

Indiana Economic Forecast Update

Tom Jackson, Principal Economist, US Regional Economics

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US economy has been moving from above-potential GDP growth to modestly below

- US economy is transitioning from above-potential to below-potential growth
 - Over the four quarters of 2023, US GDP growth averaged 3.2% per quarter; growth picked up to 3.8% over the second half of 2023.
 - For 2024, quarterly GDP growth is forecast to slow to 2.3% per quarter.
 - Our baseline forecast reflects a “soft landing” as growth slows in order to ease inflation but doesn’t drop into a recession.
- Factors that contribute to slowdown include
 - Ongoing effects of past Fed tightening.
 - Tightening bank lending standard on loans to businesses and consumers.
 - Diminished tailwinds that had been boosting growth in 2023.
 - Much of this was investment in infrastructure and manufacturing facilities spurred by Federal spending.
 - Strong dollar, which is weighing on net exports
- The December 2024 forecast includes our initial assessment of expected policies to be enacted by the incoming Trump administration and GOP-led Congress.
 - Supply-tightening effects of higher tariffs, reduced immigration, and resulting increase in inflation partly offset by stimulative effects of tax cuts and deregulation.
 - Potential for reduced Federal spending a major unknown.

Key policy assumptions in the December 2024 US forecast

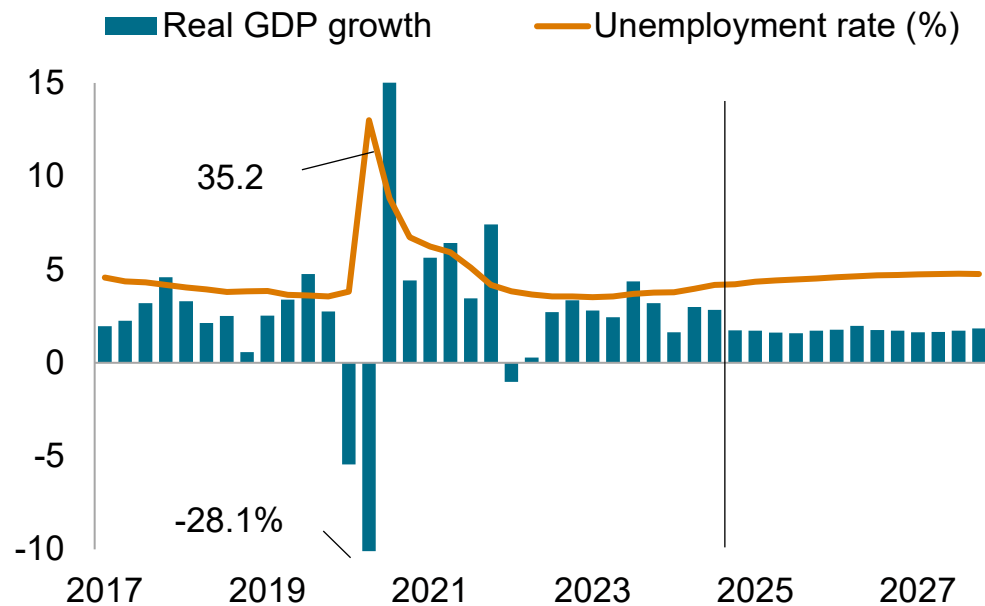
- This forecast assumes the implementation of a 10% universal tariff, and a tariff on imports from mainland China of 30%.
 - Tariff hikes commence in second quarter of 2025 and ramp up over four quarters. Corporate taxes governed by current law, including the Inflation Reduction Act and scheduled phase-outs of provisions of the 2017 Tax Act.
 - We expect many trading partners to respond with tariffs of their own on US exports.
- A sharply reduced inflow of immigrants, along with some degree of deportations, reduces net immigration by around a half-million per year over the next four years.
 - This will reduce aggregate supply via reduced labor availability; also will reduce domestic consumption due to lower population.
- Interest rate cuts by the Federal Reserve will still occur, but at a slower rate.
 - The expected average Federal Funds rate for 2026, for example, is now 3.72% compared with 2.62% in our previous forecast.
 - Long-term interest rates will be higher due to elevated inflation expectations.
- The so-called Department of Government Efficiency (DOGE) raises the possibility of significant cuts to Federal government spending. For now our expectations for spending cuts are modest, mainly due to lack of available detail.
 - Reduced government spending would reduce budget deficits, which could help to boost economic growth in the longer term.
 - in the short term it would be a net negative for GDP growth.
 - We assume a reduction in Federal government payrolls of 500,000.
- Some provisions of Biden-era initiatives such as the Inflation Reduction Act and the CHIPS Act are likely in jeopardy.
 - We currently do not have specific assumptions about major changes. The uncertainty may at least put a hold on certain projects, especially those related to the energy transition.

