

US Economic Outlook

How long will the ride last?

ihs.com

December 2014

Douglas Handler, IHS Chief US Economist, +1 781 301 9283, doug.handler@ihs.com





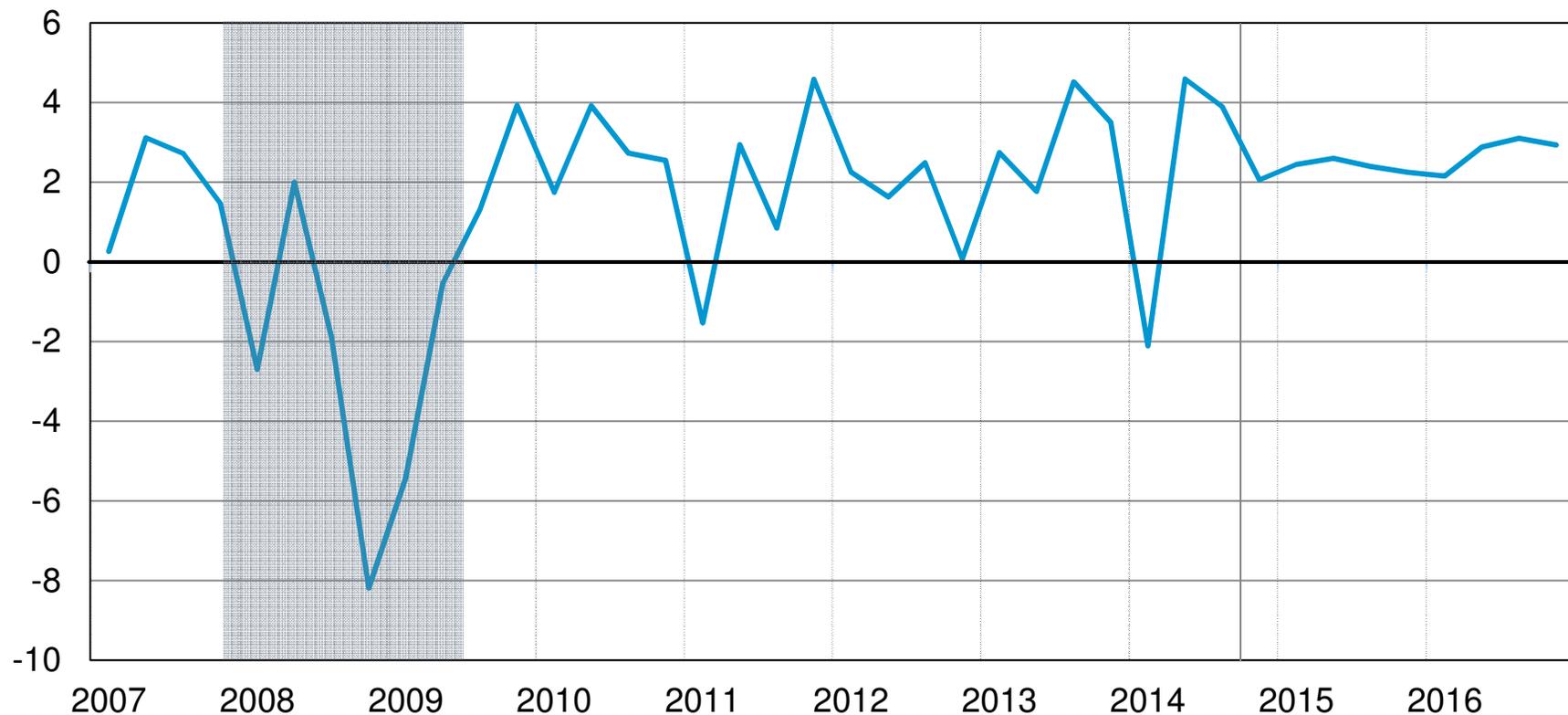
US Economic Overview

Executive Summary - economic growth accelerates a notch from 2.2% in 2014 to 2.7% in 2015.

- Adverse demographics is now an issue
 - Labor force growth
 - Mismatches between available jobs and available people
 - Household formation
- Gasoline price dividend gets partially absorbed by poorer international trade conditions
- Fiscal policy to remain in “benign neglect” at least through 2016 election; additional defense spending possible
- Fed to take action in mid-2015, but the anticipation will be worse than the impact

US growth will slow in q4, and into 2015, but a gradual acceleration is expected thereafter.

Real GDP growth (annualized percent change)

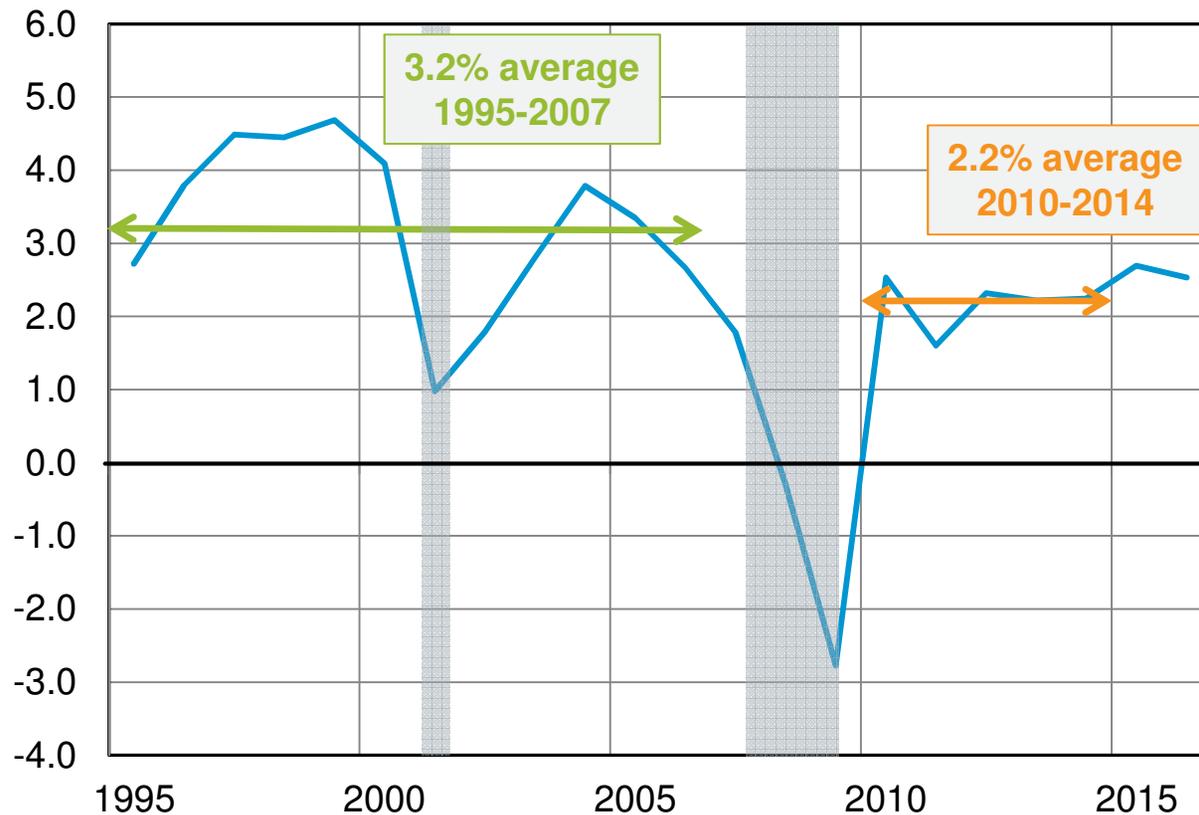


Source: IHS

© 2014 IHS

Since emerging from the recession, the US economy has downshifted. Will it find that next gear?

Real GDP growth

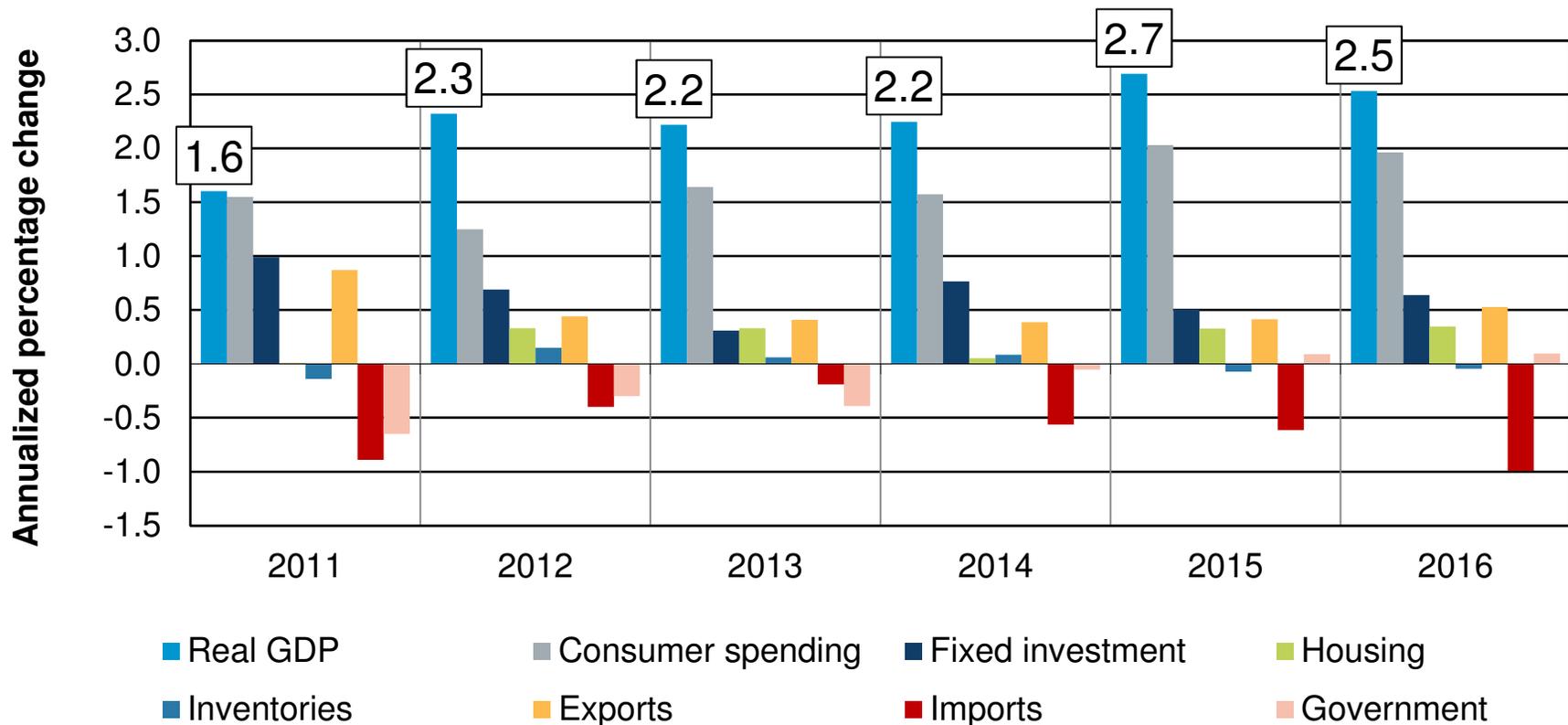


Where's the growth?

- Federal budget deficit reduction
- Consumer retrenchment
 - Higher taxes
 - Debt repayment
 - Poor wage growth
- Fizzled housing recovery
- Business investment rebound did not fully offset the downturn

Looking forward, we will still be counting on consumer spending to drive the bulk of economic growth.

