

# Economic Outlook for the US and Indiana

James Diffley, Senior Director  
Chief Regional Economist  
IHS Global Insight  
April 16, 2013



**GLOBAL**  
INSIGHT

The Source for Critical Information and Insight™



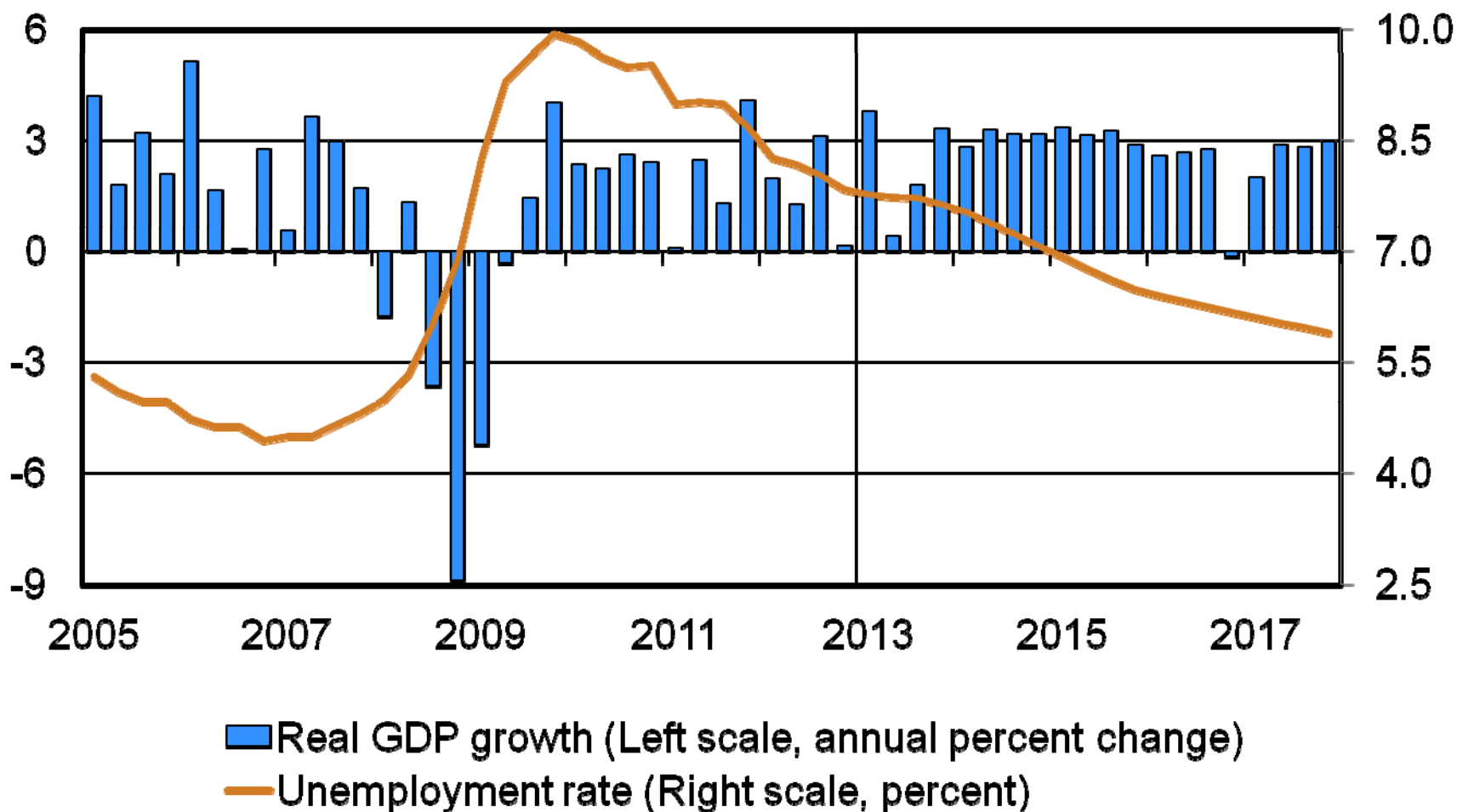
## The US economy continues its uneven expansion

---

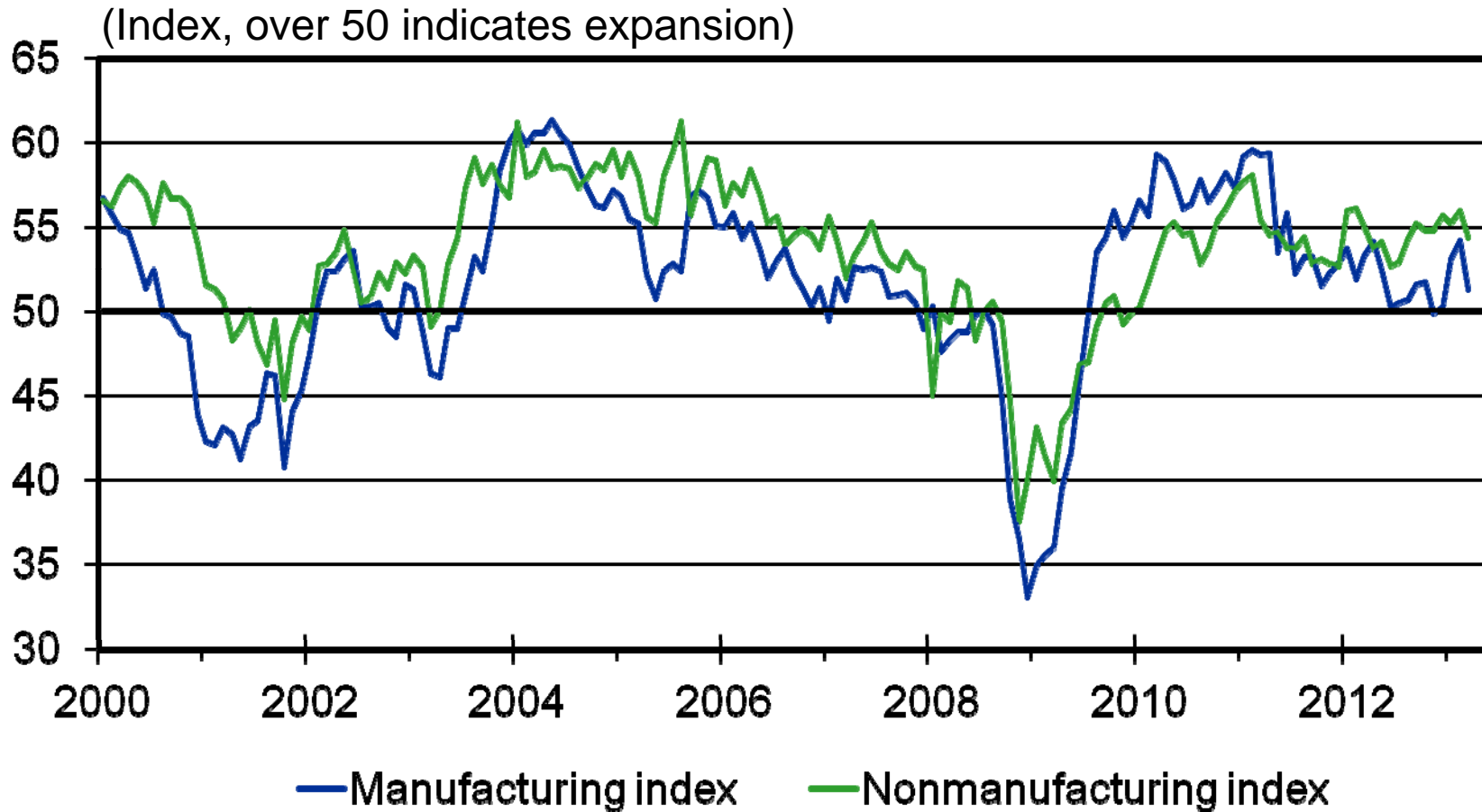
- The economy's fundamentals are improving, but fiscal policy headwinds will restrain near-term growth.
- We expect the federal spending sequester to last through September, taking 0.4 percentage point off 2013 real GDP growth, compared with a no-sequester case.
- Monetary policy will remain accommodative into 2015.
- Housing markets will continue their resurgence, supporting growth.
- Consumers will cautiously increase spending in response to gains in asset values, employment, and income.
- The US energy boom is creating jobs, investment, and a competitive advantage.
- Real GDP growth will pick up from 2.0% this year to 2.8% in 2014. Upside and downside risks are evenly balanced.



# US real GDP growth and the unemployment rate



# The Institute for Supply Management's indexes indicate a March slowdown



Source: Institute for Supply Management (ISM)



## US economic growth by sector

(Percent change)

	2012	2013	2014	2015
Real GDP	2.2	2.0	2.8	3.2
Consumption	1.9	2.2	2.5	2.5
Residential investment	12.1	16.3	18.5	20.1
Business fixed investment	8.0	4.7	6.6	7.2
Federal government	-2.2	-5.3	0.1	-1.5
State & local government	-1.4	-0.8	-0.1	0.7
Exports	3.4	2.6	5.1	5.4
Imports	2.4	2.3	5.3	4.2

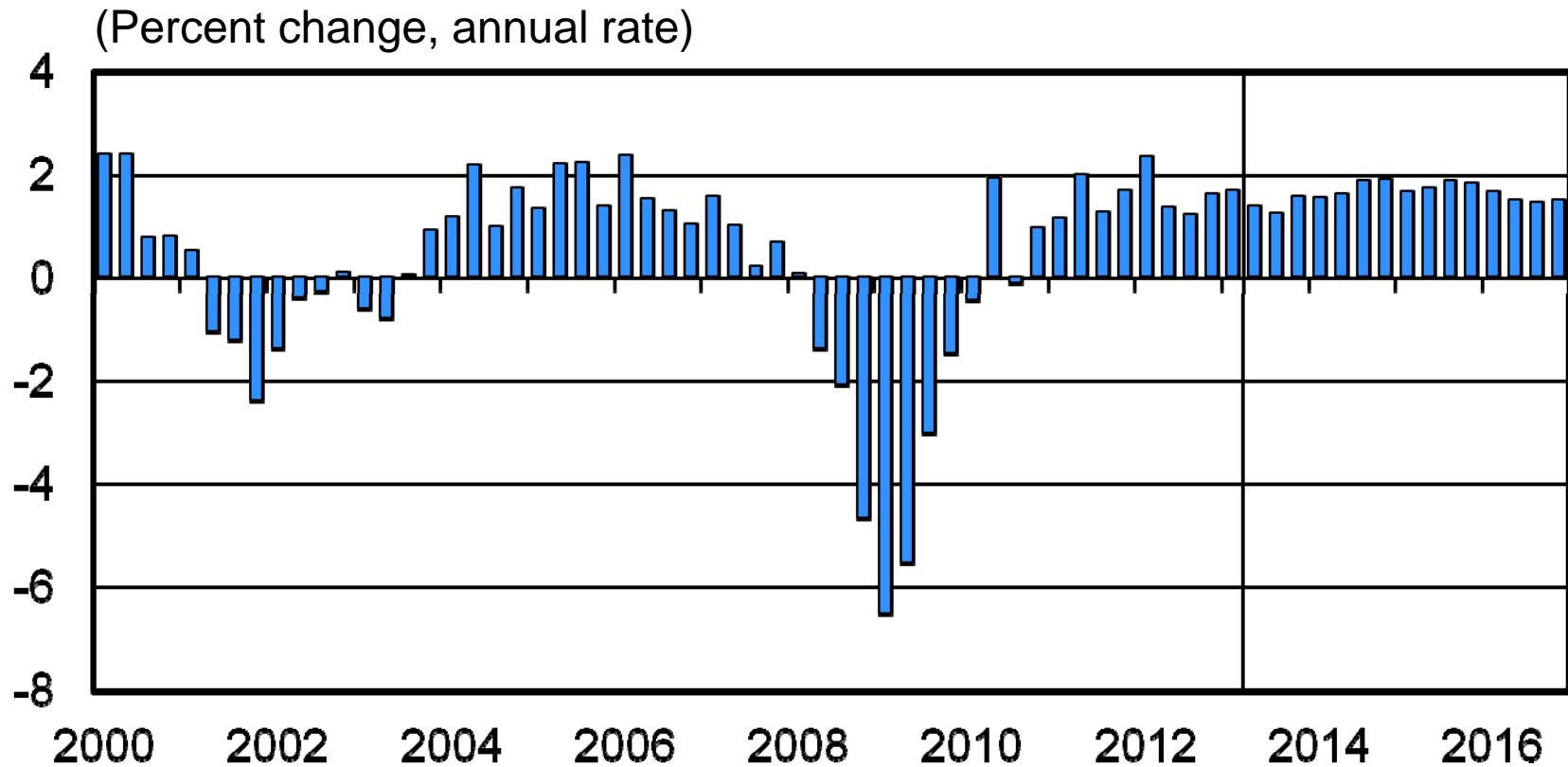


## Other key US indicators

(Percent change unless noted)