GDP growth slows to below trend; unemployment rate drifts up

*US economy is on track for a **soft landing***

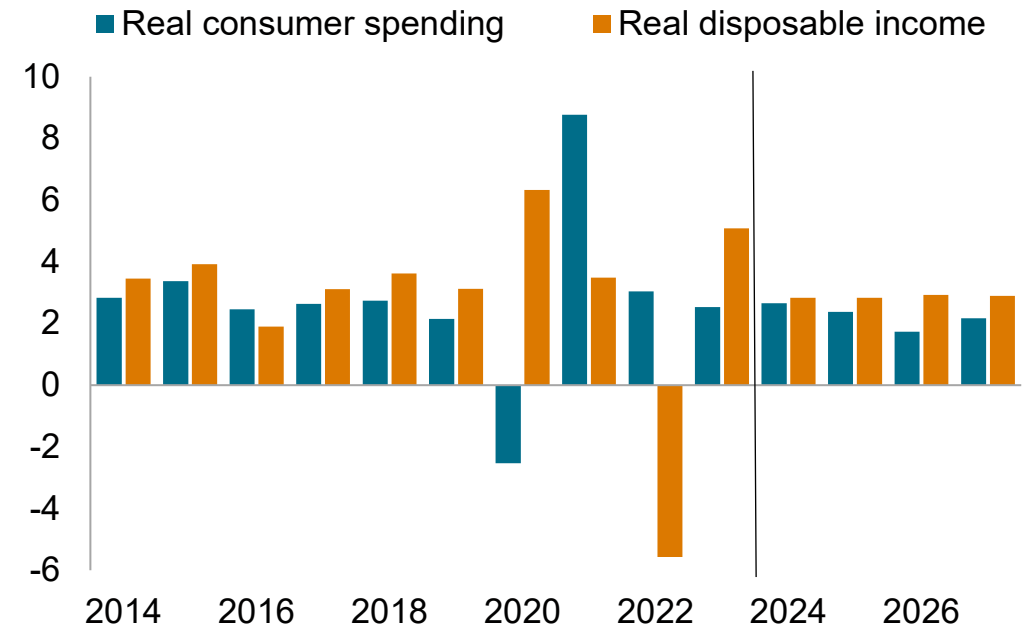
Consumer spending growth softens with pandemic-era “excess savings” mostly spent

US unemployment rate and real GDP growth, Percent change annual rate



Data compiled December 2024.
Source: S&P Global Market Intelligence.
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Real US consumer spending and disposable income, percent change



