Economic Forecast for 2013

The United States, Indiana, and East Central Indiana

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THE US ECONOMY

The American economy faces steep and continuing difficulty in its path to recovery. Employment as a share of total population has been static or declining throughout 2012. With unemployment rates continuing to hover around 8 percent, there is mounting evidence that structural unemployment (a skills mismatch) plays a larger role in soft labor markets than previously believed. Moreover, Europe remains in recession, with unemployment rates at 50-year highs, while slow growth in BRIC nations suggest that much of the world shares our economic virus. These difficulties are magnified by the deepest policy uncertainty in decades. Lack of reasonable insight on such basic factors as tax rates in the coming days can only act to disincentive domestic investment and employment. This is a difficult landscape for the national economy.

For these reasons, our models suggest that unemployment rates will remain roughly where they are now throughout the coming year, with any relief in rates coming primarily from a dwindling labor force, not job creation. Real GDP growth will average 2 percent, roughly the rate of productivity growth. Inflation will not be an issue this year, nor will there be significant changes to borrowing costs.

A national recession remains highly likely this year. Though economic models have performed poorly in capturing economic turning points, either the composition of the 'fiscal cliff' or a sustained European recession alone are significant enough to push our economy into recession.

Over the long run (through 2025), we expect more of the same. We anticipate GDP growth will remain at roughly 2.5 percent and employment growth at less than 1 percent over this horizon.

GOING OVER THE FISCAL CLIFF

A tax increase and spending cut similar to the current fiscal cliff debate will lead us into a recession. Nominal GDP will drop to the negative range in 2013, and remain a full point behind the long-term level through 2017 (or fiscal cliff model horizon). Employment will decline, and then rebound, remaining sluggish under either scenario through the forecast horizon.

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THE HOOSIER ECONOMY

Indiana's economy has outperformed the nation as a whole in GDP growth and employment growth over this recession. However, our model suggests a mixed future. Overall economic activity in Indiana will continue to exceed the national average through much of this decade, slowing somewhat between 2018 and 2025. During this time period, employment growth will lag the nation as a whole. The explanations for this are fairly straightforward. First, labor force constraints will limit labor-intensive business expansion. Slower population growth is the most visible sign of this problem, but it is a nuanced concern, involving both the attractiveness of many of the state's regions to workers and the overall human capital levels in the state. Second, the state's most intensive industries are those that continue to experience high levels of productivity growth, thus dampening demand for workers.

THE SHORT-TERM OUTLOOK

In the short run, we expect a decline in personal income in durable goods manufacturing, retail, transportation, information and finance, insurance, and real estate sectors. We expect growth in mining and utilities, construction, health care, and non-durable goods manufacturing. Overall we expect personal income growth of 2.4 percent next year, followed by growth of 2.1 percent in 2014. Unemployment in the state will remain sticky, with an average annual rate of 7.8 percent and a lower rate of 7.2 percent in 2014. However, the same cautionary tales regarding Europe, BRIC nations, and the fiscal cliff apply.

Indiana is a significant exporter of goods to the European Union, with more than 2 percent of GDP destined for Europe. Their recession will reduce demand for these goods and demand for employment in these firms. The slow growth in China and India add to lower demand for our goods.

Indiana is susceptible to major shocks with both spending cuts and tax increases. Domestic and defense spending cuts will likely affect services for the poor and public infrastructure grant programs. Likewise, defense spending may well impact the state, with the potential for significant cutbacks at U.S. Navy and joint training centers in southern and southwestern Indiana. Also, cessation of planned acquisition of aircraft, ground weapons systems, and electronics may also impact civilian employment in many businesses within the state.

The Indiana economy in 2013 will, at best, look much like it does today, with roughly 8 percent of Hoosiers unemployed and little or no prospects for rapid economic growth.

TABLE 1. STATE SHORT-RUN FORECAST

Industry	2013	2014
Mining	5.5%	5.9%
Construction	4.5%	5.1%
Durable goods manufacturing	-4.4%	-5.0%
Non durable goods manufacturing	2.5%	2.4%
Retail	-0.5%	-1.0%
Utilities	4.5%	4.7%
Wholesale	1.1%	0.9%
Transportation	-1.5%	-2.9%
Health care	4.7%	4.7%
Information services	-0.8%	-1.3%
Finance, insurance, and real estate	-1.3%	-2.1%
Total personal income	2.4%	2.1%
Unemployment rate	7.8%	7.2%

Source: Bureau of Economic Analysis and author's calculations

TABLE 3. STATE BASELINE GROWTH RATES, LONG-RUN

	2013–2018	2019–2025
Total employment	0.75%	0.69%
GDP	3.14%	2.13%
Personal income	5.03%	5.37%
Population	0.50%	0.63%
Per capita income	4.43%	4.57%

