

A blurred background image of a financial chart with red and blue bars and lines, suggesting economic data.

Indiana **Economic** **OUTLOOK**

Thursday, January 16, 2025



**BALL STATE
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Miller College of Business
Center for Business and
Economic Research

Breakfast

Please wait to be dismissed by table

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2025 Forecast Presentation

Michael J. Hicks, PhD

Director, Center for Business and Economic
Research

George & Frances Ball Distinguished
Professor of Economics, Miller College of
Business

Ball State University

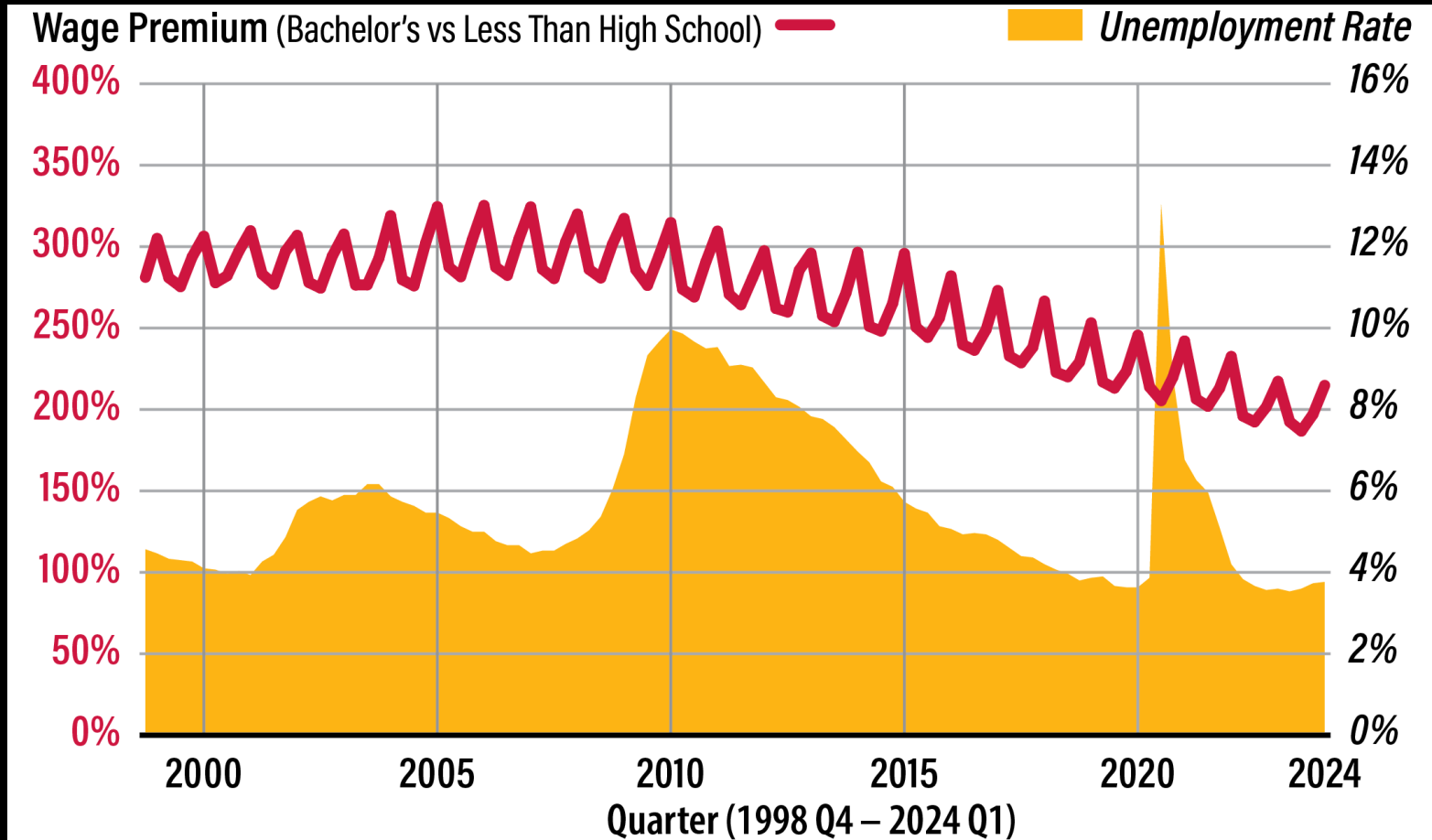




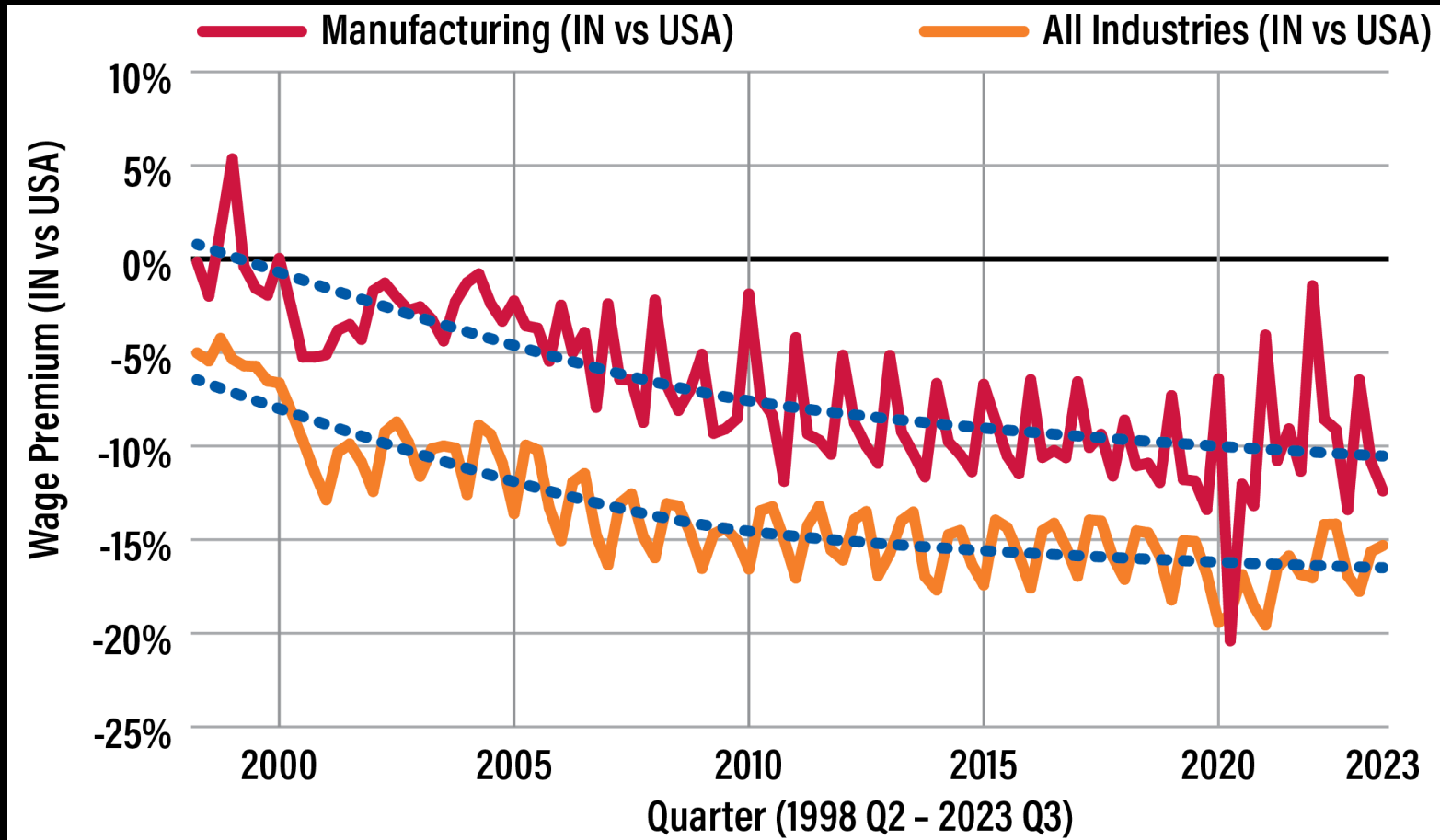
Indiana Economic Outlook 2025: Moving to Uncertainty

Thursday, Jan. 16, 2025

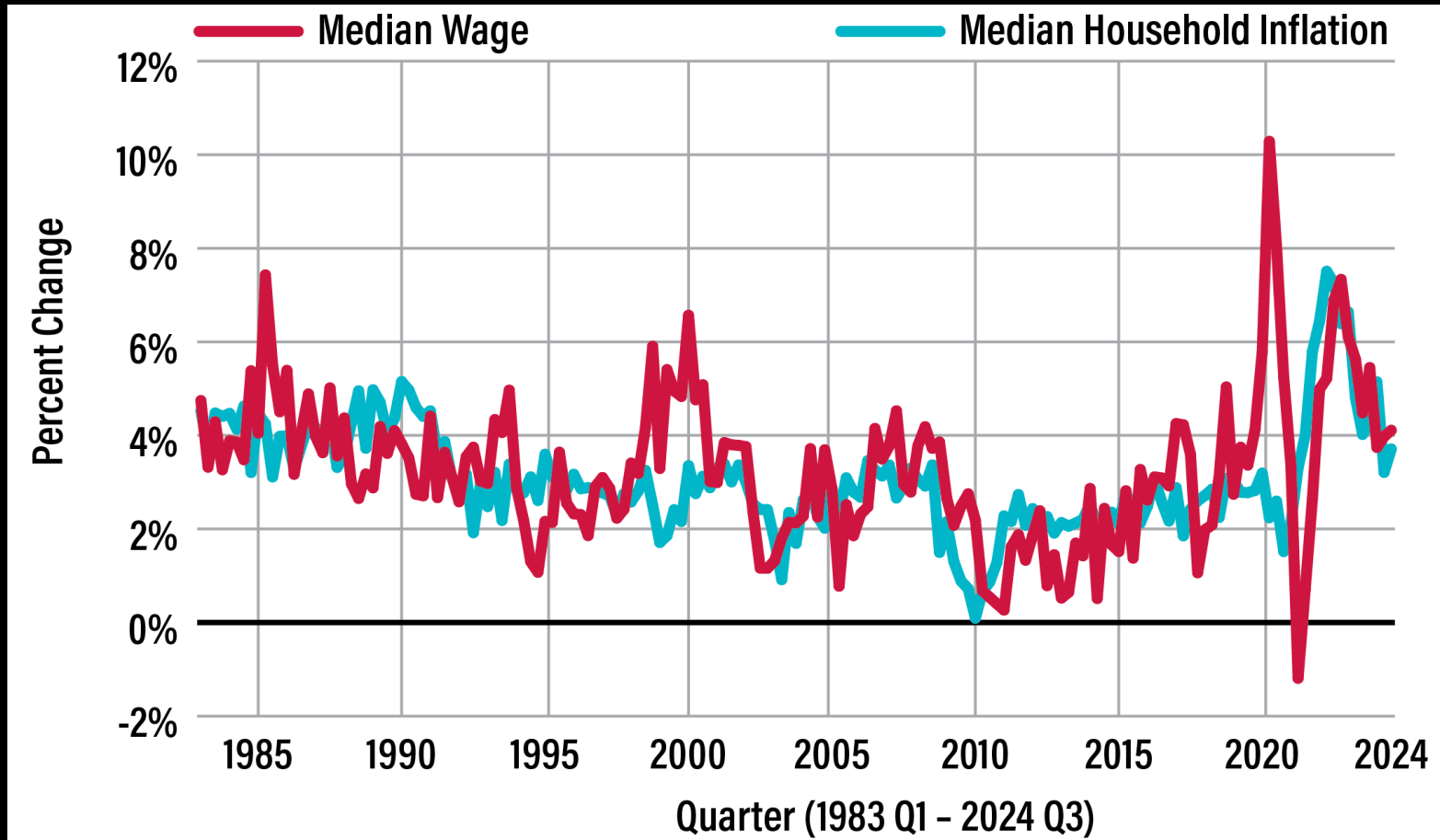
College Wage Premium vs. Unemployment Rate, USA



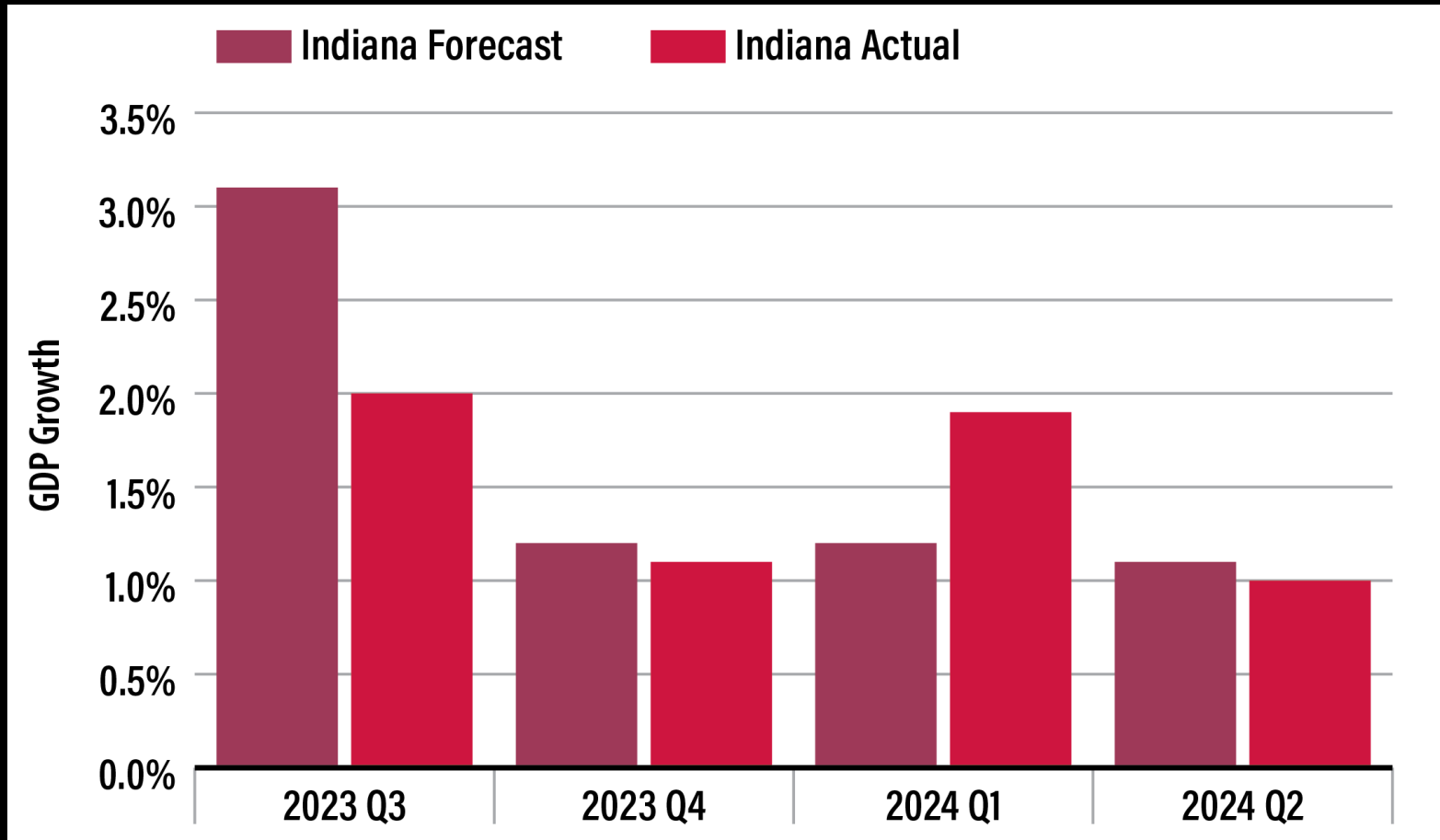
Indiana Avg. Monthly Wages Relative to USA



