

Indiana Economic Forecast Update

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US recession not in our forecast, but it's a close call

- US economy is transitioning from above-potential to below-potential growth
 - US real GDP growth in 2024 was 2.8%.
 - Growth is expected to slow to 1.3% and 1.5% in 2025 and 2026, respectively.
- Economic indicators over the past few weeks have lowered our estimate of Q1 2025 growth to 0.2%
- Key factors that contribute to slowdown:
 - Ongoing effects from past Fed tightening (policy remains restrictive)
 - Diminished tailwinds that had been boosting growth through 2023.
 - Downturn in equity values.
 - Fallout from a new and large round of tariffs.
- A period of below-potential growth contributes to a gradual rise in the unemployment rate.
 - The unemployment rate peaks at 5.1% in 2027.
- Fed pauses during period of elevated (tariff-induced) inflation, continues easing after.
 - Terminal funds rate (3.0% - 3.25%) reached in late 2026.
- Inflation eventually returns to 2.0% in 2027, unemployment rate returns to NAIRU

Key policy assumptions in the April 2025 US forecast

- Tariffs
 - 25% tariff on imports of **steel and aluminum** began in March.
 - **Canada and Mexico**: 25% on goods and auto (non-USMCA compliant). General tariff steps down to 12% over 1 year.
 - **Mainland China**: Effective tariffs rate of 60% starting in April.
 - **Other countries**: universal tariff, currently about 3%, rises to 10% over 1 year.
- Fiscal
 - Permanent **extension** of 2017 personal tax cuts.
 - Additional tax relief for **overtime pay** and **tip income** and easing of cap on **the state-and-local tax deduction**.
 - **Corporate tax rate** for domestic producers declines from 21% to 15%.
 - Generic cuts in **federal outlays**.
- Federal layoffs
 - **255,000 layoffs** by August.
- Immigration
 - Reduced by **500,000 per year** for 4 years of Trump presidency.

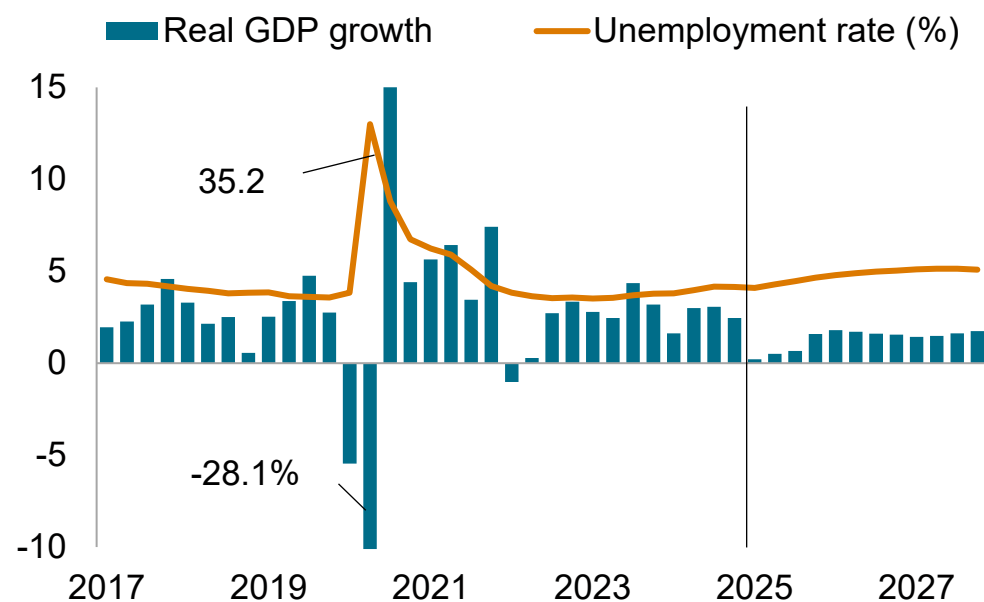
What changed from December forecast to April?

