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# Indiana Economic Outlook

Presented to:  
Indiana State Budget Committee

**December 15, 2016**

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## President-elect Trump's domestic policy platform

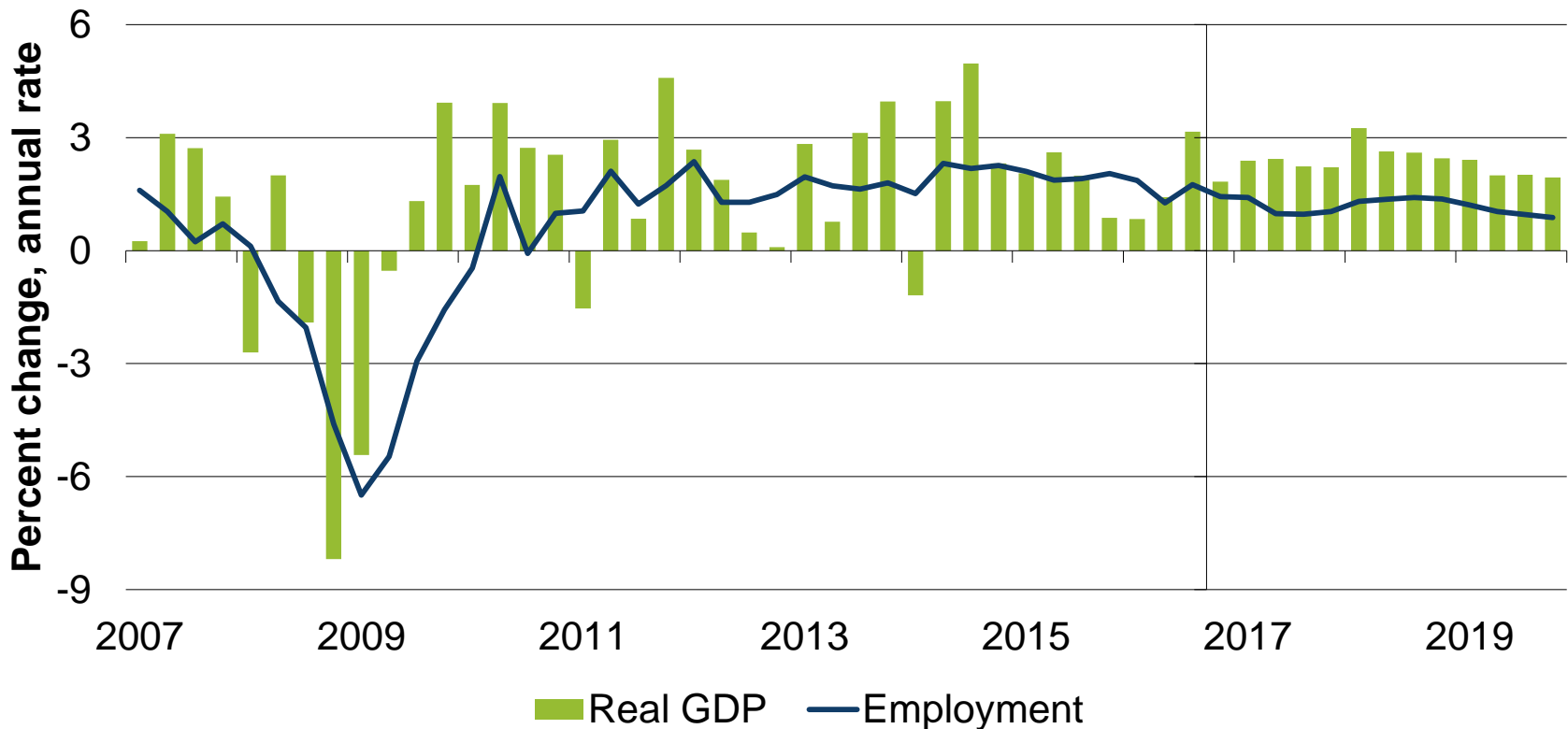
- Reform personal income taxation, reducing the number of brackets from seven to three (12%, 25%, and 33%)
- Reduce the corporate income tax rate from 35% to 15% and apply the 15% rate to pass-through businesses
- Repeal and replace the Affordable Care Act
- Increase spending on infrastructure and defense
- Freeze hiring of federal employees to reduce workforce by attrition
- Cancel executive actions taken by President Obama
- Ease restrictions on energy production, allow pipeline projects to move forward, and open federal lands for energy exploration
- Change Dodd-Frank financial regulations

## Policy changes in the December forecast

- Personal income tax reforms that lower the average effective tax rate from 21.0% to 19.5%
- A reduction in the statutory corporate income tax rate from 35% to 20%, the rate proposed by House Republicans
- A \$250-billion increase in public infrastructure investments over 10 years, financed by tax receipts from repatriated corporate profits
- Federal Reserve policy rate increases of 75 basis points in each of the next three years, bringing it to a long-term equilibrium of 3.00% (an upward revision of 25 basis points)

# With productivity rising, real US GDP growth will outpace employment growth

US real GDP and payroll employment

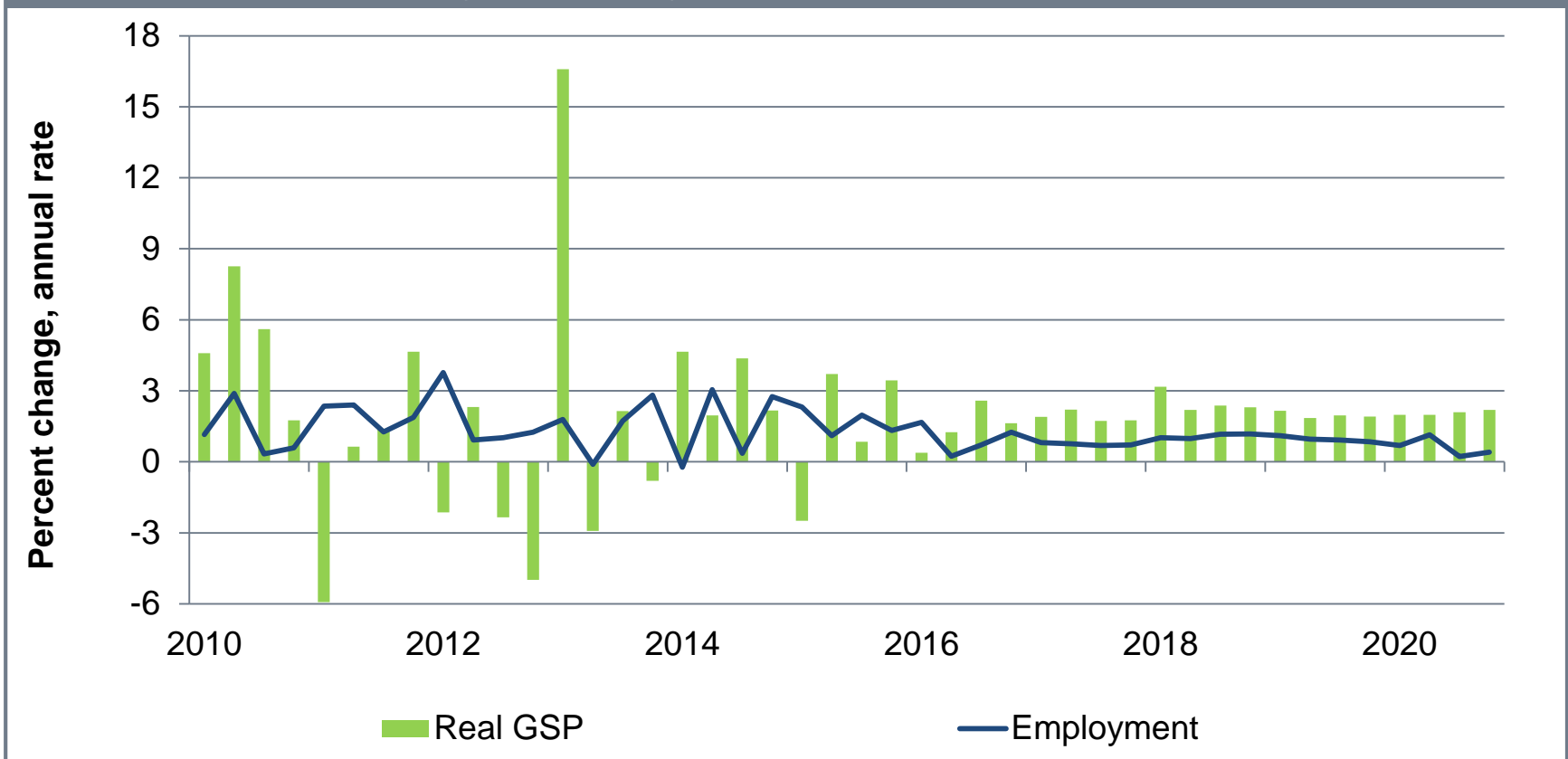


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# Indiana's real GSP growth also outpaces economic growth, indicating higher productivity and wages