Contributions to real GDP growth



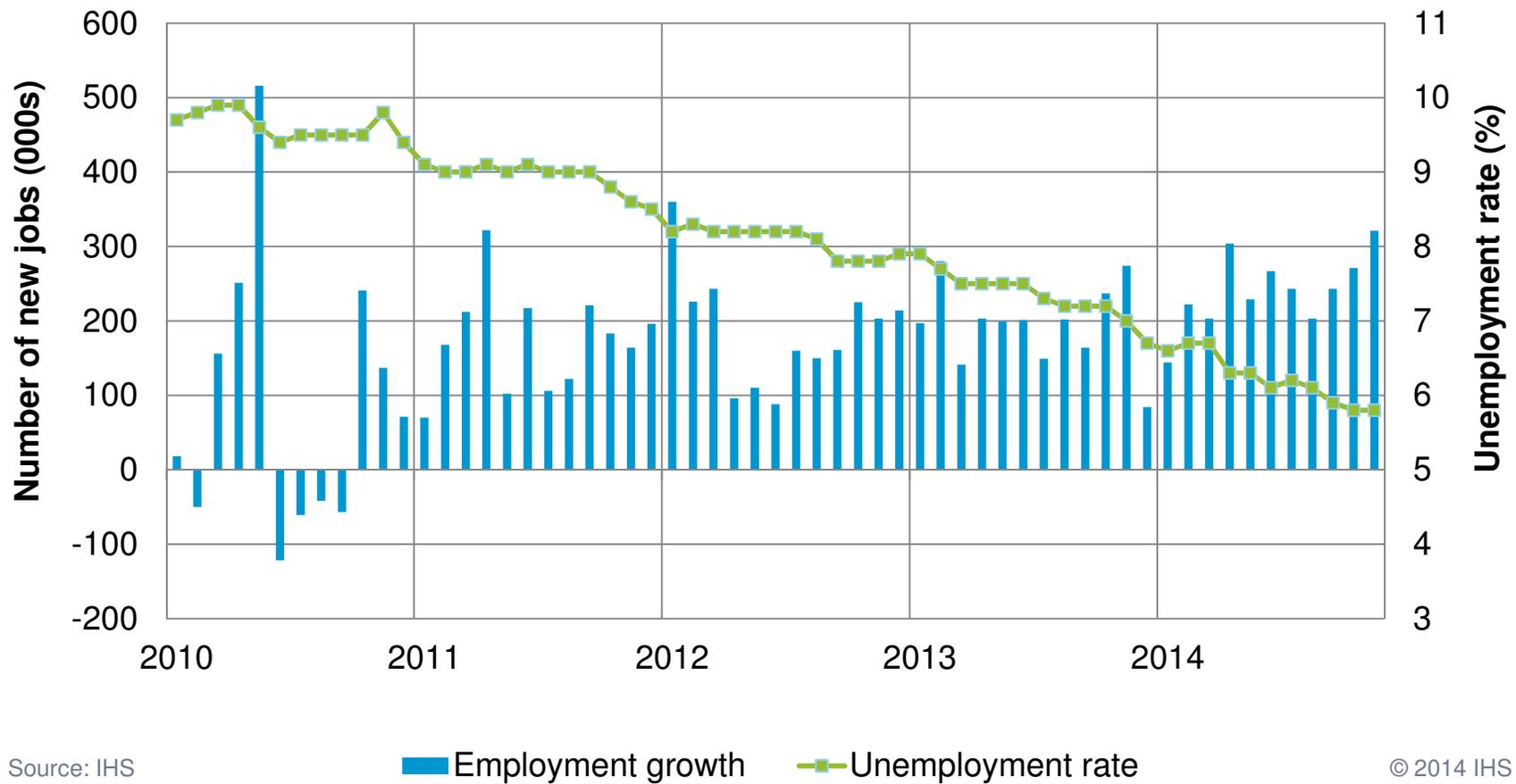
Source: IHS

© 2014 IHS



Is the labor market getting tight enough to drive wage pressures?

Job creation and the unemployment rate



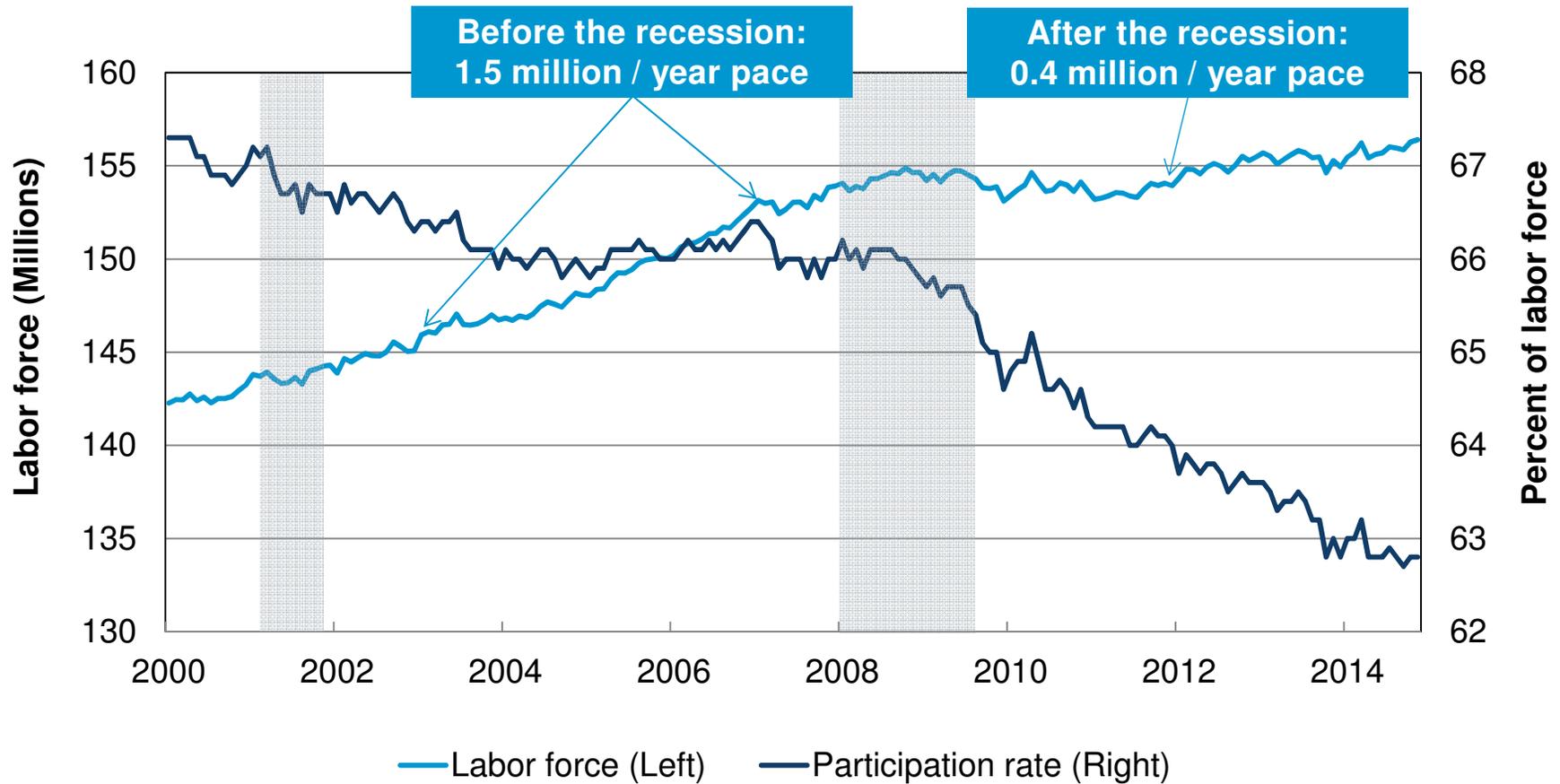
Source: IHS

■ Employment growth —■ Unemployment rate

© 2014 IHS

Growth in the labor force has downshifted.

Employment and labor

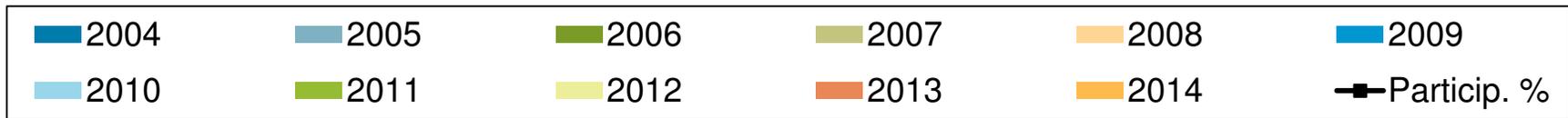
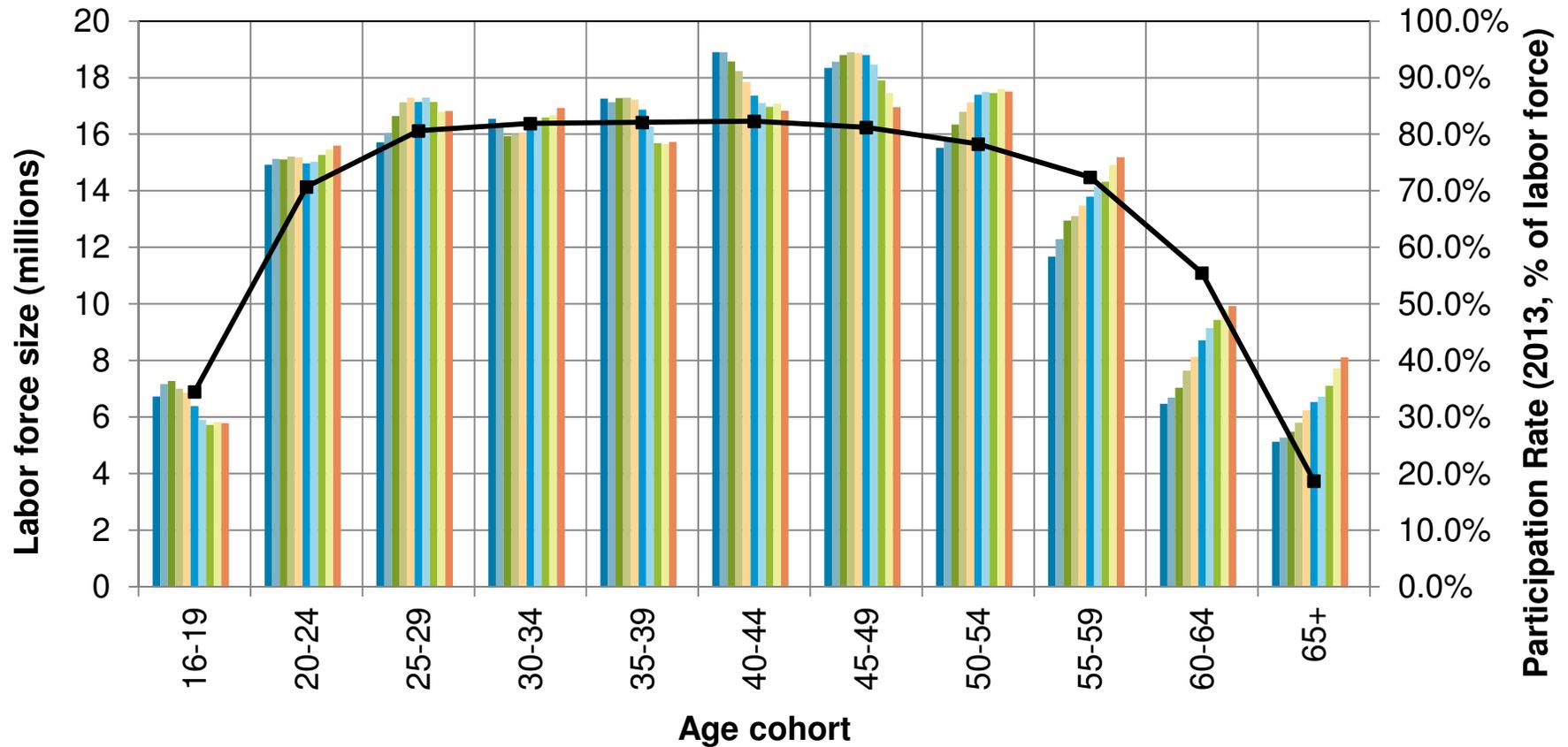


