

Economic Outlook for the US and Indiana

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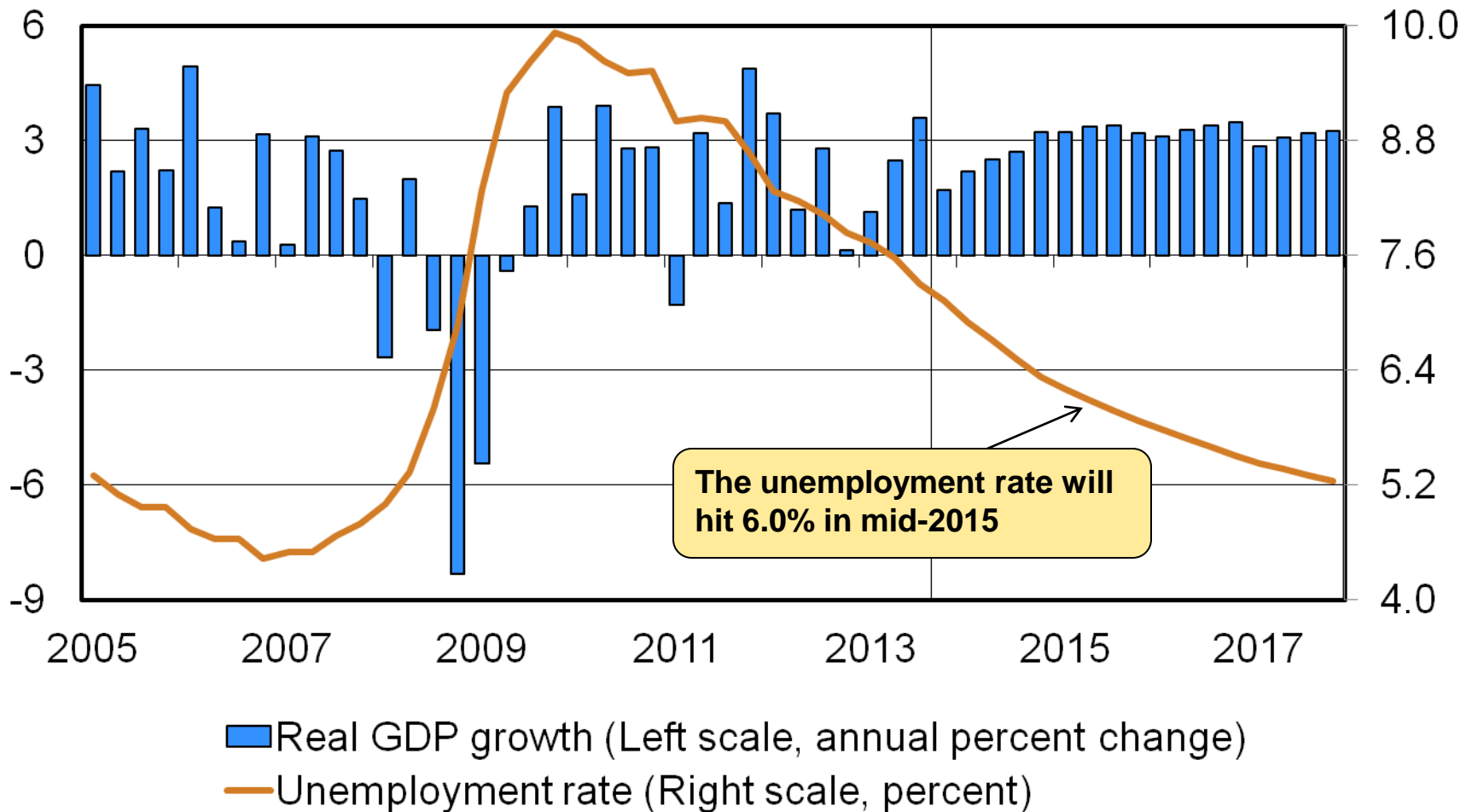
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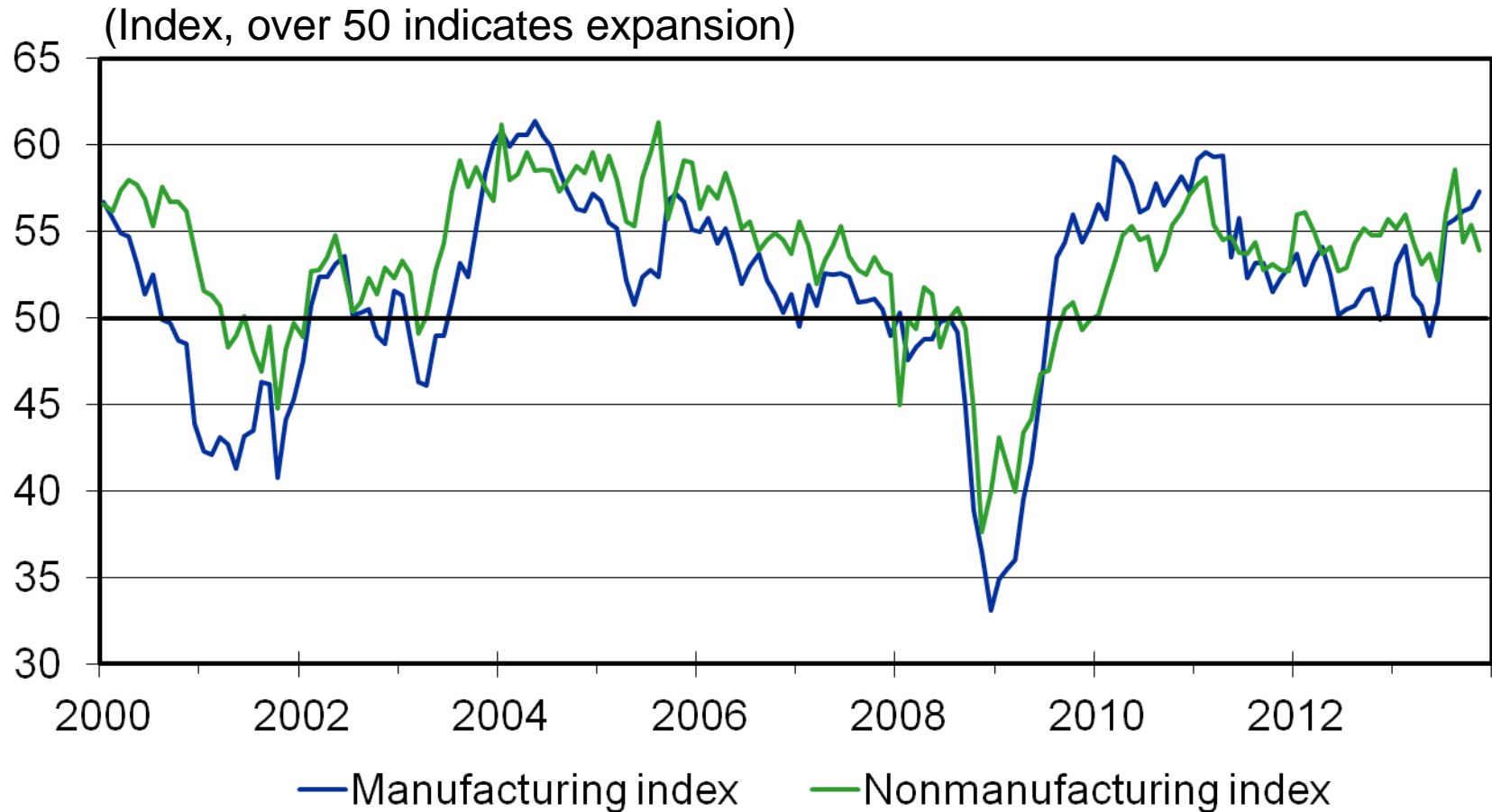
The US economy poised to accelerate in 2014

- An inventory correction will limit real GDP growth in the fourth quarter of 2013.
- Consumers will cautiously increase spending in response to solid gains in employment, income, and asset values.
- Homebuilding will surge until 2016, when it catches up with demand.
- Business investment will accelerate, led by equipment spending.
- Our forecast incorporates a bipartisan federal budget agreement providing relief from the sequester through fiscal 2015.
- Interest rates will rise significantly over the next four years as monetary accommodation is withdrawn.
- The North American energy boom will continue to create jobs, investment, and a competitive advantage in manufacturing.

