

The Economic Impacts of Covid-19 in Montana

Revised Analysis

May 2020

Bureau of Business and Economic Research
University of Montana

Acknowledgements

The Bureau of Business and Economic Research is grateful to NorthWestern Energy for their generous support of this research. All errors and omissions remain our own.



Note: This document revises and updates our previous report on Covid-19 economic impacts we posted in April 2020. You can find that report here:

www.bber.umt.edu/pubs/econ/PrelimCovidAnalysis.pdf

The Economic Impacts of Covid-19 in Montana: Revised Analysis

Summary

The Bureau of Business and Economic Research at the University of Montana (BBER) released a preliminary analysis of the impacts of the Covid-19 pandemic on the Montana economy in April. That report was aimed at addressing the information void on state economic performance, since the time lag involved in producing comprehensive data on the state and its regions is substantial. Based on data available through early April, the BBER analysis found that the economic downturn caused by the pandemic would be more severe than the Great Recession, with average employment in 2020 down by more than 50,000 jobs and personal income down by almost \$4 billion, compared to earlier projections.

In the month that has elapsed since that report was completed, more data has become available. In particular, we have received preliminary estimates of U.S. Gross Domestic Product (GDP) and consumer spending for the first quarter of the year. We also have the national employment and unemployment estimates for the month of April. These data can be used to refine and improve the assumptions that went into the BBER analysis conducted in April.

The updated estimates paint a bleaker picture of the economic downturn caused by Covid-19. The impacts of disruptions caused by social distancing, supply disruptions and the upheaval in energy markets has combined to produce a lower estimate of U.S. economic activity, which translates into a harder hit and a slower recovery to the state economy as well. Specifically we now estimate:

- a loss of 75,000 jobs, on average, over the year 2020 for the Montana economy, reflecting worsening prospects for health care, transportation and agriculture industries. Jobs include payroll jobs as well as self-employed, business proprietors and non-employee contractor jobs;
- a shortfall in state personal income of \$6.4 billion, or 11.7 percent, in 2020 compared to the original, pre-Covid-19 projection;
- a slower recovery in the state economy, with under performance in both employment and personal income – relative to pre-Covid-19 projections – extending beyond the year 2022.

The Purpose of This Report

This report was put together to present the latest estimates of the economic impacts of Covid-19 on the state economy. But it is also intended to illustrate one aspect of those impacts that the preliminary analysis could not adequately convey. And that is the high degree of uncertainty involved in predicting the path of the economy in the face of this challenge.

In the space of a single month, the assessment of the short-term economic outlook has significantly changed, in this case, for the worse. In another month, it could change again. The speed with which the public health situation has changed because of the virus has translated into rapidly changing economic conditions that are reflected in forecasts. Those utilizing these projections as the basis for making decisions should appreciate that fact.

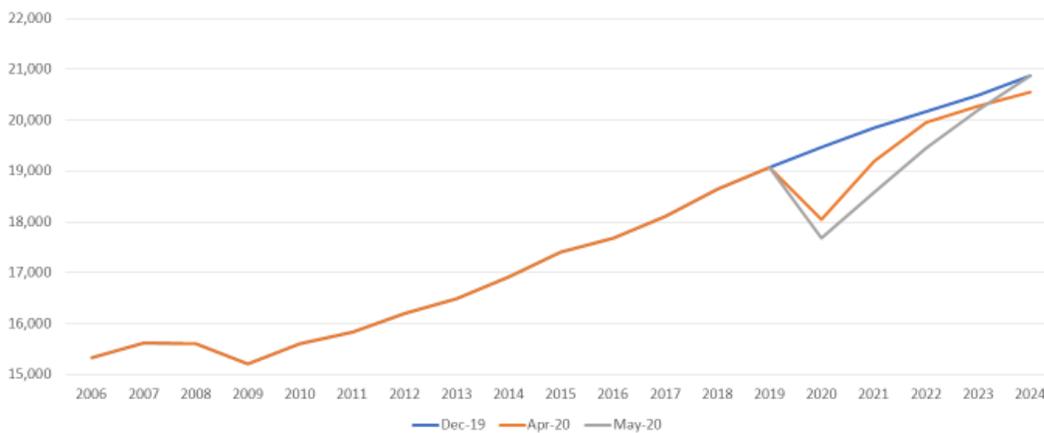
The Updated U.S. Economic Outlook

At least three forces are in play that have caused national forecasters – including the IHS Markit forecasts used in this analysis – to become less optimistic about U.S. economic prospects for the short and medium term: (i) new information that suggests that distancing has had broader negative impacts than previously thought (e.g., discretionary health care), (ii) a more pessimistic assessment of the number of job losses that will be permanent, and (iii) the impact of the upheaval in oil markets. The result is a deeper decline in 2020 and a slower paced growth in subsequent years.

