

The State and National Economic Outlook

Economic Expansions
Don't Live Forever

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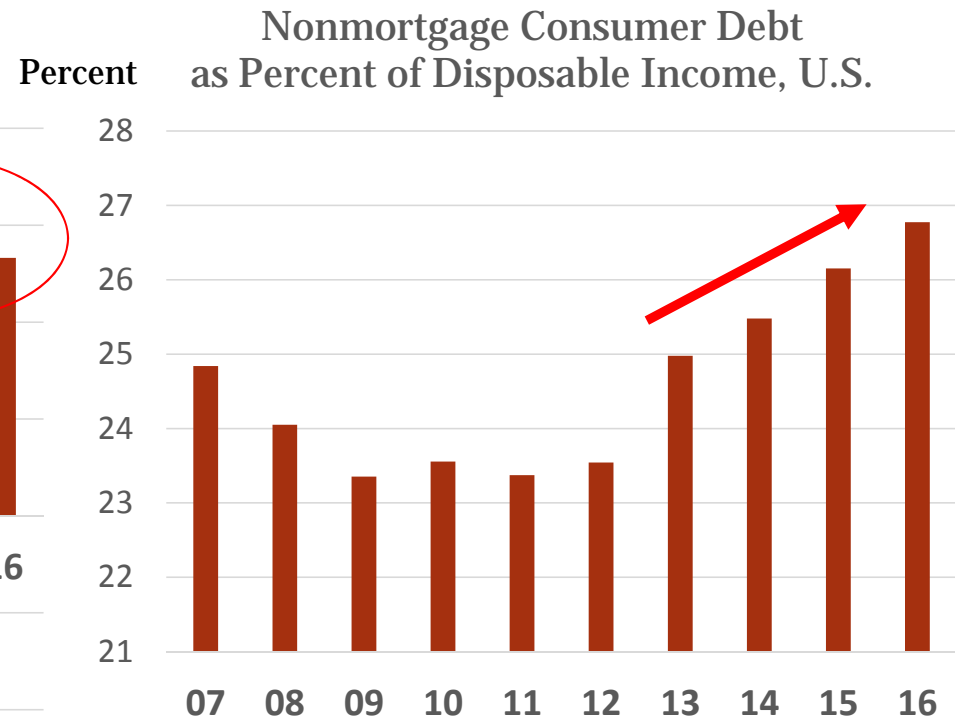
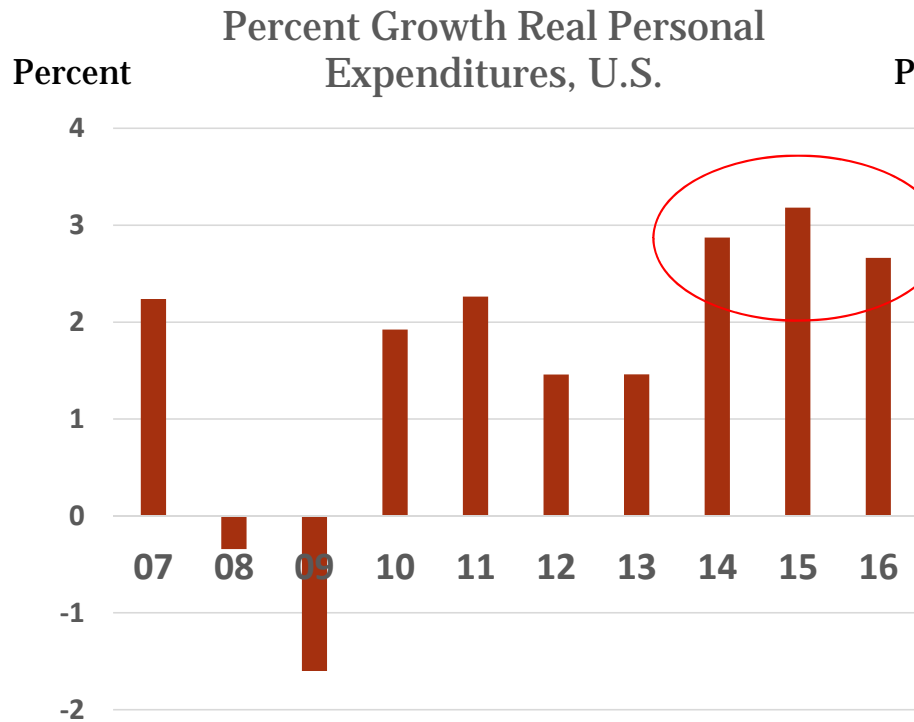
The U.S. Economy: Weak But Durable Growth

- 2016 growth was weaker than expected
- Labor market continued to improve
- Dollar continued to appreciate against other major currencies
- Real estate markets continue to heat up
- Continued weak growth abroad
- Weak federal tax revenues contribute to increase in deficit
- First signs of meaningful wage growth
- Interest rates rose at year-end
- Digesting the election results

What's Fueling U.S. Economic Growth?

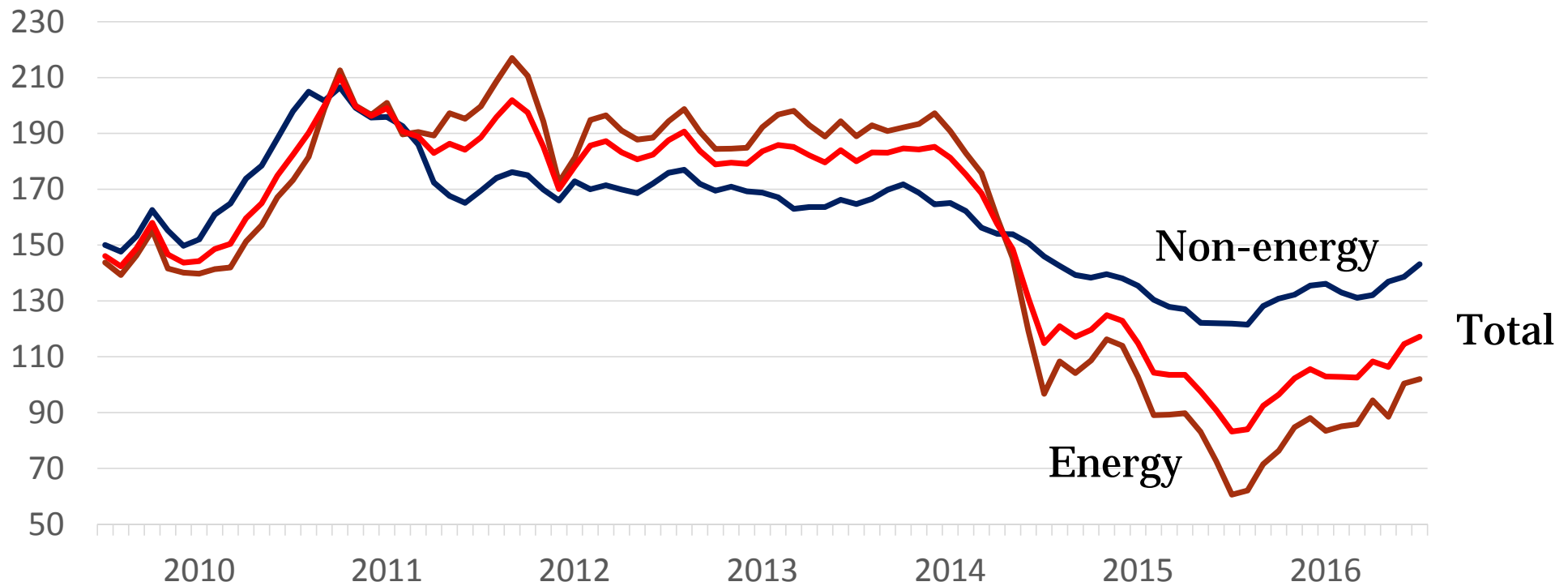
- Exports?  By 3.2% in 2016
- Business Spending?  By 0.8% in 2016
- Manufacturing?  By 0.3% in 2016
- Home Building? Barely half the rate of last decade's peak
- Technology and Innovation? Productivity growth stalled at less than 1 percent growth since recession