Real GDP growth and the unemployment rate



The Institute for Supply Management's indexes signal growth in manufacturing and services



Source: Institute for Supply Management (ISM)

US economic growth by sector

(Percent change, 2009 dollars)

	2012	2013	2014	2015
Real GDP	2.8	1.8	2.5	3.2
Consumption	2.2	1.9	2.7	2.9
Residential investment	12.9	13.1	14.5	16.8
Business fixed investment	7.3	2.4	4.3	6.3
Federal government	-1.4	-4.6	-1.1	0.0
State & local government	-0.7	-0.2	0.3	0.6
Exports	3.5	2.5	4.9	5.1
Imports	2.2	1.5	4.7	6.2

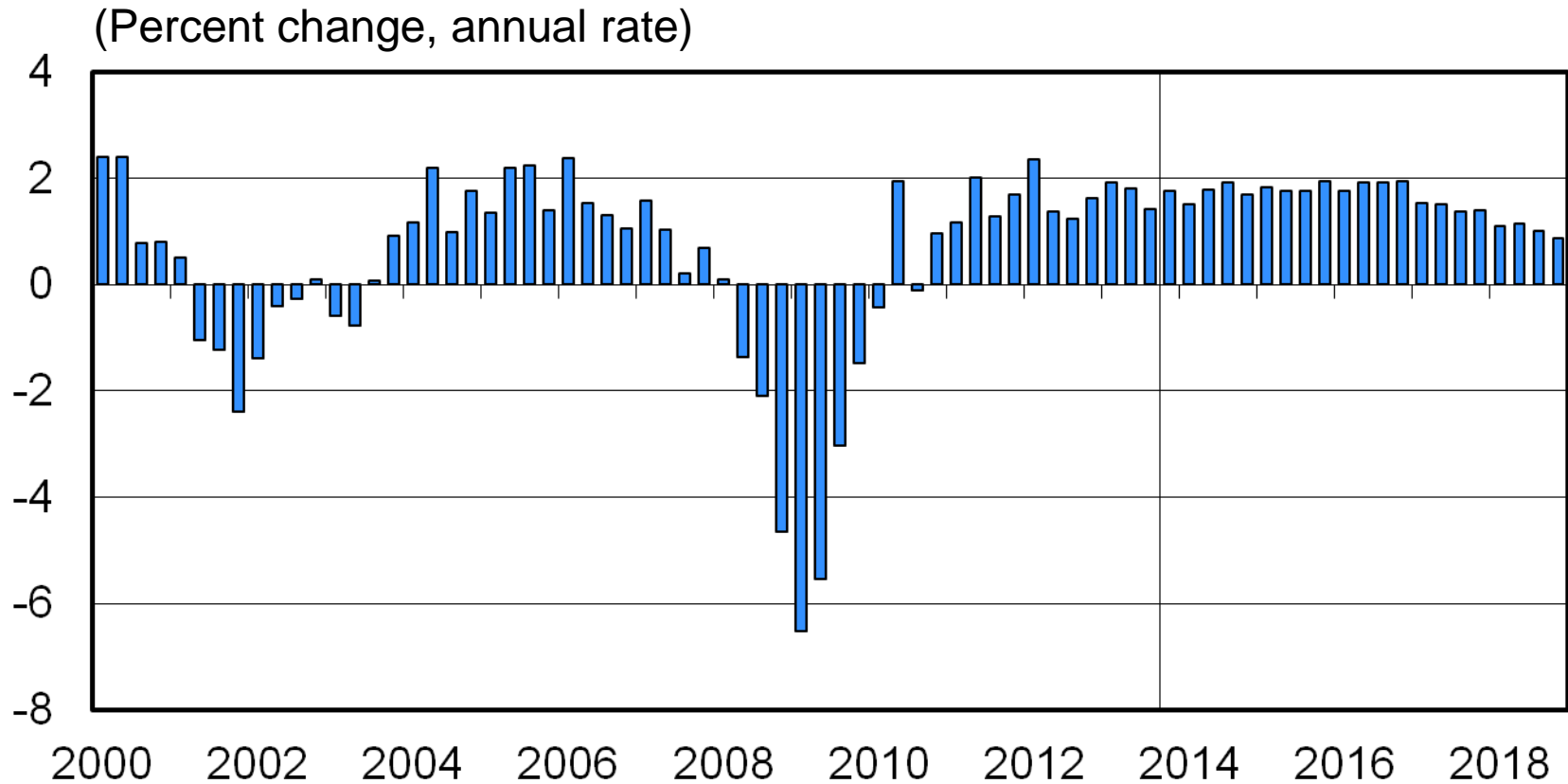


Other key US indicators

(Percent change unless noted)

	2012	2013	2014	2015
Industrial production	3.6	2.5	2.3	3.5
Payroll employment	1.7	1.6	1.7	1.8
Light-vehicle sales (Millions)	14.4	15.6	16.0	16.4
Housing starts (Millions)	0.78	0.91	1.13	1.47
Consumer Price Index	2.1	1.5	1.4	1.7
Core CPI	2.1	1.8	1.9	1.9
Brent crude oil price (\$/barrel)	112	108	104	99
Federal funds rate (%)	0.1	0.1	0.1	0.4
10-year Treasury yield (%)	1.8	2.3	2.9	3.2

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



US industrial production growth

(Percent change)

	2012	2013	2014	2015
All manufacturing	4.2	2.4	2.4	3.9
Motor vehicles & parts	17.4	6.3	2.9	4.7
Computers & electronics	6.3	4.6	6.7	8.0
Electrical equip. & appliances	3.5	1.3	3.2	5.4
Machinery	7.0	1.6	3.7	5.5
Textiles	0.5	-0.7	-0.6	-0.1
Furniture	4.7	4.4	4.4	4.4
Chemicals	0.2	0.9	1.3	3.0