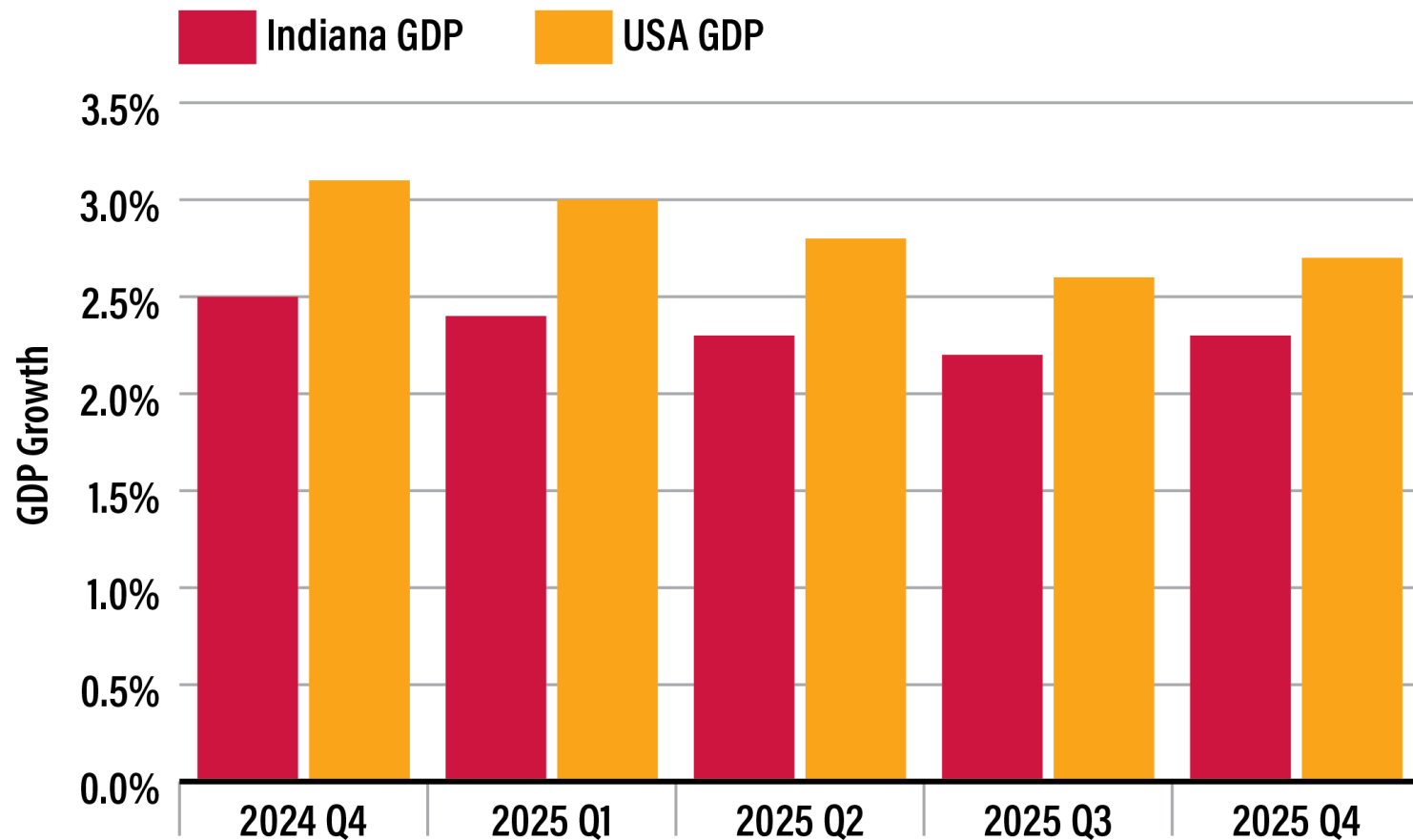
Change in Median CPI and Median Wages (Year-Over-Year)



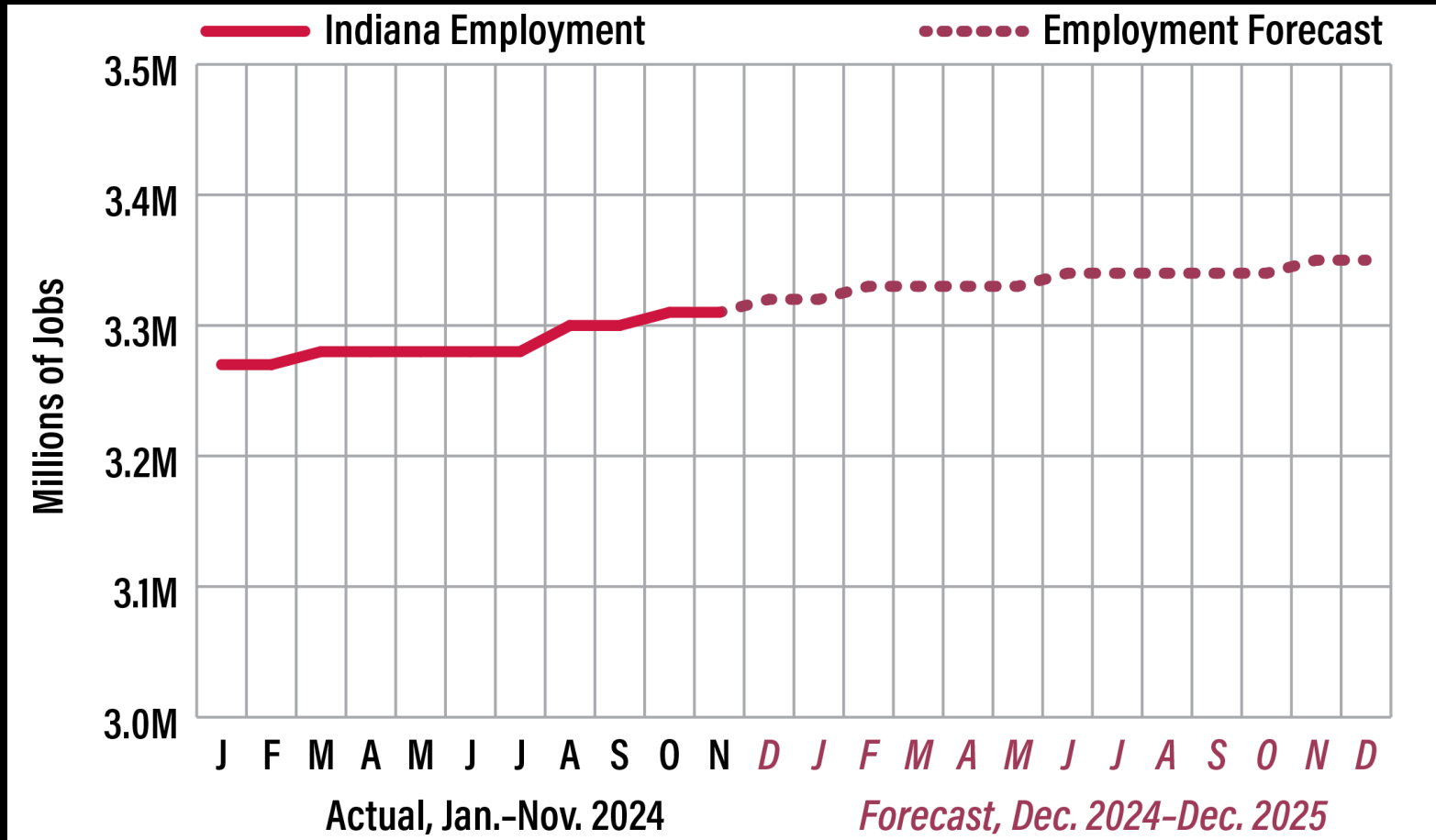
Previous Forecast vs Actual Gross State Product



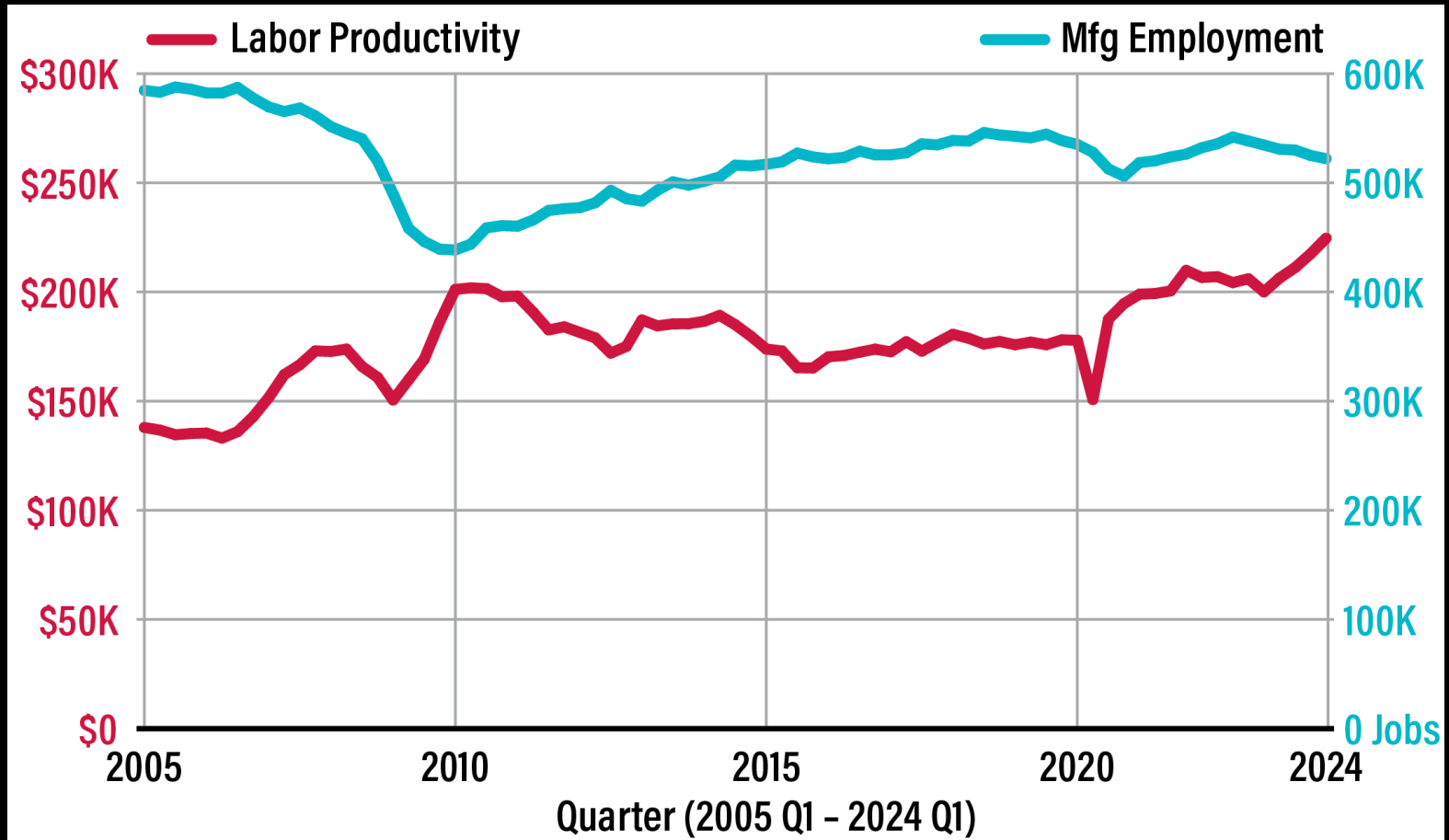
Projected GDP Growth Comparison



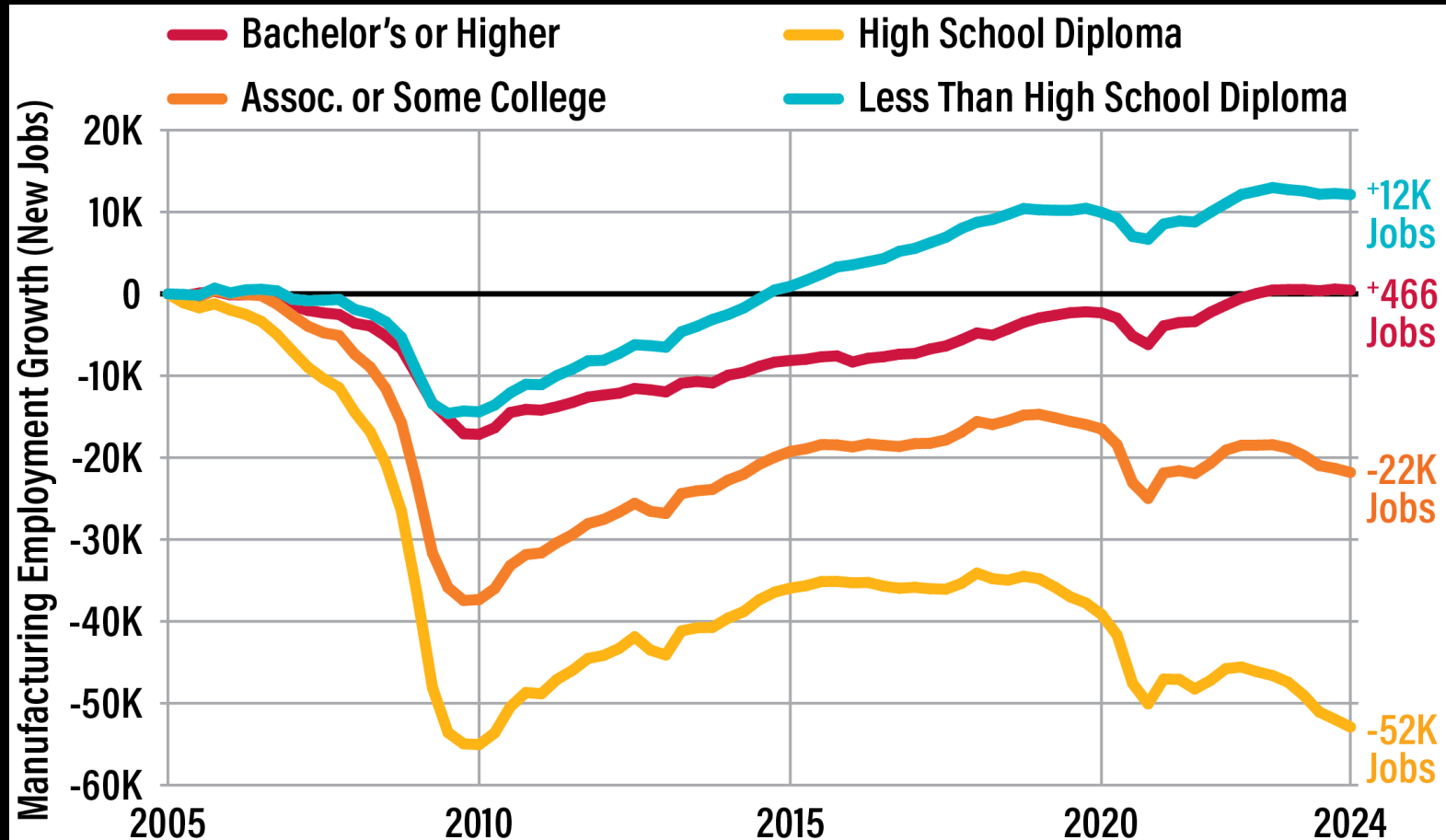
Indiana Employment History and Forecast



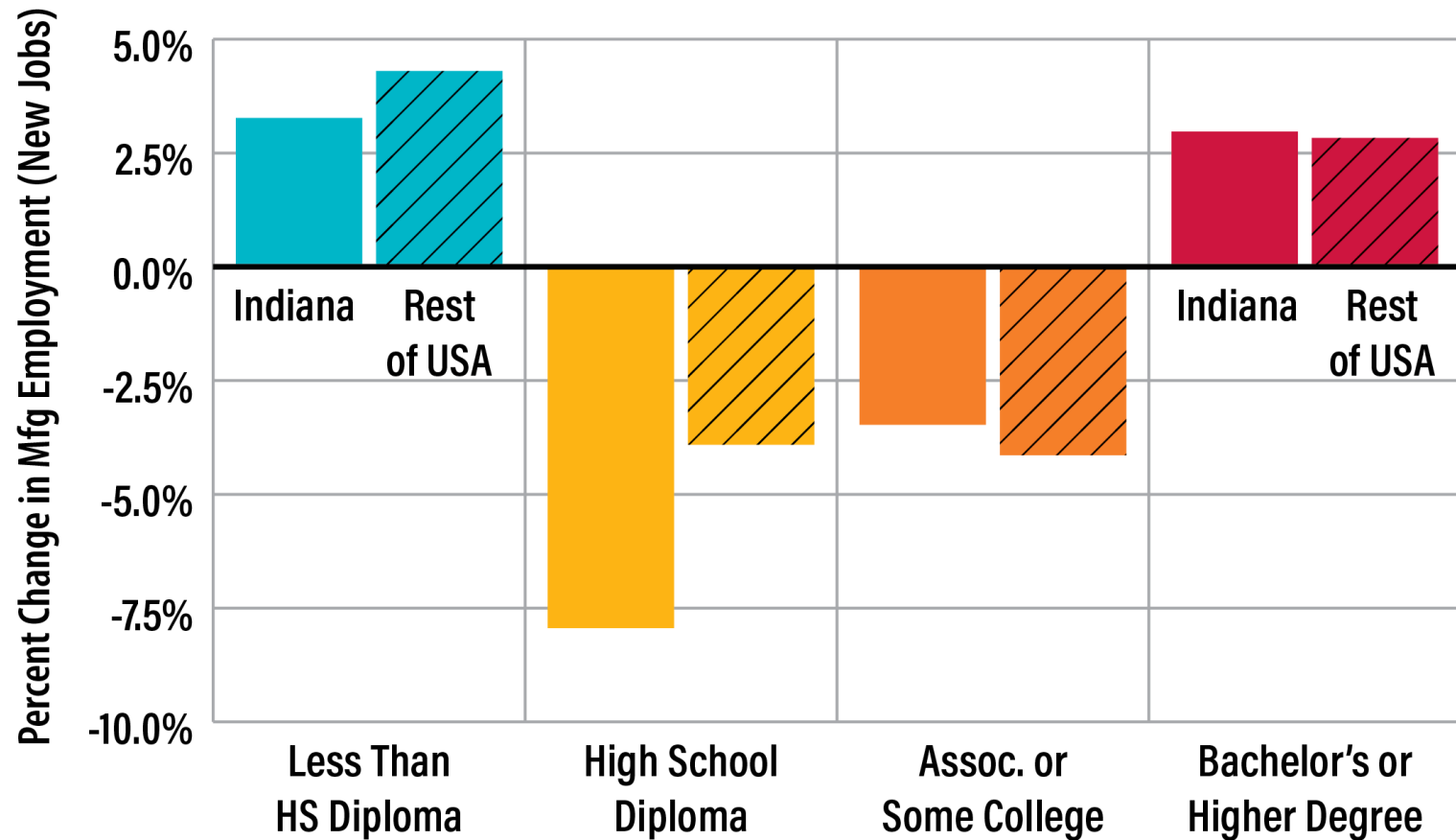
Indiana Manufacturing Employment and Productivity



