

The Economic Outlook for the U.S. and Montana

Patrick M. Barkey, Director
Bureau of Business and Economic Research
University of Montana



**BUREAU OF BUSINESS AND
ECONOMIC RESEARCH**
UNIVERSITY OF MONTANA

Montana Economic Outlook

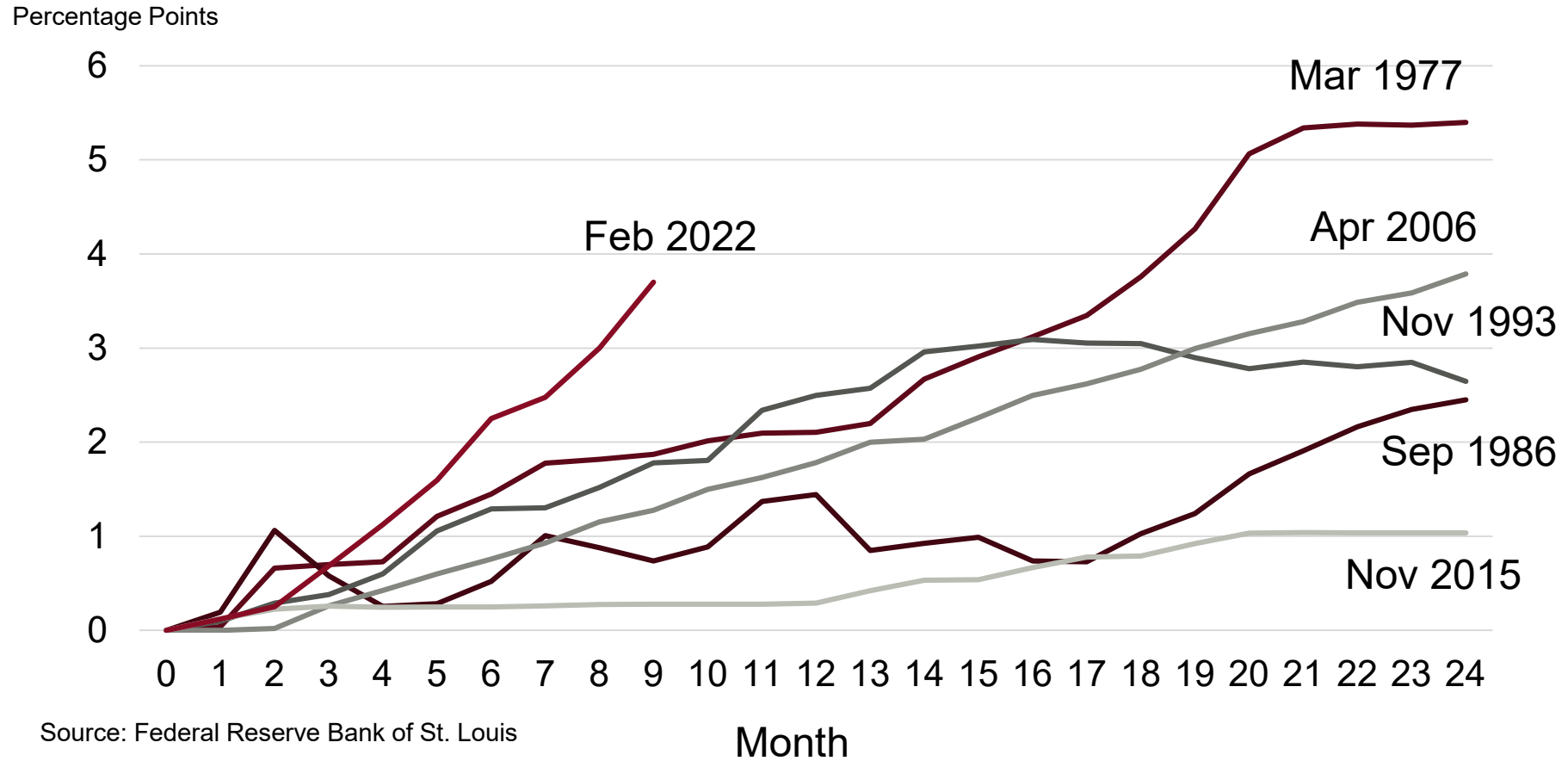
Will Montana Avoid the Recession?

- Maybe there won't be a recession
- Perhaps in-migration will soften a downturn
- Inflation and interest rates won't avoid Montana
- Weakening consumer spending, slowing global growth will be felt here



