

The Economic Outlook

Nigel Gault
Chief U.S. Economist, IHS Global Insight

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The U.S. Recession and Recovery

- Growth has returned in the second half of 2009, employment revives in the first half of 2010
 - Inventory cycle
 - Fiscal and monetary stimulus
- Steep recoveries usually follow steep recessions
- But recoveries after financial crises are usually slow
 - Financial stress has been greatly reduced...
 - ...but private credit is still contracting – banks reluctant to lend, households and businesses reluctant to borrow
- We expect a subdued recovery
- Immediate risks: To the upside

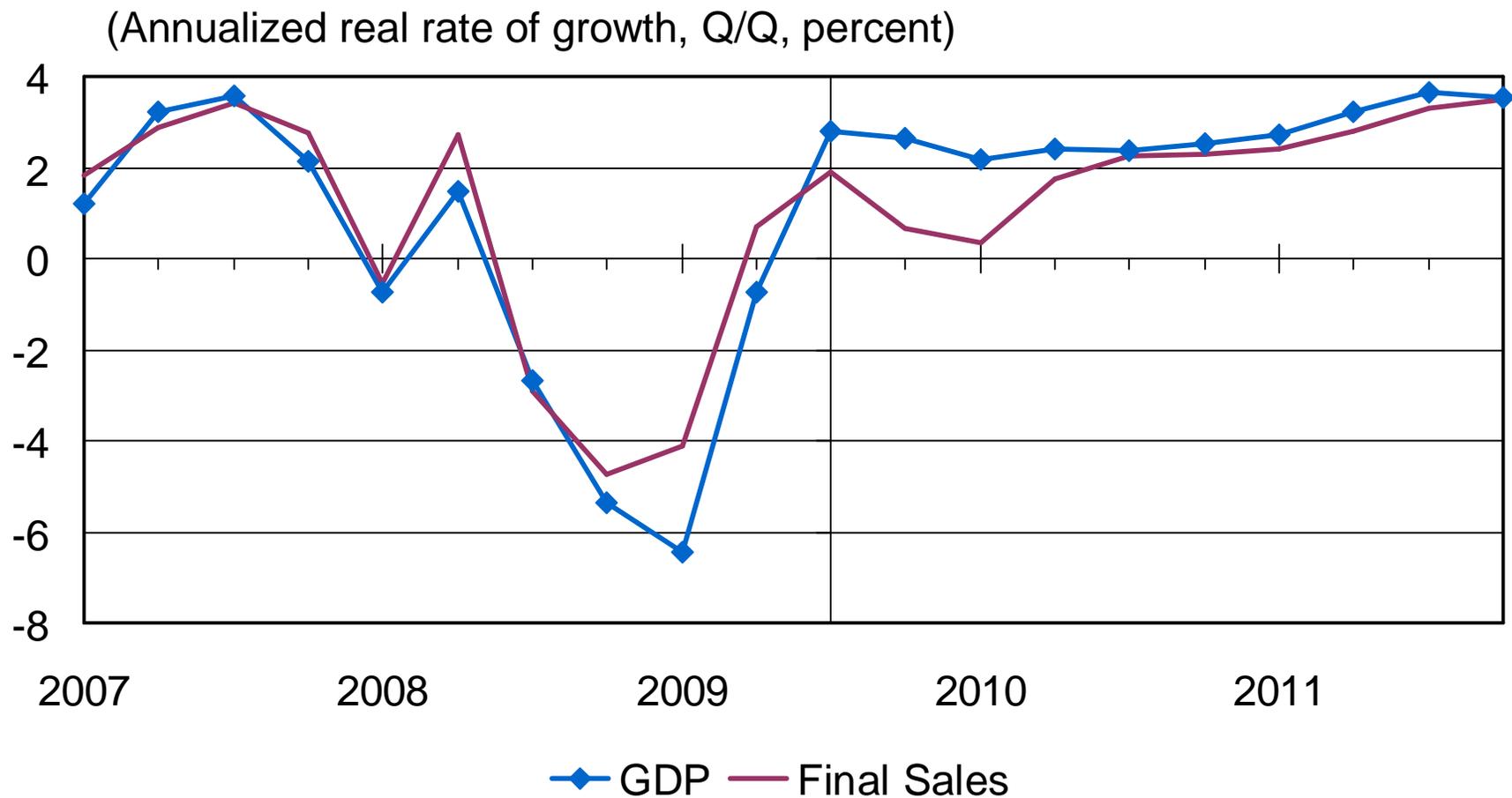
GDP Is Growing – Jobs Aren't (Yet)



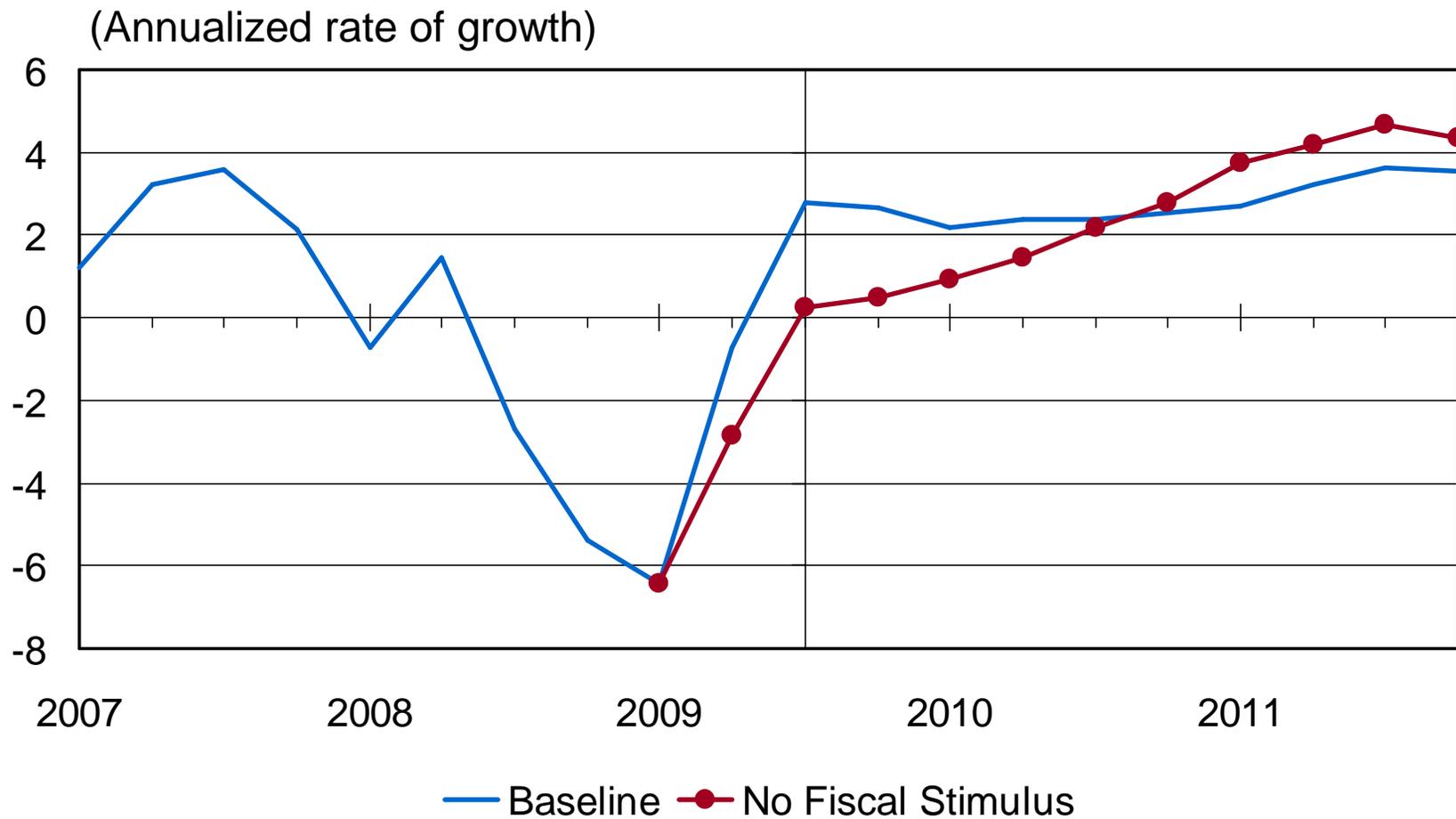
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Inventory Cycle Is Now Supporting Growth

