

Indiana Economic Outlook

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Indiana State Budget Committee

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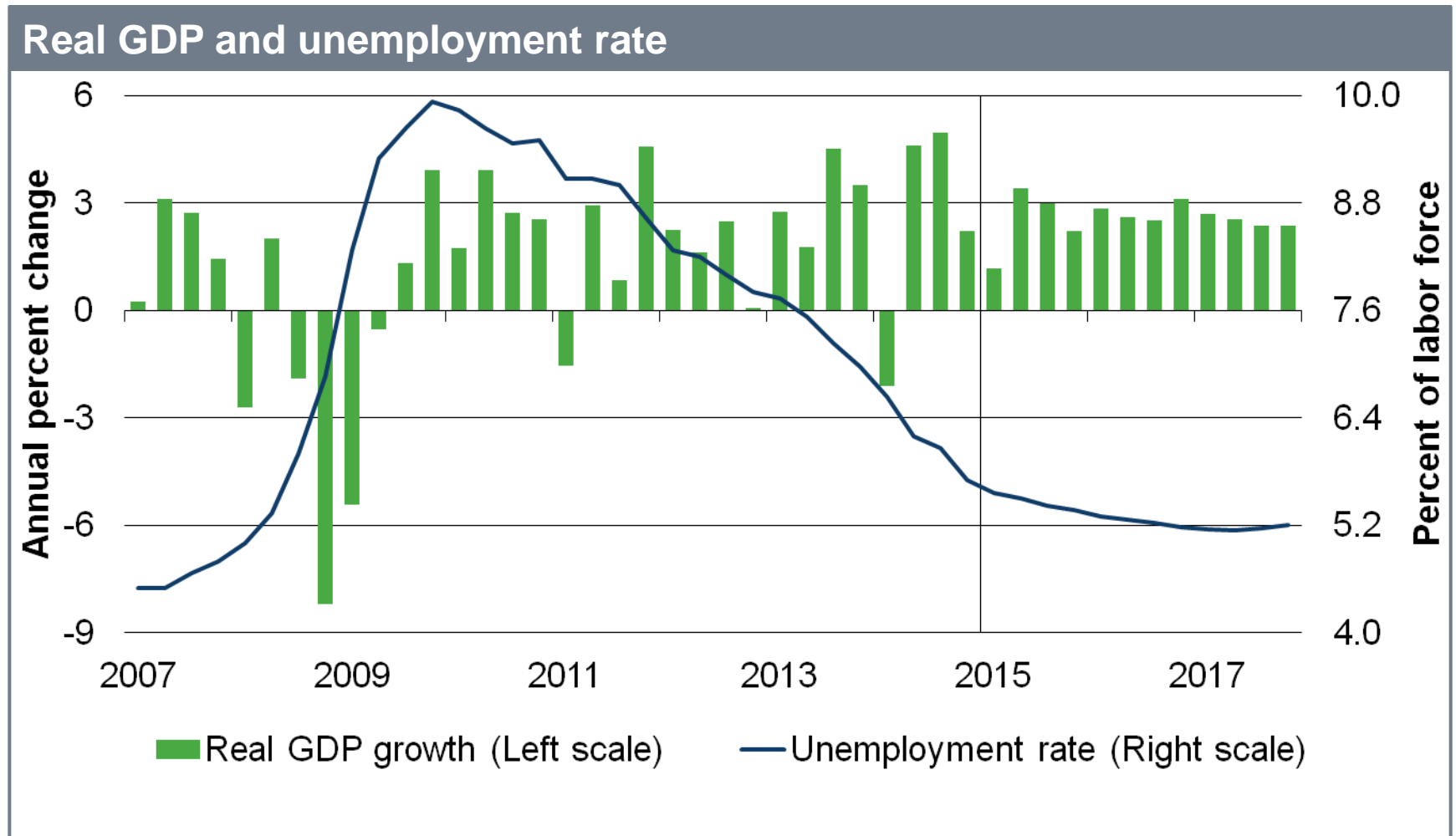


U.S. Economic Outlook

The US economic expansion will continue

- Several forces held back growth in the first quarter—harsh weather, West Coast port disruptions, and the plunge in oil and gas drilling.
- Consumers will step up spending in response to lower energy prices and robust gains in employment, real income, and net worth.
- The recovery in homebuilding will gain momentum as labor markets improve and credit standards ease.
- A strong dollar, reductions in energy-related investments, and a slowdown in inventory accumulation will be restraints on growth.
- Interest rates will rise significantly from late 2015 through 2017 as monetary accommodation is gradually withdrawn.
- Oil prices are expected to reach a cyclical low this spring and then recover as supply growth slows.

