

# The Economic Outlook for Montana and the U.S.

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**BUREAU OF BUSINESS AND  
ECONOMIC RESEARCH**  
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U.S. and Montana Economic Outlook

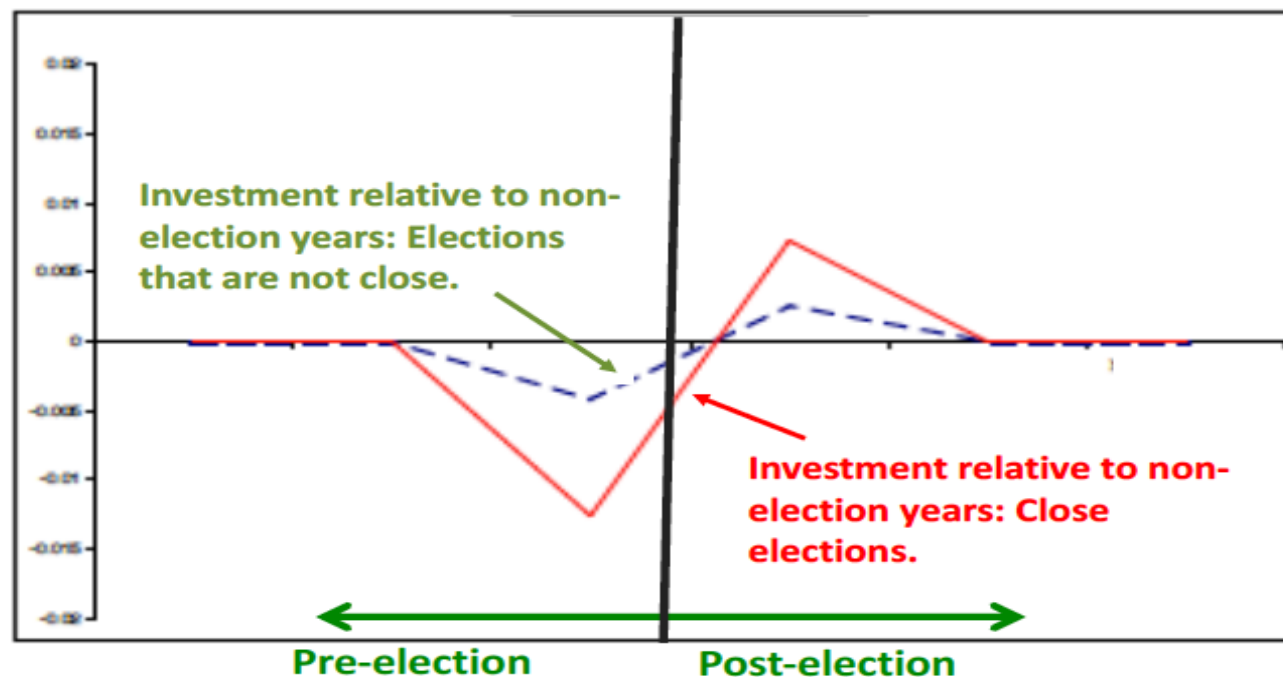
# Is the U.S. Economic Expansion Coming to an End?\*

- 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?\*



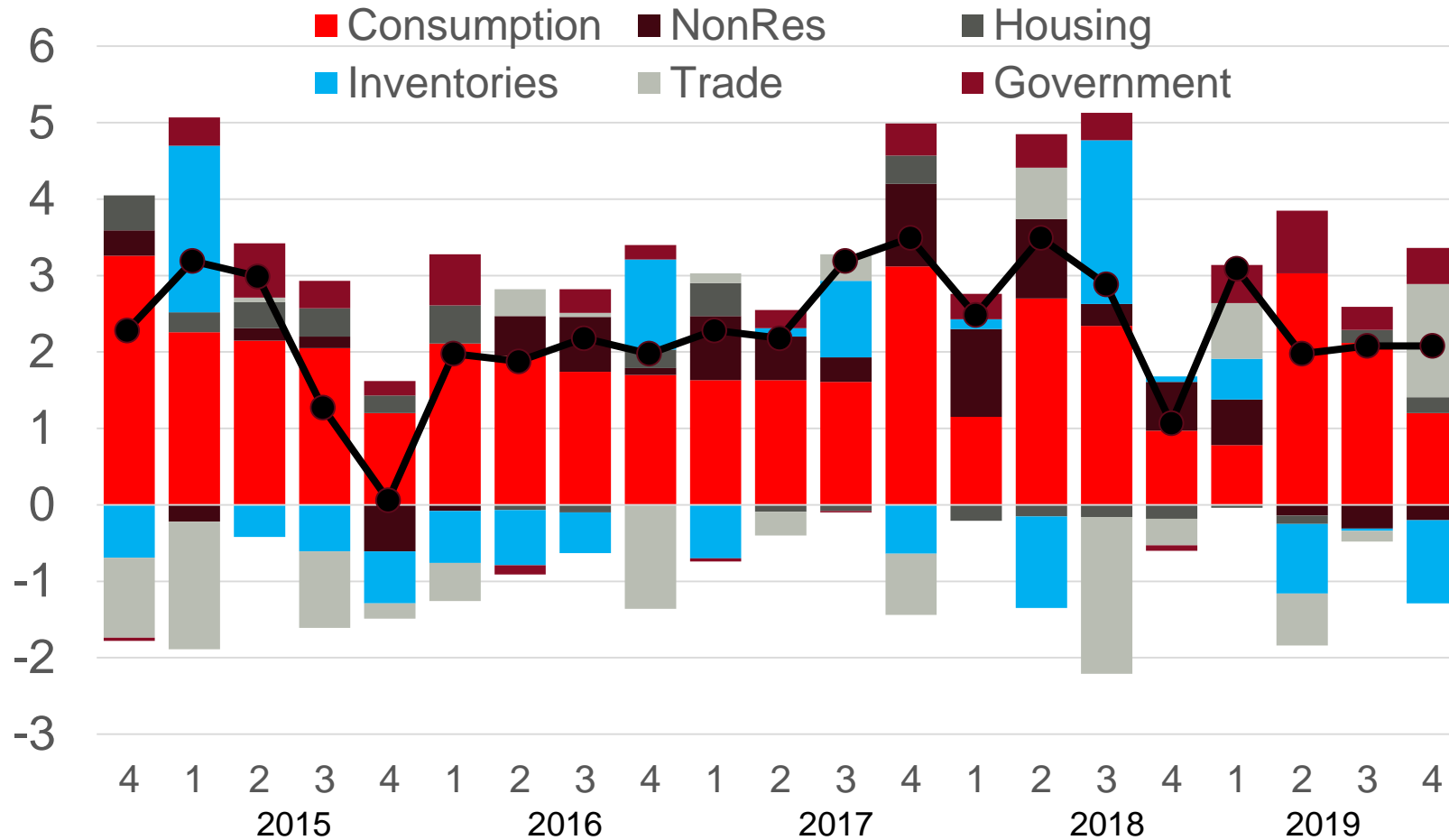
Note: The value "0" represents the level of average investment growth in non-election years.

Source: "Political Uncertainty and Corporate Investment Cycles," Brandon Julio and Youngsuk Yook, 2010

\*Short answer: Nothing good.

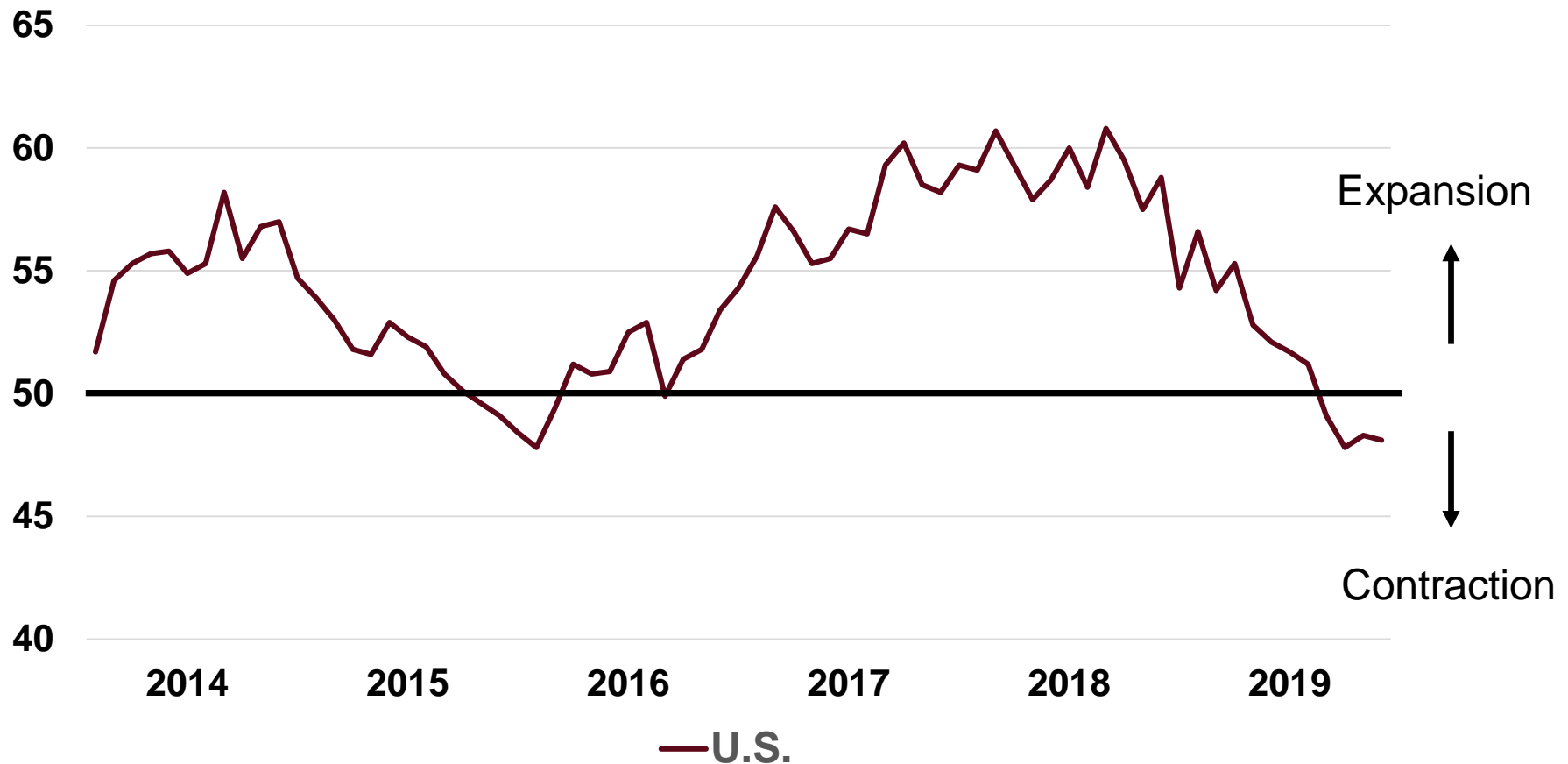
# Consumer Spending is Propelling Recent U.S. Growth