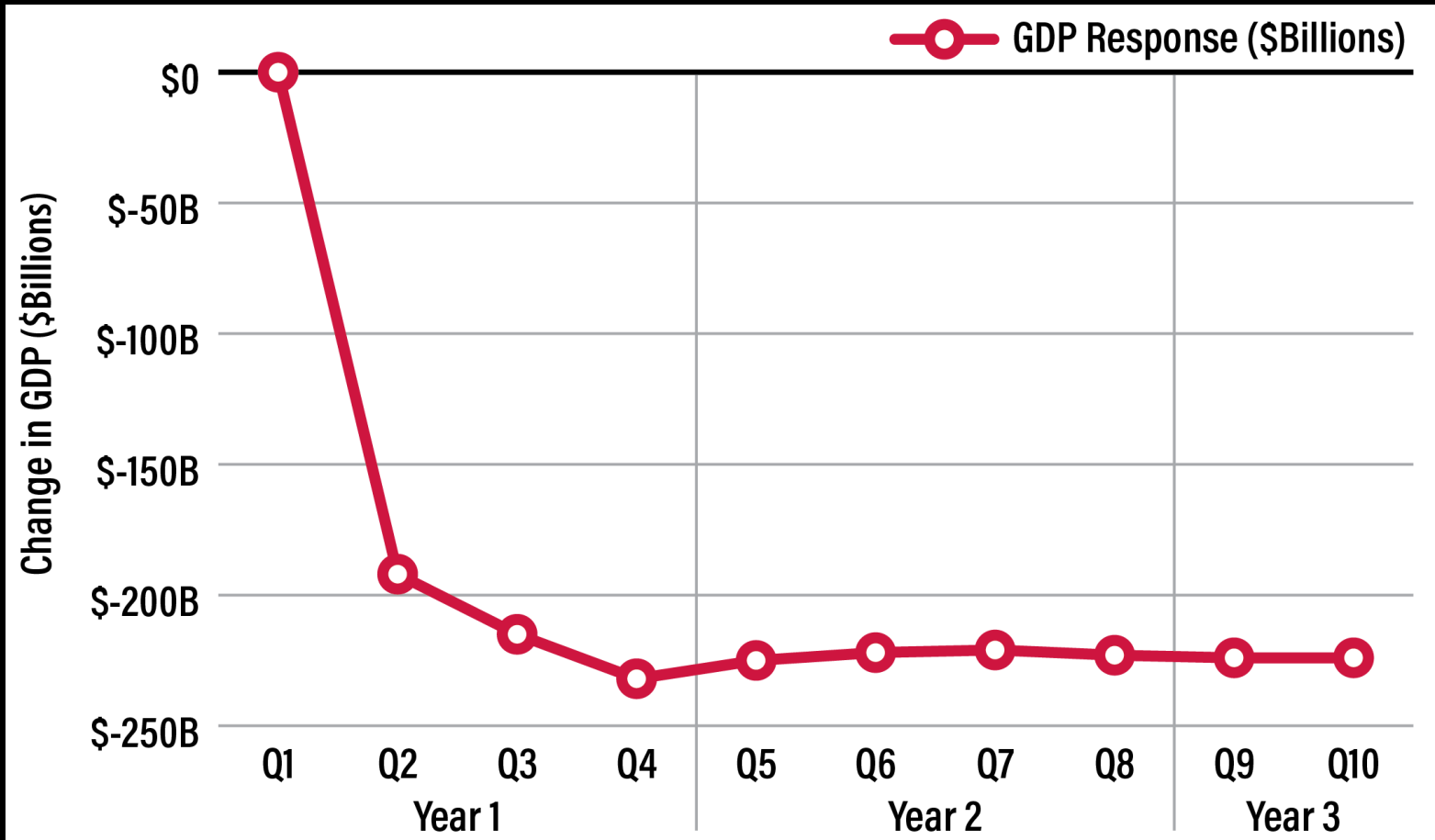
Cumulative Manufacturing Employment by Education



Change in Mfg Employment, Indiana & Rest of USA, 2020-2024



Effect of 20% Tariff on USA GDP



Summary

- Any forecast has to begin with longer term, structural changes weakening the Indiana economy.
- Strong growth in 2024, should be followed by slower, but still good growth in 2025.
- This will be dependent on inflation, and policy responses to inflation
- Productivity growth has returned, which will challenge factory employment – but has many benefits.
- Policy uncertainty, particularly on tariffs (and tariff retaliation) casts a cloud on the Hoosier economy.



2025 Keynote Presentation

David E. Altig, PhD

Executive Vice President
& Chief Economic Adviser

Federal Reserve Bank of Atlanta

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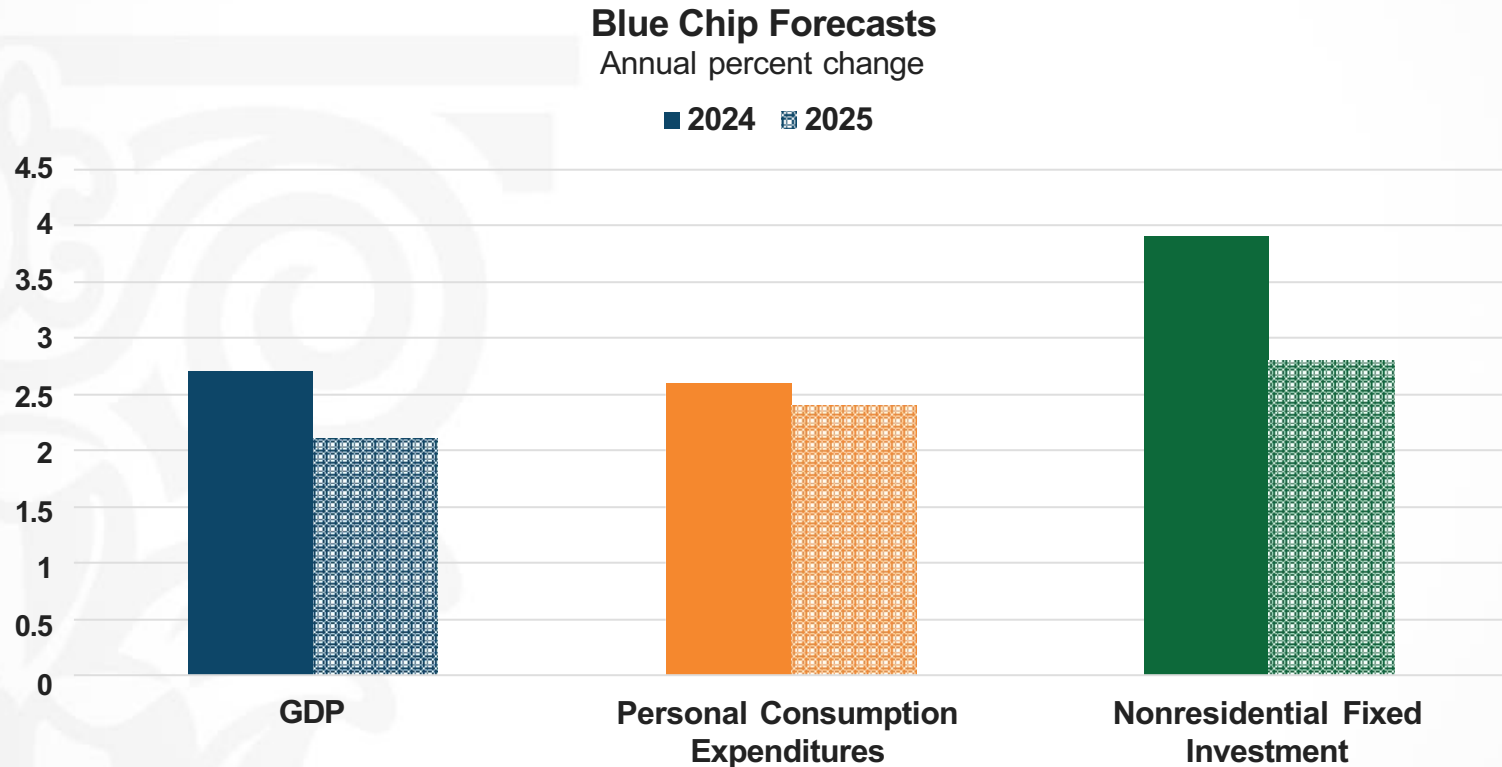
Ball of Confusion: Questions (and nothing but questions) about the US Economy in 2025

Indiana Economic Outlook 2025
Forecast Breakfast

Center for Business and Economic Research
Ball State University

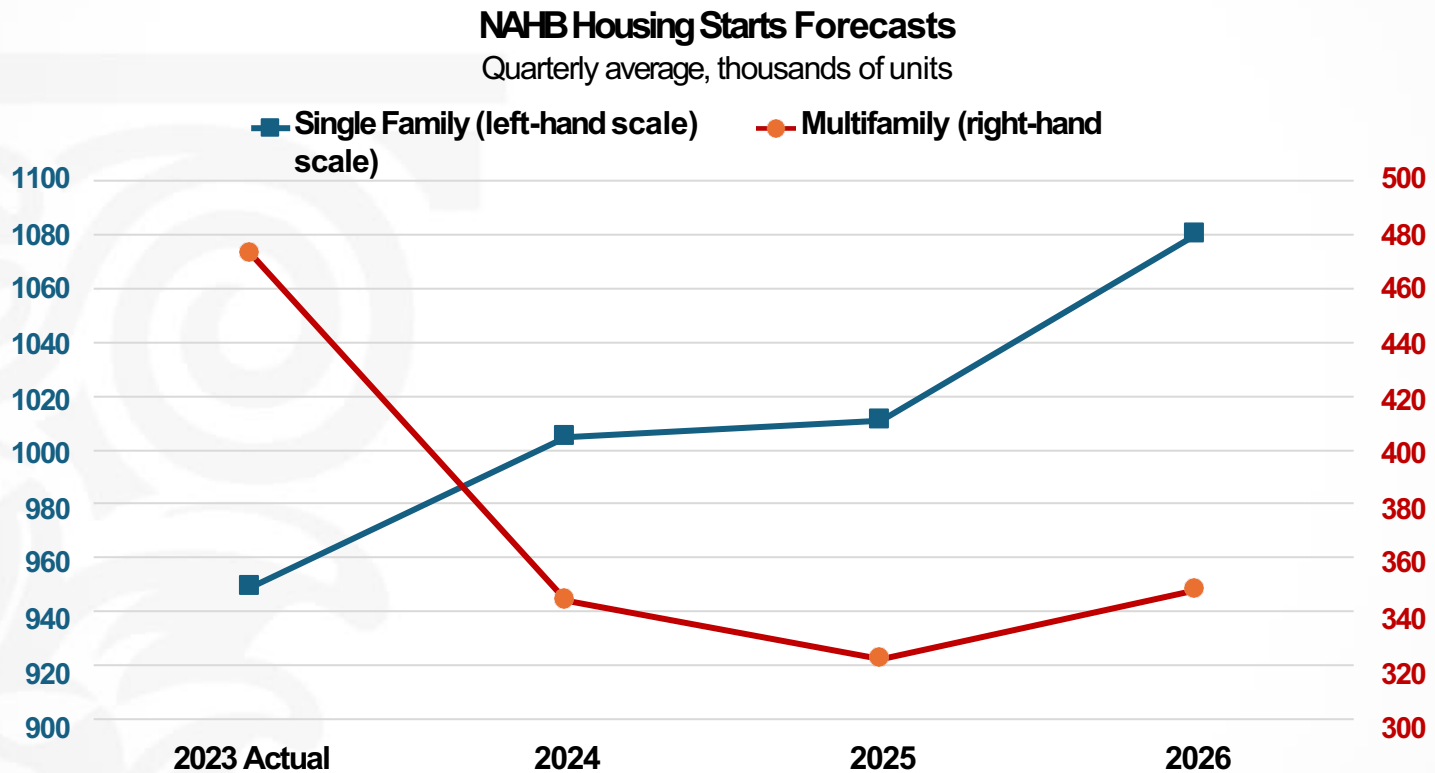
Muncie, IN
January 16, 2025

Most forecasters see somewhat softer, but still reasonably solid, growth in 2025.



Source: Blue Chip Economic Indicators December 2024.

Total housing starts are expected to decline slightly in 2025, before rebounding in 2026.

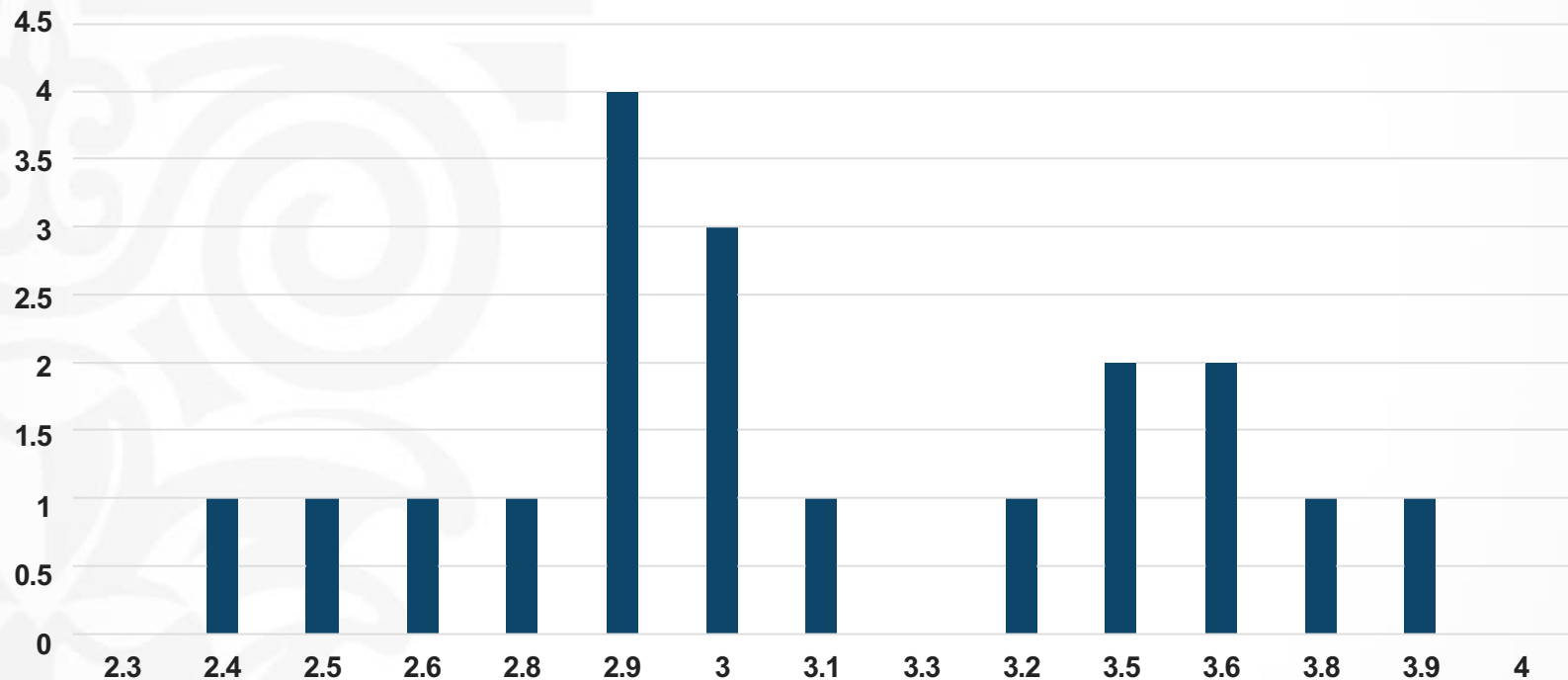


Sources: National Association of Home Builders; Haver Analytics.