US real GDP growth and the unemployment rate

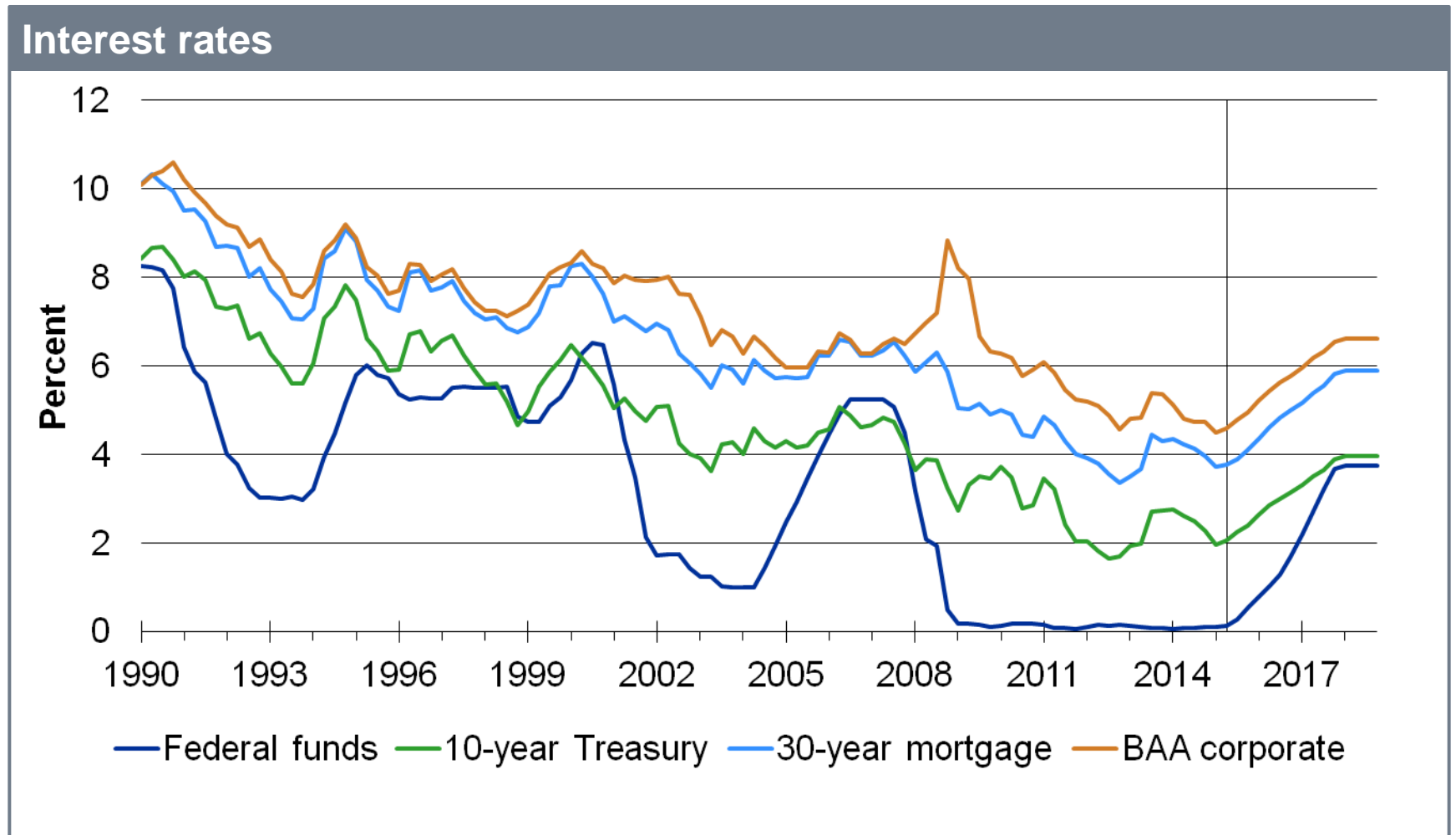


Key US economic indicators

Key indicators

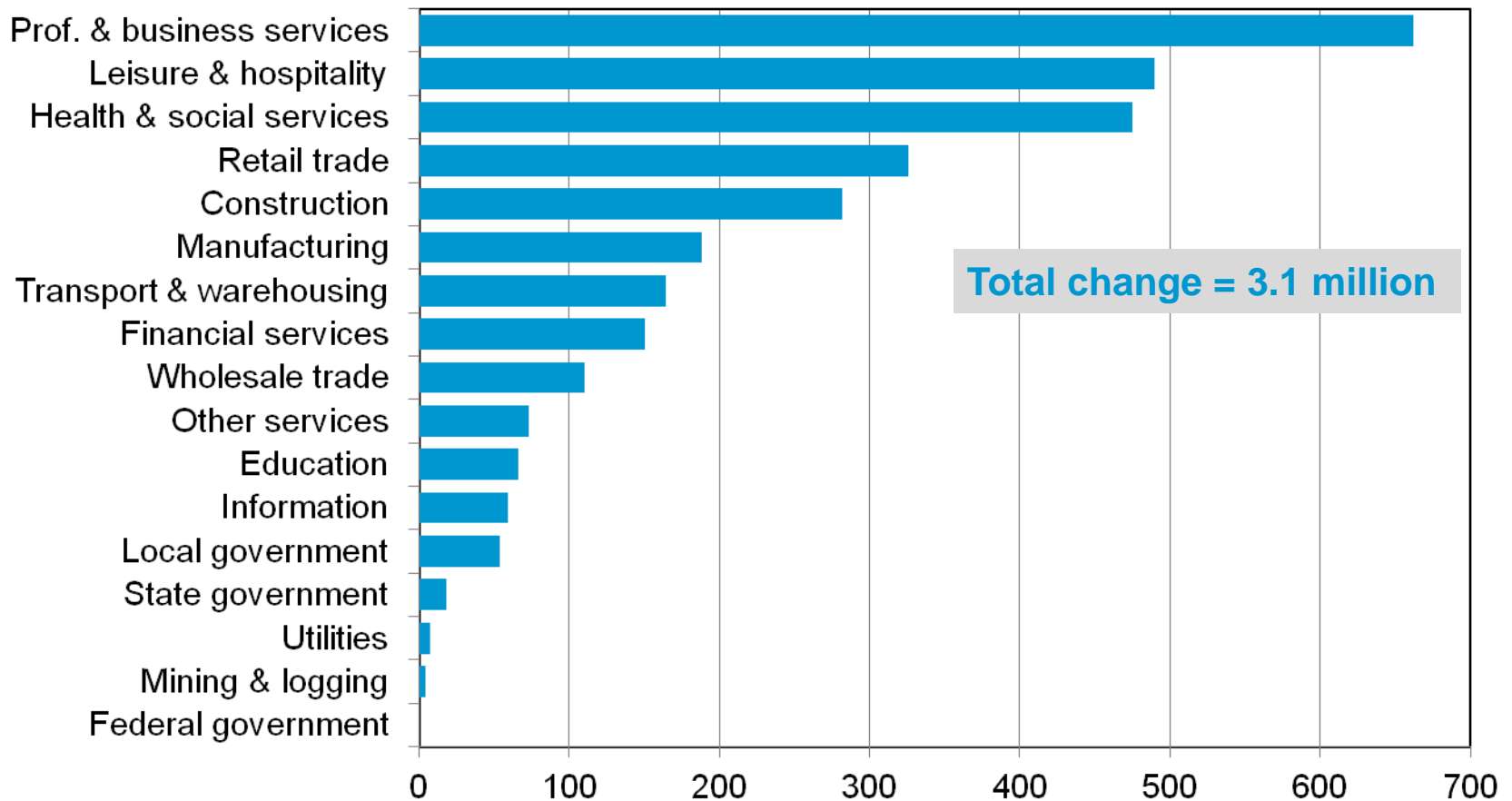
Percent change	2014	2015	2016	2017
Industrial production	4.2	1.9	2.9	3.1
Payroll employment	1.9	2.1	1.5	1.2
Light-vehicle sales (Millions)	16.4	16.9	17.2	17.7
Housing starts (Millions)	1.00	1.12	1.31	1.46
Consumer Price Index	1.6	-0.4	2.1	2.4
Core CPI	1.7	1.7	2.0	2.1
Brent crude oil price (\$/barrel)	100	55	65	73
Federal funds rate (%)	0.1	0.3	1.2	2.9
10-year Treasury yield (%)	2.5	2.2	2.9	3.6

Interest rates will rise from exceptionally low levels



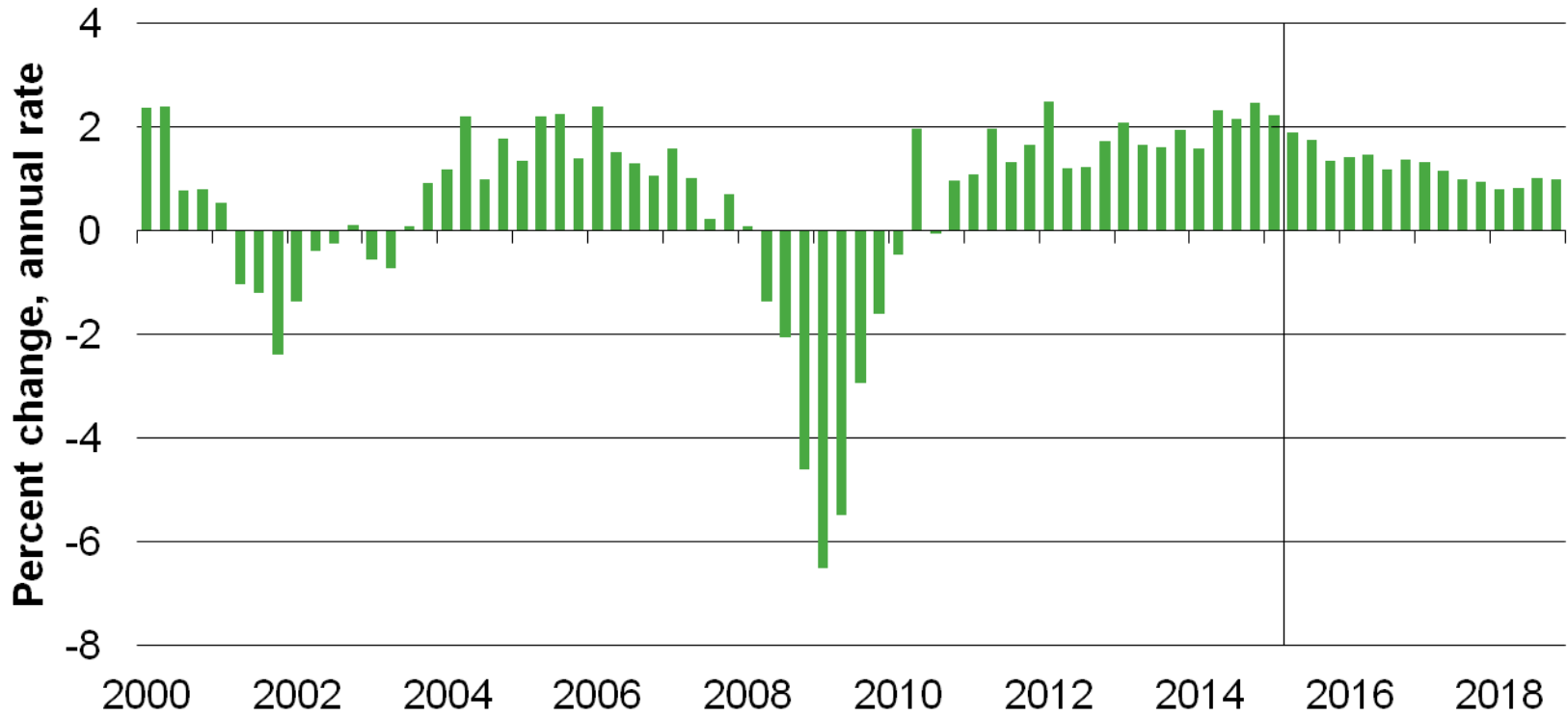
Services recorded the largest employment increases during the 12 months ended March 2015