Debt-Fueled Consumer Spending is the Driver

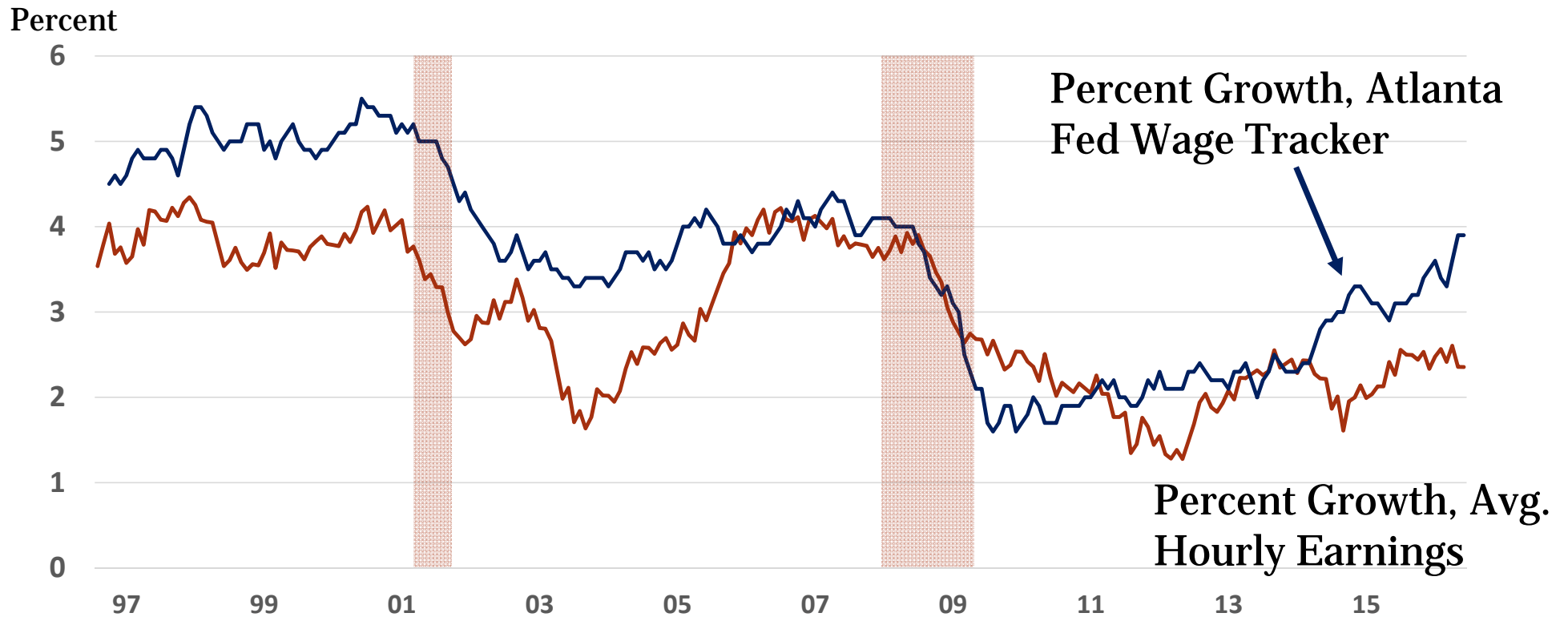


Significant Recovery for Energy Commodities

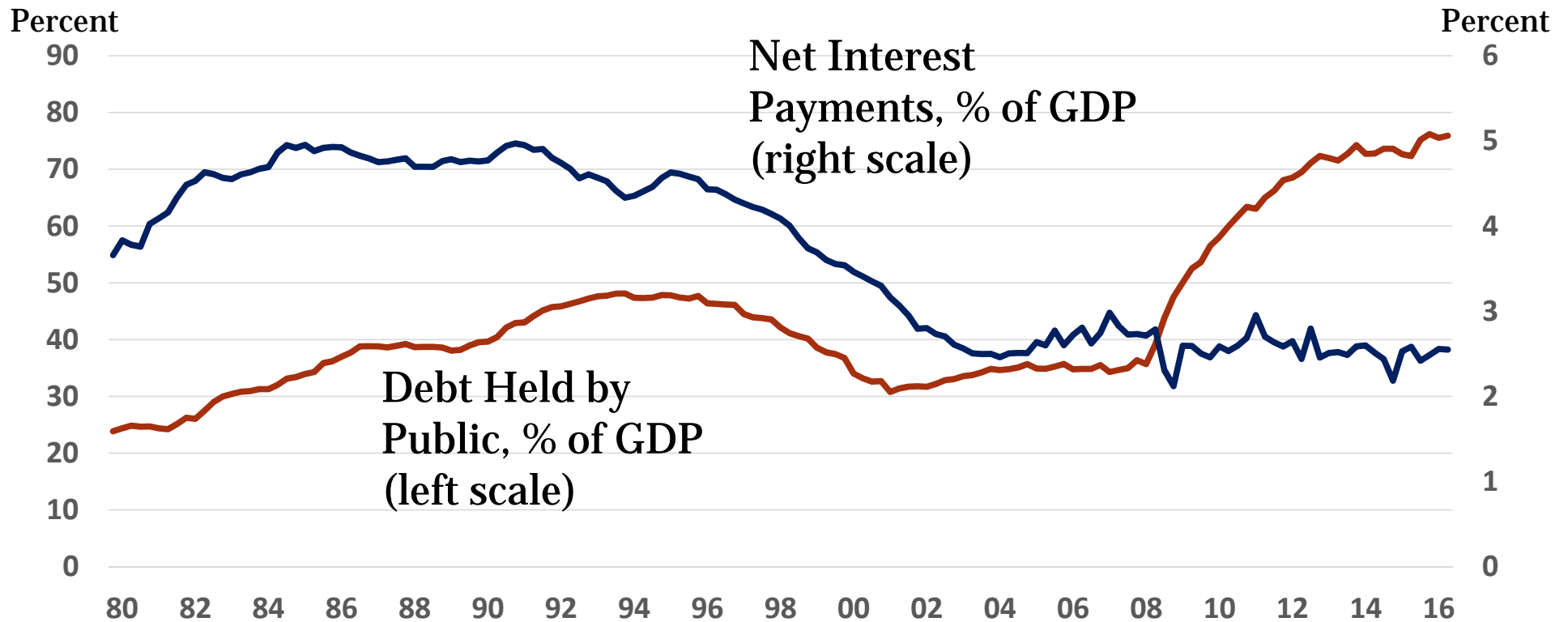
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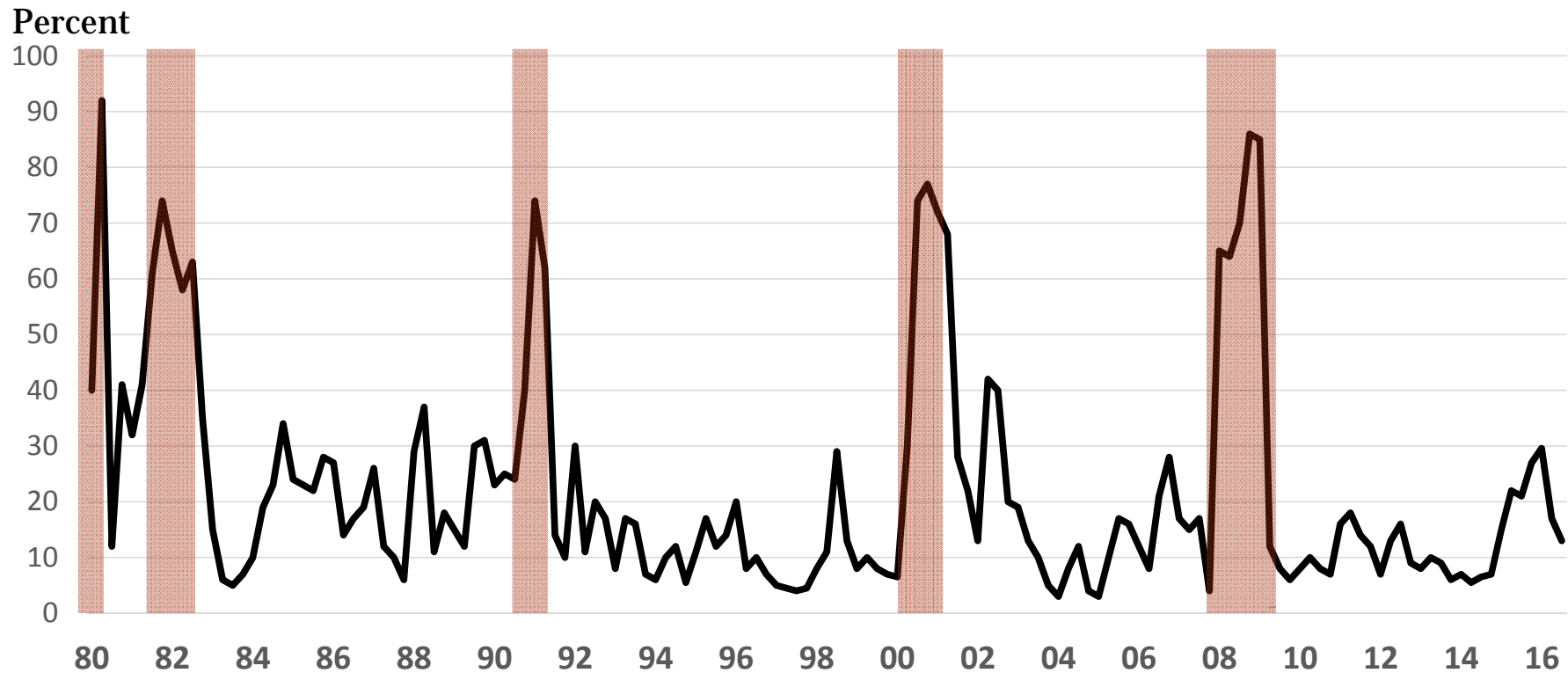
Growth in Average Hourly Earnings May Be Stronger Than Official Data Indicate



U.S. Treasury's Exposure to Interest Rate Risk