Contribution to Growth in Real Gross Domestic Product, Percent



# Manufacturing Has Been Contracting

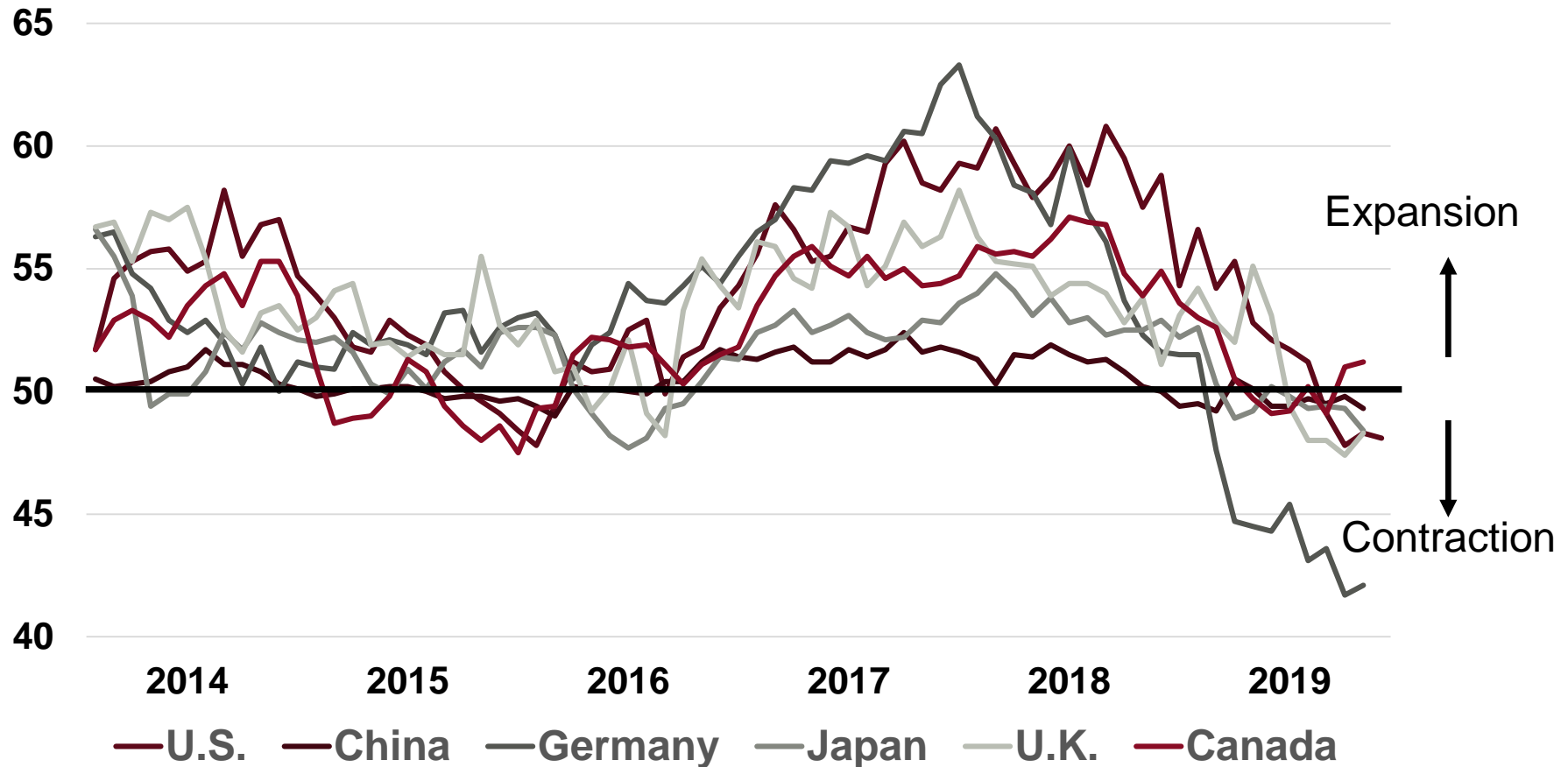
ISM Purchasing Managers Index, Percent



Source: Economy.com

# But It Is Really a Global Phenomenon

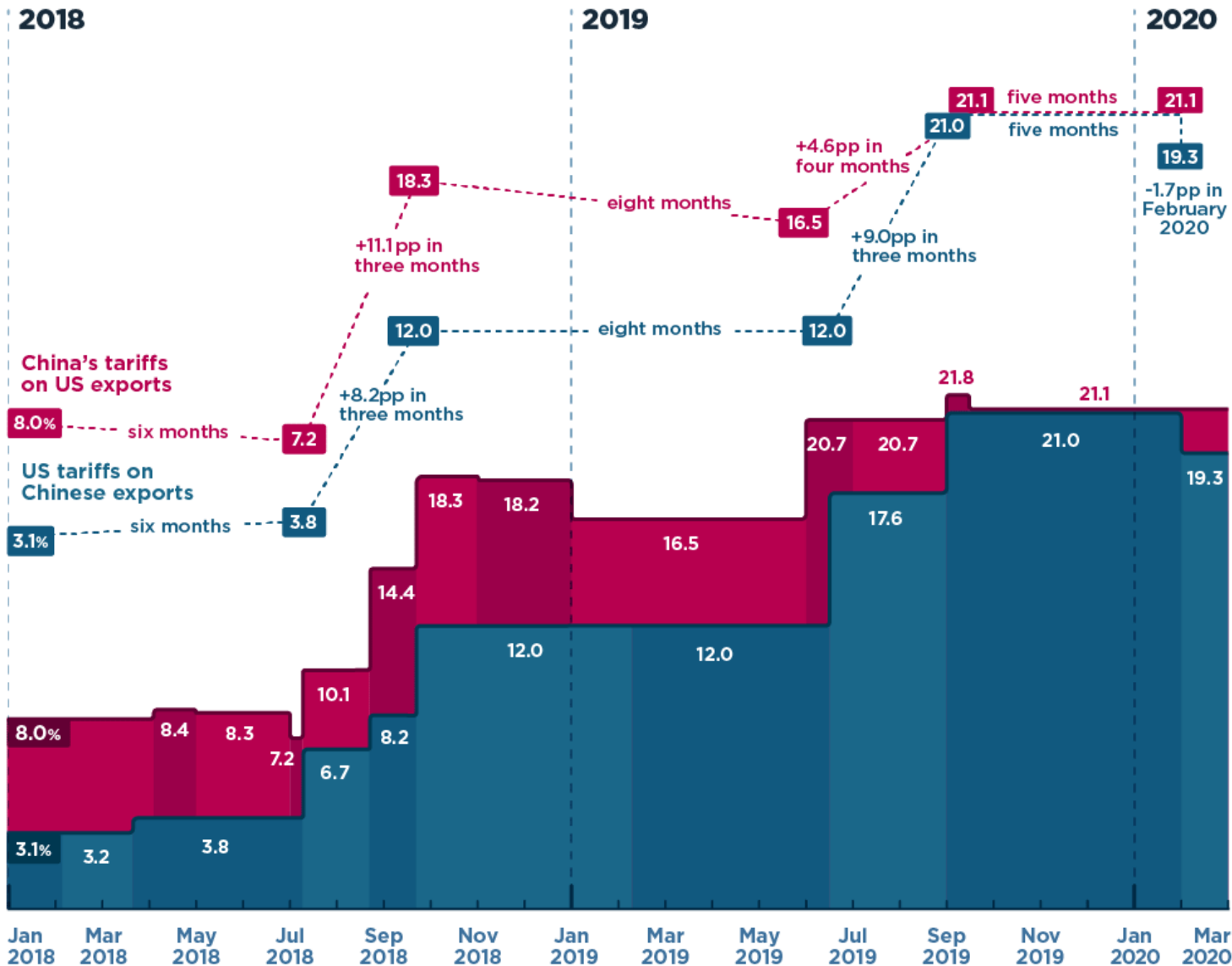
ISM Purchasing Managers Index, Percent



Source: Economy.com

# US-China Trade War Tariffs: An Up-to-Date Chart

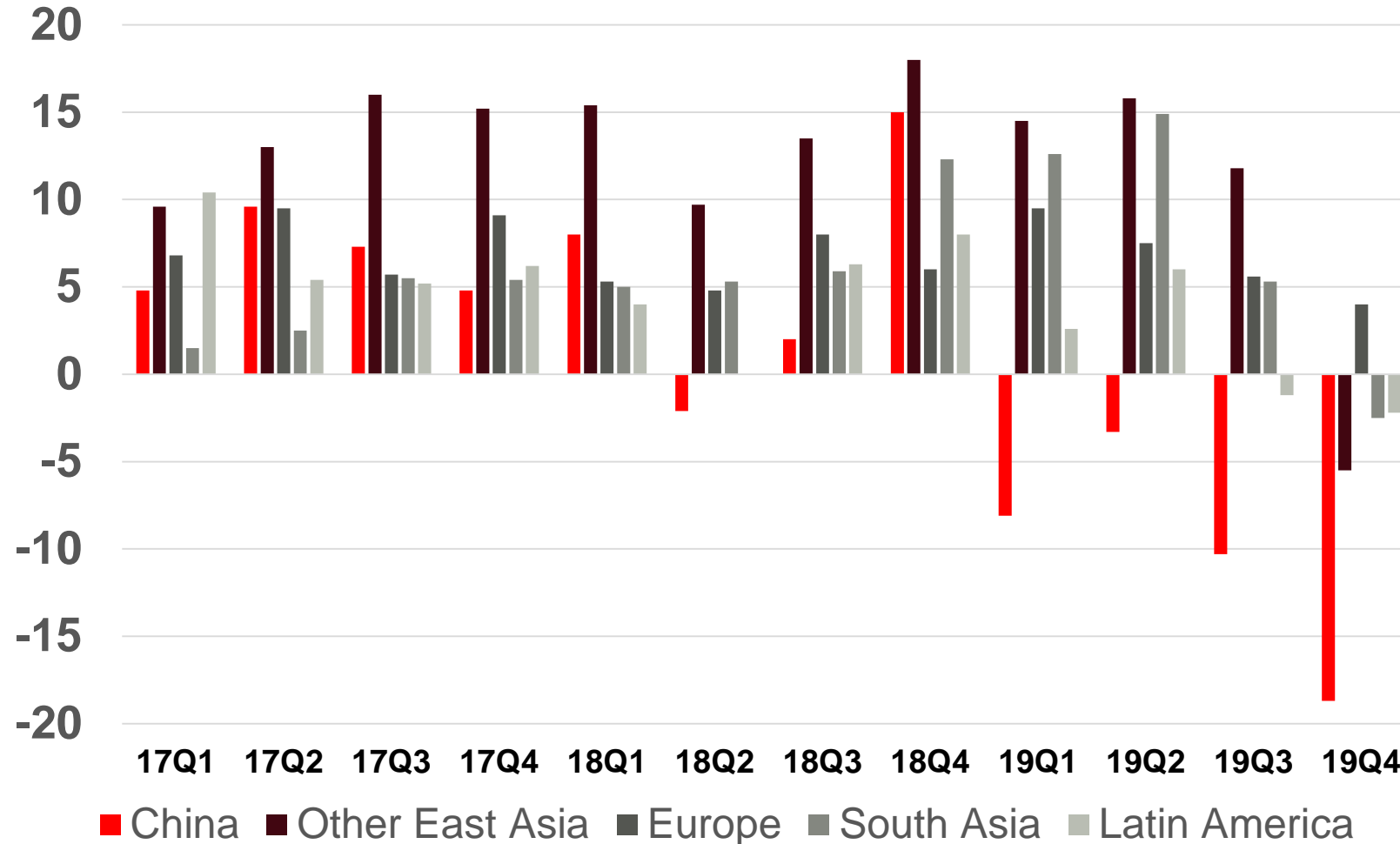