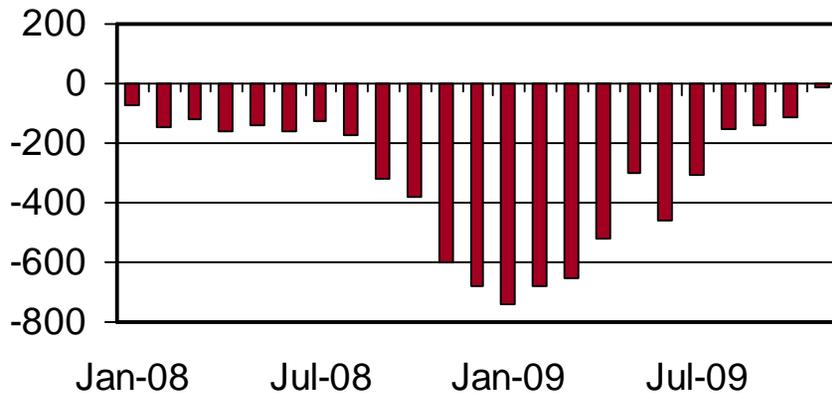


Fiscal Stimulus Has Made a Difference

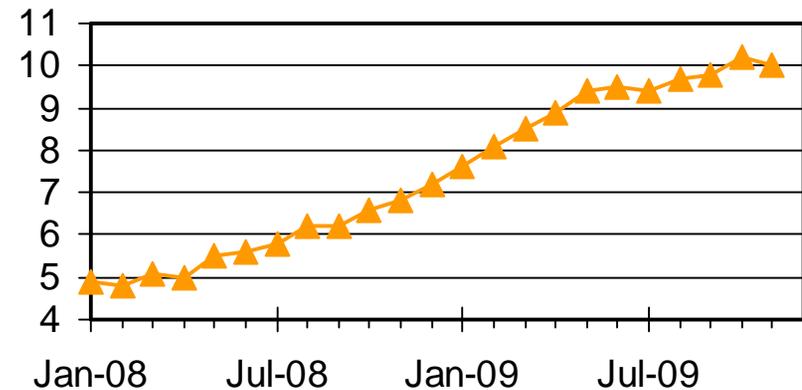


Employment Has Not Turned Yet, But The Signals Are Improving

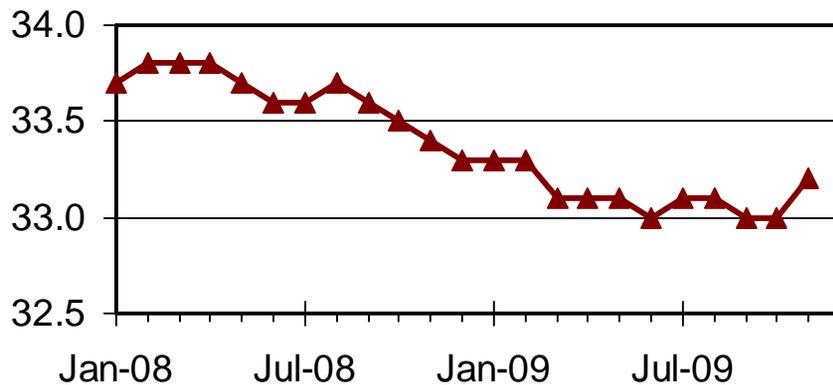
