

The Montana Outlook

Stronger Growth Ahead

by Patrick M. Barkey and Paul E. Polzin

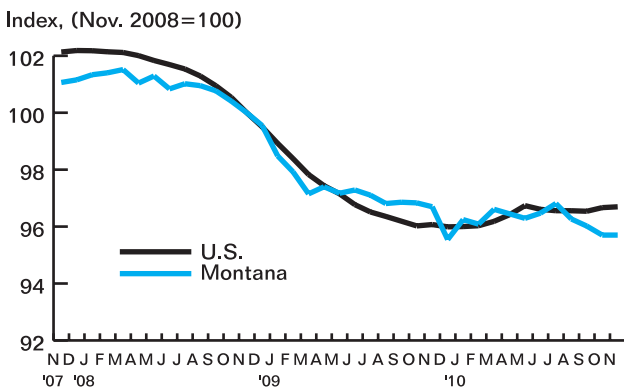
After enduring the broadest, deepest recession seen in the state in 25 years, Montanans can expect to see better growth arrive in the state economy in 2011. The weak growth that we projected at this time last year for 2010 was exactly what we got, and it did little to ease concerns over our economic future. It also did little to help labor markets or state tax revenues, both of which moved sideways for most of the year.

But compared to the steep declines most sectors of the state economy experienced in 2009, 2010 was a year when consumer spending stabilized, financial institutions returned to normality, and virulent cost-cutting by businesses came to an end. And for some Montana industries, most notably agriculture and natural resources, prospects brightened considerably.

We expect that 2011 will be the year when growth in the state economy kicks up a notch. Compared to the housing bubble-related growth in pre-recession times, growth will be tame. But beginning in the second half of 2011 and continuing into 2012, the Montana economy will turn in its best performance since 2006, due to:

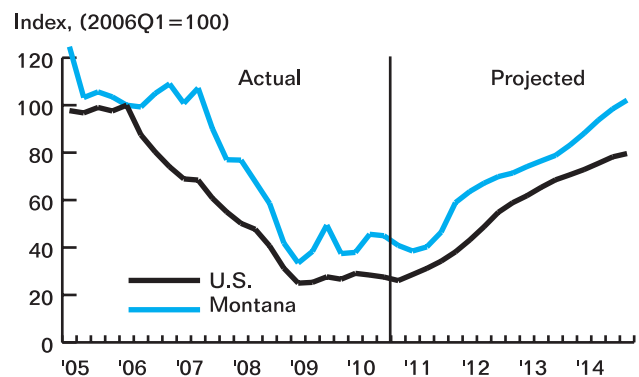
- continued and expanded investment in the state's energy and natural resource infrastructure,
- strong growth in farm receipts due to improved global market conditions,
- growth in exports fueled by a weaker dollar, and
- continued strengthening in consumer spending in the national economy.

Figure 1
Nonfarm Wage and Salary Employment, Montana and U.S.



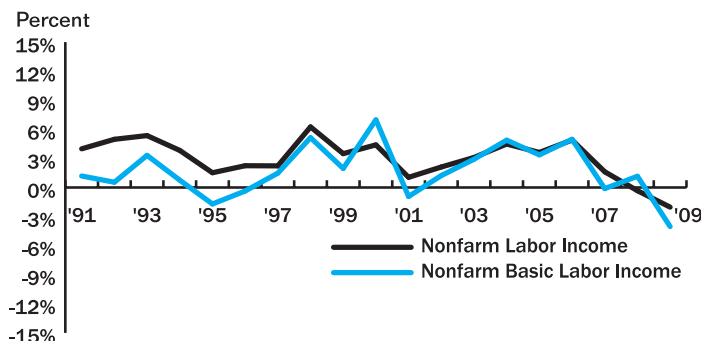
Sources: U.S. Bureau of Labor Statistics and Montana Department of Labor and Industry.

Figure 2
Residential Housing Starts, Montana and U.S. 2005 Q1 to 2014 Q4



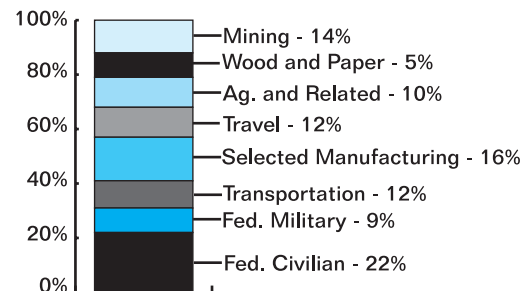
Source: U.S. Bureau of the Census and IHS Global Insight, Inc.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, 1991-2009, [In Constant Dollars]



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

Figure 4
Labor Income in Basic Industries, Montana, 2008-2010 [Percent of Total]

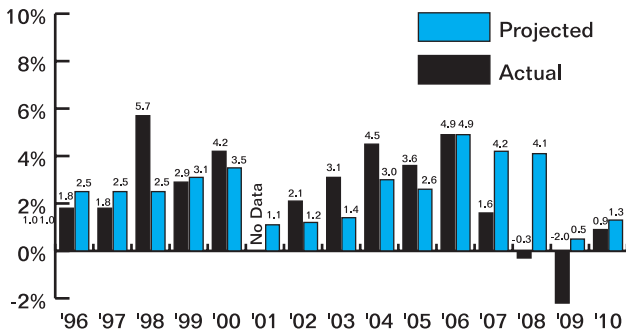


Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Still sitting on the sidelines will be Montana's construction and forest products industries. While we are more optimistic about a return to housing construction, it will be another two years before we will see anything resembling healthy demand for new homes.