Average tariff rate, percent



Source: Peterson Institute

# Tariffs Have Impacted Import Volumes Dramatically

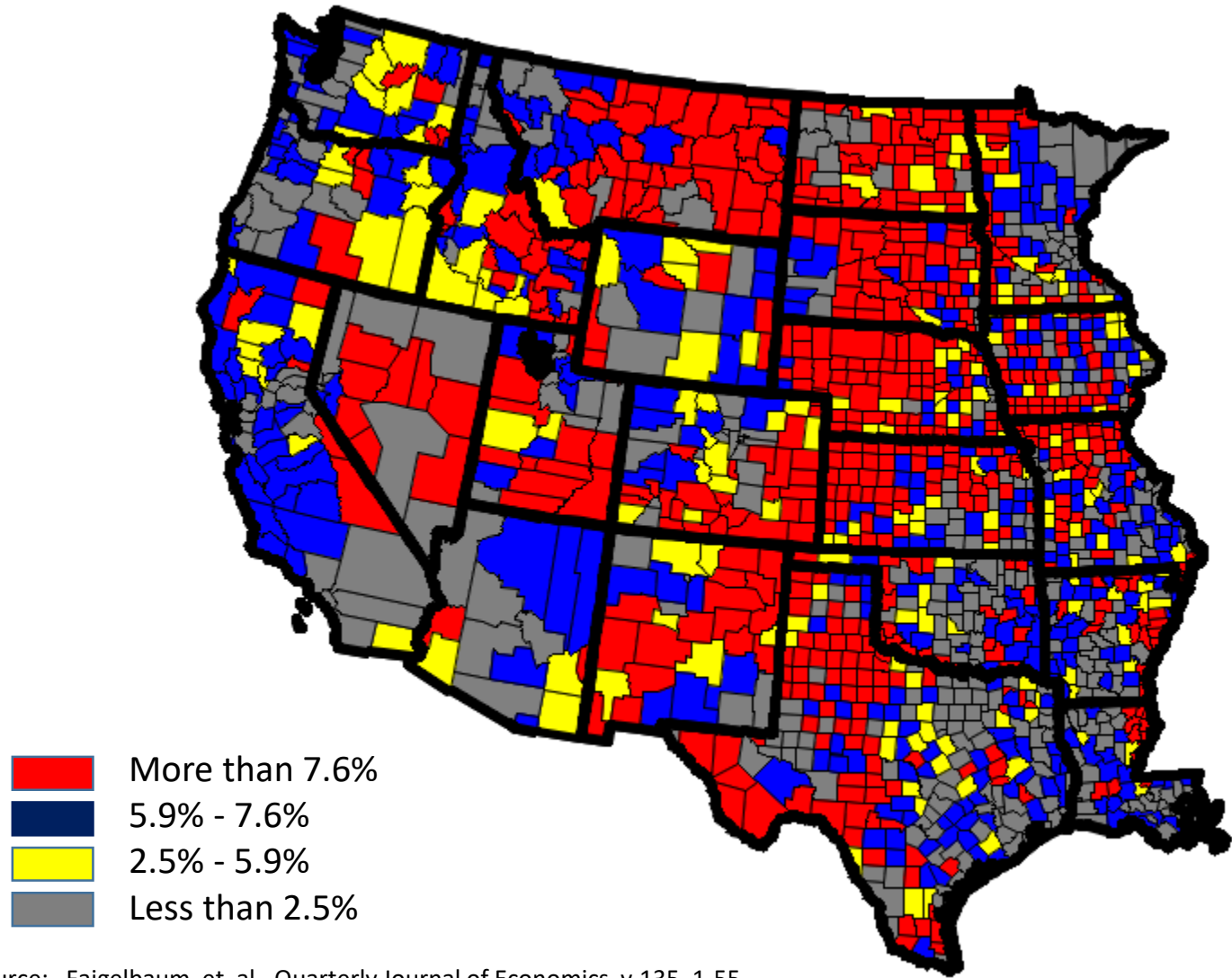
U.S. Container Import Growth by Origin, Year over Year Percent Change





# Montana is Highly Exposed to Retaliation

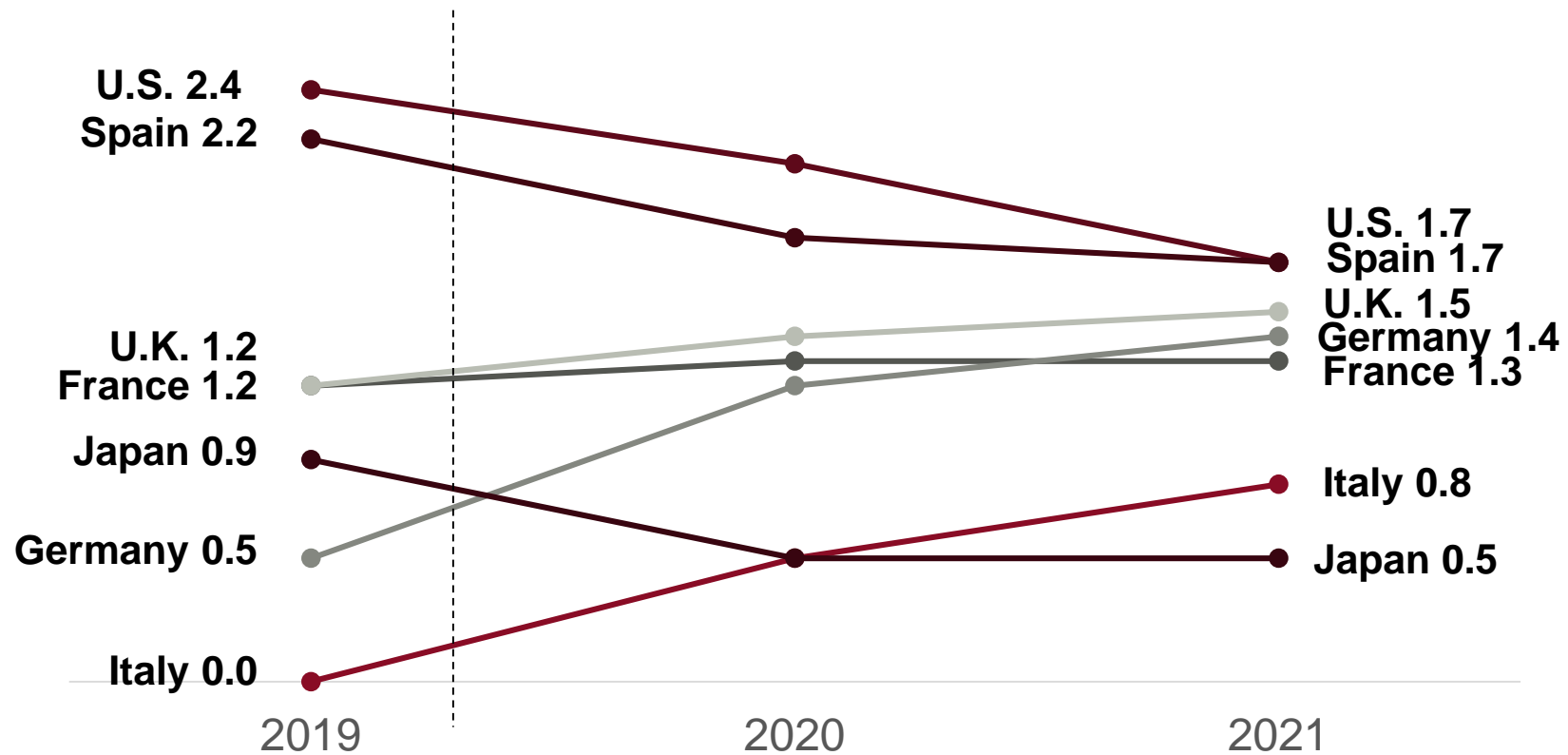
Average Tariff Rates on Traded Sector Production, by County, 2018



Source: Fajgelbaum, et. al., Quarterly Journal of Economics, v.135, 1-55.

