

**OUTLOOK
2016**

**41ST ANNUAL ECONOMIC OUTLOOK SEMINAR
PRESENTED BY NORTHWESTERN ENERGY
AND THE BUREAU OF BUSINESS & ECONOMIC RESEARCH**

RISING
Property Tax Bills

**What You
Should
Know**



Advisory Board

Julia Altemus

Montana Wood Products
Association
Missoula

Michael Foster

Providence Health Services
Missoula

Diana Holshue

Federal Reserve Bank of
Minneapolis
Helena

Matthew Jones

BNSF Railway
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Meg O'Leary

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Tom Richmond

Montana State Representative
Billings

Tim Robertson

Century Companies, Inc.
Lewiston

About the Bureau of Business and Economic Research

About the Bureau of Business and Economic Research

The Bureau of Business and Economic Research is the main research unit of the School of Business Administration at the University of Montana. Established in 1948, its mission is to inform Montanans about the economic climate in which they live and work. In addition to conducting its Economic Outlook Seminars across the state in the beginning of each year, BBER researchers are engaged in a wide range of applied research projects that deal with different aspects of the state economy, including survey research, economic analysis, health care research, forecasting, wood products research and energy research.

Dates and Locations

Helena

January 26, 2016 (Tuesday)
Best Western Great Northern

Great Falls

January 27, 2016 (Wednesday)
Hilton Garden Inn

Missoula

January 29, 2016 (Friday)
Hilton Garden Inn

Billings

February 2, 2016 (Tuesday)
Northern Hotel

Bozeman

February 3, 2016 (Wednesday)
The Commons

Butte

February 4, 2016 (Thursday)
NorthWestern Energy Butte General Office

Kalispell

February 12, 2016 (Friday)
Hilton Garden Inn

Lewistown

March 15, 2016 (Tuesday)
Central Montana Education Center

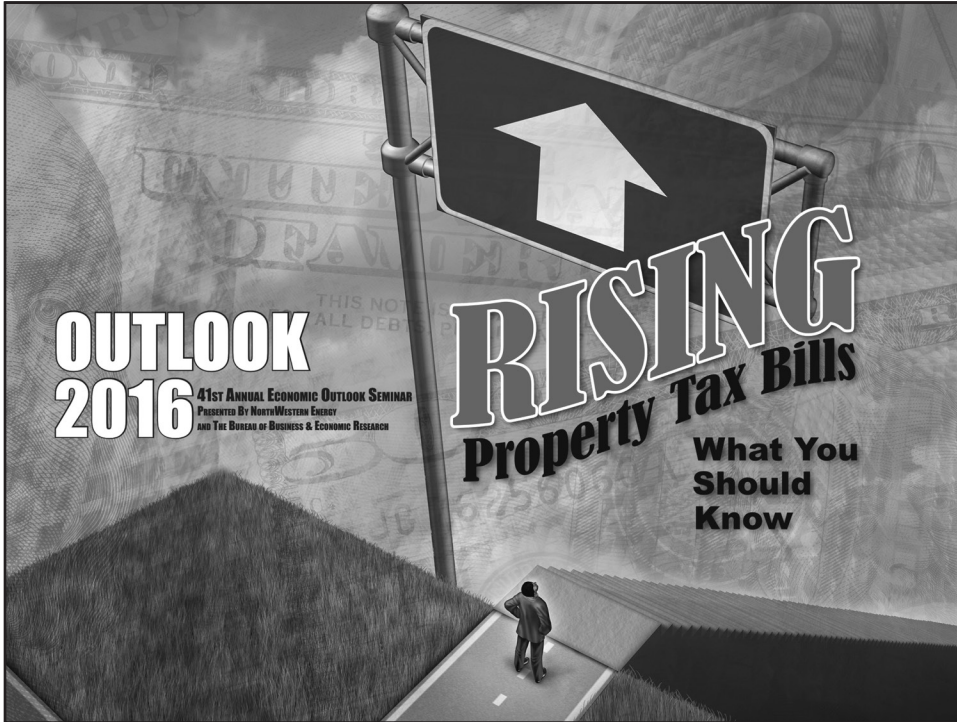
Have

March 16, 2016 (Wednesday)
MSU-Northern, Hensler Auditorium

**Presented by NorthWestern Energy and the University of Montana
Bureau of Business and Economic Research**

Table of Contents + Seminar Agenda

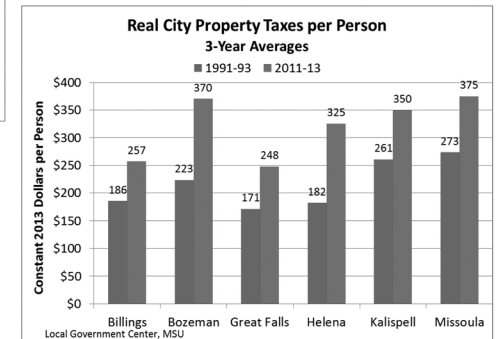
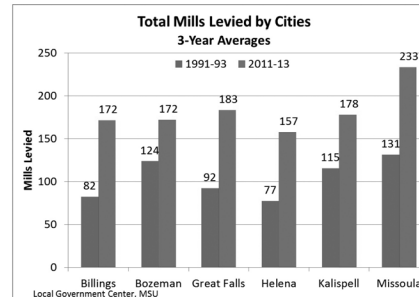
7:45 - 8:00	Coffee & Registration
8:00 - 8:15	Page 2 Introduction and Overview Patrick Barkey, director, UM BBER
8:15 - 8:45	Page 3 U.S. and Montana Outlooks Patrick Barkey, director, UM BBER
8:45 - 9:05	Page 10 Local Outlook Page 10 Paul E. Polzin, director emeritus, UM BBER
9:05 - 9:25	Page 17 Health Care Bryce Ward, director, Health Care, UM BBER
9:25 - 9:35	Coffee Break
9:35 - 9:55	Page 21 Nonresident Travel Norma Nickerson, director, UM Institute for Tourism and Recreation Research
9:55 - 10:15	Page 25 Agriculture George Haynes, professor and agricultural specialist, MSU-Bozeman
10:15 - 10:35	Page 31 Manufacturing and Forest Products Todd Morgan, director, Forest Industry Research, UM BBER
10:35 - 10:45	Coffee Break
10:45 - 11:05	Page 43 Real Estate Kyle Morrill, director, Forecasting and Senior economist, UM BBER
11:05 - 11:25	Page 54 Energy Terry Johnson, director, Natural Resource and Energy Research, UM BBER
11:25 - 11:40	Local Expert Report
11:40 - 11:50	Wrap-up and Summary Patrick Barkey, director, UM BBER
11:50 - Noon	Break
Noon - 12:50	Introduction of Keynote Bob Rowe, CEO, NorthWestern Energy
	Page 59 Luncheon Keynote Doug Young, professor emeritus, MSU-Bozeman
12:50	Closing Remarks



Property Taxes Are Everywhere

- In your mailbox
- In your mortgage payment
- In your shopping bills
- In your utility bills
- In your business bottom line

Property Taxes Are Growing



Do We Know Why?

The State and National Economic Outlook

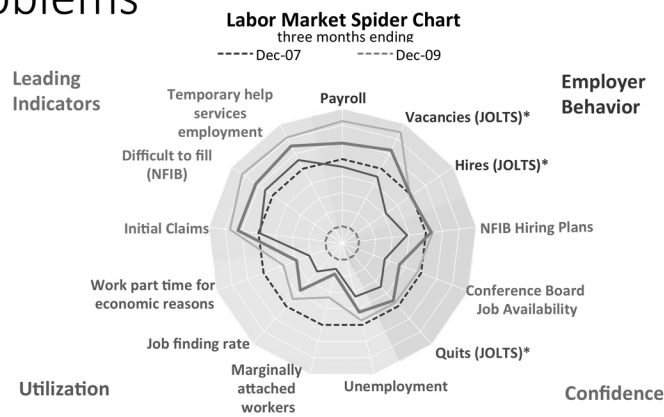
Back to Full Employment

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

The U.S. Economy: Good But Not Great

- Even slow growth in the world's largest economy eventually adds up
- Expected surge in spending from lower energy prices fails to materialize
- Weakening economies abroad, stronger dollar combine to hurt exports
- U.S. job growth engine hits a higher gear
- Virtuous cycle of spending growth – job growth – income growth has solidified
- Are we getting back to easy credit?

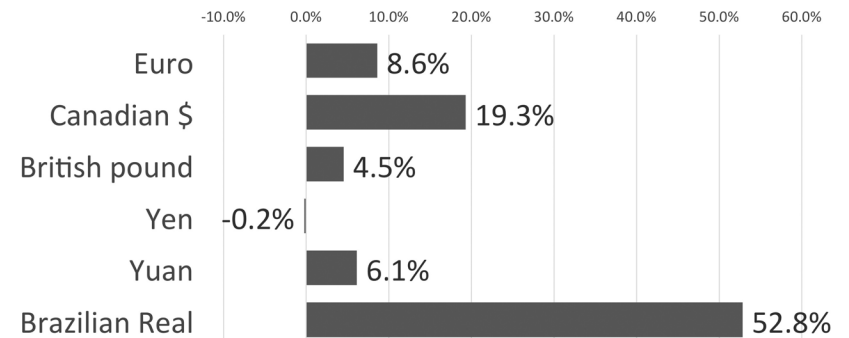
Seven Years of Job Growth Solves Problems



Source: U.S. Bureau of Labor Statistics, U.S. Department of Labor, National Federation of Independent Business, and The Conference Board

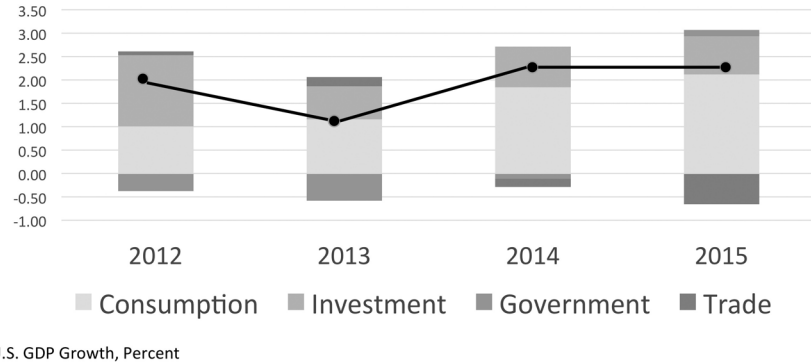
*JOLTS data are August to October average

U.S. Goods Are More Expensive Than One Year Ago

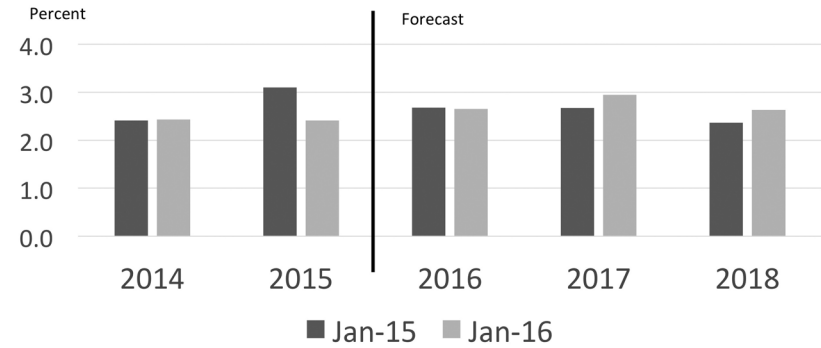


Percent Change in Dollar Purchasing Power, Jan 2015 – Jan 2016

The Nature of U.S. Growth Has Changed

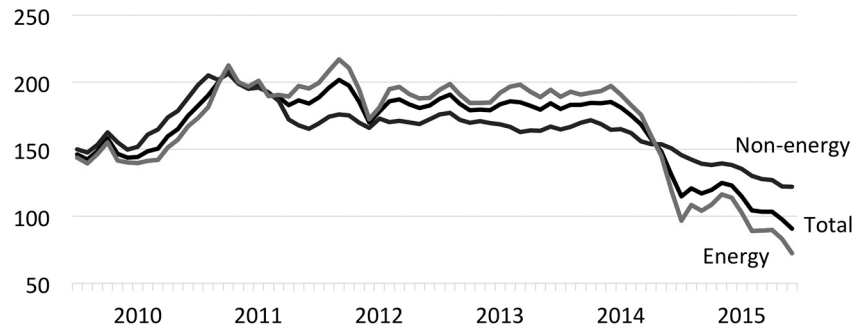


Growth Expectations Have Adjusted Downward Growth in GDP, Actual and Forecast

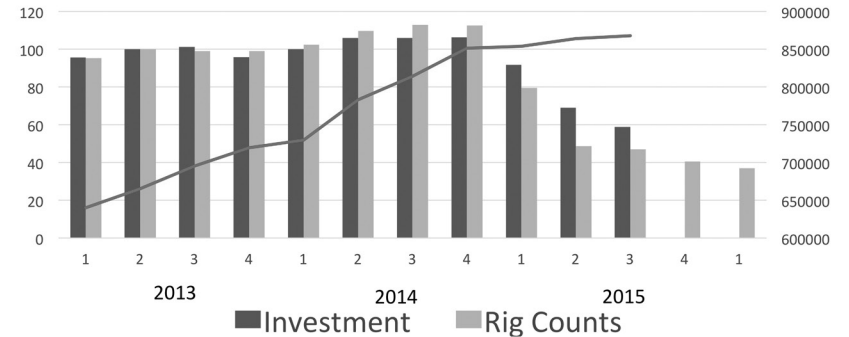


Source: IHS, Inc.

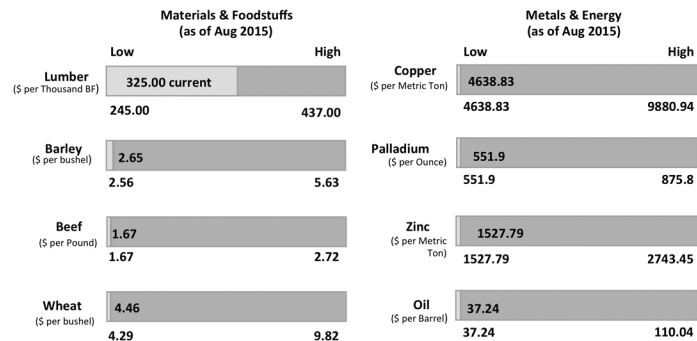
Another Fall for Commodity Prices



Prices Bending, But Not Breaking, Oil Production Gains

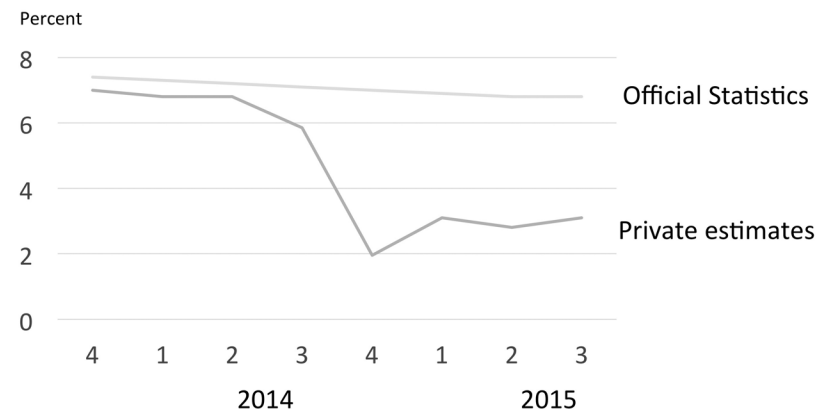


Metals, Agricultural and Oil Prices at Five Year Lows
December 2015 vs. 5-Year High and Low



Does Anyone Know What Chinese Growth Is?

GDP Growth, Percent, China



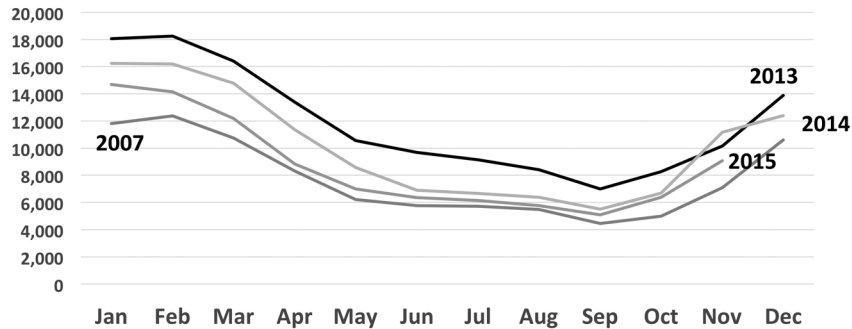
U.S. Outlook Summary

- U.S. consumer spending now powering the economic recovery
- Old fuel for growth – business spending, global growth – is spent
- Global slowdown is most evident in commodity prices
- Federal Reserve “liftoff” – raising rates accomplished
- How much longer can the U.S. go it alone?

The Montana Economy Reaches Full Employment

- Growth has shifted west as commodities stumble and construction improves
- Labor market slackness has largely disappeared
- Broad growth across most industries helps boost tax revenues, wages
- Commodity prices, grain prices and the weak Canadian dollar are spoiling the party for some
- New focus: construction and retailing

Unemployment Claims Show Steady Improvement



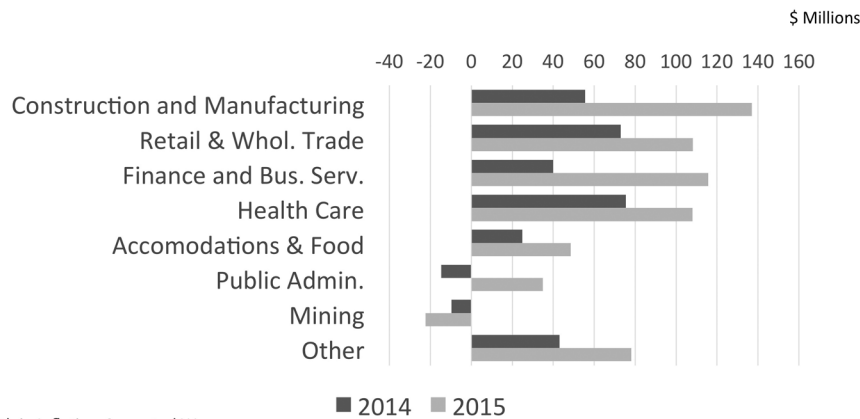
Monthly Unemployment Claims, Montana.

Wages Grew Faster Than Employment Last Year



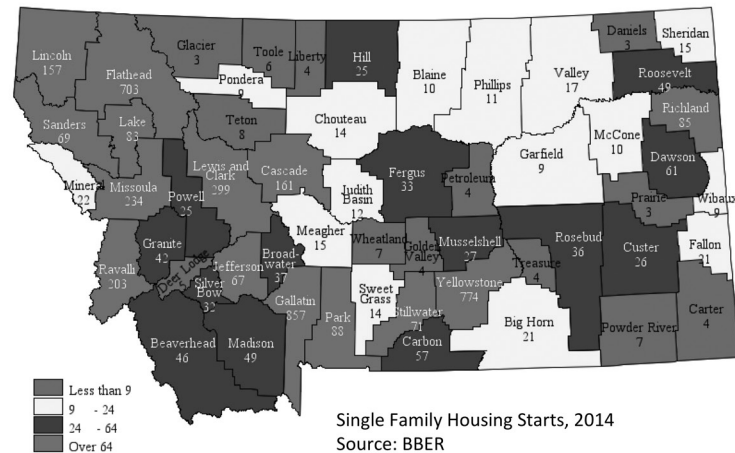
Percent Change in Payroll Employment and Inflation-Corrected Wages, Montana
Note: Data are for fiscal years.

What's Driving Growth in Montana: Wage Growth



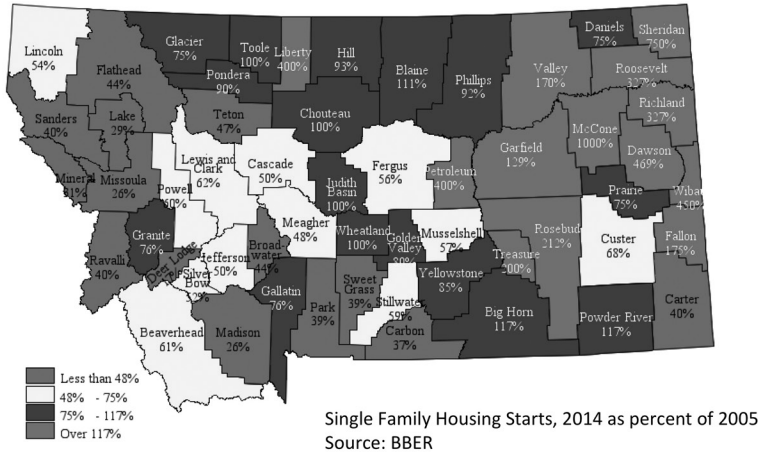
Growth in Inflation-Corrected Wages, Difference in Fiscal Year Totals, \$ Millions.

Single Family Home Construction Tilts West

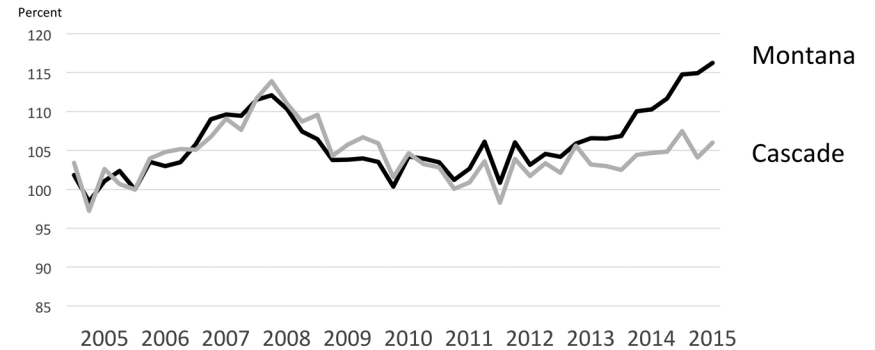


Single Family Housing Starts, 2014
Source: BBER

Housing Starts Still Far Off Their 2005 Peaks

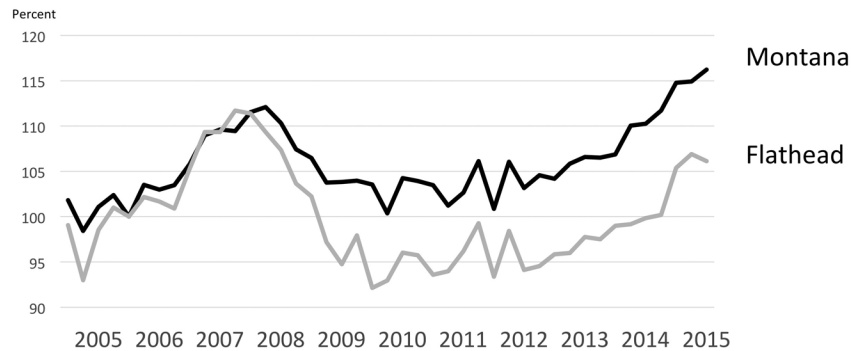


Retail Wages, Inflation-Corrected, 2005-15 Cascade County vs. Montana



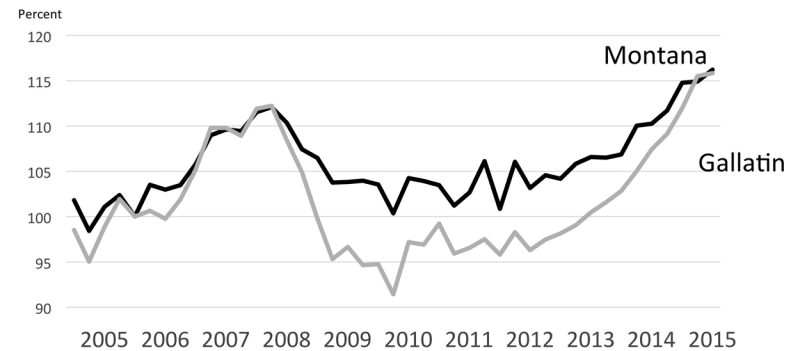
Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15 Flathead County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

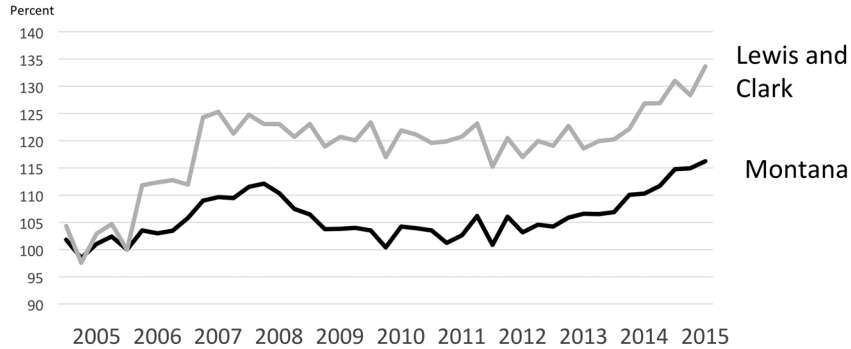
Retail Wages, Inflation-Corrected, 2005-15 Gallatin County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

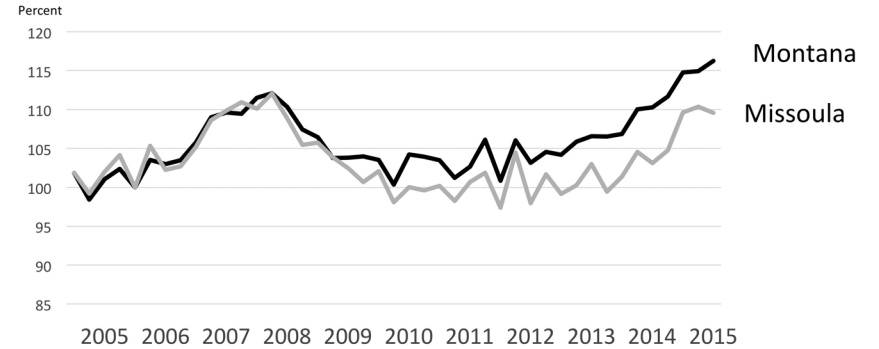
Lewis and Clark County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

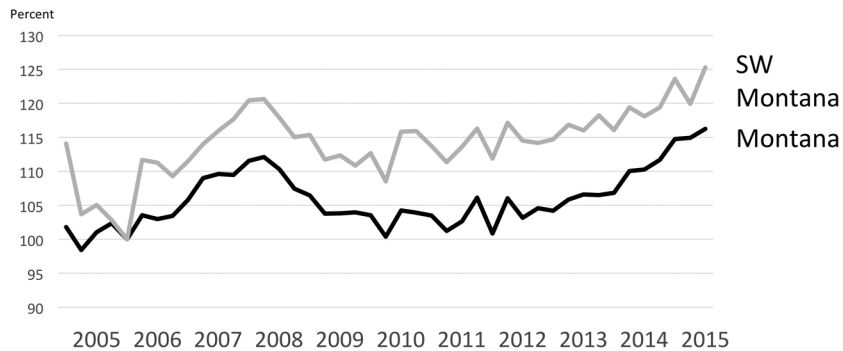
Missoula County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

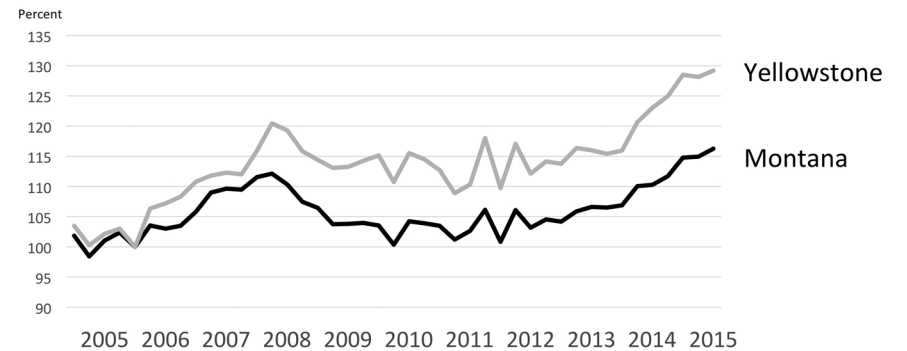
Southwest Montana vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

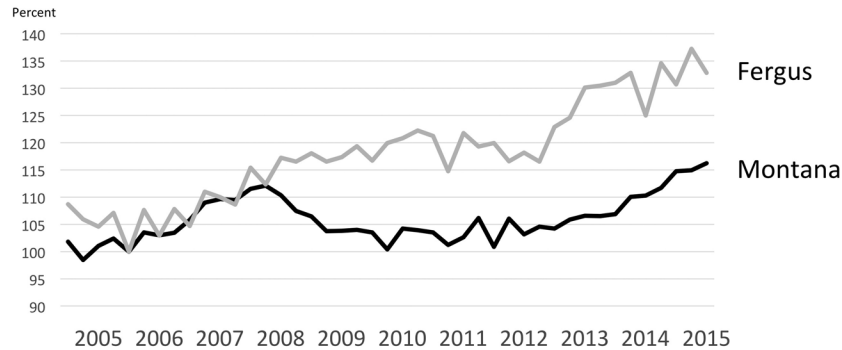
Yellowstone County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

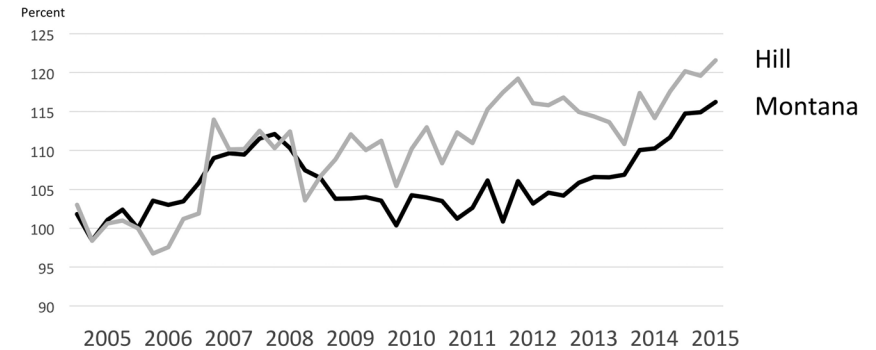
Fergus County vs. Montana



Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

Retail Wages, Inflation-Corrected, 2005-15

Hill County vs. Montana

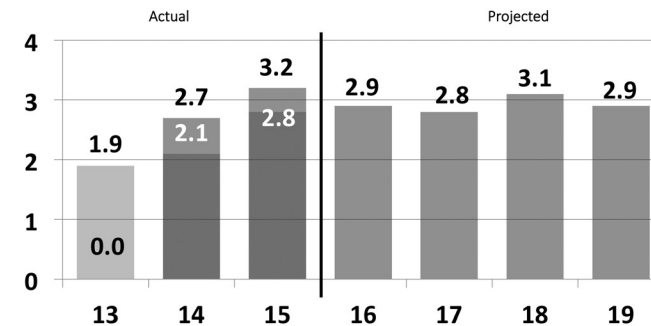


Index, 2005Q4=100, seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

What's Ahead for Montana's Key Industries?

