The Economic Outlook for Montana and the U.S.

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Is the U.S. Economic Expansion Coming to an End?*

- Consumer fundamentals remain sound
- Home building perking up
- Yield inversion is over
- Has the global economy stabilized?
- Manufacturing has contracted all year
- Global environment is fragile
- Trade policy has taken a toll on investment
- Oh yes, isn’t there an election?

*Short answer: Nobody really knows, but probably not
What Happens to Investment in Election Years?*

*Short answer: Nothing good.
Consumer Spending is Propelling Recent U.S. Growth

Contribution to Growth in Real Gross Domestic Product, Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption</th>
<th>NonRes</th>
<th>Housing</th>
<th>Inventories</th>
<th>Trade</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>4.0%</td>
<td>3.5%</td>
<td>2.0%</td>
<td>1.5%</td>
<td>1.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>2016</td>
<td>3.5%</td>
<td>3.0%</td>
<td>1.5%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2017</td>
<td>3.0%</td>
<td>2.5%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>2018</td>
<td>2.5%</td>
<td>2.0%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>-0.5%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2019</td>
<td>2.0%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>-0.5%</td>
<td>-1.0%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

Consumer spending is a key driver of recent U.S. economic growth.
Manufacturing Has Been Contracting
ISM Purchasing Managers Index, Percent

Source: Economy.com

U.S. and Montana Economic Outlook
But It Is Really a Global Phenomenon
ISM Purchasing Managers Index, Percent

Source: Economy.com
US-China Trade War Tariffs: An Up-to-Date Chart

Average tariff rate, percent

Source: Peterson Institute
Tariffs Have Impacted Import Volumes Dramatically

U.S. Container Import Growth by Origin, Year over Year Percent Change

- China
- Other East Asia
- Europe
- South Asia
- Latin America

U.S. and Montana Economic Outlook
Montana is Highly Exposed to Retaliation

Average Tariff Rates on Traded Sector Production, by County, 2018

Global Economic Growth Set to Slow
Real GDP Growth, Percent, Actual and Predicted, 2019-22

- U.S. 2.4
- Spain 2.2
- U.K. 1.2
- France 1.2
- Japan 0.9
- Germany 0.5
- Italy 0.0
- Germany 1.4
- U.K. 1.5
- Italy 0.8
- Japan 0.5

Source: International Monetary Fund
Mixed Story for Most Important Commodities

Select Commodity Prices
November 2019 vs. 5-Year High and Low

<table>
<thead>
<tr>
<th>Materials &amp; Foodstuffs (as of November 2019)</th>
<th>Metals &amp; Energy (as of November 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Framing Lumber</strong> ($ per Thousand BF)</td>
<td><strong>Copper</strong> ($ per pound)</td>
</tr>
<tr>
<td>Low: 297</td>
<td>Low: 203</td>
</tr>
<tr>
<td>High: 564</td>
<td>High: 3.21</td>
</tr>
<tr>
<td>Current: 360</td>
<td></td>
</tr>
</tbody>
</table>

| **Barley** ($ per bushel)                   | **Palladium** ($ per troy oz.)       |
| Low: 1.81                                   | Low: 502.5                           |
| High: 2.79                                  | High: 1767.8                         |
| Current: 2.46                               |                                       |

| **Beef** ($ per Pound)                      | **Zinc** ($ per pound)               |
| Low: 1.59                                   | Low: 0.69                            |
| High: 2.62                                  | High: 1.60                           |
| Current: 2.58                               |                                       |

| **Wheat, SRW** ($ per bushel)               | **Oil** ($ per Barrel)               |
| Low: 3.34                                   | Low: 30.3                            |
| High: 6.39                                  | High: 70.9                           |
| Current: 4.29                               |                                       |

Source: World Bank, USDA, Random Lengths
Copper Prices Closed the Year with Growth

Last Six Months

Source: Macrotrends.net
Copper Prices Closed the Year with Growth?

Last Year

Source: Macrotrends.net
Copper Prices Closed the Year with Growth??

Last Ten Years

Source: Macrotrends.net
Market for Thermal Coal Has Shrunk Dramatically
Share of Net Electricity Generation by Fuel Type, U.S., percent

Source: U.S. Energy Information Administration
De-Industrialization of U.S. and EU Reflected in CO2 Emissions

Annual CO2 Emissions from Fossil Fuels by Country, 1959-2017

Source: Global Carbon Project
China is the World’s Aluminum Producer

Smelter Production of Aluminum by Country, 2016-18

Source: Statista.com
What We Know About the Montana Economy Today

• Growth since 2016 has continued
• Labor market continues to tighten
• State revenue growth has been good
• Wheat and Calf Prices Down Another 15 Percent
• Dark clouds looming for Powder River basin coal
• Tech is an under-reported good news story
• Gallatin County Now #2 Economy in the State
State Economic Earnings Was Steady in 2018

Percent Growth, Inflation-Corrected Nonfarm Earnings, Montana

Source: U.S. Bureau of Economic Analysis
Montana Growth is Low by Western Standards
Percent Growth in Real Nonfarm Earnings, 2018