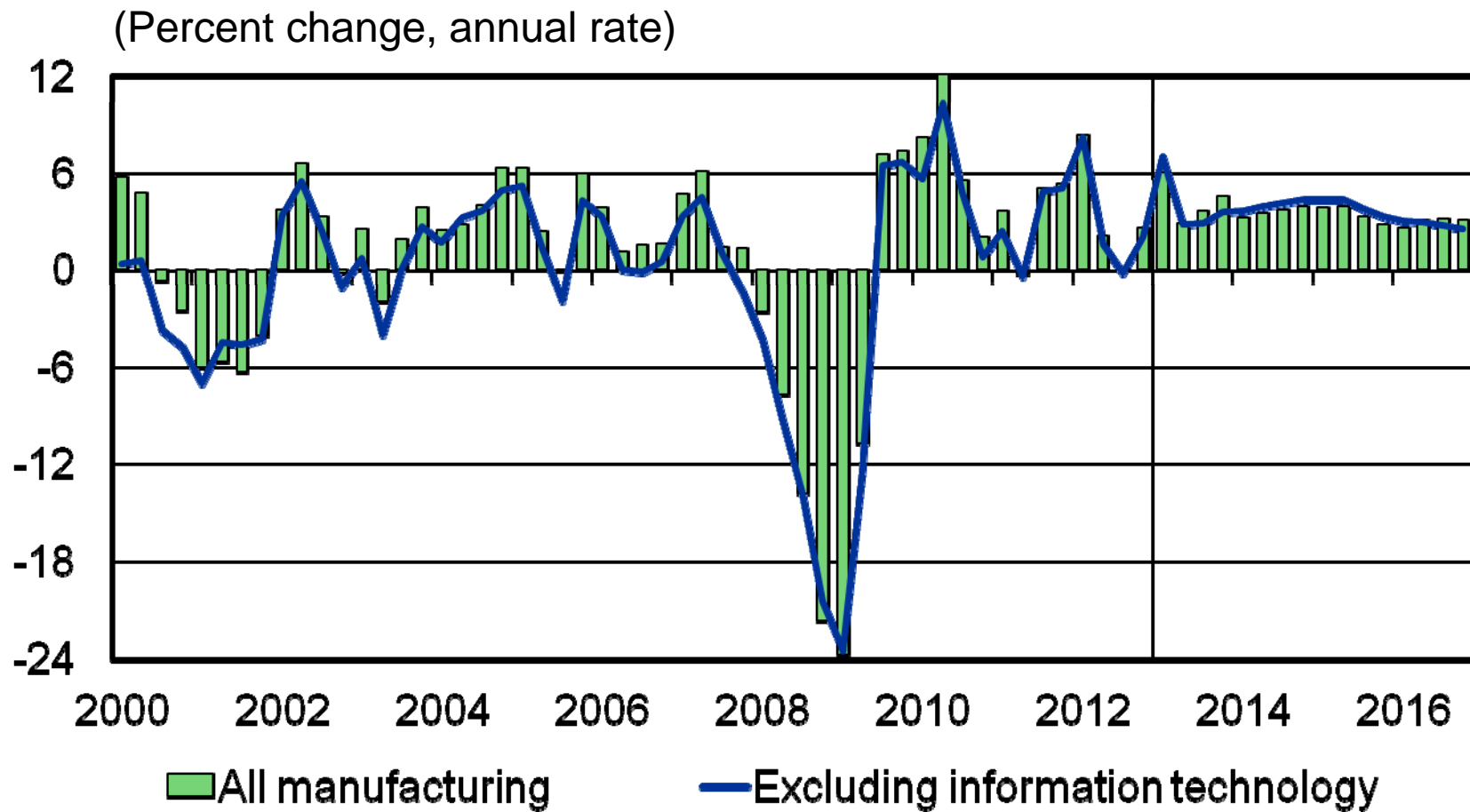
	2012	2013	2014	2015
Industrial production	3.6	3.2	3.0	3.3
Payroll employment	1.7	1.5	1.6	1.8
Light-vehicle sales (Millions)	14.4	15.3	15.7	16.2
Housing starts (Millions)	0.78	0.97	1.27	1.57
Consumer Price Index	2.1	1.4	1.6	1.6
Core CPI	2.1	1.9	2.0	1.8
Brent crude oil price (\$/barrel)	112	105	93	89
Federal funds rate (%)	0.1	0.2	0.2	0.2
10-year Treasury yield (%)	1.8	2.0	2.5	3.0

# US employment is gradually increasing and will regain its January 2008 peak in mid-2014





# Manufacturing production growth has picked up again







## US industrial production growth

(Percent change)

	2012	2013	2014	2015
All manufacturing	4.2	3.4	3.7	3.7
Motor vehicles & parts	17.5	7.0	2.7	4.6
Computers & electronics	6.3	3.0	6.7	8.2
Electrical equip. & appliances	3.4	2.8	4.2	5.7
Machinery	0.2	-1.5	0.9	1.4
Textiles	-3.5	0.5	-3.9	-4.1
Furniture	4.7	7.1	4.2	4.8
Chemicals	0.1	2.3	3.1	3.7



## Increasing crude oil supplies will restrain prices

---

- Oil prices are declining as additions to supply outpace sluggish demand growth.
- Rising production in the United States, Canada, Iraq, and Kazakhstan will lead to more spare capacity and further oil price declines in 2013-15.
- The spread between Brent and West Texas Intermediate (WTI) prices will narrow as pipeline construction alleviates congestion in the US Mid-Continent.
- Security challenges in the Middle East and Africa, most notably the unresolved Iranian nuclear issue, pose upside risks to the price forecast.





## Forces affecting consumer spending

---

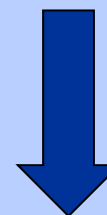
### Positive forces

- Pent-up demand
- Rising employment
- Rising asset prices
- Easing credit conditions



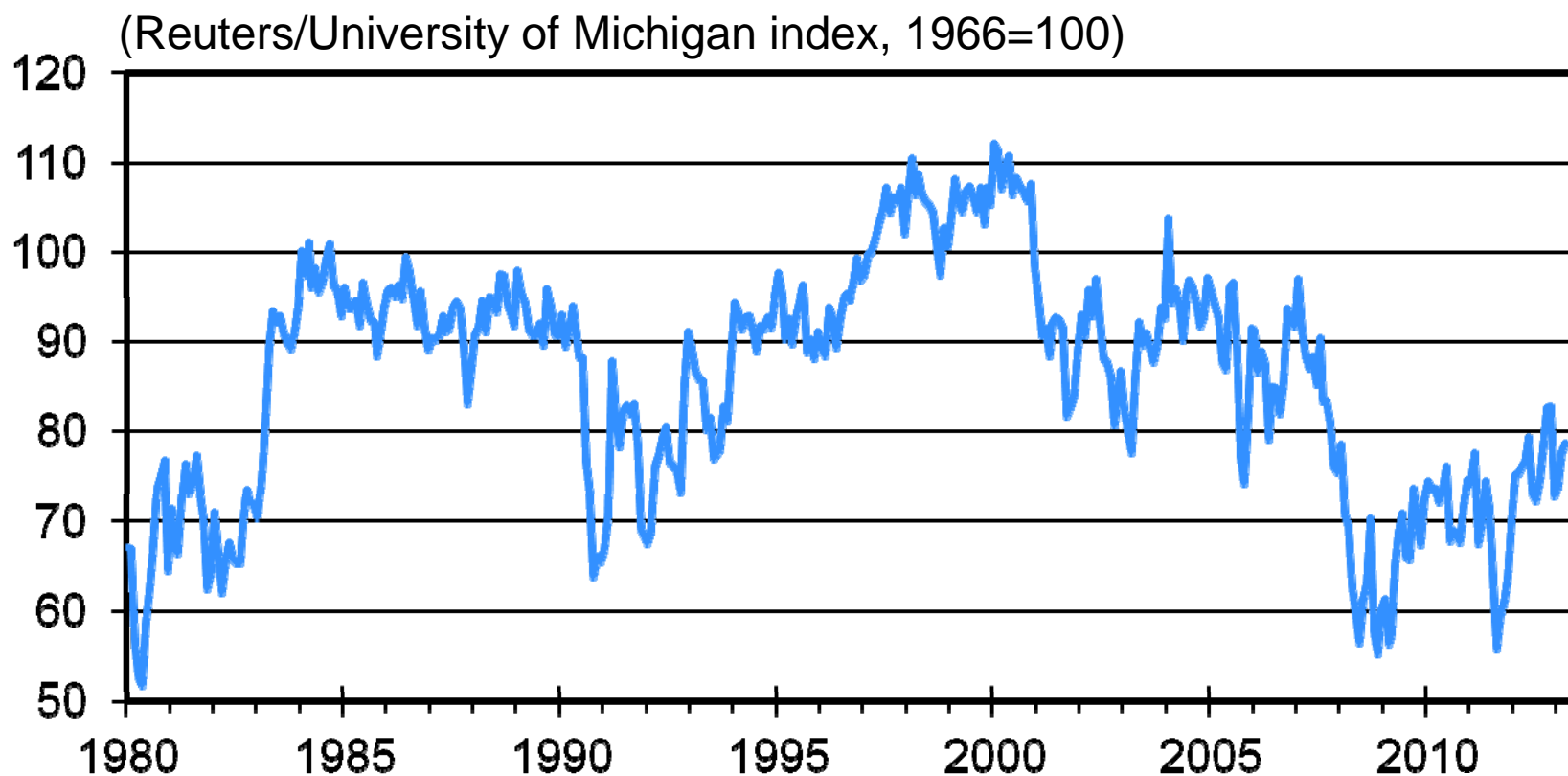
### Negative forces

- Tax increases
- High debt burdens
- Weak wage gains





## An erratic recovery in consumer sentiment





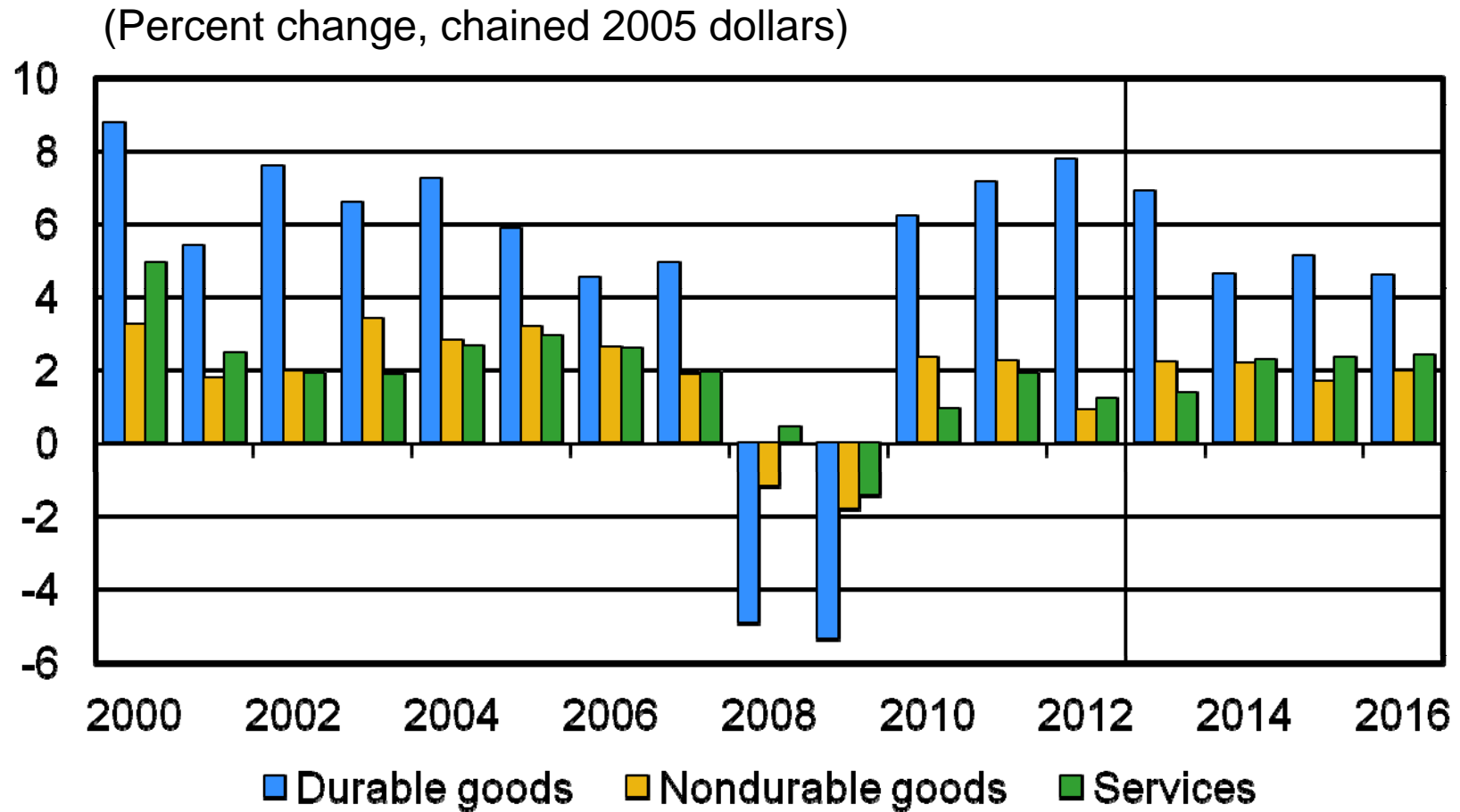
## The consumer markets environment will slowly improve

