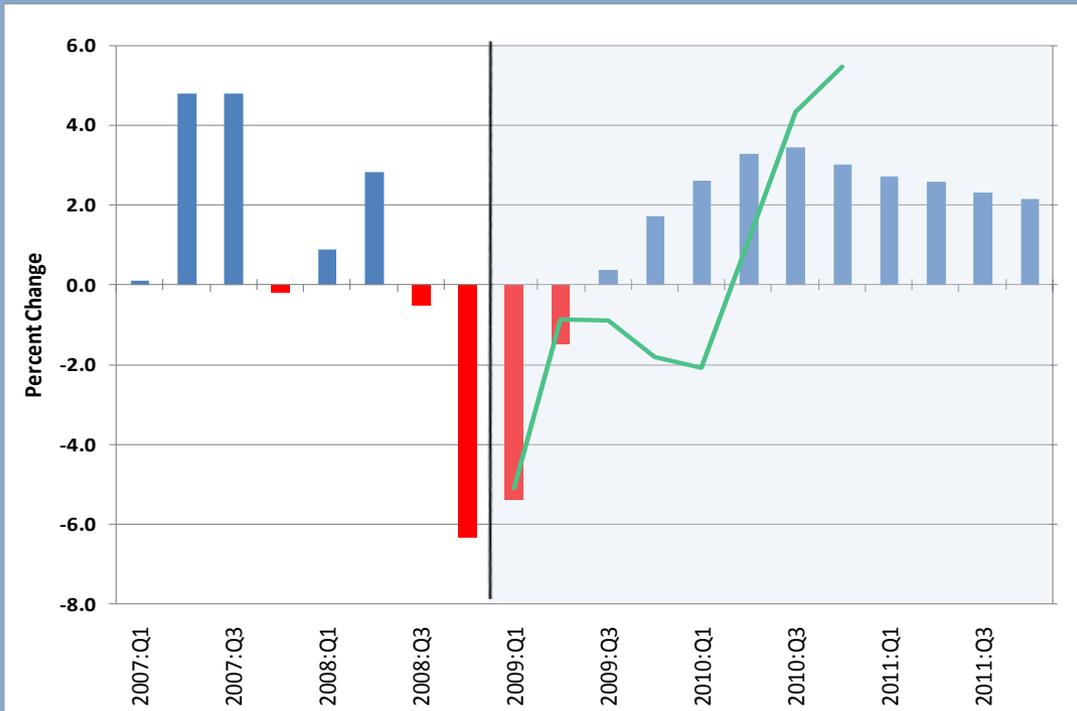


ECONOMIC OUTLOOK



Weathering the Storm

Timothy Slaper, Ph.D.
Director of Economic Research
Indiana Business Research Center
Kelley School of Business, Indiana University

Overview

- U.S. economic trends
- Indiana economic trends
- Global outlook
- U.S. economic outlook
- Indiana's outlook
- Q&A

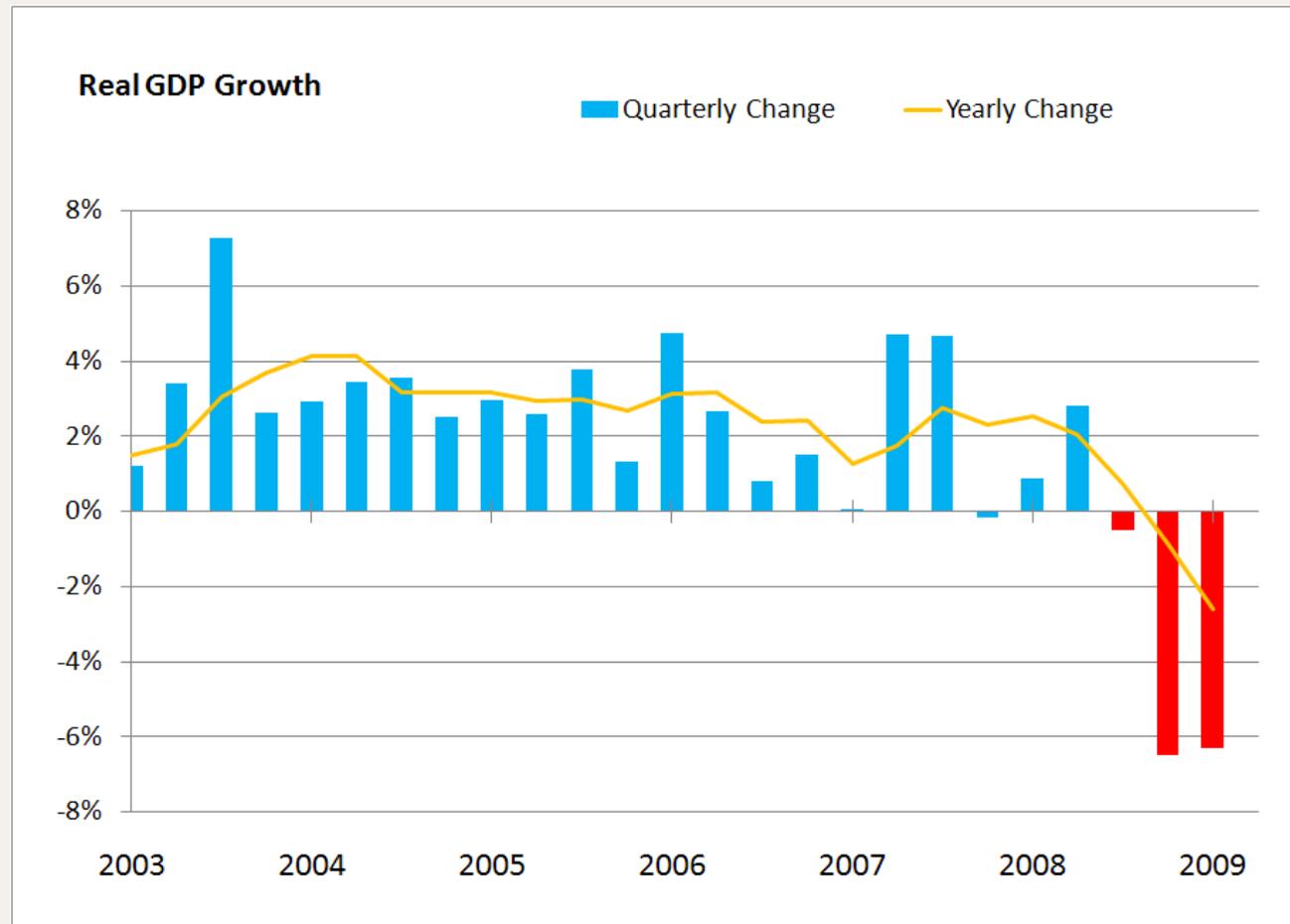
Economy Contracting

U.S. GDP growth slowing for 5th straight year

-Economy hasn't met its long-run potential since early 2006

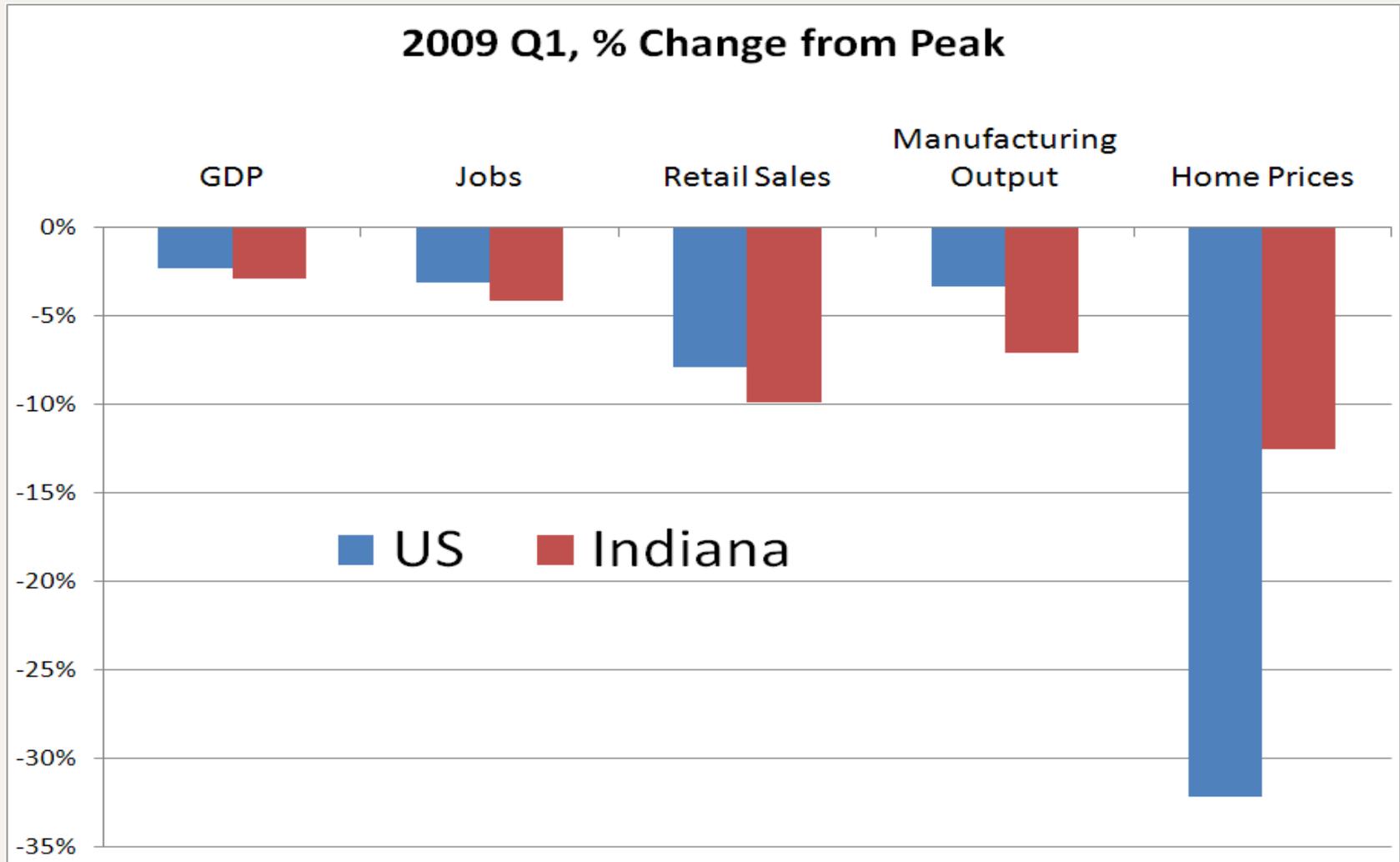
-Q3 was essentially flat, but consumption of goods way down

-Dramatic drop in Q4 of 2008 and Q1 of 2009



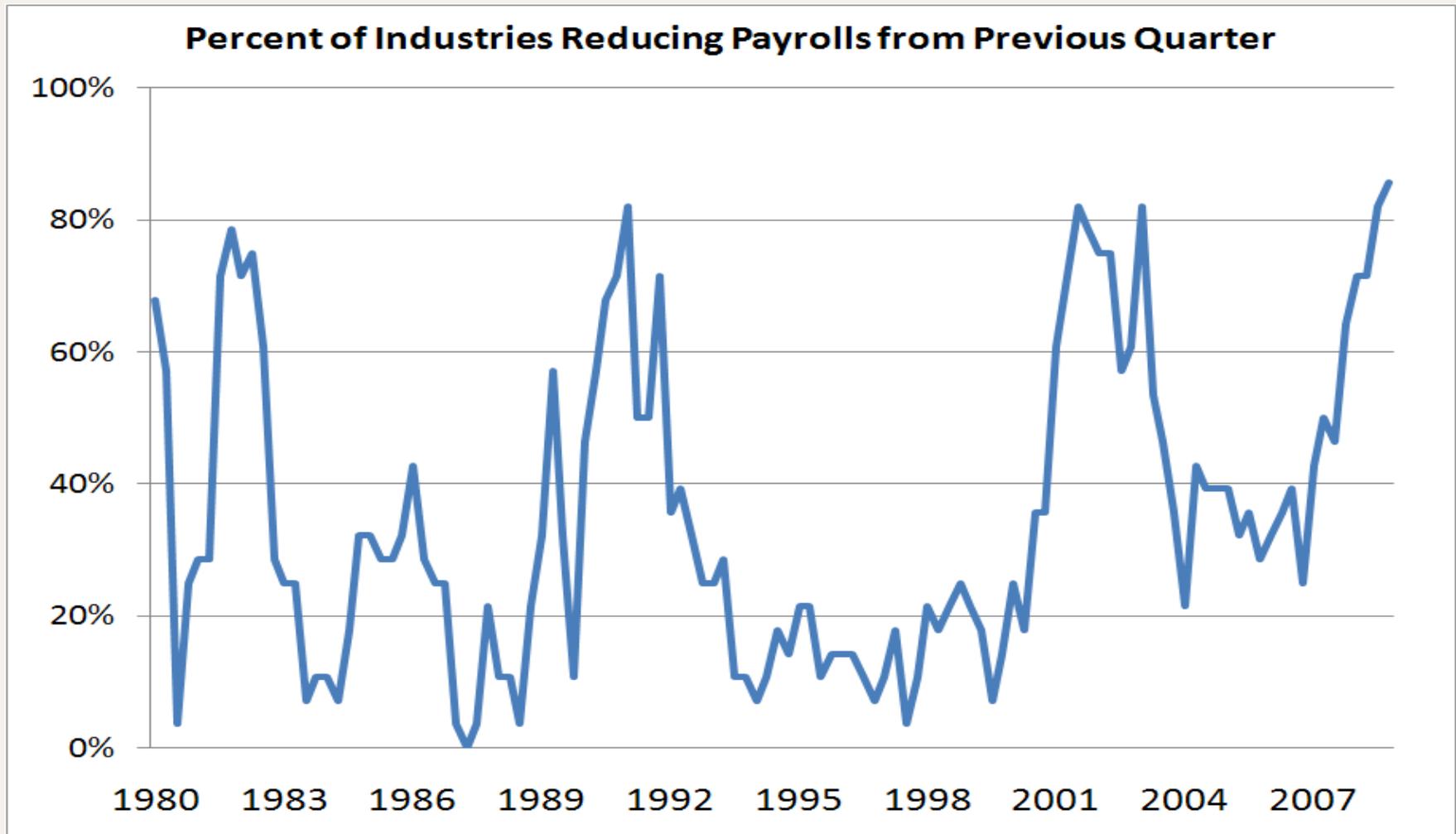
Severe Economic Downturn

Indiana hit hard

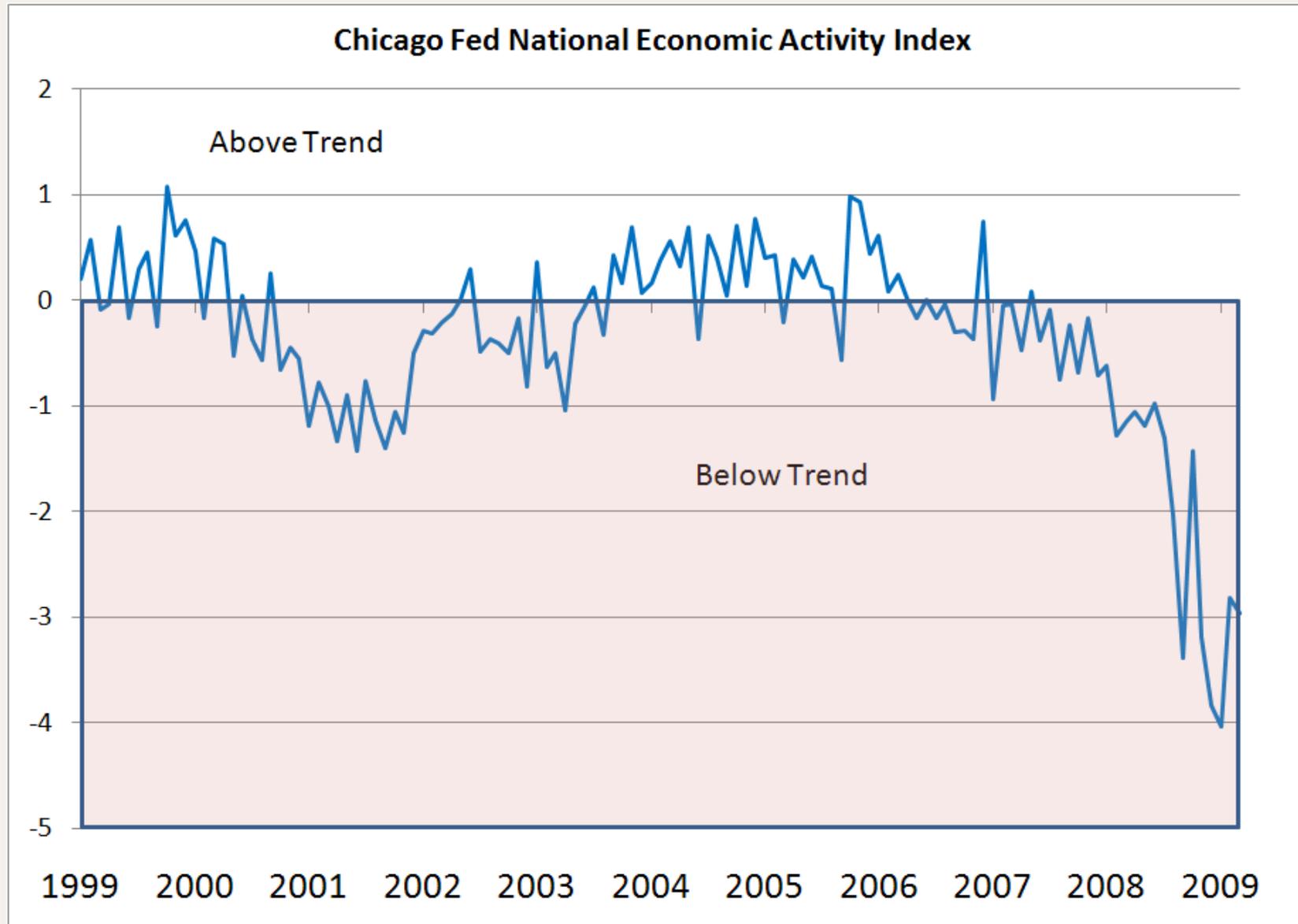


Severe Economic Downturn

Downturn broadly based across industries



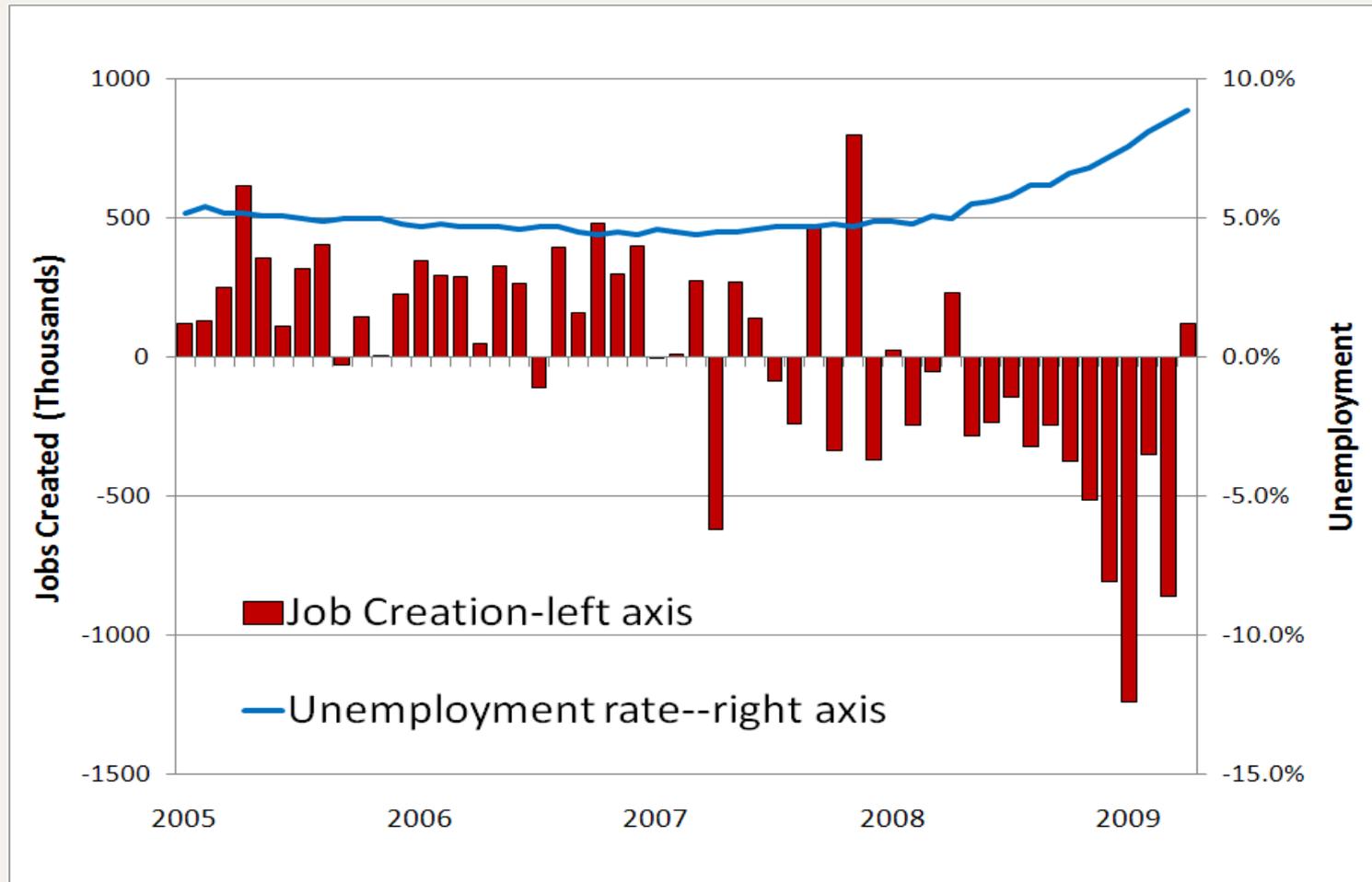
Economic Activity Well Below Trend



Deteriorating Labor Market: U.S.

