



The State and National Economic Outlook: Smooth Sailing Toward a Cliff?

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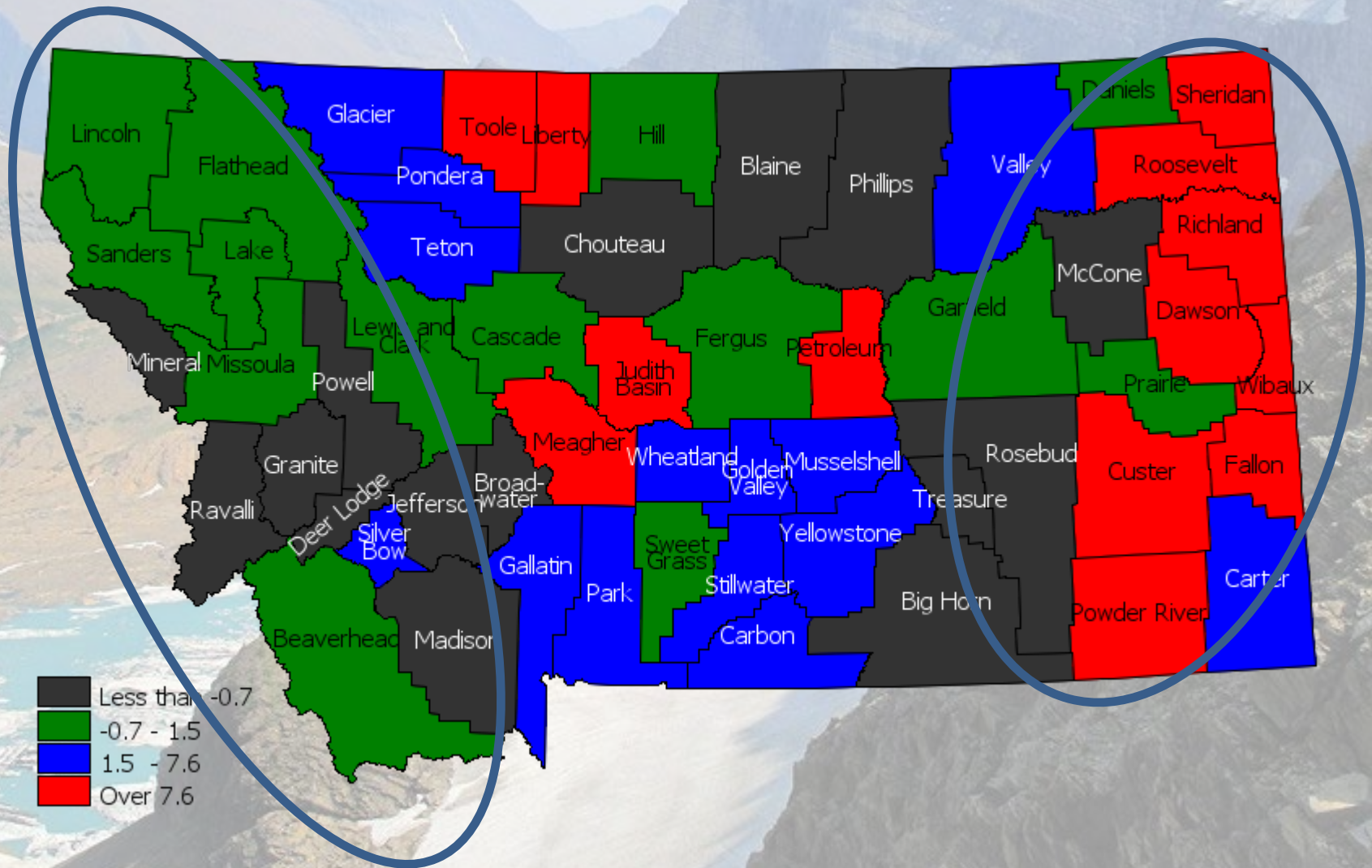
A scenic view of a mountain valley with a turquoise lake and snow patches. The background shows rugged, rocky mountains with patches of snow and a clear blue sky. The foreground features a large, light-colored snowfield or glacier. A turquoise lake is visible in the middle ground, surrounded by rocky terrain. The overall scene is a high-altitude mountain landscape.

2012:

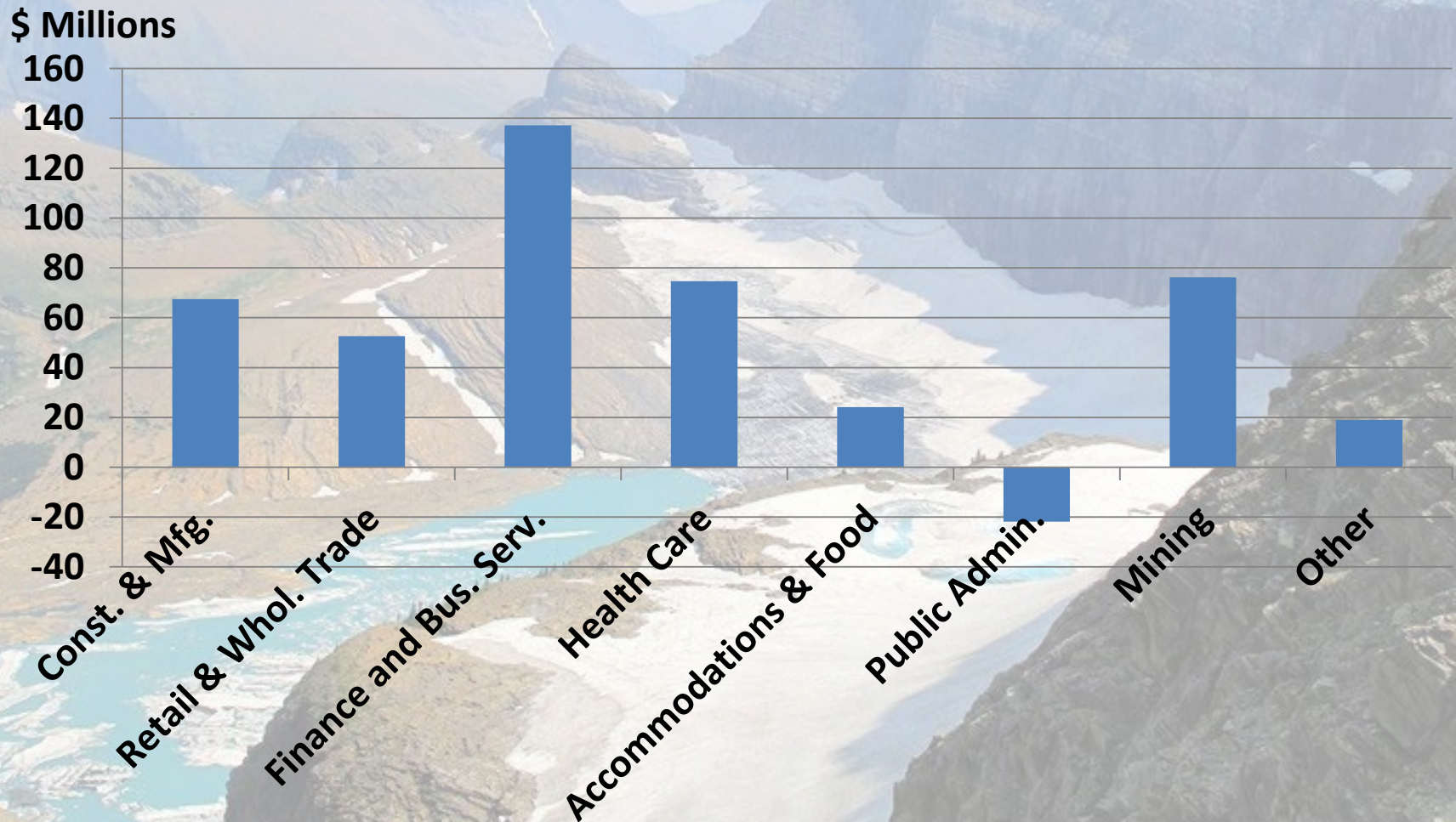
A Better Year for Montana

- **Strong income growth, but not quite as strong as state tax collections would suggest**
- **Evidence of energy activity is everywhere**
- **A glimmer of growth in the west**
- **Sitting out the party: retail and government**