(Percent change unless noted)

	2012	2013	2014	2015
Real consumption	1.9	2.2	2.5	2.5
Real disposable income	1.5	1.2	3.5	3.1
Real household net worth	4.4	6.8	2.9	0.7
Payroll employment	1.7	1.5	1.6	1.8
Real wage rate	0.0	0.8	0.7	0.6
Consumption price deflator	1.8	1.0	1.3	1.4
Light-vehicle sales (Millions)	14.4	15.3	15.7	16.2
Home sales* (Millions)	4.50	4.92	5.68	6.18

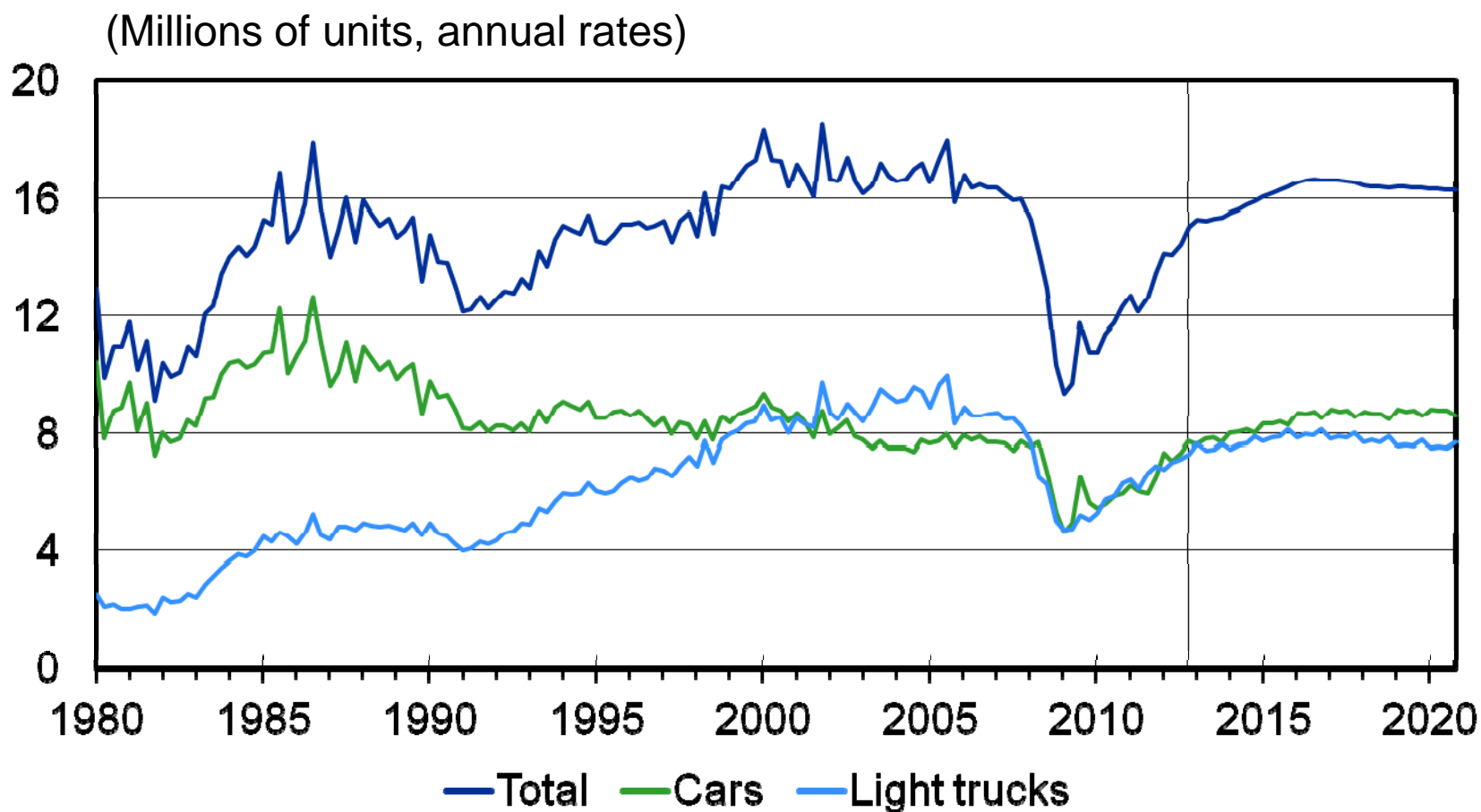
\* Single-family new and existing homes

# Pent-up demand for durable goods is driving growth in consumer spending





## US light-vehicle sales are recovering





## Housing markets are finally recovering

---

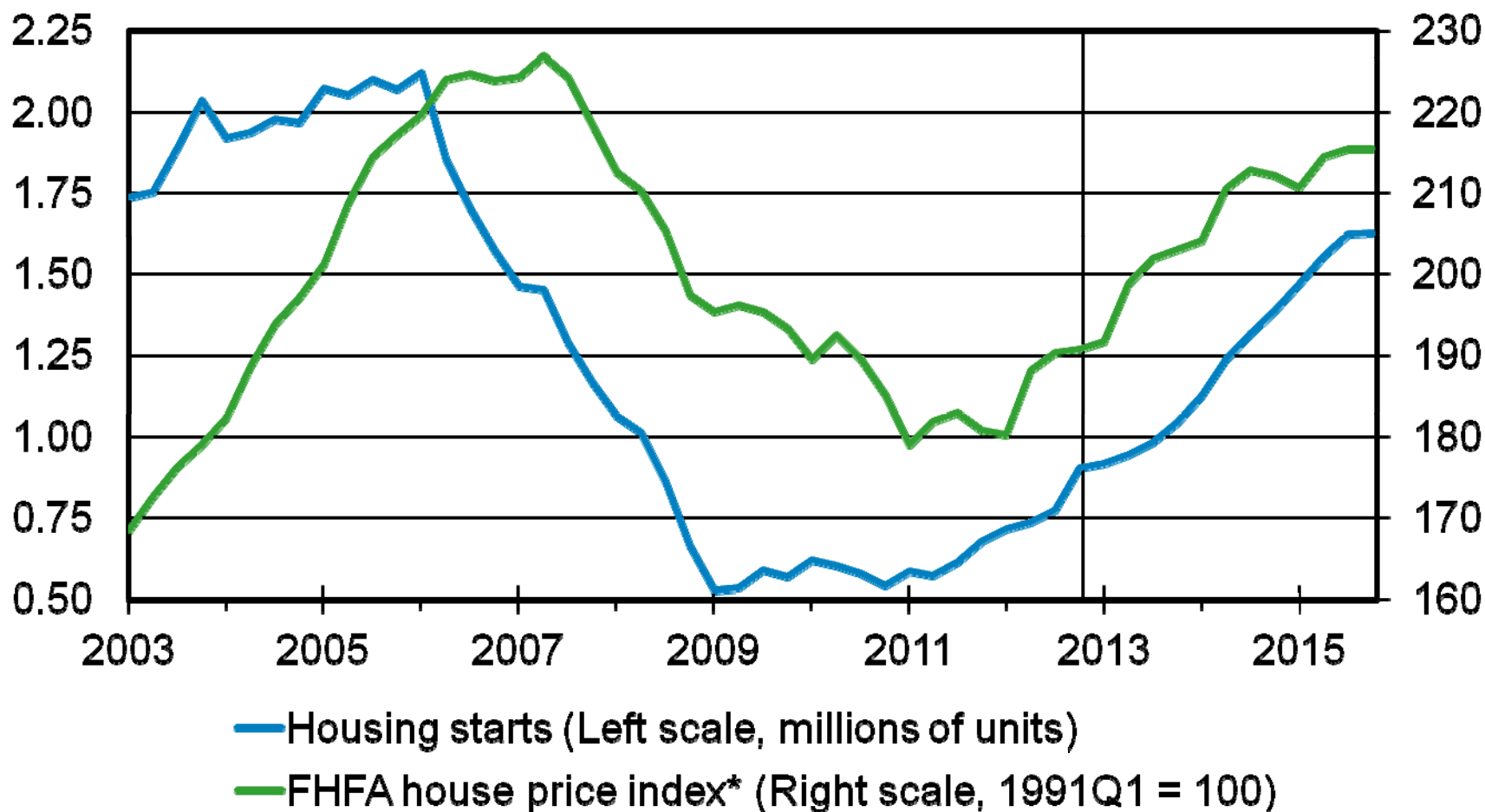
- Job growth is sparking a recovery in household formation.
- Record housing affordability is boosting demand.
- But credit standards remain relatively strict.
- Multifamily housing has led the recovery.
- Single-family home sales and prices are now rising
- Baby boomers are downsizing.







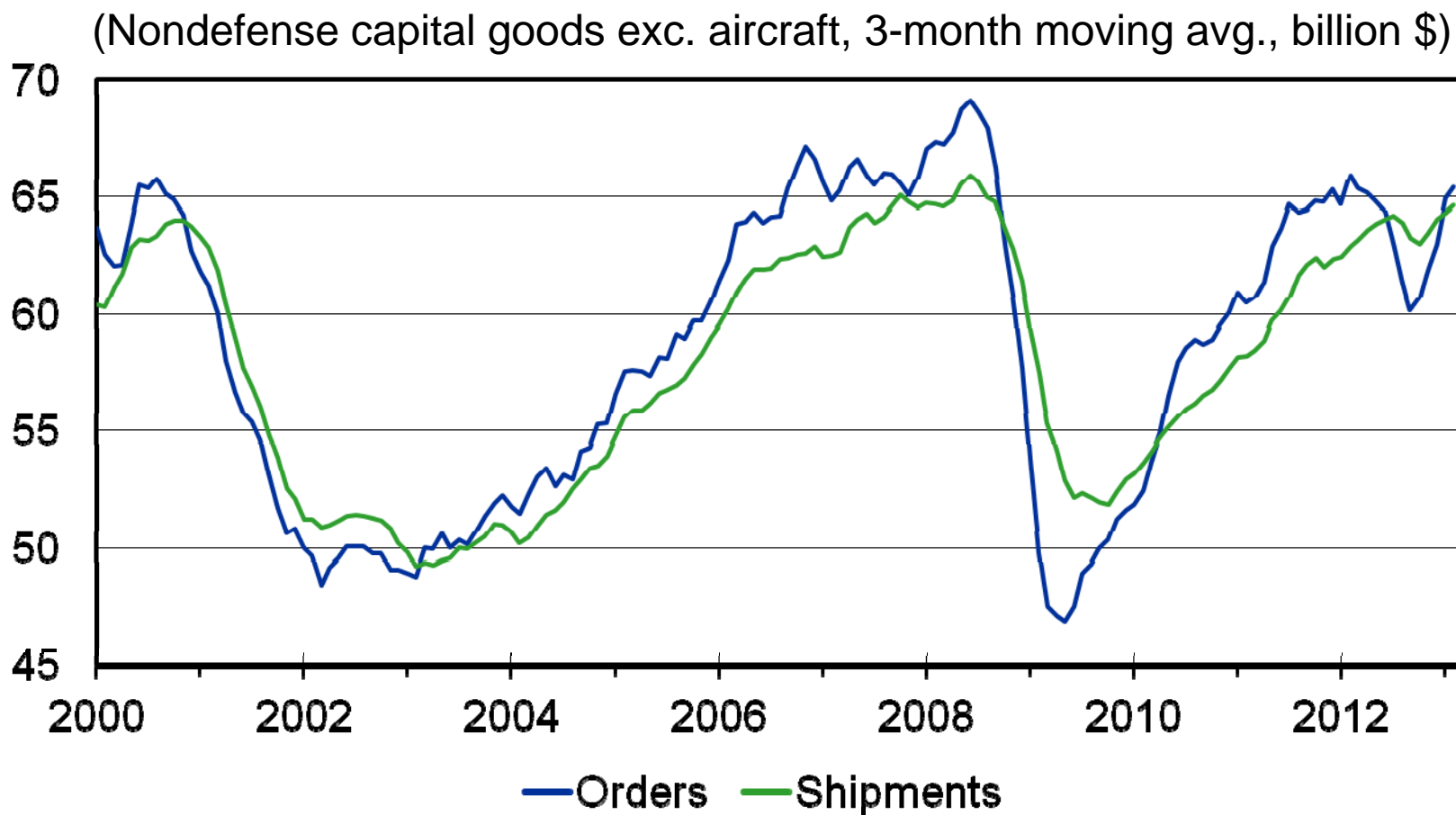
## Housing starts and home prices are rising