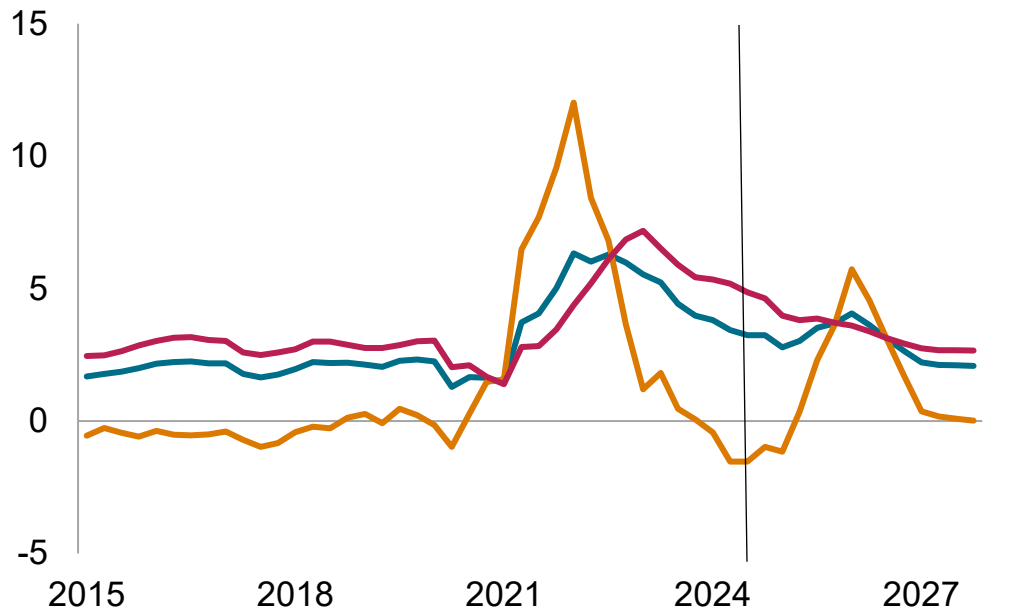
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Supply-side disruptions to cause a moderate rebound in inflation rate in 2025, limiting further declines in longer-term interest rates

Core goods inflation to reappear in 2025

US consumer prices excluding food and energy Year-over-year percent change

— Core goods and services — Core goods — Core services

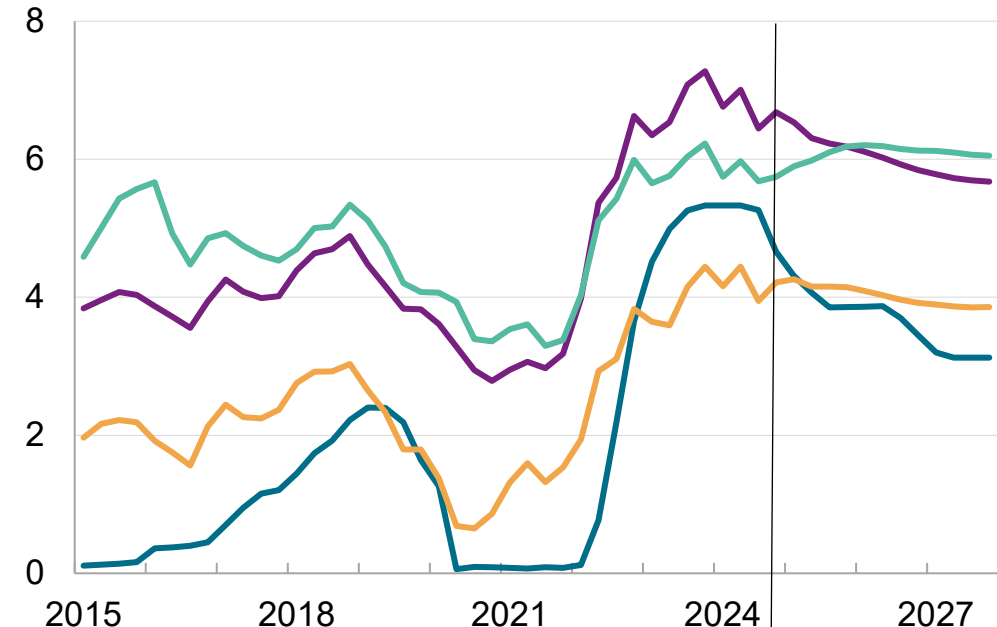


Data compiled December 2024.
Note: CPI all-urban, seasonally adjusted, 1982-84=1.0
Source: S&P Global Market Intelligence.
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Fed funds rate still declines, while longer rates remain elevated.