Indiana real GSP and payroll employment



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## Key economic indicators for Indiana

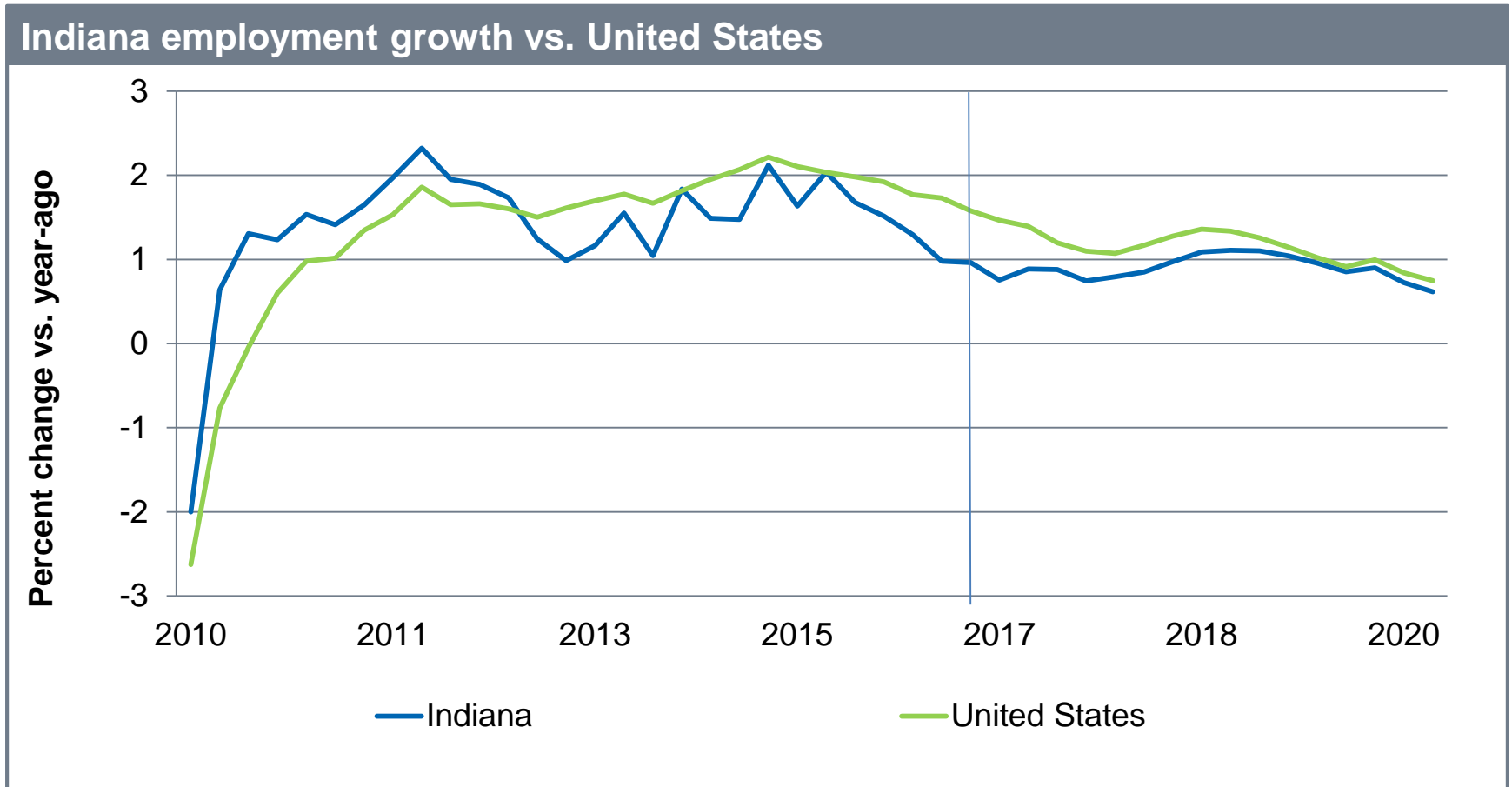
Percent change

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Payroll employment	1.9	1.2	0.8	0.9	1.1
Unemployment rate (%)	4.8	4.7	4.3	4.1	4.0
Wage income	4.8	3.4	4.4	5.1	5.2
Personal income	4.0	3.4	4.2	4.8	4.9
Real gross state product	1.4	1.7	1.9	2.3	2.1
Personal consumption exp.	2.4	3.6	4.7	4.5	4.5
Housing starts (thousands)	16.0	19.0	20.6	21.9	22.7
Share of multi-family (%)	22.6	21.1	20.5	18.4	17.2

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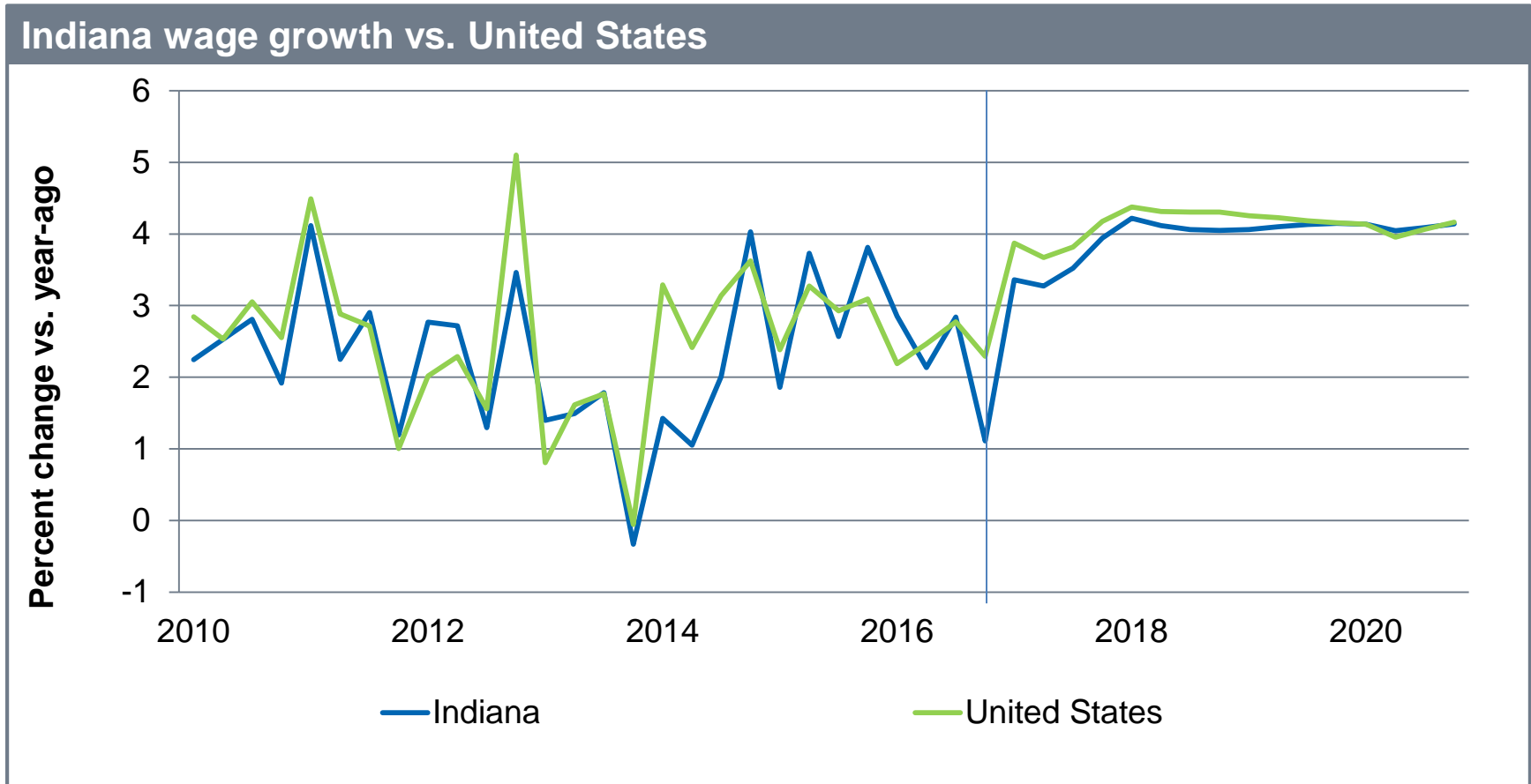
# Indiana's job growth lags as some manufacturing gains reversed



