

Indiana Economic Forecast Update

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Easing inflation and labor markets supporting growth despite headwinds from Fed rate hikes

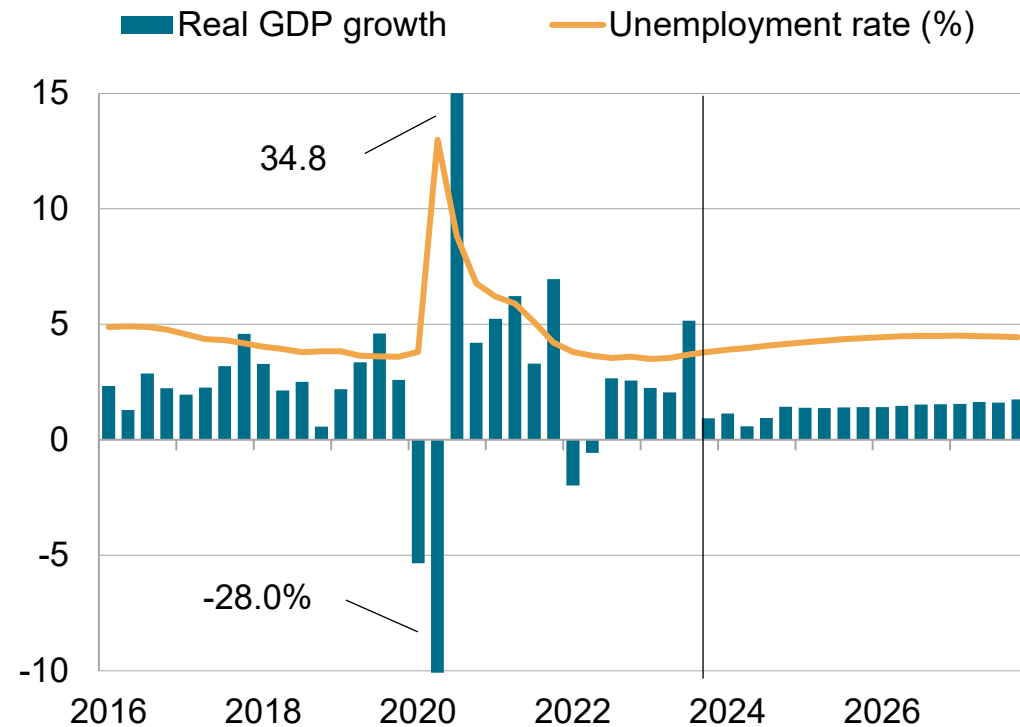
- Inflation has eased considerably, but still above the Fed's target level.
 - Goods inflation generally under control; shelter costs heading in the right direction but need to come down more.
 - Federal Reserve rate hikes might be over, but reversal may not be imminent.
- Similarly, labor market moving toward balance but still too tight.
 - Monthly job gains have steadily moderated.
 - Labor force growth has helped on the supply side.
- Resilient consumer spending has been a major feature of recent strength of the economy.
 - Gains should weaken soon as pent-up demand mostly exhausted, while excess savings have been drawn down.
 - Student loan payments resumed, SNAP payments reduced while Medicaid enrollment decreased
- Infrastructure projects and construction boom in factories (computer equipment, electronics) saw unprecedented growth in mid-2023 on funding from Infrastructure Investment and Jobs Act, CHIPS Act, and Inflation Reduction Act.
 - Recent level of growth can't be sustained; question is whether spending will level off or drop
 - Money is part of the equation, but capacity issues also may be a factor.

Economic output moderates, while risks to the forecast are still in play

- Our baseline forecast resembles the elusive “soft landing” as growth slows in order to ease inflation but doesn’t drop into a recession.
- After 2.4% growth in real GDP in 2023, growth drops to 1.5% in 2024 and 1.3% in 2025.
 - Reduced contributions from consumer spending, Federal government spending, and business fixed investment.
 - Unemployment rate rises gradually, from 3.6% in 2023 to 4.5% by 2026.
- Key risks include:
 - Commercial real estate slump.
 - Credit pullback, partly in response to the above, that impacts consumers as well as business.
 - Conflicts in Ukraine and the Middle East intensify, disrupting commerce.
- Federal government shutdown an ongoing possibility
 - Amount of economic disruption depends on the extent of shutdown.
 - In full shutdown, roughly 850,000 of 2.1 million civilian employees could be furloughed.

