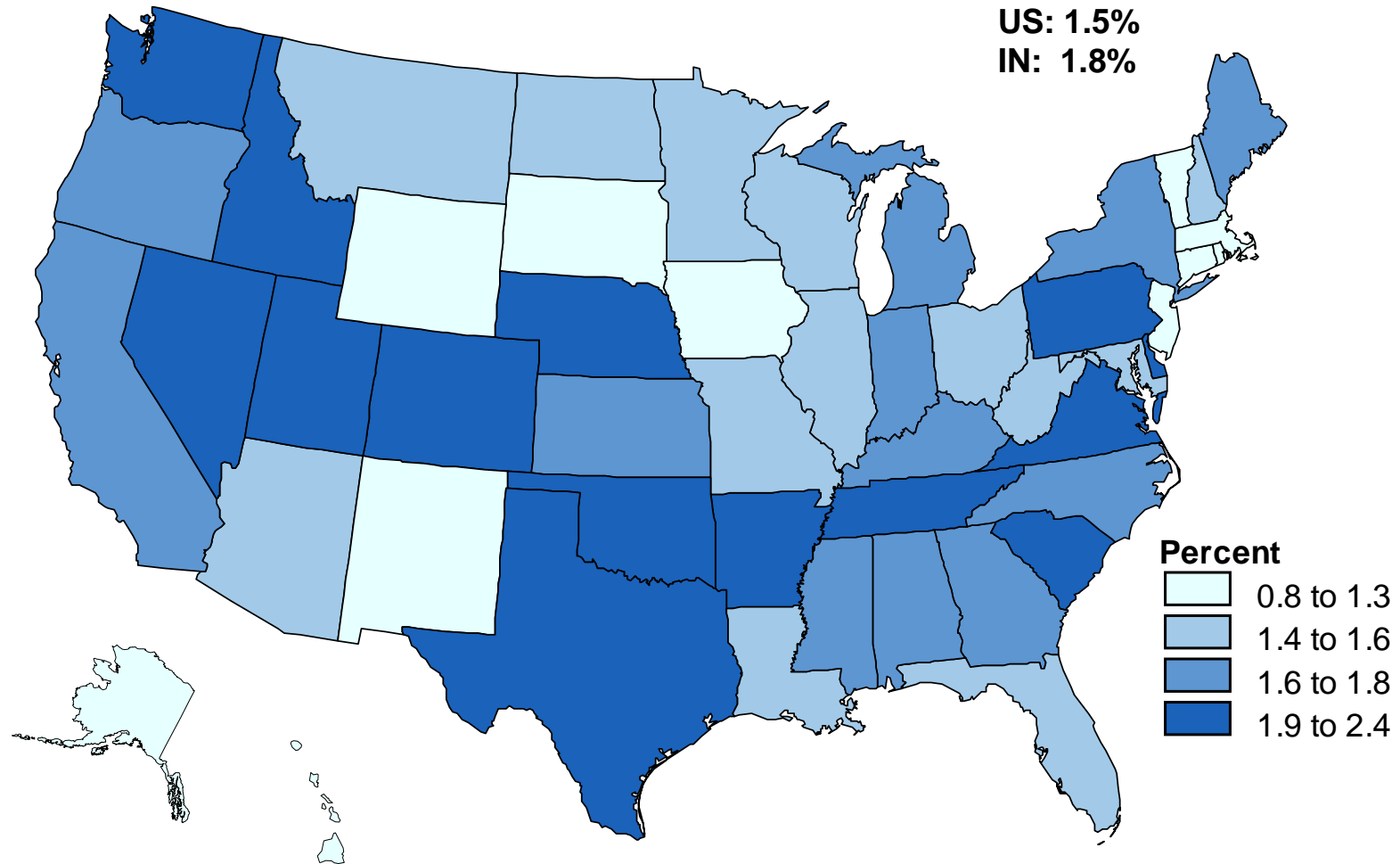
US: -5.6%

IN : -6.8%



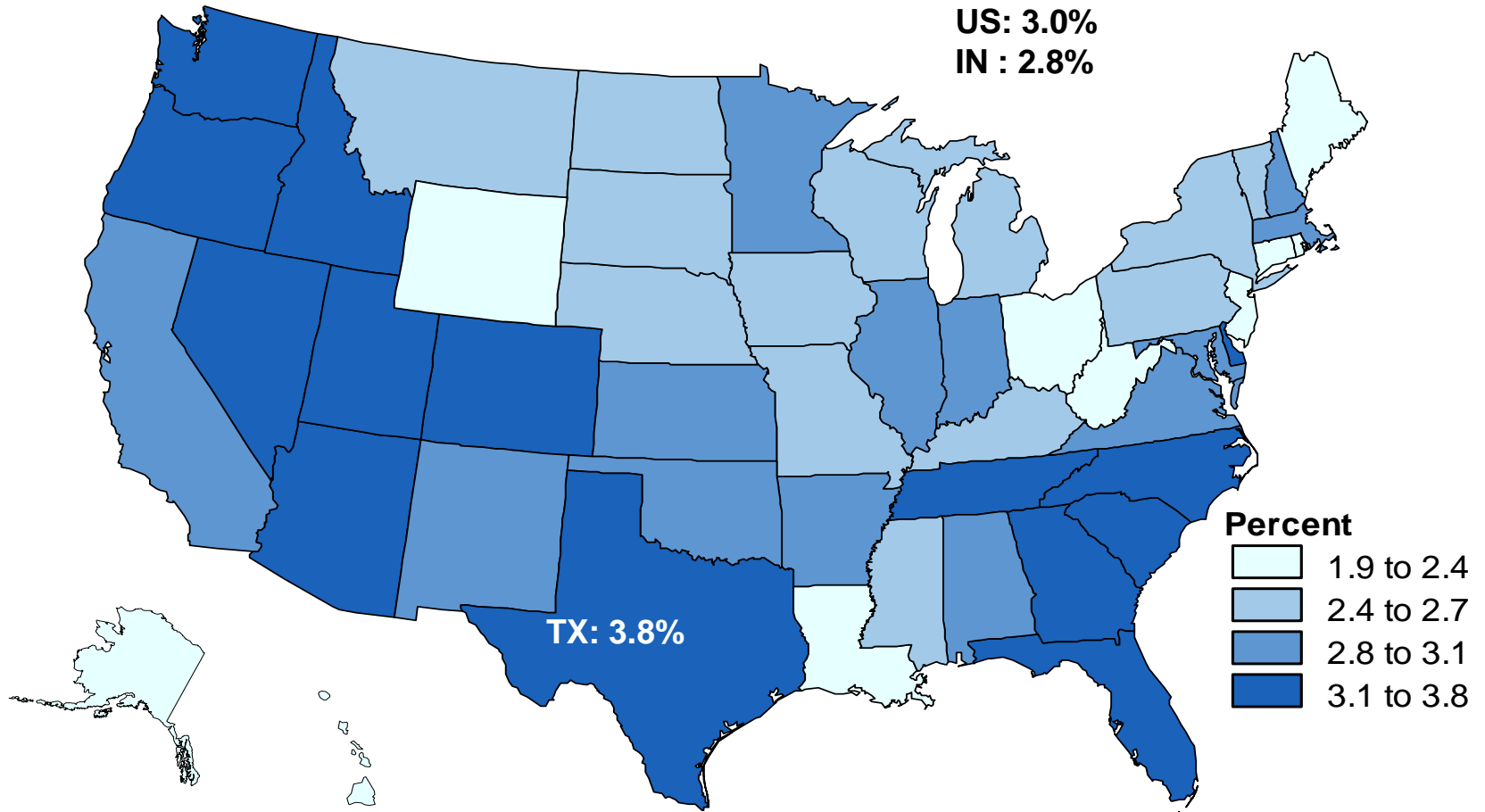
Recovery gathers momentum in 2011