Change in payroll employment, thousands



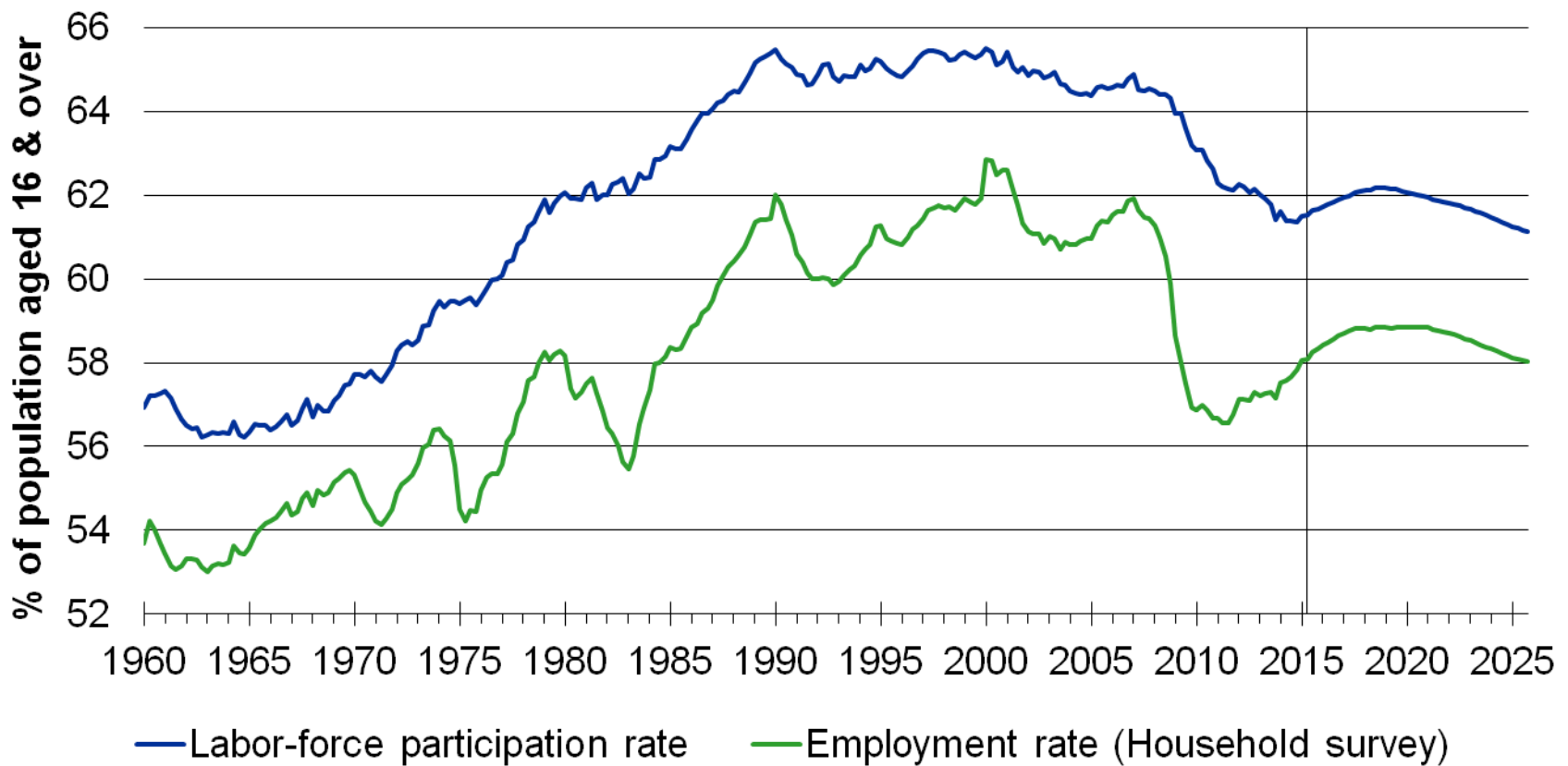
US employment growth will decelerate as the economic expansion matures

Payroll employment



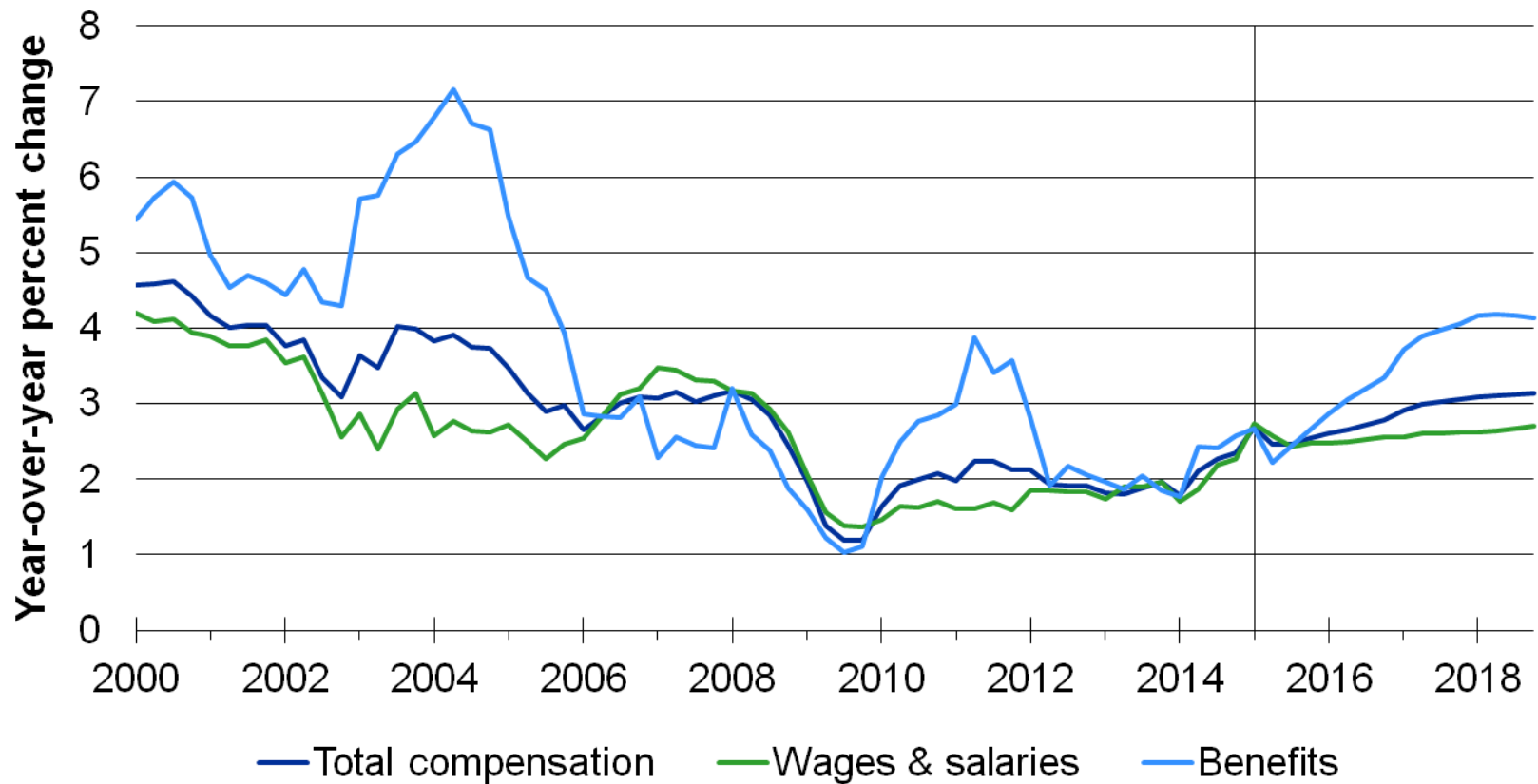
With the population aging, labor-force participation and employment rates will not return to prerecession levels

Labor-force participation and employment rates



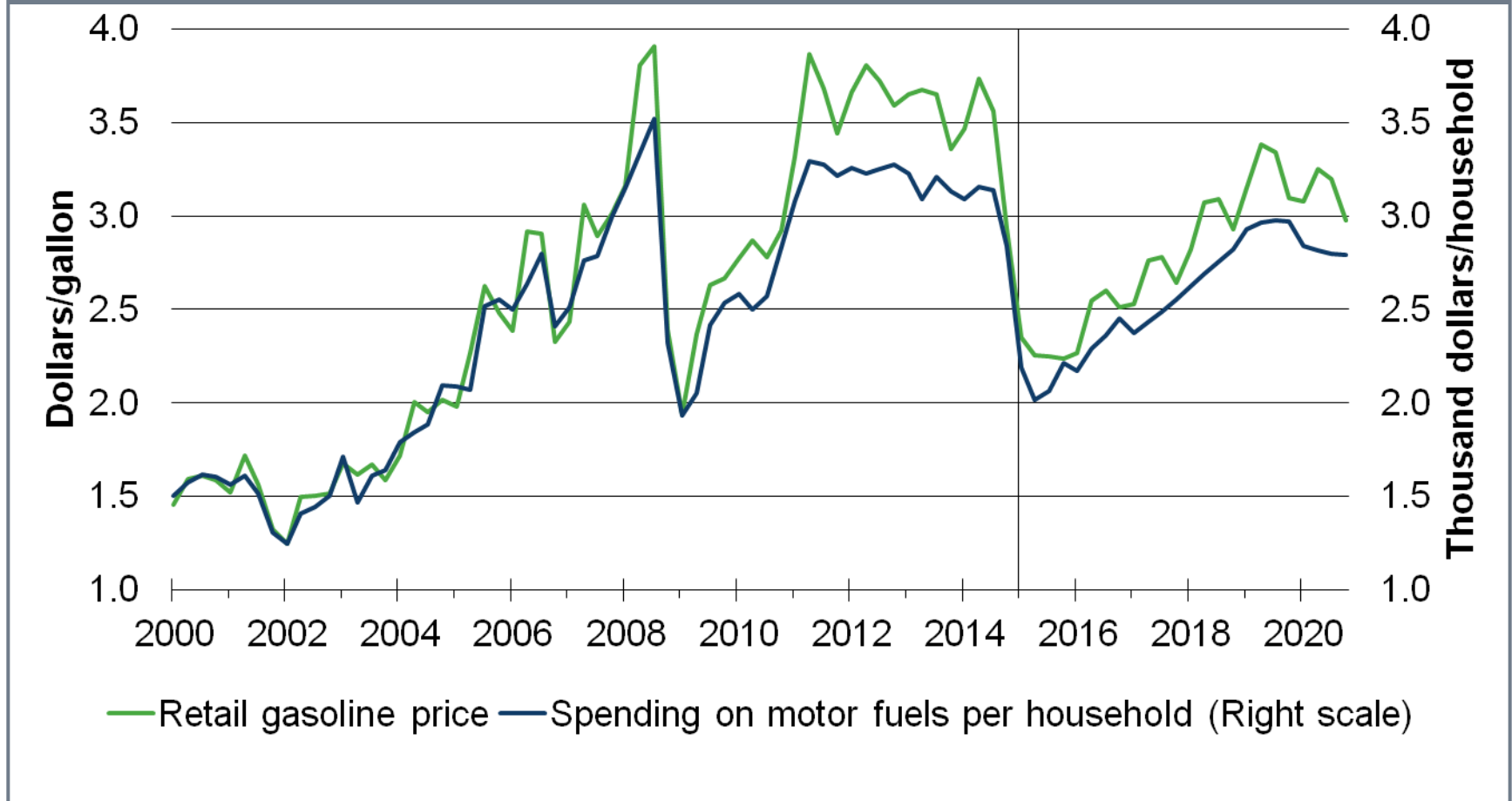
Labor compensation will accelerate as markets tighten and the Affordable Care Act is implemented