Long-run policy rate projections, from the December 2024 FOMC *Summary of Economic Projections* (offered without comment).

Distribution of Longer-Run Federal Funds Rate Midpoint

Annualized percent, rounded to nearest tenth



Source: FOMC *Summary of Economic Projections*, December 2024: <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20241218.htm>.

A list of known unknowns.



Image generated by ChatGPT based on request for an image of questions about the list to the right swirling around the head of an economist.

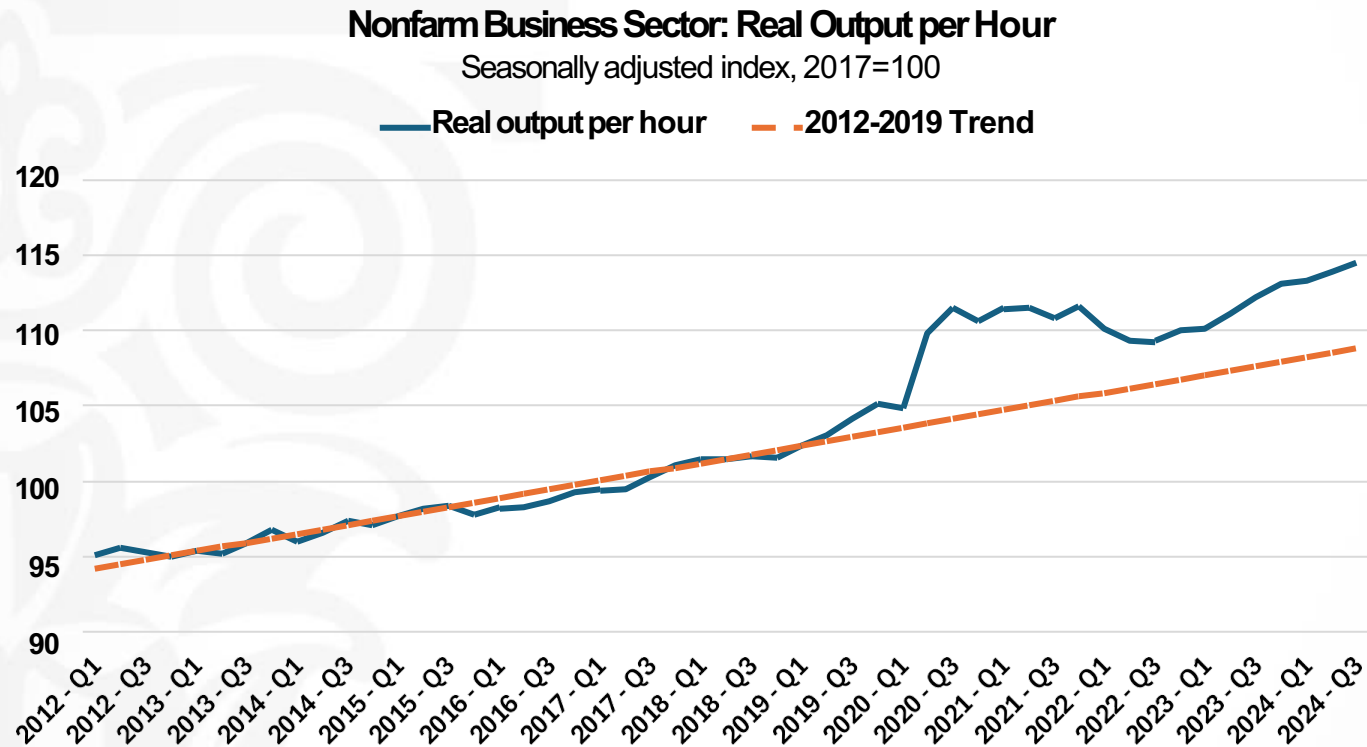
- **Productivity**
- **Fiscal Policy**
- **Immigration**
- **Tariffs**
- **Inflation**



Ball of confusion, thread #1: Productivity?

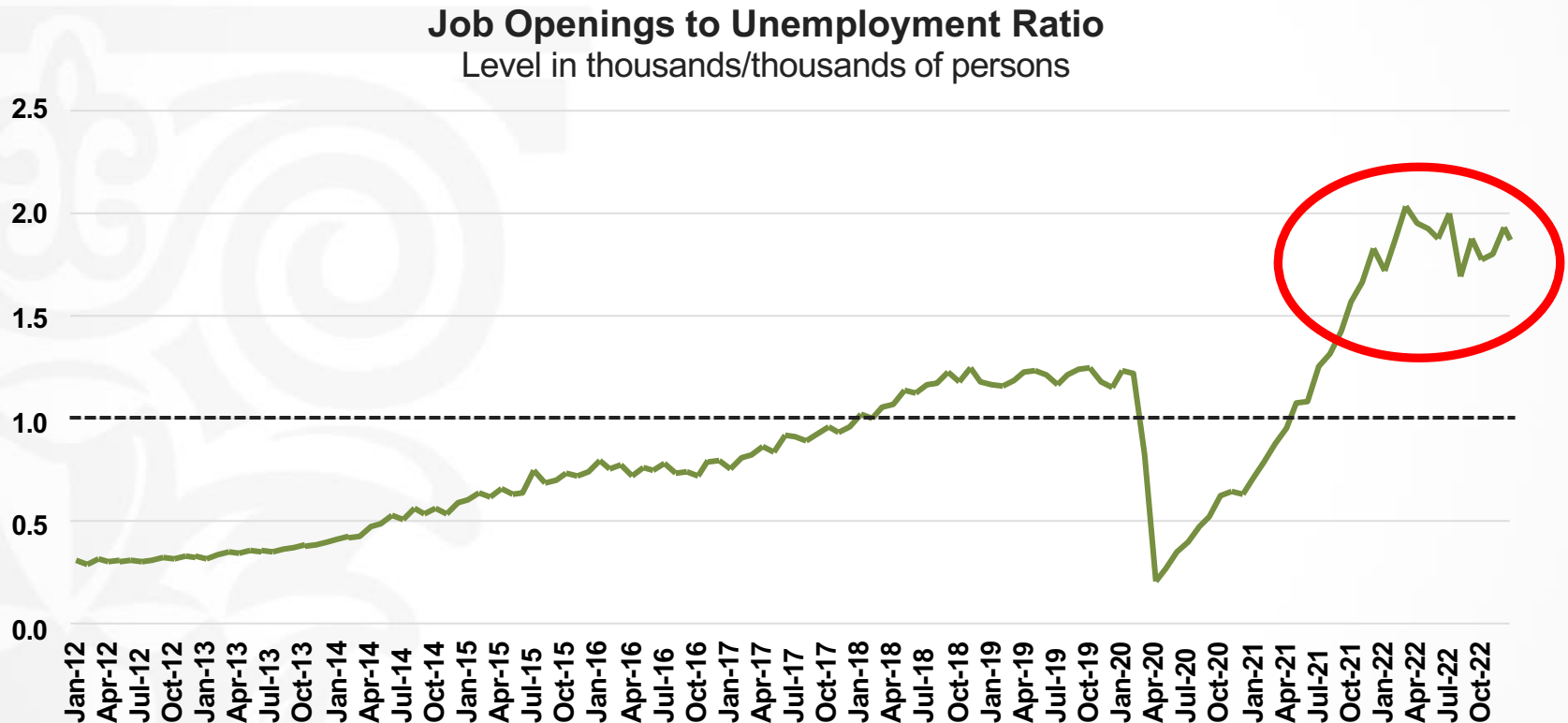
Image generated by ChatGPT based on request for an image of an individual trying to unravel the mystery of productivity growth.

A structural question: Is productivity a tailwind?



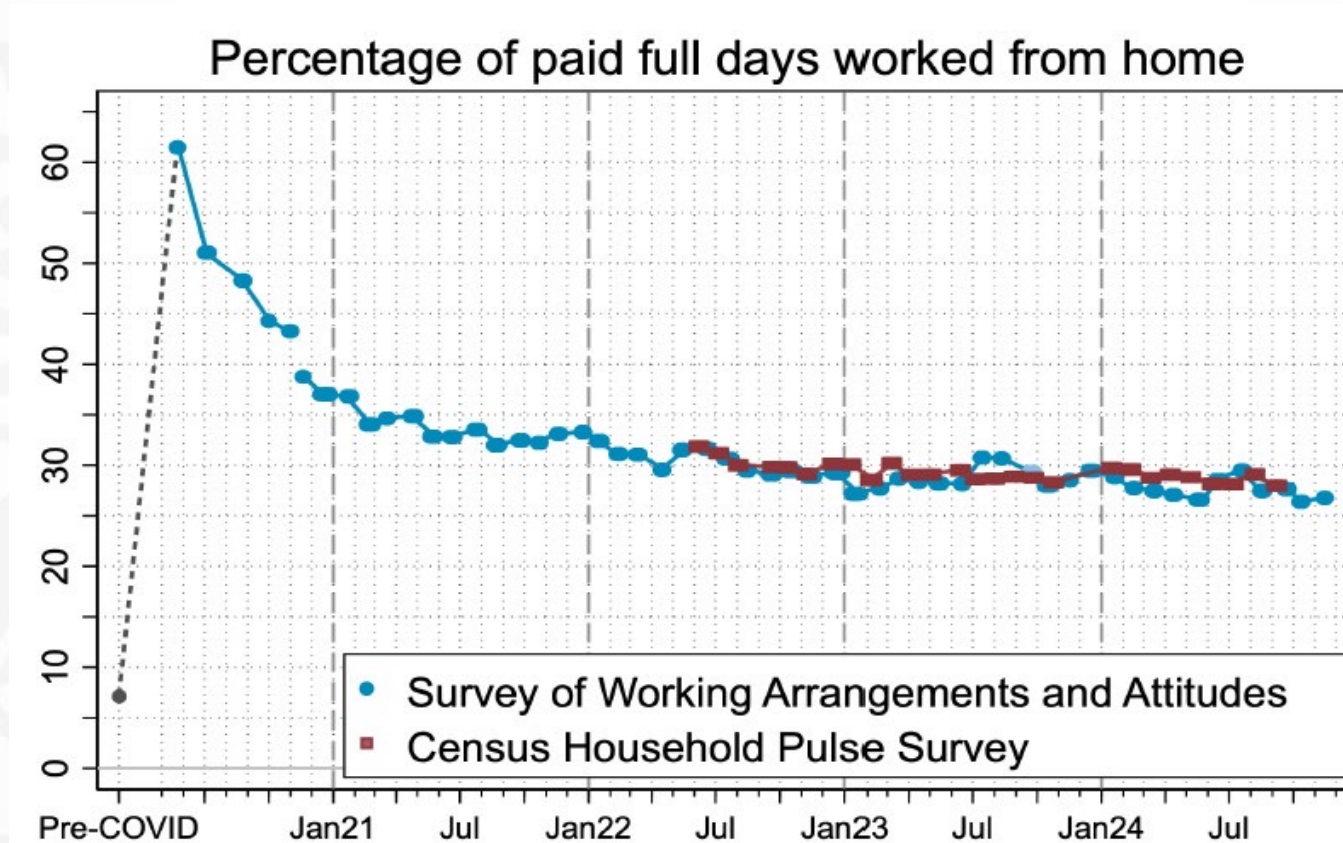
Sources: Bureau of Economic Analysis; Haver Analytics.

One possible source: Efficiency efforts related to unprecedented labor market tightness in the period from 2021 through 2022.



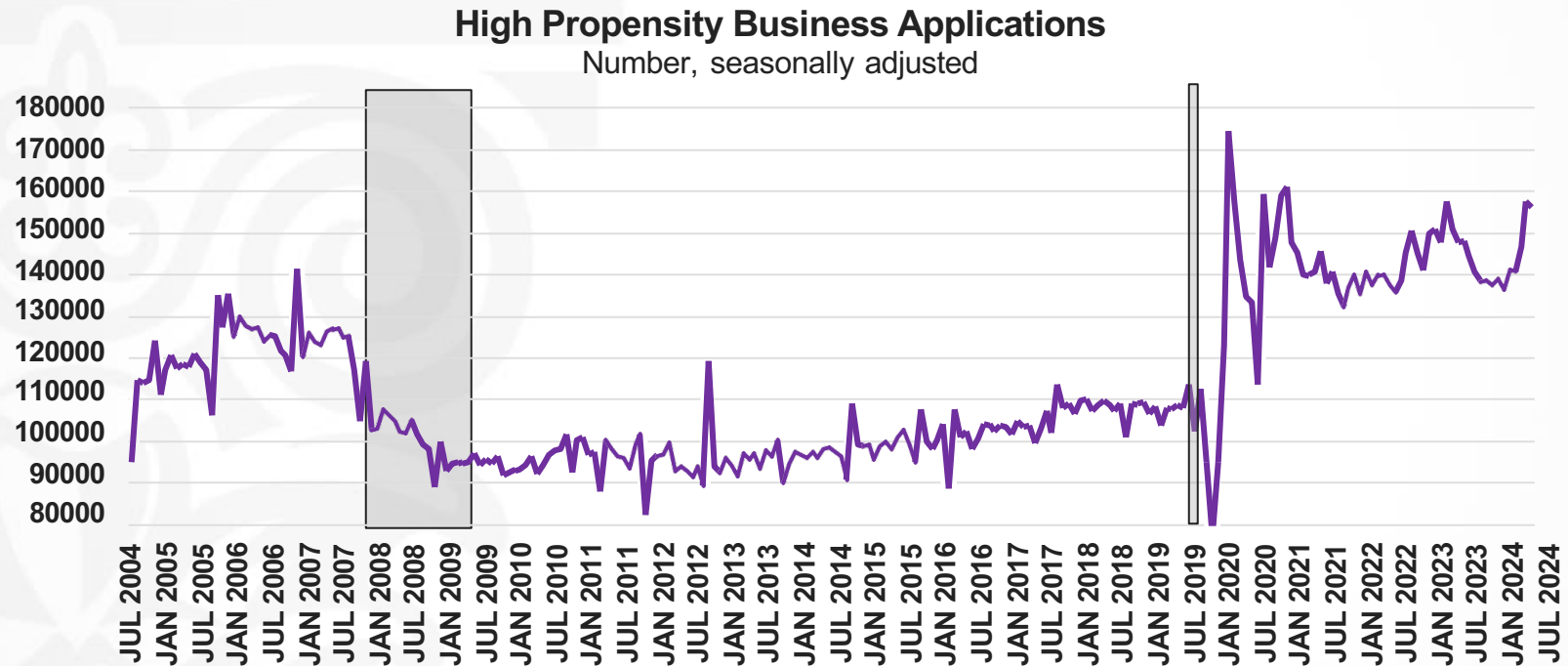
Sources: Bureau of Labor Statistics; Haver Analytics. Data through October 2024

The 2021-2022 period also saw a large, and so-far permanent, shift in work arrangements.



Sources: Jose Maria Barerro, Nicholas Bloom, Steven J. Davis: www.wfhresearch.com. Data through December 2024.

Another possible source: The post Covid-recession period saw a significant jump in businesses likely to generate employment.