Payroll Employment*



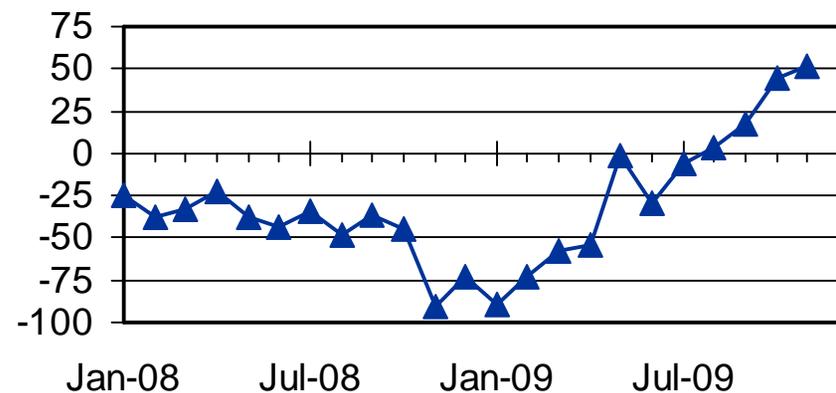
Unemployment Rate**



Length of Workweek***

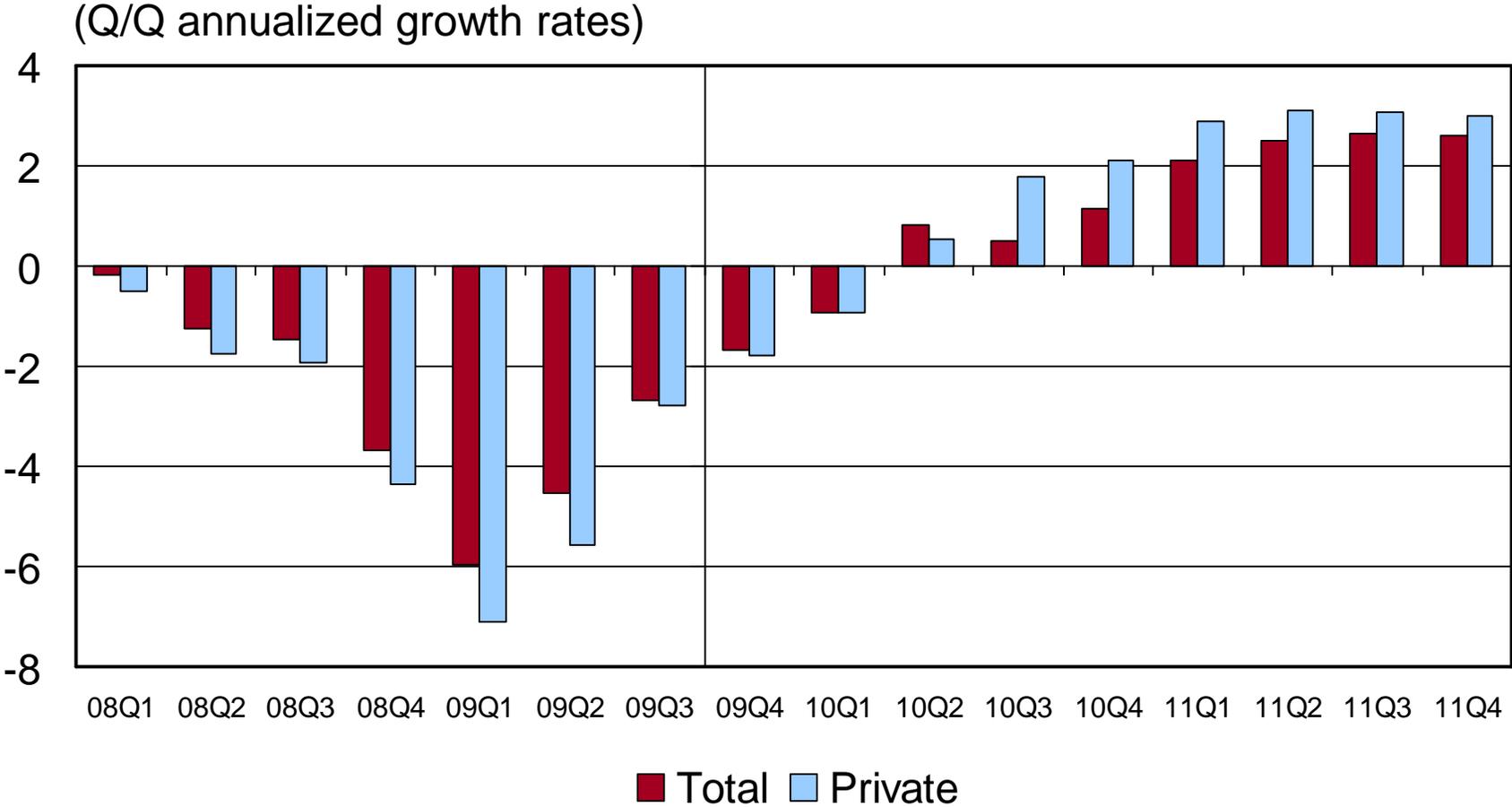


Temporary Employment*

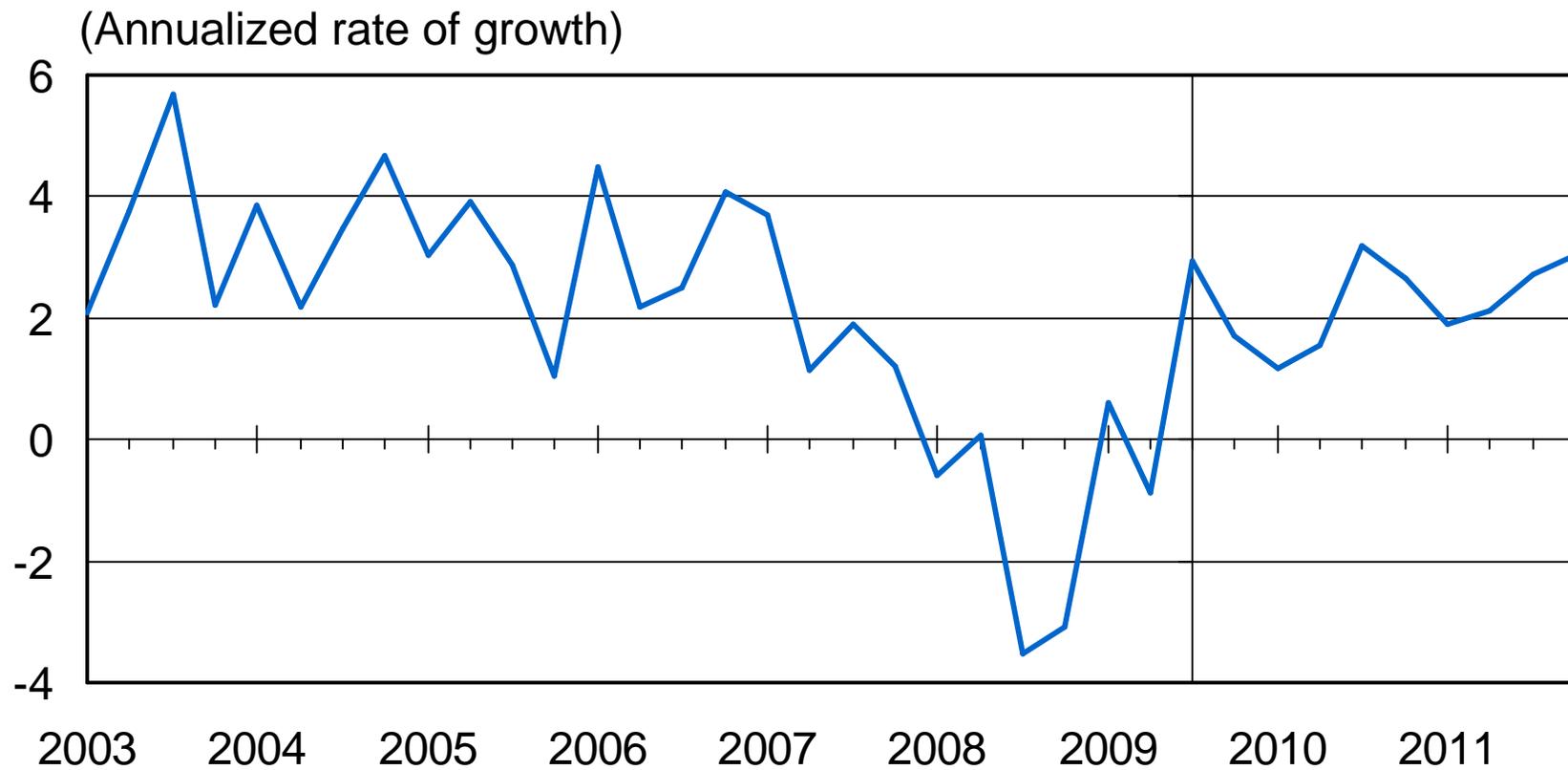