# Global Economic Growth Set to Slow

Real GDP Growth, Percent, Actual and Predicted, 2019-22

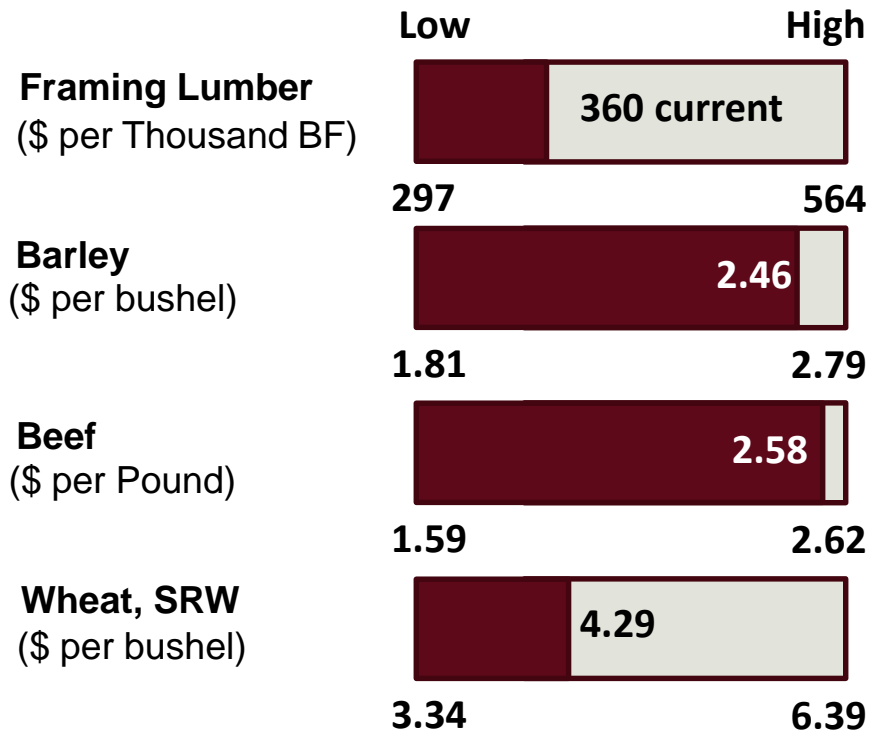


Source: International Monetary Fund

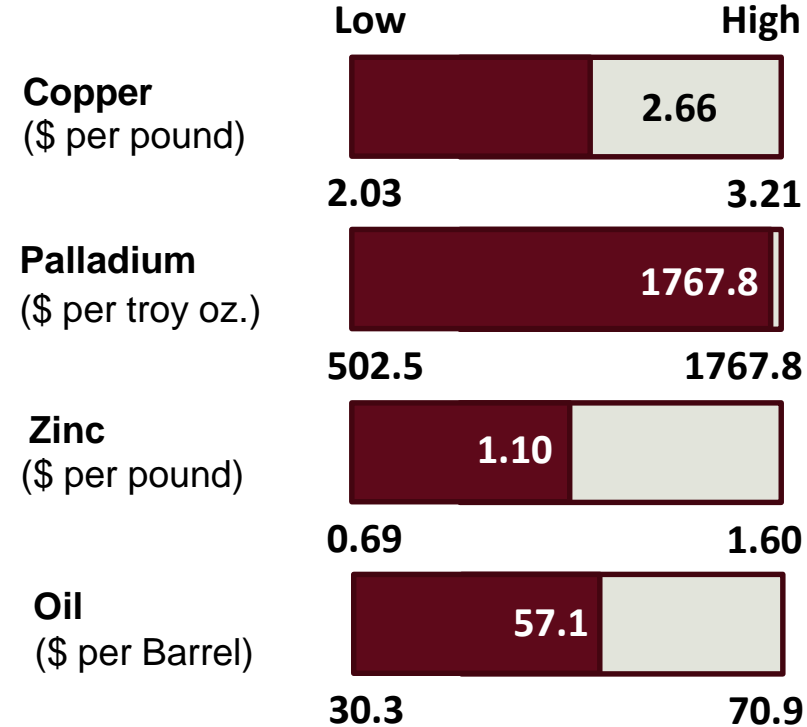
# Mixed Story for Most Important Commodities

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

## Materials & Foodstuffs (as of November 2019)



## Metals & Energy (as of November 2019)



Source: World Bank, USDA, Random Lengths

# Copper Prices Closed the Year with Growth

Last Six Months

\$ per lb.



Source: [Macrotrends.net](https://www.macrotrends.net)

# Copper Prices Closed the Year with Growth?

Last Year



Source: Macrotrends.net

# Copper Prices Closed the Year with Growth??

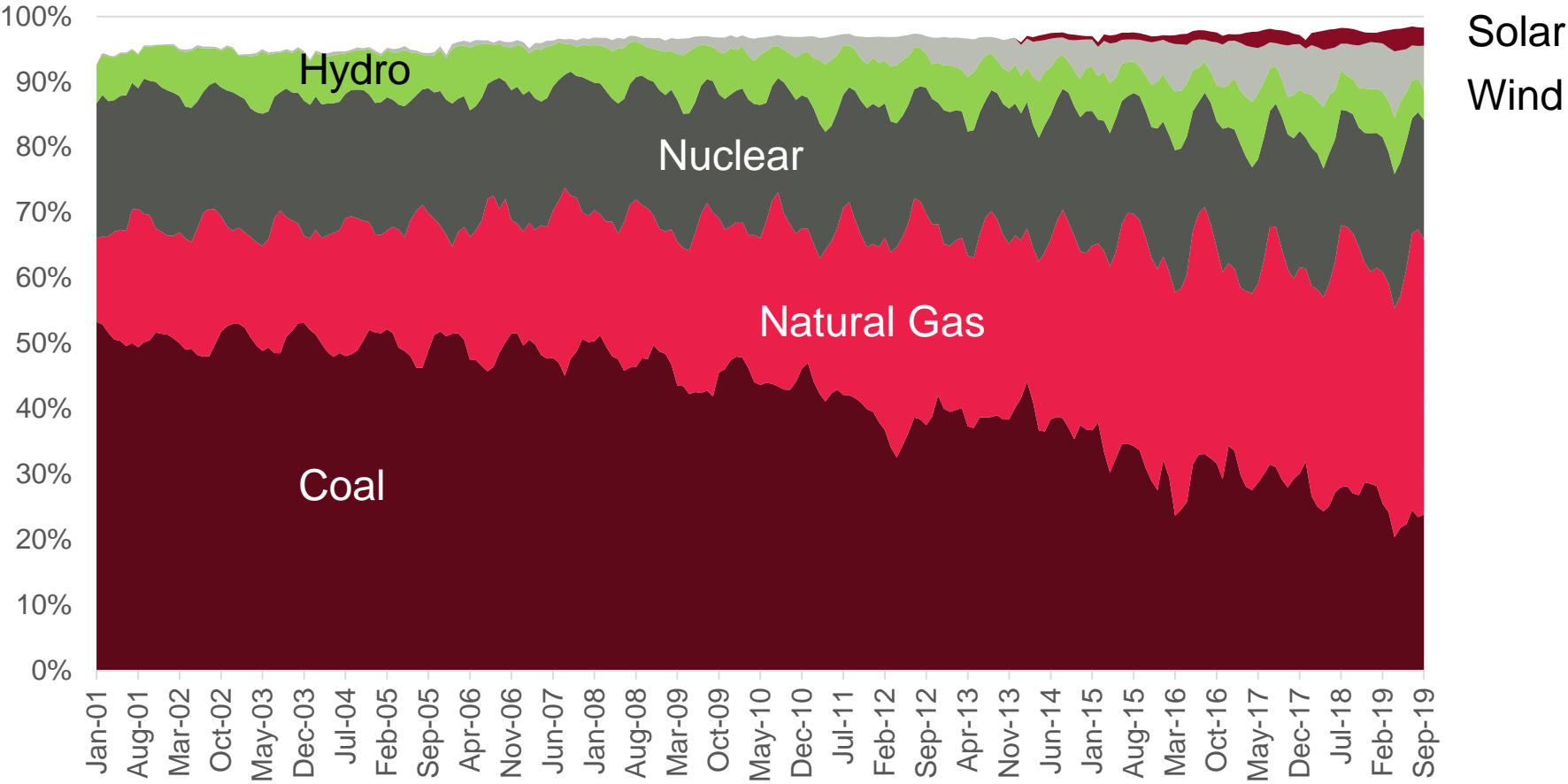
Last Ten Years



Source: Macrotrends.net

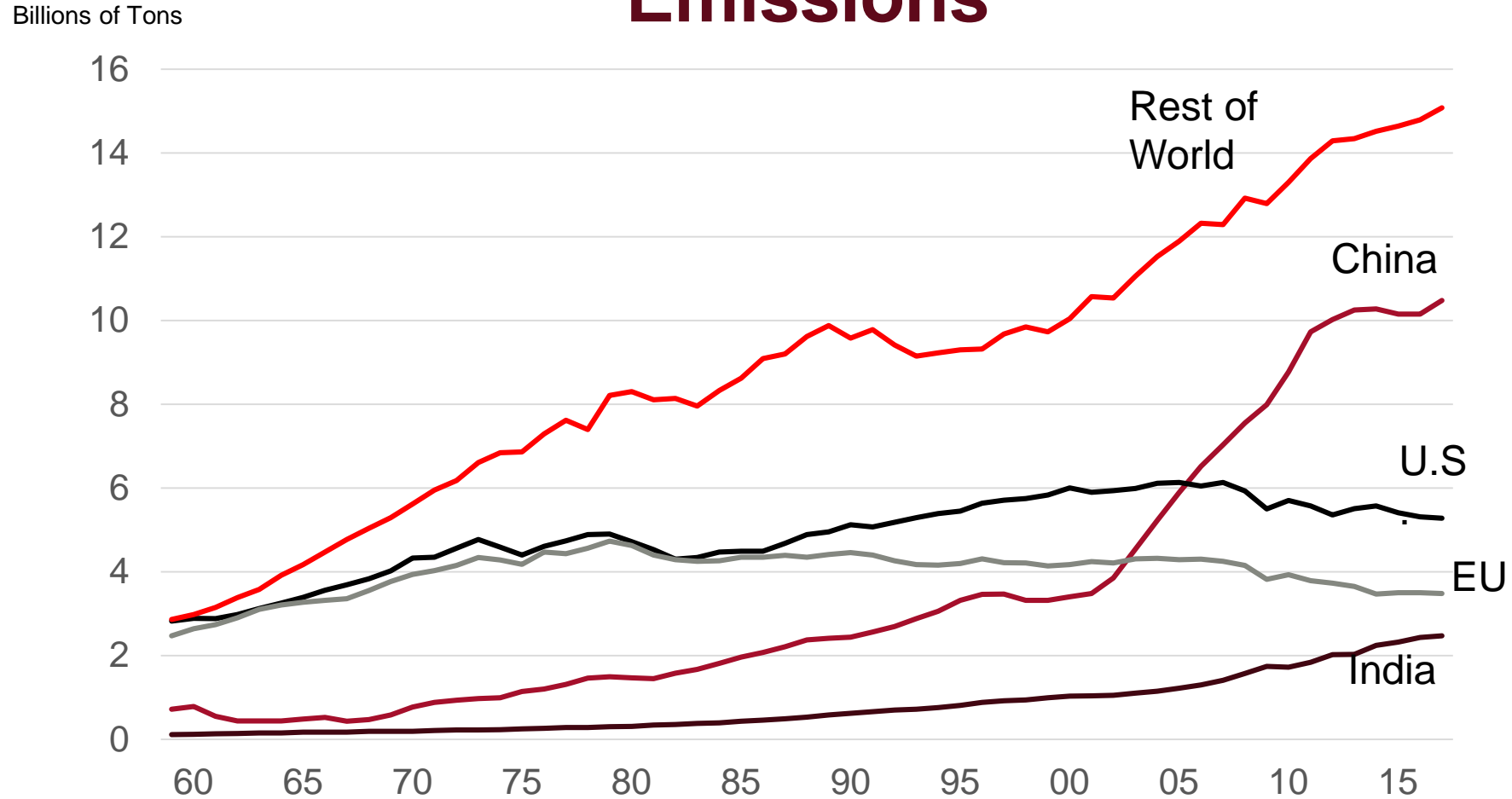
# Market for Thermal Coal Has Shrunk Dramatically

