

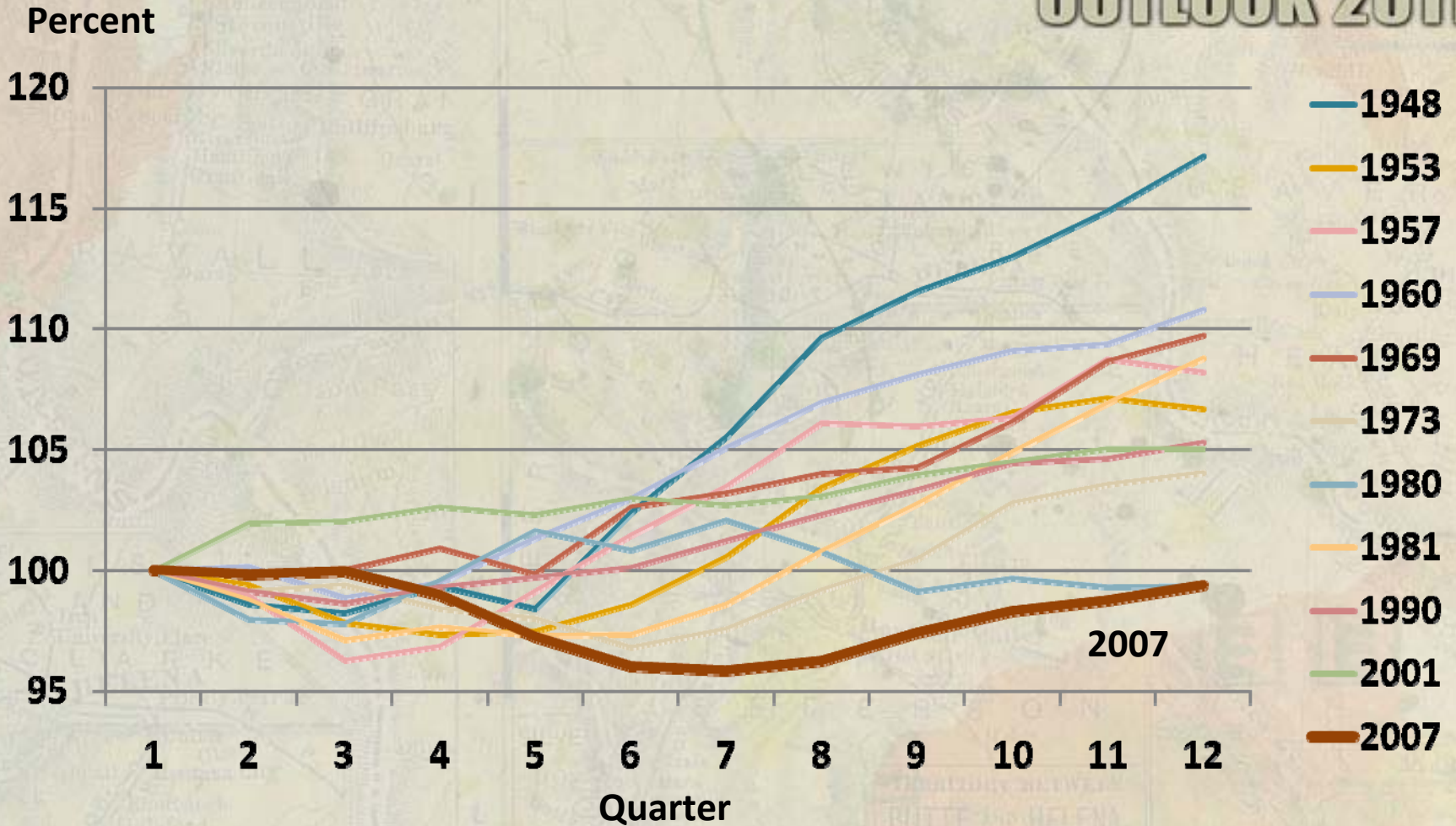
PAYING FOR THE RECESSIO**N**



Rebalancing Montana's Economy

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Longest and Deepest Recession Since WW II



Real Gross Domestic Product as a Percent of pre-Recession Peak
 Source: U.S. Bureau of Economic Analysis

Economic Balance: A Process Not an Outcome

Consumption

Saving

Supply

Exports



Production

Investment

Demand

Imports

Signs of Economic Imbalance

1. Housing Price Boom
2. Low Savings and High Borrowing
3. Global Trade Imbalances
4. Government Deficits

“Things that can’t go on
forever usually don’t”

-Herbert Stein, Nixon Policy Advisor, 1973.