- Tariffs/counter-tariffs higher than expected in some cases, especially with respect to Mainland China.
- Federal job layoffs and spending cuts deeper and sooner than earlier expected.
 - Implementation of the policy changes is adding to overall market uncertainty, which impedes decision-making.
- Stock market declines have been greater than anticipated.
- Consumer spending has been weak in Q1 2025; implied household saving rate increasing.
 - Some may be due to temporary factors such as adverse weather or “waiting for the dust to settle” on Federal policy.
- For Indiana, revised data (mostly released in March 2025) from the Bureau of Labor Statistics and Bureau of Economic Analysis show that job gains and income growth were lower than expected in 2024, especially the second half.
 - This results in less momentum, lower starting point for forecast.
 - Wage growth was still unusually strong, just not as robust as earlier indications.
- Budget reconciliation process currently working through Congress should provide some clarity regarding upcoming Federal tax and spending decisions.

GDP growth slows to below trend; unemployment rate drifts up

Growth to slow abruptly starting Q1 2025

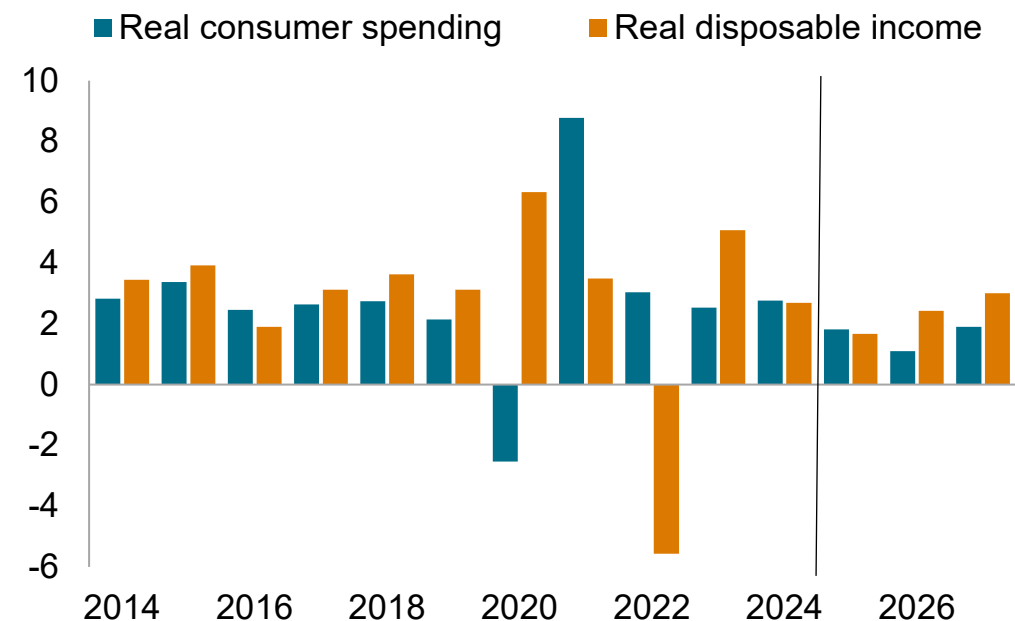
US real GDP growth and unemployment rate



Data compiled April 2025.
Source: S&P Global Market Intelligence.
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Consumer spending growth softens as consumer confidence weakens

