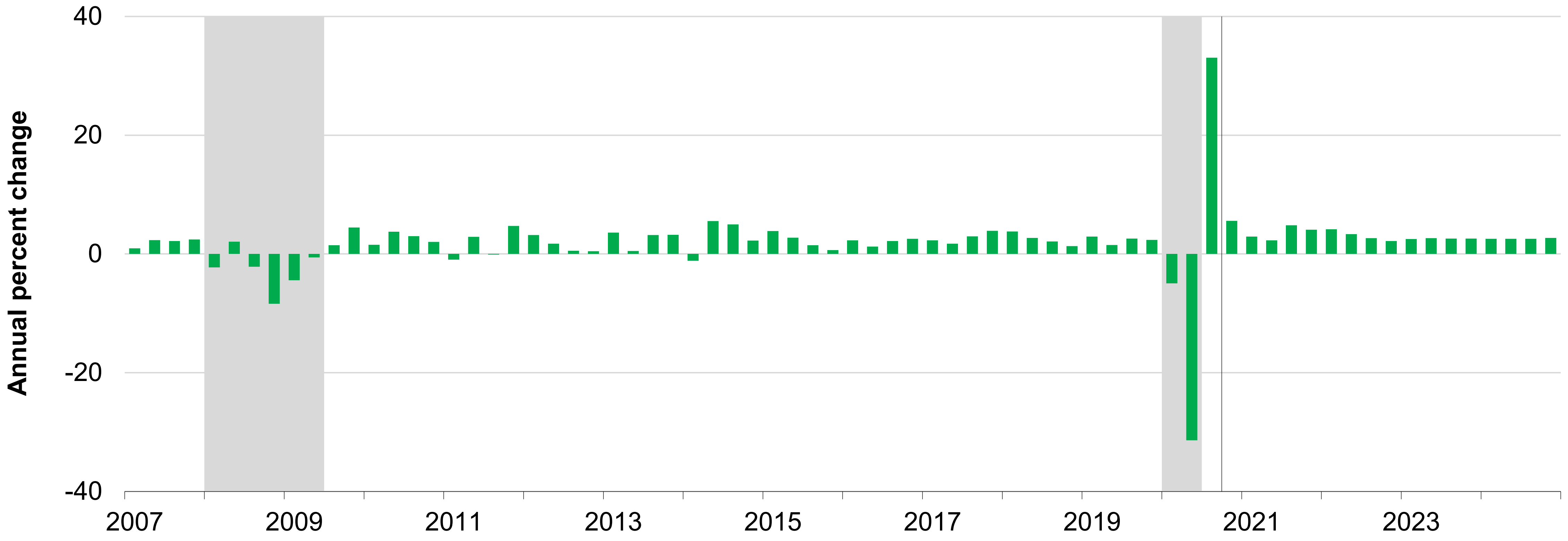
# Indiana Economic Forecast Update

December 16, 2020

Tom Jackson, Principal Economist

# Economic impact of recent downturn dwarfs that of “Great Recession” of 2008; reduced virus spread should allow much quicker recovery

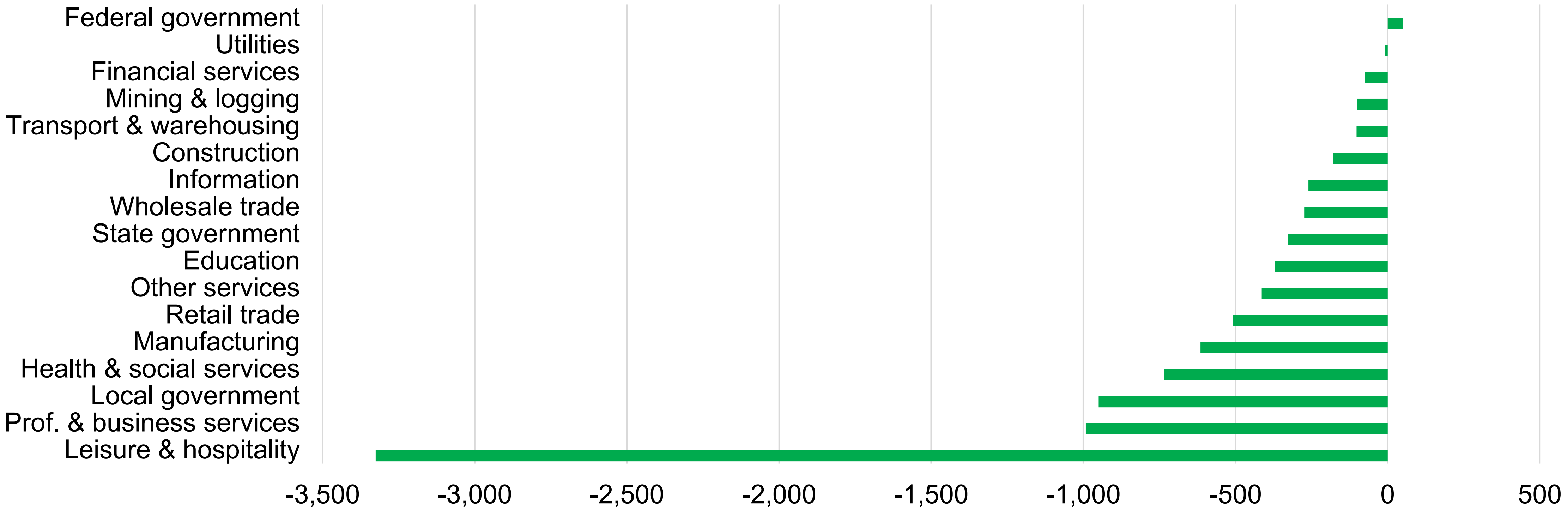
## Real GDP growth




Source: IHS Markit

# Leisure & hospitality remains by far the hardest-hit sector

## Twelve-month change in U.S. payroll employment, thousands (November 2020)




Source: IHS Markit

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# Assumed stimulus and better-than-expected news on vaccines result in upward revisions to GDP forecast

- Real GDP grew 33.1% in the third quarter according to BEA's second estimate, which was unrevised from the advance estimate. It was easily the sharpest rise on record but one that left GDP still 3.5% below the previous peak.
- We have revised up our projection for real GDP growth in 2021 from 3.1% to 4.3%, reflecting three developments:
  1. Recent data led us to revise upward our estimate of fourth-quarter GDP growth from 3.7% to 5.6%, raising the level of GDP 0.35% heading into the new year.
  2. News on the efficacy of COVID-19 vaccines has been surprisingly good, and we now expect much of the population to be inoculated by the summer of 2021, pushing real GDP growth to 4.5% in the second half.
  3. At the time of our December forecast, stimulus negotiations looked promising enough that we included in the forecast an assumed extension of the PUA and PEUC unemployment benefit programs as well as enhanced unemployment payments of $300/month for five months.
- With projected growth of 3.6% in 2022, GDP crosses its previous peak in the third quarter of 2021 and the economy regains full employment in mid-2023, both earlier than in last month's forecast.