*Thousands, monthly change, SA; **Percent; ***Hours, SA

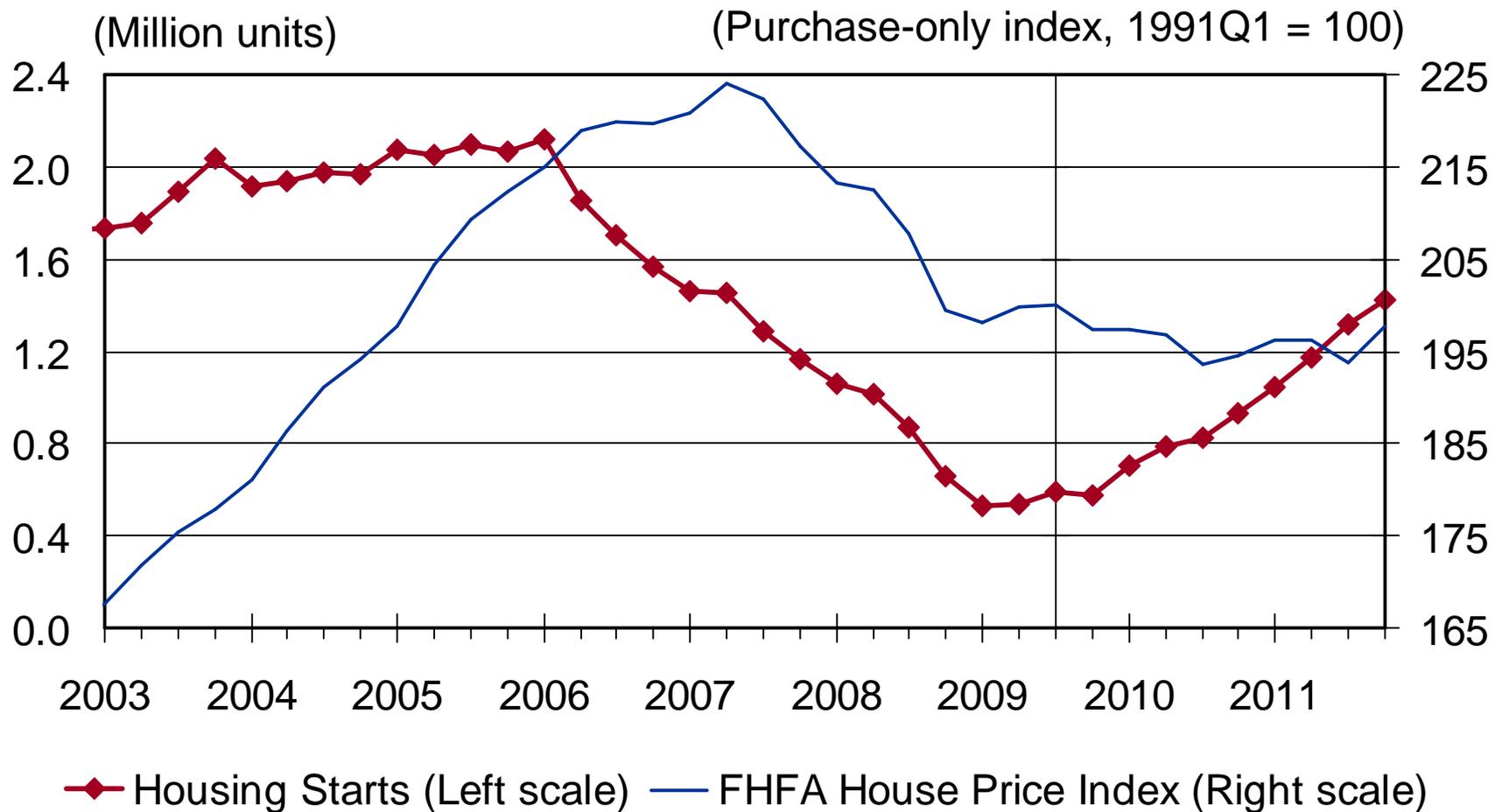
Employment to Turn Up During 2010



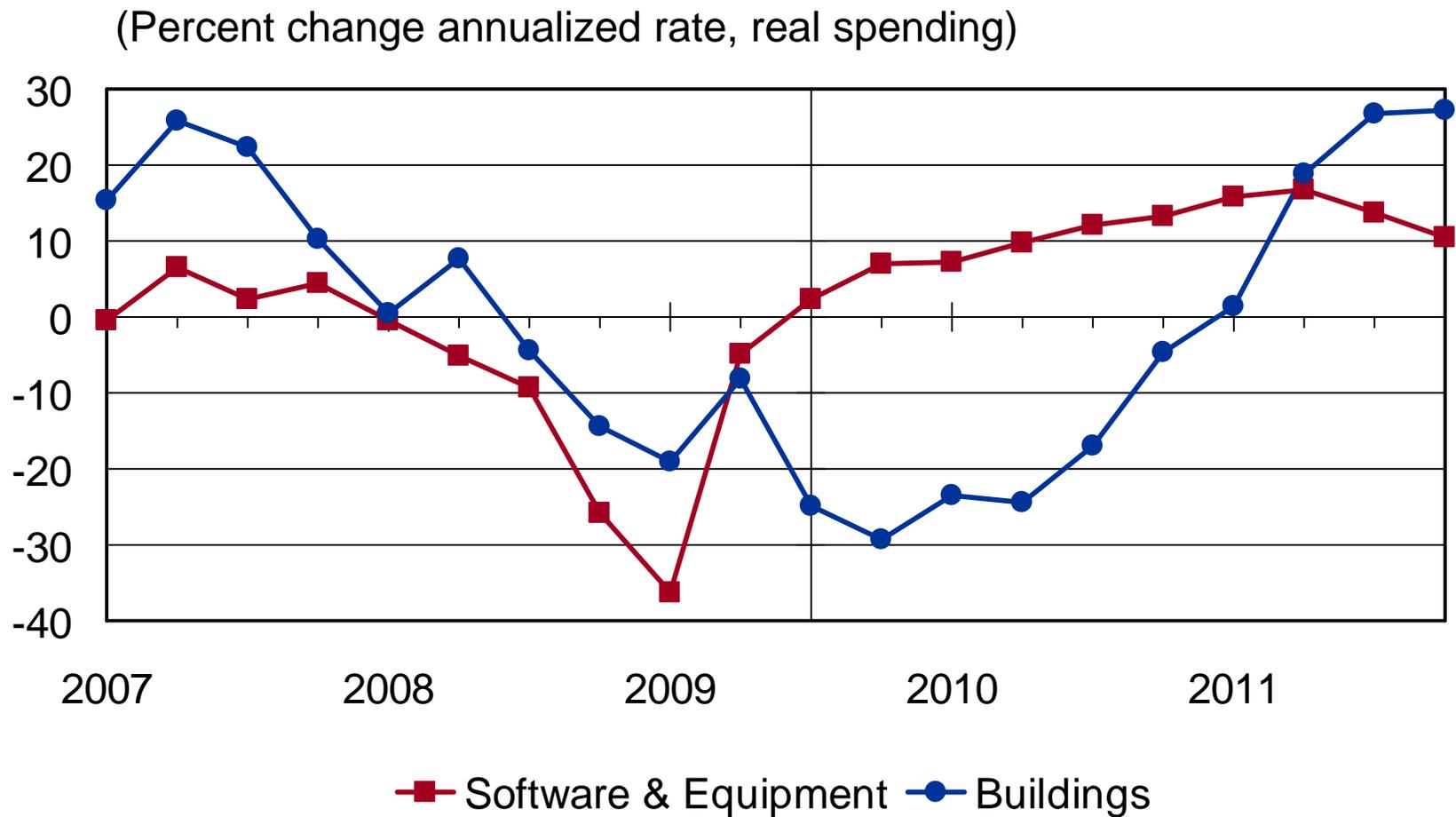
Consumer Spending Stabilizing, But Not a Strong Driver of Recovery