Source: IHS

© 2014 IHS

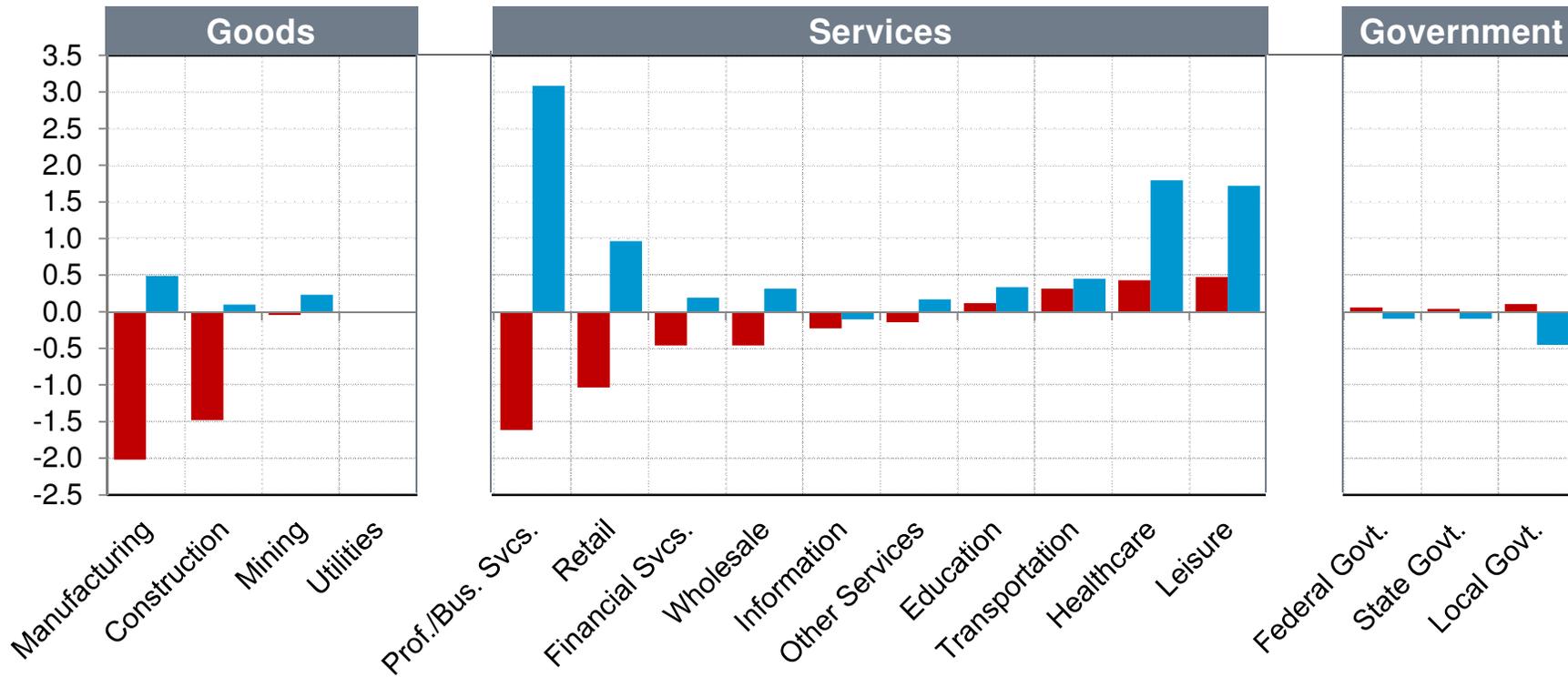


We're aging, and entering cohorts with lower participation rates.



Only the services areas are materially adding jobs.

Employment before and after the recession (millions)



■ Change during recession *

■ Change since end of recession *

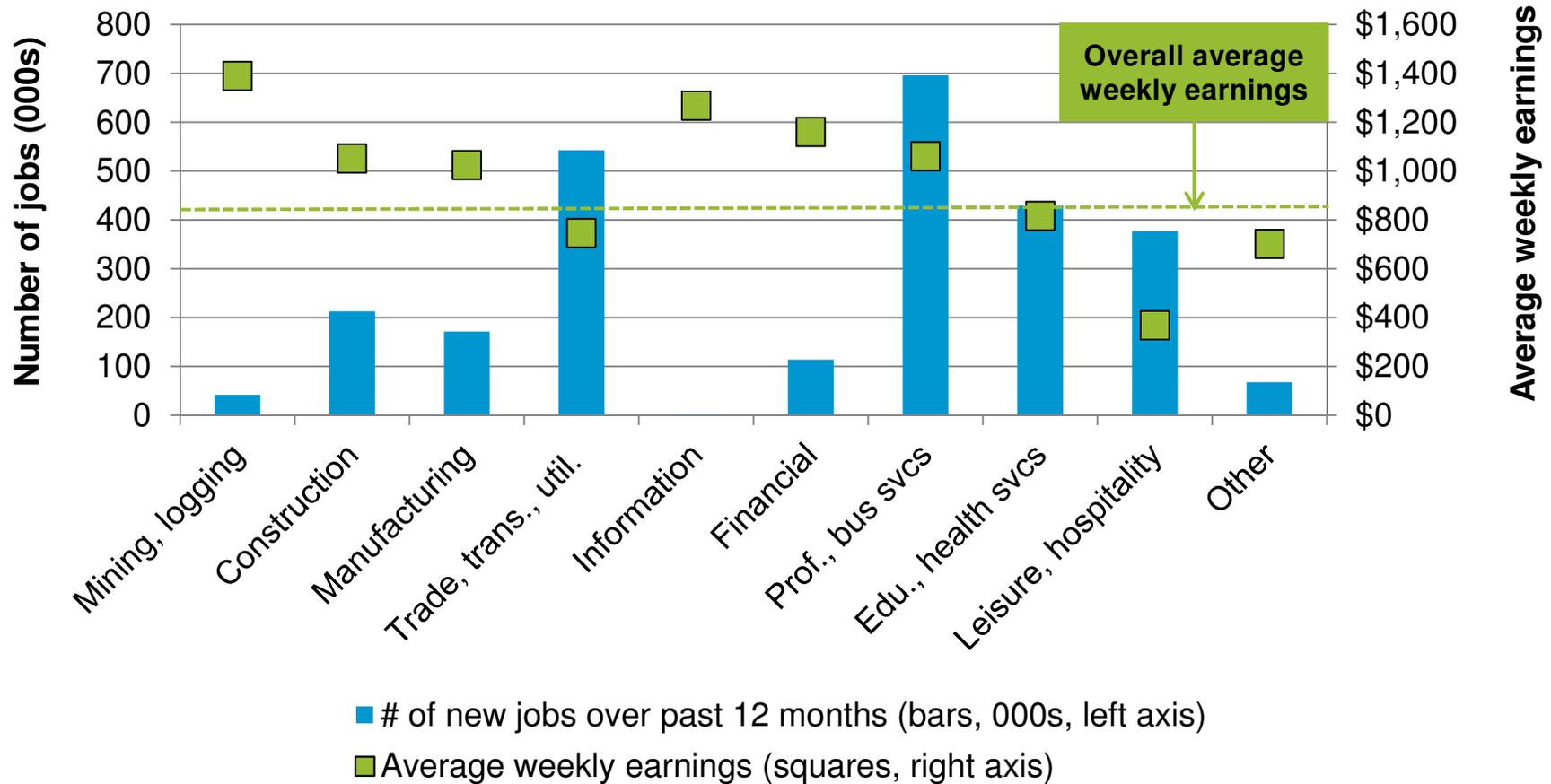
*=Recession period: December 2007 through June 2009
Source: IHS

Losses from recession: 7.4 million
Changes since recession end: 9.1 million

© 2014 IHS

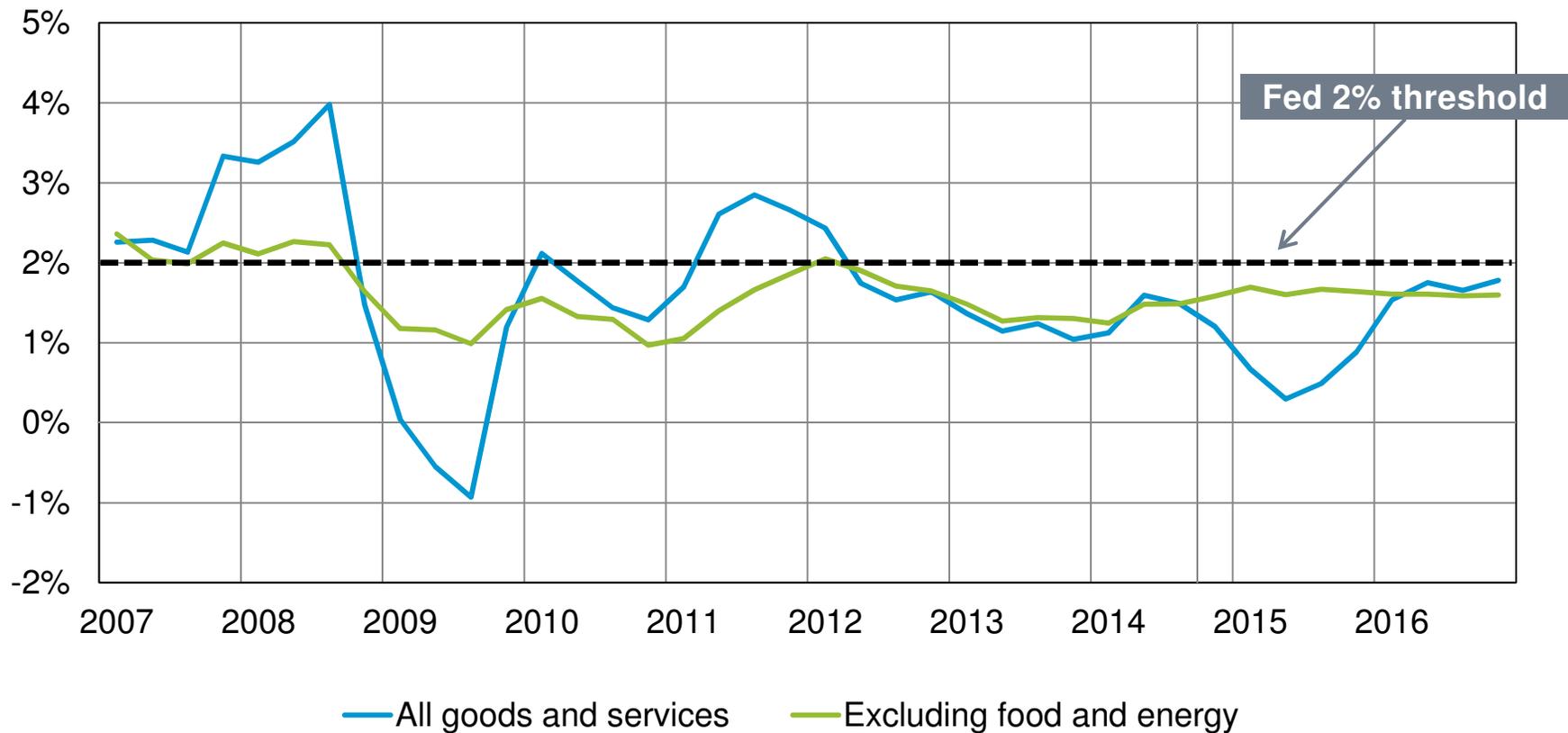
Recent job creation is skewed toward lower-income occupations

Recent job growth and average weekly earnings



Here's what the Fed is looking at to identify inflation.

