Montana’s Hesitant Economic Recovery

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The University of Montana

OUTLOOK 2012
National & State
A Great Recession, But Not a Great Recovery

- Persistently weak consumer and business spending
- Slow recovery both here and abroad
- Special problems of housing and the Euro
- Problems of long-term unemployed, government debt, are festering as a result
Companies Are Hoarding, Not Spending

Billions $

- **Corp Profits**
- **Cash Holdings**

<table>
<thead>
<tr>
<th>Year</th>
<th>Corp Profits</th>
<th>Cash Holdings</th>
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<tbody>
<tr>
<td>2008</td>
<td>800</td>
<td>600</td>
</tr>
<tr>
<td>2009</td>
<td>1200</td>
<td>1400</td>
</tr>
<tr>
<td>2010</td>
<td>1600</td>
<td>2000</td>
</tr>
<tr>
<td>2011</td>
<td>2000</td>
<td>2400</td>
</tr>
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OUTLOOK 2012
National & State
Source of Corporate Profits? Look Abroad

Foreign Share of U.S. Corporate Profits, 1948-2010
Source: U.S. Bureau of Economic Analysis
How Much Borrowing Capacity Do Countries Have Left?

Fiscal Space, percent of GDP

- Australia
- Sweden
- Switzerland
- U.S.
- Canada
- Germany
- U.K.
- France
- Spain
- Italy
- Greece
- Japan

Survival 10-year Bond Yield, Pct.

- Australia
- Sweden
- Switzerland
- U.S.
- Canada
- Germany
- U.K.
- France
- Spain
- Italy
- Greece
- Japan

Source: Economy.com
• Reason #1: Inflation
Consumer Price Index
12-month percent change

Percent

Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct
2010
2011
• Reason #1: Inflation
• Reason #2: Underperformance of key sectors
Health Care Earnings Growth Slows

Montana Health Care Services Earnings

Billions of 2011 $

- 2000: $2 billion
- 2001: $2.2 billion
- 2002: $2.4 billion
- 2003: $2.6 billion
- 2004: $2.8 billion
- 2005: $3 billion
- 2006: $3.2 billion
- 2007: $3.4 billion
- 2008: $3.6 billion
- 2009: $3.8 billion
- 2010: $4 billion
- 2011: $4.2 billion

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$203 million
Montana Government Earnings, Billions of 2011 $
• Reason #1: Inflation
• Reason #2: Underperformance of key sectors
• Reason #3: The national economy
Actual and Potential Economic Output

Billions of 2005 $

- Actual GDP
- Potential GDP
Deviation of U.S. Gross Domestic Product from Long Term Trend
Recessions and Banking Crises

- Austria, 2008
- Hungary, 2008
- U.S., 1929
- Sweden, 1991
- Japan, 1992
- Norway, 1987
- Indonesia, 1997
- Hong Kong, 1997
- Argentina, 2001
- Korea, 1997
- Malaysia, 1997
- Spain, 1977
- Thailand, 1997
Recovery of GDP From Financial Crises

Percent


Historical Average

U.S. 2008-09
U.S. Outlook Summary

• U.S. will probably avoid another recession
• Euro Zone is already in recession. Will it be mild or severe?
• Continued government cutbacks, at all levels
• Evidence of pent-up demand in a few areas
• A cooling off for commodity and food prices
• Very high unemployment rates persist
The Montana Economy
What’s Right and What’s Wrong

• Energy and natural resources are booming
• Healthy increases in farm gross receipts
• Labor market is healing
• Consumer confidence is higher

• Housing bust hangover still lingers
• Retail remains weak
• Government cutbacks being felt
• Wood products cutbacks still reverberate
Fastest Growth is in the East

Richland 16.2%
Fallon 11.9%

Percentage Growth in Real Wage and Salary Disbursements, 2010Q2 – 2011Q2
### Commodity Prices: Favorable to Montana?

#### Materials & Foodstuffs
(as of December 2011)

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<tr>
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<td>370.69 [Current]</td>
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<tr>
<td>Barley ($ per bushel)</td>
<td>2.25</td>
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<td>Beef ($ per Pound)</td>
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<td>1.90</td>
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<td>Wheat ($ per bushel)</td>
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Labor Income and Basic Industries, Montana

<table>
<thead>
<tr>
<th>Percent</th>
<th>Prospects</th>
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<tr>
<td>100</td>
<td>Strong Growth</td>
</tr>
<tr>
<td>90</td>
<td>Flat</td>
</tr>
<tr>
<td>80</td>
<td>Good Prospects</td>
</tr>
<tr>
<td>70</td>
<td>Weak Recovery</td>
</tr>
<tr>
<td>60</td>
<td>Mixed</td>
</tr>
<tr>
<td>50</td>
<td>Recovering</td>
</tr>
<tr>
<td>40</td>
<td>Unknown</td>
</tr>
<tr>
<td>30</td>
<td>Mild Declines</td>
</tr>
<tr>
<td>20</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

- Energy, 14%
- Mining, 5%
- Wood Products, 5%
- Agric. & Related, 11%
- Travel & Tourism, 9%
- Other Manufacturing, 12%
- Transportation, 11%
- Fed. Military, 9%
- Fed. Civilian, 23%
Change in Nonfarm Earnings, Montana, 2009-2015

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<thead>
<tr>
<th>Year</th>
<th>Actual Percent Change</th>
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<tbody>
<tr>
<td>'09</td>
<td>-3.3</td>
</tr>
<tr>
<td>'10</td>
<td>0.9</td>
</tr>
<tr>
<td>'11</td>
<td>2.6</td>
</tr>
<tr>
<td>'12</td>
<td>2.0</td>
</tr>
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<td>'13</td>
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<td>2.4</td>
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<tr>
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Projected Percent Change:
- '12: 2.0
- '13: 2.4
- '14: 2.4
- '15: 2.4
The EU Currency Experiment is Unraveling

Introduction of Euro Lehman bankruptcy

Yields on 10-year Government Bonds

Percent


Greece
Portugal
Ireland
Italy
Spain
France
Germany

Lehman bankruptcy
Introduction of Euro
### Top 10 Countries Buying Montana Products

**In millions of dollars:**

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<th>Rank</th>
<th>Country</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canada</td>
<td>$539.7</td>
</tr>
<tr>
<td>2</td>
<td>Republic of Korea</td>
<td>186.8</td>
</tr>
<tr>
<td>3</td>
<td>China (Mainland)</td>
<td>122.9</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>109.8</td>
</tr>
<tr>
<td>5</td>
<td>China (Taiwan)</td>
<td>93.5</td>
</tr>
<tr>
<td>6</td>
<td>Mexico</td>
<td>79.9</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>37.3</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>25.6</td>
</tr>
<tr>
<td>9</td>
<td>Belgium</td>
<td>24.8</td>
</tr>
<tr>
<td>10</td>
<td>Netherlands</td>
<td>18.5</td>
</tr>
</tbody>
</table>

*These figures do not include bulk wheat exports.*
NEXT: The Local Outlook