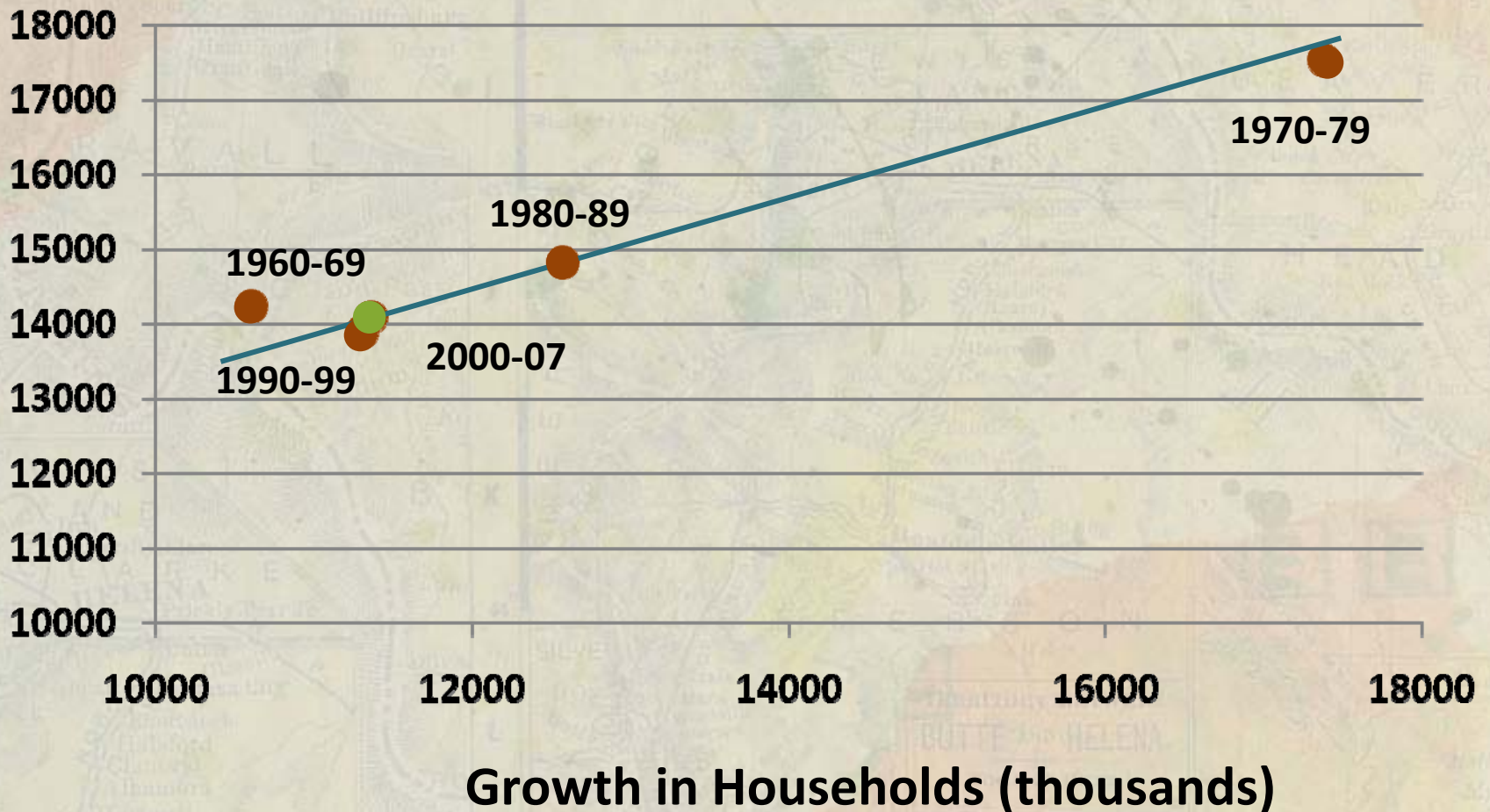
The Recession Corrected Some



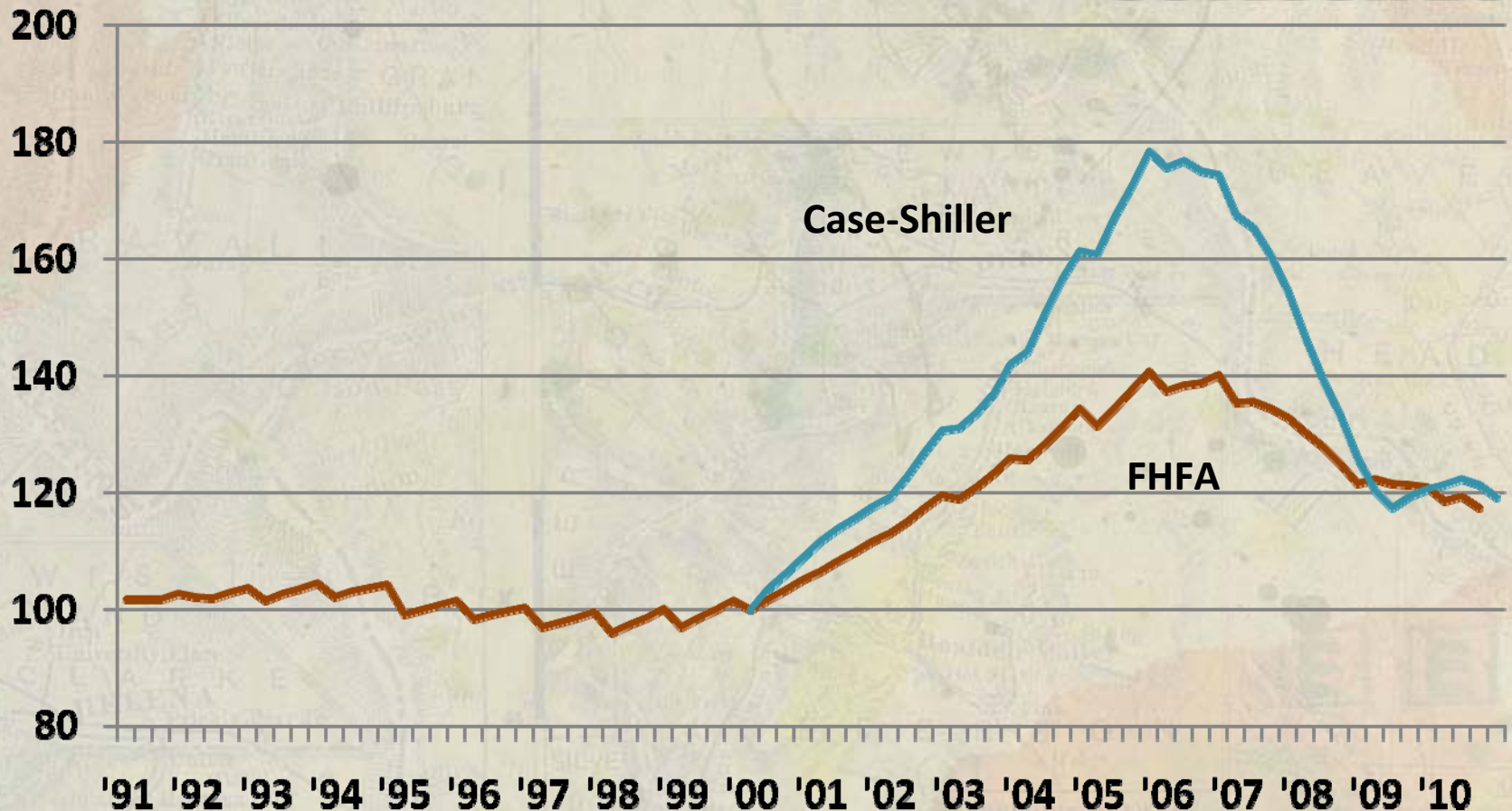
1. Housing Price Boom ✓
2. Low Savings and High Borrowing ✓
3. Global Trade Imbalances **No**
4. Government Deficits **Getting Worse**

New Home Construction Right in Line with Fundamentals

New Home Construction (thousands)