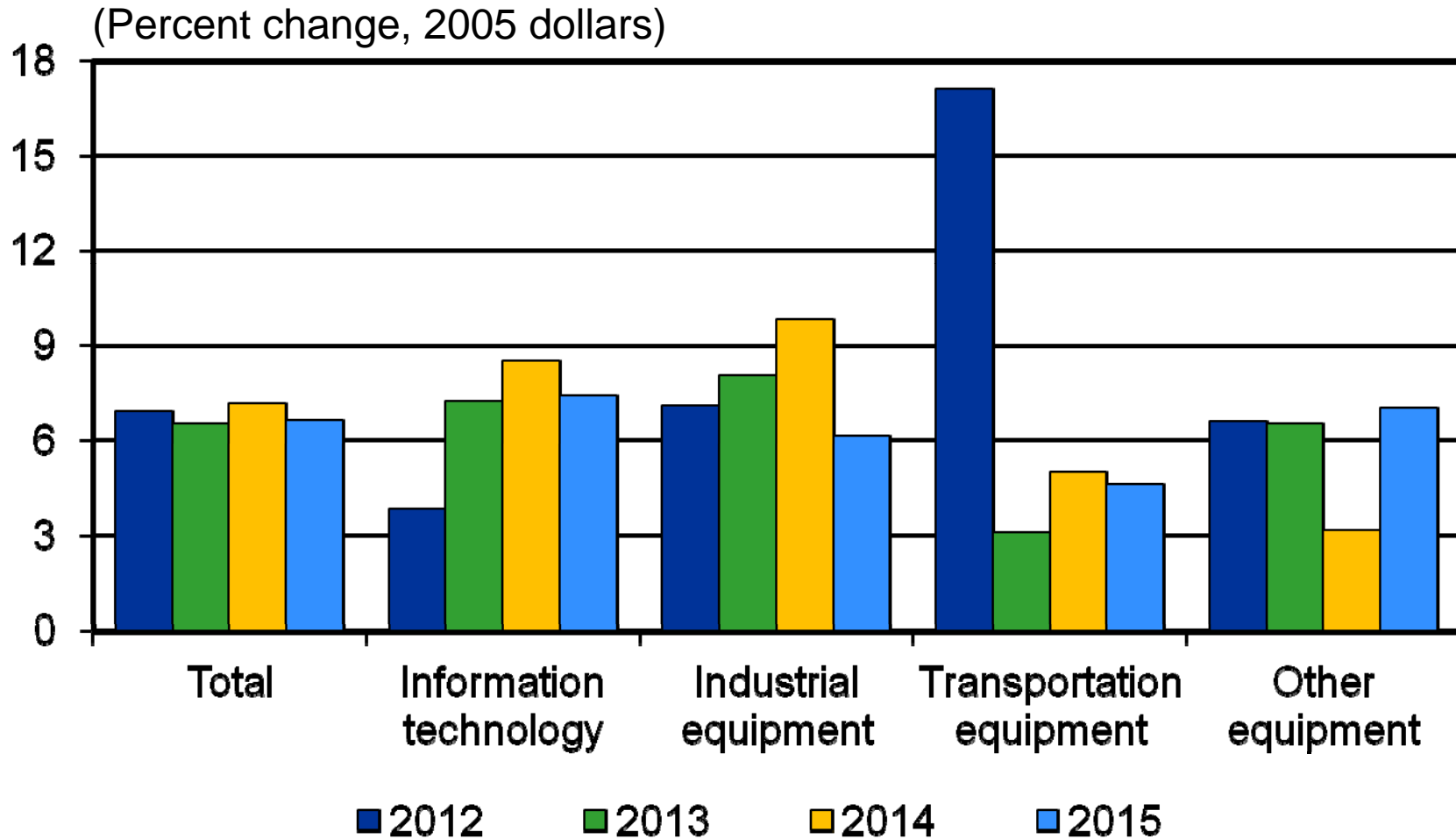
\* Purchase-only index



## New orders for business equipment are reviving



# Growth in real business equipment and software investment by category



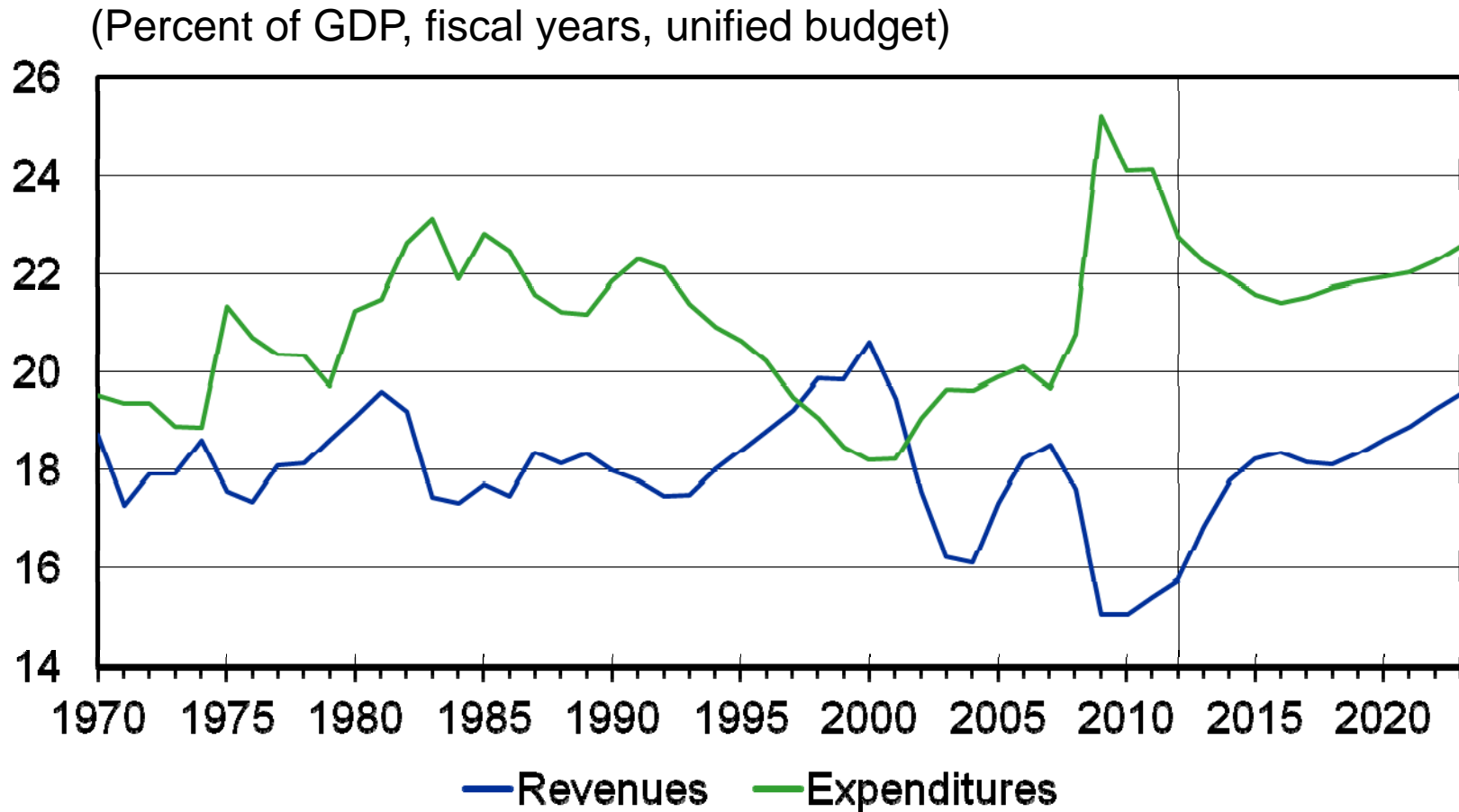


## Fiscal policy background and assumptions

---

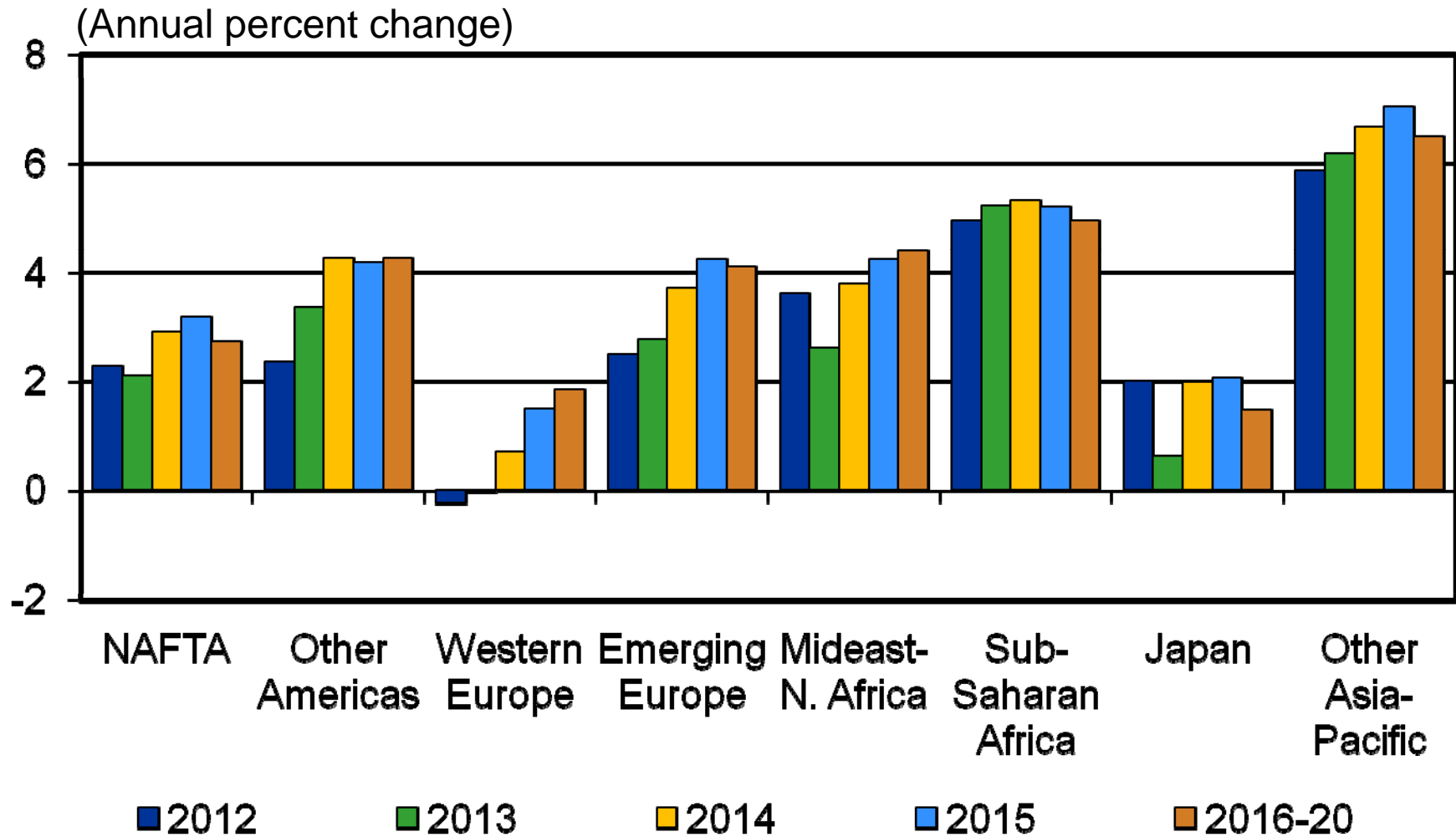
- The American Taxpayer Relief Act of 2012 took effect in January 2013:
  - Bush tax cuts expired for individuals earning over \$400,000 and couples earning over \$450,000.
  - Top tax rates on dividends and capital gains rose to from 15% to 20% (plus the 3.8% Medicare surcharge under the Affordable Care Act).
  - The 2% payroll tax cut was not extended.
  - Emergency unemployment insurance benefits are extended through 2013 and then phased out over three years.
  - 50% bonus depreciation is extended through 2013, then ended.
- Automatic spending cuts remain in effect through September and then are replaced by a combination of income tax increases (through restrictions on deductions) and cuts to entitlements and nondefense discretionary spending.
- This temporary sequester cuts actual spending by \$57 billion in calendar 2013.