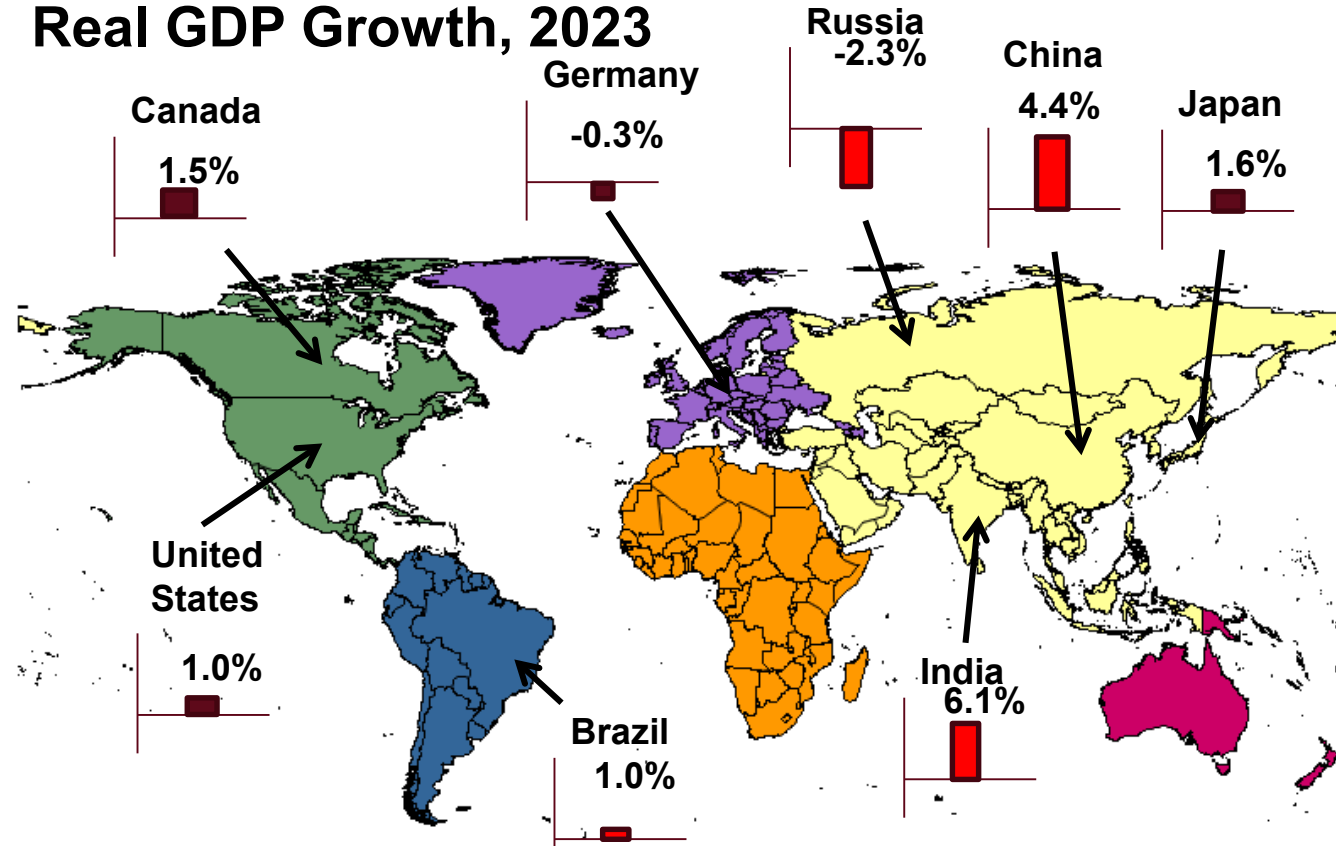
Federal Reserve Raising Rates Faster

Federal Funds Rate Increase Since Beginning of Policy Change, Percentage Points



Stagnant Global Growth

Real GDP Growth, 2023

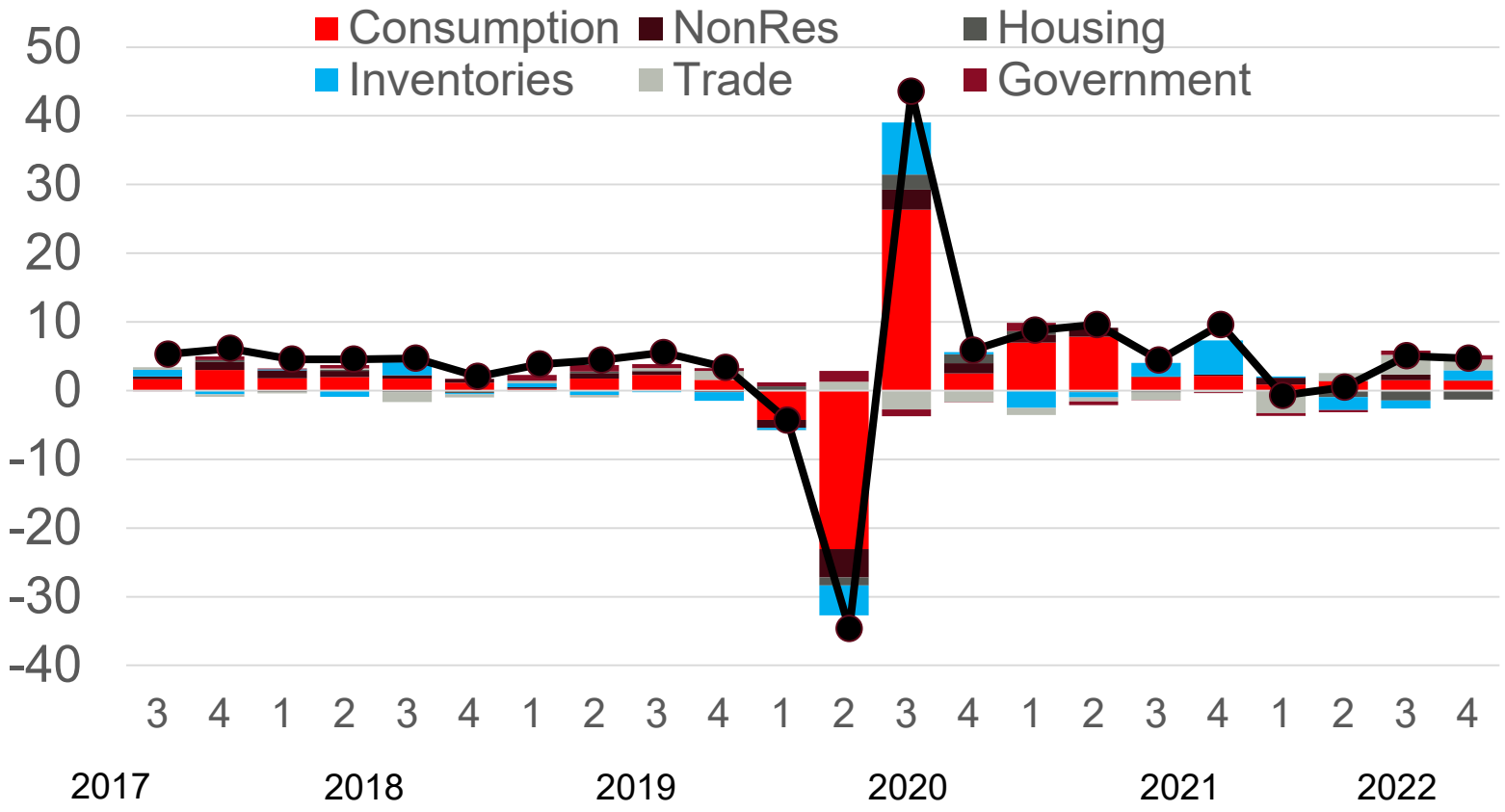


Source: International Monetary Fund

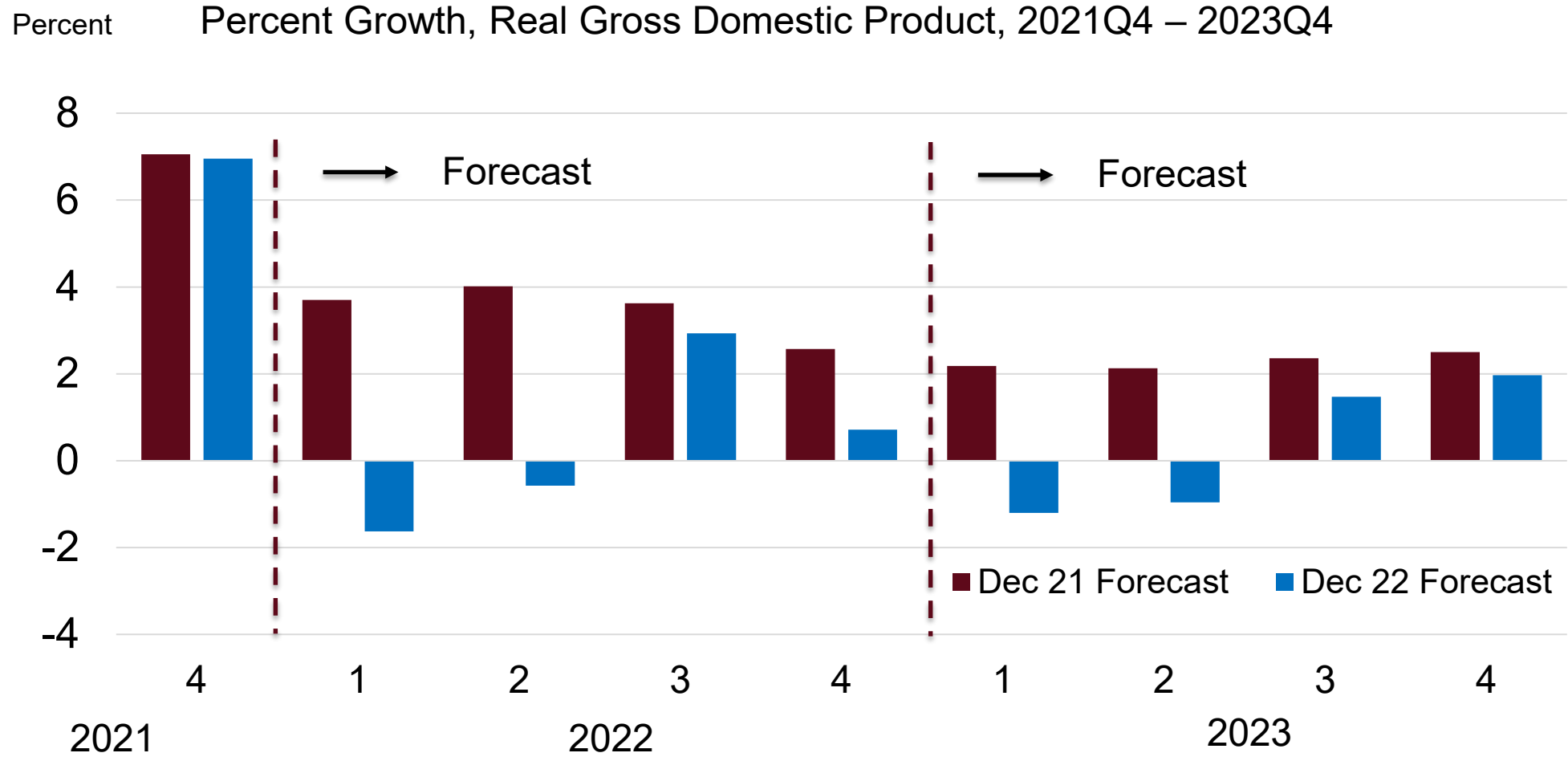


Consumer Spending is Propelling Recent U.S. Growth

Contribution to Growth in Real Gross Domestic Product, Percent



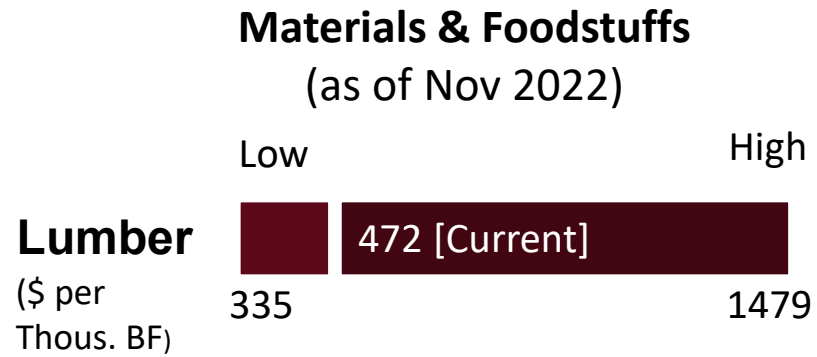
Recession Now In the U.S. Forecast



Source: S&P Global



Commodity Prices Reflect Global Slowdown



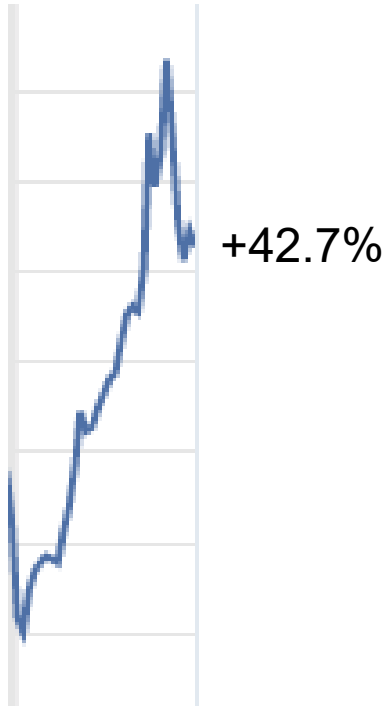
How to Whip Inflation Without Causing a Recession

