Indiana's Outlook for 2012

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The Great Recession took the wind out of Indiana's economic sails, and the path to recovery has led our ship of state across uneasy seas. Here is an overview of the state's recent performance and its economic outlook for 2012.

Employment and Unemployment

Indiana lost 8 percent of its workforce—more than 240,000 employees—by the end of the recession in mid-2009. The first year of recovery then looked promising as we added 55,000 jobs, but for the last year-and-a-half our labor market has meandered with no real traction; we're now down 200,000 jobs from the pre-recession peak.

Job recovery has varied widely across sectors, as seen in **Figure 1**. The only sector with more workers now than before the recession is private education and health care, adding more than 36,000 jobs. This sector's growth has slowed during the past several months, however. Government jobs held their own until mid-2010, but then state and local governments were hit by budget cuts and the sector has lost 30,000 jobs in the last year and a half.

The other major sectors all experienced substantial job losses during the recession, with trade, transportation and utilities now at its lowest employment level in decades. Manufacturing, on the other hand, while still down 98,000 jobs from its pre-recession peak, has grown during the recovery. Construction, the hardest-hit sector in relative terms, has only recently started to climb out of its hole and has added 11,000 jobs so far this year.

Indiana's unemployment rate rose by 6 points during the recession, followed by slow improvement since early 2009. However, it's been rising gradually the past several months as more Hoosiers re-enter the labor force looking for work.

In 2012, we expect about 1.5 percent growth in Indiana employment—roughly 40,000 payroll jobs, spread across most sectors. The unemployment rate will wind down very slowly, ending 2012 near 8 percent. At this rate, it will be years before we return to pre-recession levels.

Overall Economic Output

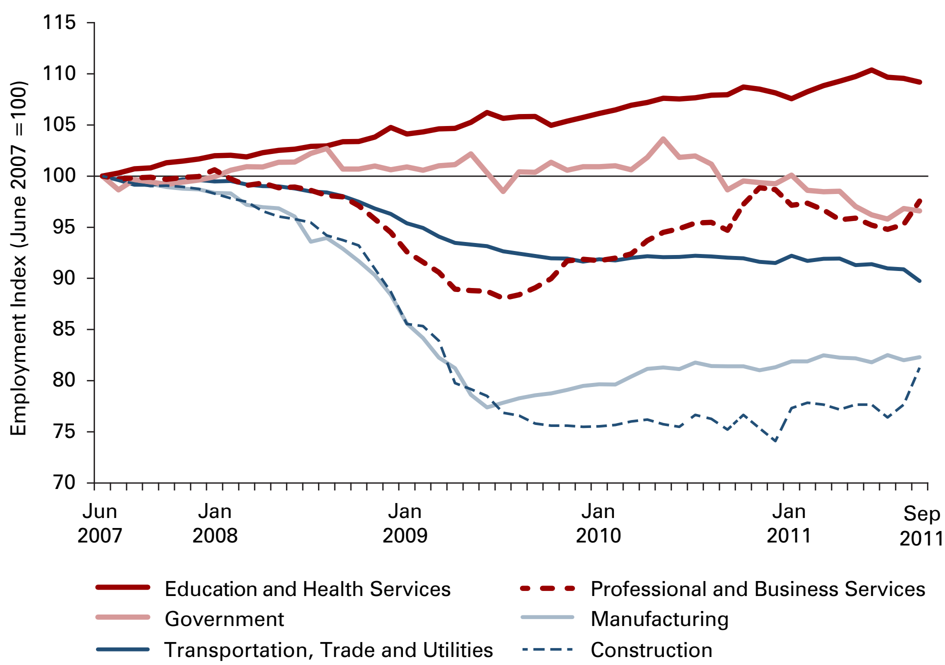
Following a year of strong Indiana gross domestic product (GDP) growth (4.6 percent) led by a manufacturing rebound, the state's GDP is growing less than half as rapidly in 2011—expected to end the year up 2.2 percent. The main contributors to this slower pace are weakness in the construction sector, decelerating manufacturing growth and shrinkage of the government sector.

For 2012, we anticipate negative state output growth in the first quarter payroll tax followed by decent growth the rest of the year. GDP for the year should rise about 3.1 percent, a bit faster than the national rate. Indiana's output growth will be led by manufacturing, trade, and professional and business services. Construction and government weakness will restrain growth.

