OUTLOOK 2016

41st Annual Economic Outlook Seminar
Presented by Northwestern Energy
and The Bureau of Business & Economic Research

RISING Property Tax Bills

What You Should Know
The State and National Economic Outlook
Back to Full Employment

Patrick M. Barkey
Director
Bureau of Business and Economic Research
The U.S. Economy: Good But Not Great

- Even slow growth in the world’s largest economy eventually adds up
- Expected surge in spending from lower energy prices fails to materialize
- Weakening economies abroad, stronger dollar combine to hurt exports
- U.S. job growth engine hits a higher gear
- Virtuous cycle of spending growth – job growth – income growth has solidified
- Are we getting back to easy credit?
Seven Years of Job Growth Solves Problems

Utilization

Job Finding Rate

Unemployed

Marginally attached workers

Confidence

Conference Board Job Availability

Employer Behavior

NFIB hiring plans

Vacancies (JOLTS)

Hires (JOLTS)

Payroll

Temporary Help Services Employment

Difficult-to-fill (NFIB)

Initial Claims

Initial Claims

Work part-time for economic reasons

Seven Years of Job Growth Solves Problems

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Difficult-to-fill (NFIB)

Initial Claims

Initial Claims

Work part-time for economic reasons

Source: Atlanta Federal Reserve Bank
U.S. Goods Are More Expensive Than One Year Ago

Percent Change in Dollar Purchasing Power, Jan 2015 – Jan 2016

-10.0% 0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0%

Euro 8.6%
Canadian $ 19.3%
British pound 4.5%
Yen 0.2%
Yuan 6.1%
Brazilian Real 52.8%
The Nature of U.S. Growth Has Changed
Growth Expectations Have Adjusted Downward
Growth in GDP, Actual and Forecast

Source: IHS, Inc.
Another Fall for Commodity Prices

- Non-energy
- Energy
- Total

Graph showing commodity prices from 2010 to 2015.
Prices Bending, But Not Breaking, Oil Production Gains
Metals, Agricultural and Oil Prices at Five Year Lows December 2015 vs. 5-Year High and Low

Materials & Foodstuffs (as of Aug 2015)

<table>
<thead>
<tr>
<th>Item</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lumber</td>
<td>325</td>
<td>437</td>
</tr>
<tr>
<td>Barley</td>
<td>2.65</td>
<td>5.63</td>
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<tr>
<td>Beef</td>
<td>1.67</td>
<td>2.72</td>
</tr>
<tr>
<td>Wheat</td>
<td>4.46</td>
<td>9.82</td>
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Metals & Energy (as of Aug 2015)

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<th>Item</th>
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<tr>
<td>Copper</td>
<td>4638.83</td>
<td>9880.94</td>
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<tr>
<td>Palladium</td>
<td>551.9</td>
<td>875.8</td>
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<tr>
<td>Zinc</td>
<td>1527.79</td>
<td>2743.45</td>
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<tr>
<td>Oil</td>
<td>37.24</td>
<td>110.04</td>
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Current Materials & Foodstuffs

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Live Current Lumber Price: $325.00 per Thousand BF

Live Current Barley Price: $2.65 per Bushel

Live Current Beef Price: $1.67 per Pound

Live Current Wheat Price: $4.46 per Bushel
Does Anyone Know What Chinese Growth Is?

GDP Growth, Percent, China

Percent

Official Statistics

Private estimates

2014 2015
U.S. Outlook Summary

• U.S. consumer spending now powering the economic recovery
• Old fuel for growth – business spending, global growth – is spent
• Global slowdown is most evident in commodity prices
• Federal Reserve “lifting” – raising rates accomplished
• How much longer can the U.S. go it alone?
The Montana Economy Reaches Full Employment

- Growth has shifted west as commodities stumble and construction improves
- Labor market slackness has largely disappeared
- Broad growth across most industries helps boost tax revenues, wages
- Commodity prices, grain prices and the weak Canadian dollar are spoiling the party for some
- New focus: construction and retailing
Unemployment Claims Show Steady Improvement

Monthly Unemployment Claims, Montana.
Wages Grew Faster Than Employment Last Year

<table>
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<tr>
<th>Year</th>
<th>Employment</th>
<th>Wages</th>
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<tbody>
<tr>
<td>2012</td>
<td>3.2%</td>
<td>4.0%</td>
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<tr>
<td>2013</td>
<td>3.5%</td>
<td>3.8%</td>
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<tr>
<td>2014</td>
<td>2.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>2015</td>
<td>3.6%</td>
<td>4.5%</td>
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Percent Change in Payroll Employment and Inflation-Corrected Wages, Montana
Note: Data are for fiscal years.
What’s Driving Growth in Montana: Wage Growth

Growth in Inflation-Corrected Wages, Difference in Fiscal Year Totals, $ Millions.
What’s Ahead for Montana’s Key Industries?

• Construction, manufacturing, and visitor spending continue to be bright spots
• Worst of the impacts for energy lie ahead
• Agriculture producers are looking at a different price environment
• Pressures on government spending have eased significantly
• Stage is set for broader, if less spectacular growth
Change in Nonfarm Earnings, Montana, 2013-2019