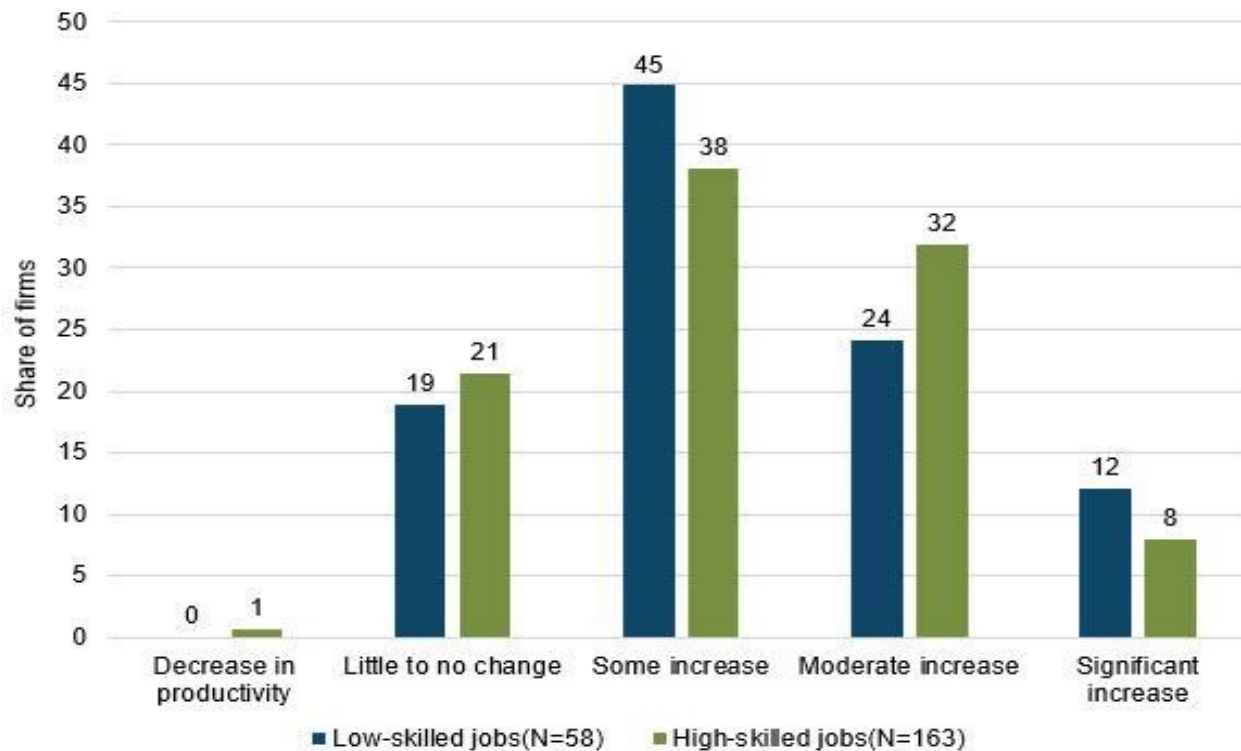


* "High propensity" refers to business applications that have a high propensity to become a business with payroll.

Sources: U.S. Census Bureau; Haver Analytics. Data through December 2024.

A third possible source: The AI revolution has arrived.

How does the use of A.I. tools impact the productivity of your firm's employees in low-skilled or high-skilled jobs?



Source: Atlanta Fed's Business Inflation Expectations (BIE) survey

However, the breadth of A.I. penetration still appears to be relatively narrow.

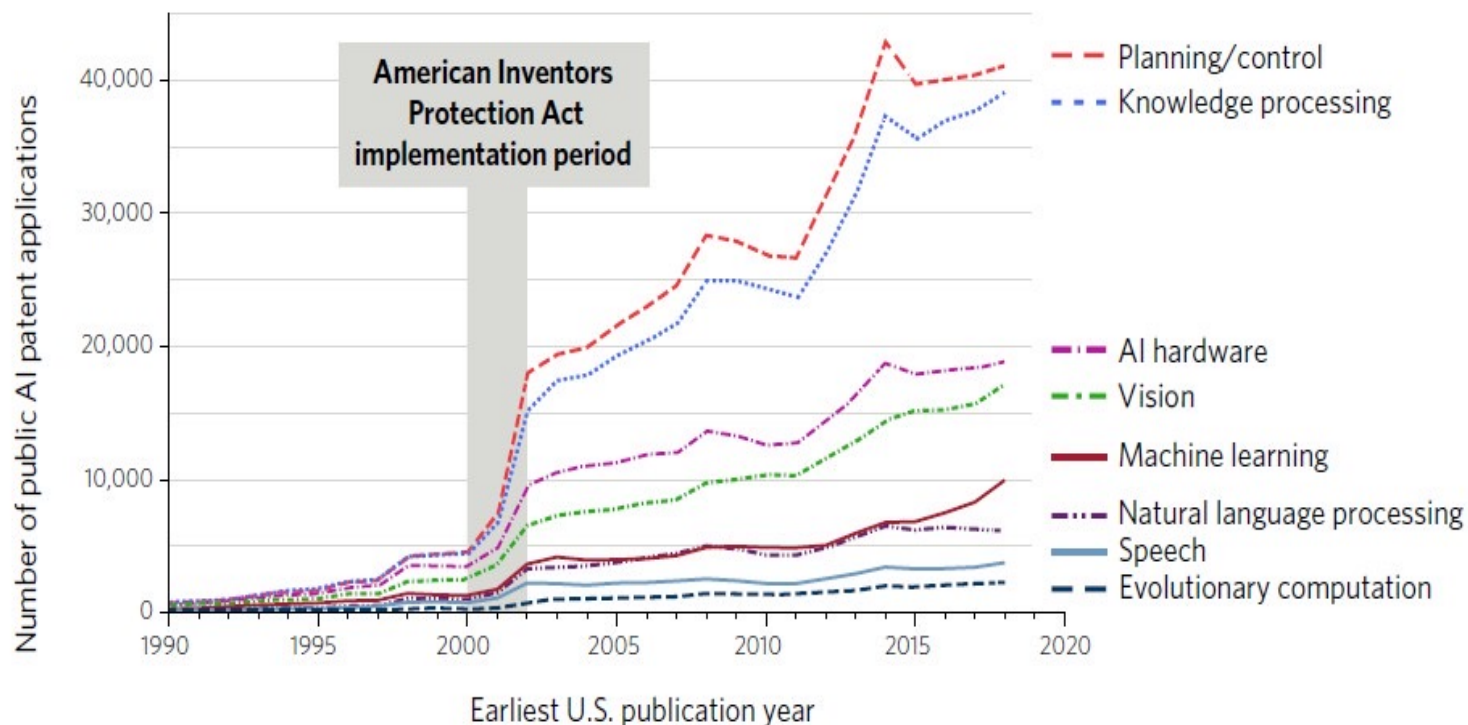
Share of high-skilled and low-skilled workers using using A.I. regularly



Source: Atlanta Fed's Business Inflation Expectations Survey, May 2024.

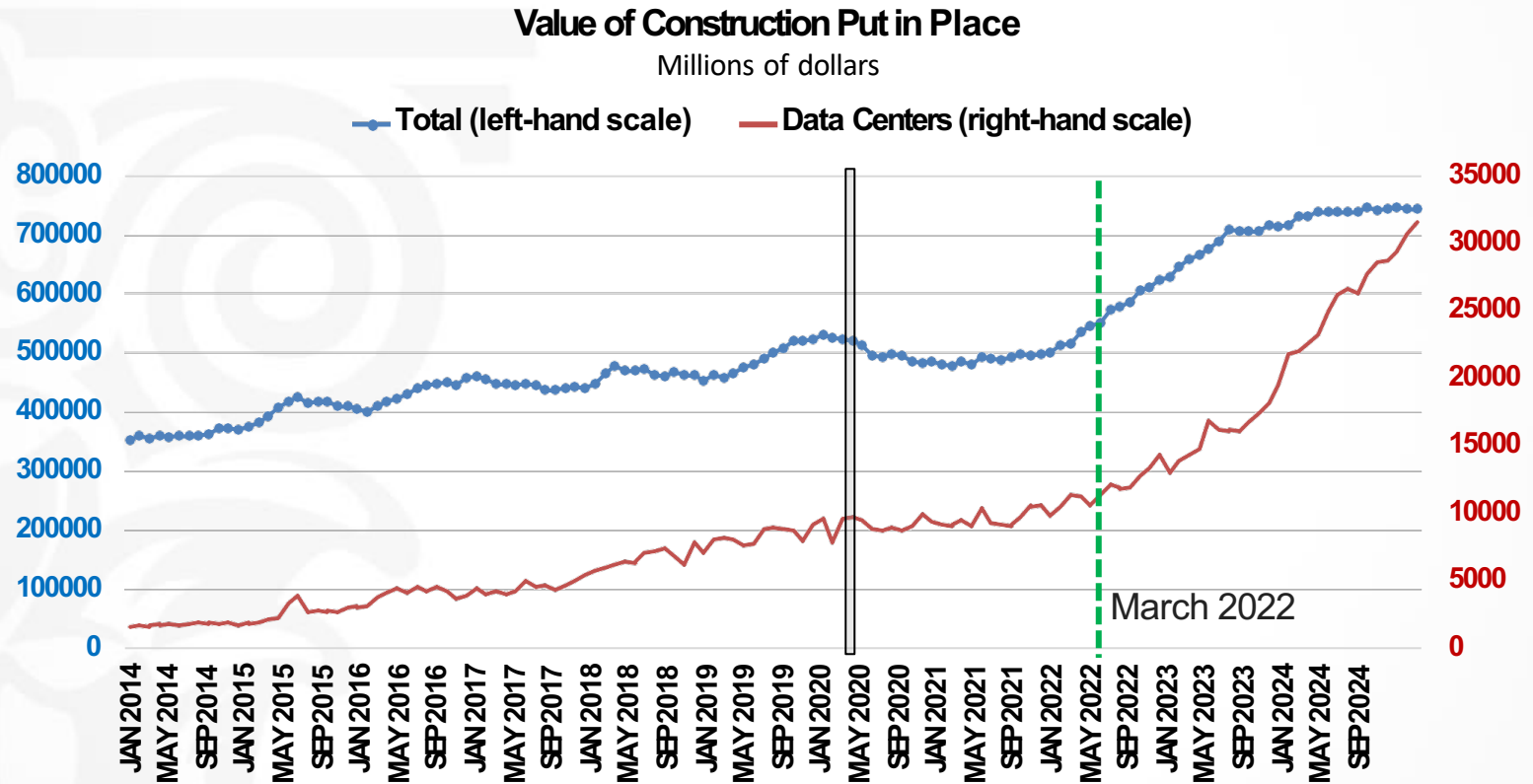
Is the timing right for the AI revolution to hit the productivity statistics?

U.S. Patent Activity



Sources: U.S. Patent and Trademark Office, Office of the Chief Economist; Federal Reserve Bank of Atlanta .

AI-related construction is very definitely a driver of investment in the U.S.



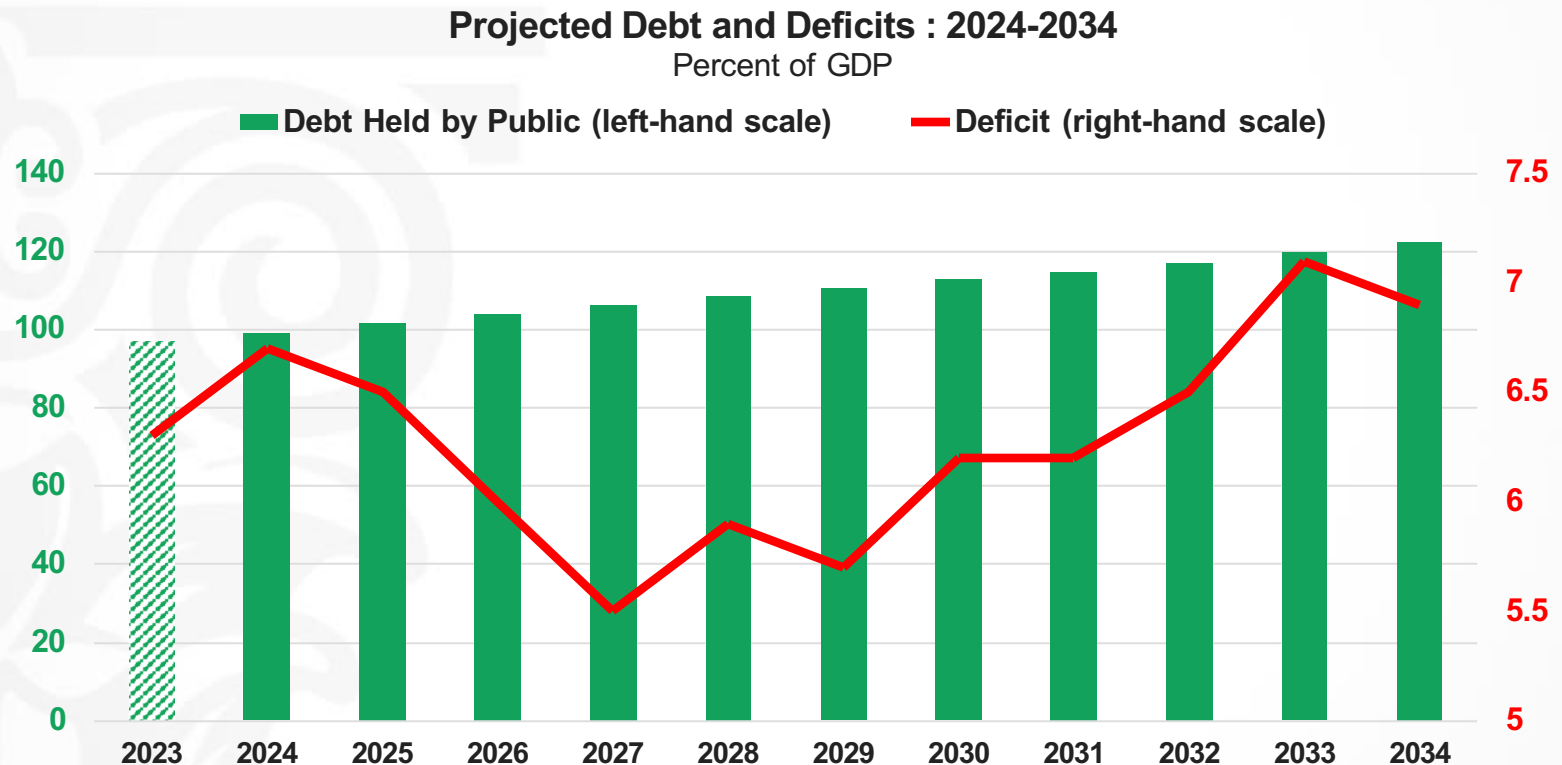
Sources: U.S. Department of Commerce; Haver Analytics. Data through November 2024.



Ball of confusion, thread #2: Fiscal policy?

Image generated by ChatGPT based on request for an image of an individual trying to guess what tax and spending policy is going to be.

According to the CBO, the status quo means debt and deficits will rising well into the future.



Sources: Congressional Budget Office, June 2024: https://www.cbo.gov/publication/60419#_idTextAnchor015

Of note:

- “In CBO’s projections, total deficits equal or exceed 5.5 percent of GDP in every year from 2024 to 2034. Since at least 1930, deficits have not remained that large for more than five years in a row.”

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- “Since 1940 (the first year for which OMB reports such data), net outlays for interest have never exceeded 3.2 percent of GDP. In CBO’s baseline, such outlays exceed that percentage in every year from 2025 to 2034.”

Of note:

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- “Since 1940 (the first year for which OMB reports such data), net outlays for interest have never exceeded 3.2 percent of GDP. In CBO’s baseline, such outlays exceed that percentage in every year from 2025 to 2034.”
- “As a percentage of GDP, debt is projected to reach 109 percent in 2028, an amount greater than at any point in the nation’s history. Debt would [equal]... 122 percent of GDP at the end of 2034....two and a half times its average percentage over the past 50 years.”

Some key assumptions underneath the CBO projections.