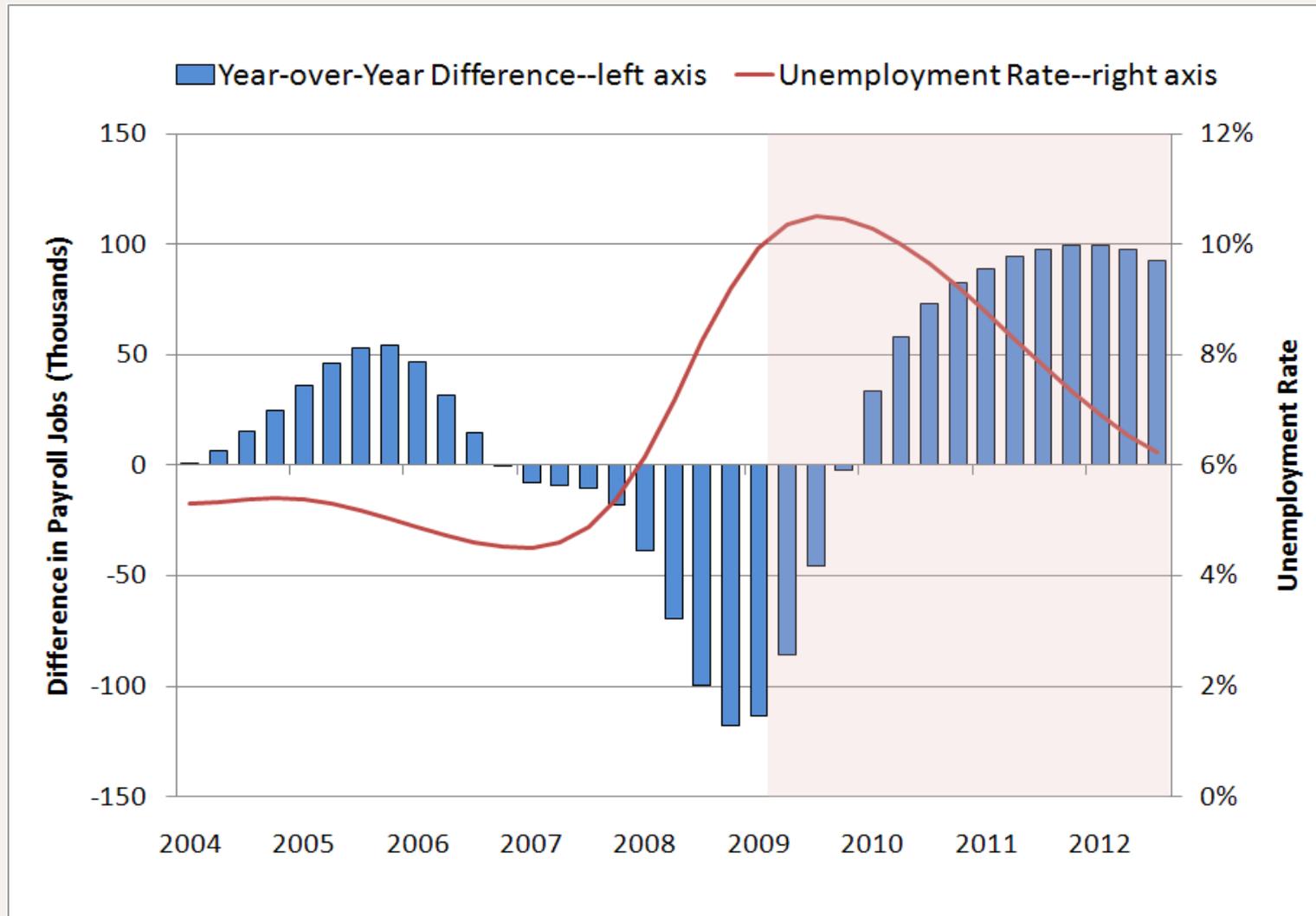
- From job creation to job losses

Unemployment
rising at an
accelerating
pace



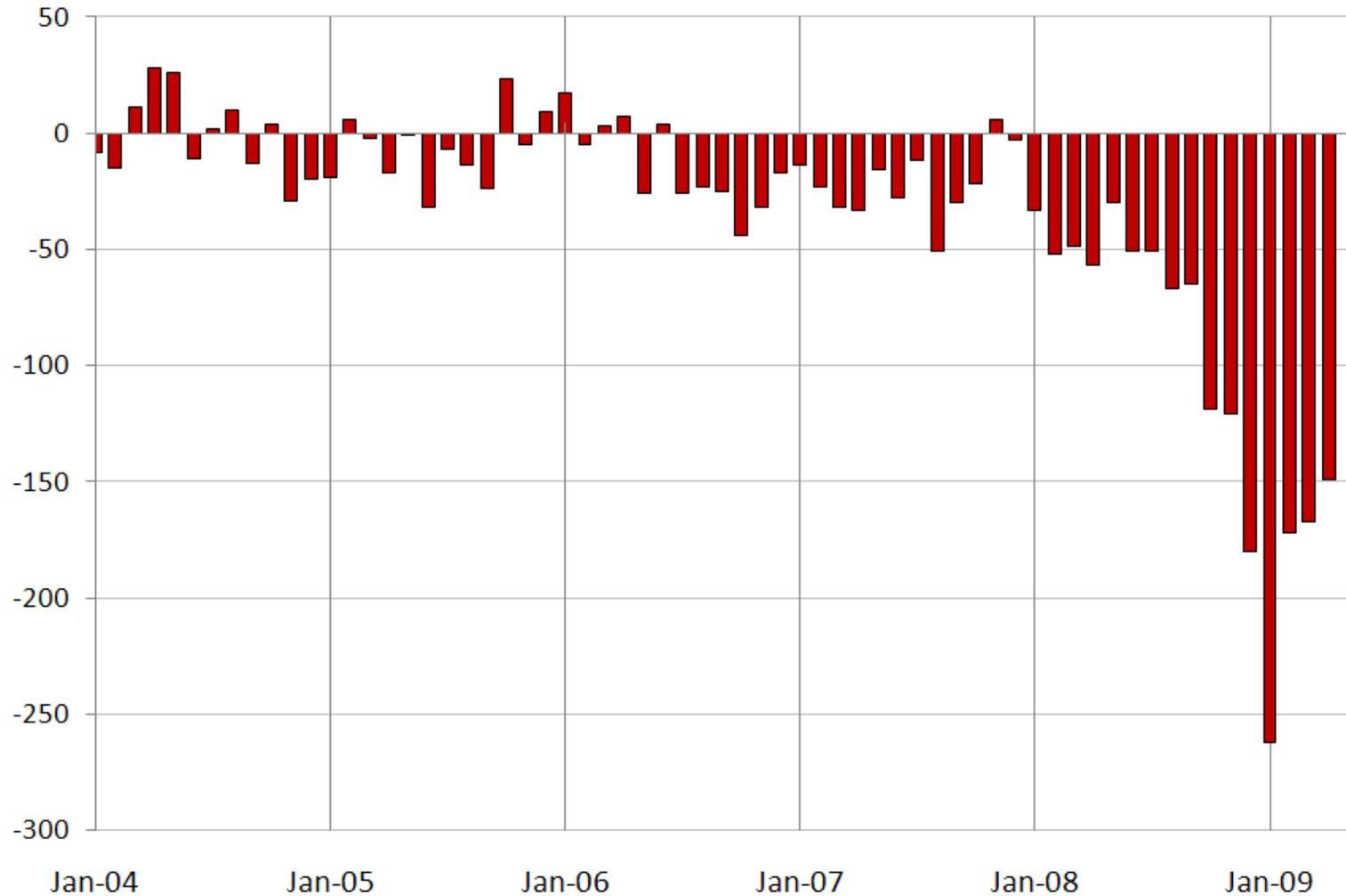
Deteriorating Labor Market: Indiana

- It may be a long tunnel



Manufacturing Hard Hit: U.S.

Monthly Change in Manufacturing Jobs (thousands)



Will the Automakers Survive?

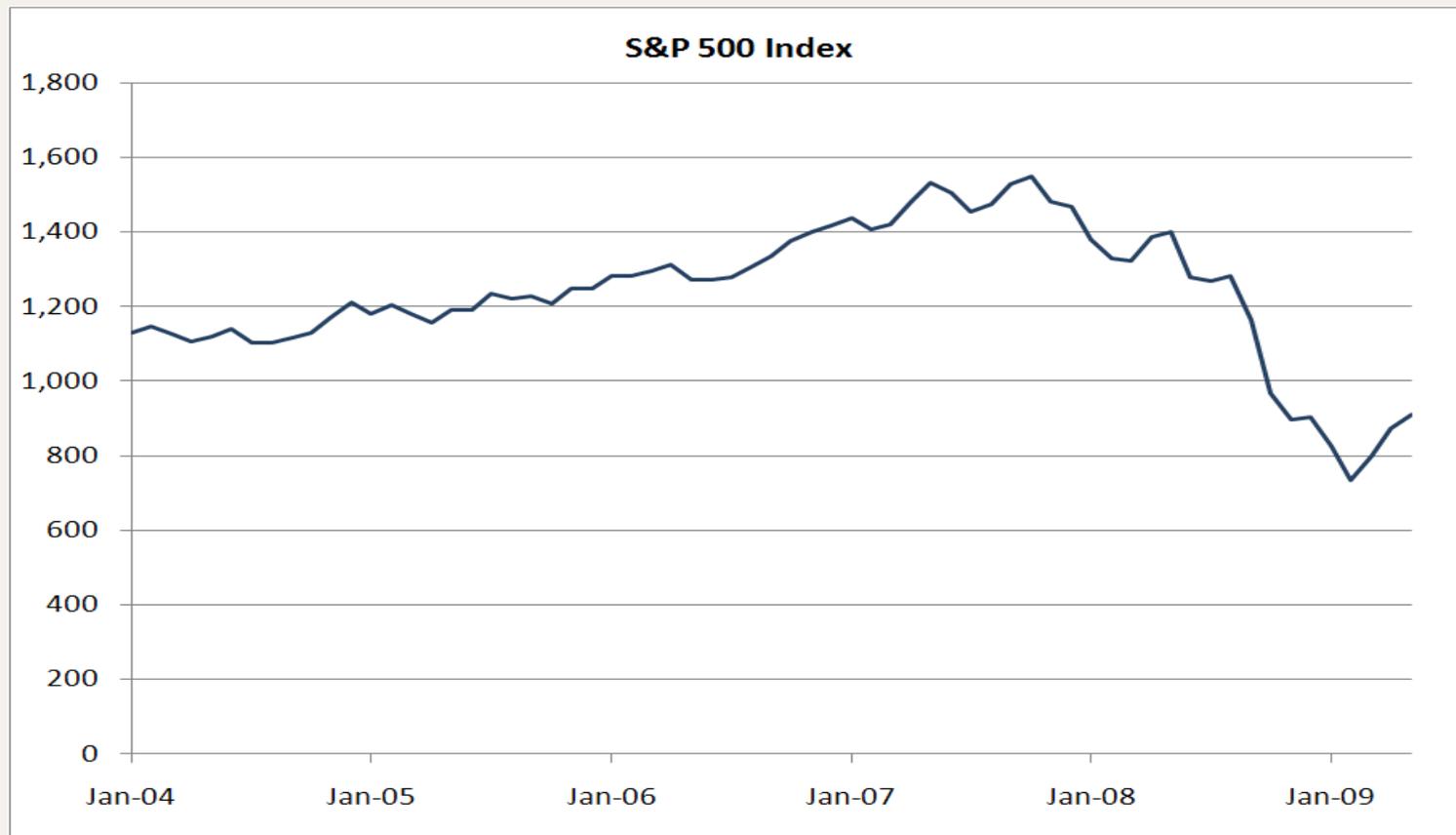
- Auto sales continue to disappoint
- Auto sales may fall to under 10 million units a year
 - Longest slide in 17 years
- Even Honda lost money Jan-Mar 09 (¥186B)
- Bankruptcy for GM *and* Chrysler?
- If all the D3 closed, immediate job loss of about **13,000 in Indiana**
- Job loss multiplier could be as high as 5
- Assumes that foreign automakers don't fill the vacuum

How Low Will Stocks Go?

- In February, stocks had lost about 50% of their value since peaking in October 2008
- Reduced wealth affects consumption

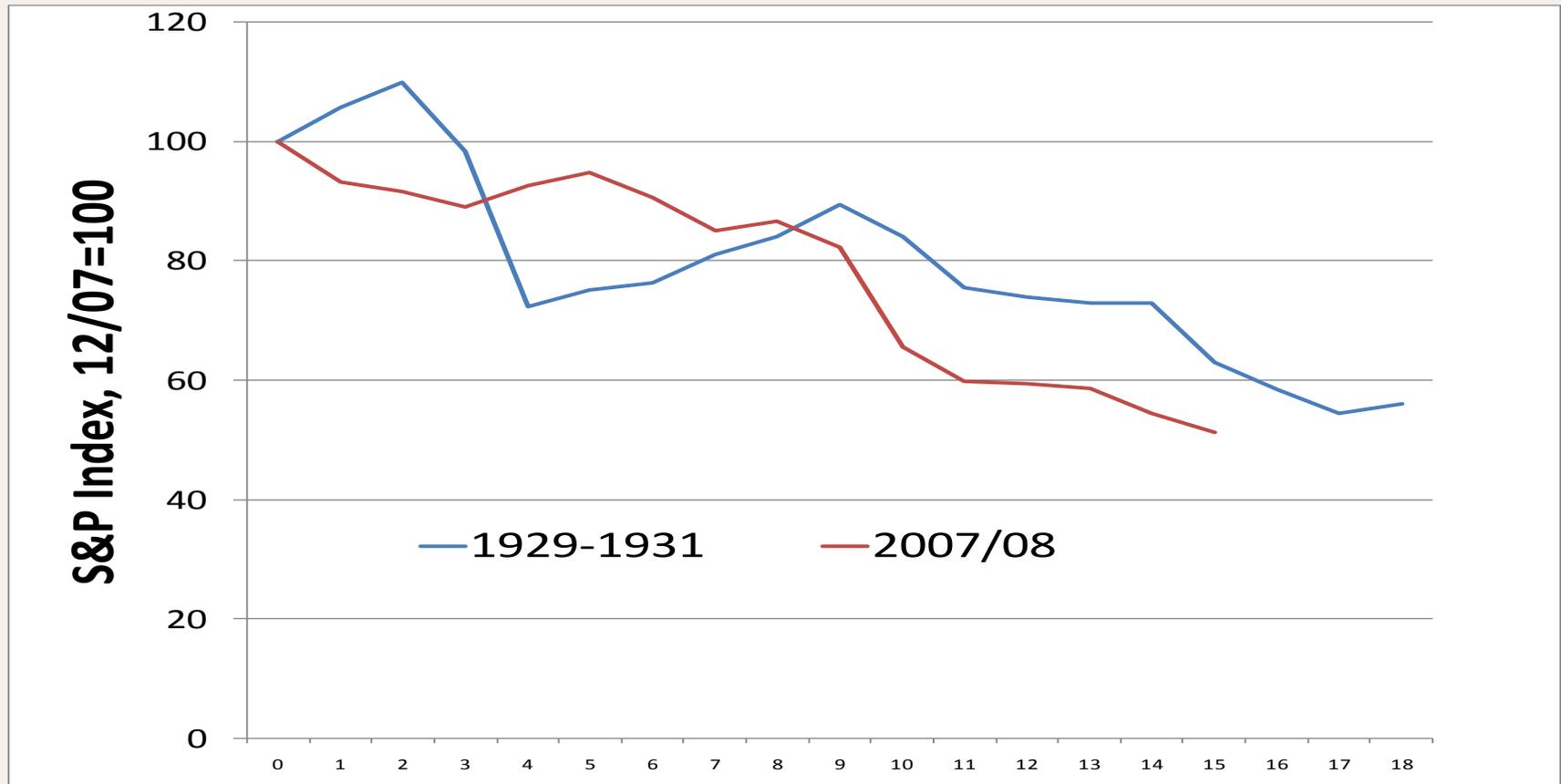
S&P 500
Index:
Last 5 years

Volatility
way up



How Low Will Stocks Go?