Labor compensation



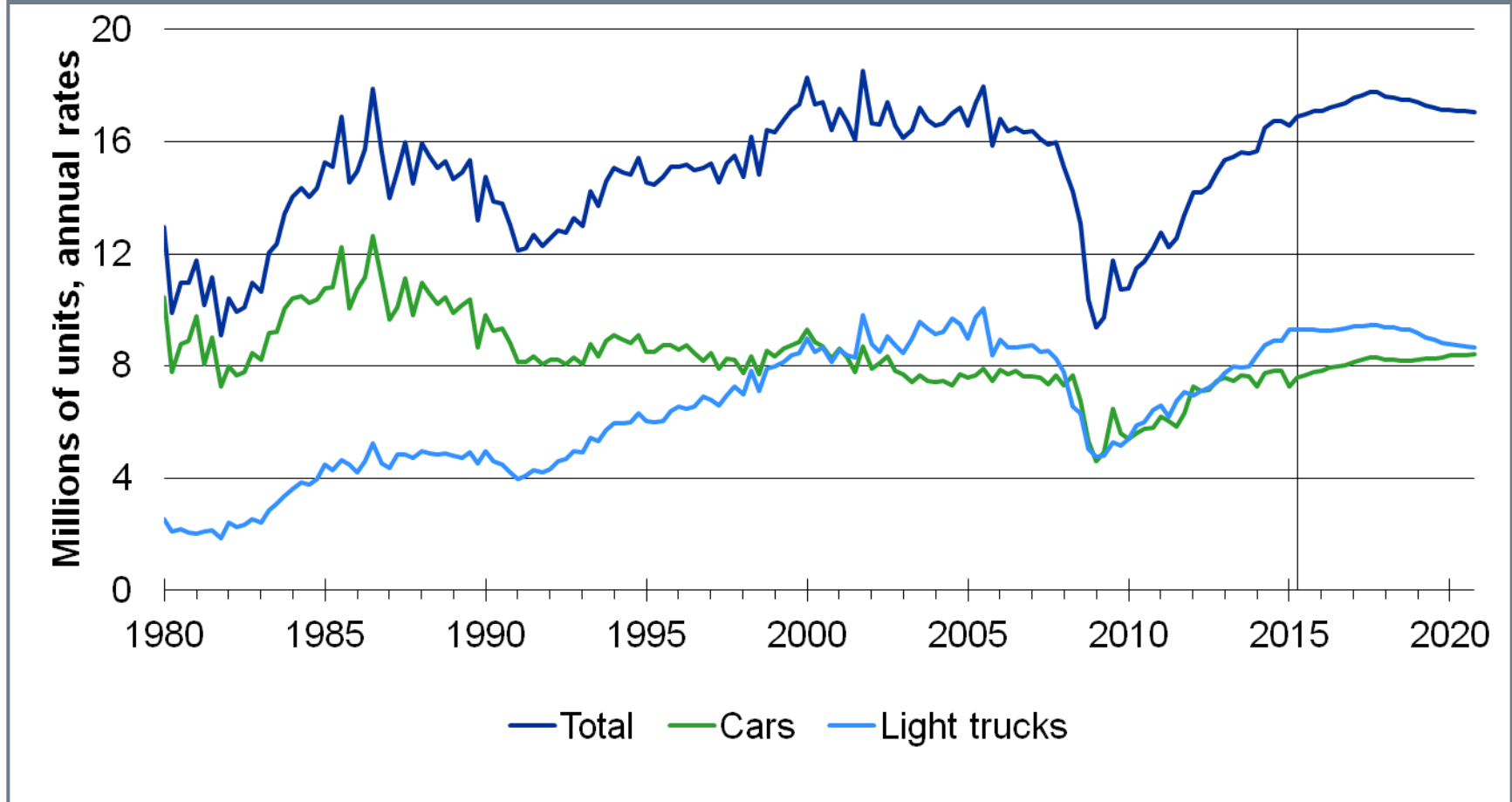
The drop in gasoline prices means substantial near-term savings for US households

Retail gasoline price and annualized spending on motor fuels



The recovery in light-vehicle sales nears completion; low gasoline prices boost demand for light trucks