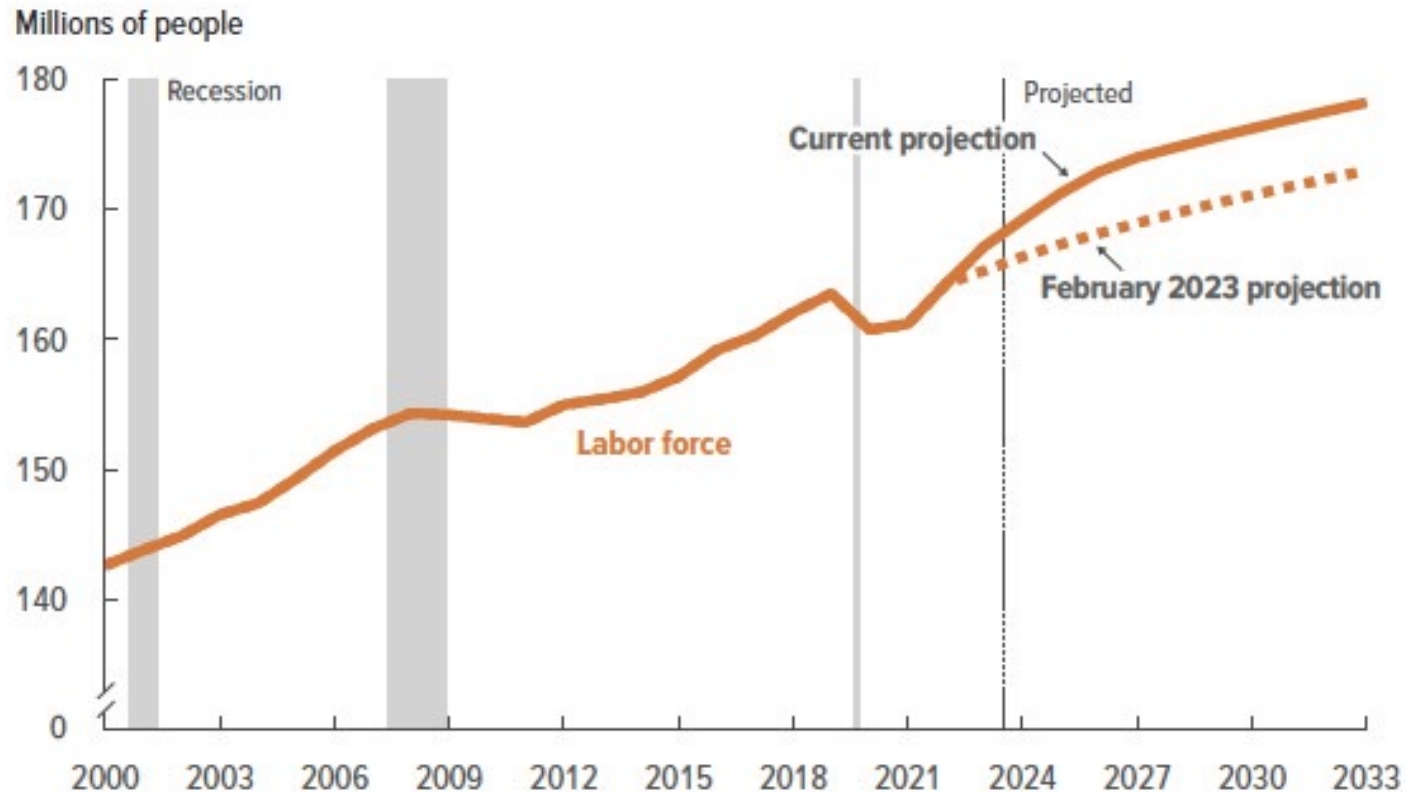
- **The CBO projections assume most of the provisions of the 2017 Tax Cut and Jobs Act will expire as scheduled.**
- **CBO now expects that the civilian population age 16 or older in 2033 will be larger by 7.4 million people, or 2.6 percent, than the agency previously projected. Most of that increase (5.9 million) represents a rise in the net number of people expected to immigrate to the United States.**



Ball of confusion, thread #3: Immigration?

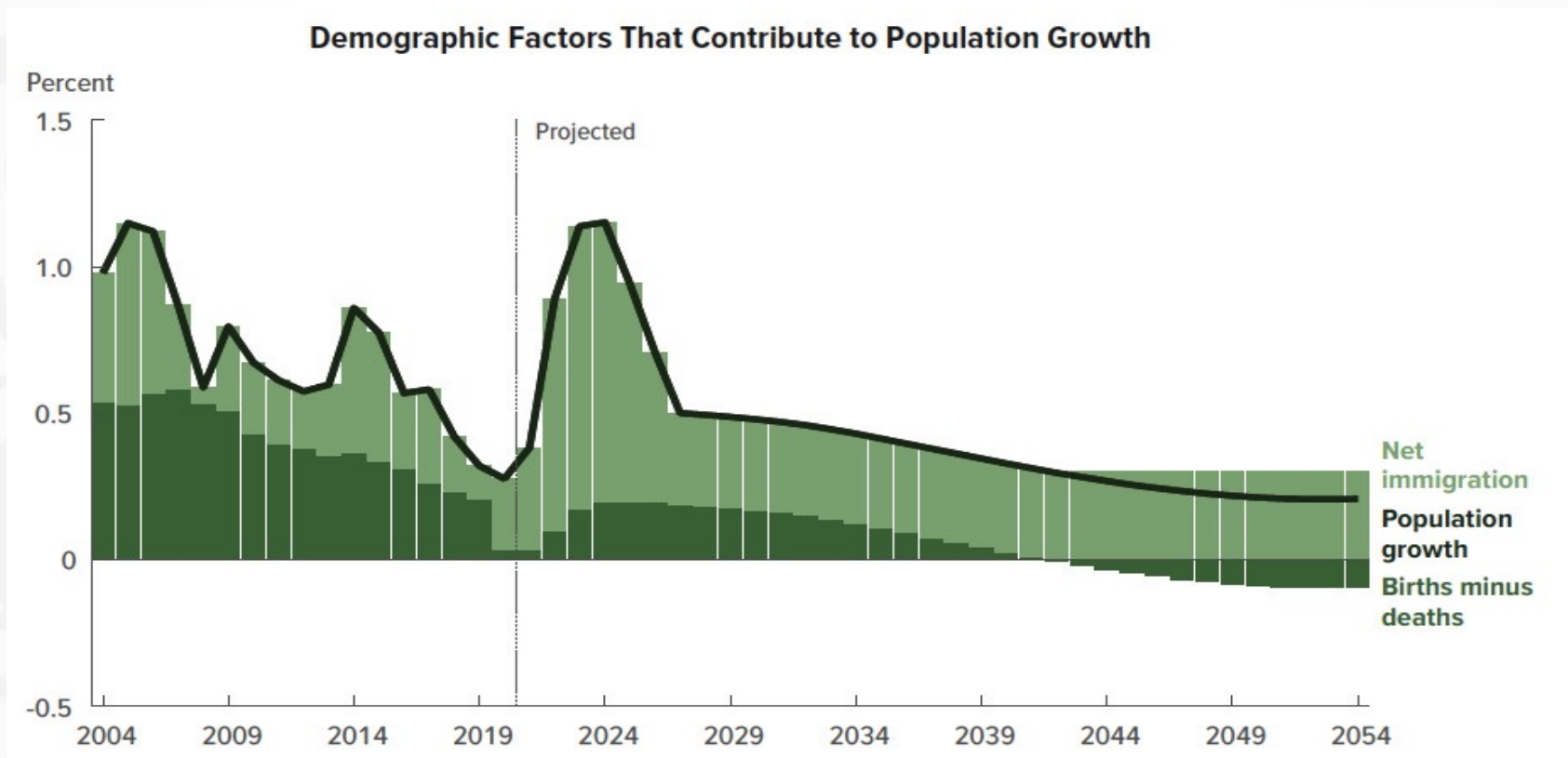
Image generated by ChatGPT based on request for an image of person surprised by immigration trends.

The impact of recent immigration on CBO estimates of labor supply.



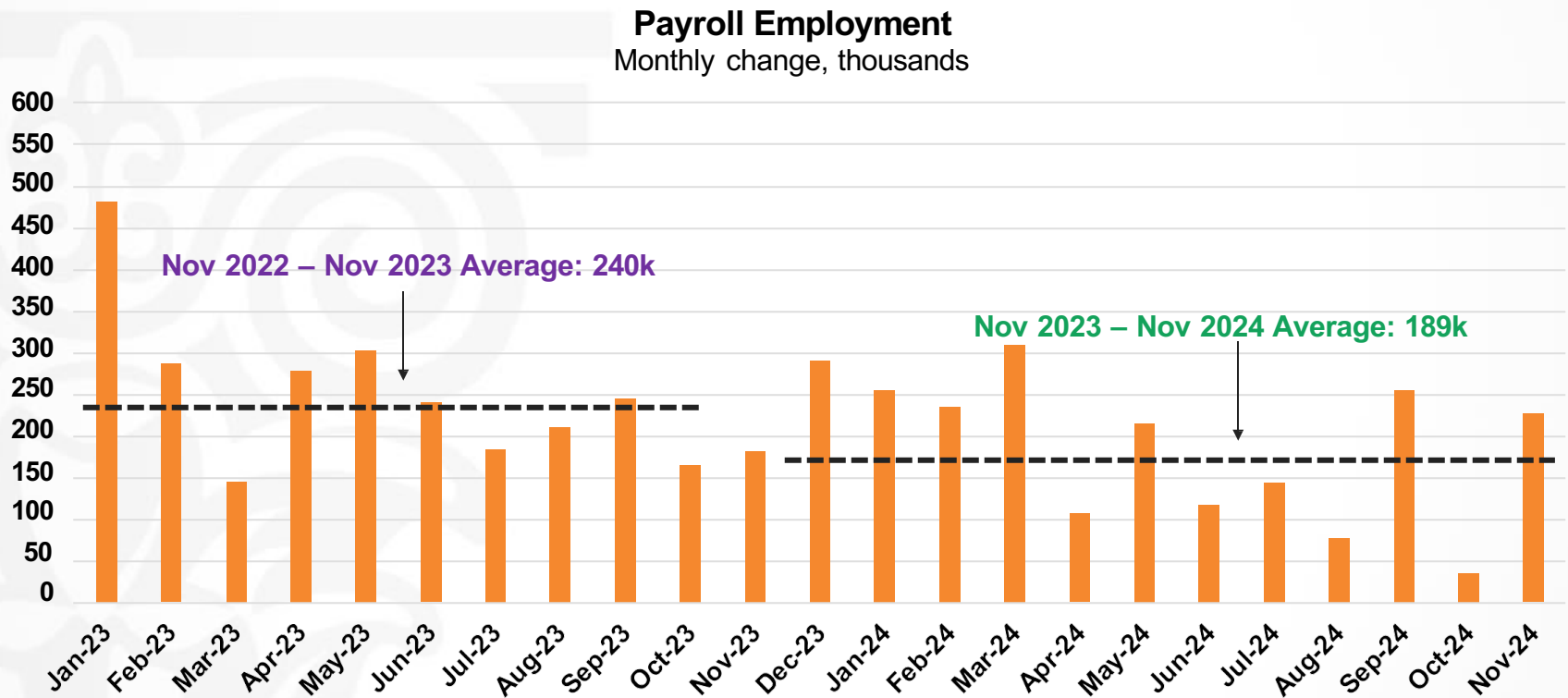
Sources: Congressional Budget Office, February 2024: <https://www.cbo.gov/publication/59946>

Reading the labor market has been (and still is) complicated by the immigration situation.



Sources: Congressional Budget Office, March 2024: <https://www.cbo.gov/publication/59697>

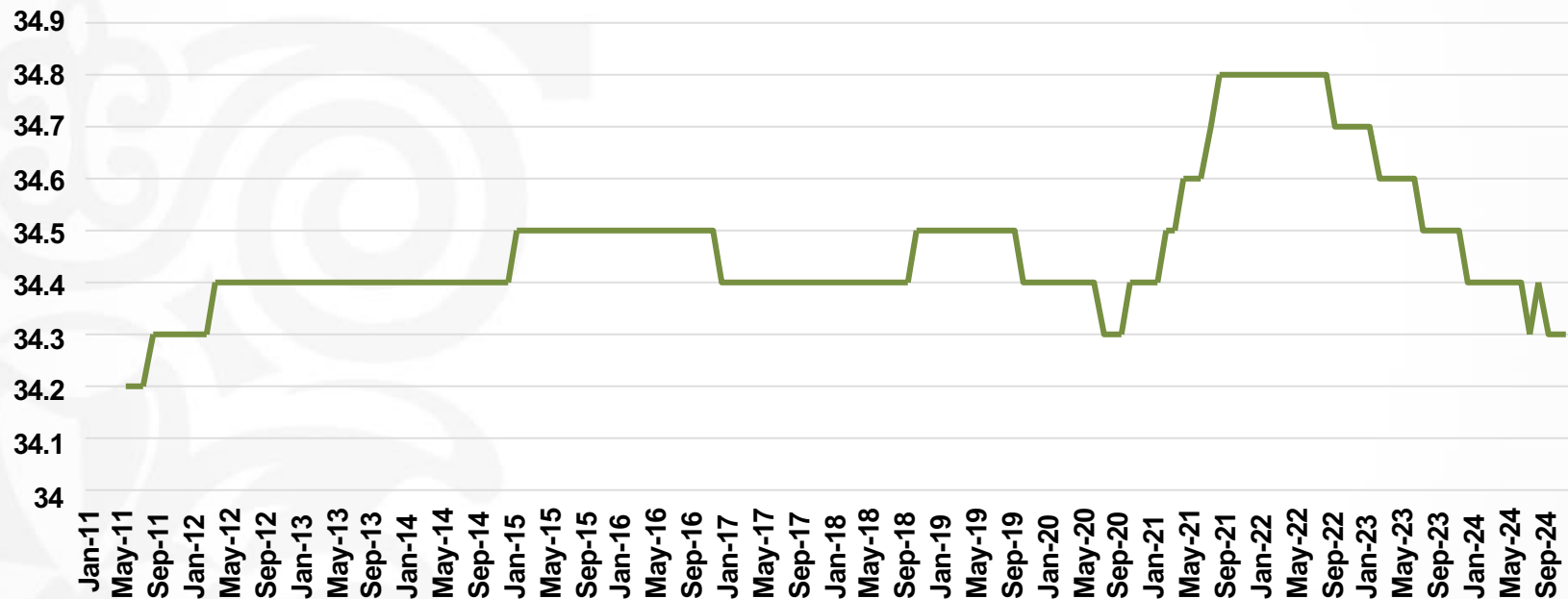
All of this has occurred as employment growth, though softening, has been quite strong.



Sources: Bureau of Labor Statistics; Haver Analytics. Data through November 2024

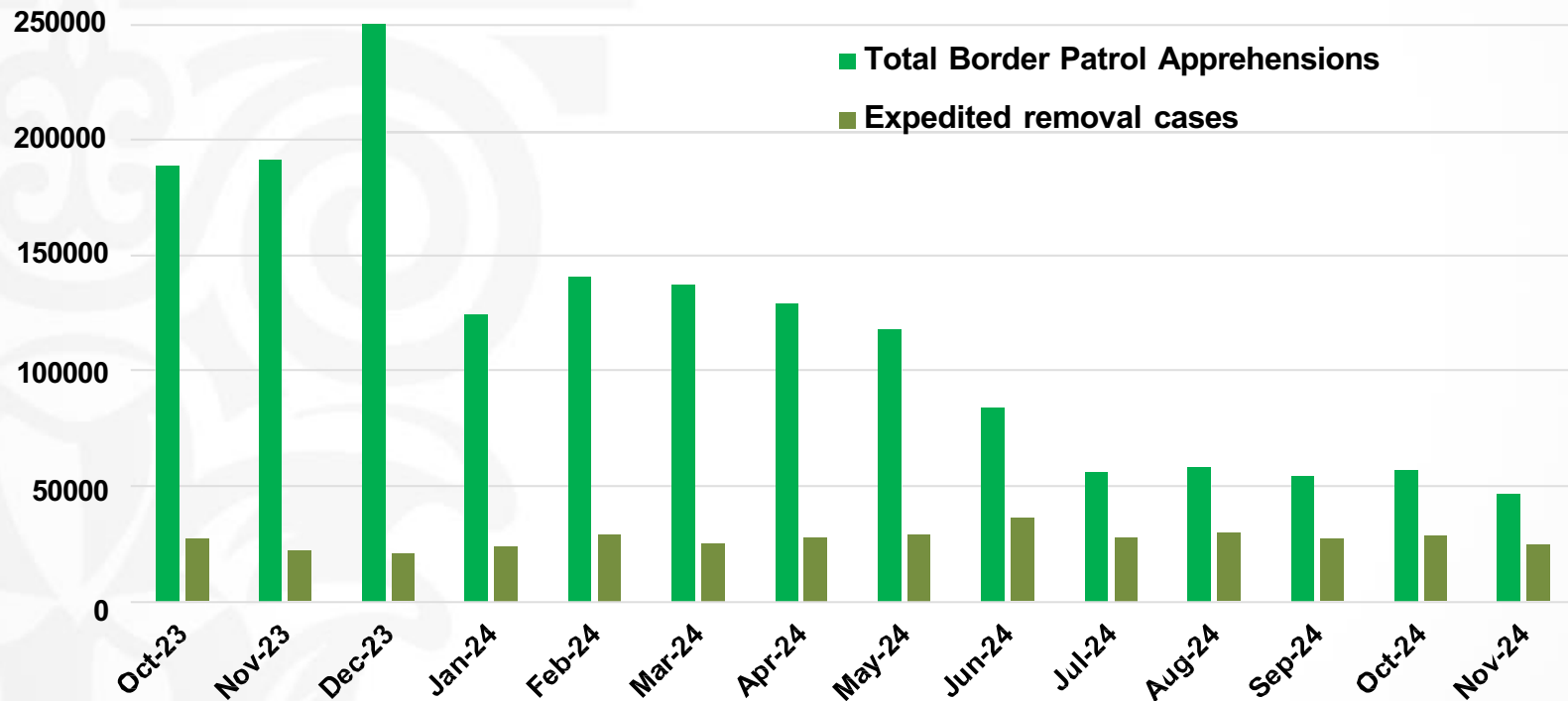
However, rapid employment growth has been somewhat mitigated by a decline in average hours worked.