- Construction, manufacturing, and visitor spending continue to be bright spots
- Worst of the impacts for energy lie ahead
- Agriculture producers are looking at a different price environment
- Pressures on government spending have eased significantly
- Stage is set for broader, if less spectacular growth

Change in Nonfarm Earnings, Montana, 2013-2019

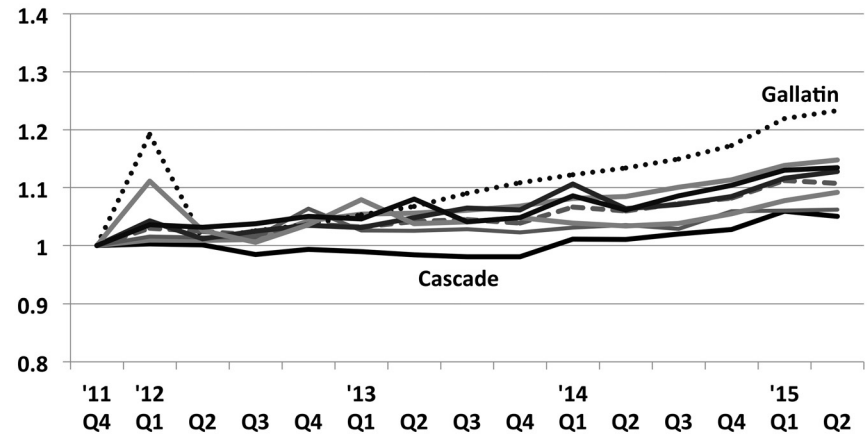


Local Outlook: All Cities

By Paul E. Polzin
 Director Emeritus
 Bureau of Business and Economic Research
 University of Montana

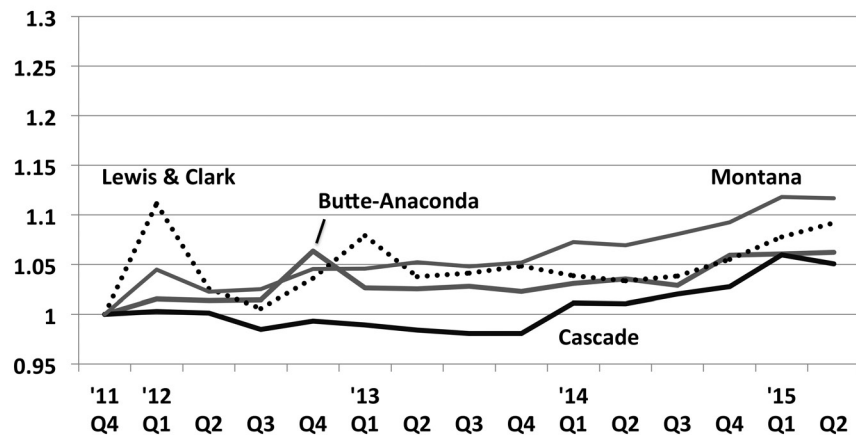
Inflation Adjusted Wages and Salaries, 2011 Q1 to 2015 Q2

Index, 2011 Q4=1.00



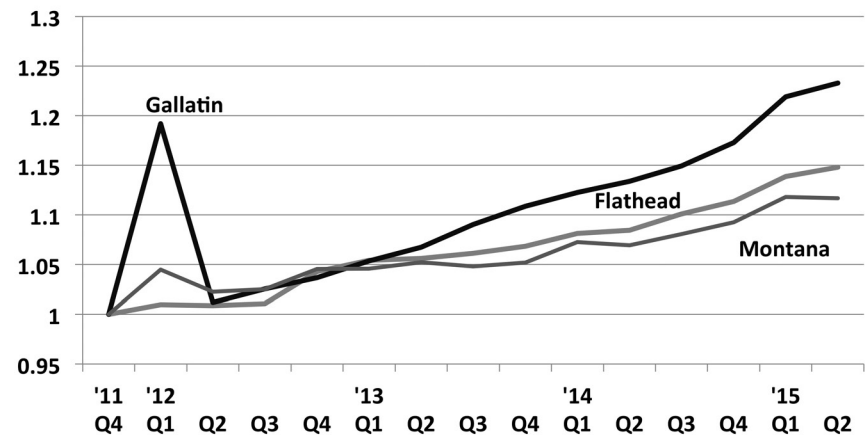
Inflation Adjusted Wages and Salaries, 2011 Q1 to 2015 Q2

Index, 2011 Q4=1.00



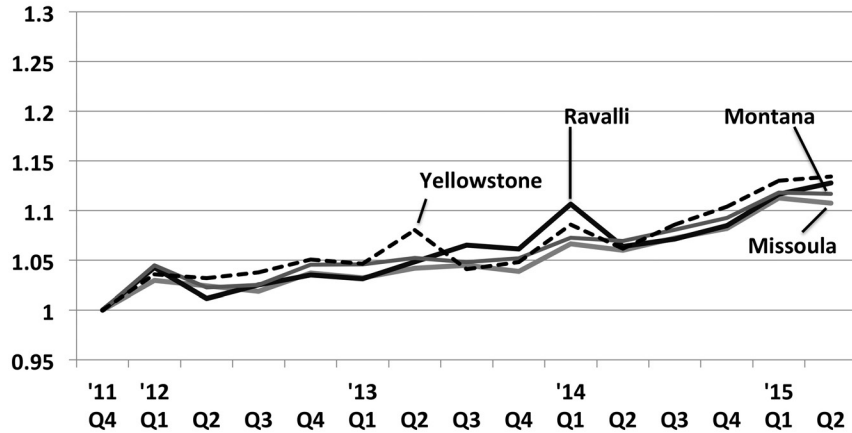
Inflation Adjusted Wages and Salaries, 2011 Q1 to 2015 Q2

Index, 2011 Q4=1.00



Inflation Adjusted Wages and Salaries, 2011 Q4 to 2015 Q2

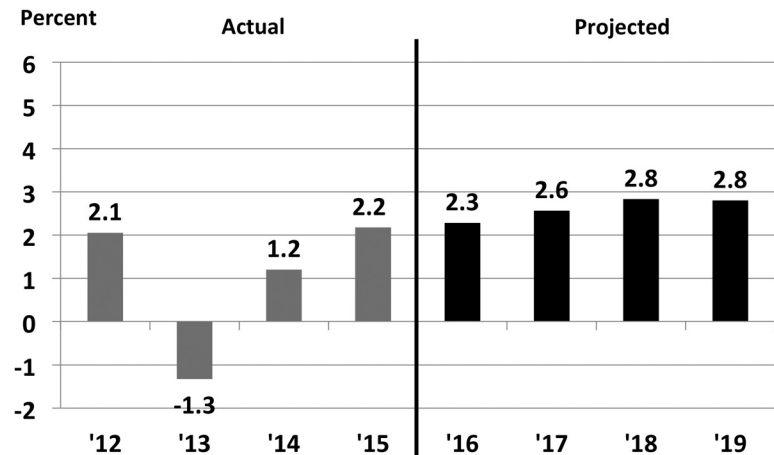
Index, 2011 Q4=1.00



Lewis & Clark County's Economic Base 2014-2016

Ag. And Mining	4%	Commodity Prices Down
Transportation and Information	3%	Trucking, Telecom. down
Manufacturing	5%	Boeing a Plus
Education, Other	7%	Stable
Trade Center – Insurance	7%	Less Uncertainty
Trade Center – Prof. and Tech.	6%	Modest Growth
Federal Government	23%	Favorable Mix
State Government	47%	Stable
Construction		No Sustained Uptick

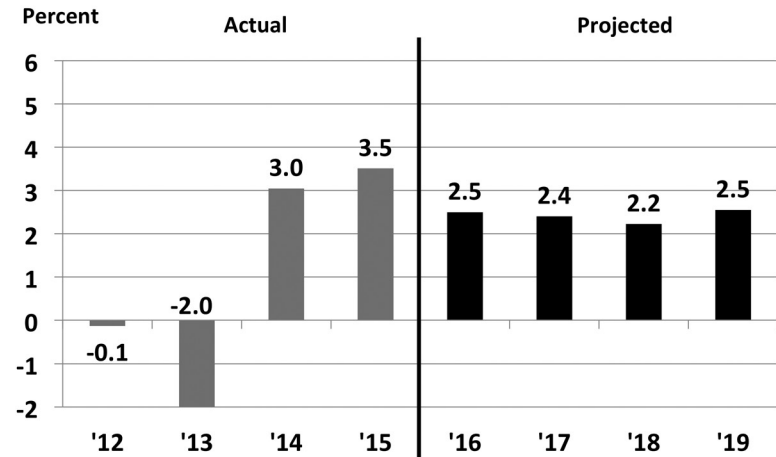
Actual and Projected Change in Nonfarm Earnings, Lewis and Clark County, 2012-2019



Cascade County's Economic Base 2014-2016

Other Basic	6%	
Ag. And Related	3%	Mixed
Trade Center – Wholesale, Retail, Finance	3%	Rural Trends
Manufacturing	9%	New Plants Open
State Gov't and Higher Ed.	8%	Stable
Transportation	10%	Trucking, Growth
Trade Center – Health Care	9%	Stable
Federal Civilian	11%	Stable at Best
Malmstrom AFB	41%	???
Construction		Stable

Actual and Projected Change in Nonfarm Earnings, Cascade County, 2012-2019



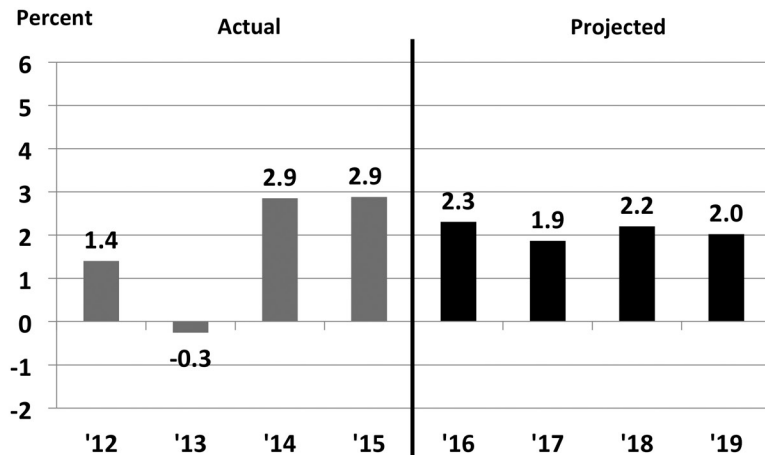
Missoula County's Economic Base 2014-2016

Other Manufacturing	7%	New Businesses
Trade Center – Retail, Wholesale	4%	Stable
Wood Products	5%	Stable
Nonresident Travel	9%	Moderate Growth
Transportation	10%	Recent Softening
Trade Center – Other Services	11%	Pro. Services Growth
Federal Government	13%	Stable at Best
Trade Center – Medical	17%	Stable
UM & Other State Gov't	24%	Declines
Construction		'15 Starting Strong

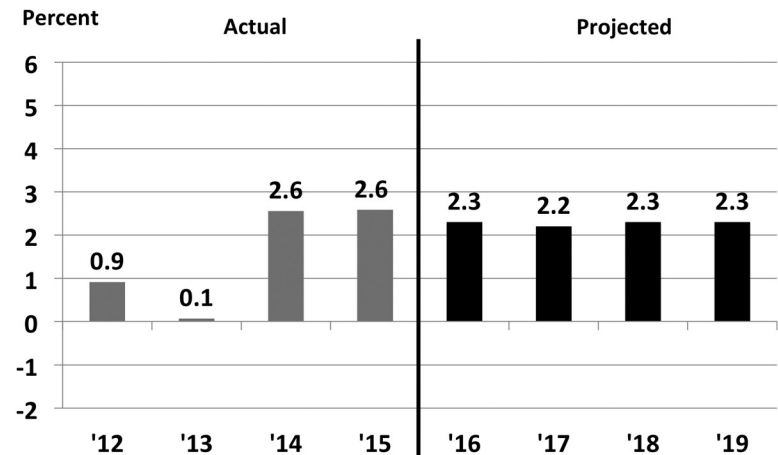
Ravalli County's Economic Base 2014-2016

Other	5%	
Ag and Nonres. Travel	5%	Moderate Growth
Wood Products	3%	Worldwide Demand
Manufacturing	8%	Armaments
Federal Government	8%	Stable at Best
Medical Research	17%	Reorganized, Still Positive
Commuters	54%	Missoula Recovering
Construction		No Sustained Uptick

Actual and Projected Change in Nonfarm Earnings, Missoula County, 2012-2019



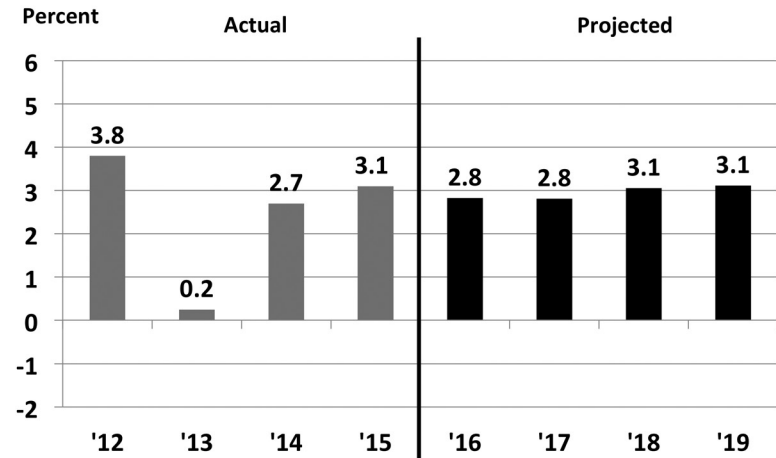
Actual and Projected Change in Nonfarm Earnings, Ravalli County, 2012-2019



Yellowstone County's Economic Base 2014-2016

Other Basic	2%	
Mining	9%	No Oil/Gas Declines Yet
Nonresident Travel	6%	Moderate Growth
Higher Ed. And State Gov't	7%	Stable
Transportation	10%	Softening
Trade Center – Services	11%	Vulnerable
Federal Government	11%	Stable at Best
Trade Center – Wholesale, Retail	14%	Vulnerable
Trade Center-Health Care	14%	Stable
Manufacturing	16%	Refin. Strong, Soft Elsewhere
Construction		1 st Half '15 Strong

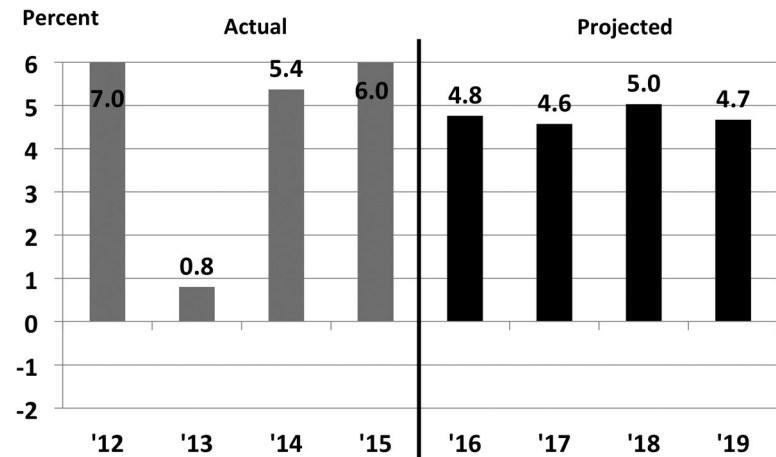
Actual and Projected Change in Nonfarm Earnings, Yellowstone County, 2012-2019



Gallatin County's Economic Base 2014-2016

Other Basic	6%	Real Estate Strengthening
Ag. And Related	4%	Cattle Still +
Trade Center – Retail	8%	Continued Bright Spot
Federal Government	7%	Stable at Best
Nonresident Travel	14%	Moderate Growth
Manufacturing	14%	High Tech!
Trade Center – Prof. Services	19%	High Tech!
MSU and State Government	28%	Growing Enrollment
Construction		Best in State

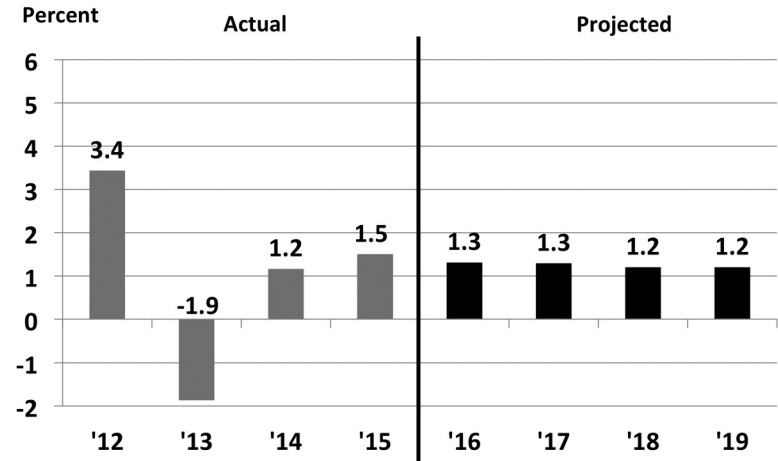
Actual and Projected Change in Nonfarm Earnings, Gallatin County, 2012-2019



Butte-Anaconda's Economic Base 2014-2016

Trade Center – Services	3%	Slow Rural Growth
Trade Center – Health Care	8%	Moderate Growth
Manufacturing	10%	Worldwide Conditions
Federal Government	9%	Stable at Best
Trade Center – Retail and Nonres. Travel	12%	Slow Rural Growth
Utility	13%	New Building
Montana Tech, State Gov't	22%	Stable
Mining	23%	Prices? Golden Sunlight?
Construction		Rebound?

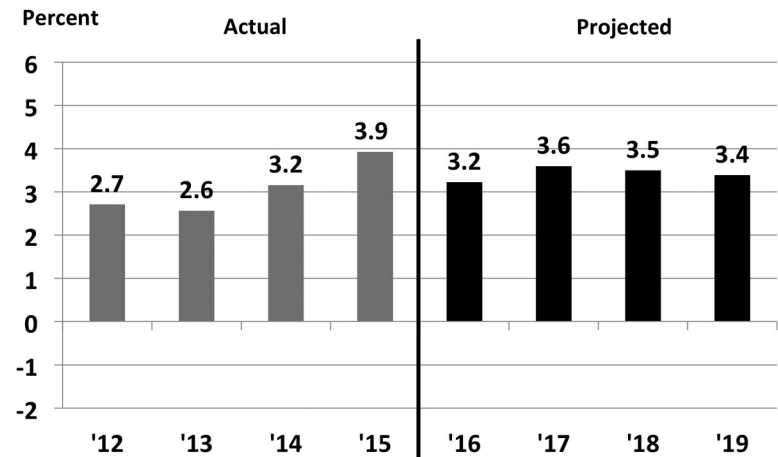
Actual and Projected Change in Nonfarm Earnings, Southwestern MT, 2012-2019



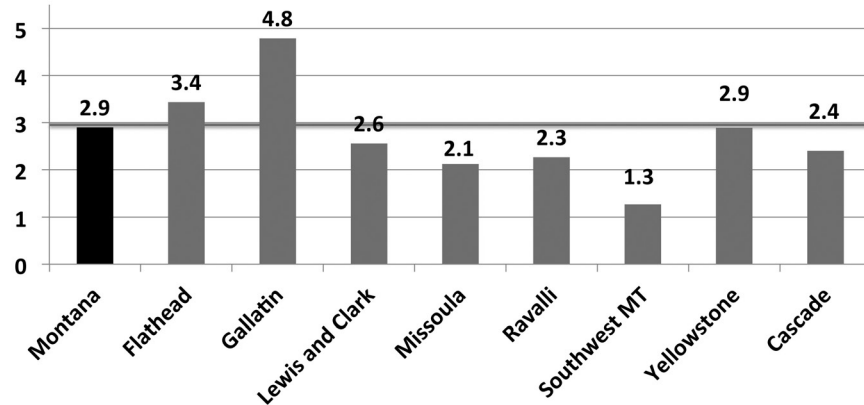
Flathead County's Economic Base 2014-2016

Trade Center-Retail	3%	Still Growing
Ag. and Other	5%	
Trade Center-Services	14%	Moderate Growth
Transportation	7%	Recent Softening
Health Care	10%	Still Growing
Other Manufacturing	15%	Stable. Worldwide Conditions?
Wood Products	14%	Stable
Federal Government	12%	Stable at Best
Nonresident Travel	20%	Canadians?
Construction		Second Best Recovery

Actual and Projected Change in Nonfarm Earnings, Flathead County, 2012-2019



**Projected Annual Percent Change
in Nonfarm Labor Income
(in Constant Dollars) 2016-2019**



Federal Government Trends

By Paul E. Polzin
Bureau of Business and Economic Research

Federal Government Employment Categories

	Examples
NAICS 921 Executive, legislative and general government	Congressional Staff
NAICS 922 Justice, public order, and safety activities	FBI, Border Patrol
NAICS 923 Administration of human resource programs	BIA? (Big in Glacier, Big Horn, Roosevelt Counties)
NAICS 924 Administration of environmental programs	US Forest Service, BLM
NAICS 926 Administration of economic programs	Urban areas
NAICS 928 National security and international affairs	Civilian Employees at Malmstrom
NAICS 62 Health care and social assistance	VA, IHS clinics
NAICS 712 Museums, historical sites, zoos, and parks	US Park Service
NAICS 491 Postal service	

Federal Government Employment Categories

			Difference 2011-14	
	2011	2014	Number	Percent
Total	13,846	12,968	-878	-6.3
NAICS 921 Executive, legislative and general government	694	610	-84	-12.1
NAICS 922 Justice, public order, and safety activities	986	863	-123	-12.5
NAICS 923 Administration of human resource programs	859	834	-25	-2.9
NAICS 924 Administration of environmental programs	4,506	4,033	-473	-10.5
NAICS 926 Administration of economic programs	851	760	-91	-10.7
NAICS 928 National security and international affairs	1,383	1,291	-92	-6.7
NAICS 62 Health care and social assistance	1,497	1,734	237	15.8
NAICS 712 Museums, historical sites, zoos, and parks	375	335	-40	-10.7
NAICS 491 Postal service	2,191	2,041	-150	-6.8
All Other	504	467	-37	-7.3

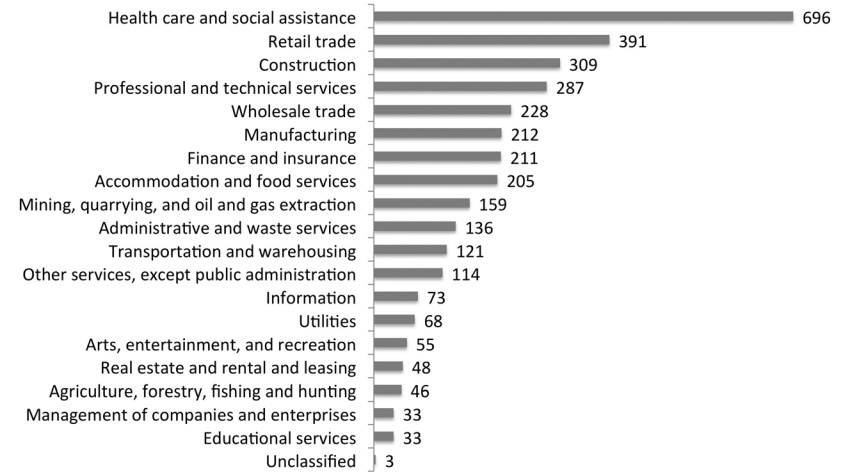
Health Care in Montana: The next 10 years

Bryce Ward



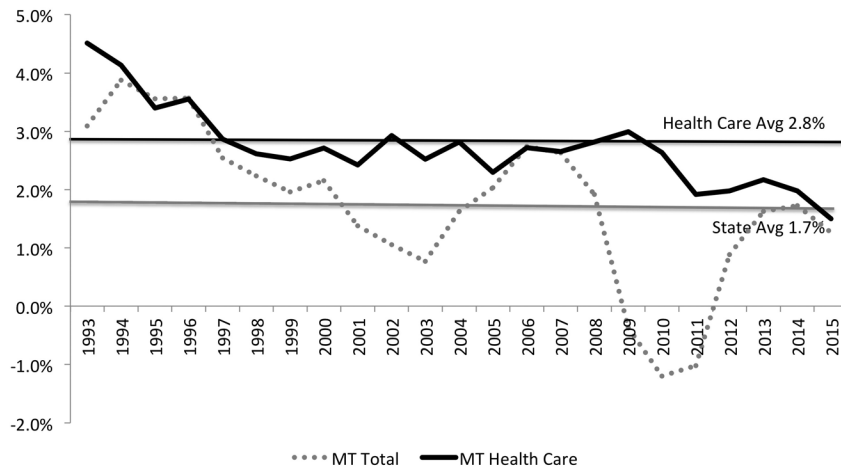
Health care is Montana's largest industry.

Private Sector Payroll, 2nd Quarter 2015 (\$Millions)



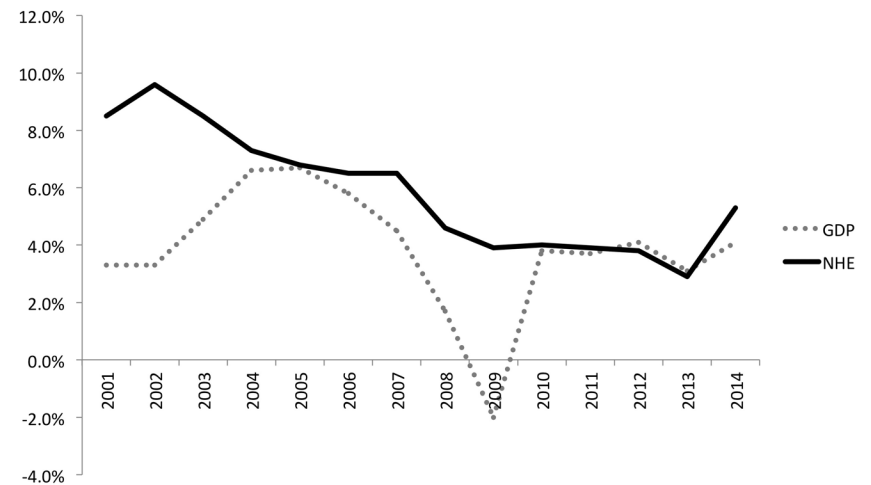
Health care grows faster than rest of economy, but growth has slowed in past several years.

Annual % Change in Employment, 3-yr Averages

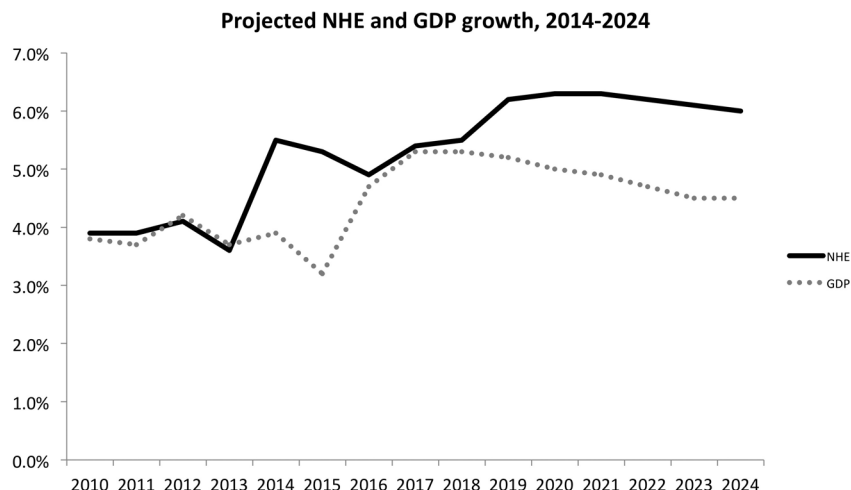


The U.S. has experienced a similar pattern.

Annual % Change in National Health Expenditure (NHE) and GDP



Health care spending is projected to return to historic levels.