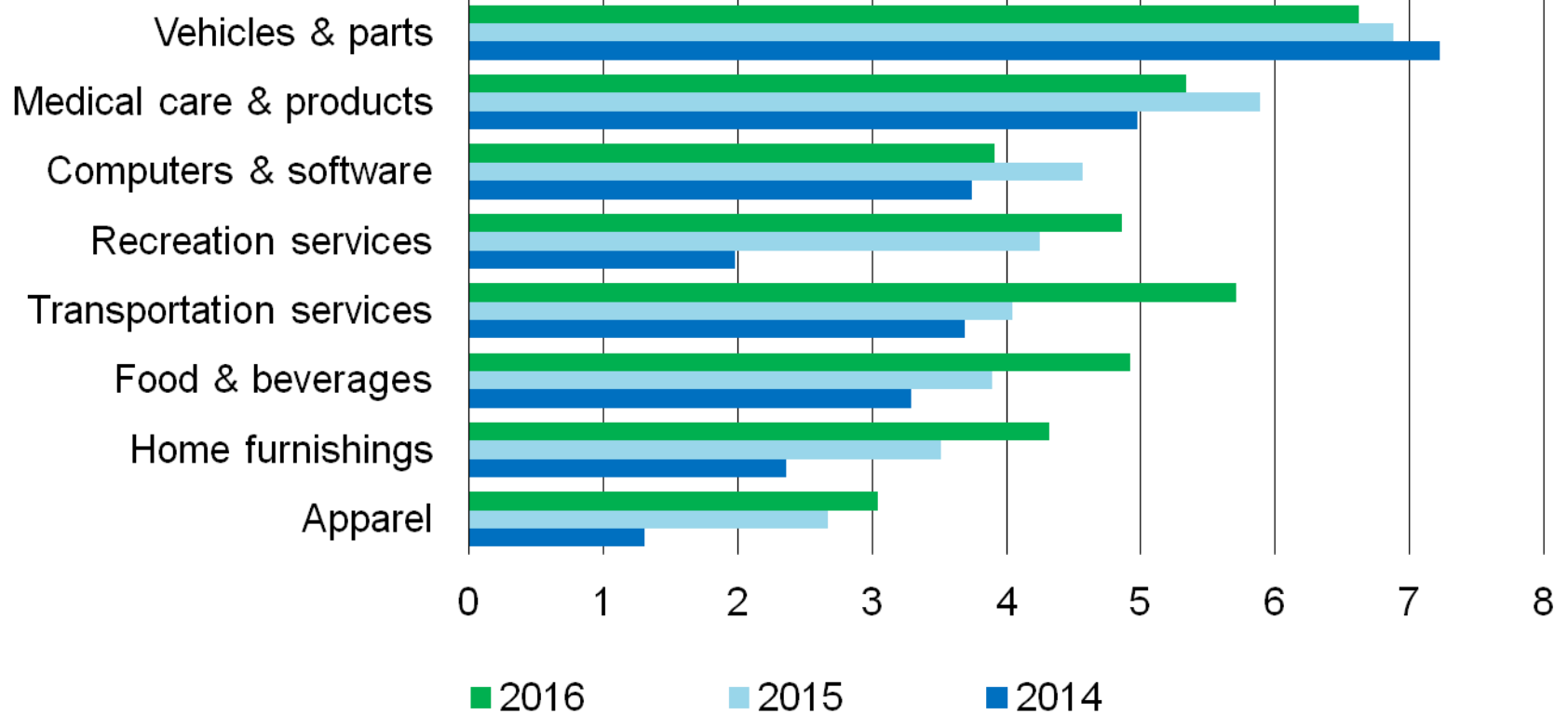
Light-vehicle sales



The consumer spending expansion will broaden in 2015

Nominal consumer spending

Percent change

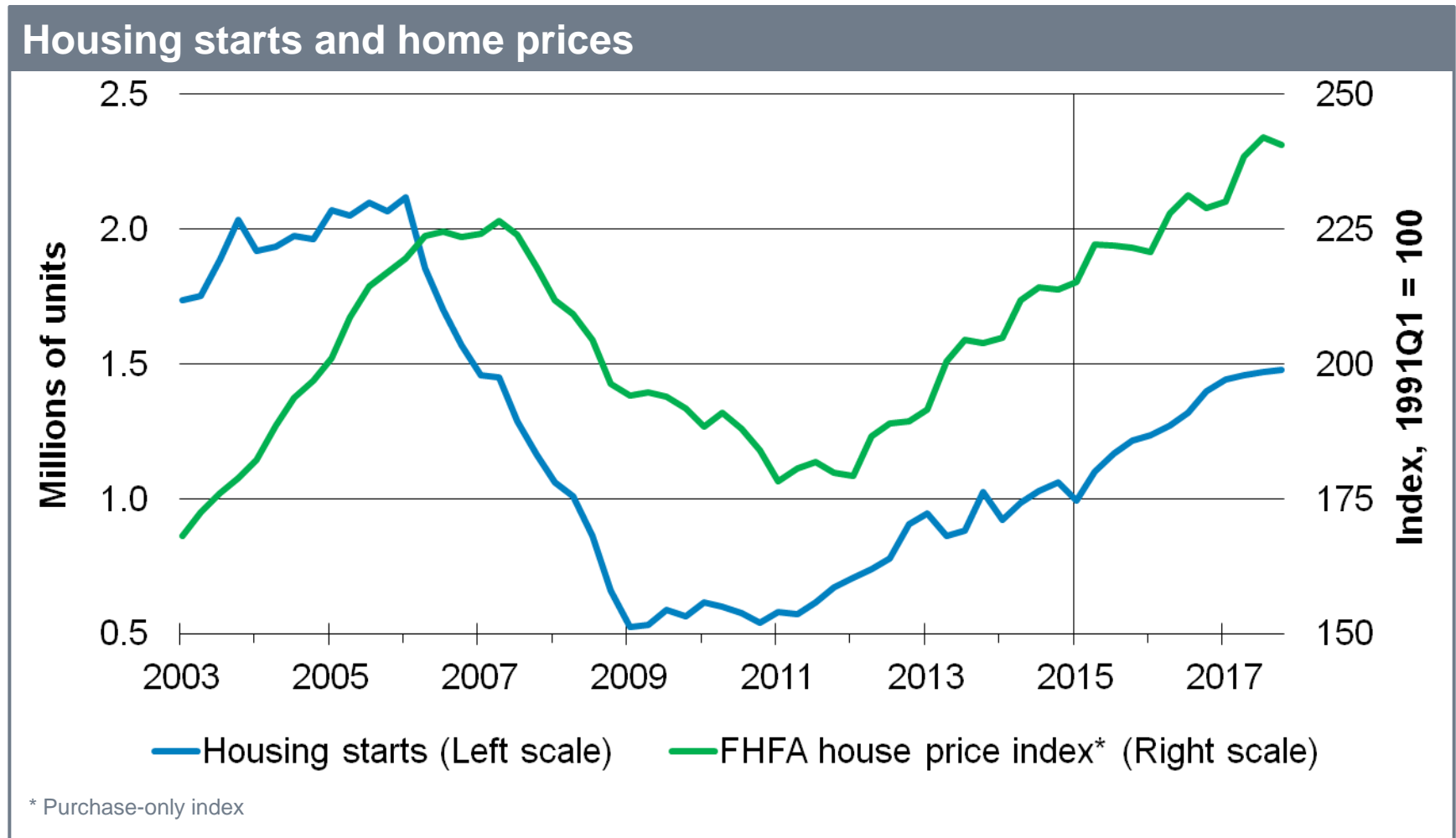


The recovery in housing markets will strengthen

- Our forecast has been revised to show a more gradual recovery in housing starts in 2015–20.
- Sustained job growth will support increases in housing demand.
- Credit availability is improving for home buyers and builders.
- In 2016–17, rising mortgage rates will restrain growth in home sales.
- Multifamily units will account for about one-third of housing starts.
- Young adults are delaying homeownership.
- Baby boomers are starting to downsize.