Housing Price to Income Ratio Comes Back to Earth



Ratio of Home Price Index to Median Household Income, U.S., Index Jan 2000 = 100

Consumers are shedding debt

Household financial obligations as a percent of disposable personal income



Percent



Households Are Saving More of Their Income

Percent



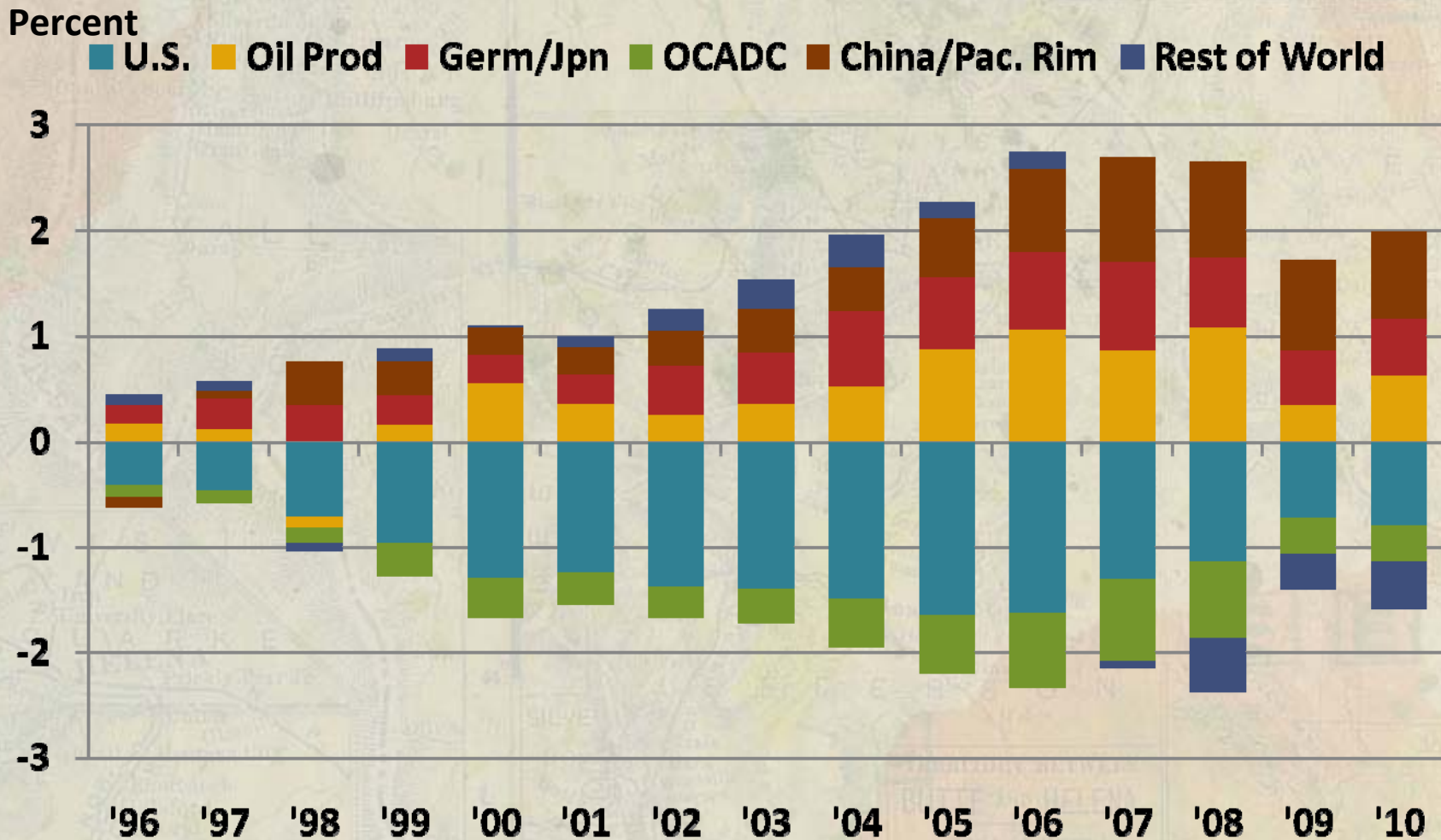
U.S. Savings as Percent of Disposable Personal Income.

Source: Bureau of Economic Analysis and IHS Global Insight.

