The Boom Begins to Slow

Updating the Outlook for the U.S. and Montana Economies

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Another Disappointing Year for the U.S. Economy

- U.S. economy grew by 1 percent in the first half of 2014
- Housing growth underwhelms
- Change at the Federal Reserve
- Autos and manufacturing are bright spots
- Inflation remains benign
- The crux of the problem – labor markets
Pattern of Job Recovery Holding Back Wage Growth

Percent Change in Employment During Recession and Recovery

Low Wage Growth Holding Back Home Construction

U.S. Housing Starts, Seasonally Adjusted Annual Rate, Thousands

Source: U.S. Census Bureau
Housing Starts
2013 as Percent of 2004
Factories Are Hiring to Meet Demand
U.S. New Orders and Employment for Manufacturing

Source: economy.com
Getting a Read on the Montana Economy

- More complete information on 2013 depicts slower growth in Montana than previously thought
- Government contraction, commodity price softening showing up in state economy
- Slower momentum carrying into 2014 evident from state tax collections
Percent Growth in Real Earnings by Industry, Montana

<table>
<thead>
<tr>
<th>Industry</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Percent Growth</th>
<th>2007 Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Non-Farm</td>
<td>111.6%</td>
<td>107.8%</td>
<td>98.4%</td>
<td>2.2%</td>
<td>2007 Level</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td>86.6%</td>
<td>92.2%</td>
<td>8.1%</td>
<td>2007 Level</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td>92.2%</td>
<td>3.6%</td>
<td>2007 Level</td>
</tr>
<tr>
<td>Prof. Services</td>
<td></td>
<td>111.6%</td>
<td>-2.1%</td>
<td>2007 Level</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>167.4%</td>
<td></td>
<td></td>
<td>2.0%</td>
<td>2007 Level</td>
</tr>
<tr>
<td>Retail Trade</td>
<td></td>
<td></td>
<td></td>
<td>98.4%</td>
<td>2007 Level</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
Percent Growth in Real Earnings by Industry, Montana

Transportation: 3.7% growth, 114.8% of 2007 level

Accommodations & Food: 4.4% growth, 114.5% of 2007 level

Health Care: 4.9% growth, 122.8% of 2007 level

Education: 6.1% growth, 122.0% of 2007 level

Administrative Support: -9.7% growth, 103.7% of 2007 level

Government: -1.8% growth, 104.4% of 2007 level

Source: U.S. Bureau of Economic Analysis
Job Growth Across the State, 2012-13
Wage Growth Pattern Differs
Percent Growth in Real Wages, 2012-13
Housing Starts as Percent of 2004, Montana and Cascade County

Source: University of Montana Bureau of Business and Economic Research
State Tax Collections Give First Glimpse of 2014 Growth

Income Tax Withholding
- FY12: [Bar Graph]
- FY13: [Bar Graph]
- FY14: [Bar Graph] 4.2%

Tourism-Related Taxes
- FY12: [Bar Graph]
- FY13: [Bar Graph]
- FY14: [Bar Graph] 4.9%

Metal Mining Taxes
- FY12: [Bar Graph]
- FY13: [Bar Graph]
- FY14: [Bar Graph] -20.9%

Oil and Gas Production Taxes
- FY12: [Bar Graph]
- FY13: [Bar Graph]
- FY14: [Bar Graph] 10.9%
Labor Income and Basic Industries, Montana

- **Energy, 13%**
- **Mining, 6%**
- **Wood and Paper, 3%**
- **Ag. and Related, 13%**
- **Travel, 11%**
- **Other Manufacturing, 11%**
- **Transportation, 11%**
- **Fed. Military, 9%**
- **Fed. Civilian, 22%**

**Updated Prospects**

- Strong Growth
- Challenges Ahead
- Smaller But Healthier
- Good Prospects
- Durable Growth
- Paul Polzin
- Disappointing
- Unknown
- Unexpected Declines
Change in Nonfarm Earnings, Montana, 2011-2017

- Actual:
  - '11: 1.8
  - '12: 3.2
  - '13: 2.2
  - '14: 2.4

- Projected:
  - '14: 2.6
  - '15: 3.1
  - '16: 3.1
Questions?