Real Wage Growth, Percent, 2011Q2-2012Q2



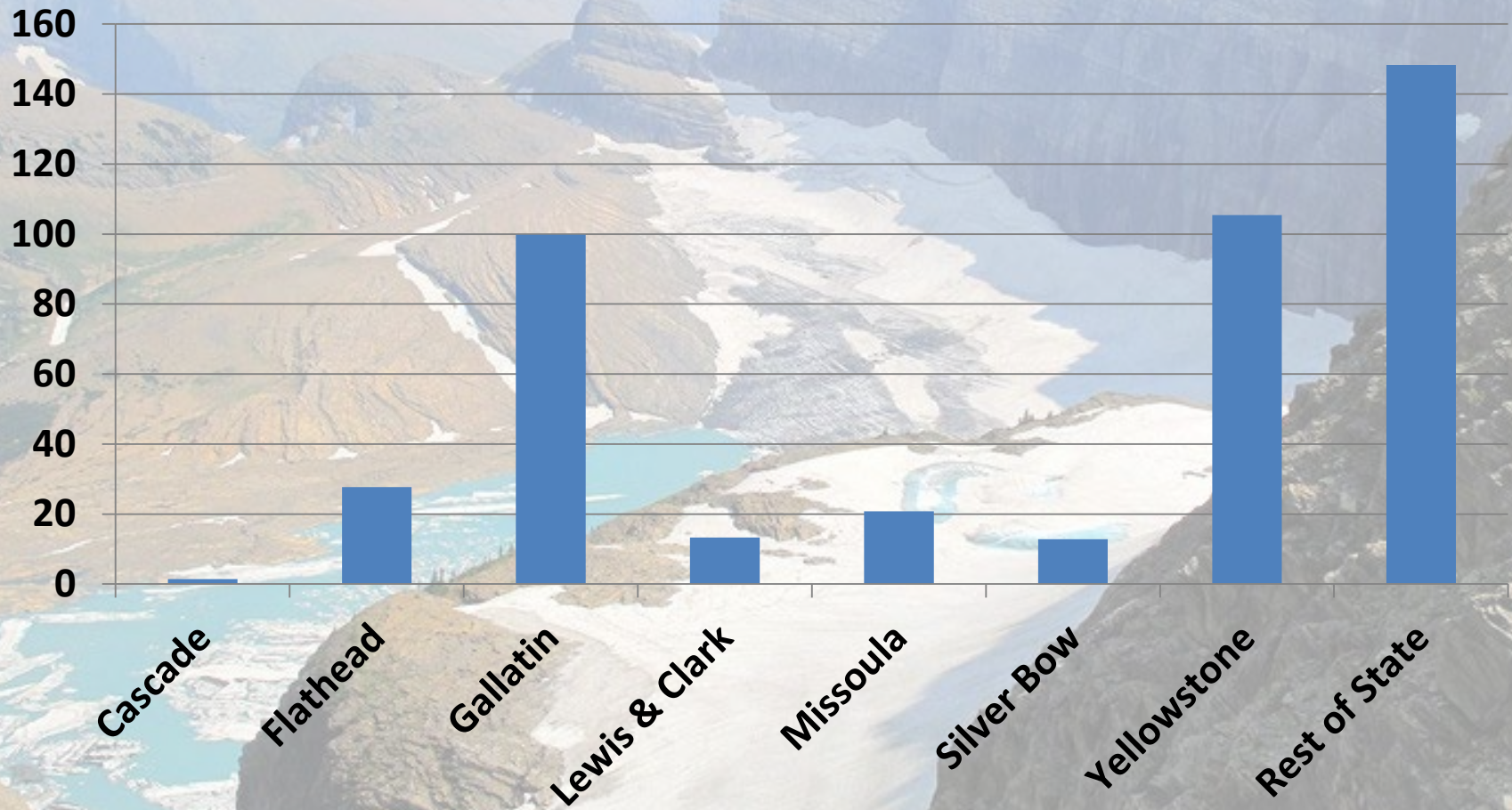
Where's the Growth? Montana Real Wage Growth



Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

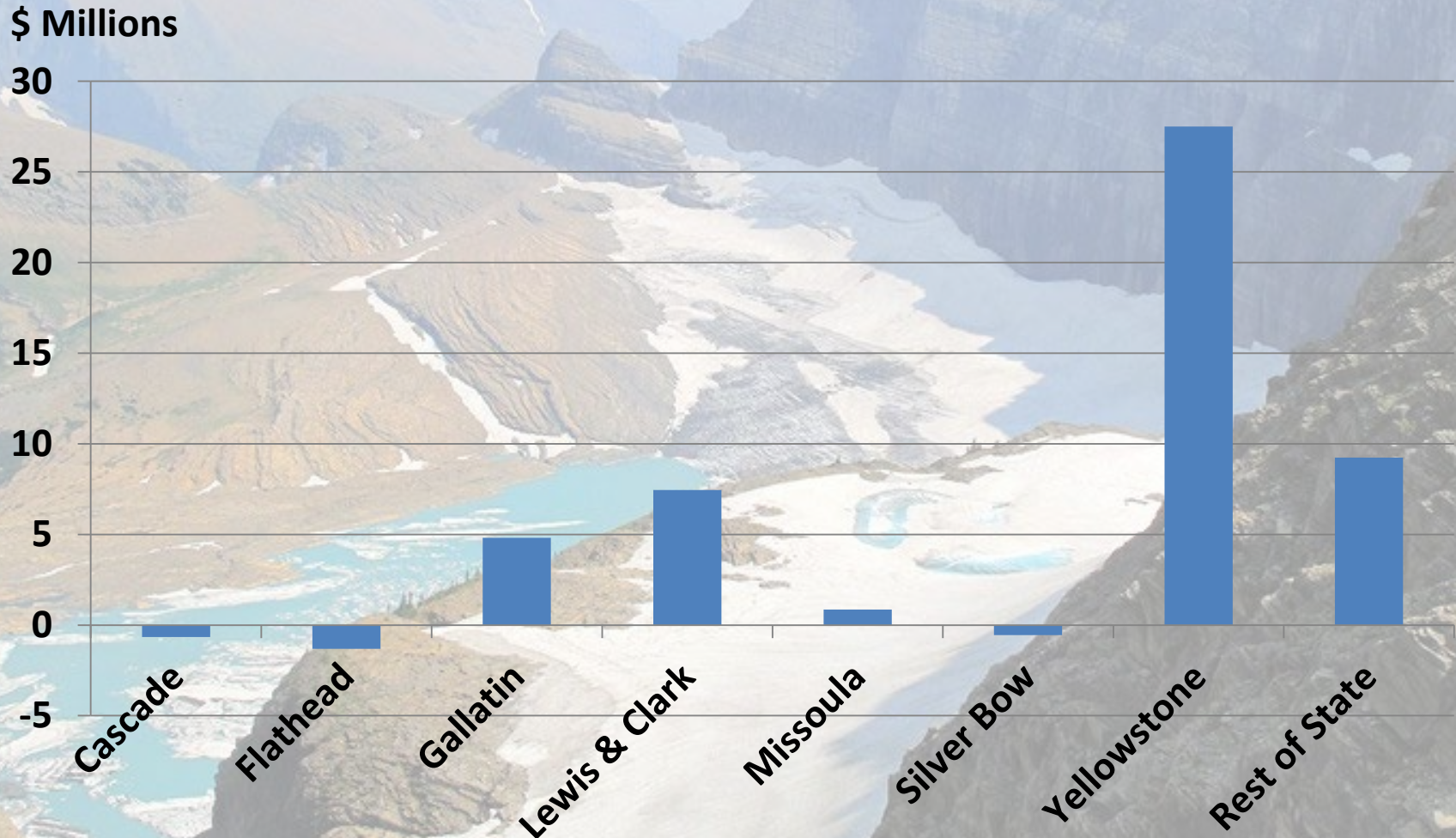
Where's the Growth? Total Real Wage Growth

\$ Millions



Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

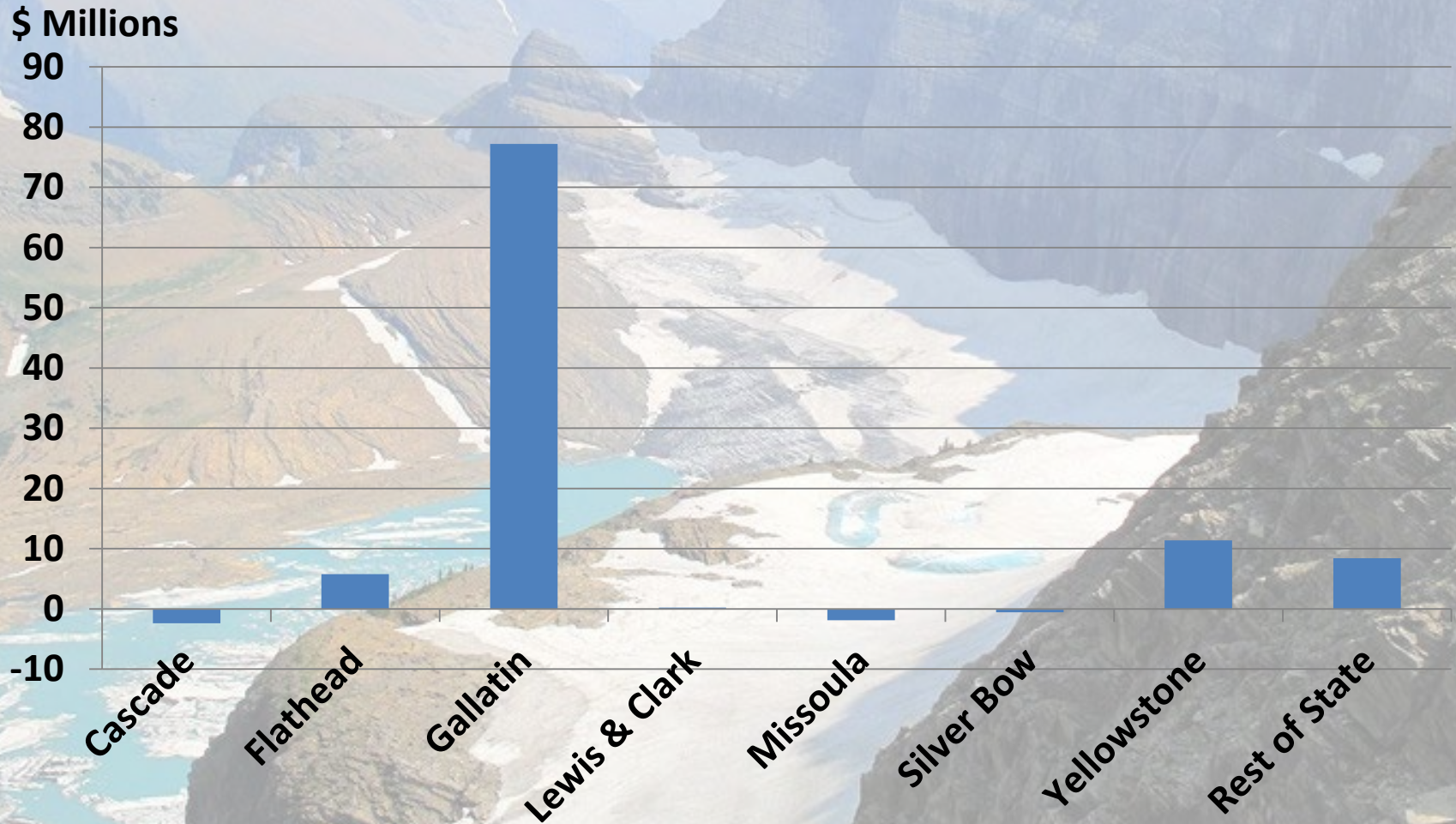
Where's the Growth? Construction Real Wage Growth



Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

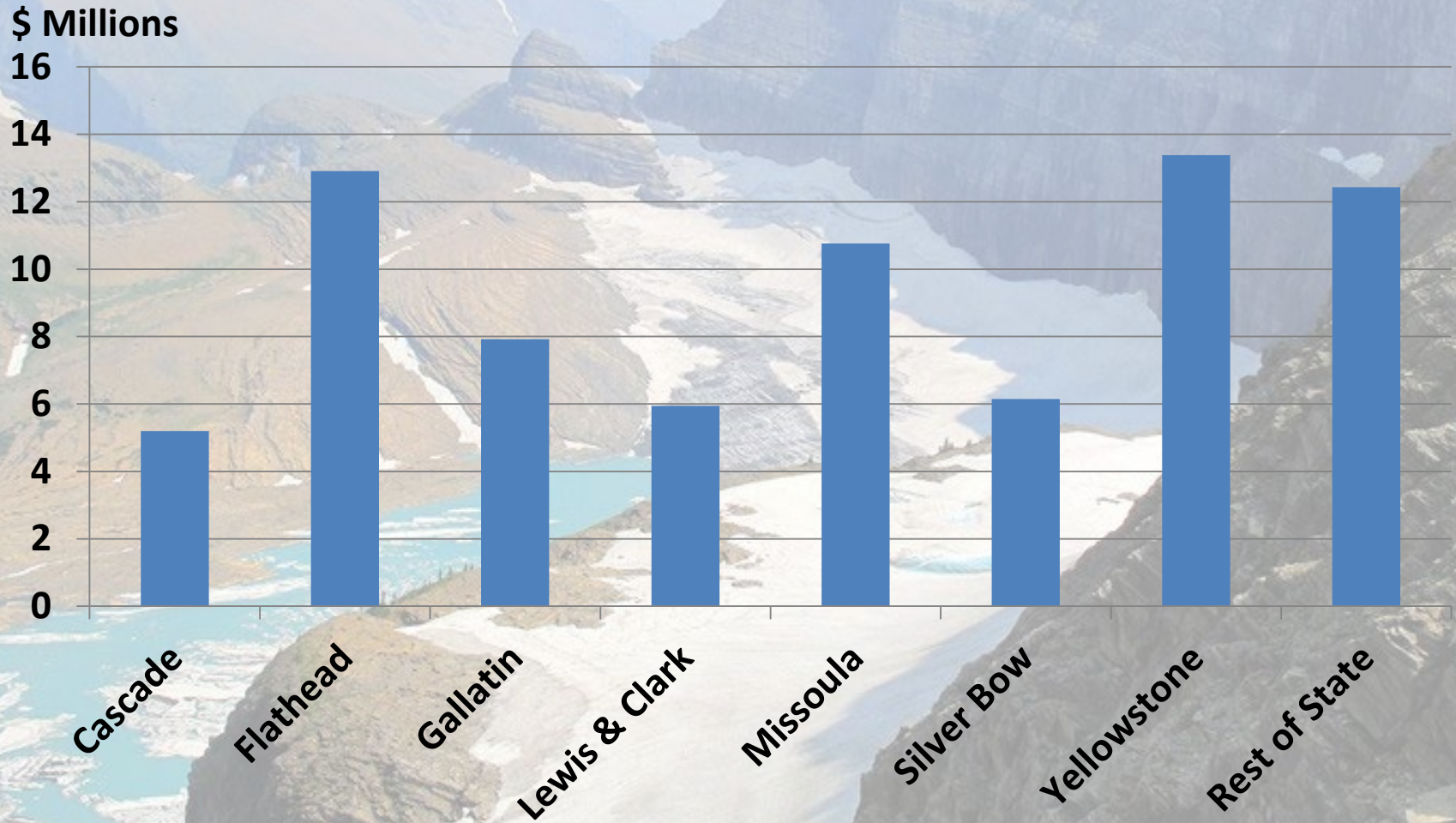
Where's the Growth?

Prof. & Bus. Services Real Wage Growth



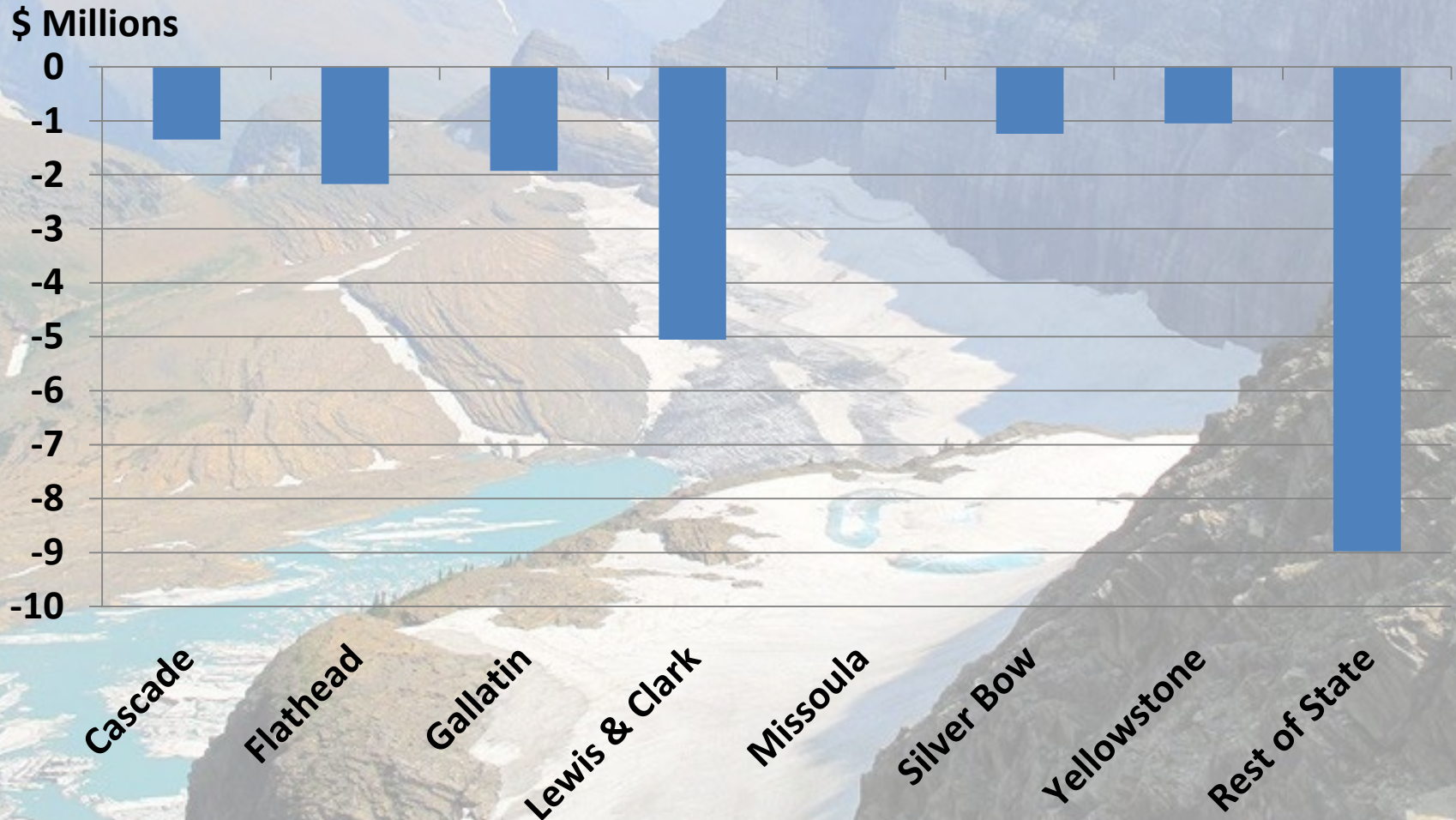
Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