Average weekly hours and overtime, all employees
12-month average



Sources: Bureau of Labor Statistics; Haver Analytics.

Policy changes this year do seem to have impacted immigration flows, at least as measured by border apprehensions.

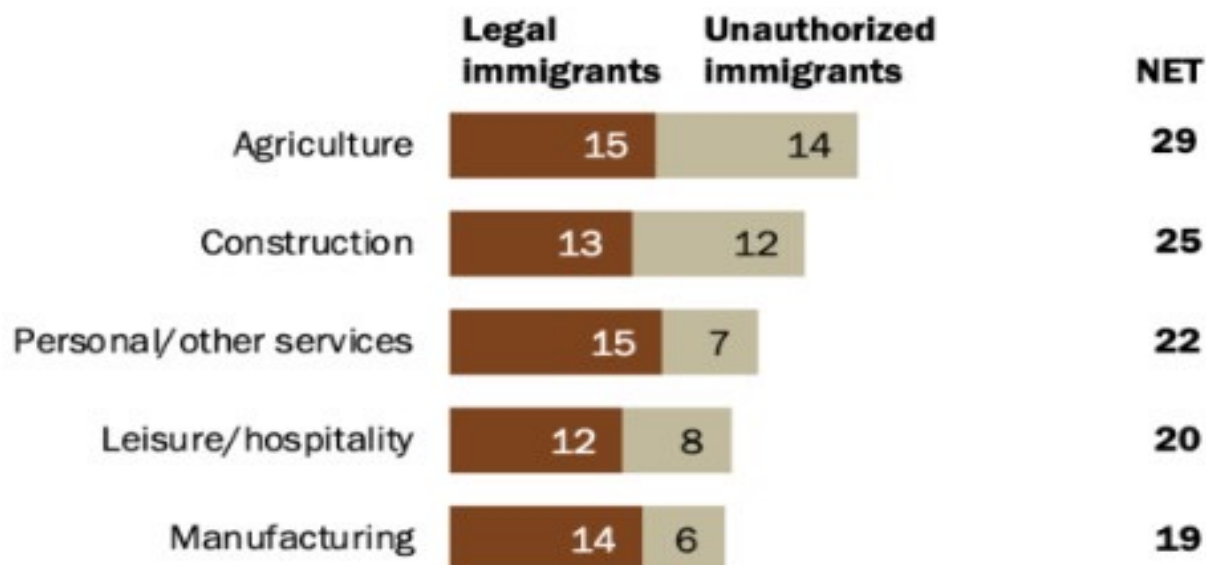


Source: Department of Homeland Security. Data through November 2024

What sectors are likely to be most affected *directly*?

Legal and unauthorized immigrants make up a significant share of workers in some industries

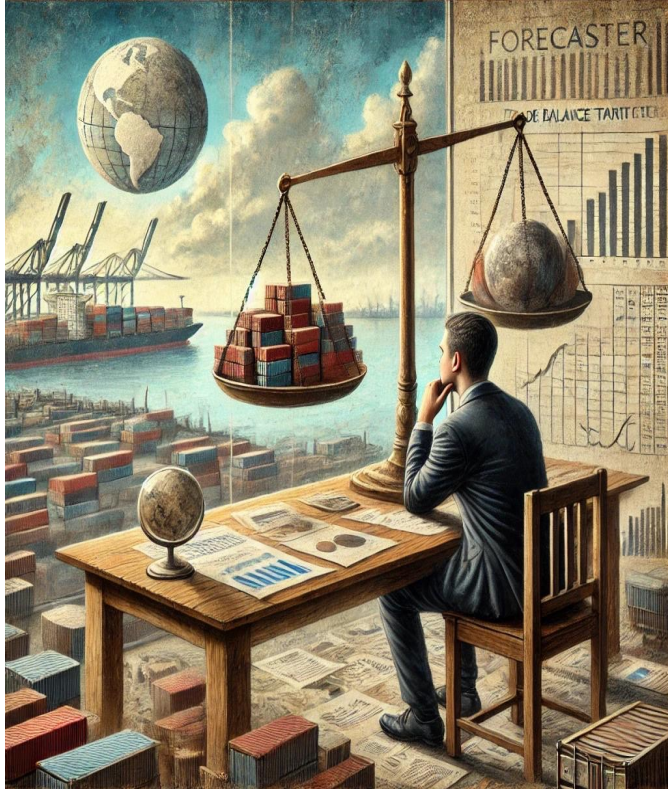
% of workers in industries who are immigrants, 2017



Note: Percentages calculated from unrounded numbers. Rankings based on unrounded percentages. "Personal/other services" refers to the Census Bureau's "Other services" group and includes those who work in private households. Other industry group names correspond to Census Bureau classifications for major industry groups. See "How we did this" for more.

Source: Pew Research Center estimates from augmented 2017 American Community Survey (IPUMS).

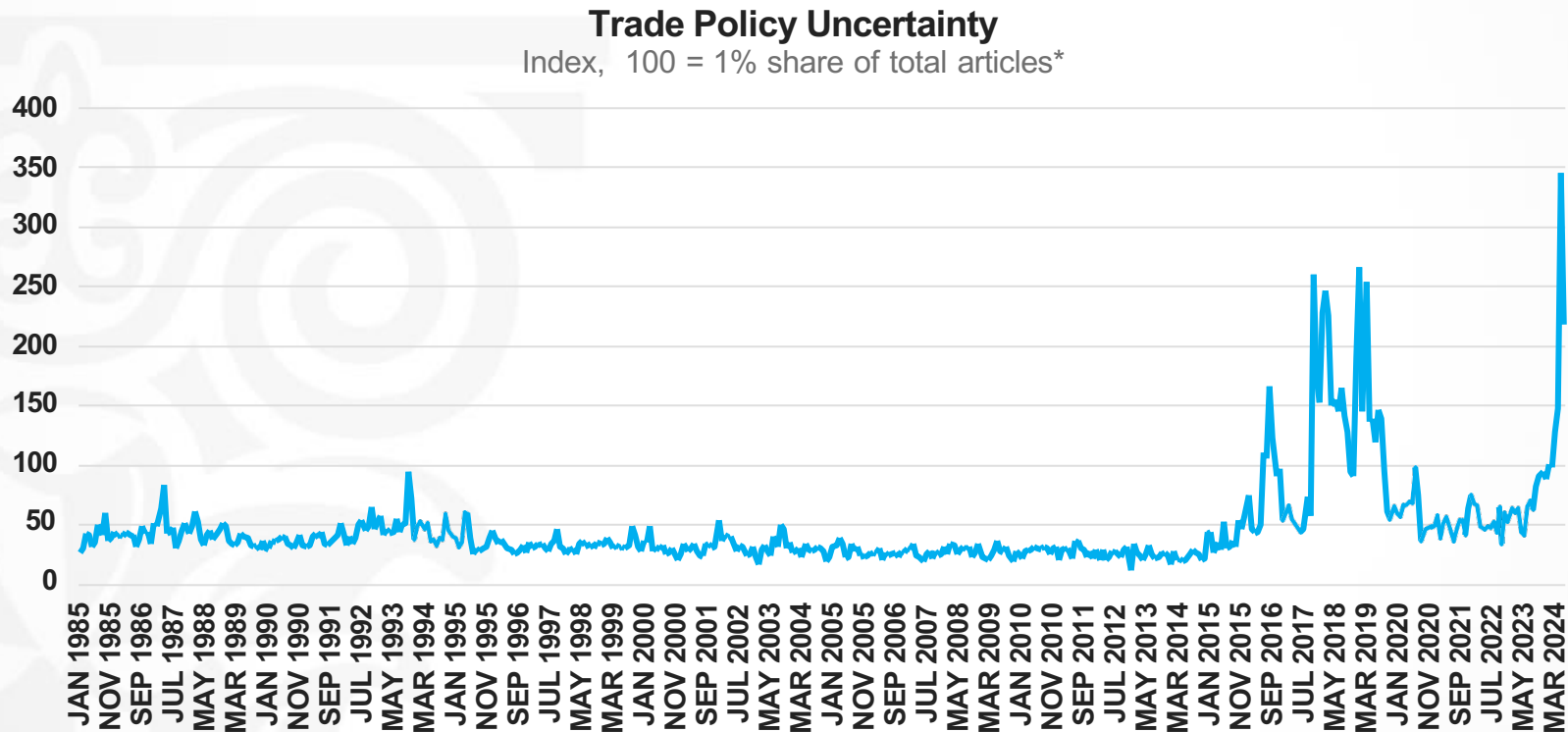
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Ball of confusion, thread #4: Tariffs?

Image generated by ChatGPT based on request for an image of a forecaster contemplating tariffs.

Trade policy uncertainty remains at historically high levels.



* Index based on articles appearing in the Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post.

On tariffs, we know more about what we don't know than what we know.

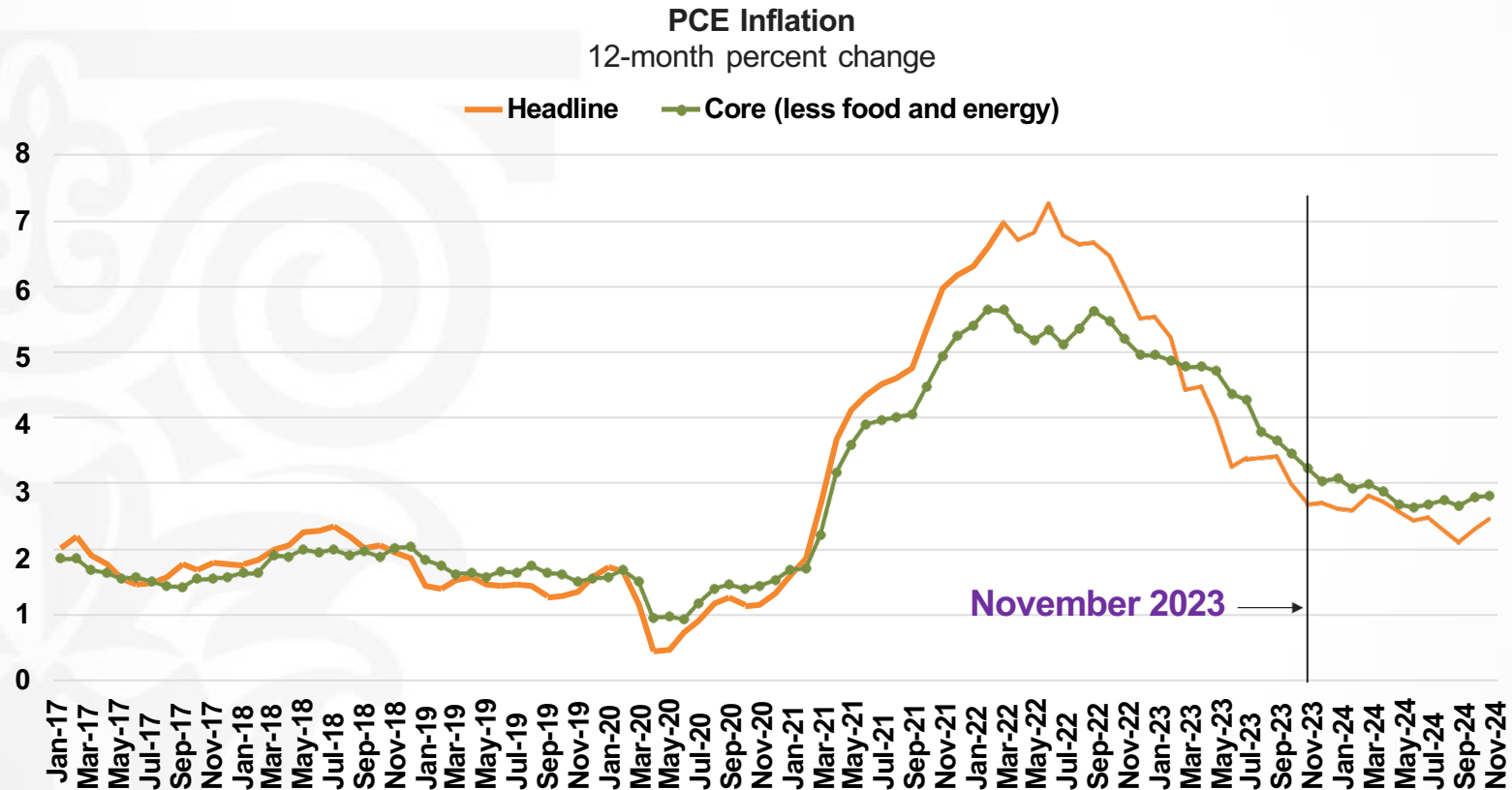
- Will tariffs be imposed?
- What tariffs will be imposed, on whom and on what?
- What will be the counter-reaction?
- What sectors and businesses will be impacted, indirectly as well as directly?
- What will be the passthrough effect on prices?
- What will be the passthrough effect on profits?
- How will consumers respond this time around?



Ball of confusion, thread #5: Inflation?

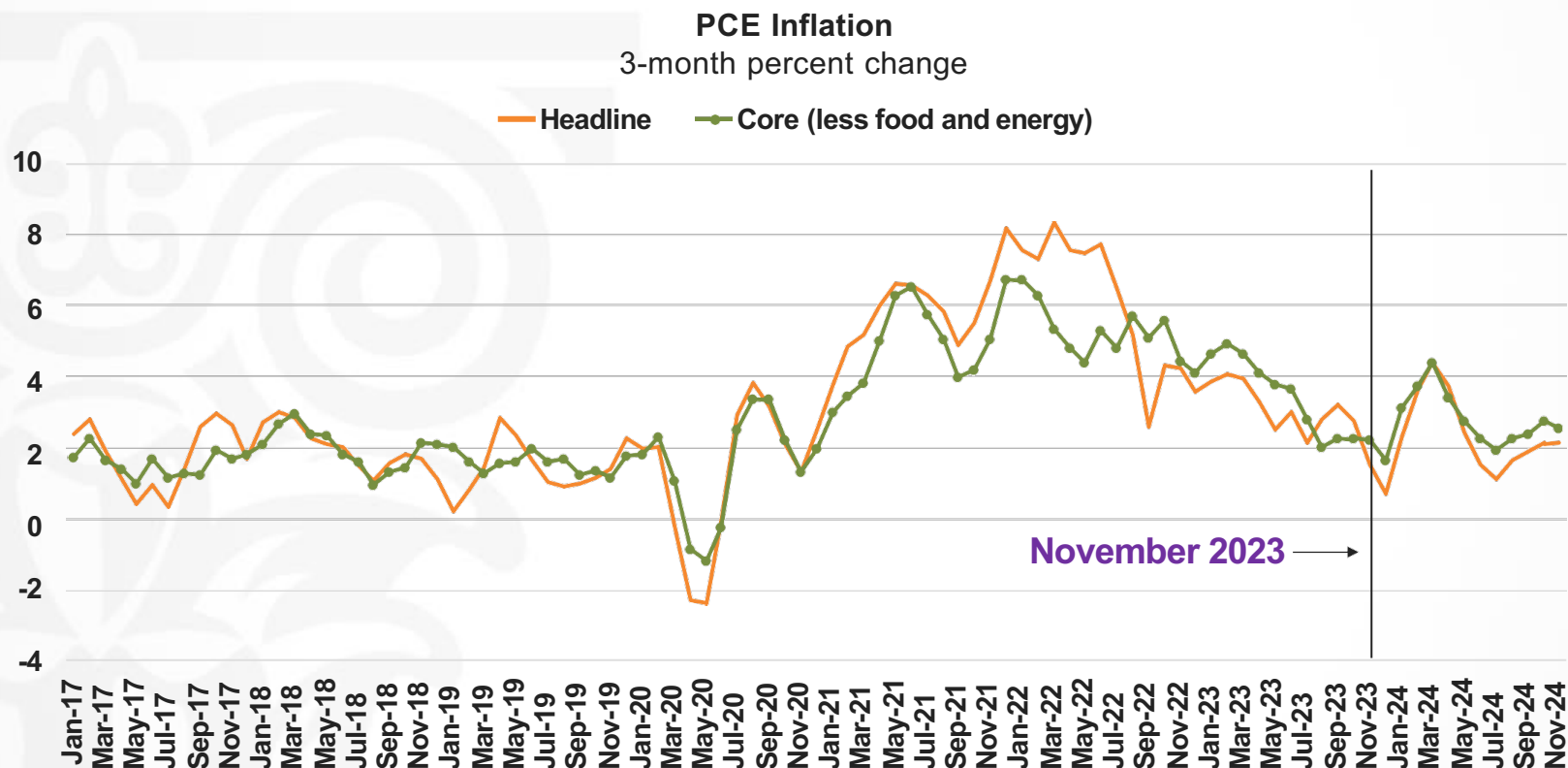
Image generated by ChatGPT based on request for an image of a meeting of the Federal Open Market Committee.