## 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



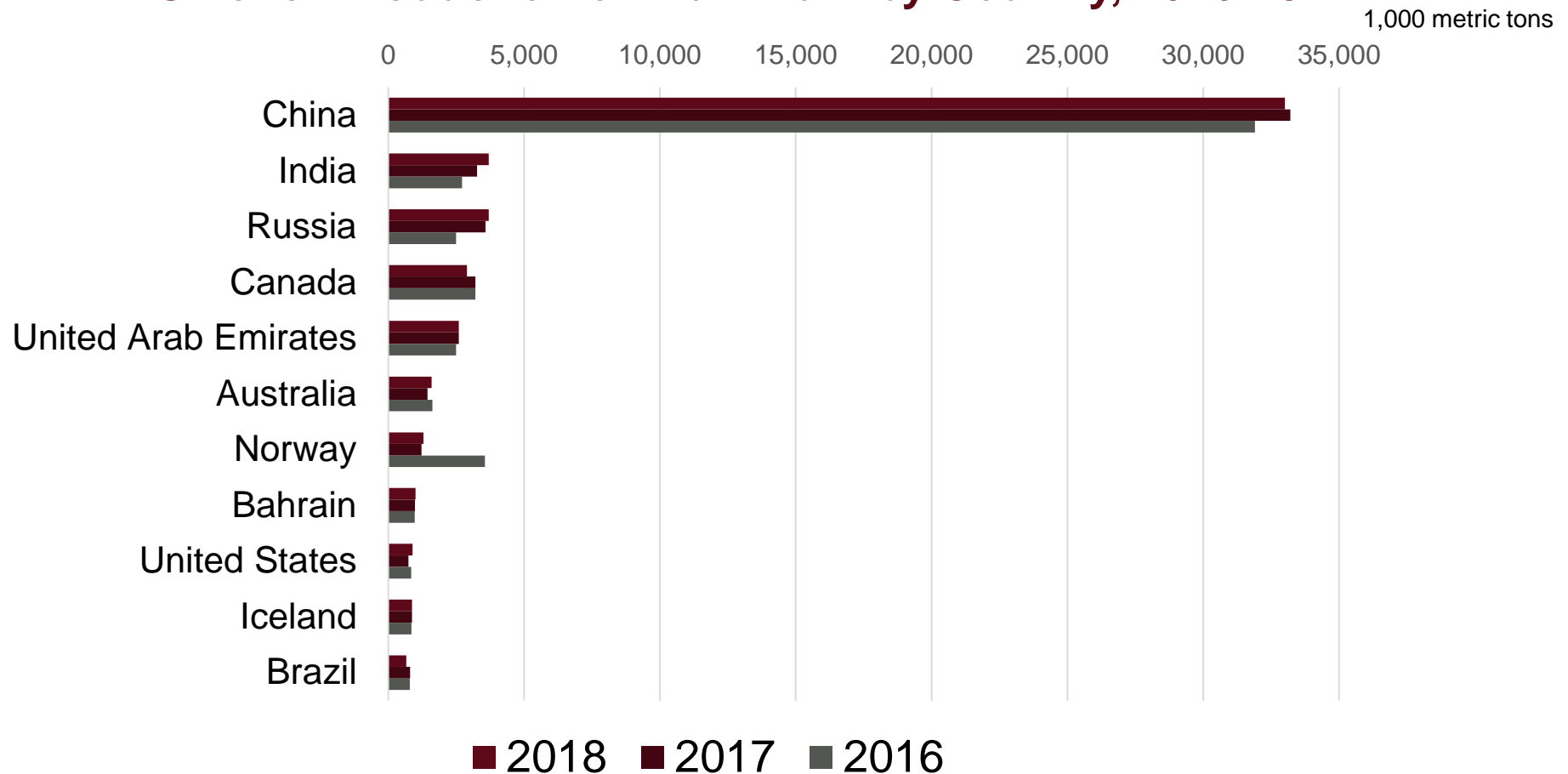
Annual CO2 Emissions from Fossil Fuels by Country, 1959-2017

Source: Global Carbon Project



# China is the World's Aluminum Producer

## Smelter Production of Aluminum by Country, 2016-18



Source: Statista.com

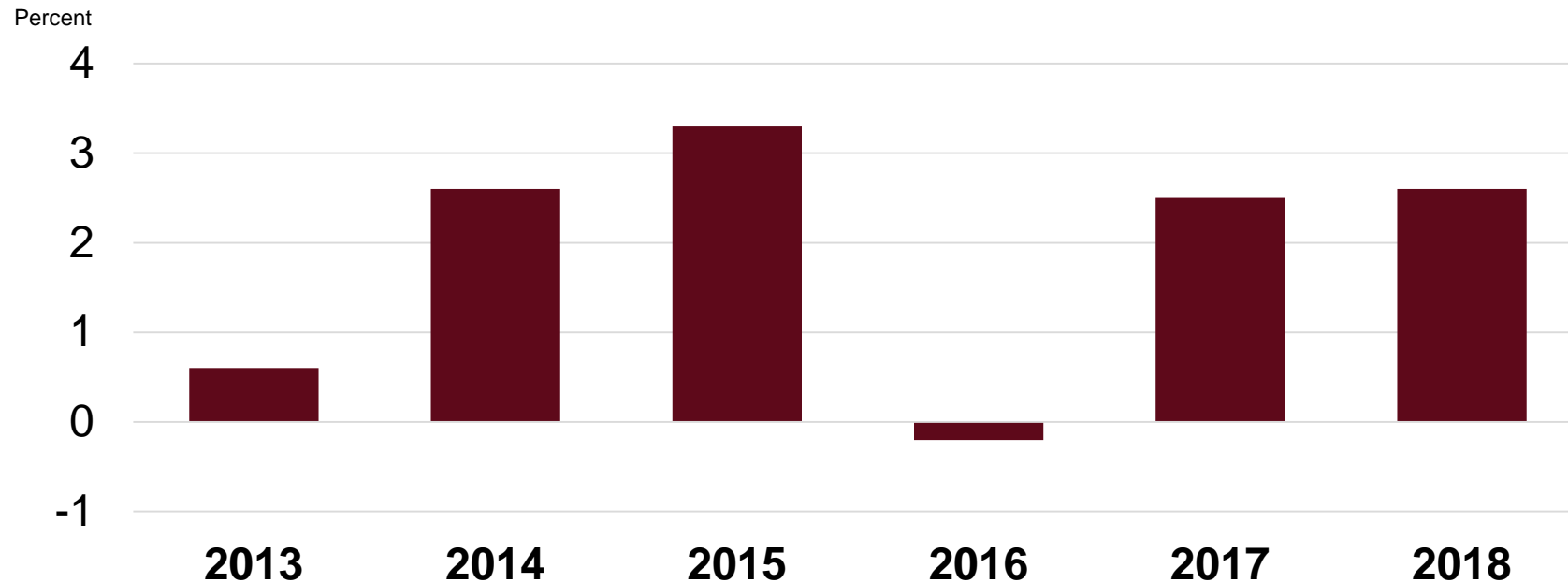
# What We Know About the Montana Economy Today

- 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

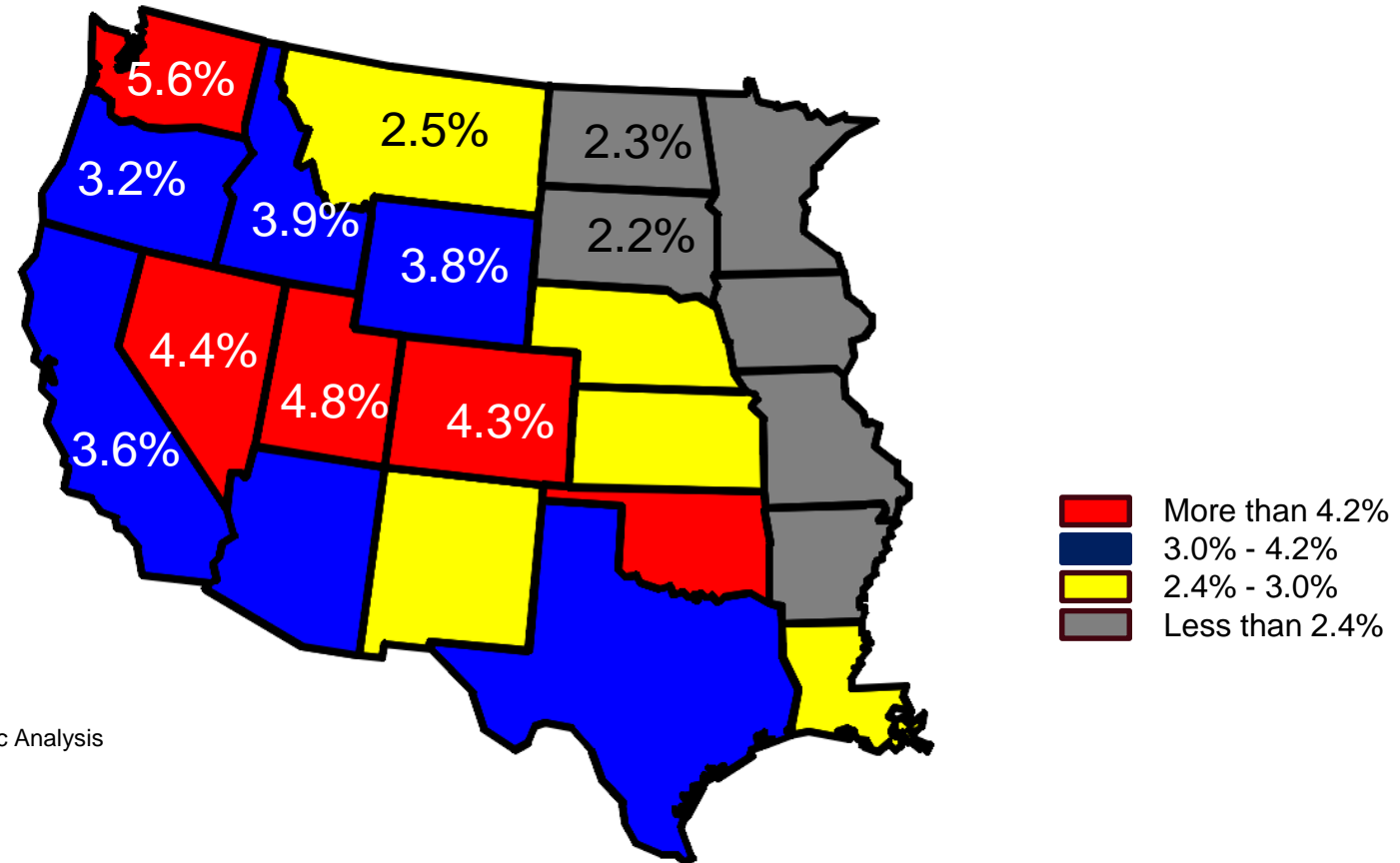
Percent Growth, Inflation-Corrected Nonfarm Earnings, Montana