The change in the IHS Markit forecast for real GDP for the U.S. between April and May is apparent in Figure 1 below.

Figure 1

Dec-2019 vs. Apr-2020 and May-2020 Forecast Comparisons Real GDP, U.S., Billions



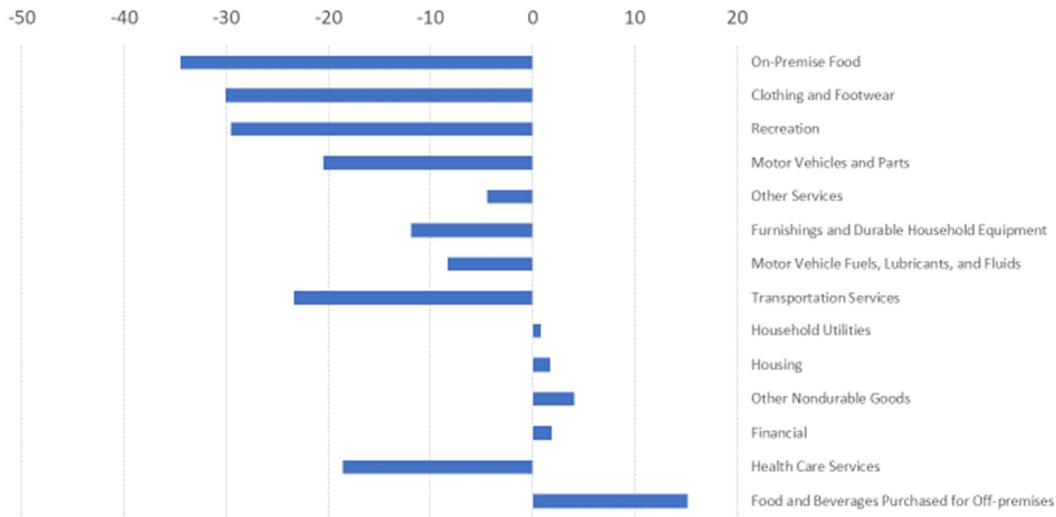
Source: IHS Markit

IHS Markit now projects a 7.2 percent decline in U.S. real GDP in 2020, with most of that decline happening in the second quarter of the year. As is clear from the figure, this decline is much more severe than what the economy experienced in 2007-2009. Less apparent, but just as important, is the slightly slower trajectory of growth IHS Market now expects in the following years, with overall economic activity not catching back up to trend growth until 2024.

Even with the downgraded outlook, IHS Markit makes some fairly optimistic assumptions about the path of the virus. They envision a re-opening of the economy, with spring representing the low point for the economic contraction. They foresee, however, only a gradual return of consumer spending as progress against the virus is measured.

Figure 2

**Percent Change in Consumption, 2020, U.S.
Selected Goods and Services – Revised May 2020**



The revised portrayal of consumer spending for the year 2020, compared to the pre-Covid-19 projection of last December, continues to show steep declines for distance-challenged and discretionary consumption categories, including restaurants, clothing and recreation, as shown in Figure 2. The revised forecast is much more pessimistic about health care spending and transportation services spending as well. The latter category reflects worsening expectations for air transportation.

Montana’s May 2020 Projection

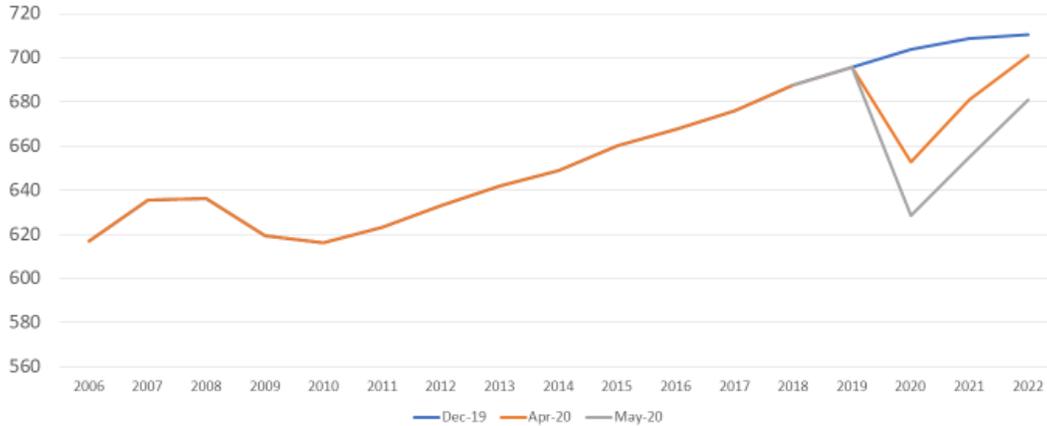
The BBER has revised its projection for the Montana economy, using the new IHS Market forecast as its primary driver. The forecast we produced this month (the “May 2020 Forecast”) is more pessimistic about both the decline in economic activity in 2020 as well as the pace of recovery in subsequent years. As a result, we now project that a catch up to trend growth in the state economy will take longer than two years to be achieved.

