Indiana

The last recession ended, and the current expansion began, in the second quarter of 1991. Since then the U.S. and Indiana economies have been expanding. In constant (1996) dollars, Indiana's economy has grown by $39 billion, an average rate of 3.3 percent per year (see **Figure 1**).

As this remarkably long expansion has continued, two distinct periods can be identified. In the first period (1992 2nd quarter to 1994 1st quarter), Indiana advanced more rapidly than the nation. In the second period (1994 1st quarter to 2000 2nd quarter), the Hoosier state trailed the nation in growth of personal income. **Figure 2** shows the difference between Indiana's growth rates and those of the nation. In 18 of 37 quarters Indiana grew more rapidly than did the nation. But notice that nine of those positive quarters came in the first 12 quarters under consideration. In the last 25 quarters, Indiana also had nine quarters with faster growth than the nation. Hence the frequency of positive differentials has been cut in half. Also notice that the highs were higher in the early years and the lows lower in the later years.

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Figure 1

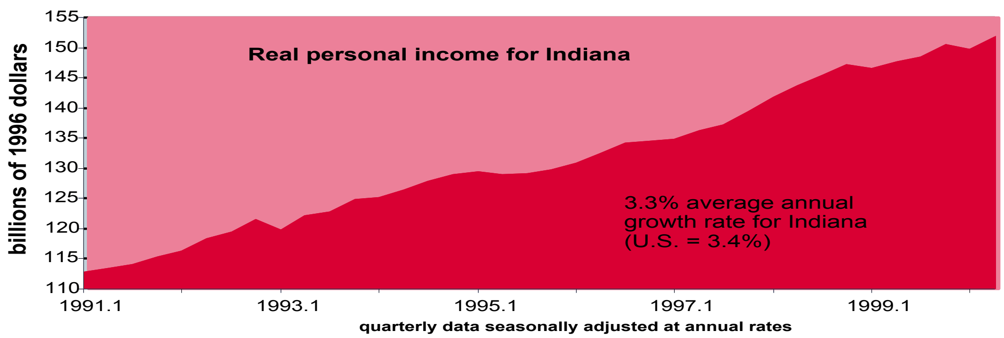
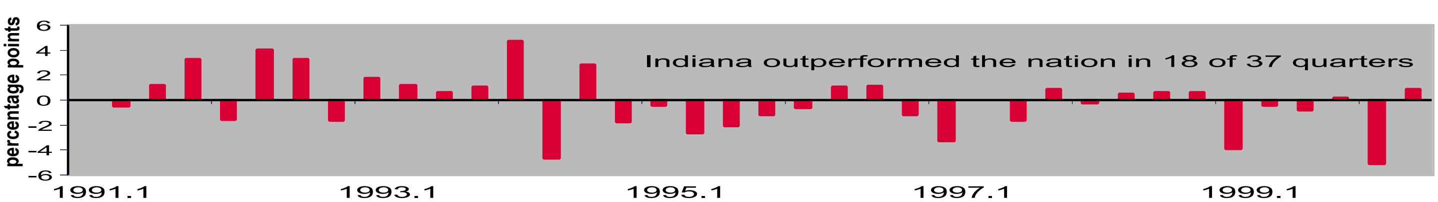


Figure 2
Personal Income Growth Rates, Indiana Vs. Nation, 1991-1999



The result of these differential growth rates was a dramatic rise in Indiana's share of U.S. personal income in the early period, with an equally dramatic fall in that share since 1994 1st quarter (see **Figure 3**). In historical perspective, the rising period was an anomaly, interrupting a fairly steady decline that began in the late 1970s.

Figure 4 summarizes the two periods very clearly. As the U.S. picked up steam in the last six years from a slow start in the first four years of the decade, Indiana slowed down. Where the nation's growth rate accelerated from an average of 2.1 percent to a robust 4 percent, Indiana slipped from a respectable 3.6 percent to a still honorable 3.2 percent average annual growth rate for personal income.