# Policy assumptions in the December forecast

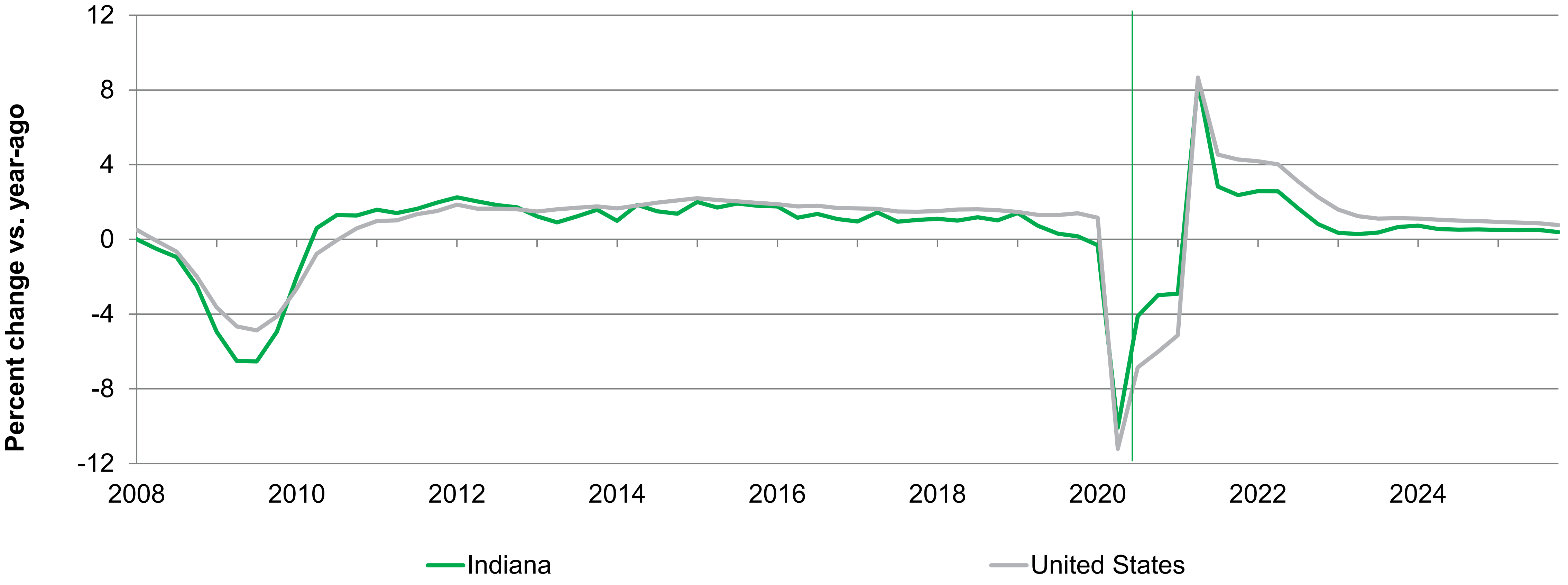
- This month, extension of certain unemployment programs and enhanced unemployment benefits are included in the forecast. Specifically, we assume that the PUA and PEUC unemployment programs are extended through April, followed by a 2-month phase out, and an enhanced unemployment benefit of $300/week is instated from January through May.
- The short-term spending bill that funds federal agencies through mid-December is extended as necessary to prevent a government shutdown. In addition, the debt ceiling is suspended again in March.
- State and local governments restrain spending heading into their new fiscal years.
- The Fed maintains the federal funds rate near 0% until late 2026 when the economy is again beyond full employment. The Fed encourages inflation above 2%, which in the forecast happens in 2026. The Fed expands its holding of term Treasuries by nearly $2 trillion.

# Indiana economy began its rebound from pandemic lows relative quickly, but full recovery will take more time

- Indiana had a relatively modest initial COVID-19 outbreak, which allowed it to reopen ahead of its neighbors.
  - Resurgence in caseload raises risks for another pullback, with or without “lockdowns”.
- The state’s industry structure was an advantage, as services have borne the brunt of this downturn.
  - Manufacturers reopened after a two-month break.
  - Travel and tourism accounts for a relatively low share of state economy.
  - Indiana’s jobs in leisure and hospitality, lower-wage professional services came back way ahead of national average.
- Gains will slow as businesses catch up with backlog, stimulus fades, and certain industries struggle to reopen.
- State payroll employment will return to pre-pandemic peak by mid-2022, real GDP by early 2021
- Long-term implications for industry structure, productivity gains unclear