Where's the Growth? Health Care Real Wage Growth



Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

Where's the Growth? Public Admin. Real Wage Growth



Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011

2013: Risks and Uncertainty

Risk

Bad Outcome

Impact on Montana

Oil Prices



Price spike from war or international event threatening supplies



Consumer spending adversely affected

Global Economic Growth Uncertainty

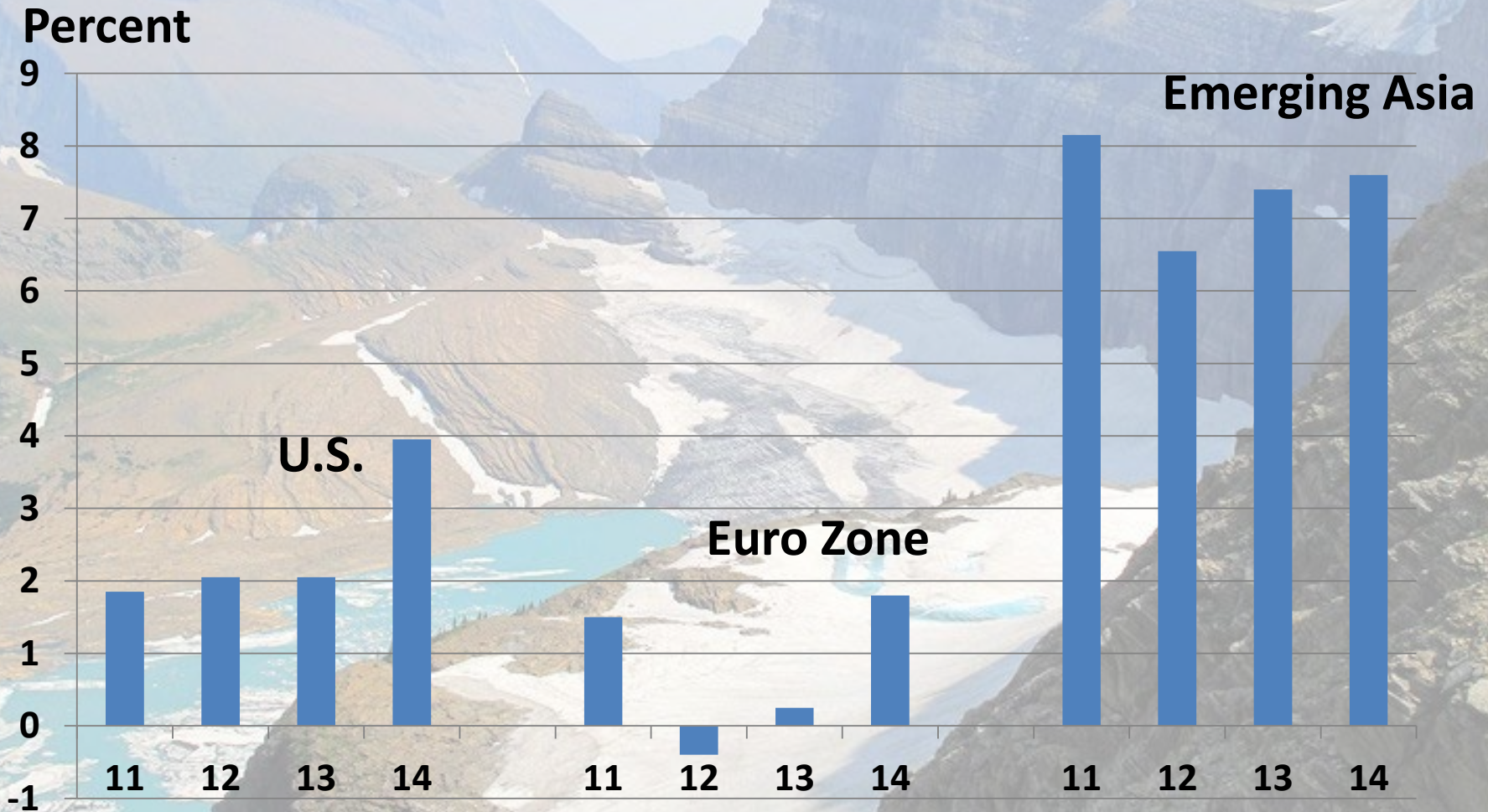


EU Recession, Asian Slowdown



Commodity price collapse, exports decline

Global Growth Has Stumbled



Percent Change in Real Gross Domestic Product

Source: Moody's Analytics

2013: Risks and Uncertainty

Risk

Bad Outcome

Impact on Montana

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Global Economic Growth Uncertainty



EU Recession, Asian Slowdown



Commodity price collapse, exports decline

Federal Budget and Tax Uncertainty: Fiscal Cliff Issues



Government Shutdown, Default or Abrupt Fiscal Contraction



New recession, disruption to federal activities

The 2013 Fiscal Cliff as of December 1

Tax Increases:

Bush Tax Cut Expiration

Payroll Tax Cut Expiration

Depreciation Incentives Expiration

Alternative Minimum Tax

Spending Cuts:

Budget Sequester

Emergency Unemployment

Insurance Expiration

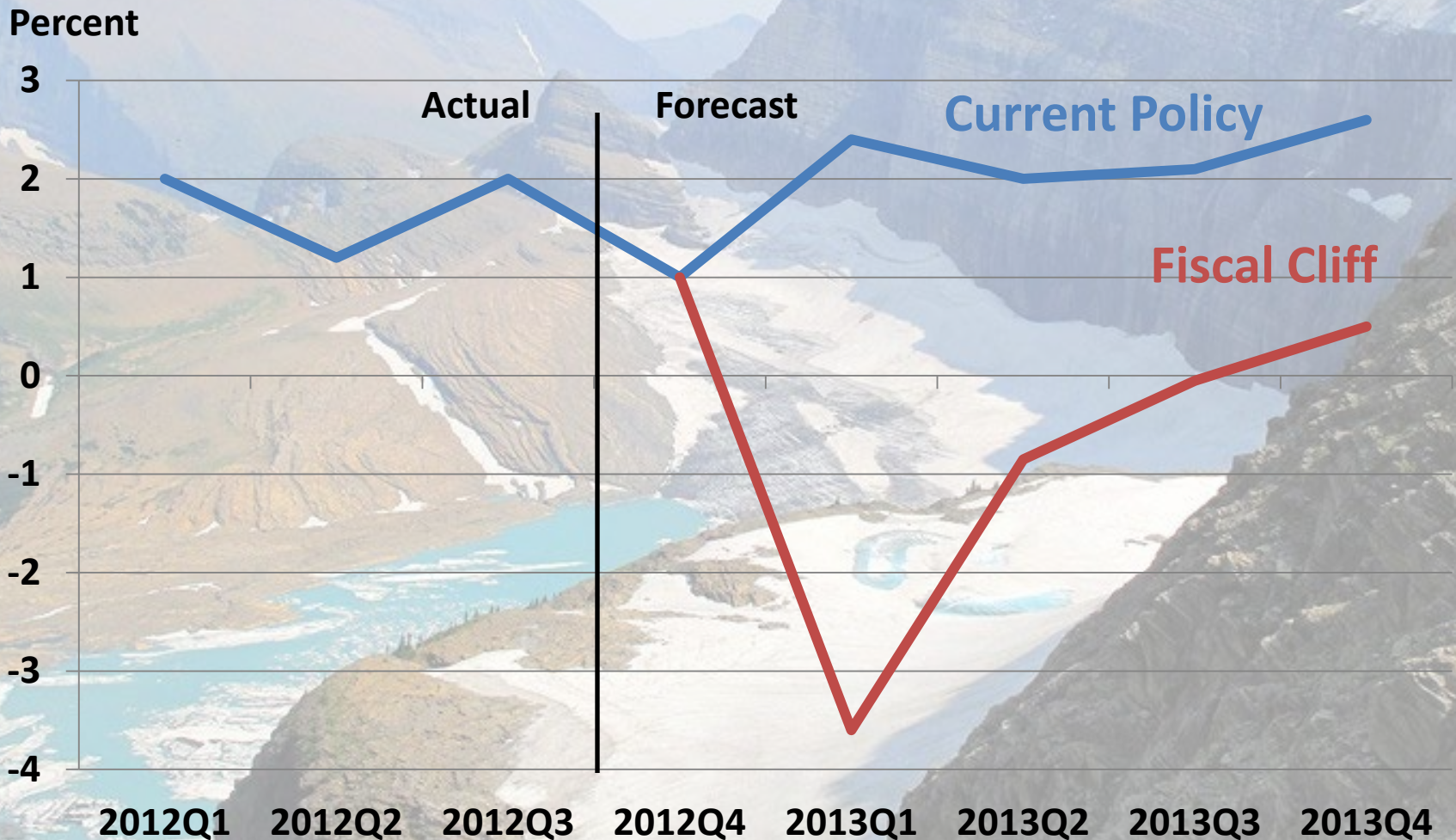
Medicare Reimbursement Cuts

2013 Total

\$621 Billion

**3.8 percent
of GDP**

Implications of the Cliff for GDP



Source: Bureau of Economic Analysis and IHS Global Insight

The 2013 Fiscal Cliff as of January 4

Tax Increases:

~~Bush Tax Cut Expiration~~ Most Rates Maintained

Payroll Tax Cut Expiration ✓

~~Depreciation Incentives Expiration~~ Extended

~~Alternative Minimum Tax~~ Permanent Fix

2013 Total

\$139 Billion

Spending Cuts:

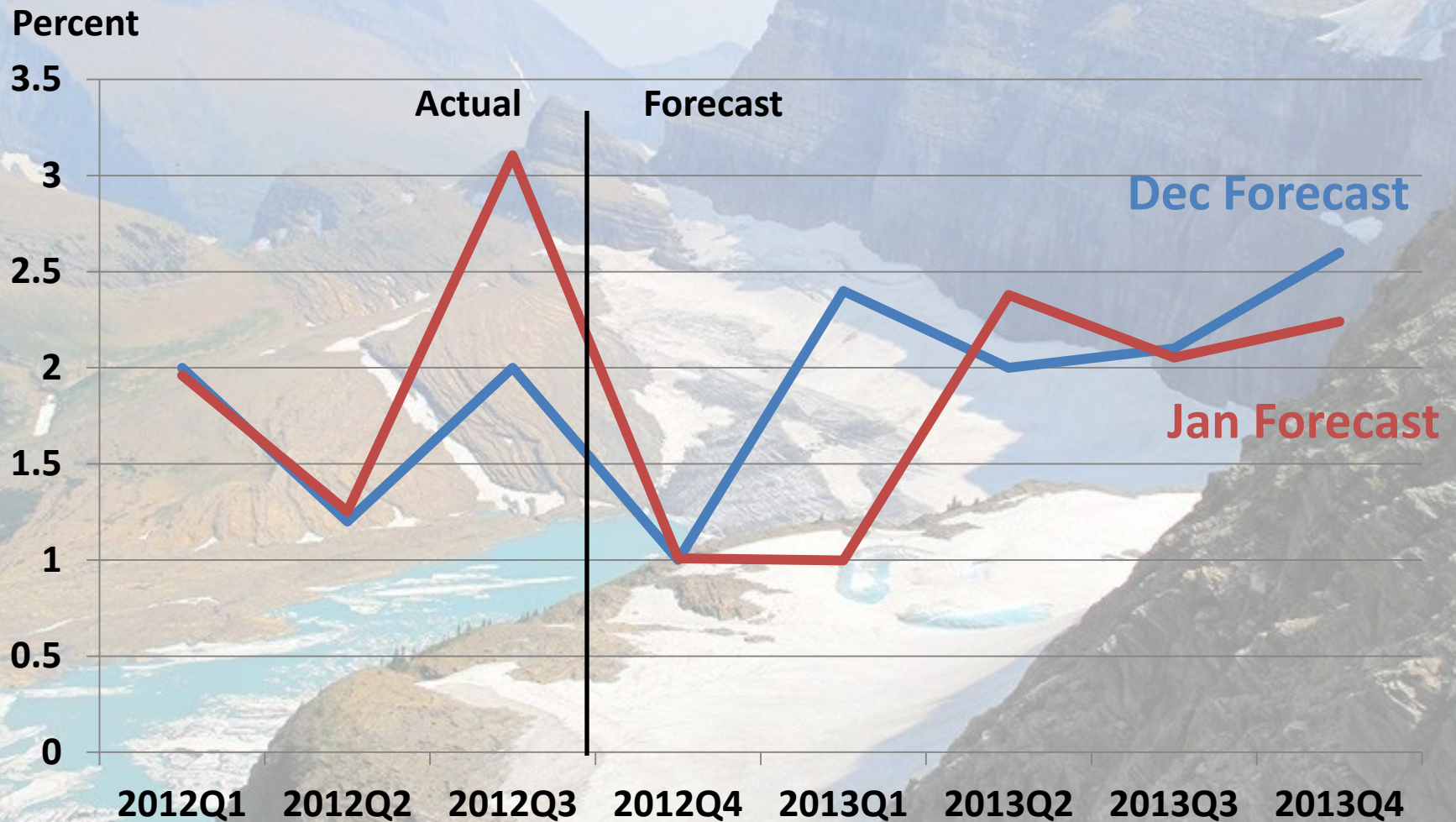
~~Budget Sequester~~ Delayed 2 months

~~Emergency Unemployment Insurance Expiration~~ Extended through 2013

~~Medicare Reimbursement Cuts~~ Delayed