1. Significant decline in energy prices



Consumer Prices, Jan 2020 – Nov 2022

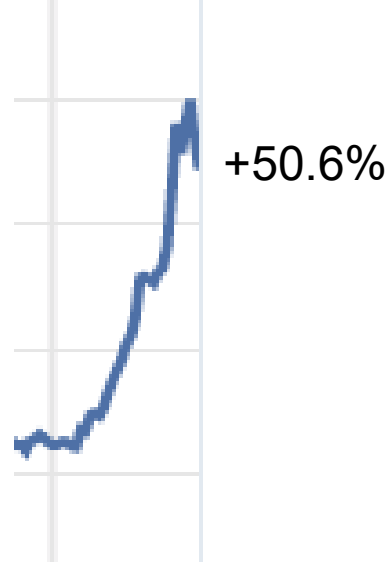
Gasoline



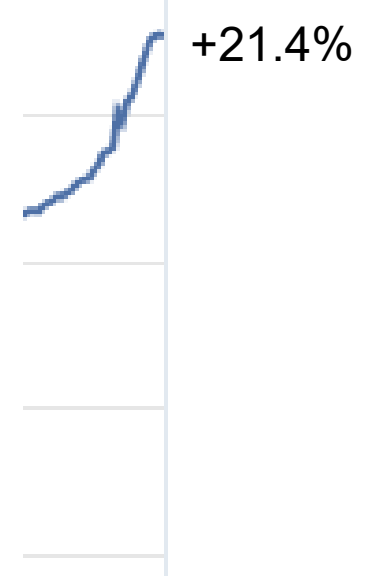
Diesel



Natural Gas



Electricity



Source: U.S. Bureau of Labor Statistics



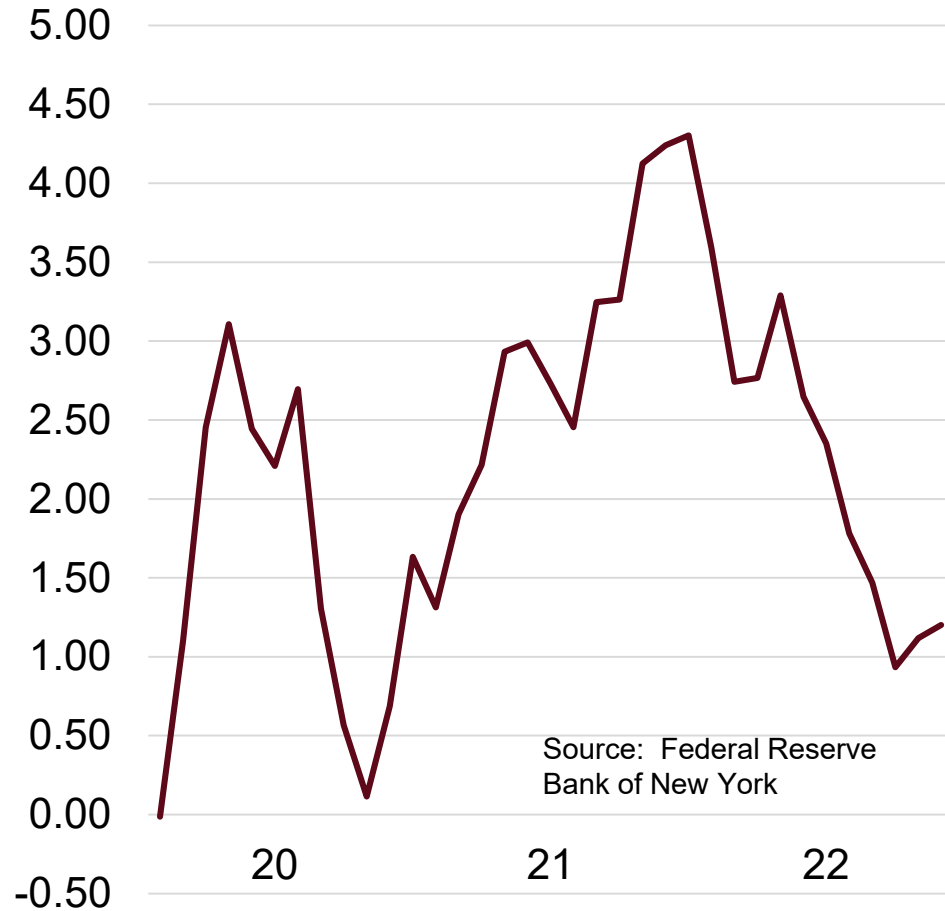
How to Whip Inflation Without Causing a Recession