Personal consumption price deflators (change versus year-ago)



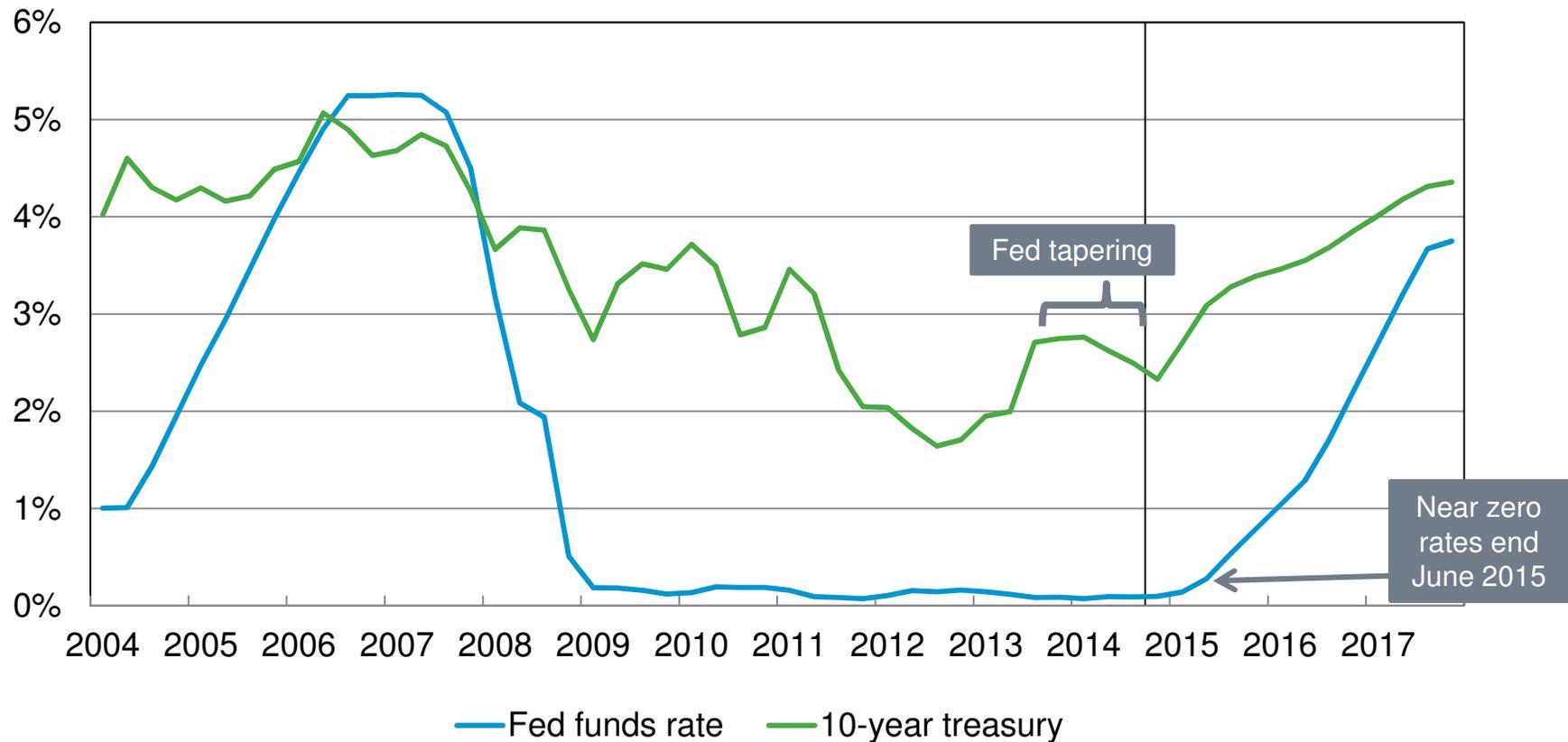
Source: IHS

© 2014 IHS



Monetary policy status quo maintained through mid-2015, although long-term rates will rise as expansion gathers steam.

Interest rate outlook



Source: IHS

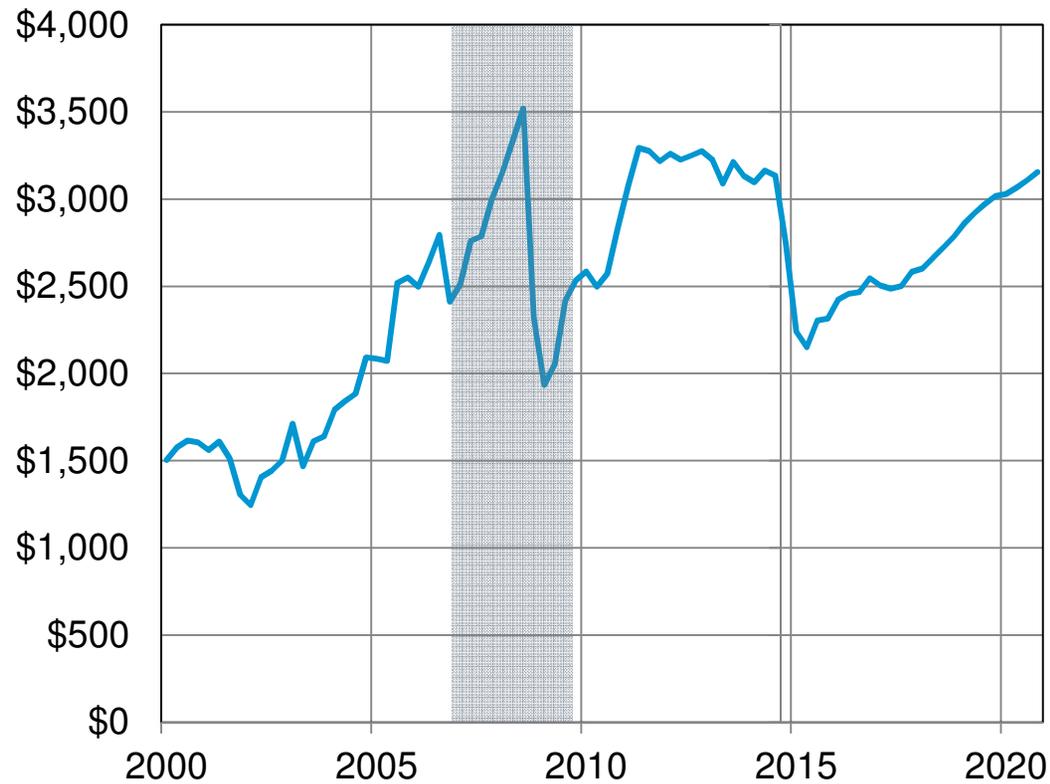
© 2014 IHS



Energy and the Economy

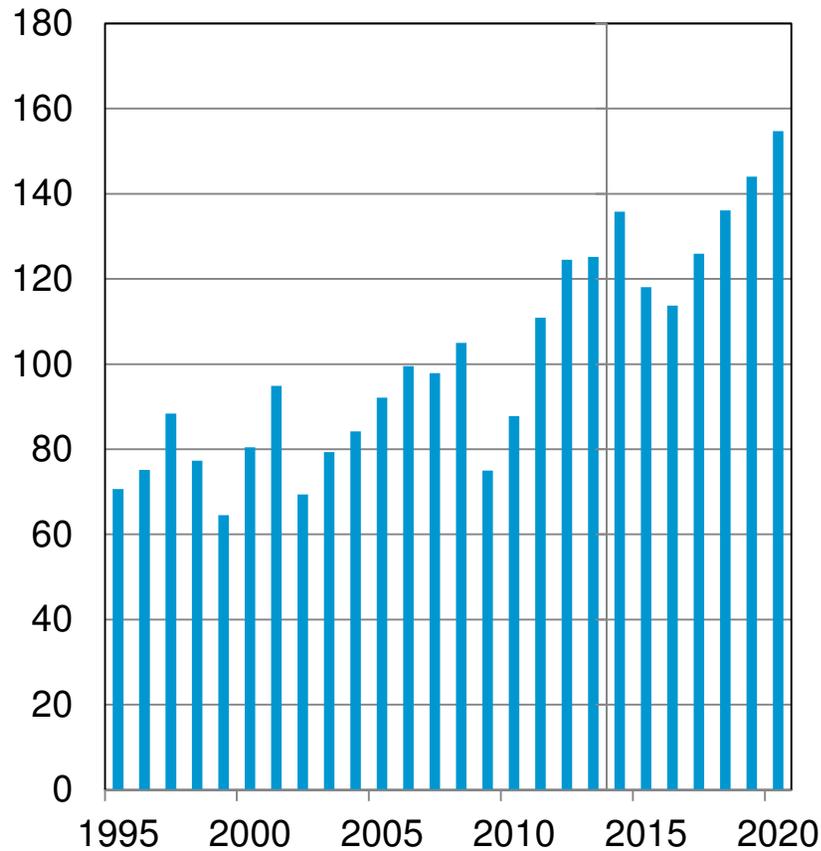
Savings at the pump have added to consumers' wallets.

Per-household spending on gasoline (annual rates)

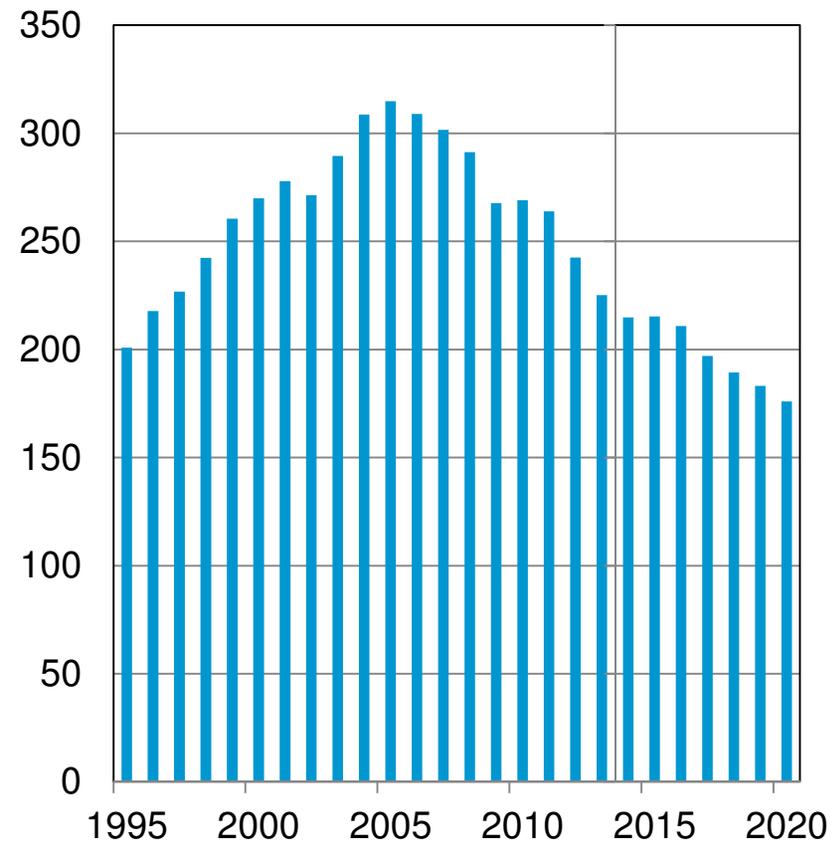


Contributions from unconventional energy sources will continue to add to US GDP.

