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Market Intelligence

Economics and Country Risk

Indiana Economic Forecast Update

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Consumer spending, payroll gains contribute to recent US economic growth

- Stronger than expected economic performance at the end of 2022 into early 2023 prompted S&P Global Market Intelligence to moderately revise up our forecast of most major US economic indicators for 2023.
  - Higher growth rates from 2022Q3 through 2023Q2 raise level of real GDP by a cumulative 1.5%.
  - Robust payroll gains have a similar impact on overall payrolls, now 1.6% higher by 2023Q2.
- Resilient consumer spending has been the overriding feature of recent strength of the economy. Inflation did not curb demand by as much as expected in late 2022 and early 2023.
- Payroll gains have been supported by gains in the labor force participation rate; in fact, the participation rate for the 16-to-64 year age group is now higher than in early 2020. Overall participation remains lower due to losses from the 65+ age group.
  - Several factors at work here, including rising immigration, improving access to day care, the expiration of pandemic-era support, economic need due to inflation, or improvements in job matching.
- Home sales also recovered, especially in February, as homebuyers come off the sidelines.
  - Some areas are experiencing significant home price declines, but those are mostly in portions the West and South that saw extreme price gains in 2020 and 2021.
  - The Midwest is faring better, although price gains have subsided.

Stronger-for-longer in the short run adds risk of lower growth in 2024 and 2025

- The main narrative underlying our base forecast remains unchanged. Inflation is intolerably high and unemployment unsustainably low. It will require a period of below-trend growth and an increase in the unemployment rate (to 4.6% in 2025) to reduce inflation to the Fed's 2% objective by then. The tightening of bank lending standards (due to the collapse of Silicon Valley Bank) will partially substitute for future hikes in the Fed's policy rate, which we now see peaking at 5¼% in May, rather than at 5½% in June.
- An economy that remains stronger for longer than previously anticipated risks leaving inflation uncomfortably and persistently above the Fed's 2% objective. Now, with the full extent of fallout from SVB as of yet unknown, and given some concern that commercial real estate will suffer, we see risk to our base forecast for near-term GDP growth shifting more heavily towards the downside.
- Our forecast for national GDP growth for fiscal 2024 and 2025 is now modestly lower than in our December 2022 forecast, but not by enough to offset the higher starting point.

US economic growth by sector

Percent change

	2021	2022	2023	2024	2025
Real GDP	5.9	2.1	1.4	1.5	1.9
Final sales	5.7	1.3	2.0	1.4	1.8
Consumption	8.3	2.7	1.9	1.2	1.8
Light vehicle sales (millions)	14.9	13.8	15.0	15.7	16.2
Residential fixed investment	10.7	-10.6	-13.3	2.3	5.5
Housing starts (millions)	1.61	1.55	1.29	1.32	1.41
Business fixed investment	6.4	3.9	1.9	1.2	1.4
Federal government	2.3	-2.5	2.3	0.4	0.5
Exports	6.1	7.1	5.2	4.9	4.7
Imports	14.1	8.1	-0.2	2.5	3.4

Data compiled April 2023.
Source: S&P Global Market Intelligence.

Indiana outlook mostly unchanged

- Changes to Indiana’s economic outlook follow a similar pattern to the US.
  - Indiana payroll employment for 2022Q3 was revised higher by BLS, and the outlook for 2023 growth has improved.
  - Wage disbursements were also revised higher, boosted by very high wage growth in 2022Q3.
  - Real gross state product slightly lower than earlier expected in second half of 2022, but will be the same to slightly higher over the next couple of years.
- Auto manufacturers continue to work to rebuild inventories after two-plus years of supply chain disruption.
  - Automakers starting to get caught up, so this will be less of a driver of growth over the next couple of years.
- Homebuilding in 2021 and 2022 ramped up to the highest levels since prior to 2008, but activity is slowing.
  - Sharp increase in mortgage interest rates during 2022 added to existing affordability issues.
  - Construction material costs remain elevated, while cost of labor has increased considerably.
- Indiana home prices will decline moderately in the latter part of 2023.
  - Price declines will not offset the double-digit gains of the past three years.
- The state is slated to add big industry projects over the next few years, notably in electric vehicle batteries and drivetrain components along with semiconductors.