Source: Bureau of Economic Analysis and author's calculations

TABLE 2. STATE LONG-RUN FORECAST WITHOUT AND WITH A FISCAL CLIFF, IN 2011-CONSTANT DOLLARS

	Total Employment		Gross Domestic Product		Personal Income		Population		Per Capita Income	
		with Fiscal Cliff		*with Fiscal Cliff*		*with Fiscal Cliff*		*with Fiscal Cliff*		*with Fiscal Cliff*
2013	$3,670,207	$3,630,207	$221,080	$218,206	$223,380	$219,582	6,589,057	6,589,057	$33,325	$29,491
2014	3,714,692	3,674,692	229,147	226,168	236,091	232,078	6,631,698	6,631,698	34,995	30,969
2015	3,750,196	3,710,196	237,560	234,472	249,513	245,272	6,672,865	6,672,865	36,757	32,528
2016	3,782,248	3,742,248	246,505	243,301	264,105	259,616	6,712,930	6,712,930	38,674	34,225
2017	3,807,524	3,767,524	255,836	252,510	279,604	274,850	6,752,154	6,752,154	40,706	36,023
2018	3,821,622	3,821,622	265,779	262,324	296,174	291,139	6,791,454	6,791,454	43,043	38,091
2019	3,847,075	3,847,075	273,284	273,284	312,119	312,119	6,832,043	6,832,043	45,685	40,429
2020	3,872,983	3,872,983	278,858	278,858	326,699	326,699	6,873,607	6,873,607	47,530	42,062
2021	3,899,722	3,899,722	284,547	284,547	342,100	342,100	6,915,617	6,915,617	49,468	43,777
2022	3,925,459	3,925,459	290,212	290,212	358,546	358,546	6,958,332	6,958,332	51,528	45,600
2023	3,952,864	3,952,864	296,119	296,119	375,864	375,864	7,002,111	7,002,111	53,679	47,503
2024	3,979,827	3,979,827	302,096	302,096	393,870	393,870	7,046,563	7,046,563	55,895	49,465
2025	4,005,658	4,005,658	308,153	308,153	412,769	412,769	7,092,026	7,092,026	58,202	51,506

Source: Bureau of Economic Analysis and author's calculations

EAST CENTRAL INDIANA

The forecast for east central Indiana (see map) through 2025 reflects a continuation of the trend of slow population and personal income growth. While the region as a whole will grow through 2025, virtually all the economic activity will occur in the county most proximal to the Indianapolis metropolitan area (Madison). The remaining east central Indiana counties will continue to experience population declines throughout the forecast horizon, with nearly uniformly accelerating population declines in the latter half of the forecast horizon.

Overall economic conditions continue to stagnate, following steep employment declines in the early 2000s. However, a secular trend towards smaller populations, smaller businesses, and reduced levels of high value-added production has gripped the region for more than a generation. Economic transition throughout most of the region has been elusive. While some areas (e.g. Jay County) have continued to see relatively stable levels of manufacturing employment, and others (e.g. Delaware County) have seen important new job announcements in manufacturing, the region as a whole has not adapted to the structural changes facing it. Even communities that are expected to see population growth through the forecast period face infrastructure constraints on new residential development.

Despite relatively robust state level economic performance through this business cycle, the region's level of unemployment remains a drag on local conditions, and overall supply concerns regarding available human capital remain among the greatest impediments to economic growth in east central Indiana.

Please see the next page for figures 2 and 3.

FIGURE 1. MAP OF INDIANA'S EAST CENTRAL REGION

Source: U.S. Geological Survey and CBER Publications

TABLE 4. PERSONAL INCOME AVERAGE ANNUAL GROWTH RATE

County	2013–2018	2019–2025
Blackford	0.27%	1.24%
Delaware	0.65%	1.63%
Grant	0.05%	1.01%
Henry	1.10%	1.30%
Jay	3.40%	4.73%
Madison	1.00%	2.01%
Randolph	0.66%	1.67%
Wayne	-2.05%	-1.31%
East Central Region	*1.08%*	*1.74%*