Source: U.S. Bureau of Economic Analysis

# Montana Growth is Low by Western Standards

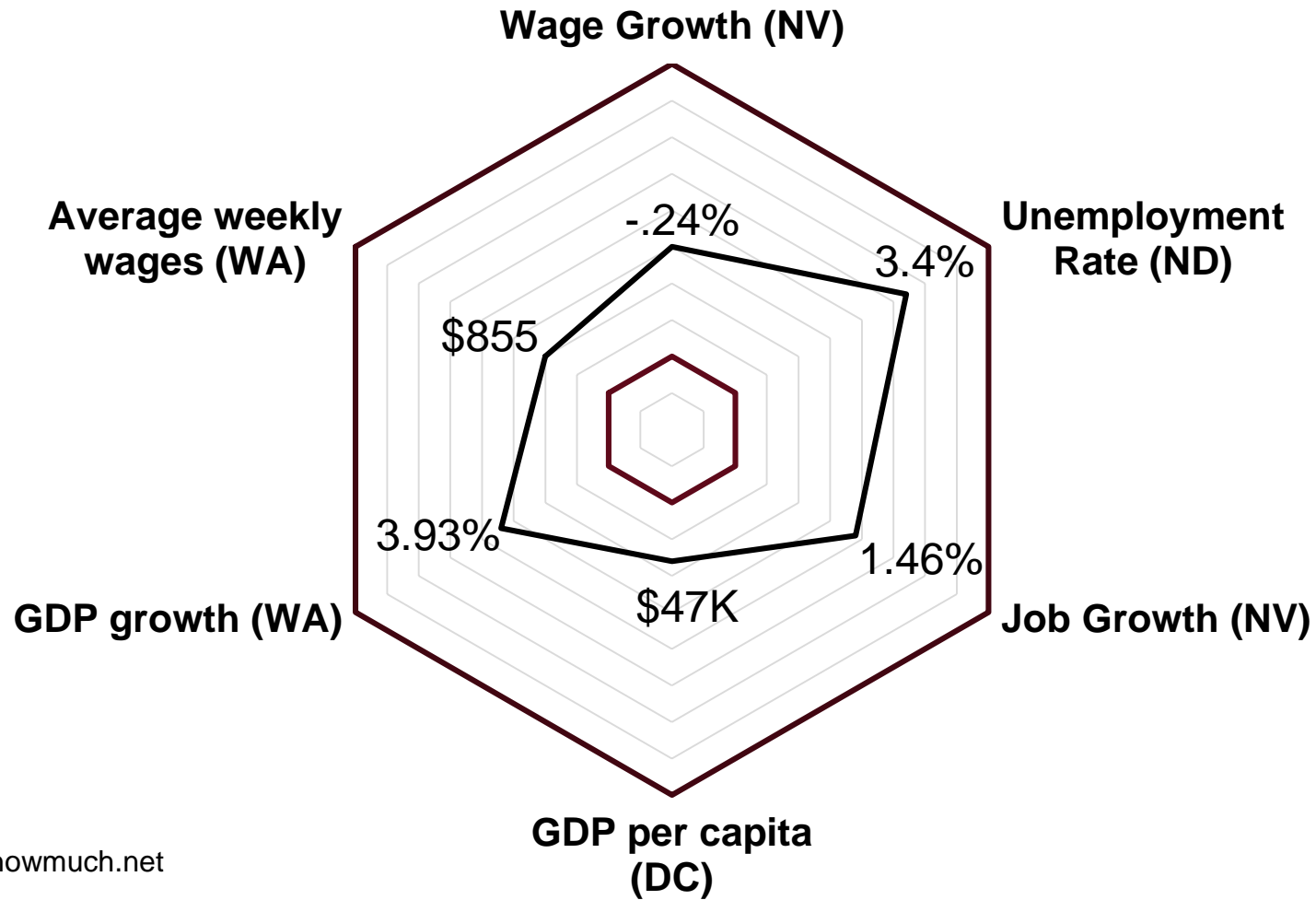
Percent Growth in Real Nonfarm Earnings, 2018



Source: U.S. Bureau of Economic Analysis

# Montana's Relative Economic Performance

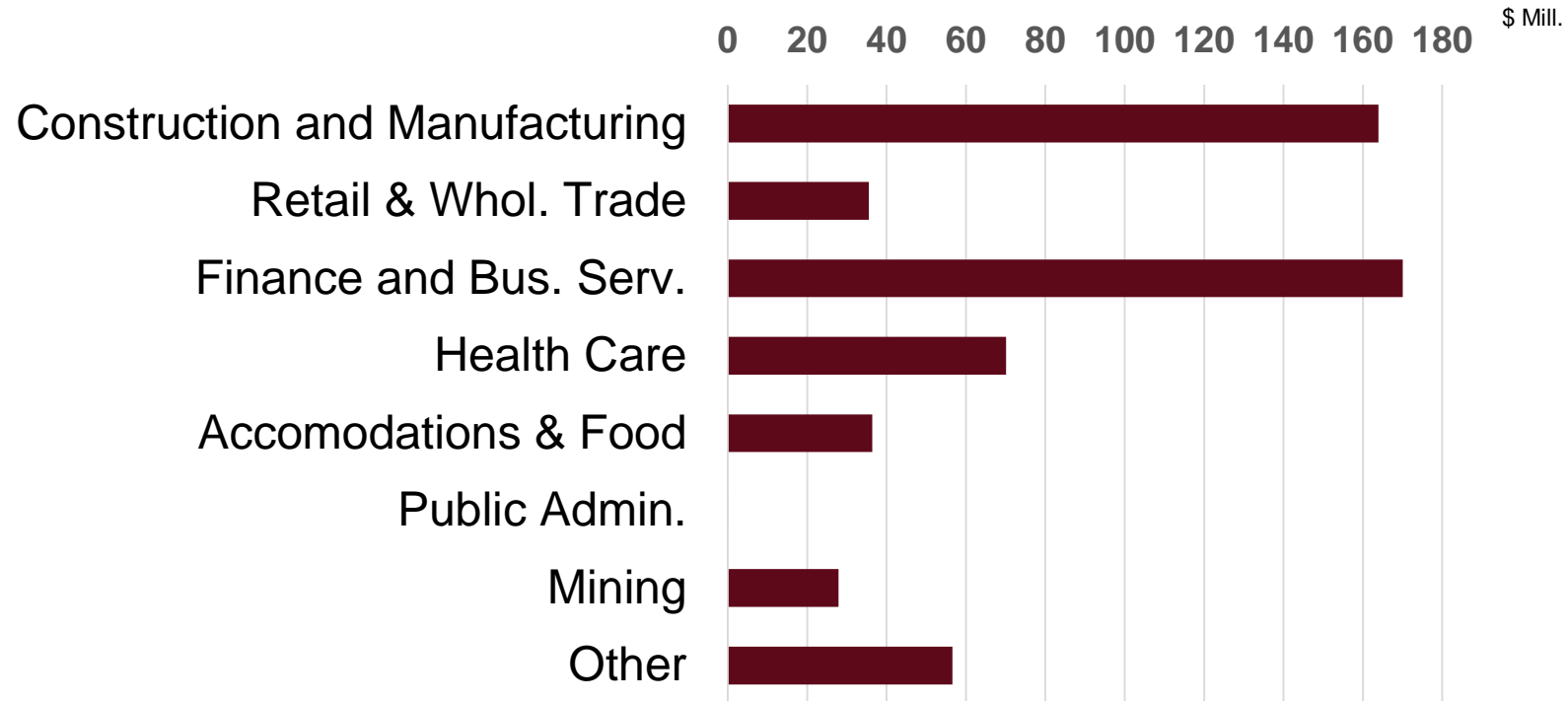
Relative Position Among All States and DC, 2019



Source: howmuch.net

# Growth Carried into 2019

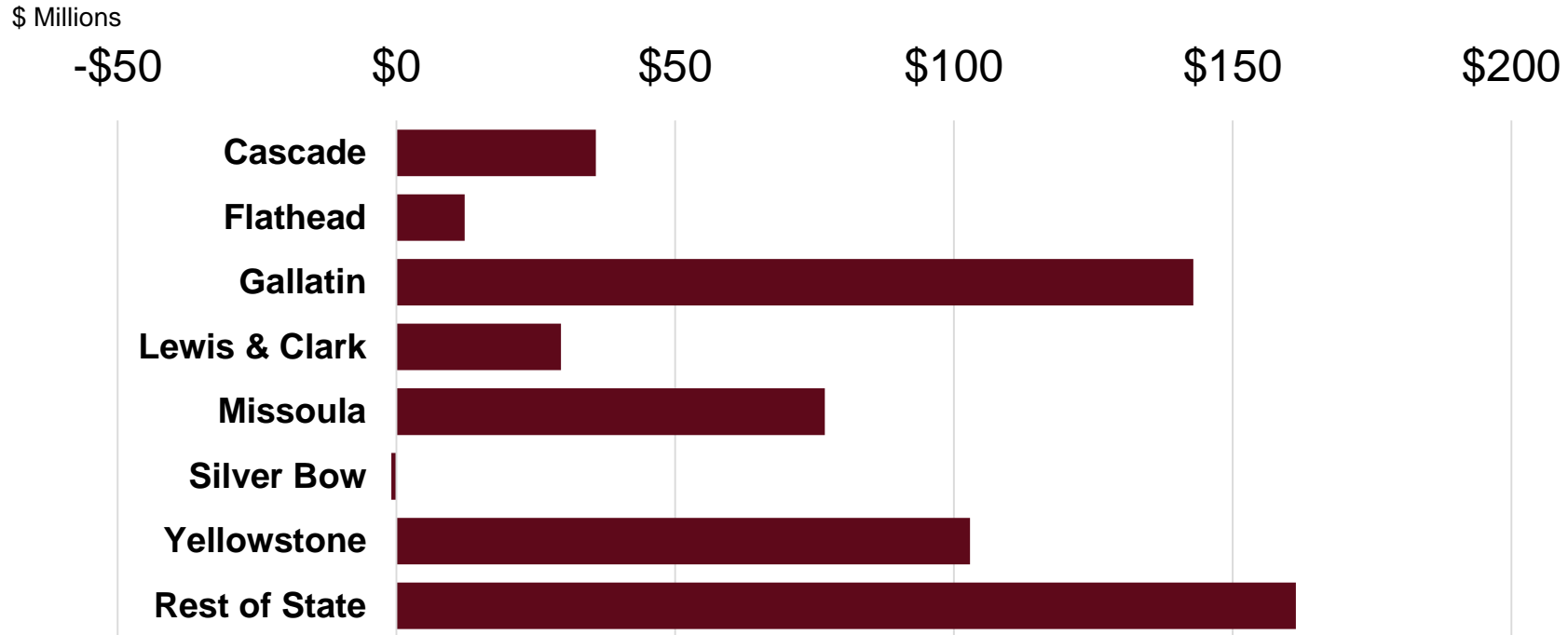
## Inflation Corrected Earnings Growth FY18-FY19