Current Account Surpluses and Deficits as a Percentage of World GDP

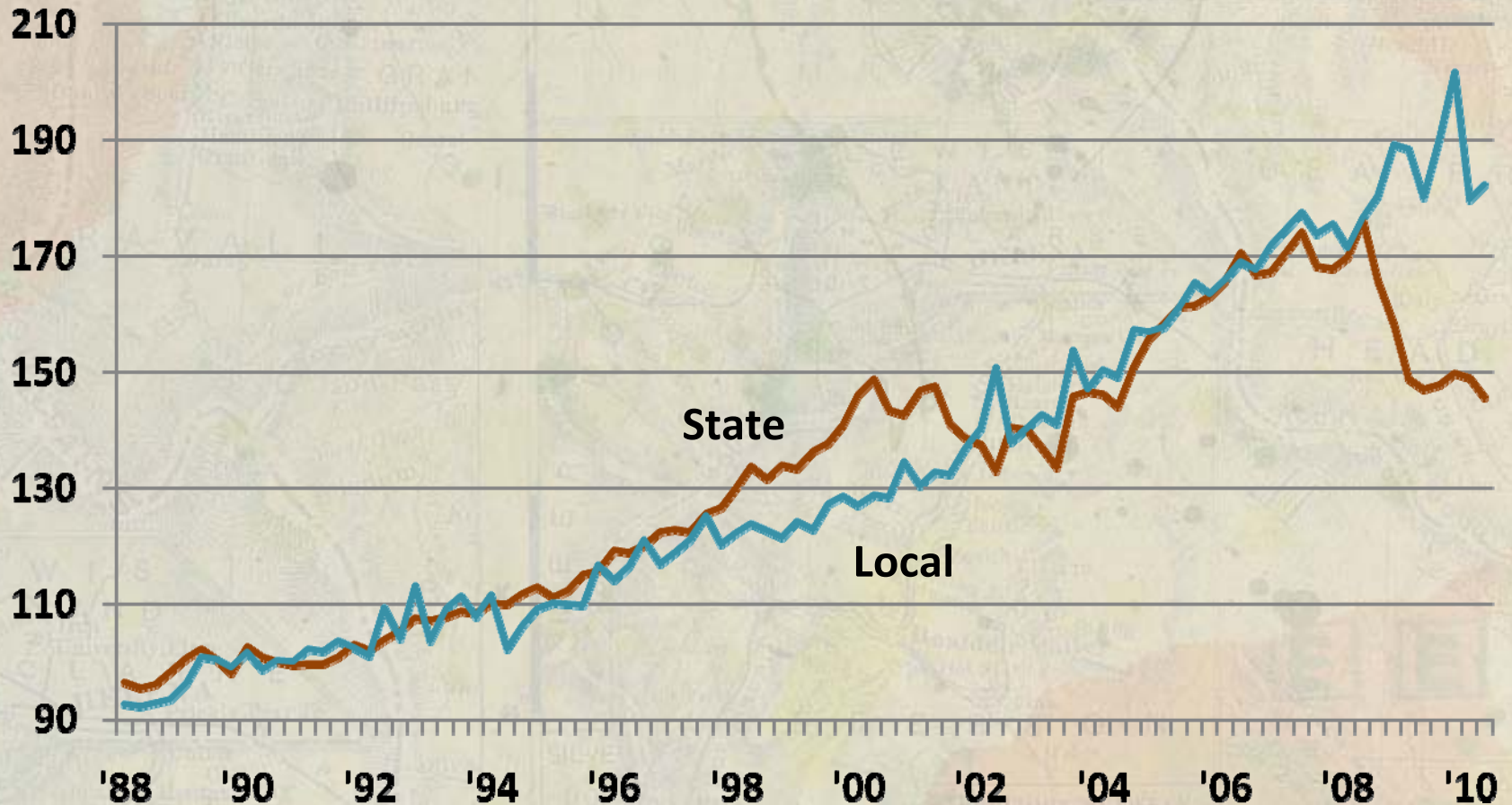


OUTLOOK 2011



Total Tax Collections by State and Local Governments, Inflation-Adjusted and Seasonally Adjusted. Index, 1989Q1 = 100

Index, 1989Q1=100



Source: U.S. Census Bureau.

Challenges to Status Quo for State and Local Governments

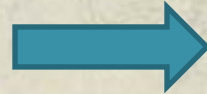


- Budget deficits from recession: \$140 bill. in FY11, \$102 bill. in FY12
- End of stimulus
- Property tax declines lag changes in property values
- Medicaid obligations are growing
- Underfunded pensions

Public Pension Shortfalls: Worse Than You Think



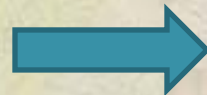
Pew Center for the States estimates total shortfall at end of FY 2008.