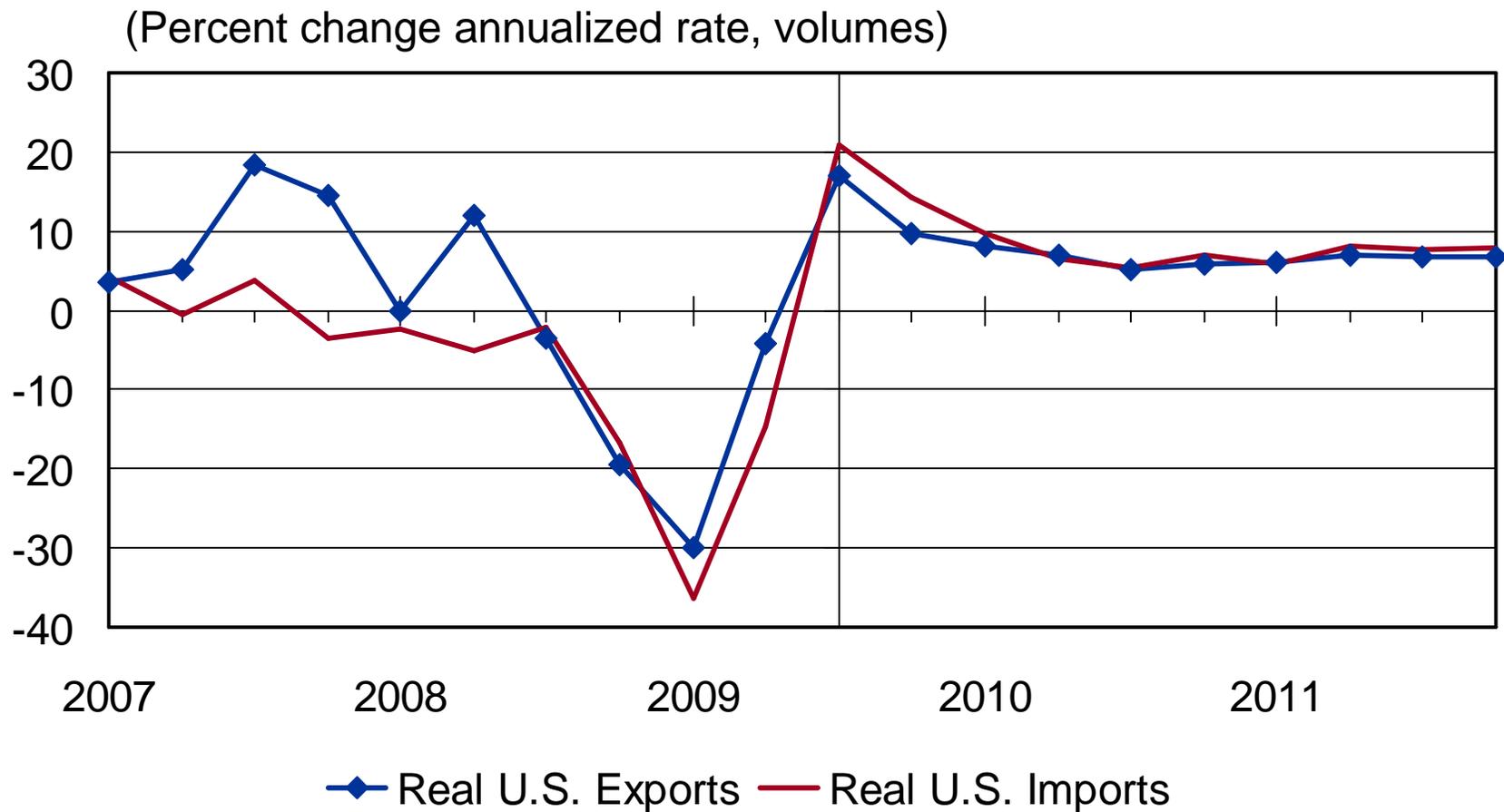
Housing Starts Have Hit Bottom: Prices Not Quite There Yet



Business Capital Spending Cycle: Construction Lags



Imports And Exports Both Bouncing Back



U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

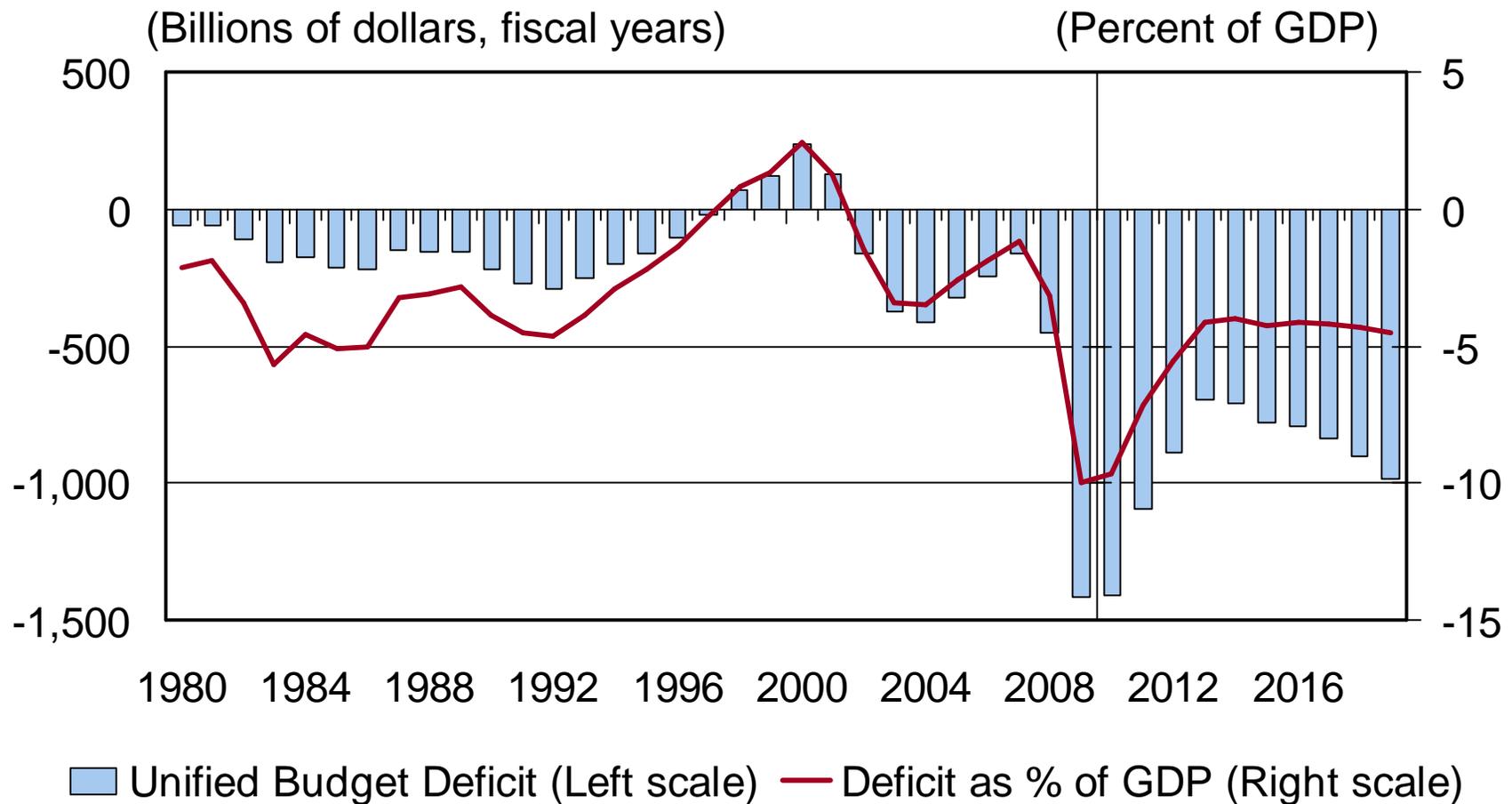
	2008	2009	2010	2011
Real GDP	0.4	-2.5	2.2	2.9
Final Sales	0.8	-1.7	1.2	2.6
Consumption	-0.2	-0.6	1.8	2.4
Light Vehicle Sales (Millions)	13.2	10.3	11.2	13.8
Residential Investment	-22.9	-20.0	7.5	22.0
Housing Starts (Millions)	0.90	0.56	0.81	1.24
Business Fixed Investment	1.6	-17.9	-1.4	10.3
Federal Government	7.7	5.3	4.0	-3.3
State and Local Government	0.5	0.0	-0.2	-0.6
Exports	5.4	-10.4	7.9	6.2
Imports	-3.2	-14.0	8.8	6.8