GDP growth will slow after a few quarters of above-trend growth

US unemployment rate and real GDP growth, percent change annual rate

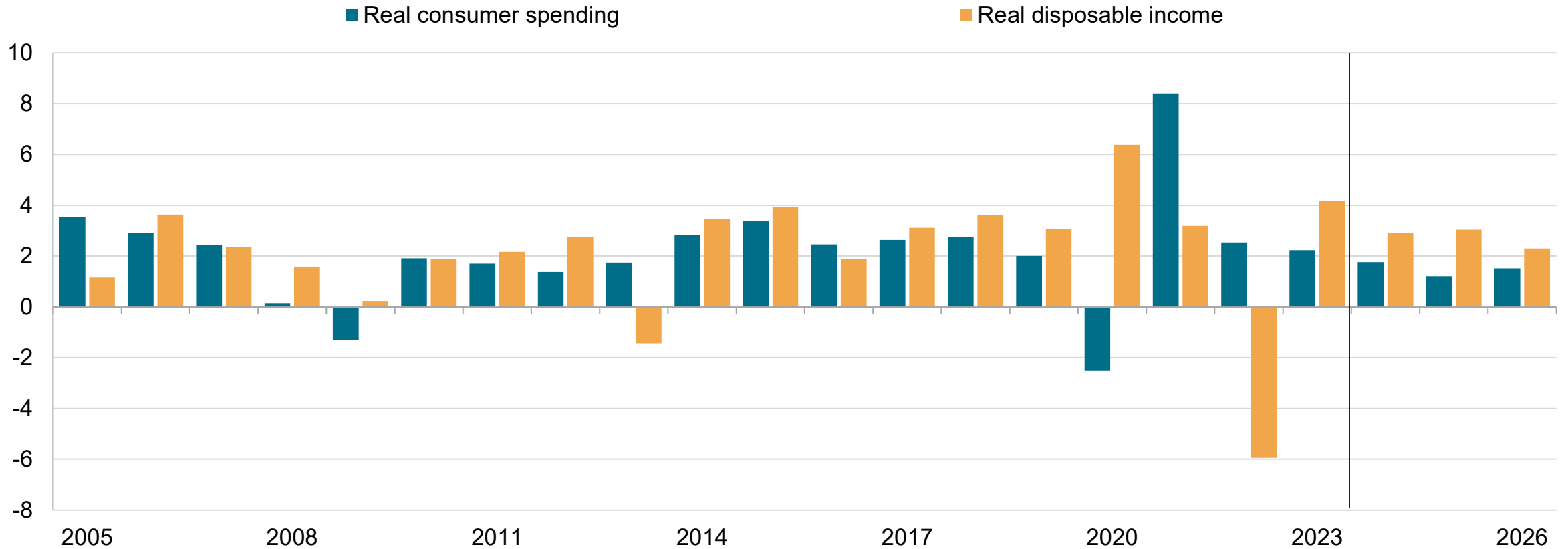


- GDP growth slows from around 5% in Q3 to around 1% in Q4
- Inventory investment was very strong in Q3
 - This will slow in Q4, partly due to UAW strike
- Domestic final sales are set to slow, as consumer spending growth decreases from 4% to 2.5%
 - Pent-up demand from pandemic disruptions exhausted
 - Higher interest rates
 - Stingier credit expansion
- Construction on infrastructure and factories boomed due to spending from IIJA and IRA
 - That spending may level off, but growth rate won't be sustained

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

Consumer spending pulling back as pandemic-era “excess savings” exhausted

Real US consumer spending and disposable income, percent change



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

US economic growth by sector

Percent change

	2022	2023	2024	2025	2026
Real GDP	1.9	2.4	1.5	1.3	1.4
Final sales	1.8	2.3	1.6	1.2	1.4
Consumption	2.5	2.2	1.8	1.2	1.5
Light vehicle sales (millions)	13.8	15.4	15.7	16.5	16.6
Residential fixed investment	-9.0	-11.0	-1.6	2.8	2.9
Housing starts (millions)	1.55	1.40	1.34	1.35	1.36
Business fixed investment	5.2	4.5	1.9	1.3	1.3
Federal government	-2.8	3.9	1.0	0.5	0.4
Exports	7.0	2.7	3.9	4.0	3.9
Imports	8.6	-1.3	3.6	2.9	3.0

Data compiled December 2023.