Consumer environment

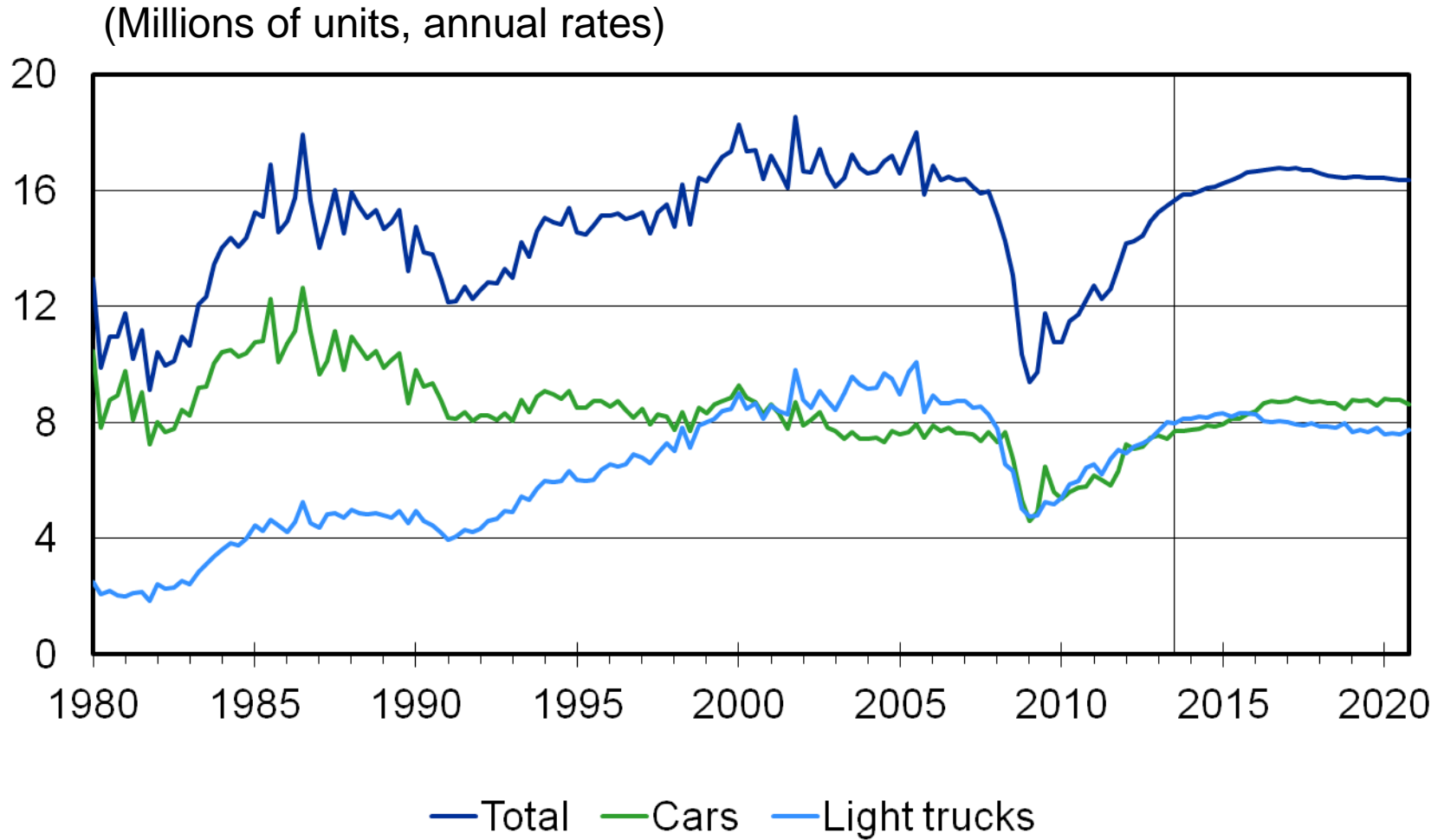
Negative Forces

- High unemployment
- Slow wage growth
- Debt burdens still high
- Taxes up in 2013, and future tax increases likely
- Student loan debt on the rise
- Low fertility rates and population growth rates
- Consumer sentiment hit hard by government antics
- Bouncing mortgage rates

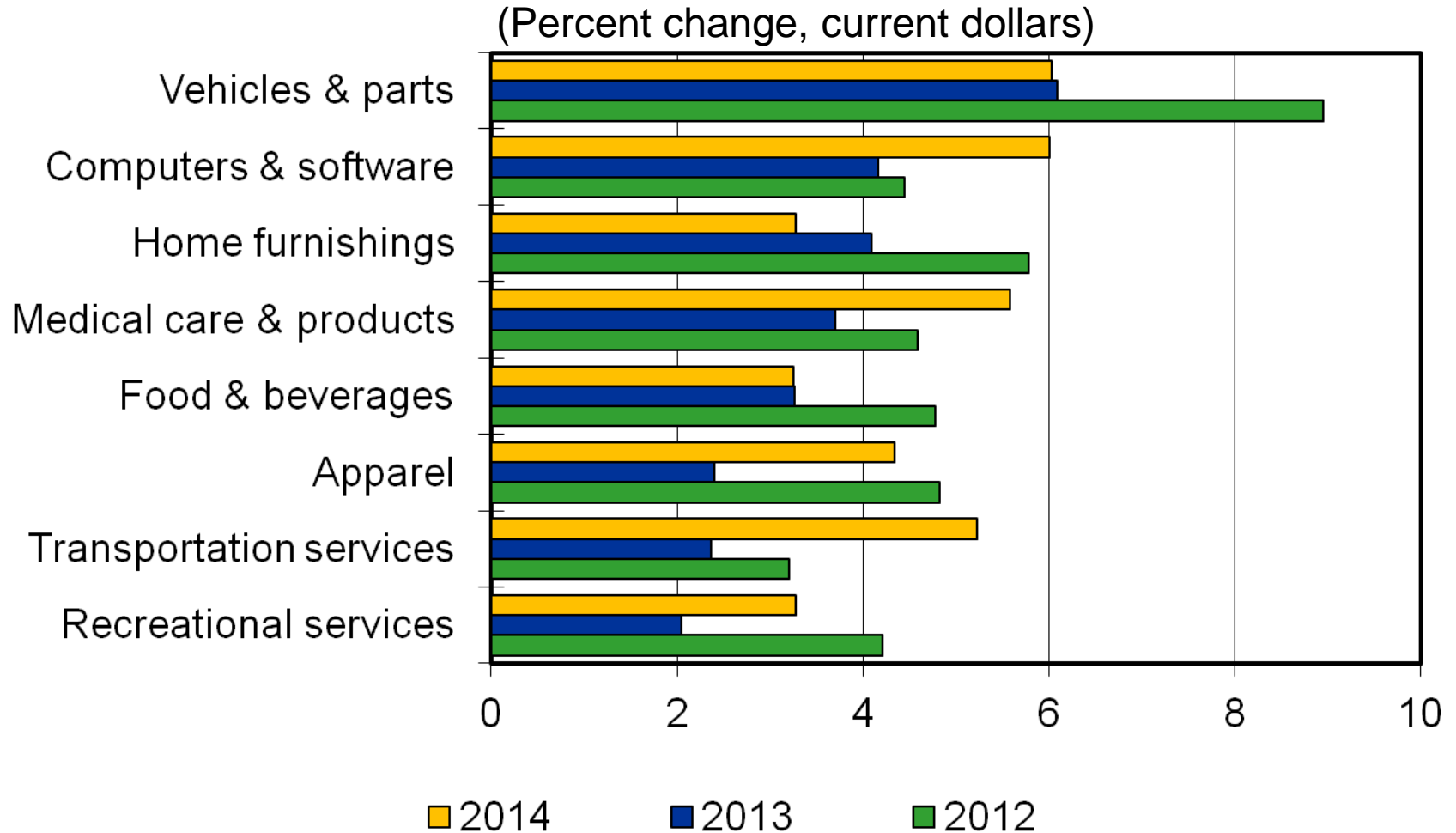
Positive Forces

- Pent-up demand for durable goods (autos)
- Jobs growth picking up
- Modest price increases
- Some easing in credit conditions
- House prices rising
- Debt burdens lower
- Household asset values surpassed pre-crisis levels (for some)