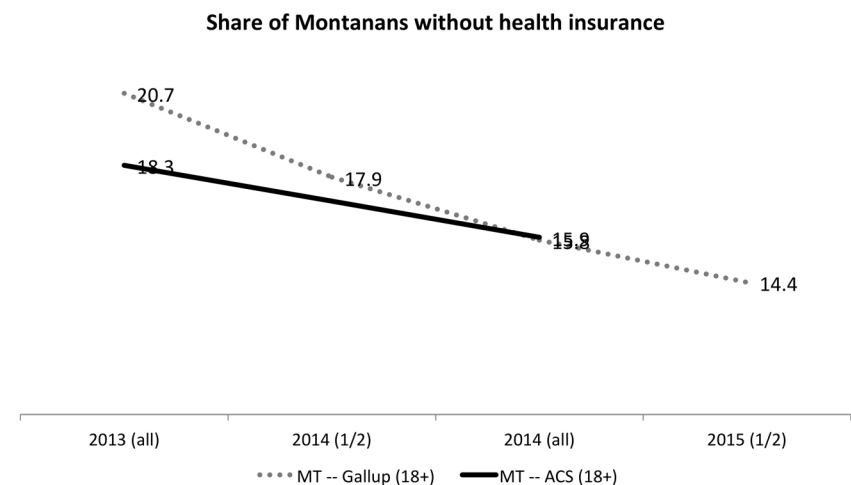


Sources of health care growth in MT

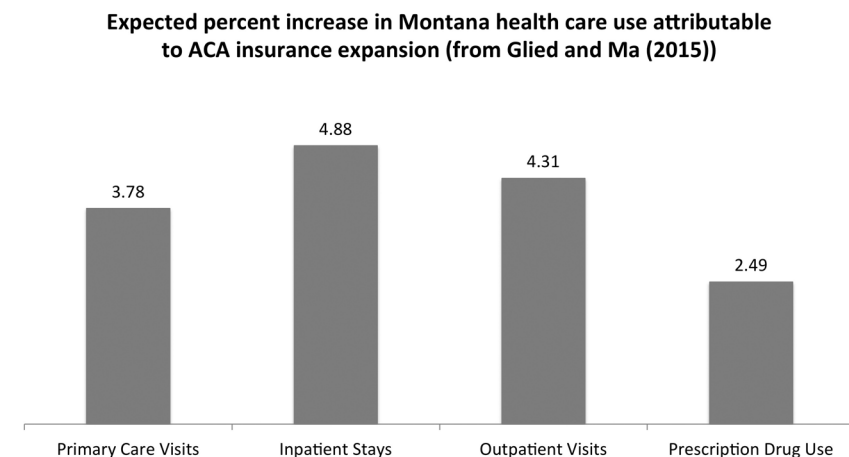
- (1) Insurance expansion
- (2) Aging
- (3) Health care innovation



More Montanans have health insurance.

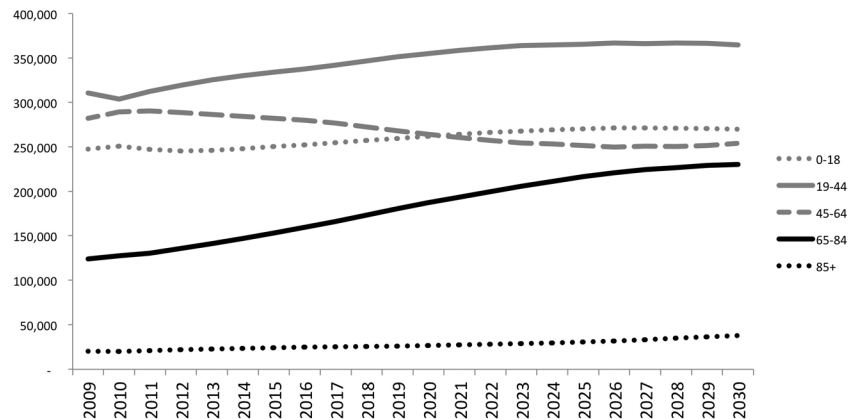


More people with insurance leads to more health care use.



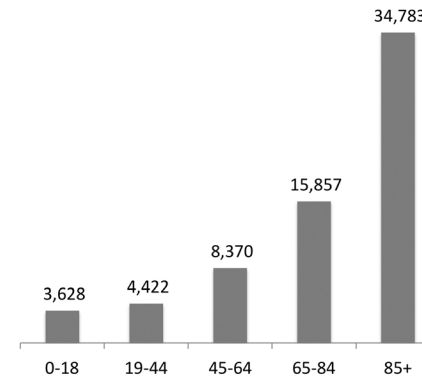
The share of Montana's population over age 65 is expected to grow from 17% to 23% over next 10-15 years.

Montana's Projected Population by Age Group



Older people spend substantially more on health care.

Health Care Spending Per Capita by Age Group, 2010



Holding per capita spending constant, the aging of Montana's population could add \$2.3 Billion (31%) to Montanans' health care spending by 2030.



The big unknown

- Will health care spending per capita grow, shrink or remain constant?
 - Will price growth be contained?
 - Will unnecessary care be reduced?
 - How will the technology used to produce health care change?



What does likely growth health care spending mean for Montana's health care sector and Montana's economy?



Montana will need more health care workers.

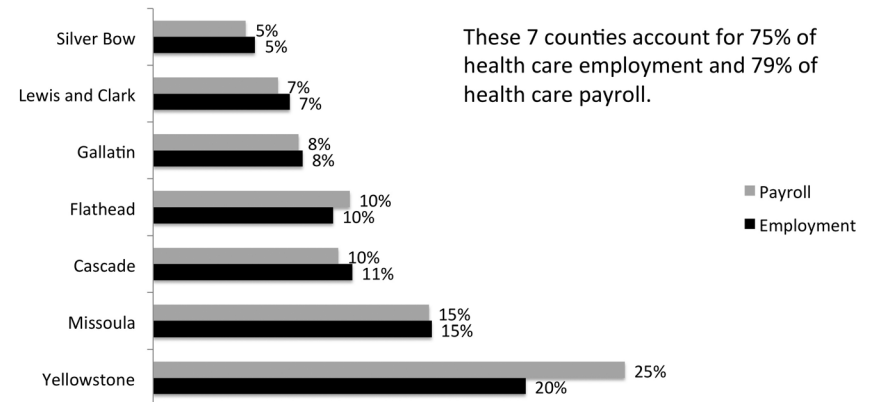
Projected change in employment and total job openings for health care occupations by education required

Education Required	2014 Employment	Projected emp. increase through 2024	Job openings due to growth and replacement	Projected increase as % of 2014 emp.	Projected openings as % of 2014 emp.
Total	40,100	6,727	15,557	17%	39%
Doctoral/ Professional	5,390	844	2,177	16%	40%
Master's	1,850	509	933	28%	50%
Bachelor's	10,890	1,675	4,190	15%	38%
Associate's	3,430	593	1,241	17%	36%
Postsecondary training	13,930	2,406	5,470	17%	39%
High School	4,610	701	1,547	15%	34%



Where will health care grow?

Share of Montana's health care employment and payroll

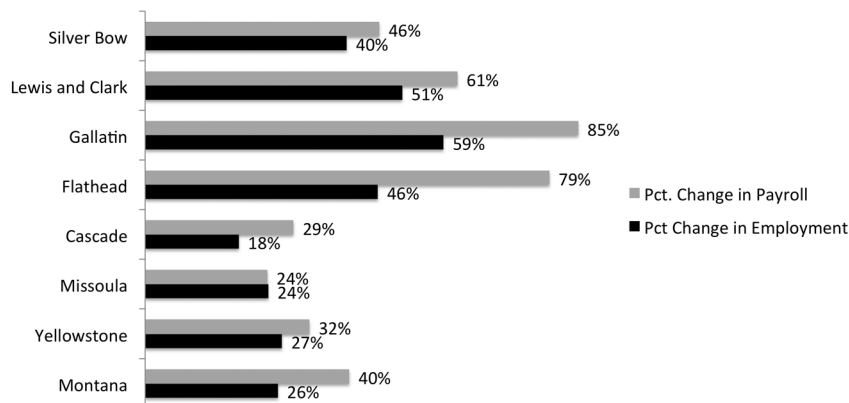


These 7 counties account for 75% of health care employment and 79% of health care payroll.



Montana's smaller cities have grown faster over the past 10 years.

Percent change in employment and payroll, 2004-2014



Travel and Recreation Trends & Outlook



Norma Nickerson

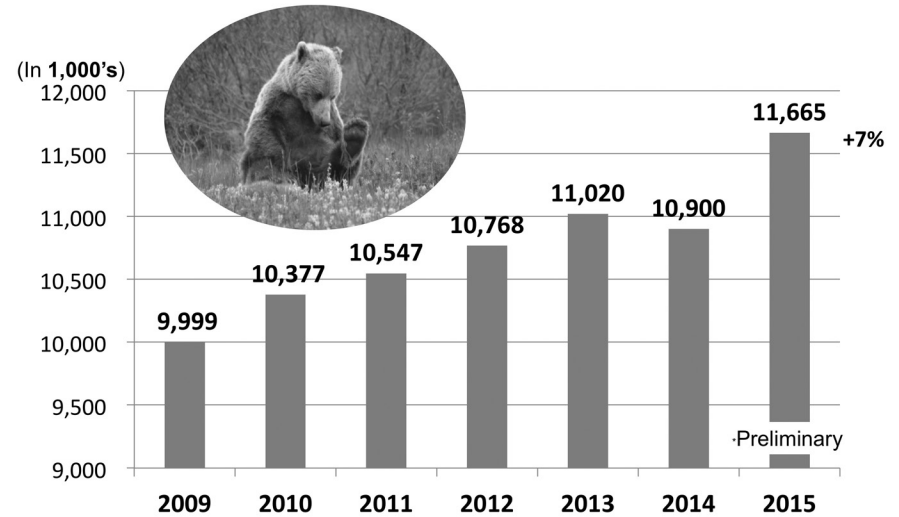
Institute for Tourism & Recreation Research

College of Forestry and Conservation

University of Montana

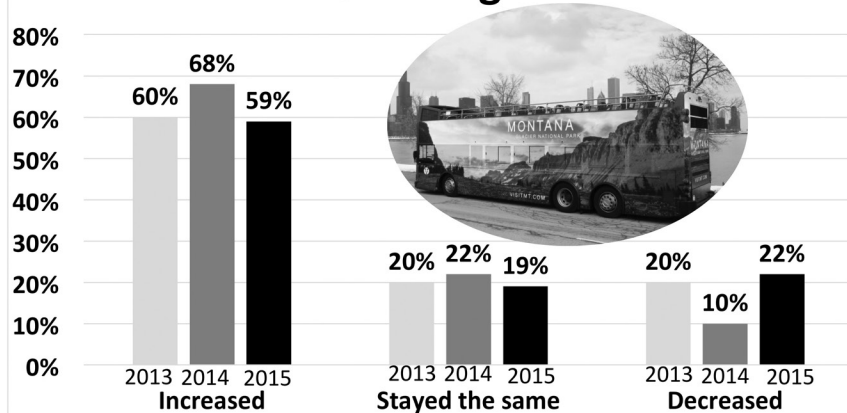
INSTITUTE FOR TOURISM & RECREATION RESEARCH
UNIVERSITY OF MONTANA

Nonresident Visitation to MT



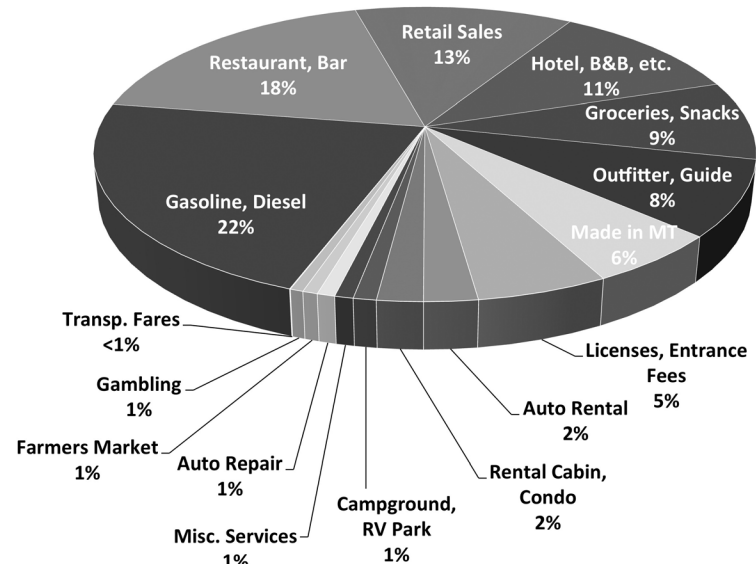
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Tourism Business Owners: Customer % change 2013-2015

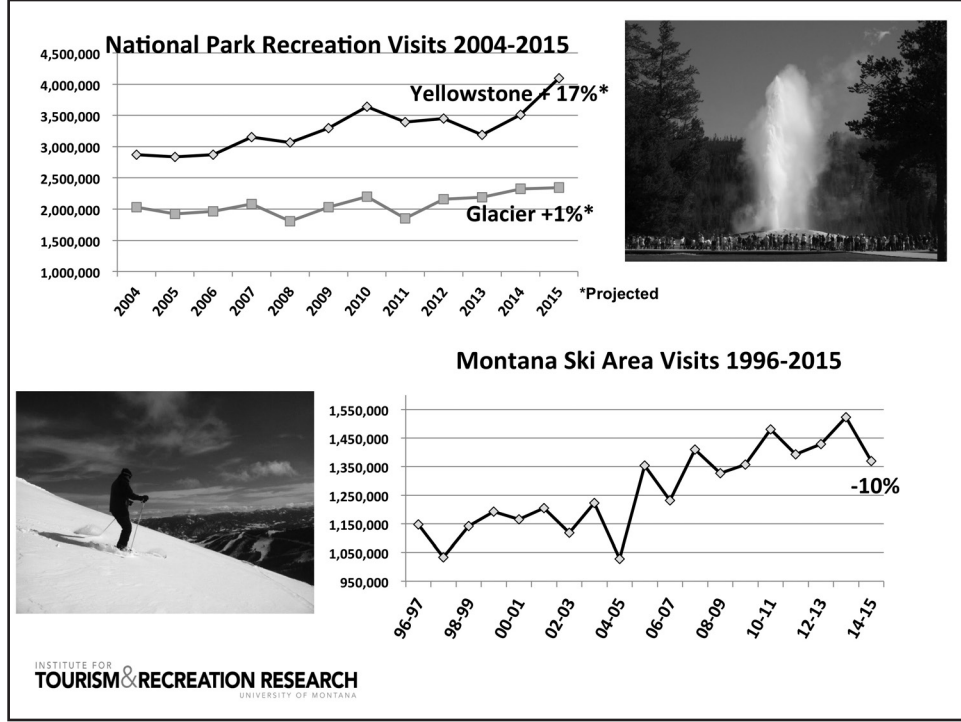
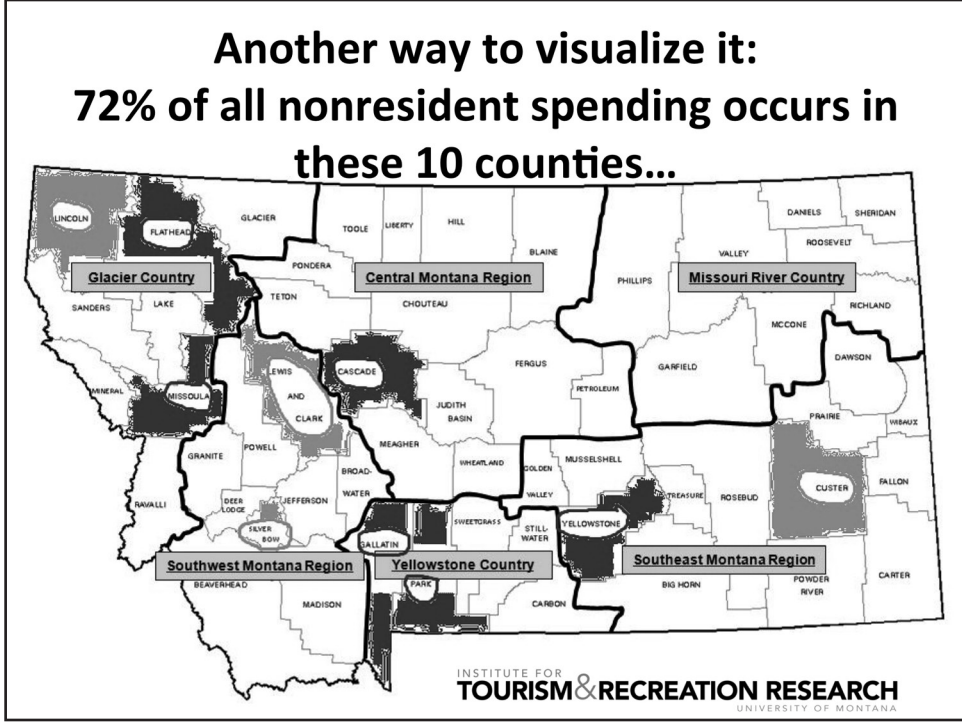
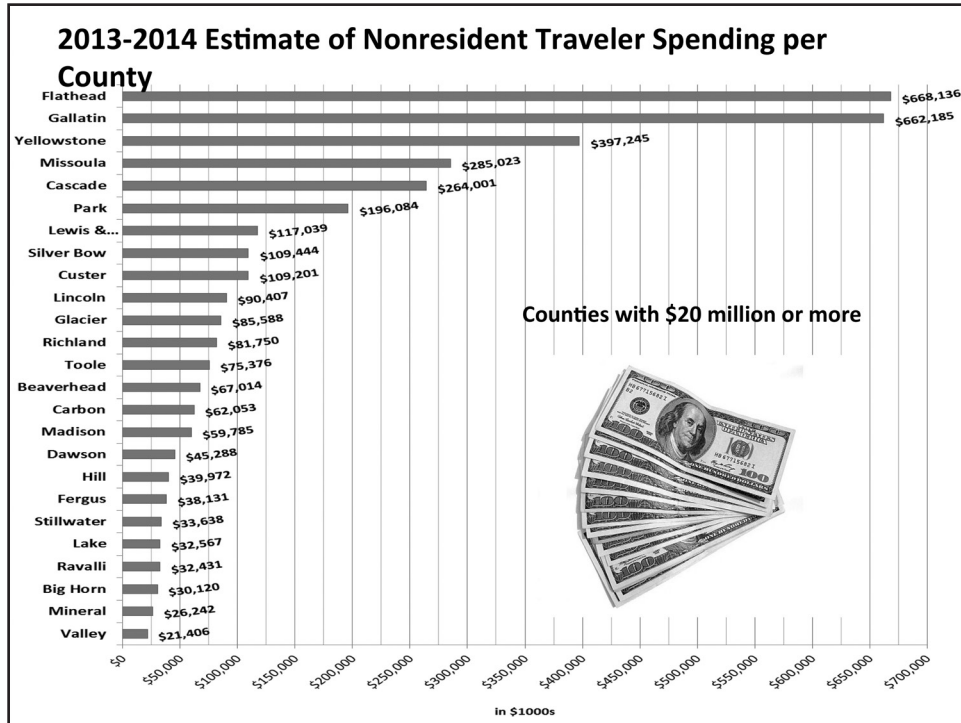
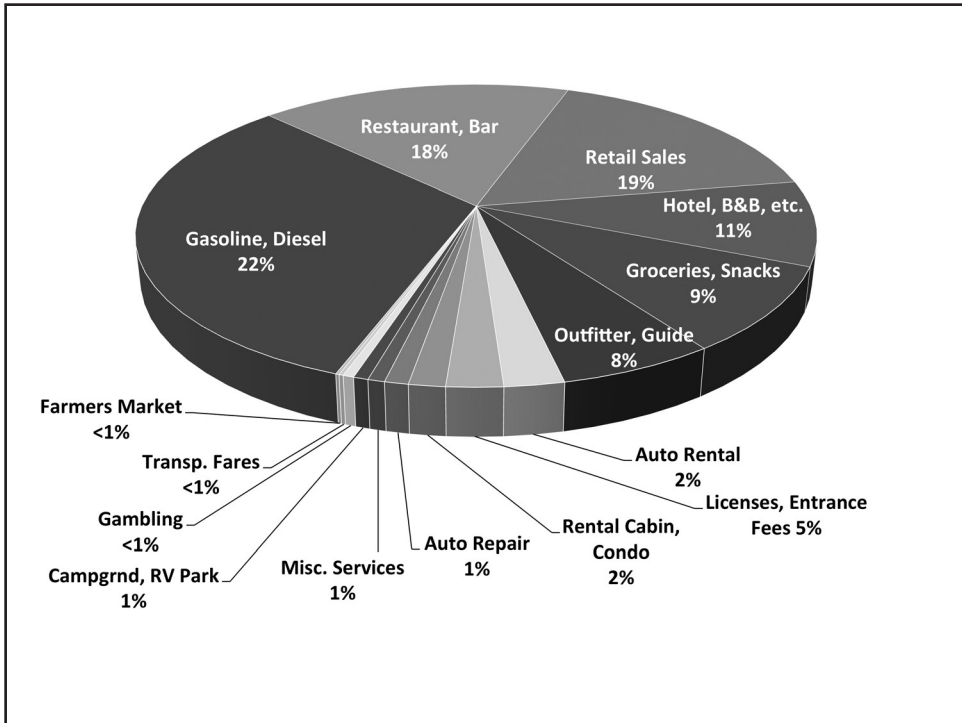


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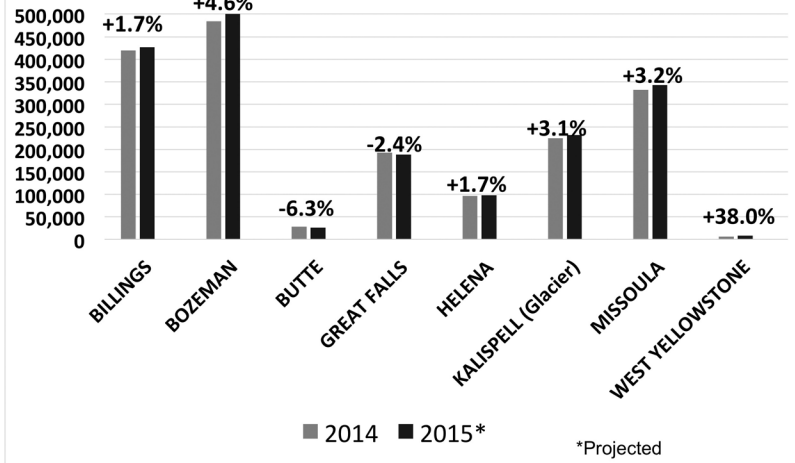
\$3.59 billion nonresident preliminary spending in 2015



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Airport Deboardings Change by City: 2014-15*



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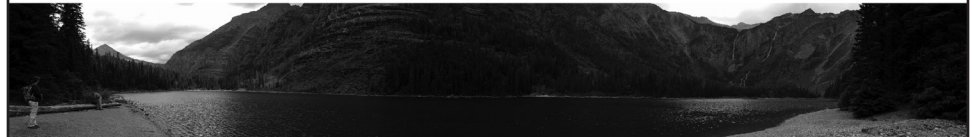
Most Popular Outdoor Recreation*

Top Youth Activities (6-24 yrs.)

- Running, jogging, trail running
- Bicycling (road, mountain, BMX)
- Camping (car and RV)
- Fishing (fresh, salt, and Fly)
- Hiking

Top Adult Activities (25+ yrs.)

- Running, jogging, trail running
- Fishing (fresh, salt, and Fly)
- Bicycling (road, mountain, BMX)
- Hiking
- Camping (car and RV)



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* 2015 Topline Report
Outdoor Foundation

Demographics in Travel

- Millennials travel differently than Boomers
 - airB&B, VRBO, Uber, Vayable
- Both Boomers and Millennials want experiences
- Both Boomers and Millennials are more interested in the authentic rather than the contrived experience
- Millennials spend considerably less than Boomers



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International Travel in MT

Top overseas countries: MT tourism business survey



- UK
- China
- Germany
- Japan
- Australia
- France
- Netherland



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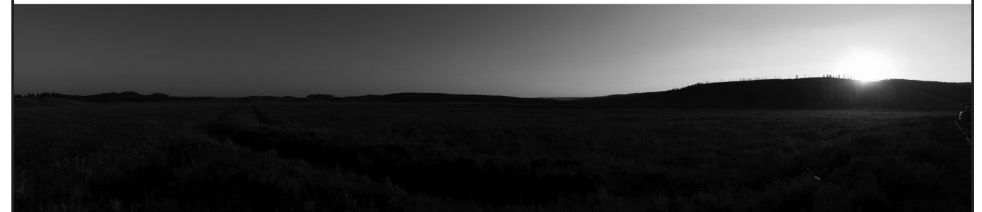
Mixed Outlook for 2015 because...

- Discretionary income (up)
- Unemployment (steady)
- Household debt (down) except for Millennials
- US dollar (strong)
- Intention to travel (up) but staying closer to home
- Gas prices (low)
- Election year jitters



Montana 2016 Outlook

- Expect increases to Glacier and Yellowstone National parks
- Only 5% of MT Tourism business expect a decrease in 2016.
- Last year we said spending would be up 2-5% when in fact it was actually down. New normal?
- Made in MT products and MT experiences will continue to be a growth sector in the travel industry.



Thank you!

For more local data and information go to:
www.itrr.umt.edu



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UNIVERSITY OF MONTANA

2016 Montana Agricultural Outlook

George Haynes

Kate Binzen Fuller

Department of Agricultural Economic & Economics
MSU Extension

Major Data Source: National Agricultural Statistics Service
Montana Field Office (Eric Sommer, Director)

2015/16 Overview

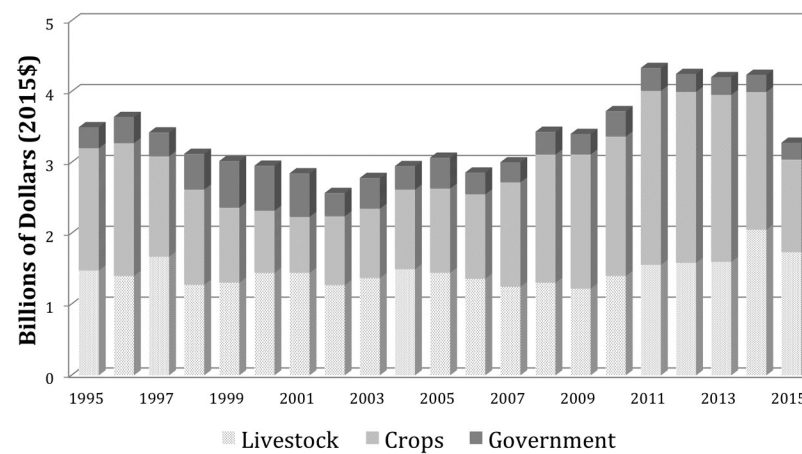
- Cattle
 - Declining cattle prices
 - Evidence of some herd rebuilding
 - Sluggish cattle and beef *exports*
 - Very high Australian *imports* of beef

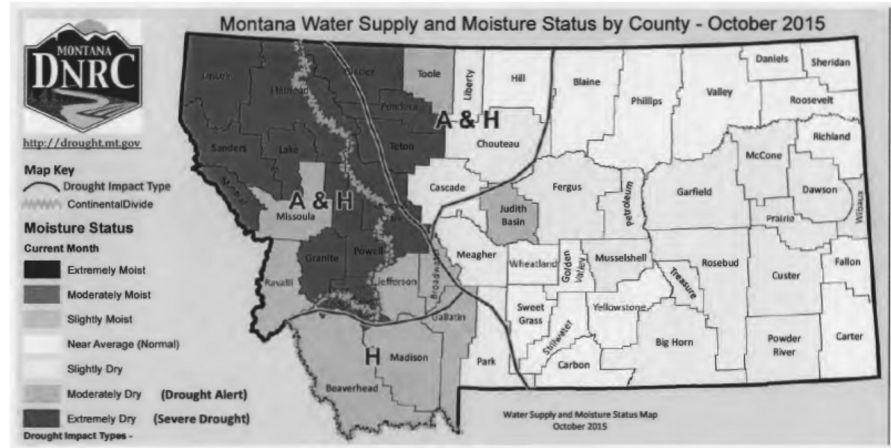
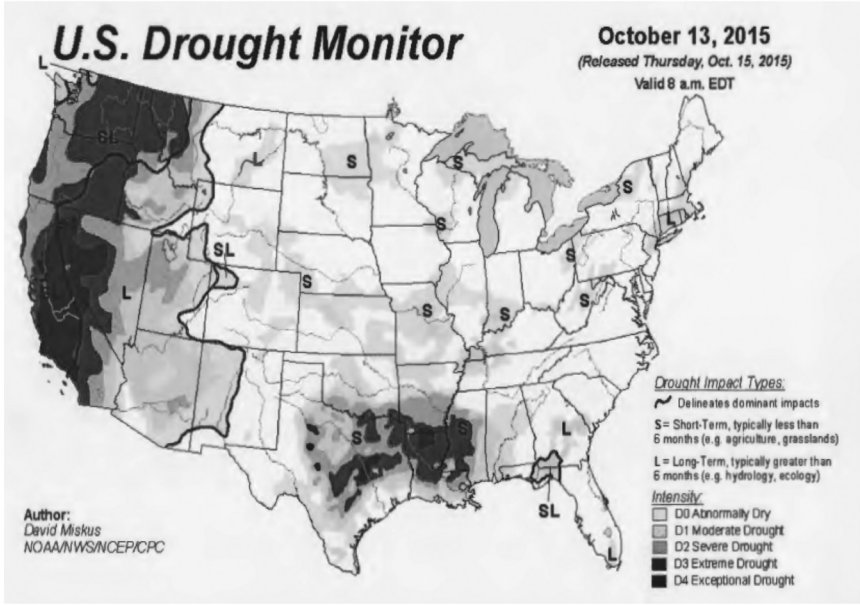
2015/16 Overview

Crops

- Declining grain prices
 - Record worldwide wheat production (and stocks)
 - Historically low exports (*strong dollar*)
- Pulse crop production continues to increase
- Local foods/farmer's markets

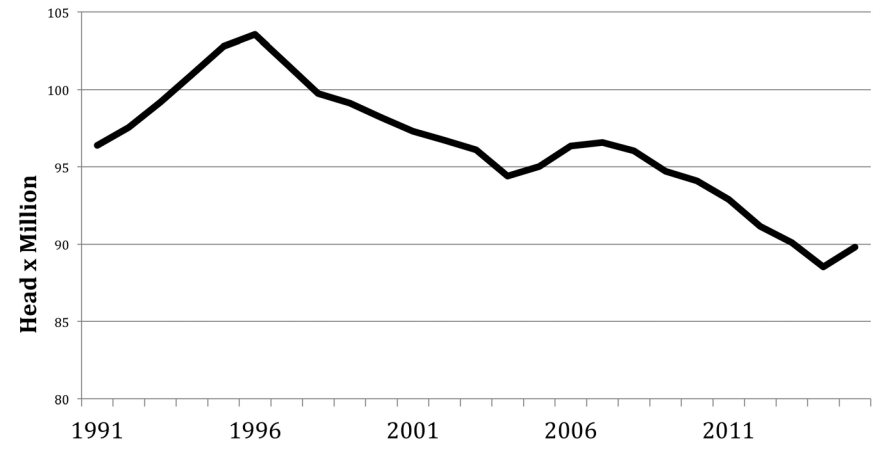
Cash Receipts (1995 – 2015f)