# Indiana recovered lost jobs ahead of national average; U.S. gains will pick up as services return

## Indiana employment growth vs. United States



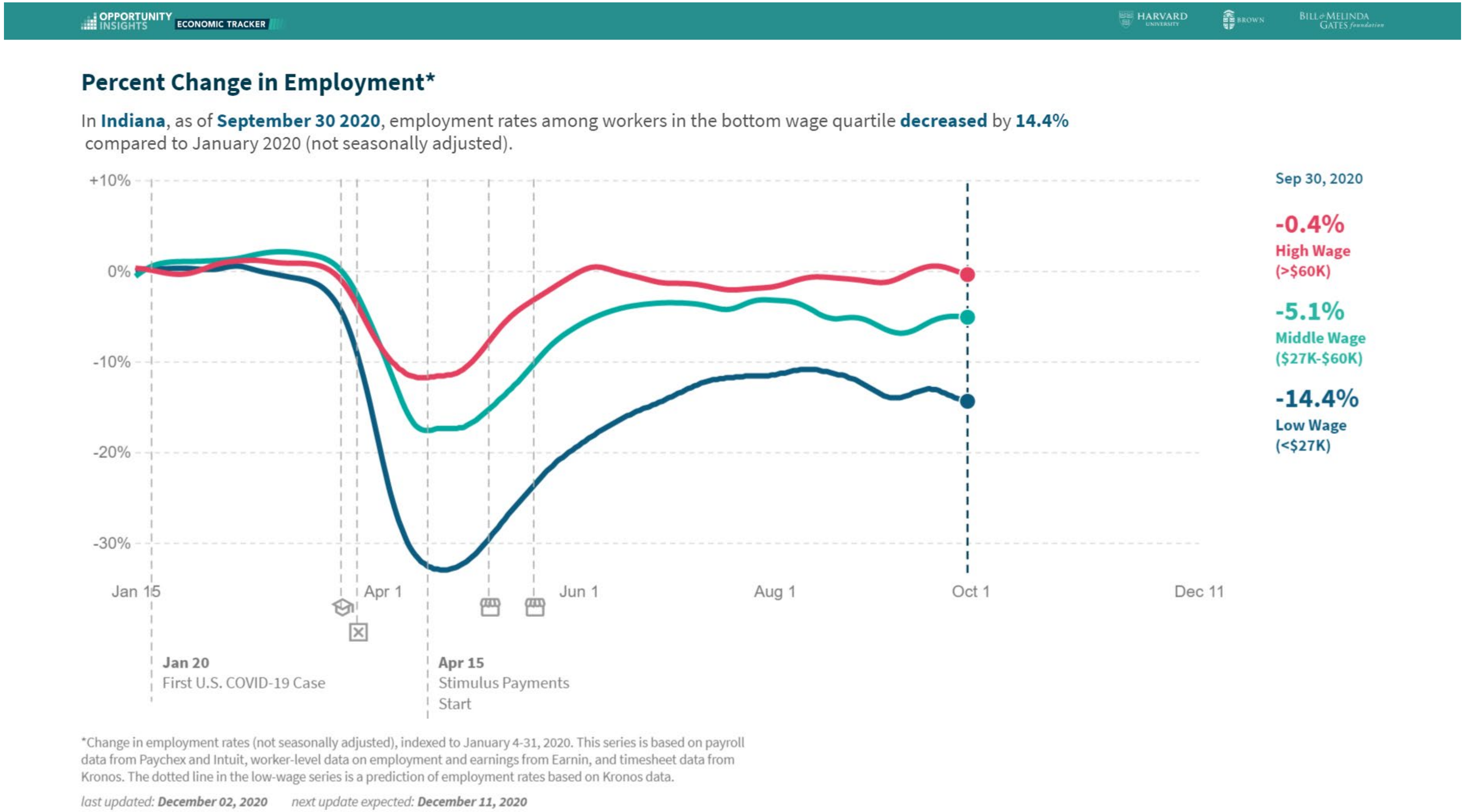

Source: BLS, IHS Markit

# Key economic indicators for Indiana

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| *Units: Percent change* | | | | | |
| Payroll employment | 0.7 | -4.4 | 2.5 | 1.9 | 0.4 |
| Unemployment rate (%) | 3.3 | 7.2 | 5.0 | 4.3 | 4.0 |
| Wage income | 3.3 | -0.3 | 5.8 | 3.0 | 3.3 |
| Personal income | 3.4 | 6.0 | 0.6 | 2.4 | 3.8 |
| Real gross state product | 1.7 | -3.1 | 4.0 | 2.0 | 1.8 |
| Personal consumption exp. | 3.3 | -1.8 | 6.7 | 5.4 | 3.7 |

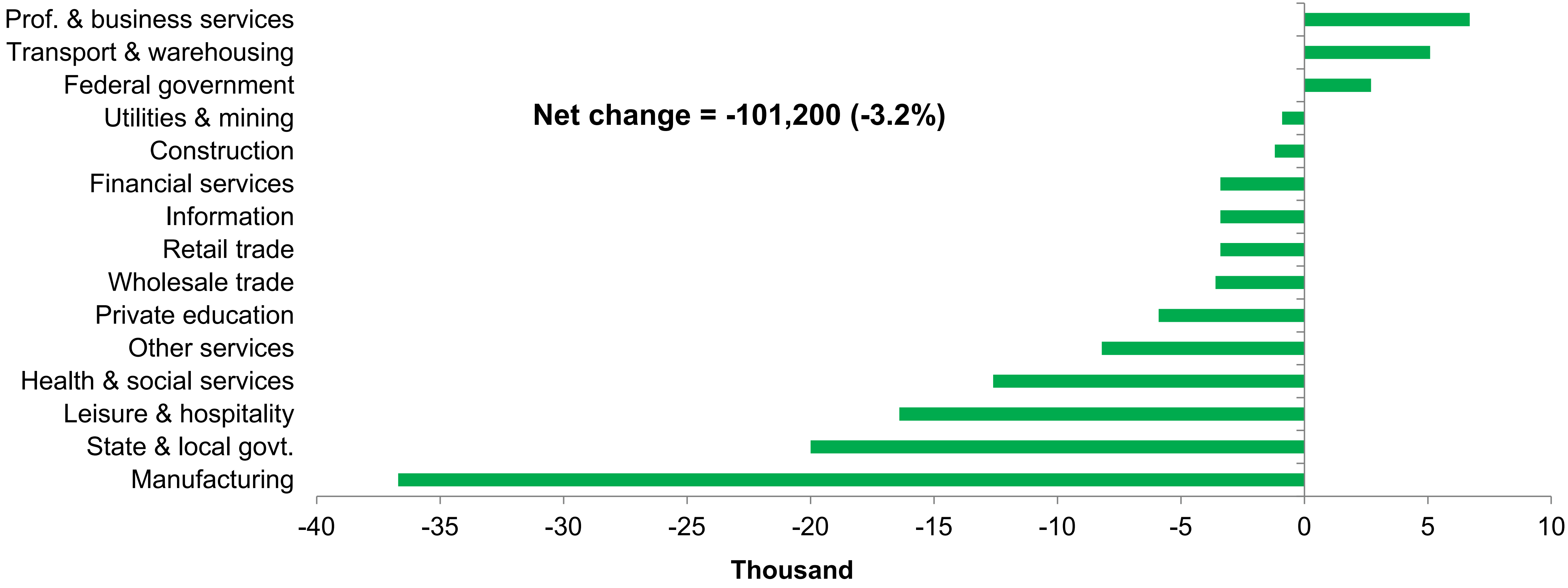
- 2020 personal income was boosted by Federal stimulus/extra unemployment payments
- PCEs held back by limits on ability to access services, reduced leisure spending, wage losses concentrated in lower-income groups
- Unemployment rate held down by decline in official labor force

# High-wage earners have regained pre-downturn employment levels, with low-wage most affected



# Indiana's industry structure aided recovery, as goods-producing sectors returned to work earlier

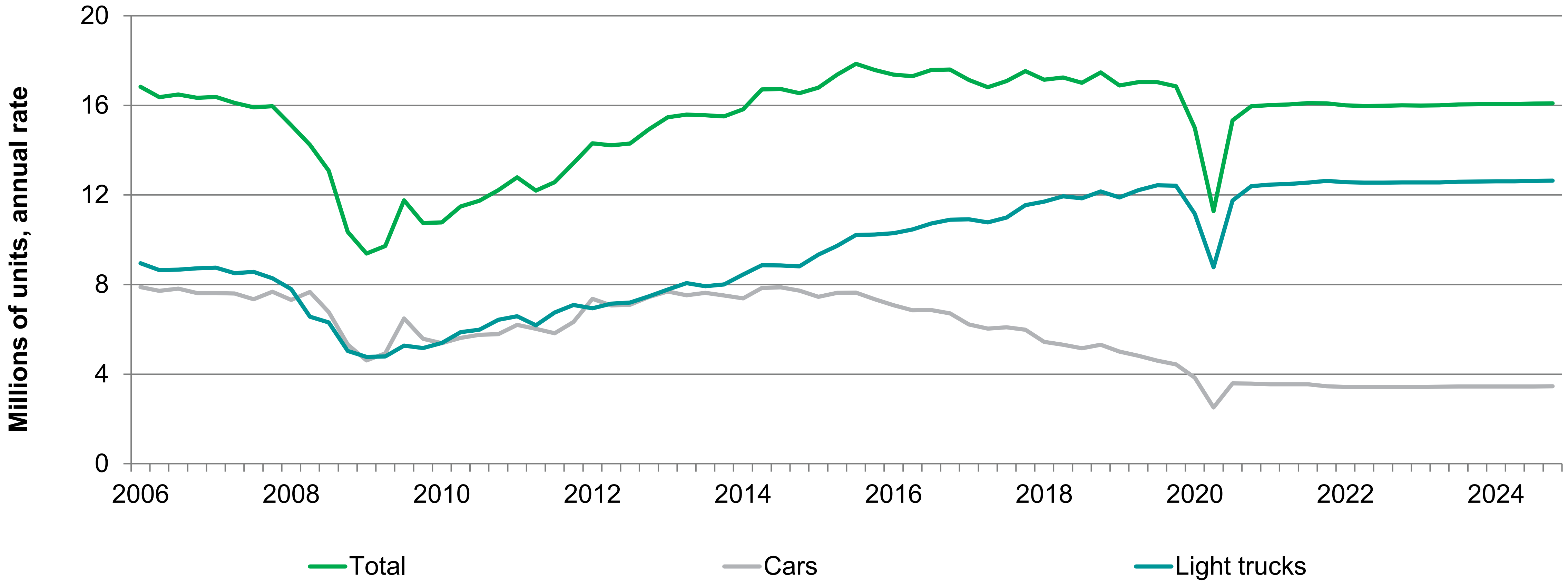
## Change in Indiana payroll employment, Oct 2019 - Oct 2020