Real US consumer spending and disposable

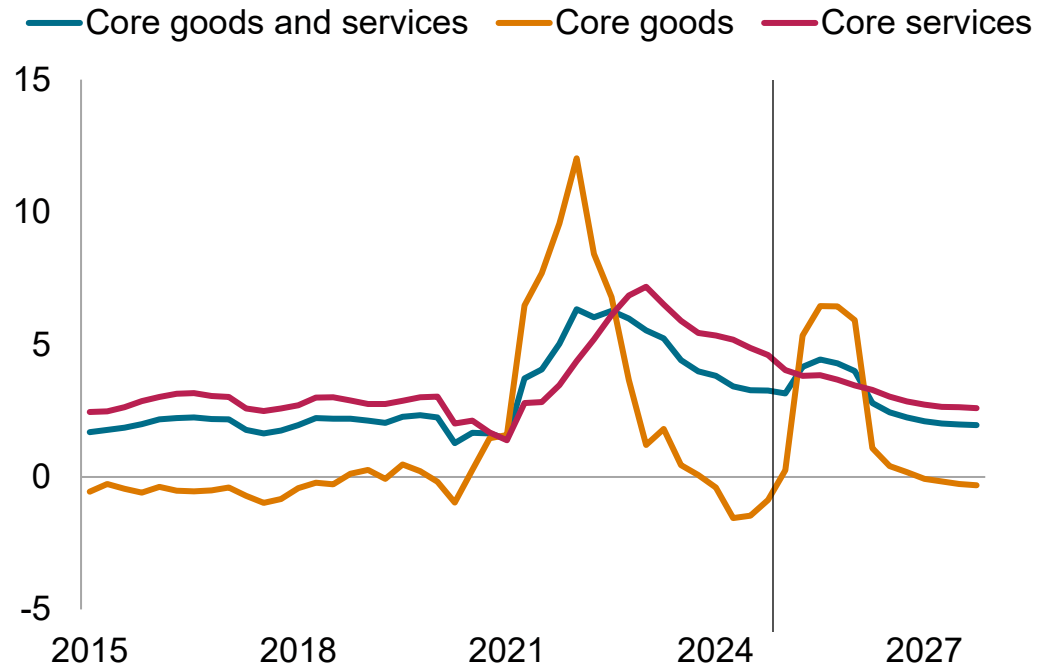


Data compiled April 2025.
Source: S&P Global Market Intelligence.
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Supply-side disruptions to cause a moderate rebound in inflation rate in 2025, limiting further declines in longer-term interest rates

Core goods inflation to reappear in 2025

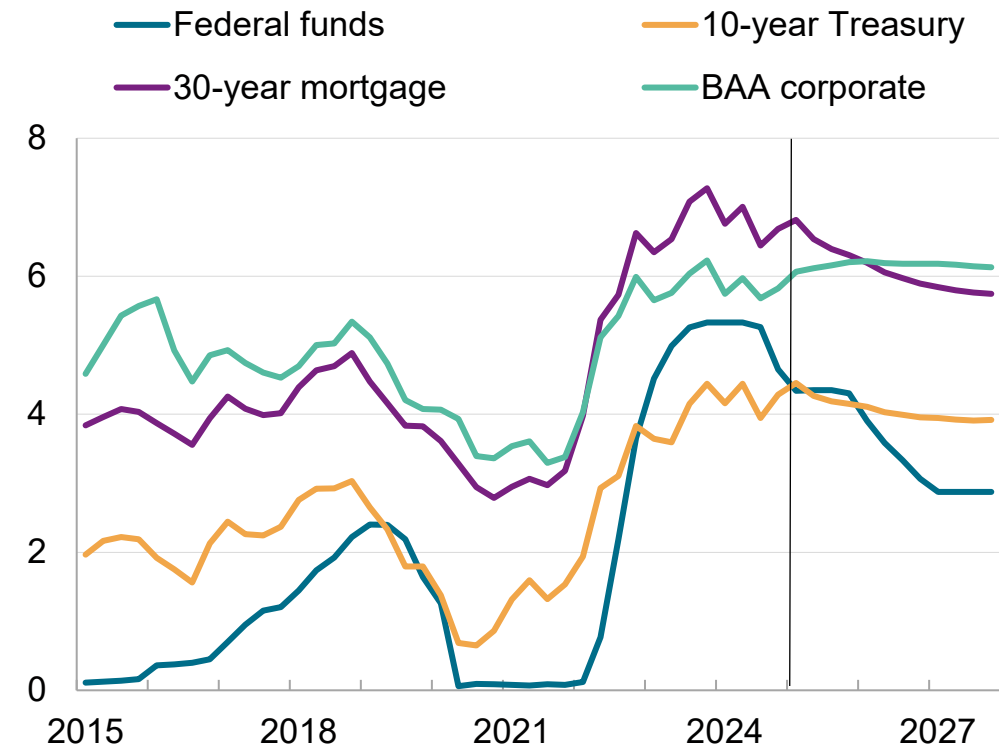
US consumer prices excluding food and energy Year-over-year percent change



Data compiled April 2025.
Note: CPI all-urban, seasonally adjusted, 1982-84=1.0
Source: S&P Global Market Intelligence.
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Fed on pause until December 2025 due to resurgent inflation; rapid cuts occur in 2026