Key economic indicators for Indiana

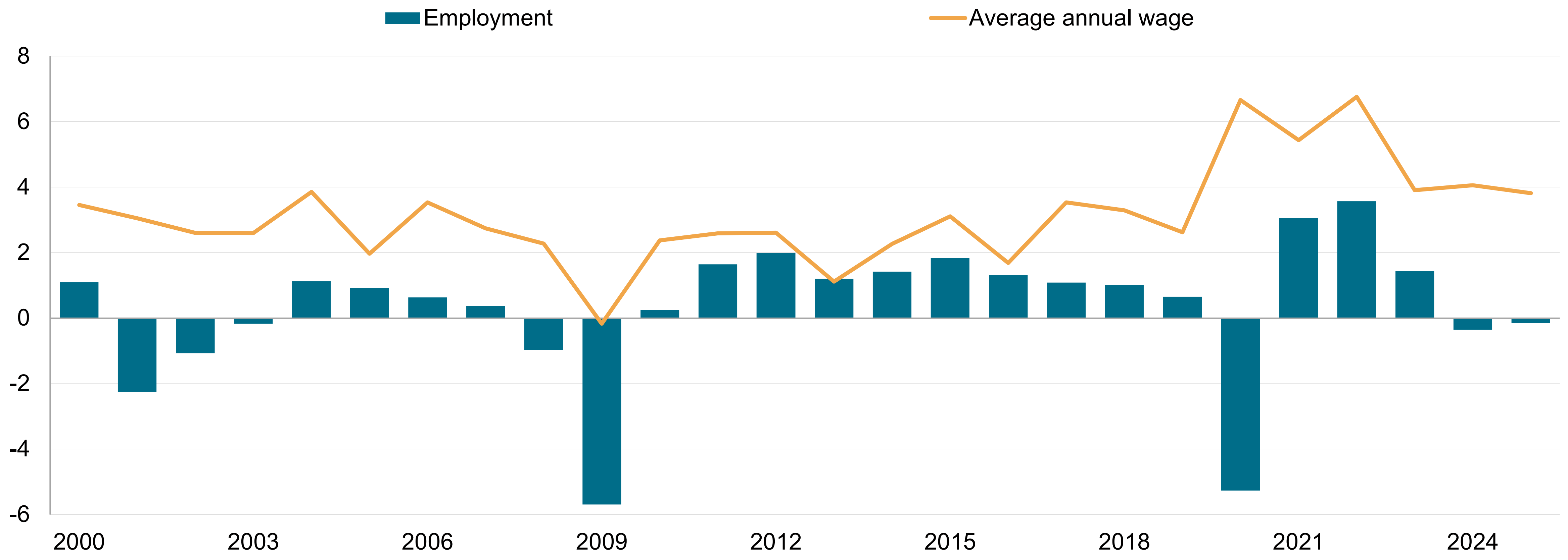
Percent change, calendar year basis

	2021	2022	2023	2024	2025
Payroll employment	3.0	3.6	1.4	-0.4	-0.1
Unemployment rate (%)	3.9	3.0	3.3	3.9	4.2
Wage income	8.7	10.5	5.4	3.7	3.7
Personal income	8.5	2.9	3.4	4.1	4.1
Real gross state product	5.8	1.9	0.3	1.2	1.6
Personal consumption exp.	12.4	10.7	4.2	3.2	3.5
Housing starts (thousands)	28.7	29.0	22.4	23.8	24.7

Data compiled April 2023.
Source: S&P Global Market Intelligence.

