The State and National Economic Outlook

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University of Montana
The U.S. Economy Quietly Improving

- Chaos in Washington not echoed on Wall Street
- Strong growth in second half of 2017
- Encouraging signs for business investment, wages
- Interest rates and inflation remain low
- Global growth has improved significantly
Upbeat News for the U.S. Economy
Percent Growth, Actual and Predicted

GDP Growth

Business Investment

Final Sales

Consumer Prices

Source: IHS Markit
Synchronized Global Growth
Real GDP Growth, 2017

Canada 3.0%
United States 2.2%
Eurozone 2.1%
Russia 1.8%
China 6.8%
Japan 1.5%
Brazil 0.8%
India 6.7%

Source: World Bank
Growth Much Slower Than Past Cycles

Real GDP Index

Source: U.S. Bureau of Economic Analysis

2018 U.S. and Montana Outlook
The Cost of Lost Labor Force Participation
Contribution to Real GDP Growth, by Decade

Source: Standard and Poor
The Cost of Lost Labor Force Participation
Contribution to Real GDP Growth, by Decade

Source: Standard and Poor
U.S. Crude Oil Production Rising Again

U.S. Monthly Crude Oil Production, Thousand bbl.

Source: U.S. Energy Information Administration
No Sign of New Production in Montana
Montana Monthly Crude Oil Production, Thousand bbl.

Source: U.S. Energy Information Administration
Job Growth Continued Into 2017
Growth in Jobs, FY2016 and FY2017

Source: Bureau of Labor Statistics
Mixed Story for Most Important Commodities
Select Commodity Prices
November 2017 vs. 5-Year High and Low

Source: World Bank, USDA, Random Lengths
Montana General Fund Revenue Collections, FY15-FY17, $ Millions

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year</th>
<th>FY2016/FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>1180.5</td>
<td>1181.0</td>
</tr>
<tr>
<td>Estimated Payments</td>
<td>271.2</td>
<td>278.5</td>
</tr>
<tr>
<td>Refunds</td>
<td>-256.1</td>
<td>-275.3</td>
</tr>
<tr>
<td>Withholding</td>
<td>875.2</td>
<td>900.5</td>
</tr>
<tr>
<td>Property Tax</td>
<td>258.0</td>
<td>275.0</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>168.0</td>
<td>119.0</td>
</tr>
<tr>
<td>Oil and Gas Prod. Tax</td>
<td>187.8</td>
<td>95.5</td>
</tr>
<tr>
<td>Coal Severance Tax</td>
<td>61.8</td>
<td>54.5</td>
</tr>
<tr>
<td>General Fund Revenues</td>
<td>2169.1</td>
<td>2110.4</td>
</tr>
</tbody>
</table>

Source: Montana Department of Revenue
Spring Was Cruel to the Montana Treasury
Percent Change Jan-May 2017 vs. Jan-May 2016

Source: Rockefeller Institute
Relationship Between Tax Receipts and Personal Income Far From Perfect

Income Tax Receipts vs Adjusted Personal Income

Parameter Estimates
Intercept = -177.8
Slope = 0.0367

Source: BBER
Nonfarm Earnings Slowed Significantly
Percent Growth, Inflation-Corrected Nonfarm Earnings, Montana

Source: Bureau of Economic Analysis
Slowdown in Personal Income Even More Pronounced
Percent Growth, Inflation-Corrected Personal Income, Montana

Source: Bureau of Economic Analysis
Percent Growth in Personal Income 2014

Source: Bureau of Economic Analysis
Percent Growth in Personal Income 2016

Source: Bureau of Economic Analysis
Personal Income Growth in 2016

Source: Bureau of Economic Analysis
Taxable Sources of Income Were Weak in 2016
Percentage Change in Montana Personal Income, 2014-16

Source: U.S. Bureau of Economic Analysis
Business Proprietor Income Declined

Percentage Change in Montana Earnings, 2014-16

Source: U.S. Bureau of Economic Analysis
What Has Grown Since 2007
Inflation Corrected Earnings in 2016 as Percent of 2007

Percent

State & Loc Govt
Health Care
Construction
Ret. Trade
Prof. Services
Accommodation
Fed Civilian
Finance
Manufacturing
Whol. Trade
Transp. & Warehousing
Other Services

Source: U.S. Bureau of Economic Analysis
Montana Labor Market Still Tightening
Unemployment Insurance Claims, 2014-17

Source: Montana Department of Labor and Industry
Percent Growth in Wage and Salary Disbursements by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>2016</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Non-Farm</td>
<td>4.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>8.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.1%</td>
<td></td>
<td></td>
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<tr>
<td>Prof. Services</td>
<td>5.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>-3.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2.3%</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Percent Growth in Wage and Salary Disbursements by Industry

- **Transportation**: 2016: 2%, 2017: 2%
- **Accommodations & Food**: 2016: 5.4%, 2017: 7.9%
- **Education**: 2016: 2.6%, 2017: 2.6%
- **Health Care**: 2016: 7.9%, 2017: 7.9%
- **Public Admin.**: 2016: 2.2%, 2017: 2.2%

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Montana’s Key Industries

- Agriculture producers battered by prices, drought
- Wood products companies encouraged by prices, salvage sales
- Tech expansion, construction healthy in western Montana
- Uncertainties in DC weigh on land use, health care
- Labor shortages impacting construction
- Real estate, financial institutions performing well
Growth in Nonfarm Earnings, Montana, 2015-2021

Source: BBER and U.S. Bureau of Economic Analysis
Questions?