Recession Probability Has Eased Slightly



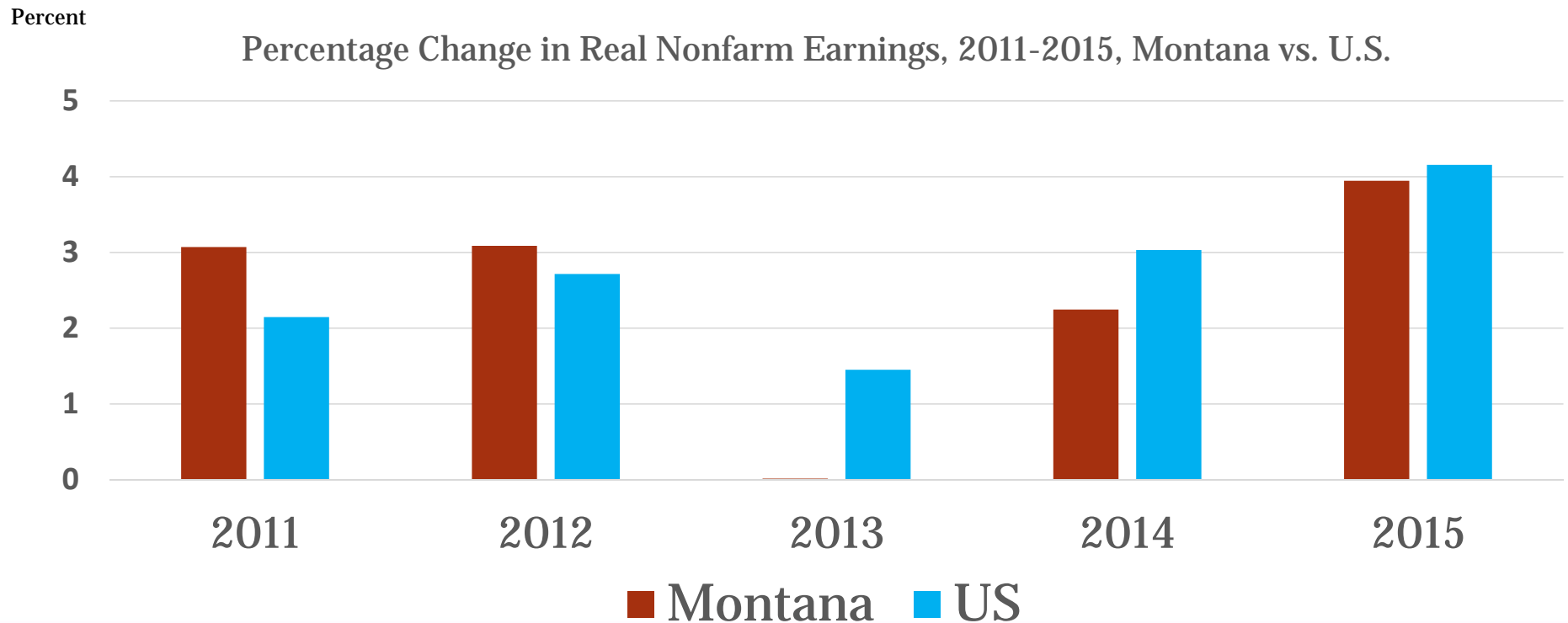
U.S. Outlook Summary

- Economy is expected to improve to expanding by 2 to 2.5 percent this year
- Fears of deflation subside as inflation pressures emerge
- Federal Reserve will be busier in 2017
- Plenty of global risks: Chinese debt, another Euro crisis, Russia
- Major uncertainties in Washington