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# Higher productivity, fewer available workers will translate into higher wages



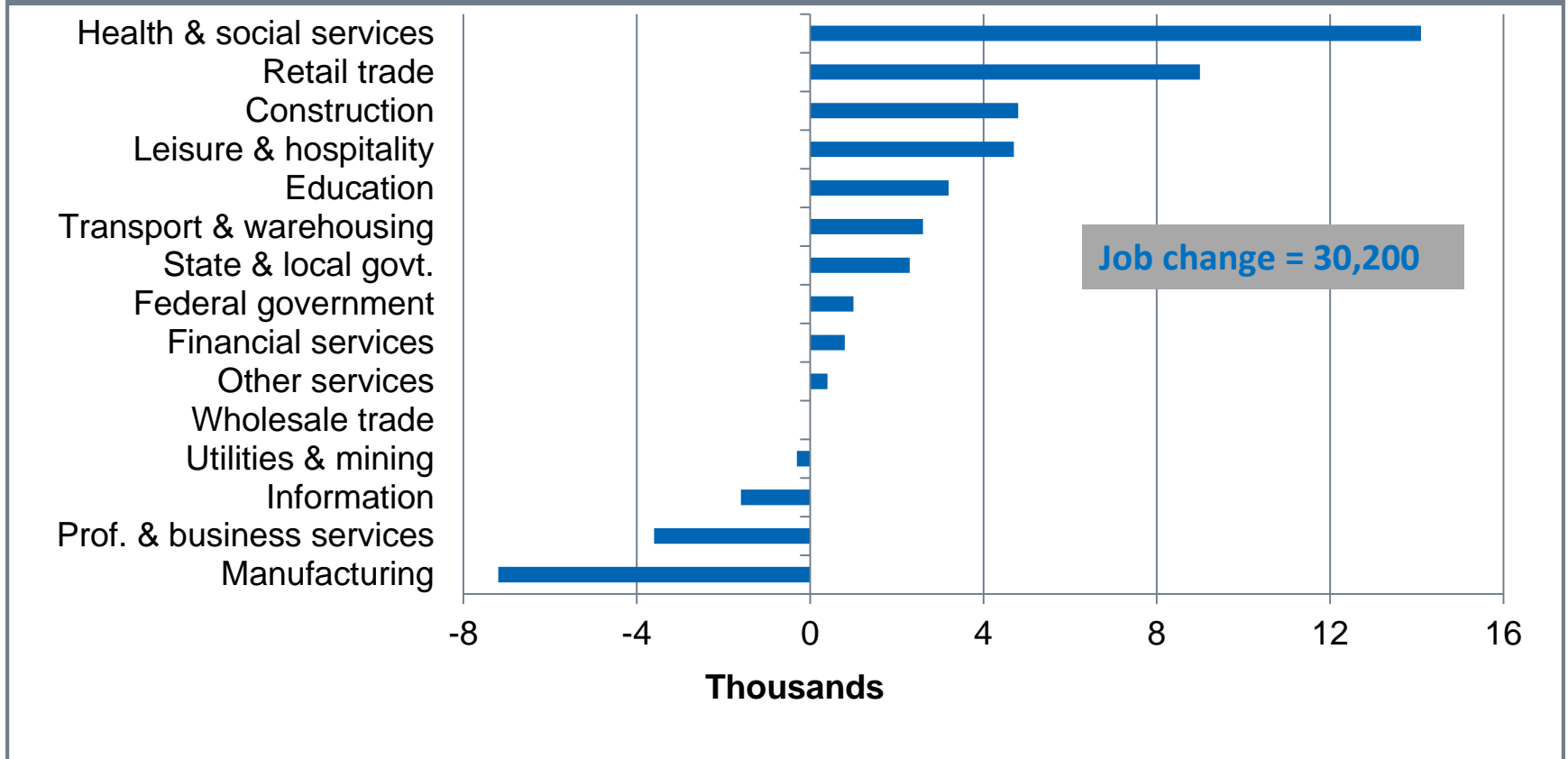
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# Health care a steady job provider, while manufacturing fell back

Change in Indiana payroll employment, Oct 2015-Oct 2016

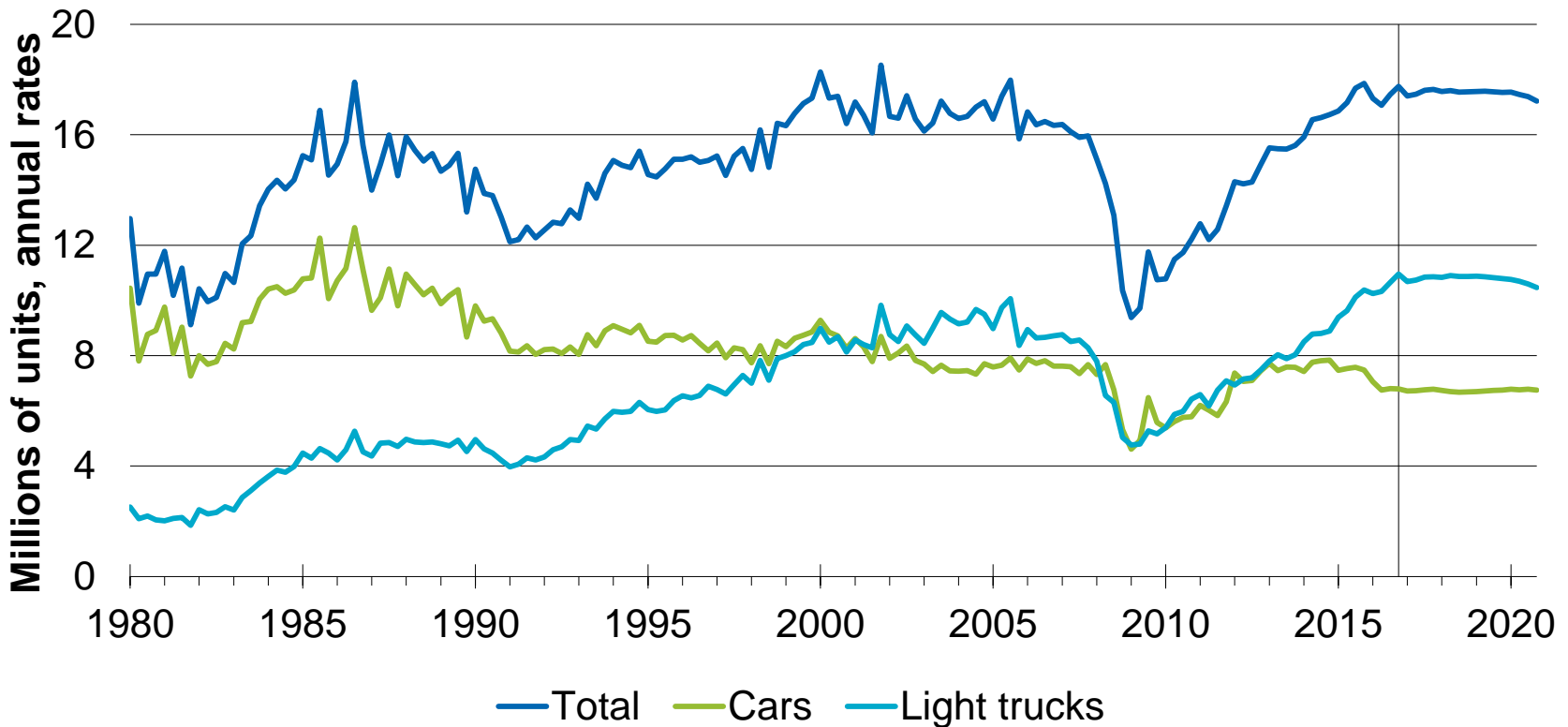


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# Peak in vehicle sales will limit further gains in auto manufacturing sector, a major Indiana employer