\$1 Trillion

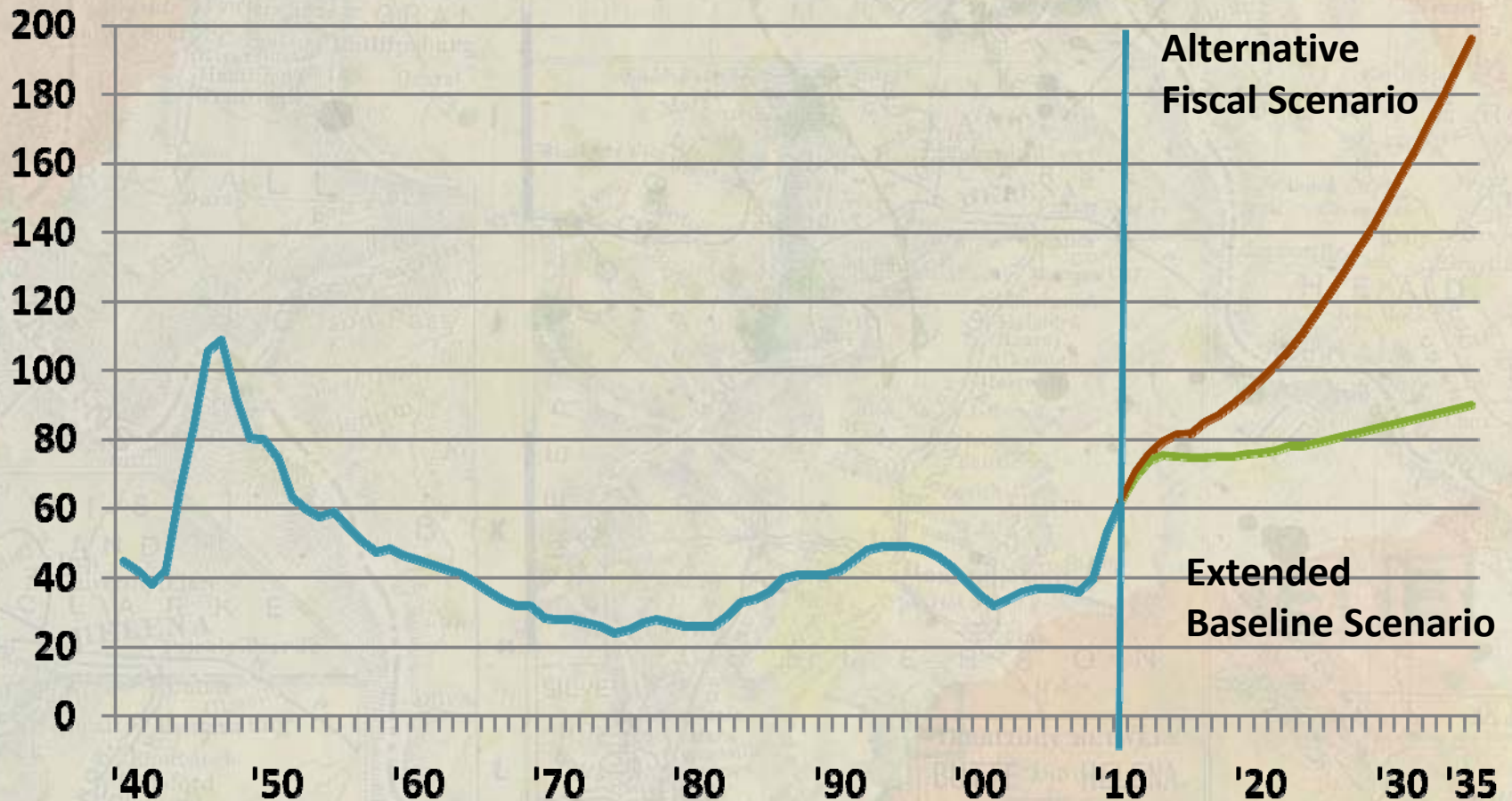
Since this study, pension funds have declined in value by 25%.

AEI study estimated total short fall in 2010 if public funds used the same accounting rules private sector funds have to use.