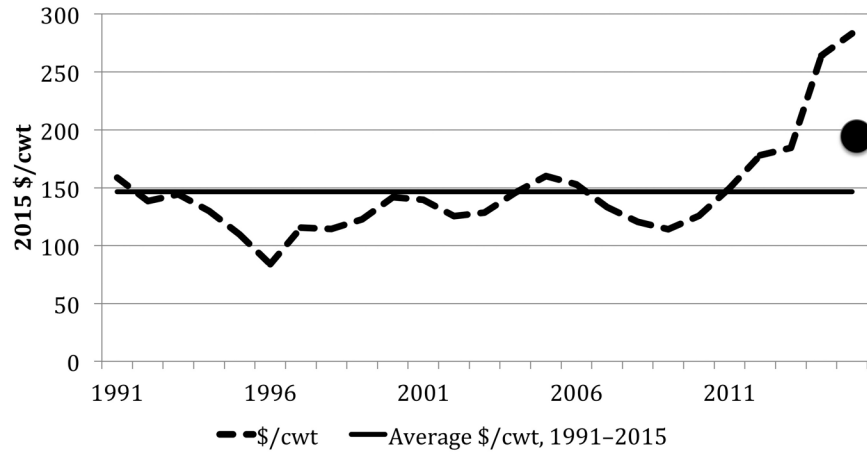
CATTLE

U.S. Cattle Inventory

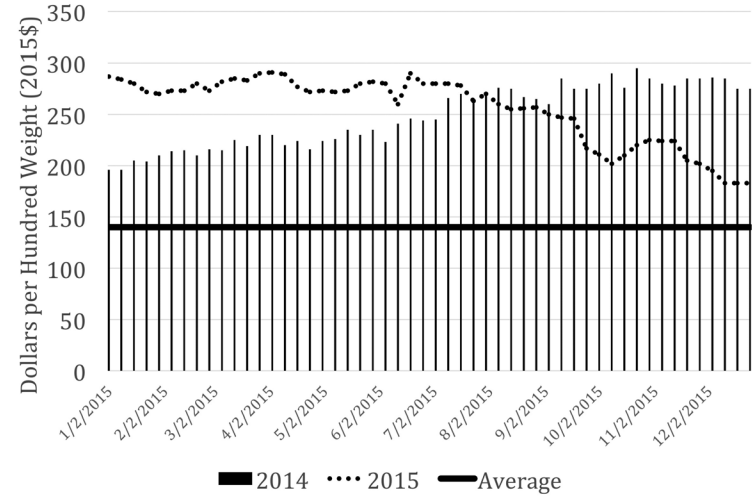


Montana herd flat at approximately 2.5 million head

U.S. Average Calf Prices (2015\$)



U.S. Average Calf Prices, 2014/2015, (500-600 lbs. 2015\$)



Source: Agmanager, KSU

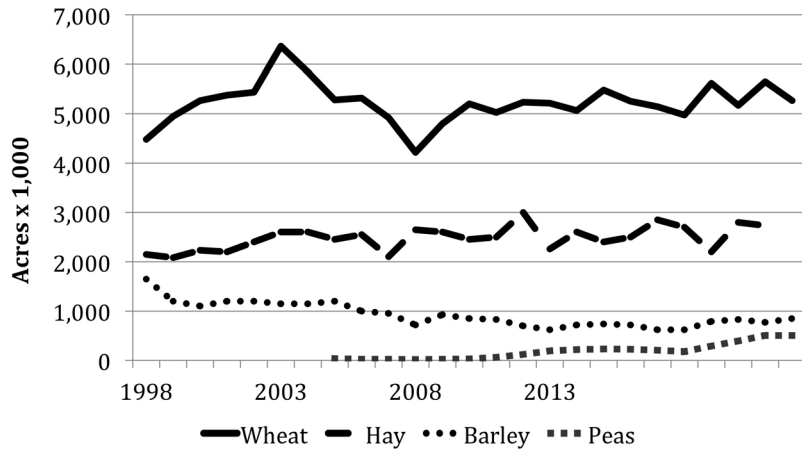
2015 Futures Prices

(\$/hundred pounds, no basis adjustments - 12/31/15)

Location	January	April	August	October
Chicago Mercantile Exchange				
Feeder Cattle	166	163	165	160
Live Cattle	137	138	123	125

CROPS (*GRAIN, HAY & PULSES*)

Montana Major Crop Acreage

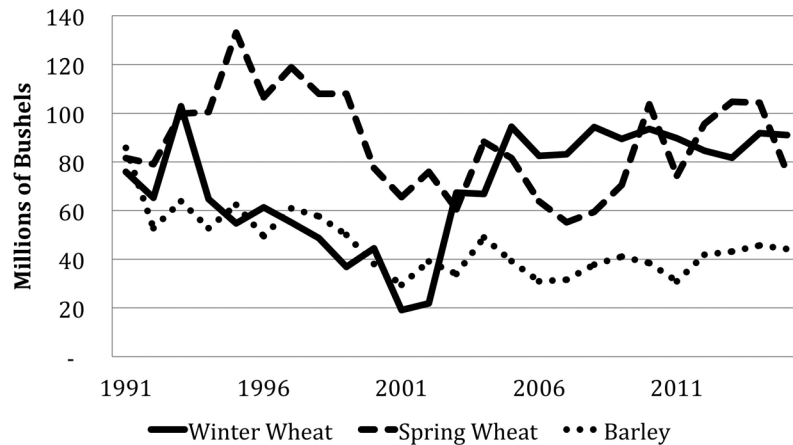


Global Wheat Production Shares

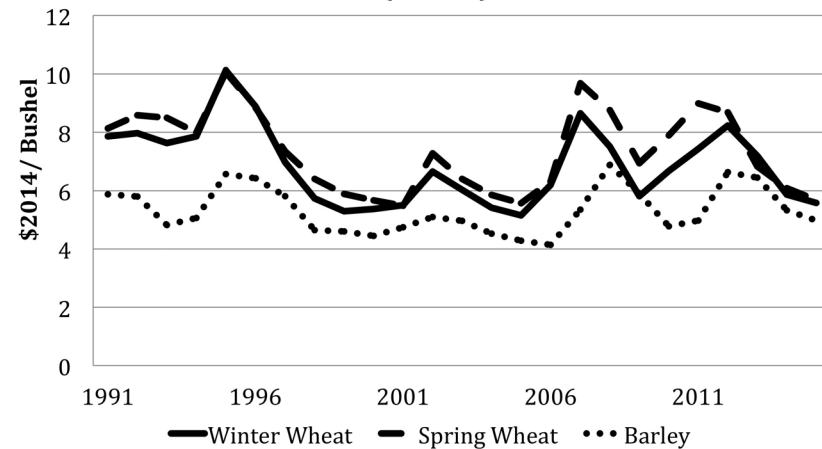
	2014/15		2015/16	
	mmt	%	mmt	%
Australia	24	3	27	4
Canada	29	4	26	4
China	126	17	130	18
EU-27	155	21	155	21
India	96	13	89	12
FSU-12	112	15	118	16
U.S.	55	8	56	8
Other	150	21	132	18
Total	723	100	733	100

Source, WASDE-537, 2015

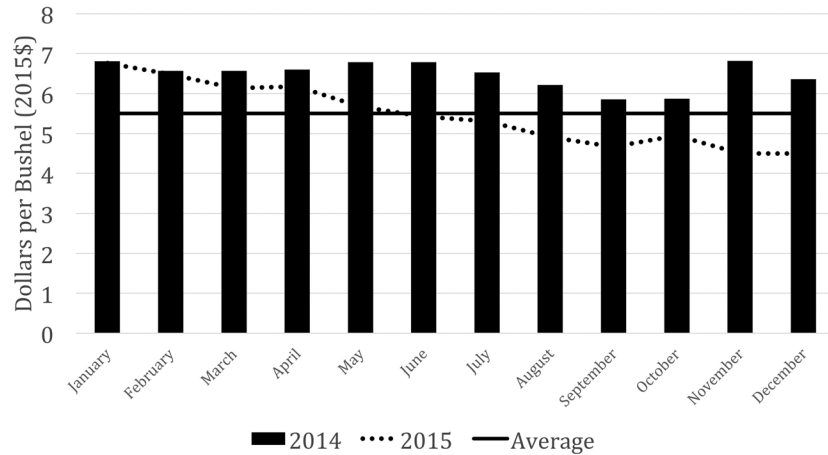
Montana Grain Production



Montana Grain Prices (2015\$)



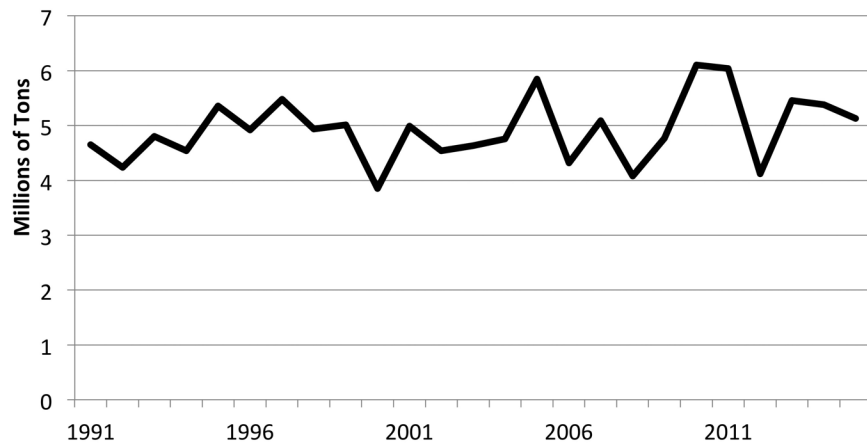
Montana Wheat Prices, 2014/2015



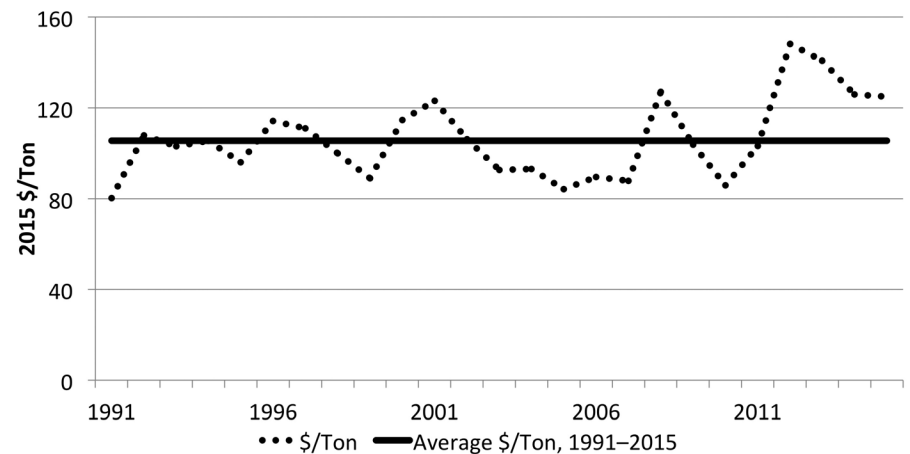
2015 Futures Prices (\$/bu, no basis adjustment - 12/31/15)

Location	March	May	July	September
Minneapolis Grain Exchange Hard Red Spring Wheat	4.93	5.01	5.12	5.24
Kansas City Board of Trade Hard Red Winter Wheat	4.65	4.75	4.86	5.00
Chicago Board of Trade Corn	3.58	3.64	3.70	3.75

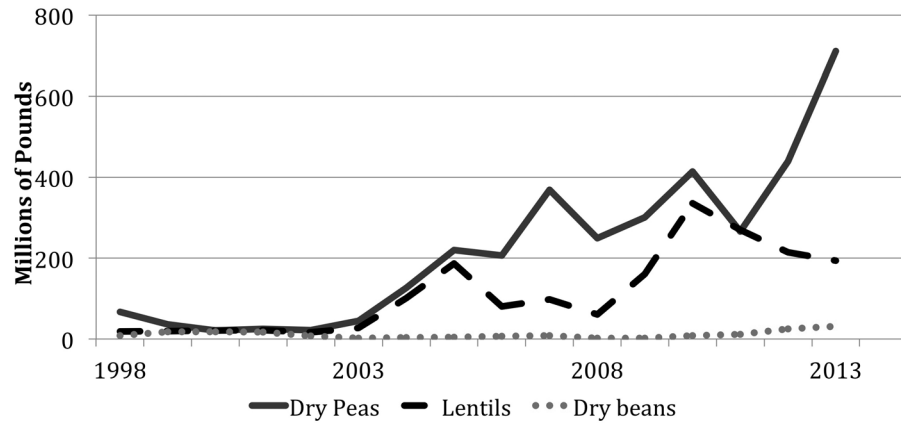
Montana Hay Production



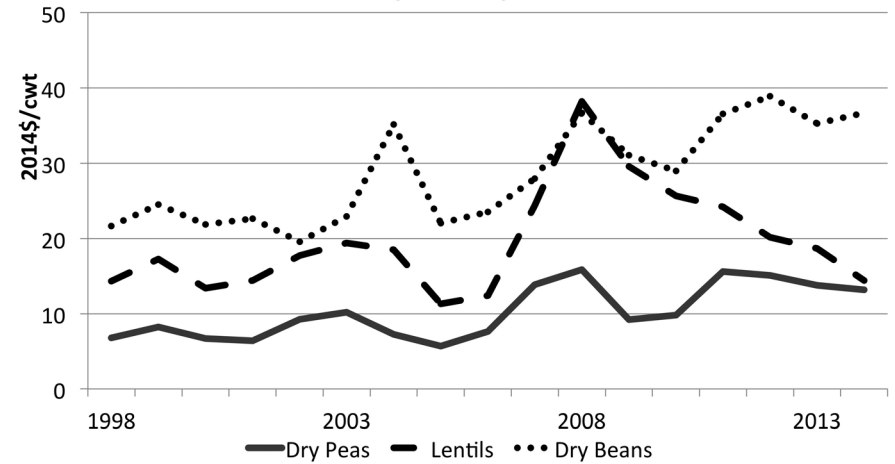
Montana Hay Prices (\$2015)



Montana Pulse Production



Montana Pulse Prices (\$2015)



Farmer's Markets/Local Foods

- Farmer's Markets
 - 71 markets, \$2 million in sales
 - Growth has slowed in the past three years
- Local Foods
 - Anecdotal evidence
 - Major issues – crop insurance & farm programs

2016 Forecast

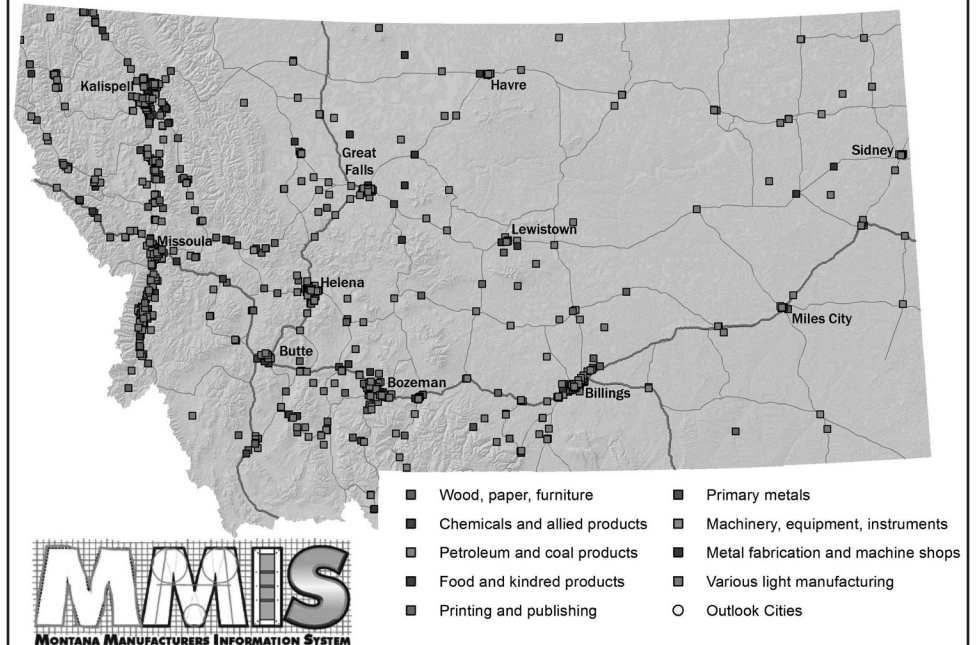
- Livestock:
 - Herd expansion
 - Lower prices, but above historical averages
- Grains:
 - World wheat “glut”
 - Prices below historical averages
 - Local foods – more growth expected

Montana Manufacturing: Issues & Outlook 2016

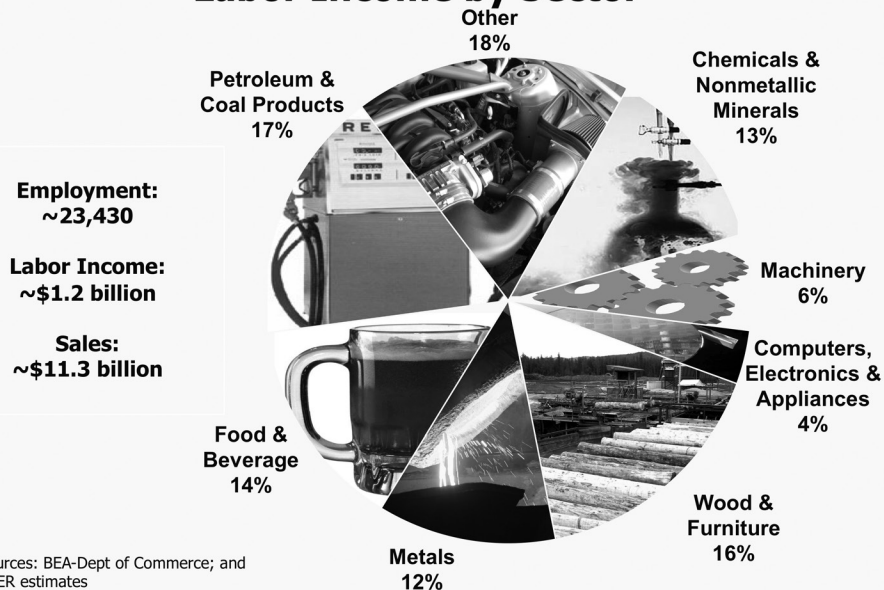


Todd A. Morgan, CF

Montana Manufacturers

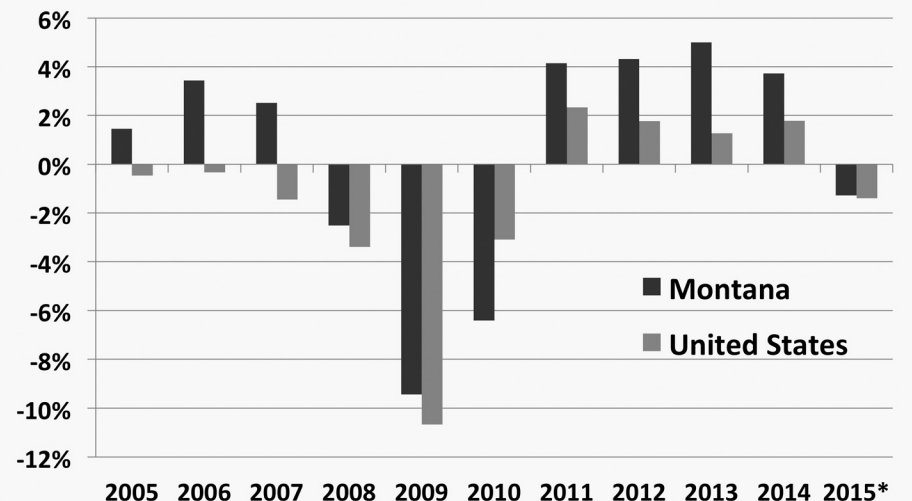


Montana Manufacturing Labor Income by Sector



Sources: BEA-Dept of Commerce; and BBER estimates

Changes in Montana & U.S. Manufacturing Employment

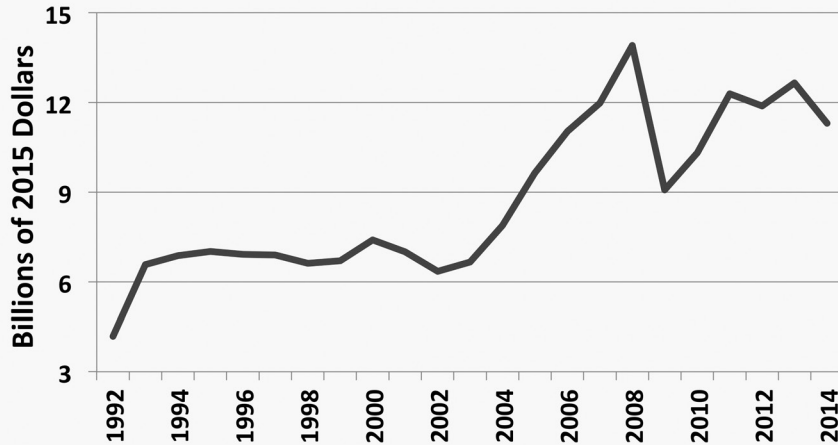


Source: Bureau of Economic Analysis

*2015 estimated

Montana Manufacturing Output

- Real value has increased longer term
- \$11.3 billion in 2014; 2015 probably lower
- Highly influenced by petroleum products



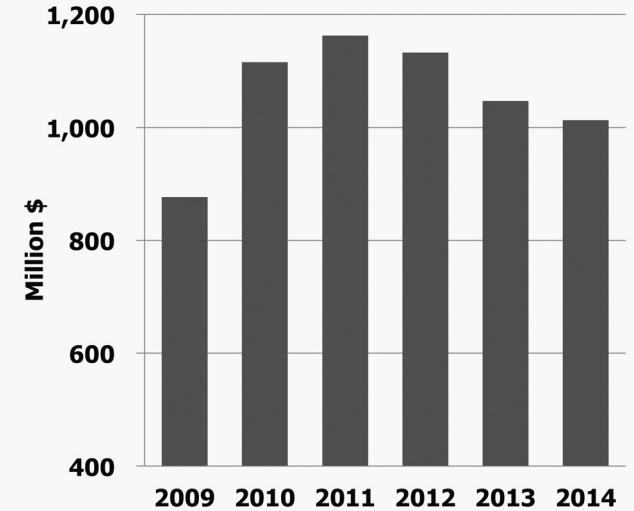
Source: U.S. Census Bureau

Montana Manufacturing Exports

Account for 8 to 10% of total output

Top export destinations:

- Canada – 45%
- Korea – 9%
- China – 8%
- Japan – 5%
- Mexico – 5%
- Taiwan – 4%
- Belgium – 2%



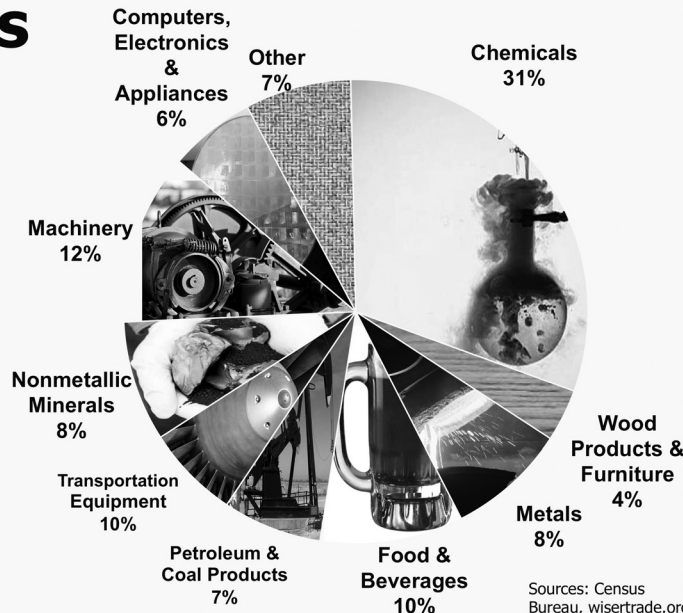
Sources: Census Bureau, wisetrade.org

Montana Manufacturing Exports

2014 total: \$1.01 billion

Declining:
Chemicals
Machinery
Petroleum prods.
Transport equip.

Growing:
Beverages
Food
Wood prods.
Fabricated metals



Sources: Census Bureau, wisetrade.org

Pending Trade Agreements

Trans-Pacific Partnership (TPP)

- 11 countries + U.S.
- Account for about 70% of MT exports
- Largest: chemicals, fuels, consumer goods

Transatlantic Trade & Investment Partnership (T-TIP)

- European Union + U.S.
- Account for about 12% of MT exports
- Largest: chemicals, high-tech instruments

2015-2016 Montana Manufacturers Survey



- annual survey
- conducted in November
- open-ended & multi-choice questions
- current & coming year
- 184 firms participated
- cooperation rate 96%

Property Tax & Montana Manufacturers

Which property tax class impacts your business most?

- 51% Class 8: business equipment
- 29% Class 4: land & improvements
- 9% don't know
- 5% both/same

How have property taxes impacted your business?

- 45% significant negative impact/cost
- 33% none/neutral/minimal impact
- 13% just another expense/pass it on/plan for it

Property Tax & Montana Manufacturers

Your firm's property tax over the past 3 years?

- 61% increase
- 7% decrease
- 19% same
- 13% don't know

Property taxes for 2016?

- 41% increase
- 1% decrease
- 33% same
- 25% don't know

As a result of the 2015 re-appraisal?

- 46% increase
- 5% decrease
- 14% same
- 35% don't know

Major Issues for Montana Manufacturers

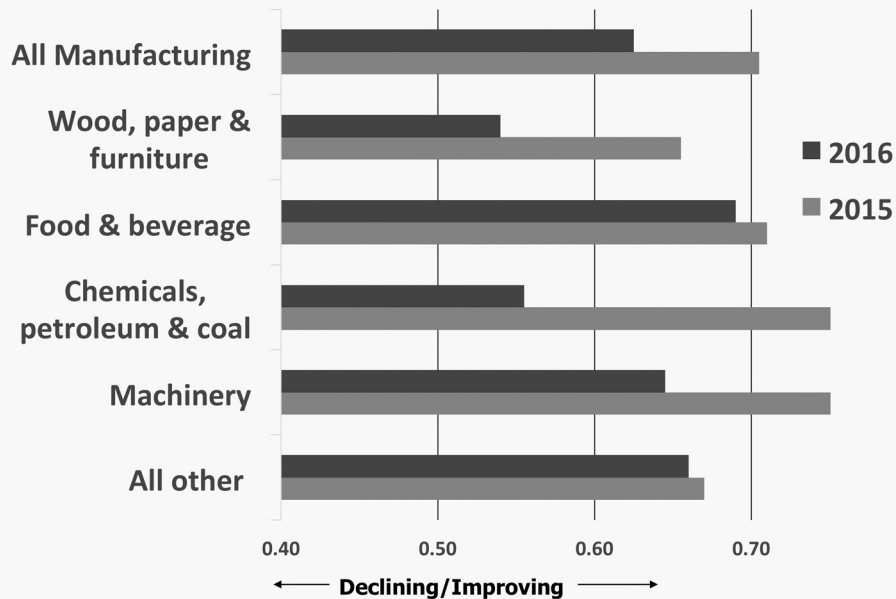
2015

- Labor, skilled workers: 36% of firms
- General economy, markets, competition, sales: 24%

2016

- Labor, skilled workers: 25% of firms.
- General economy, markets, competition, sales: 27%

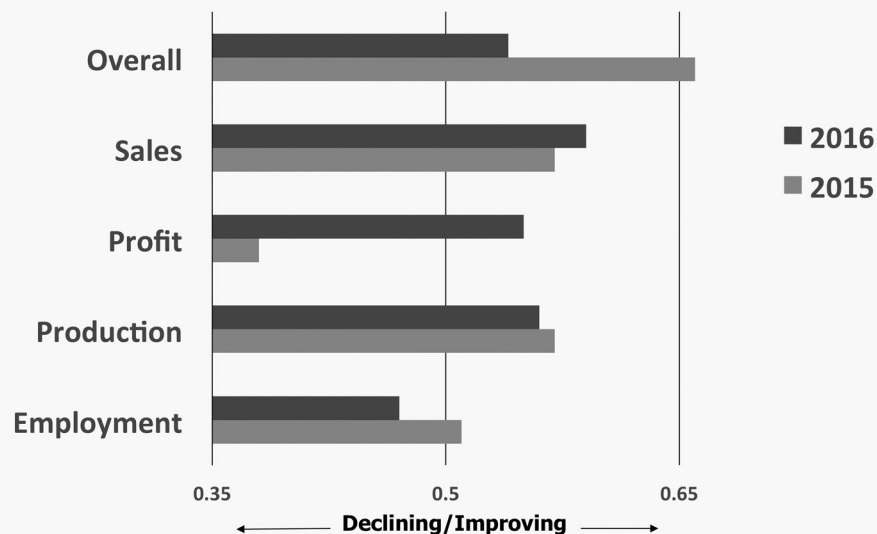
Overall Outlook by Sector



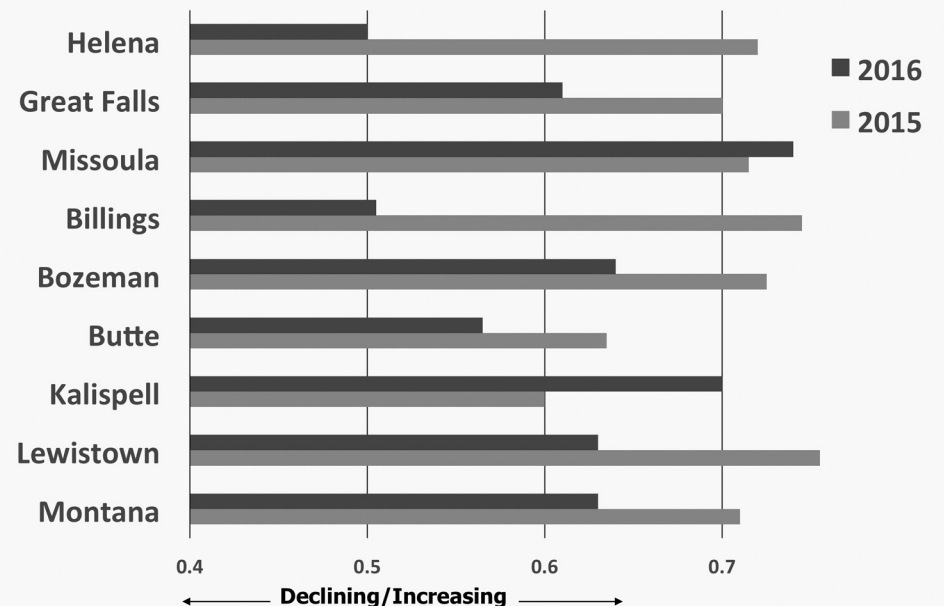
Montana Forest Products 2015/2016

- U.S. homebuilding growth continues
- Strong dollar, weaker demand from China, interest rate hike, end of SLA = challenges to U.S. wood products industry
- Private & public timber availability is the major constraint for most Montana mills
 - Private land ownership changes
 - Many small, young trees in private forest inventory
 - Federal forest management issues

