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Forecast Memorandum: What Happened to Indiana GDP in 2014?

The 2014 Indiana Gross Domestic Product numbers are out, and the news was not good. When adjusted for inflation the state's economy grew a paltry 0.45 percent. In contrast our nonfarm employment growth over the same period was fantastic 1.76 percent. What has happened and what that means to our economy is worth reviewing.

First, many of our sectors did very well. Professional and managerial services grew at 3.5 percent rate, and manufacturing grew at a 2.83% rate, while both wholesale and retail trade grew faster than 2 percent for the year. The fact is 78 percent of Indiana's economy grew last year at an average rate of 1.76 percent.

The problem was that we saw big losses in a number of small and medium sized sectors. Government shrank by 1.1 percent, and it comprises 9 percent of our state's economy, tide with professional services and private sector education in the state, both of which grew.

The big contributors to GDP decline were construction, which shrank by 10.7 percent, agriculture with declined by 16.1 percent and mining ad natural resource extraction which declined by a whopping 41.2 percent in 2014. Fortunately these are relatively small contributors to GDP, but the losses were so significant that they offset much of the solid growth in other sectors.

Economic forecasts of the Indiana economy in 2014 ranged from 2.1 to over 3 percent. . Those of this author and others were terribly wrong. Part of an explanation for this forecast error is due to the cause of GDP slowdown in a few sectors. Part of the decline was due to the rapid decline in energy prices and the significant decline in agriculture prices which dampened growth in both areas and certainly reduced demand for other goods related to these sectors.

Fortunately, the 2014 GDP figures hold little to suggest a broad slowdown in the Indiana economy in 2015. The bulk of the state's economy remains robust relative to the nation as a whole, and the sectoral downturns were sufficiently concentrated that they do not speak to a general slowdown. The strong hiring of 2014 and well into 2015 suggest the economy will improve.

Importantly, the slower than expected GDP growth will help explain the state revenue shortfalls that have plagued the state budget officers through much of 2014. As the GDP improves and hiring continues, we should expect budget figures to more closely align with the forecast. Data on our broad sector growth and the share of each are contained in the following figure.

Industry	**GDP Change 2014**	**GDP 2014 ($Mill)**	**share of GDP**
All industry total	0.45%	289346	100%
Agriculture, forestry, fishing, and hunting	-16.13%	3695	1%
Arts, entertainment, recreation, accommodation, and food services	-0.62%	9859	3%
Construction	-10.73%	9958	3%
Educational services, health care, and social assistance	0.95%	25276	9%
Finance, insurance, real estate, rental, and leasing	1.76%	43117	15%
Information	-0.51%	6420	2%
Manufacturing	2.83%	85322	29%
Mining	-41.23%	987	0%
Other services, except government	0.84%	6232	2%
Professional and business services	3.47%	24422	8%
Retail trade	2.08%	17009	6%
Transportation and warehousing	1.43%	10051	3%
Utilities	-5.56%	5239	2%
Wholesale trade	2.00%	15310	5%
Government	-1.12%	26518	9%

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