Interest rates, percent

— Federal funds — 10-year Treasury — 30-year mortgage — BAA corporate

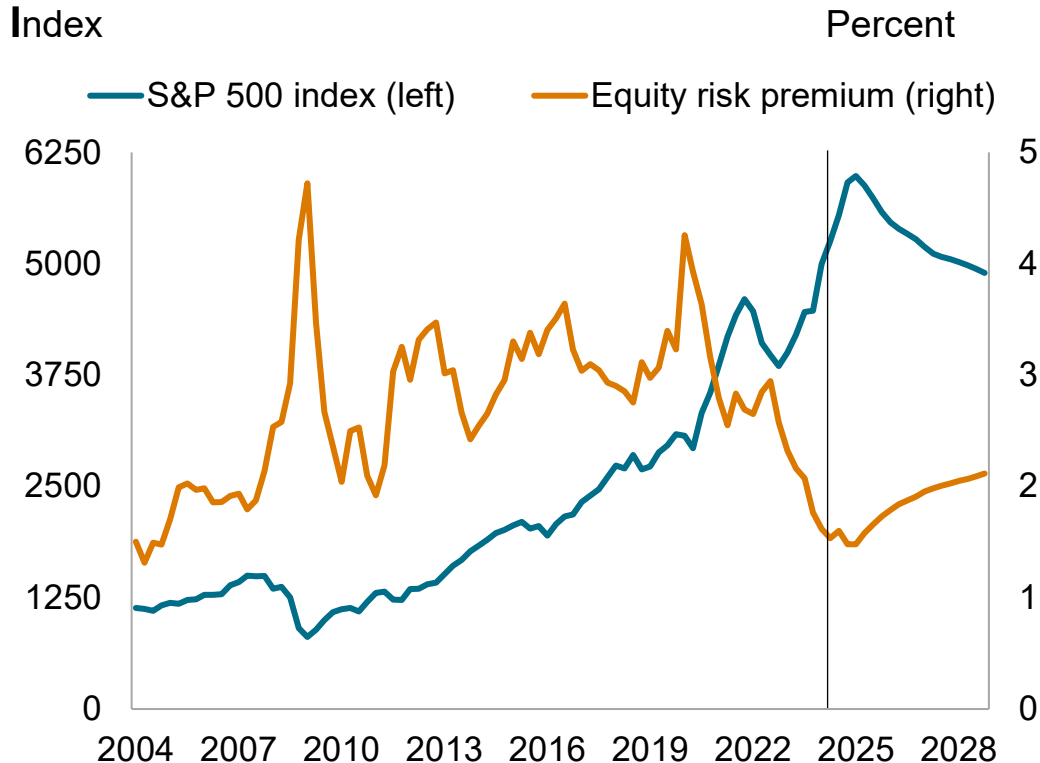


Data compiled December 2024.
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Higher inflation and interest rates, modestly lower growth to weigh on markets

Fed rate cuts likely to disappoint equity markets, while P/E ratio and risk premia normalize.

