

# Montana Economic Outlook

## Smooth Sailing Toward a Cliff?

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Montana Profile	
Total Population, 2012	1,005,141
Percent Change in Population, 2000-2010	9.7%
Median Age, 2011	39.8
Percent 65 or Older, 2011	14.6%
Percent of Population with Bachelor's Degree or Higher, 2011	28.2%
Median Household Income, 2011	\$45,324
Percent of Population without Health Insurance Coverage, 2011	17.7%
Unemployment Rate, 2012	6.1%

Sources: American Community Survey, U.S. Census Bureau; Research and Analysis Bureau, Montana Department of Labor and Industry.

A lot of things started to fall into place for the recovering Montana economy in 2012. Income growth was strong, thanks to robust energy activity in the eastern part of the state and a swing to growth in the harder hit cities in the west. Grain and cattle prices remained fairly high, and the state escaped the full brunt of

the summer drought that devastated Corn Belt farm production. And after five years of decline, housing prices finally started to rebound in markets across the state.

We estimate that the state economy grew by about 2.7 percent, as measured by inflation-adjusted nonfarm earnings, in 2012. This estimate exceeds the forecast we made last year for 2012 of 2.0 percent. It also is above the U.S. overall growth for the same time period.

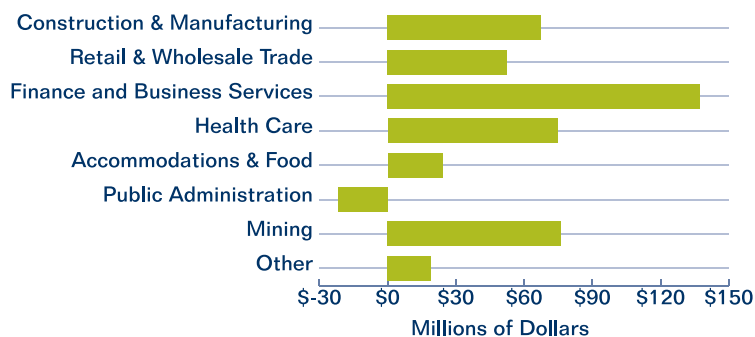
The state managed this better-than-expected performance during a year of tepid national growth for a number of reasons:

- Strong growth continued in mining industries, particularly oil and gas activities, primarily concentrated in the eastern counties but also affecting Billings (see Figure 1);

- Stronger than anticipated growth in professional business services in Yellowstone, Flathead, and especially Gallatin counties, with the latter seeing a very large, one-time boost in earnings that resulted from the sale of software company RightNow Technologies to Oracle;
- A resumption of stronger growth in health care earnings across all major Montana markets;
- High activity in construction, particularly heavy construction, in Billings and in the eastern counties related to energy development.

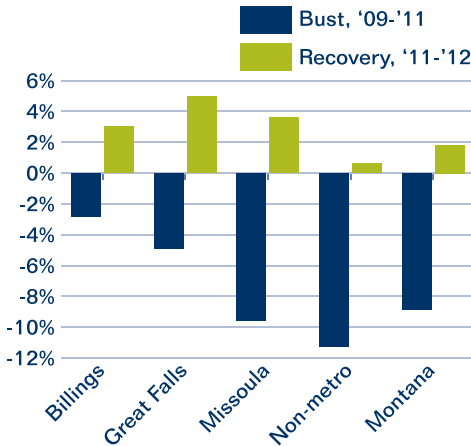
An additional factor supporting stronger growth that is not reflected in wage and salary figures shown in Figure 1 was the performance of

**Figure 1**  
**Growth in Inflation-Adjusted Wages and Salaries, Montana, FY 2011-2012**



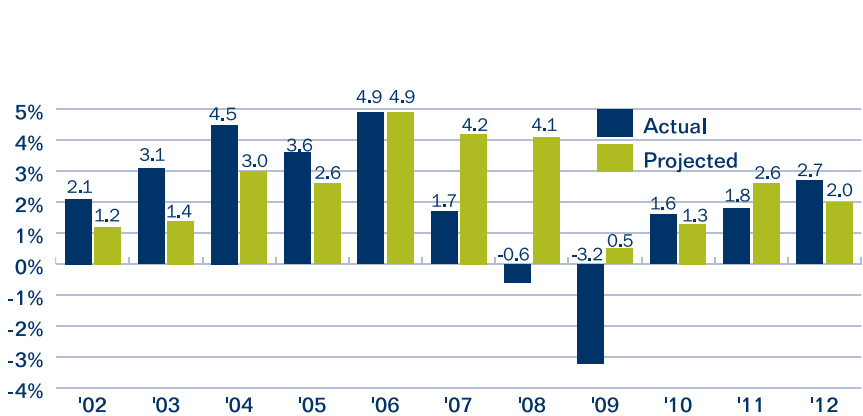
Sources: Quarterly Census of Employment and Wages and Bureau of Economic Analysis.

