Outlook for 2004

R. Jeffery Green

Professor of Business Economics and Public Policy, Kelley School of Business, Indiana University, Bloomington

Every October, a group of faculty at the Kelley School of Business gathers to discuss the economic outlook for the nation and the state. The discussion begins with the latest forecast generated from the U.S. model developed at the Center for Econometric Model Research (CEMR) at Indiana University. A consensus is then generated around adjustments to the model forecast. The CEMR model of Indiana is used to translate the economic forecast for the U.S. into a forecast for Indiana.

The results of these deliberations are presented at many venues throughout Indiana where the faculty from the Kelley School are joined by a local panelist who discusses the outlook for that part of the state. The following articles summarize the views of the Outlook Panel. They also discuss some potential problems facing us, including a ballooning federal deficit, massive bilateral trade imbalances, and issues of corporate governance and reporting.

Bill Witte gives the details of the national economic forecast, showing that recent strength in consumer spending and housing will be augmented in 2004 by an upturn in business spending on plants and equipment, along with a rise in exports. Andreas Hauskrecht presents the international outlook and explains why large accumulations of dollar reserves overseas raise the risk of dollar depreciation. John Boquist and Bill Sartoris trace recent financial developments, exploring why the outlook for 2004 is positive but not exuberant. Gil Viets examines the important issues of corporate governance and reporting that remain a concern for economic performance. Jeff Fisher takes a close look at the housing industry, which has been such a source of economic strength this year, and finds further grounds for optimism for 2004. Jerry Conover and Jim Smith draw on the international and national forecasts to present their outlook for the Indiana economy in the coming year. And a cadre of economists from universities around the state provide their views and forecasts for their metropolitan economies. ◄

The U.S. Economy

Willard E. Witte

Associate Professor of Economics, Indiana University, Bloomington

The U.S. economy during 2003 has been an exercise in cognitive dissonance. By most measures, the economy has performed quite well (and quite close to the outlook we presented a year ago). Yet the "man on the street" by most reports believes that things are not going well. In this national overview, I will first look at the good news from last year and dissect the fly in the ointment. Then I will outline our relatively optimistic view of what we can expect in 2004, along with some things that could cause problems during the next year.

Overall, output growth for 2003 will probably come in at about 3 percent, with growth accelerating in the second half of the year. **Figure 1** shows the past six years of real output growth. At the same time, inflation has remained low (about 2 percent for consumer prices), and interest rates dropped at mid-year to levels not seen in over four decades. Household income, driven by rising labor productivity with a boost from the federal tax cut, has registered solid growth. Households have used this income (and funds from mortgage refinancing) to purchase nearly seventeen million new cars and trucks and push housing construction to an all-time high. Since the spring, clear signs of a sustained recovery in business investment exist, especially in the high-tech area. Even the stock market has had an up year.

The U.S. economy has been an exercise in cognitive dissonance—a psychological phenomenon that refers to the discomfort felt at a discrepancy between what one already knows or believes and new information or interpretation.

During the past summer, the National Bureau of Economic Research—a Boston-based group of economists who arbitrate the beginnings and ends of recessions—declared that the "official" end of the recession occurred in November 2001. This means