# US federal budget gap: We expect actions on both sides of the ledger



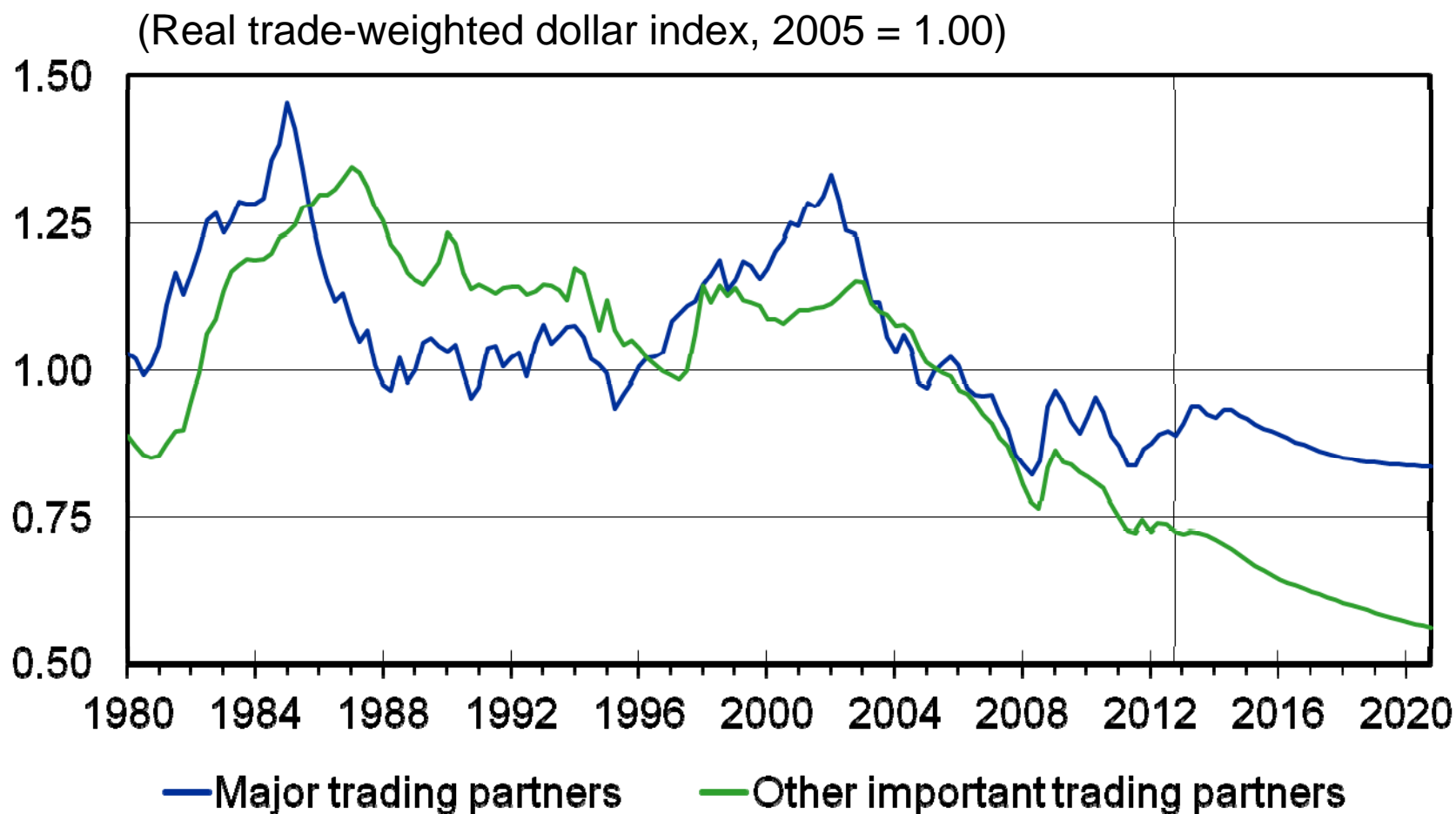


# Asia-Pacific leads regions in real GDP growth





## The dollar's real exchange value will stay competitive





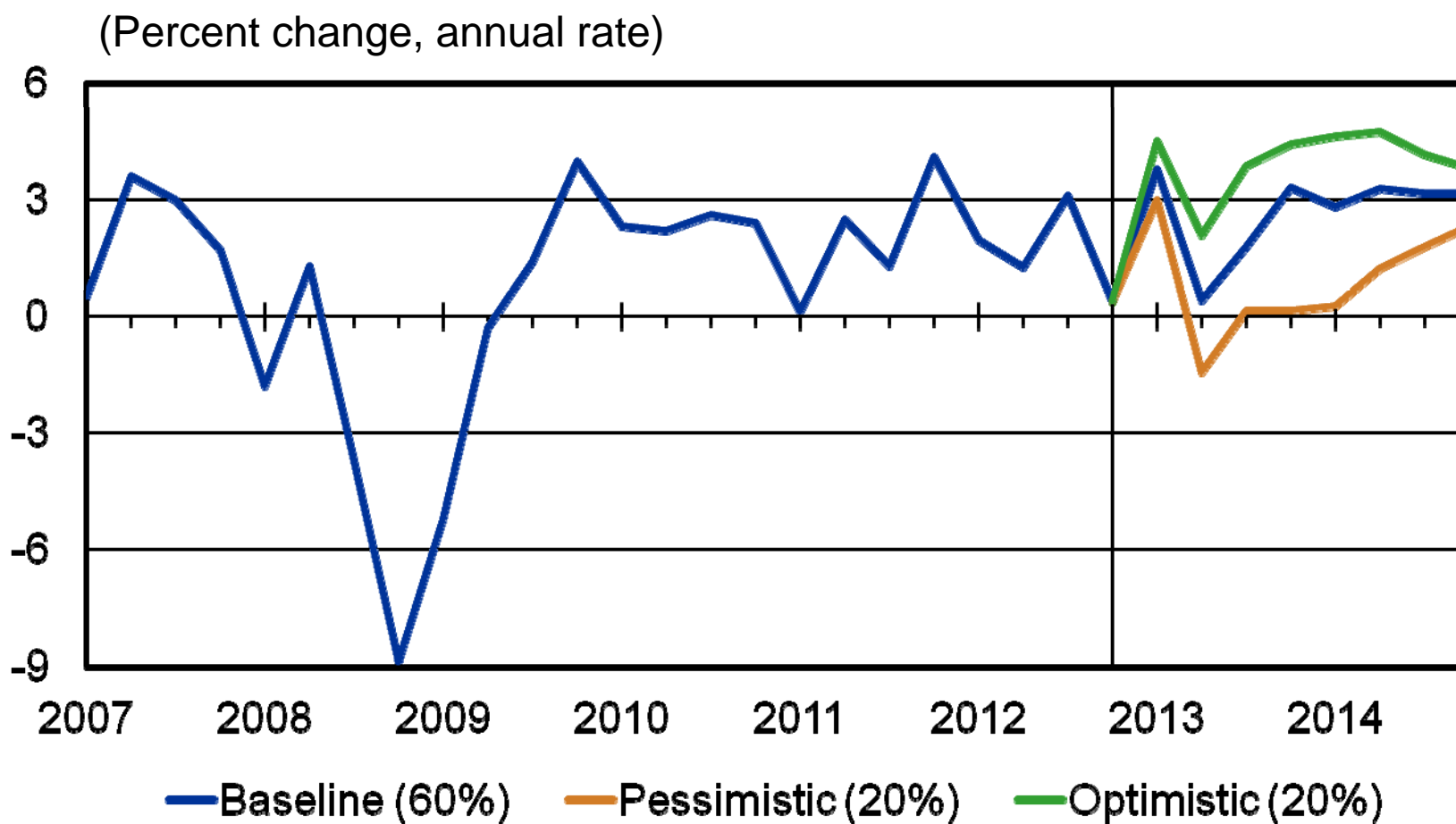
## Risks to the US forecast

Scenario	Characteristics
<b>Recovery stalls</b> (Probability = 20%)	<ul style="list-style-type: none"><li>• Policy gridlock damages confidence and stock prices.</li><li>• Stagnating employment causes a housing market relapse.</li><li>• The Eurozone recession deepens, Greece exits, financial strains increase, and Spain must restructure its debt.</li><li>• China and emerging markets experience weaker growth.</li></ul>
<b>Recovery reignites</b> (Probability = 20%)	<ul style="list-style-type: none"><li>• Progress is made toward a long-term fiscal plan.</li><li>• Confidence revives, leading to more spending and hiring.</li><li>• Housing markets rebound more quickly.</li><li>• The Eurozone remains fully intact and takes steps towards banking and fiscal union that stabilize markets.</li></ul>
<b>Baseline forecast</b> (Probability = 60%)	<ul style="list-style-type: none"><li>• Automatic spending cuts, in effect through September, are replaced by tax increases (through limits on deductions) and reductions in entitlements and nondefense spending.</li><li>• Monetary policies remain accommodative into 2015.</li><li>• Housing markets steadily recover in 2013-15.</li><li>• Greece exits the Eurozone in 2014 with minimal damage.</li></ul>