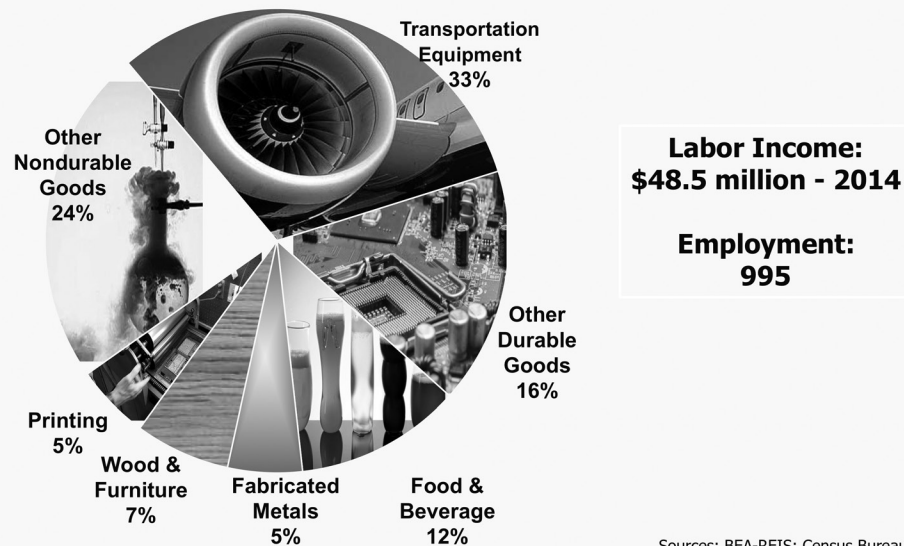
Montana Wood Products Outlook



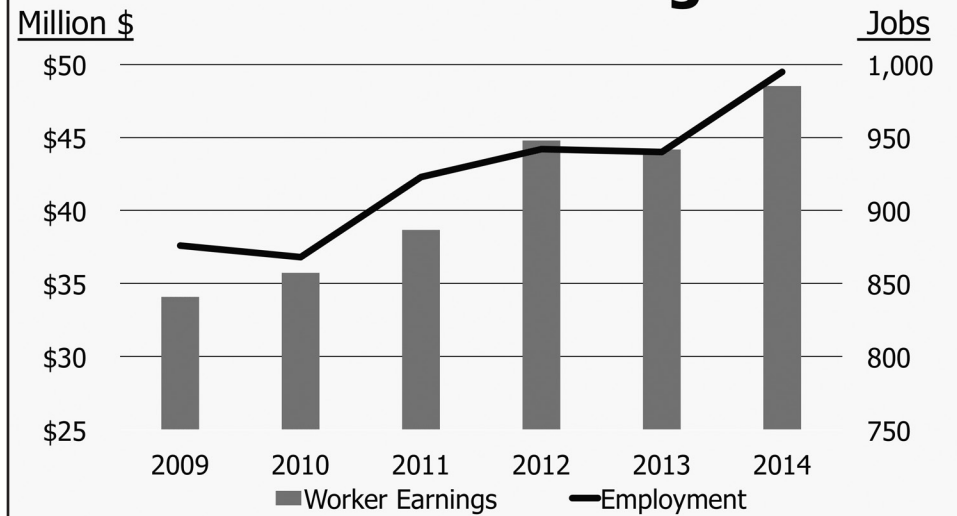
Overall Outlook by City



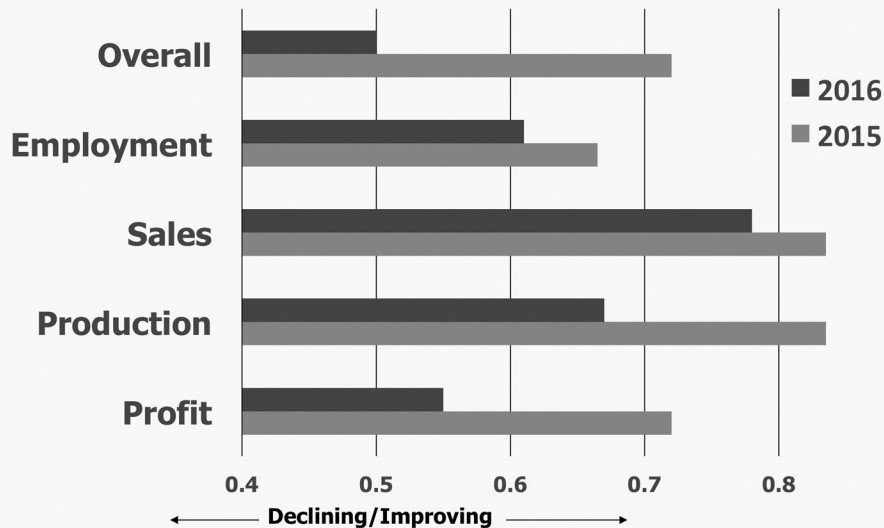
Lewis & Clark County Manufacturing Labor Income by Sector



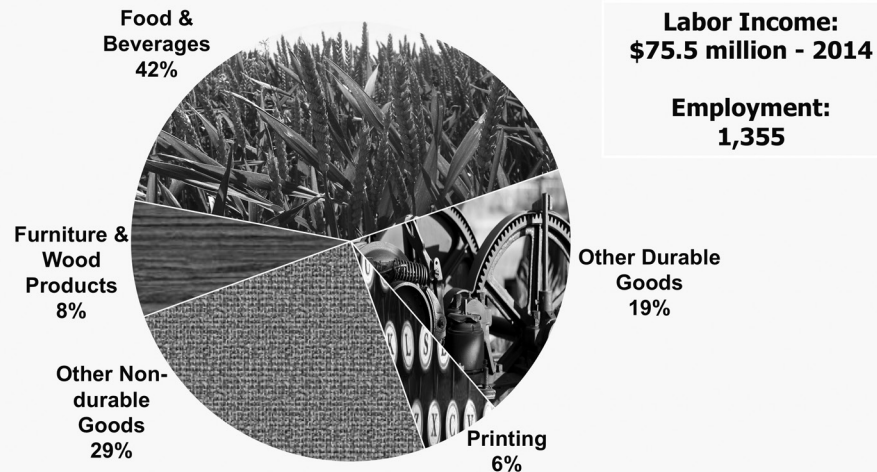
Lewis & Clark County Manufacturing



Helena Area Manufacturing Outlook

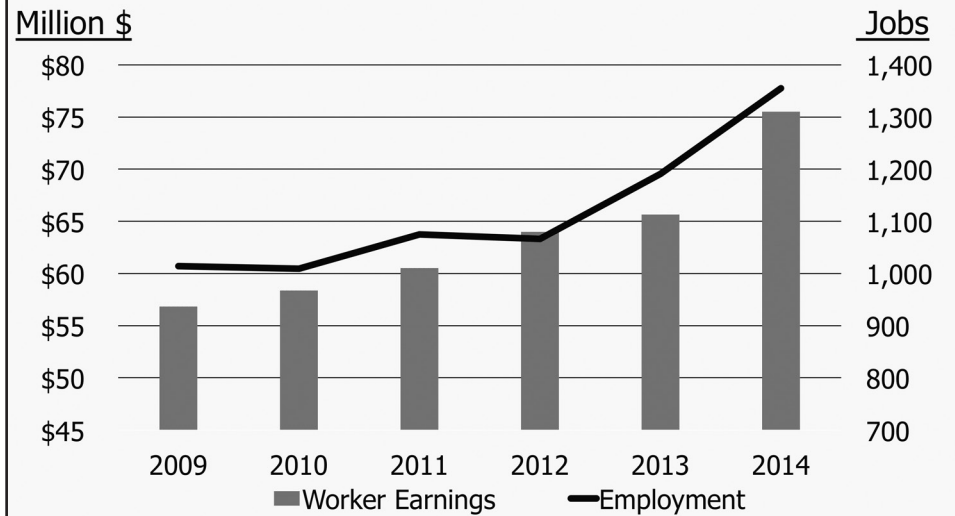


Cascade County Manufacturing Labor Income by Sector



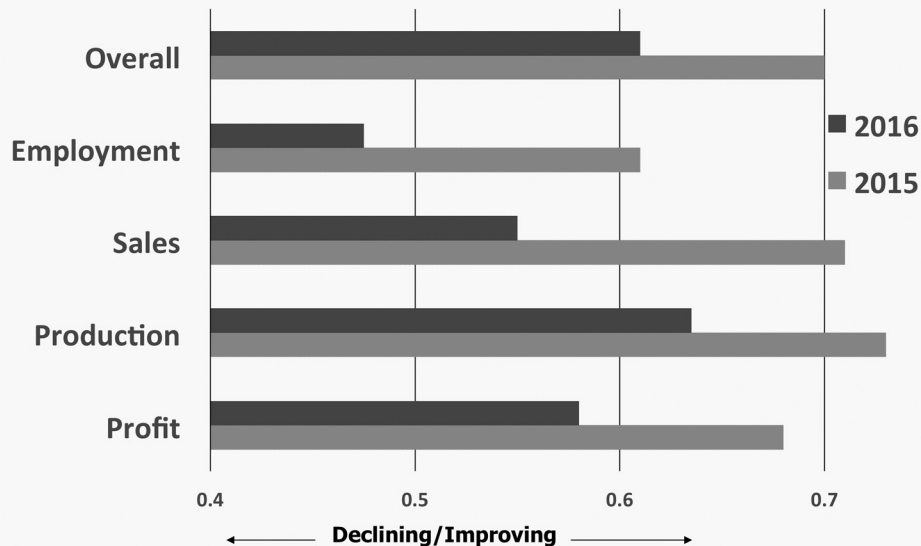
Sources: BEA-REIS; Census Bureau; and BBER estimates

Cascade County Manufacturing



Source: Bureau of Economic Analysis

Great Falls & Havre Area Manufacturing Outlook

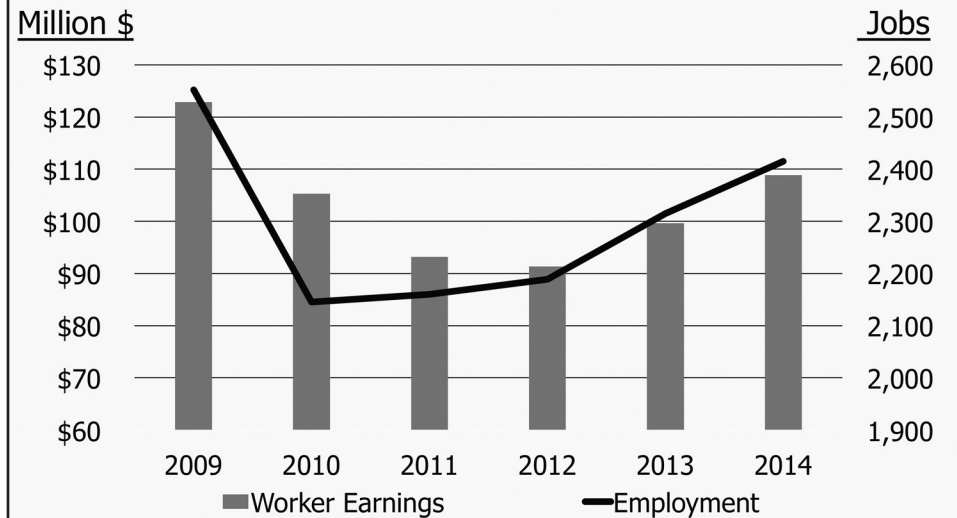


Missoula County Manufacturing Labor Income by Sector



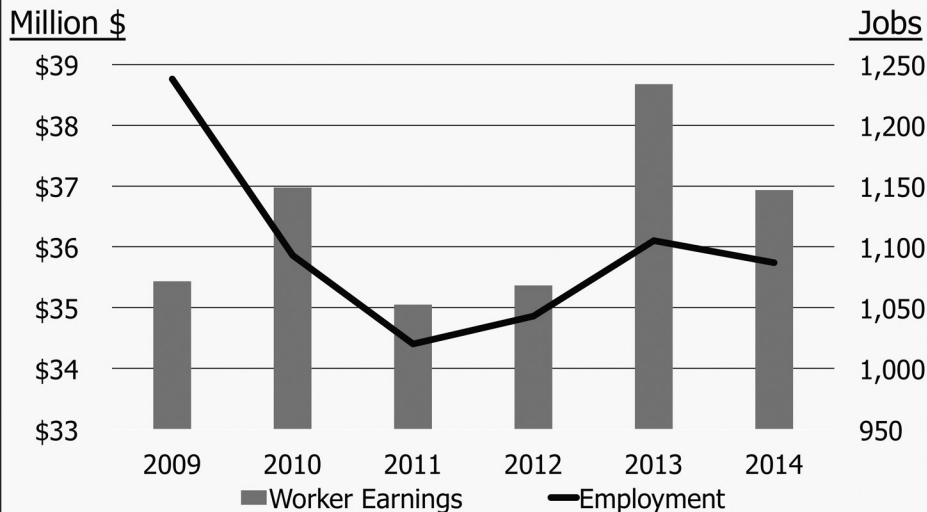
Sources: BEA-Dept of Commerce and BBER estimates

Missoula County Manufacturing



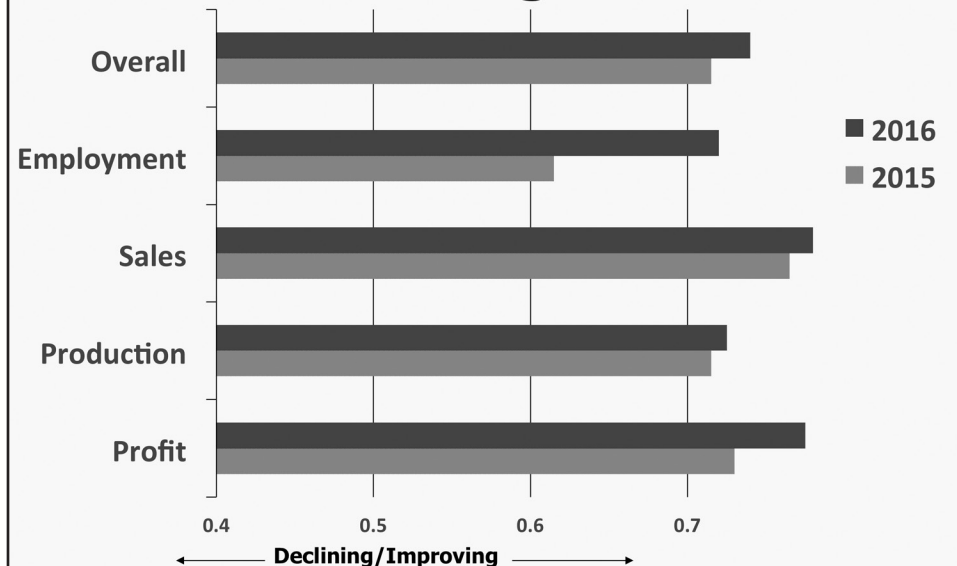
Source: Bureau of Economic Analysis

Ravalli County Manufacturing



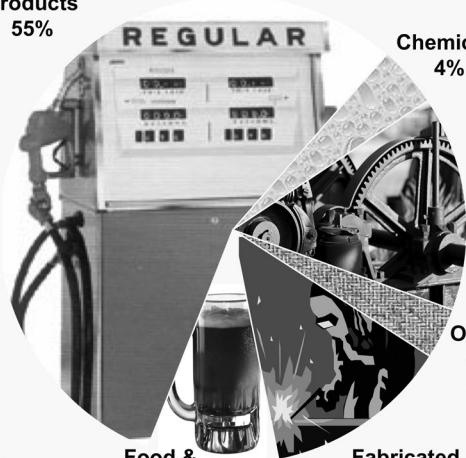
Source: Bureau of Economic Analysis

Missoula Area Manufacturing Outlook



Yellowstone County Manufacturing Labor Income by Sector

Petroleum Products
55%



Labor Income:
\$319 million - 2014

Employment:
3,955

Sources: BEA-REIS; Census Bureau; and BBER estimates

Yellowstone County Manufacturing

Million \$

\$350
\$300
\$250
\$200
\$150
\$100

Jobs

4,000
3,800
3,600
3,400
3,200
3,000

2009

2010

2011

2012

2013

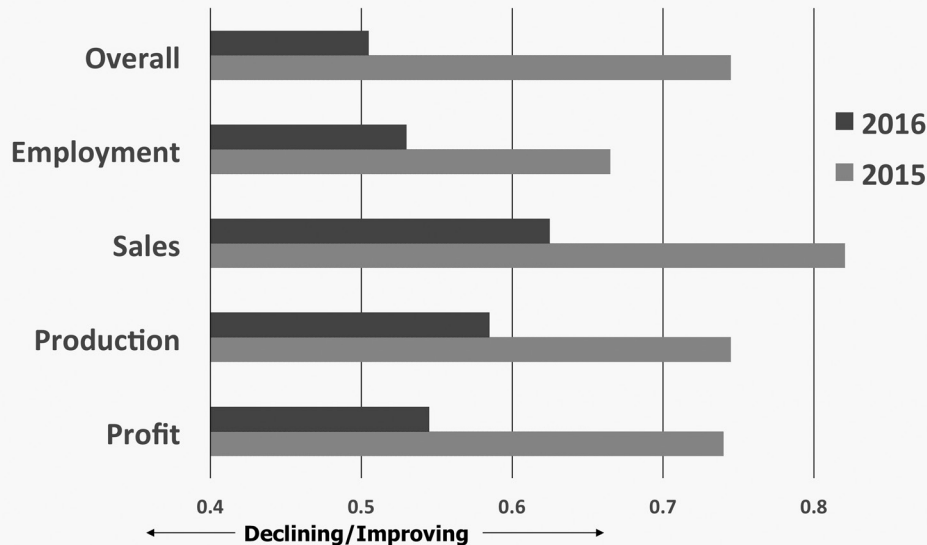
2014

■ Worker Earnings

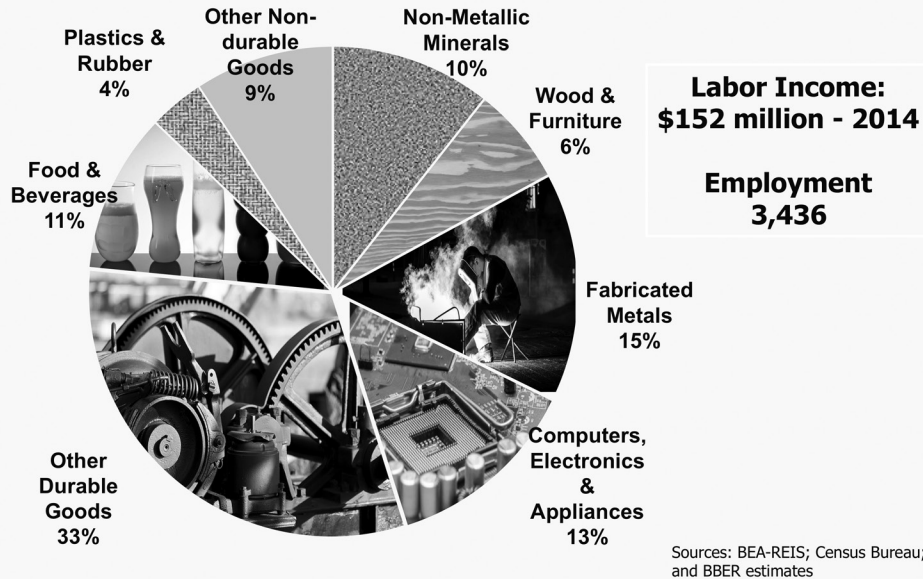
— Employment

Source: Bureau of Economic Analysis

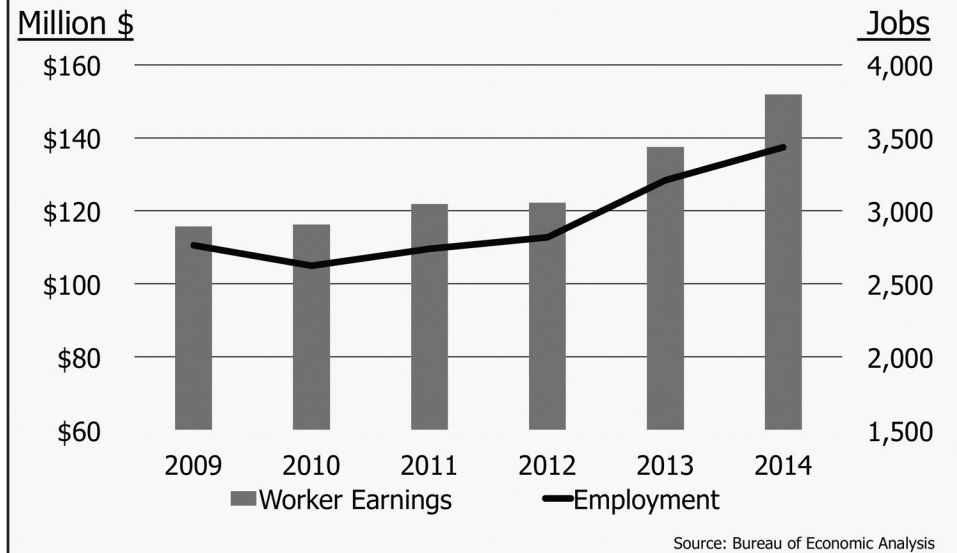
Billings Area Manufacturing Outlook



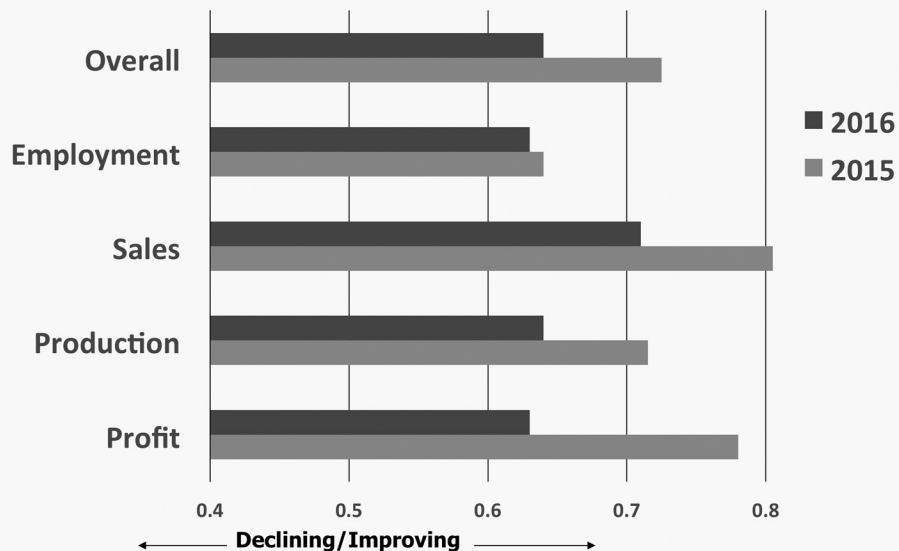
Gallatin County Manufacturing Labor Income by Sector



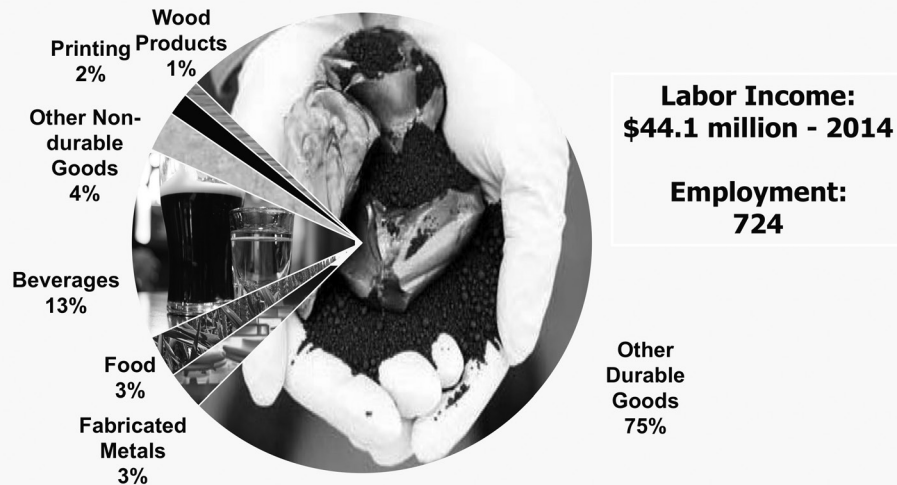
Gallatin County Manufacturing



Bozeman Area Manufacturing Outlook

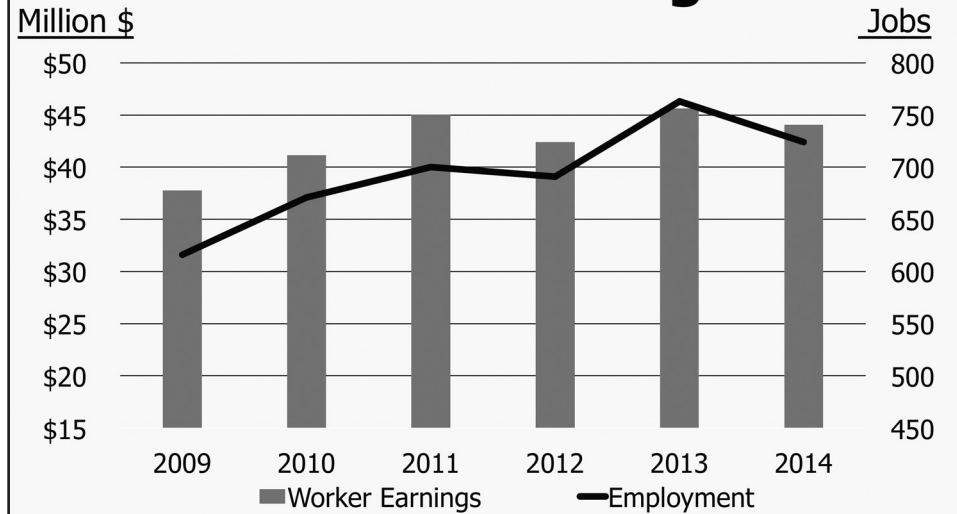


Silver Bow County Manufacturing Labor Income by Sector



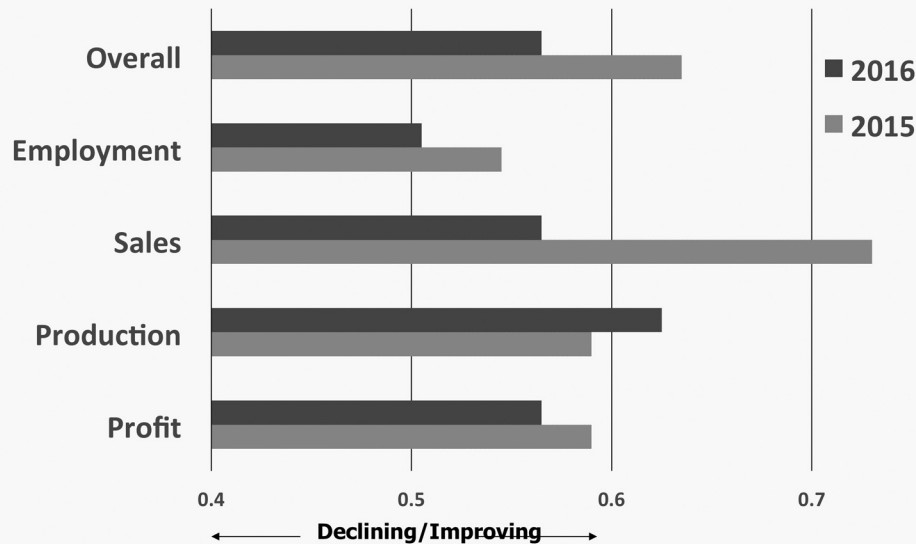
Sources: BEA-REIS; Census Bureau; and BBER estimates