Employment Growth 2011Q4, year-over-year %



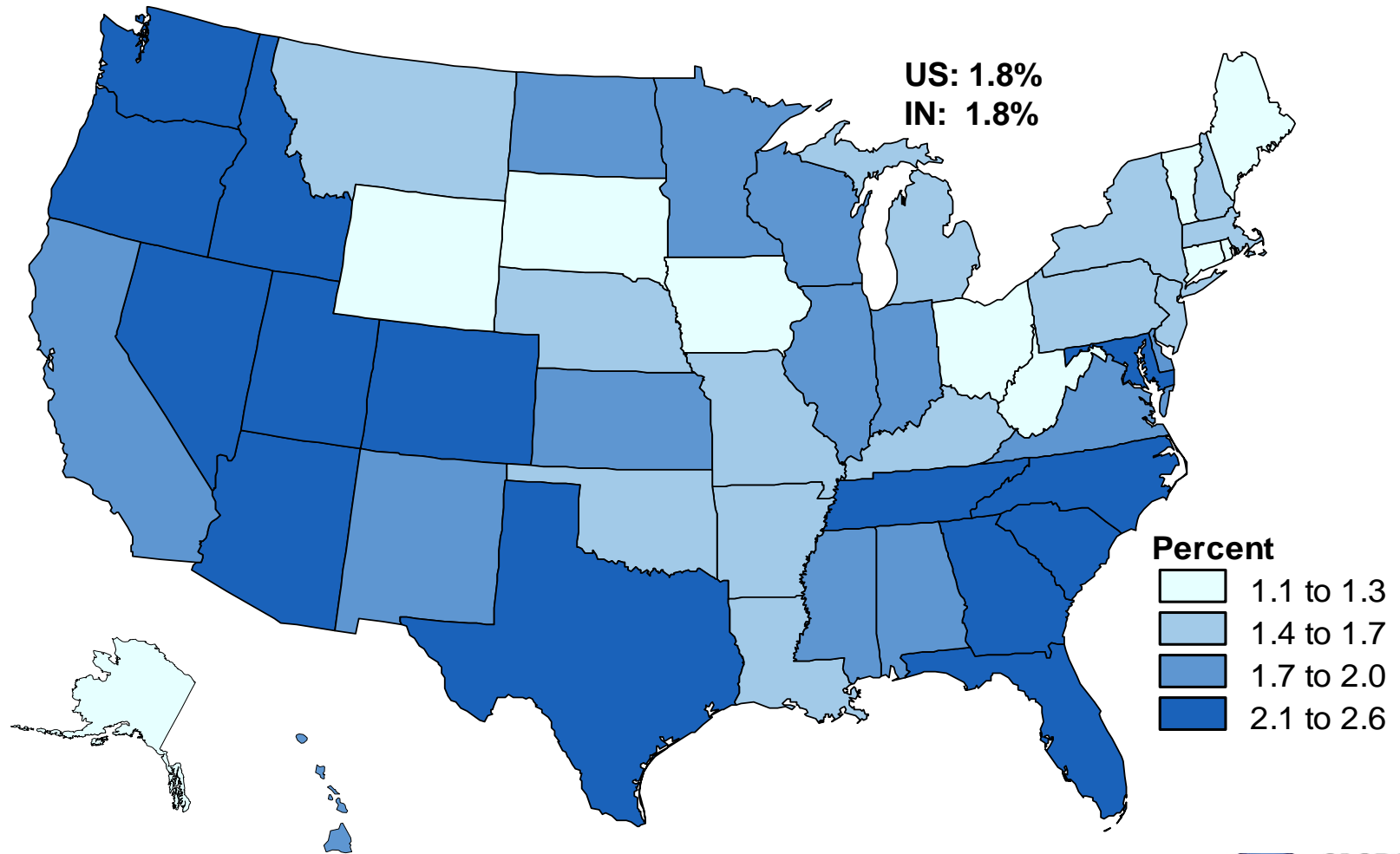
Medium-term performance: GSP