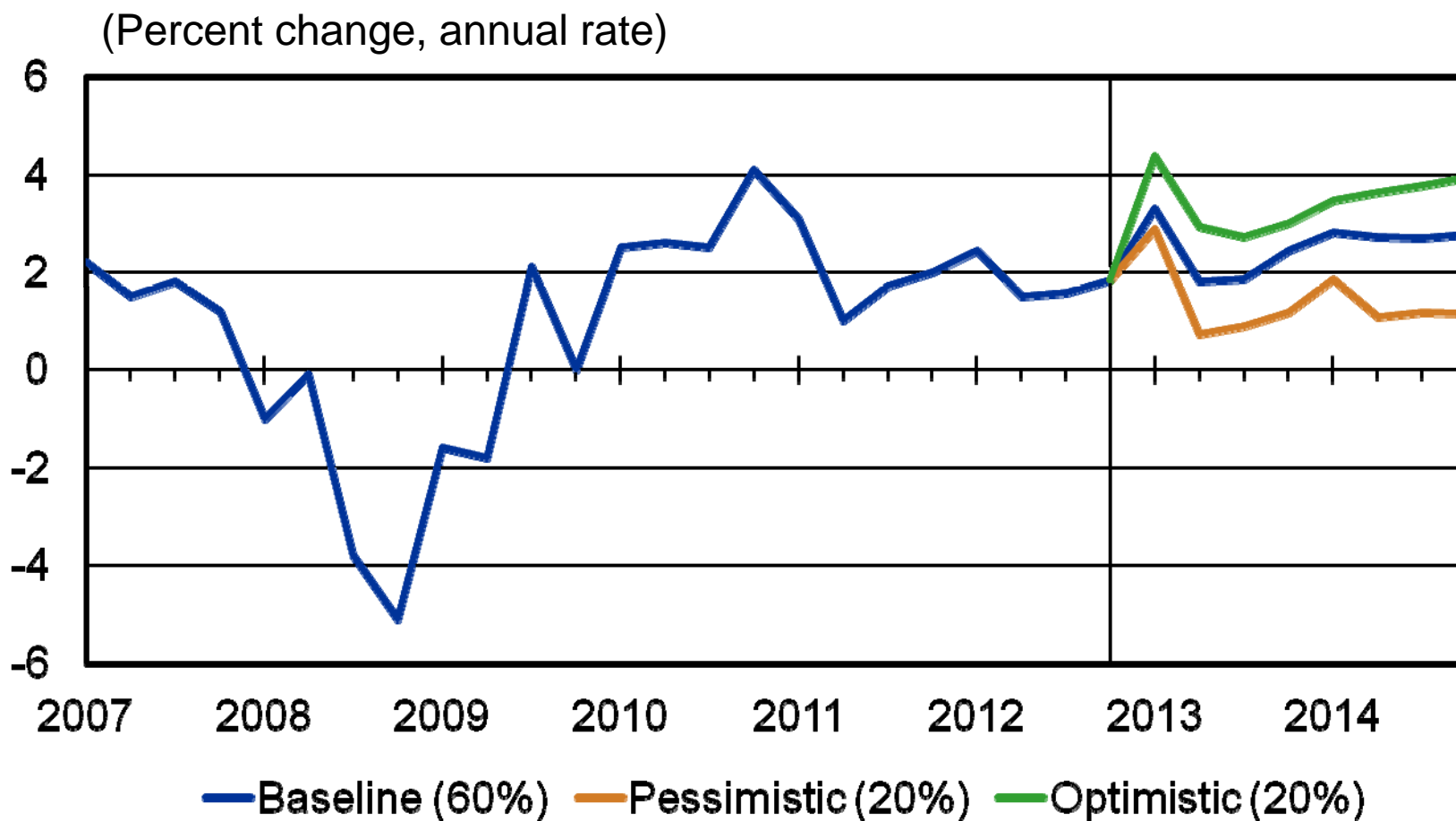


# Real GDP growth in alternative scenarios



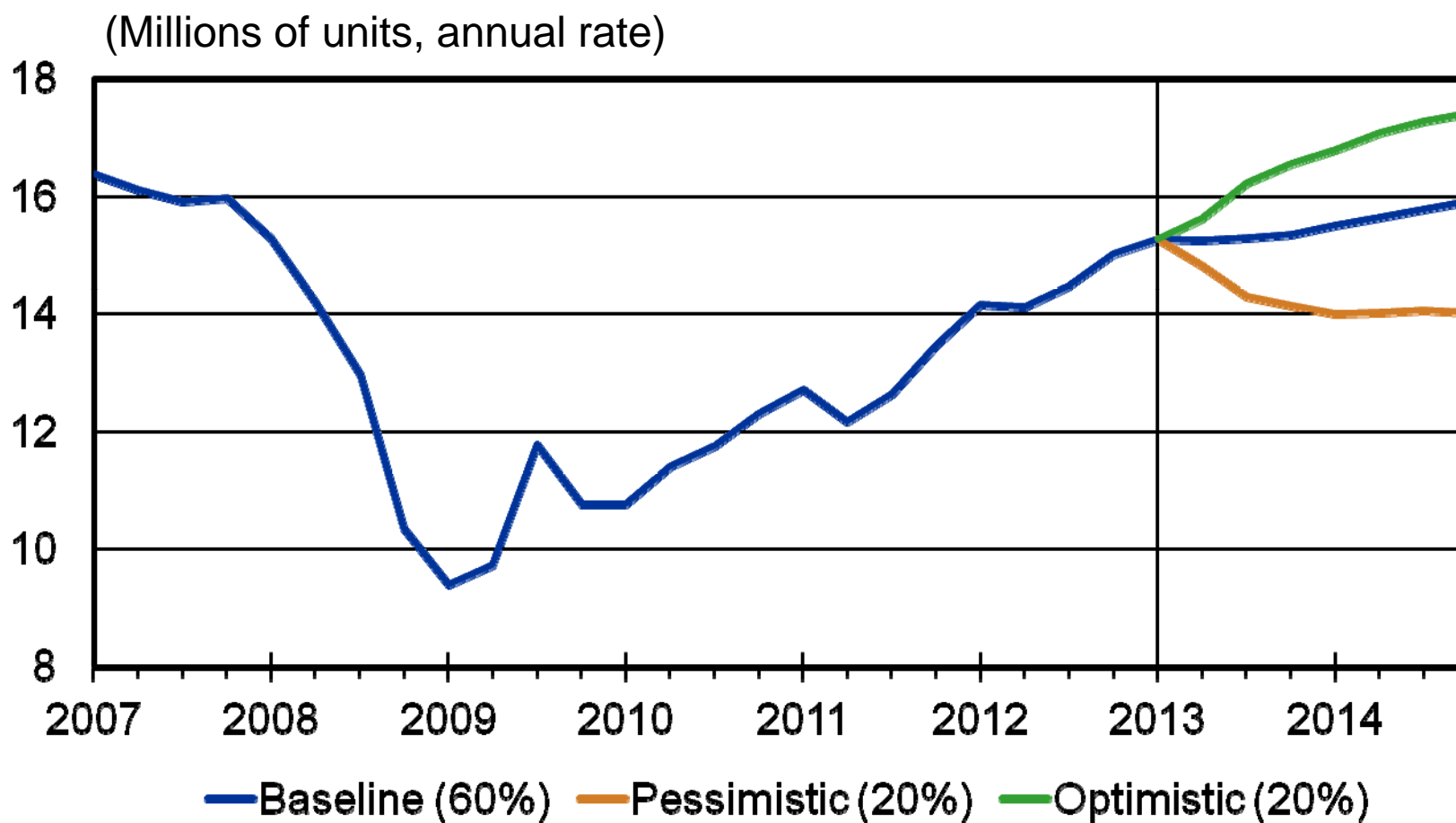


# Real consumer spending growth in alternative scenarios





## Light-vehicle sales in alternative scenarios





## Bottom line for the US economy

---

- The most likely outcome is continued moderate economic growth.
- Fiscal tightening is under way, with the expiration of the payroll tax cut, substantial tax increases for high-income households, and spending restraints.
- Real GDP growth will pick up in 2014 and 2015, led by strengthening housing markets and business investment.
- Upside and downside risks are evenly balanced.
- The major downside risks are:
  - An intensified debt crisis and deepening recession in Europe.
  - An oil-price shock resulting from supply disruptions in the Middle East.
- On the upside, easing credit conditions and a stronger housing-market recovery could spark faster US growth.

# Regional Outlook



The Source for Critical Information and Insight™



# Critical Regional Themes in this Recovery

---

- The Hangover from the Real Estate Crash
  - Household Wealth
  - Homes for Sale
  - Foreclosure Pipeline
  - New Construction
- Industry Structure
  - High Tech Manufacturing and Services
  - Durables Manufacturing
  - Leisure Spending
  - Exports
- Migration and household formation in the 'New Normal'



## Employment: Top Performers 2012

Rank	State	2012 (% y/y)	Top Sector	Unemployment Rate (%) *
1	North Dakota	6.0	Mining	3.2
2	Oklahoma	2.6	Mining	5.1
3	Utah	2.4	Mining	5.6
4	Texas	2.4	Mining	6.2
5	Arizona	2.1	Construction	7.9
6	Louisiana	2.1	Mining	6.9
7	Kentucky	2.0	Prof. & Business	8.0
8	Indiana	2.0	Durables Mfg	8.3
9	Colorado	1.9	Mining	7.5
10	Washington	1.7	Durables Mfg	7.5

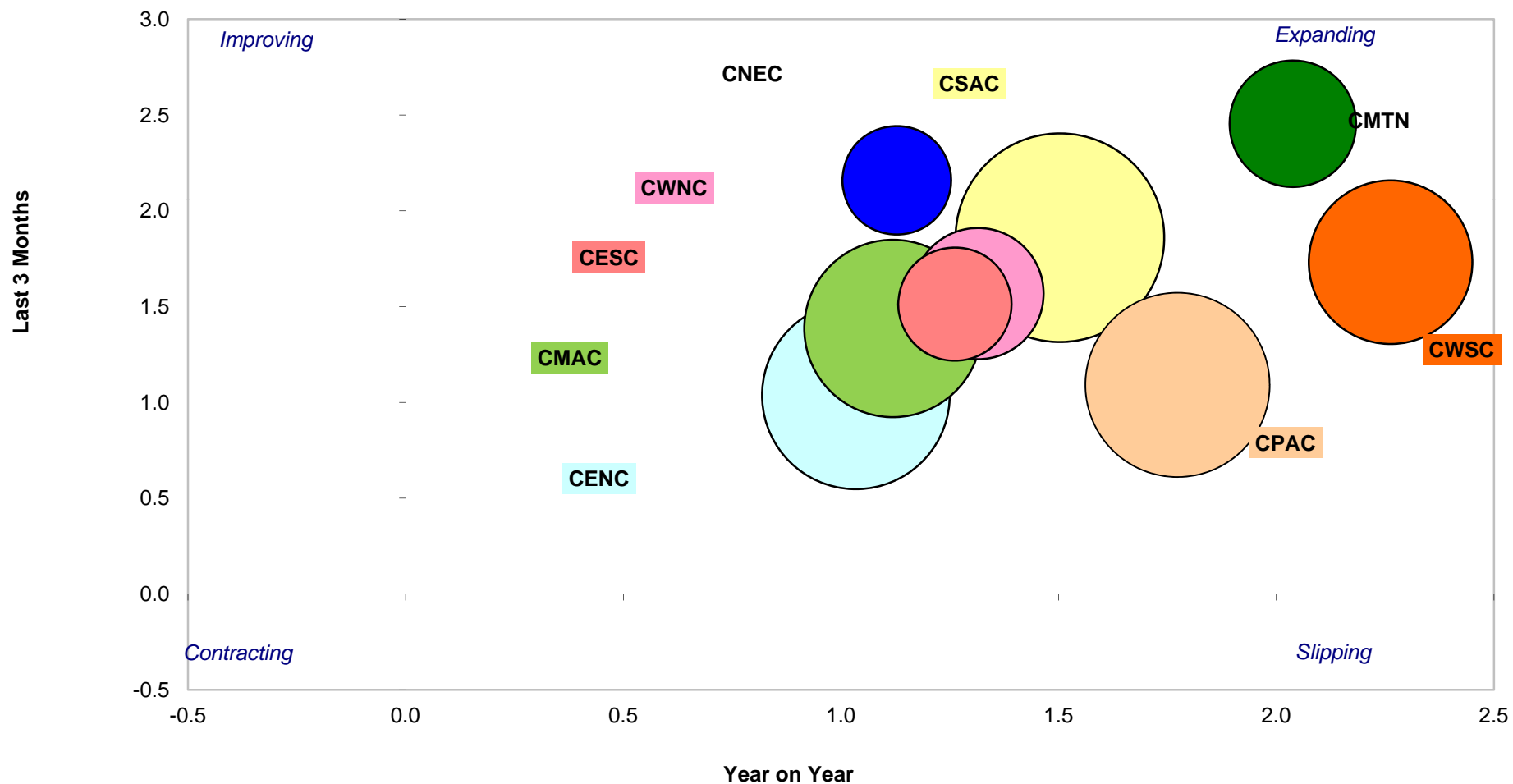
\* Unemployment rate in December 2012.



# Regional Performance 2013

## Employment Momentum in January

(Percent change, annual rate)



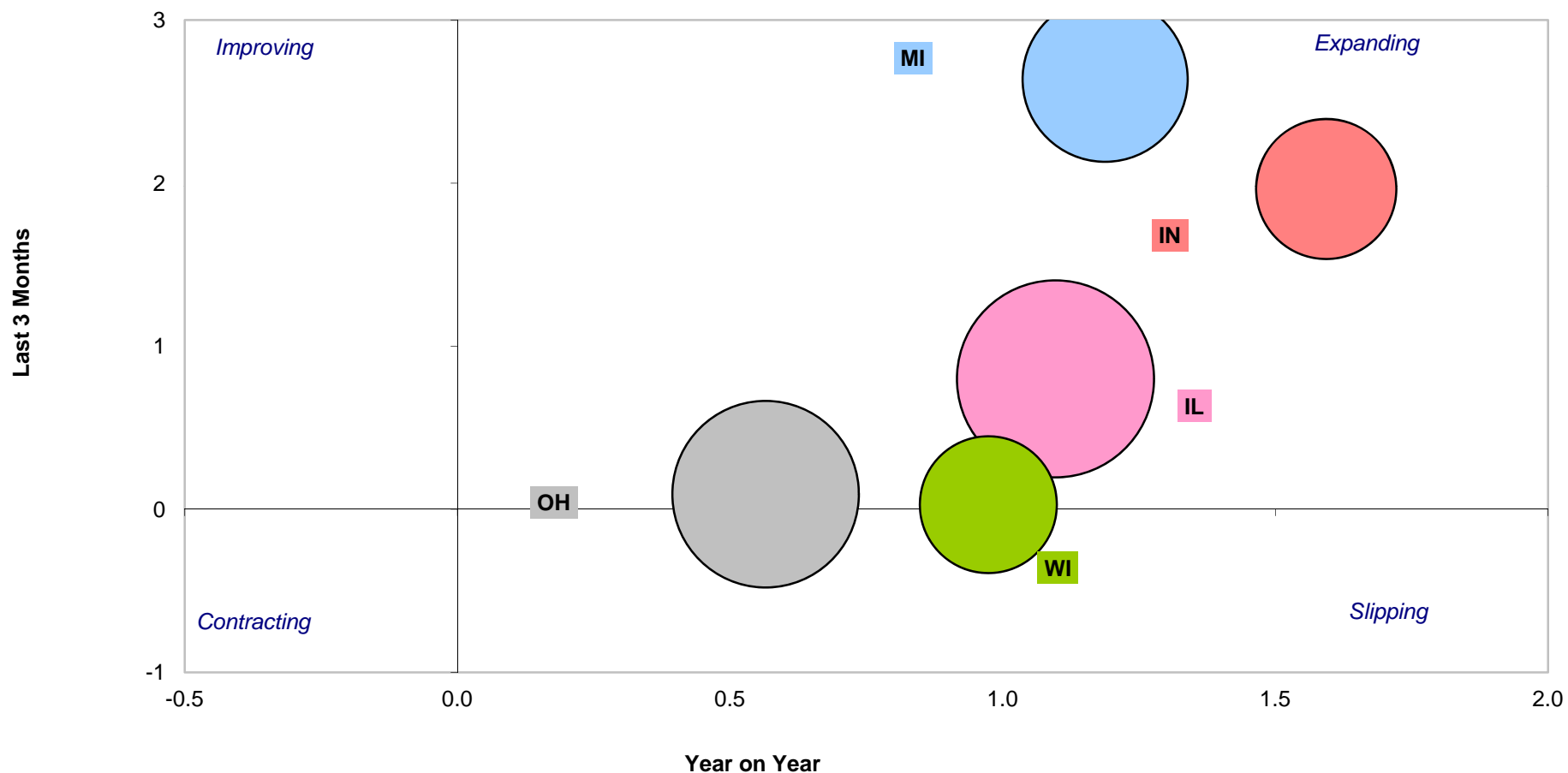




# Midwest Performance 2013

## Employment Momentum in January

(Percent change, annual rate)