Source: U.S. Bureau of Economic Analysis
Montana’s Relative Economic Performance
Relative Position Among All States and DC, 2019

- Wage Growth (NV): -.24%
- Unemployment Rate (ND): 3.4%
- Average weekly wages (WA): $855
- GDP growth (WA): 3.93%
- Job Growth (NV): 1.46%
- GDP per capita (DC): $47K

Source: howmuch.net
Growth Carried into 2019
Inflation Corrected Earnings Growth FY18-FY19

Source: U.S. Bureau of Economic Analysis
Billings and Non-Urban Counties Performing Better
Change in Inflation-Corrected Wages by County, Montana, Through 2019Q2

$ Millions

-50  0  50  100  150  200

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

Source: U.S. Quarterly Census of Employment and Wages
## General Fund Revenue Sources ($ Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Seven Sources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>1,175.7</td>
<td>1,184.8</td>
<td>1,168.2</td>
<td>1,297.8</td>
<td>1,429.0</td>
<td>131.2</td>
</tr>
<tr>
<td>Property Tax</td>
<td>247.9</td>
<td>257.1</td>
<td>260.2</td>
<td>276.4</td>
<td>289.2</td>
<td>12.8</td>
</tr>
<tr>
<td>Corporation Income Tax</td>
<td>172.7</td>
<td>118.4</td>
<td>134.0</td>
<td>167.1</td>
<td>186.5</td>
<td>19.4</td>
</tr>
<tr>
<td>Vehicle Taxes &amp; Fees</td>
<td>106.4</td>
<td>108.5</td>
<td>109.2</td>
<td>109.5</td>
<td>109.5</td>
<td>-</td>
</tr>
<tr>
<td>Oil &amp; Natural Gas Production Tax</td>
<td>73.2</td>
<td>39.1</td>
<td>46.3</td>
<td>54.5</td>
<td>54.2</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Insurance Tax &amp; License Fees</td>
<td>66.6</td>
<td>69.3</td>
<td>75.6</td>
<td>75.3</td>
<td>76.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Video Gambling Tax</td>
<td>59.8</td>
<td>60.6</td>
<td>60.0</td>
<td>60.3</td>
<td>63.2</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Other Selected Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lodging Taxes</td>
<td>19.7</td>
<td>21.5</td>
<td>21.8</td>
<td>24.1</td>
<td>26.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Railroad Car Tax</td>
<td>3.7</td>
<td>3.6</td>
<td>3.8</td>
<td>3.6</td>
<td>3.6</td>
<td>-</td>
</tr>
<tr>
<td>Rental Car Sales Tax</td>
<td>3.9</td>
<td>3.9</td>
<td>3.4</td>
<td>3.7</td>
<td>4.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Telecommunications Excise Tax</td>
<td>18.3</td>
<td>16.8</td>
<td>15.6</td>
<td>13.7</td>
<td>13.2</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Coal Severance Tax</td>
<td>16.1</td>
<td>14.2</td>
<td>13.8</td>
<td>14.1</td>
<td>14.1</td>
<td>-</td>
</tr>
<tr>
<td>Metalliferous Mines Tax</td>
<td>8.3</td>
<td>4.2</td>
<td>4.8</td>
<td>6.3</td>
<td>6.9</td>
<td>0.6</td>
</tr>
<tr>
<td>US Mineral Royalty</td>
<td>27.0</td>
<td>16.8</td>
<td>17.3</td>
<td>20.1</td>
<td>21.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Wholesale Energy Tax</td>
<td>3.8</td>
<td>3.5</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>General Fund Total</strong></td>
<td>2,199.7</td>
<td>2,121.3</td>
<td>2,141.5</td>
<td>2,405.4</td>
<td>2,573.6</td>
<td>168.2</td>
</tr>
</tbody>
</table>

Source: Montana Legislative Fiscal Division
Recent Growth Tilts West/Southwest
Percent Change in Real Wages, 18Q2-19Q2

- Dawson: 5.6%
- Flathead: 0.6%
- Missoula: 3.1%
- Gallatin: 6.5%
- Park: 7.1%
- Yellowstone: 0.4%
Tech Underlies the Faster Growth Since 2015
Percent Growth in Earnings Since 2015

-10% 0% 10% 20% 30%

Cascade
Fergus
Flathead
Gallatin
Hill
Lewis & Clark
Missoula
Silver Bow
Yellowstone

Total
Professional & Tech

Source: U.S. Bureau of Economic Analysis
Declines in Farm Earnings Are Widespread
Change in Farm Earnings, 2018 vs. 2013, $ Millions

Source: U.S. Bureau of Economic Analysis
Montana Labor Market Still Tight
Unemployment Insurance Claims, 2017-19

Source: Montana Department of Labor and Industry
Outlook for Montana’s Key Industries

• State faces new challenges, but with good momentum
• Closures in Colstrip, coal upheaval will hurt
• Commodity businesses (except palladium) face prospect of price declines
• Federal government spending is good for Montana
• Tech, construction, manufacturing propelling western growth
• Residential construction is the wild card
Growth in Nonfarm Earnings, Montana, 2017-23

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