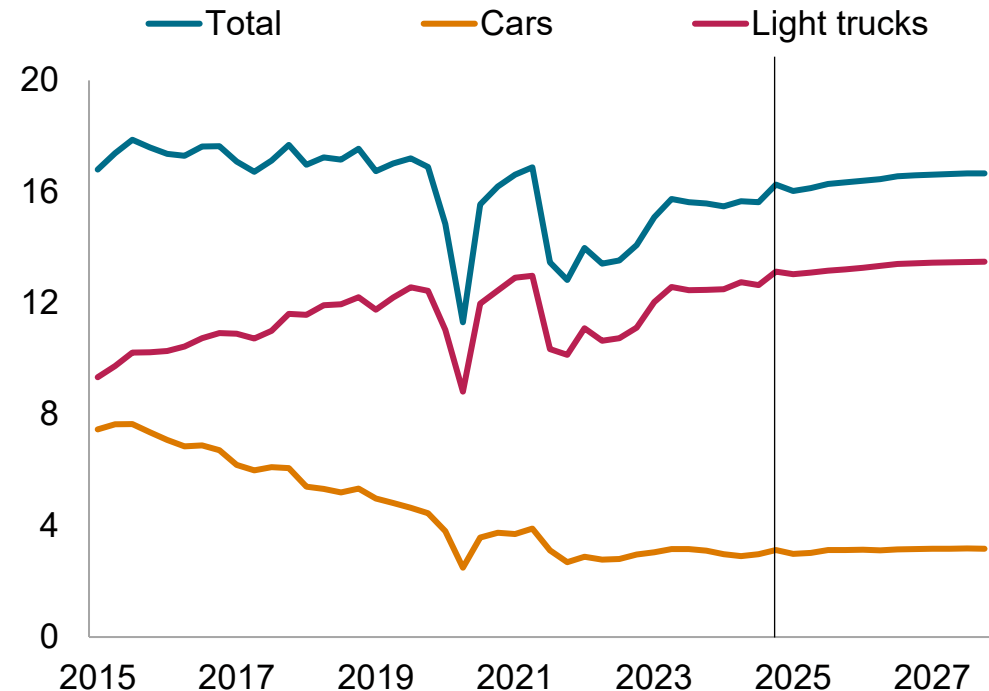
Equities ease over 2025-2028



Data compiled December 2024.
Source: S&P Global Market Intelligence.
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Vehicle sales remain solid thanks to income growth, average age of vehicles.

Total light-vehicle sales Millions, SAAR



Data compiled December 2024.
Source: S&P Global Market Intelligence.
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US economic growth by sector

Percent change, unless otherwise noted

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------------------------------------|------|------|------|------|------|
| Real GDP | 2.9 | 2.7 | 1.9 | 1.8 | 1.7 |
| Final sales | 3.3 | 2.6 | 1.8 | 1.7 | 1.7 |
| Consumption | 2.5 | 2.7 | 2.4 | 1.7 | 2.2 |
| Light vehicle sales (millions) | 15.5 | 15.8 | 16.2 | 16.5 | 16.6 |
| Residential fixed investment | -8.3 | 4.2 | -1.5 | -0.6 | 0.7 |
| Housing starts (millions) | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| Business fixed investment | 6.0 | 3.7 | 1.9 | 1.7 | 1.3 |
| Federal government | 2.9 | 2.3 | 1.5 | 0.3 | -0.4 |
| Exports | 2.8 | 3.0 | 3.2 | 1.9 | 2.9 |
| Imports | -1.2 | 5.3 | 3.9 | -0.4 | 1.7 |

Data compiled December 2024.

Source: S&P Global Market Intelligence..

Other key US economic indicators

Percent change, unless otherwise noted

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|------|------|------|------|------|
| Industrial production | 0.2 | -0.3 | 0.6 | 1.2 | 1.4 |
| Payroll employment | 2.3 | 1.6 | 0.9 | -0.1 | -0.1 |
| Civilian unemployment rate (%) | 3.6 | 4.0 | 4.4 | 4.7 | 4.8 |
| Consumer Price Index | 4.1 | 2.9 | 2.9 | 3.4 | 2.2 |
| Core CPI | 4.8 | 3.4 | 3.3 | 3.4 | 2.1 |
| Brent crude oil price (\$/barrel) | 82.5 | 80.5 | 71.9 | 69.0 | 70.0 |
| Federal funds rate (%) | 5.0 | 5.1 | 4.0 | 3.7 | 3.1 |
| 10-year Treasury yield (%) | 4.0 | 4.2 | 4.2 | 4.0 | 3.9 |
| Corporate profits w/IVA & CCA | 6.9 | 6.7 | -0.6 | -3.2 | 2.0 |

Data compiled December 2024.