Source: S&P Global Market Intelligence.

Other key US economic indicators

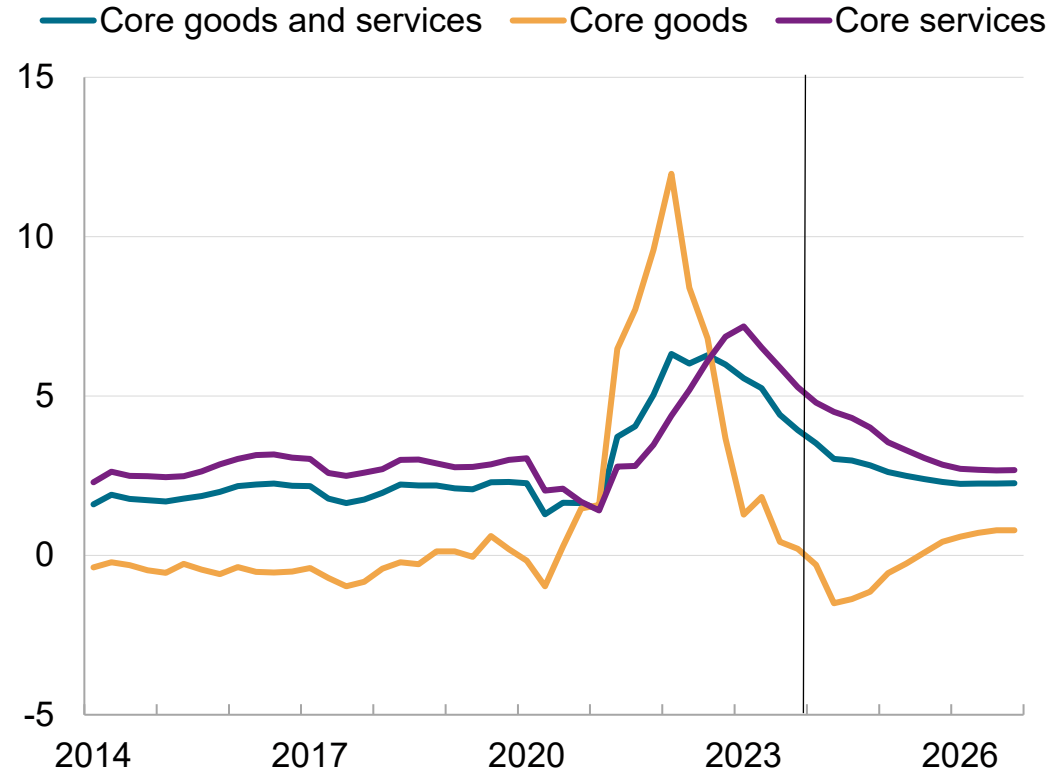
Percent change

	2022	2023	2024	2025	2026
Industrial production	3.4	0.2	-0.2	0.7	1.0
Payroll employment	4.3	2.3	0.8	0.1	0.2
Civilian unemployment rate (%)	3.6	3.6	4.0	4.3	4.5
Consumer Price Index	8.0	4.1	2.6	2.0	2.5
Core CPI	6.1	4.8	3.1	2.5	2.3
Brent crude oil price (\$/barrel)	100.7	83.0	84.8	76.8	84.3
Federal funds rate (%)	1.68	5.03	5.13	3.80	2.73
10-year Treasury yield (%)	2.95	3.97	3.94	3.40	3.17
Corporate profits w/IVA & CCA	9.8	0.5	1.6	-1.2	1.5