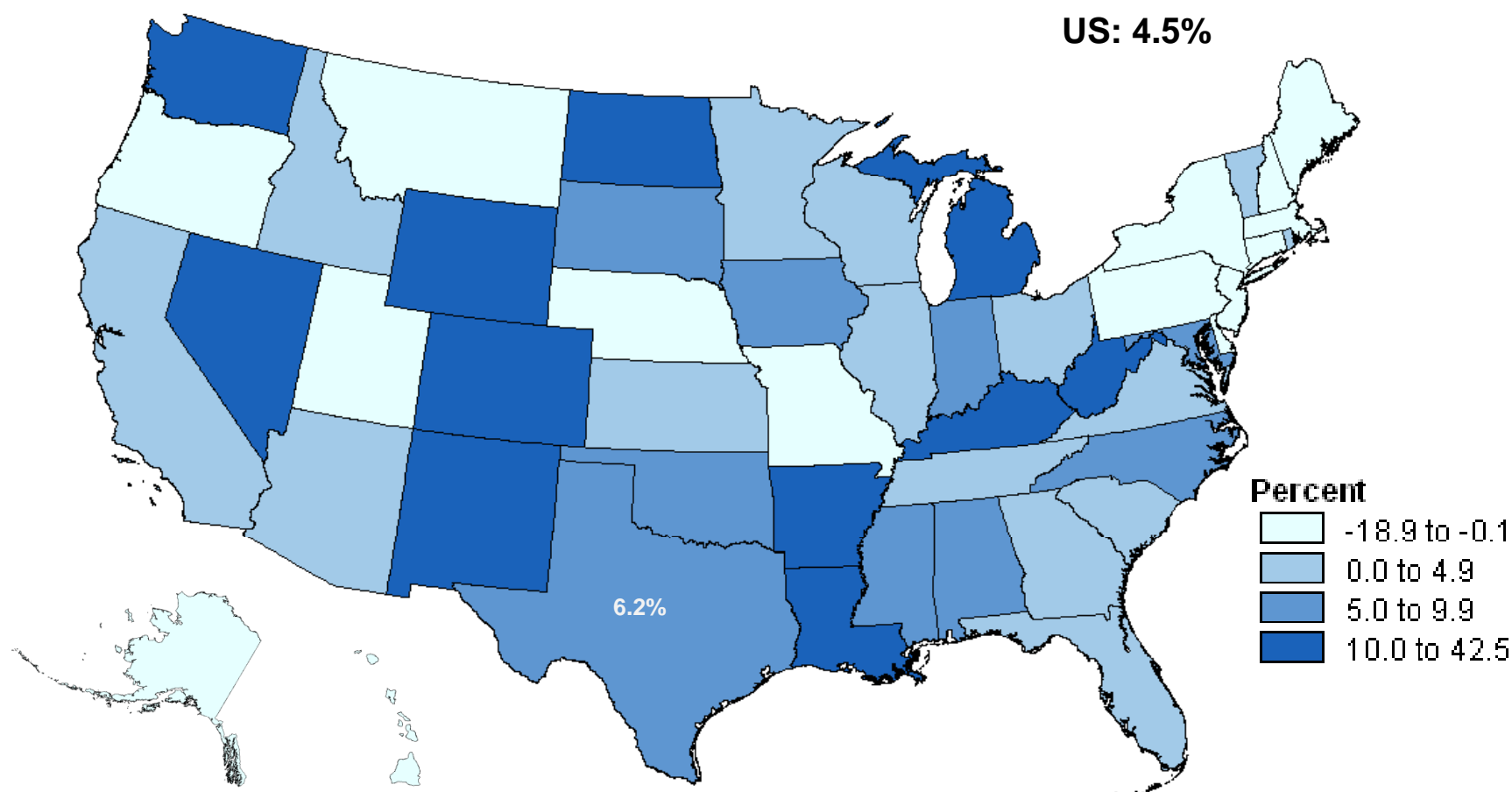




# Exports lose momentum across the nation

Export Merchandise Value, 2012

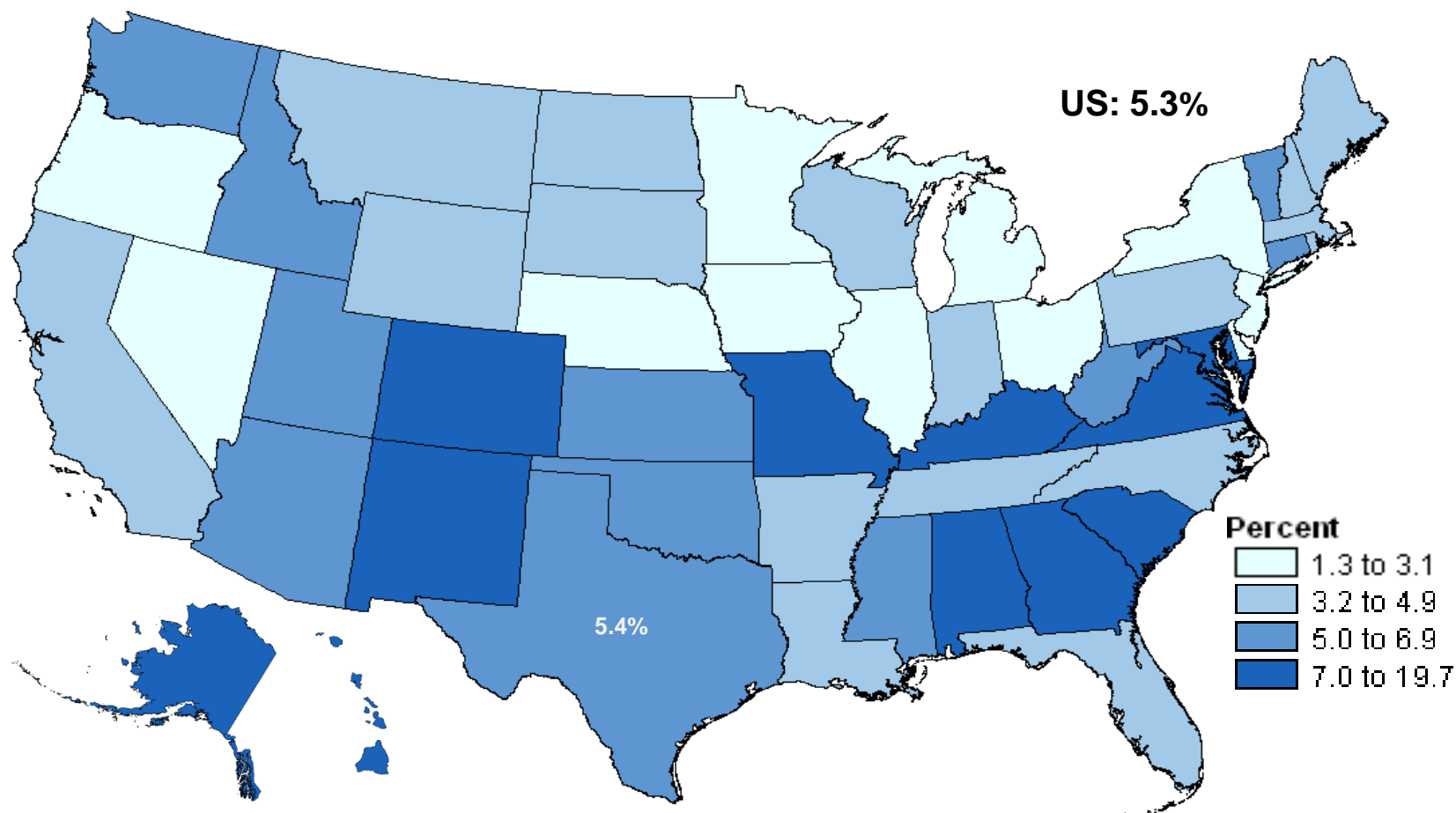
Year on year, % Change





# Sequester: Which States Face the Most Risk?

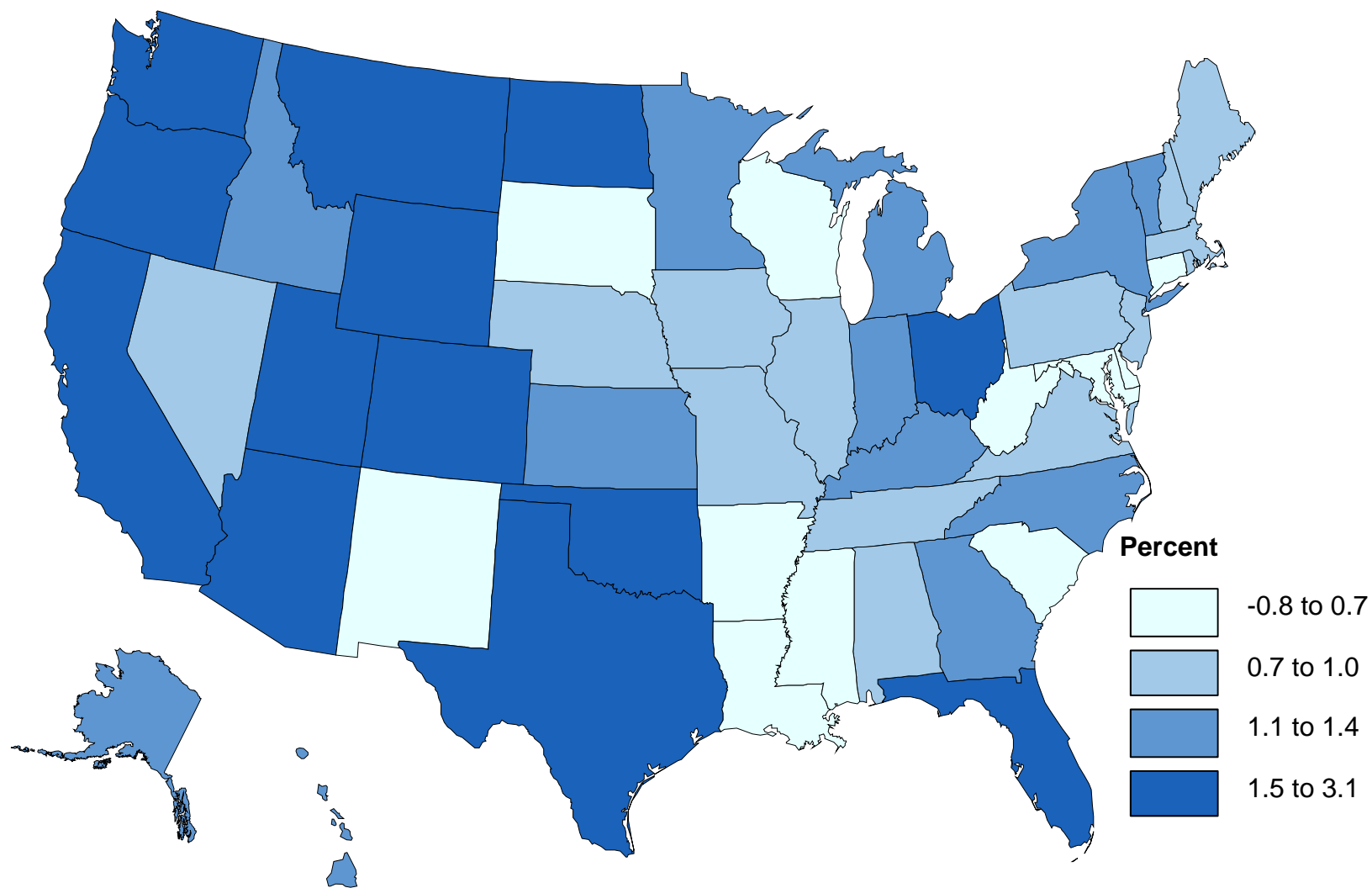
## Federal Spending as a Percent of Gross State Product