**0.9 percent
of GDP**

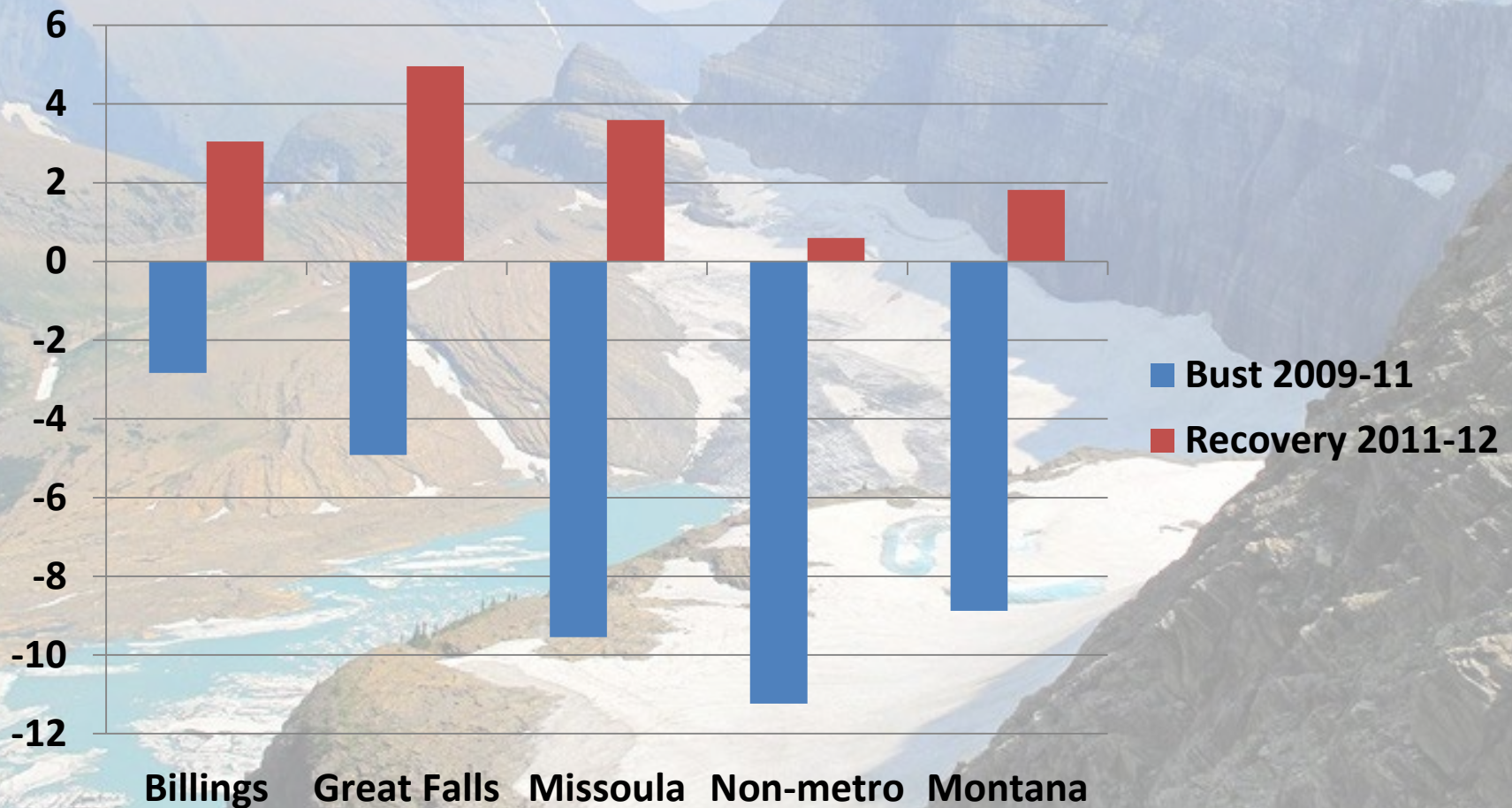
Implications of the Cliff for GDP



Source: Bureau of Economic Analysis and IHS Global Insight

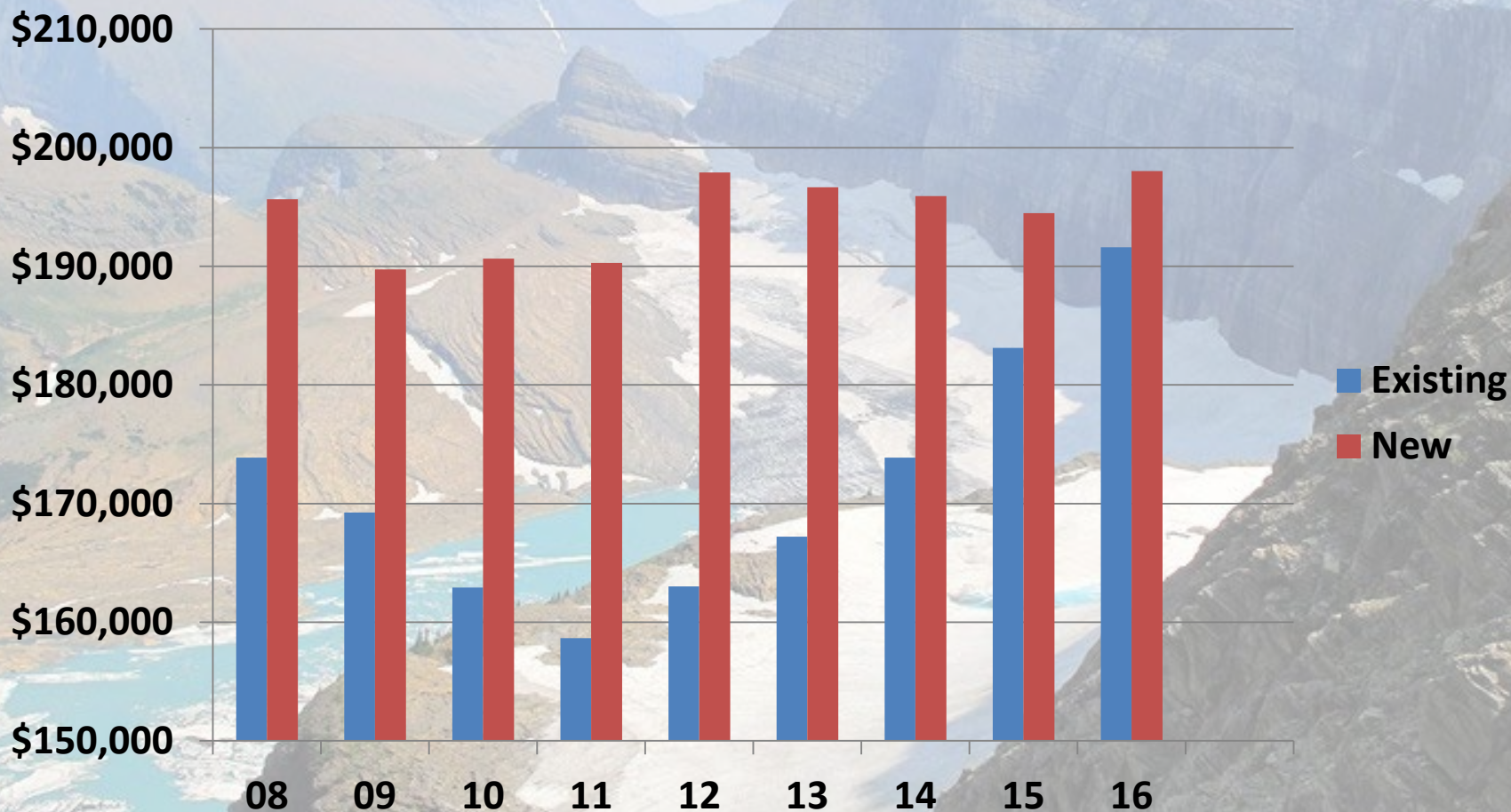
Bust vs. Recovery

Percent Change in Montana Home Price Index



Source: Federal Home Finance Agency

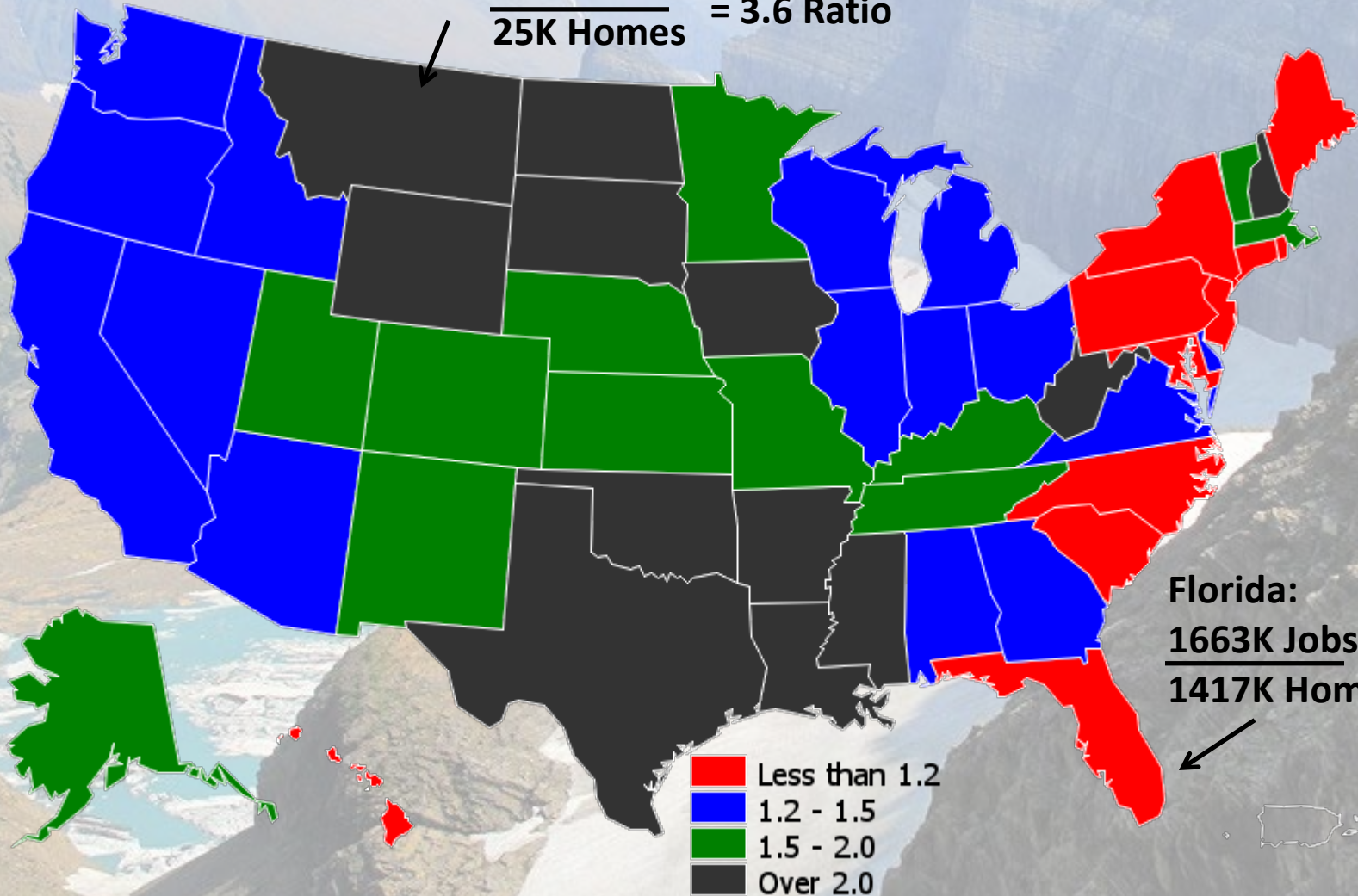
New Homes Becoming More Price Competitive



