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

-10 -5 0 5 10 15

<table>
<thead>
<tr>
<th>Low-Paying</th>
<th>Mid-Paying</th>
<th>High-Paying</th>
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</thead>
<tbody>
<tr>
<td>Peak to Trough</td>
<td>Trough to June 2014</td>
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</table>

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 start percentages by county 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
Percent Growth in Real Earnings by Industry, Montana

- **Total Non-Farm**: 2.2% growth, 107.8% of 2007 level
- **Construction**: 8.1% growth, 86.6% of 2007 level
- **Prof. Services**: -2.1% growth, 111.6% of 2007 level
- **Manufacturing**: 3.6% growth, 92.2% of 2007 level
- **Mining**: 2.0% growth, 167.4% of 2007 level
- **Retail Trade**: 2.0% growth, 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% decline, 103.7% of 2007 level
- **Government**: -1.8% decline, 104.4% of 2007 level

Source: U.S. Bureau of Economic Analysis
Housing Starts as Percent of 2004, Montana and Missoula County

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

Income Tax Withholding

<table>
<thead>
<tr>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
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<tr>
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<td>4.2%</td>
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Tourism-Related Taxes

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<tbody>
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Metal Mining Taxes

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<tr>
<td></td>
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<td>-20.9%</td>
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Oil and Gas Production Taxes

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<tbody>
<tr>
<td></td>
<td></td>
<td>10.9%</td>
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</table>
**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

**Paul Polzin**
Change in Nonfarm Earnings, Montana, 2011-2017

Actual

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<tr>
<th>Year</th>
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Projected

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Questions?