U.S. Economy Slows Slightly: Will Montanans Even Notice?

The U.S. Outlook

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Today’s Price: $58.47/barrel

RISKS:
• High Prices
• Terrorism
• Gov’t intervention
• Lower Prices
• Increased supply
• Refinery capacity
• China (again)
Source: U.S. Office of Federal Housing Oversight.
Montana’s Headline-Grabbing Growth Continues The Montana Outlook
Montana Nonfarm Labor Income

% Change

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2.40</td>
<td>3.08</td>
<td>5.13</td>
<td>4.50</td>
<td>5.89</td>
<td>4.20</td>
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</tbody>
</table>

FORECAST
Montana’s Economic Base

- Nonresident Travel
- Mining
- Manufacturing
  - Wood and paper
- Agriculture

- Federal Gov’t (Incl. Military)
Montana Nonfarm Labor Income

% Change

FORECAST

2002 2003 2004 2005 2006 2007

No Construction Boom
No 9-11
Stable Manufacturing
No Mining Boom
Montana Nonfarm Labor Income

% Change

'40 – '70
3.61 %
σ 2.8 %

'71 – '05
2.82 %
σ 3.0 %
Natural Resource Boom

• Demand growth in developing countries, like China.
• Oil supply shocks in 2003 and 2004.
• Declining value of dollar.
• No capacity growth in 1990s.
Commodity Prices

Source: International Monetary Fund.
## Commodity Price Forecasts

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1990-2004</th>
<th>2005</th>
<th>2006&lt;sub&gt;f&lt;/sub&gt;</th>
<th>2007&lt;sub&gt;f&lt;/sub&gt;</th>
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</thead>
<tbody>
<tr>
<td>WTI Oil ($/barrel)</td>
<td>23</td>
<td>56</td>
<td>66</td>
<td>60</td>
</tr>
<tr>
<td>Nymex Natural Gas ($/mmbtu)</td>
<td>2.93</td>
<td>9.00</td>
<td>7.00</td>
<td>7.50</td>
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<tr>
<td>Copper ($/lb)</td>
<td>0.96</td>
<td>1.67</td>
<td>3.06</td>
<td>2.70</td>
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<tr>
<td>Zinc ($/lb)</td>
<td>0.49</td>
<td>0.63</td>
<td>1.49</td>
<td>2.00</td>
</tr>
<tr>
<td>Nickel ($/lb)</td>
<td>3.44</td>
<td>6.68</td>
<td>11.00</td>
<td>13.50</td>
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</table>

Source: Scotiabank Commodity Price Index.
Demand for Montana Coal

• Traditional uses:
  • Unit trains
  • Mine mouth generation / transmission lines

• New uses:
  • Clean coal technology
    - Process Montana coal
    - Serve new markets
• Trends in commodity prices and energy due to demand factors (long-term) rather than supply factors (short-term)
• Regulatory and siting issues
  - Existing facilities now reopened
  - New facilities = new permits
• Risk: Slower growth in developing countries
  - Economic instability, i.e. “Asian Flu”
  - Political instability
• Risk: Slowdown in construction
• New projects added when proposed
The Helena Outlook
Lewis and Clark County Nonfarm Labor Income

% Change

FORECAST

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<tr>
<th>Year</th>
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<th>2006</th>
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<tbody>
<tr>
<td>Change (%)</td>
<td></td>
<td></td>
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Questions?
Cascade County Nonfarm Labor Income

% Change

<table>
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<th>Year</th>
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<tbody>
<tr>
<td>Change</td>
<td>-3.0</td>
<td>3.1</td>
<td>3.2</td>
<td>-1.0</td>
<td>2.0</td>
<td>3.4</td>
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FORECAST
The Outlook for Missouri Agriculture
Missoula County Nonfarm Labor Income

% Change

FORECAST

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
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<th>2004</th>
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<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>%</td>
<td></td>
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</tbody>
</table>
The Gallatin Valley Outlook
Gallatin County Nonfarm Labor Income

% Change

FORECAST
The Butte-Silver Bow Outlook
Silver Bow County Nonfarm Labor Income

% Change

FORECAST

2002 2003 2004 2005 2006 2007
The Flathead Outlook
Flathead County Nonfarm Labor Income

FORECAST

- 2002: No Construction/Real Estate Boom
- 2003: Nonfarm Labor Income
- 2004: Nonfarm Labor Income
- 2005: Nonfarm Labor Income (Forecast)
- 2006: Nonfarm Labor Income
- 2007: Nonfarm Labor Income (Forecast)
3-Month Treasury Bill Rate

Today's Rate: 4.95%

RISKS:
- Higher Rates
- Stronger than expected employment growth
- Lower Rates
  - Housing bust
  - Recession?

Source: Global Insight.