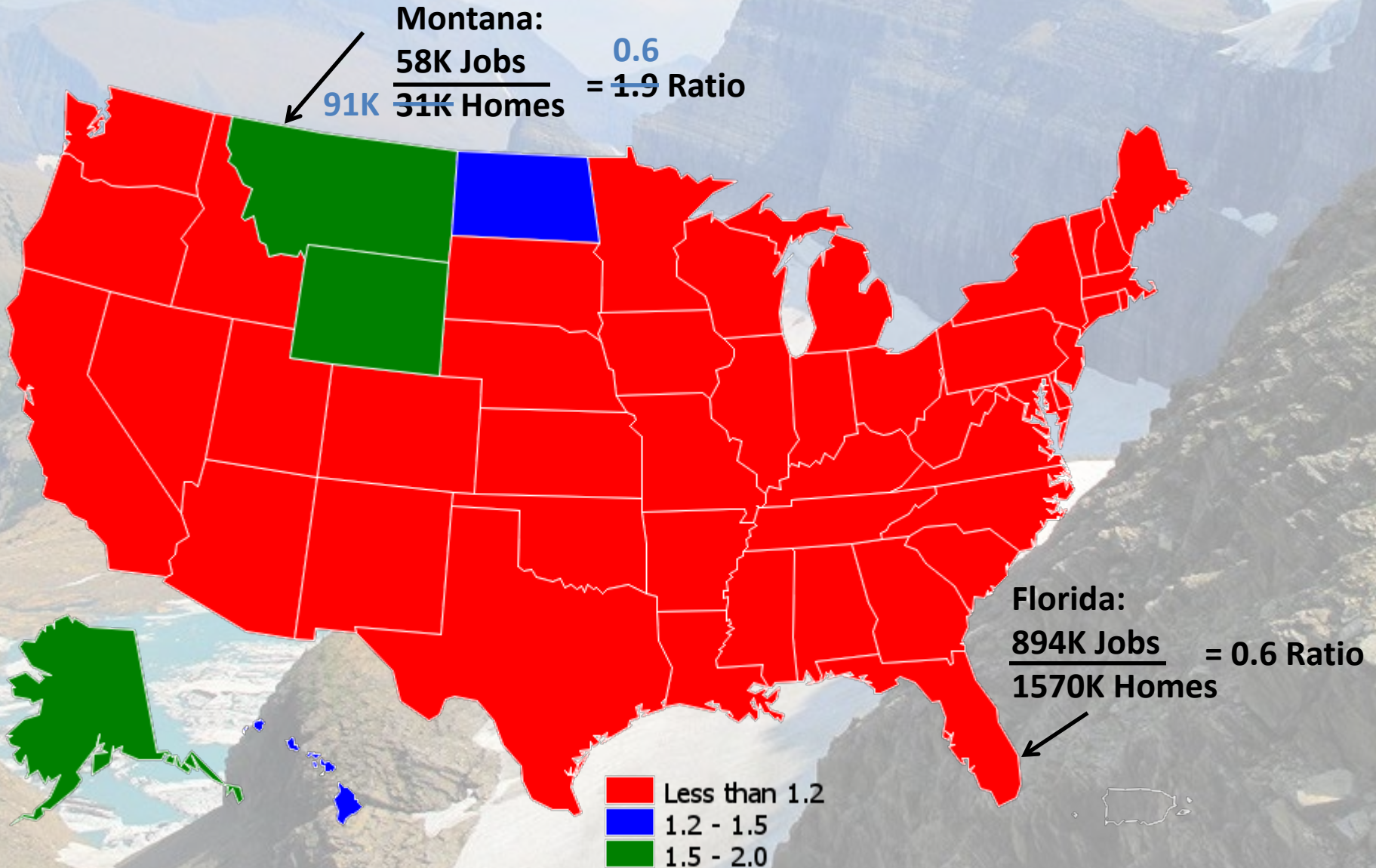
Median Prices, New and Existing Montana Homes
Forecasts from IHS Global Insight

Job Growth and Housing Starts: The 1990's

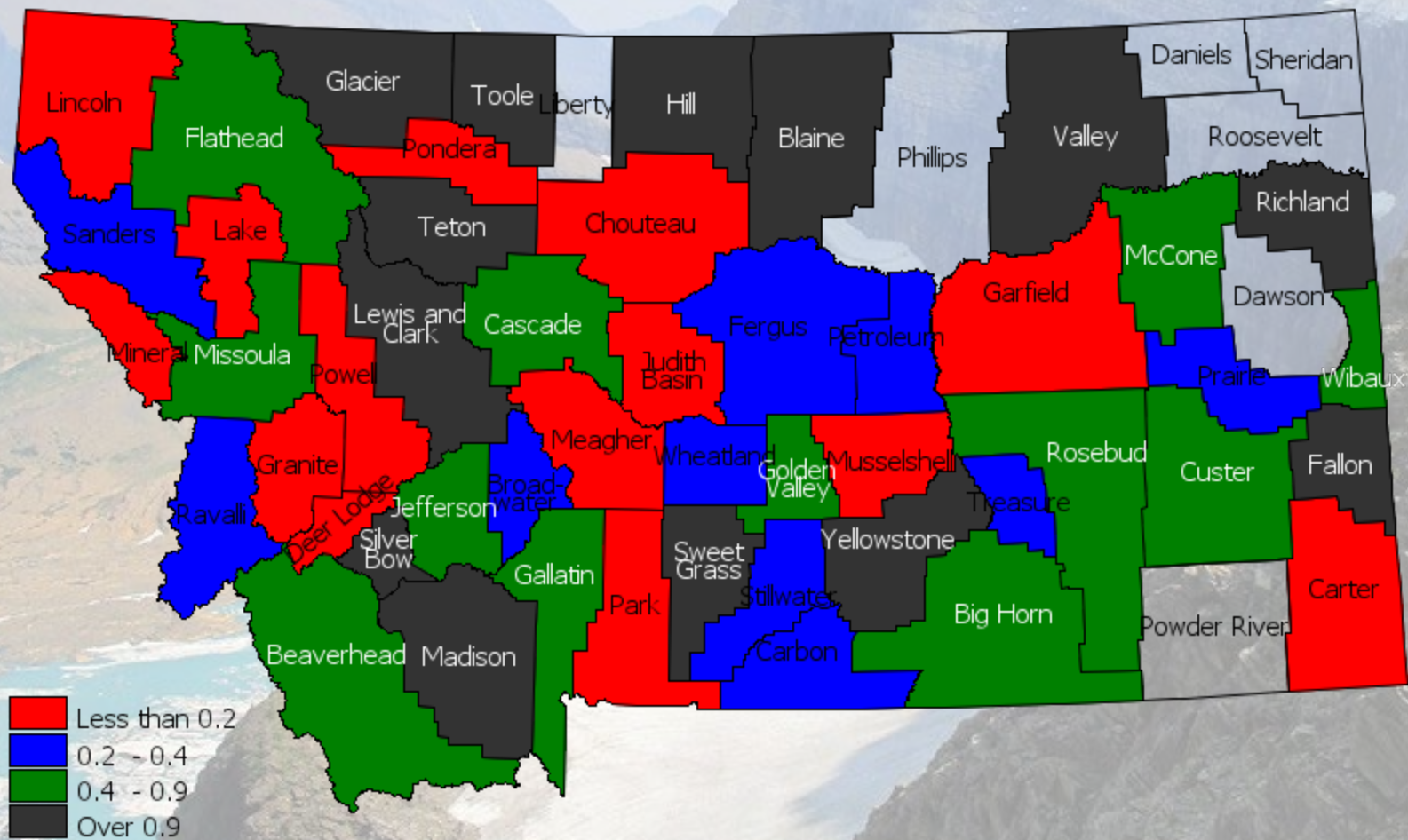
Montana:
 $\frac{92\text{K Jobs}}{25\text{K Homes}} = 3.6 \text{ Ratio}$



Job Growth and Housing Starts: 2000-2007



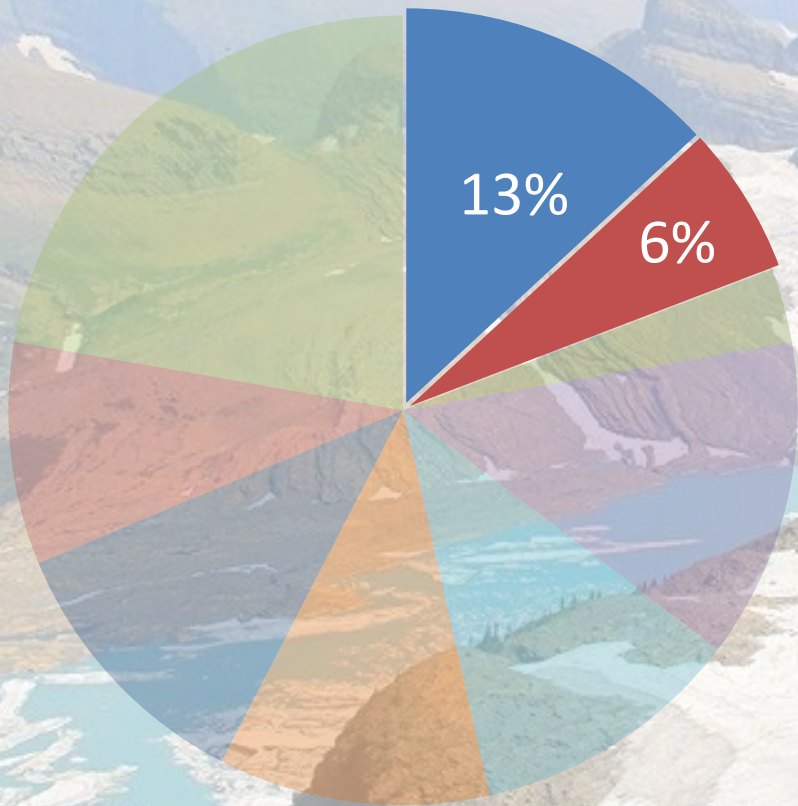
Job per New Home 2000-2007



Summary

- **Montana goes into 2013 with good momentum, but some factors helping 2012 growth won't be sustained**
- **Too much uncertainty to forecast anything better than continued slow growth in U.S. economy**
- **Recovery in housing makes us more optimistic about Montana's short-term prospects**