Job and wage gains will slow in 2023, but remain elevated

Indiana annual employment and wage growth, % change



Data compiled April 2023.
Source: S&P Global Market Intelligence, BLS.

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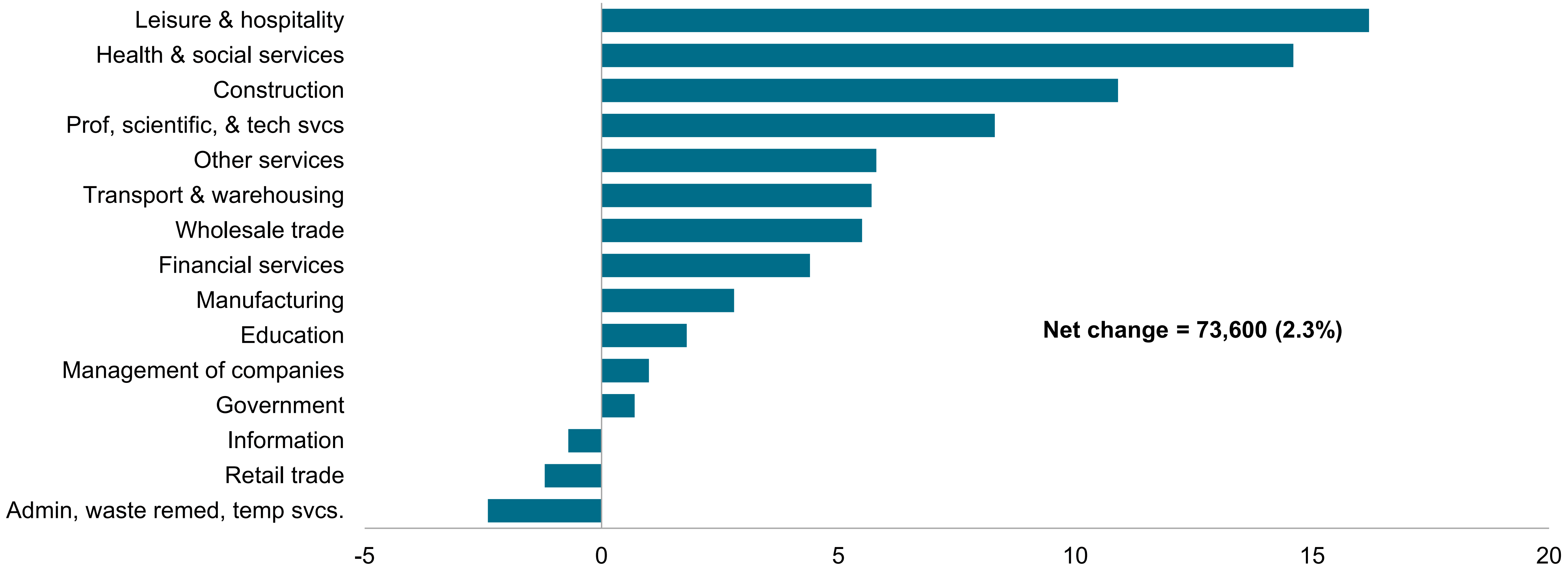
Ongoing job recovery in pandemic-affected sectors leads the way in job gains

Change in Indiana payroll employment, thousands, Feb 2022 - Feb 2023



Data compiled April 2023.

Source: S&P Global Market Intelligence, BLS.