## US light-vehicle sales have peaked

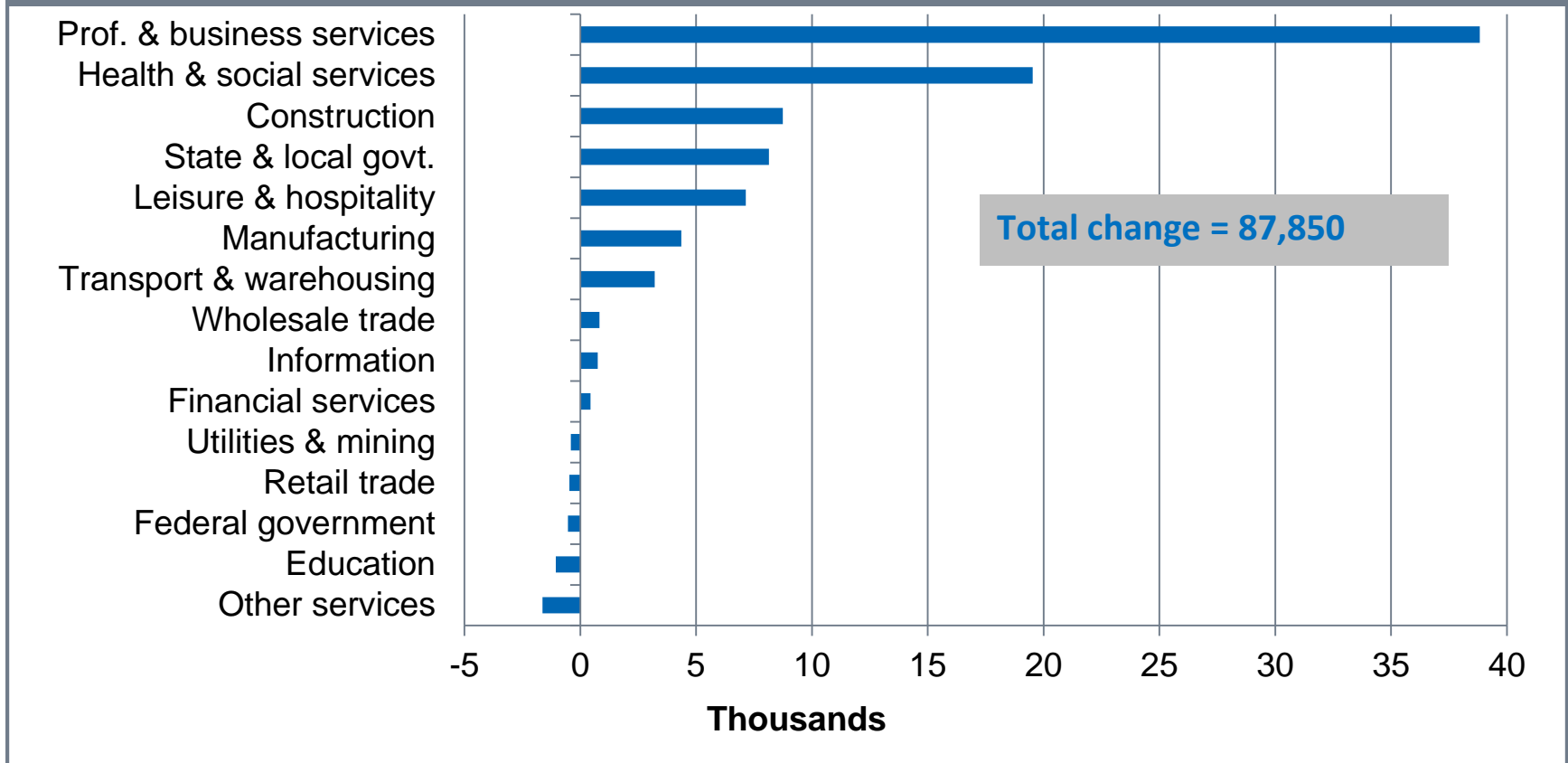


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# Professional/business services, construction will supplement further gains in health care sector

