



Thank you to the program sponsors for the 2026 Indiana Economic Outlook:



An **AEP** Company



INDIANA ECONOMIC OUTLOOK

2026 FORECAST — *It's the Tariffs*

In this document, we review the factors affecting economic performance throughout 2025, discuss the ripple effects of tariffs and foreign policy, and share predictions for the 2026 economy in the United States and Indiana.

Jan. 21, 2026

Michael J. Hicks, PhD • Center for Business and Economic Research, Ball State University

2025 Performance

The United States entered 2025 in an unusually robust expansionary period. Our gross domestic product (GDP) grew well above trend in 2024, and the unemployment rate was at levels not experienced since the late 1960s. Inflation, which marred the post-COVID recovery, was nearing Federal Reserve targets and rate cuts through 2026 were predicted by almost every analyst. It was the healthiest economy during a presidential transition since the 1960s.

My 2025 forecast reflected that economic optimism, but continued a two-year trend of modest overestimate of growth. See *Figure 1*. My forecast for Indiana was more accurate. See *Figure 2*.



Figure 1. Forecast vs Actual U.S. GDP Growth (Real at Annualized Rates)

Source: Hicks, 2025 and Bureau of Labor Statistics

Note: * Data for 2025:Q4 uses the nominal GDP estimate as of Jan 5, 2026.

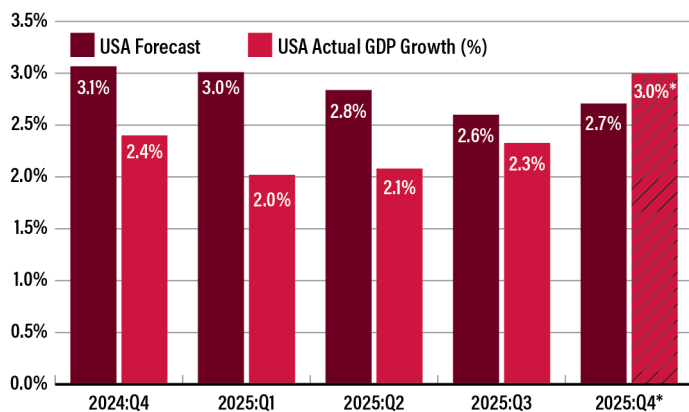


Figure 2. Forecast vs Actual Indiana GDP Growth (Real at Annualized Rates)

Source: Hicks, 2025 and Bureau of Labor Statistics

Note: * The 2025:Q4 estimates for state GDP are not yet available.

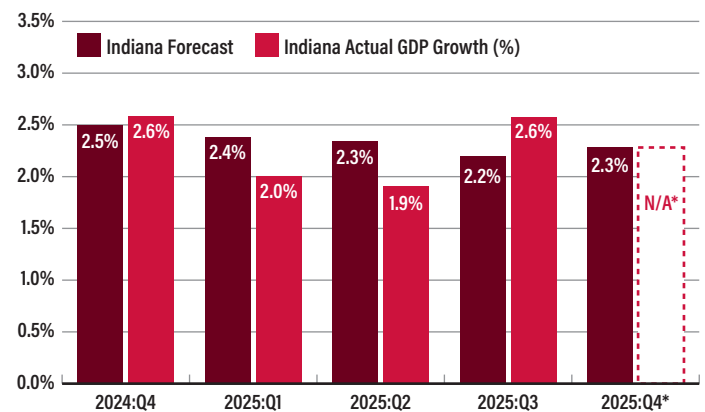
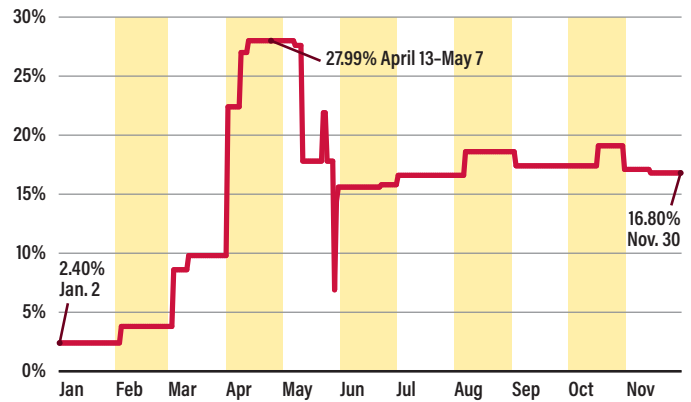




Figure 3. U.S. Average Effective Tariff Rates, 2025

Source: Yale Budget Lab



Tariff Effects

Uncertainty in policy, generated by expectations of tariffs — a signature of the Trump campaign — clouded expectations for 2025. That uncertainty was far worse, far broader, and far more stochastic than any forecast offered prior to the election. Indeed, the level of tariffs imposed by the Trump administration were orders of magnitude higher than those argued in Project 2025 as baseline. See *Figure 3*.