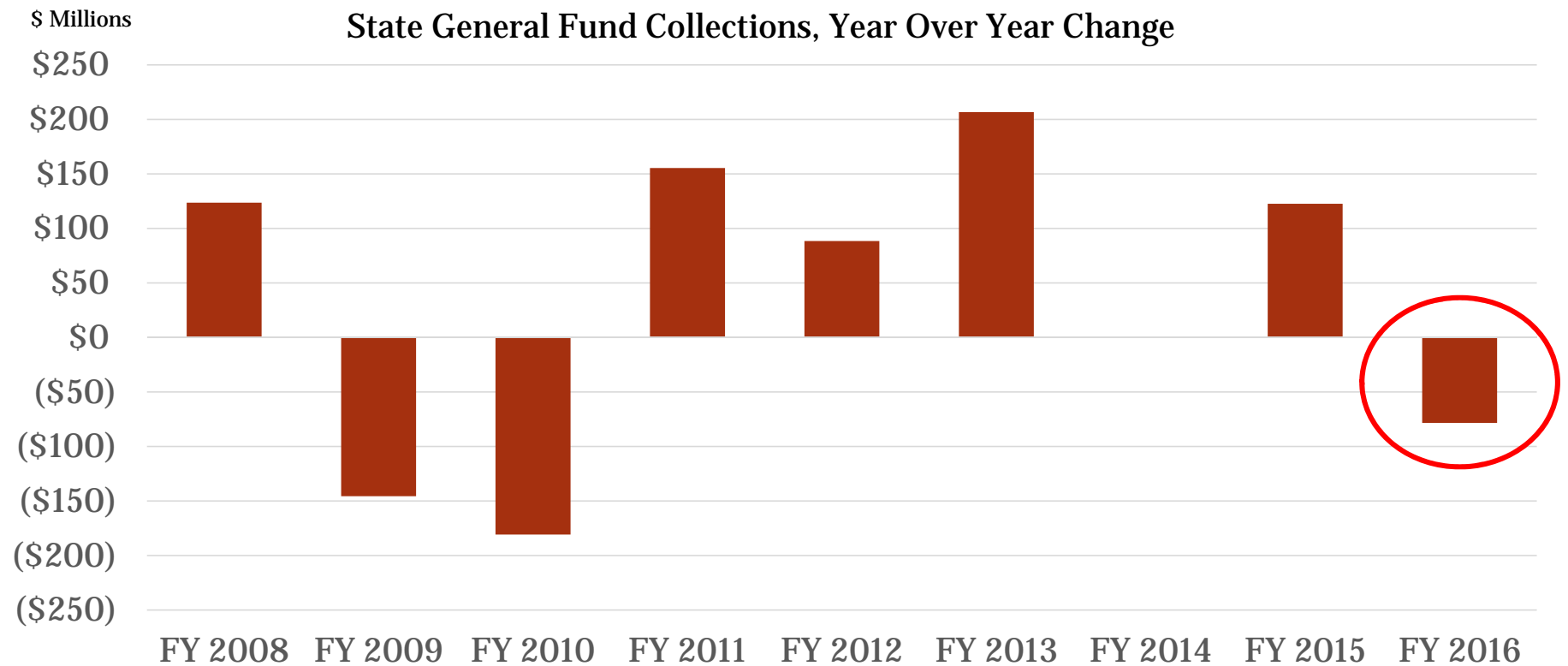
Data Point to 2016 as a Weak Year for Montana

- If so, it would come after one of the best years for Montana since the pre-recession boom
- Complete economic data not yet available
- Data through the first half of 2016 consistent with much weaker growth
- Wage growth is weak, job growth is reasonable
- Predicting tax collections is much more complicated than predicting economic growth

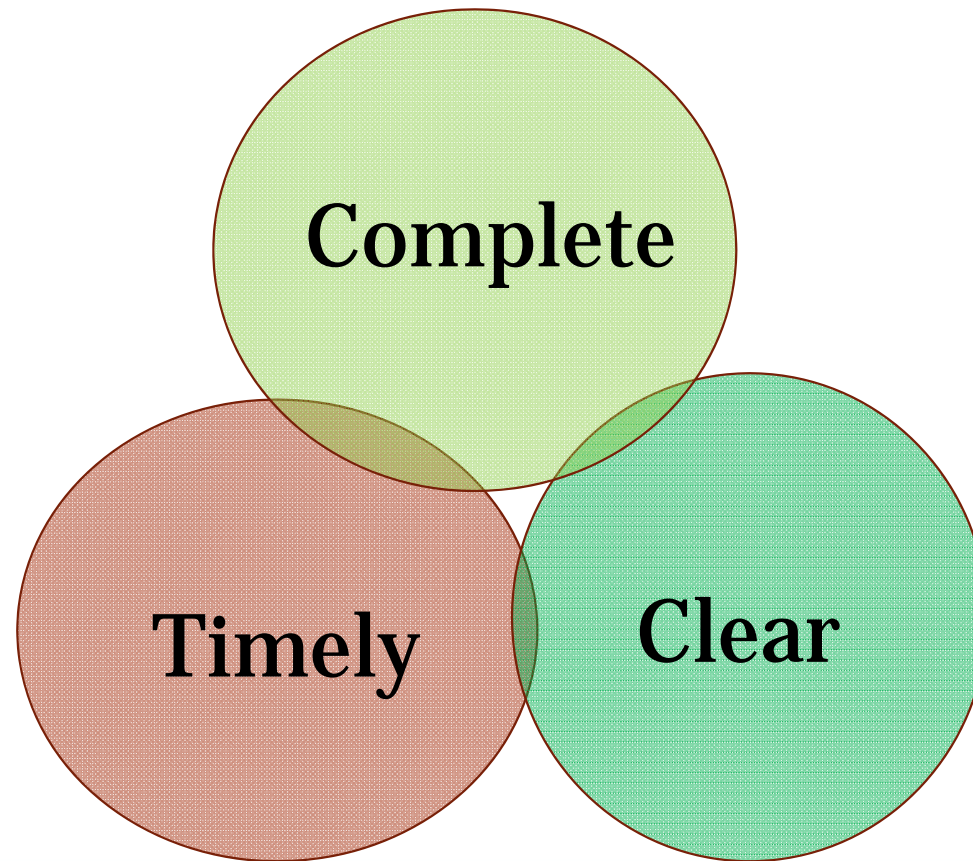
Is the Montana Economy Surging?