Change in Indiana payroll employment, 2016q2-2019q2

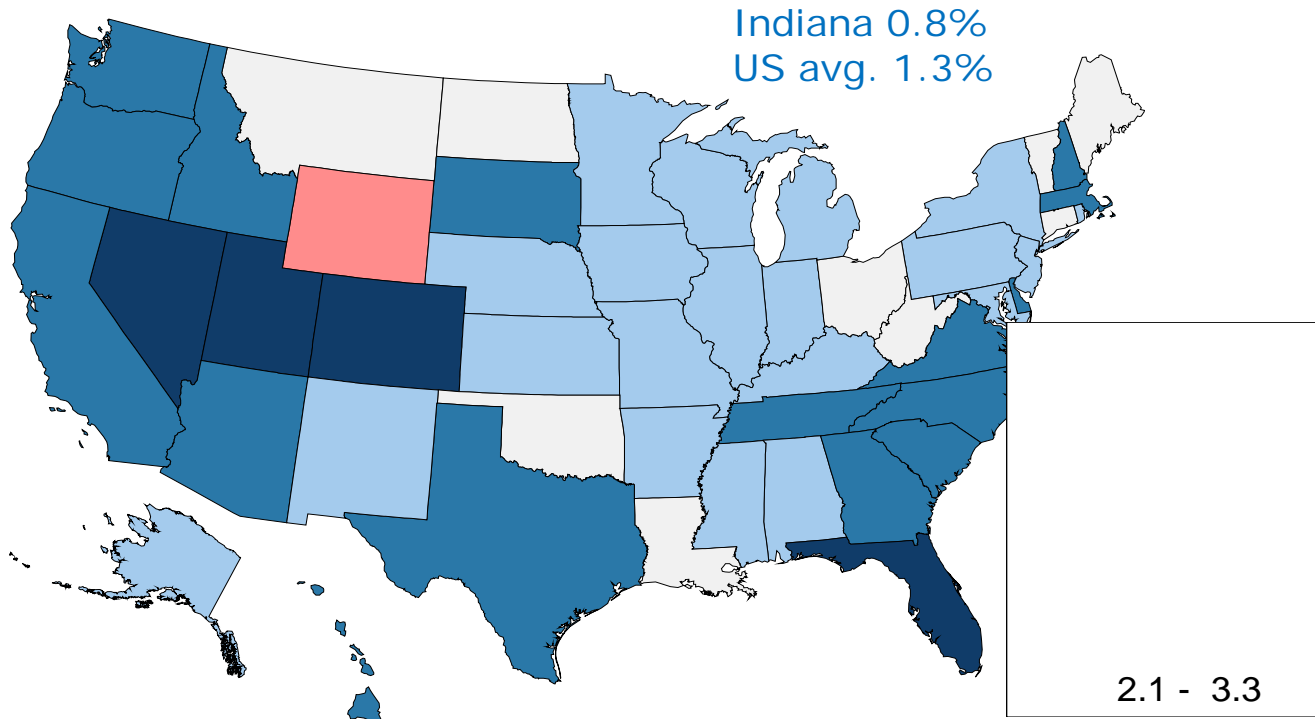


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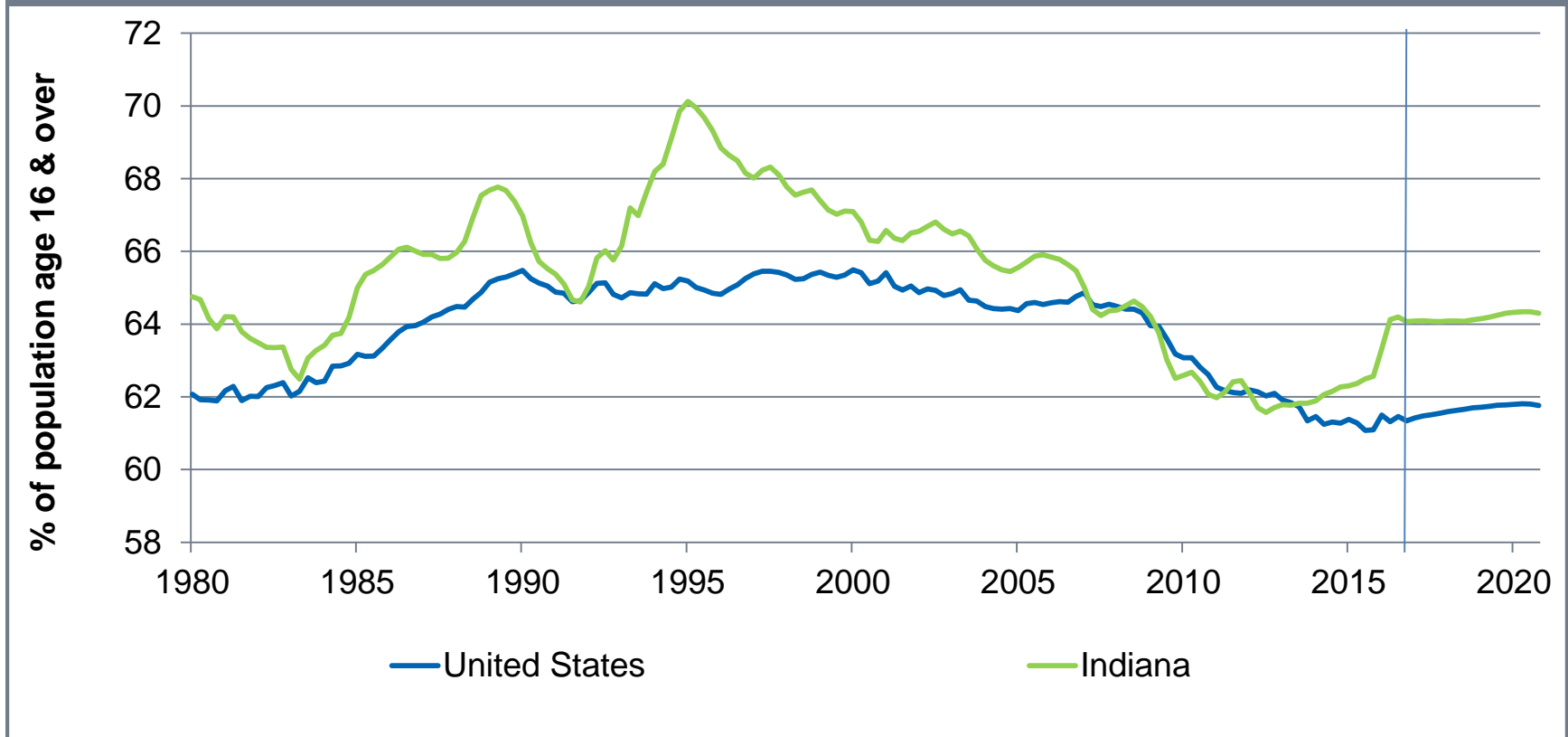
# Job growth concentrated in Southeast and West, following migration patterns