It is useful to examine these tariffs in historical context. The United States now has the highest effective tariff rates (tariff collections per dollar of imports) since the Great Depression's ill-fated Smoot-Hawley tariffs. See *Figure 4*.

The comparison of these two graphics actually understates the uncertainty of tariffs in 2025. There have been close to 400 differing tariff adjustments in 2025, so analysis of anything other than major changes is virtually impossible. From 1790 to 2024, the annualized standard deviation in tariff rates was roughly 0.5%, during 2025 it was over 7.3%, reflecting an unprecedented level of uncertainty.

That uncertainty generated response by businesses and households, which included stockpiling of pre-tariff products, dramatically slower hiring, declining employment across the tariff exposed sectors.

In Indiana, businesses imported an additional 5 months' worth of goods between the first tariff announcements and the final August imposition of all tariffs. See *Figure 5*.

Figure 4. Historical Average Effective Tariff Rates, 1790-2025

Source: Yale Budget Lab

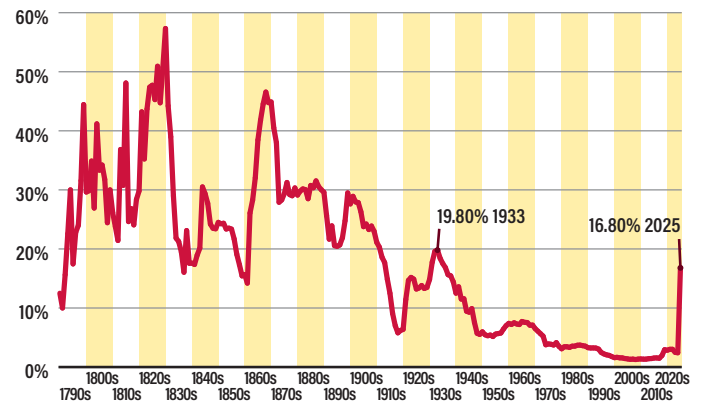
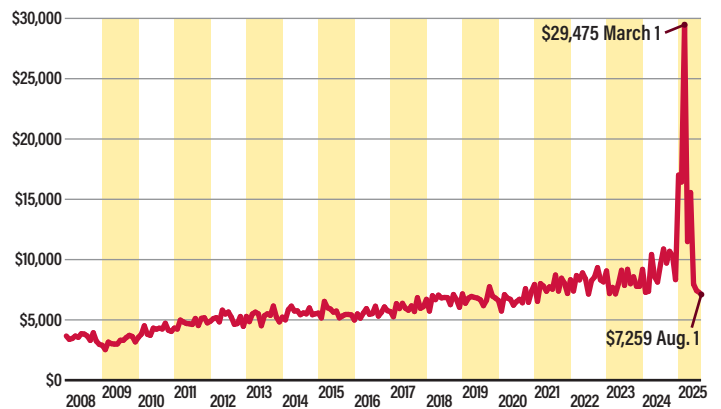


Figure 5. Indiana's Imports of Goods, 2025 (Real \$)

Source: Bureau of Economic Analysis and Federal Reserve Economic Data



Labor Market Conditions

At the same time, hiring slowed substantially, with pronounced reductions across the most tariff affected industries. Here we see cumulative help wanted ads for production workers by educational attainment in 2025. This weekly time series indicates continued growth in early 2025, which was shocked by the first tariff announcements on January 20th, followed by a recovery as tariff rhetoric cooled, and followed by deep cuts after the April 2nd Liberation Day announcements. This was followed by several additional claims of progress on tariff negotiations through early October. By year's end, cumulative help wanted ads were down by more than a third. See *Figure 6*.

The employment series of federal Bureau of Labor Statistics and the private Automatic Data Processing series tell an equally clear story about job growth in 2025. Job growth stagnated after the tariff announcement, making 2025 the 3rd worst, non-recession year for job growth in a half century. The decline was especially shocking given the large employment rebounds of the previous four years. The 2025 job growth averaged only 120,000 jobs per month, compared to an 330,000 per month during the Biden presidency, and a third lower than the worst year (2024) of the previous administration.