Source: U.S. Bureau of Economic Analysis

# Billings and Non-Urban Counties Performing Better

Change in Inflation-Corrected Wages by County, Montana, Through 2019Q2



Source: U.S. Quarterly Census of Employment and Wages

# Another Good Year for State Revenues

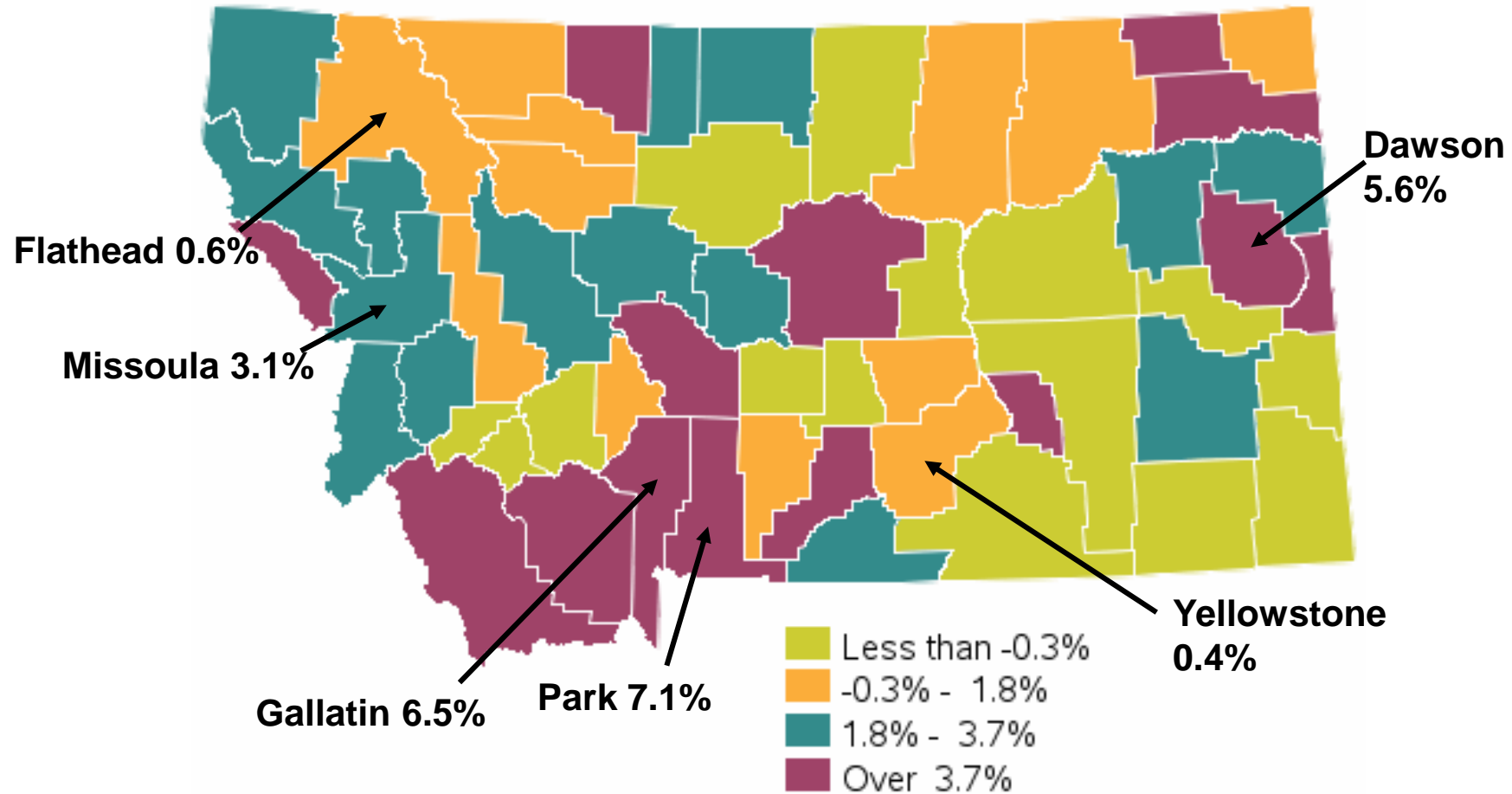
| General Fund Revenue Sources (\$ Millions) | FY 2015        | FY 2016        | FY 2017        | FY 2018        | FY 2019        | FY18-19      |             |
|--|----------------|----------------|----------------|----------------|----------------|--------------|-------------|
|  |                |                |                |                |                | Growth       | Pct. Growth |
| <b>Top Seven Sources</b>                   |                |                |                |                |                |              |             |
| Individual Income Tax                      | 1,175.7        | 1,184.8        | 1,168.2        | 1,297.8        | 1,429.0        | 131.2        | 10.1        |
| Property Tax                               | 247.9          | 257.1          | 260.2          | 276.4          | 289.2          | 12.8         | 4.6         |
| Corporation Income Tax                     | 172.7          | 118.4          | 134.0          | 167.1          | 186.5          | 19.4         | 11.6        |
| Vehicle Taxes & Fees                       | 106.4          | 108.5          | 109.2          | 109.5          | 109.5          | -            | -           |
| Oil & Natural Gas Production Tax           | 73.2           | 39.1           | 46.3           | 54.5           | 54.2           | (0.3)        | (0.6)       |
| Insurance Tax & License Fees               | 66.6           | 69.3           | 75.6           | 75.3           | 76.1           | 0.8          | 1.1         |
| Video Gambling Tax                         | 59.8           | 60.6           | 60.0           | 60.3           | 63.2           | 2.9          | 4.8         |
| <b>Other Selected Taxes</b>                |                |                |                |                |                |              |             |
| Lodging Taxes                              | 19.7           | 21.5           | 21.8           | 24.1           | 26.7           | 2.6          | 10.8        |
| Railroad Car Tax                           | 3.7            | 3.6            | 3.8            | 3.6            | 3.6            | -            | -           |
| Rental Car Sales Tax                       | 3.9            | 3.9            | 3.4            | 3.7            | 4.4            | 0.7          | 18.9        |
| Telecommunications Excise Tax              | 18.3           | 16.8           | 15.6           | 13.7           | 13.2           | (0.5)        | (3.6)       |
| Coal Severance Tax                         | 16.1           | 14.2           | 13.8           | 14.1           | 14.1           | -            | -           |
| Metalliferous Mines Tax                    | 8.3            | 4.2            | 4.8            | 6.3            | 6.9            | 0.6          | 9.5         |
| US Mineral Royalty                         | 27.0           | 16.8           | 17.3           | 20.1           | 21.6           | 1.5          | 7.5         |
| Wholesale Energy Tax                       | 3.8            | 3.5            | 3.5            | 3.6            | 3.5            | (0.1)        | (2.8)       |
| <b>General Fund Total</b>                  | <b>2,199.7</b> | <b>2,121.3</b> | <b>2,141.5</b> | <b>2,405.4</b> | <b>2,573.6</b> | <b>168.2</b> | <b>7.0</b>  |