Interest rates, percent

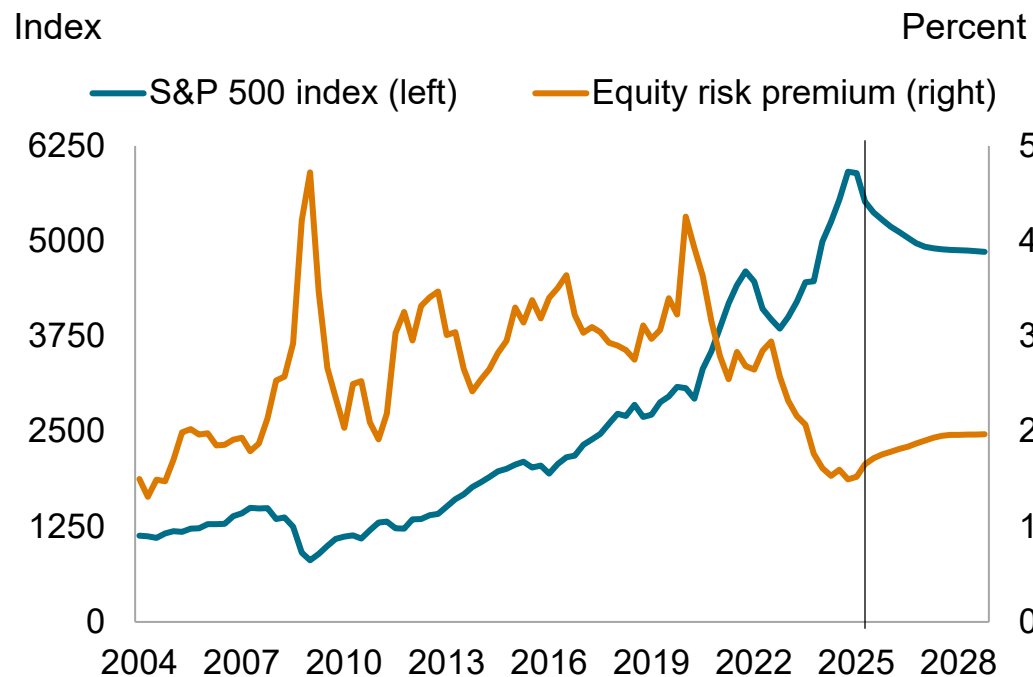


Data compiled April 2025.
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Higher inflation and interest rates, lower growth to weigh on equity markets

Equities decline 16% through 2026, roughly flat thereafter.