Figure 7. Monthly Employment Growth, 2025 (Using Average of BLS & ADP)

Source: Bureau of Labor Statistics and Automatic Data Processing

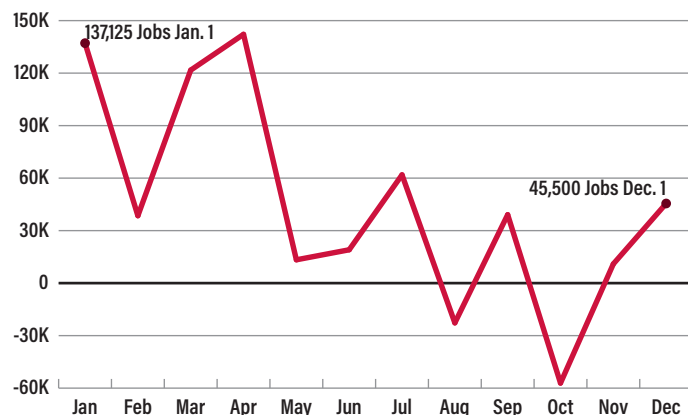


Figure 8. Cumulative Employment Growth by Industry, 2025

Source: Bureau of Labor Statistics

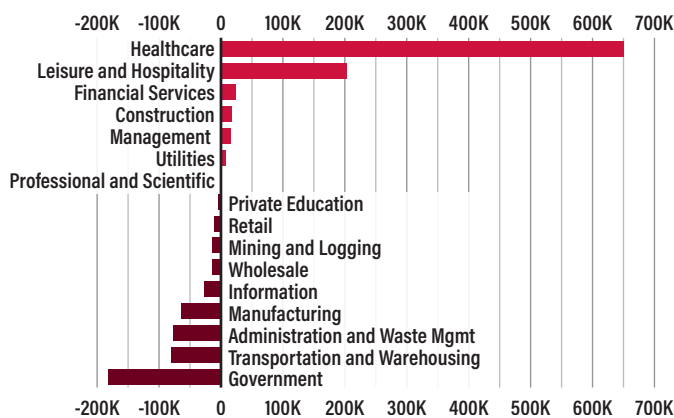
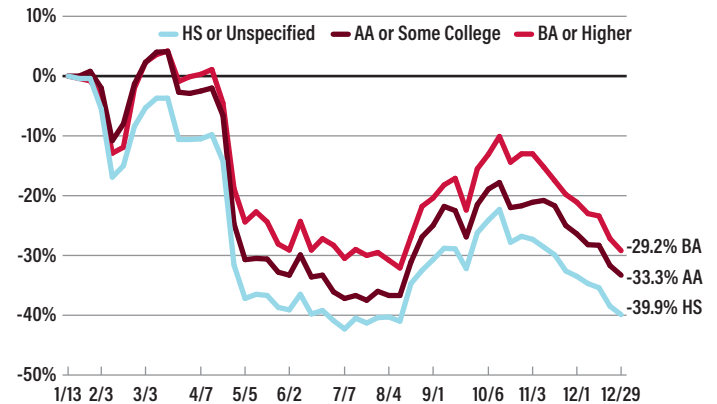


Figure 6. Weekly 'Help Wanted' Ads for Production Workers – Cumulative Growth in New Jobs by Educational Attainment, 2025

Source: Jobs EQ, Chmura Economics



Since the broad tariff announcements of Liberation Day, job growth in the USA has averaged fewer than 13,000 jobs per month (BLS). This is the lowest 8-month period of job growth not associated with a recession since World War II. See *Figure 7*.

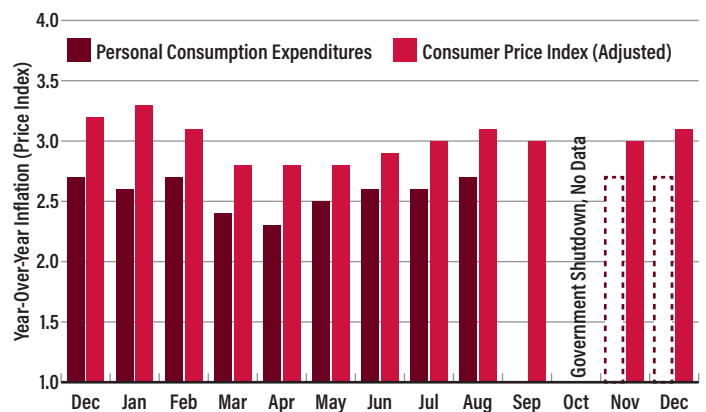
The composition of employment was especially weak in 2025, with more than 100% of job gains in healthcare and leisure and hospitality. Job losses were especially concentrated in tariff exposed sectors. See *Figure 8*.