As before, the BBER prepared pre and post-Covid-19 economic projections for the state of Montana using its policy analysis model based on the IHS Markit projections of the U.S. economy. The pre-Covid-19 projection was made based on the pre-Covid-19 US forecast (December 2019). The impact of Covid-19 on the state is made by comparing this old forecast to a new forecast, based on the IHS Markit forecast released this month. For comparison we present the BBER forecast made in April 2020 as well. A comparison of these projections shown in Figure 3 reveals sizable effects of Covid-19 in our state.

Using the BEA definition of employment (which includes payroll employment, self-employed, proprietors and non-employee contractors and consultants), the Montana economy is now projected to experience a shortfall of more than 75,000 jobs in 2020 over the entire year, compared to the pre-Covid-19 projection made in December. This is a loss of 25,000 jobs more than was projected last month. The worsening of the employment forecast reflects a reduced projection for health care and transportation employment, and a slower recovery at the end of this year.

Figure 3

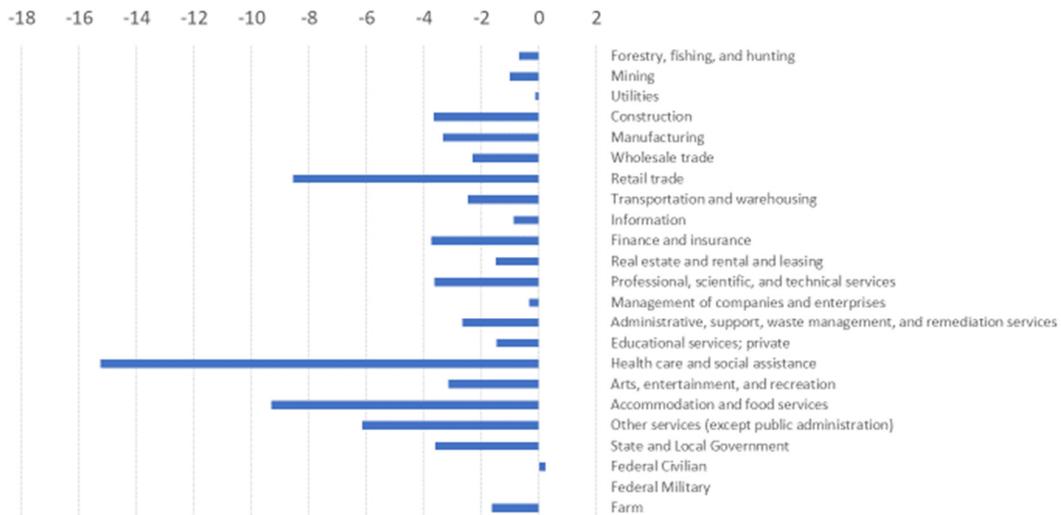
Dec-2019 vs. Apr-2020 and May-2020 Forecast Comparisons Total Employment, Montana, Thousands



The revised projection continues to show above-trend, make-up growth in Montana employment in each of the next two years. But the decline suffered in this year (IHS describes national job losses as “epic”) are sufficiently large that after two years of faster growth the state remains substantially below its pre-Covid-19 trend.