**US Mining and Petroleum Structures
(billions of 2009 dollars)**



**US Imports of Petroleum Products
(billions of 2009 dollars)**





US Regional and Indiana Outlook



U.S. Regional Outlook

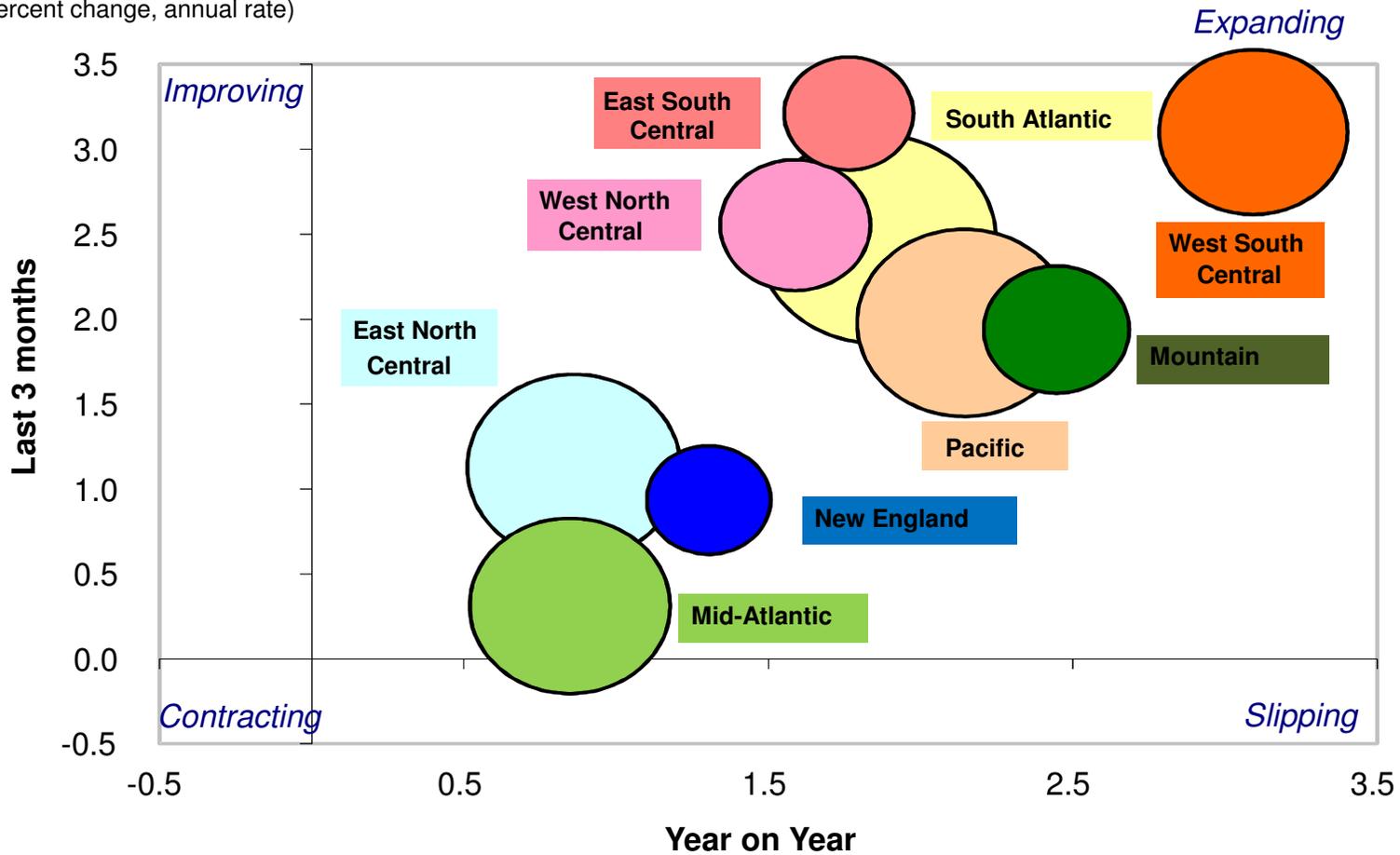
- States in the West and Sunbelt will continue to grow fastest
 - These states generally got the worst of housing bust
 - Population growth fastest in these regions
 - People go where the jobs are, but jobs also go where the people are
- Manufacturing gains, especially from the auto sector supply chain, have been a key to the improving Midwestern economy
- Growth in unconventional oil development makes North Dakota a standout on growth maps
 - Supply chain for oil and natural gas boosting construction, manufacturing, transportation, other sectors across countries

Regional Job Growth

Northern and Eastern regions lagging rest of United States

Employment Momentum in October

(Percent change, annual rate)



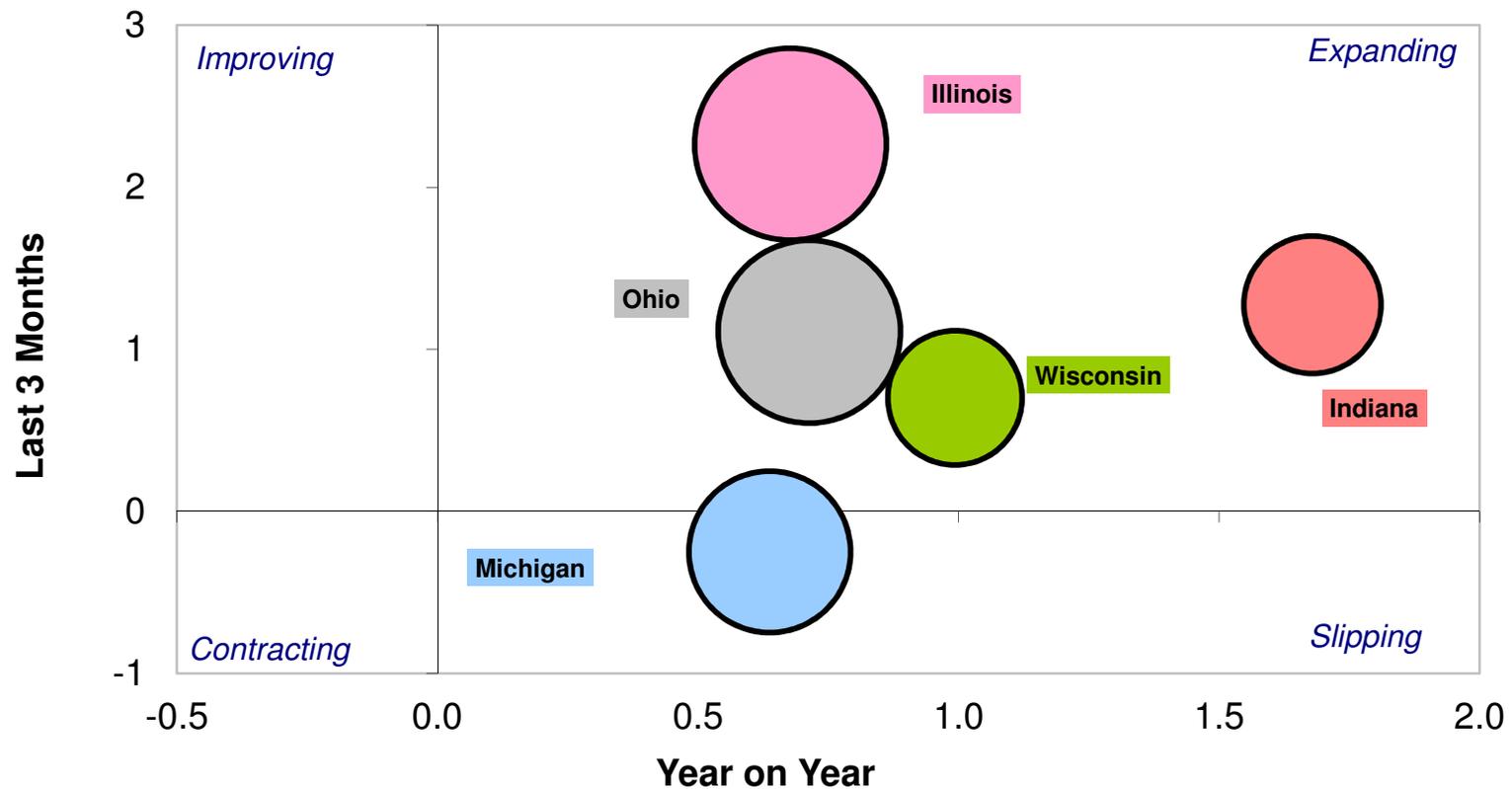


Midwest Job Growth

Indiana leads the pack over the past year

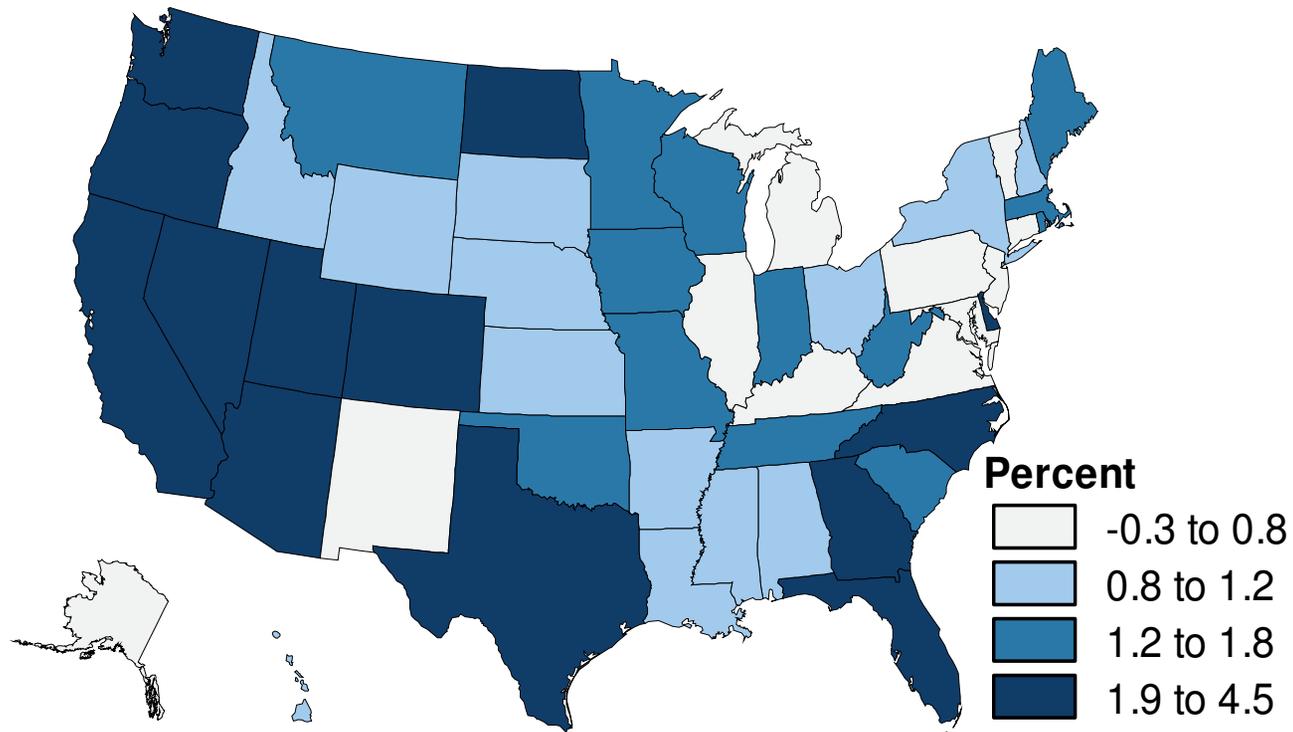
Employment Momentum in October

(Percent change, annual rate)



Continued modest job growth in 2014

State Employment Growth 2014 (Percent change vs. year-ago)

