The Economic Outlook for the U.S. and Montana

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The U.S. Economic Expansion: Nine Years and Counting

• U.S. growth surge is a global outlier
• Taxes and spending: higher growth, bigger deficits
• Inflation nowhere in sight
• Trade and housing are laggards, consumer and business spending carrying the load
• Interest rates have moved up, the dollar remains strong
• Markets close out the year with increased volatility
There Was an Acceleration in U.S. Growth Last Year
Real Gross Domestic Product (GDP) Growth, Percent, Actual and Forecast

Source: U.S. Bureau of Economic Analysis and IHS
Markit
Advanced Economies Expected to Decelerate as Global Growth Levels Off

Percent Change in Real Gross Domestic Product, Actual and Forecast
Source: International Monetary Fund
Global Growth Has Been Good, But Challenges Emerge

Number of Advanced Economies in Recession, by Year, 1991-2016

107 Recessions
19 Predicted Recessions

Source: International Monetary Fund
Evidence of a Chinese Slowdown
Guangdong Manufacturing Purchasing Managers Index, New Orders

Source: The Economic and Information Commission of Guangdong Province
Chinese Steel Exports Have Soared in Recent Years

Chinese Steel Capacity and Demand

Chinese Steel Exports

Source: Worldsteel, OECD

U.S. and Montana Economic Outlook
Mixed Story for Most Important Commodities
Select Commodity Prices
November 2018 vs. 5-Year High and Low

Source: World Bank, USDA, Random Lengths
Figure 4. The US has now become the world’s largest oil producer

Source: DOE, OPEC, PIRA, Bloomberg, ANZ Research
Decline in Crude Oil Prices Not Yet as Severe as 2014

Crude Oil Prices, West Texas Intermediate (WTI), Weekly, 2011-2018

Source: U.S. Energy Information Administration
Has Faster U.S. Economic Growth Shown Up in Montana?

- Partial data suggest 2018 has seen continued growth
- Labor market continues to tighten
- State revenue off to a good start in FY19
- Global economic environment has worsened
- Higher interest rates another challenge for residential construction
- Recovery for Montana’s agriculture and energy producers has not been smooth
- What explains Montana’s economic malaise in 2016?
Income Tax Collections Back on Track with 2017 Legislative Forecast

Source: Montana Department of Revenue
General Fund Collections Also Back on Track

Source: Montana Department of Revenue
State Economic Growth Stalled in 2016
Percent Growth, Inflation-Corrected Nonfarm Earnings, Montana

Source: U.S. Bureau of Economic Analysis
Growth Stall Was Centered in Natural Resources

Change in Inflation-Corrected Earnings by Industry, Montana, 2016

$Millions

- $250  - $200  - $150  - $100  - $50  $0  $50  $100  $150

- Construction and Manufacturing
- Retail & Wholesale Trade
- Finance and Bus. Serv.
- Health Care
- Accommodations & Food
- Government
- Mining
- Other

Source: U.S. Bureau of Economic Analysis
Growth in 2017 Was Broad Based
Change in Inflation-Corrected Earnings by Industry, Montana, 2017

Source: U.S. Bureau of Economic Analysis
Growth Suffered in the East in 2016
Change in Inflation-Corrected Earnings by County, Montana, 2016

Source: U.S. Bureau of Economic Analysis
Considerable Improvement in 2017
Change in Inflation-Corrected Earnings by County, Montana, 2017

Source: U.S. Bureau of Economic Analysis
Rebound in 2017 Was Helped by Stronger Business Proprietor Income

Wage and Salaries Share of Total Earnings Growth, Percent

- Cascade
- Flathead
- Gallatin
- Lewis & Clark
- Missoula
- Silver Bow
- Yellowstone
- Rest of State
- MONTANA

Source: U.S. Bureau of Economic Analysis
Montana Labor Market Still Tightening
Unemployment Insurance Claims, 2014-18

Source: Montana Department of Labor and Industry
Growth in Population of Prime Age Workers Has Stagnated
Montana Population by Age-Category, Selected Years

Source: UM Bureau of Business and Economic Research
Montana Growth is Low by Western Standards

Percent Growth in Real Nonfarm Earnings, 2017

Source: U.S. Bureau of Economic Analysis
Medium-term job growth reflects changing demographics

Compound annual growth rate for employment, 2018-23

Source: IHS
## High Tech is Growing – But What is It?

Industries Classified as High Tech in BBER Study

<table>
<thead>
<tr>
<th>NAICS Code</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>3254</td>
<td>Pharmaceutical and medicine manufacturing</td>
</tr>
<tr>
<td>3341</td>
<td>Computer and peripheral equipment manufacturing</td>
</tr>
<tr>
<td>3342</td>
<td>Communications equipment manufacturing</td>
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<tr>
<td>3344</td>
<td>Semiconductor and electronic component manufacturing</td>
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<tr>
<td>3345</td>
<td>Electronic instrument manufacturing</td>
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<tr>
<td>3364</td>
<td>Aerospace product and parts manufacturing</td>
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<td>5112</td>
<td>Software publishers</td>
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<tr>
<td>516</td>
<td>Internet publishing and broadcasting</td>
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<tr>
<td>517</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>518</td>
<td>Data processing, hosting and related services</td>
</tr>
<tr>
<td>5413</td>
<td>Architectural and engineering services</td>
</tr>
<tr>
<td>5415</td>
<td>Computer systems design and related services</td>
</tr>
<tr>
<td>5417</td>
<td>Scientific research and development services</td>
</tr>
</tbody>
</table>

Source: A Profile of Montana’s High Tech Industries (2018).
Gallatin, Yellowstone and Missoula Counties Have Largest High Tech Footprint

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Growth in High Tech Wages Since 2002

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

U.S. and Montana Economic Outlook
Growth in High Tech Wages Since 2002 Outpacing Overall Total

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Outlook for Montana’s Key Industries

• Tech related businesses and construction remain healthy, especially in western Montana
• Farm bill passage helps farmers
• Uncertainties for energy and natural resource producers
• Real estate and financial institutions set for another good year
• Transportation industries slowly improving
• Tariff and trade challenges ahead?
Growth in Nonfarm Earnings, Montana, 2016-22

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