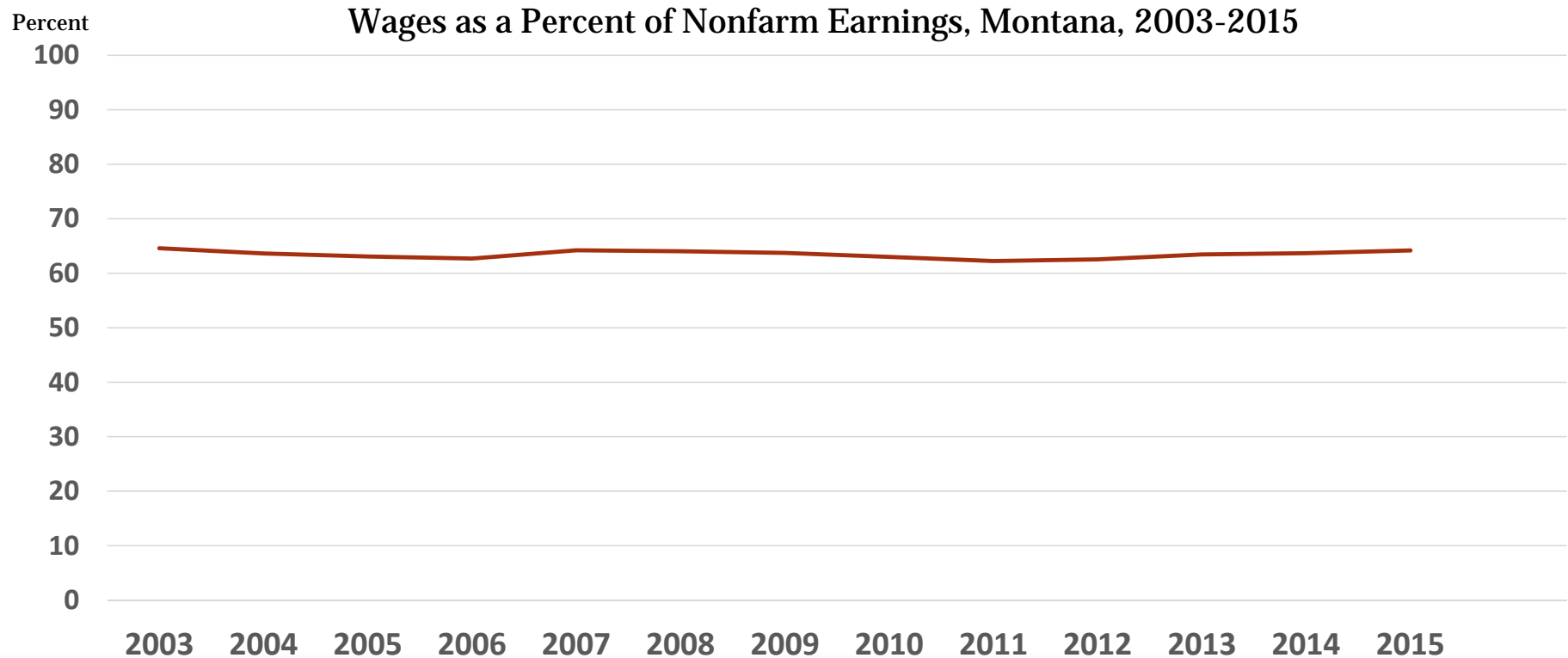
Or is the Montana Economy Shrinking?