Figure 3
Indiana's Share of U.S. Personal Income

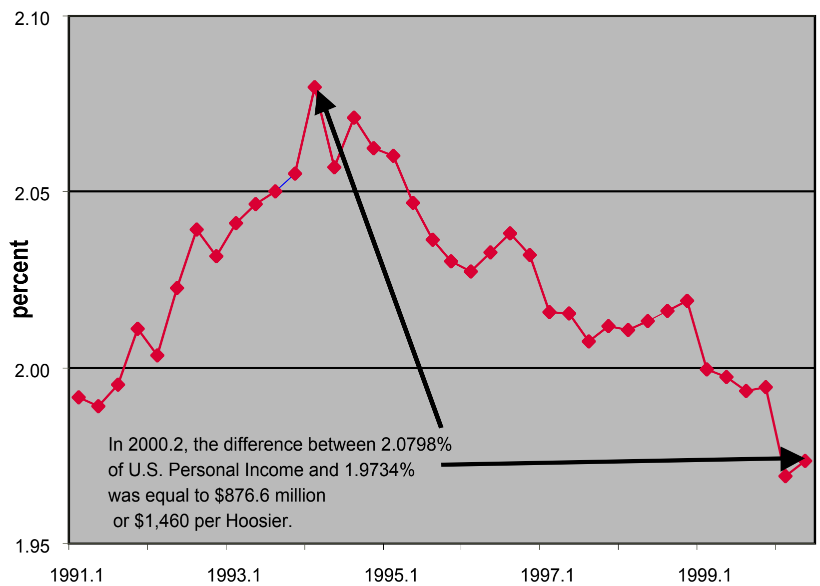
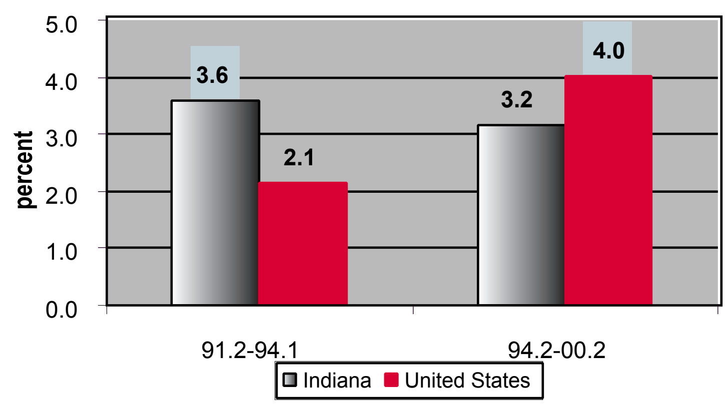


Figure 4
Average Quarterly Growth Rates of Total Personal Income



A Regional View

Indiana was not alone in this swing of fortune. As **Figure 5** shows, Indiana was one of 14 states that had a deceleration in growth between the two periods. California, with approximately 13 percent of U.S. personal income, had the greatest acceleration at 4.69 percent (from 0.05 percent to 4.74 percent). The Golden State moved from slowest growing state in the nation to the 11th fastest growing state in this transition. At the same time, New York, New Jersey, and Massachusetts also had major accelerations in growth rates, pushing the nation forward.

Among the Great Lake States, Indiana and Michigan decelerated, while the region as a whole accelerated. But, the acceleration of our region was the smallest improvement of any of the nation's eight regions (see **Figure 6**). At the same time it can be seen that the Mideast was the only region that failed to achieve the national growth rate in both periods while the Southwest and Rocky Mountain regions exceeded the nation in both periods.