Source: IHS Markit

# US light-vehicle sales recovered after severe Q2 downturn; return to pre-pandemic levels not expected, held back by low sales to fleets

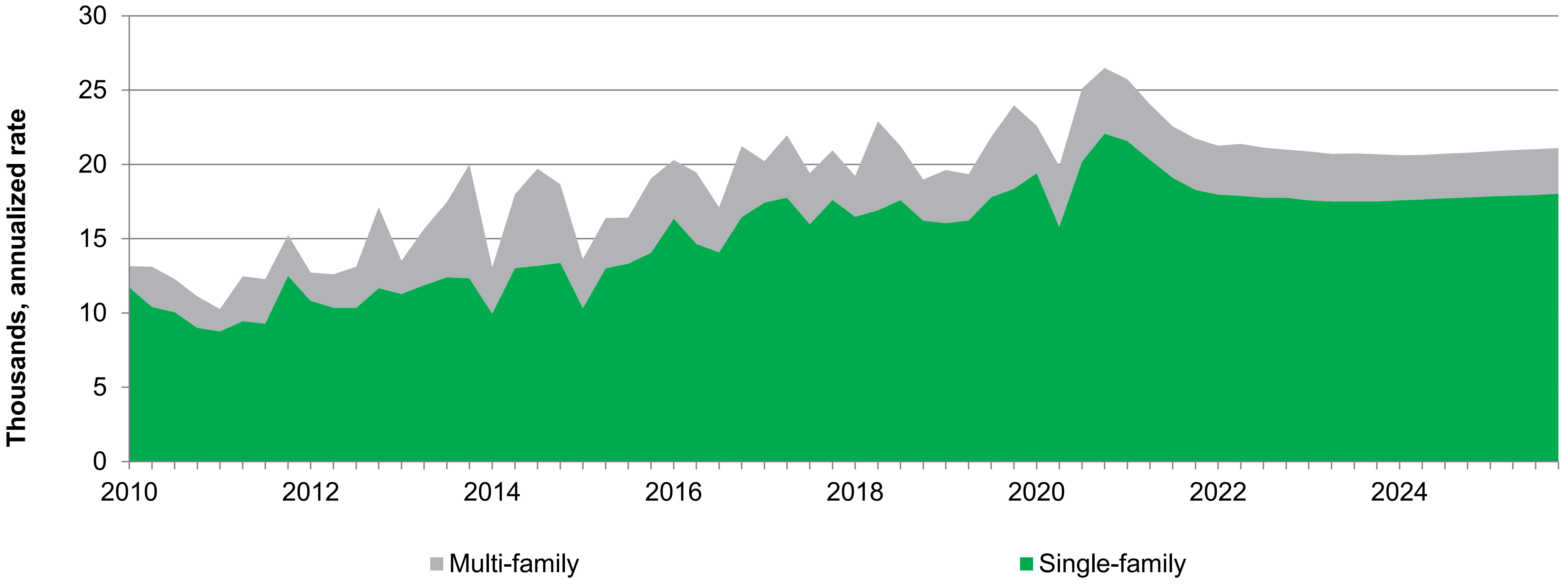
## Light-vehicle sales




Source: IHS Markit

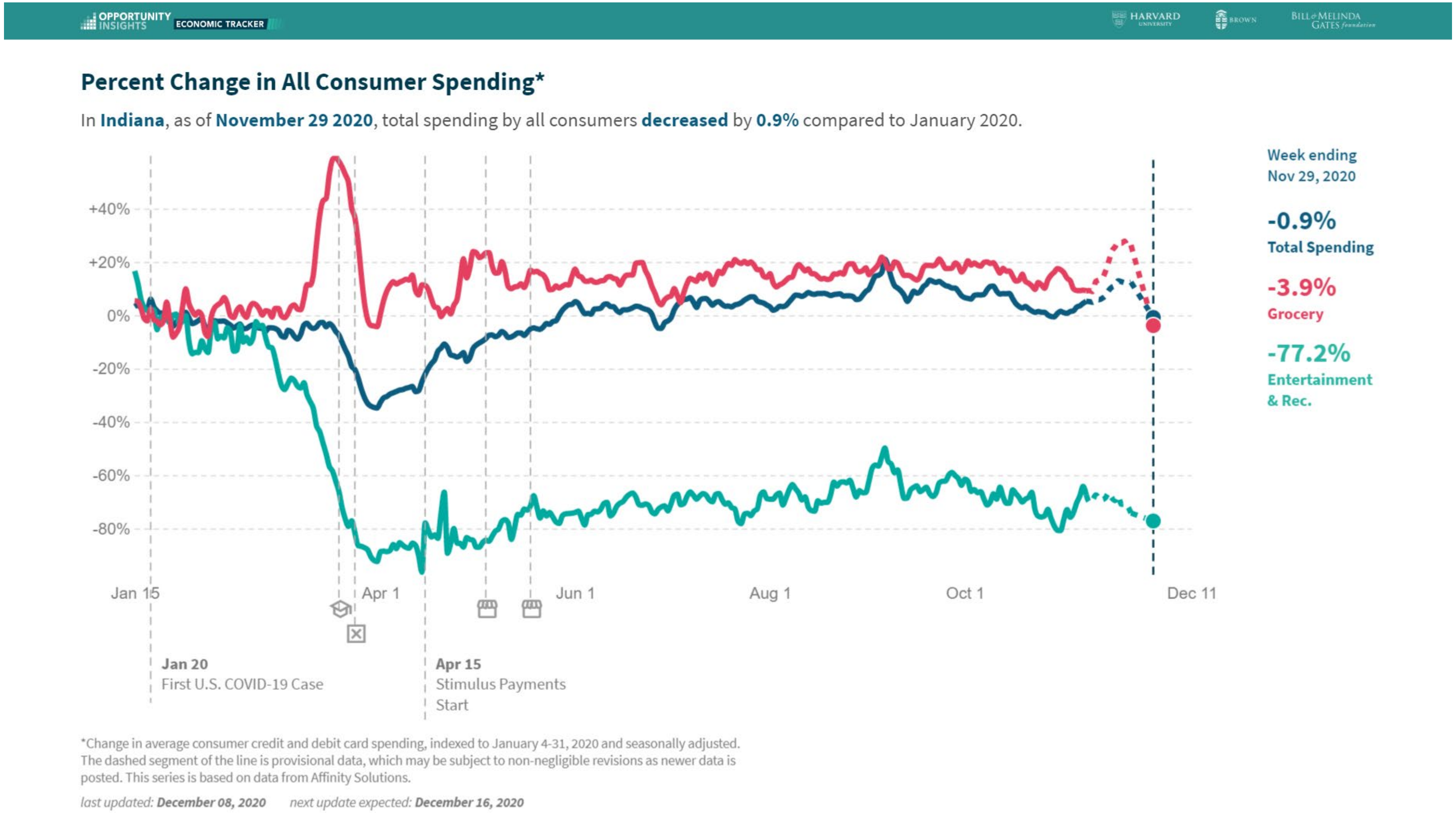
# Housing starts boosted by low mortgage interest rates, families' need for more space, desire for "distancing"