There has been notable progress on inflation over the past year, but improvement on core (in particular) has stalled.



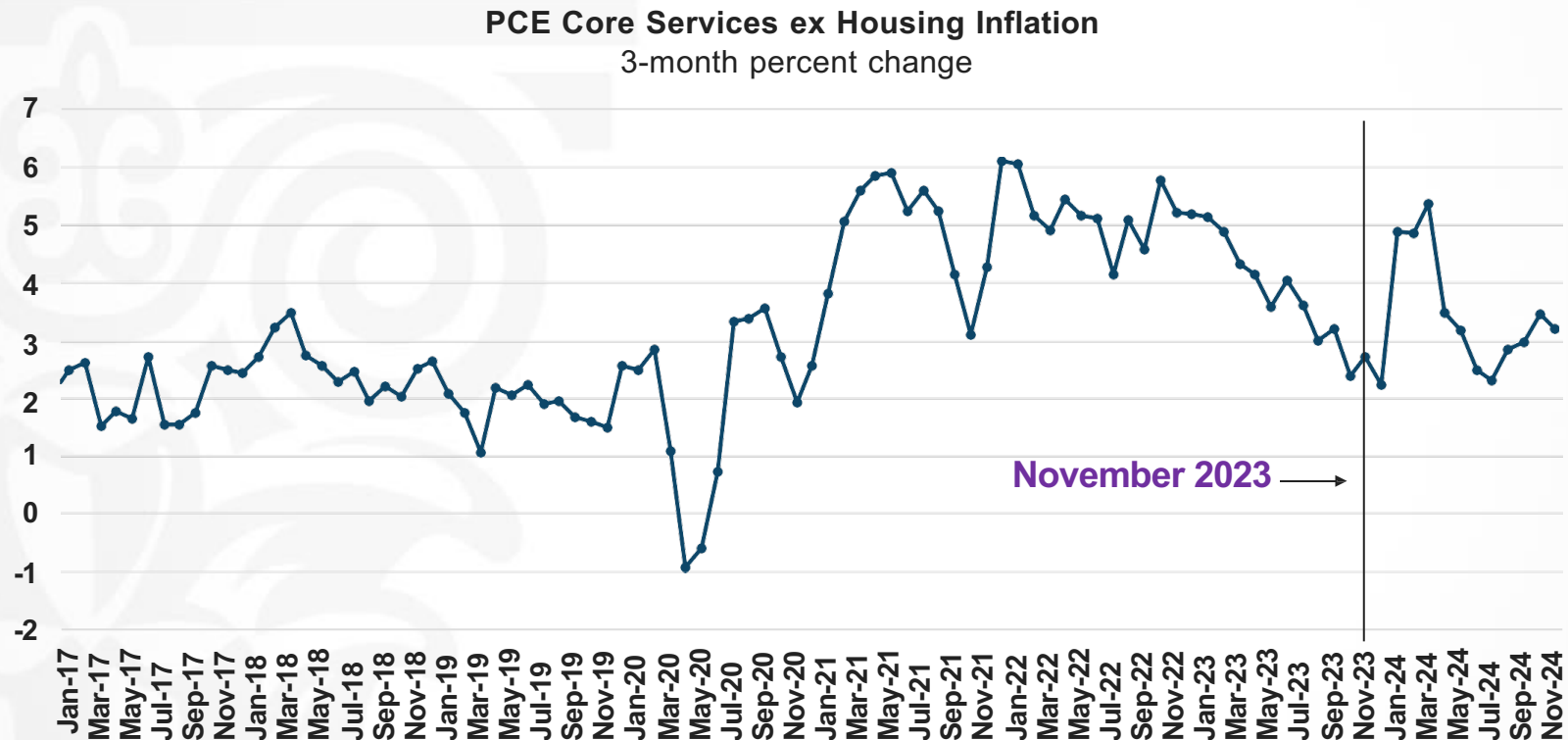
Sources: Bureau of Economic Analysis; Haver Analytics. Data through November 2024

“The path of inflation in 2024 has been choppy.”



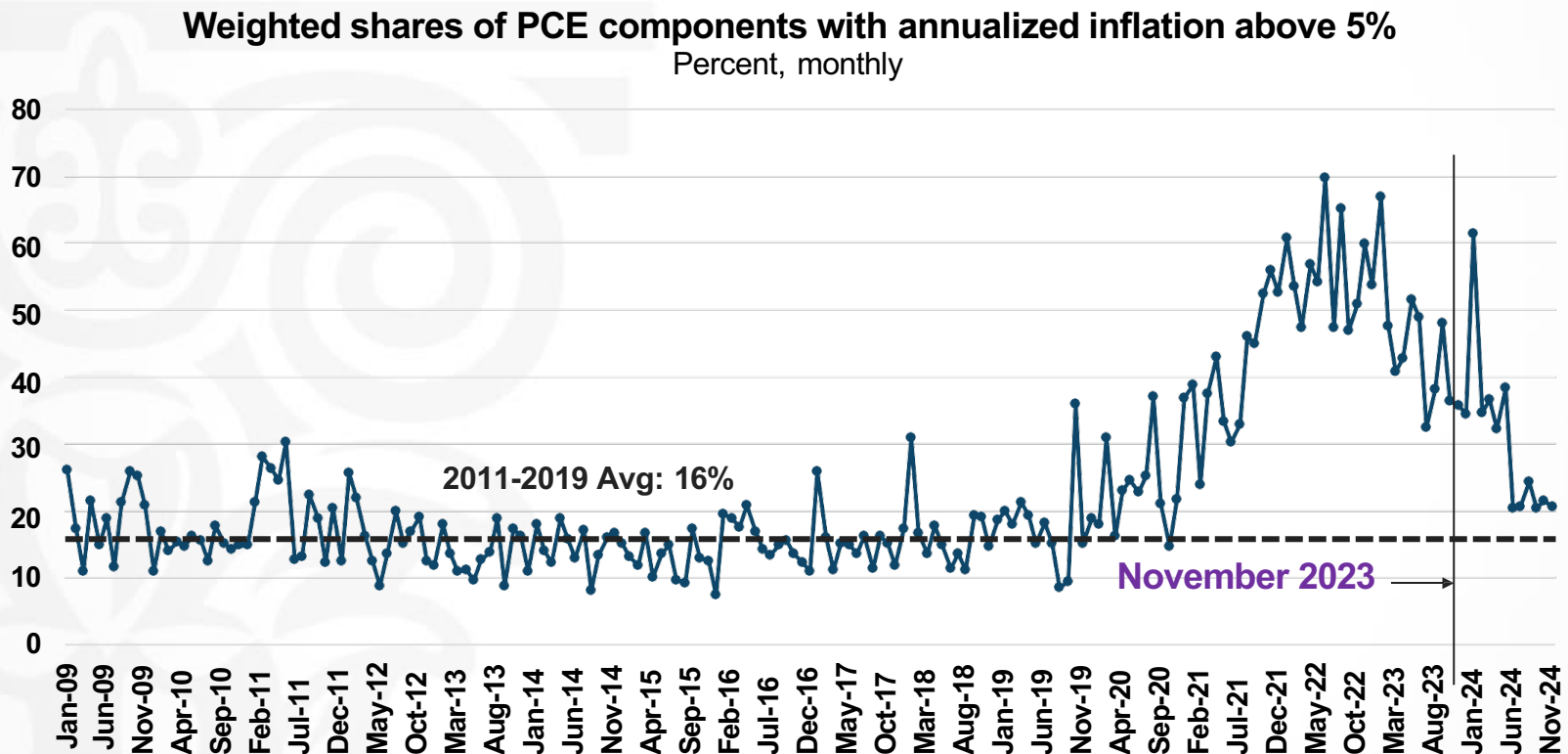
Sources: Bureau of Economic Analysis; Haver Analytics. Quote is from “On the State of the US Economy and Monetary Policy,” speech, delivered by Raphael Bostic, president of the Federal Reserve Bank of Atlanta.

A concerning note: The choppiness is in services, and it's not just housing.



Sources: Bureau of Economic Analysis; Haver Analytics. Data through November 2024

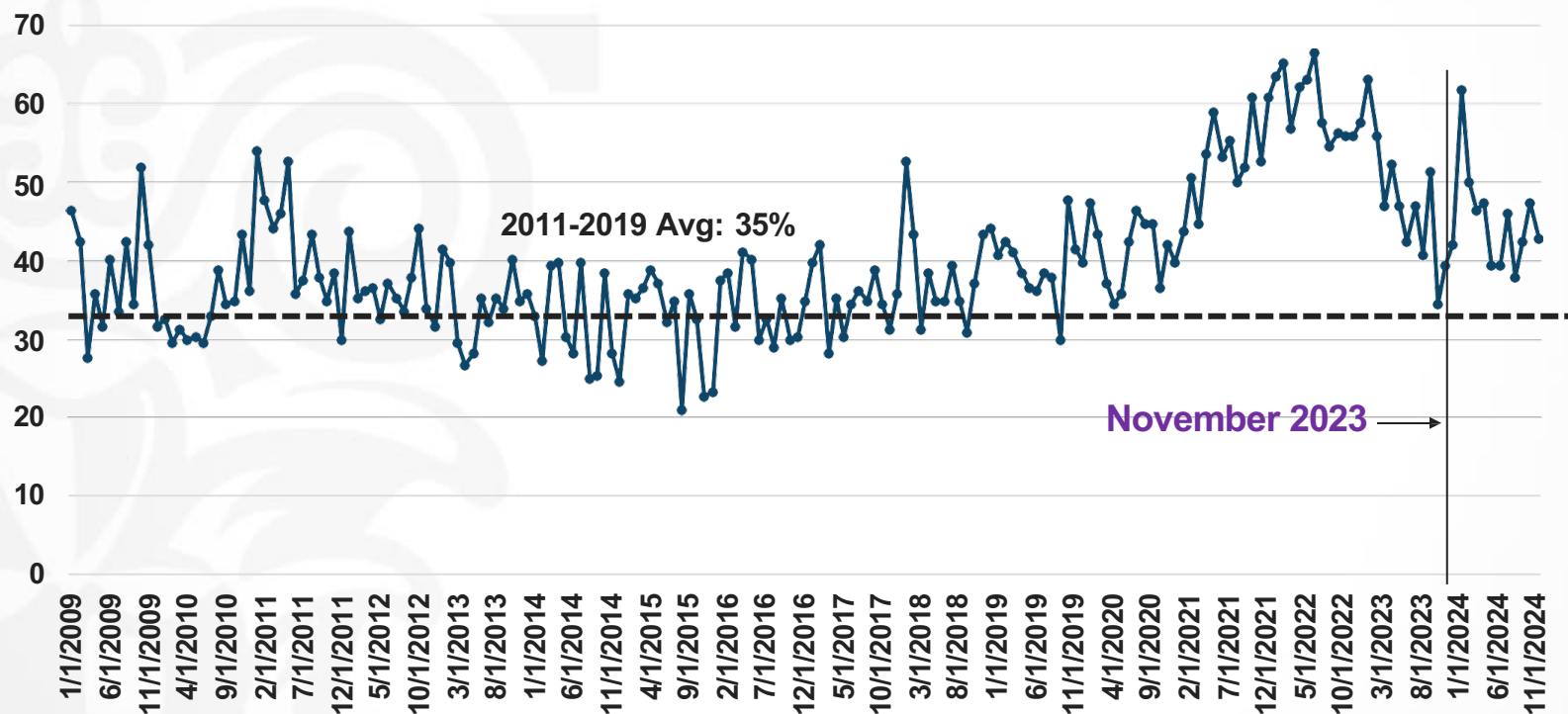
An optimistic note: The share of prices rising at very rates has returned to levels close to the pre-pandemic average.



Sources: Bureau of Economic Analysis; Haver Analytics. Data through November 2024

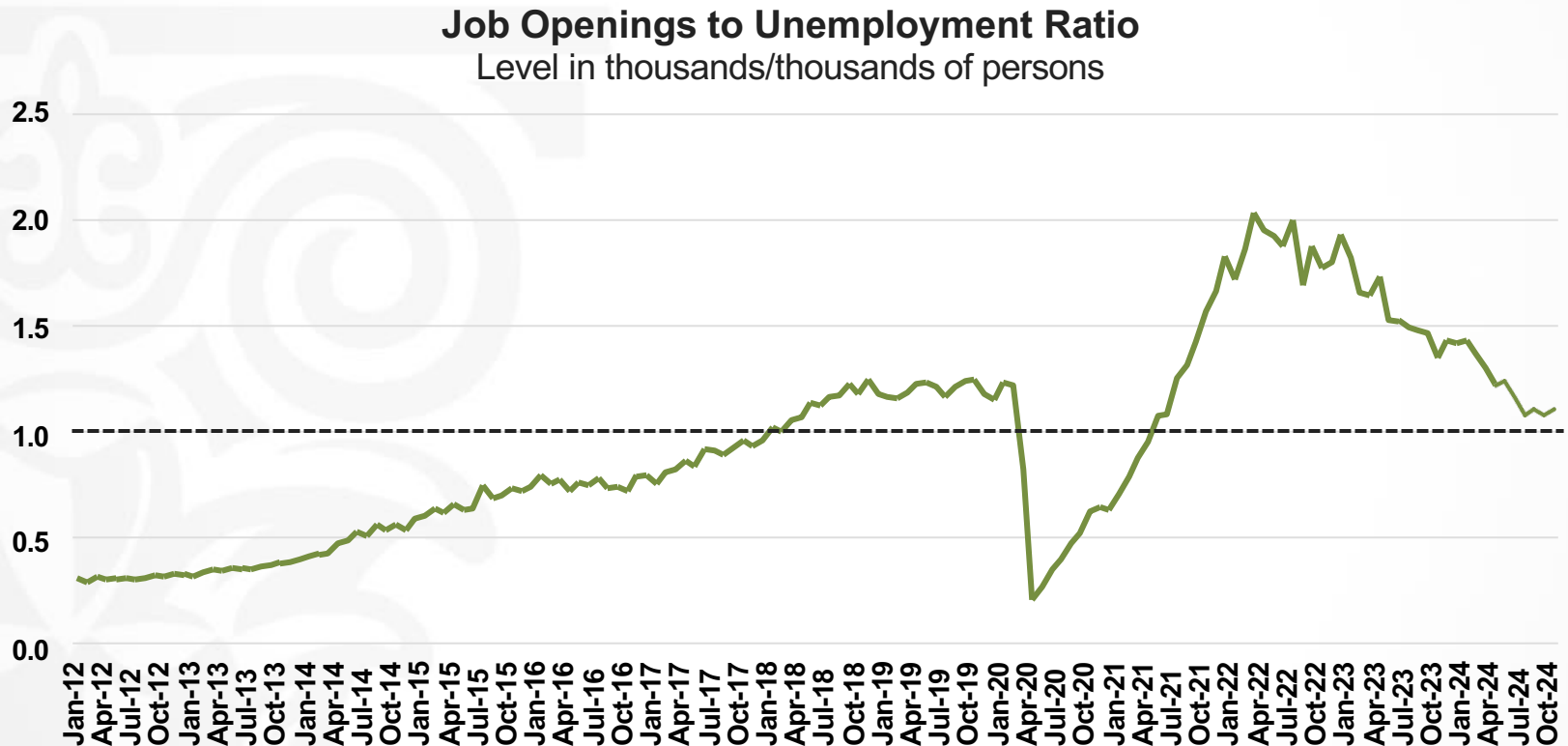
However: The share of prices rising at somewhat elevated rates remains above the pre-pandemic average.

Weighted shares of PCE components with annualized inflation above 3%
Percent, monthly



Sources: Bureau of Economic Analysis; Haver Analytics. Data through November 2024

Using the measure of tightness introduced earlier,
the labor market has arguably returned to balance.



Sources: Bureau of Labor Statistics; Haver Analytics. Data through October 2024



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**Ball of Confusion: Questions
(and nothing but questions)
about the US Economy in 2025**

Questions?

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