

The Montana Outlook

Changing Conditions Lead to Changed Forecast

by Paul E. Polzin

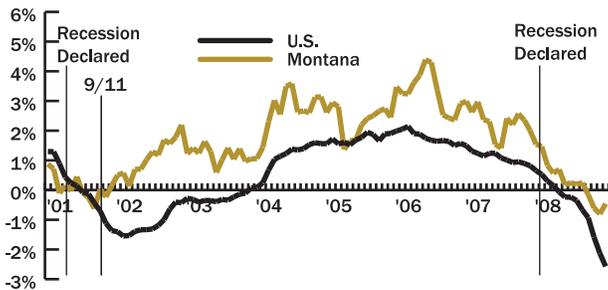
Montana's economic outlook has darkened during the past year as a national economic slow-down concentrated in a few industries (most of which aren't important here) spread to more and more sectors (some of which are important here). The Bureau slightly lowered its forecast at midyear 2008 to account for the deterioration then present. The current

forecast (Figure 6) calls for barely positive growth in 2009, with modest accelerations to 2.2 percent in 2012.

The blows to the Montana economy include (in rough order of appearance):

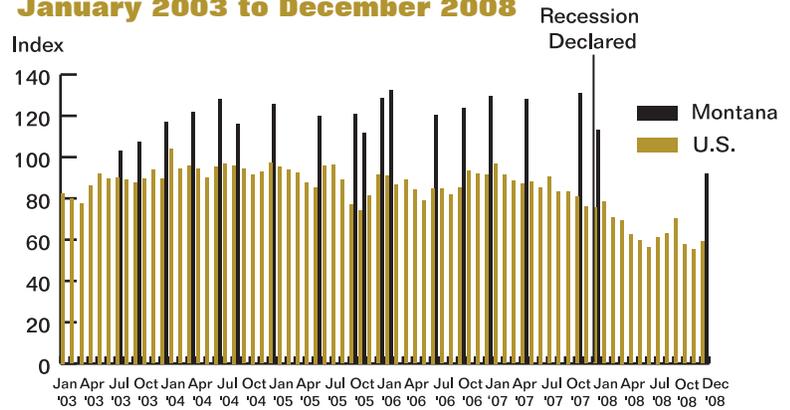
- Closures and shutdowns in the wood products industry.
- Construction plummeting and real estate stalled, with Missoula house prices now turning negative.

Figure 1
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2008



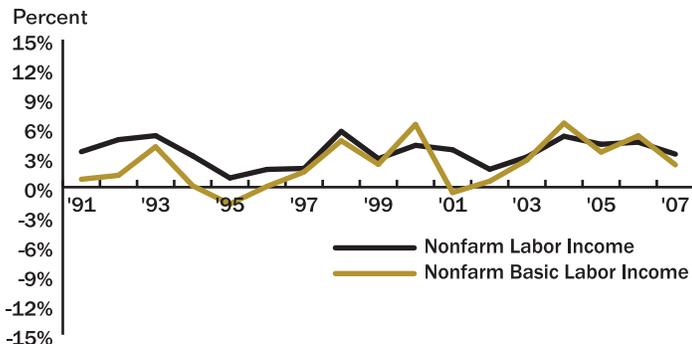
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 2
Index of Consumer Sentiment, U.S. and Montana, January 2003 to December 2008



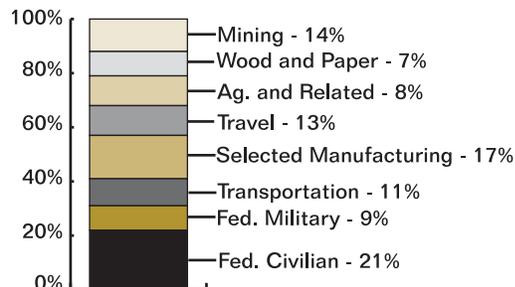
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, [in constant dollars]



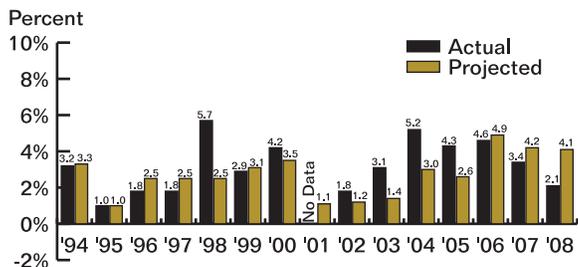
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Labor Income in Basic Industries, Montana, 2005-2008 [percent of total]



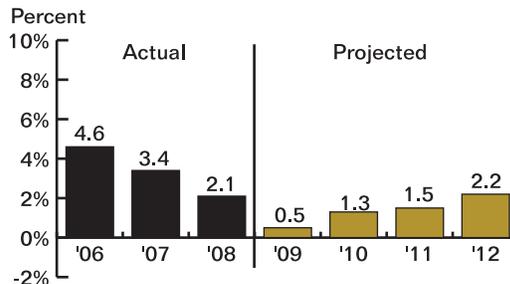
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce

Figure 5
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1994-2008



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 6
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 2006-2012



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

- Announced closing of Columbia Falls Aluminum Company.
- Wheat prices plummet. Agriculture's record revenue growth confined to a single year.
- Plunging metal prices lead mines to issue precautionary layoff notices.
- Announced layoffs in high-tech and other manufacturing industries.