The Dilemma of State and Local Economic Data

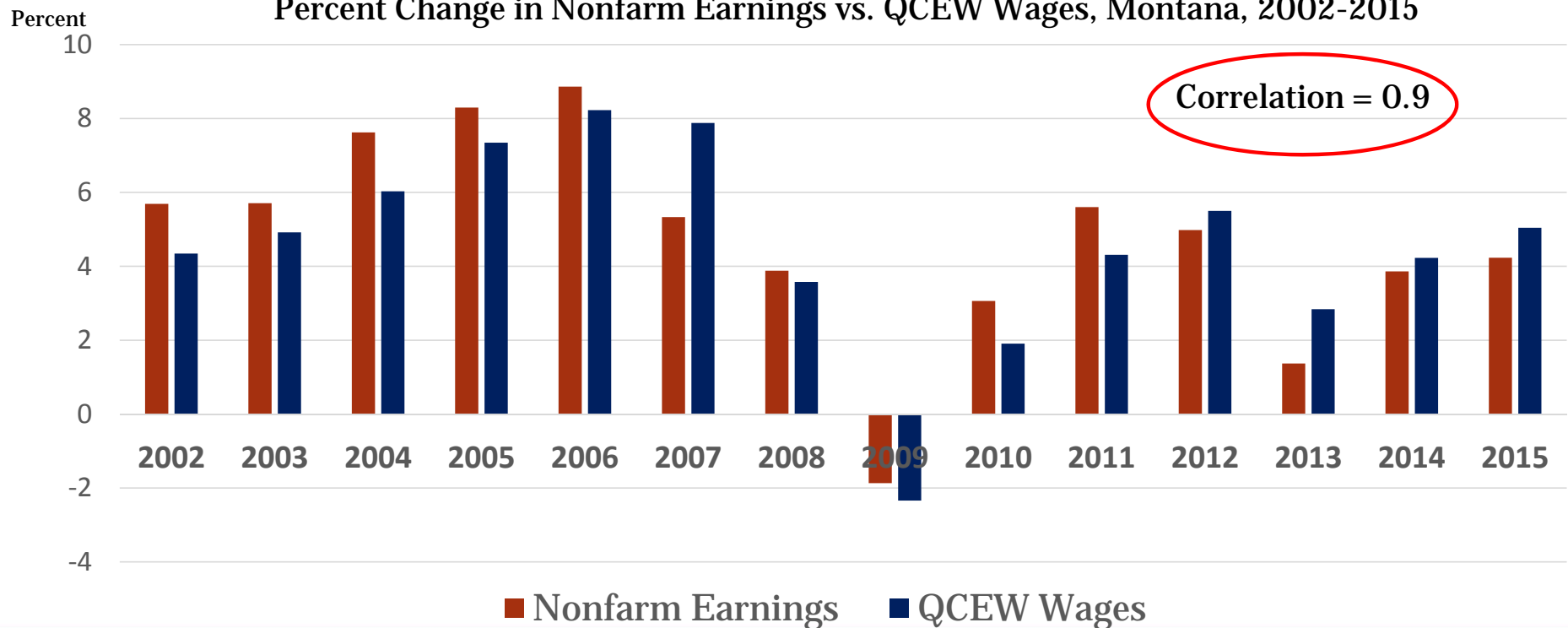


QCEW Wages Average 63.5% of Nonfarm Earnings

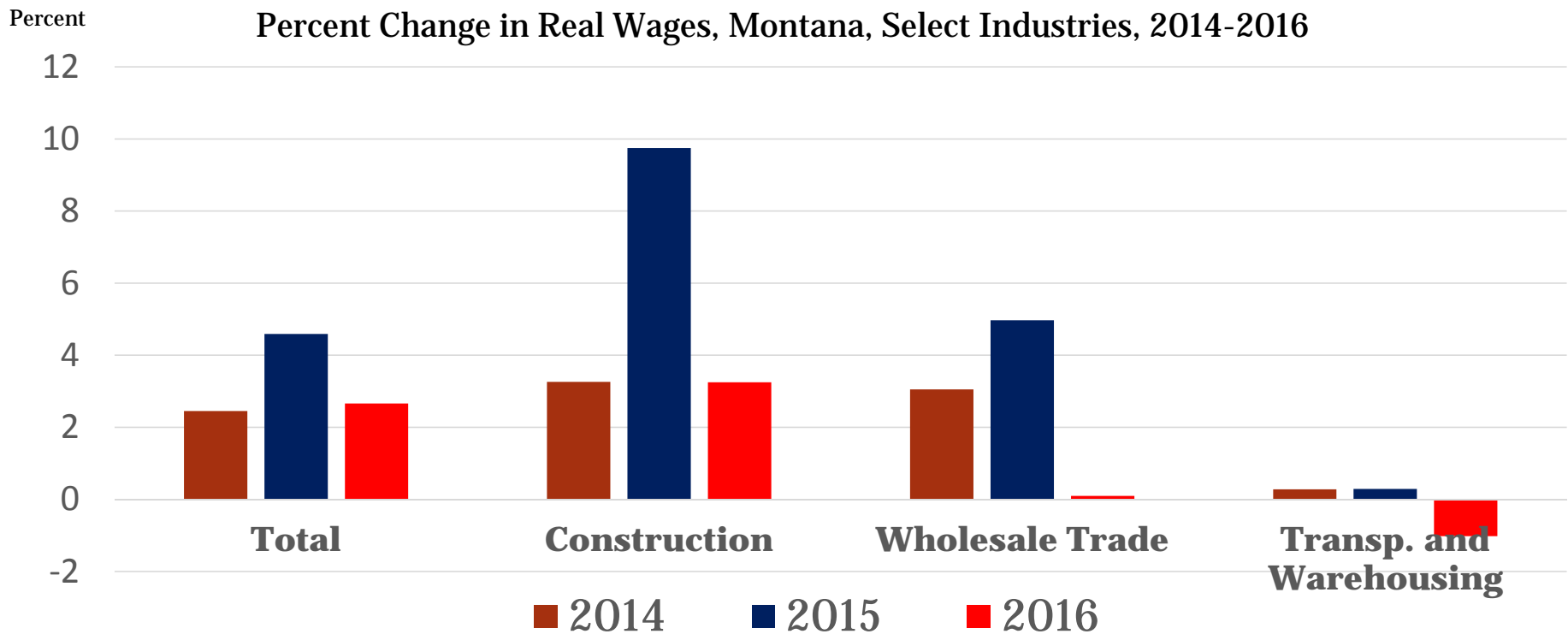


Growth in Non-Farm Earnings and QCEW Wages is Highly Correlated

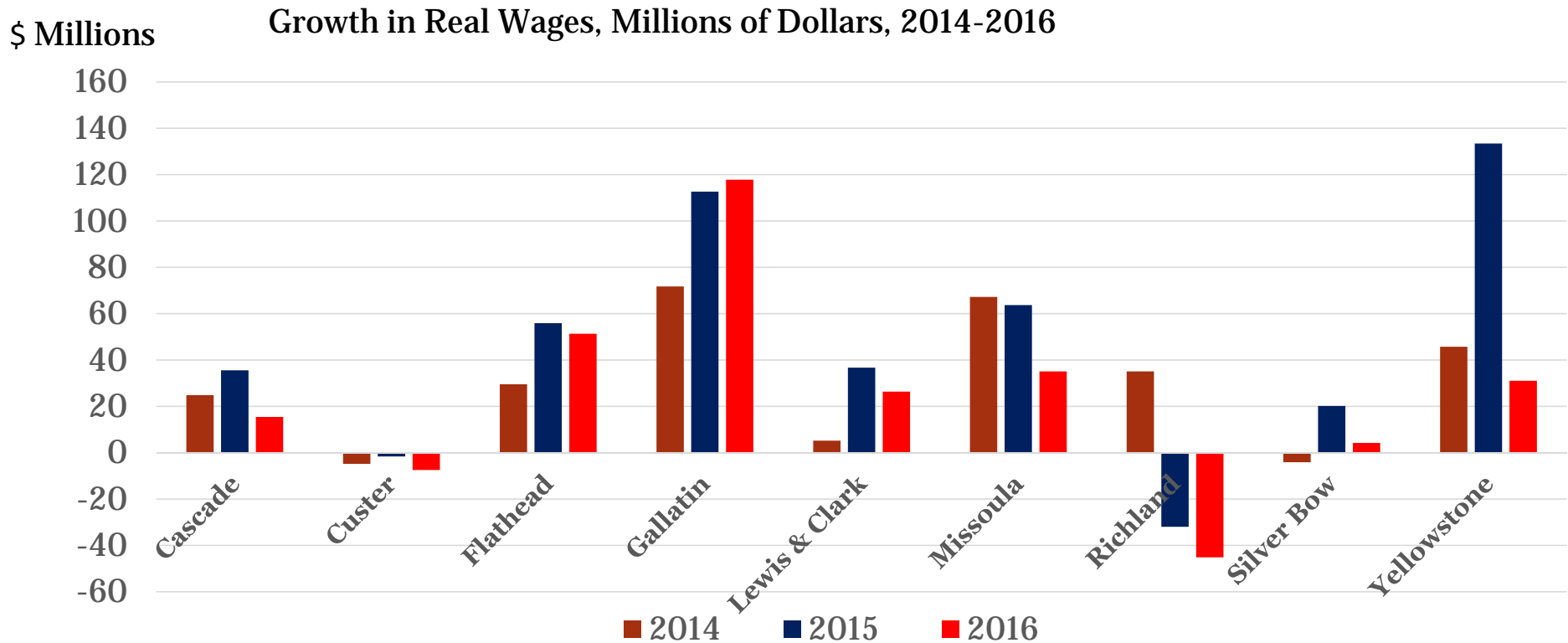
Percent Change in Nonfarm Earnings vs. QCEW Wages, Montana, 2002-2015



Wage Growth Indicates a 2016 Slowdown

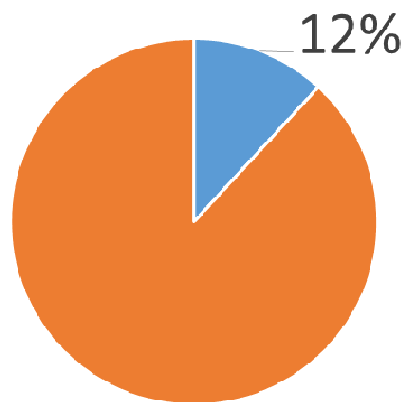


Slowdown in 2016 More Pronounced in East

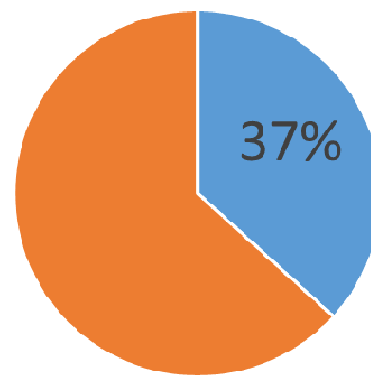


One County Accounted for More than a Third of Statewide Wage Growth in 2016

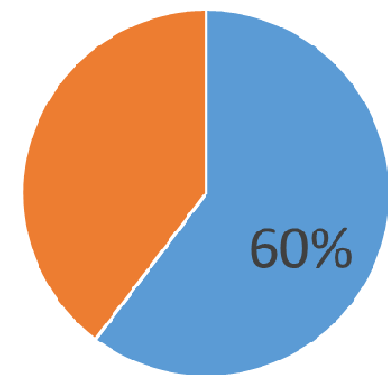
Gallatin County Share of Total Statewide Wages, 2016