The recovery in light-vehicle sales is nearing completion



Consumer spending growth by category

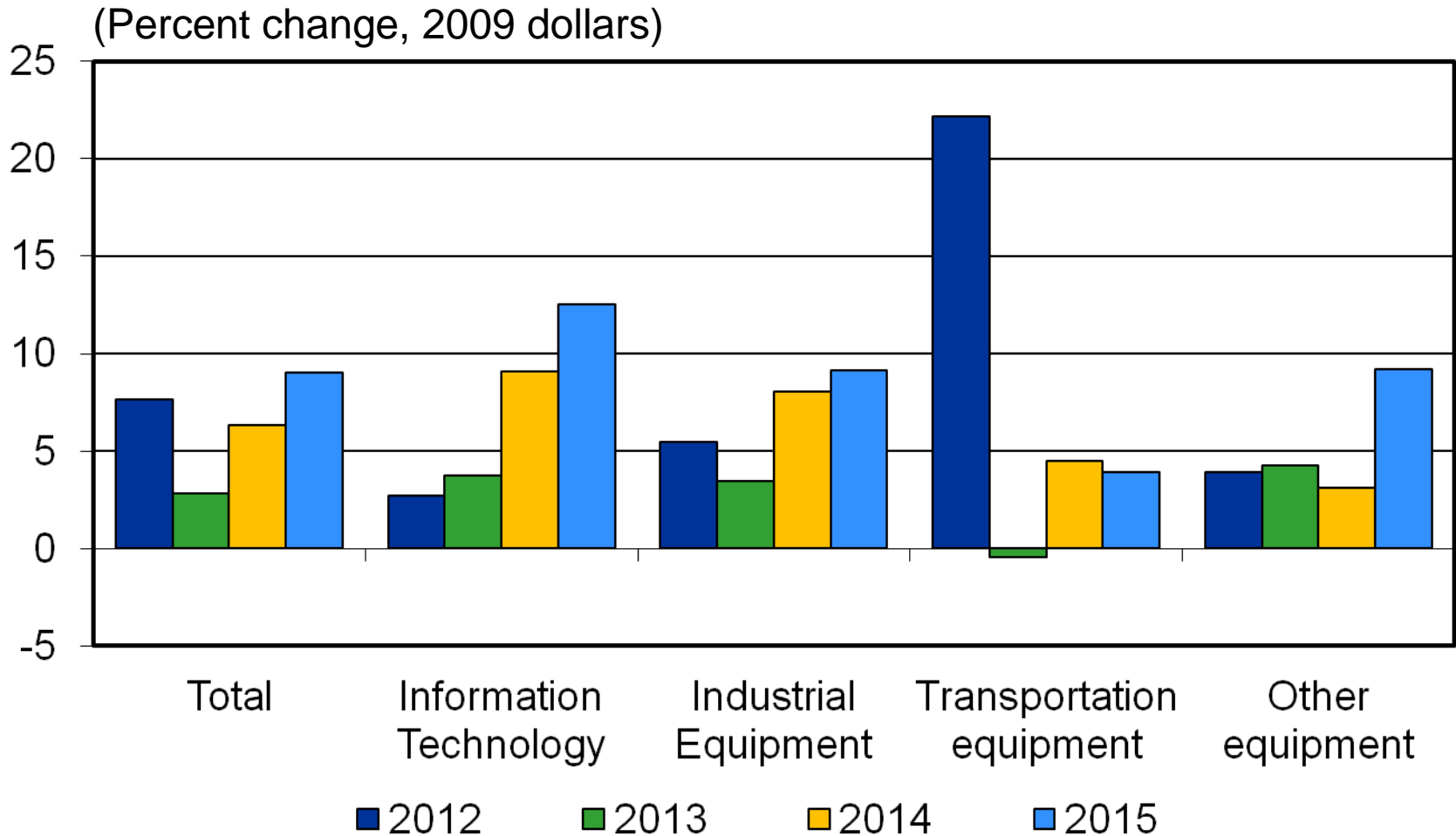


A demand-led recovery in housing markets

- Job growth is sparking a recovery in household formation.
- Mortgage default and foreclosure rates continue to decline.
- Supply shortages are causing rapid increases in home prices.
- Higher interest rates will slow, but not stop the housing recovery.
- Young adults are delaying homeownership.
- Baby boomers are starting to downsize.



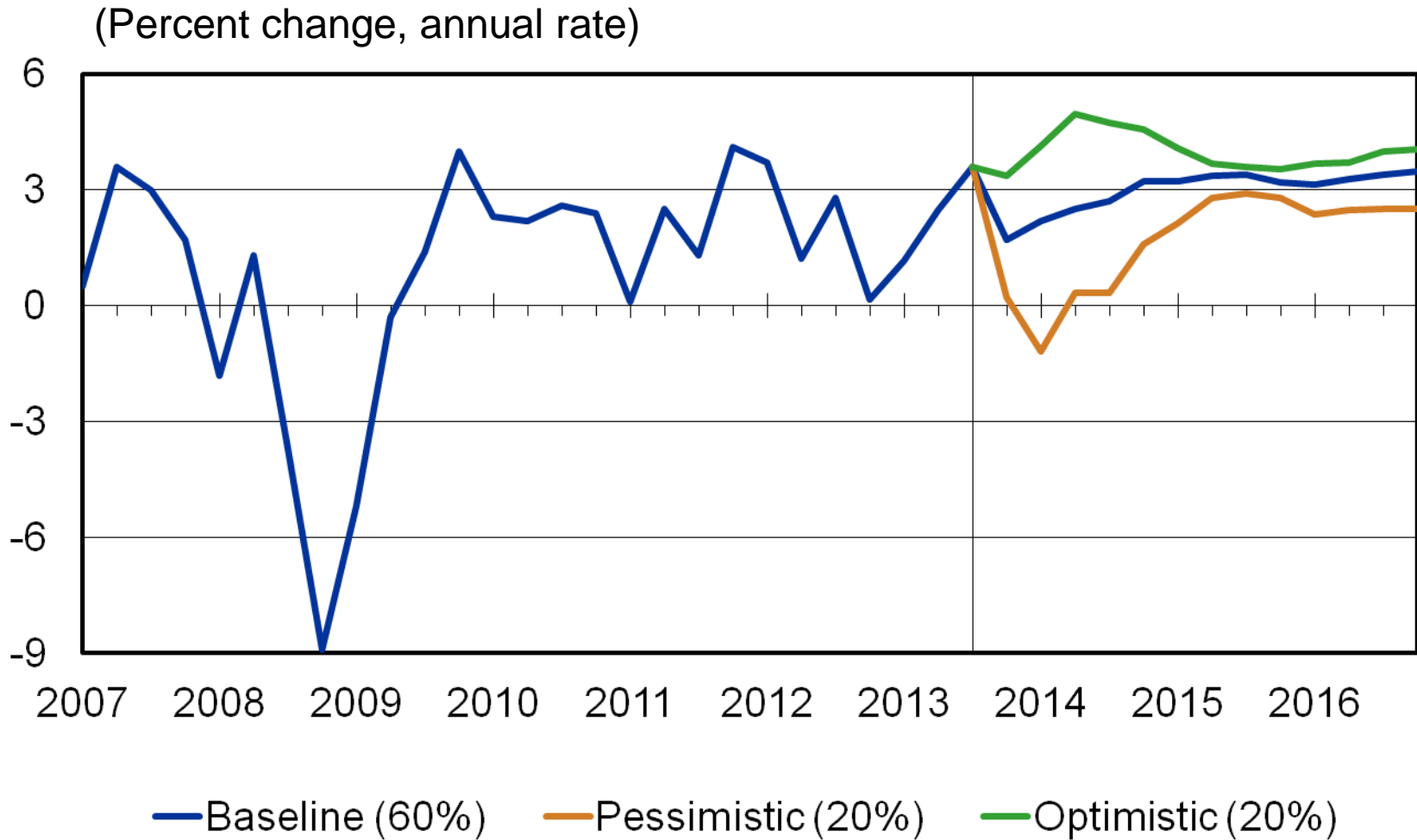
Real business equipment investment growth by category



