

Kelley School Forecasts Growth, Notes Risks

Strong economic growth is likely to continue in both Indiana and in the United States as a whole, according to the latest quarterly forecast from the Kelley School of Business at Indiana University.

The Kelley School's Center for Econometric Model Research in Bloomington notes that the U.S. gross domestic product grew at an annual rate of 6.9% in fourth quarter 1999. For the year 2000, the Center's forecast released at the end of February predicts slightly slower but still healthy growth. U.S. growth will ease to 2.8% during 2000. Exports should expand, while both consumption and equipment investment are forecast to grow more slowly than in 1999.

The Fed will continue to raise interest rates this year, and inflation will remain low, only moderately above 1999's 2% rate.

Construction activity, however, will

decline compared to 1999—due mainly to higher interest rates. Residential investment nationwide rose last year. This year it is forecast to fall 2% from 1999 levels.

Indiana will enjoy the continuing expansion, though growth rates here are likely to be just under those in the nation as a whole. The model predicts real personal income will increase by 3.7% in the U.S. this year and 3.2% in Indiana. Non-farm establishment employment is forecast to be up 1.8% in the U.S. and 1.2% in Indiana. Non-manufacturing employment will grow in the state, but that will be offset by flat or declining employment in Hoosier manufacturing.

What could derail this happy picture? Oil prices have jumped in recent weeks, but those increases shouldn't hurt the overall conditions. Dr. Jeffery Green is professor of business economics and public policy and associate dean

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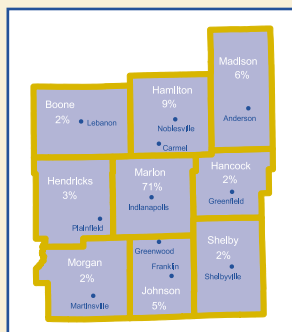
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Metropolitan Areas are Highlighted in This Issue.

What is an MSA? A metropolitan statistical area (MSA) is a city along with the surrounding area that has close economic ties to the city. Boundary lines for MSAs usually are county lines. An MSA can be one county or a cluster of counties, such as the nine counties that make up the Indianapolis MSA.

Also known as "metro areas," MSAs are defined by the federal Office of Management and Budget. Many kinds of data are categorized and tracked by MSA.



Indiana
Unemployment Rate
in January 2000:
3.4%
No Significant
Change from
January 1999.

INCONTEXT

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for research and operations in the Kelley School at IU. He heads the econometric modeling center. He believes current oil prices won't slow things much.

"Certain industries, like airlines, get hit when oil prices go up," said Dr. Green. "But in general, the number of barrels of oil per dollar of GDP has been falling. So the economy isn't as sensitive to higher oil prices. If prices

continue to rise, though, beyond \$30 per barrel, that may well put a damper on consumer spending."

A bigger factor in the outlook may be the unpredictable stock market. Said Dr. Green, "Our research shows a wealth effect from rising equity prices to be a factor in consumer spending. If the stock market takes a big drop and stays down, we'd expect to see much slower growth."

IN Depth:

For all the latest state and county figures and complete time series data sets related to the Indiana economy, visit the following Internet sites:

www.ibrc.indiana.edu/incontext

www.stats.indiana.edu

www.state.in.us/doc

www.dwd.state.in.us

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