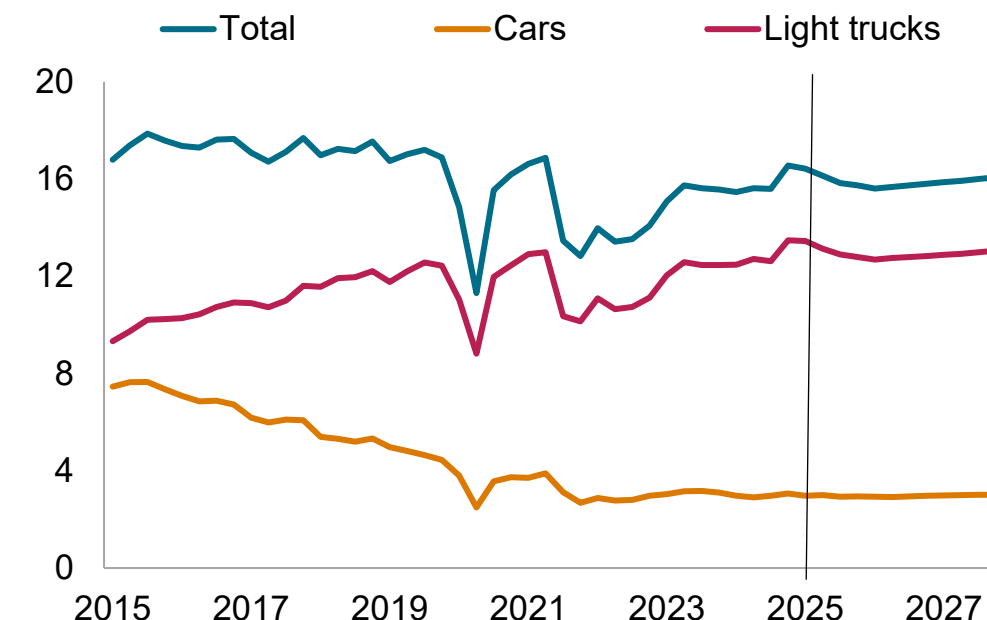
Equities easing in 2025



Data compiled April 2025.
Source: S&P Global Market Intelligence.
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Vehicle sales forecast lowered by nearly 1 million units by 2026 due higher prices, fewer choices.

Total light-vehicle sales



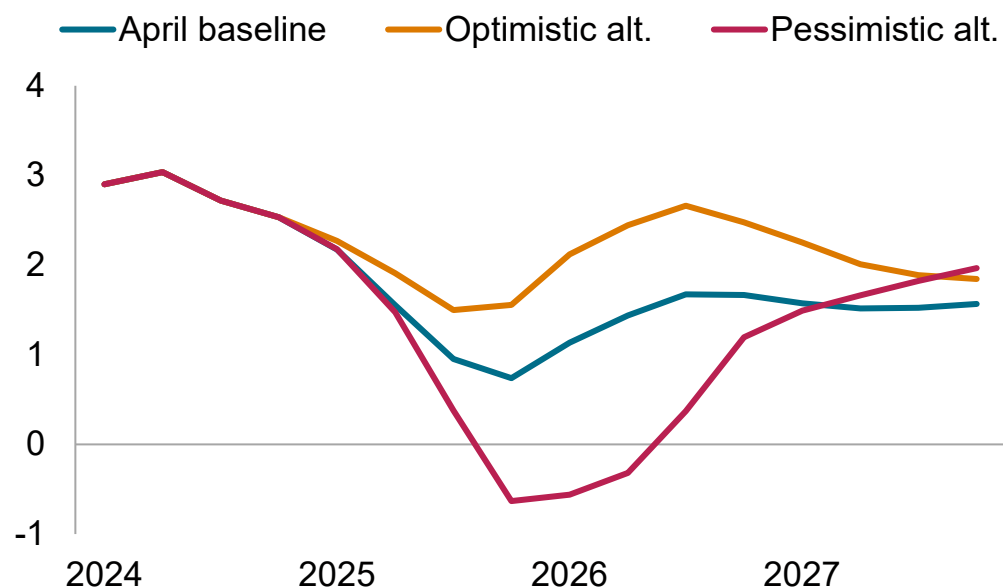
Data compiled April 2025.
Source: S&P Global Market Intelligence
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Risks to the forecast stem from uncertainty around tariffs and immigration

GDP growth remains solid in optimistic alt., drops into recession in pessimistic case

Real GDP growth: baseline & alternatives

4-quarter percent change



Data compiled April 2025.

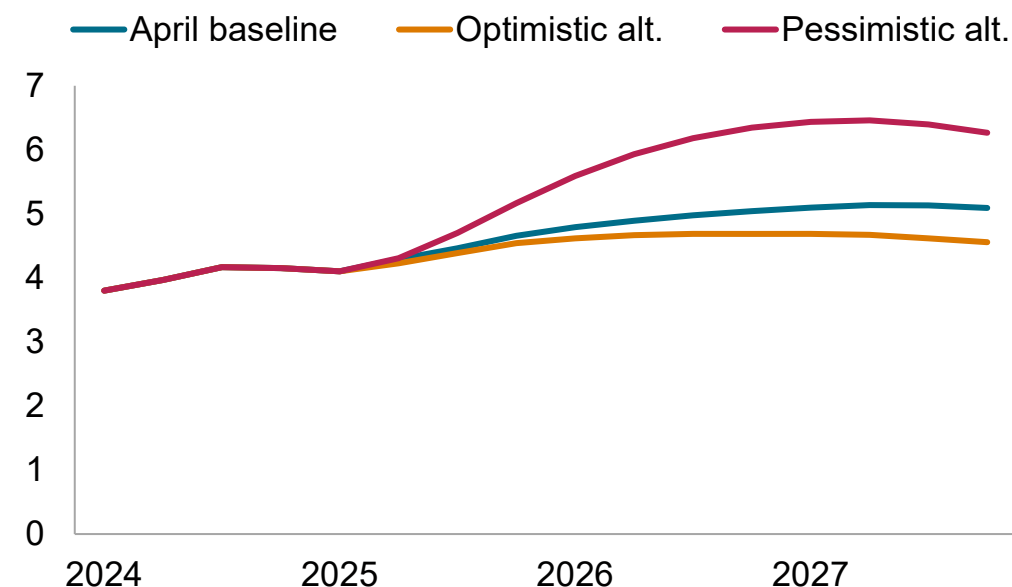
Source: S&P Global Market Intelligence, Bureau of Economic Analysis.

