mortgages held by these entities either delinquent or in foreclosure compared to 7.3 percent nationally. Indiana's above average mortgage delinquency situation should come as no surprise given that the state has had one of the nation's highest unemployment rates in recent months.

Home Construction

The trends in residential building permits and housing starts largely mirror what we saw in new home sales. Each indicator stabilized in 2009 and 2010 but neither has risen appreciably. While it is welcome news that these indicators have steadied, they have settled at levels that are roughly one quarter of 2005's peak of construction activity. In 2009, Indiana recorded its lowest level of residential building permits since 1982.

Conclusion

The housing markets in the U.S. and in Indiana will likely see growth in 2011, but with the broader economy, this growth will be modest. As **Table 1** outlines, two industry trade groups forecast that housing starts and home sales will climb somewhat but, in the case of home sales, the numbers are not likely to reach the level seen prior to the tax credit deadline. While there is currently some slack in demand, reduced prices and low interest rates should keep home purchases attractive. The housing market is now simply waiting on a robust economic recovery to spur consumers into taking advantage of very favorable affordability conditions. Unfortunately, that strong recovery appears to be at least a year or two away.

Notes

1. The data sources for new and existing homes show that each market responded to the expiration of the tax credit at different times. This discrepancy is due to how home sales are counted. New home sales are counted when a sales contract is signed while existing home sales are counted when the sales contract is closed.

Indiana's Outlook for 2011

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One year ago, Indiana's economy was reeling from major hits caused by the deepest recession in decades. As 2010 draws to a close, we've seen measurable, if modest, improvement, and the prospects for the year ahead are mildly encouraging.

Employment: A Mixed Picture

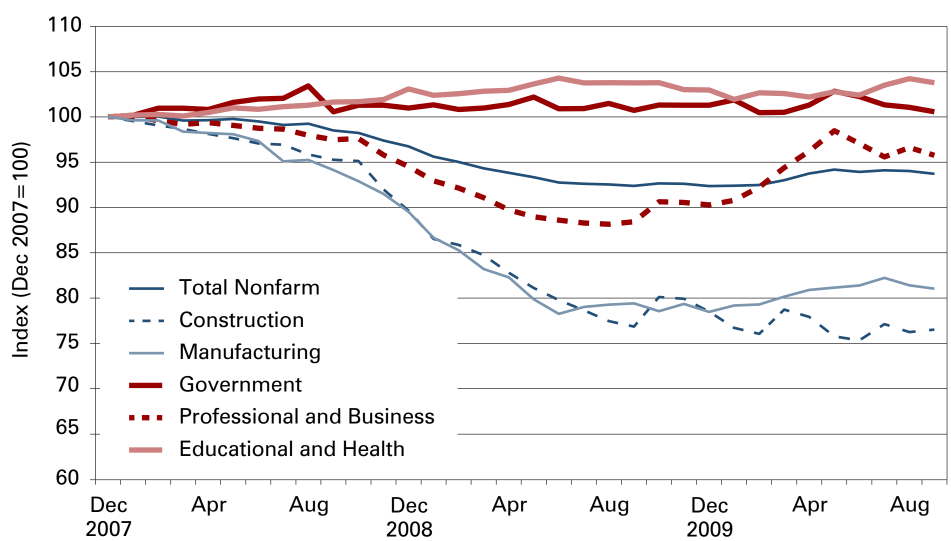
The recession that began in December 2007 hit Hoosiers very hard. By the time Indiana employment bottomed out two years later, 227,900 payroll jobs had disappeared—the 13th highest rate of decline in the nation. Fortunately, 2010 has been a relatively good year: we've recovered 40,000 jobs between December 2009 and September 2010 (preliminary). This gain of 1.4 percent so far is the fifth fastest in the nation, and the state has received national media attention for its job creation. However, the pace of growth is unsteady, with some slippage in recent months. And despite this year's net gain, 82 percent of the lost jobs have yet to return.

Some sectors are faring better than others in this recovery. **Figure 1** shows relative change in Indiana payroll employment since the start of the recession. Private education/health services jobs actually increased nearly 4 percent, and government jobs have not slipped into negative territory.

In contrast, the construction and manufacturing sectors together shed more than 138,000 jobs, nearly one-fifth of their start-of-recession levels before they started slowly rebounding. Manufacturing has inched upward slowly, but construction remains near the bottom. And the professional and business services sector, which saw substantial job gains during the past decade, slipped 12 percent during the recession but has regained much of that loss this year.

