The State and National Economic Outlook

Economic Expansions Don’t Live Forever

Patrick M. Barkey, Director
Bureau of Business and Economic Research
University of Montana
The U.S. Economy: Weak But Durable Growth

- 2016 growth was weaker than expected
- Labor market continued to improve
- Dollar continued to appreciate against other major currencies
- Real estate markets continue to heat up
- Continued weak growth abroad
- Weak federal tax revenues contribute to increase in deficit
- First signs of meaningful wage growth
- Interest rates rose at year-end
- Digesting the election results
What’s Fueling U.S. Economic Growth?

- Exports?  
  
  By 3.2% in 2016

- Business Spending?  
  
  By 0.8% in 2016

- Manufacturing?  
  
  By 0.3% in 2016

- Home Building?  
  
  Barely half the rate of last decade’s peak

- Technology and Innovation?  
  
  Productivity growth stalled at less than 1 percent growth since recession
Debt-Fueled Consumer Spending is the Driver

Source: U.S. Bureau of Economic Analysis
Significant Recovery for Energy Commodities

Index, 2005=100

Source: International Monetary Fund
Growth in Average Hourly Earnings May Be Stronger Than Official Data Indicate

Source: Bureau of Labor Statistics and Federal Reserve Bank of Atlanta
U.S. Treasury’s Exposure to Interest Rate Risk

Debt Held by Public, % of GDP (left scale)

Net Interest Payments, % of GDP (right scale)

Source: U.S. Bureau of Economic Analysis
Recession Probability Has Eased Slightly

Source: Wells Fargo Securities
U.S. Outlook Summary

• Economy is expected to improve to expanding by 2 to 2.5 percent this year
• Fears of deflation subside as inflation pressures emerge
• Federal Reserve will be busier in 2017
• Plenty of global risks: Chinese debt, another Euro crisis, Russia
• Major uncertainties in Washington
Data Point to 2016 as a Weak Year for Montana

• If so, it would come after one of the best years for Montana since the pre-recession boom
• Complete economic data not yet available
• Data through the first half of 2016 consistent with much weaker growth
• Wage growth is weak, job growth is reasonable
• Predicting tax collections is much more complicated than predicting economic growth
Is the Montana Economy Surging?

Percentage Change in Real Nonfarm Earnings, 2011-2015, Montana vs. U.S.

Source: U.S. Bureau of Economic Analysis
Or is the Montana Economy Shrinking?

State General Fund Collections, Year Over Year Change

Source: Montana Legislative Fiscal Division
The Dilemma of State and Local Economic Data

Complete

Timely

Clear
QCEW Wages Average 63.5% of Nonfarm Earnings

Source: U.S. Bureau of Economic Analysis and Quarterly Census of Employment and Wages
Growth in Non-Farm Earnings and QCEW Wages is Highly Correlated

Source: U.S. Bureau of Economic Analysis and Quarterly Census of Employment and Wages
Wage Growth Indicates a 2016 Slowdown

Percent Change in Real Wages, Montana, Select Industries, 2014-2016

Note: Growth rates computed from first three quarters of year only.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Slowdown in 2016 More Pronounced in East

Growth in Real Wages, Millions of Dollars, 2014-2016

Note: Growth rates computed from first three quarters of year only.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
One County Accounted for More than a Third of Statewide Wage Growth in 2016

Gallatin County Share of Total Statewide Wages, 2016: 12%
Gallatin County Share of Total Statewide Wage Growth, 2016: 37%
Gallatin County Share of Construction and Manufacturing Wage Growth, 2016: 60%

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
What’s Driving Growth in Montana: Wage Growth

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Note: Growth rates computed from first three quarters of year only.
Unemployment Claims Leveled Off in 2016

Monthly Unemployment Claims, Montana.
Source: Montana Department of Labor and Industry
Select Commodity Prices
January 2017 vs. 5-Year High and Low

### Materials & Foodstuffs (as of Jan 2017)
- **Lumber** ($ per Thousand BF)
  - Low: 312.14
  - High: 559.24
  - Current: 509.08
- **Barley** ($ per bushel)
  - Low: 2.56
  - High: 5.63
- **Beef** ($ per Pound)
  - Low: 1.59
  - High: 2.72
- **Wheat** ($ per bushel)
  - Low: 3.33
  - High: 9.82

### Metals & Energy (as of Jan 2017)
- **Copper** ($ per Metric Ton)
  - Low: 4471.79
  - High: 8470.78
  - Current: 5754.56
- **Palladium** ($ per Troy oz.)
  - Low: 499.90
  - High: 875.80
  - Current: 757.50
- **Zinc** ($ per Metric Ton)
  - Low: 1520.36
  - High: 2714.80
  - Current: 2714.80
- **Oil** ($ per Barrel)
  - Low: 30.34
  - High: 106.55
  - Current: 52.56

Source: International Monetary Fund
Outlook for Montana’s Key Industries

- Energy and natural resources still mired in a deep slump
- Agriculture faces a challenging price environment
- Home building’s best days are still ahead
- Consumer-led U.S. economic growth helping visitor spending, in-migration
- Is Bozeman-style growth replicable? Desirable?
Percent Growth in Nonfarm Earnings, Montana, 2014-2020

Source: Bureau of Business and Economic Research
Questions?