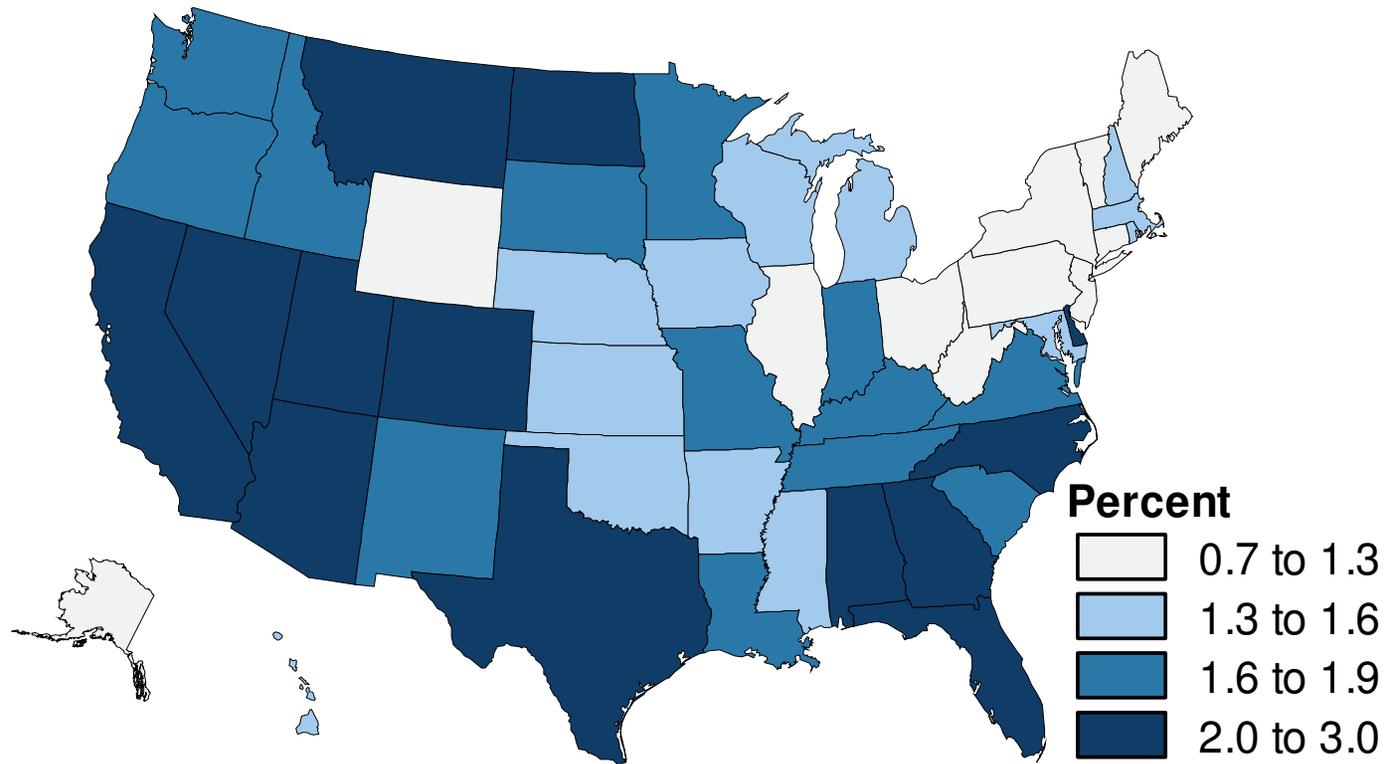


Source: IHS

© 2014 IHS

Employment growth highest in West, South (and the northern oil region)

State Employment Growth 2015
(Percent change a year ago)