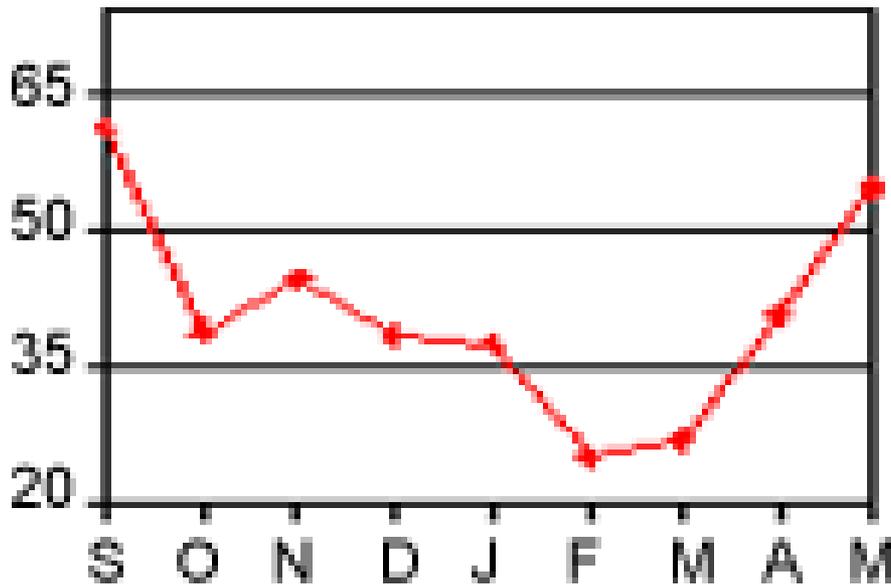
- Comparing S&P 500
- December 2007 versus July 1929



Consumers Are Skittish, Just Less So

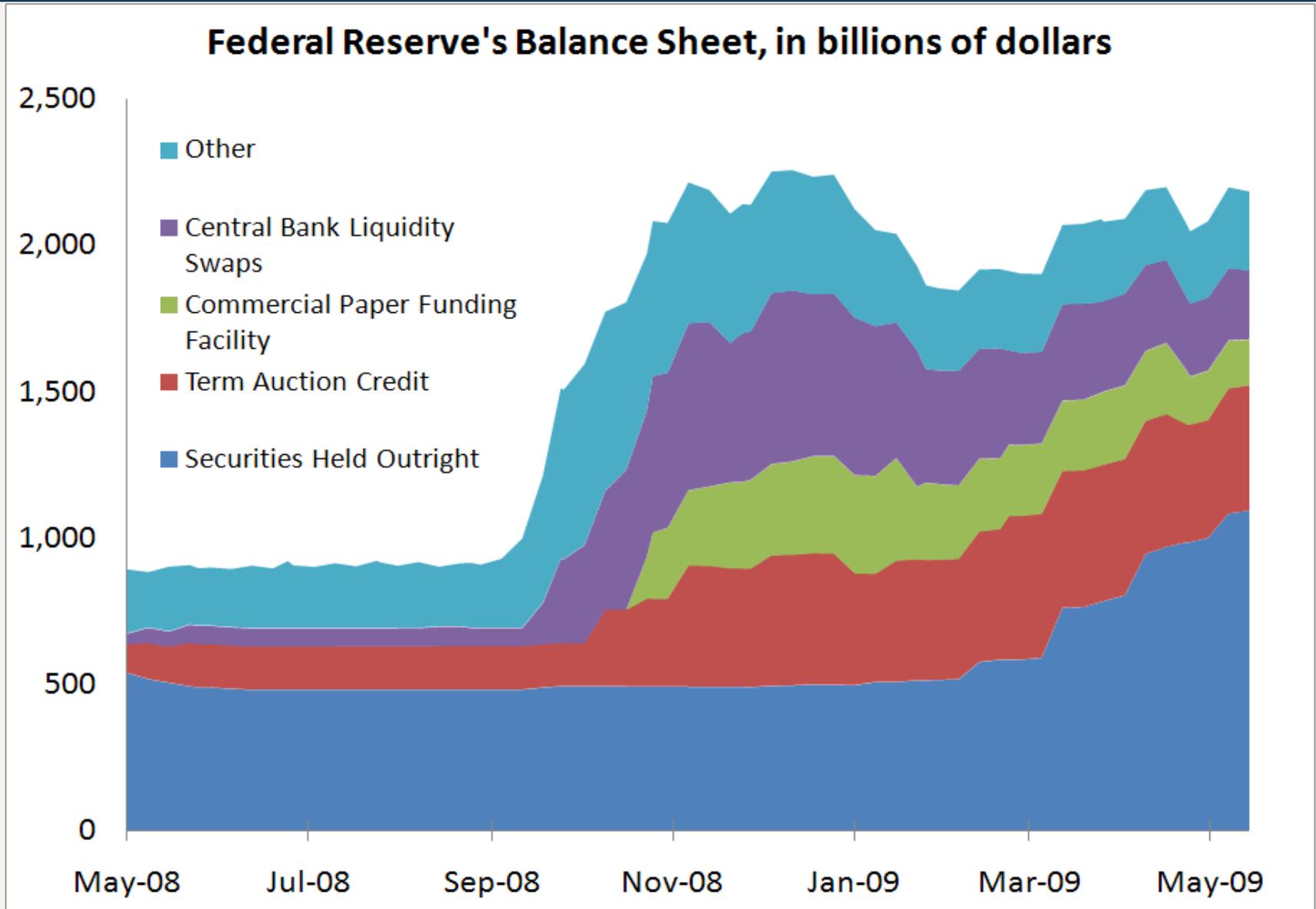
- Consumer Confidence Index fell in early 2009 to an historical low
- Dramatic leap up in last two months

Consumer Confidence Index™



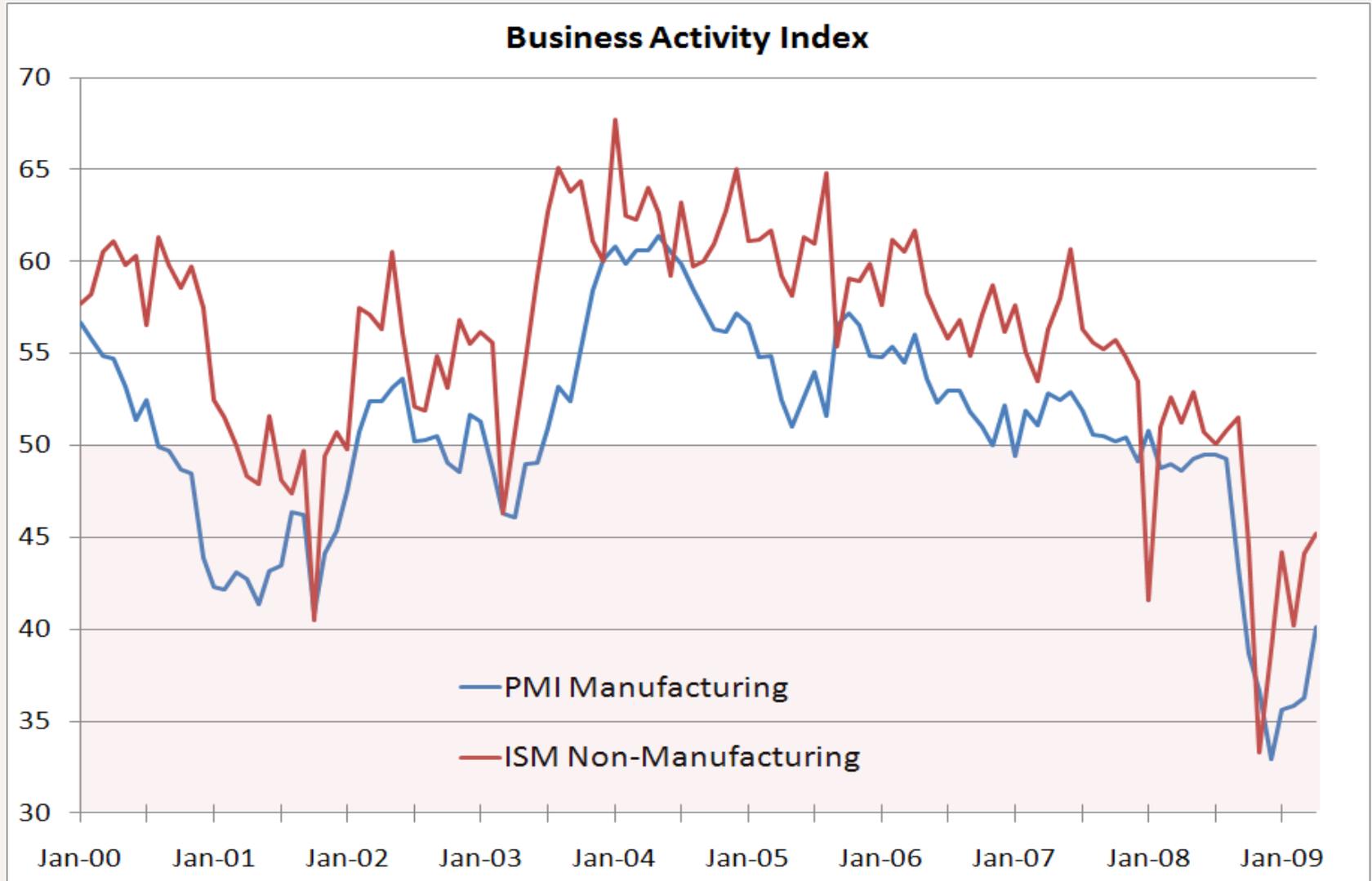
- The Index now stands at 54.9 (1985=100), up from 25.3 in February
- Consumer optimism about their short-term future increased
- Less negative about employment outlook

The Fed Prints Money

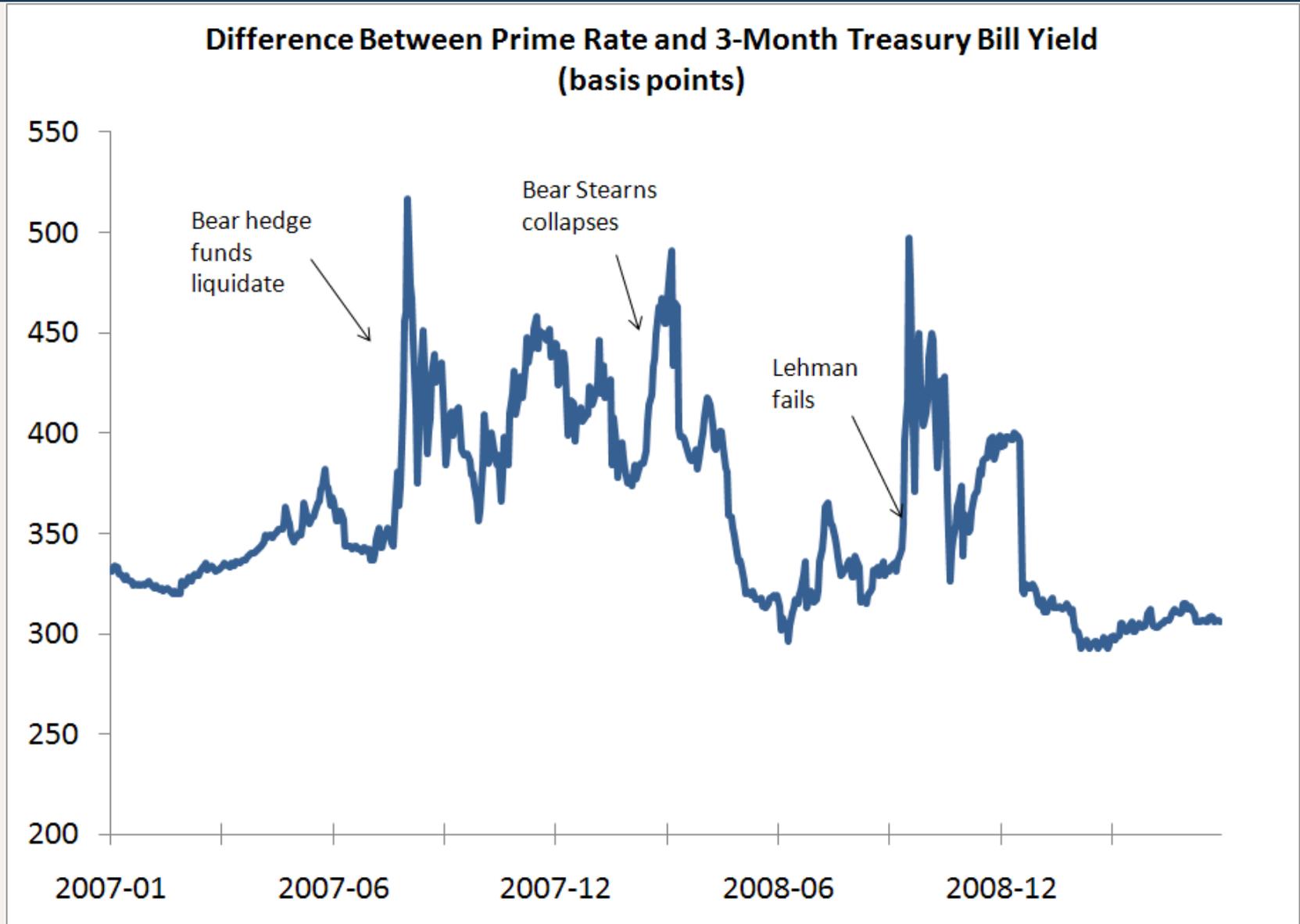


Business is Contracting

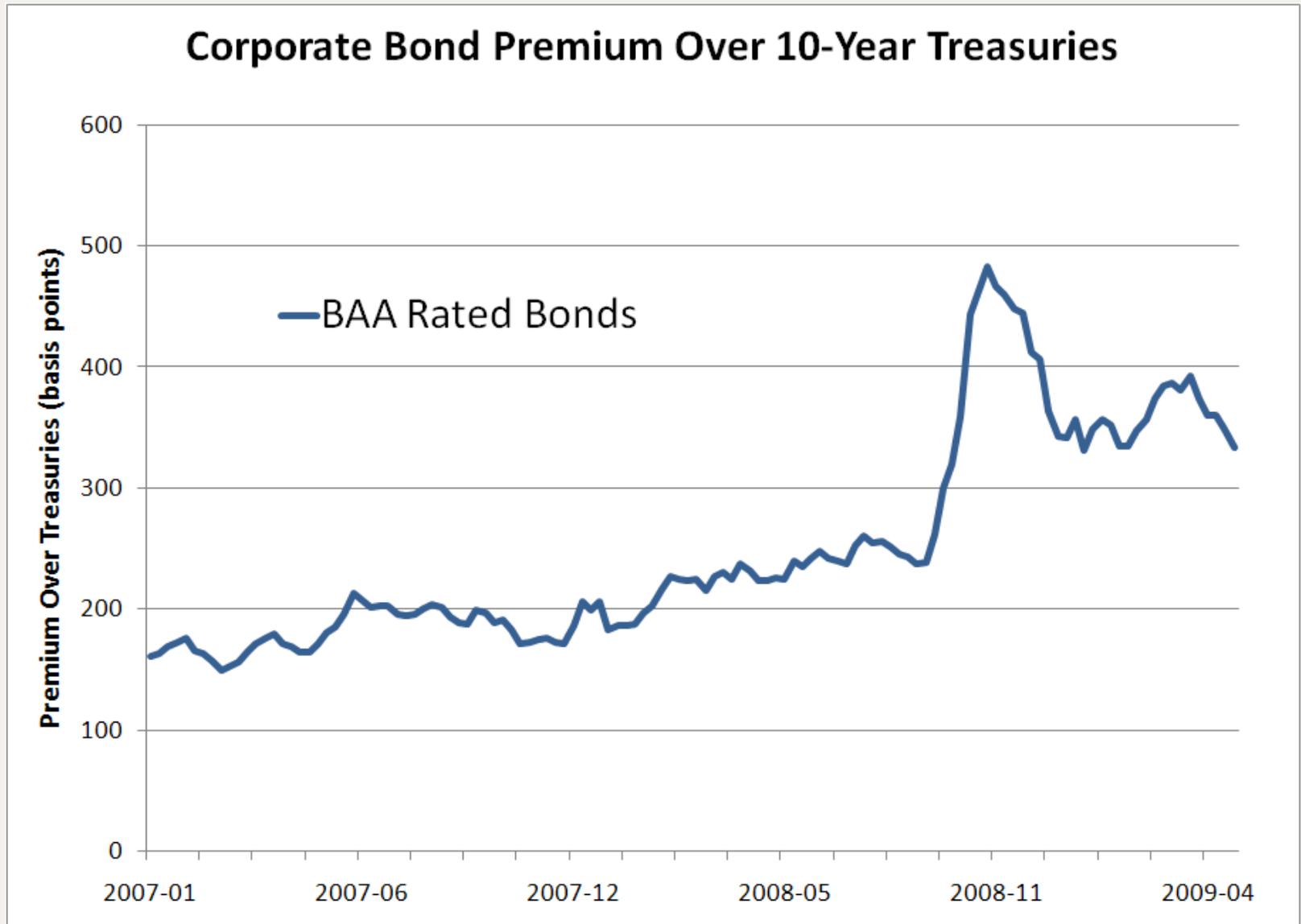
Institute of Supply Management survey indicates that business is contracting....