Real Gross State Product Growth 2011-2016, % annual rate



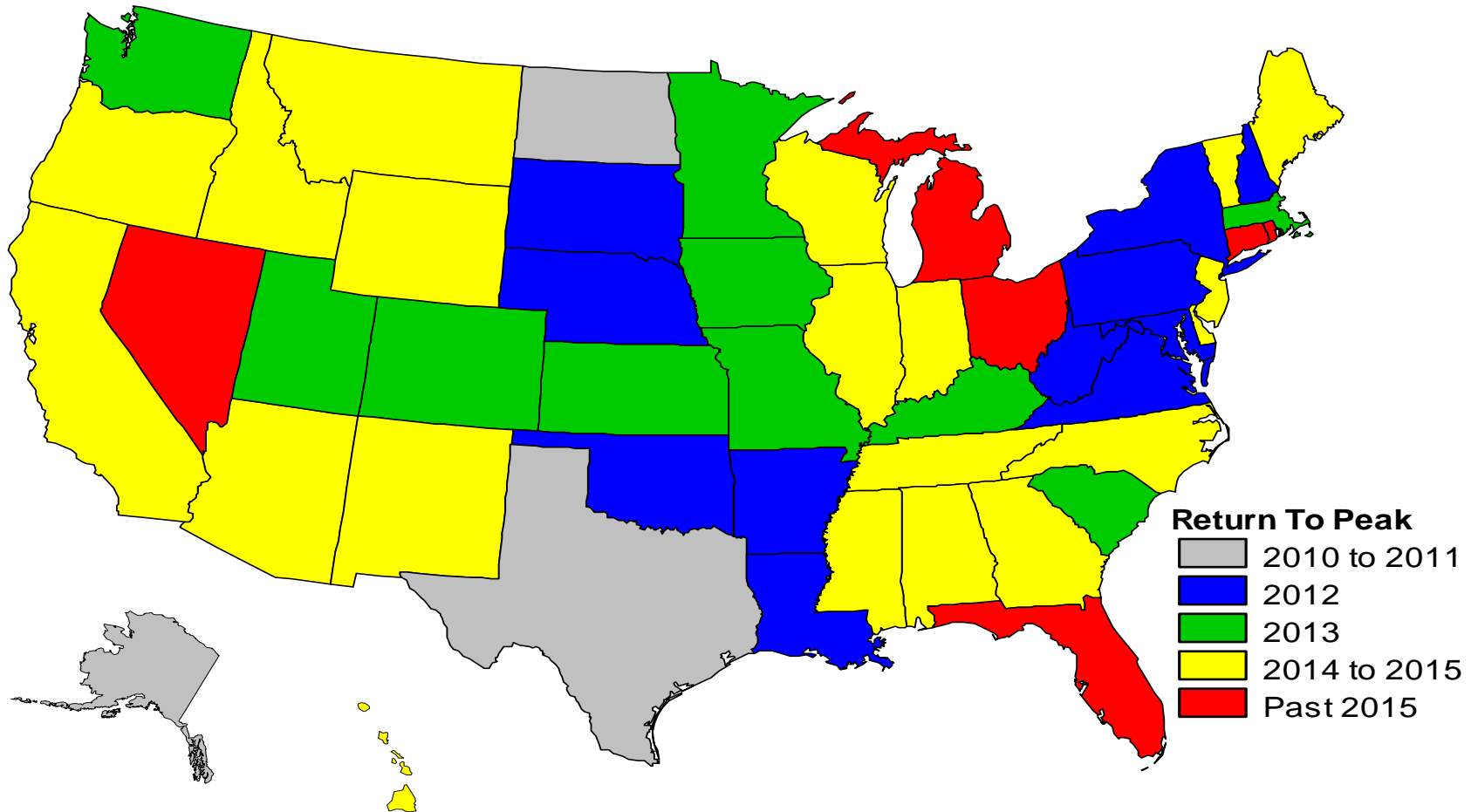
Medium-term performance: Jobs