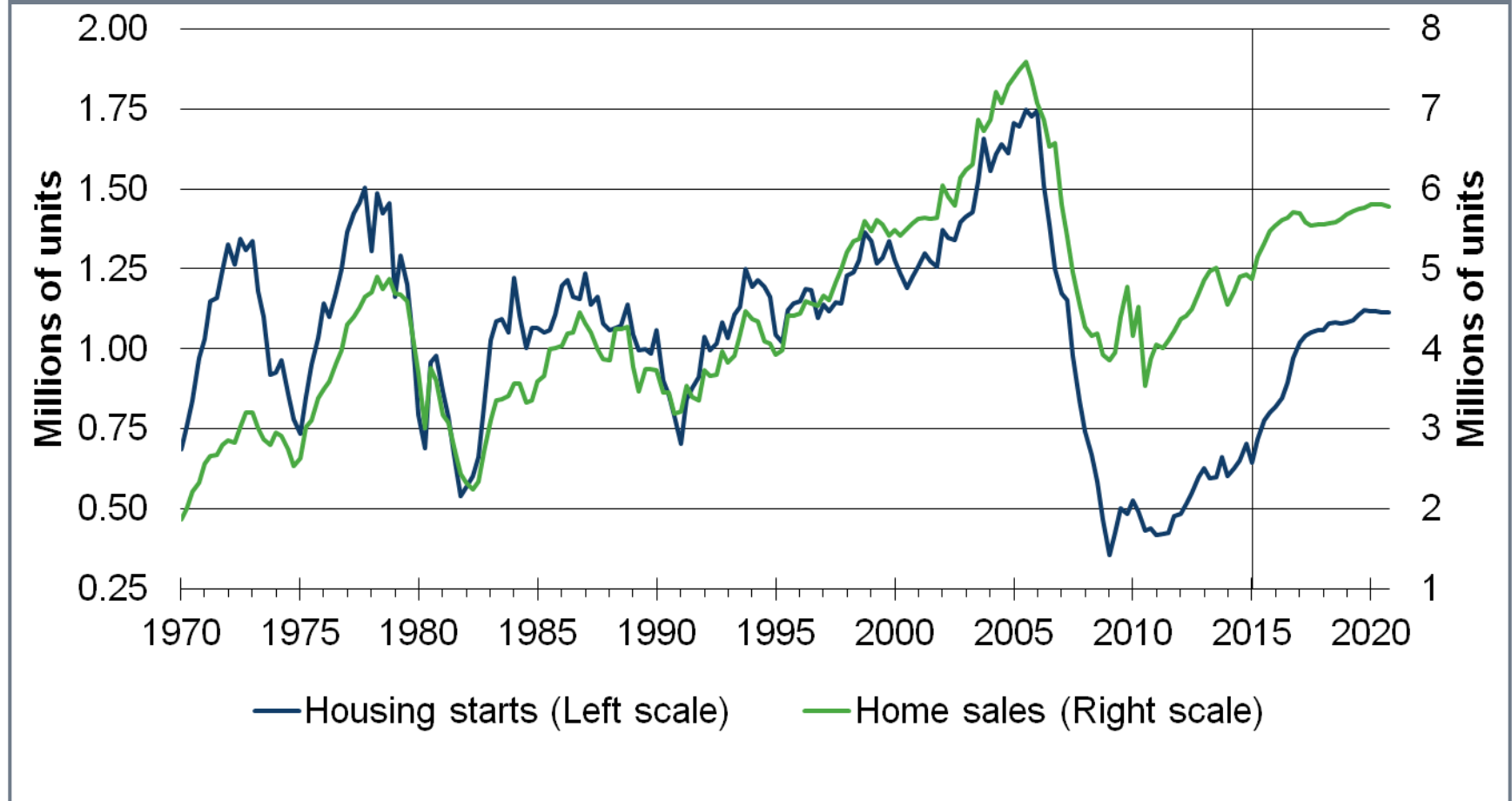


Housing starts and home prices are recovering



Single-family home sales and construction are not expected to reach 2005 peaks

Single-family housing starts and sales



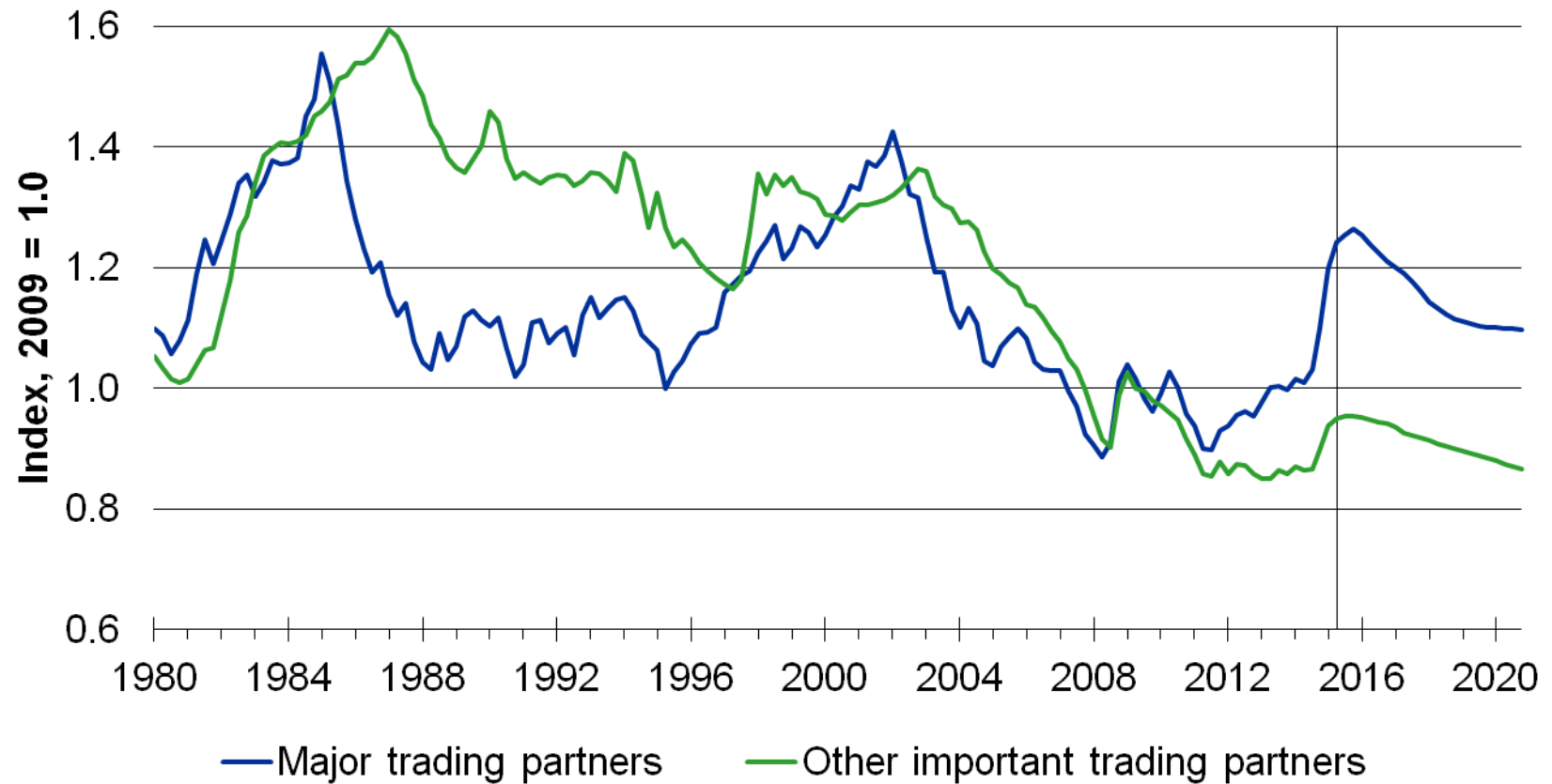
A gradual acceleration in the global economy

- Global growth will gradually pick up, but foreign trade will remain a drag on the US economy through 2017.
- The Eurozone's recovery is gaining momentum, aided by monetary stimulus, euro depreciation, and pent-up demand.
- China's growth will slow to 6.5% in 2015, restrained by imbalances in credit, housing, and industrial markets.
- The plunge in commodity prices and policy mistakes are contributing to recessions in Russia, Argentina, Brazil, and Venezuela.
- Growth paths in emerging markets will depend on structural reforms that raise productivity and allocate capital more efficiently.
- Asian markets offer the best opportunities for US exports.



The dollar's real exchange value has appreciated, reaching an 12-year high against major currencies

Real trade-weighted dollar index



Risks to the US forecast

Scenario	Characteristics
Recovery stalls (Probability = 15%)	<ul style="list-style-type: none"> • Low household formation rates stall the housing recovery. • Consumers spend more cautiously as asset prices retreat. • Weak growth in foreign economies hurts exports. • The Federal Reserve (Fed) delays interest-rate hikes to mid-2017.
Recovery reignites (Probability = 15%)	<ul style="list-style-type: none"> • Stronger job and wage growth spark consumer spending. • Housing markets rebound more vigorously. • Stronger global economic growth lifts US exports. • The Fed raises interest rates more quickly in 2015–16.
Baseline forecast (Probability = 70%)	<ul style="list-style-type: none"> • The Fed starts to raise interest rates in September 2015. • Housing markets steadily recover in 2015–19. • Global economic growth picks up moderately. • There are no major changes in federal government tax or spending policies.

Bottom line for the US economy

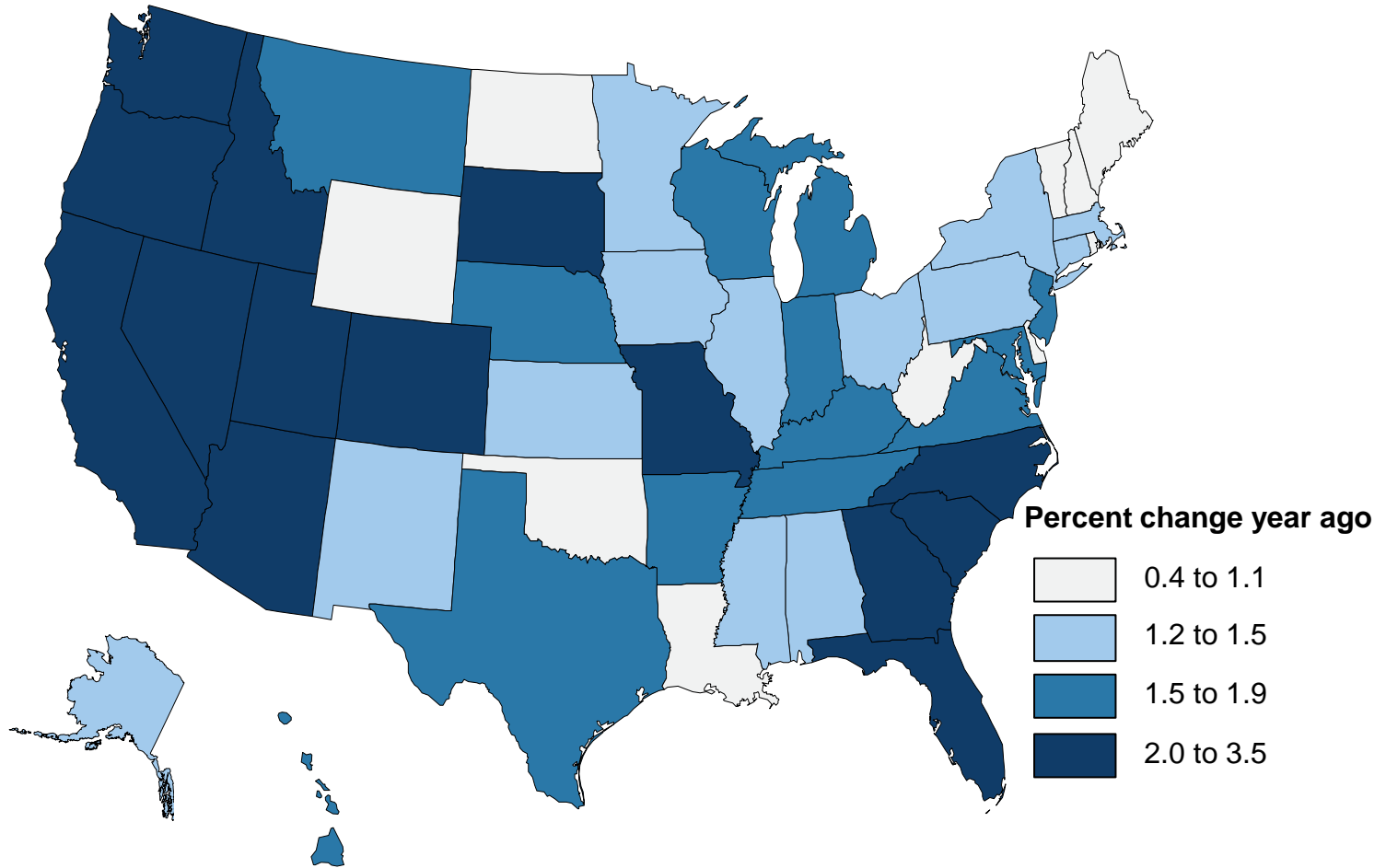
- Real GDP growth is projected to pick up to 2.8% this year, led by a broadly based acceleration in consumer spending.
- Consumer spending will be supported by gains in employment, real disposable income, and household wealth.
- Homebuilding will rise as household formation recovers.
- Real capital spending will increase about 4–6% annually in 2015–17 as more businesses need to expand capacity.
- Net exports will restrain US economic growth through 2017, largely due to the dollar's appreciation.
- The Federal Reserve will begin to raise the federal funds rate in September; interest rates will increase through 2017.
- Core inflation will stay mild.