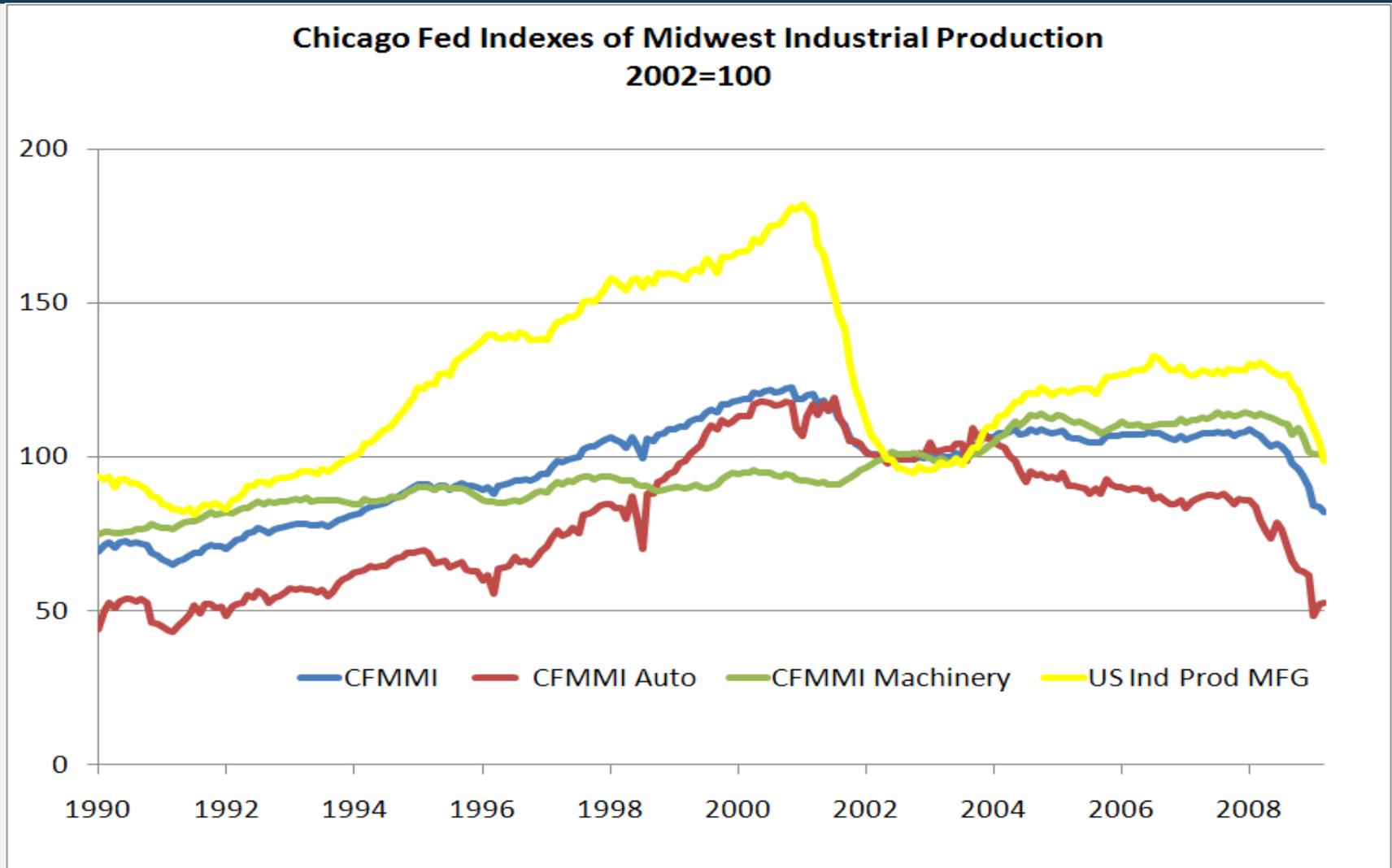
The Banking System Stabilizes



Credit Conditions Ease...somewhat



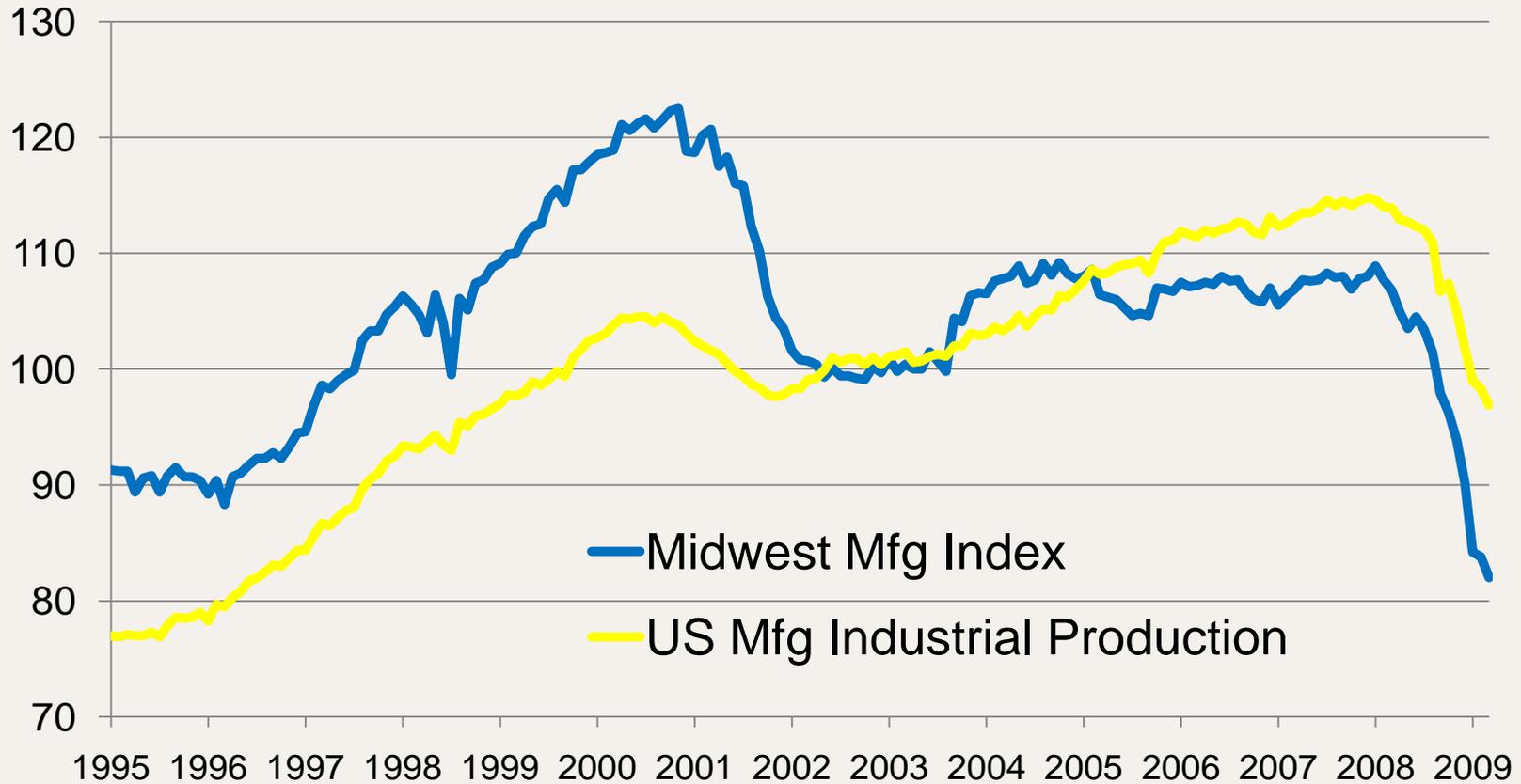
Midwest Economy



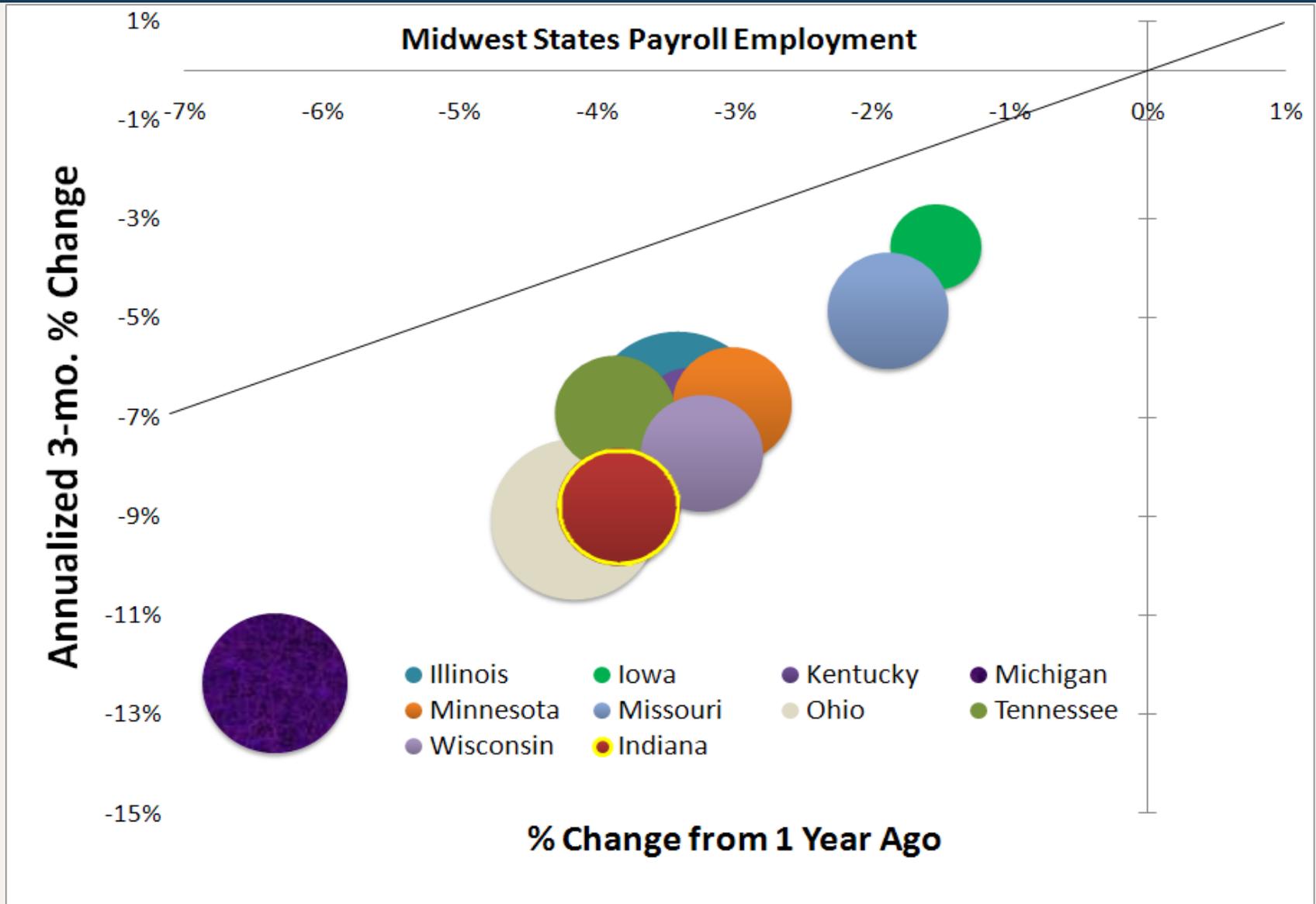
Midwest Economy, continued

Chicago Fed Indexes of Midwest Industrial Production

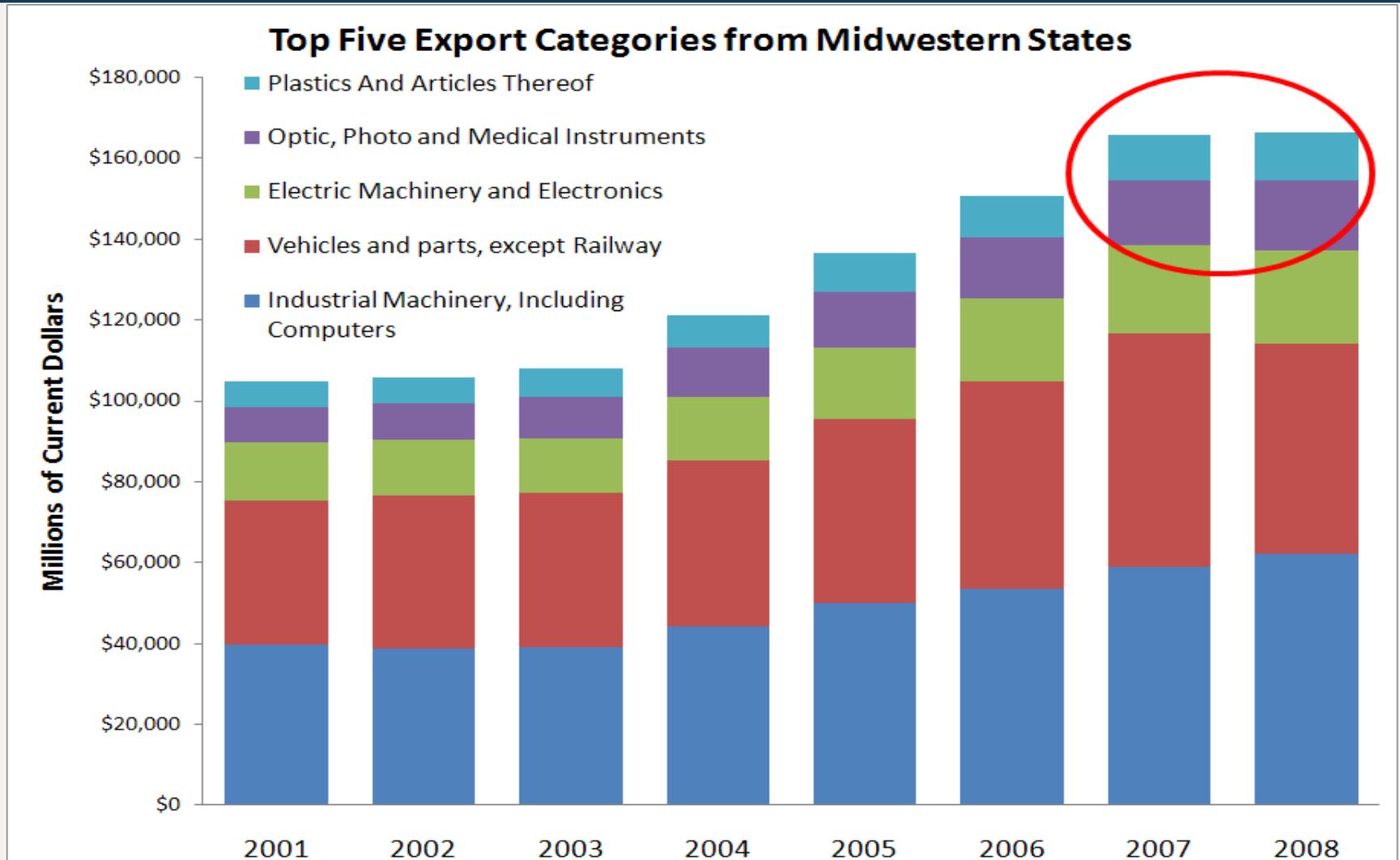
2002 = 100



Midwest Economy, continued



Midwest Economy, continued



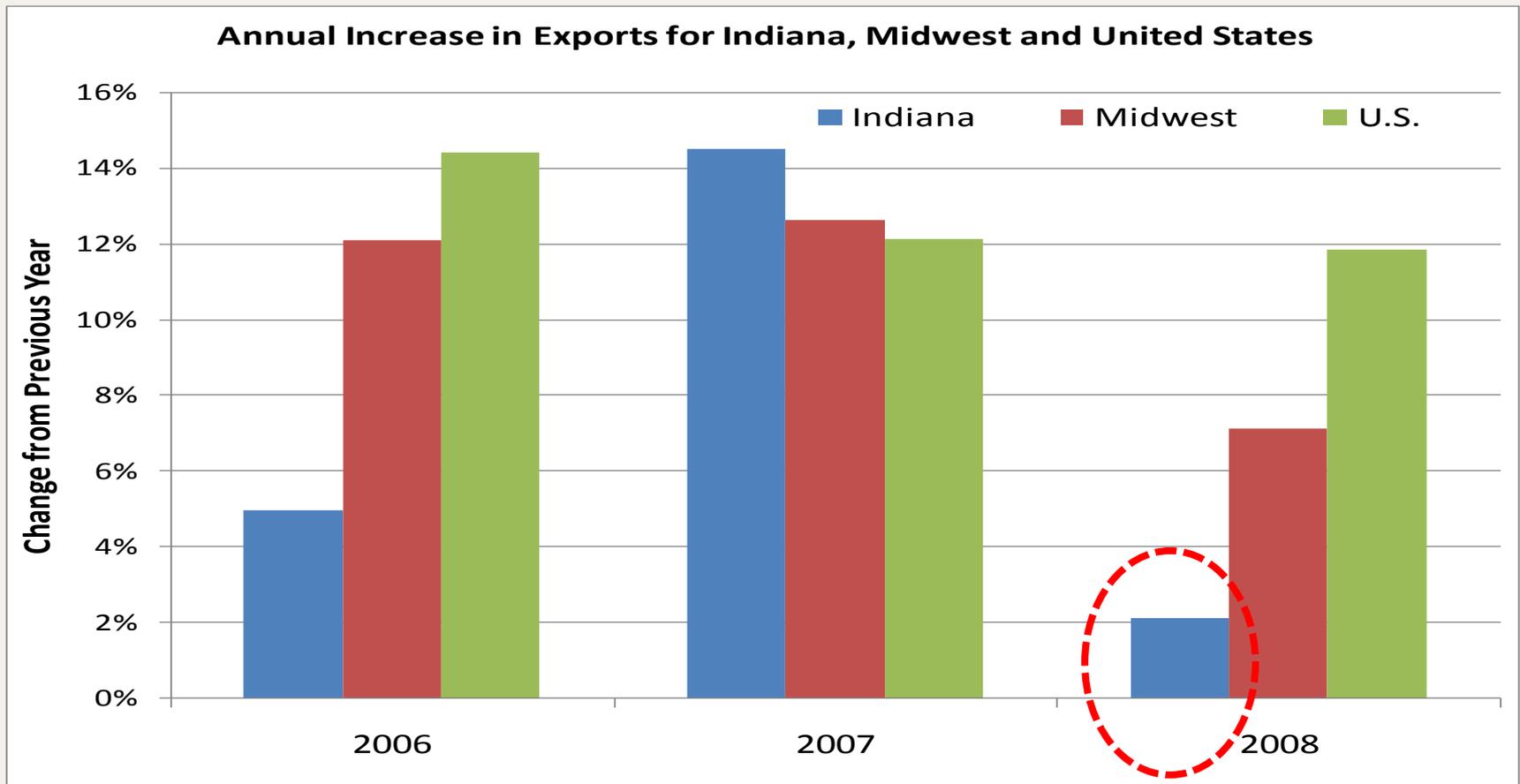
Since 2001, exports have increased by 8 percent at an average annual rate

Indiana's Economy

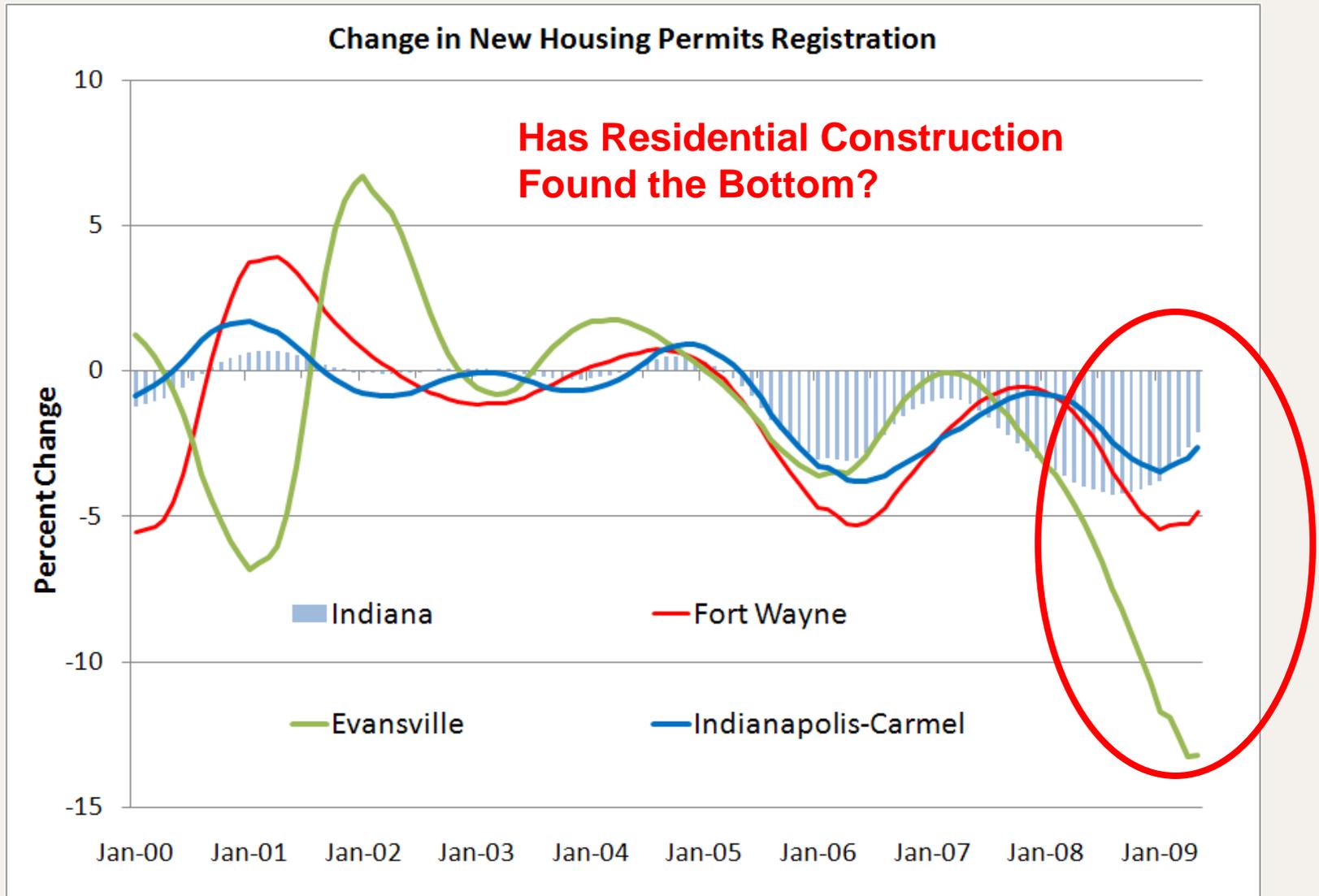
- Overall economic output has been almost **flat** for past 3 years
 - Near bottom of states in growth since 2000
- Manufacturing still the largest contributor to Indiana GDP—but shrinking
- Some sectors still growing—health care
- Housing price decline not as bad as U.S.
- Outlook for 2009: finding the bottom