Personal Income

The personal income (PI) of Hoosiers has been keeping pace with the nation, averaging about 1.8 percent of U.S. total PI. Interestingly, Indiana farmers have done relatively well, averaging 3.6 percent of U.S. farm income; farmers, however, account for only a tiny fraction of Indiana's PI.

Figure 1: Relative Employment Change in Major Indiana Sectors, June 2007 to September 2011



Source: IBRC, using Bureau of Labor Statistics data

Housing

Indiana's housing market has been fairly stable the past year, with sales and prices roughly level. The inventory of unsold homes on the market has averaged nearly 11 months' supply, but that figure is gradually decreasing, which should help prices start to rise again in 2012. We forecast home sales to rise 15 to 20 percent in 2012, and home construction to finally rebound, increasing as much as 30 percent or more over 2011.

Retail Sales

Indiana retail sales rose 6 percent in 2010, and they're still growing this year, though more slowly (5 percent). Our forecast for 2012 predicts even modest retail growth of about 1.5 percent.

Leading Index for Indiana

The Indiana Business Research Center's Leading Index for Indiana (LII) is designed to predict changes in the state's economic performance several months in advance. The LII in October rose half a point to 96.9, just shy of its post-financial crisis high. While we remain cautious, this latest movement in the LII is a positive sign following several months in the doldrums.

All told, the forecast for Indiana's economy is nothing to cheer about, but at least it's moving in the right direction. Unfortunately, a return to a truly vigorous economy is still quite a distance off.

Indiana's Agricultural Outlook for 2012

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The outlook for Indiana agriculture in 2012 is bright because corn and soybean prices are projected to set a new record, following record prices in 2011. The one concern is that Indiana was negatively impacted by the wet spring and dry summer, so many farmers have a smaller crop to sell and cannot fully benefit from these high prices.

The upward trend in grain prices started in August 2010 due to the Russian drought and is further supported by the smaller than expected U.S. corn crop, record world sugar prices and the low world grain inventories. These high prices mean that crop producers can expect above average incomes in 2012 even as they raise concerns about higher input costs for the 2012–2013 crop.

Meanwhile, these higher crop prices will cut into profit margins for the livestock sector that had just returned to profitability in 2010 after suffering major losses since feed costs started escalating in 2007. The silver lining for the livestock sector is that these higher feed costs will likely limit expansion of livestock herds, maintaining higher livestock prices and passing these higher feed costs onto consumers.

The pork industry has responded to the uncertainty over feed prices by modestly increasing the size of the breeding herd by 0.6 percent. The USDA expects pork exports to increase 2.8 percent in 2012. As a result, pork producers should return to profitability in 2012 as long as feed costs remain at current levels, i.e., the price of corn remains below $7 per bushel. If there is a return to normal corn yields in 2012, feed costs could moderate further and pork producers would be in a position to expand production.

The dairy industry is facing higher feed costs for grains and forages, as well as lower milk prices, in 2012. At the same time, milk production is forecasted to increase largely due to increased output per cow. As a result, the dairy industry has tipped back into a period of losses and the USDA currently forecasts the dairy herd will contract slightly in terms of the number of dairy cows in 2012, though overall milk production may continue to increase with additional output per cow. Dairy farms that produce their own feed and forage may be in the best position to survive this period of volatile feed costs.

Of all the livestock sectors, the beef industry is the best positioned to weather the higher feed costs. Over the last four years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The drought in the Southern Plains is forcing cattle producers to liquidate their herds, further reducing the cattle herd. As a result, per capita domestic beef availability in 2012 is anticipated to be 17 percent lower relative to 2007, and the USDA is forecasting record beef prices. Indiana beef producers who have access to water, grain and forage are well positioned for a profitable 2012.

Shifting back to the row crop sector, 2012 will see another major acreage battle between corn, wheat and cotton, which will push field crop prices higher through the planting season next spring. Corn is expected to gain the most acreage, especially here in Indiana, and these acreage gains will come at the expense of soybeans and other oilseeds, which in turn will push up soybean prices. Given the outlook for very high crop prices, the biggest risk to row crop agriculture is continued rapid increase of input costs.