**Figure 2**  
**Bust vs. Recovery, Percent Change in Montana Home Price Index**



Source: Federal Home Finance Agency.

**Figure 3**  
**Actual and Projected Change in Nonfarm Earnings, Montana, 2002-2011**



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

Montana’s ranchers and farmers. While the summer drought affected yields for some crops, most notably hay, others were less affected and with continued high prices it was a reasonably good revenue year.

The state’s economic performance also has been reflected in state revenue collections. Both income tax and corporate tax collections grew strongly in fiscal year 2012, posting growth (not adjusted for inflation) of 10.3 and 7.5 percent, respectively. Minus these two large items, however, general fund revenues were essentially flat.

### Looking Ahead to 2013 and Beyond

The year ahead will certainly present challenges to the state in trying to repeat last year’s performance. Not only is the U.S. economy expected to have another slow-growth year in 2013, but Europe, Japan, and the developing economies of India, Brazil, and even

China are projected to turn in worse growth than 2012, with the first two areas experiencing recessions. That’s putting less froth into commodity markets, and many prices are expected to, at best, move sideways in the coming year. The weakness in consumer spending experienced both nationally and here in Montana is expected to continue, as households continue to save more and shed debt. And the fiscal cliff negotiations in Congress present a completely new and unwelcome source of uncertainty for the future.

Other trends are working in favor of stronger growth. Of these, the most important is the emerging evidence that the housing bust is over. Between the spring of 2009 and the summer of 2011, housing prices declined by an average of 8.8 percent statewide as real estate markets and new home construction slumped badly (Figure 2). The national price decline was 17.3 percent.

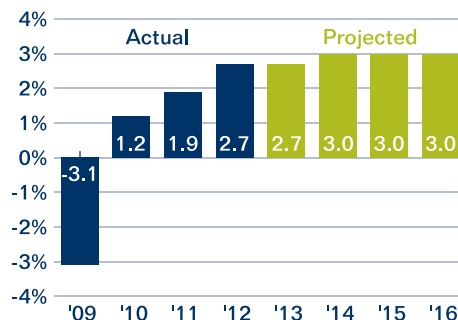
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**Figure 4**  
**Earnings in Basic Industries,**  
**Montana, 2010-2012,**  
**Percent of Total**

13%	Energy
6%	Mining
13%	Wood and Paper, 3% Ag. and Related
11%	Nonresident Travel
11%	Selected Manufacturing
11%	Transportation
9%	Federal Military
22%	Federal Civilian

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

**Figure 5**  
**Actual and Projected Change**  
**in Nonfarm Earnings,**  
**Montana, 2009-2016**



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

Since the mid-point of 2011, this trend has reversed, and a trend of gradual increases in prices has taken hold across Montana's major markets. Early evidence suggests that new construction, especially multifamily units serving rental markets, has responded with modest increases. We expect residential construction to improve significantly in 2013.

## The Montana Forecast

Our outlook for the state calls for the stronger growth experienced in 2012 to continue. Statewide we expect to see growth in inflation-adjusted nonfarm earnings build to a peak of 3.0 percent by 2014. (Figure 5) In addition to the U.S. and global economic projections, this outlook is based on the assumption that:

- Oil prices remain high enough to support investments already

under way and those near implementation. Low natural gas prices, however, will continue to impact drilling and continue to put pressure on coal;

- Commodity and agriculture prices continue at or possibly slightly lower than current levels;
- Gradual improvement in new home construction in markets across Montana;
- Continued pressure on government spending at all levels.

Even though some of the spending cuts and tax increases at the federal level that made up the "fiscal cliff" have been postponed, plenty of thorny issues abound in Washington that could throw a monkey wrench into these projections. The across-the-board spending cuts imposed by the budget agreement Congress reached in the summer of 2011, in particular, have only been

postponed for two months. Even more importantly, Treasury borrowing will soon hit the debt ceiling, requiring Congressional action to raise the limit or risk government shutdown or even default. No one looks forward to a repeat of the acrimonious debate and brinksmanship that surrounded the last debt-ceiling crisis, yet the ingredients for another divisive episode are there.

We think that Congress will act responsibly and avoid creating a situation that jeopardizes either our nation's credit or the economic recovery, and these projections reflect that belief. We expect to see no tax or spending adjustments for the remainder of 2013, with higher taxes and spending restraint unfolding gradually in the following years. <sup>13</sup>