Record Indiana Exports Last Year

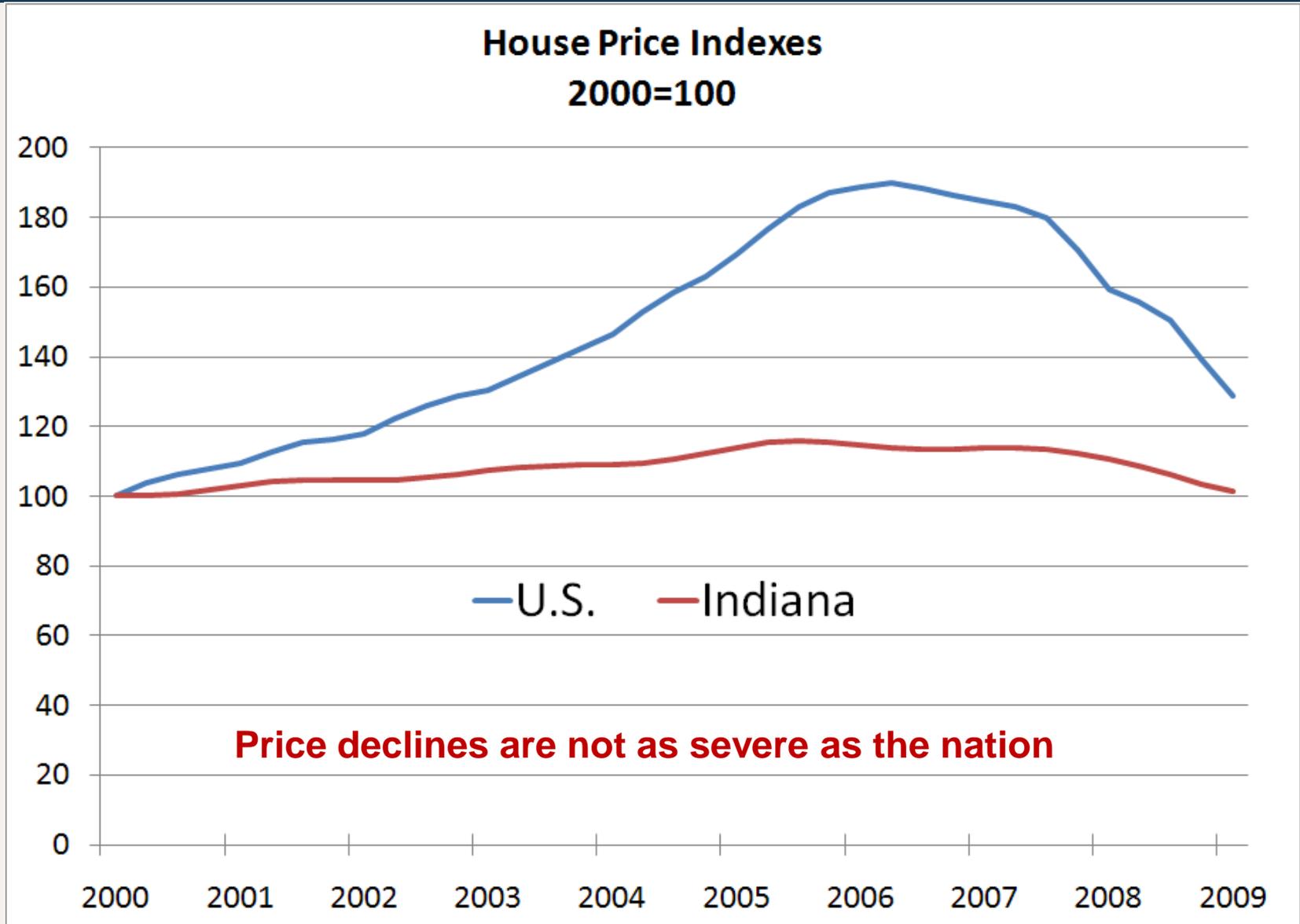
- Hoosier exports up 14% to \$26 billion in 2007
- Exports in 2008—**small increase**



Indiana Housing: Construction in Decline

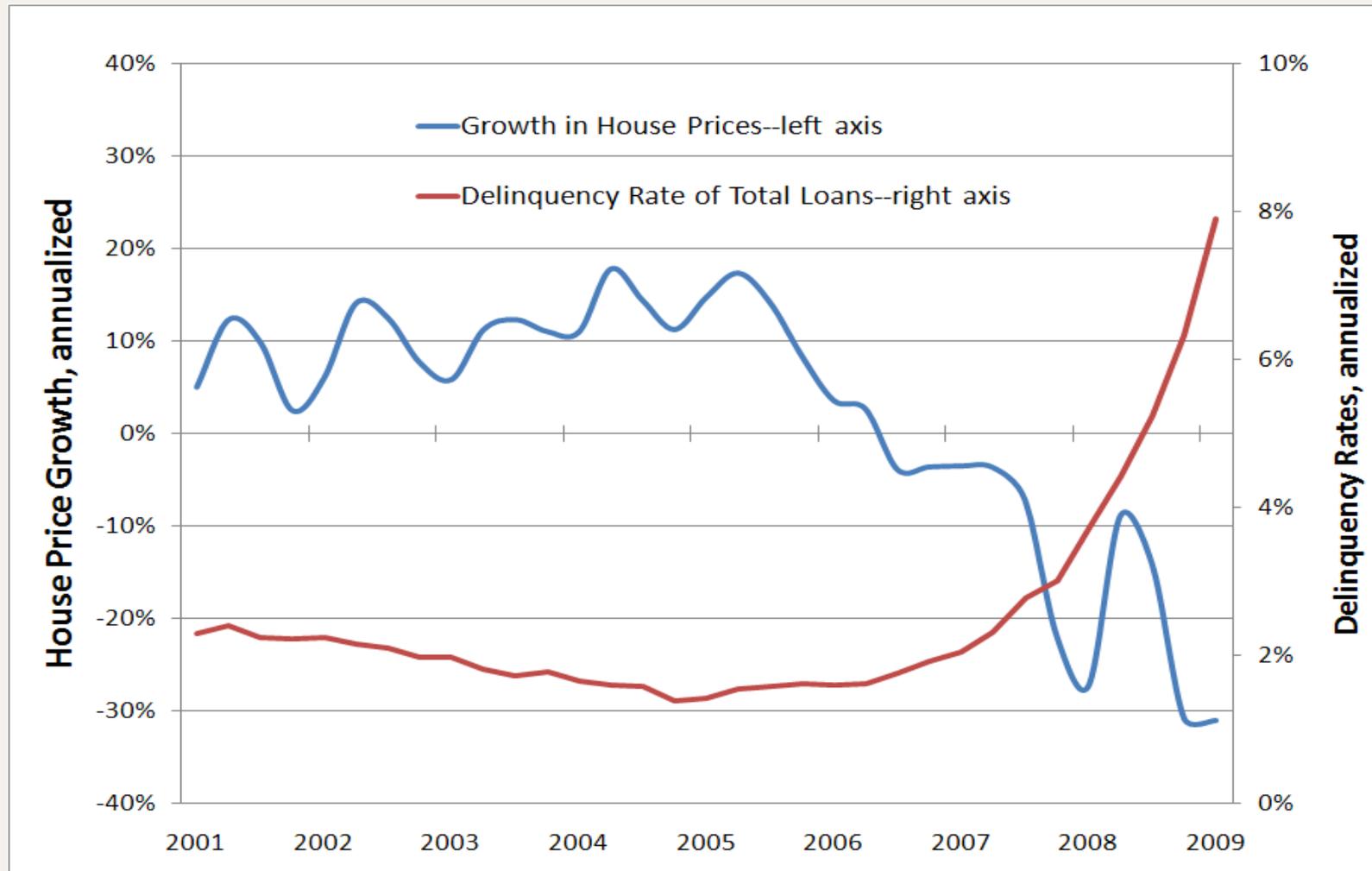


Indiana Housing



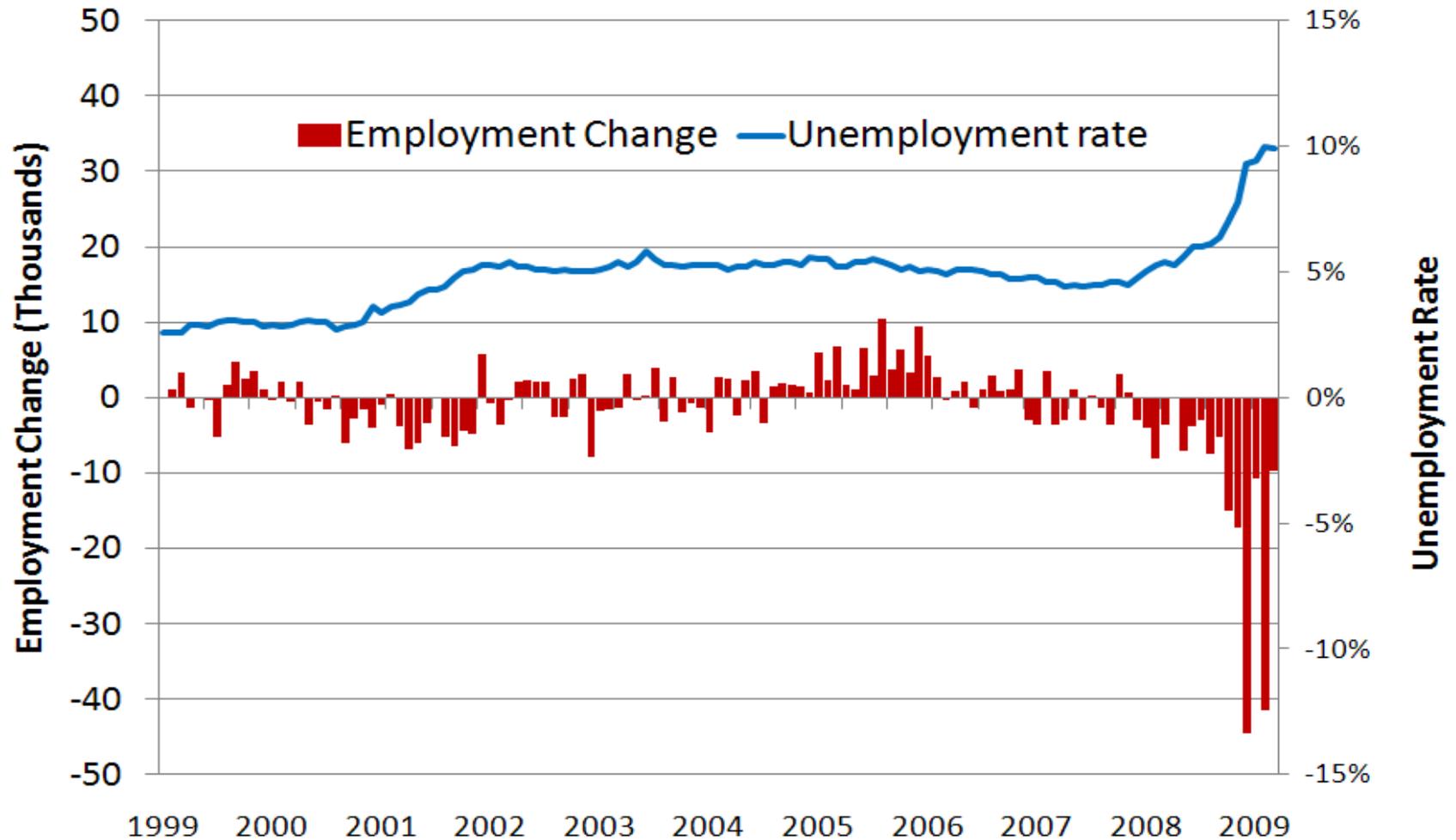
U.S. Housing: As prices fall...