Employment growth, 2017 vs. 2016



# Continued economic growth will require more workers – many states need increased participation

Labor force participation rate beginning to increase

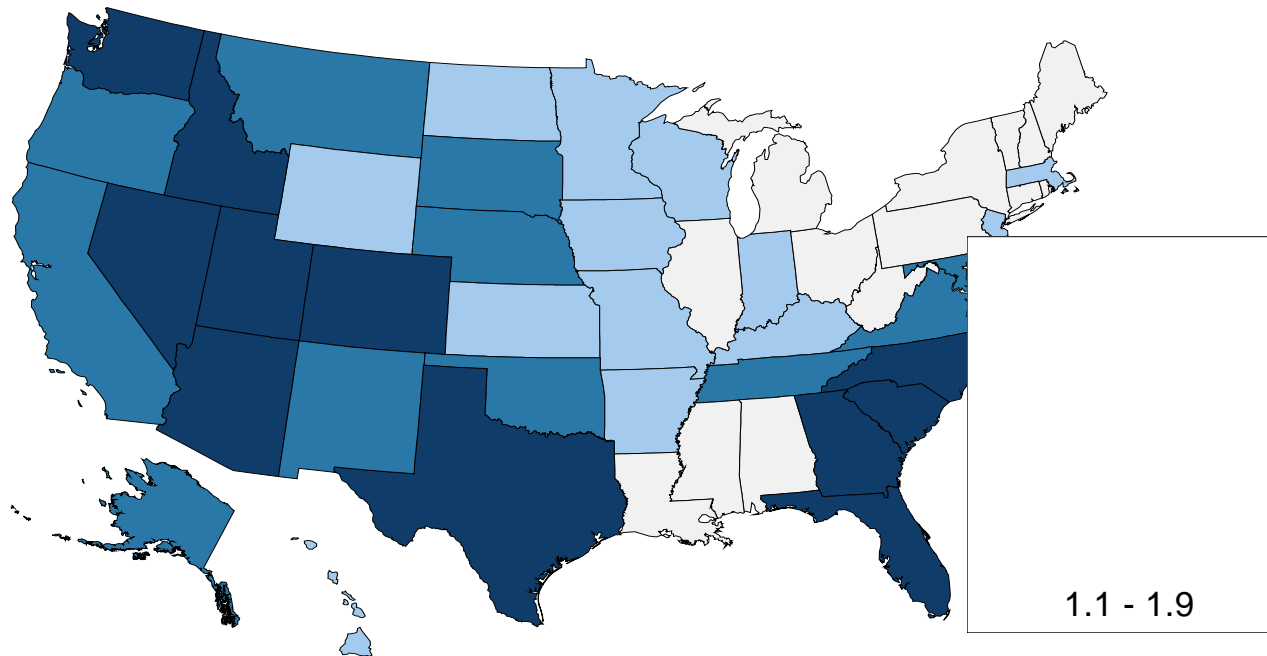


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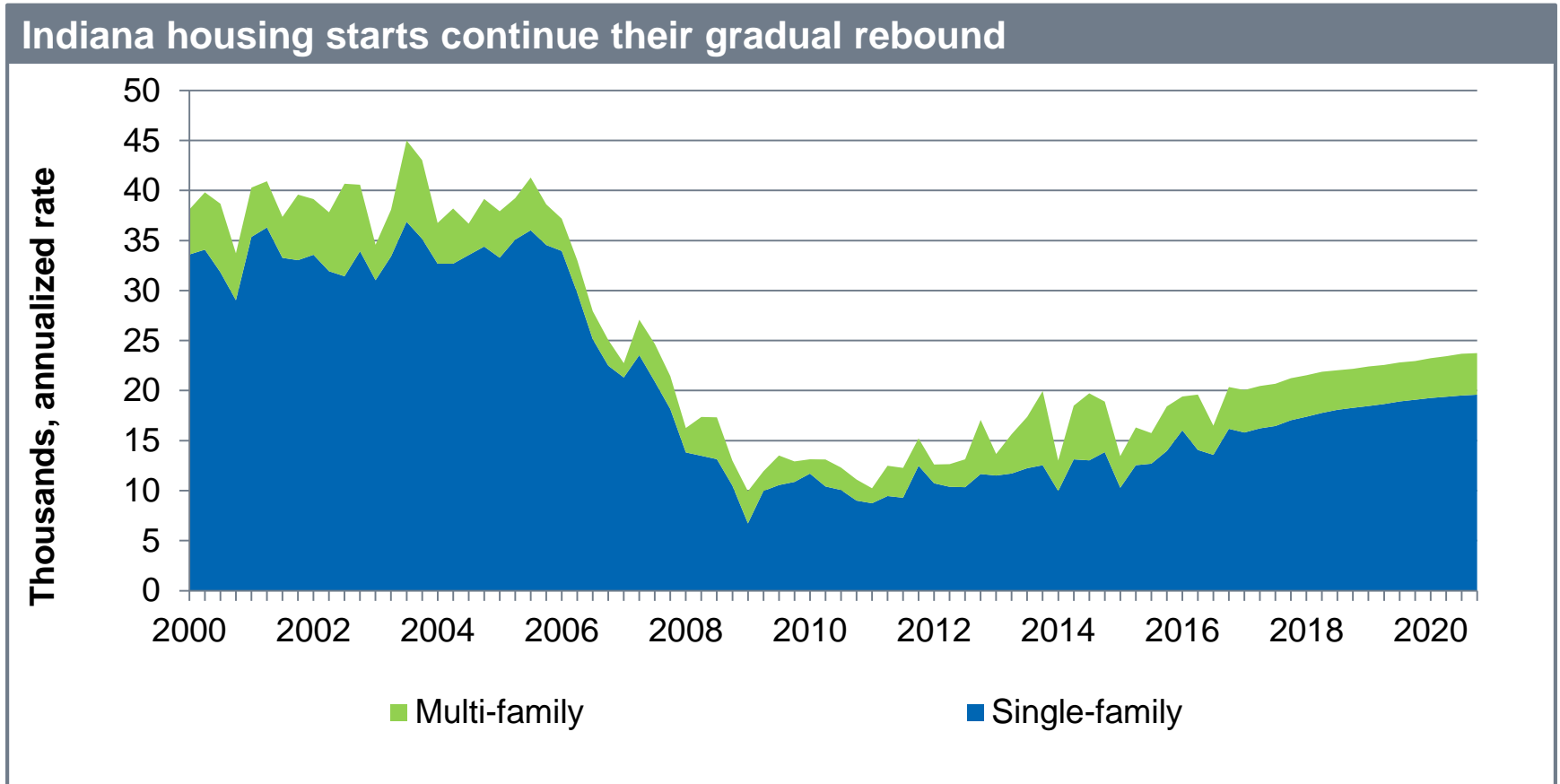
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# Indiana population growth relatively slow, but outpacing most neighboring states

## Population growth through 2021



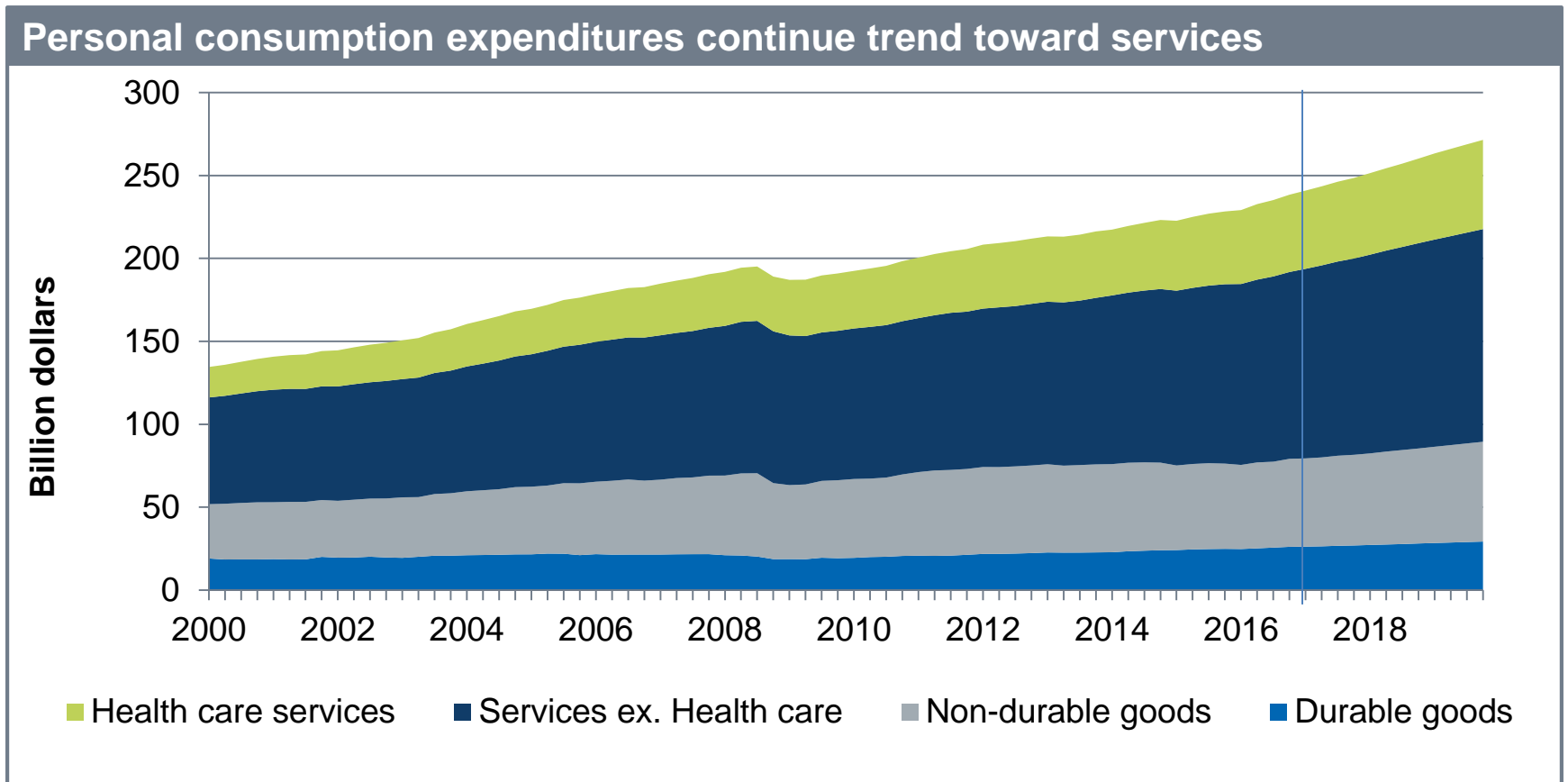
# Home-building increasing steadily in Indiana, but certainly not booming



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# Consumer spending moving away from items subject to sales and use taxes



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## Bottom line for Indiana

- Wage and salary income growth gets a boost from higher average wages, even as job growth slows, as productivity increases
- Continued increase in labor force is key to attracting and retaining employers and sustaining state economic growth
  - > This is difficult for states with slow population growth
  - > Achieved through in-migration and increased participation
- Manufacturing still a key component of state's economy, but gains in output won't translate into much job growth
  - > Out-migration of jobs is one factor, but automation still looms
  - > Strong dollar will weaken competitiveness in global markets
- Service sector can be supported by strong education system, attractive business environment
  - > High-tech sectors showing growth and innovation

## Forecast track record

Percent change

Forecast date	U.S. GDP		Indiana Employment		Indiana Income	
	2015	2016	2015	2016	2015	2016
Dec 2014	2.7	2.5	1.7	1.3	4.0	4.5
Dec 2015	2.5	2.7	2.2	1.5	3.8	4.1
Apr 2016	2.4	2.1	1.9	1.7	4.0	3.7
Dec 2016	2.6	1.6	1.9	1.2	4.0	3.4

# US economy “appendix”

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## US economic growth will strengthen

- A more-balanced US expansion is emerging in late 2016, with personal consumption, fixed investment, and government spending all rising.
- Consumer spending will increase at a moderate pace, sustained by growth in employment, real incomes, and household net worth.
- Business fixed investment has made uneven progress but could benefit from an improving tax and regulatory environment.
- With demand outpacing supply, housing markets continue to recover.
- Fiscal stimulus, accelerating prices and wages, and strengthening loan demand will lead to higher interest rates.
- With commodity prices recovering and labor costs accelerating, inflation and interest rates will rise.

