2001 Business Outlook Panel
Summary for 2002
Kelley School of Business
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- As in every year, unexpected events provide risks for our forecasts. Crises in developing countries could deepen and spread, leading to a severe cutback in U.S. exports. The events of September 11th, 2001 continue to unfold and challenge us in ways that we never could have imagined. They not only test our numbers for the coming year, they challenge us as a nation to face what comes with resolution, strong spirit, and unfettered confidence.

- As we head into 2002, the U.S. economy will be recovering from recession, reaching its trough in the first or second quarter of 2002. The recession will have been moderate by historical standards. GDP will rise by 1.0 percent in 2002, somewhat slower than the 1.1 percent increase in 2001. The inflation rate as measured by the CPI will be 2.2 percent.

- Business capital spending and exports will decline in 2002, continuing the contractions experienced this year. Consumer spending will not fall, but will grow by less than 1 percent. Demand for durables goods will decline in 2002 after growing by almost 3 percent in 2001. New autos and trucks sold will be stable at around 16 million units.

- You have to go back to 1973 to find a time when the U.S., Europe, and Japan were all simultaneously experiencing such weak growth. Indeed, the world's economy will grow much slower than it has in the past two years. That suggests some weakening of the dollar and a marginal improvement in the U.S. trade deficit, but even those changes could reverse during the latter stages of 2002.

- At midyear, Indiana's exports were just about equal to where they were at midyear 2000. This stable pattern was stronger than the performance of the nation's, whose exports fell by more than 2 percent. Rising exports to the UK, Japan, France, the Netherlands, Brazil, and China—of mostly organic chemicals, pharmaceuticals, and medical devices—helped to keep Indiana's exports from declining.

- The U.S. unemployment rate will rise in the coming year, probably averaging around 6.3 percent. That compares to 4.8 percent in 2001 and 4.0 percent in 2000. Establishment employment in 2002 could fall by over 1 million jobs as the economy slows in 2002.

- The current year has seen short-term interest rates decline precipitously but longer-term rates have stayed stubbornly high. We believe that short-term rates (3-month Treasury Bills) will average below 2 percent next year and longer-term rates (AAA bonds) could decline by about 100 basis points. Rates should begin rising, however, once economic growth picks up in 2002.

- Despite a recession, steep declines in mortgage rates have buoyed the market for new and used homes this year. Higher unemployment in the coming year will not bode well for new housing starts and we see little growth in that area. But no growth may look good when compared to other sectors that are facing decline.

- Once the recovery is underway and economic growth and earnings start returning to more normal growth paths, price-earnings ratios should shrink somewhat but remain above their historical averages. Stock prices could grow during 2002 by as much as 5 to 7 percent.

- Changes in the Indiana economy both mirror and magnify changes in the national business cycle. Structural changes in the state's economy, now less reliant on manufacturing, suggest that Indiana will not be as badly impacted by the current recession as the ones in the early 1980s. Nevertheless, we believe that Hoosier employment could fall by as many as 90,000 jobs and the state unemployment rate could average over 6 percent in 2002.