...delinquencies rise

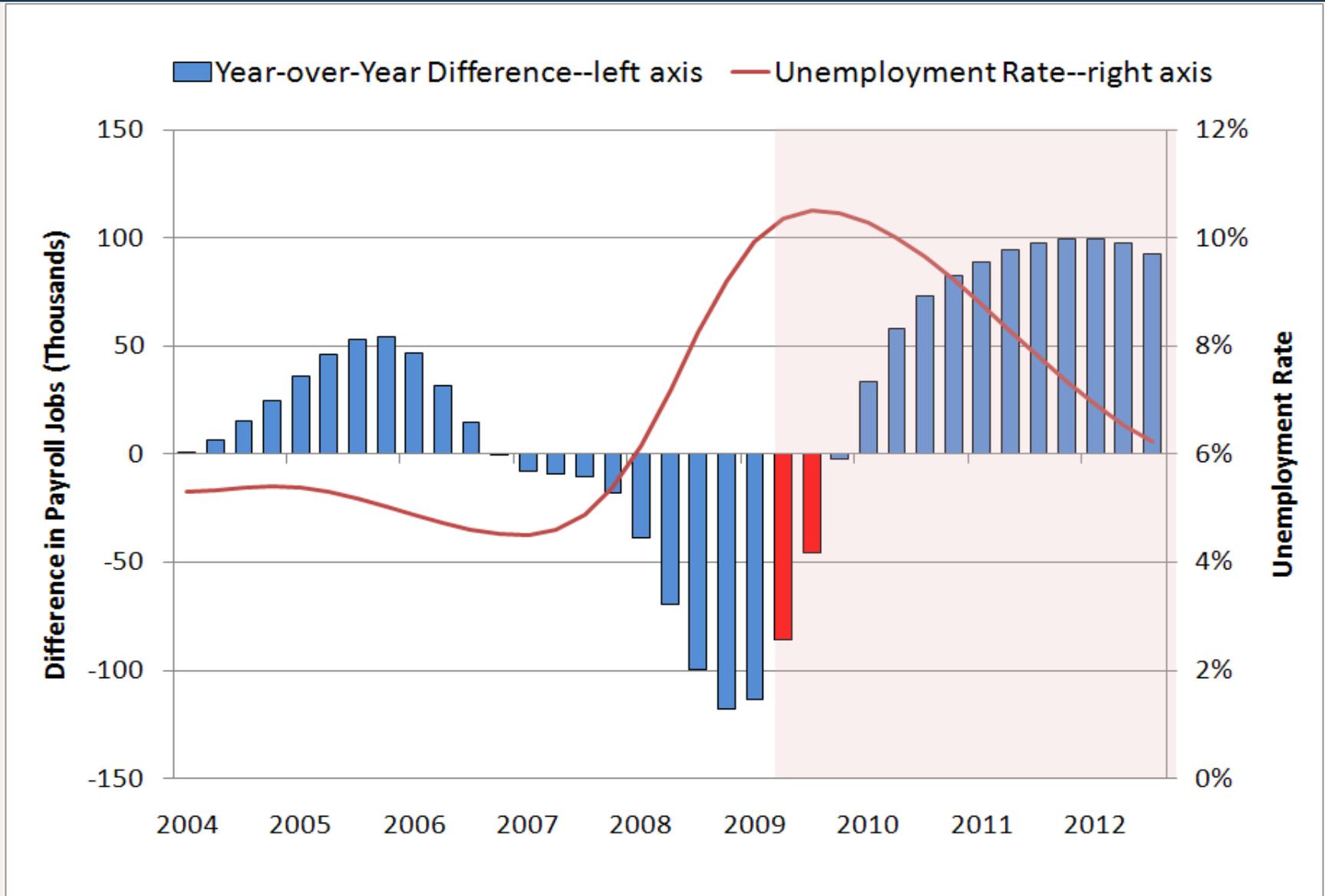


Indiana Jobs & Unemployment

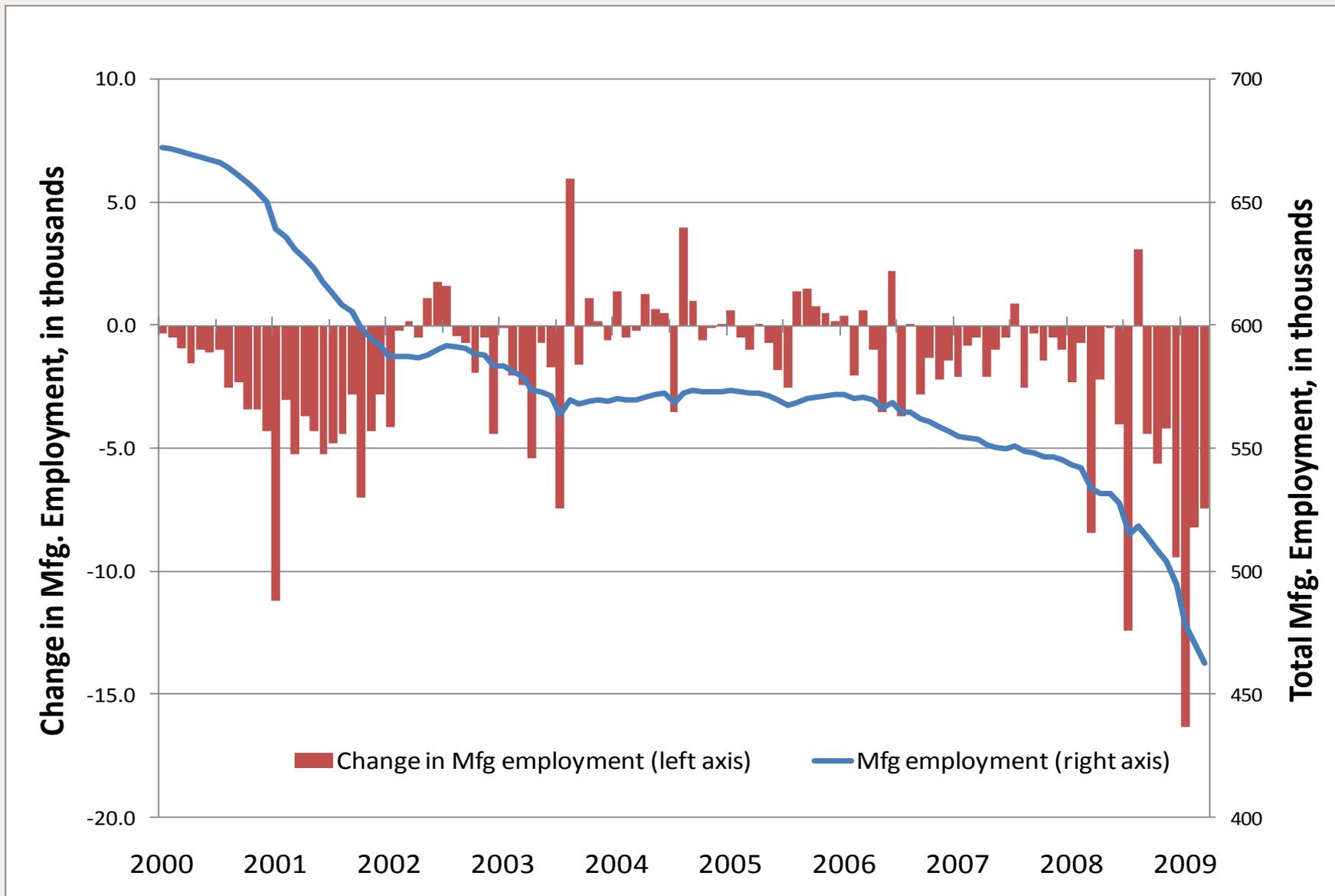
Indiana Labor Market



Indiana Jobs & Unemployment

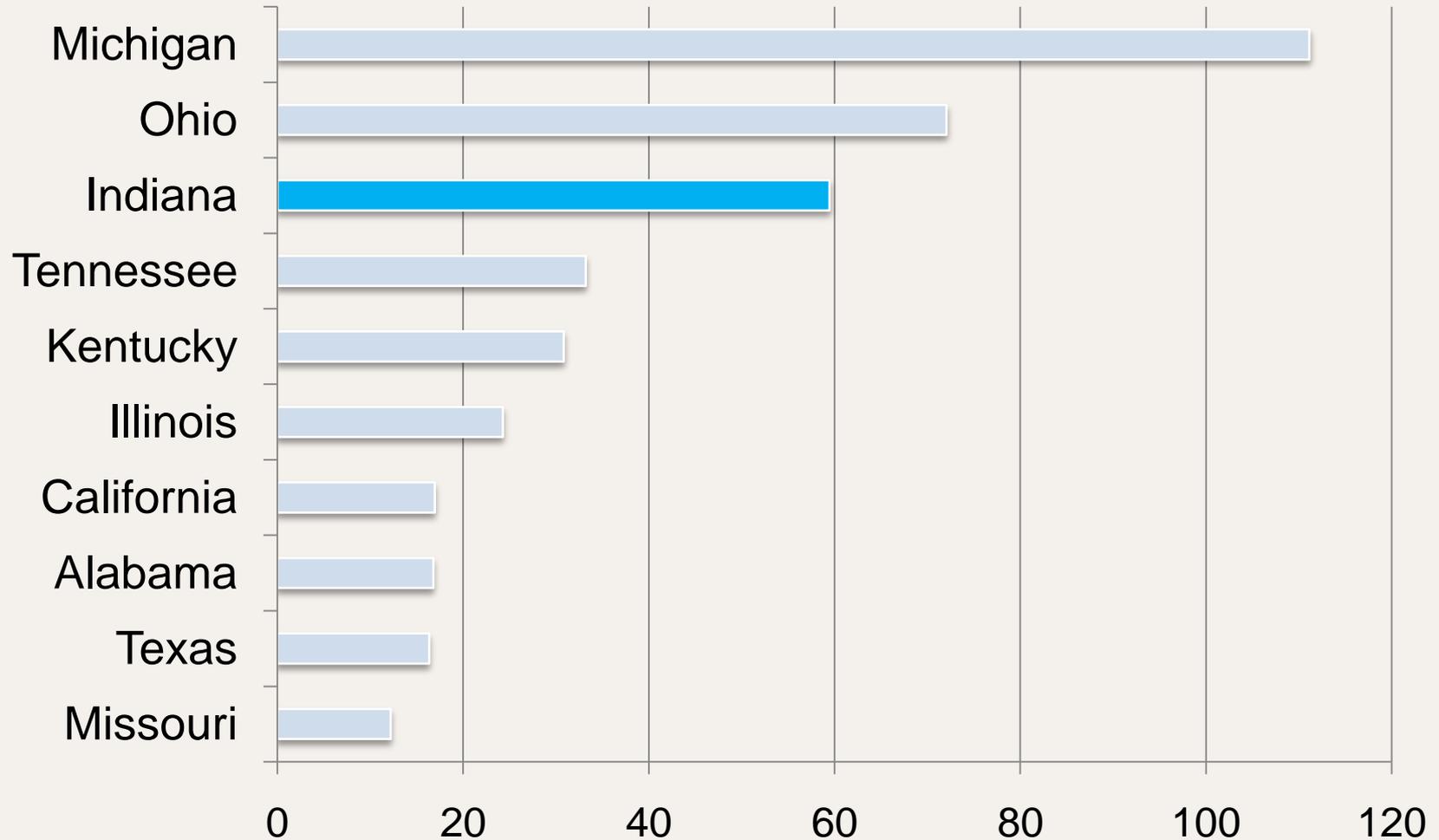


Indiana Manufacturing Jobs



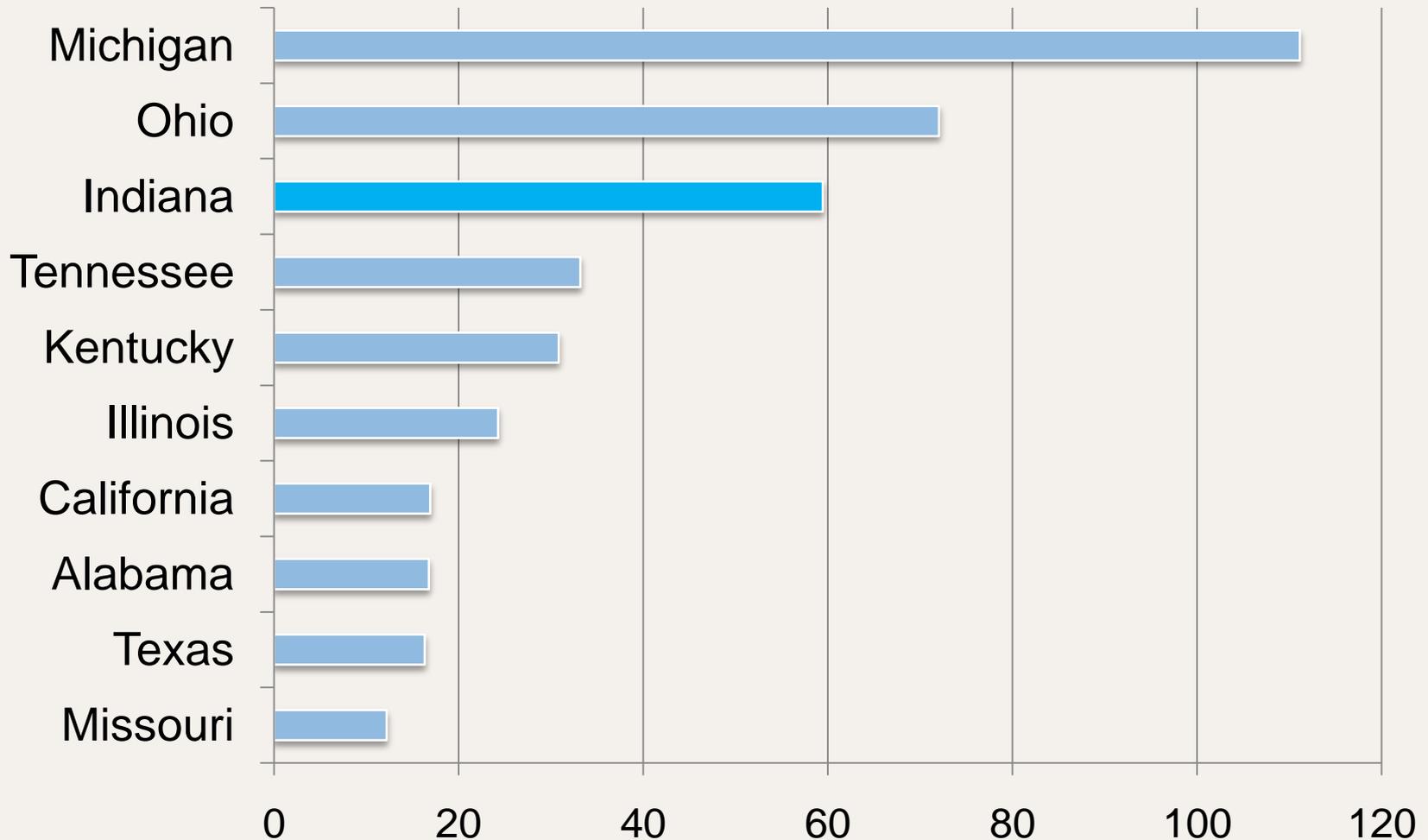
Indiana Vulnerable to Demise of D-3

Employment, Motor Vehicle Parts Manufacturing, 2008
(Thousands)



Indiana Vulnerable to Demise of D-3

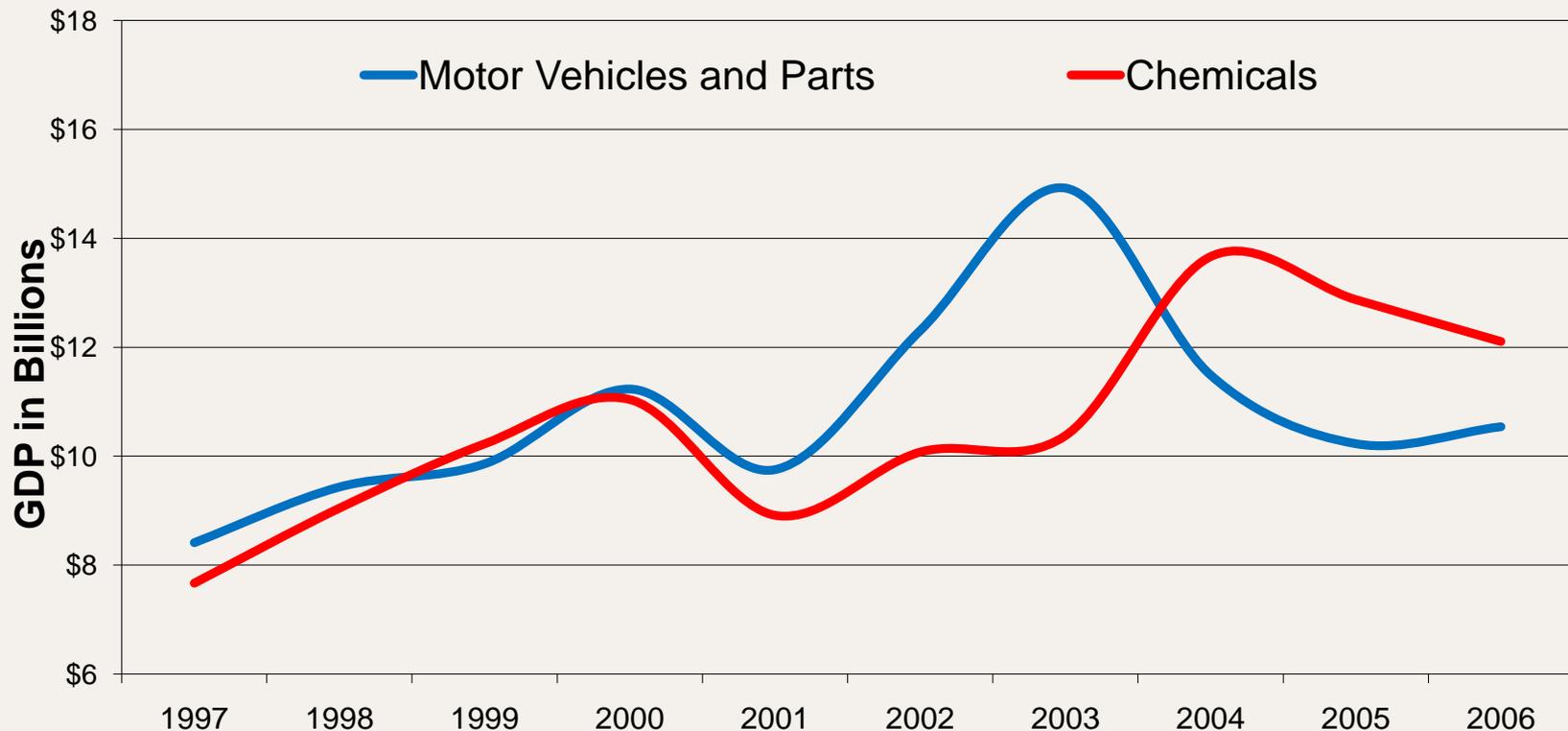
Employment, Motor Vehicle Parts Manufacturing, 2008
(Thousands)



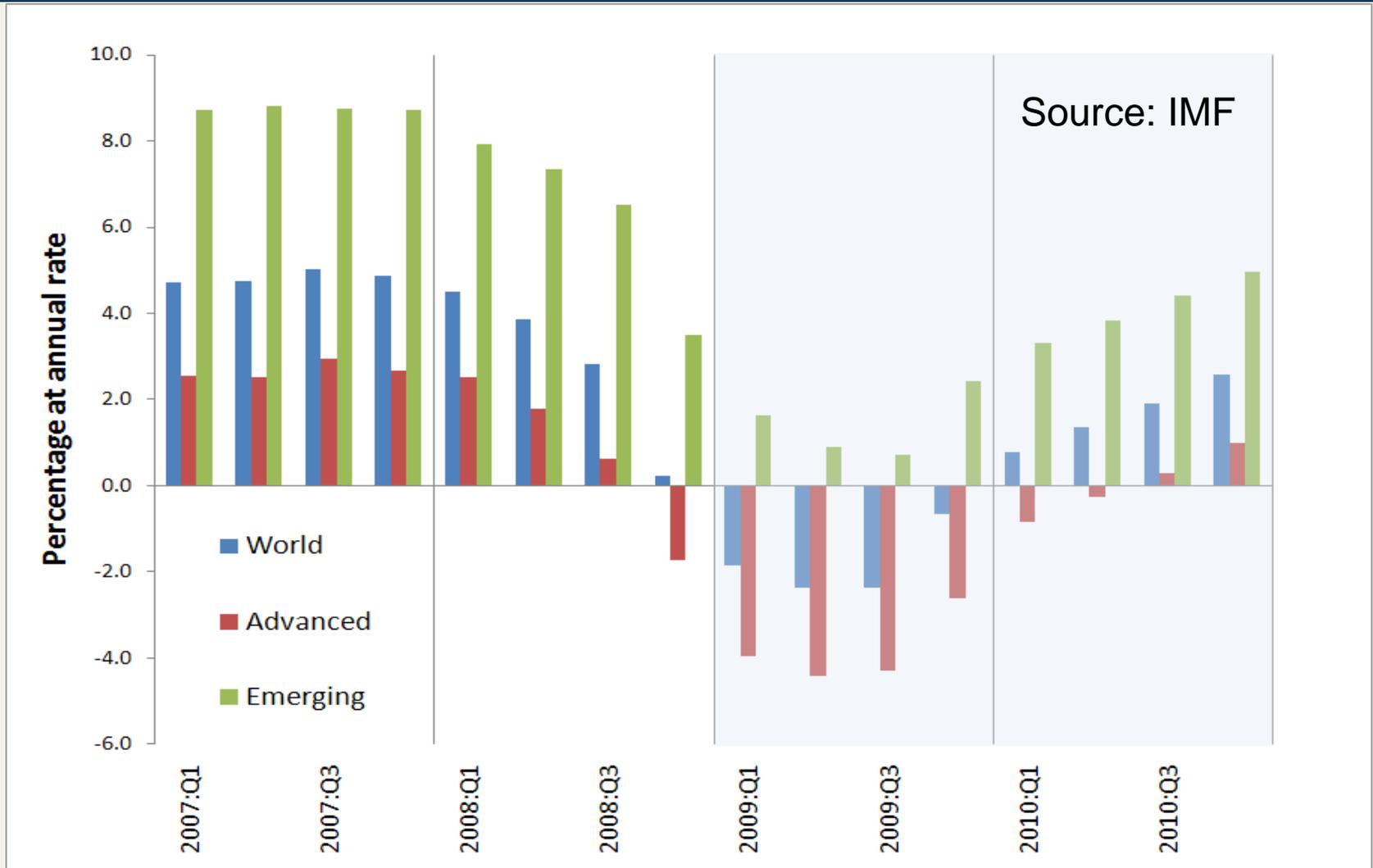
Changing Gears in Manufacturing

- Output in chemical manufacturing—which includes pharmaceuticals—surpassed autos and auto parts

Indiana Chemical and Motor Vehicle Manufacturing Current Dollar Output



Global Economic Outlook



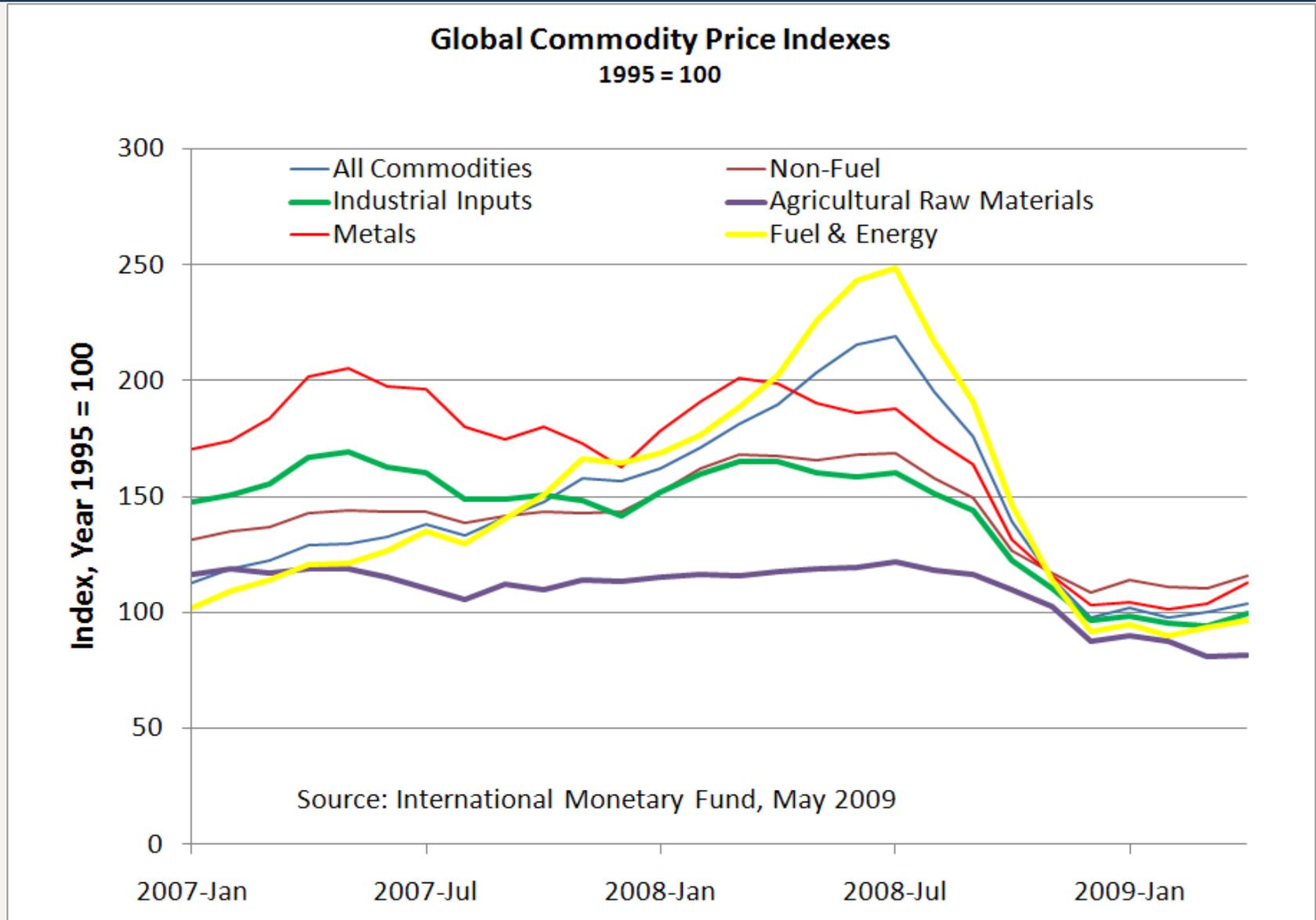
Trouble in the Advanced Economies

- GDP in advanced economies will **fall 4.3%** (OECD)
- Global growth has collapsed
- Growth will slow to a crawl in emerging economies
- China's growth will go from 12% in 2007 to around 6% in 2009 (IMF)
- China steel production fell 17% in October

Global Growth Projections	
	2009
World	-2.7
United States	-4.0
Euro Area	-4.1
Japan	-6.6
Canada	-3.0