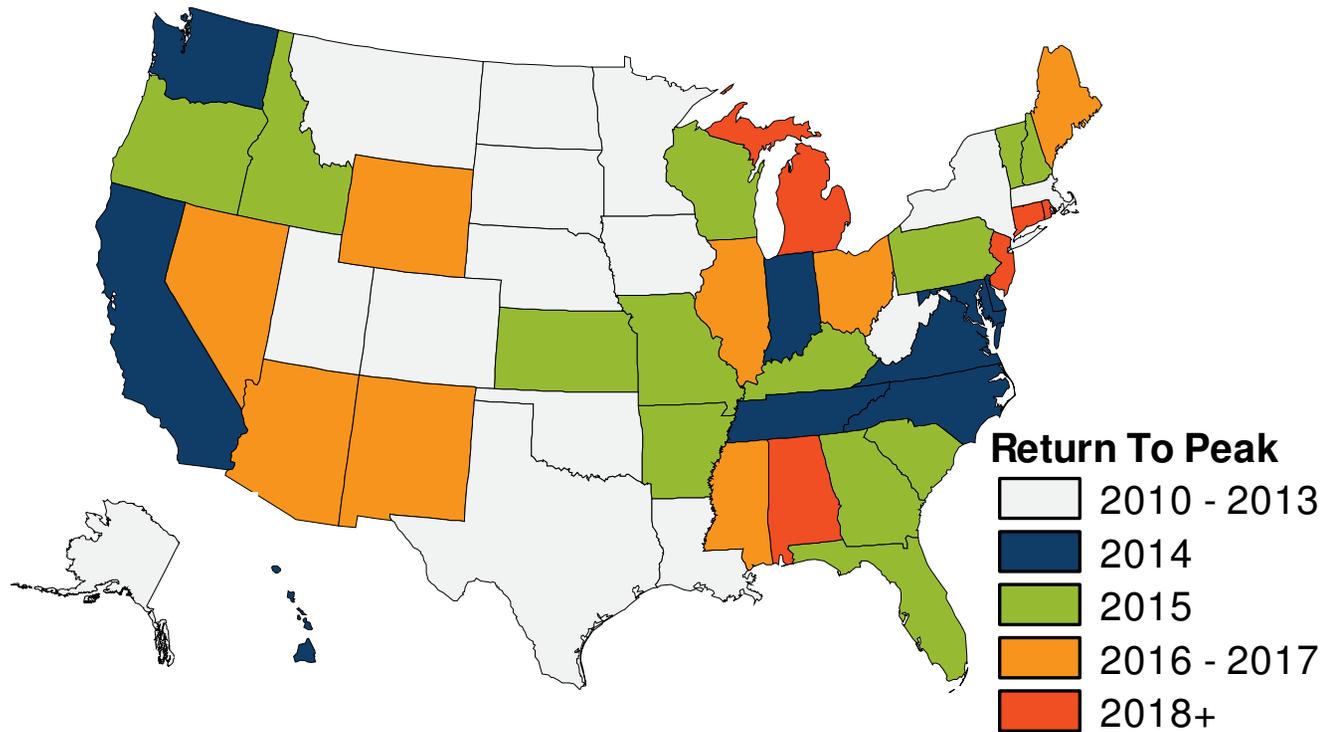
Source: IHS

© 2014 IHS

By end of 2015 most states will have recovered lost jobs

Indiana got there in 2014

Year of Return to Peak Employment



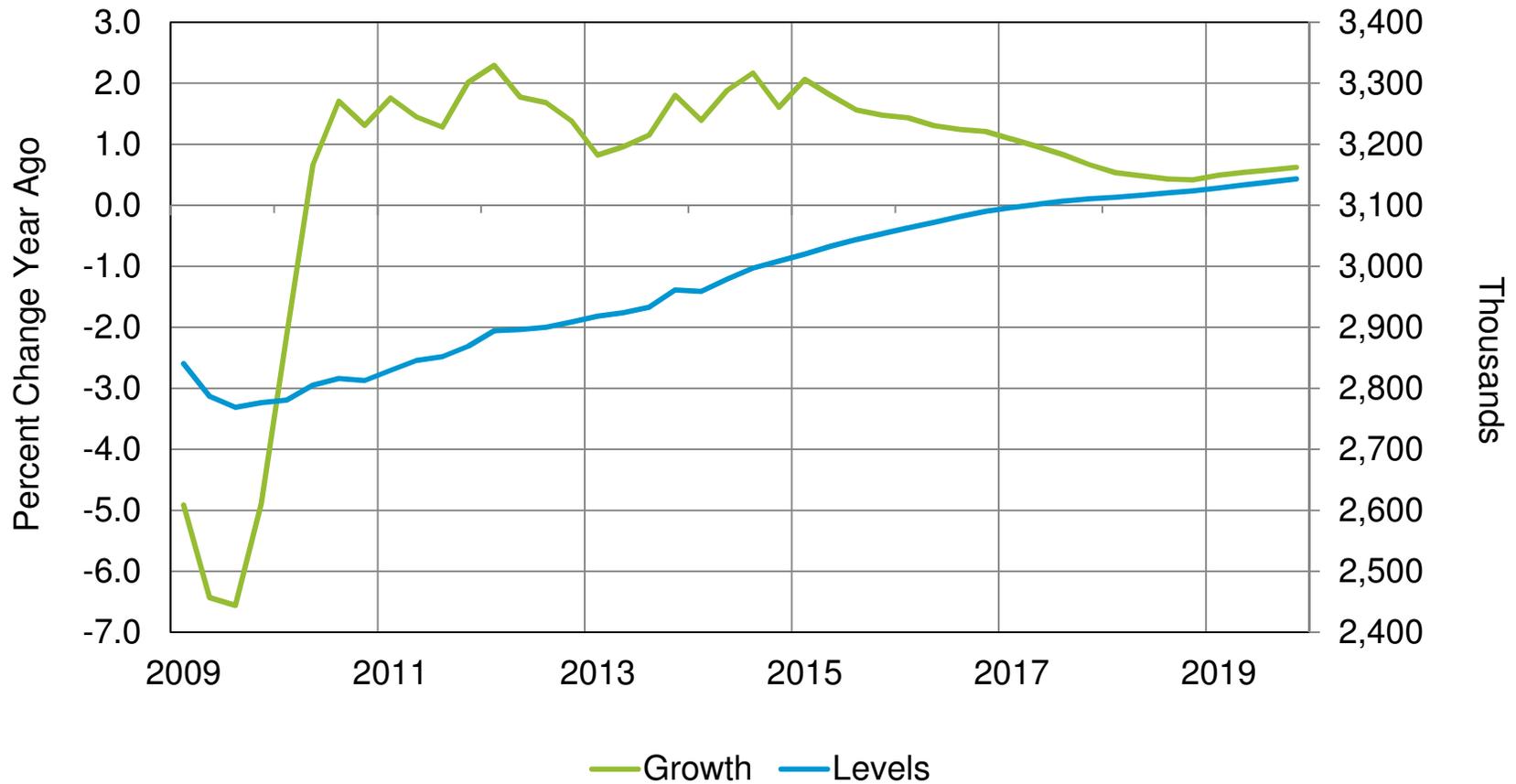
Source: IHS

© 2014 IHS



Indiana Employment Forecast

Indiana Employment



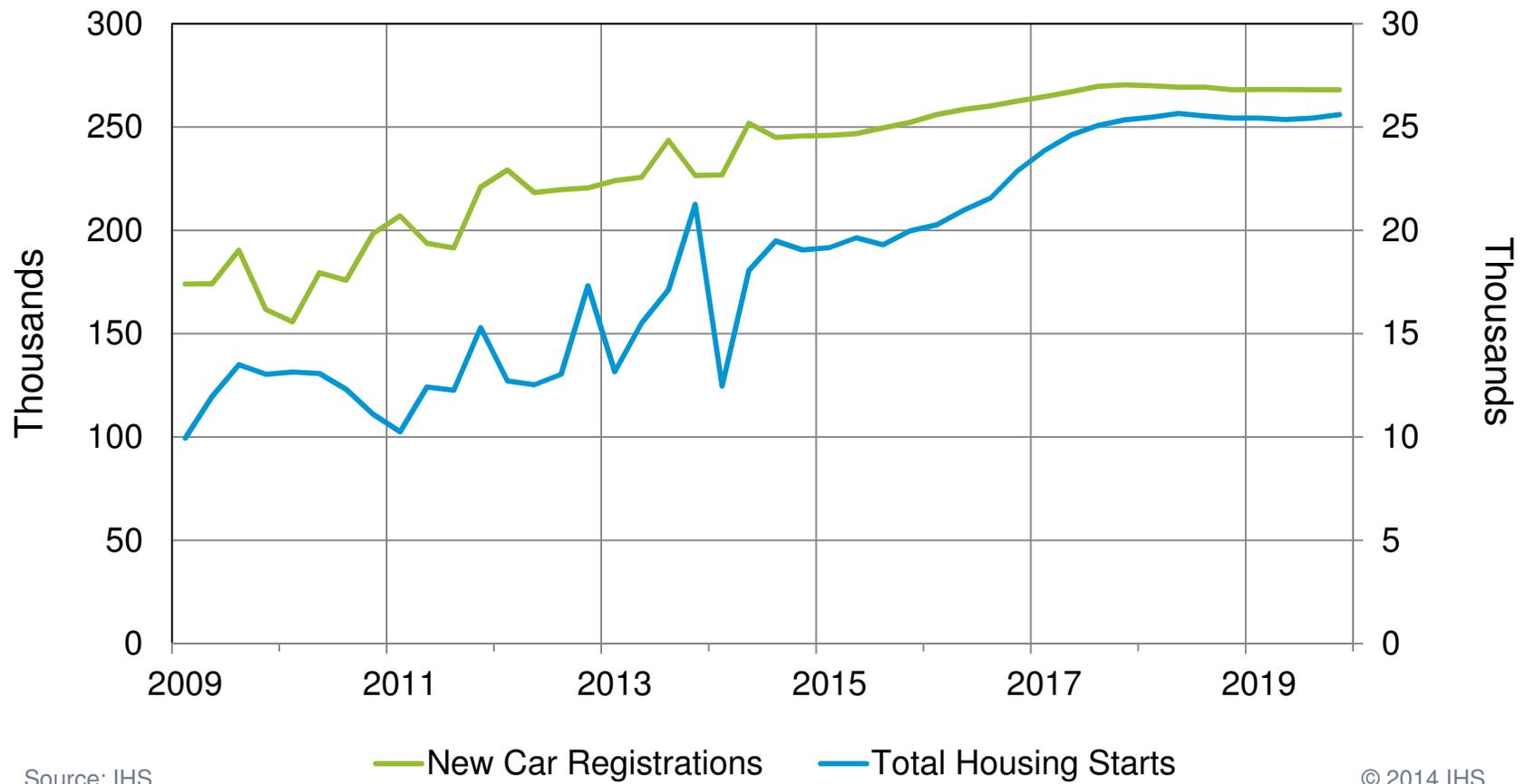
Source: IHS

© 2014 IHS



Indiana Cars and Houses

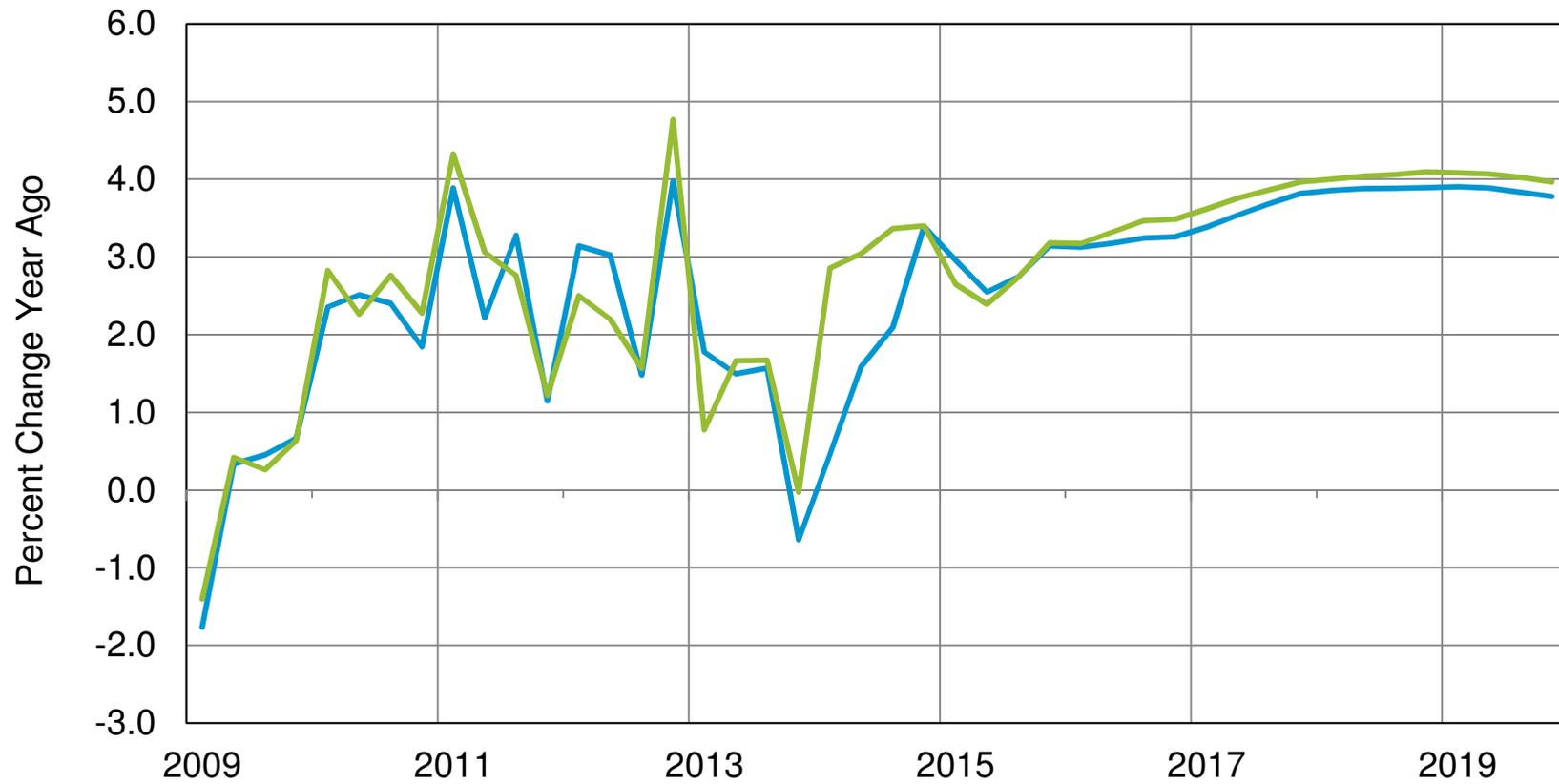
Indiana Total Housing Starts vs. New Car Registrations





Wage Gains

Indiana Wage Growth Vs. United States (Nominal Total Wages and Salaries)



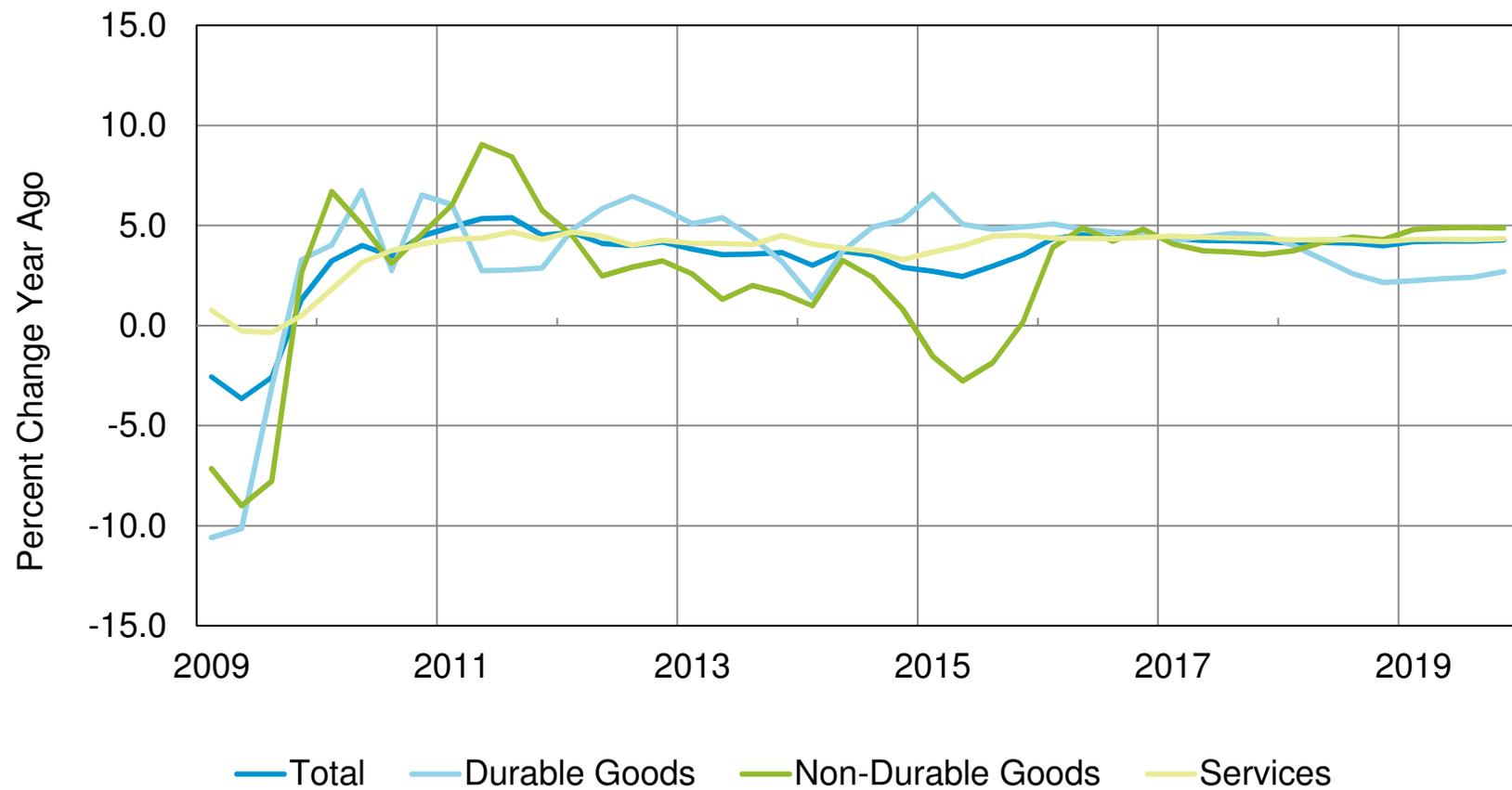
Source: IHS

— Indiana — US

© 2014 IHS

PCE spending will be dragged down by lower spending for gasoline.

