

Indiana's Outlook for 2010

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Indiana's economy has been battered far more severely than we projected a year ago, but signs of recovery have begun to appear as 2009 draws to a close. Here is an overview of our state's recent performance and its outlook for 2010.

Overall Economic Output

Overall economic activity is captured by real gross domestic product (GDP) at the state level, which is on track to end 2009 down 3 percent for the year. This performance caps a decade of slow GDP growth, ranking forty-ninth in the nation. Indiana's manufacturing output has shrunk for the past four years, but it still contributes more (25 percent) to Indiana's economy than any other sector. Manufacturing's share of GDP in Indiana leads all other states by a considerable margin. In 2010, the state's economy should grow about 2 percent, modest but welcome growth following a deep recession.

Personal Income

Hoosiers' total personal income (PI) growth has long lagged that of the United States, but at least it showed some annual growth for many years through 2008. For 2009, Indiana PI is on track to fall by 2 percent in real dollars since 2008, reversing that trend. Indiana's per capita personal

income (PCPI) now trails the U.S. figure by a record \$5,603, about 14 percent below the national PCPI.

Much of the PI decline happened early in 2009, and there are early signs of a turnaround in the making. In the second quarter, PI rose by 0.5 percent, the sixteenth-best performance in the nation. Most of the gain, however, resulted from government payments to individuals (unemployment benefits, social security, veterans' benefits, stimulus payments, etc.). The outlook for next year is more upbeat, with PI ending the year about 2 percent higher than in 2009.

Employment and Unemployment

Indiana payroll employment reached its most recent peak of nearly 3 million jobs in August 2007, not long before the recession began. Employment declined slowly at first and then much more rapidly in early 2009, bottoming out at 195,000 fewer jobs on state payrolls. About half of this decline came from the manufacturing sector, but it affected nearly all major sectors. Only education and health services managed to avoid an outright decline, but not by much.

Since bottoming out in July, Indiana employment has not moved appreciably; the October figure was

only 900 jobs above its 2009 low. The unemployment rate meanwhile fell significantly in late summer after spending several months above the national rate earlier in the year. At present, Indiana's rate is also below those of our neighboring states, suggesting that the Hoosier state is more effectively resisting the major jobs downturn in the Great Lakes region. Even so, twice as many Hoosiers are looking for work as there were at the start of 2008.

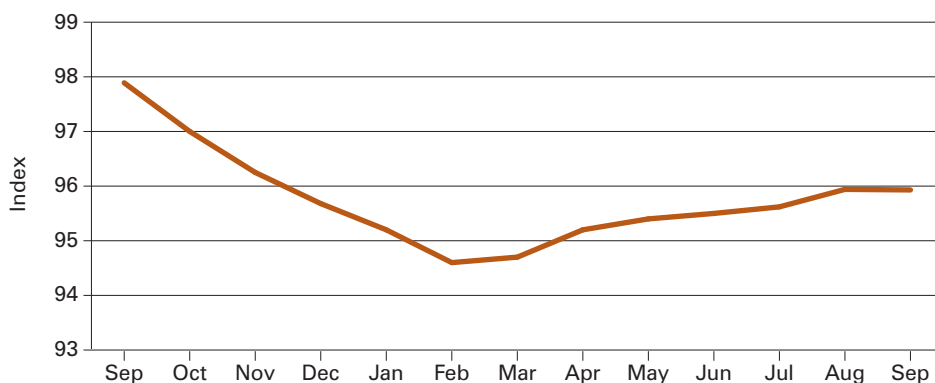
The jobs forecast for 2010 calls for a slight decline in the first quarter followed by gradual growth, adding about 30,000 jobs during the year. Goods production employment will be relatively flat in 2010. The unemployment rate should be above 9 percent throughout most of the year.

Other Indicators

After five years of falling home construction, Indiana residential building permits should start rising again, up about 18 percent for 2010. Following a weak 2009 performance, sales of existing homes should rebound about 17 percent in 2010.

Indiana retail sales are on track to end 2009 down by 8 percent, with store profits falling even faster as retailers rely heavily on promotions to persuade consumers to buy. Retail sales in the year ahead are forecast to be relatively flat.

■ FIGURE 1: Leading Index for Indiana, September 2008 to September 2009



Source: Indiana Business Research Center

Leading Index for Indiana

The new Leading Index for Indiana (LII), which has anticipated past upturns and downturns in the state's economy by several months, has not declined since February 2009, rising in all but one of the intervening months (see Figure 1). The LII offers further grounds for encouragement that Indiana is climbing out of the recession, but it will likely be several years before we've regained all the ground that's been given up in this recession. ■