OUTLOOK 2016

41st Annual Economic Outlook Seminar
Presented by NorthWestern Energy
and The Bureau of Business & Economic Research

RISING
Property Tax Bills
What You Should Know
Property Taxes Are Everywhere

- In your mailbox
- In your mortgage payment
- In your shopping bills
- In your utility bills
- In your business bottom line
Property Taxes Are Growing

Do We Know Why?
The U.S. Economy: Good But Not Great

• Even slow growth in the world’s largest economy eventually adds up
• Expected surge in spending from lower energy prices fails to materialize
• Weakening economies abroad, stronger dollar combine to hurt exports
• U.S. job growth engine hits a higher gear
• Virtuous cycle of spending growth – job growth – income growth has solidified
• Are we getting back to easy credit?
Seven Years of Job Growth Solves Problems

Source: Atlanta Federal Reserve Bank
U.S. Goods Are More Expensive Than One Year Ago

<table>
<thead>
<tr>
<th>Currency</th>
<th>Percent Change</th>
</tr>
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<tbody>
<tr>
<td>Euro</td>
<td>8.6%</td>
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<tr>
<td>Canadian $</td>
<td>19.3%</td>
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<tr>
<td>British pound</td>
<td>4.5%</td>
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<tr>
<td>Yen</td>
<td>0.2%</td>
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<tr>
<td>Yuan</td>
<td>6.1%</td>
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<tr>
<td>Brazilian Real</td>
<td>52.8%</td>
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Percent Change in Dollar Purchasing Power, Jan 2015 – Jan 2016
The Nature of U.S. Growth Has Changed
Growth Expectations Have Adjusted Downward
Growth in GDP, Actual and Forecast

Source: IHS, Inc.
Another Fall for Commodity Prices
Prices Bending, But Not Breaking, Oil Production Gains
## Metals, Agricultural and Oil Prices at Five Year Lows
### December 2015 vs. 5-Year High and Low

<table>
<thead>
<tr>
<th>Material</th>
<th>Current Low ($)</th>
<th>Current High ($)</th>
<th>5-Year Low ($)</th>
<th>5-Year High ($)</th>
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<tr>
<td><strong>Metals &amp; Energy</strong></td>
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<tr>
<td>Copper</td>
<td>4638.83</td>
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<td>Palladium</td>
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<td>Zinc</td>
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<td>2743.45</td>
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<td><strong>Materials &amp; Foodstuffs</strong></td>
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<td>Lumber</td>
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<td>Barley</td>
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<td>Beef</td>
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<td>Wheat</td>
<td>4.46</td>
<td>9.82</td>
<td>4.29</td>
<td>9.82</td>
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<tr>
<td>Oil</td>
<td>37.24</td>
<td>110.04</td>
<td>37.24</td>
<td>110.04</td>
</tr>
</tbody>
</table>

(Prices as of Aug 2015)
Does Anyone Know What Chinese Growth Is?

GDP Growth, Percent, China

Percent

Official Statistics

Private estimates

2014 2015
U.S. Outlook Summary

- U.S. consumer spending now powering the economic recovery
- Old fuel for growth – business spending, global growth – is spent
- Global slowdown is most evident in commodity prices
- Federal Reserve “liftoff” – raising rates accomplished
- How much longer can the U.S. go it alone?
The Montana Economy Reaches Full Employment

• Growth has shifted west as commodities stumble and construction improves
• Labor market slackness has largely disappeared
• Broad growth across most industries helps boost tax revenues, wages
• Commodity prices, grain prices and the weak Canadian dollar are spoiling the party for some
• New focus: construction and retailing
Unemployment Claims Show Steady Improvement

Monthly Unemployment Claims, Montana.
Wages Grew Faster Than Employment Last Year

Percent Change in Payroll Employment and Inflation-Corrected Wages, Montana

Note: Data are for fiscal years.
What’s Driving Growth in Montana: Wage Growth

Growth in Inflation-Corrected Wages, Difference in Fiscal Year Totals, $ Millions.
Single Family Home Construction Tilts West

Single Family Housing Starts, 2014
Source: BBER
Housing Starts Still Far Off Their 2005 Peaks

Single Family Housing Starts, 2014 as percent of 2005

Source: BBER
Retail Wages, Inflation-Corrected, 2005-15
Cascade County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Flathead County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Gallatin County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Lewis and Clark County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Missoula County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15

Southwest Montana vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Yellowstone County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Fergus County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
Retail Wages, Inflation-Corrected, 2005-15
Hill County vs. Montana

Index, 2005Q4=100, seasonally adjusted by BBER.
What’s Ahead for Montana’s Key Industries?

• Construction, manufacturing, and visitor spending continue to be bright spots
• Worst of the impacts for energy lie ahead
• Agriculture producers are looking at a different price environment
• Pressures on government spending have eased significantly
• Stage is set for broader, if less spectacular growth
Change in Nonfarm Earnings, Montana, 2013-2019
Questions?