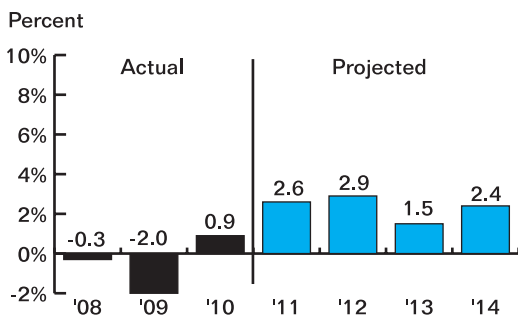
Governments are another sector that continues to face challenges. The unsustainable federal budget situation presents a key risk to our forecast, as do the fiscal pressures other governments face worldwide. Prudent management of a still-fragile situation in housing finance is also vital if this recovery is to spread its wings in the coming year.

Figure 5
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1996-2010



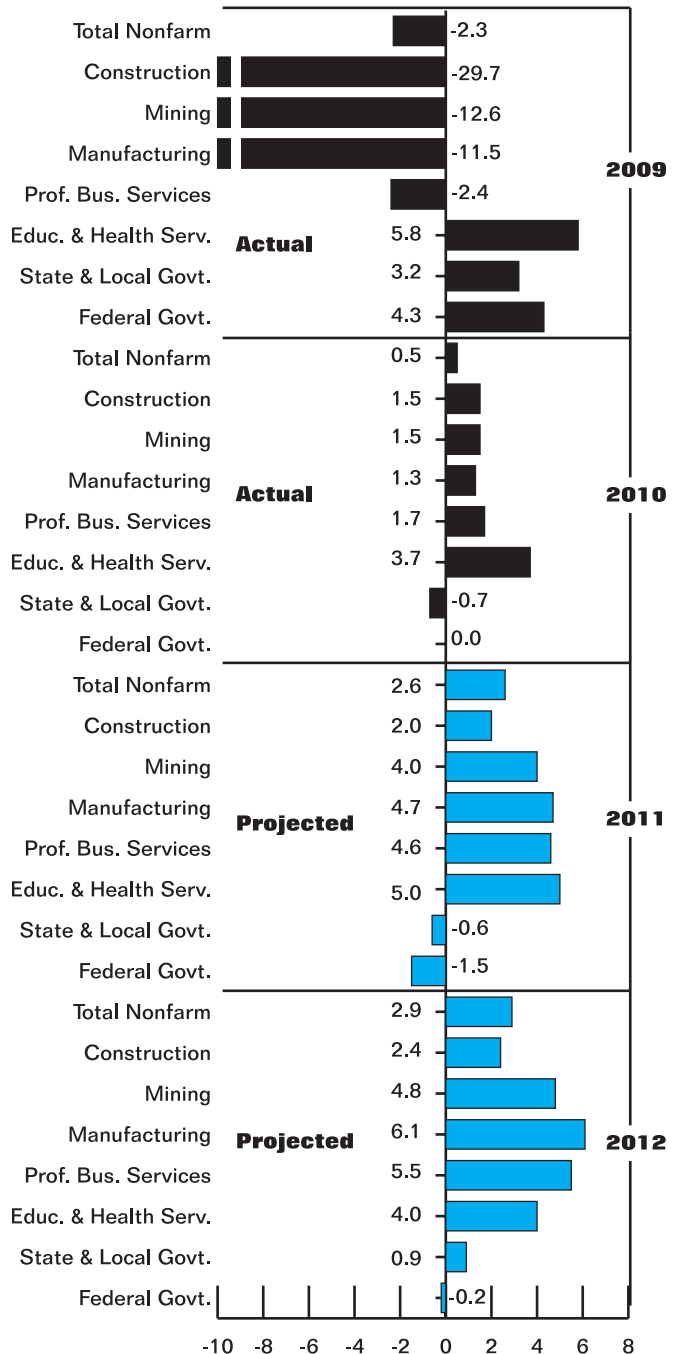
Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 6
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 2008-2014



Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 7
Percent Change in Wage and Salary Disbursements, Montana, Selected Industries 2009-2012



Sources: Bureau of Business and Economic Research, The University of Montana, IHS Global Insight Inc.