Silver Bow County Manufacturing



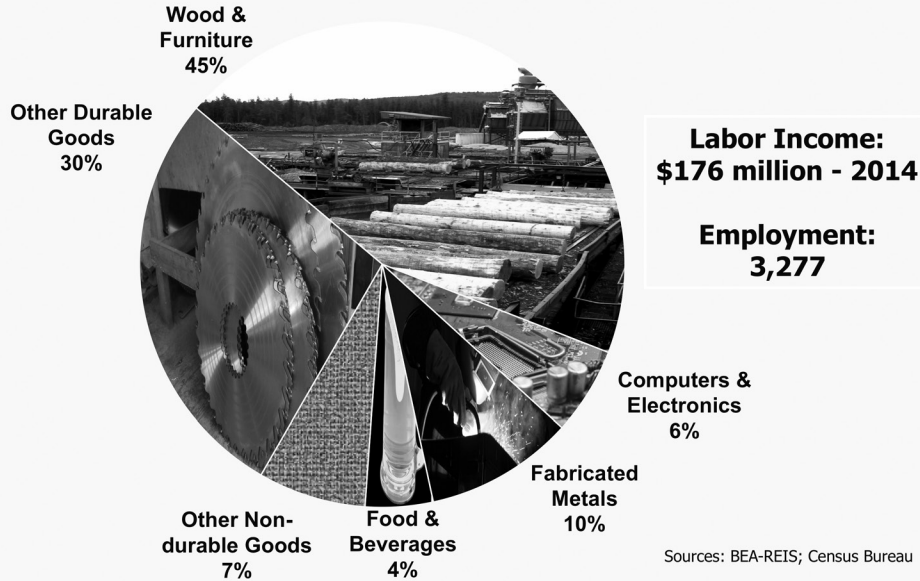
Source: Bureau of Economic Analysis

Butte Area Manufacturing Outlook

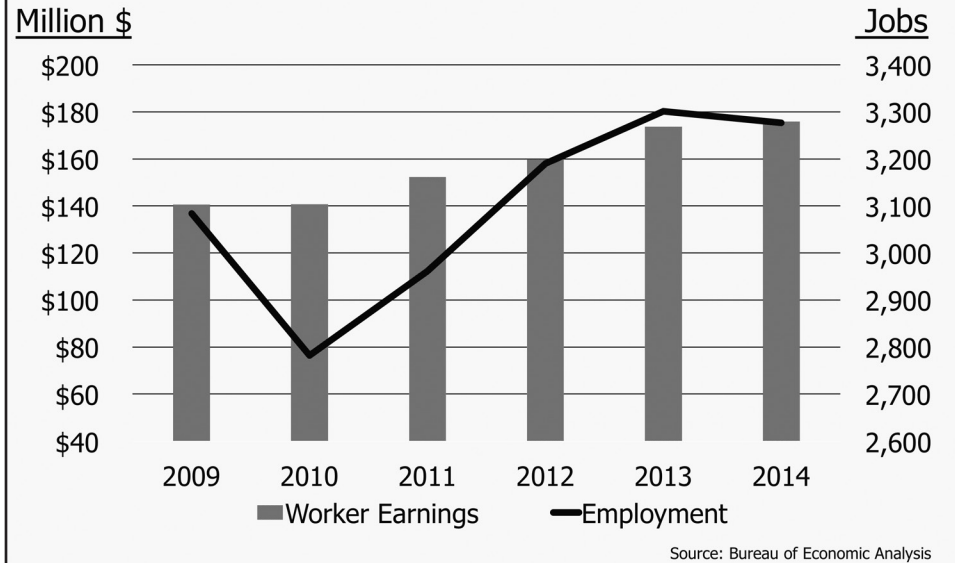


Flathead County Manufacturing

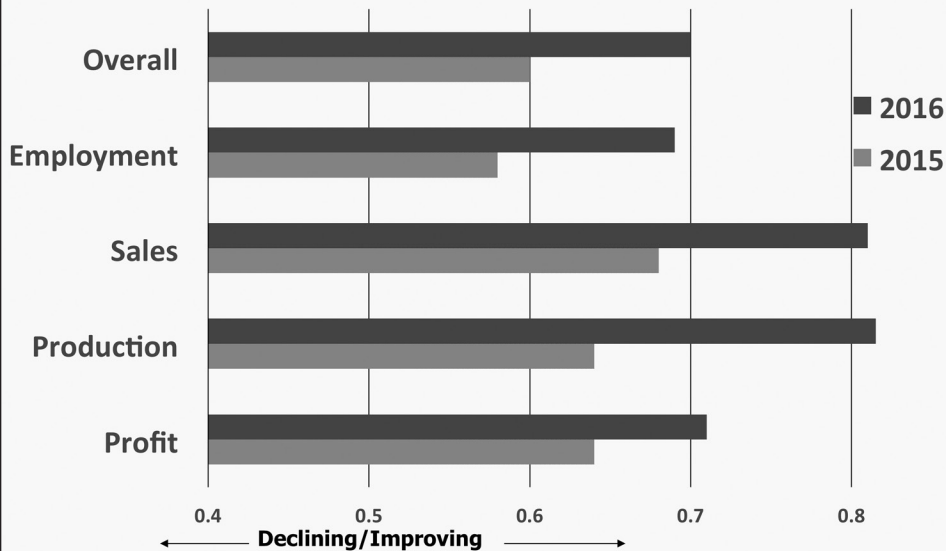
Labor Income by Sector



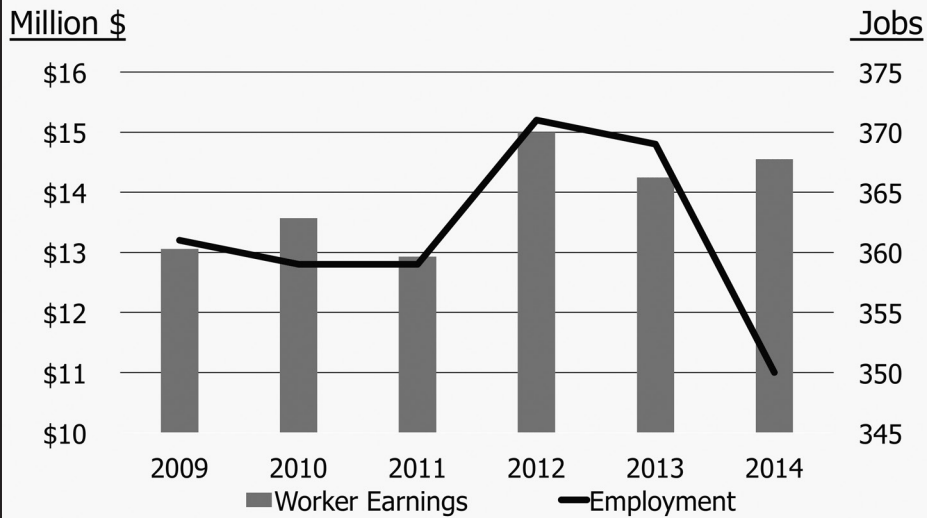
Flathead County Manufacturing



Kalispell Area Manufactures Outlook

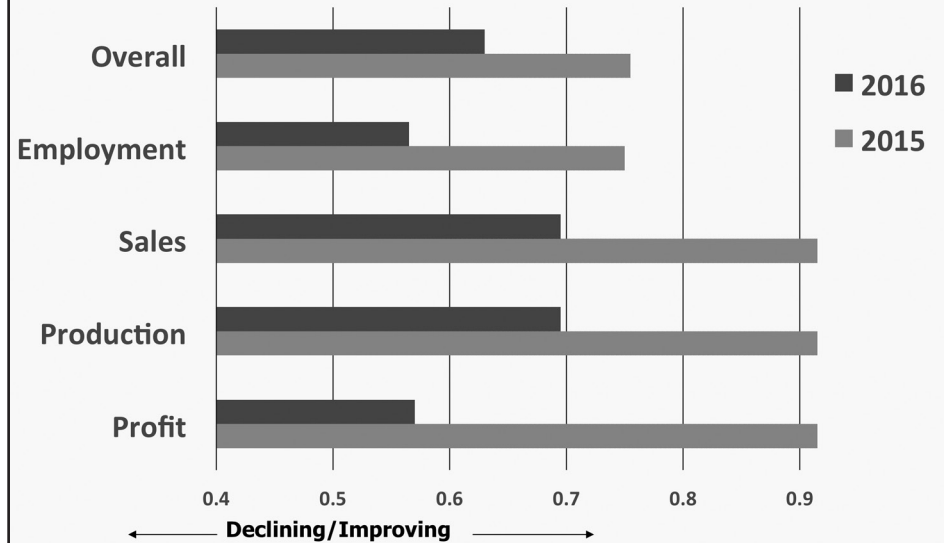


Fergus County Manufacturing

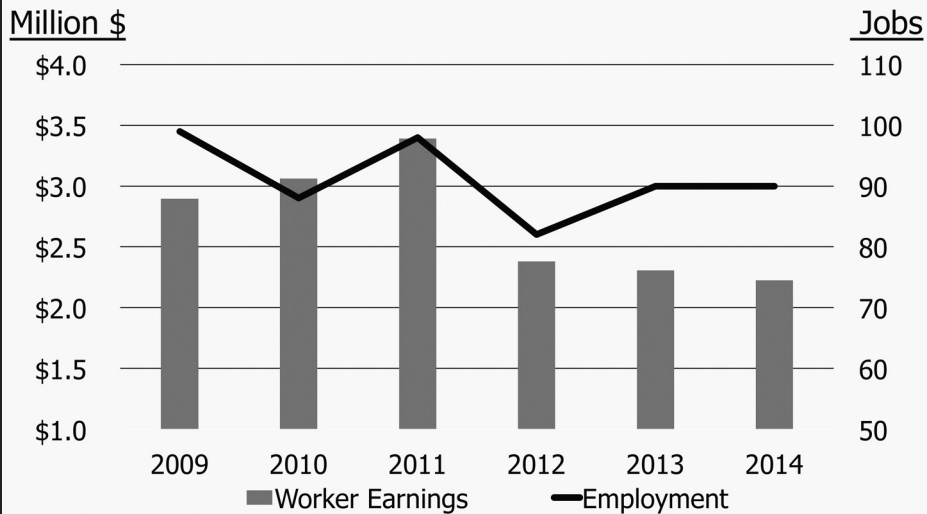


Source: Bureau of Economic Analysis

Lewistown Area Manufacturing Outlook

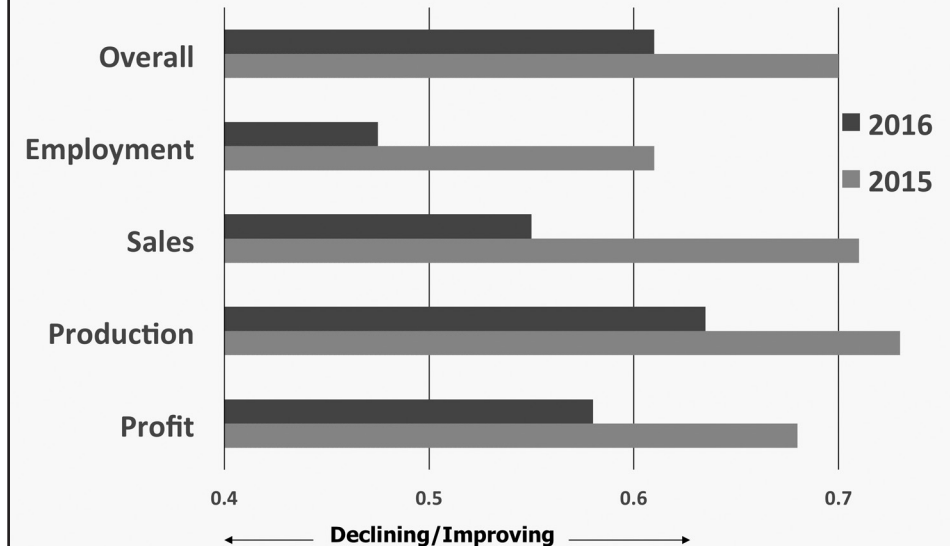


Hill County Manufacturing



Source: Bureau of Economic Analysis

Havre & Great Falls Area Manufacturing Outlook



The Outlook for Montana Real Estate

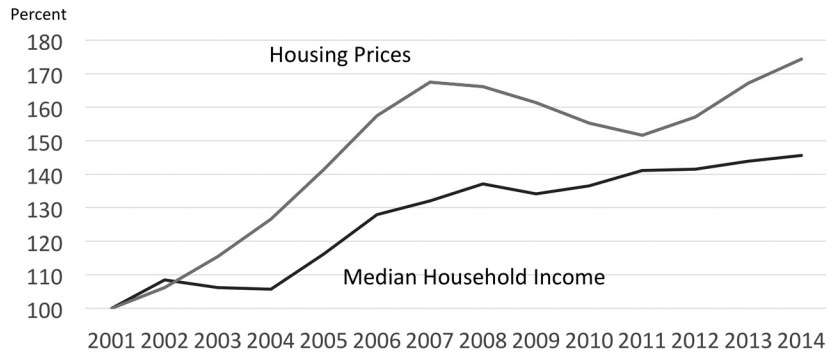
Can Montanans Afford the Future?

Kyle Morrill, director of forecasting, BBER
Patrick Barkey, director, BBER

Montana Real Estate's Recovery: Approaching Normal?

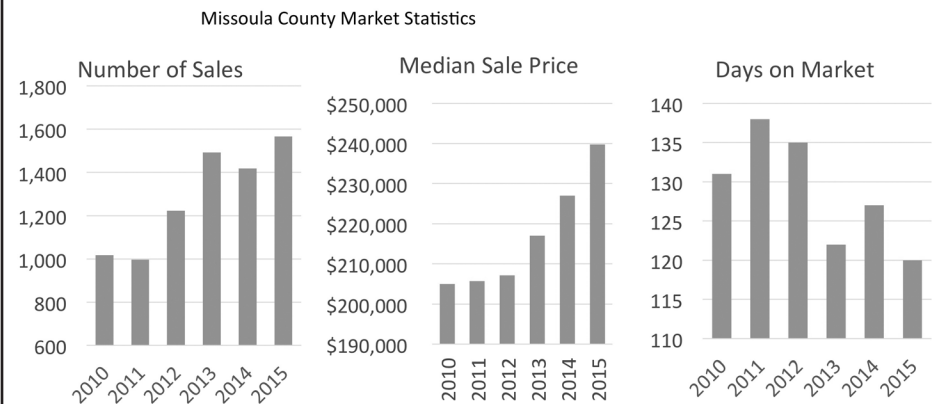
- Housing prices recovering across all markets
- Sales up, inventories down
- New home construction activity more mixed
- Multi-family construction showing particular strength
- Interest rates – going up?
- Is housing affordability becoming an issue again?

Boom, Bust, and Recovery of Montana Real Estate



Montana Housing Price Index and Montana Median Household Income Index, 2001 = 100
Source: U.S. Federal Housing Finance Agency and Census Bureau.

Markets Looking Much Healthier



Source: Missoula Association of Realtors.

Markets Looking Much Healthier

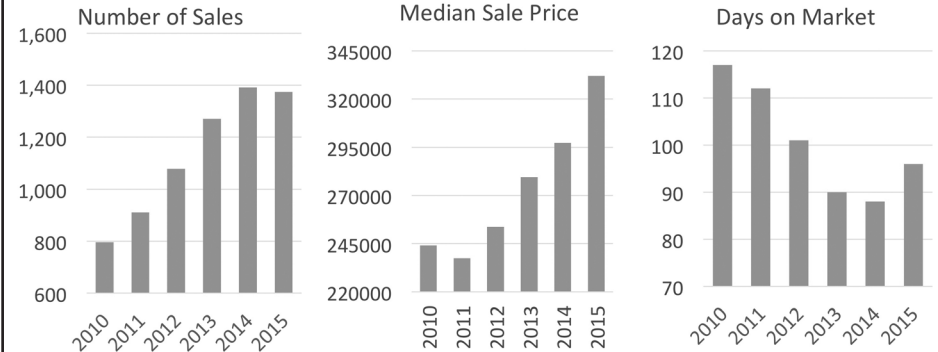
Helena Market Statistics



Source: Helena Association of Realtors.

Markets Looking Much Healthier

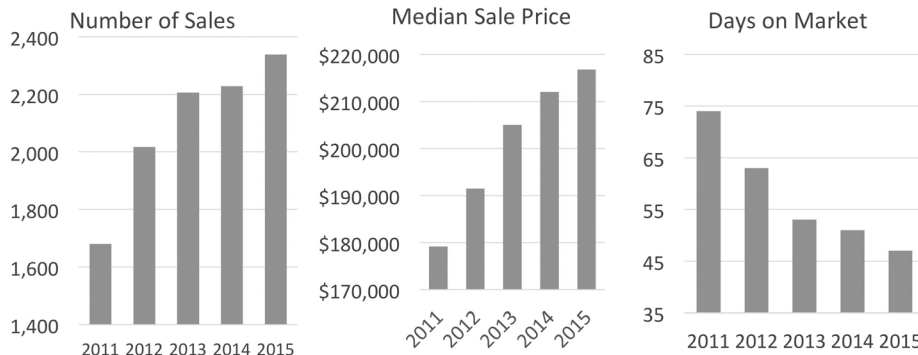
Gallatin County Market Statistics



Source: Gallatin Association of Realtors.

Markets Looking Much Healthier

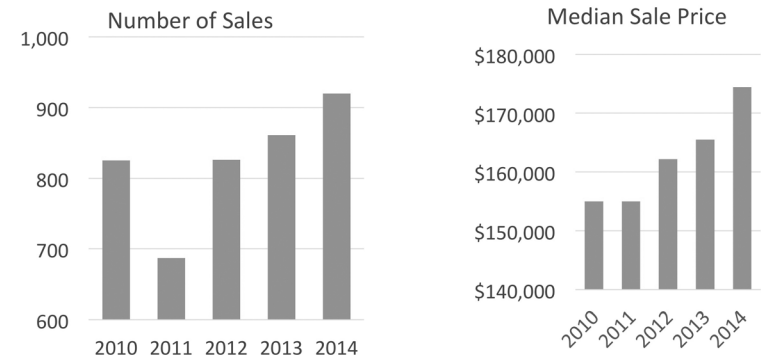
Yellowstone County Market Statistics



Source: Billings Association of Realtors.

Markets Looking Much Healthier

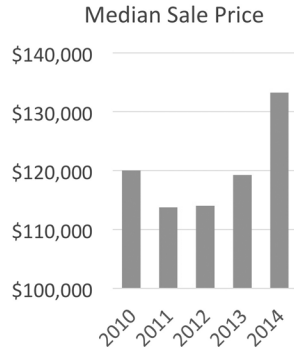
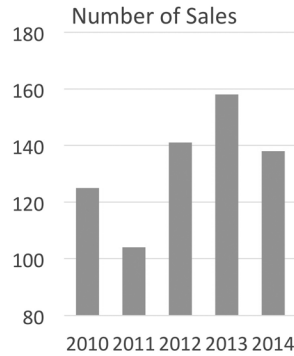
Cascade County Market Statistics



Source: Montana Department of Revenue.

Sale Price Growth

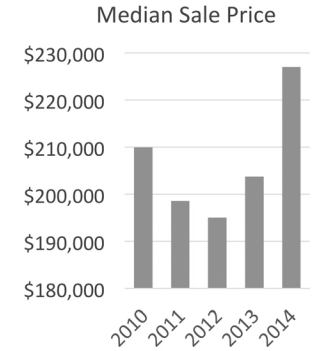
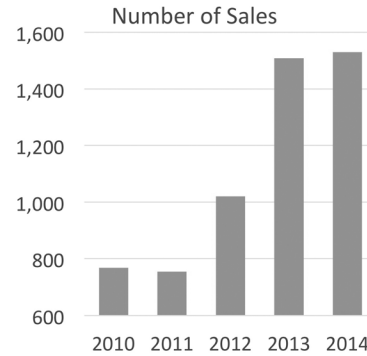
Fergus County Market Statistics



Source: Montana Department of Revenue.

Markets Looking Much Healthier

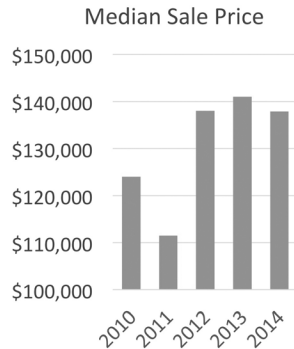
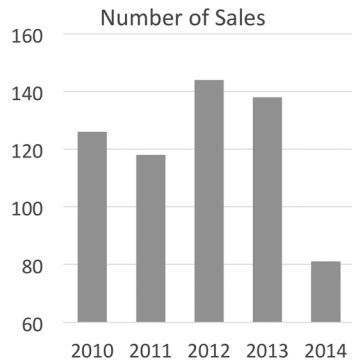
Flathead County Market Statistics



Source: Montana Department of Revenue.

Prices Have Recovered

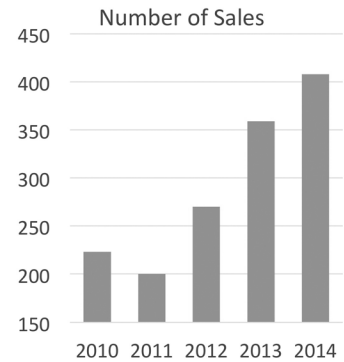
Hill County Market Statistics



Source: Montana Department of Revenue.

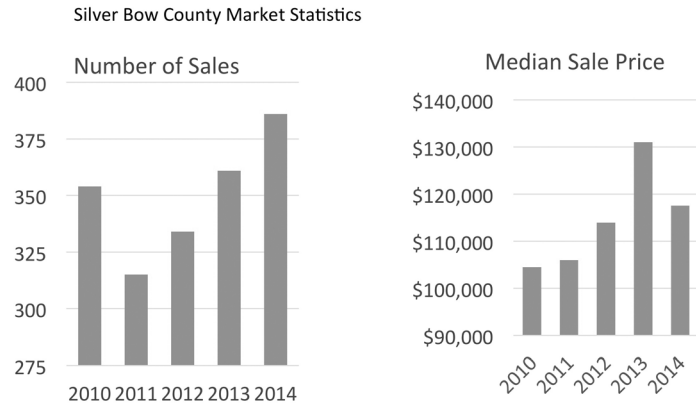
Markets Looking Much Healthier

Ravalli County Market Statistics



Source: Montana Department of Revenue.

Markets Looking Much Healthier



Source: Montana Department of Revenue.

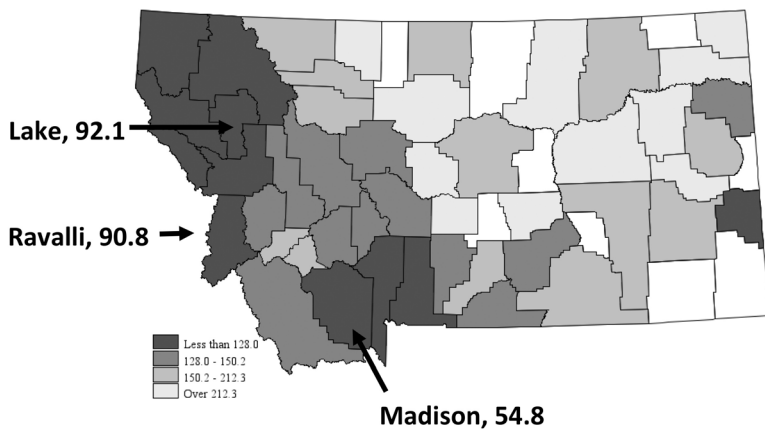
How Much Housing Can Families Afford?

HUD definition:

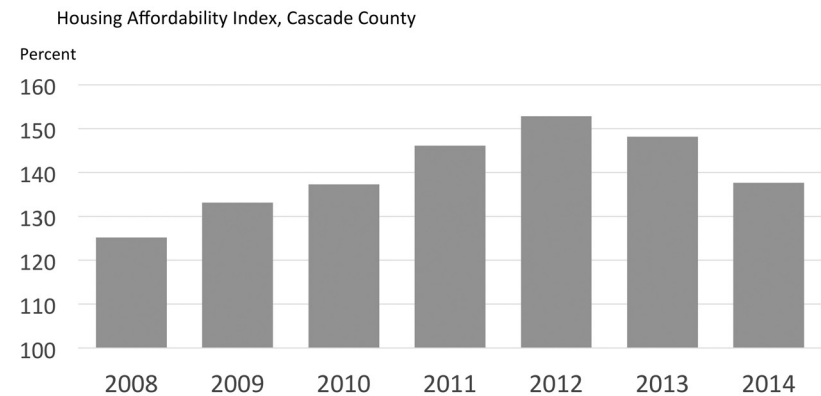
$$\text{Housing Affordability} = \frac{\text{Monthly Payment on Median Priced Home}}{30\% \text{ of Median Family Income}}$$

Greater than 100? → Not Affordable

Housing Affordability Index by County, 2014



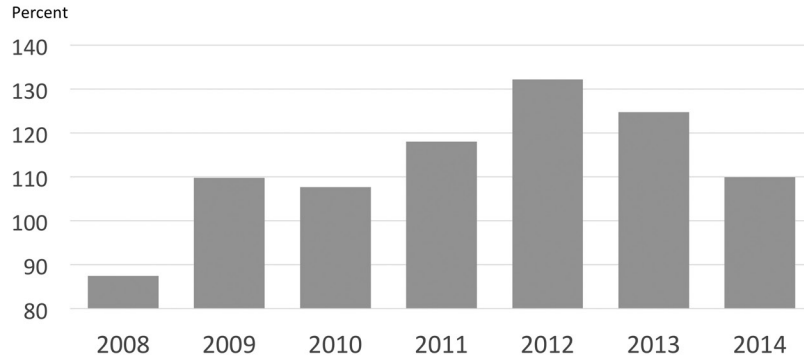
Housing Affordability Has Declined



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

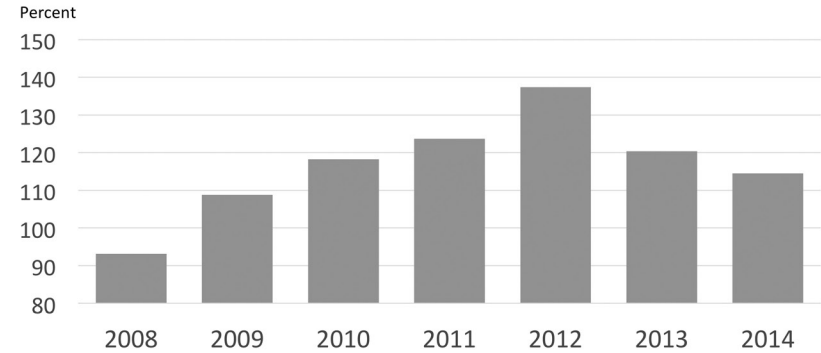
Housing Affordability Index, Flathead County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

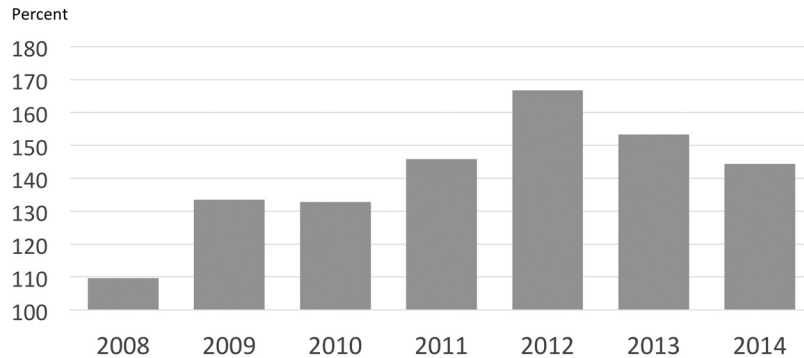
Housing Affordability Index, Gallatin County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

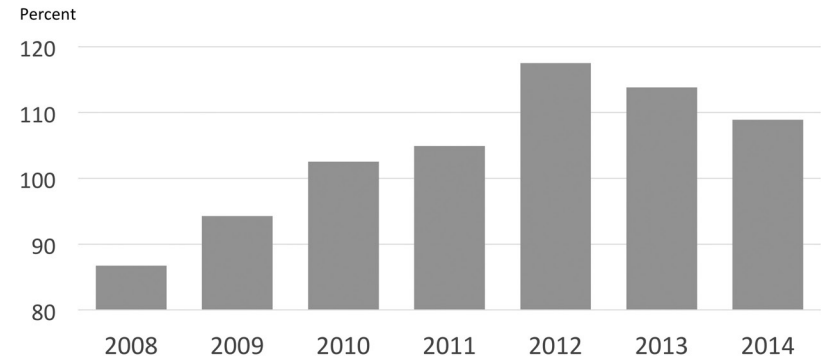
Housing Affordability Index, Lewis and Clark County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

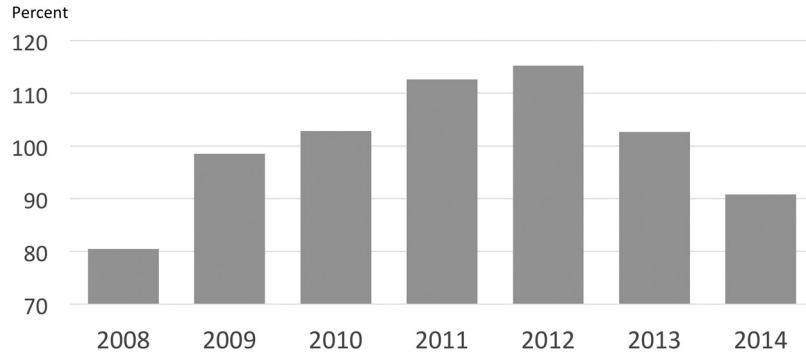
Housing Affordability Index, Missoula County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

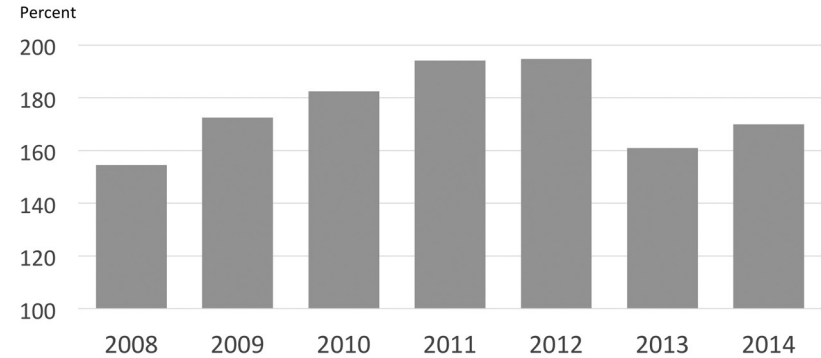
Housing Affordability Index, Ravalli County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

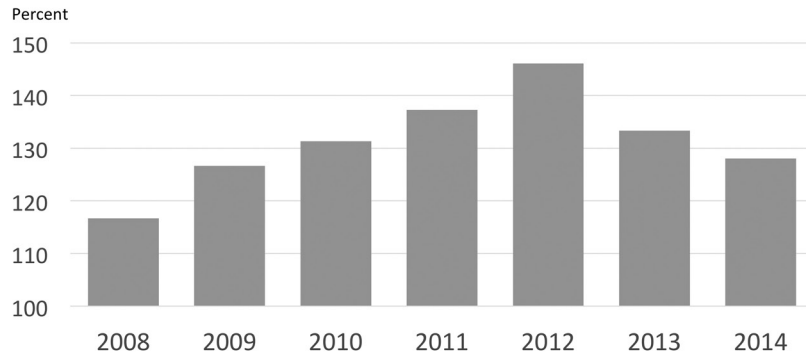
Housing Affordability Index, Silver Bow County