Employment Growth 2011-2016, % annual rate



Indiana will recover lost jobs early in 2014

Year of Return to Peak Employment



Indiana Outlook



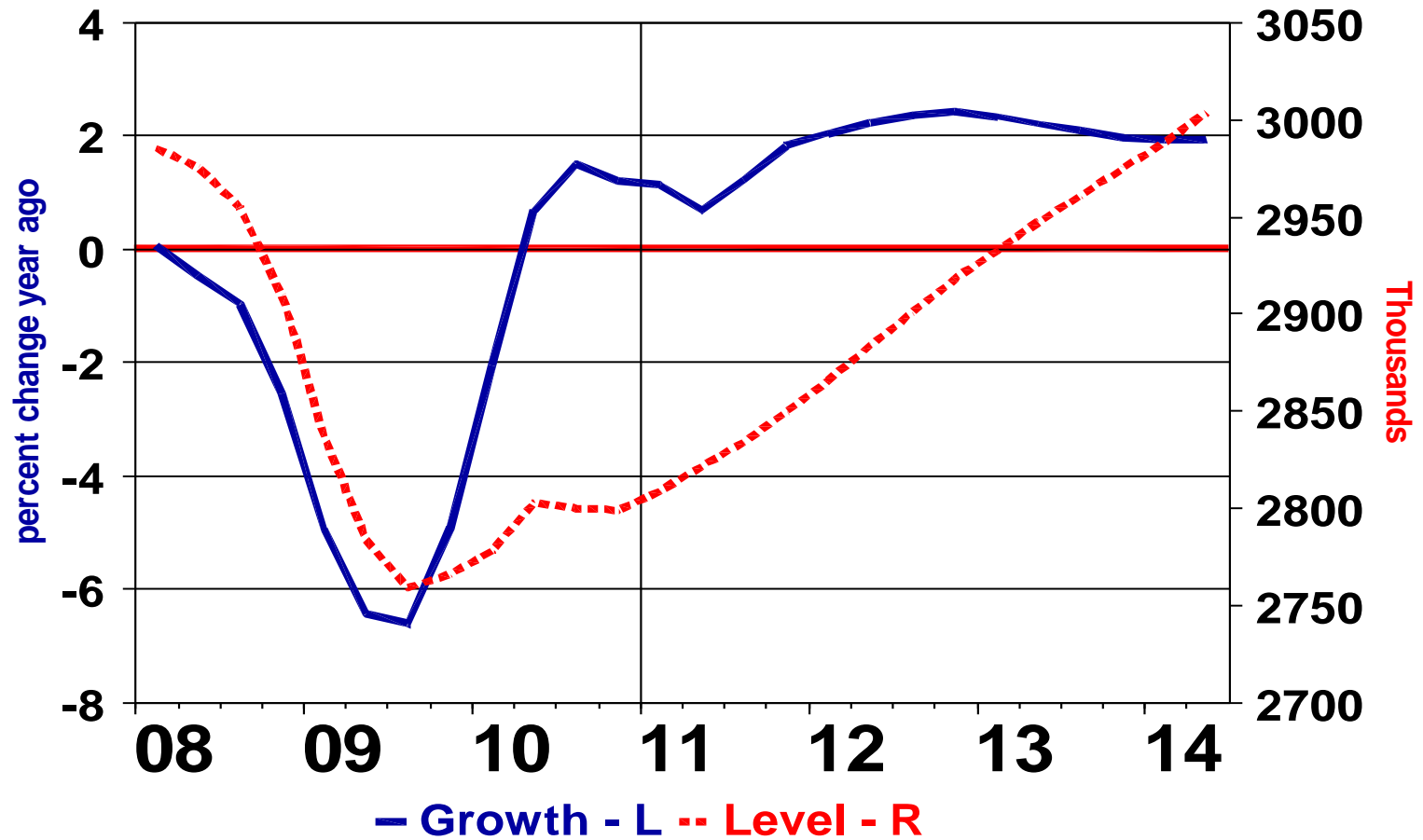
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Bottom Line