Personal Consumption Expenditure Growth for Indiana

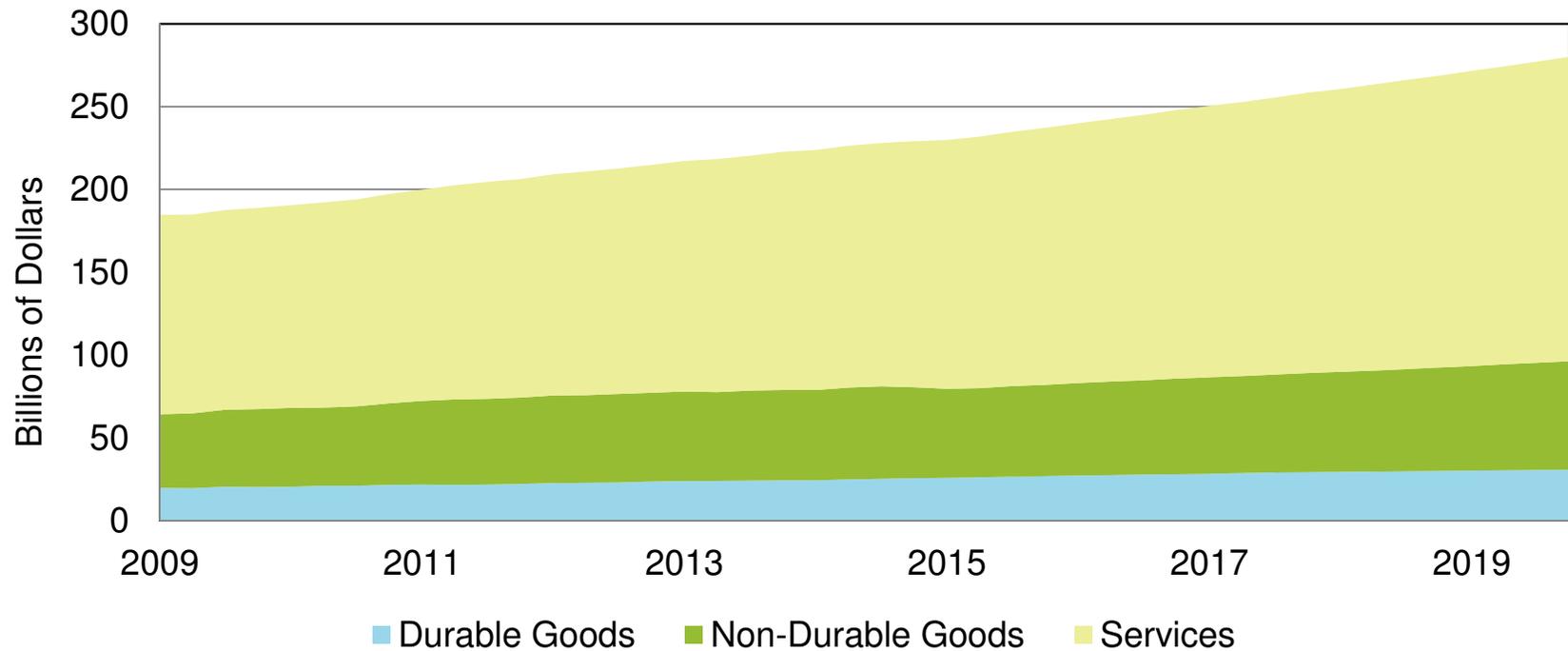


Source: IHS

© 2014 IHS

Services earning more and more of consumers' dollars

**Personal Consumption Expenditure for Indiana
(Levels by Sector)**



Source: IHS

© 2014 IHS

Indiana Forecast Summary

	2013	2014	2015	2016
Total Employment	1.2	1.8	1.7	1.3
Unemployment Rate	7.5	5.8	5.5	5.7
Personal Income	1.8	2.1	4.0	4.5
Housing Starts (000s)	16.8	17.3	19.5	21.4
Retail Sales	4.2	1.9	2.3	4.0
Real Gross State Product	2.1	1.9	2.3	2.2

(Percent unless otherwise noted)

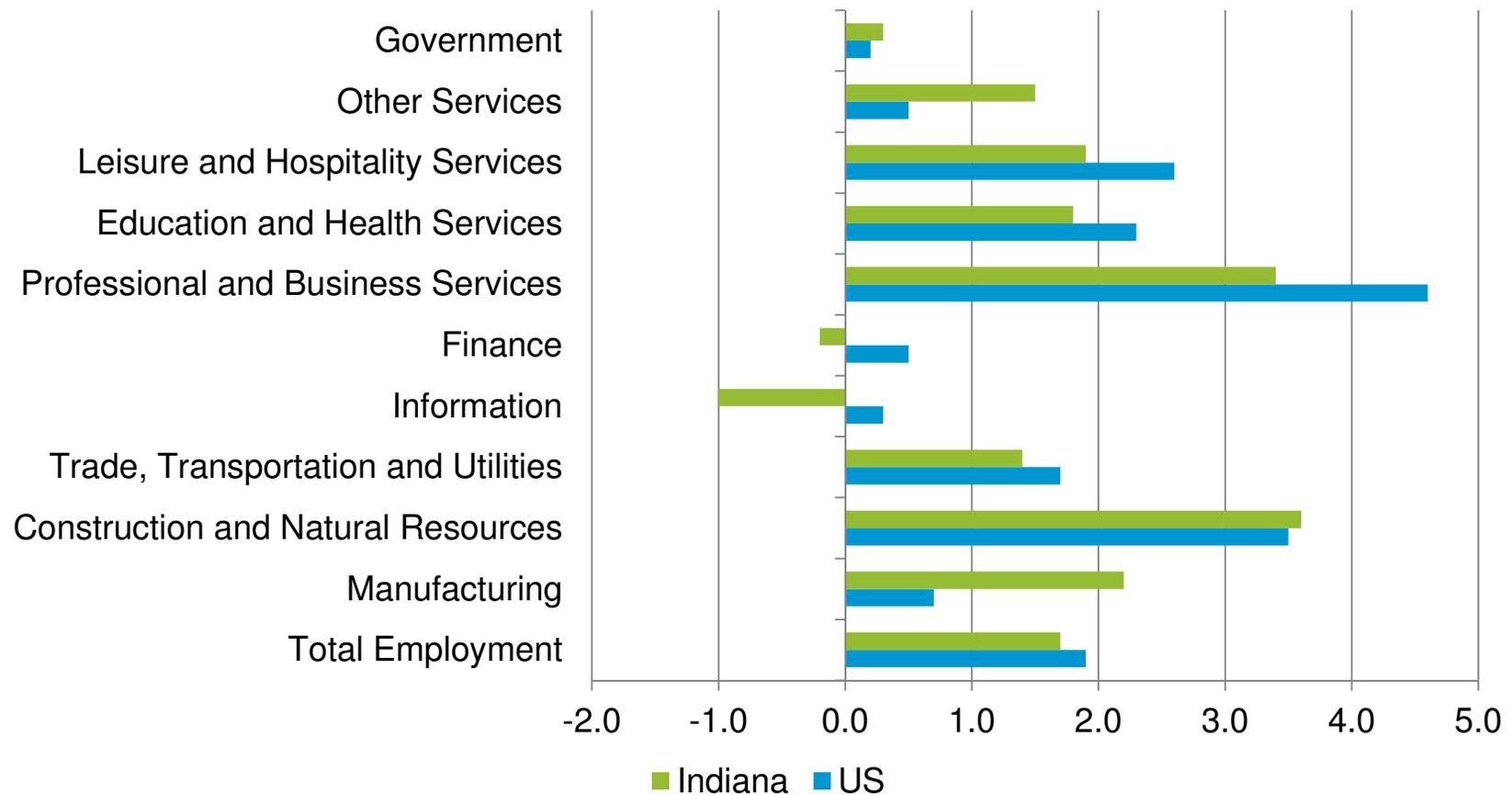
Professional and Business Services will continue to drive economic growth

	2013	2014	2015	2016
Total Employment	1.2	1.8	1.7	1.3
Manufacturing	2.1	3.5	2.2	1.3
Construction and Natural Resources	-1.0	2.1	3.6	3.5
Trade, Transportation and Utilities	1.3	0.6	1.4	0.8
Information	0.0	-1.1	-1.0	3.0
Finance	-0.3	1.5	-0.2	-0.4
Professional and Business Services	2.8	3.2	3.4	3.8
Education and Health Services	1.7	0.8	1.8	1.2
Leisure and Hospitality Services	1.8	2.8	1.9	0.7
Other Services	1.1	2.8	1.5	0.7
Government	-0.9	0.5	0.3	0.3



Manufacturing growth will continue to be Indiana's strength vs. overall US trends.

Employment growth by major sector in 2015



Forecast Track Record

	US GDP		Indiana Employment		Indiana Income	
Forecast Date	2013	2014	2013	2014	2013	2014
	Percent change					
Dec 2012	1.9	2.7	1.6	1.6	3.3	4.4
Dec 2013	1.8	2.4	1.5	1.6	3.0	4.4
Apr 2014	1.9	2.4	1.2	1.6	2.3	2.8
Dec 2014	2.2	2.2	1.2	1.8	1.8	2.1



Bottom Line for Indiana

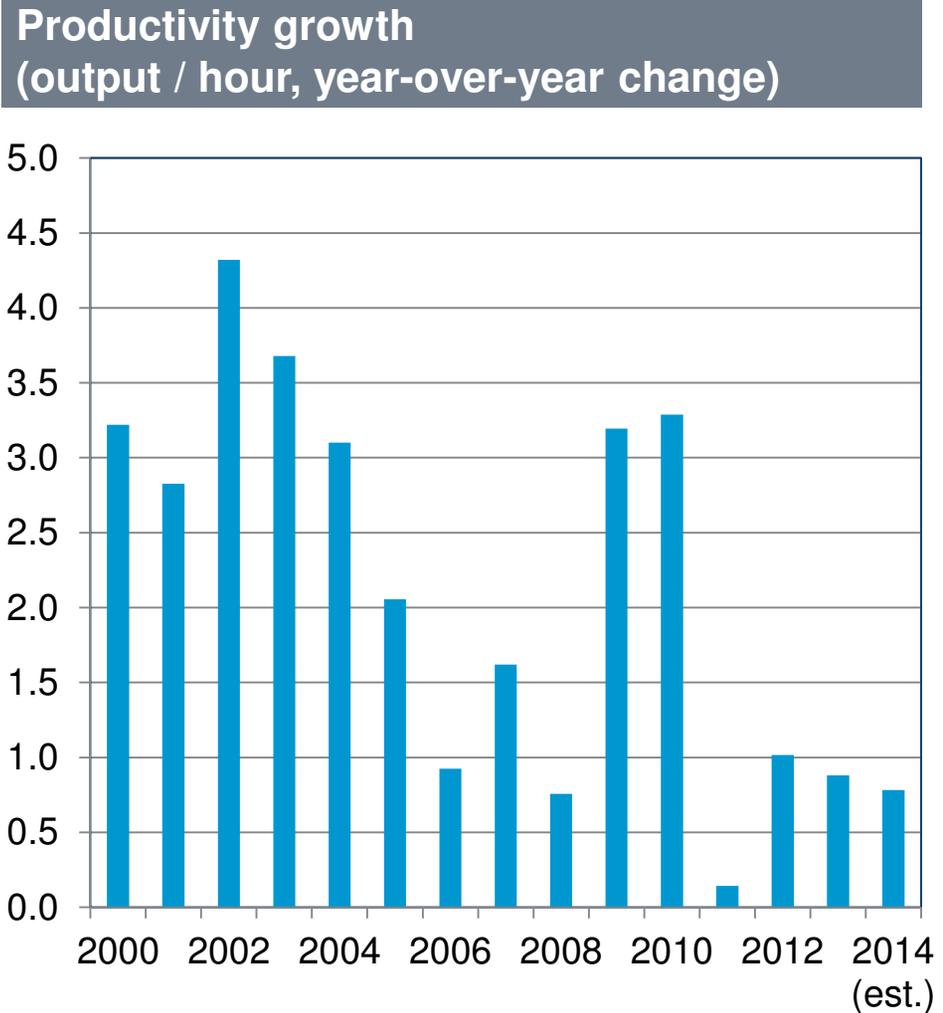
- Indiana's economic growth continues to be higher than neighbors
 - Midwest growth generally lagging other parts of the United States
 - Payrolls regained pre-recession peak in 2014
- Resurgent auto sector a big key to Indiana's growth
 - Indiana's manufacturers a big part of auto supply chain
 - Location as "crossroads of America" also makes it a logistical hub
- Near-term growth should continue to be favorable
- In longer term, lack of population/labor force growth a concern
 - This is a common theme among northern and eastern states



An Economist's wishes for 2015

Santa wish list for 2015 – Just one: Improve productivity!

- Education, education and education
- Infrastructure investment
- Technology investment – improve internet speed, cost and security
- Remove impediments to labor force participation
- Reduce risk of doing business
- Increase economic awareness



Thank you!

IHS Customer Care:

- **Americas:** +1 800 IHS CARE (+1 800 447 2273); CustomerCare@ihs.com
- **Europe, Middle East, and Africa:** +44 (0) 1344 328 300; Customer.Support@ihs.com
- **Asia and the Pacific Rim:** +604 291 3600; SupportAPAC@ihs.com

© 2014 IHS. No portion of this report may be reproduced, reused, or otherwise distributed in any form without prior written consent, with the exception of any internal client distribution as may be permitted in the license agreement between client and IHS. Content reproduced or redistributed with IHS permission must display IHS legal notices and attributions of authorship. The information contained herein is from sources considered reliable but its accuracy and completeness are not warranted, nor are the opinions and analyses which are based upon it, and to the extent permitted by law, IHS shall not be liable for any errors or omissions or any loss, damage or expense incurred by reliance on information or any statement contained herein. For more information, please contact IHS at Customer Care (see phone numbers and email addresses above). All products, company names or other marks appearing in this publication are the trademarks and property of IHS or their respective owners.

