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

Source: Moody’s Analytics, U.S. Bureau of Labor Statistics
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

[Map showing housing starts as a percent of 2004 for different counties in Montana, with color coding for different percentage ranges.]
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
<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Growth</th>
<th>2007 Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Non-Farm</td>
<td>2.2%</td>
<td>107.8% of 2007 Level</td>
</tr>
<tr>
<td>Construction</td>
<td>8.1%</td>
<td>86.6% of 2007 Level</td>
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<tr>
<td>Manufacturing</td>
<td>3.6%</td>
<td>92.2% of 2007 Level</td>
</tr>
<tr>
<td>Prof. Services</td>
<td>-2.1%</td>
<td>111.6% of 2007 Level</td>
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<tr>
<td>Mining</td>
<td>2.0%</td>
<td>167.4% of 2007 Level</td>
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<tr>
<td>Retail Trade</td>
<td>2.0%</td>
<td>98.4% of 2007 Level</td>
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</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

- Cascade
- Flathead
- Gallatin
- Lewis & Clark
- Missoula
- Silver Bow
- Yellowstone
- Rest of State
Wage Growth Pattern Differs
Percent Growth in Real Wages, 2012-13
Housing Starts as Percent of 2004, Montana and Lewis and Clark County

Source: University of Montana Bureau of Business and Economic Research
Lewis and Clark County Growth in Real Wages, 2012-2013, $ Mill.
State Tax Collections Give First Glimpse of 2014 Growth

Income Tax Withholding

- FY12
- FY13
- FY14

4.2%

Tourism-Related Taxes

- FY12
- FY13
- FY14

4.9%

Metal Mining Taxes

- FY12
- FY13
- FY14

-20.9%

Oil and Gas Production Taxes

- FY12
- FY13
- FY14

10.9%
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
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<tr>
<td>'12</td>
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Questions?