## Indiana housing starts




Source: IHS Markit

# Overall consumer spending in Indiana recovered by June, but results vary dramatically by sector



# Bottom line for Indiana

- The fate of the recovery rests very much on success in reducing virus spread and impact via vaccinations, more effective treatments, other means
  - Return to in-person education is a huge part of this, to improve education outcomes and boost workforce
  - This would also allow return toward normalcy in travel and tourism, leisure and hospitality, other services
  - A return to offices on at least a part-time basis is very important to businesses in downtowns of all sizes
- Manufacturing output and employment will remain supportive, but recent demand gains for durables will be hard to sustain
  - Demand for vehicles, especially light trucks and SUVs, remains solid amid steady fuel prices
  - Reconfigured supply chains could provide opportunity, but too early to tell
- Reckoning with financial fallout from lagging payments for mortgages, rents, credit cards, other debts is another hurdle to avoid lingering economic effects
- Recent burst of homebuilding will moderate by late 2021, but will remain at elevated levels
- Longer-term fundamentals 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

| | U.S. GDP | | Indiana employment | | Indiana income | |
|---|---|---|---|---|---|---|
| **Forecast date** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** |
| Dec 2018 | 2.6 | 2.0 | 1.2 | 0.7 | 4.5 | 4.3 |
| Apr 2019 | 2.3 | 2.1 | 1.4 | 0.4 | 4.2 | 4.1 |
| Dec 2019 | 2.3 | 2.1 | 0.9 | 0.5 | 3.8 | 3.4 |
| Apr 2020 | 2.3 | -5.4 | 0.7 | -5.7 | 3.8 | 1.8 |
| Dec 2020 | 2.2 | -3.4 | 0.7 | -4.4 | 3.4 | 6.0 |

*Units: Percent change*

Source: IHS Markit

# US macro outlook – supplemental information

# US economic growth by sector

| Percent change | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Real GDP | 2.2 | -3.4 | 4.3 | 3.6 |
| Final sales | 2.2 | -2.8 | 3.5 | 3.4 |
| Consumption | 2.4 | -3.7 | 5.2 | 3.8 |
| Light vehicle sales (Millions) | 17.0 | 14.4 | 16.1 | 16.0 |
| Residential fixed investment | -1.7 | 5.7 | 5.6 | -3.5 |
| Housing starts (Millions) | 1.30 | 1.37 | 1.39 | 1.31 |
| Business fixed investment | 2.9 | -4.6 | 4.1 | 5.3 |
| Federal government | 4.0 | 4.1 | 0.1 | -0.4 |
| Exports | -0.1 | -13.1 | 9.4 | 9.3 |
| Imports | 1.1 | -9.9 | 12.5 | 5.4 |

Source: IHS Markit

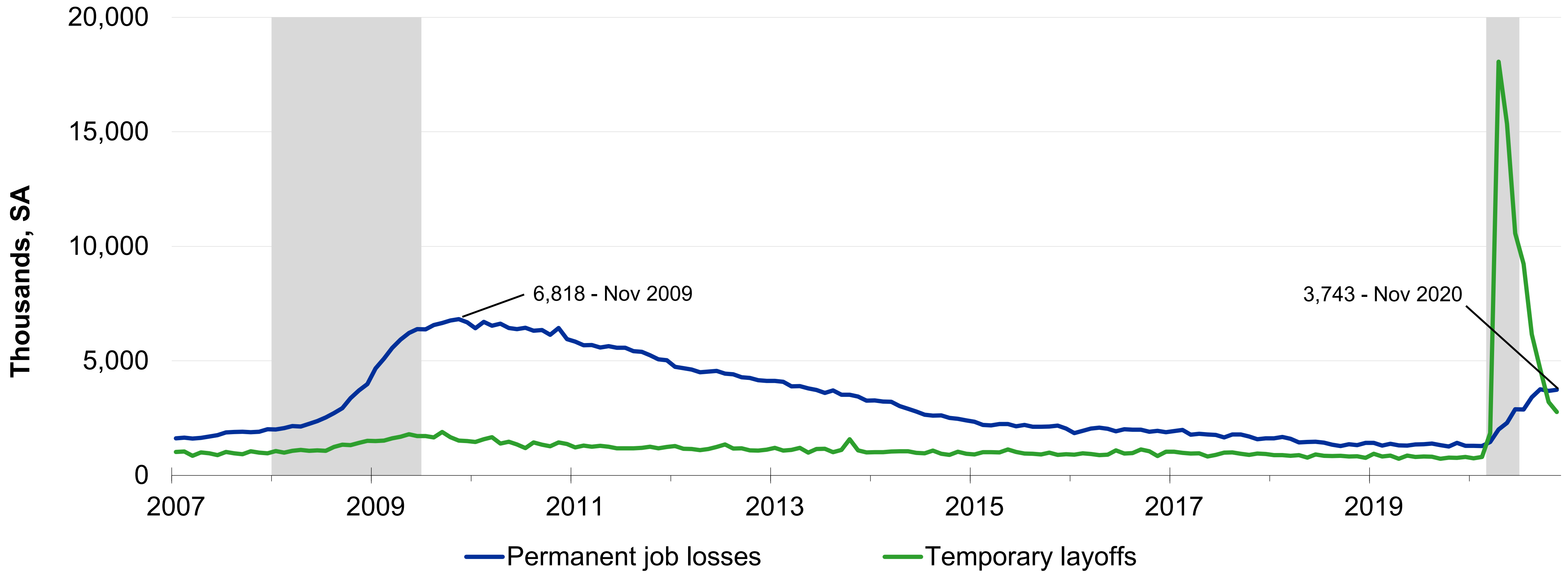
# Other key US indicators

| Key indicators | | | | |
|---|---|---|---|---|
| **Percent change** | **2019** | **2020** | **2021** | **2022** |
| Industrial production | 0.9 | -7.1 | 3.8 | 3.7 |
| Payroll employment | 1.4 | -5.7 | 2.9 | 3.4 |
| Consumer Price Index | 1.8 | 1.2 | 2.1 | 2.5 |
| Core CPI | 2.2 | 1.7 | 1.9 | 2.1 |
| Brent crude oil price (USD/barrel) | 64.3 | 41.1 | 46.8 | 55.9 |
| Federal funds rate (%) | 2.16 | 0.38 | 0.10 | 0.09 |
| 10-year Treasury yield (%) | 2.14 | 0.89 | 1.02 | 1.28 |