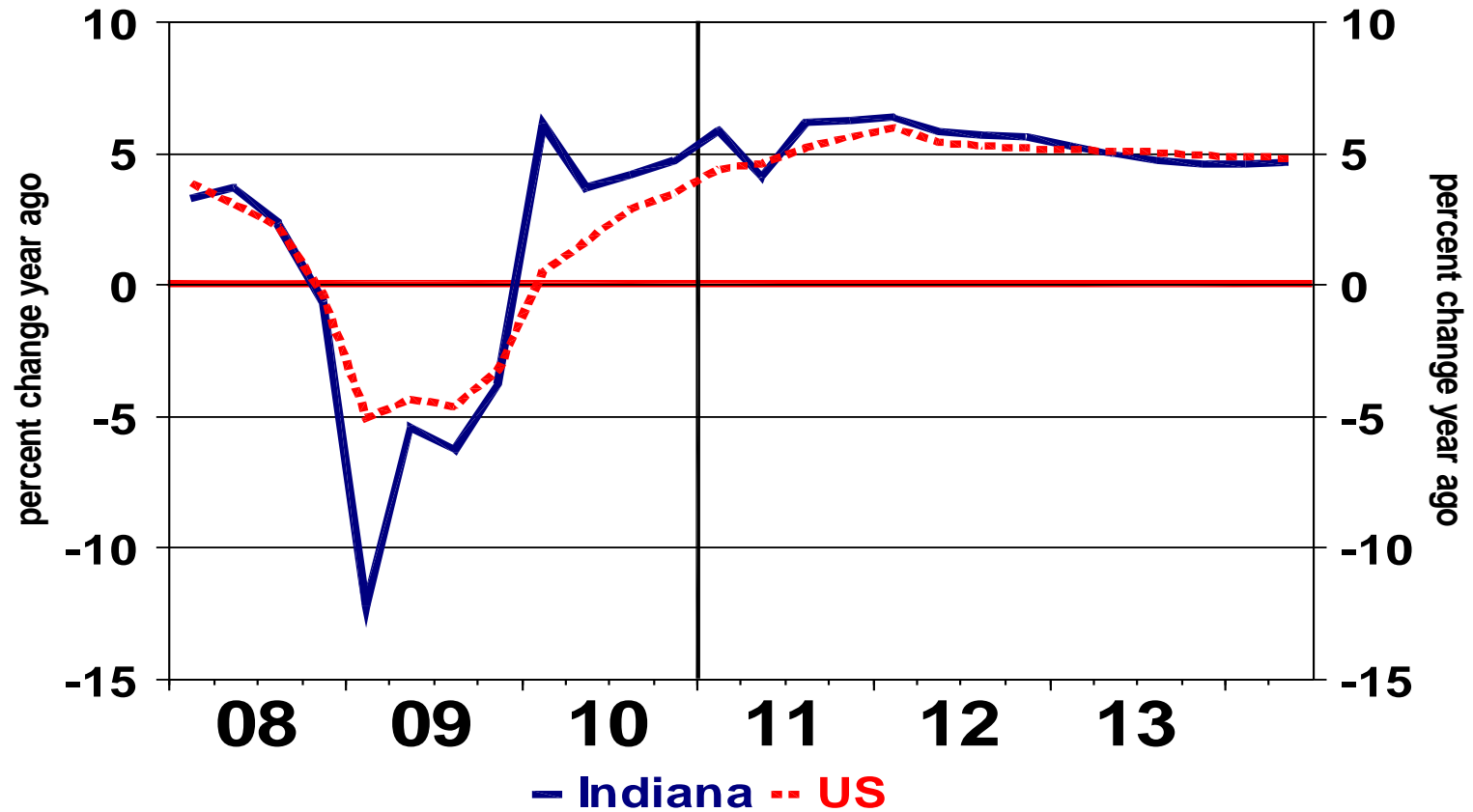
- Deeper, earlier recession than most
- Among 2010 growth leaders early in the year
 - Transportation equipment rebound
 - Low paying temp and business services jobs
- Slow recovery, but a recovery is indeed in place
- Medium term performance near average among states
 - Outpacing other midwest manufacturing giants