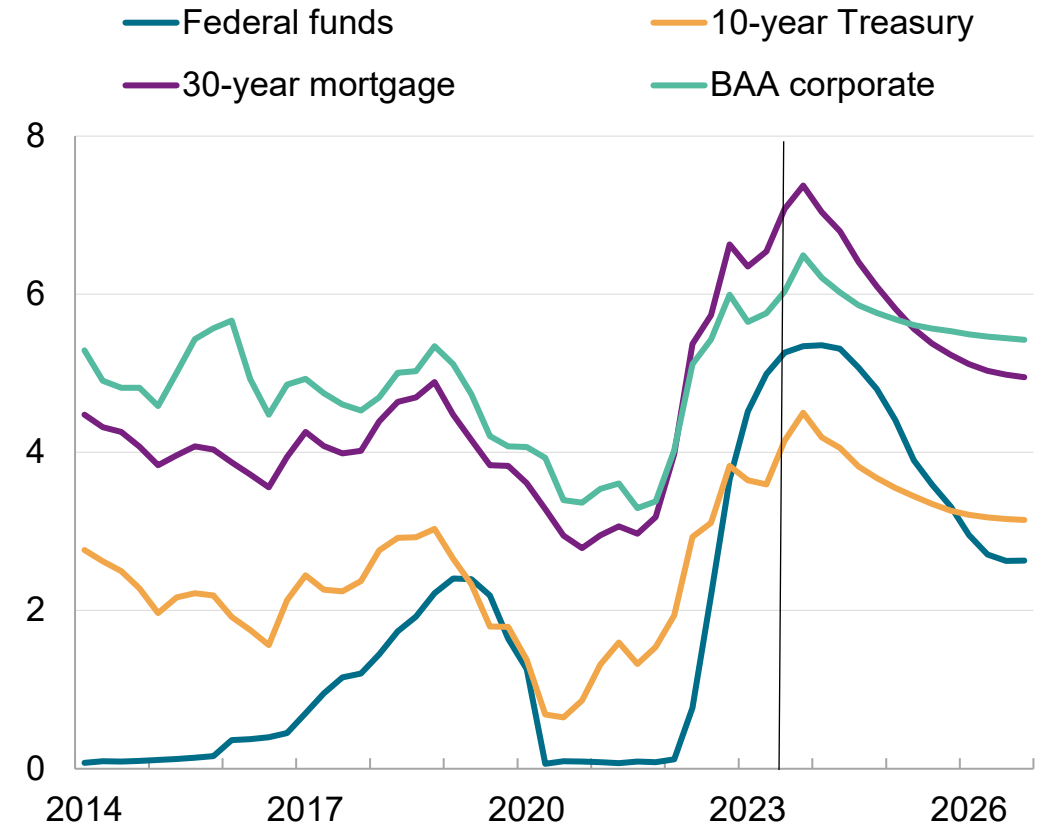
Data compiled December 2023.
Source: S&P Global Market Intelligence.

Easing inflation allows for interest rates to peak soon then moderate

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



Interest rates, percent



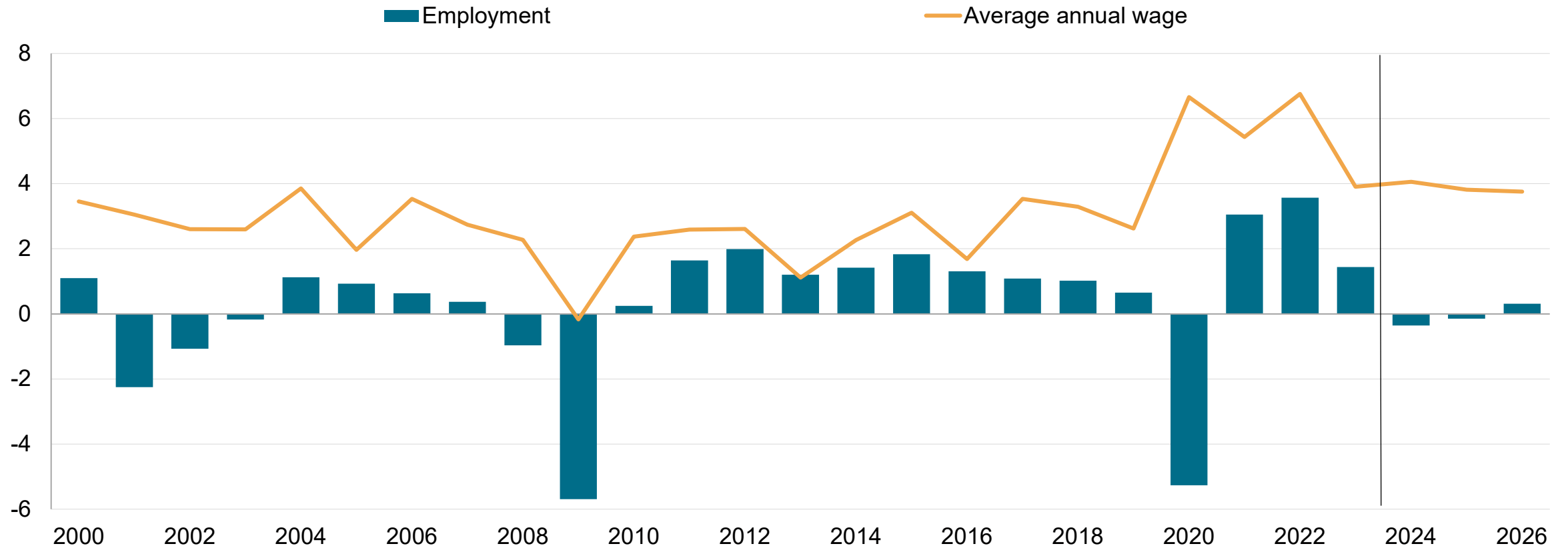
Data compiled December 2023.
Source: S&P Global Market Intelligence, BLS.