Source: Montana Legislative Fiscal Division



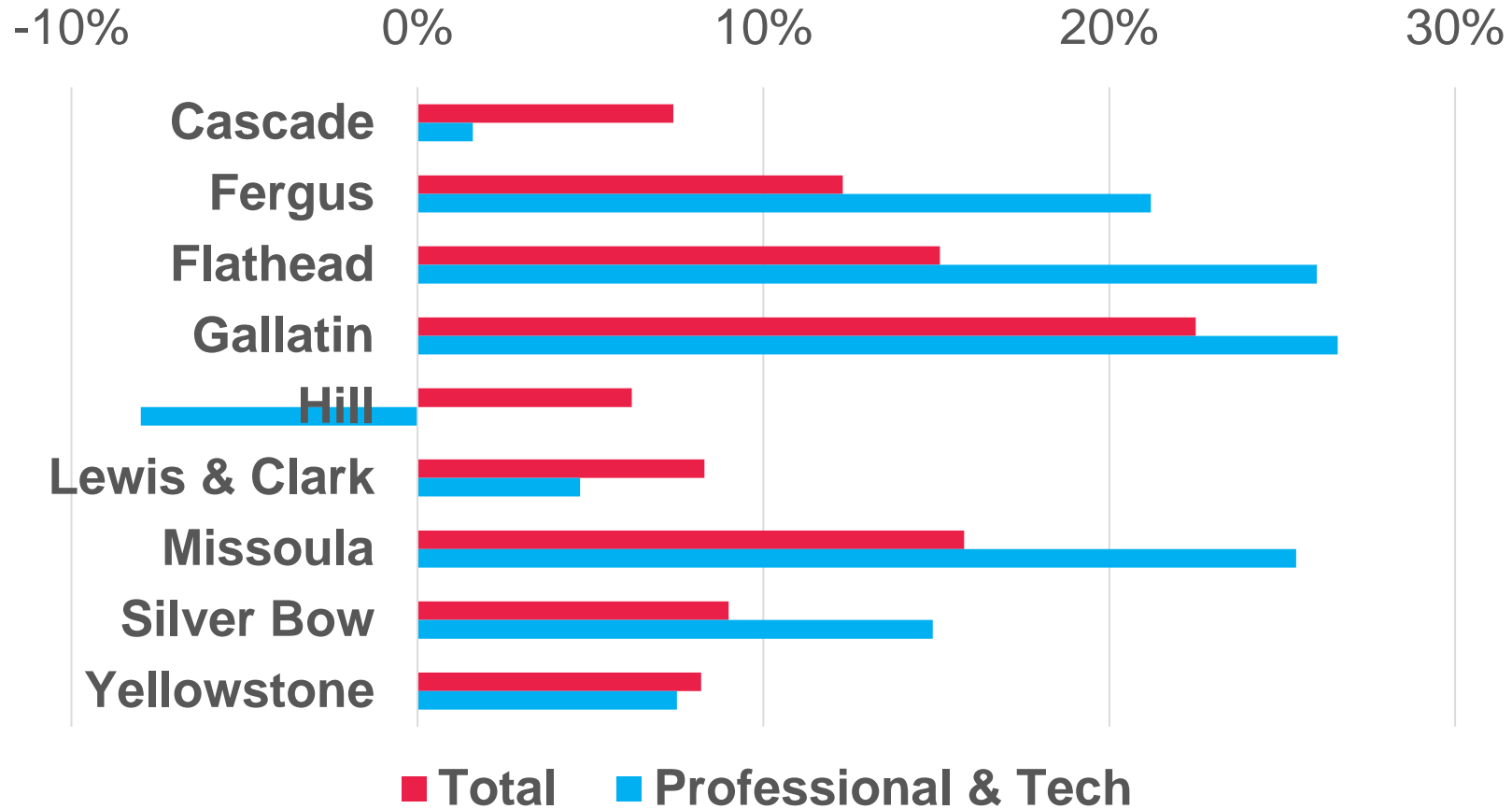
# Recent Growth Tilts West/Southwest

Percent Change in Real Wages, 18Q2-19Q2



# Tech Underlies the Faster Growth Since 2015

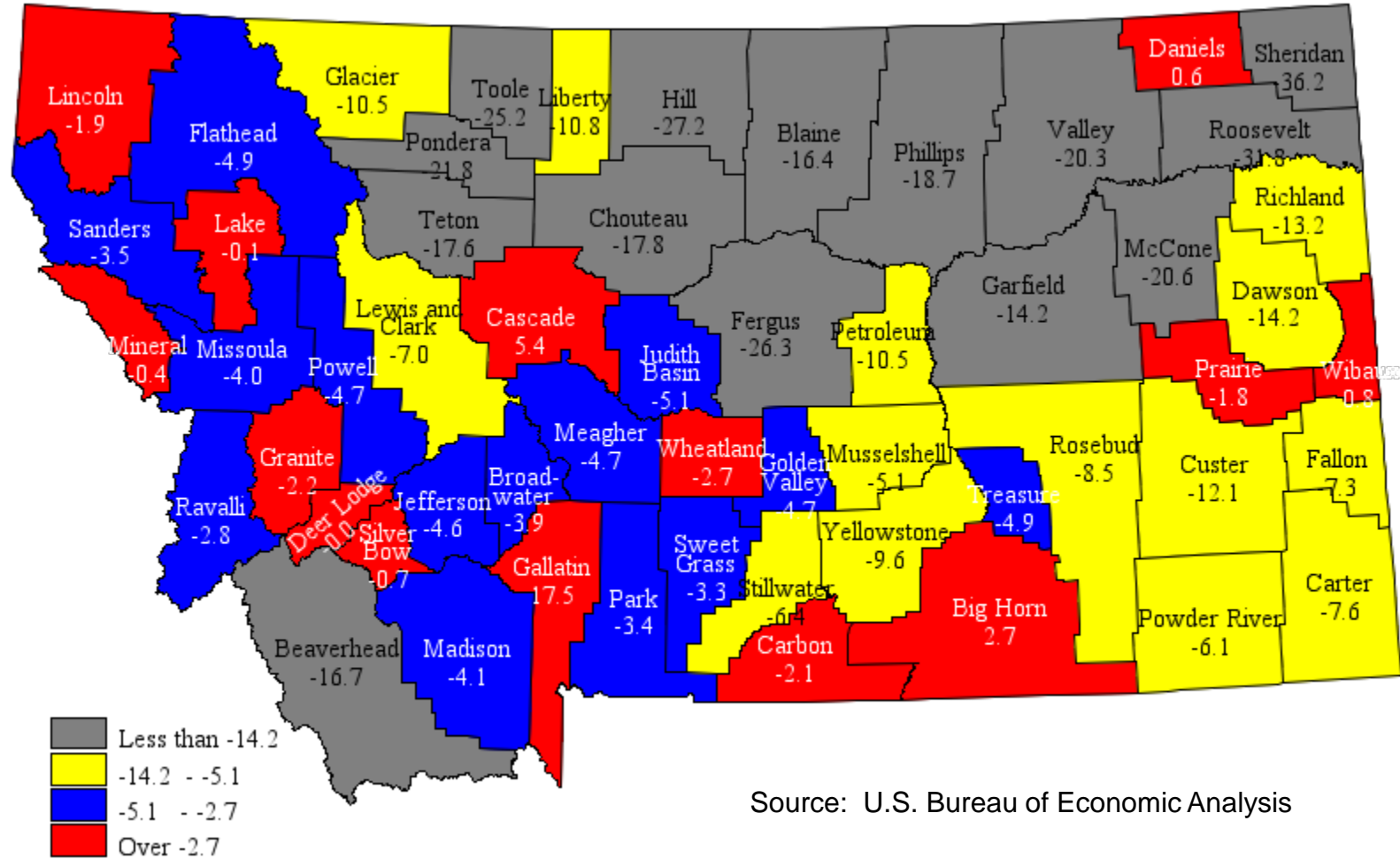
## Percent Growth in Earnings Since 2015



Source: U.S. Bureau of Economic Analysis

# Declines in Farm Earnings Are Widespread

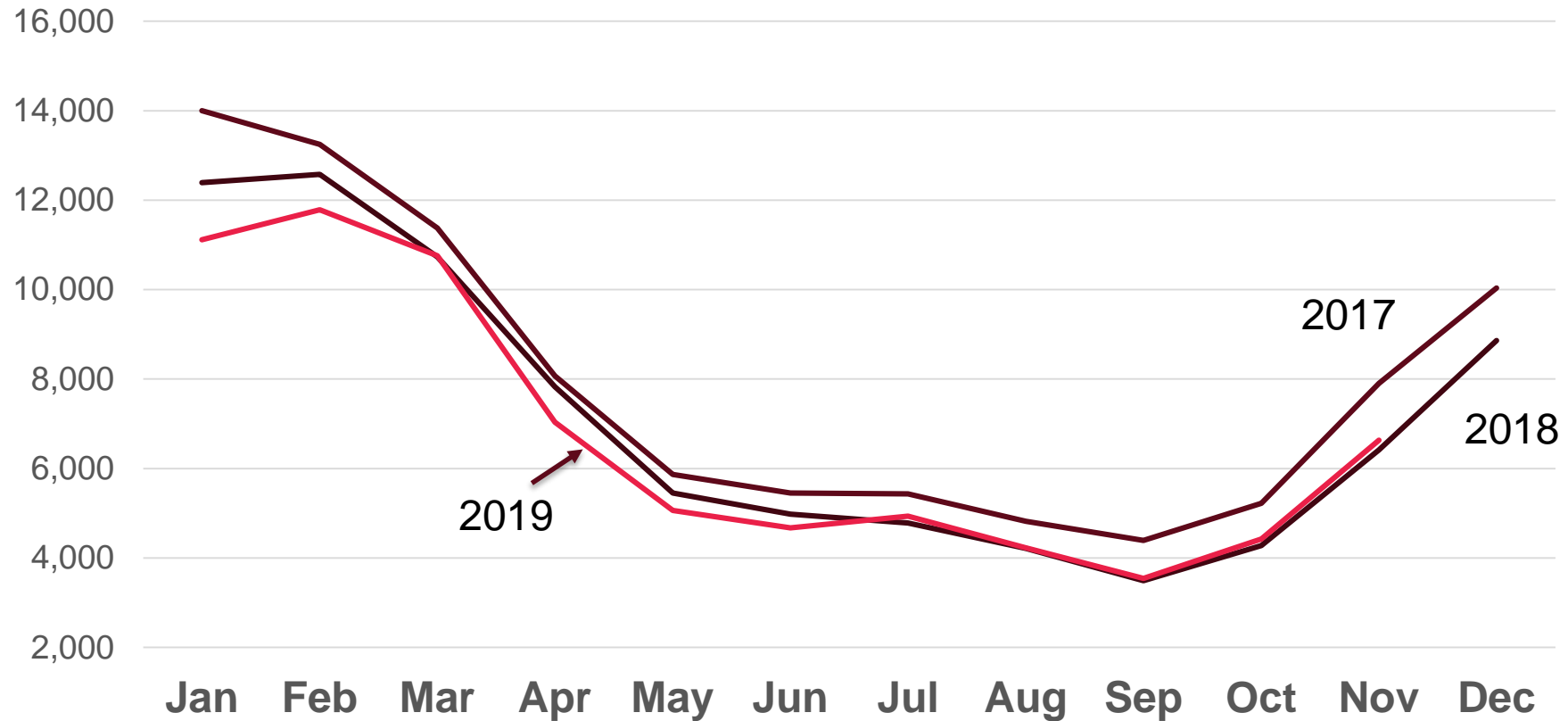
Change in Farm Earnings, 2018 vs. 2013, \$ Millions



Source: U.S. Bureau of Economic Analysis

# Montana Labor Market Still Tight

Unemployment Insurance Claims, 2017-19

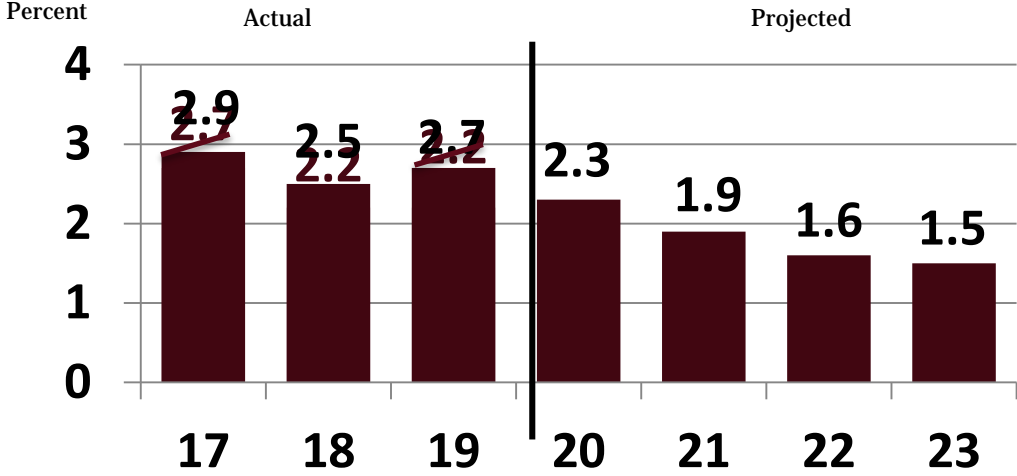


Source: Montana Department of Labor and Industry

# 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