Regional and Indiana Economic Outlook

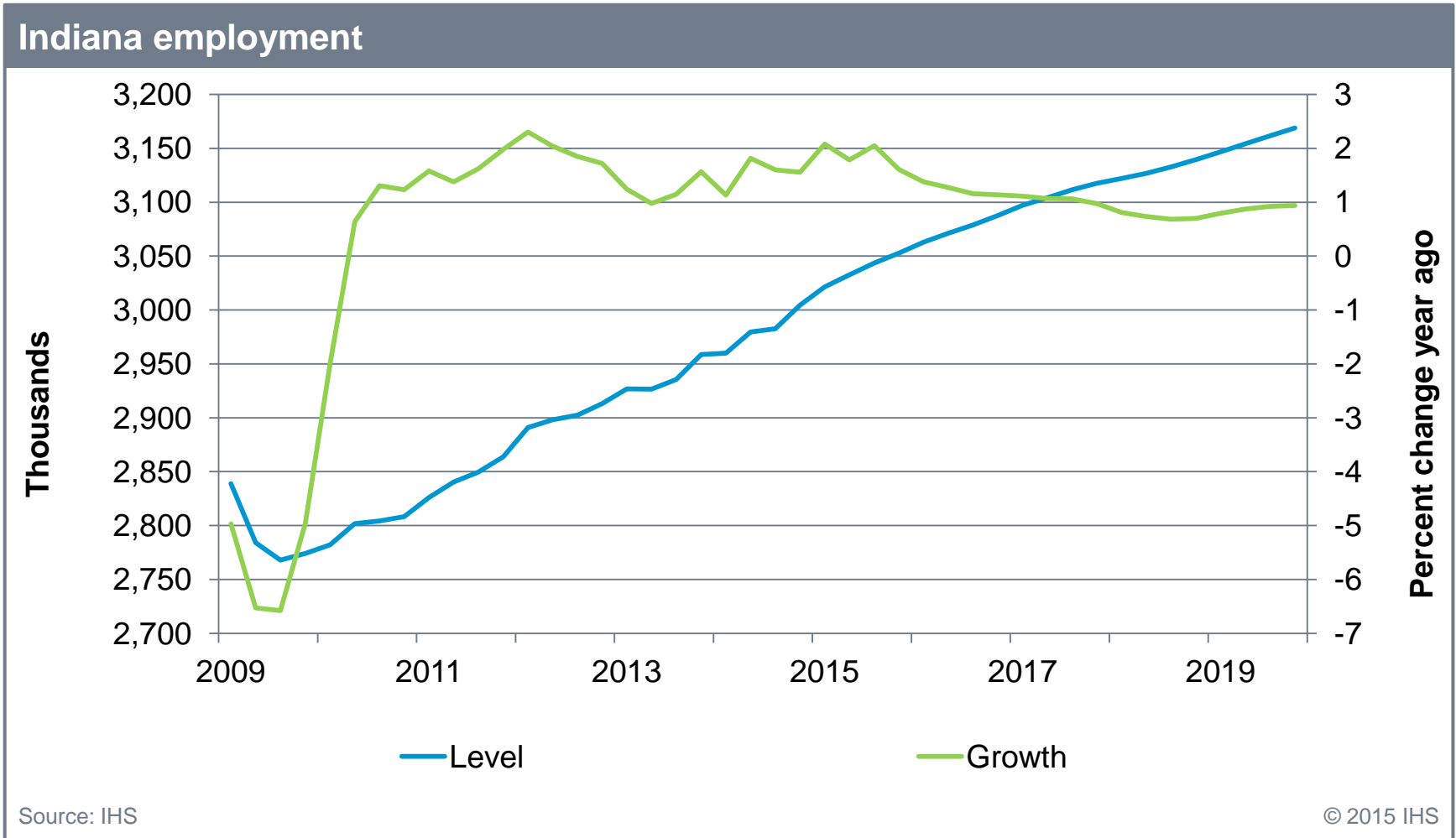
U.S. Regional Outlook

- States in the West and Sunbelt will continue to grow fastest.
 - These states saw the worst housing busts.
 - 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 and gas development has also boosted growth in many sectors, including in non-producing states.
 - Steel pipe, machinery, transportation, construction.
- Most states are net “winners” from low oil and natural gas prices, due to savings to consumers.

Employment growth concentrated in West, Southeast for 2015



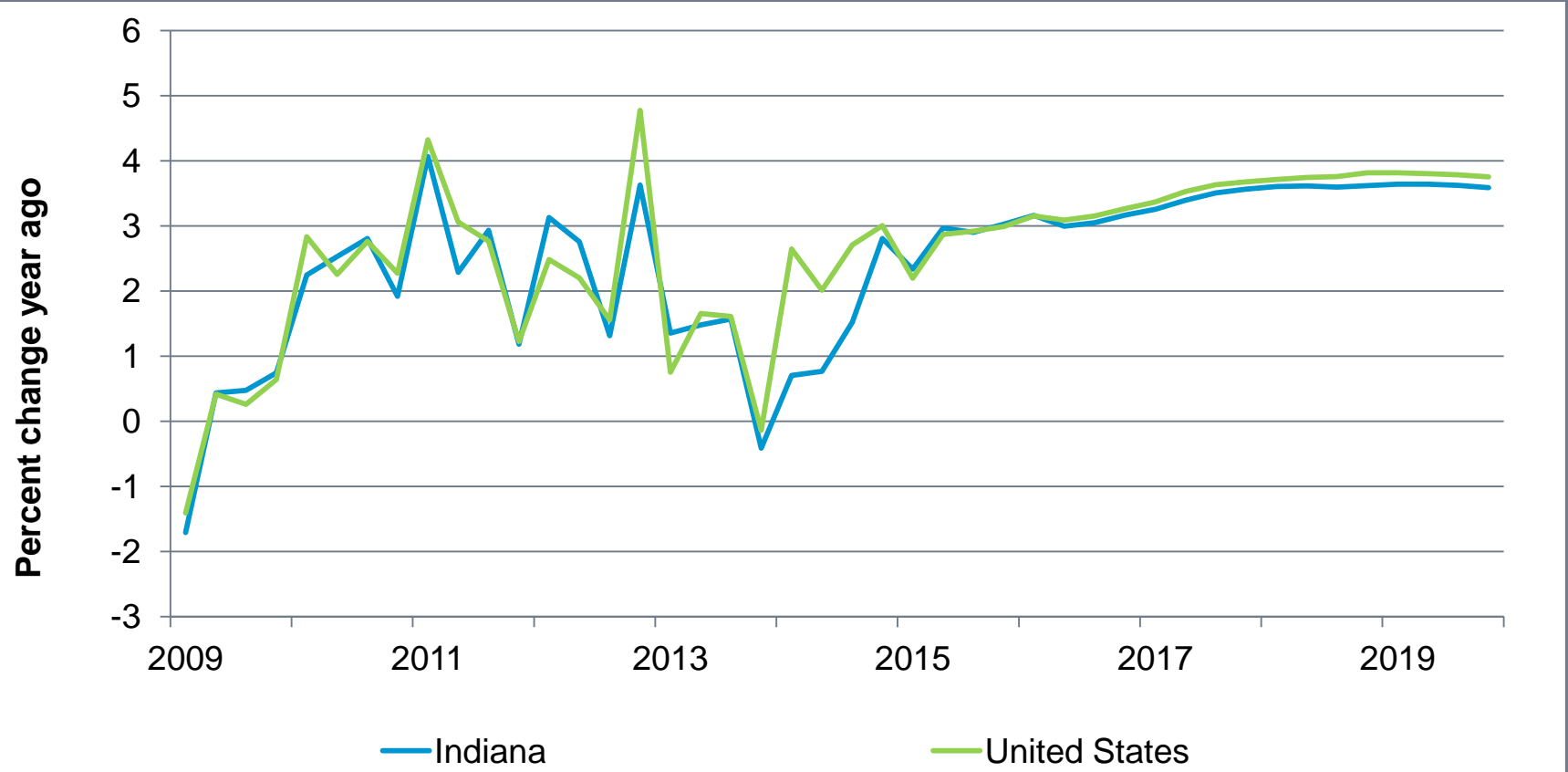
Employment growth set to improve in 2015