Indiana outlook features slowing growth in output and payrolls, with continued gains in wages and income

- Indiana's economic growth outlook follows a similar path to the US.
 - Indiana employment growth was a bit higher than expected in 2023, boosted by labor force expansion and sustained demand.
 - Wage gains have slowed as labor market gained some slack, but still especially strong at lower end of wage range.
- Auto manufacturers have made substantial progress in rebuilding inventories.
 - UAW strike caused short-term disruptions across the automotive supply chain, but industry is getting caught up after multi-year inventory shortfalls
 - Transition to electric vehicles in flux; creating plenty of opportunities along with uncertainties.
- Homebuilding pulled back in response to higher mortgage rates but has leveled off.
 - Record-low inventory and high home prices encouraging building despite higher costs.
 - Volume of home sales remains historically low as homeowners hang on to their existing homes (and mortgage rates).
- 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.

Indiana job gains will stall in 2024, while wage growth remains elevated

Indiana annual employment and wage growth, % change



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

Key economic indicators for Indiana

Percent change, calendar year basis

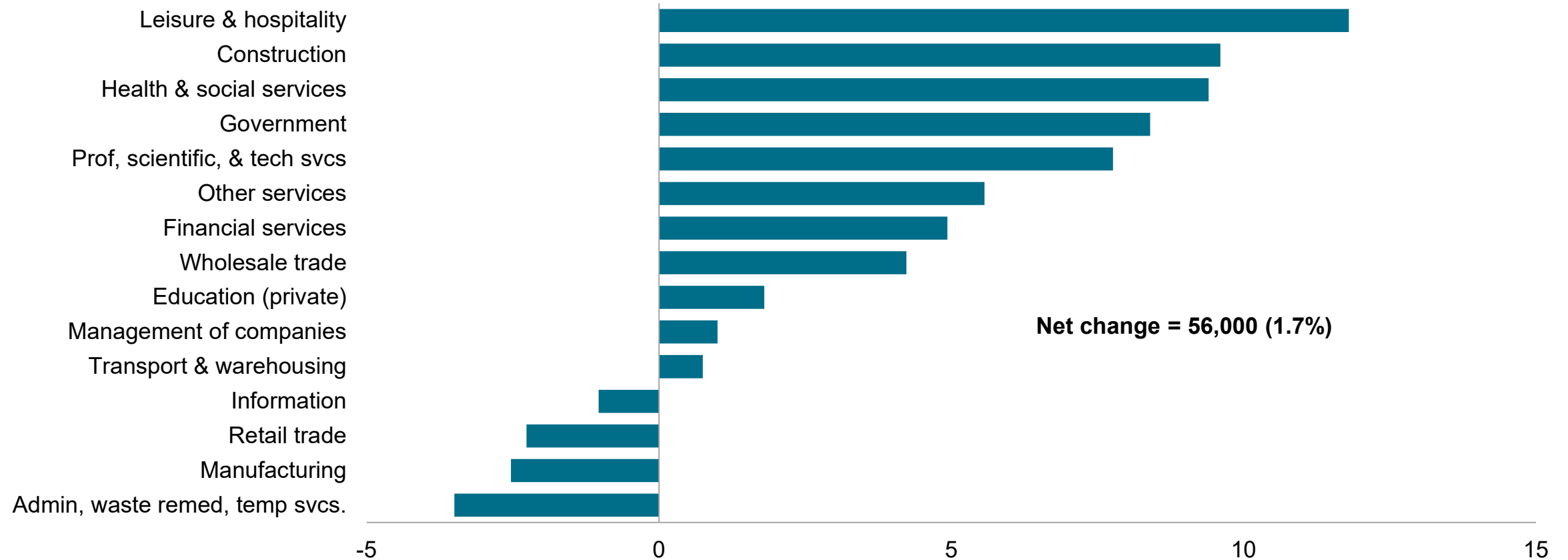
	2022	2023	2024	2025	2026
Payroll employment	3.6	2.2	0.8	-0.5	-0.2
Unemployment rate (%)	3.0	3.3	3.7	4.0	4.1
Wage income	9.2	5.7	4.8	2.8	3.4
Personal income	2.7	3.7	5.0	4.5	4.2
Real gross state product	3.1	1.3	1.3	0.5	1.2
Personal consumption exp.	9.7	4.4	3.7	2.8	3.5
Housing starts (thousands)	28.5	25.2	23.9	24.0	23.7