IVA = Inventory valuation adjustment; CCA = Capital consumption adjustment

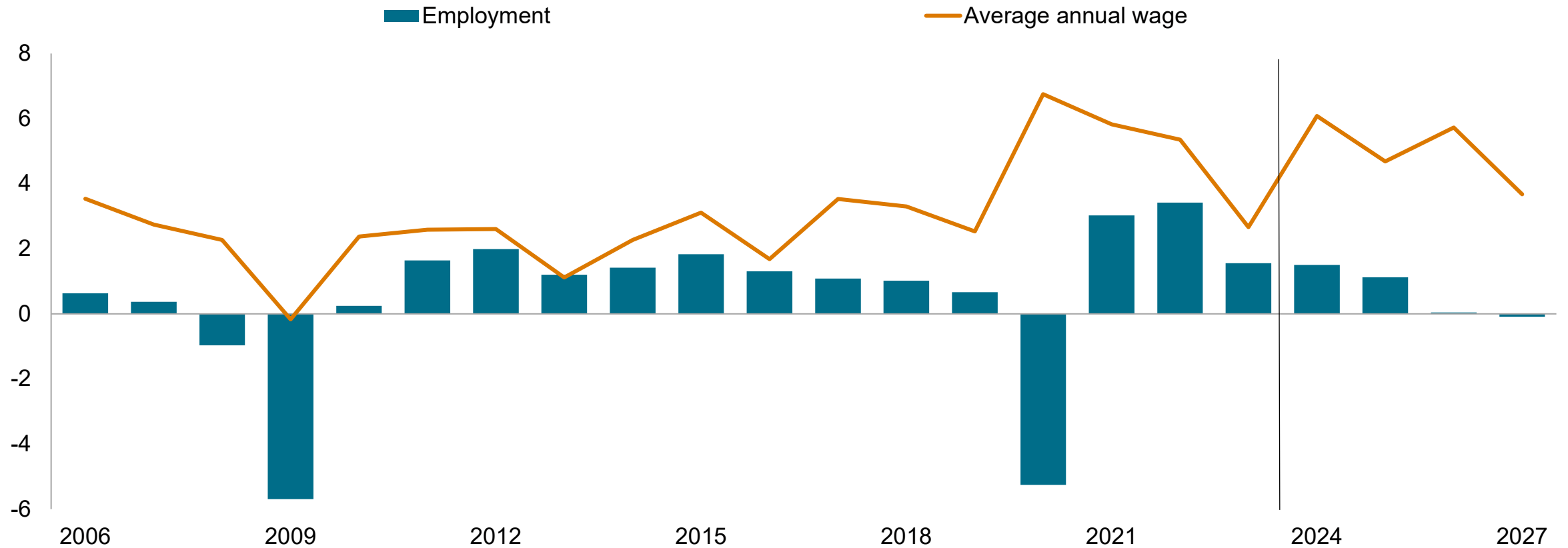
Source: S&P Global Market Intelligence.

Indiana outlook features slowing growth in output and payrolls, with continued gains in wages and income

- Indiana's economic growth outlook follows a similar path to the US.
 - Indiana employment growth remained solid in 2024, boosted by labor force expansion and sustained demand.
 - Net payroll gains will slow over the next couple of years, but job mix will change as some industries grow, others pull back, and productivity improves.
 - Impact on Indiana from decreased immigration, potential deportations will be relatively low but likely to impact certain industries and occupations.
- Higher tariffs on imports, exports would affect key industries, such as pharma and agriculture.
 - Might open new opportunities in the longer term, but short-term growth lower due to higher costs, disruptions.
- Auto industry continues to enjoy solid demand, but policy uncertainty looms.
 - Indiana has a large presence in “traditional” vehicles, while investing in new technologies.
 - Transition to electric vehicles in flux, with shifting demand and uncertain policy environment.
- Homebuilding pulled back in response to higher mortgage rates but has leveled off.
 - Record-low inventory and high home prices encouraging building despite higher costs.
 - Volume of home sales remains historically low as homeowners hang on to their existing homes (and mortgage rates).
- The state is slated to add big industry projects over the next few years, including electric vehicle batteries and drivetrain components, semiconductors, and pharmaceuticals.

Indiana job gains will stall in 2024, while wage growth remains elevated

Indiana annual employment and wage growth, % change



Data compiled December 2024.
Source: S&P Global Market Intelligence, BLS.