Table source: OECD, March 2000

Global Downturn and Commodity Prices

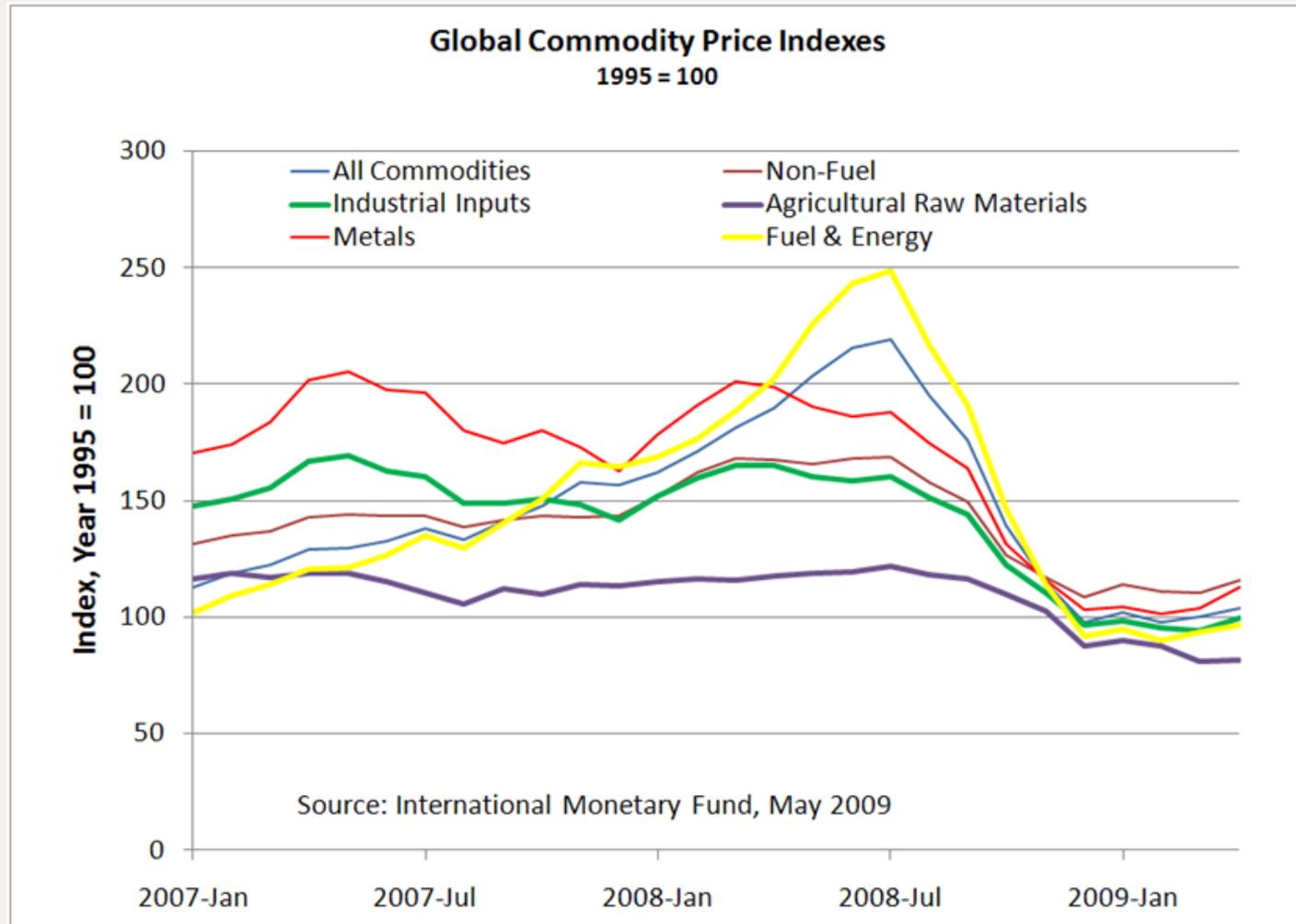


Global Downturn and Commodity Prices

Moderating commodity prices will contain inflation

Commodity exporters will be the most affected

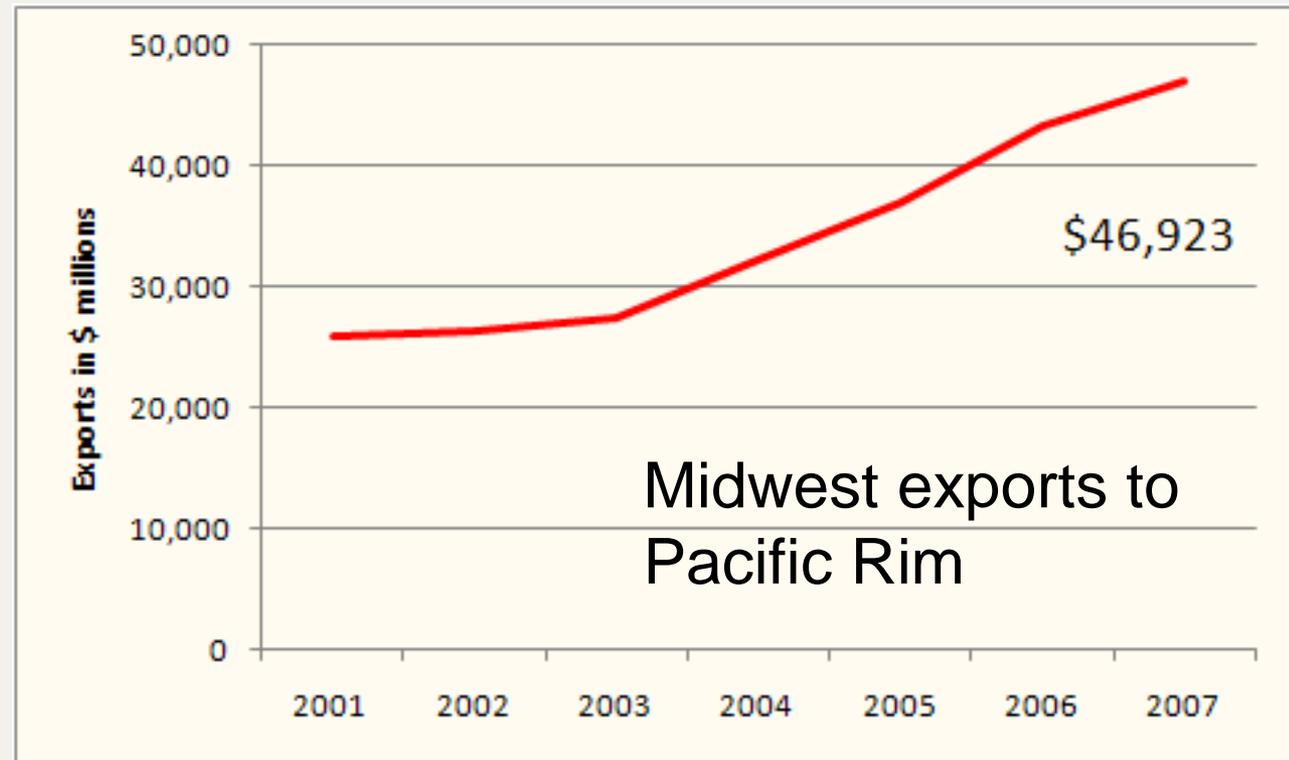
Lowers growth prospects for emerging economies



Export Growth at Risk? Pacific Rim

- The Midwest exported \$47 billion to the Pacific Rim Countries in 2007
- Exports to China has increased at nearly 24% a year (a.a.r.) since 2001—now 23% of exports to region

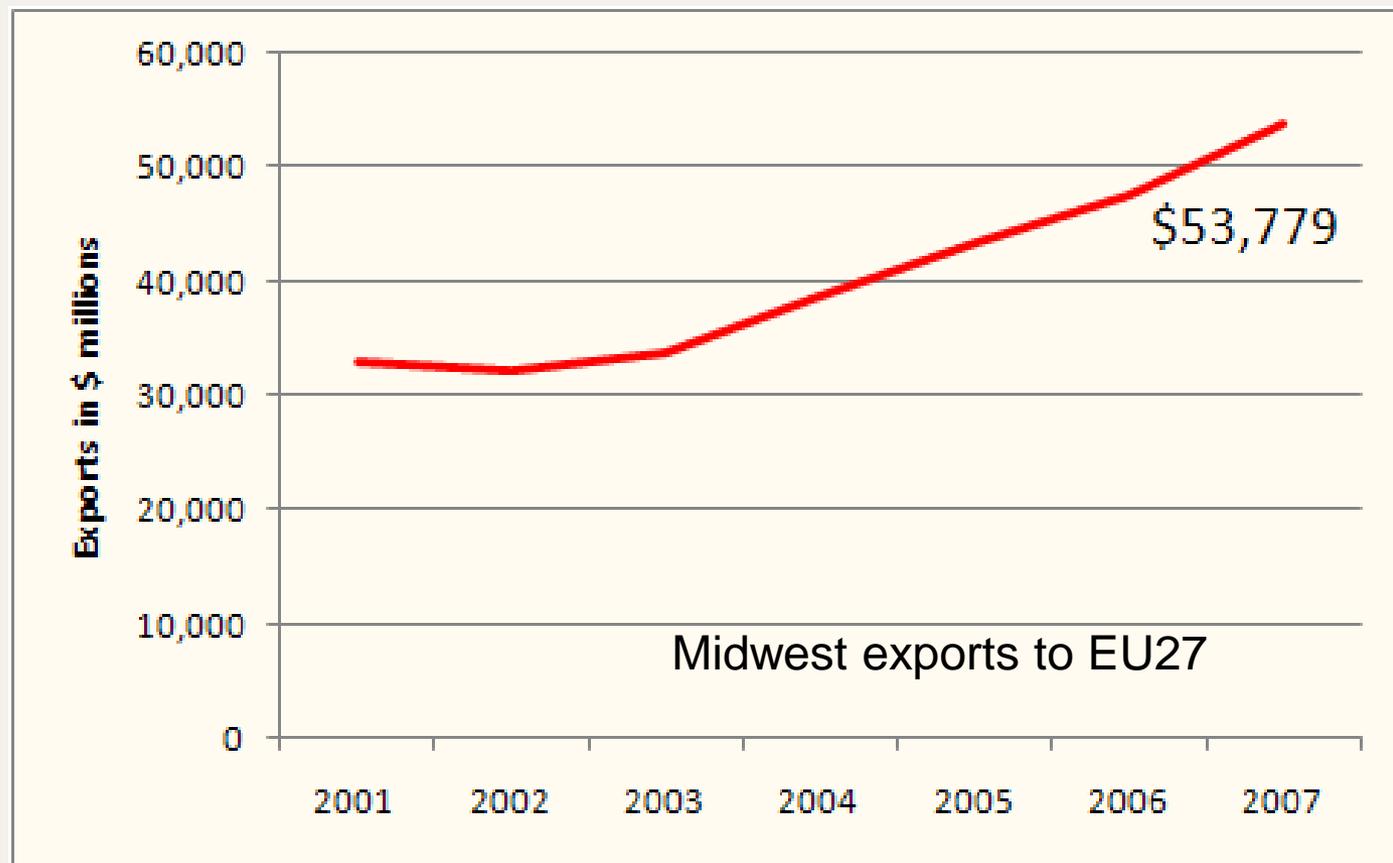
Exports to all Pacific Rim countries have increased about 10% a year since 2001



Export Growth at Risk? European Union

- The Midwest exported \$54 billion to the EU27 countries in 2007

Exports to the EU27 have grown at over 8% a year (a.a.r.) since 2001

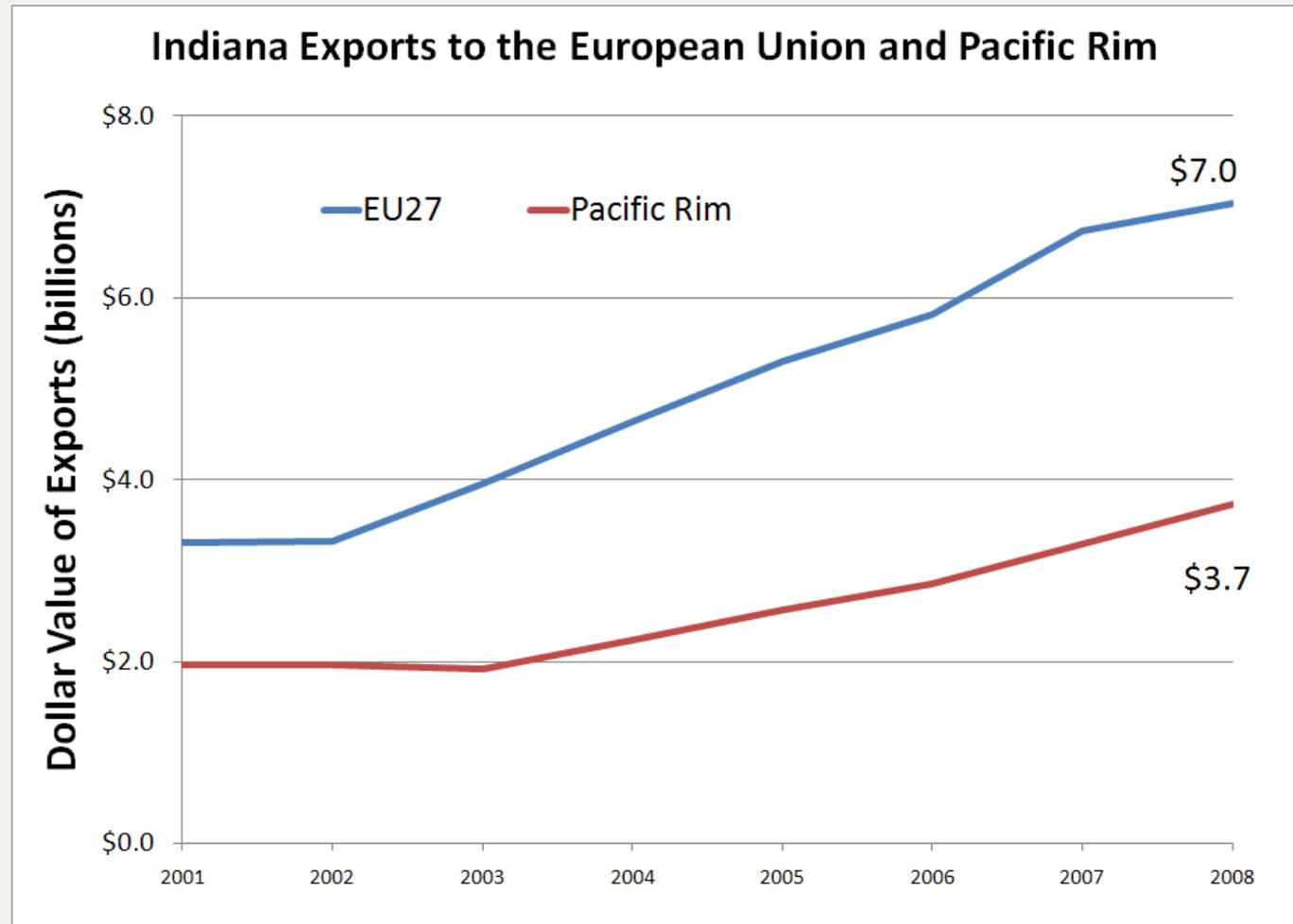


Indiana Export Growth at Risk?

- Indiana exports to the EU27 totaled \$6.8 billion in 2007, growing almost 12% a year since 2001

- Exports to the Pacific Rim increased 8.6% a year since 2001

- Exports to China have increased over 22% a year since 2001



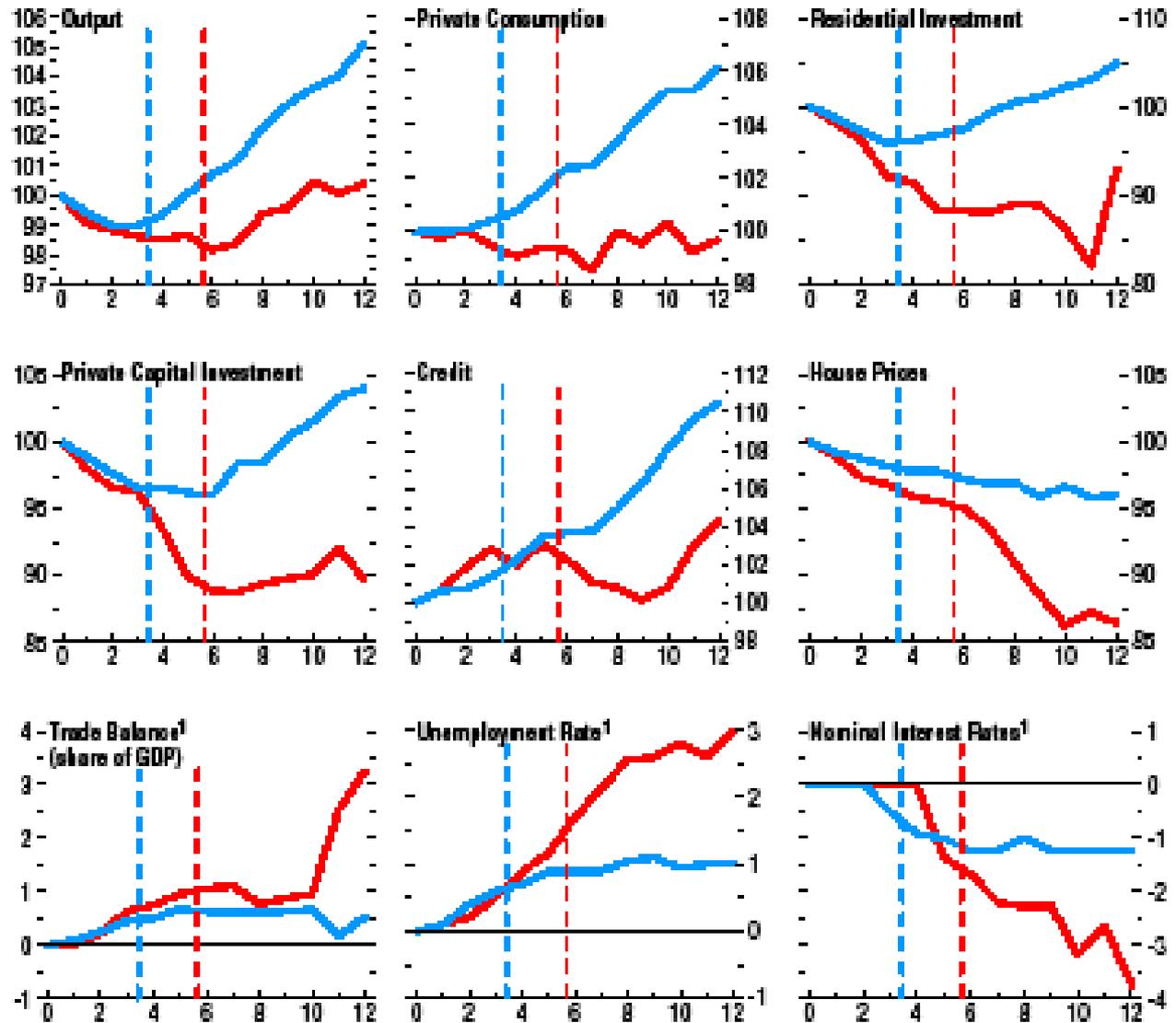
What is the **Forecast for 2009 & 2010?**

- Fall of 2008—**Moderate recession** scenario
 - Assumed credit markets thaw quickly—didn't happen
 - Emerging economies maintained growth—they're cooling
 - No drop off in exports—world exports expected to drop by double digits (IMF)
 - **WARNING:** exports often lead recoveries for demand-induced recessions—bad news for export economies
- **Severe recession** scenario
 - Liquidity trap—Fed can't lower interest rates below zero
 - Where will consumers get their purchasing power?
 - Homes no longer ATMs
 - Negative wealth effect of low stock portfolios
 - Restoring order to the balance sheet—paying off debt

Recession Forecast: IMF—Long & Severe

Financial
Recession
Plus
Global
Recession
Means
Recovery is
⇒ **Longer**
⇒ **Weaker**
⇒ Growth won't
match potential
until 2010-11

Source: IMF



Severe-Recession Forecast: U.S.

