

March 1997 Volume 72, Number 3 Indiana Business Review

Update

A Monthly Overview of Economic Trends

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SLOWDOWN OF INDIANA'S GROWTH

INDIANA AND THE NATION. Indiana's total personal income topped \$130 billion¹ in the third quarter of 1996 according to figures released recently by the U.S. Bureau of Economic Analysis. The Hoosier state ranked 16th in the nation between the states of Washington and Missouri. As seen in figure 1, after adjusting for price changes, Indiana's growth has been almost uninterrupted since the end of the last recession in the first quarter of 1991.

In 19 of the past 22 quarters, Indiana's real personal income has grown. In 11 of the 16 quarters from 1991:1 to 1995:1, Indiana outperformed the nation. Since then, Indiana has trailed the national growth rate five out of six quarters.

Our state's shifting fortunes, relative to the nation, can be seen in figure 2. As the nation emerged from the recession of 1990-91, our share of U.S. personal income climbed. In 1993 and '94, our share stabilized at about 2.05 percent, and has been in decline since the first quarter of 1995, dropping to 2.02 in mid-'96.

What is the difference between 2.05 and 2.02 percent of U.S. personal income? In 1996:3, it was worth \$345 million, or approximately \$60 for every child and adult in the state for that quarter alone.

We are seeing a classic Indiana business cycle. The national recovery was slow in starting, in part because declining defense spending by the Pentagon was a retarding factor in California and other prime contracting states. But Indiana did well in the recovery period from '91:1 to '93:1, growing nearly twice as fast as the nation (see figure 3).

As the national economy picked up in 1993 and 1994, Indiana grew at virtually the same rate as the nation. A slowing of the nation's growth since the start of 1995 has meant a dramatic slowdown in Indiana.

¹ These figures are expressed as seasonally adjusted annual rates.

INDIANA AND OTHER STATES. If we look at the entire period since the end of the recession in '91:1, Indiana has ranked a respectable 23rd among the states in the nation in growth of real personal income. If we look only at the past year, '95:3 to '96:3, Indiana ranks 37th. And if we consider just the last quarter for which data are available, our rank falls to 47th.

Our pattern of slowing growth is shared with our neighbors Michigan and Ohio (see figure 4). These three states rank highest in the nation in dependence on durable goods manufacturing, the sector which often experiences the earliest and most severe slowdown. Illinois and Kentucky have seen accelerating growth, similar to that of the U.S.

In the past year, real personal income in California has grown by 3.96% (17th in the nation). This lifted the national rate to 3.55%. Kentucky managed to do better (4.52%, ranked 12th), but Indiana and its other neighbors all fell below the nation, with Michigan and Ohio joining Indiana in the bottom third of the states (see figure 5).

DIMENSIONS OF THE SLOWDOWN. Of the eleven non-farm sectors of Indiana's economy, nine have been lagging the nation (see figure 6). Although still expanding, earnings in construction, durable goods, and other key sectors have not kept pace with the nation's grow. Both mining and government have actually declined in Indiana.

To see how these sectors have changed from a period of more vigorous expansion, see figure 7. Earnings in the durable goods sector slowed from an annual rate of 4.2% between '91:1 and '95:3 to just 0.9% in the past year. Five other sectors also had slower growth or decline in the past year compared to the more robust preceding period. Improvements were shown in agricultural services, forestry and fisheries, mining (slower decline), and services.

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FIG. 1 INDIANA'S TOTAL PERSONAL INCOME

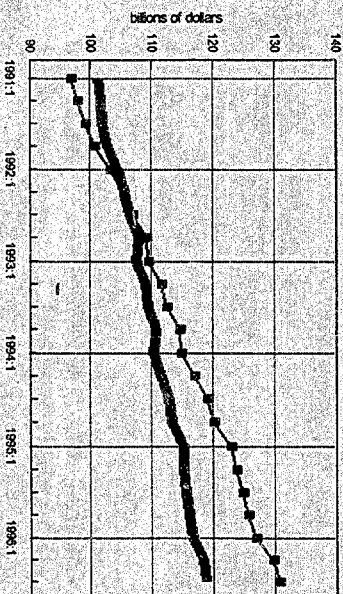


FIG. 2 INDIANA'S SHARE OF U.S. PERSONAL INCOME

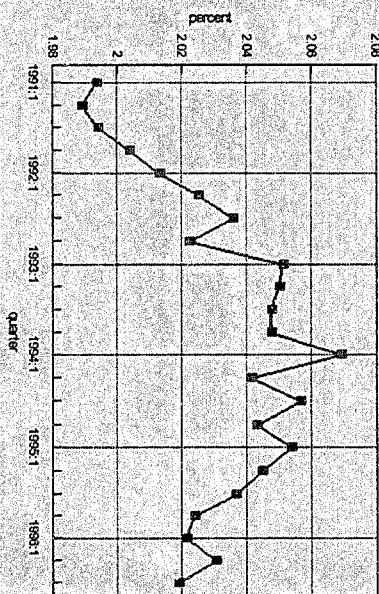


FIG. 3 COMPARATIVE GROWTH RATES IN PERSONAL INCOME