1. Significant decline in energy prices
2. Supply constraints must continue to ease

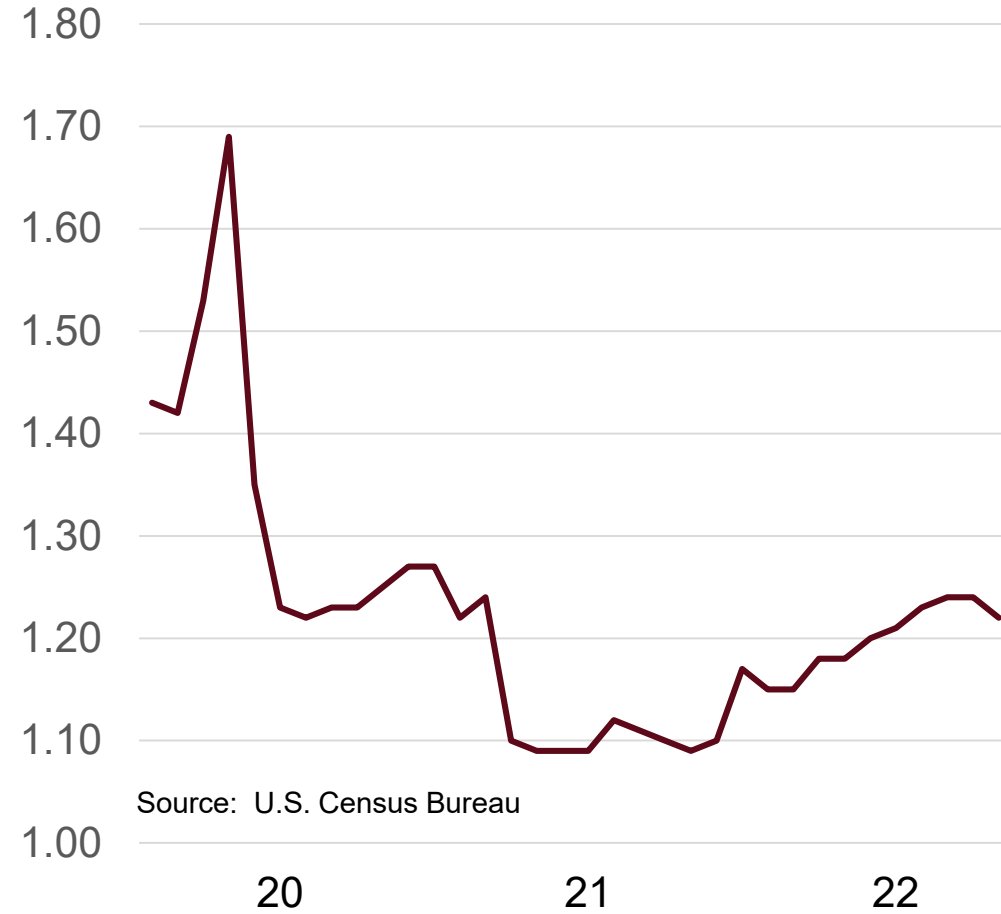


Supply Chains: Healing not Healed

Supply Chain Congestion



Retail Inventory Sales Ratio



Series 1

Series 1

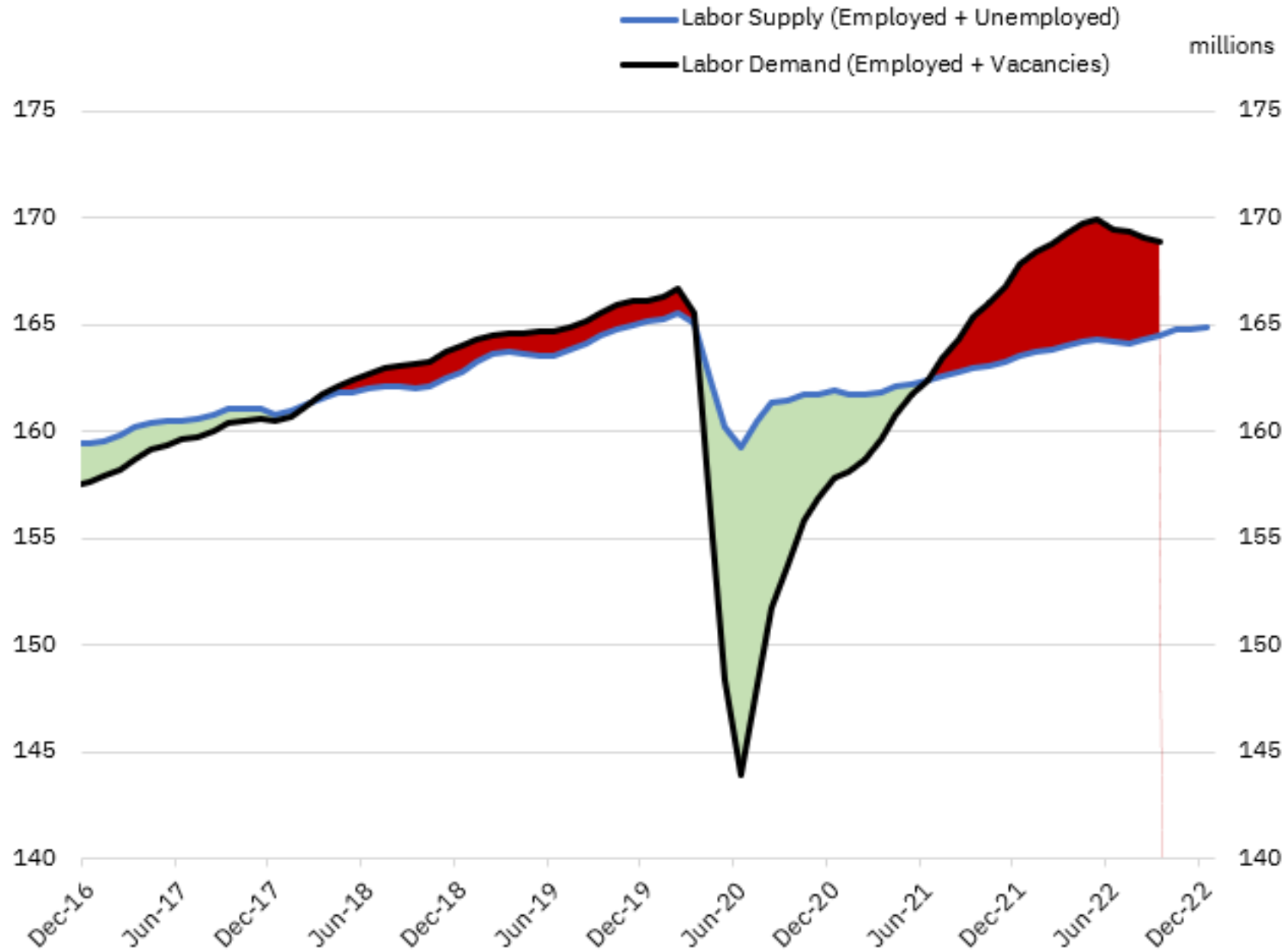


How to Whip Inflation Without Causing a Recession

1. Significant decline in energy prices
2. Supply constraints must continue to ease
3. Labor markets must loosen

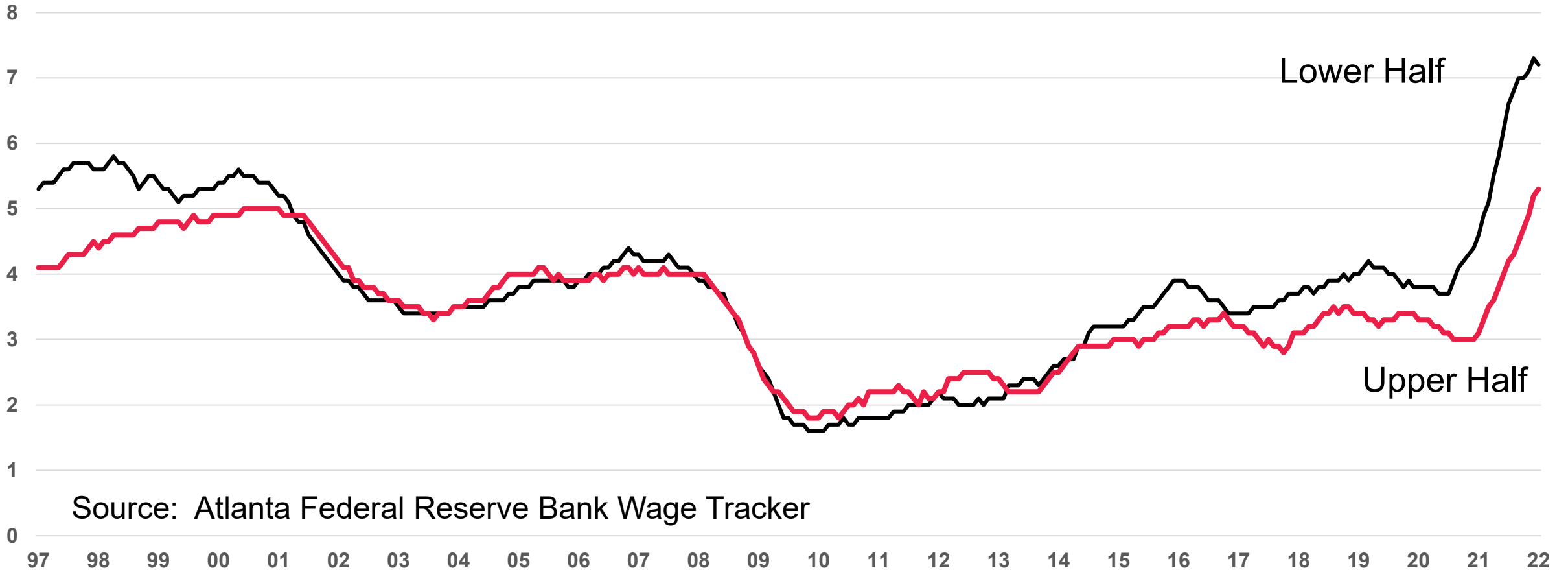


Labor Supply is Tight



Wage Gains Have Exploded

Wage Growth, Percent, by Wage Level, 1998-2022



Source: Atlanta Federal Reserve Bank Wage Tracker



**BUREAU OF BUSINESS AND
ECONOMIC RESEARCH**
UNIVERSITY OF MONTANA

Montana Economic Outlook

How to Whip Inflation Without Causing a Recession

1. Significant decline in energy prices
2. Supply constraints must continue to ease
3. Labor markets must loosen
4. Consumer demand must moderate
5. Inflation must not become a self-fulfilling prophecy



The U.S. Economic Outlook

- A “Fed recession” is in our future
- Impacts will be strongest on interest rate sensitive sectors
- The “rich-session” may have less impact on lower and mid-income households
- Even if a recession does not arrive, slow growth won’t feel much different



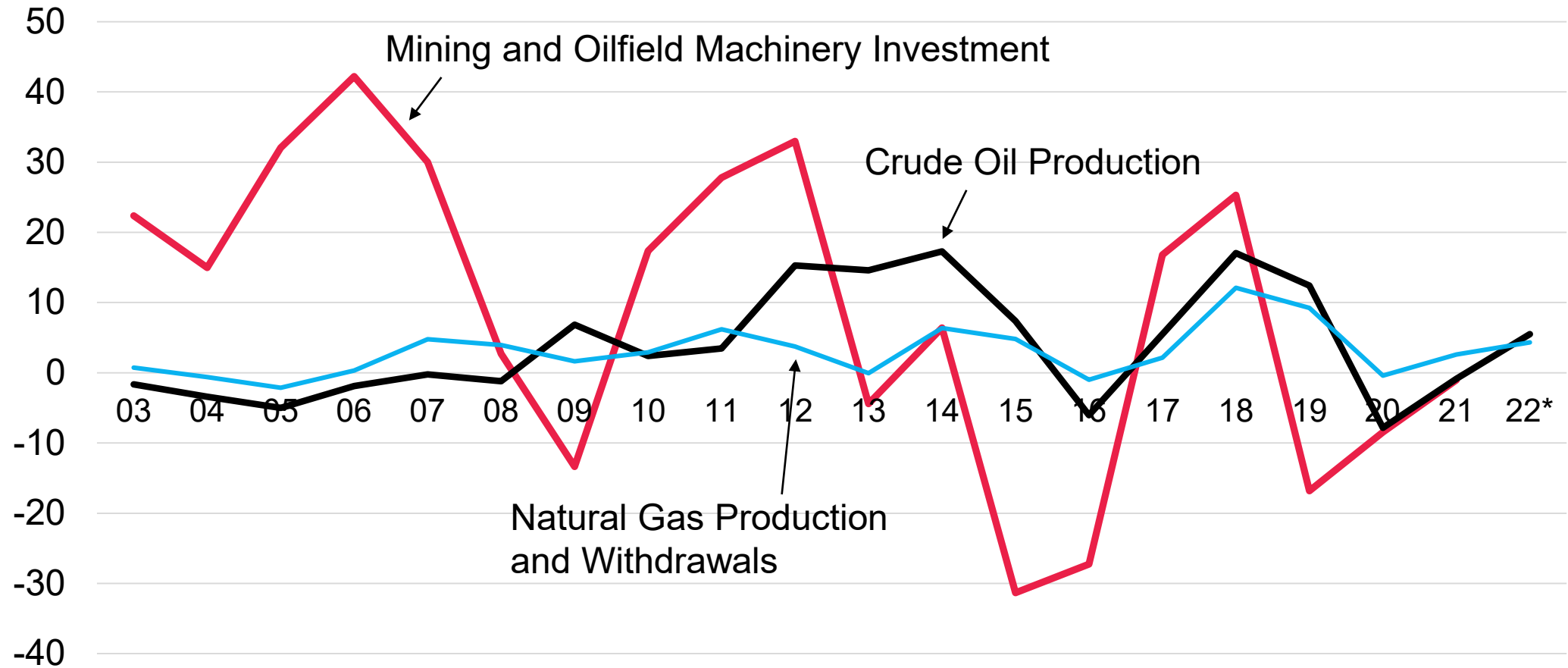
Executive Actions Cloud the Future for Energy Investment