Source: Bureau of Economic Analysis and author's calculations

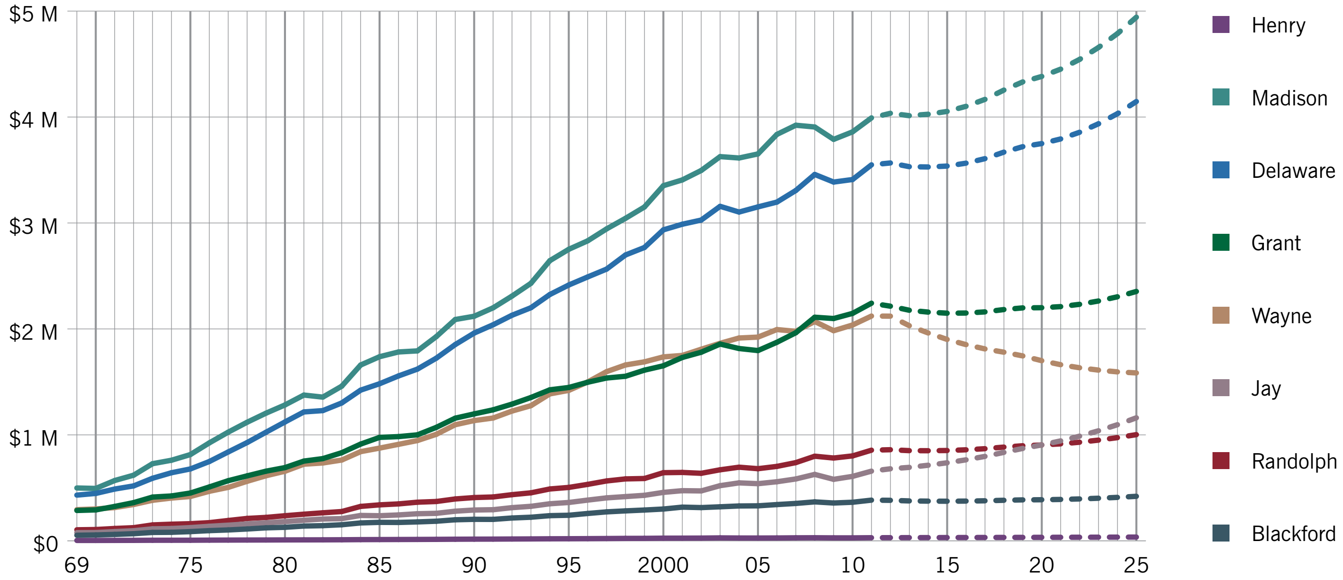
TABLE 5. POPULATION AVERAGE ANNUAL GROWTH RATE

County	2013–2018	2019–2025
Blackford	-0.59%	-0.61%
Delaware	-0.30%	-0.31%
Grant	-0.44%	-0.45%
Henry	-0.23%	-0.23%
Jay	-0.29%	-0.30%
Madison	0.54%	0.67%
Randolph	-0.37%	-0.39%
Wayne	-0.33%	-0.35%
East Central Region	*-0.10%*	*-0.07%*

Source: Bureau of Economic Analysis and author's calculations

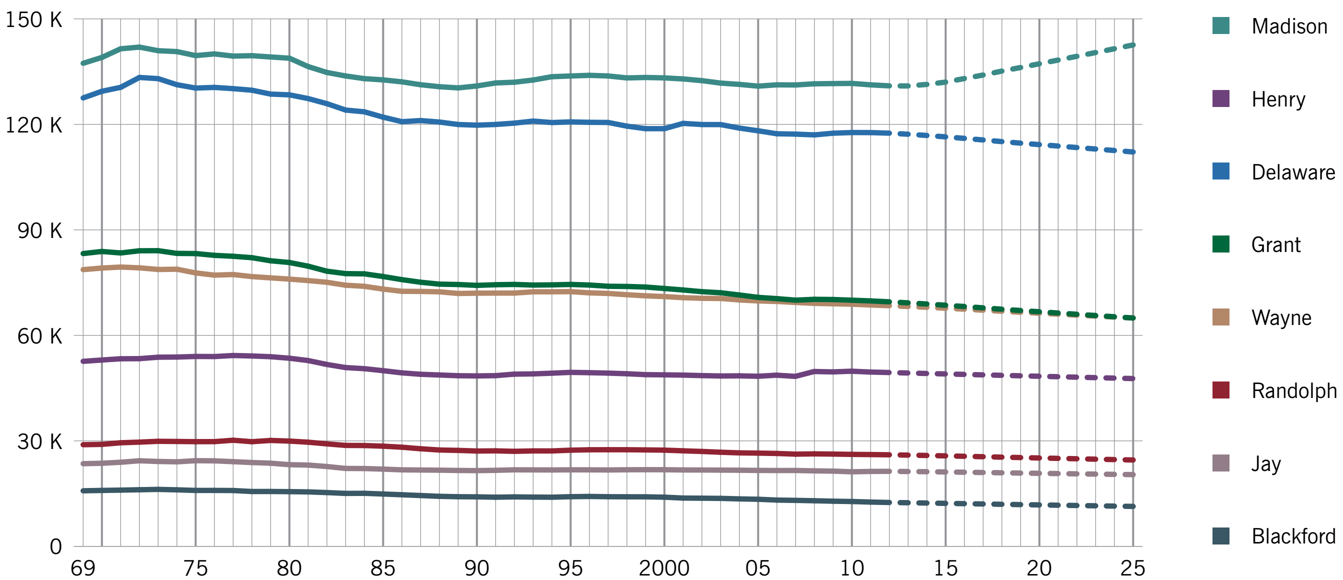
While some areas have continued to see relatively stable levels of manufacturing employment, and others have seen important new job announcements in manufacturing, ***the region as a whole has not adapted to the structural changes facing it.***

FIGURE 2. COUNTY PERSONAL INCOME, 1969–2025, IN 2011-CONSTANT DOLLARS



Source: Bureau of Economic Analysis and author's calculations

FIGURE 3. COUNTY POPULATION, 1969–2025



Source: Bureau of Economic Analysis and author's calculations

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