Outlook for Key Industries



Energy and Mining:

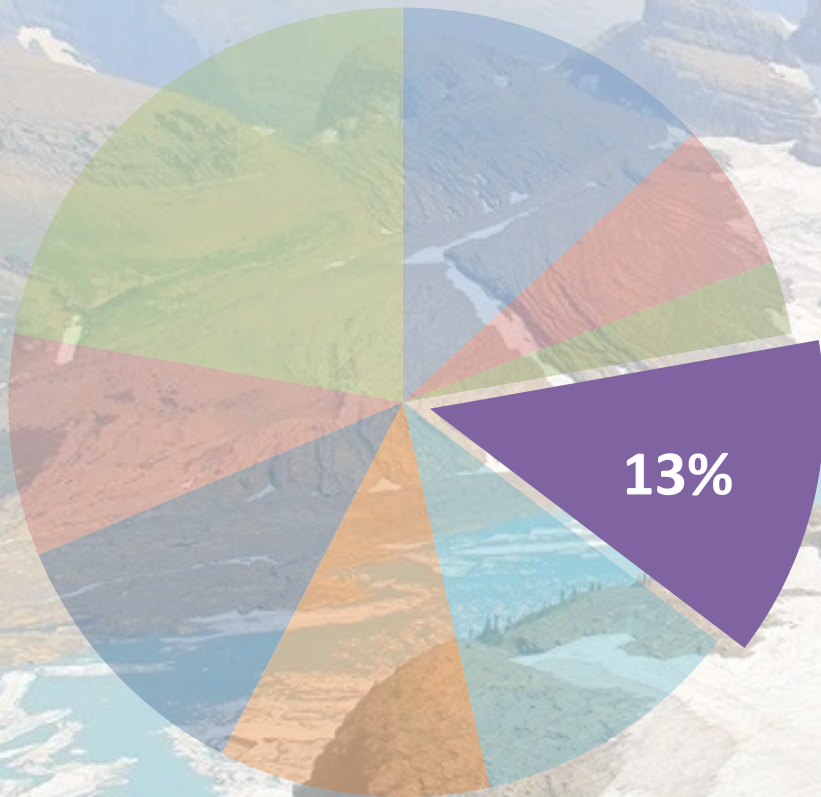
Not a boom, but plenty of activity. Low natural gas prices affecting all markets.

Composition of Earnings in Montana's Basic Industries, 2010-12

Outlook for Key Industries

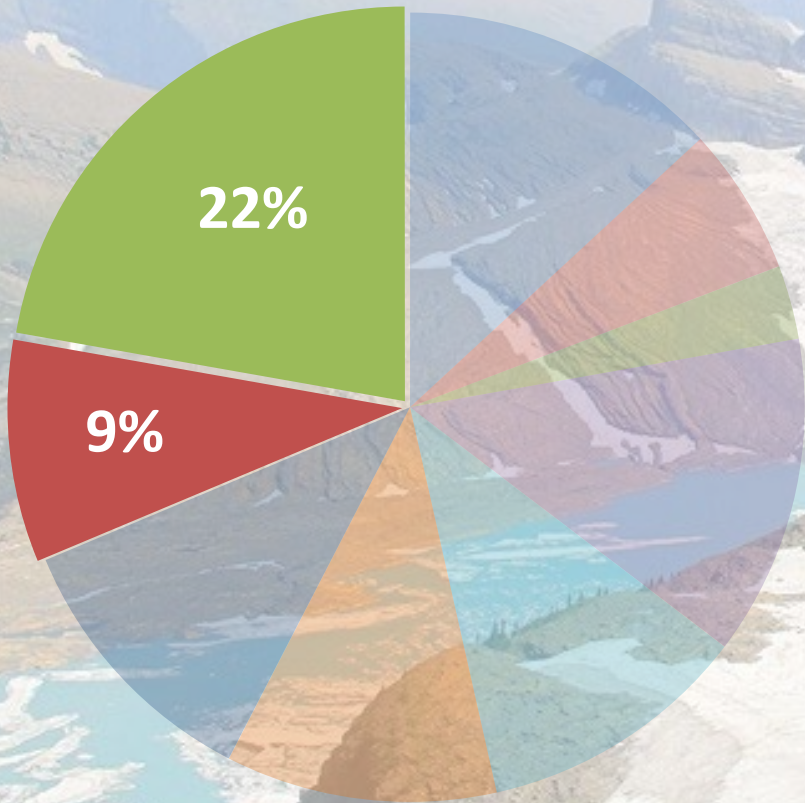
Agriculture and Related:

**Sustained high prices
offset drought impacts.
Policy uncertainty
ahead.**



Composition of Earnings in Montana's Basic Industries, 2010-12

Outlook for Key Industries

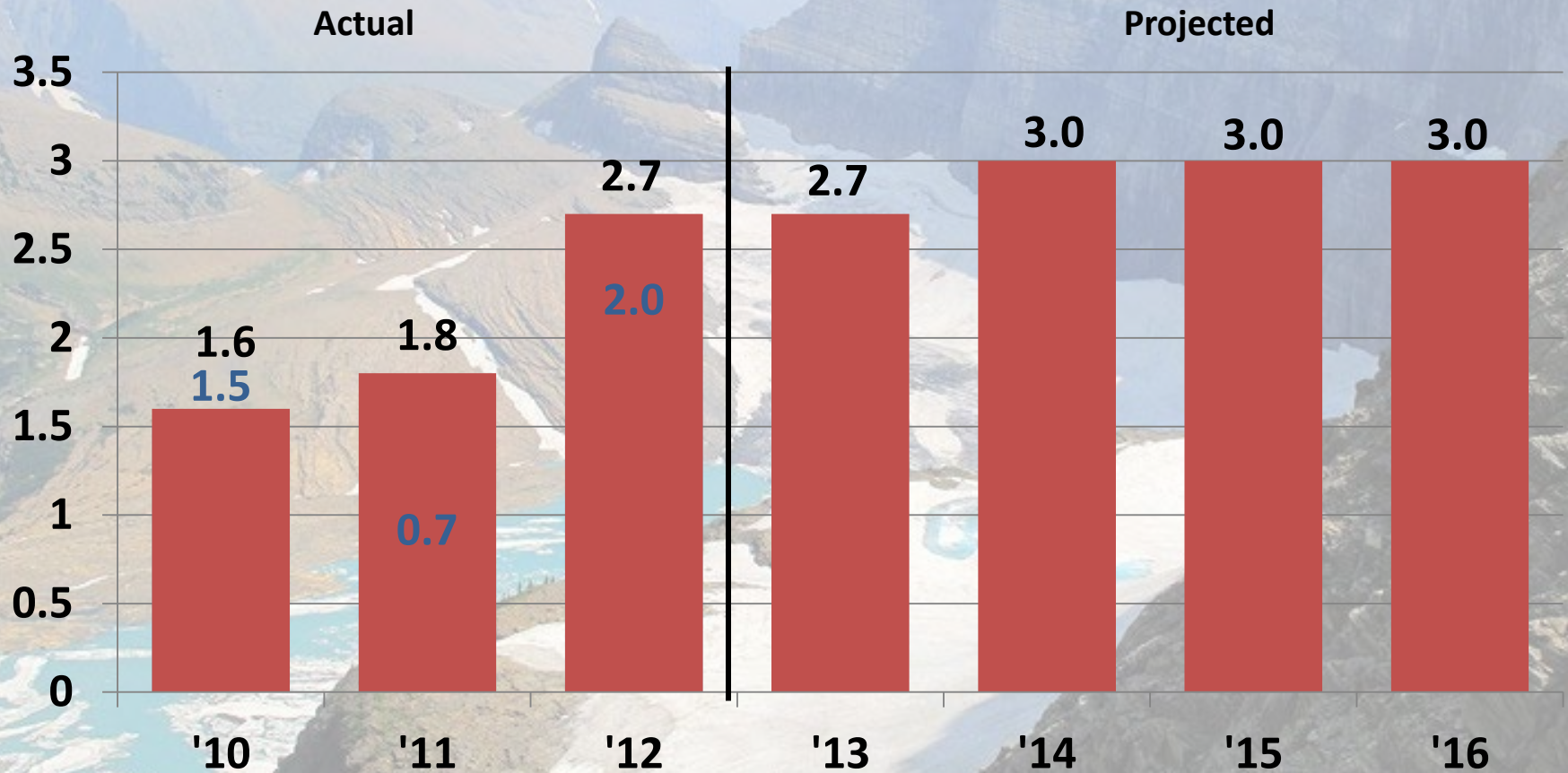


Federal Military and Civilian:

Short and medium term risks have risen. Current mild declines expected to continue.

Composition of Earnings in Montana's Basic Industries, 2010-12

Change in Nonfarm Earnings, Montana, 2010-2016



A scenic view of a mountain range with snow-capped peaks and a turquoise lake in the foreground. The mountains are rugged and layered, with patches of snow and ice. The sky is blue with some clouds. The foreground shows a rocky slope and a large, flat, snow-covered area with a small turquoise lake. A dark red banner with the word "Questions" is overlaid on the middle of the image.

Questions