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

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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

Legend:
- Less than -0.7
- -0.7 - 1.5
- 1.5 - 7.6
- Over 7.6
Where’s the Growth?
Montana Real Wage Growth

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**

- Oil Prices
- Global Economic Growth Uncertainty

**Bad Outcome**

- Price spike from war or international event threatening supplies
- EU Recession, Asian Slowdown

**Impact on Montana**

- Consumer spending adversely affected
- 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**
  - Oil Prices
  - Global Economic Growth Uncertainty
  - Federal Budget and Tax Uncertainty: Fiscal Cliff Issues

- **Bad Outcome**
  - Price spike from war or international event threatening supplies
  - EU Recession, Asian Slowdown
  - Government Shutdown, Default or Abrupt Fiscal Contraction

- **Impact on Montana**
  - Consumer spending adversely affected
  - Commodity price collapse, exports decline
  - 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

![Graph showing actual and forecasted GDP percentages with Fiscal Cliff and Current Policy lines.](source: Bureau of Economic Analysis and IHS Global Insight)
The 2013 Fiscal Cliff as of January 4

**Tax Increases:**

- Bush Tax Cut Expiration
- Payroll Tax Cut Expiration
- Depreciation Incentives Expiration
- Alternative Minimum Tax

**Most Rates Maintained**
- Extended
- Permanent Fix

**Spending Cuts:**

- Budget Sequester
- Emergency Unemployment Insurance Expiration
- Medicare Reimbursement Cuts

**2013 Total**
- $139 Billion
- 0.9 percent of GDP

- Delayed 2 months
- Extended through 2013
- Delayed
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:
92K Jobs
25K Homes = 3.6 Ratio

Florida:
1663K Jobs
1417K Homes = 1.1 Ratio
Job Growth and Housing Starts: 2000-2007

Montana:
- 58K Jobs
- 31K Homes
- Ratio: 1.9

Florida:
- 894K Jobs
- 1570K Homes
- Ratio: 0.6

Map showing the comparison of job growth and housing starts across states.
Job per New Home
2000-2007
• 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
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

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Questions