The Montana and U.S. Economic Outlook: Is the Federal Government’s Footprint About to Shrink?

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The University of Montana
2013: Slow Growth Fatigue for U.S. Policymakers?

- Despite housing, consumer spending rebound, growth will be slower this year than 2012
- Labor market is still sick
- End of Federal Reserve stimulus is in sight
- U.S. budget debate still unresolved
Unemployment Rates Are Improving

Source: U.S. Bureau of Labor Statistics
Current Deficits Are Not the Issue

Federal Revenues and Outlays as a Percentage of GDP
Source: Congressional Budget Office Alternative Fiscal Scenario
What Kinds of Spending Are At Risk?

Percent of GDP

1973-2012 Average

- Social Security and Major Health Care Programs: 7.2%
- Net Interest: 2.2%
- All Other Spending: 11.6%

2023 Projection

- Social Security and Major Health Care Programs: 11.8%
- Net Interest: 3.7%
- All Other Spending: 8.3%
What Kinds of Spending Are At Risk?

Operations and Maintenance
Military Personnel
Operations and Maintenance

Other
Procurement

2010 Spending, Billions of Dollars
Source: Congressional Budget Office

Operations and Maintenance

Other
Procurement

Income Security
Justice
Health

Veteran Benefits
International

Education and Social Services
Transportation

Other

2010 Spending, Billions of Dollars
Source: Congressional Budget Office
Federal Spending per Dollar of Taxes Collected, 2005

Montana $1.49

Mississippi $2.11

New Jersey $0.68

Source: Tax Foundation
2012: A Better Year for Montana

• Strong income growth, but not quite as strong as state tax collections would suggest
• Evidence of energy activity is everywhere
• A glimmer of growth in the west
• Sitting out the party: retail and government
Real Wage Growth, Percent, 2011-2012
Where’s the Growth?
Total Real Wage Growth

Difference between Inflation-adjusted Wages and Salaries, 2012 vs. 2011
Where’s the Growth?
Mountain/Plains Real Wage Growth

$ Millions

Difference between Inflation-adjusted Wages and Salaries, FY2012 vs. FY2011
Real Wage Growth, Percent, 2011-2012
Where’s the Growth?
Montana Real Wage Growth

Difference between Inflation-adjusted Wages and Salaries, 2012 vs. 2011
Most Areas of State Are Expanding

Percent Growth, Real Wages

- Expanding
- Improving
- Contracting
- Slipping

Percent Growth, 2011-12 vs. Percent Growth, 2012Q4

- Cascade
- Lewis & Clark
- Flathead
- Missoula
- Yellowstone
- Gallatin
- Silver Bow
- Rest of State
Global Growth Has Stumbled

Percent Change in Real Gross Domestic Product
Source: Moody’s Analytics
## Commodity Prices: Favorable to Montana

### Materials & Foodstuffs (as of June 2013)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>Lumber ($ per Thous. BF)</td>
<td>336.90</td>
<td>430.64</td>
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<tr>
<td>Barley ($ per Bushel)</td>
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<tr>
<td>Beef ($ per Pound)</td>
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<td>Wheat ($ per Bushel)</td>
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### Metals & Energy (as of June 2013)

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<tr>
<td>Copper ($ per Metric Ton)</td>
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<td>9880.94</td>
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<tr>
<td>Lead ($ per Metric Ton)</td>
<td>968.17</td>
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<td>Zinc ($ per Metric Ton)</td>
<td>1112.90</td>
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<tr>
<td>Oil ($ per Barrel)</td>
<td>39.15</td>
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Montana goes into 2013 with good momentum, but some factors helping 2012 growth won’t be sustained.

- Softening in commodity prices and sluggish national growth are new headwinds.
- Optimism over new home construction.
Energy and Mining:

Drilling activity has tapered down on both sides of eastern border. Emerging economies deceleration taking some steam out of metals prices.
Outlook for Key Industries

Agriculture and Related:

Sustained high prices, but slightly off of last year’s high. Yield prospects good. Policy uncertainty ahead.

Composition of Earnings in Montana’s Basic Industries, 2010-12
Federal Military and Civilian:

Short and medium term risks have risen. Current mild declines expected to continue.

Composition of Earnings in Montana’s Basic Industries, 2010-12
Outlook for Key Industries

Nonresident travel:

Growth remains constrained by weak U.S. consumer spending.

Composition of Earnings in Montana’s Basic Industries, 2010-12
Change in Nonfarm Earnings, Montana, 2010-2016

Actual

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<td>'10</td>
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Projected

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Questions?