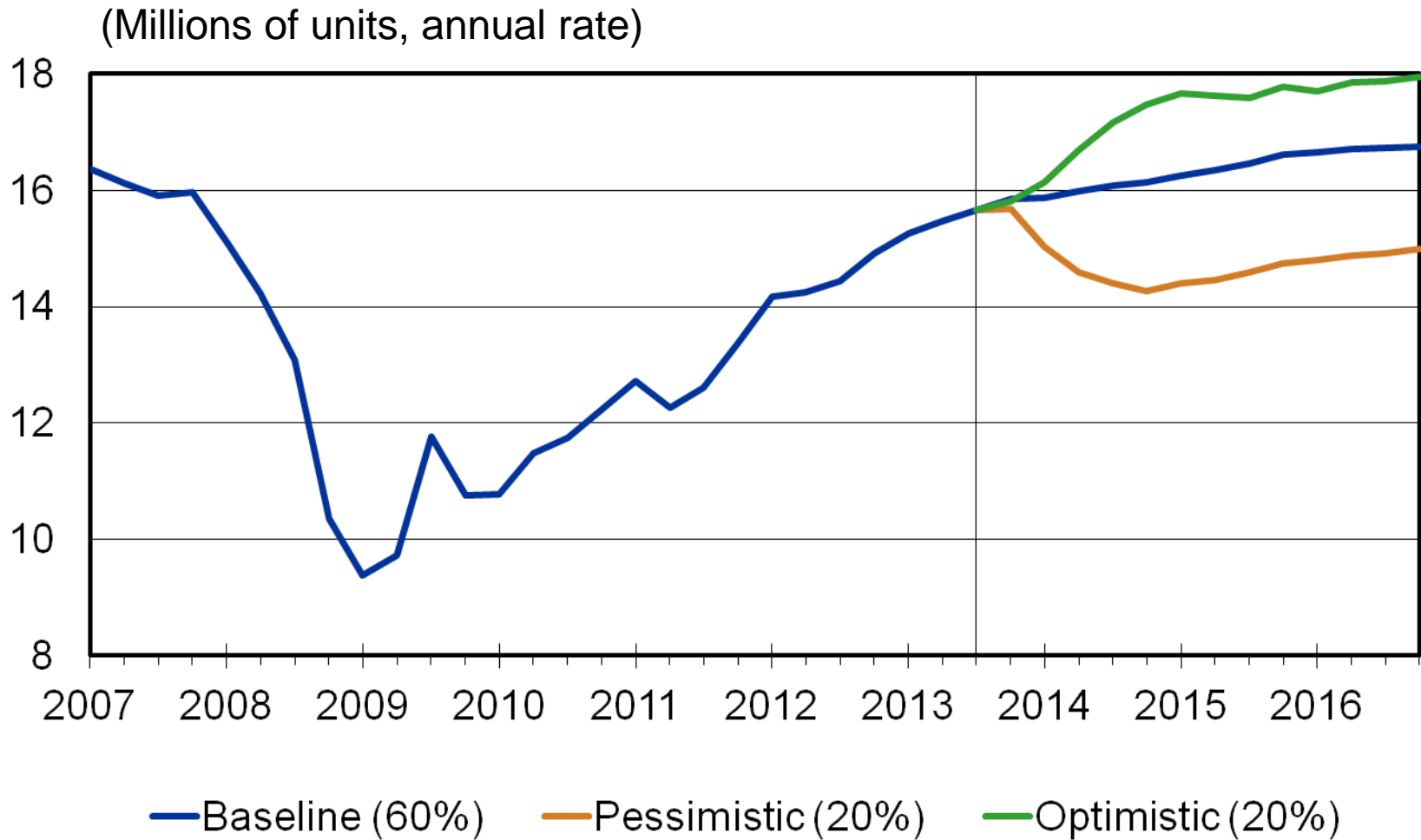
Risks to the US forecast

Scenario	Characteristics
Recovery stalls (Probability = 20%)	<ul style="list-style-type: none"> • Consumers remain cautious, limiting spending growth. • Softening demand leads to a housing market relapse. • The Eurozone returns to recession, financial strains increase, Greece exits and restructures its debt. • China and emerging markets experience weaker growth.
Recovery reignites (Probability = 20%)	<ul style="list-style-type: none"> • Progress is made toward a long-term fiscal plan. • Confidence revives, leading to more spending and hiring. • Housing markets rebound more quickly. • Eurozone policymakers develop credible pro-growth plans to resolve sovereign-debt issues.
Baseline forecast (Probability = 60%)	<ul style="list-style-type: none"> • A bipartisan federal budget agreement is enacted, providing relief from the sequester in fiscal 2014 and 2015. • Quantitative easing is phased out in 2014; the federal funds rate starts to rise in September 2015. • Housing markets continue to recover in 2014–16. • The Eurozone stays intact and global growth picks up.

Real GDP growth in alternative scenarios



Light-vehicle sales in alternative scenarios





Bottom line for the US economy

- Real GDP growth is projected to pick up in 2014 and 2015, led by strengthening private-sector investment.
- Homebuilding will rise through 2016 as supply catches up with demand.
- Consumer spending will be supported by gains in employment, personal income, and household wealth.
- Net exports will support economic growth after 2015.
- Interest rates will rise through 2017 as monetary accommodation is withdrawn.
- Federal fiscal problems can be fixed, but the process will be difficult, sapping the private sector's momentum.

Regional Outlook



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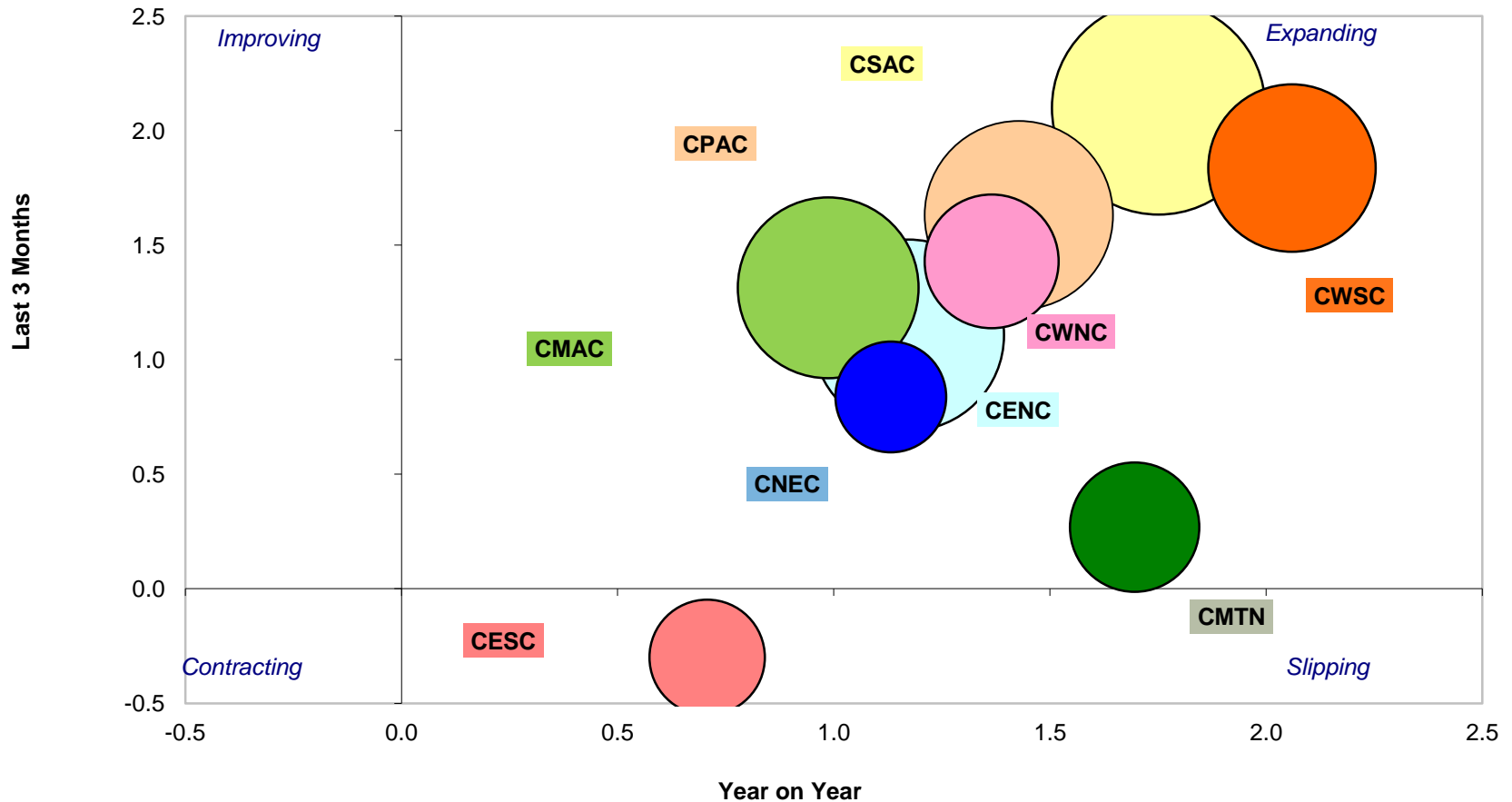
Critical Regional Themes in this Recovery

- 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'

Regional Performance 2013

Employment Momentum in October

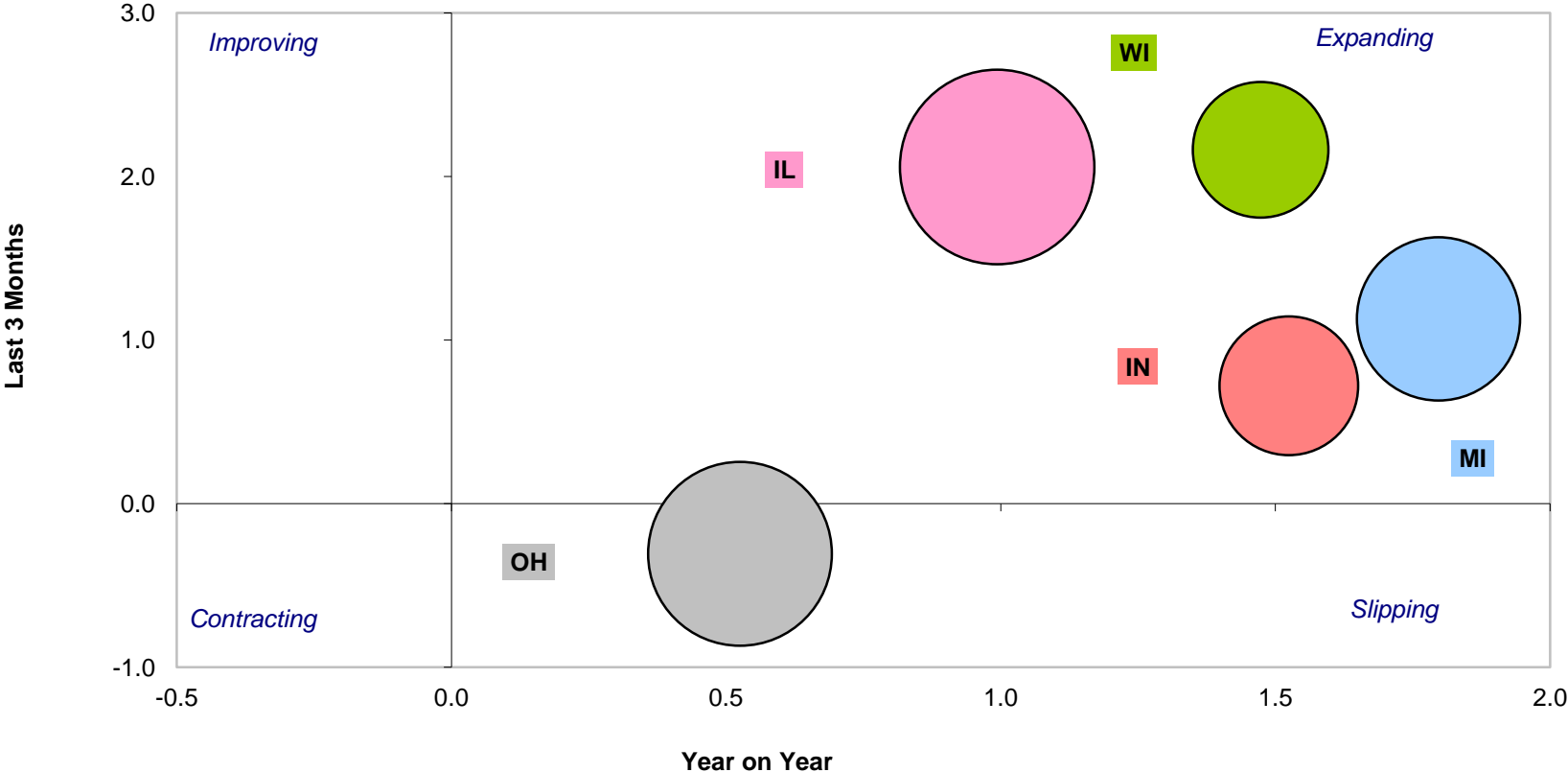
(Percent change, annual rate)