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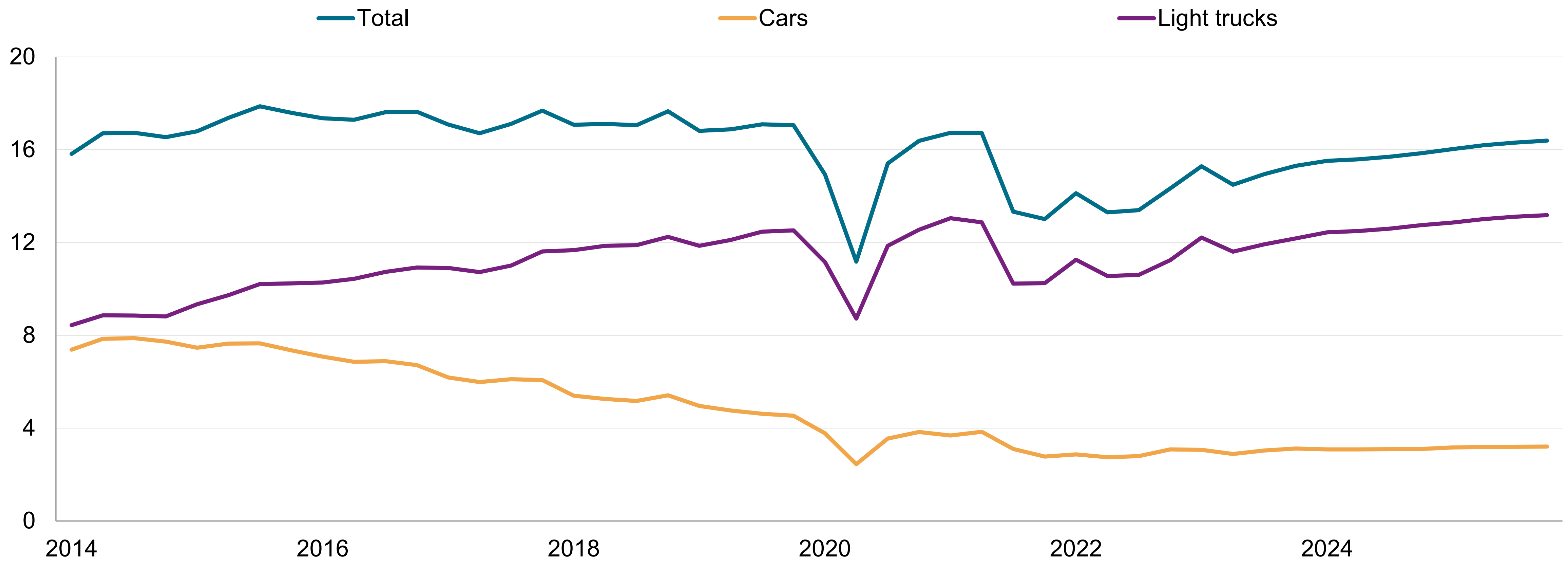
Auto industry still recovering from production shortfall; pent-up demand will support sales even in face of recession

Total light-vehicle sales



Data compiled April 2023.
Source: S&P Global Market Intelligence.