Inflation, which slowed sufficiently through 2024 and early 2025 that the Federal Reserve began easing interest rates, also saw revival after Liberation Day. The absence of data collection during the October-November shutdown distorts subsequent data, however the trend from April is clear in both the Consumer Price Index and the Personal Consumption Expenditures Index. The shutdown data omissions can be interpolated, which provides a CPI adjustment. That is contained in the graphic below, suggesting a slight price increase in November and December. If this price increase is associated with tariffs, we should anticipate inflation growth to moderate in coming quarters. See *Figure 9*.

Throughout these changes, real GDP growth has remained slower than in 2024, but sufficiently healthy to defer concerns

Figure 9. Change in Year-Over-Year Inflation, Using PCE & CPI

Source: BLS and BEA via Federal Reserve Economic Data



about a imminent recession. Again, much of the sustained production may be explained by firms and households cannibalizing sales before the full effects of tariffs were felt. The full effect remains to be seen.

There are a few important caveats to these data. Immigration into the United States likely reversed in 2025, reducing the available supply of workers. In turn, this reduced the job creation levels needed to maintain constant unemployment rates. However, the job growth reported above has not boosted employment prospects for native born workers, whose unemployment rate has risen sharply since the imposition of broad tariffs.

The 2026 Forecast

Our forecast is built on using a modified structural econometric model of the U.S. economy (Fair, 1998), which is adapted to a state-level vector autoregression (Hicks, 2008). That forecast yields a number of projections, we focus upon GDP and labor markets.

Nationally, the forecast projects slowing economic activity in 2026 and 2027, with inflation adjusted growth between 1.0% and 1.2% at annualized rates. See *Figure 10*.

In turn, we anticipate the state economy to perform worse in aggregate than the national economy through our two-year forecast horizon. It is worth noting that for the past 24 months, our forecast has overstated the observed growth at the federal and state level by 0.3 to 0.5%. We have made technical adjustments to account for this in this forecast. See *Figure 11*.

Our modest forecasts expect employment growth that is much lower, ranging from a loss of roughly 300 jobs to a gain of 4,100 jobs per quarter in 2026 and 2027. See *Figure 12*. Our employment forecast history has been within 10% of the actual figures for the past two years, so it was not adjusted for previous error.

Figure 10. Forecast: Real U.S. GDP Growth (Annualized Rates)

Source: Hicks, 2026

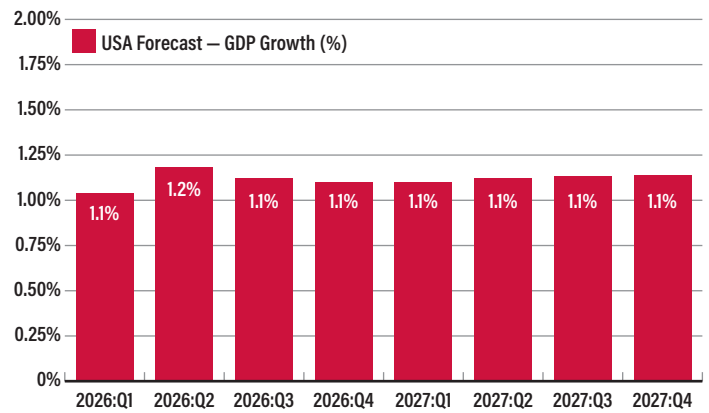


Figure 11. Forecast: Real Indiana GDP Growth (Annualized Rates)