The house price bubble is bursting in Montana, but the impacts so far are not as disastrous as elsewhere in the nation. Single family house prices in Montana eked out a 0.3 percent increase from the fourth quarter of 2007 to the fourth quarter of 2008 (Table 1). Nationwide, house prices declined 4.5 percent during the same period. Missoula County was the only major urban area to post a decline – house prices decreased 1.0 percent from the fourth quarter of 2007 to the fourth quarter of 2008. We do not, however, have data for the highflying housing markets in Gallatin and Flathead

counties because the U.S. government does not publish that information. House prices increased 0.5 percent in Cascade County and 3.6 percent in Yellowstone County between the fourth quarter of 2007 and the fourth quarter of 2008. In every case, there has been a significant deceleration in house prices. For example, the Yellowstone County change in house price decelerated from 9.0 percent to 7.2 percent to 3.6 percent between 2005 and 2008.

In addition to the events in the basic industries, there is now an additional negative factor impacting Montana's economy – abysmal consumer sentiment. As shown in Figure 2, Montana's Consumer Sentiment Index has consistently been above U.S. index since 2003. But, the December 2008 figure for Montana is an all-time low since it was first calculated in 1982. The downward trend in Montana consumer sentiment since late 2007 has mirrored national trends. This erosion in consumer sentiment helps to explain the weakness in November and December data for certain retail trade sectors in Montana.

Table 1
Index of Single-Family Home Prices, Annual Percent Change

	Missoula County	Cascade County	Yellowstone County	MT	US
2007Q4 - 2008Q4	-1.0	0.5	3.6	0.3	-4.5
2006Q4 - 2007Q4	2.9	7.5	7.2	6.5	0.6
2005Q4 - 2006Q4	7.5	9.1	9.0	8.3	3.8

Source: U.S. Office of Federal Housing Oversight.

Table 3
Population, Montana and Regions, 1990-2010

	Thousands of Persons				Average Annual		
	Actual		Projected		Percent Change		
	1990	2000	2007	2010	1990-2000	2000-2007	2007-2010
Montana	800	902	957	980	1.2%	0.8%	0.8%
West	335	400	428	450	1.8%	1.0%	1.7%
Missoula	79	95	106	108	1.9%	1.6%	0.6%
Flathead	60	75	87	93	2.3%	2.1%	2.2%
Silver Bow	34	35	33	37	0.3%	-0.8%	3.9%
Lewis and Clark	48	56	60	61	1.5%	0.9%	0.4%
Ravalli	25	36	40	43	3.7%	1.5%	1.9%
Rest of West	89	103	102	108	1.5%	-0.1%	1.5%
North-Central	181	183	184	184	0.1%	0.1%	0.0%
Cascade	78	80	82	82	0.3%	0.4%	0.0%
Hill	18	17	17	17	-0.6%	0.0%	0.0%
Fergus	12	12	11	12	0.0%	-1.2%	2.2%
Rest of North-Central	73	74	74	73	0.1%	0.0%	0.3%
Southeast	284	319	345	346	1.2%	1.1%	0.1%
Yellowstone	114	128	140	145	1.2%	1.3%	1.2%
Gallatin	51	68	87	89	2.9%	3.6%	0.8%
Richland	11	10	9	11	-0.9%	-1.5%	3.6%
Custer	12	12	11	12	0.0%	-1.2%	2.9%
Rest of Southeast	96	101	98	90	0.5%	-0.4%	-2.8%

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

The Bureau's forecasts are summarized in Figure 6. We are currently anticipating that Montana's economy will grow about one half of 1 percent in 2009. Depending on the risk factors mentioned below, the actual figure could turn out to be a decline of one half of 1 percent. We are sure of one thing, however: 2009 will probably be the worst year for the Montana economy in decades. The last year the state's economy grew less than 2 percent was 1996, and the year 1988 was the last year we posted a decline.

The Bureau believes the Montana economy will follow the national economy and begin to recover in 2010 when the projected growth is 1.3 percent. Notice that the overall projected rates of growth in 2010, 2011, and 2012 are generally less than those of 2006 and 2007. The growth in 2006 and 2007 (as well as the years before) was buoyed by the unsustainable bubbles in construction and real estate. It will be many years before these sectors eliminate the current excess supplies and return to "normal."

There are a number of risks to the forecast. First of all, there are always concerns about the weather, insects, and volatile agricultural incomes.

Secondly, the actual 2009 outcome will depend on how many more layoffs and closures are announced and whether or not they actually materialize. It could be that the commodity price decline is now over and some of the mining layoffs may be delayed or cancelled. On the other hand, the state's small but important high-tech manufacturing industries may be facing further difficulties, as they did during the 2001 recession. High-tech manufacturing is concentrated in Flathead County and the Bozeman area.

Thirdly, the financial gridlock may worsen. U.S. credit flows have dried up and this suggests a dearth of investment spending in the future. This will impact Montana as well as the rest of the nation.

Finally, the U.S. recession may get even worse. If the malaise spreads to more sectors of the national economy, some of these impacts will be felt here in Montana.