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
Factories Are Hiring to Meet Demand
U.S. New Orders and Employment for Manufacturing

New Orders, $bill. (L)
Manufacturing employment, mill. (R)

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

- **Total Non-Farm**: 2.2%
  - 107.8% of 2007 Level

- **Construction**: 8.1%
  - 86.6% of 2007 Level

- **Manufacturing**: 3.6%
  - 92.2% of 2007 Level

- **Prof. Services**: -2.1%
  - 111.6% of 2007 Level

- **Mining**: 2.0%
  - 167.4% of 2007 Level

- **Retail Trade**: 2.0%
  - 98.4% of 2007 Level

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
State Tax Collections Give First Glimpse of 2014 Growth

- **Income Tax Withholding**
  - FY12: 4.2%
  - FY13: 4.9%
  - FY14: 4.2%

- **Tourism-Related Taxes**
  - FY12: 4.9%
  - FY13: 4.9%
  - FY14: 10.9%

- **Metal Mining Taxes**
  - FY12: -20.9%
  - FY13: -20.9%
  - FY14: -20.9%

- **Oil and Gas Production Taxes**
  - FY12: 4.9%
  - FY13: 4.9%
  - FY14: 10.9%
Labor Income and Basic Industries, Montana

Updated Prospects

- Strong Growth
- Challenges Ahead
- Smaller But Healthier
- Good Prospects
- Durable Growth
- Paul Polzin
- Disappointing
- Unknown
- Unexpected Declines

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%
Change in Nonfarm Earnings, Montana, 2011-2017

- Projected: 2014: 2.4, 2015: 2.6, 2016: 3.1
Questions?