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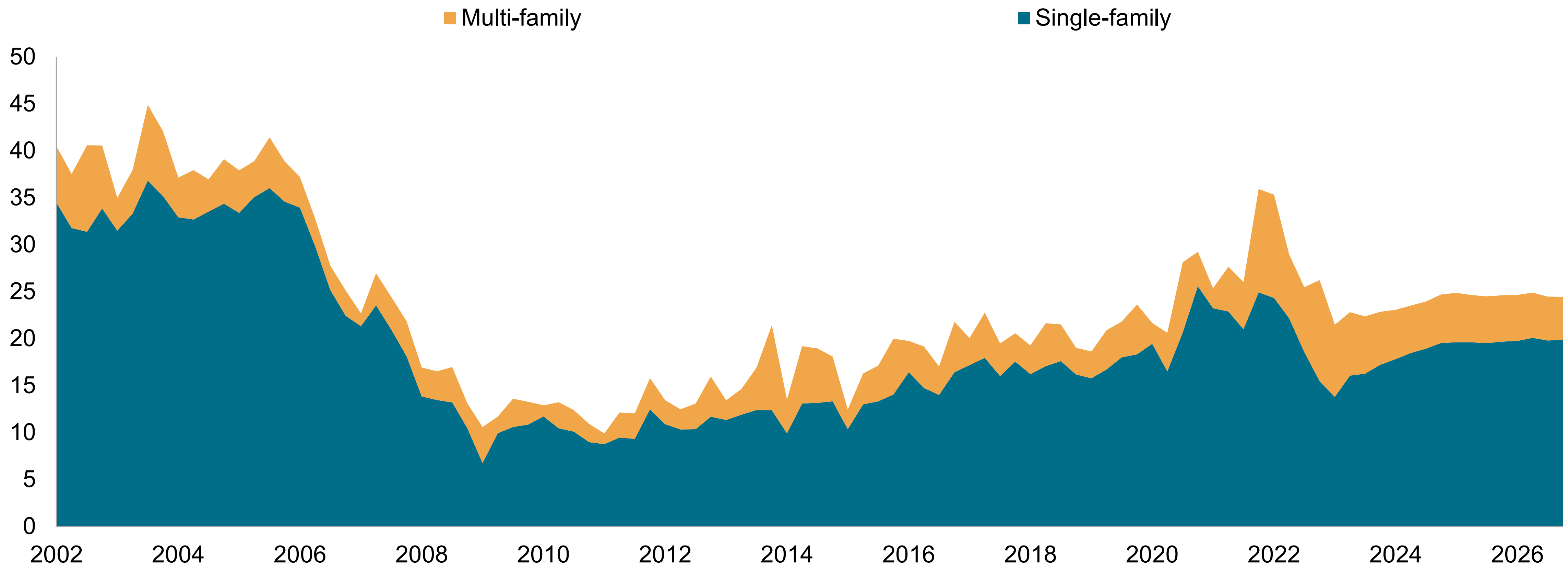
Homebuilding had finally recovered to nearly pre-2006 levels, but higher interest rates and inflation are causing a pullback

Indiana housing starts, thousands



Data compiled April 2023.
Source: S&P Global Market Intelligence..

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Bottom line for Indiana

- The state economy remains on solid footing, despite broader macro concerns
  - Inflation has raised costs on households and businesses, reducing gains from higher wages and revenues.
  - Labor force participation has mostly recovered, reducing potential for further gains.
  - The state's research and development resources are generating and attracting cutting-edge industry opportunities.
- The outlook for manufacturing output and employment remains solid, even with a potential recession.
  - Recreational vehicle shipments have slowed from the torrid pace of 2021 and 2022 (especially in trailers).
- The pace of homebuilding will slow in 2023, but persistent high home prices will provide support.
  - Supply of homes still generally well below potential demand, especially from younger age groups.
  - Indiana should avoid a sharp decline in home prices, partly because price gains over the past few years were below the levels seen in the hottest markets (some of which now face the sharpest declines).
- Risks to the state's economy mirror issues at the national level.
  - On the downside, persistent inflation, banking issues, global turmoil could pull down growth by more than expected.
  - On the upside, consumer spending could remain robust, boosting manufactured goods, travel and tourism, etc.
- Longer-term issues remain the same – labor force must continue to grow in size and skill level to allow existing business to expand and to attract new business.

Evolution of short-term Indiana forecast

Percent change, calendar year basis

	U.S. Real GDP			Indiana employment			Indiana personal income		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Apr 2021	4.3	2.2	2.3	2.0	0.6	0.5	-0.4	3.5	4.3
Dec 2021	4.3	2.6	2.5	3.1	1.5	0.7	0.4	4.7	4.8
Apr 2022	3.0	2.8	2.7	3.2	1.3	0.3	1.1	5.2	5.2
Dec 2022	1.9	0.3	1.8	3.1	0.4	-0.7	2.4	3.5	4.0
Apr 2023	2.1	1.4	1.5	3.6	1.4	-0.4	2.9	3.4	4.1

Data compiled April 2023.
Source: S&P Global Market Intelligence.