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Unemployment rises to 6.5% in pessimistic alt.

Unemployment rate: baseline & alternatives

Percent of labor force



Data compiled April 2025.

Source: S&P Global Market Intelligence.

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US economic growth by sector

Percent change, unless otherwise noted

	2023	2024	2025	2026	2027
Real GDP	2.9	2.8	1.3	1.5	1.5
Final sales	3.3	2.7	1.3	1.3	1.5
Consumption	2.5	2.8	1.8	1.1	1.9
Light vehicle sales (millions)	15.5	15.8	16.0	15.7	16.0
Residential fixed investment	-8.3	4.2	1.5	-0.9	-0.2
Housing starts (millions)	1.42	1.37	1.40	1.34	1.32
Business fixed investment	6.0	3.6	1.2	-1.4	0.6
Federal government	2.9	2.6	-0.3	-0.4	-0.2
Exports	2.8	3.3	1.0	1.0	3.6
Imports	-1.2	5.3	3.3	-5.5	1.5

Data compiled April 2025.

Source: S&P Global Market Intelligence..

Other key indicators of US economy

Percent change, unless otherwise noted

	2023	2024	2025	2026	2027
Industrial production	0.2	-0.3	1.1	-0.5	0.0
Payroll employment	2.2	1.3	0.9	0.0	0.0
Civilian unemployment rate (%)	3.6	4.0	4.4	4.9	5.1
Consumer Price Index	4.1	3.0	3.6	2.8	1.9
Core CPI	4.8	3.4	4.0	2.9	2.0
Brent crude oil price (\$/barrel)	82.5	80.5	72.2	69.0	69.8
Federal funds rate (%)	5.0	5.1	4.3	3.5	2.9
10-year Treasury yield (%)	4.0	4.2	4.3	4.0	3.9
Corporate profits w/IVA & CCA	6.9	7.9	-7.9	0.0	0.7

Data compiled April 2025.