Data compiled December 2023.

Source: S&P Global Market Intelligence.

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

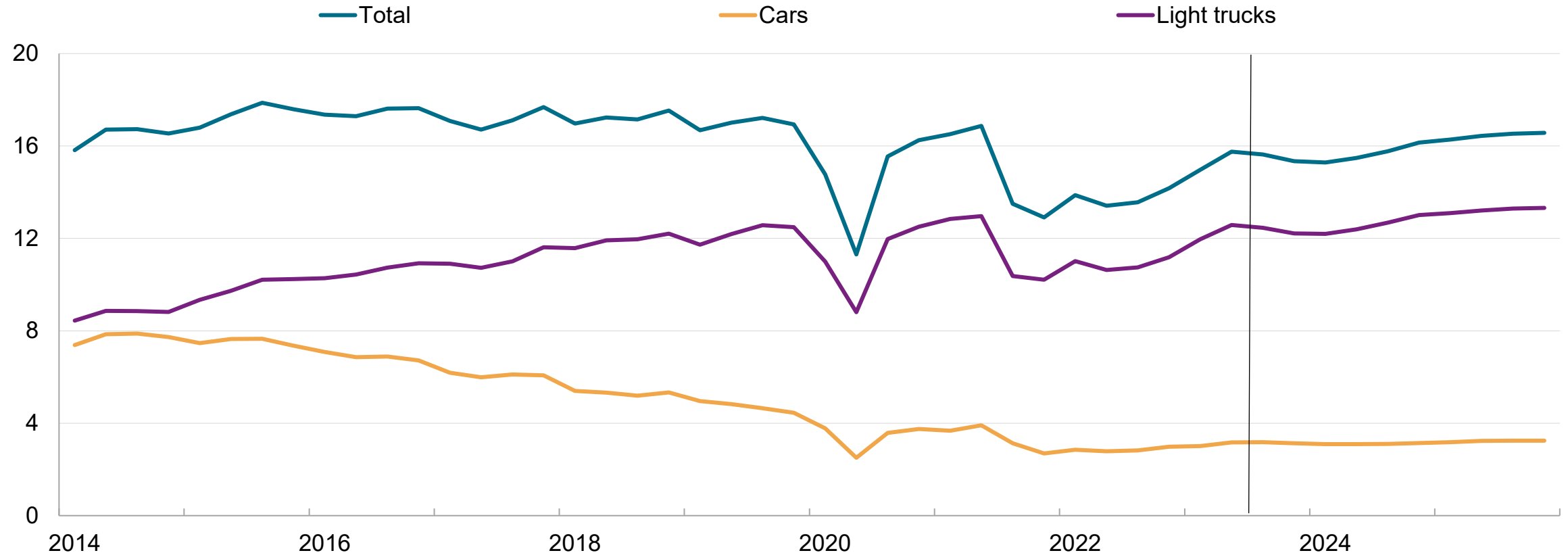
Change in Indiana payroll employment, thousands, Q3 2022 - Q3 2023