We expect Indiana employment to complete 2010 about 2 percent, or 55,000 jobs, above where it started and for 2011 to show similar gains. This is well above job growth in recent years, but even so, at this

Figure 1: Relative Change in Indiana Employment, December 2007 to September 2010



Note: September 2010 data are preliminary.
Source: IBRC, using Bureau of Labor Statistics data

rate it will be at least 2013 before employment returns to pre-recession levels. The forecast calls for all major sectors to show at least some growth in 2011.

Unemployment Stagnant

Indiana's unemployment rate has hovered around 10 percent since spring 2009 without any sign of meaningful abatement. Our state enjoyed about a 1 percentage point advantage over our neighbors from the summer of 2009 through late spring of 2010. However, all the neighboring states except Michigan have reduced their unemployment rates to match ours over the last several months.

The number of unemployed Hoosiers more than doubled during the recession to 340,000 before receding slightly. This is the highest level of sustained unemployment since the major recession of the early 1980s, which peaked well above 12 percent. The recovery following that recession took five years to get back to normal, and the current situation does not offer cause for optimism that this time will be much different. Our forecast predicts unemployment remaining above 9 percent through 2011, continuing to be a major drag on economic growth.

Moderate Rise in Economic Output

Growth of the overall output of Indiana's economy, measured by change in real gross domestic product (GDP) at the state level, has for the most part trailed the nation for many years. This year, however, Indiana's GDP growth appears to be keeping up with U.S. growth so far, and the Hoosier economy's expansion is forecast to slightly outpace the nation in 2011, rising in the 3 to 4 percent range.

Personal Income Rebounding

In broad strokes, the total personal income of Hoosiers has more or less kept pace with that of the nation, averaging about 1.8 percent of the U.S. total for the past few years. Last year, our state's personal income declined more rapidly (-2.4 percent) than the nation's (-1.7 percent), but this year it is on track to rebound by 2.2 percent—a bit slower than the national pace of 2.7 percent. In 2011, we forecast both Indiana and U.S. personal income to rise by about 3.5 percent.

In dollar terms, the average Hoosier's per capita personal income is $5,714 less than the average American's. The last year Hoosiers out-earned the nation was 1965.

Exports Looking Up

Exports have long been a source of relative strength in Indiana's economy, with Hoosier exports growing more than twice as fast as U.S. exports over the past decade. The worldwide recession, however, slammed trade last year, with every state's export volume down from 2008. Fortunately, exports have been rebounding this year; Indiana's 37 percent year-over-year export growth in the first half of 2010, placing our state near the head of the pack, has pushed our exports above pre-recession levels. Foreign domestic investment (FDI) is also contributing to Indiana's economic growth, with a near record number of FDI announcements in the state over the past year.[1]

The ups and downs of Indiana's exports reflect in part the recent turbulent market for motor vehicles and parts, which is now growing again. Our exports are also influenced strongly by a growing market for pharmaceuticals and medical devices, two of our top four export commodities. In fact, Indiana has led the nation in drug exports for several quarters in a row. The outlook for exports is hard to nail down, however, due to continuing uncertainties arising from global negotiations on trade, exchange rates and other factors that impact foreign demand for American goods.

Housing Still Sluggish

Indiana's housing activity so far this year is mixed, rather like last year. There's been very little change in the numbers of new listings, pending sales and closed sales; sales prices have risen just 2 to 3 percent. There is still a 10-month inventory of homes on the market, and that will have to fall to a more normal five- to six-month level to jump-start home construction, which has been moribund for several years. Our forecast for 2011 predicts progress in this direction, with housing starts increasing more than 25 percent over 2010. Even so, home construction will remain far below pre-recession levels.

Retail Sales Returning

Indiana retail sales shrank last year by 6 percent, but 2010 is on track to gain back much of the lost sales; this year sales are expected to rise by 5 percent compared to 2009. Sales growth will slow down in 2011, with a 2 percent gain forecast. At this tepid growth pace, we should experience pre-recession retail activity sometime in 2012.

Conclusion

All in all, the forecast for the year ahead offers a little bit of hope given the deep hole we've been in—but we still have quite a climb ahead to get out of the hole altogether, and the land of milk and honey is well over the horizon.

Note

1. Matt R. Kinghorn and Matthew Hutchinson, "Indiana in the Global Economy: Current Export and FDI Activity," *Indiana Business Review*, Fall 2010, www.ibrc.indiana.edu/ibr/2010/fall/article1.html.