Source: Bureau of Business and Economic Research

Housing Affordability Has Declined

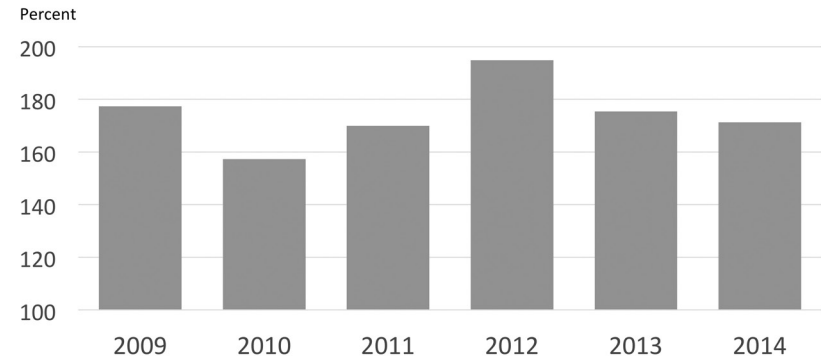
Housing Affordability Index, Yellowstone County



Source: Bureau of Business and Economic Research

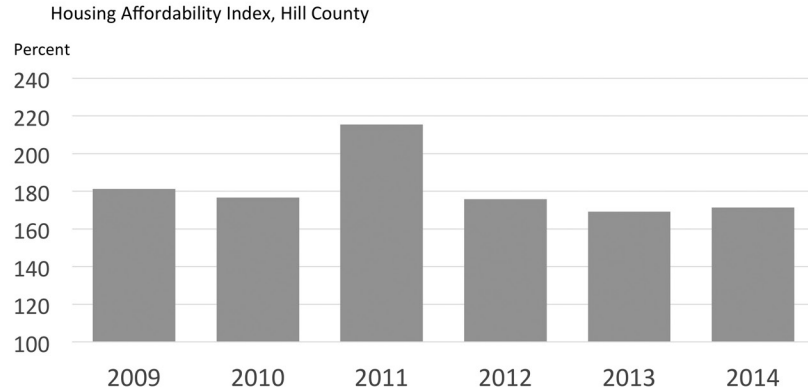
Housing Affordability in Fergus County

Housing Affordability Index, Fergus County



Source: Bureau of Business and Economic Research

Housing Affordability in Hill County



Source: Bureau of Business and Economic Research

Forces Moving the Marketplace

Supply Factors

- Inventories of unsold homes
- New home construction

Demand Factors

- Economic growth
- Credit availability
- Ability and willingness to borrow
- Population growth and migration

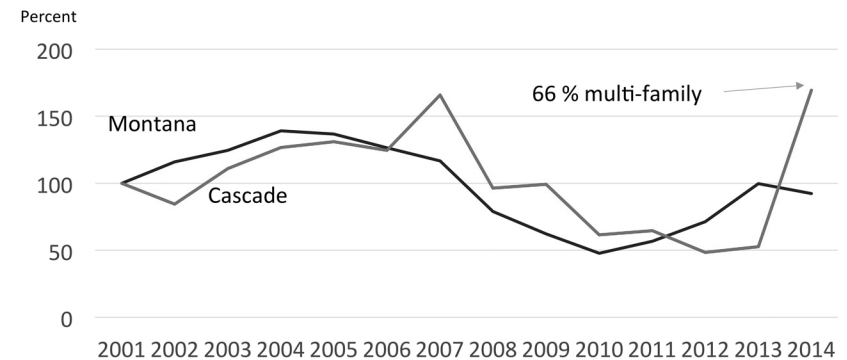
The Great Recession's Impact on Population Movements

Net Migration, Montana and Selected Counties

	Annual Average		
	2002-08	2009-11	2012-13
Montana	4,300	1,652	3,946
Cascade	-361	-74	-672
Flathead	1,319	-223	1,084
Gallatin	1,218	-225	623
Lewis and Clark	416	485	323
Missoula	332	-146	-287
Ravalli	467	142	332
Silver Bow	-89	95	37
Yellowstone	868	734	1,037

Source: U.S. Internal Revenue Service

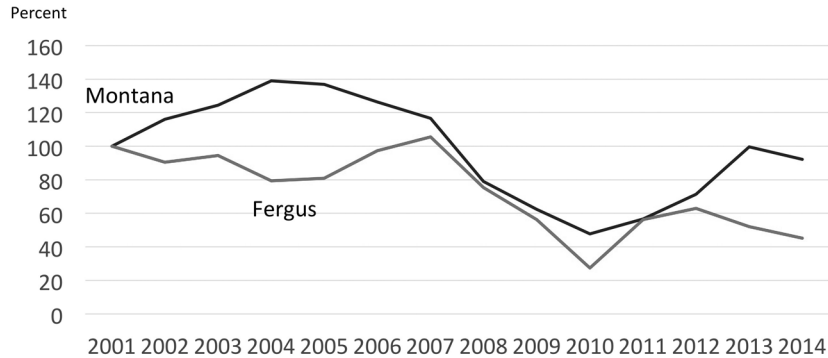
Housing Starts, Cascade County vs. Montana



Housing Starts Index, 2001 = 100

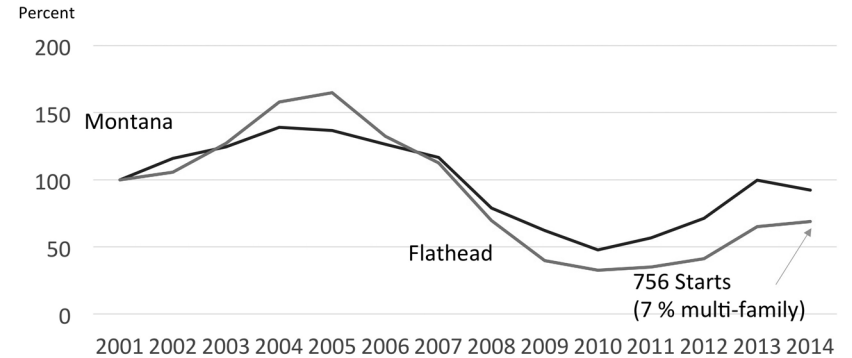
Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Fergus County vs. Montana



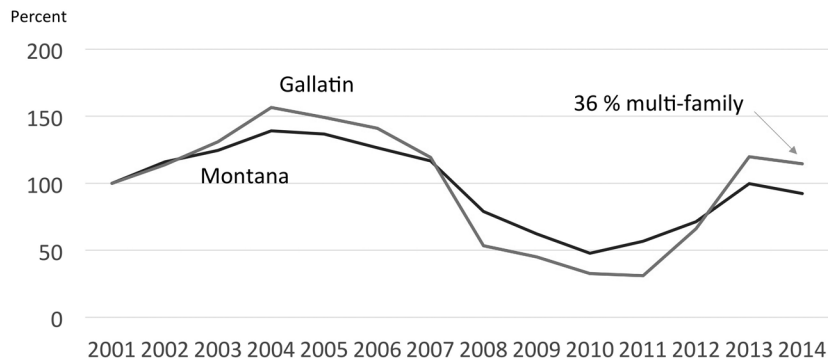
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Montana and Flathead County



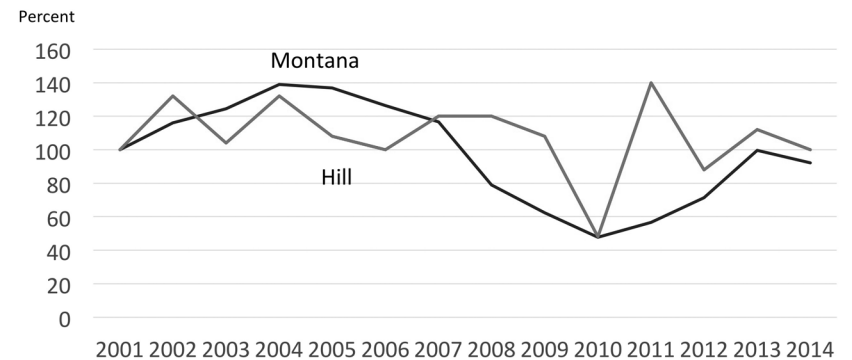
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Gallatin County vs. Montana



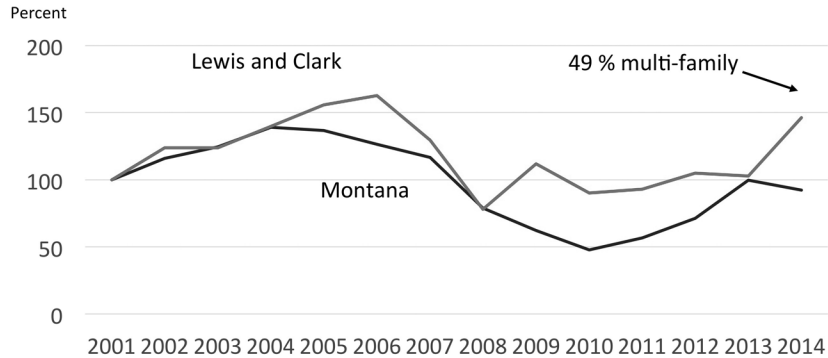
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Hill County vs. Montana



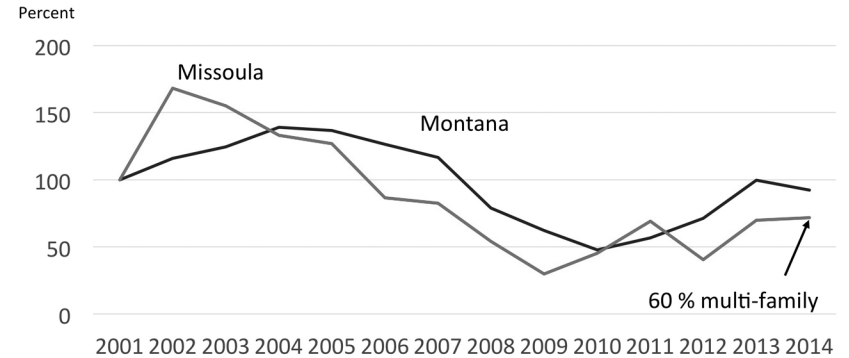
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Lewis and Clark County vs. Montana



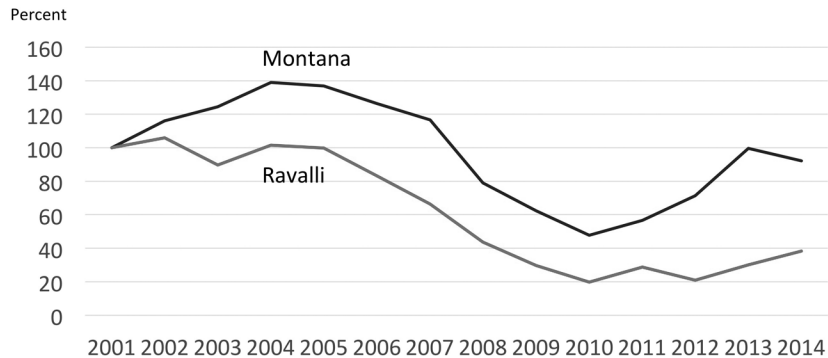
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Missoula County vs. Montana



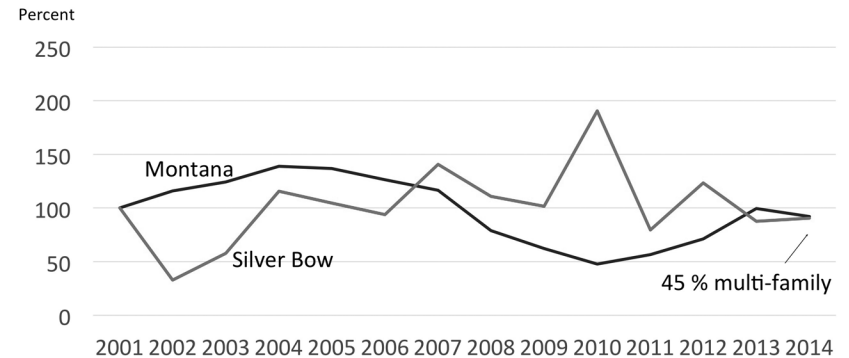
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Ravalli County vs. Montana



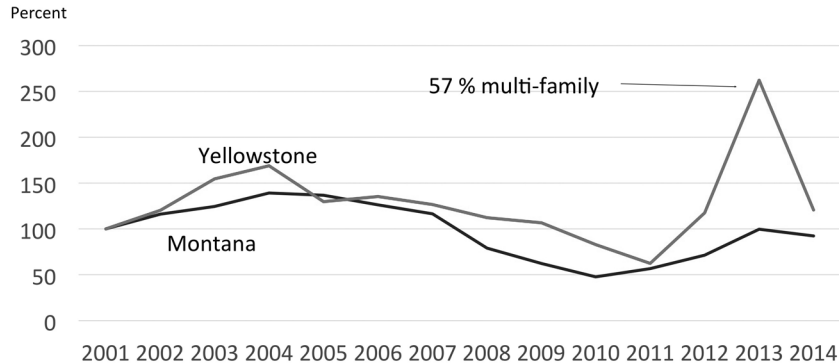
Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

Housing Starts, Silver Bow County vs. Montana



Housing Starts Index, 2001 = 100
 Source: Bureau of Business and Economic Research and U.S. Census Bureau.

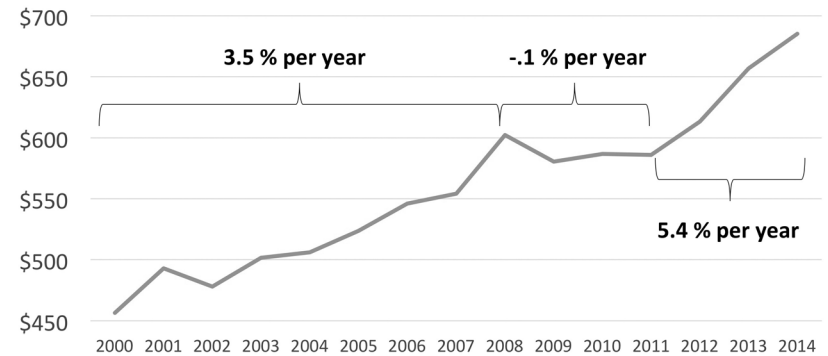
Housing Starts, Yellowstone County vs. Montana



Housing Starts Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau.

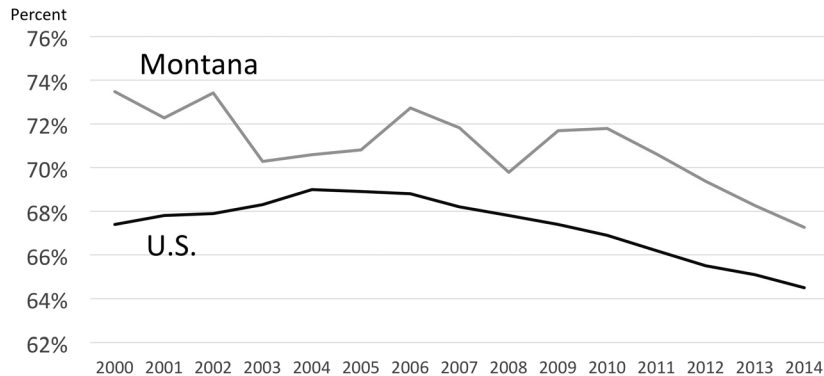
Growth in Rents Has Increased since 2011



Montana Residential Rent, Inflation Adjusted (2014\$)

Source: U.S. Census Bureau.

Homeownership Rates Decline

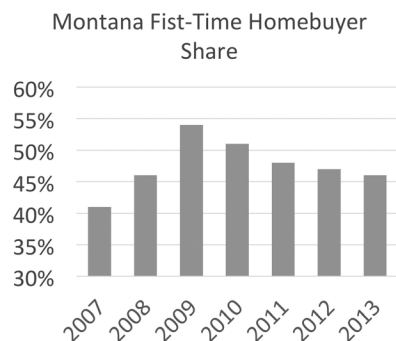


Source: U.S. Census Bureau.

What's Behind These Trends?

- Wages among 18-34 year old Montanans virtually unchanged since 2000.
- Increasing student loan debt and rental rates lower ability to save for down payment on home.
- Individuals are staying in school longer, getting married and having children later.
- Urbanization

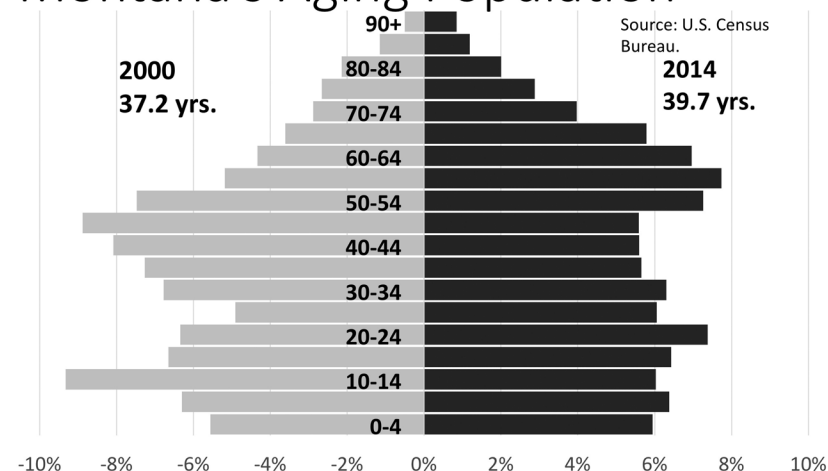
Changes Affecting Sales



Source: Federal Housing Finance Agency, Institute for College Access and Success.

- The median age of homebuyers is increasing.
 - Nationally up to 44 years from 39 in 2008.
- Individuals are renting longer before deciding to purchase.
- Low inventory of affordable housing.
- Aging population.
- Student loan debt.
 - 67% of students attending Montana universities graduate with some debt.
 - Average student debt is \$26,946.

Montana's Aging Population



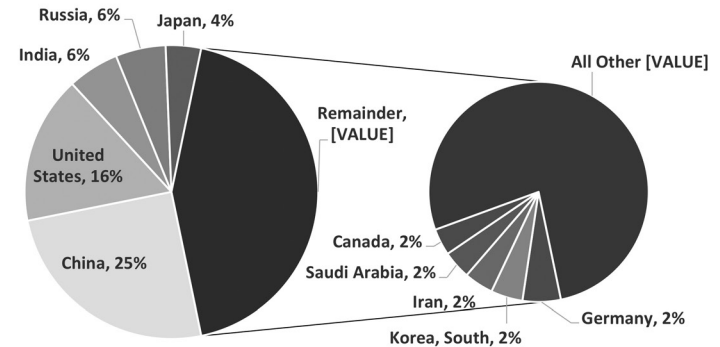
What's Ahead for Housing Markets?

- Interest rates: liftoff has arrived, what's next?
- Are credit standards loosening?
- Fannie and Freddie – immortal?
- Shortage of buildable lots
- Dodd Frank rules still being digested
- Canadian dollar

THE OUTLOOK FOR ENERGY Montana Energy Industries Another Difficult Year Ahead

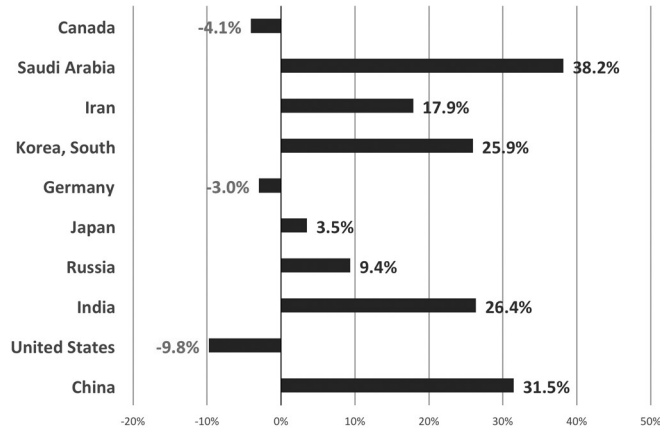
By Terry Johnson

Top Energy Development – CO₂ Emissions World Top 10 Contributors in 2012



Source: US Energy Information Administration

Top Energy Development – CO₂ Emissions Growth in CO₂ Emissions 2008 to 2012



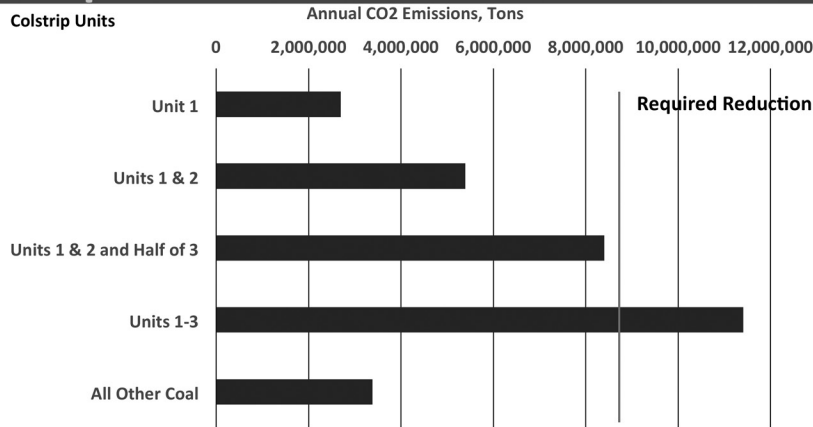
Source: US Energy Information Administration

Top Energy Development – CO₂ Emissions EPA's Clean Power Plan

- EPA's final rule for the Clean Power Plan aimed at reducing CO₂ emission rates for power plants released August 3, 2015
- Percentage reduction for Montana mandated by the rule in 2030 is higher than any other state (47% below 2012 baseline for emission rates).
- As a state where targeted coal facilities make up more than 95 percent of fossil fuel electric energy production, easy options for compliance do not exist

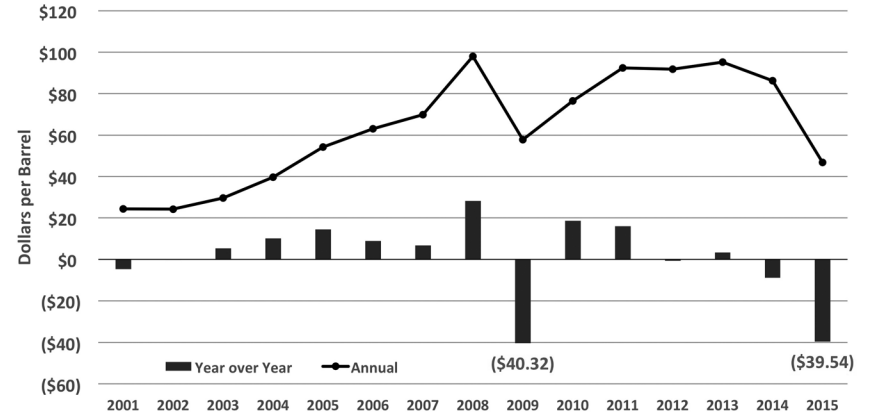
Source: Bureau of Business and Economic Research

Top Energy Development – CO₂ Emissions EPA's Clean Power Plan Impact on Colstrip



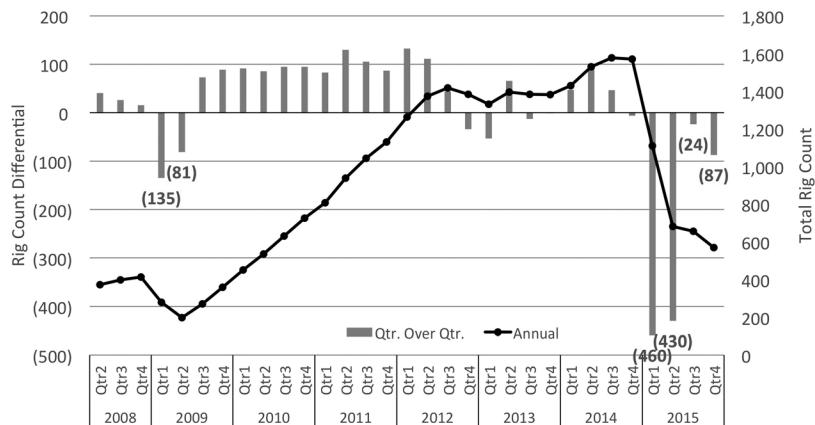
Source: Bureau of Business and Economic Research

West Texas Intermediate Oil Price Further Oil Price Declines



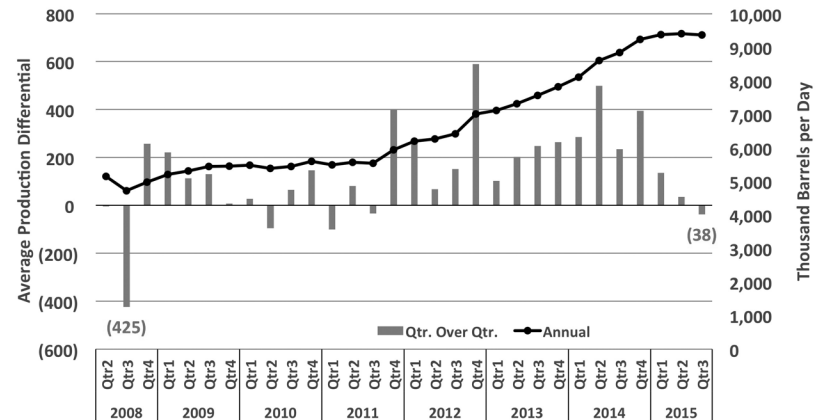
Source: US Energy Information Administration

Baker Hughes Oil Rig Count Oil Rig Count Free Fall



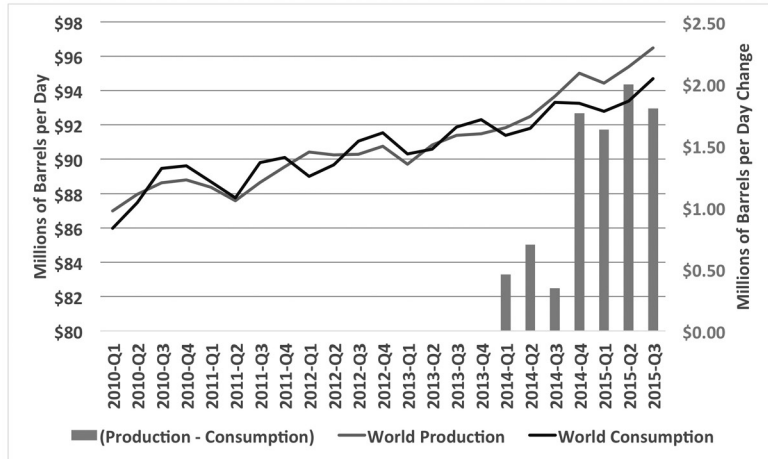
Source: Baker Hughes

US Oil Production Low Prices & Rigs – Flat Production



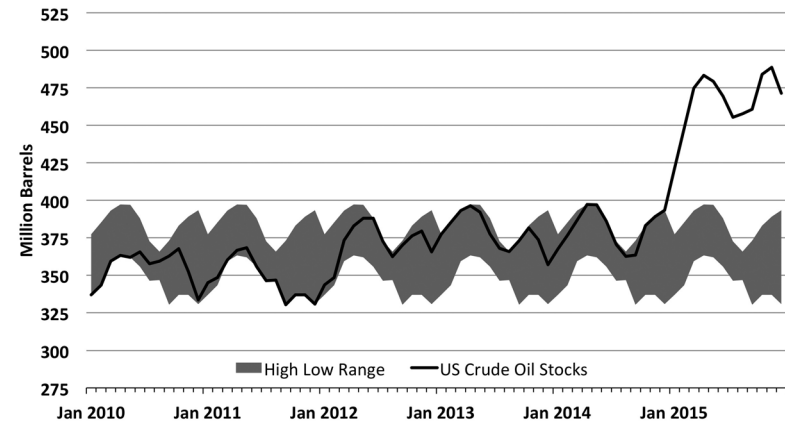
Source: US Energy Information Administration

World Oil Trends Production / Consumption Imbalance



Source: US Energy Information Administration

US Crude Oil Storage Levels Storage Levels Explode



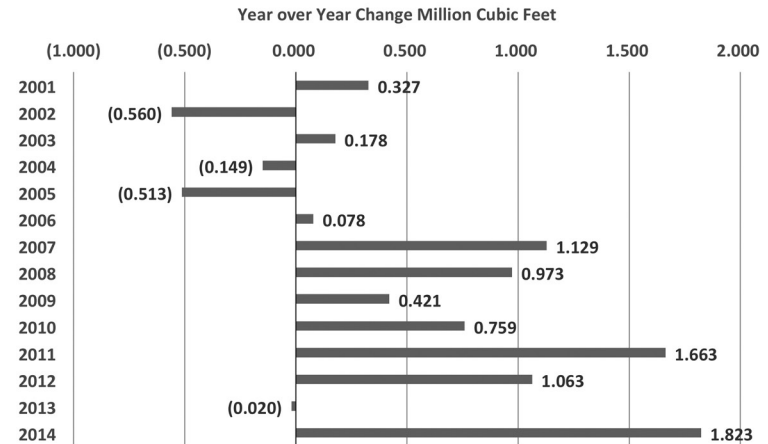
Source: US Energy Information Administration

US Natural Gas Henry Hub Price Trends Continued Nat. Gas Price Weakness



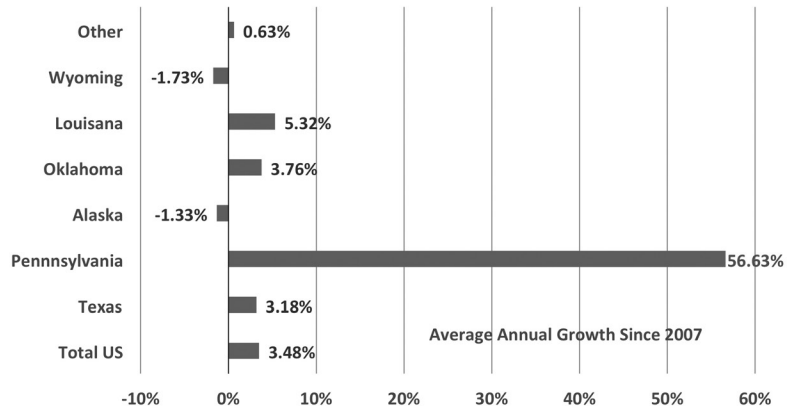
Source: US Energy Information Administration