Source: Pew Center on the States

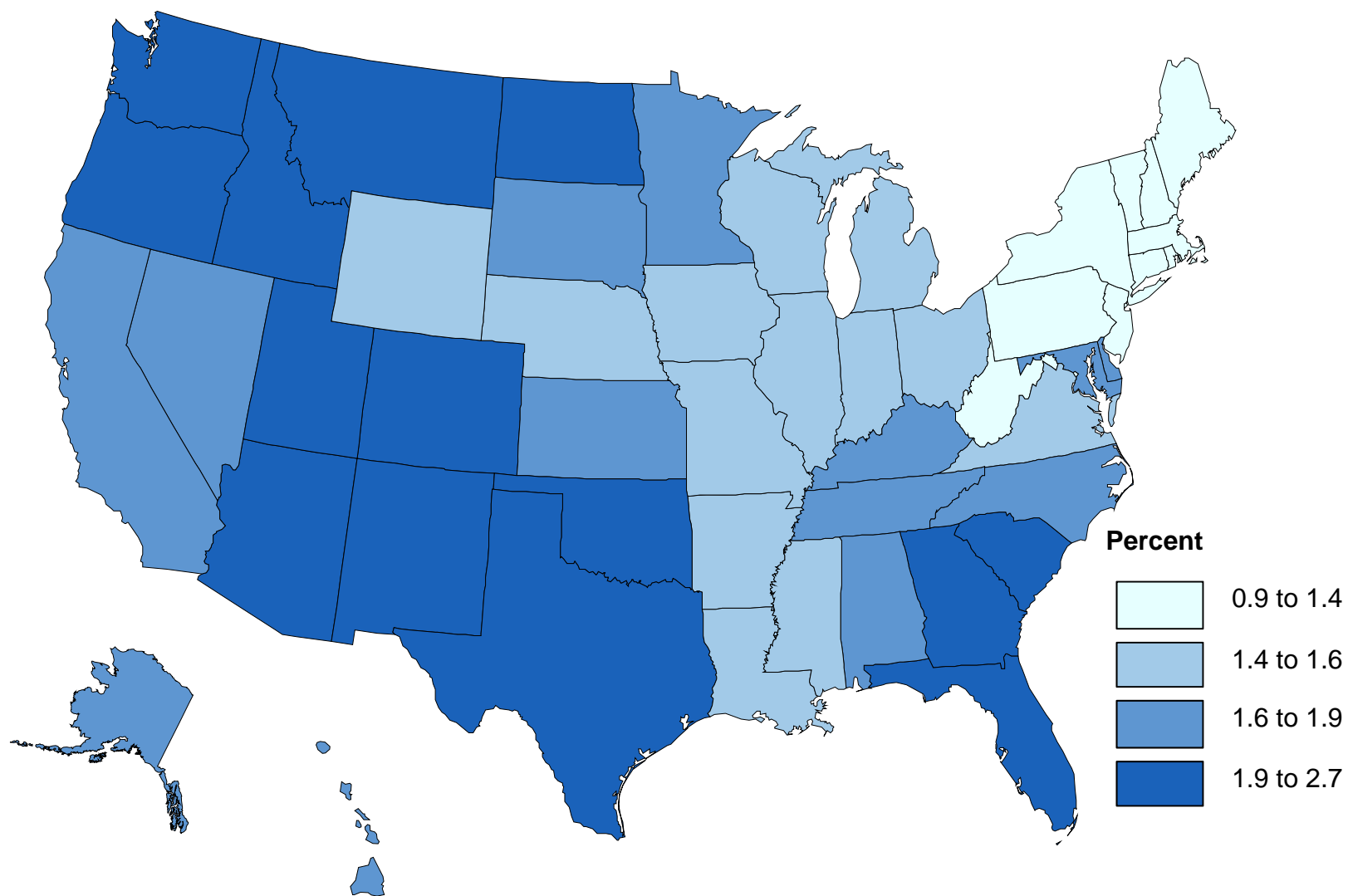


# Continued modest job growth in 2013





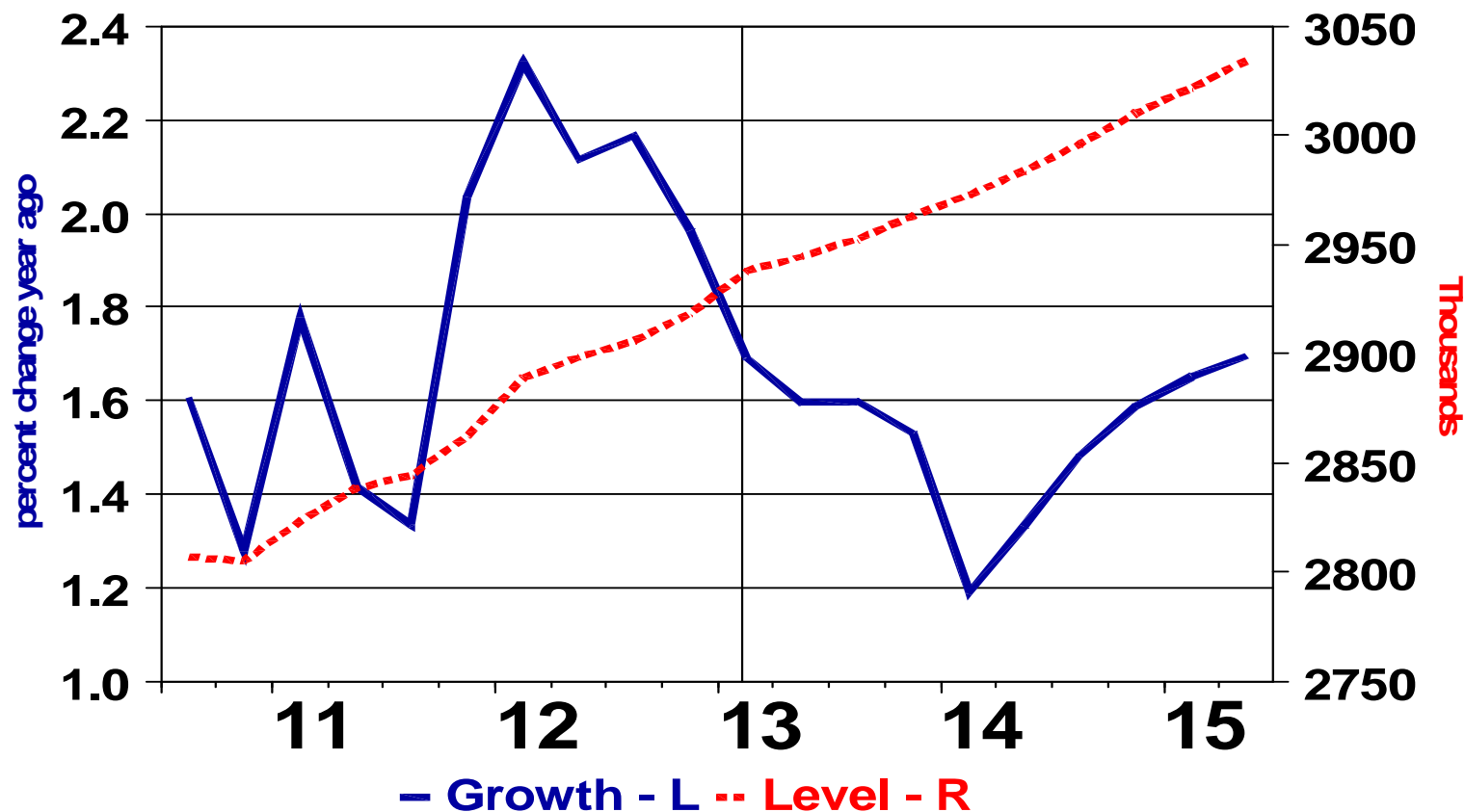
# ... Picking up in 2014





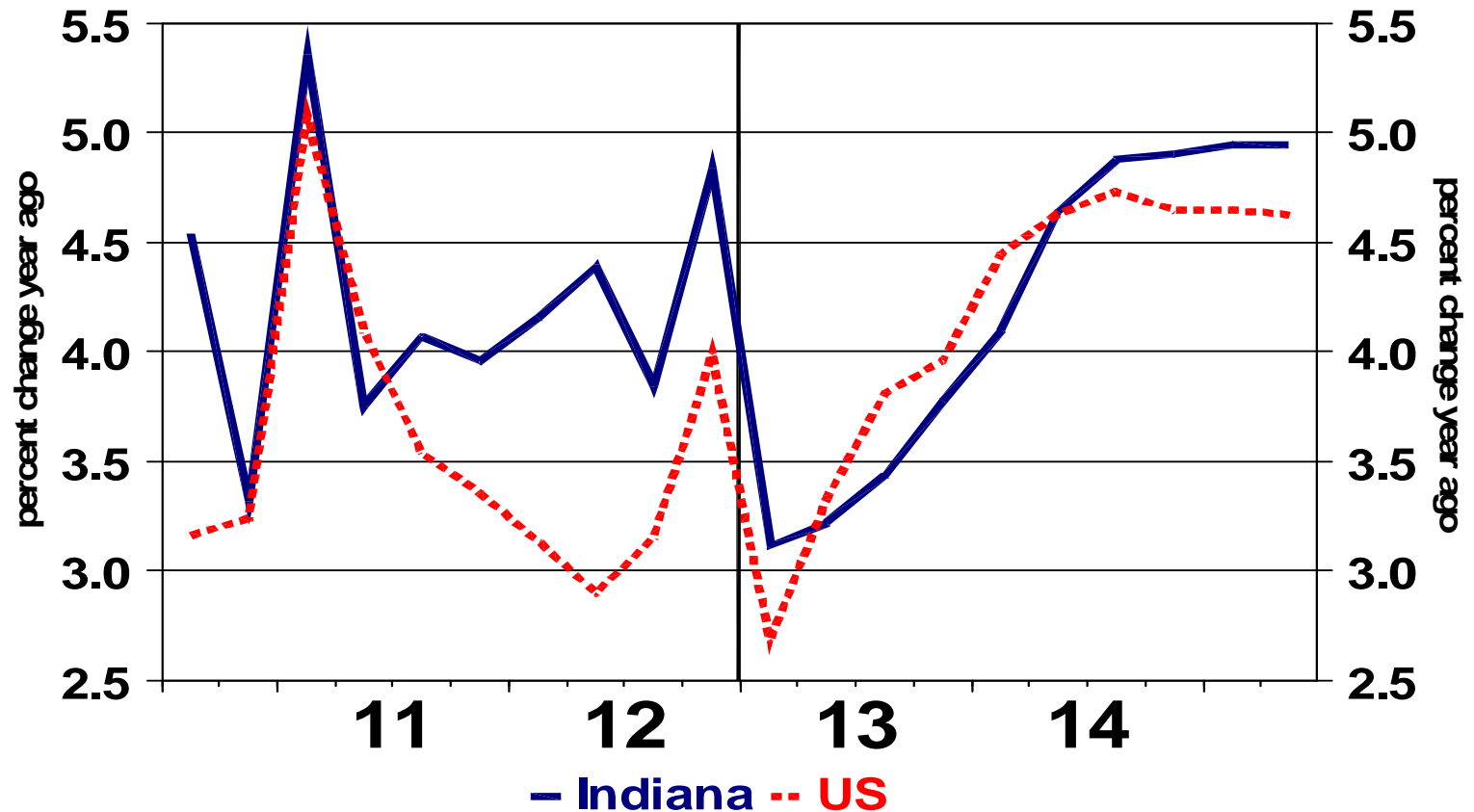


# Indiana Employment Forecast



# Wage Gains

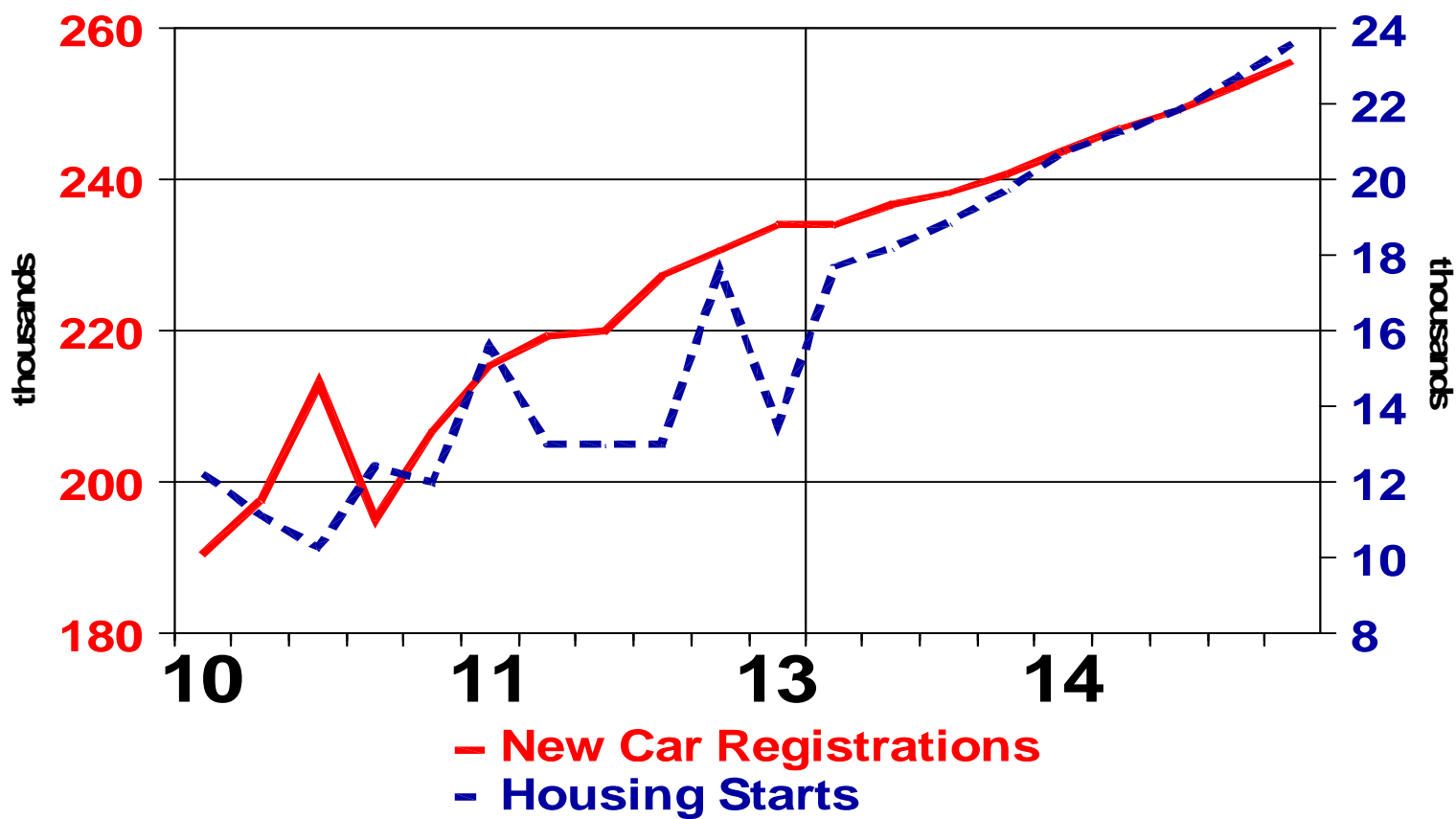
(nominal total wages and salaries)







# Indiana Cars and Houses





## Indiana Forecast Summary

(Percent unless otherwise noted)

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Employment</b>	1.6	2.1	1.6	1.4
<b>Unemployment Rate</b>	9.0	8.4	8.3	7.7
<b>Personal Income</b>	5.3	3.7	3.2	4.6
<b>Housing Starts (000)</b>	12.6	14.2	17.1	20.9
<b>Retail Sales</b>	8.3	5.2	2.7	1.7
<b>Real Gross State Product</b>	1.1	1.6	1.6	2.2

# Bottom Line for Indiana

---



- Second half slowing in 2012
- Positive manufacturing start to 2013
- Indiana continues to outperform its mid-western neighbors
- Business-friendly environment
- Expect moderate growth for the near term.

Thank you!

Jim Diffley  
Senior Director  
Chief Regional Economist  
IHS Global Insight



The Source for Critical Information and Insight™