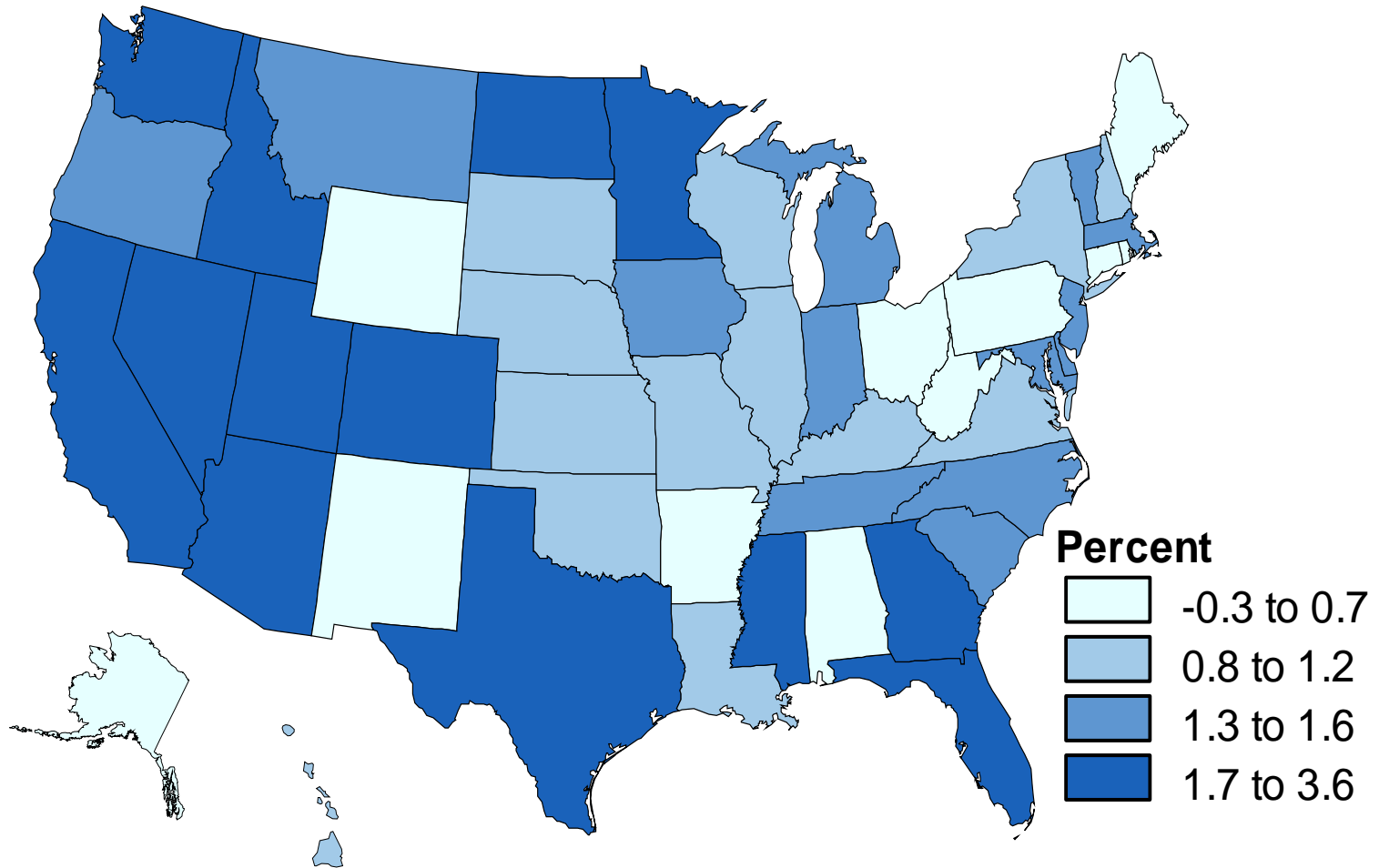
Midwest Performance 2013

Employment Momentum in October

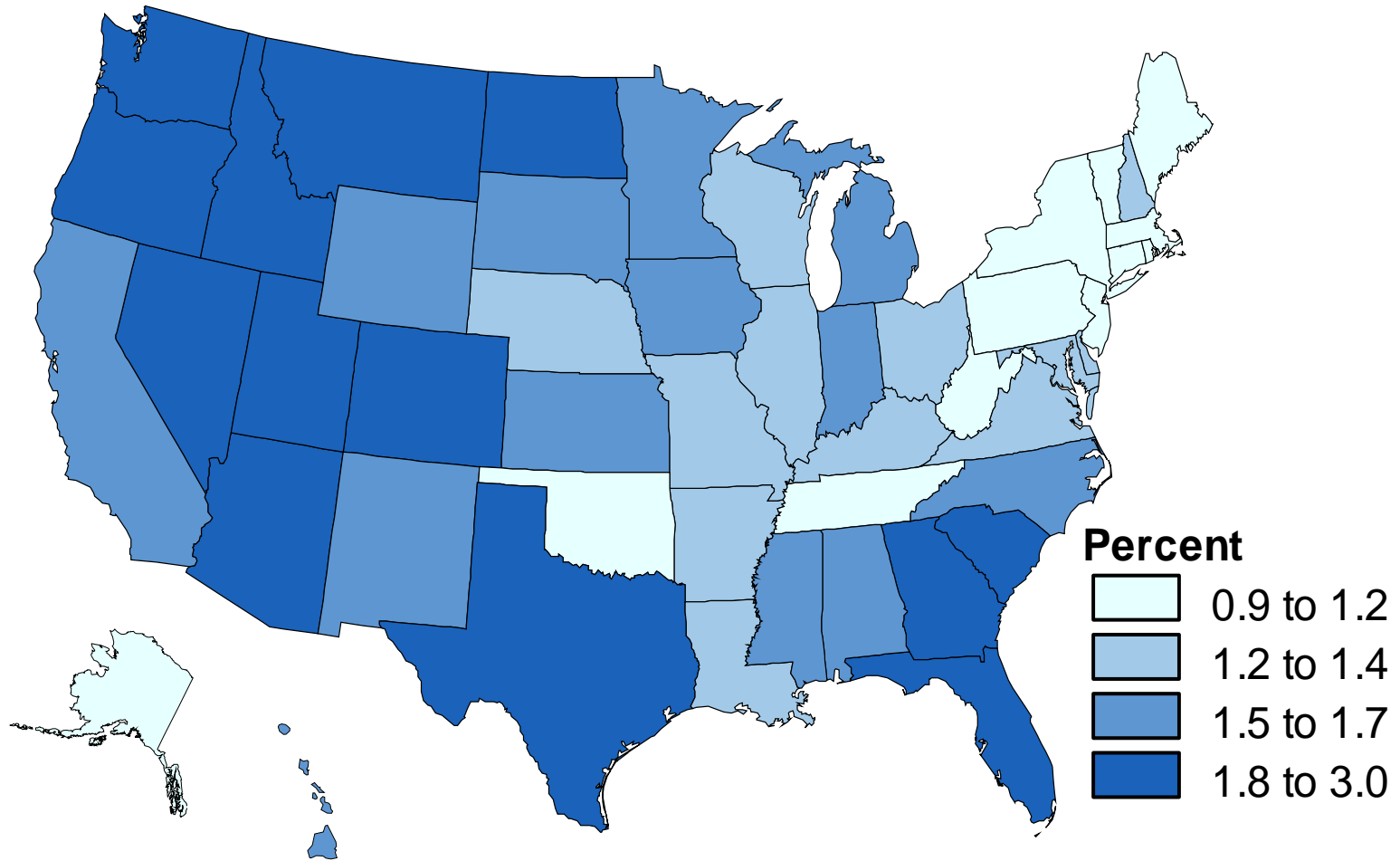
(Percent change, annual rate)