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

Auto industry has mostly recovered from production shortfall

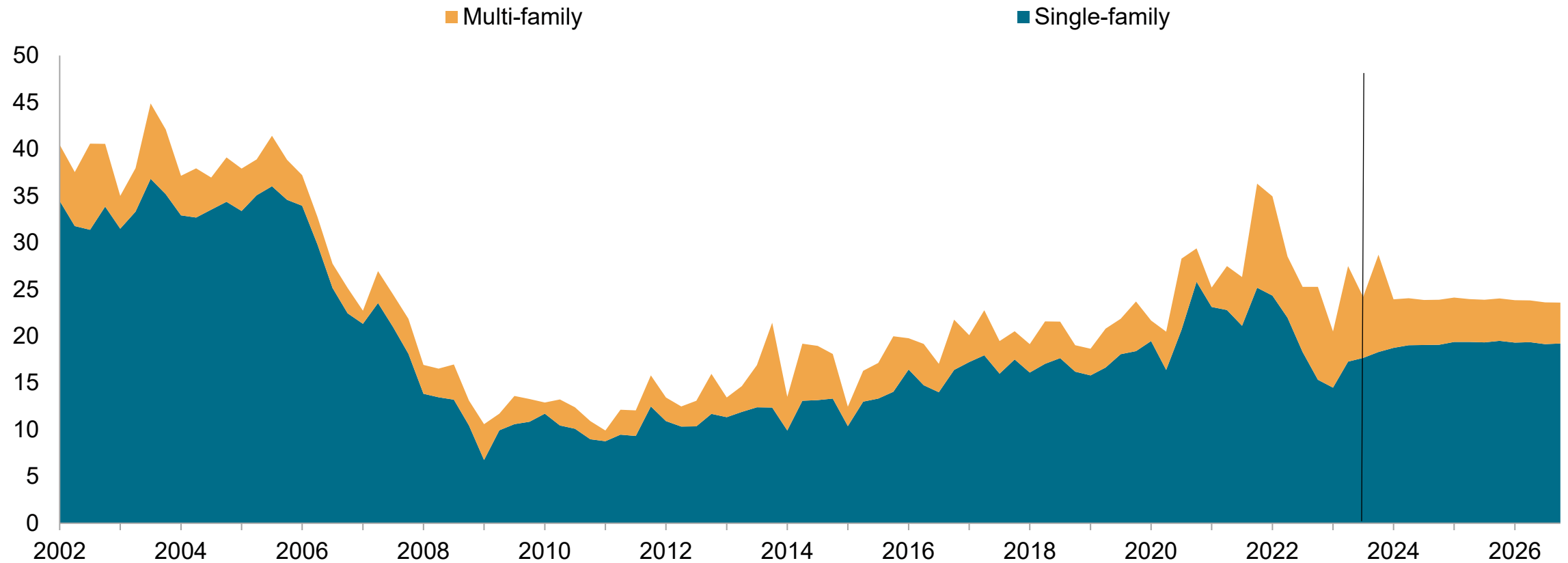
Total light-vehicle sales



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

Homebuilding backed off recent peak due to higher interest rates and construction costs, but high prices for homes are supportive

Indiana housing starts, thousands



Data compiled December 2023.

Source: S&P Global Market Intelligence..

Bottom line for Indiana

- The state economy remains on solid footing
 - Labor force gains have been helped meet demand for more workers.
 - The state's research and development resources, along with its manufacturing experience, are generating and attracting cutting-edge industry opportunities.
- Manufacturing output growth will weaken and employment will pull back as demand for goods levels off.
 - Automakers have mostly rebuilt inventories after years of supply chain disruptions.
 - Recreational vehicle shipments slowed from the torrid pace of 2021 and 2022 (especially in trailers).
- The pace of homebuilding slowed but has leveled off, as persistent high home prices provide support.
 - Supply of homes still generally well below potential demand, especially from younger age groups.
 - Multi-family segment has been especially strong, but single-family building also active.
- 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
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
Dec 2023	1.9	2.4	1.5	3.6	2.2	0.8	2.7	3.7	5.0

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

Thank you

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