Figure 5
Growth Rate, National Comparison

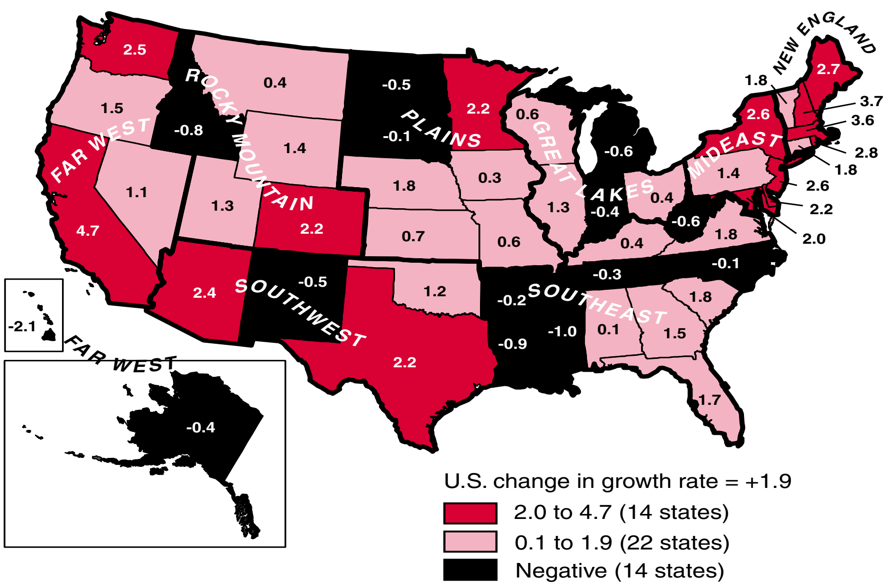
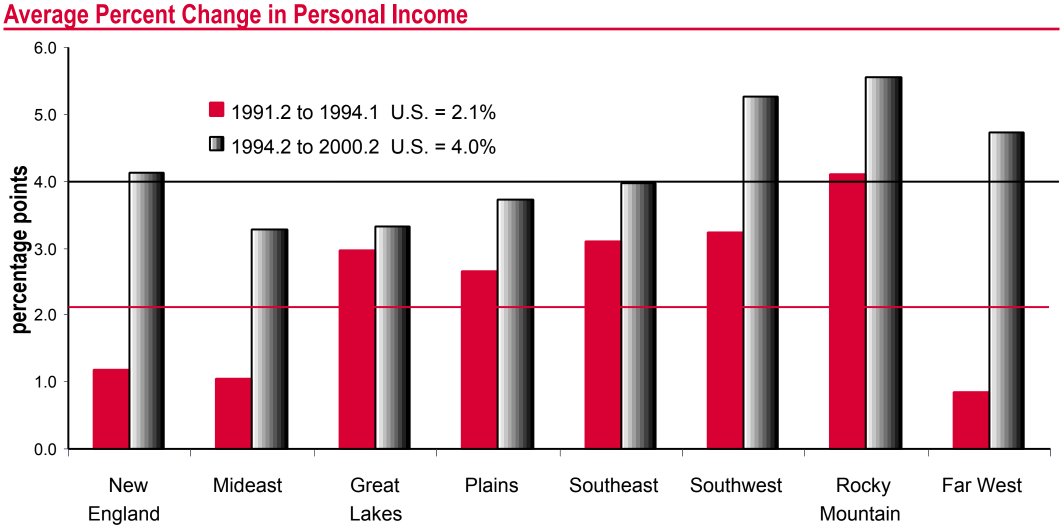


Figure 6
Average Percent Change in Personal Income



The result of these different patterns of growth shows up in the changes each region had in its share of the nation's personal income. In **Figure 7** those changes are shown with the Mideast losing 1.6 percent of the nation's personal income to the Southwest and the Rocky Mountain regions. Of particular interest to Hoosiers is the dramatic change in the Great Lake States where a 0.4 percent share gain was turned into a 0.7 percent loss of share. This -1.1 percent shift was exceeded only by the +1.4 percent turnaround in the Far West. All other regions had more moderate share changes.