- Output falls even further through 2009
- Total GDP decline (peak-to-trough) $\approx 3\%$
- Recession not over until early 2010
- Unemployment hits almost 10% in early 2010
- Employment drops throughout 2009

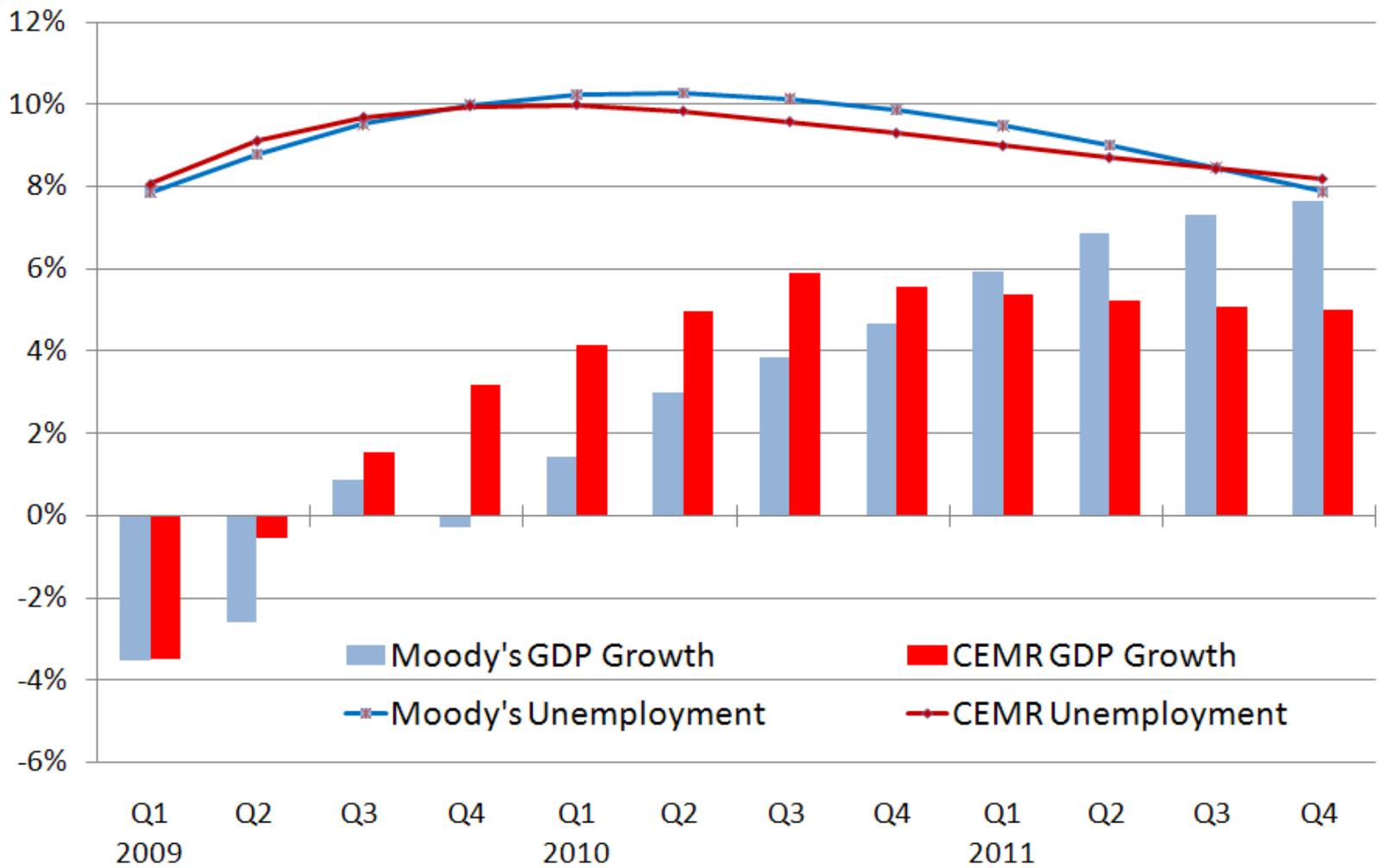
Severe-Recession Forecast

Just how bad depends whom you talk to—and when



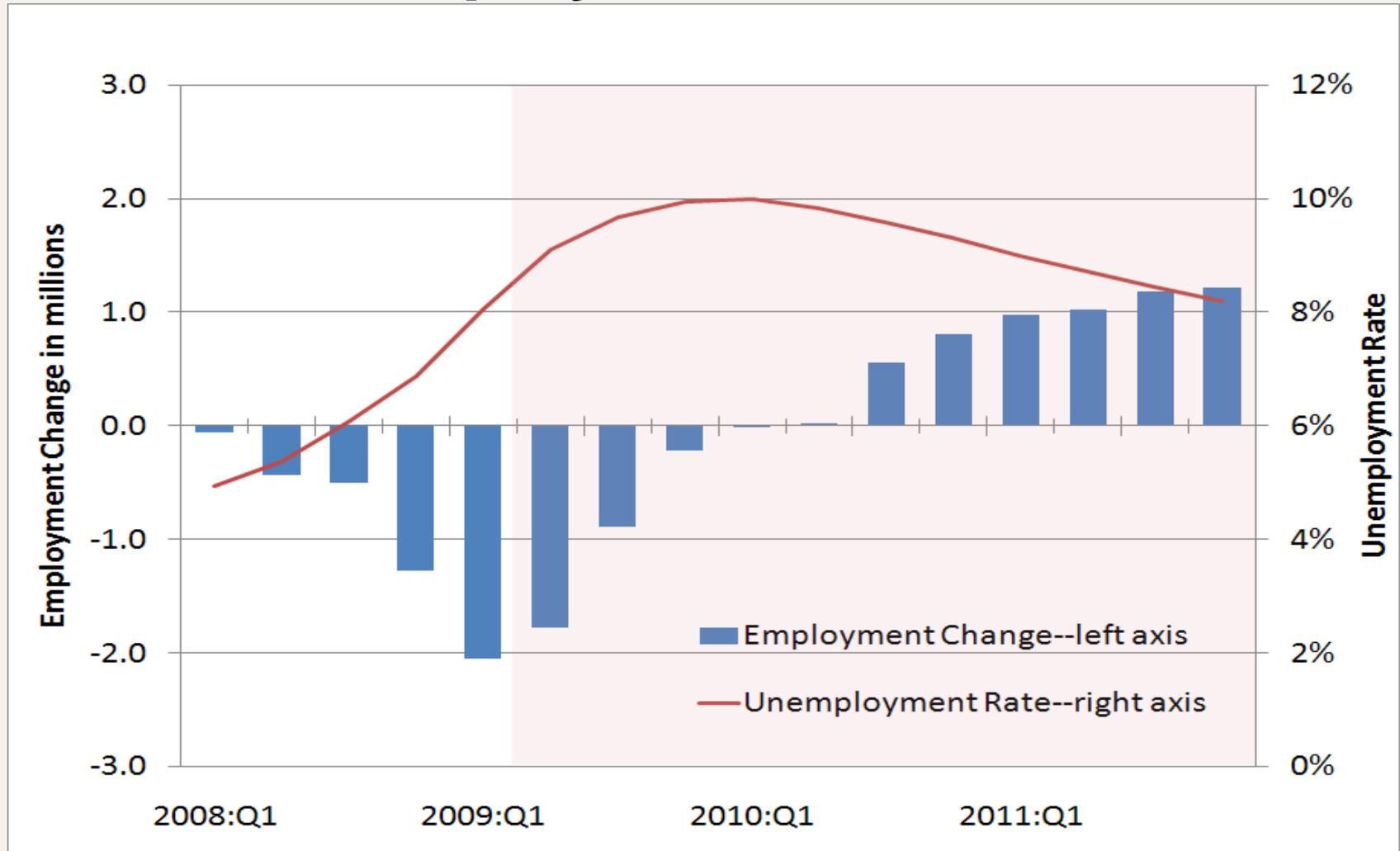
Severe-Recession Forecast

Moody's Economy.com versus CEMR Forecasts

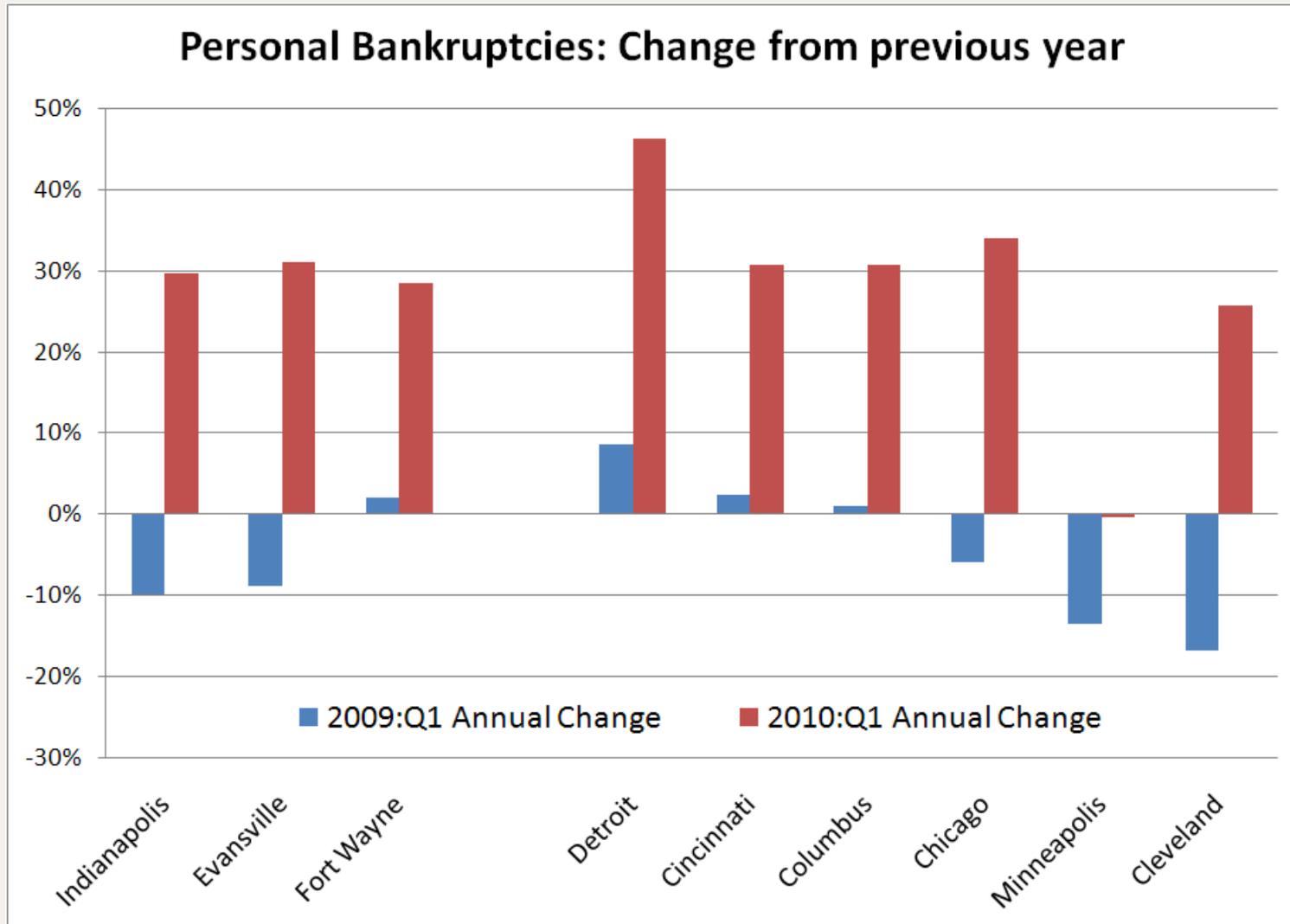


Severe-Recession Forecast

U.S. Employment 2008-2011



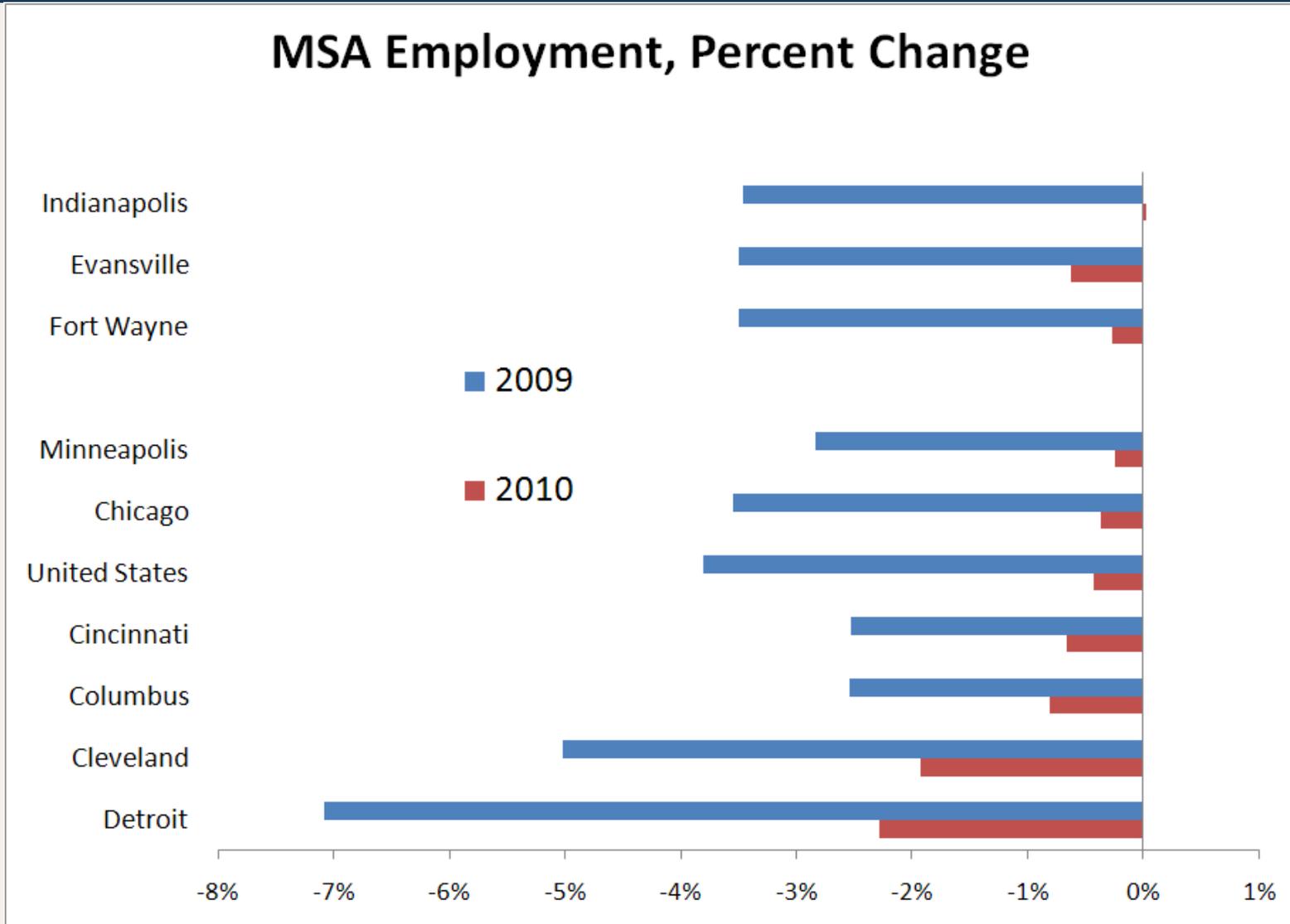
Personal Finances Continue to Deteriorate



Source: Moodys.com

Early 2010: Employment Finds the Bottom

MSA Employment, Percent Change



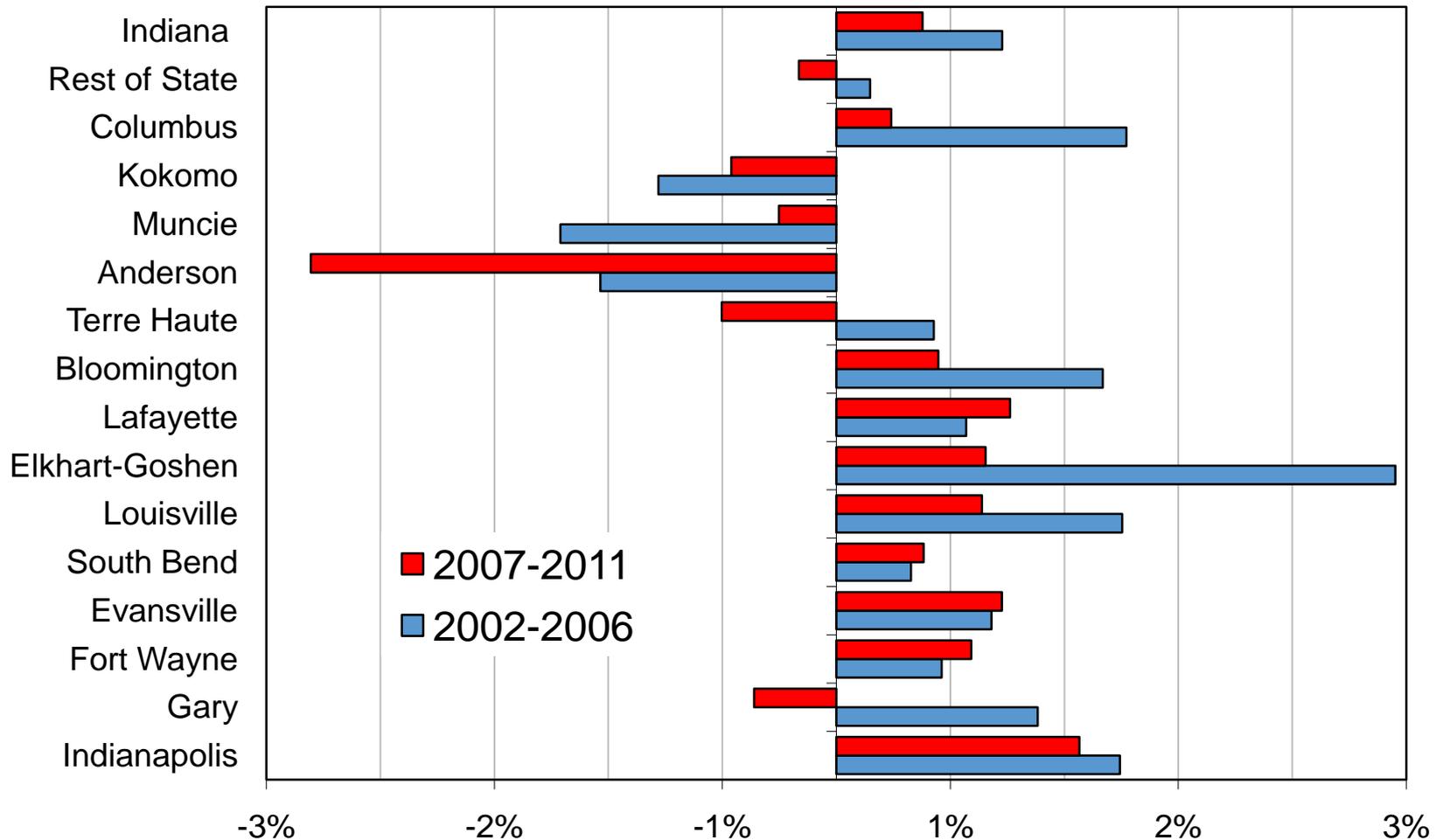
Source: Moodys.com

Indiana Employment Forecast

- Next 4 quarters: down about 110K more jobs
- Total job loss peak-to-trough: about 250K jobs
- Manufacturing shrinks about 12.5% over the next 4 quarters—down 26K jobs
- Transportation Equip Mfg falls 15%—down 6K jobs
- Anemic growth through 2011
 - Assumes no industry specific disruptions or bankruptcies
 - Combined forecast—IMF, Economy.com, CEMR

Indiana Employment Outlook

Average Annual Growth Rate



Selected Indiana MSAs Employment Outlook