Other key US economic indicators

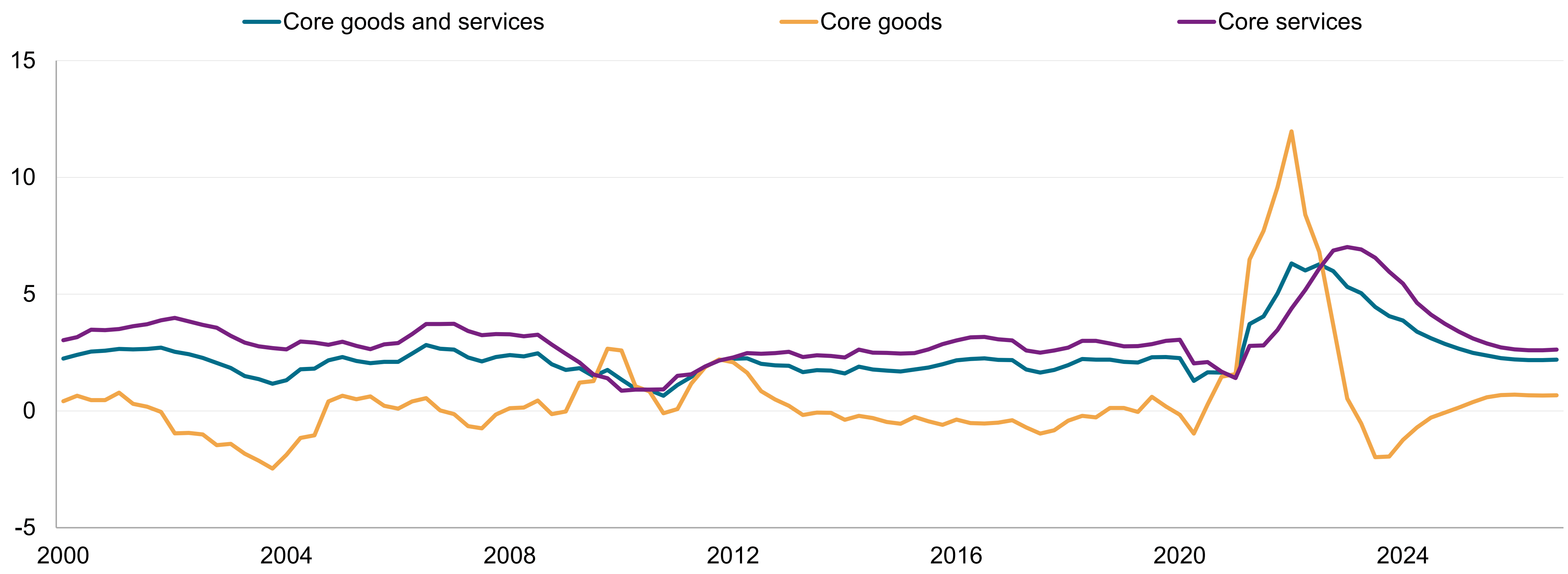
Percent change

	2021	2022	2023	2024	2025
Industrial production	4.9	3.4	-0.7	0.3	1.3
Payroll employment	2.8	4.3	2.0	0.0	0.1
Civilian unemployment rate (%)	5.4	3.6	3.8	4.4	4.6
Consumer Price Index	4.7	8.0	4.5	2.7	2.2
Core CPI	3.6	6.1	4.7	3.3	2.4
Brent crude oil price ($/barrel)	70.7	100.7	87.3	84.7	86.5
Federal funds rate (%)	0.1	1.7	4.9	4.4	3.0
10-year Treasury yield (%)	1.4	3.0	3.7	3.6	3.3
CoreLogic house price index	15.3	15.6	0.8	-1.1	0.1

Data compiled April 2023.
Source: S&P Global Market Intelligence.

Look for goods and services inflation to reverse as imbalances resolve

US consumer price indices excluding food and energy, percent change y/y



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Thank you

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