- New rules on methane emissions for oil and gas production
- Rescind the 2020 rules on VOC and methane emissions
- Halt new oil and gas leases
- Delay lease decisions
- Cancel Keystone XL pipeline
- Suspend leases in ANWR
- Re-establish Waters of the US rules
- Rescind some Endangered Species Act changes
- Pursue new standards for particulate and ozone
- Rejoin Paris agreement process
- Suspend small refinery waivers from biofuel (ethanol) mandates
- Finalized rule regulation greenhouse emissions from cars and trucks
- SEC rules on emissions disclosures
- Require social costs of emissions analysis



Climate for Oil and Gas Investment Remains Challenged

Percent Growth in Investment in Mining and Oil Equipment, Crude Oil Production and Natural Gas Withdrawals, U.S., 2003-2022



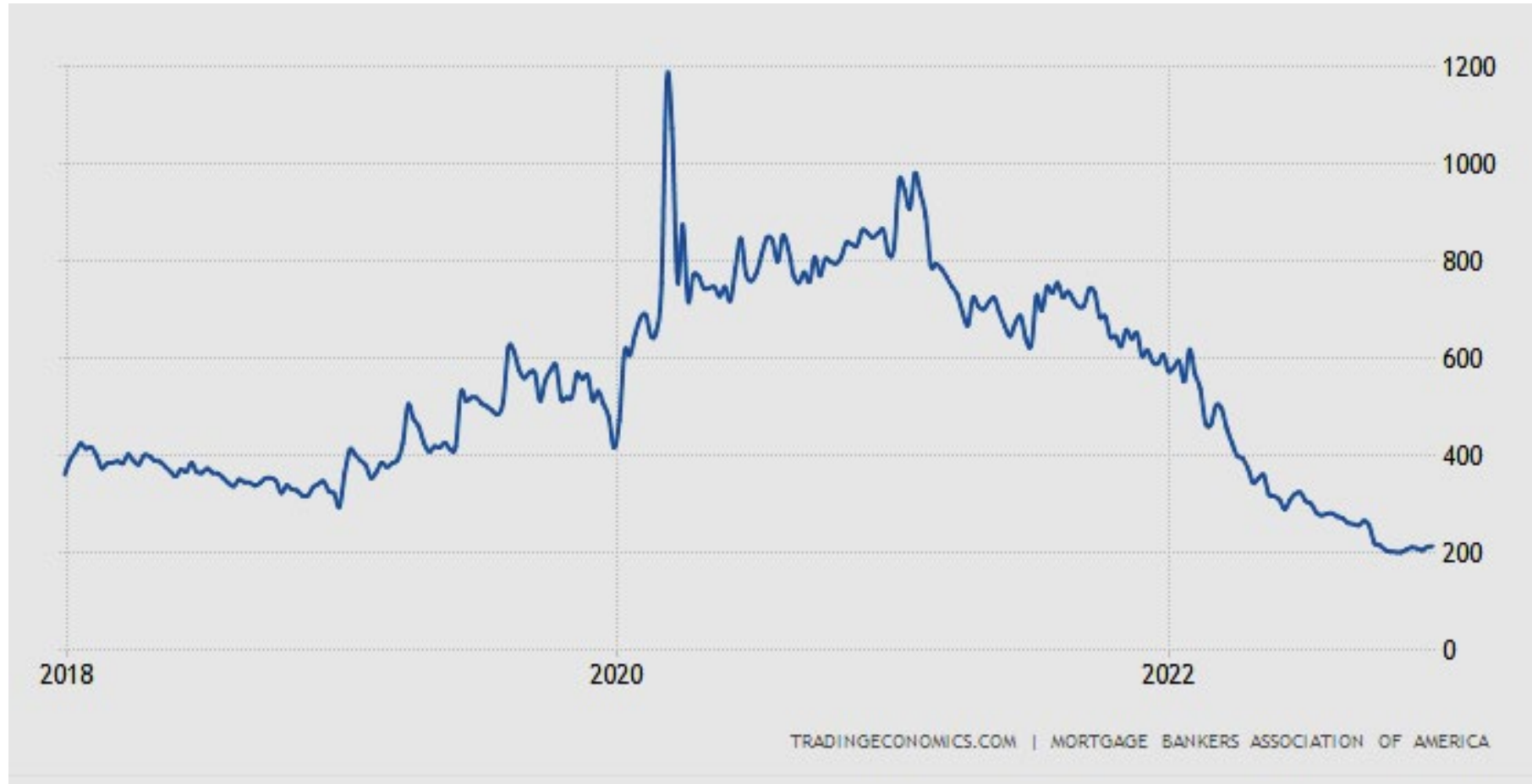
Montana Economy Transitions to Slower Growth?

- Slower growth in 2022, but not much slower
- Real estate, finance, and commodity producers are first to see signs of change
- Construction was robust
- Labor markets remain tight
- Visitor spending appears strong
- What is Montana's exposure to downturn in high tech?

