US Economic Outlook

How long will the ride last?

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

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

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

Real GDP growth

3.2% average 1995-2007
2.2% average 2010-2014
Looking forward, we will still be counting on consumer spending to drive the bulk of economic growth.

Contributions to real GDP growth

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

Job creation and the unemployment rate

Source: IHS

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Growth in the labor force has downshifted.

Before the recession: 1.5 million / year pace

After the recession: 0.4 million / year pace

Source: 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)

- **Goods**
- **Services**
- **Government**

- 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
Recent job creation is skewed toward lower-income occupations

Recent job growth and average weekly earnings

- # of new jobs over past 12 months (bars, 000s, left axis)
- Average weekly earnings (squares, right axis)
Here’s what the Fed is looking at to identify inflation.

Personal consumption price deflators (change versus year-ago)

Fed 2% threshold

Source: IHS  © 2014 IHS
Monetary policy status quo maintained through mid-2015, although long-term rates will rise as expansion gathers steam.
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)

- Expanding
- Improving
- Contracting
- Slipping

Year on Year

Last 3 months
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

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

State Employment Growth 2015
(Percent change a year ago)

Source: IHS
By end of 2015 most states will have recovered lost jobs
Indiana got there in 2014
Indiana Employment Forecast

Indiana Employment

Source: IHS

© 2014 IHS
Indiana Cars and Houses

Indiana Total Housing Starts vs. New Car Registrations

Source: IHS
Wage Gains

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

Source: IHS

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PCE spending will be dragged down by lower spending for gasoline.
Services earning more and more of consumers’ dollars

Personal Consumption Expenditure for Indiana (Levels by Sector)
## Indiana Forecast Summary

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>1.2</td>
<td>1.8</td>
<td>1.7</td>
<td>1.3</td>
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<tr>
<td>Unemployment Rate</td>
<td>7.5</td>
<td>5.8</td>
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<tr>
<td>Personal Income</td>
<td>1.8</td>
<td>2.1</td>
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<tr>
<td>Housing Starts (000s)</td>
<td>16.8</td>
<td>17.3</td>
<td>19.5</td>
<td>21.4</td>
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<tr>
<td>Retail Sales</td>
<td>4.2</td>
<td>1.9</td>
<td>2.3</td>
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<tr>
<td>Real Gross State Product</td>
<td>2.1</td>
<td>1.9</td>
<td>2.3</td>
<td>2.2</td>
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(Percent unless otherwise noted)
Professional and Business Services will continue to drive economic growth

<table>
<thead>
<tr>
<th>Services</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Total Employment</td>
<td>1.2</td>
<td>1.8</td>
<td>1.7</td>
<td>1.3</td>
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<tr>
<td>Manufacturing</td>
<td>2.1</td>
<td>3.5</td>
<td>2.2</td>
<td>1.3</td>
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<tr>
<td>Construction and Natural Resources</td>
<td>-1.0</td>
<td>2.1</td>
<td>3.6</td>
<td>3.5</td>
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<tr>
<td>Trade, Transportation and Utilities</td>
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<td>Information</td>
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<td>-1.0</td>
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<tr>
<td>Finance</td>
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<td>1.5</td>
<td>-0.2</td>
<td>-0.4</td>
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<tr>
<td>Professional and Business Services</td>
<td>2.8</td>
<td>3.2</td>
<td>3.4</td>
<td>3.8</td>
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<tr>
<td>Education and Health Services</td>
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<td>0.8</td>
<td>1.8</td>
<td>1.2</td>
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<tr>
<td>Leisure and Hospitality Services</td>
<td>1.8</td>
<td>2.8</td>
<td>1.9</td>
<td>0.7</td>
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<tr>
<td>Other Services</td>
<td>1.1</td>
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<td>0.7</td>
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<tr>
<td>Government</td>
<td>-0.9</td>
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<td>0.3</td>
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</table>
Manufacturing growth will continue to be Indiana’s strength vs. overall US trends.

Employment growth by major sector in 2015

- Government
- Other Services
- Leisure and Hospitality Services
- Education and Health Services
- Professional and Business Services
- Finance
- Information
- Trade, Transportation and Utilities
- Construction and Natural Resources
- Manufacturing
- Total Employment

Indiana and US employment growth comparison for 2015.
## Forecast Track Record

<table>
<thead>
<tr>
<th>Forecast Date</th>
<th>US GDP</th>
<th>Indiana Employment</th>
<th>Indiana Income</th>
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<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td><strong>Percent change</strong></td>
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<tr>
<td>Dec 2012</td>
<td>1.9</td>
<td>2.7</td>
<td>1.6</td>
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<tr>
<td>Dec 2013</td>
<td>1.8</td>
<td>2.4</td>
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<tr>
<td>Apr 2014</td>
<td>1.9</td>
<td>2.4</td>
<td>1.2</td>
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<tr>
<td>Dec 2014</td>
<td>2.2</td>
<td>2.2</td>
<td>1.2</td>
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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

Productivity growth
(output / hour, year-over-year change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Productivity Growth</th>
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<tbody>
<tr>
<td>2000</td>
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<tr>
<td>2002</td>
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<td>2004</td>
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<td>2008</td>
<td>1.5</td>
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<td>2010</td>
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<tr>
<td>2012</td>
<td>0.5</td>
</tr>
<tr>
<td>2014 (est.)</td>
<td>2.0</td>
</tr>
</tbody>
</table>
Thank you!