## US economic growth rebounds in 2017 and 2018, as consumer spending and business investment lead

### Real GDP and its components

Percent change	2015	2016	2017	2018
Real GDP	2.6	1.6	2.3	2.6
Consumption	3.2	2.7	2.8	3.1
Residential investment	11.7	4.7	2.7	3.2
Business fixed investment	2.1	-0.4	4.3	4.4
Federal government	0.0	0.7	0.2	-0.8
State & local government	2.9	0.9	0.7	1.3
Exports	0.1	0.4	2.3	2.7
Imports	4.6	0.8	4.1	6.3

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## Job growth slows as US approaches full employment, while inflation picks up

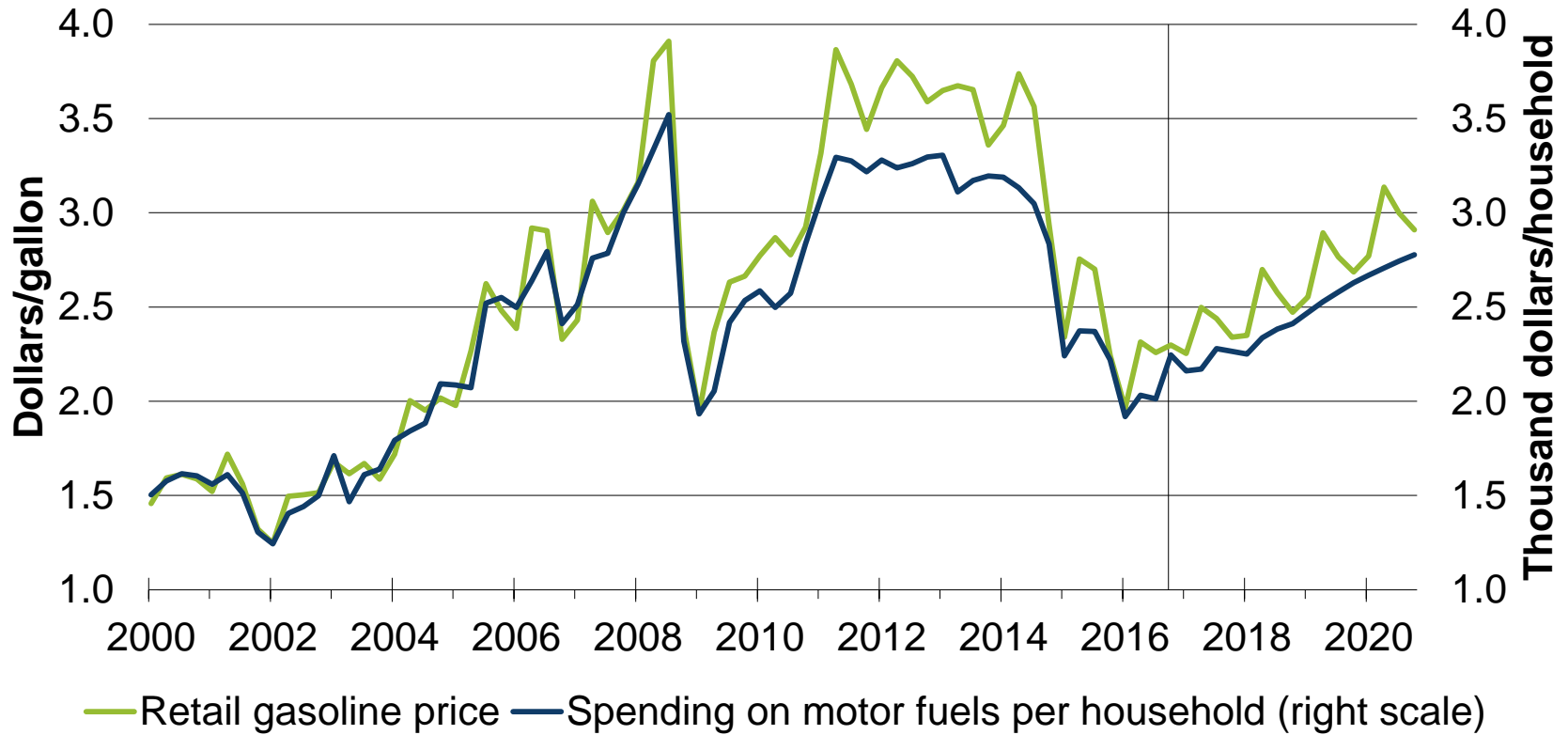
Key indicators				
Percent change	2015	2016	2017	2018
Industrial production	0.3	-1.1	1.3	3.3
Payroll employment	2.1	1.7	1.3	1.2
Light-vehicle sales (Millions)	17.4	17.4	17.5	17.6
Housing starts (Millions)	1.11	1.17	1.23	1.32
Consumer Price Index	0.1	1.3	2.5	2.4
Core CPI	1.8	2.2	2.3	2.3
Brent crude oil price (USD/barrel)	53	44	54	57
Federal funds rate (%)	0.1	0.4	0.9	1.7
10-year Treasury yield (%)	2.1	1.8	2.5	3.2

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# Retail gasoline prices are beginning to recover

**Retail gasoline price and annualized spending on motor fuels**

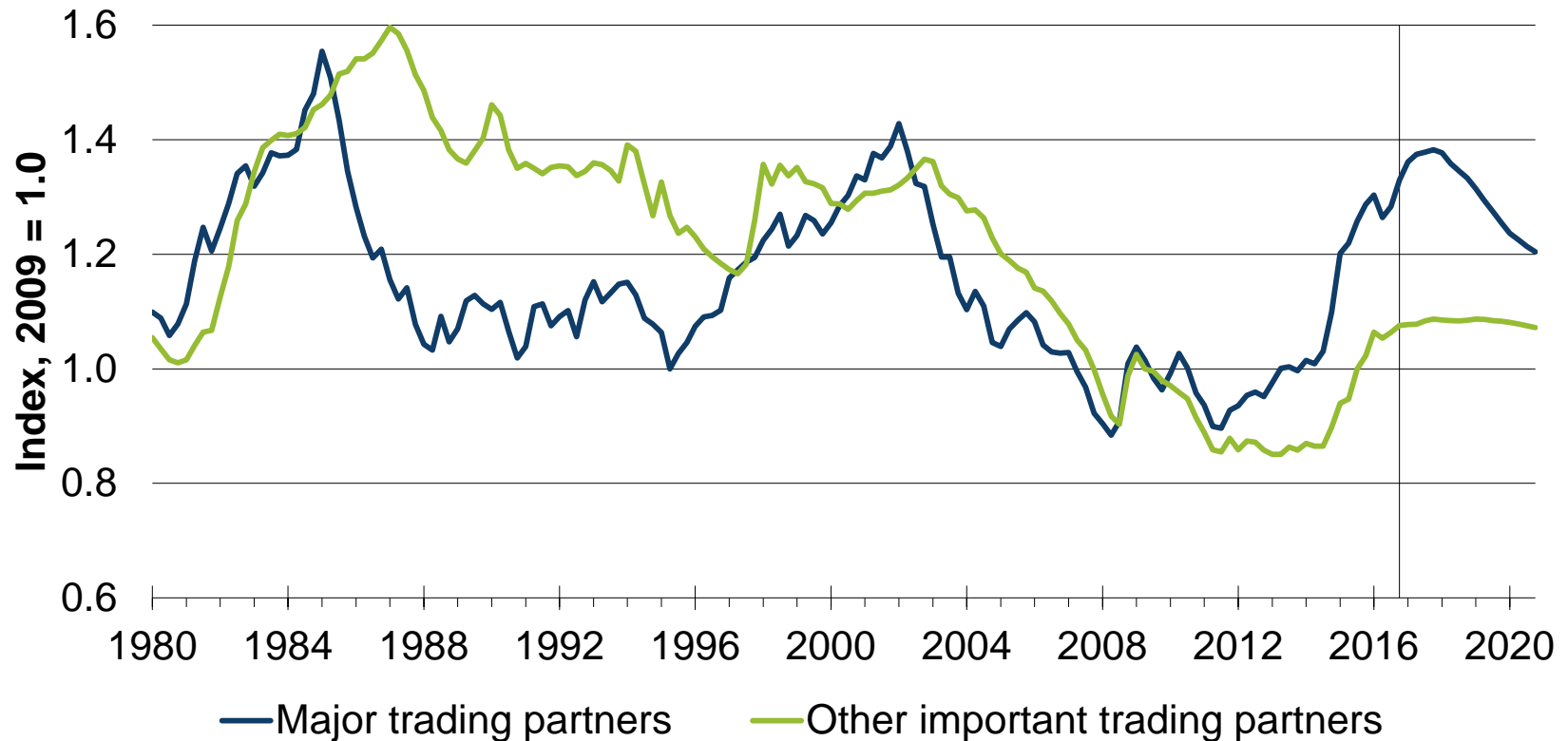


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# Renewed strength in dollar will make U.S. exports less competitive in world markets