Source: Hicks, 2026

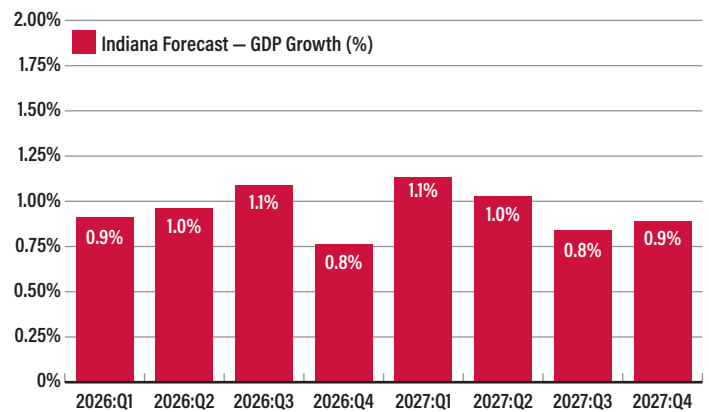
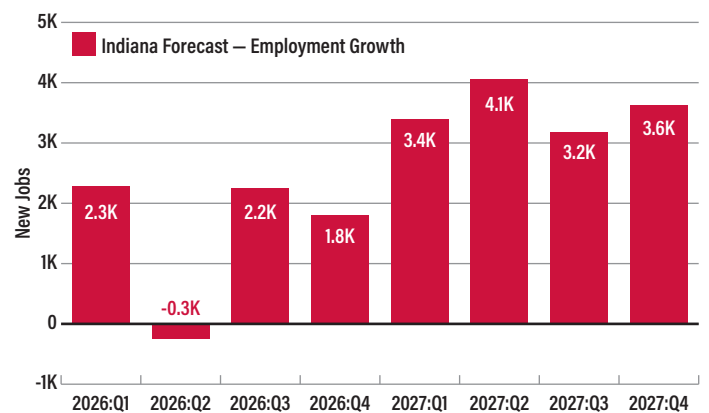


Figure 12. Forecast: Indiana Employment Growth

Source: Hicks, 2026



Considerations

These projections reflect a marked slowing in the national and state economy in 2026 and through 2027. They reflect higher tariffs, with substantial cannibalization of consumption in 2026 to avoid higher tariffs. The very slow labor market growth in Indiana is consistent with both a much slower growing economy and a very slow growing labor force due to the reversal of immigration policies nationwide.

There is a great deal of policy volatility as we begin 2026. We anticipate an imminent Supreme Court Ruling on the use of tariffs under the International Emergency Economic Powers Act (IEEPA), and we anticipate policy challenges to price controls on credit, and the independence of the Federal Reserve.

This policy volatility is joined by a highly skewed job growth that is commonly viewed as evidence of fragility in the macroeconomy. We did not consider stock prices or the highly concentrated nature of stock appreciation over 2025 in our model, but it is an area of significant uncertainty in the next 8 quarters.

Likewise, instability in international affairs has macroeconomic consequences, which is a common feature of the past century. We did not attempt to model that, though international risk to the U.S. macroeconomy appears greater today than in recent decades.

However, without considering this uncertainty, which except for tariff relief has almost only downside consequence we anticipate a much slower growth path for the U.S. and Indiana economy through 2027.



References

- Fair, Ray C. 1998. "Fairmodel site." *Macroeconomic Dynamics* 2 (2): 284-285.
- Hicks, Michael. 2008. "Forecasting State Level Economic Activity: An Error Correction Model with Exogenous National Structural Forecast Components." In *Proceedings, Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*. National Tax Association 101: 223-227.
- Hicks, Michael J. 2018. "Selected Tariff Effects on Indiana." *CBER Data Center*. Center for Business and Economic Research, Ball State University. <https://projects.cberdata.org/134/selected-tariff-effects-on-indiana>

Credits

Stock Photography

Photos from Flickr: Nick Saltmarsh (pg. 1).

Photos from Unsplash: Blake Wisz (pg. 1), Ian Taylor (pg. 2).

Publication Production

© Center for Business and Economic Research, Ball State University, Muncie, IN.

Note: The views expressed in this publication are solely those of the author, and do not represent those of funders, associations, any entity of Ball State University, or its governing body.

Author

Michael J. Hicks, PhD, Director, Center for Business and Economic Research; and the George & Frances Ball Distinguished Professor of Economics, Miller College of Business, Ball State University.

Contributors

Victoria Meldrum, Manager of Publications and Web Services, Center for Business and Economic Research, Miller College of Business, Ball State University.

BALL STATE
CBER
PROJECTS &
PUBLICATIONS



The Center for Business and Economic Research (CBER) at Ball State University conducts data-driven, nonpartisan research on economic issues affecting communities in Indiana and beyond.

Center for Business and Economic Research
Miller College of Business, Ball State University
2000 W. University Ave. (WB 149), Muncie, IN 47306
765-285-5926 • cber@bsu.edu
bsu.edu/cber-projects.cberdata.org