Looking to 2003—Recovery to Continue

The national economy will continue to recover from recession in early 2003 and will avoid a "double-dip" downturn that was feared by some economists, according to a forecast presented in November by economists in Indiana University's Kelley School of Business.

According to the forecast, the national economy will continue to grow next year at this year's rate with the consumer continuing to be the key to growth. Investment spending by firms, which plunged during the recession, should stabilize and begin to grow. The gross domestic product (GDP) is expected to increase by 3.2 percent in 2003.

Steady auto sales and a strong housing market are expected to continue and will help the Indiana economy, which benefits from durable goods purchases. Also, an increase in jobs at service-oriented firms should fuel the state's employment growth in the next year. State employment is expected to turn around in 2003 with the addition of 30,000 jobs.

The annual forecast is prepared by a group of IU economists who use the Indiana Econometric Model as their starting point. The model combines state statistics and a national forecast to develop projections for the coming year. The panel has presented an annual forecast since 1972.

A more detailed presentation of the national, international, state and local metro area forecasts will be available in the Winter issue of the *Indiana Business Review*, due out in print and online in December (www.ibrc.indiana.edu).

Gross Domestic Product:
- It is expected to increase by 3.2 percent (adjusted for inflation).

Inflation:
- As measured by the consumer price index, inflation will hover just above 2 percent for the year.

Unemployment:
- Nationally, it will approach, but remain below, 6 percent.

Consumer Spending:
- The consumer will continue to support the expanding economy with autos again selling close to 17 million units and a firm housing market approaching recent high levels of construction and sales.

Government Spending:
- Expansionary federal government spending will be largely offset by flat state and local expenditures.

Investment:
- Business investment in equipment has been lagging, but should advance as the year progresses, adding strength to the economic expansion. Investment in structures, however, is not expected to offer much new strength in 2003.

Short-term Interest Rates:
- These may fall at first but should be steady when looked at on an annual basis. Long-term rates (30-year mortgages) are seen as stable to rising over the course of the year.

Productivity:
- Robust productivity growth in the U.S. versus abroad will keep the dollar strong and contribute to continuation of the large international trade deficit.

Indiana:
- It will be the first time in several years that the state will experience growth in total employment.

Risk:
- The major risk of the forecasts comes from the uncertainties about war with Iraq. Even if war itself does not develop, the threat of war keeps petroleum prices high and investors on edge.

Outlook 2003:

Get detailed economic forecasts in the upcoming issue of the *Indiana Business Review*, online this December at

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