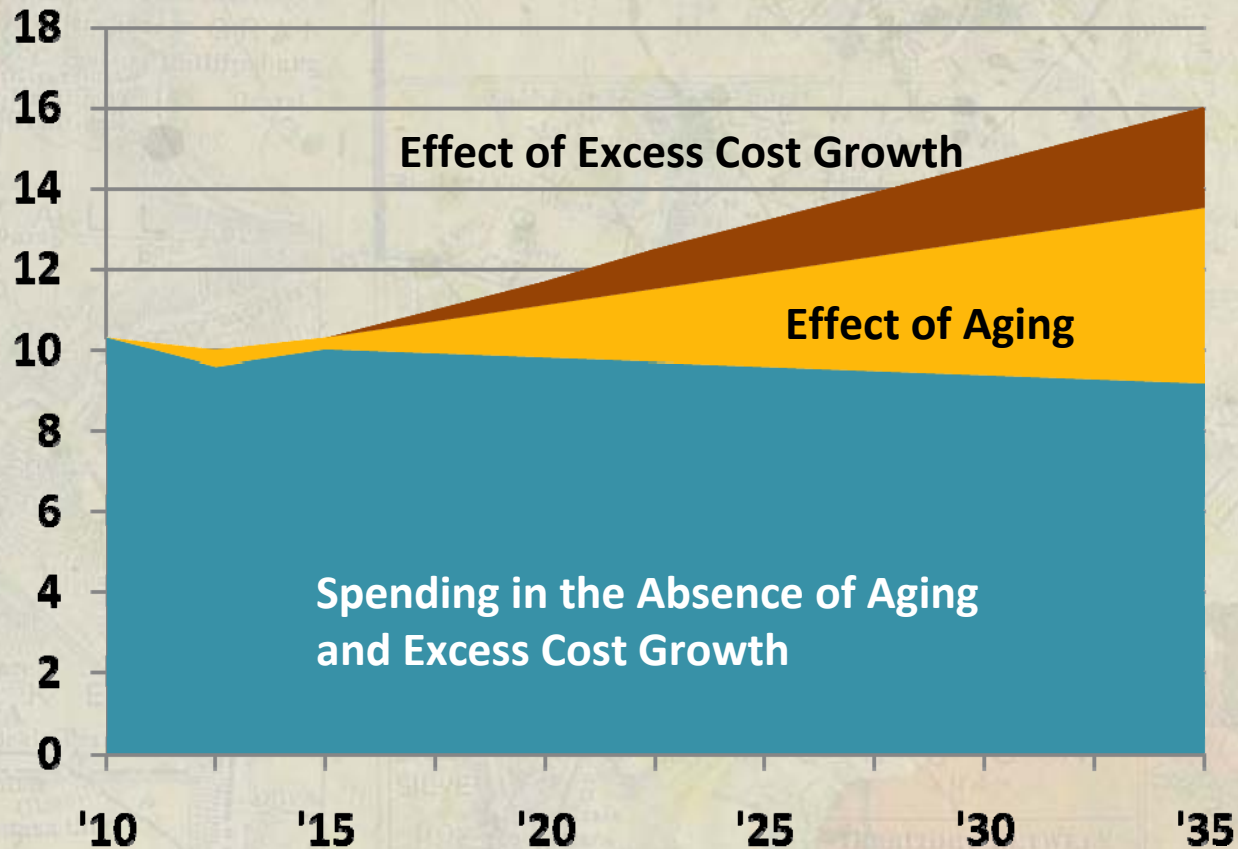
\$3 Trillion

Even Optimistic Projections Say Federal Debt Will Grow



Drivers of Entitlement Spending Growth

Social Security and Health Program
Spending as Percent of GDP



Symptoms of Congressional Dysfunction



- Inability to pass a budget this year
- Difficulty in dealing with temporary tax provisions
- Opposition to defense cuts advocated by the Secretary of Defense
- Persistent inability to pass appropriations bills by the beginning of fiscal year
- Embodying controversial policies in must-pass legislation
- Republicans vehemently opposed to tax hikes, Democrats vehemently opposed to benefit cuts

Getting on the Right Course



- ~~Housing Price Bubble~~
- ~~Consumer Debt Repair~~
- International Trade Imbalances

Repair Well Underway

Retaliation versus Cooperation

- Government deficits

States: Redesign Medicaid

U.S.: Health Care Costs

Reform Pensions

Entitlement Reform

Questions?