Figure 4

Dec-2019 vs. May-2020 Forecast Comparison 2020 Employment by Industry, Montana

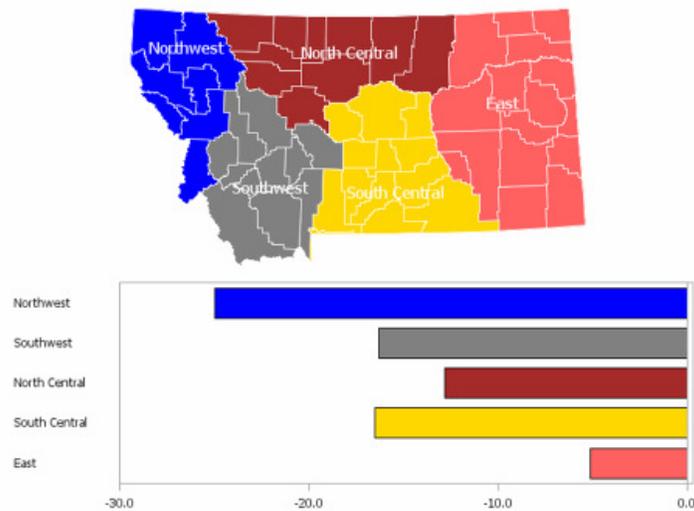


The detail on job losses by industry shown in Figure 4 above give some insight on the causes for the downward revision in employment. Health care is now projected to be the biggest loser for jobs in 2020, with a decline of more than 15,000 jobs compared to pre-Covid-19 projections. This reflects the expectation that the cratering in discretionary health care spending that was evidenced in the first quarter of this year will persist into the summer and fall.

The revised forecast continues to show significant job losses in retail trade, accommodations and food and other services employment, as was the case for the forecast we made in April. There are significant second round losses appearing virtually in every industry, with the exception of Federal government employment.

Figure 5

Dec-2019 vs. May-2020 Forecast Comparison 2020 Employment Difference by Region, Thousands

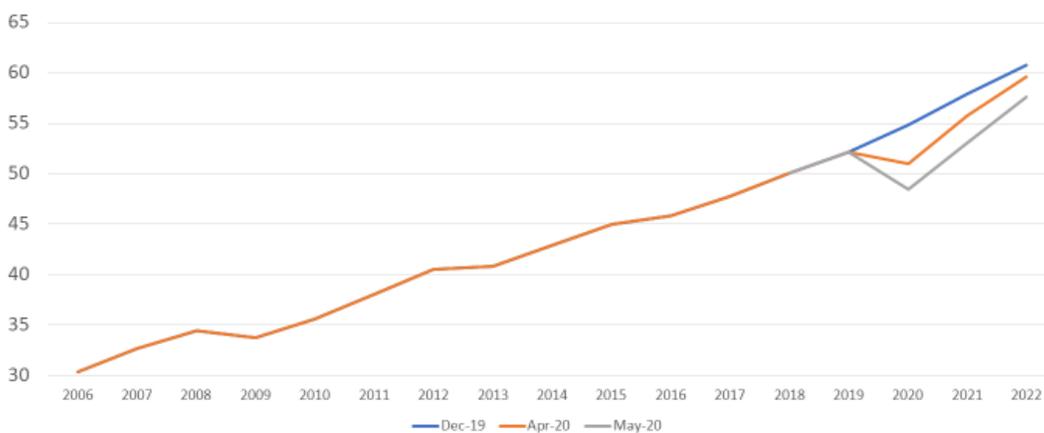


The regional breakdown of job declines in 2020 due to the downturn continues to show significant losses in every region of the state. The most populous Northwest region now registers a decline of 25,000 jobs relative to the pre-Covid-19 projection, or about a third of state wide employment declines. Losses in the South Central region including Billings reflect the pandemic impacts as well as the upheaval in crude oil markets.

Finally, we note that the projection of personal income – income received by Montana households from both employment and property – has been reduced further in the BBER May 2020 forecast. The shortfall of personal income in 2020, relative to the pre-Covid forecast, is now projected to be \$6.4 billion, or 11.7 percent lower. The growth of personal income in the succeeding years is also slower than the forecast made last month, resulting in a continued underperformance of the state economy by this measure in year 2022.

Figure 6

Dec-2019 vs. Apr-2020 and May-2020 Forecast Comparisons Personal Income, Montana, \$ Billions



Conclusion

There remains little doubt that the Covid-19 pandemic has produced a recession that is more severe than anything Montana has experienced in the postwar period. The U.S. economy has already experienced a sharp contraction in the first quarter of 2020, and when the comprehensive data for Montana economy become available doubtless they will indicate the same.

We stated in our preliminary analysis released last month that the forecast of the trajectory of the recovery was made with less confidence than the assessment of this downturn. The revision that we have made to the forecast for Montana's recovery bears this out. In the space of a month, we have increased the severity of the fall in the state economy by nearly a third, and downgraded the speed expected in recovery. Taken together, this prediction has pushed back the year the state can expect to climb out of its economic hole and catch up to pre-Covid-19 projected growth.

All of these projections would benefit from more complete data, which are slowly becoming available. But the fundamental story being told in all of these forecasts is undeniable – the state is in the midst of a severe recession that is outside the bounds of anything we have experienced since World War II. Given the speed at which events continue to unfold, the journey back to growth and full employment may be faster or slower than we currently anticipate. But the effect of the pandemic will be felt in the state economy for years.