Source: IHS Markit

# Permanent job losses are accumulating

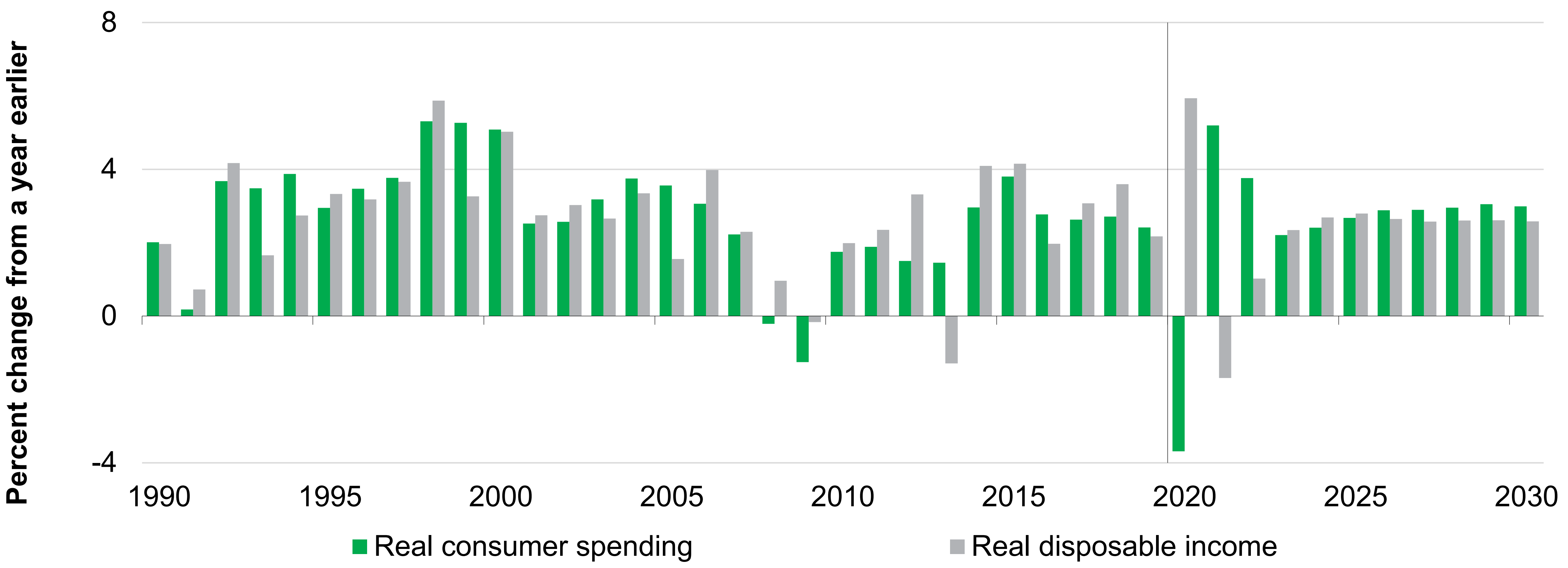
## Temporary layoffs and permanent job losses




Source: IHS Markit

# Government payments supported disposable income this year, will contract in 2021

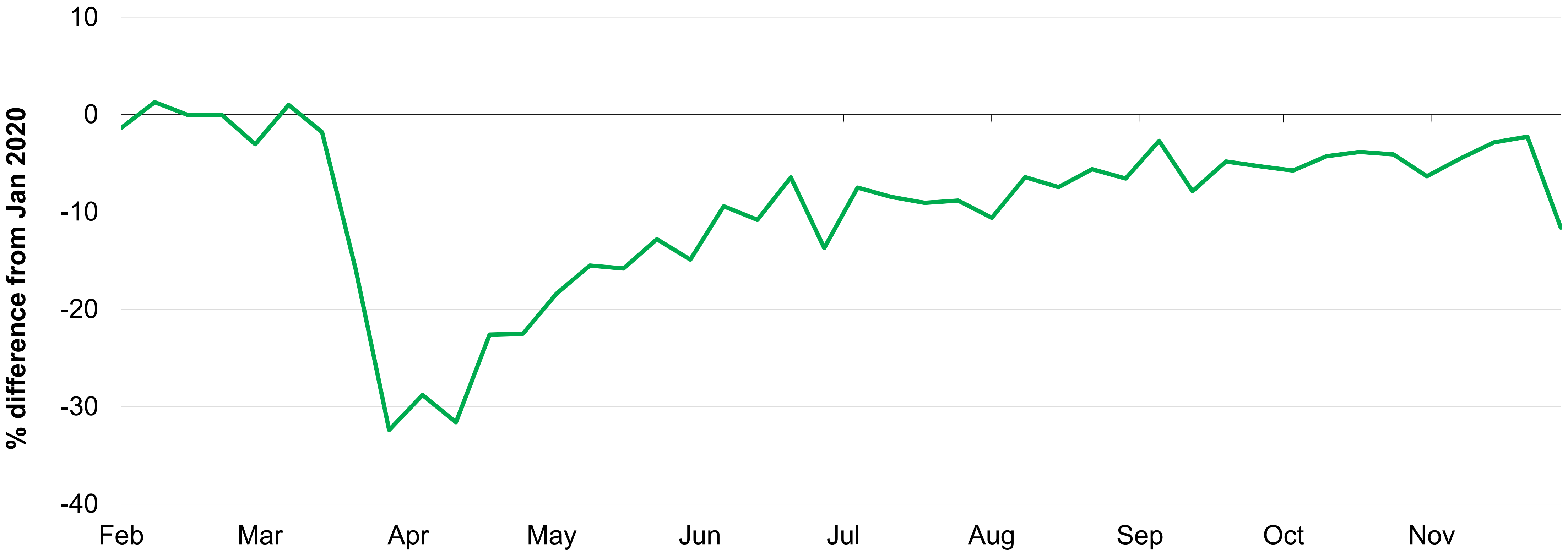
## Real consumer spending and disposable income




Source: IHS Markit

# Consumer spending turns volatile

## Average consumer credit and debit card spending




Source: Opportunity Insight Economic Tracker, Affinity Solutions

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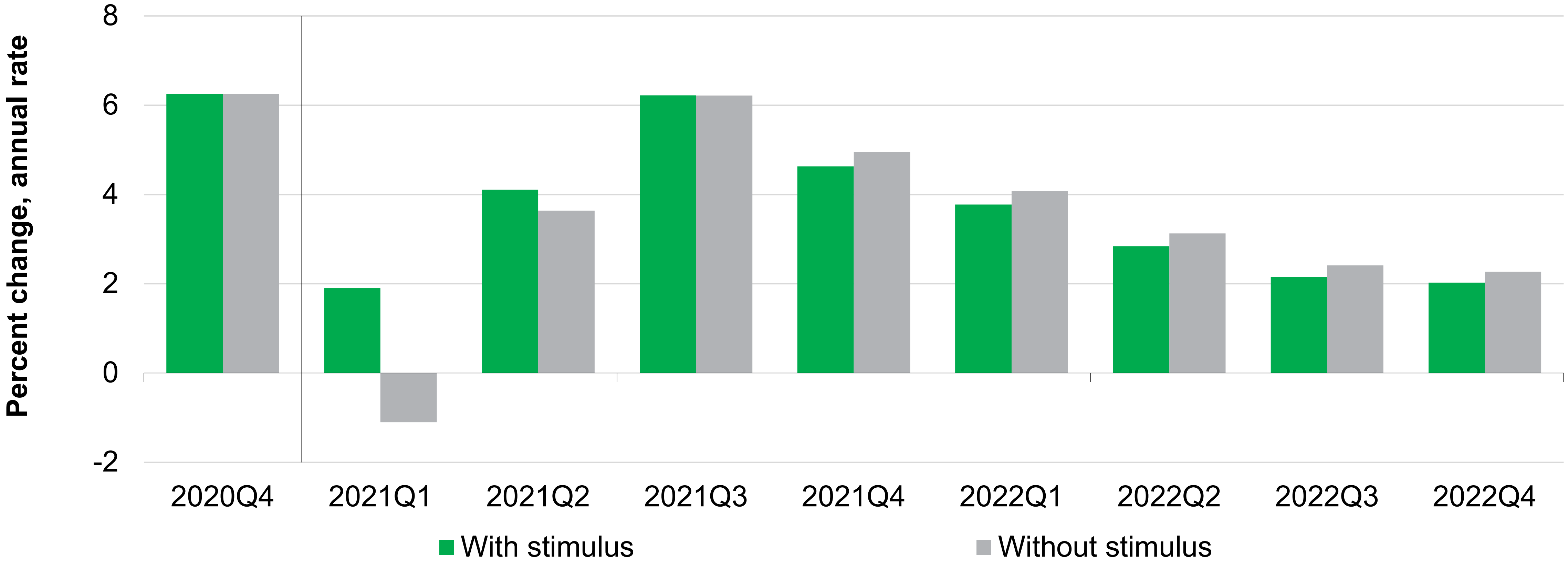
# Real consumer spending growth would be negative in first quarter of 2021 without stimulus