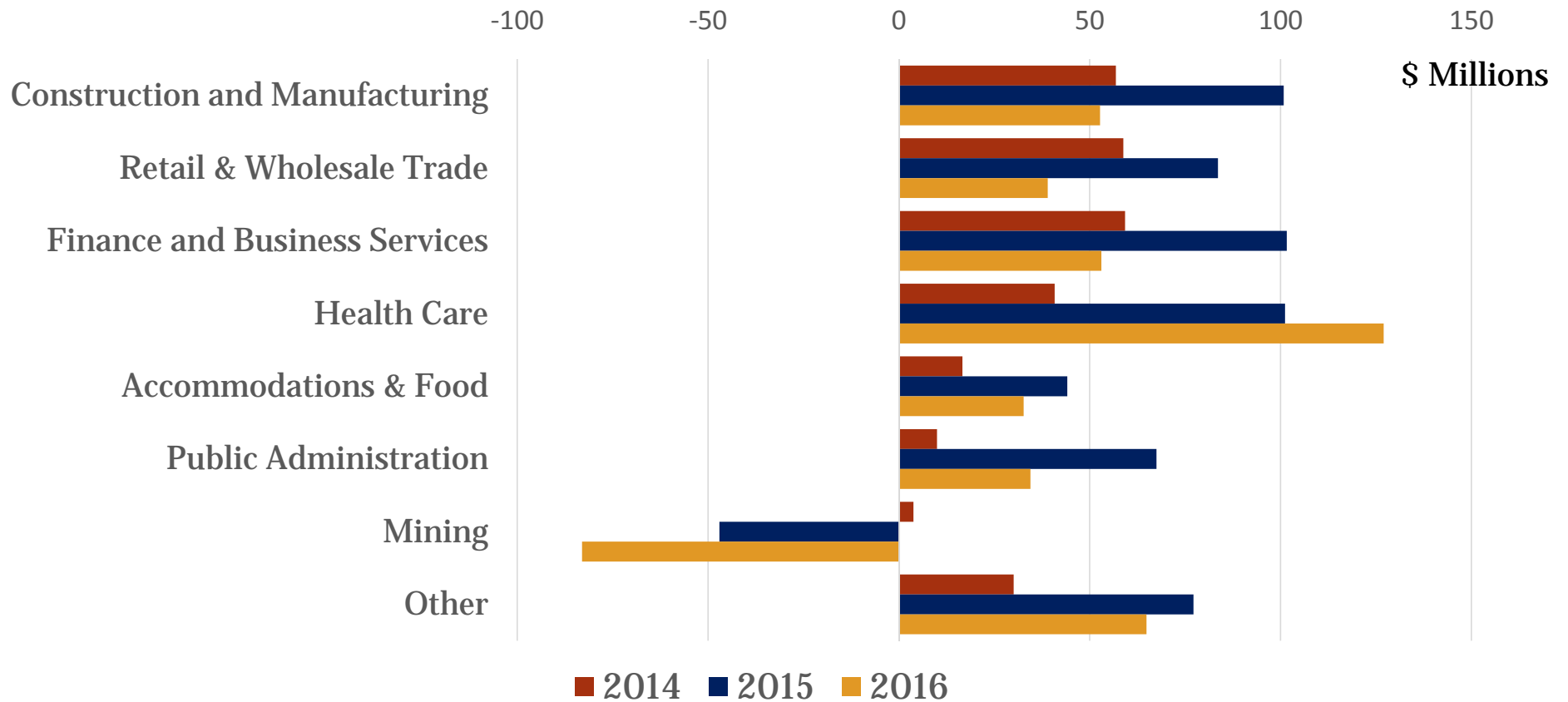
Gallatin County Share of Total Statewide Wage Growth, 2016



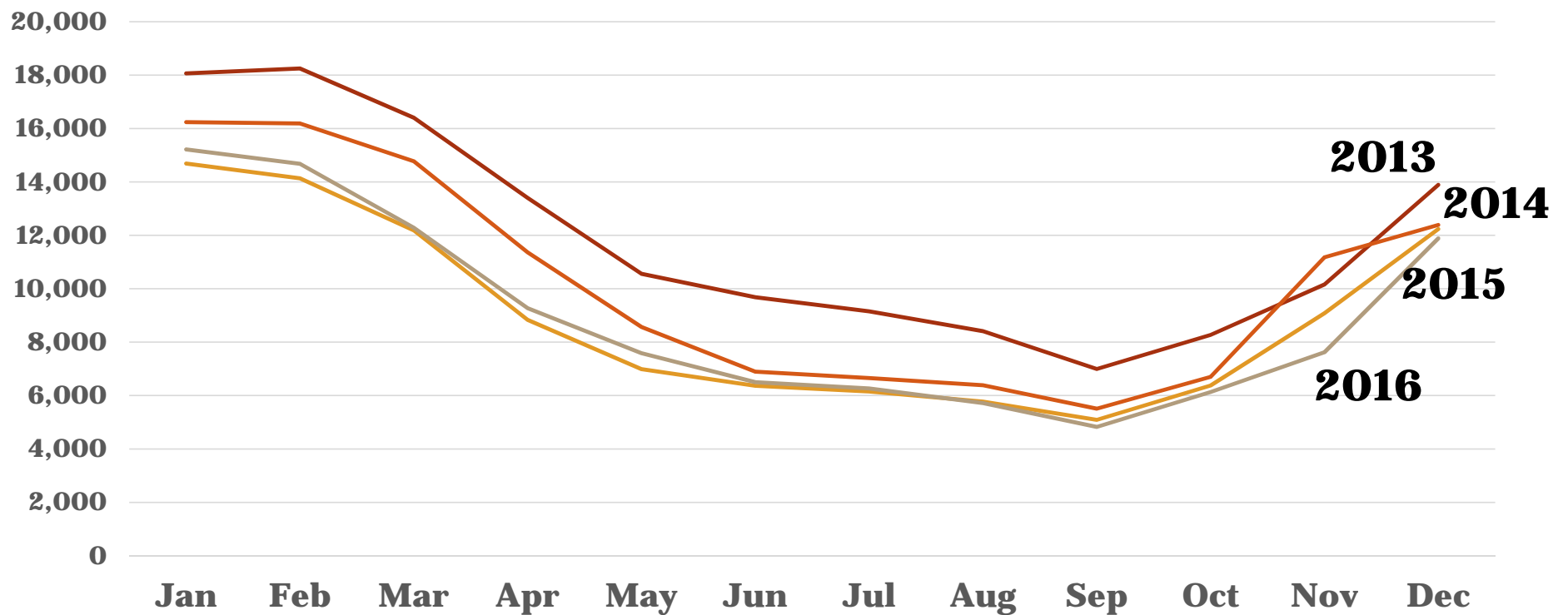
Gallatin County Share of Construction and Manufacturing Wage Growth, 2016