Continued modest job growth in 2013

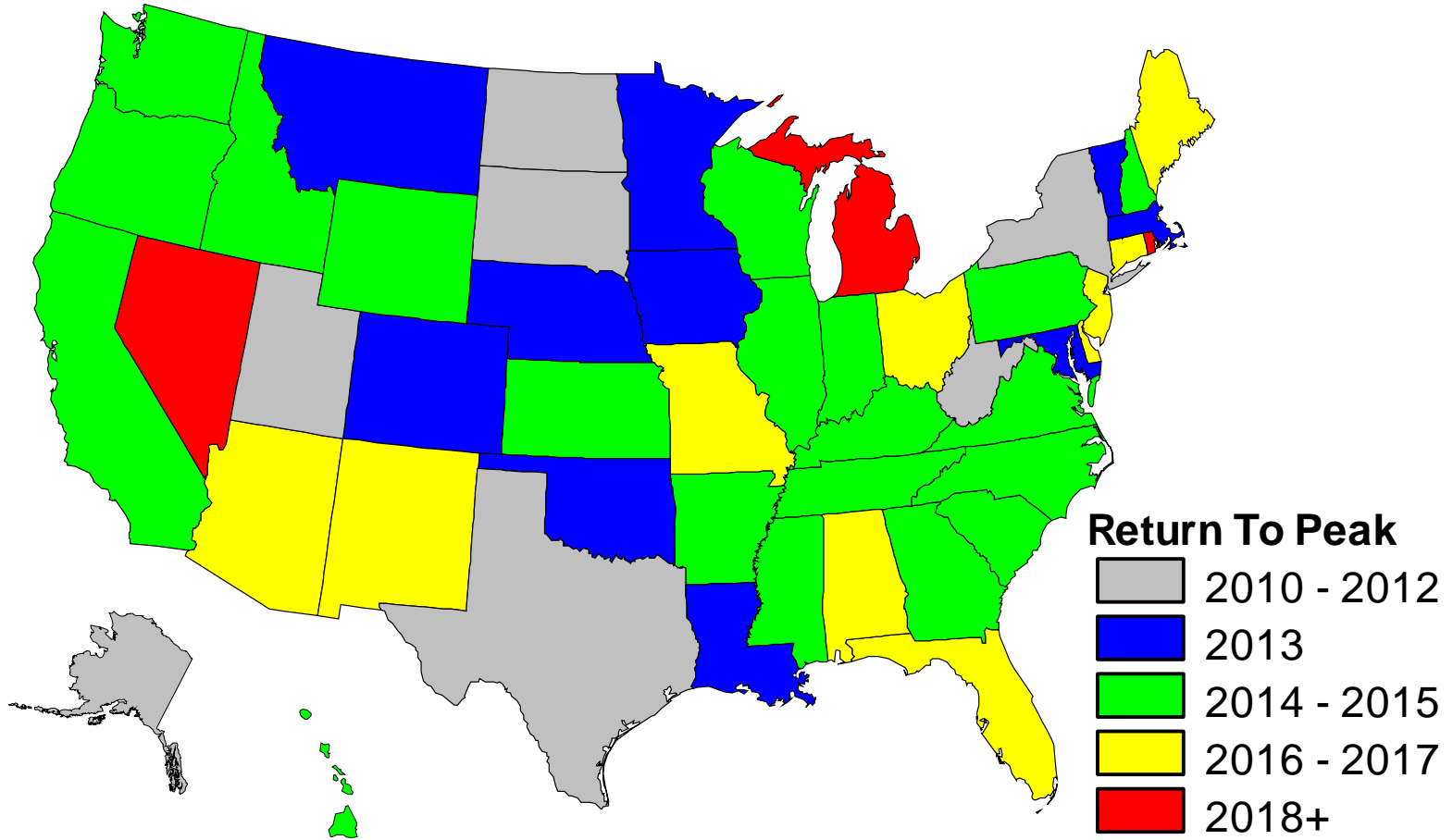


... Picking up in 2014



The long road to recovery

Year of Return to Peak Employment





Bottom line for regions

- The Sunbelt and West will perform better than average as housing markets recover.
- Strong manufacturing gains will bring improvement in relative performance to the Midwest.
- Slow population growth and weaker financial and real estate markets will hamper the Northeast.
- Energy and natural resources, especially unconventional oil and gas, will propel the central and mountain regions.