Key economic indicators for Indiana

Percent change, calendar year basis

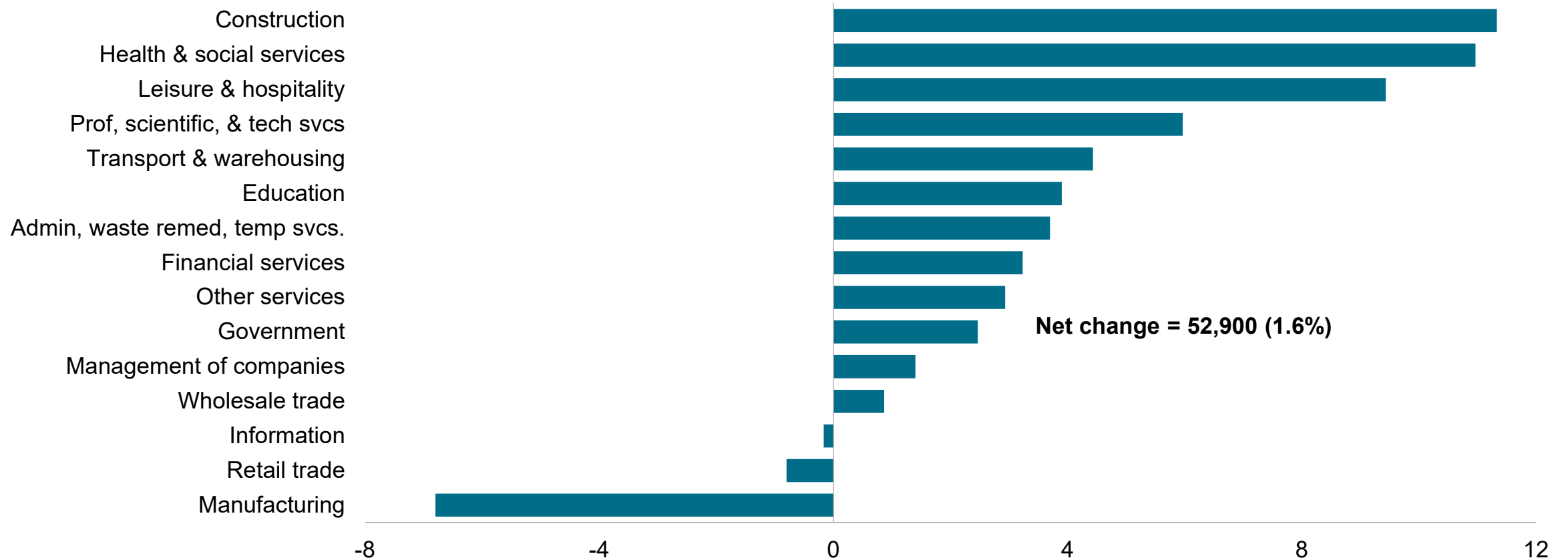
| | 2023 | 2024 | 2025 | 2026 | 2027 |
|-----------------------------------|------|------|------|------|------|
| Payroll employment | 1.6 | 1.5 | 1.1 | 0.0 | -0.1 |
| Unemployment rate (%) | 3.3 | 3.9 | 4.4 | 4.5 | 4.5 |
| Wage income | 4.3 | 7.7 | 5.8 | 5.7 | 3.6 |
| Personal income | 4.3 | 6.2 | 5.2 | 5.5 | 4.8 |
| Real gross state product | 1.3 | 3.7 | 1.9 | 1.8 | 1.7 |
| Personal consumption exp. | 5.4 | 5.1 | 4.9 | 4.8 | 4.0 |
| Housing starts (thousands) | 25.8 | 25.7 | 25.0 | 23.4 | 23.3 |

Data compiled December 2024.

Source: S&P Global Market Intelligence.