Other Key Indicators

(Percent unless otherwise noted)

	2008	2009	2010	2011
Industrial Production (% growth)	-2.2	-9.9	3.3	4.3
Employment (% growth)	-0.4	-3.7	-0.9	1.8
Unemployment Rate	5.8	9.3	10.2	9.6
CPI Inflation	3.8	-0.3	1.7	2.0
Oil Prices (WTI, US\$/bbl)	100	62	68	77
Core PCE Price Inflation	2.4	1.5	1.4	1.5
Federal Funds Rate	1.93	0.16	0.24	1.70
10-year Government Bond Yield	3.67	3.24	3.50	3.92
Dollar (Major Currencies, 2005=1)	0.89	0.93	0.89	0.88

Record U.S. Federal Budget Deficit in Fiscal 2009



Key Industries – Autos and Steel

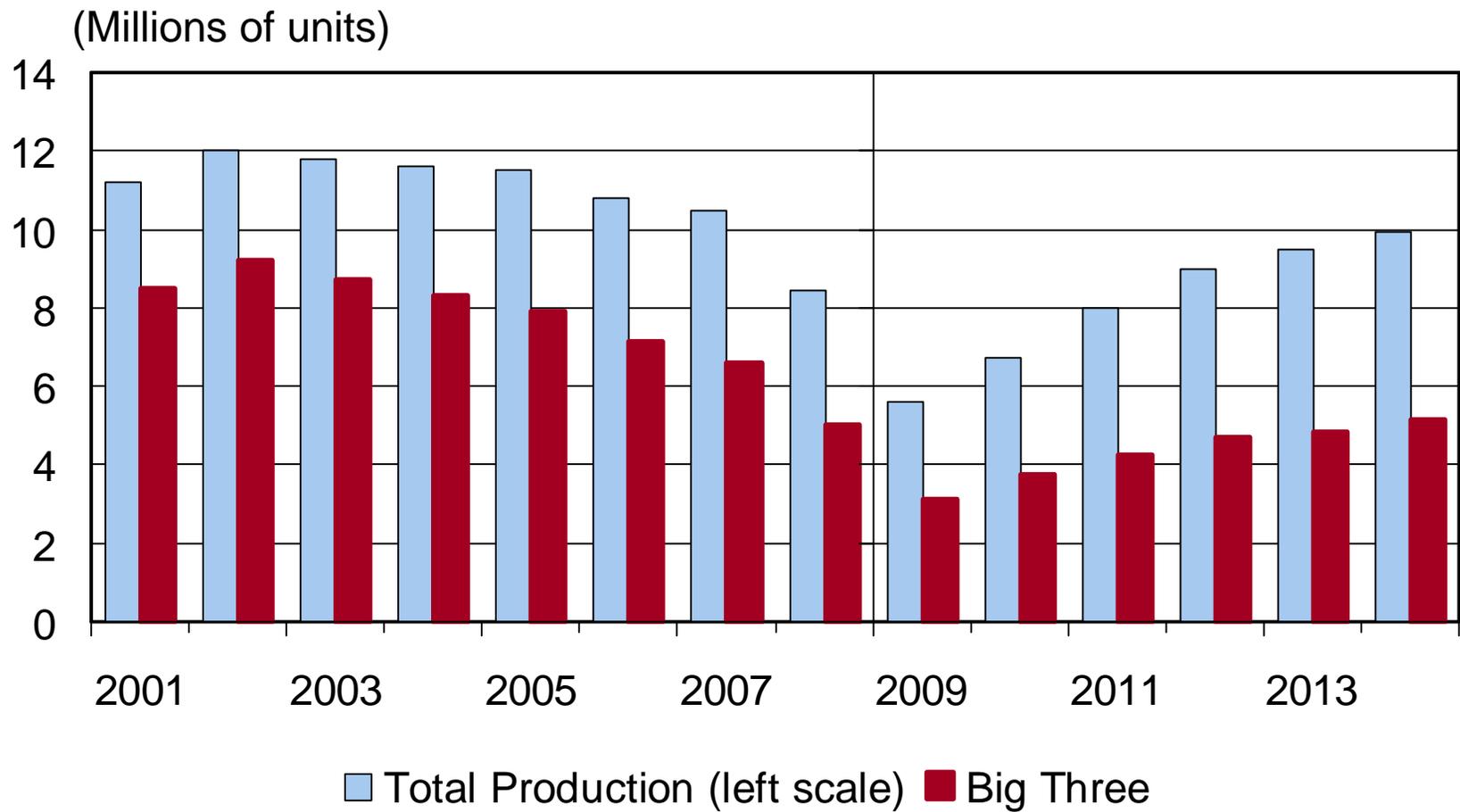


