

Outlook for 2007

Jerry N. Conover, Ph.D.

Director, Indiana Business Research Center, Kelley School of Business, Indiana University

For more than a third of a century, a group of IU faculty has gathered at the Kelley School of Business each fall to consider the economic outlook for the coming year. In the process, they forecast the prospects in terms of global, national, state, metropolitan and agriculture perspectives, and they also assess the outlooks for the financial and housing markets.

This year's discussion began with a review of the latest forecast based on the econometric model of the United States developed by Indiana University's Center for Econometric Model Research (CEMR). The researchers then made adjustments to the model's predictions to accommodate expectations about key underlying variables. The CEMR model of Indiana's economy similarly provided a basis for projecting the outlook for the state.

These economists and selected colleagues presented their predictions to audiences across Indiana through the Kelley School's Business Outlook Panel program. In each city, the panel was joined by an expert on the local economy who discussed the outlook for the metro area. The 2007 predictions of all the Business Outlook panelists are presented in this issue of the Indiana Business Review, along with additional supporting detail.

The 2006 economy has wound up fairly close to the panel's forecasts of a year ago, and even better in some respects, but with a tendency toward slower growth. This year's outlook, while still calling for growth, is not as optimistic as last year's as the housing market, consumer spending, and volatile energy

prices pose notable risks to the economy.

The 2007 outlook issue of the *Indiana Business Review* begins with Andreas Hauskrecht's assessment of the international outlook, predicting growth at a strong pace throughout much of the world. Bill Witte comments on the U.S. economy, which he views with "guarded optimism." That is, the nation's economy is still growing, but it could stall or weaken if any of several factors operate adversely for a sustained period. The outlook for the financial markets is reviewed by John Boquist, Robert Neal, and Bill Sartoris. They project that interest rates have peaked, corporate profits will rise more slowly than they did this year, and investors will try to balance enthusiasm over historically high stock prices against uncertainties over several key economic forces.

Jeffrey Fisher weighs the outlook for housing, a sector that impacts much of the rest of

the economy, anticipating that home sales and prices will drop slightly in 2007. Corinne Alexander looks at what is expected for the Hoosier agriculture sector, predicting some interesting impacts of the boom in biofuels. The prospects for Indiana's economy, reviewed by Jerry Conover, remain reasonably good, with modest growth expected for the state as a whole. Finally, a group of economists and business leaders from around the state share their insights into what 2007 holds in store for most of Indiana's metropolitan areas (see **Figure 1**). ■

Figure 1
Projected Directional Change in Jobs, 2007