IVA = Inventory valuation adjustment; CCA = Capital consumption adjustment

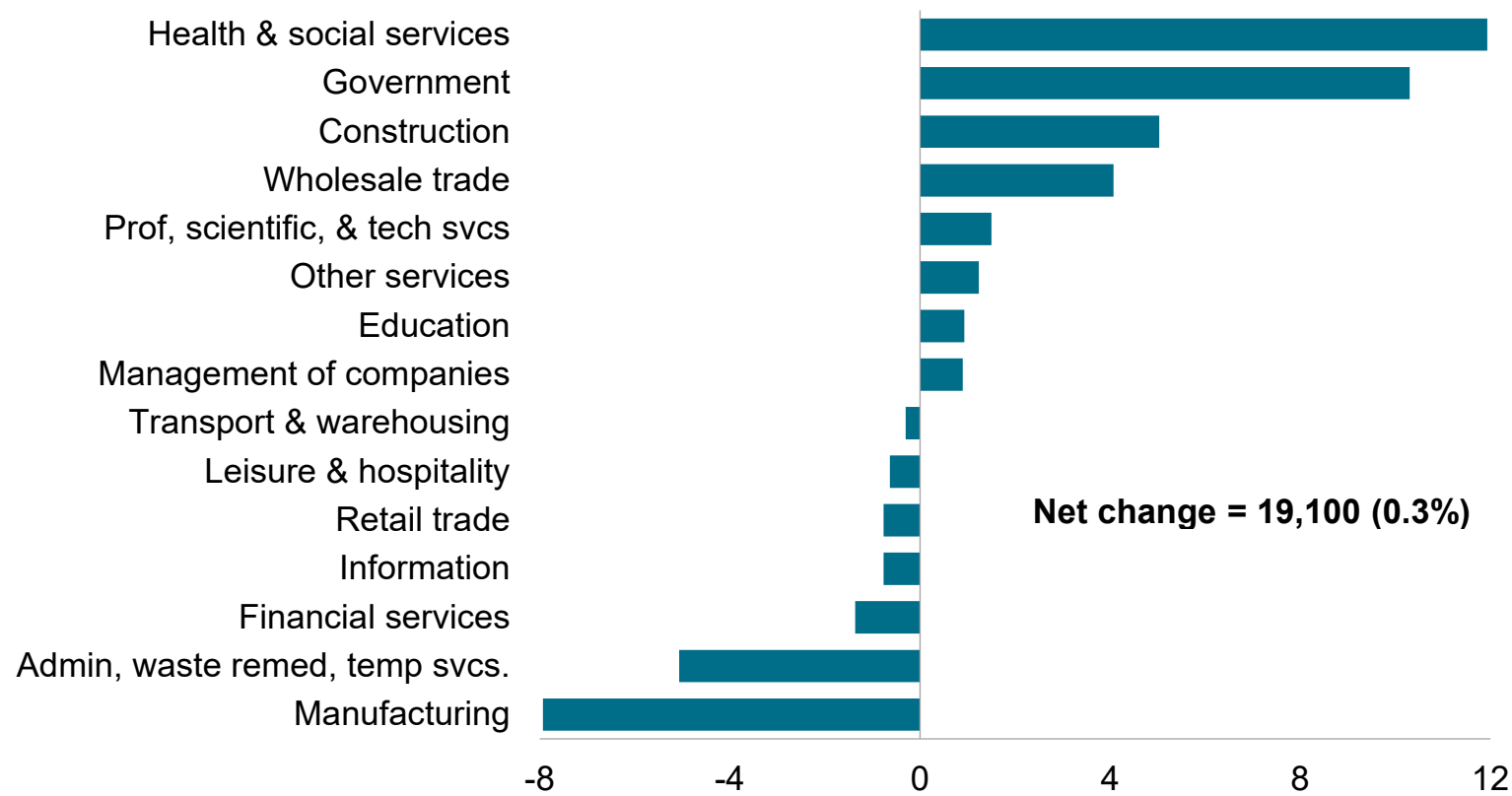
Source: S&P Global Market Intelligence..

Indiana began 2025 with less momentum than expected

- Recent data updates show that the state added fewer jobs in 2024 than previously thought.
 - Professional and business services, leisure and hospitality began the new year on a weak note.
 - Some of this weakness could easily reverse over the next few months; still starting from a lower base.
- Announced tariffs will impact major goods-producing industries, including pharmaceuticals, automotive, machinery, and agriculture.
 - Tariffs could bring expanded or increased business as production is on-shored.
 - Tariffs on inputs, or on intermediate products involved in cross-national supply chains, could reduce output.
 - Tariffs on steel and aluminum will raise costs for industries that use them.
- Limits on immigration, potential deportations would impact certain industries in the state, including manufacturing (including food), construction, and agriculture.
- Risks to the state's economy mirror issues at the national level.
 - On the downside, disruption from tariffs and policy uncertainty could pull down growth.
 - On the upside, prompt resolution of trade disputes and limited labor force disruption would boost growth.