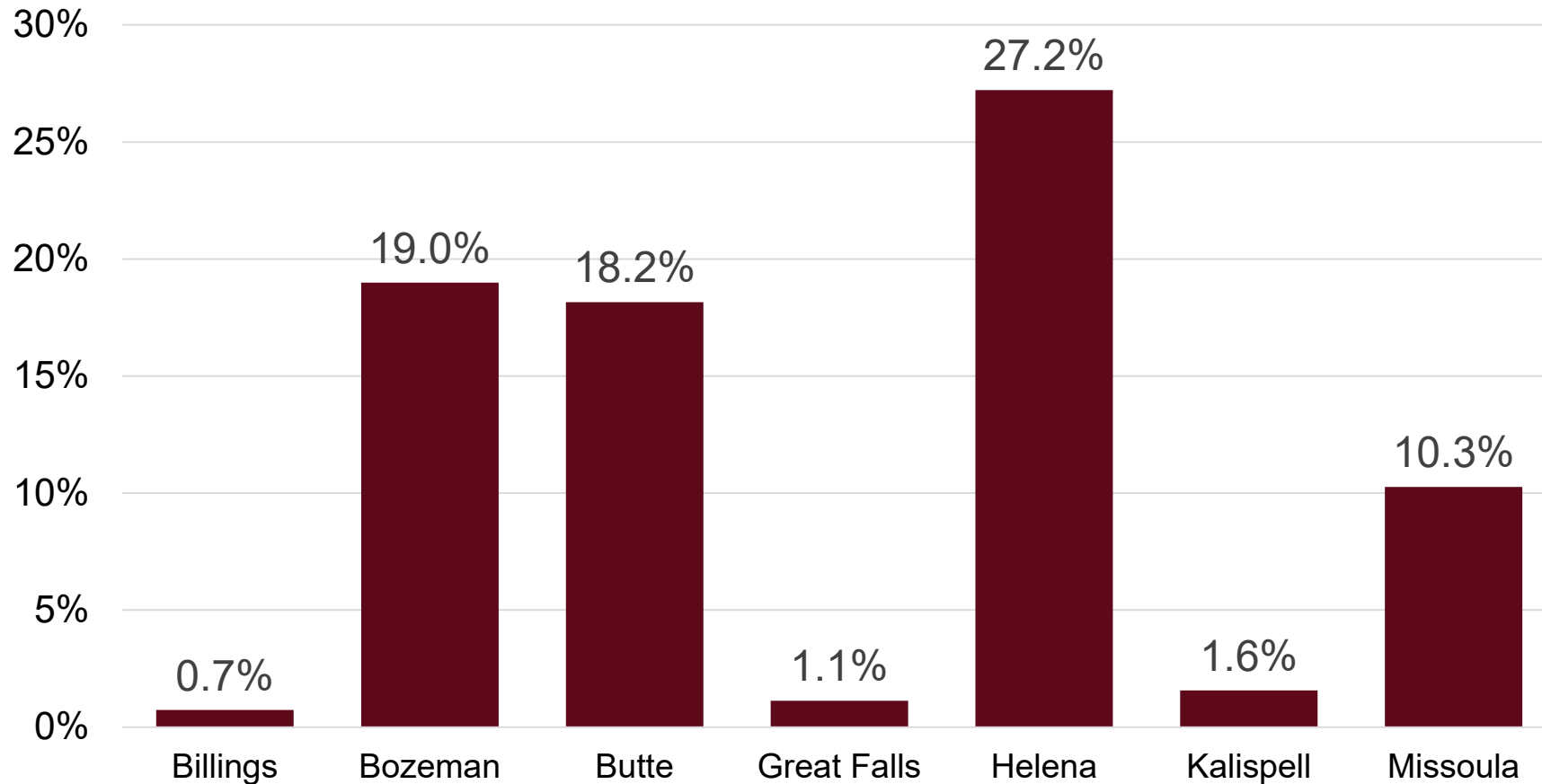


Activity in Mortgage Markets Has Crashed

MBA Mortgage Market Index, 2018-22



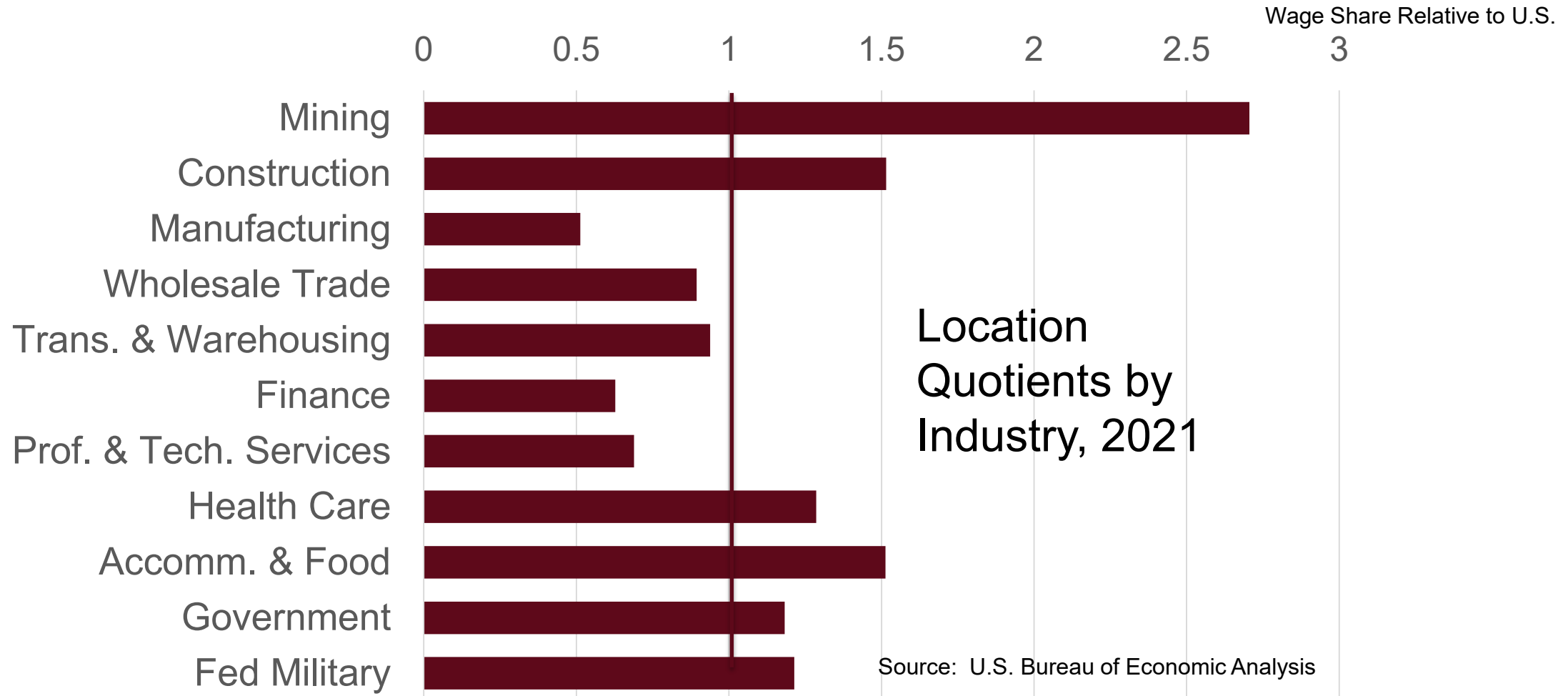
Growth in 2022 Air Passenger Volume Was Uneven



What Are the Biggest Industries in Montana?










What Are the Most Prominent Industries in Montana?



A Huge Year for State Tax Revenues

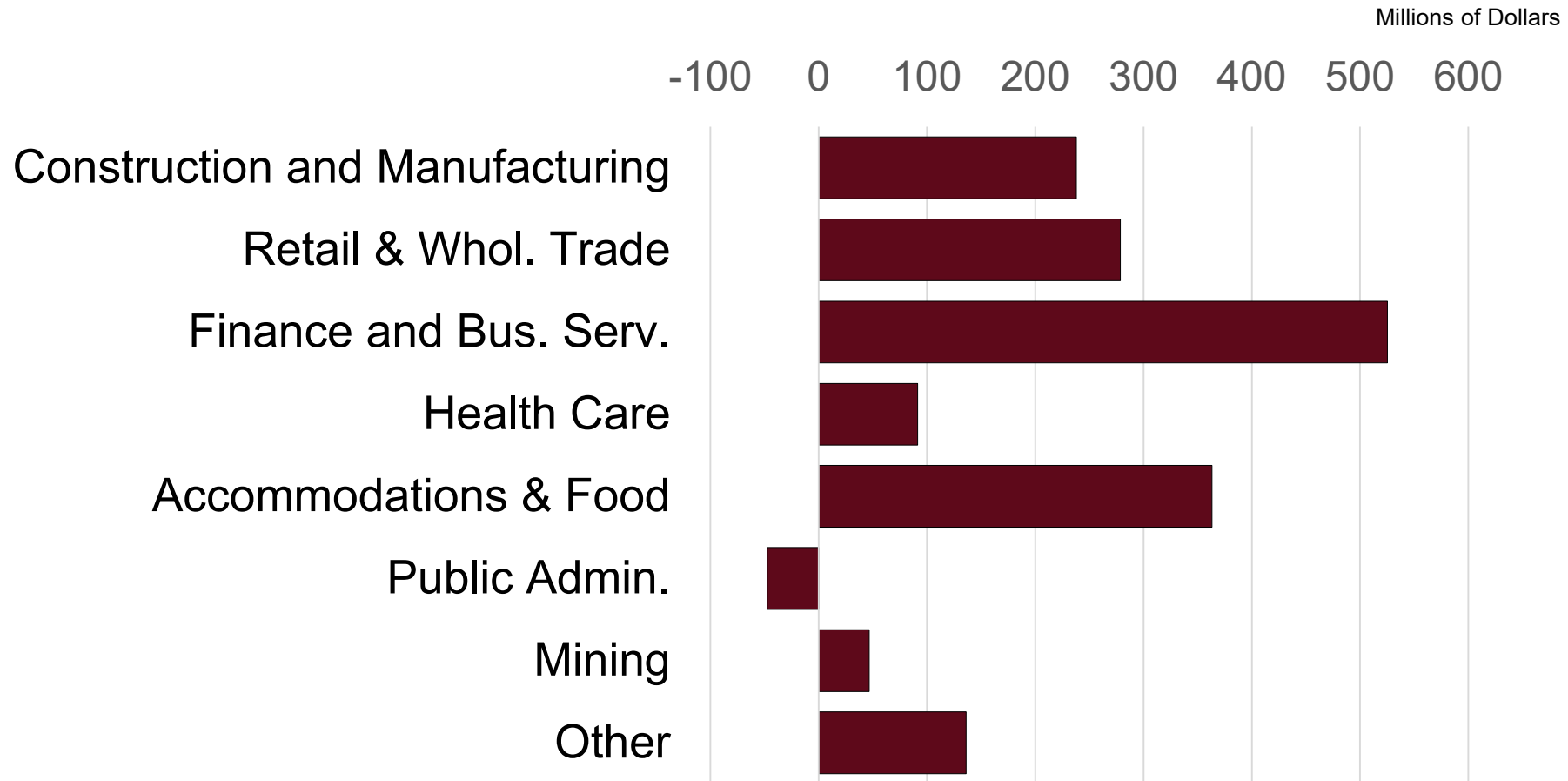
General fund revenue: FY 2021 actual collections exceeded HJ 2 estimate by \$401.9 million
(\$ Millions)

Revenue Source	Actual FY 2020	HJ 2* FY 2021	Actual FY 2021	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.	% Diff Illustrated
Largest Seven Sources								
Individual Income Tax	\$1,435.2	\$1,505.4	\$1,765.4	4.9%	23.0%	\$260.0	17.3%	
Property Tax	308.6	313.4	310.7	1.6%	0.7%	(2.7)	-0.9%	
Corporation Tax	187.4	149.4	266.5	-20.2%	42.2%	117.1	78.4%	
Vehicle Taxes & Fees	108.5	109.3	117.8	0.8%	8.6%	8.5	7.7%	
Oil & Natural Gas Taxes	38.4	40.4	39.5	5.2%	3.0%	(0.8)	-2.0%	
Insurance Tax	82.5	88.4	87.3	7.2%	5.8%	(1.2)	-1.3%	
Video Gaming Tax	57.4	60.3	74.9	5.0%	30.4%	14.6	24.2%	