Construction boom, health care leading the way in job gains

Change in Indiana payroll employment, thousands, Q3 2023 - Q3 2024

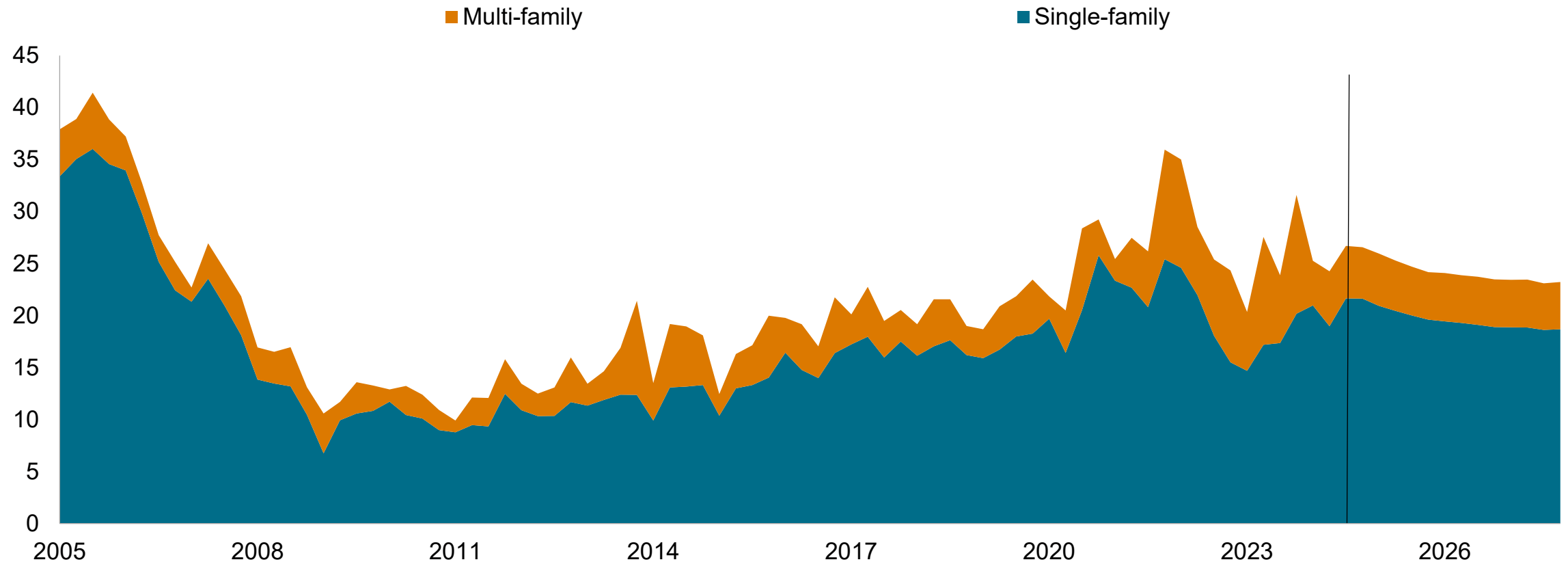


Data compiled December 2024.

Source: S&P Global Market Intelligence, BLS.

Homebuilding recovery from housing market bust in 2007-08 was extremely slow, contributing to current housing shortfalls and inflation.

Indiana housing starts, thousands



Data compiled December 2024.

Source: S&P Global Market Intelligence..

Bottom line for Indiana

- The state economy remains favorable, keeping pace with the national average by most measures.
 - Labor force gains have helped meet demand for more workers.
 - The state's research and development resources, along with its manufacturing experience, are generating and attracting new industry opportunities.
- Possible higher tariffs would impact major goods-producing industries, including pharmaceuticals, automotive, machinery, and agriculture.
- Limits on immigration, potential deportations would impact certain industries in the state, including manufacturing (including food), construction, and agriculture.
- Risks to the state's economy mirror issues at the national level.
 - On the downside, disruption to capital and energy markets due to global turmoil could pull down growth.
 - On the upside, higher consumer spending and productivity gains would boost growth.
- Longer-term issues remain the same – labor force must continue to grow in size and skill level to allow existing business to expand and to attract new business.

Evolution of short-term Indiana forecast

Percent change, calendar year basis

| | U.S. Real GDP | | | Indiana employment | | | Indiana personal income | | |
|-----------------|---------------|------|------|--------------------|------|------|-------------------------|------|------|
| | 2023 | 2024 | 2025 | 2023 | 2024 | 2025 | 2023 | 2024 | 2025 |
| Dec 2022 | 0.3 | 1.8 | 2.0 | 0.4 | -0.7 | 0.2 | 3.5 | 4.0 | 4.3 |
| Apr 2023 | 1.4 | 1.5 | 1.9 | 1.5 | -0.3 | -0.1 | 3.4 | 4.1 | 4.1 |
| Dec 2023 | 2.4 | 1.5 | 1.3 | 2.2 | 0.8 | -0.5 | 3.7 | 5.0 | 4.5 |
| Apr 2024 | 2.5 | 2.5 | 1.7 | 1.6 | 1.4 | 0.0 | 3.4 | 5.2 | 5.0 |
| Dec 2024 | 2.9 | 2.7 | 1.9 | 1.6 | 1.5 | 1.0 | 4.3 | 6.2 | 4.8 |

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