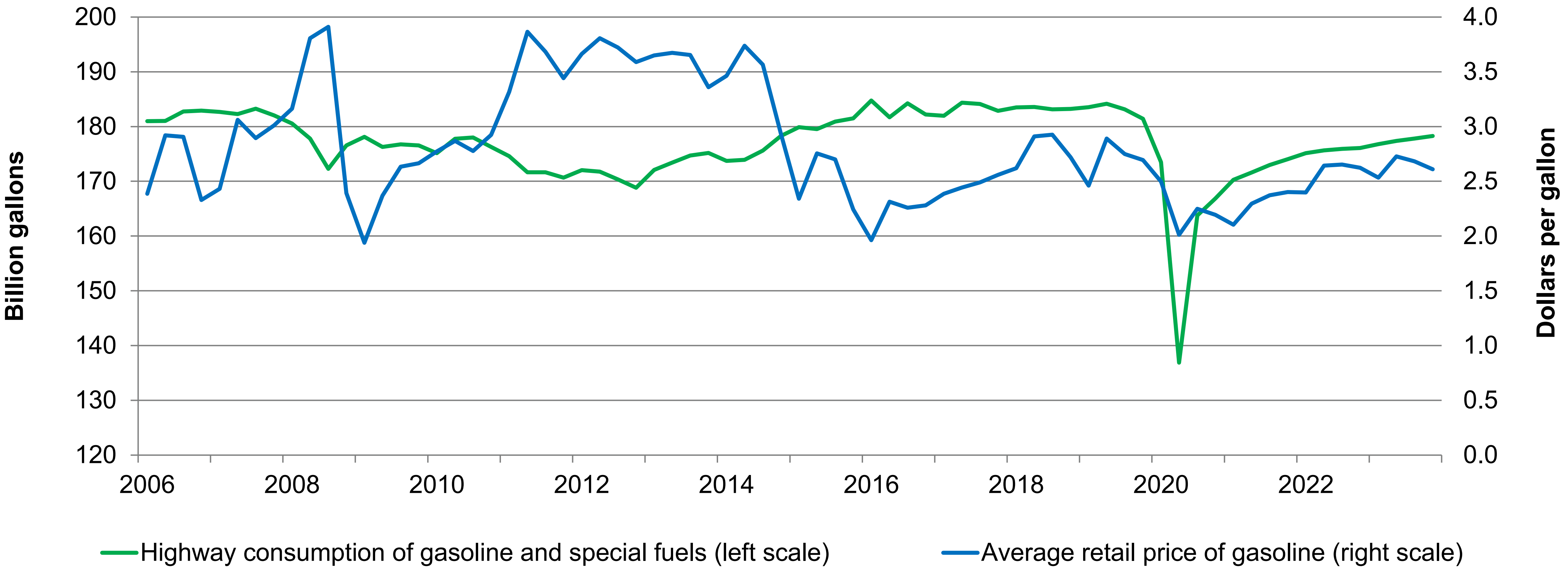
## Real consumer spending




Source: IHS Markit

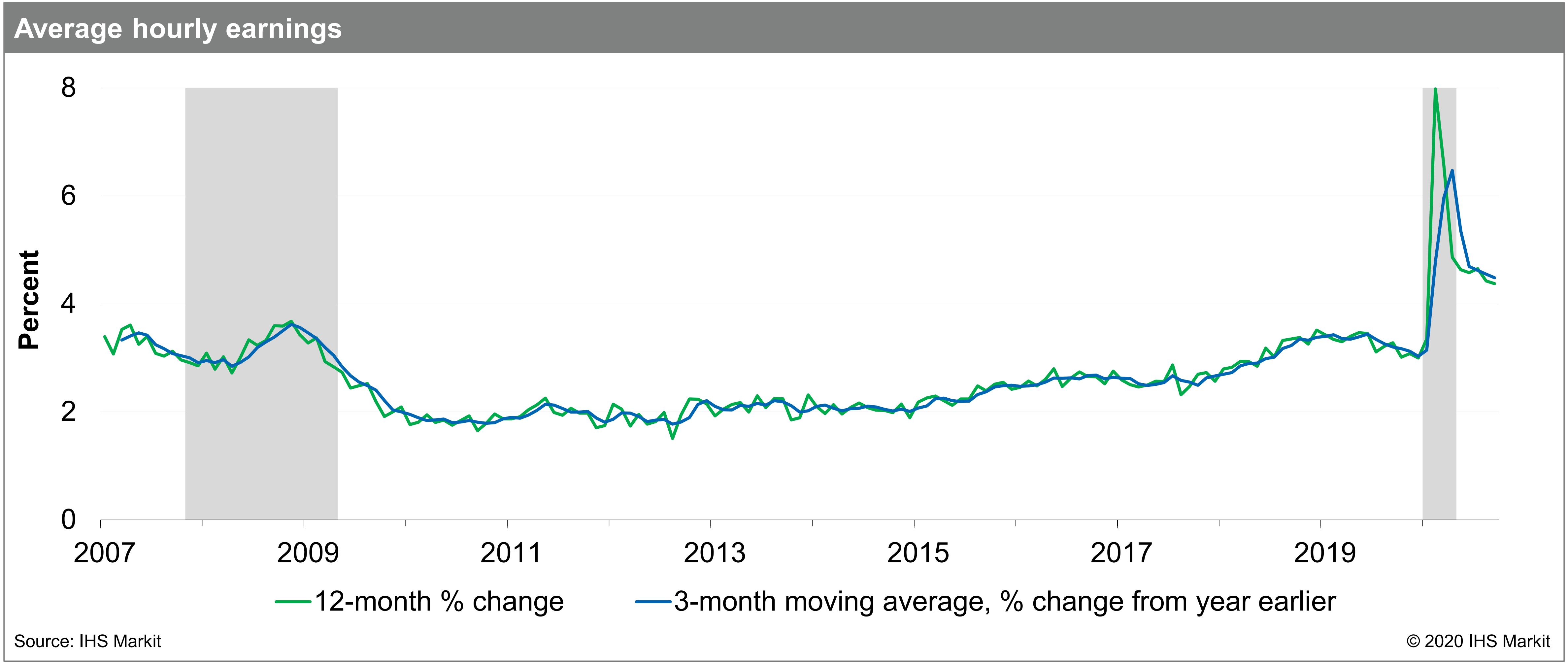
# Stay-at-home orders and economic downturn slashed motor fuel consumption in mid-2020