Source: Montana Legislative Fiscal Division



Real Earnings Growth by Sector, Montana, 2020-21

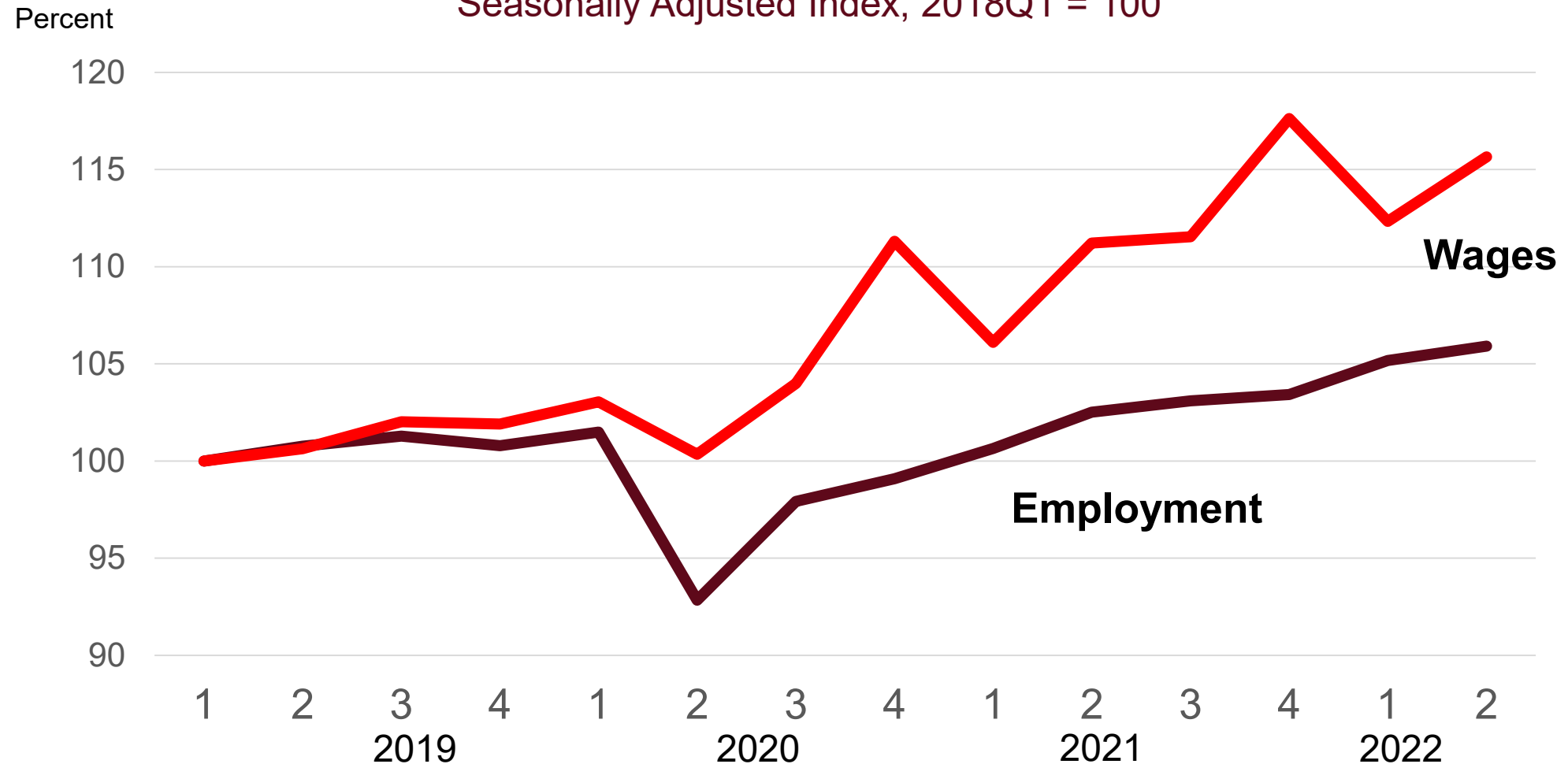


Source: U.S. Bureau of Economic Analysis



Wages and Employment, Montana, 2019Q1 – 2022Q2

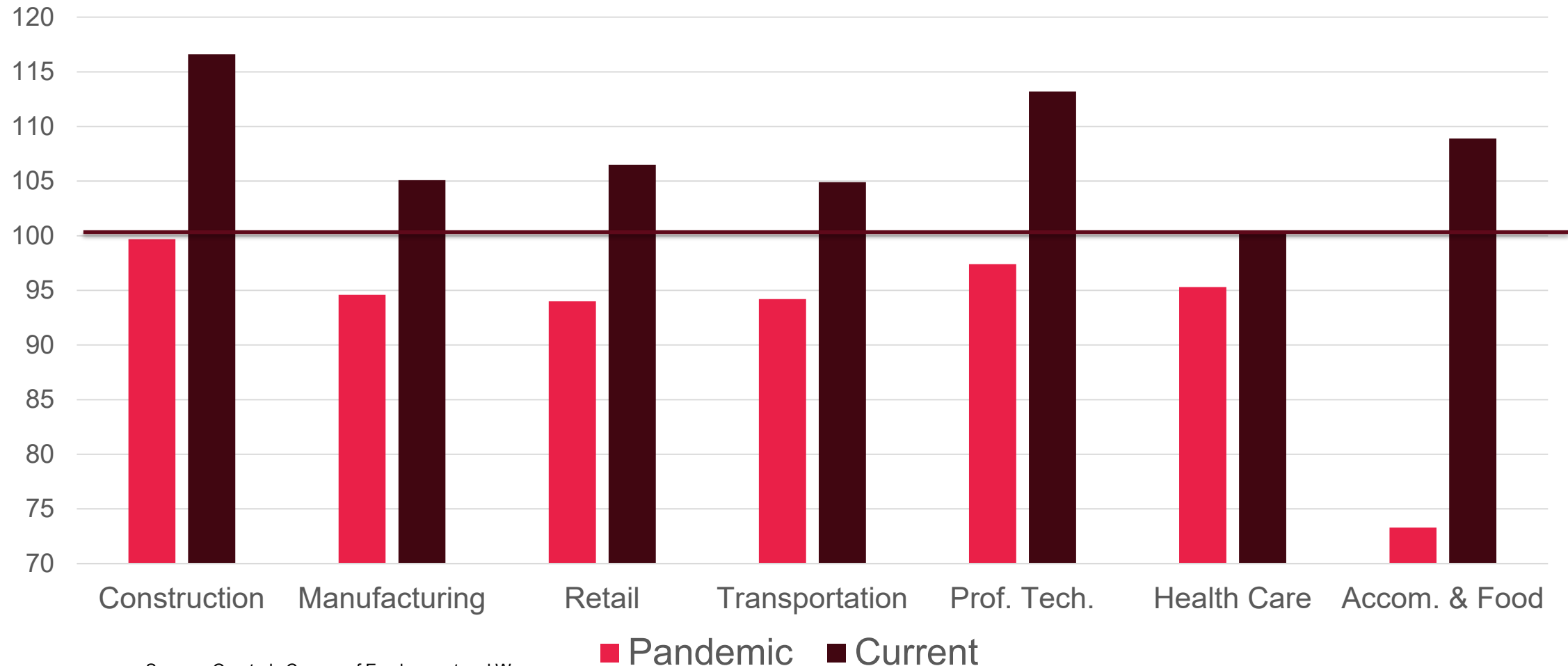
Seasonally Adjusted Index, 2018Q1 = 100



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages



Montana Employment as Percent of pre-Pandemic Levels



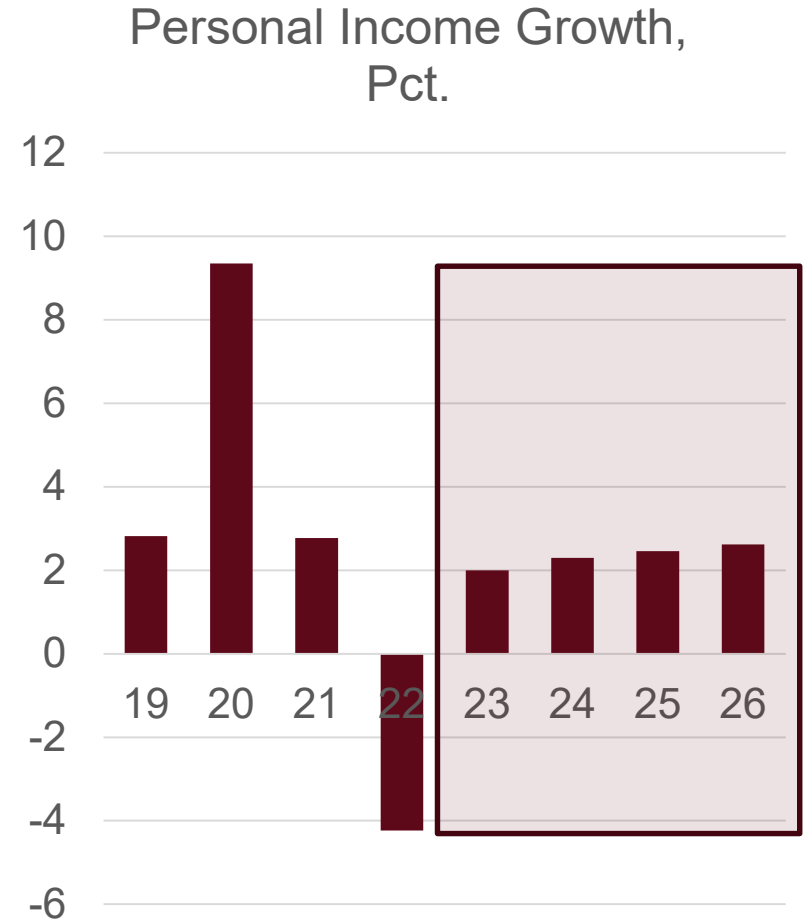
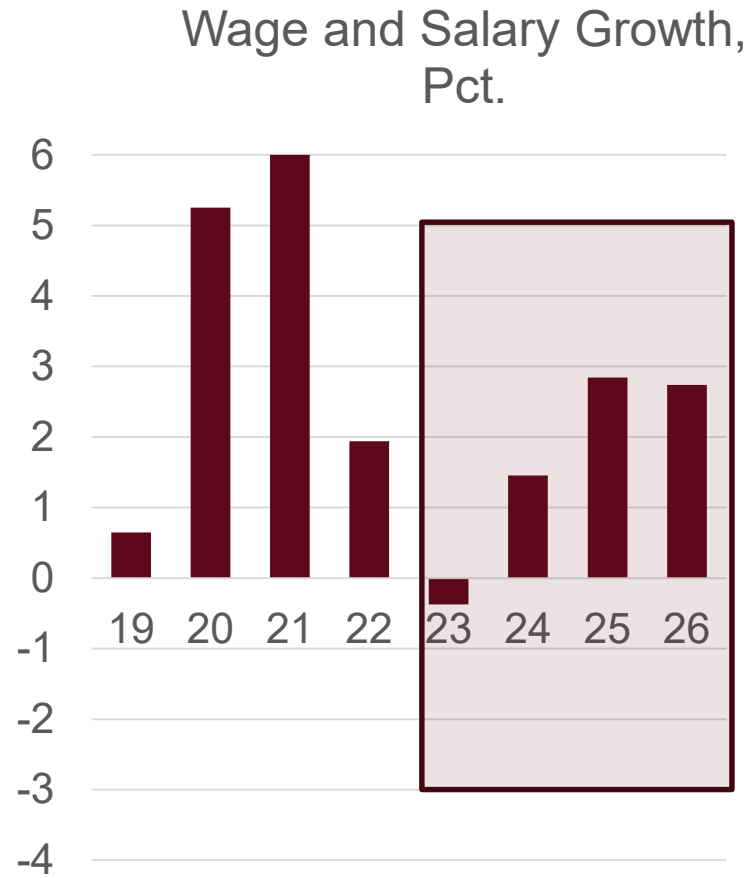
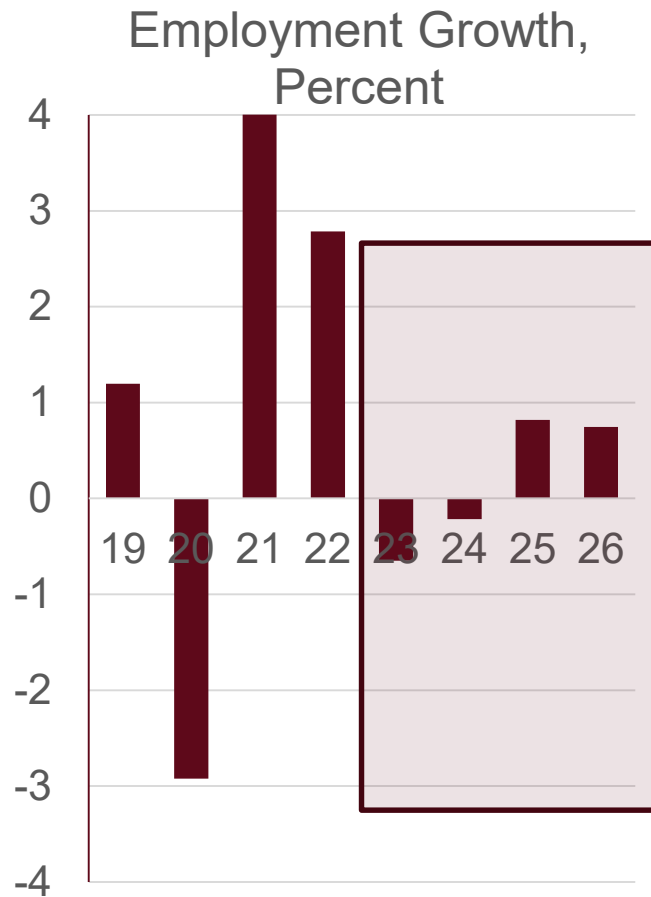
Montana Tax Collections Still Roaring Six Months into FY23

Year	2021		2022		2023	
Categories	Change	Percent Change	Change	Percent Change	Change	Percent Change
[-] Top Seven Sources	\$103,699,632	9.0%	\$161,351,143	12.9%	\$160,172,959	11.3%
[+] Corporation Tax	\$7,937,941	7.3%	\$33,920,721	29.0%	\$8,441,212	5.6%
[+] Individual Income Tax	\$95,933,274	12.0%	\$114,165,154	12.7%	\$161,627,995	16.0%
[+] Insurance Tax	\$1,911,314	6.2%	\$1,250,099	3.8%	(\$15,435,824)	-45.4%
[+] Oil & Natural Gas Tax	\$0		\$0		\$0	
[+] Property Tax	(\$2,548,830)	-1.8%	\$6,571,542	4.8%	\$5,156,425	3.6%