Indiana Employment Forecast

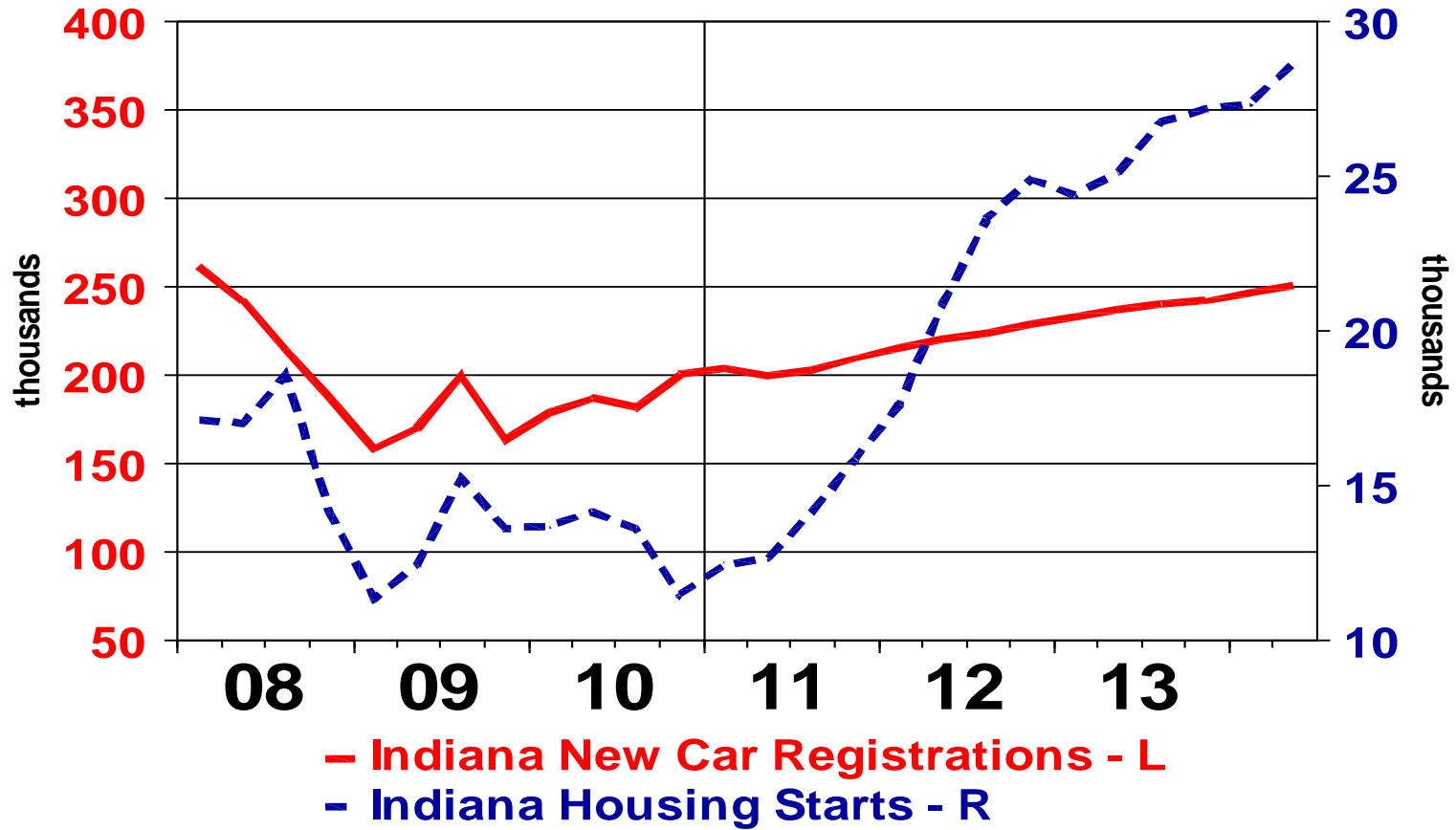


Wage Gains Return

(nominal total wages and salaries)



Cars and Houses



Forecast Summary

(Percent unless otherwise noted)

	2009	2010	2011	2012
Employment	-5.7	0.3	1.2	2.3
Unemployment Rate	10.4	10.2	8.8	8.5
Personal Income	-2.4	3.2	5.0	3.1
Housing Starts (000)	13.1	13.2	13.7	21.7
Retail Sales	-7.2	6.6	7.6	5.3
Real Gross State Product	-5.0	2.0	2.4	3.1

Thank you!

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