Indiana Economy Approaching Mid-Decade

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The economy has expanded for nearly four years.
Risks to the Outlook

- High energy prices could lead to further declines in consumer sentiment and reduced rates of spending growth.

- With good economic fundamentals and a resilient economy, any easing of headwinds could lead to more buoyant consumer and business spending.

- Deteriorating headline inflation could lead to further increases in inflationary expectations and increase cost pressures further.
Energy Prices: Risk to Growth and Inflation

- **Spot oil price** (West Texas Intermediate, dollars per barrel)
  - Yearly prices from 1995 to 2005

- **Retail gasoline price** (regular unleaded, dollars per gallon)
  - Yearly prices from 1995 to 2005

- **Natural gas price** (Henry Hub, dollars per mmbtu)
  - Yearly prices from 1995 to 2005

- **Heating oil price** (No. 2, NY, dollars per gallon)
  - Yearly prices from 1995 to 2005
The United States has become more efficient in the use of energy over the past 50 years.
Expenditures on energy rose over the past few years, but remain well below historical rates.
Inflation Expectations on the Rise

**TIPS inflation compensation**

(Percent)

- 5 years
- 10 years

**Consumers’ inflation expectations**

(Percent)

- 1 year
- 5 years

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- 0 2003 2004 2005
- 1 2 3 4 5
- 2.0 2.2 2.4 2.6 2.8 3.0
- 10/7

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- 1 2 3 4 5
- 0.0 1.0 10/7

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- J F M A M J J A S O
- 2005

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- 1999 '00 '01 '02 '03 '04 '05
Monetary Policy Approaching Neutral Zone

Target federal funds rate (percent)

* Target funds rate

Estimated range for neutral funds rate

Market expectations*

* - Based on fed funds futures and quoted Eurodollar rates
Conundrum Update

Interest rates (percent)

10-year Treasury rate

Federal funds rate

Sep.

2001 '02 '03 '04 '05

0 1 2 3 4 5 6
Yield Curve Inversion—When Does It Matter?

Spread between the 10-year and 1-year Treasury rates (basis points)
Indiana and the Midwest
Regional employment growth has been flat for the past year and underperforming national employment growth for nearly ten years.
Unemployment rates in the Midwest have been above the nation for the past two years.
All states in the region have experienced slower employment growth than the nation, with Michigan being the only state whose employment remains lower than a year-earlier.
Unemployment rate in Michigan has not improved for over two years.
Midwest manufacturing employment has tracked the U.S over the past year.
The Midwest continues to be the region’s manufacturing center, though much of it has spread southward.
Manufacturing output in the United States has exceeded the previous peak set in June 2000.
Iowa leads and Michigan trails the region in manufacturing employment growth.
The Big-Three’s market share continues to be challenged
The Midwest and autos:
Suppliers are highly clustered...
In terms of employment…

### Motor vehicle parts employment (000)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>2005 - YTD</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>226.2</td>
<td>149.1</td>
<td>-34%</td>
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<tr>
<td>Indiana</td>
<td>94.9</td>
<td>74.2</td>
<td>-22%</td>
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<tr>
<td>Ohio</td>
<td>111.6</td>
<td>93.2</td>
<td>-16%</td>
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<tr>
<td>Rest of the US</td>
<td>406.8</td>
<td>328</td>
<td>-19%</td>
</tr>
<tr>
<td>US Total</td>
<td>839.5</td>
<td>644.5</td>
<td>-23%</td>
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</tbody>
</table>

### Motor vehicle assembly employment (000)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>2005 - YTD</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Michigan</td>
<td>94.3</td>
<td>54.3</td>
<td>-42%</td>
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<tr>
<td>Indiana</td>
<td>9.8</td>
<td>13.2</td>
<td>35%</td>
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<tr>
<td>Ohio</td>
<td>39.2</td>
<td>29.4</td>
<td>-25%</td>
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<tr>
<td>Rest of the US</td>
<td>148.1</td>
<td>127.4</td>
<td>-14%</td>
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<tr>
<td>US Total</td>
<td>291.4</td>
<td>224.3</td>
<td>-23%</td>
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</table>
The Midwest and Indiana at Mid-decade

Total Payroll Employment

1990-2000

2000-ytd2005

US
East North Central
Indiana
Widely disparate growth across Indiana

Total Payroll Employment
(percent change 1990 - 2004)

- Terre Haute
- South Bend
- Muncie
- Lafayette
- Kokomo
- Gary
- Fort Wayne
- Evansville
- Elkhart-Goshen
- Bloomington
- Indianapolis
Widely disparate growth across Indiana

Total Payroll Employment
( percent change 2003 - Sept. 2005)

Terre Haute
South Bend
Muncie
Lafayette
Kokomo
Gary
Fort Wayne
Evansville
Elkhart-Goshen
Bloomington
Indianapolis
Widely disparate growth across Indiana

Total Payroll Employment
(percent change 2004 - Sept 2005)

- Terre Haute
- South Bend
- Muncie
- Lafayette
- Kokomo
- Gary
- Fort Wayne
- Evansville
- Elkhart-Goshen
- Bloomington
- Indianapolis

-1 0 1 2 3 4 5
## Unemployment rates

<table>
<thead>
<tr>
<th>City</th>
<th>2005, Q3</th>
<th>2004, Q3</th>
<th>2004, Q3 / 2005, Q3</th>
<th>2003, Q3</th>
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</thead>
<tbody>
<tr>
<td>Terre Haute</td>
<td>6.4</td>
<td>6.6</td>
<td>1.04</td>
<td>6.1</td>
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<tr>
<td>South Bend</td>
<td>5.0</td>
<td>4.9</td>
<td>0.98</td>
<td>5.4</td>
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<tr>
<td>Muncie</td>
<td>6.2</td>
<td>5.9</td>
<td>0.94</td>
<td>6.2</td>
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<tr>
<td>Lafayette</td>
<td>4.4</td>
<td>4.6</td>
<td>1.04</td>
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<tr>
<td>Kokomo</td>
<td>5.7</td>
<td>7.7</td>
<td>1.34</td>
<td>8.4</td>
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<tr>
<td>Gary</td>
<td>5.4</td>
<td>5.5</td>
<td>1.01</td>
<td>5.9</td>
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<tr>
<td>Fort Wayne</td>
<td>4.9</td>
<td>5.0</td>
<td>1.01</td>
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<tr>
<td>Evansville-Henderson</td>
<td>4.8</td>
<td>4.5</td>
<td>0.93</td>
<td>4.9</td>
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<td>Elkhart-Goshen</td>
<td>4.6</td>
<td>4.0</td>
<td>0.86</td>
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<td>Bloomington</td>
<td>5.0</td>
<td>4.2</td>
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<tr>
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<td>4.5</td>
<td>0.99</td>
<td>4.9</td>
</tr>
<tr>
<td>Indiana</td>
<td>5.4</td>
<td>5.3</td>
<td>0.98</td>
<td>5.6</td>
</tr>
<tr>
<td>US</td>
<td>5.0</td>
<td>5.4</td>
<td>1.09</td>
<td>6.1</td>
</tr>
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