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UNIVERSITY OF MONTANA ECONOMIST SCALES BACK MONTANA'S ECONOMIC FORECAST SLIGHTLY

MISSOULA--

A University of Montana economist has scaled back his forecast of the state's economic performance for 2008 and 2009 – from 4 percent annual growth to 3.3 percent.

“A lot of things have happened since we released an optimistic forecast back in February,” according to Patrick Barkey, director of UM's Bureau of Business and Economic Research. “We did our best to assess and incorporate all of the happenings in the national and global economies into our midyear forecast. Since that time, major events – particularly on Wall Street – have burst into the news anew.”

In addition to a financial crisis, the national housing market is in disarray – home prices have not yet hit bottom, new home construction has plunged, and the spending power that consumers used to take out of their once-rising home equity has evaporated, Barkey said. And energy prices remain very high.

“All of these factors add up to a recession for the U.S. economy in the second half of 2008,” Barkey said. “The question of how long and how severe that recession will be is still in play.”

So what's ahead for the Montana economy?

“It's a tougher question to answer than you would think,” Barkey said. “The most up-to-date data we have also tends to be the most unreliable because it is revised and then revised again as better more complete data become available.”

The state-level employment and personal income data are encouraging, he said. Montana's year-over-year payroll employment growth of 1.3 percent over the last 12 months was better than all but four of the 50 states, Barkey said. Non-farm labor income grew at an annual rate of 4.6 percent during the first quarter of 2008 and 4.5 percent during the second quarter. These figures were down from where they were at this same time last year – 5.7 percent to 6.5 percent, respectively, which is consistent with the modest slowing BBER is predicting. Like other mountain states with strong basic industries such as natural resources and agriculture, trends are more influenced by the fast growth in China and other developing countries than by the U.S. economic slowdown.

Other news on the state's important industries is more mixed. The era of robust growth in construction ended in Montana in mid-2007, and employment trends are now stable, which is better than the rest of the country where steep declines are the norm, Barkey said.

A more severe than expected U.S. recession is always a risk to BBER's forecast for the Montana economy, Barkey said. The impacts of the last two recessions (in 2001-02 and 1990-91) have been milder in Montana than the national average. But if the events of recent weeks – the bank failures and takeovers, the demise of the investment banking industry, and the end of Fannie Mae and Freddie Mac's sway in mortgage markets – result in a longer, deeper U.S. recessions, its impact will be felt in Montana.

For more information on Montana's economy, go to www.bber.umt.edu or call (406) 243-5113.