The Economic Outlook for Montana: Transition to Growth

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A Recession Like No Other

- Recession has been longer, more severe, more global
- A “net worth” recession that wiped out wealth
- A crisis of confidence in financial markets – now over
- An unprecedented, coordinated, global policy response, especially in the U.S.
A Different Recession Leads to a Different Recovery

Source: BEA, Blue Chip
A Longer and Deeper Recession, But Still on the Same Page

Real Gross Domestic Product as a Percent of pre-Recession Peak
Source: U.S. Bureau of Economic Analysis
Number of Countries in Recession in the Same Year (as a % of total countries)

Source: BBVA ERD
Recession Wiped Out $17 Trillion in Household Assets

U.S. Household Net Worth, Market Value, $ Trillions
Source: Federal Reserve
Federal Government

Economic Policy Tools

• Fiscal Policy
  - Taxes and Spending

• Monetary Policy
  - Interest Rates and Money Supply
Financial stabilization

Monetary Policy

Time to zero real interest rates*

Great Depression (Oct. ’29) | 30
Japan (Jun. ’91) | 73
Europe (Aug. ’07) | 19
UK (Aug. ’07) | 15
USA (Aug. ’07) | 6

Months

* = Using ex-post inflation for the Great Depression, Inflation expectations for Japan, Europe, UK, USA.

Fiscal Policy

Time to first fiscal package

Great Depression (Oct. ’29) | 42
Japan (Jun. ’91) | 59
Europe (Aug. ’07) | 15
UK (Aug. ’07) | 13
USA (Aug. ’07) | 6

Time to first injection of Public Capital

Great Depression (Oct. ’29) | 36
Japan (Jun. ’91) | 59
Europe (Aug. ’07) | 13
UK (Aug. ’07) | 6
USA (Aug. ’07) | 13
A Recession Like No Other in Montana

- First two consecutive year decline in income since late 1980s
- Every sector of the economy, every part of the state affected
- Job declines peaked in first three months of 2009
- Hangover for state government will continue
Housing is Not Expected to Recover to Pre-Recession Levels

Housing Starts, Index, 2005Q1=100
U.S. and Montana Downturns Are Moving Together

Payroll employment, percent change.
Seasonal Adjustments by BBER
Montana Payroll Employment Growth by Sector

Real Wage Disbursements, Percent Growth, 2006

Source: U.S. Bureau of Economic Analysis
Real Wage Disbursements, Percent Growth, 2008

Source: U.S. Bureau of Economic Analysis
Real Wage Disbursements, Percent Growth, 2007

Source: U.S. Bureau of Economic Analysis
Real Wage Disbursements, Percent Growth, 2008

Source: U.S. Bureau of Economic Analysis
Real Wage Disbursements, Percent Growth, 2009

Source: IHS Global Insight
Headwinds and Tailwinds for the Montana Economy

- Rebound in prices holds promise for commodity and energy industries
- Housing bubble, foreclosures less of an issue
- Agriculture, federal government reasonably stable
- Permanent closures in wood products
- No sign of quick return for construction
- Consumers still repairing balance sheets
Commodity Prices Have Rebounded Significantly

Source: International Monetary Fund
Nonfarm Labor Income, Actual and Predicted

Percent

2007 2008 2009 2010 2011 2012 2013

Actual

Projected

Source: Bureau of Economic Analysis and BBER Forecast.
Nonfarm Labor Earnings, Percent Change

Average Growth 2002-2007: 3.3%

Average Growth Recession: -1.2%
Average Growth Recovery: 2.4%

Source: Bureau of Economic Analysis and BBER Forecast.