Indiana wage growth lagged nation in 2014

Weighted annual average wage, all sectors

Indiana wage growth vs. United States

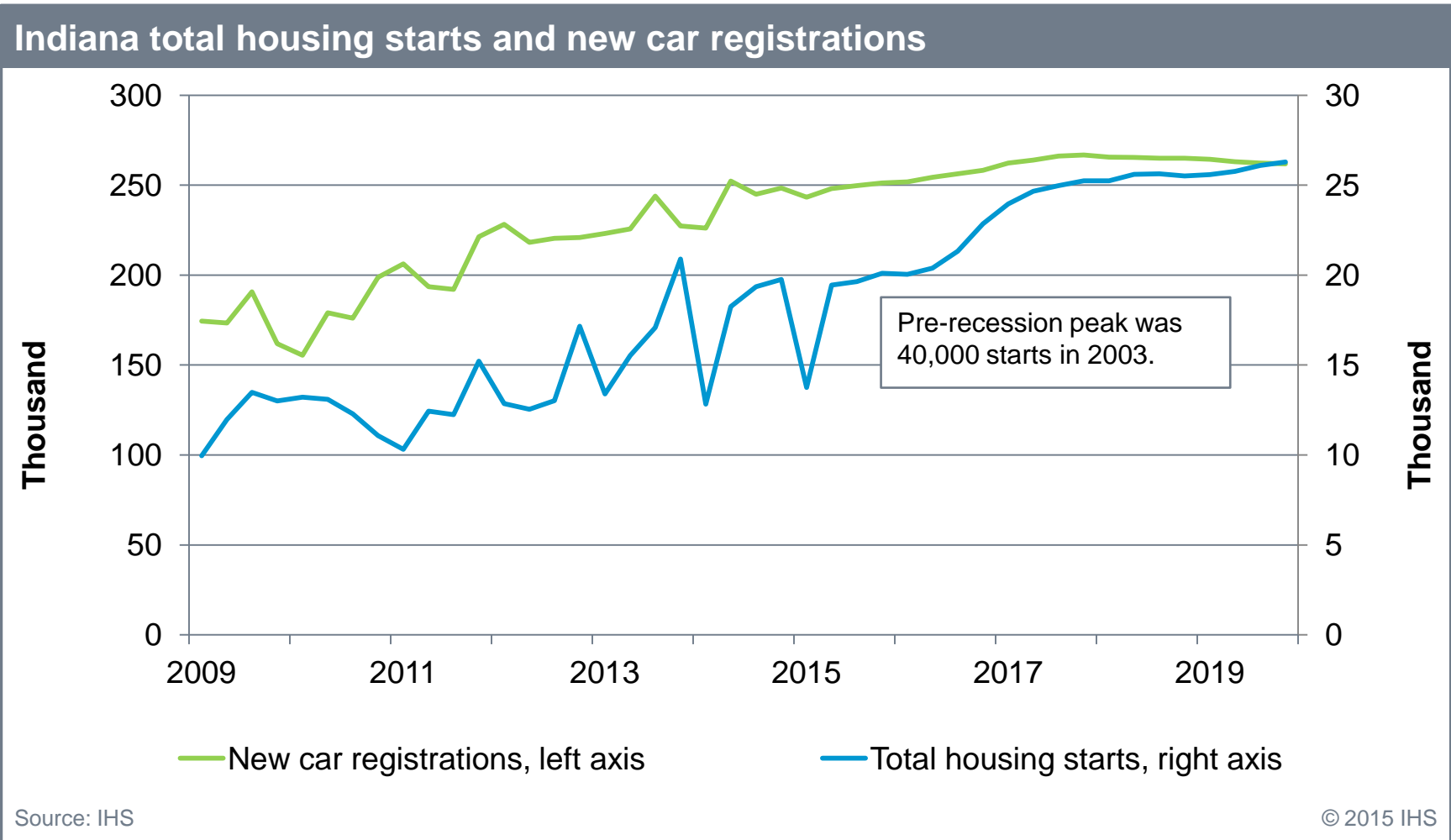


Source: IHS

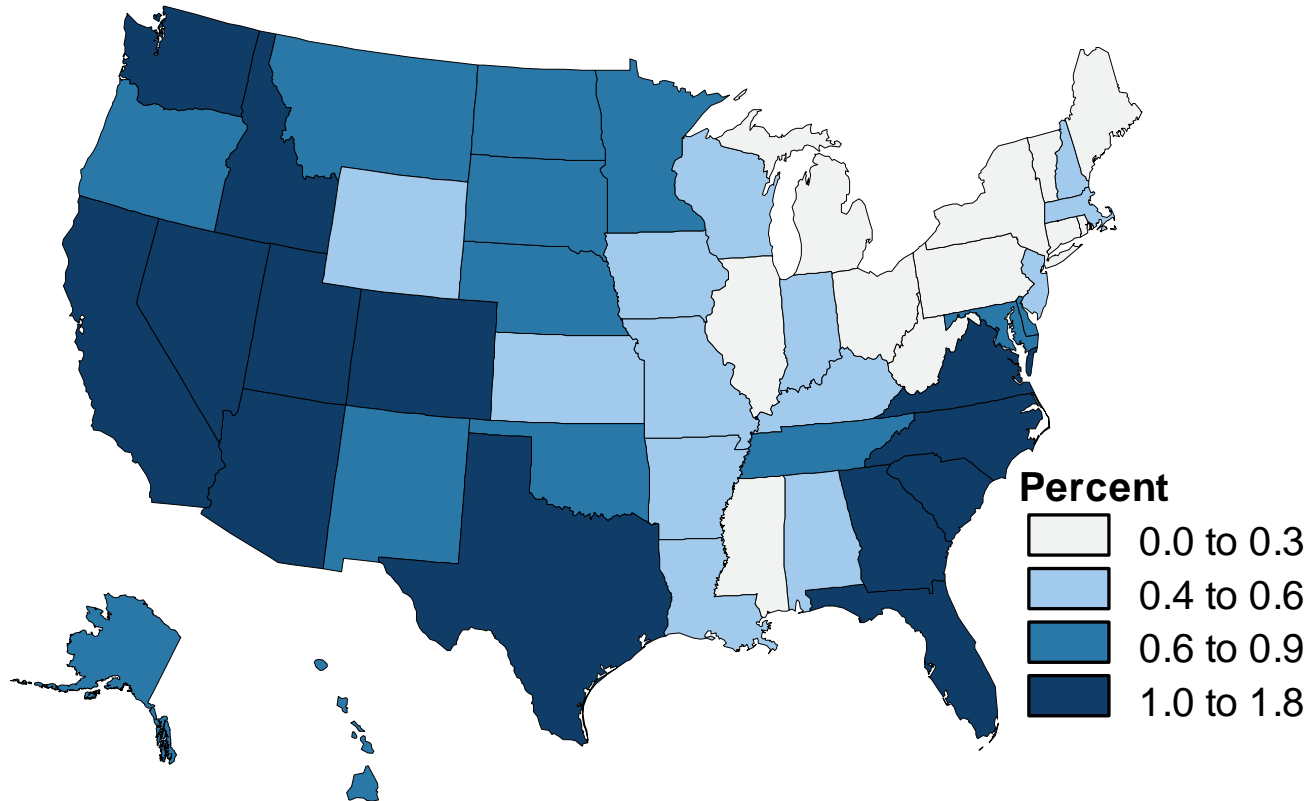
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Indiana housing starts will improve in 2016 and beyond

Auto sales growth to slow as recovery matures



Population continues to move south, west; Northeast getting left out in the cold



Compound annual average growth, 2015 to 2020

Indiana Forecast Summary

Key indicators

Percent change	2014	2015	2016	2017
Total employment	1.5	1.9	1.2	1.1
Unemployment rate (%)	5.9	5.8	5.5	5.6
Real personal Income	1.2	4.0	2.5	2.9
Real gross state product	2.1	2.7	2.4	2.4
Personal consumption expenditures	3.5	2.5	4.6	4.6
Housing starts (Thousands)	17.6	18.2	21.2	24.7
Share of multi-family (%)	28.4	25.5	23.0	18.2

Bottom line for the Indiana economy

- Near-term economic growth will continue to be favorable.
- Manufacturing, especially related to the transportation sector, has spurred Indiana's economic recovery over the past five years.
 - Manufacturing provides 17% of state's payroll jobs, first in the nation.
 - National average is 9%.
 - Sales of cars and light trucks a huge factor; demand from oil and gas industry for steel pipe, machinery, etc., has also helped.
 - Domestic demand maturing, strong dollar reduces competitiveness.
- Expanding service employment is key to long-run economic growth.
 - High-tech area is where value is being added.
 - Requires ongoing investment in education, R&D, infrastructure.
- Long-term slow population growth a potential drag on economy.

Thank you!

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