Montana Economic Outlook
Recovery Still Stuck in the Starting Gate

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In the information age, it is impossible to avoid learning of every surprise and disappointment in the national economy. Yet if we could somehow forget about the episodes of turbulence in stock markets, the downgrades in both national forecasts and government debt, and the fall in consumer and business confidence expressed in national surveys, we might feel much better about the economy around us. In fact, there are positive signals in the Montana economy.

Perhaps the most heartening has been the improvement in state tax revenues. After experiencing the deepest two-year decline in revenue in postwar history, Montana general fund revenues enjoyed growth of just over 10 percent in fiscal year 2011. These were led by increased collections for both the personal and corporate income taxes. There also was an encouraging uptick in payroll employment.

While the 2011 data show some gains, statewide growth in real nonfarm earnings has fallen considerably short of the 2.6 percent increase we foresaw happening a year ago (Figure 1). As judged by this comprehensive measure, the Montana economic recovery thus far remains stuck in the starting gate – actually slowing down from the 1.5 percent growth rate of 2010 to register a disappointing 0.7 percent growth in inflation-corrected nonfarm earnings.

There are at least three factors that led to this less than expected rate of overall growth:

Inflation. After being largely dormant since 2008, spikes in food and energy prices propelled prices ahead at a much faster than anticipated rate in 2011. If price growth had been as originally forecasted, actual growth in 2011 would have been almost a percentage point higher.

Weak Individual Sector Performances. Several sectors of the state economy performed much more weakly than we anticipated in 2011. There were larger than anticipated declines in earnings of federal government workers due to the wind down of the Census and the less active fire season. Health care earnings growth also has been much more sluggish than expected, as health providers deal with higher regulatory compliance costs and lower demand for elective procedures.

U.S. Economic Growth. Growth in the national economy was revised down...
The exceptions to these developments have been agriculture and, especially, natural resources and energy. Because of oil-related fabrication, repair, engineering, and other development activity, rural eastern Montana’s growth has been much stronger than elsewhere in the state. And reasonably strong prices for wheat and calves have helped farmers and ranchers realize another good season for their gross receipts.

In preparing this outlook, we have attempted to strike a balance between the recent performance of the state economy, which outside of housing has been reasonably good, and the climate for future growth, which has become increasingly cloudy. While as of this writing the U.S. economic expansion looks a bit more secure, the prospects for Asia and especially Europe have worsened considerably. A recession in Europe appears more and more certain, with the only question being how severe and whether it will be accompanied by a banking crisis.

In this environment, especially with housing and construction still ailing, the prospects of a swift return to faster growth are small. Our baseline forecast calls for growth of between 2.0 percent and 2.5 percent in nonfarm earnings over the next four years, substantially less than the growth that prevailed before the recession. This outlook assumes that:

- The U.S. economy will avoid recession but continue to operate well below its potential for at least the next two years, as spending and savings adjustments in the wake of the 2009 financial crisis continue to be worked out;
- The housing price declines end in 2012, with a modest recovery in construction under way by 2013;
- Global prices for commodities, energy, and food will remain high by historical standards;
- Spending growth will remain severely restrained by revenue shortfalls due to the recession, especially at the state and local levels; and
- Energy and natural resource developments will tilt faster growth toward the eastern part of the state.

The main risk to the forecast is of a new global recession that causes prices of energy and natural resource commodities to fall sharply, as occurred in 2008-09. Such an event is possible, especially if political leaders in Europe allow problems there to snowball to produce an unmanageable situation. On the other side, if construction comes back more quickly than predicted, or business and consumer confidence bounces back sharply, our forecast of near-term growth could be too low.