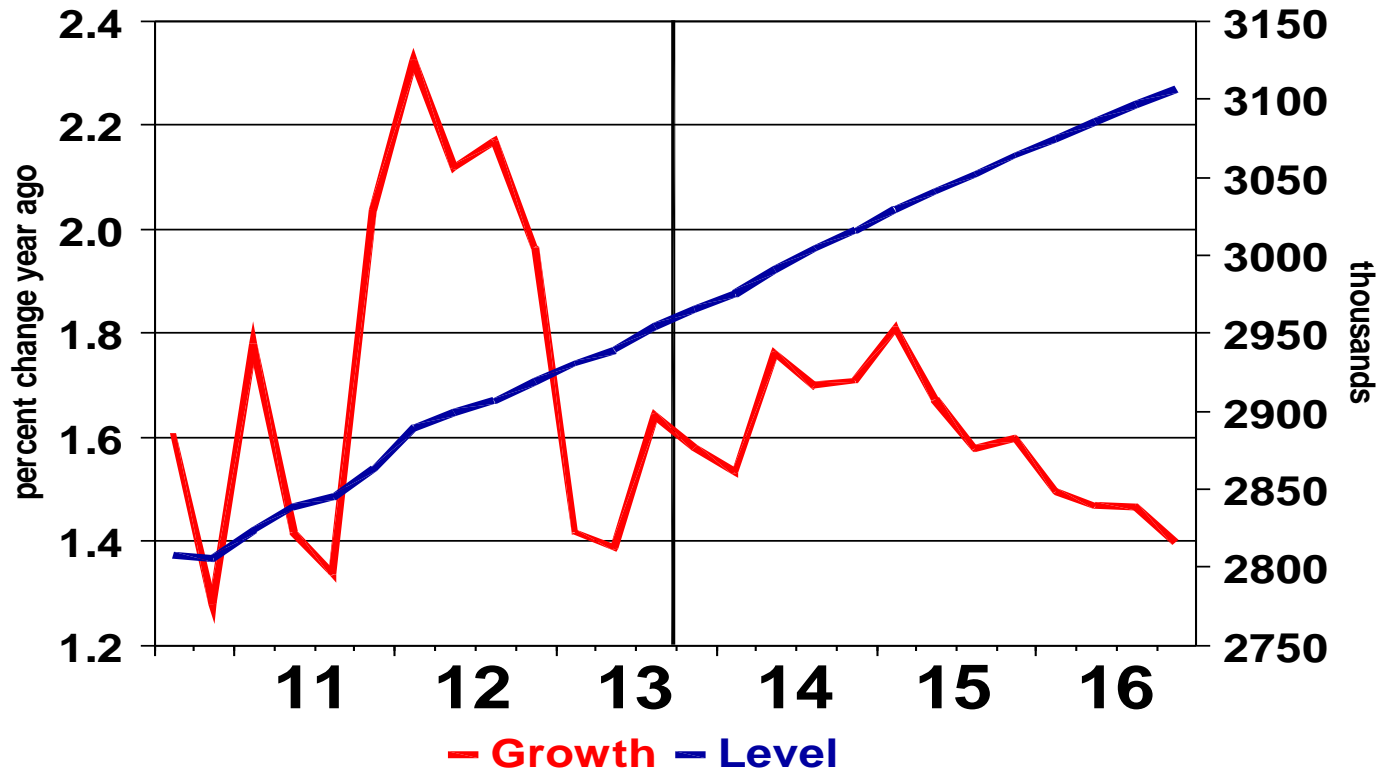
Indiana Outlook



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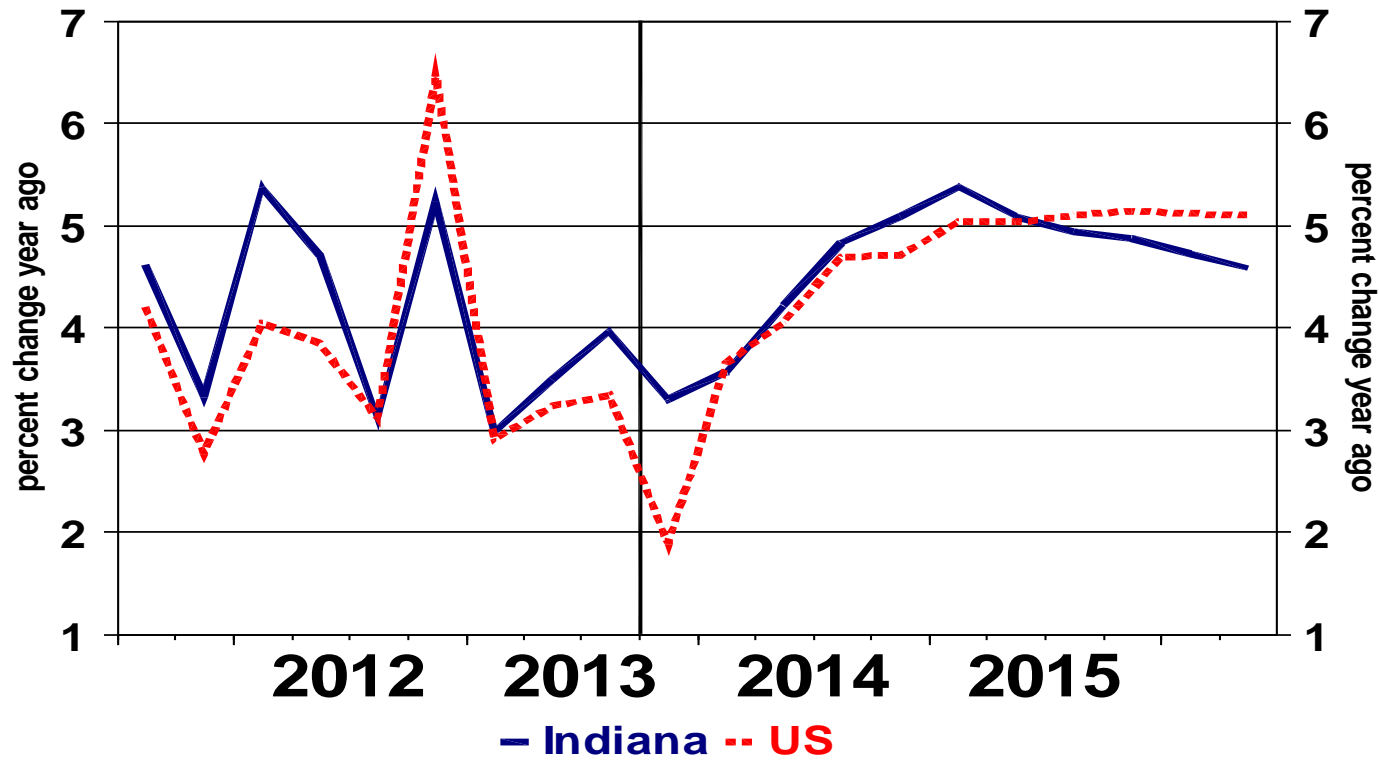
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Indiana Employment Forecast

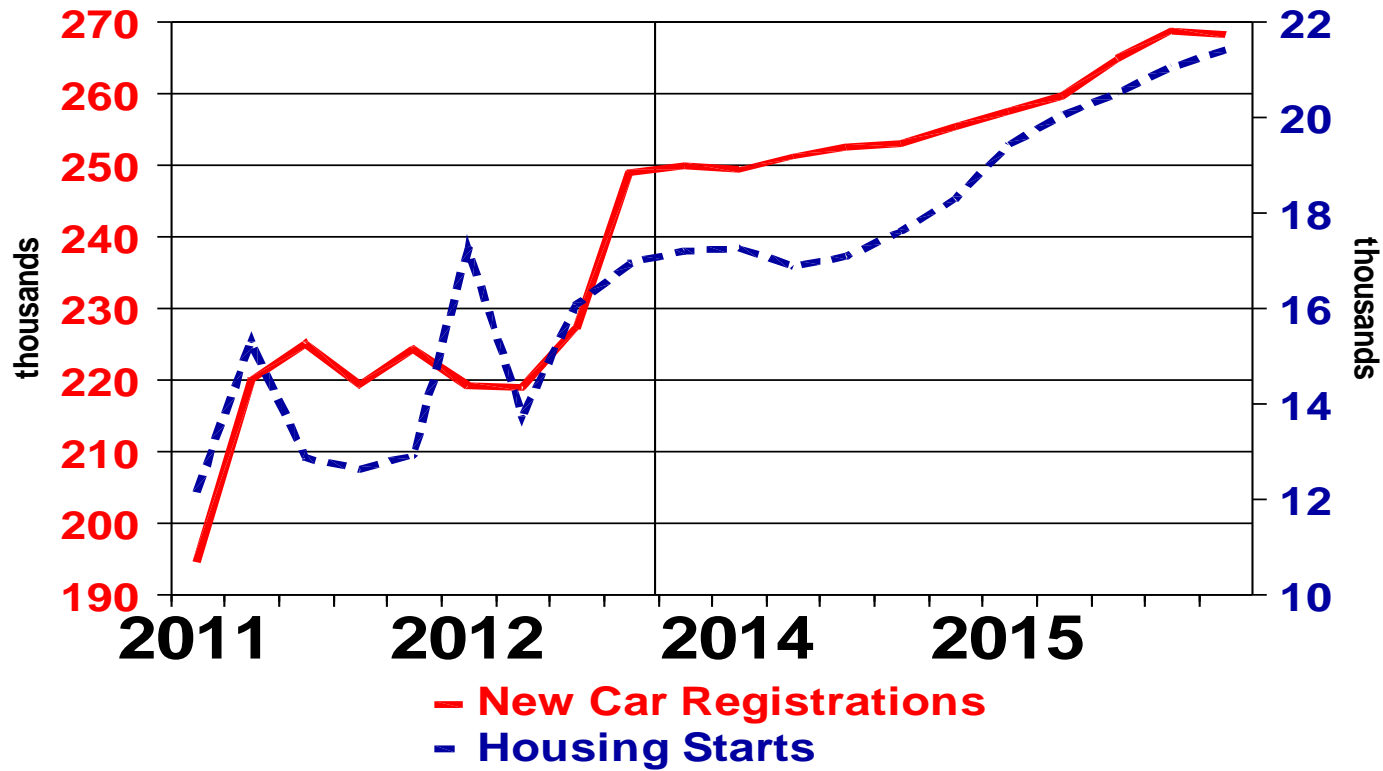


Wage Gains

(nominal total wages and salaries)



Indiana Cars and Houses





Indiana Forecast Summary

(Percent unless otherwise noted)

	2012	2013	2014	2015
Employment	2.1	1.5	1.7	1.7
Unemployment Rate	8.4	8.2	7.1	6.7
Personal Income	5.2	3.0	4.4	4.6
Housing Starts (000)	13.9	16.0	17.2	19.5
Retail Sales	6.5	4.8	3.0	3.2
Real Gross State Product	3.3	1.9	2.4	2.8

- Indiana will continue to outperform its mid-western neighbors
 - Growing near US rate
 - Payrolls now just 1.1% below pre-recession peak
- Supply chain ties to auto sector boost growth
 - Chemicals industry also important source of export growth
- Business-friendly environment
- Expect moderate to strong growth for the near term.



Forecast Track Record

Forecast	US GDP		Indiana Employment		Indiana Income	
	2012	2013	2012	2013	2012	2013
Dec 2011	1.8	2.4	0.8	1.8	2.9	3.4
Dec 2012	2.2	1.9	2.0	1.6	4.2	3.3
Apr 2013	2.2	2.0	2.1	1.6	3.7	3.2
Dec 2013	2.8	1.8	2.1	1.5	5.2	3.0

Thank you!

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