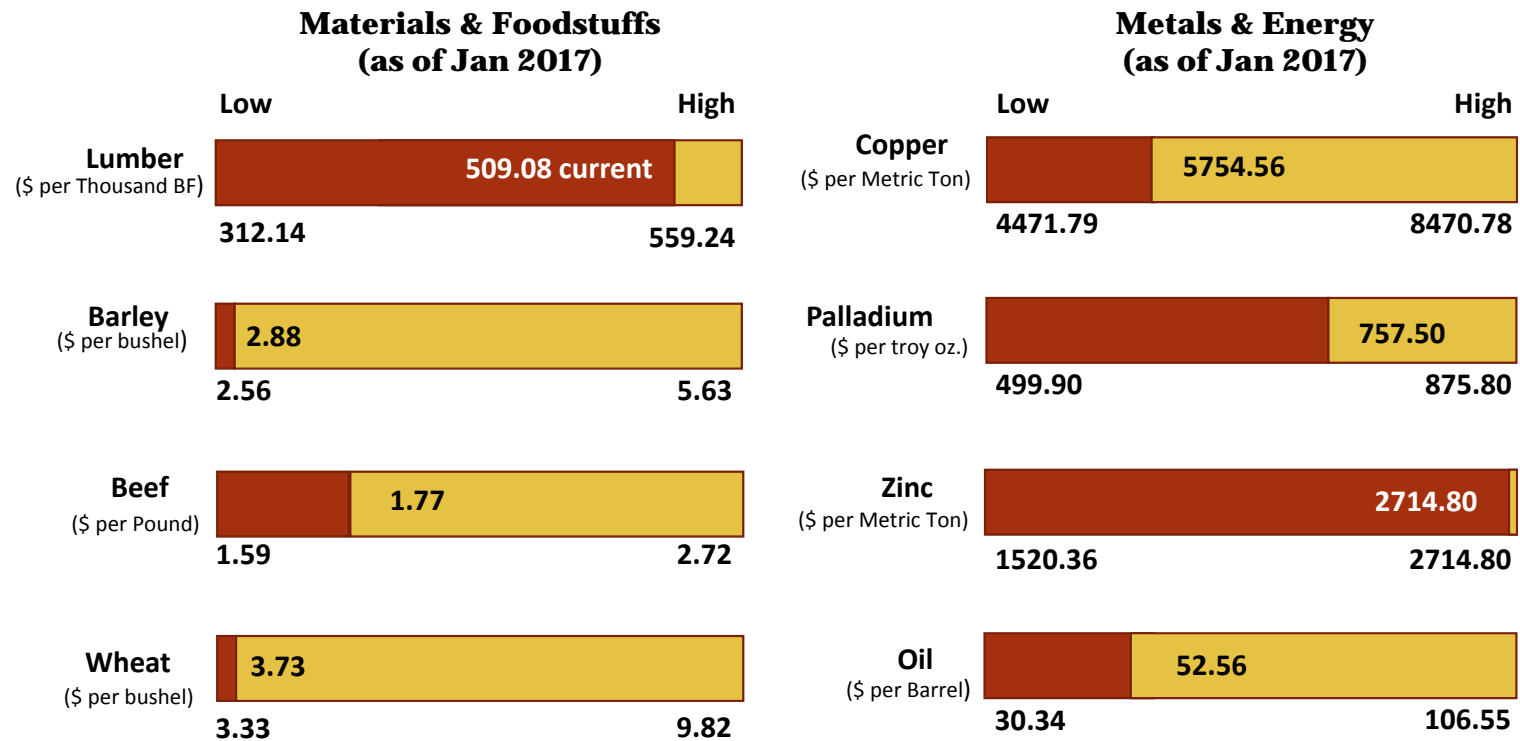
What's Driving Growth in Montana: Wage Growth



Unemployment Claims Leveled Off in 2016



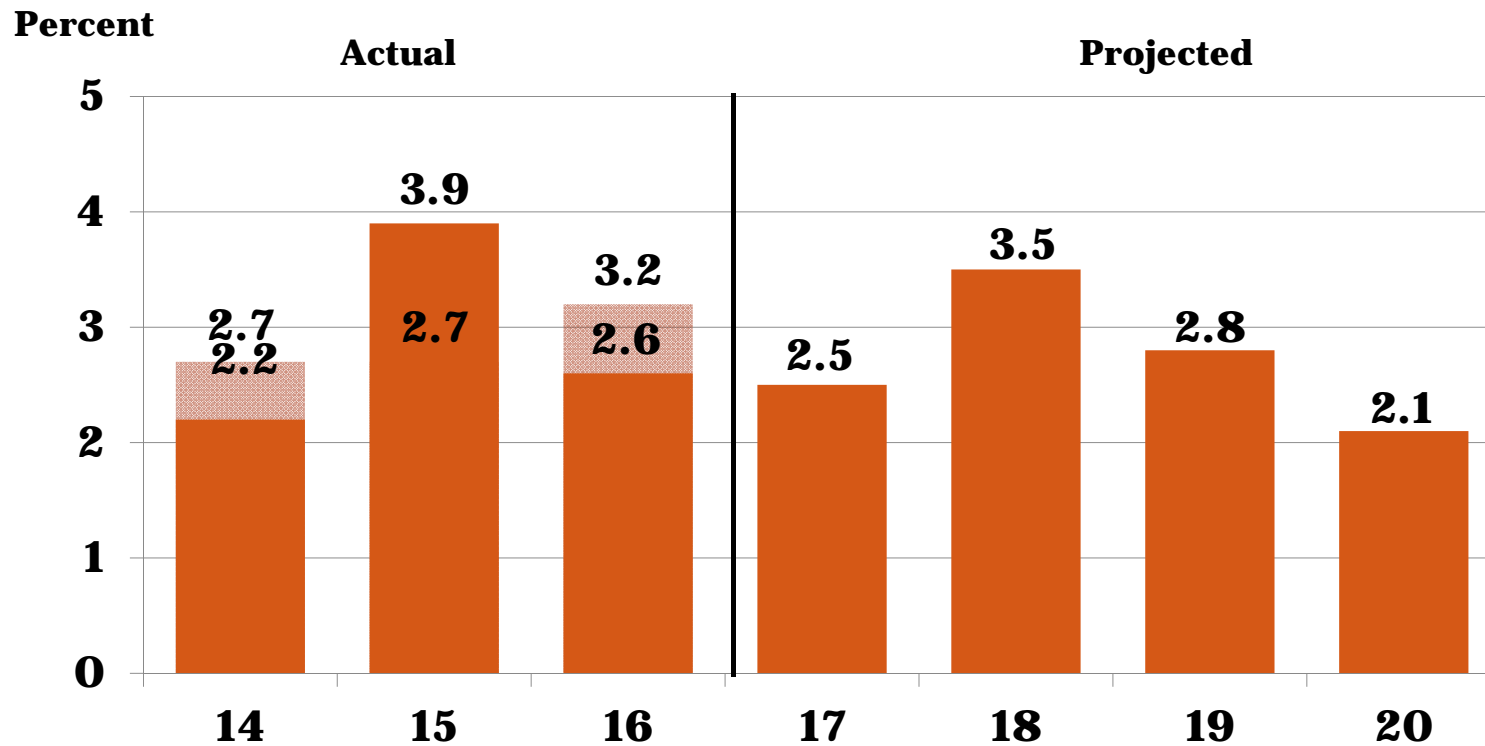
Select Commodity Prices January 2017 vs. 5-Year High and Low



Outlook for Montana's Key Industries

- Energy and natural resources still mired in a deep slump
- Agriculture faces a challenging price environment
- Home building's best days are still ahead
- Consumer-led U.S. economic growth helping visitor spending, in-migration
- Is Bozeman-style growth replicable? Desirable?

Percent Growth in Nonfarm Earnings, Montana, 2014-2020



Questions?



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