Figure 7
Changes in Personal Income Shares

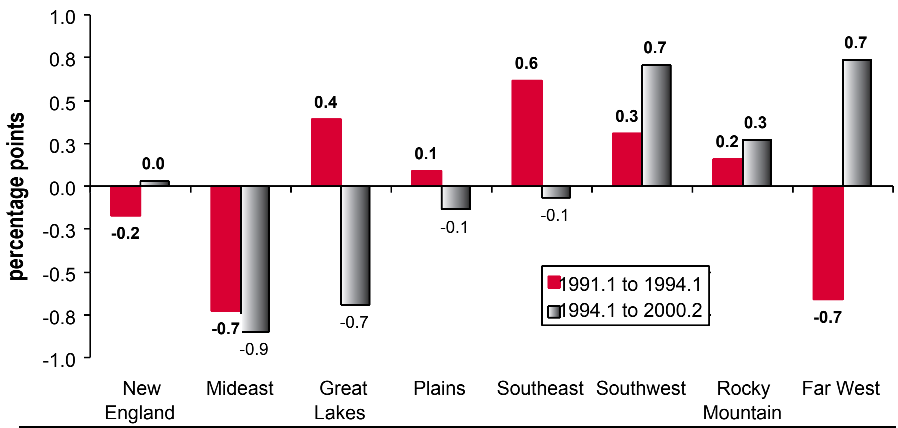
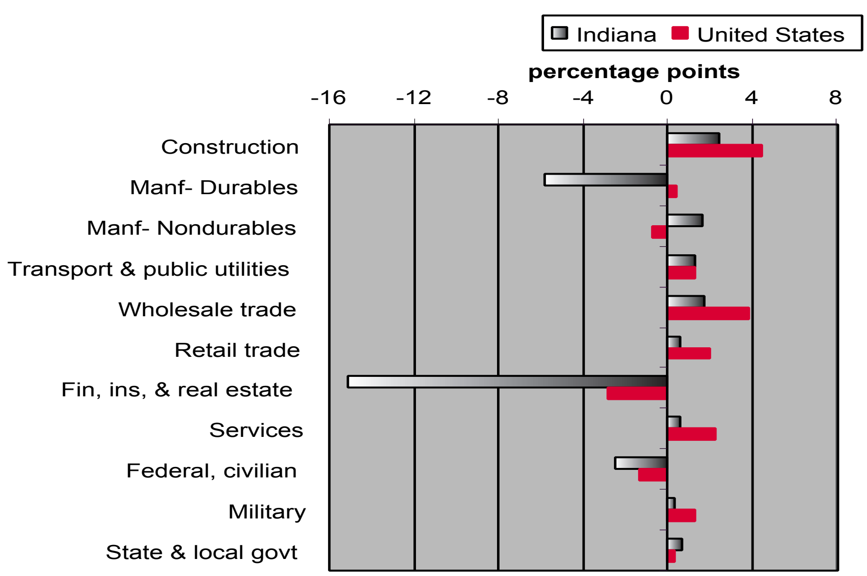


Figure 8
Changes in Sector Growth Rates, 91.2-94.1 and 94.2-00.2



Origins and implications

What happened between the first and second periods in the 1990s? How was growth in the first period (1991.2 to 1994.1) different from the growth of the second period (1994.2 to 2000.2)? The differences for Indiana and the nation are reported in **Figure 8**. Two major events stand out. First, Indiana had a significant slowing of growth in earnings derived from durables goods manufacturing. Where we had had been growing at an average rate of 7 percent, we slowed to a 1.1 percent rate. That shows in Figure 8 as a decline of nearly 6 percent in durable manufacturing. At the same time, the nation had a very moderate increase from 2 percent to 2.4 percent and is depicted at a 0.4 percent increase.

The importance of durable goods in Indiana's economy makes this a very strong effect. But another factor was at work as well. Indiana had a remarkable 19.3 percent annual growth rate in the financial sector during the first period but slowed to 4.2 percent in the second period or a –15.1 percent swing. The nation, by contrast, slowed only –2.8 percent from 10.6 percent to 7.8 percent.

In addition, Indiana showed less acceleration in construction, wholesale trade, and services than did the nation. The net effect was a relative slowdown for Indiana that cut our share of personal income to historically low levels.

Now that the national forecast calls for a decline in housing construction and in automobile sales (not just a slowdown in those sectors but actual declines in these sectors), we can expect that Indiana will again grow less vigorously than the U.S. But that relationship is not guaranteed. Over the years, declines or flatness in durable goods generally indicates problems for total personal income. Yet the exceptions are numerous and important.

2001 will probably see a slowing of job growth in Indiana. After several years of 35,000 to 50,000 jobs being added to the Hoosier economy, next year may have as few as 20,000 new jobs. Nominal personal income growth of 4 percent may be anticipated, which would put the real rate below 2 percent if the inflation rate exceeds 2 percent.

However, the state is only an aggregation of its components. That is why it is important to consider the following reports from around the state.