2014 ECONOMIC UPDATE
MANUFACTURING A BETTER MONTANA

REVIEWING THE 2014 OUTLOOK

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Montana Chamber of Commerce
OVERVIEW:

- All businesses regional outlook
- All businesses Montana outlook
- National manufacturers outlook and challenges
- Montana manufacturers outlook and challenges
OUTLOOK - ALL BUSINESSES

• Minneapolis Federal Reserve Bank 2013 Business Conditions Survey
• Minneapolis Fed 9th District:
  • ND, SD, MN, MI Upper Peninsula, Northwestern WI, MT
• Conducted Nov. 2013, released Jan. 2014
• 321 total respondents; 30 respondents from MT
2014 Outlook:
- VERY OPTIMISTIC: 8%
- SOMEWHAT OPTIMISTIC: 66%
- SOMEWHAT PESSIMISTIC: 23%
- VERY PESSIMISTIC: 2%

2013 Outlook:
- 56% optimistic
- 44% pessimistic
## OUTLOOK - ALL BUSINESSES

- Key indicators
- % responding “up”

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<thead>
<tr>
<th></th>
<th>All</th>
<th>Montana</th>
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<tbody>
<tr>
<td><strong>Sales:</strong></td>
<td>48% up</td>
<td>47% up</td>
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<tr>
<td><strong>Full-time Employees:</strong></td>
<td>30% up</td>
<td>44% up</td>
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<tr>
<td><strong>Capital Investment:</strong></td>
<td>31% up</td>
<td>38% up</td>
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<tr>
<td><strong>Productivity:</strong></td>
<td>69% up</td>
<td>62% up</td>
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Montana – 2014 Outlook

- **Very Optimistic**: 16%
- **Somewhat Optimistic**: 72%
- **Somewhat Pessimistic**: 13%
- **Very Pessimistic**: 0%

**MT 2013 Outlook:**
- 51% optimistic
- 49% pessimistic

**ND 2014 Outlook:**
- 86% optimistic (48% “very”)
- 14% pessimistic
MANUFACTURERS - NATIONAL OUTLOOK

• NAM/IndustryWeek Quarterly Survey
  • Released June 9, 2014
  • Quarterly since 1997
  • 326 respondents

• Outlook:
  • Optimism / bullish
  • Highest expected sales (up 4.1%) and capital investment (up 2.3%) in 2 years
  • See improving economy (75%); new product development (57%); increased efficiencies (49%)
MANUFACTURERS – NATIONAL OUTLOOK

“Somewhat positive” or “very positive” about current outlook:

- 2012:1 - 88.7%
- 2012:2 - 83.1%
- 2012:3 - 69.2%
- 2012:4 - 51.8%
- 2013:1 - 70.1%
- 2013:2 - 72.3%
- 2013:3 - 76.1%
- 2013:4 - 78.1%
- 2014:1 - 86.1%
- 2014:2 - 85.9%
MANUFACTURERS - NATIONAL CHALLENGES

• Despite positive outlook, manufacturers see challenges at the national level:
  • Slowness of growth in broader economy
  • Frustration with political process
    • Reauthorization of Ex-Im Bank
    • Funding Highway Trust Fund
    • Comprehensive tax reform
  • Burdensome regulatory, tax, and health care policies
**Top challenges identified:**

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<tr>
<th>Challenge</th>
<th>Percentage</th>
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<tr>
<td>Rising health care/insurance costs</td>
<td>72.7%</td>
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<tr>
<td>Unfavorable business climate (e.g., taxes, regulations, government uncertainties)</td>
<td>71.4%</td>
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<tr>
<td>Attracting and retaining a quality workforce</td>
<td>50.3%</td>
</tr>
<tr>
<td>Weaker domestic economy and sales for our products</td>
<td>43.5%</td>
</tr>
<tr>
<td>Rising energy and raw material costs for our products</td>
<td>39.4%</td>
</tr>
<tr>
<td>Weaker global growth and slower export sales</td>
<td>23.0%</td>
</tr>
<tr>
<td>Challenges with access to capital or other forms of financing</td>
<td>6.5%</td>
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UM BBER 2013-2014 Montana Manufacturers Survey

Outlook:

- Positive
- Expectations of higher sales, increased production levels, greater profits
- 47% expect improved conditions
- 90% expect to keep employment levels
- Less than 10% expect declines in production, prices, and sales
- 40% are planning major capital expenditures
- 60% expect cost of inputs to increase
MANUFACTURERS - MONTANA OUTLOOK

Employment Outlook for 2014 by Montana Manufacturing Sector

- Increase from 2013
- Same as 2013
- Decrease from 2013

Source: Bureau of Business and Economic Research, University of Montana.
• Top challenges identified:
  • 80% ranked health insurance costs as the top issue
  • 63% ranked worker’s compensation rates as very important
  • 57% identified shortages of qualified workers as very important
  • Montana manufacturers do not fear foreign competition, ranking it the least important issue they face
MANUFACTURERS – MONTANA CHALLENGES

**Other Business-Related Issues**

- Workers’ Comp Rates
- Workers’ Comp Rules
- Health Insurance Cost
- Cost of Energy
- Availability of Qualified Workers
- Cost of Workforce Development
- Foreign Competition
- Raw Material Availability

Source: Bureau of Business and Economic Research, University of Montana.
MONTANA CHAMBER OUTLOOK

- Continued growth in oil & gas development (Bakken), fueling another budget surplus next session
- But uncertainty in natural resource development
  - Effect of EPA carbon emission rules on coal and potentially natural gas development
  - Effect of greater sage-grouse listing in the ESA on natural resource development
- Uncertainty in health care market, ACA employer mandate delayed until 2015
- Housing starts rebounding compared to 2013 in major areas except for Helena, Billings, and Butte
  - But far behind 2006 levels