[+] Vehicle Fee	(\$1,364,741)	-2.7%	\$3,534,701	7.2%	\$265,594	0.5%
[+] Video Gaming Tax	\$1,830,674	11.2%	\$1,908,926	10.5%	\$117,558	0.6%
[+] Other Sources	\$9,072,639	26.0%	(\$16,177,924)	-36.8%	\$257,068,943	924.7%
[+] Natura Resource Sources	(\$4,288,618)	-35.1%	\$1,716,690	21.6%	\$16,169,686	167.6%
[+] Interest Earnings Sources	(\$8,603,186)	-48.7%	(\$1,608,730)	-17.7%	\$40,047,206	536.9%
[+] Consumption Sources	\$3,593,930	11.6%	(\$2,572,747)	-7.4%	\$1,199,343	3.7%
[+] Business Sources	(\$3,449,239)	-11.9%	\$5,652,579	22.1%	\$2,133,264	6.8%
Total	\$100,025,157	7.9%	\$148,361,012	10.8%	\$476,791,401	31.4%



Montana's Economic Slowdown

Employment, Real Wages and Salary and Real Income Growth, Actual and Forecast, Percent



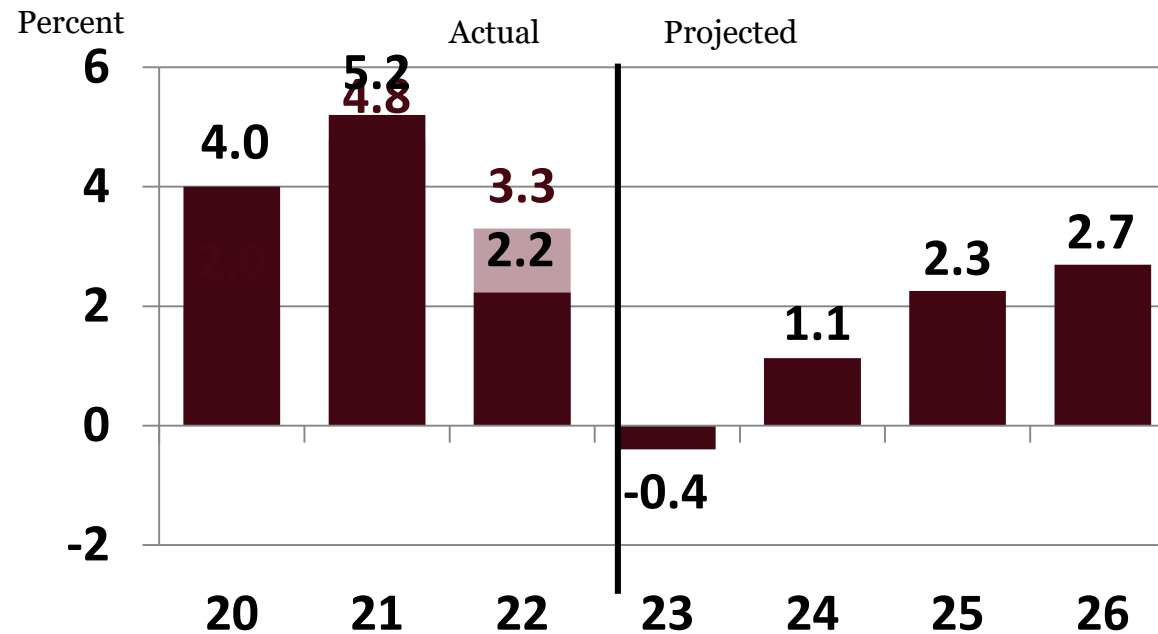
Source: IHS Markit

Outlook for Montana's Key Industries

- Era of strong consumer spending and strong commodity prices is ending
- The exception is agriculture
- Visitor spending, in-migration remain bright spots
- High-flying parts of the state are having growing pains
- Economy remains vulnerable to disruptions



Growth in Nonfarm Earnings, Montana, 2020-2026



Source: BBER and U.S. Bureau of Economic Analysis