Real trade-weighted dollar index peaks at end of 2017



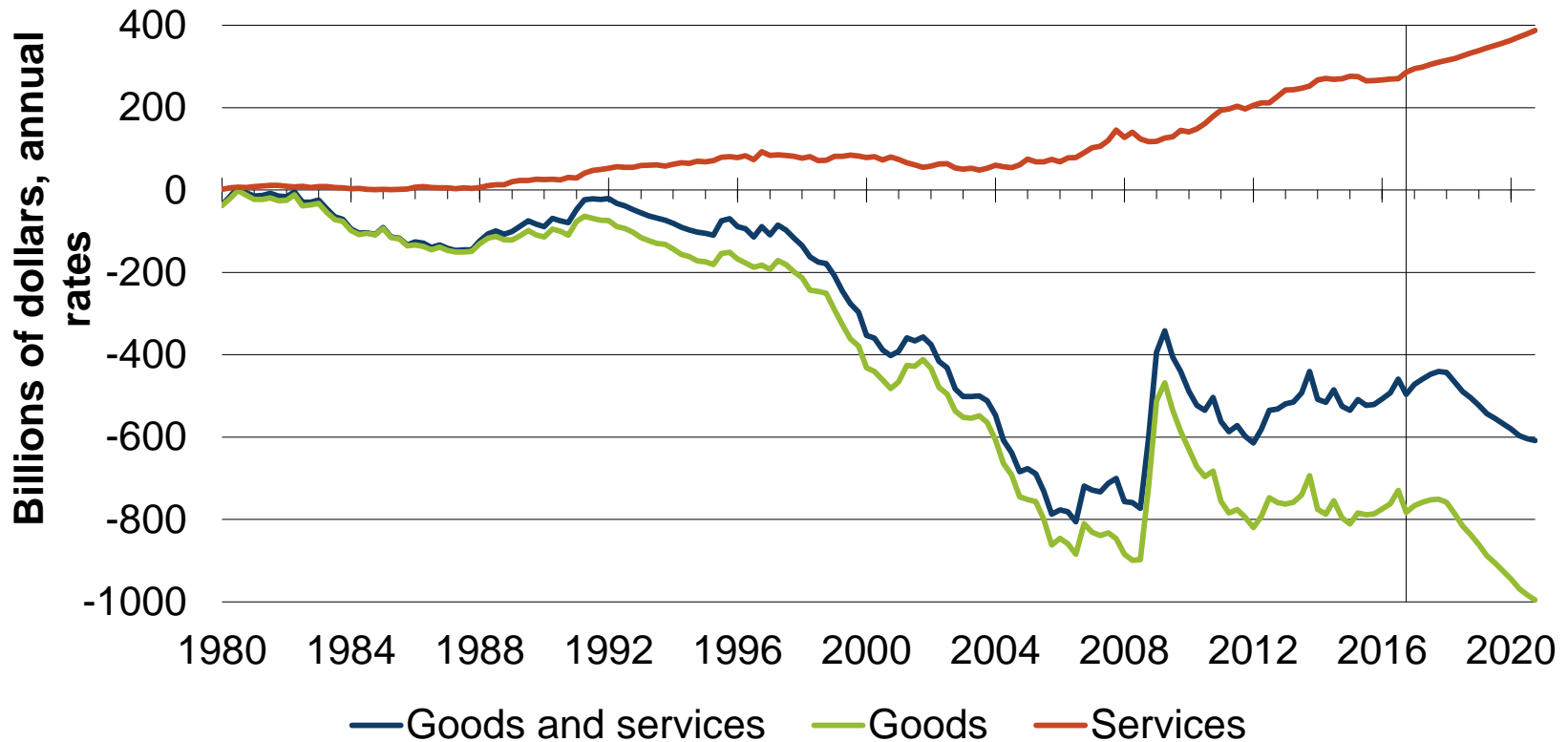
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# Surpluses in services trade partially offset US deficits in merchandise trade

## US net exports, NIPA

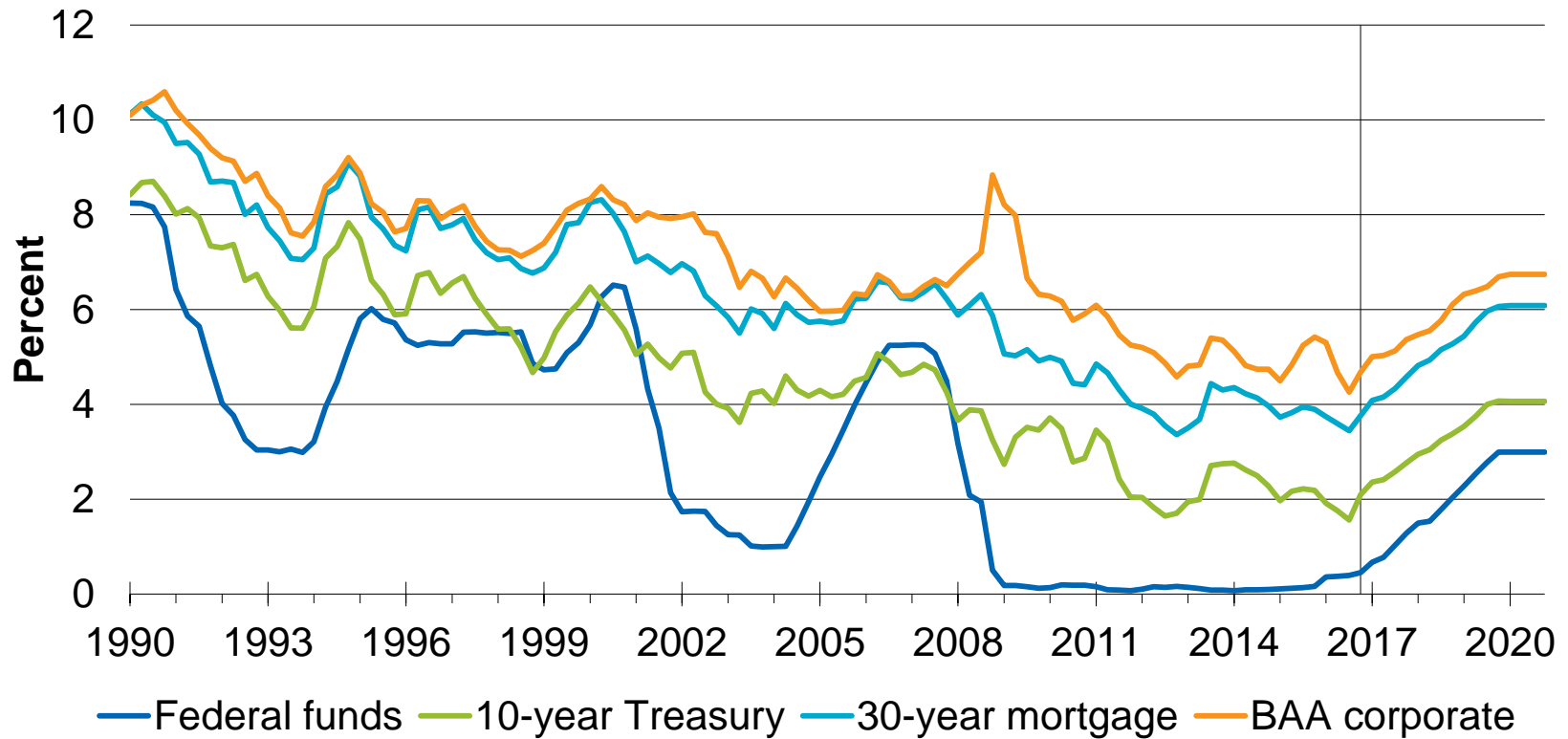


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# Interest rates will rise as the Federal Reserve normalizes monetary policy

## Key interest rates



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