## Gasoline prices and highway fuel consumption

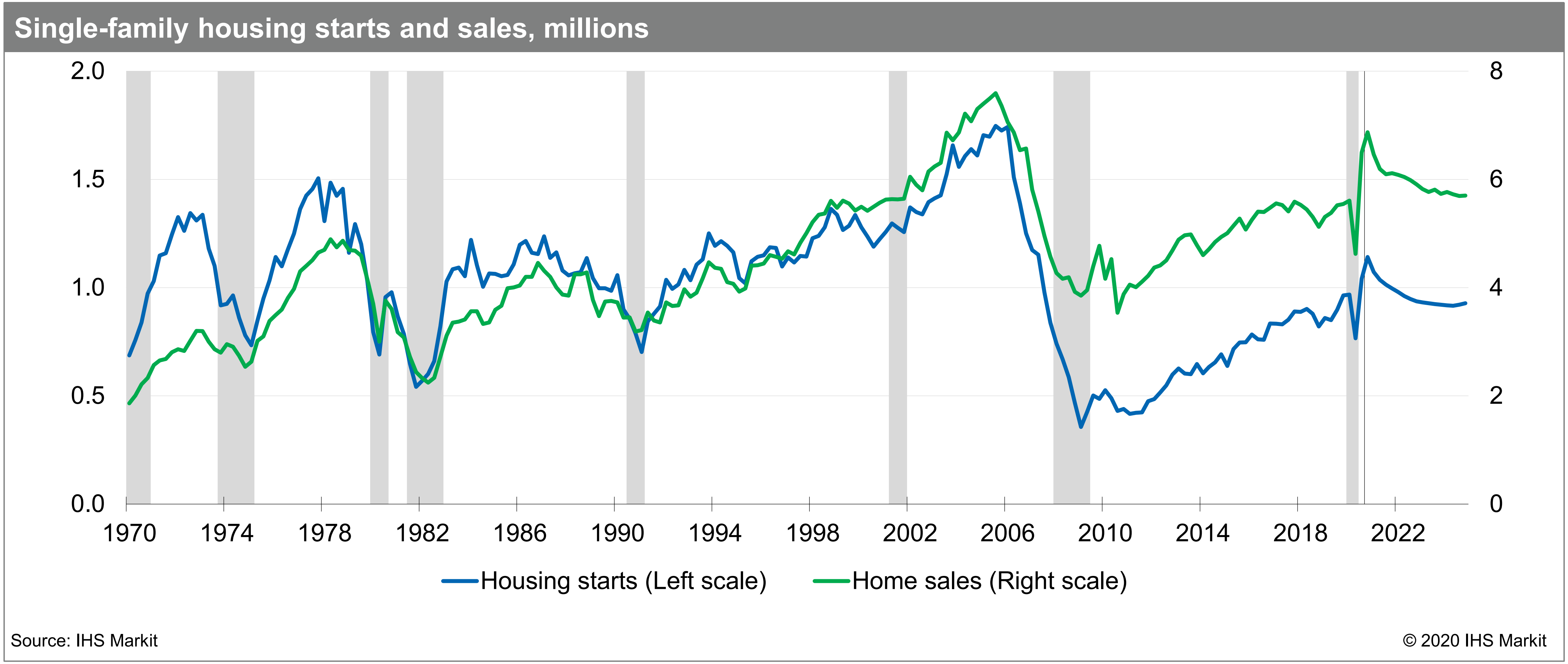



Source: IHS Markit

# When lower-wage workers went home, *average* hourly earnings skyrocketed

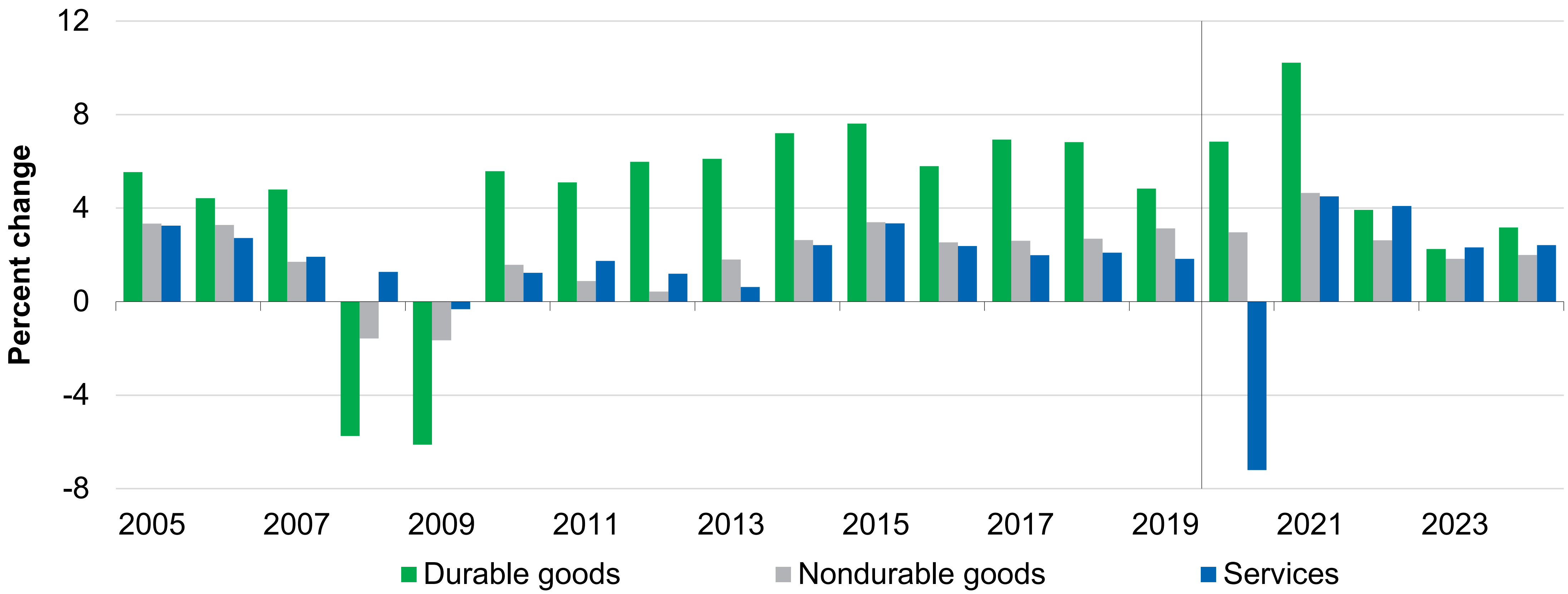


# Single-family housing starts and home sales



# Big losses for services, but a solid year for goods spending

## Real consumer spending




Source: IHS Markit