Indiana payroll growth was weaker than originally reported; wage income also was lowered

Change in Indiana payroll employment, thousands, Q4 2023 - Q4 2024



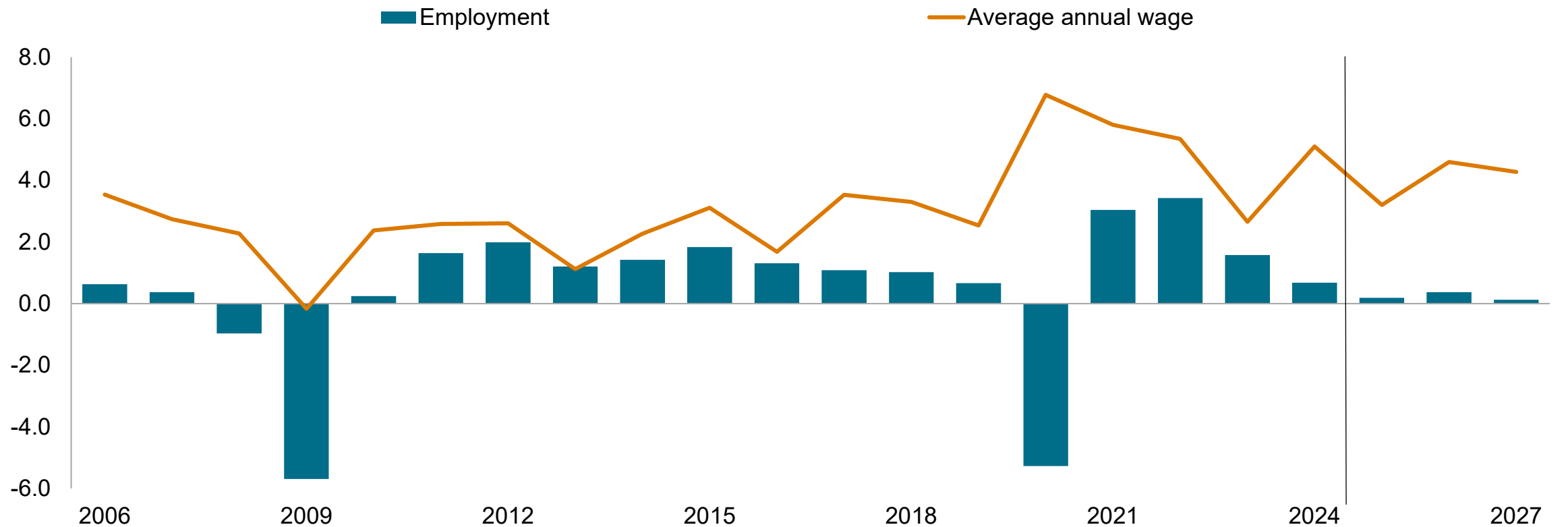
Initial estimate was that Indiana had gained 48,000 jobs (+1.5%) from 2023Q4 to 2024Q4.

Average annual wages grew by an average of 5%; very solid, but less than the 6% indicated earlier.

Data compiled April 2025.
Source: S&P Global Market Intelligence, US Bureau of Labor Statistics.
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Indiana job gains slowed in 2024, while wage gains were strong but still lower than earlier thought

Indiana annual employment and wage growth, % change



Data compiled April 2025.
Source: S&P Global Market Intelligence.
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Key economic indicators for Indiana

Percent change, unless otherwise noted

	2023	2024	2025	2026	2027
Payroll employment	1.6	0.7	0.2	0.4	0.1
Unemployment rate (%)	3.4	4.2	4.5	4.9	5.0
Wage income	4.3	5.8	3.7	5.0	4.4
Personal income	4.3	5.1	4.0	4.9	4.7
Real gross state product	1.3	3.8	1.3	1.4	1.6
Personal consumption exp.	5.4	4.9	4.6	3.7	3.6
Housing starts (thousands)	25.8	26.1	24.1	24.2	23.8

Data compiled April 2025.

Source: S&P Global Market Intelligence.

Evolution of short-term Indiana forecast

Percent change, calendar year basis

	U.S. Real GDP			Indiana employment			Indiana personal income		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Apr 2023	1.5	1.9	2.0	-0.3	-0.1	0.3	4.1	4.1	4.3
Dec 2023	1.5	1.3	1.4	0.8	-0.5	-0.2	5.0	4.5	4.2
Apr 2024	2.5	1.7	1.7	1.4	0.0	-0.2	5.2	5.0	4.6
Dec 2024	2.7	1.9	1.8	1.5	1.1	0.0	6.2	5.2	5.5
Apr 2025	2.8	1.3	1.5	0.7	0.2	0.4	5.1	4.0	4.9

Data compiled April 2025.

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