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U.S. Light Vehicle Sales



U.S. Light Vehicle Production



Iron & Steel Production Recovering After Plunge

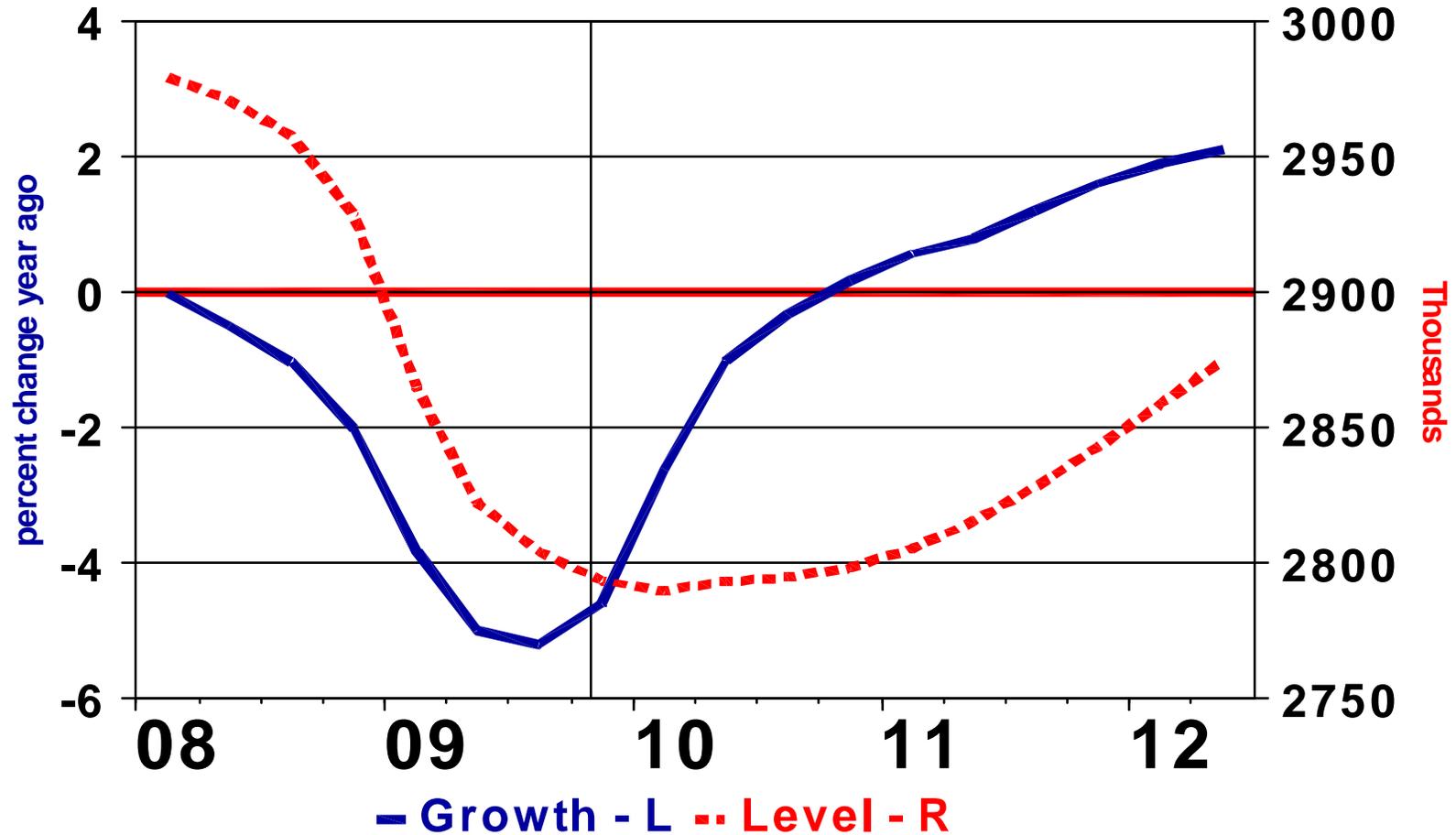


Indiana

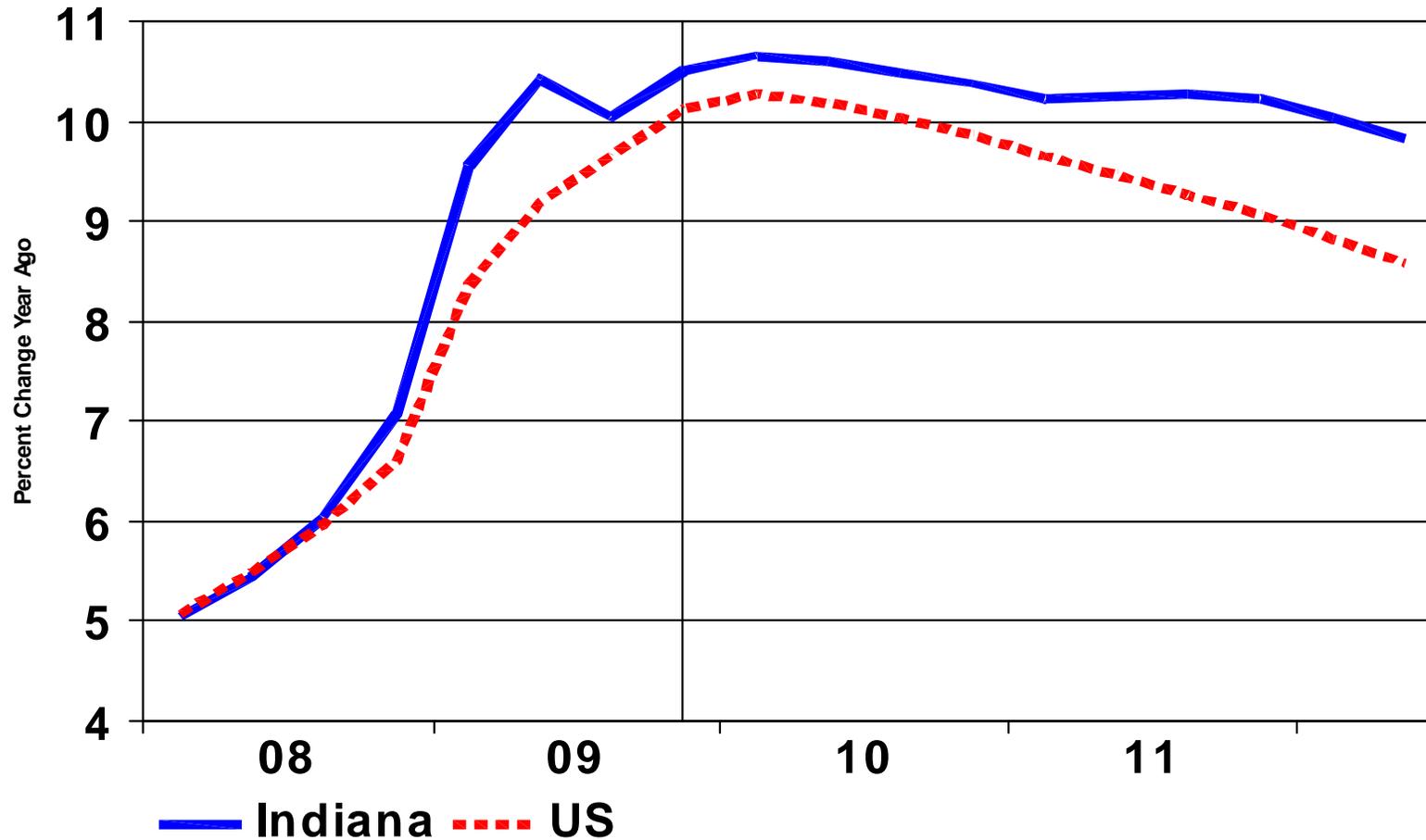


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Indiana Employment Forecast

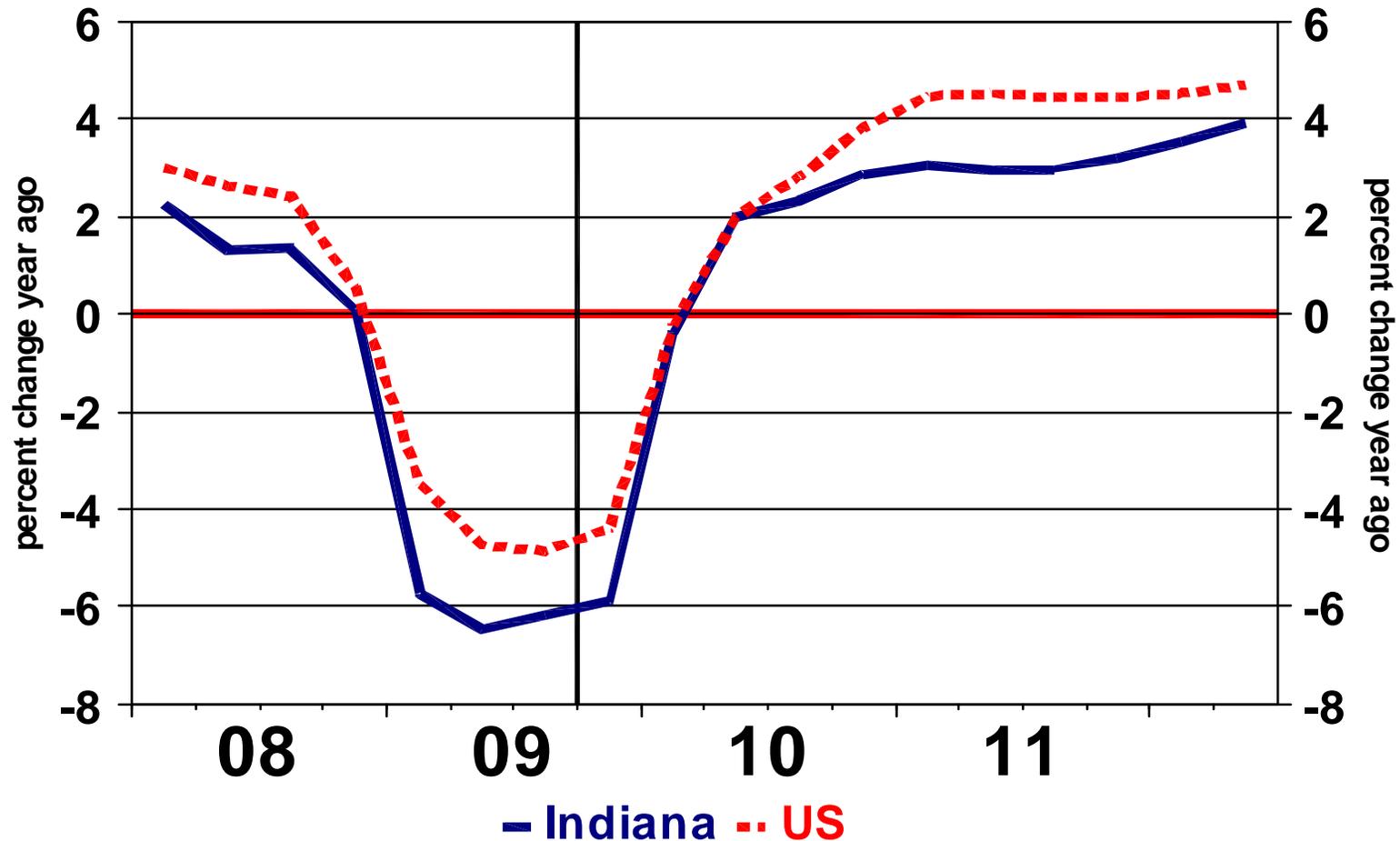


Indiana Unemployment Forecast

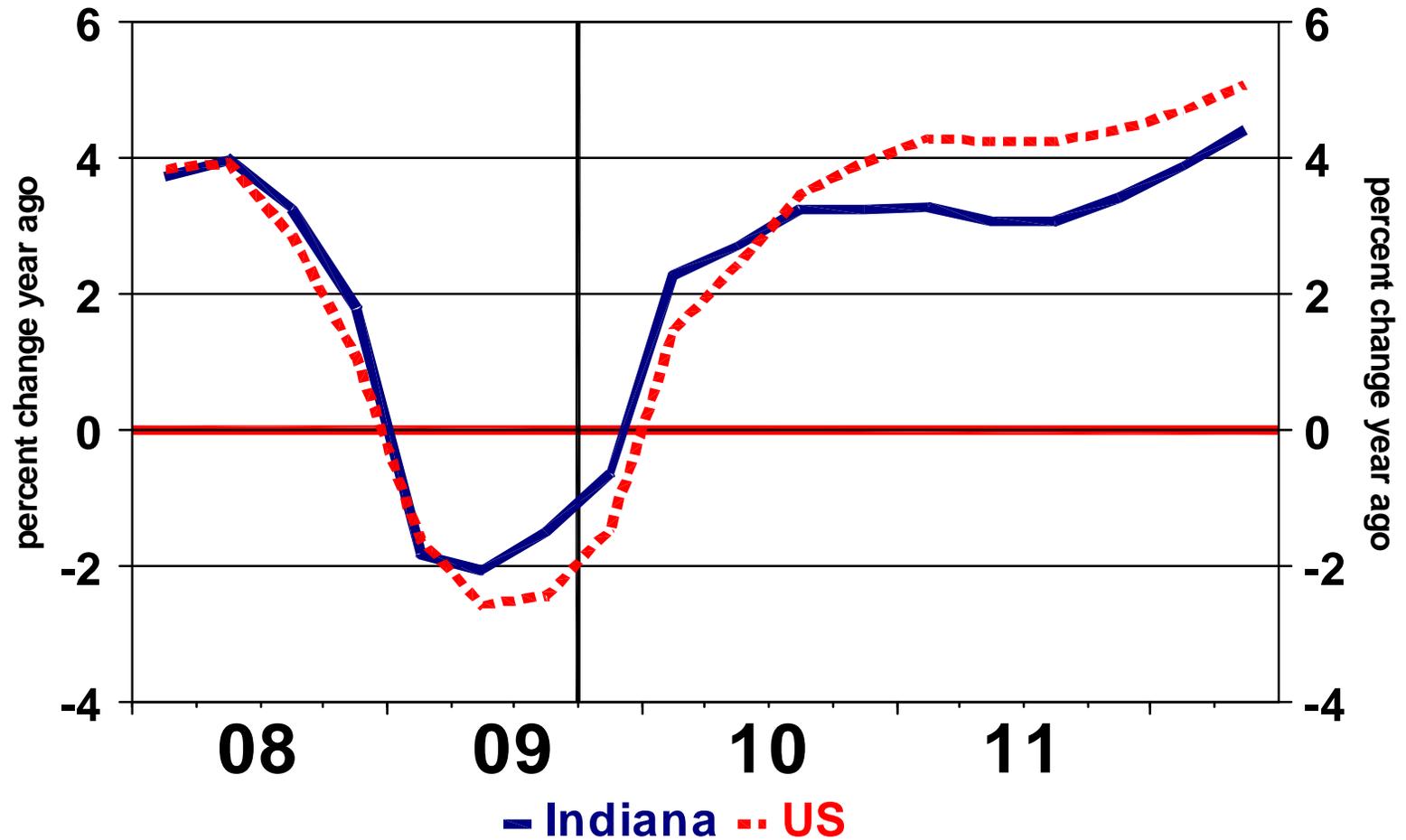


Wage Gains Will Turn Positive In 2010

(nominal total wages and salaries)



Personal Income Hitting Bottom



Implications

- A subdued recovery is here
- Growth initially driven by the inventory cycle and stimulus
- Exports, housing, business equipment moving higher
- Employment bottoms out in H1 2010, but unemployment will remain at high levels
- Robust consumer demand is the missing link preventing a V-shaped recovery
- Inflation stays low; Fed does not need to rush to tighten
- The federal government needs an “exit strategy” too

Thank you!

Nigel Gault

Chief U.S. Economist

nigel.gault@ihsglobalinsight.com



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