US Natural Gas Production Weak Prices, Production Accelerates

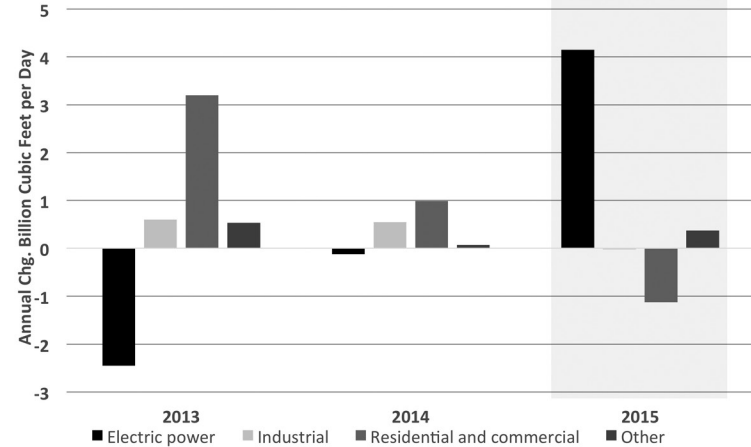


Source: US Energy Information Administration

US Natural Gas Production By State Marcellus Leads the Way

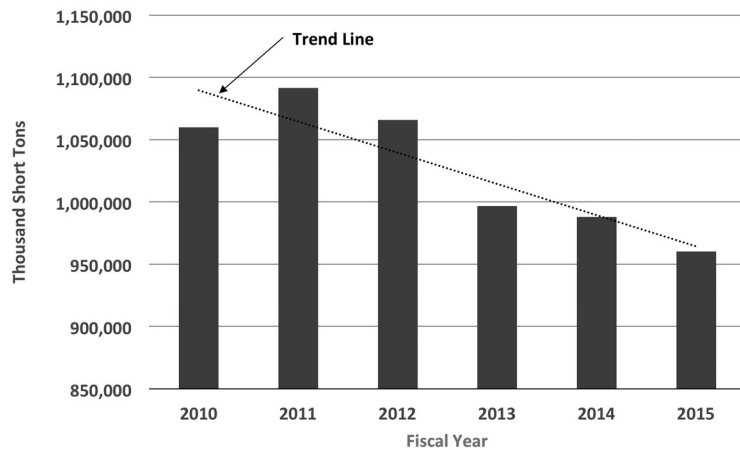


US Natural Gas Consumption Nat. Gas Usage Up, Coal Down



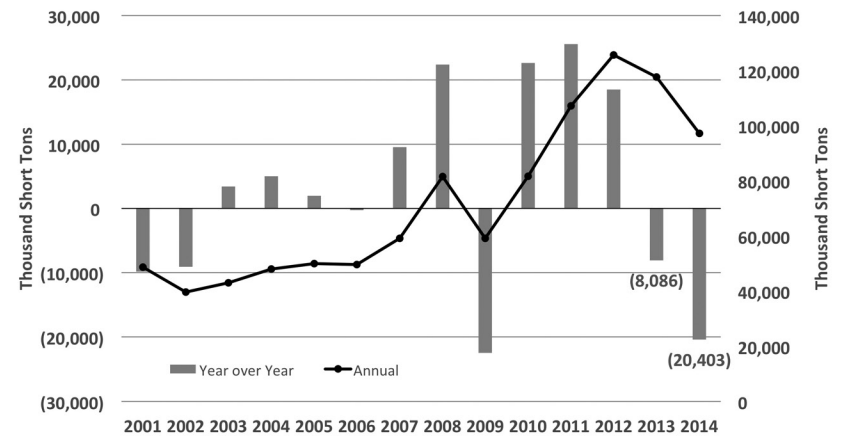
Source: US Energy Information Administration

US Coal Production US Coal Production Declining



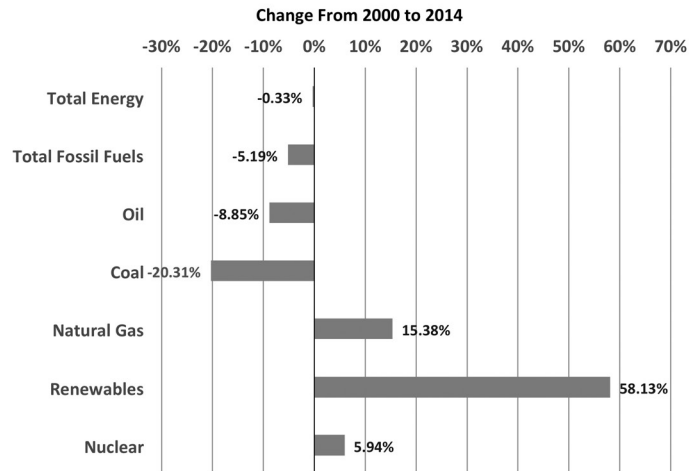
Source: US Energy Information Administration

US Coal Exports Coal Exports on the Decline



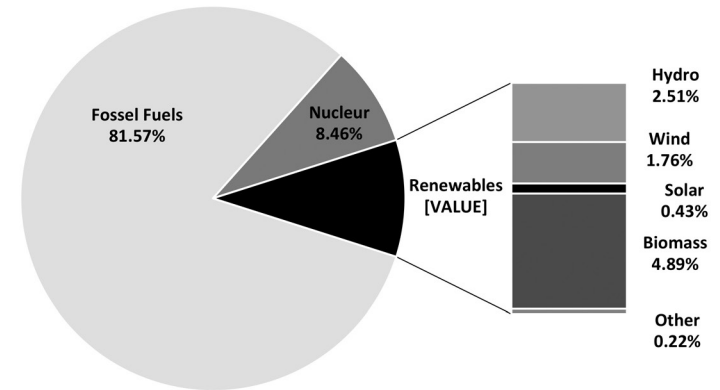
Source: US Energy Information Administration

US Total Energy Components Fossil Fuels Down, Renewable Up



Source: US Energy Information Administration

US Total Energy Use Fossil Fuels Still Dominant

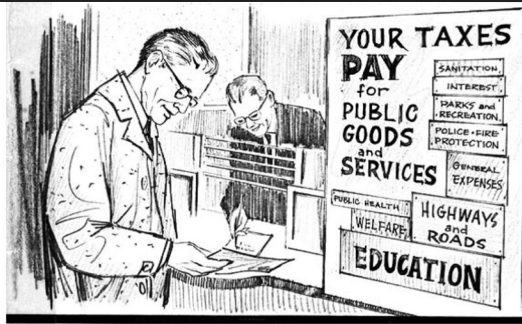


Source: US Energy Information Administration

Montana Energy Outlook Oil, Natural Gas, Coal, Renewables

– Montana Outlook

- Oil
 - Declining Production
 - Stable Prices Trending Upward
- Natural Gas
 - Increased Production
 - Prices Remaining at Low Levels
- Coal
 - Declining Production
 - Stable Prices Trending Downward
- Renewables
 - Further Development



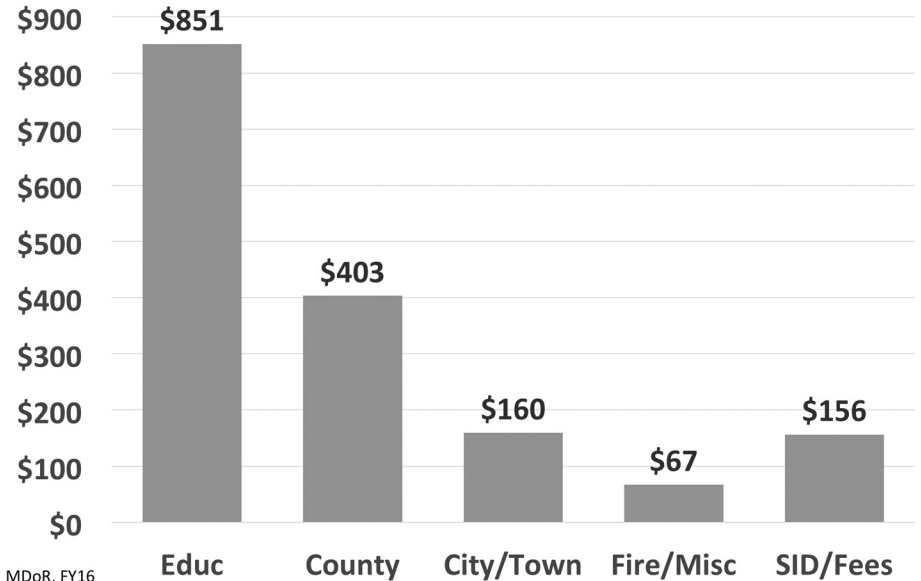
Rising Property Taxes: What You Should Know



Douglas J Young
Professor Emeritus
MSU- Bozeman

Where Property Taxes Go

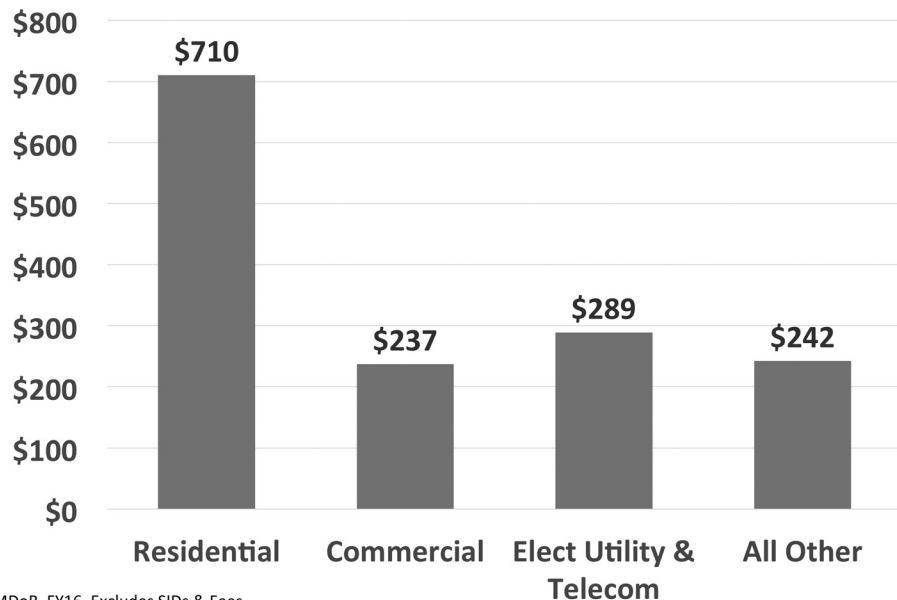
Millions of Dollars



MDoR, FY16

Where Property Taxes Come From

Millions of Dollars



MDoR, FY16, Excludes SIDs & Fees

How Property Taxes are Calculated – Three Steps

Step

1. Taxable Value =
Market Value
x Tax Rate

Example

1. Taxable Value =
\$200,000
x 1.3% = \$2,600

How Property Taxes are Calculated – Three Steps

<u>Step</u>	<u>Example</u>
1. Taxable Value = Market Value	1. Taxable Value = \$200,000
x Tax Rate	x 1.3% = \$2,600
2. Tax = Taxable Value	2. Tax = \$2,600
x Mill Rate/1,000	= \$1,575.60

Mill Rate Example: Helena FY 2013

<u>Function</u>	<u>Mills</u>
Education	387
City	159
County	177
<u>Special Districts</u>	<u>3</u>
TOTAL	726

Mill Rate Example: Billings FY 2013

<u>Function</u>	<u>Mills</u>
Education	359
City	175
County	117
<u>Special Districts</u>	<u>3</u>
TOTAL	654

Mill Rate Example: Bozeman FY 2013

<u>Function</u>	<u>Mills</u>
Education	346
City	165
County	92
<u>Special Districts</u>	<u>0</u>
TOTAL	603

**Mill Rate Example: Great Falls
FY 2013**

<u>Function</u>	<u>Mills</u>
Education	335
City	194
County	131
<u>Special Districts</u>	<u>20</u>
TOTAL	680

**Mill Rate Example: Missoula
FY 2013**

<u>Function</u>	<u>Mills</u>
Education	360
City	241
County	145
<u>Special Districts</u>	<u>20</u>
TOTAL	765

**Mill Rate Example: Butte
FY 2013**

<u>Function</u>	<u>Mills</u>
Education	341
City + County	375
<u>Special Districts</u>	<u>19</u>
TOTAL	735

**Mill Rate Example: Kalispell
FY 2013**

<u>Function</u>	<u>Mills</u>
Education	374
City	187
County	126
<u>Special Districts</u>	<u>0</u>
TOTAL	687

Mill Rate Example: Lewistown FY 2013

<u>Function</u>	<u>Mills</u>
Education	431
City	242
County	115
<u>Special Districts</u>	<u>4</u>
TOTAL	792

Mill Rate Example: Havre FY 2013

<u>Function</u>	<u>Mills</u>
Education	420
City	256
County	141
<u>Special Districts</u>	<u>0</u>
TOTAL	816

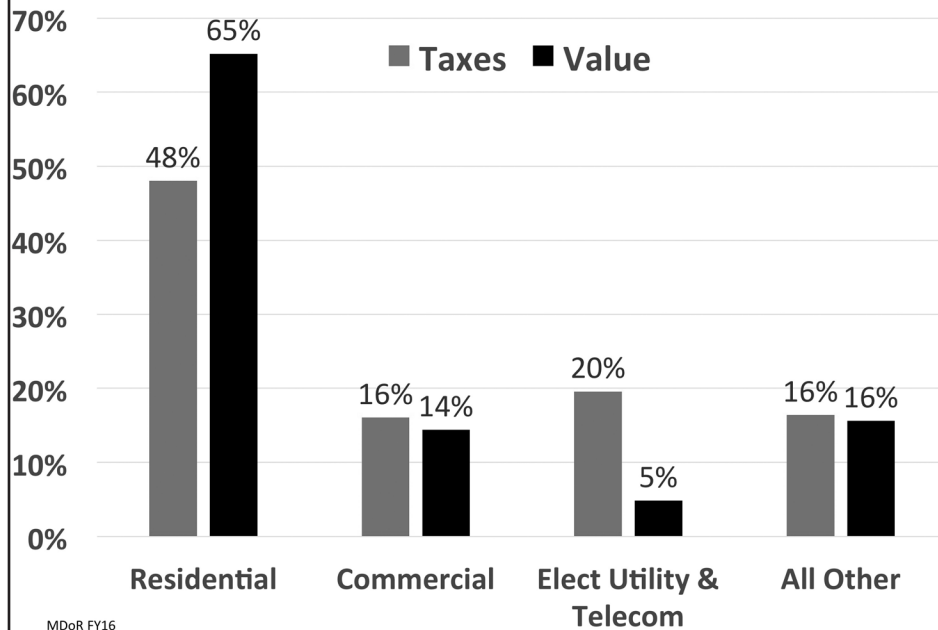
How Property Taxes are Calculated – Three Steps

<u>Step</u>	<u>Example</u>
1. Taxable Value = Market Value	1. Taxable Value = \$200,000
x Tax Rate	x 1.3% = \$2,600
2. Tax = Taxable Value x Mill Rate/1000	2. Tax = \$2,600 x 606/1,000 = \$1,575.60
3. Add SIDs & Fees (if any)	3. Add \$0 - \$1,000

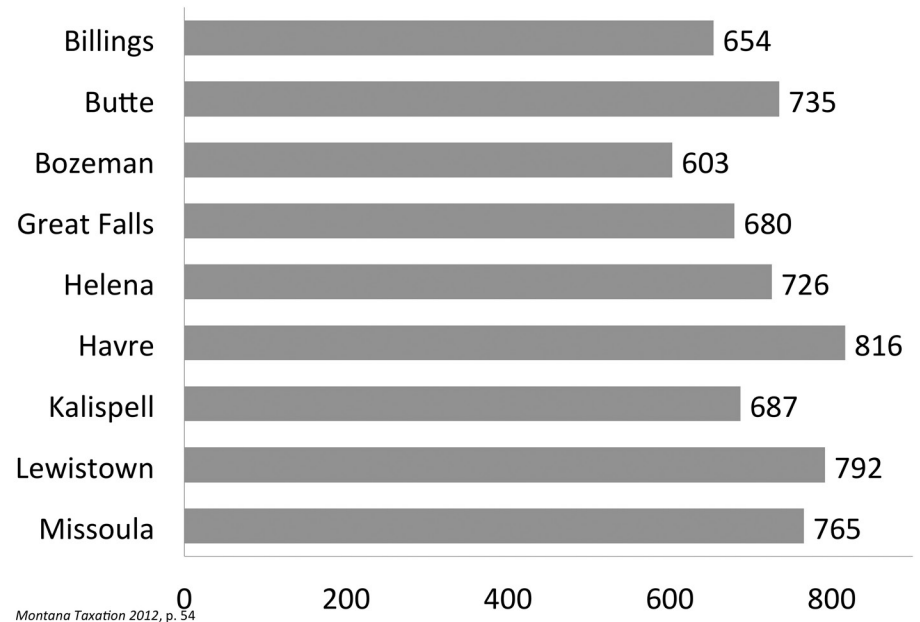
Classification System

- 13 Classes of Property
- 14 Different Tax Rates
- Range:
 - from 0.4%% on Forest Land
 - to 12.0% on Non-Electrical Generating Property of Electric Utilities

Shares of Taxes and Market Value



Mills Levied FY 2013



Why Do Mill Levies Vary?

Three Reasons why Mill Levies Vary are:

1. Tax Base (aka Mill Value: How many dollars are generated when one mill is levied?)

City Mill Value FY 2014



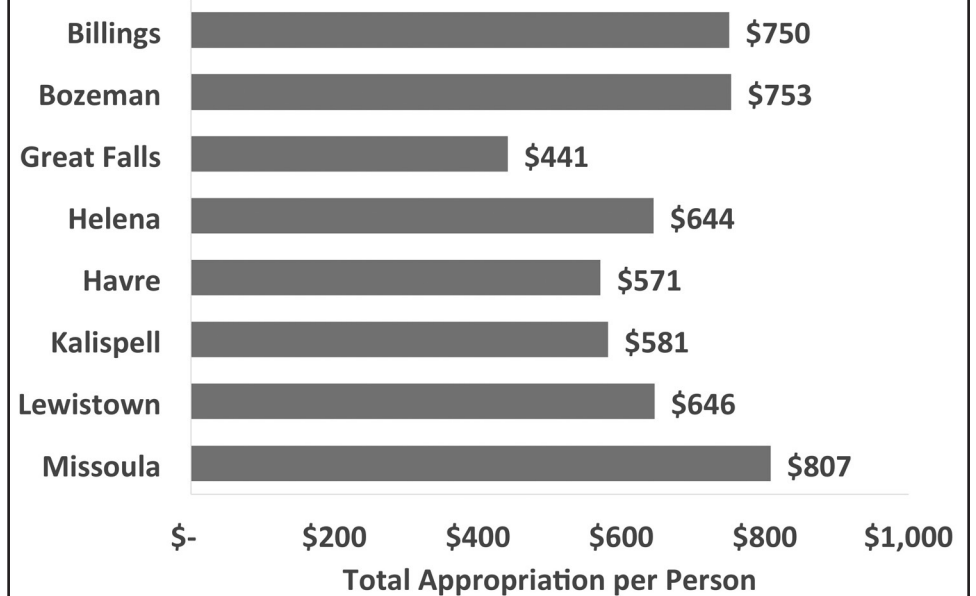
Local Government Center

Why Do Mill Levies Vary?

Three Reasons why Mill Levies Vary are:

1. Tax Base
2. Government Spending

City Spending FY 2014

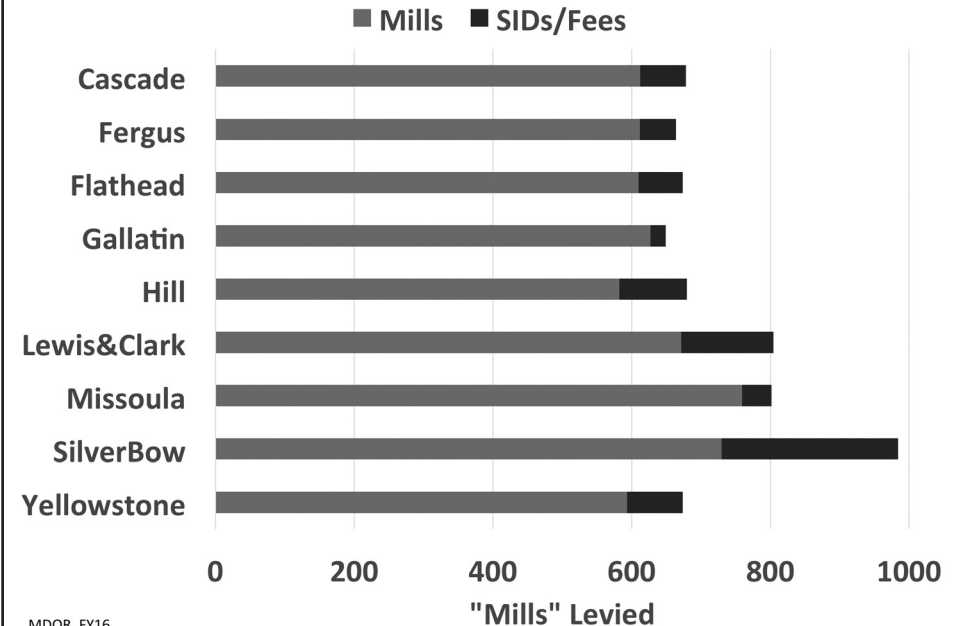


Why Do Mill Levies Vary?

Three Reasons why Mill Levies Vary are:

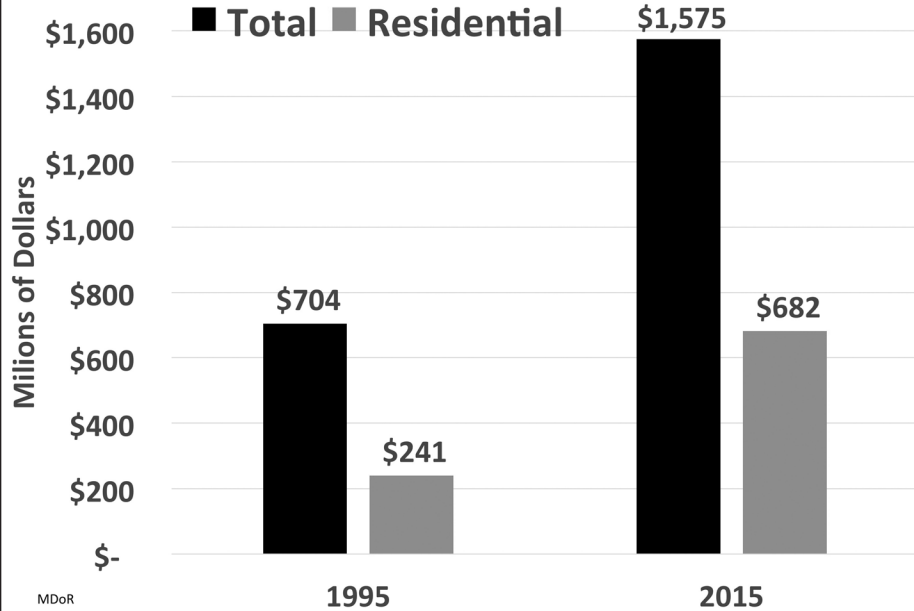
1. Tax Base (Mill Value: How many dollars are generated when one mill is levied?)
2. Government Spending
3. Other Revenue Sources

Total "Mills" with SIDs/Fees

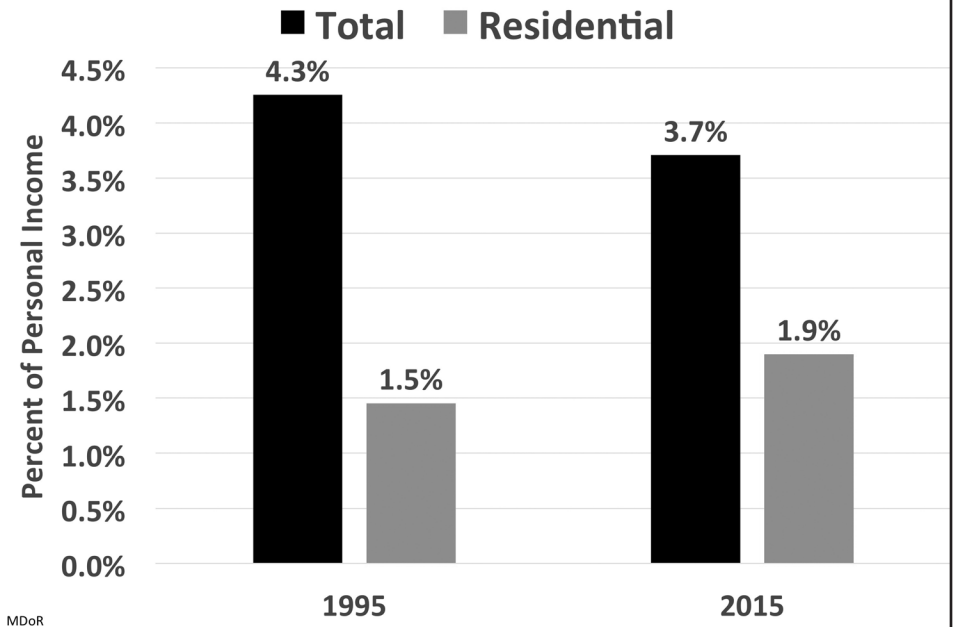


MDOR, FY16

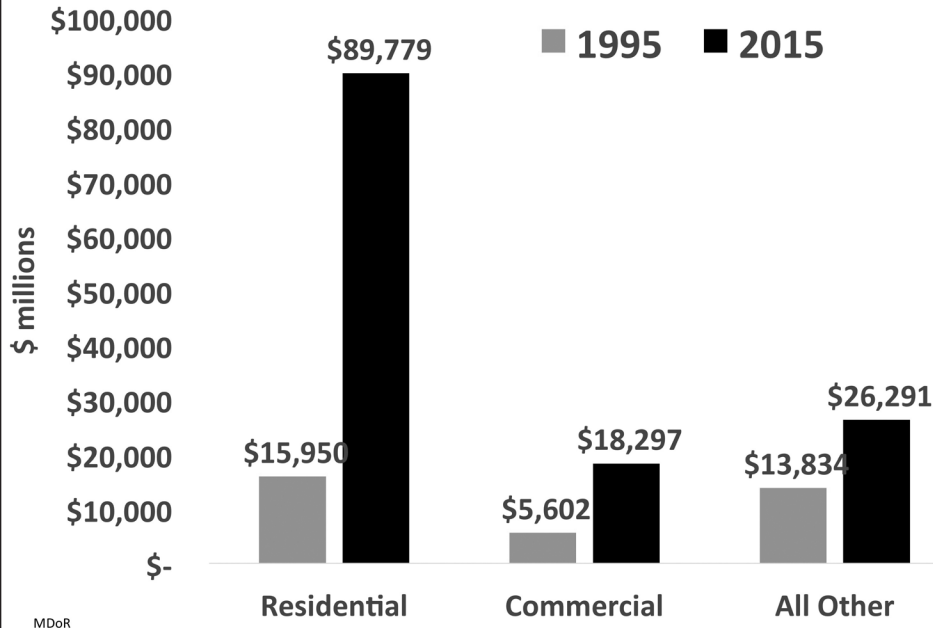
Property Taxes over 20 Years



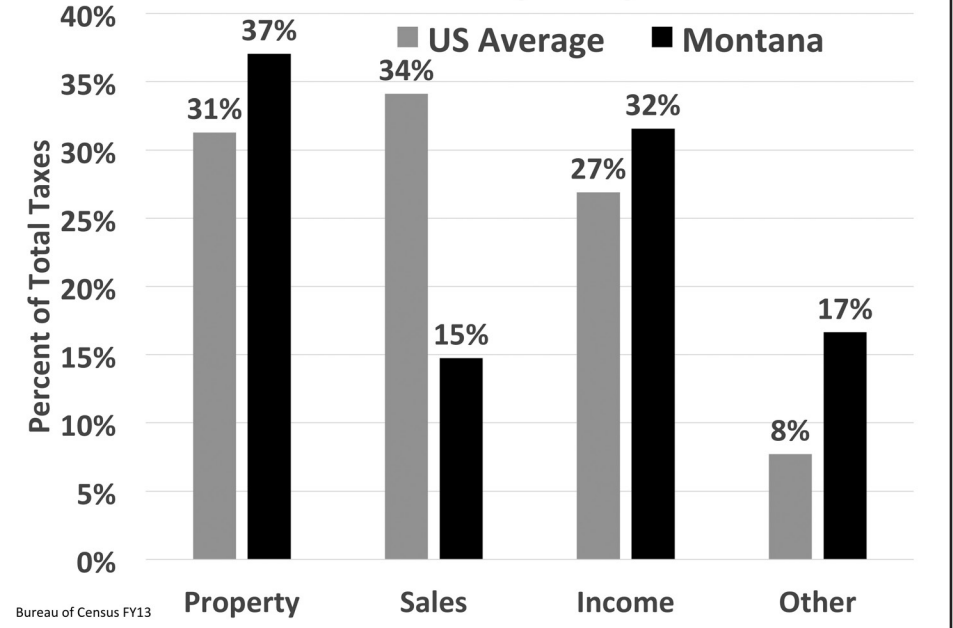
Property Taxes and Income



Market Value of Property



Too Much Property Tax?



Effective Property Tax Rates Owner-Occupied Housing

State	Rate	Rank
Montana	0.86%	31
Idaho	0.75%	39
N Dakota	1.11%	21
S Dakota	1.32%	16
Wyoming	0.61%	44
US Median	1.04%	

Tax Foundation August 13, 2015

Future Considerations

1. Growth in SIDs and Fees OR...
2. How to Finance Local Government
3. Classification System
4. Transparency of Property Tax Bill
5. Elderly Renter/Homeowner Tax Credit
6. Transparency of Reappraisal



Bureau of Business and Economic Research
Gallagher Business Building, Suite 231
32 Campus Drive
Missoula, MT 59812-6840
www.bber.umt.edu