

Montana Economic Outlook

Recovery Still Stuck in the Starting Gate

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In the information age, it is impossible to avoid learning of every surprise and disappointment in the national economy. Yet if we could somehow forget about the episodes of turbulence in stock markets, the downgrades in both national forecasts and government debt, and the fall in consumer and business confidence expressed in national surveys, we might feel much better about the economy around us. In fact, there are positive signals in the Montana economy.

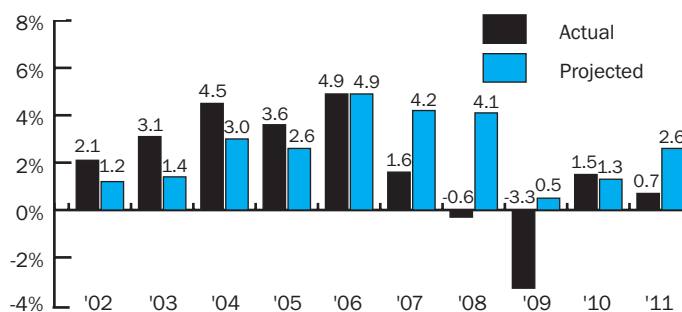
Perhaps the most heartening has been the improvement in state tax revenues. After experiencing the deepest two-year decline in revenue in postwar history, Montana general fund revenues enjoyed growth of just over 10 percent in fiscal year 2011. These were led by increased collections for both the personal and corporate income taxes. There also was an encouraging uptick in payroll employment.

While the 2011 data show some gains, statewide growth in real nonfarm earnings has fallen considerably short of the 2.6 percent increase we foresaw happening a year ago (Figure 1). As judged by this comprehensive measure, the Montana economic recovery thus far remains stuck in the starting gate – actually slowing down from the 1.5 percent growth rate of 2010 to register a disappointing 0.7 percent growth in inflation-corrected nonfarm earnings.

There are at least three factors that led to this less than expected rate of overall growth:

Inflation. After being largely dormant since 2008, spikes in food and energy prices propelled prices ahead at a much

Figure 1
Actual and Projected Change in Nonfarm Earnings, Montana, 2002-2011



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

Montana Profile

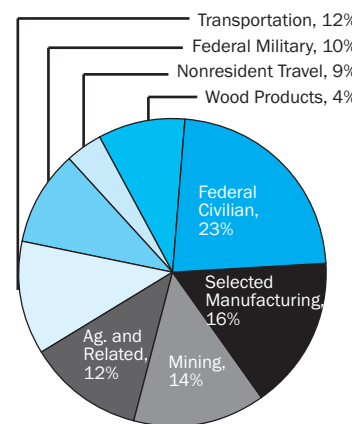
Total Population, 2010	989,415
Percent Change in Population, 2000-2010	9.7%
Median Age, 2010	39.8
Percent 65 or Older, 2010	14.8%
Percent of Population with Bachelor's Degree or Higher, 2010	28.2%
Median Household Income, 2010	\$43,335
Percent of Population without Health Insurance Coverage, 2010	17%
Unemployment Rate, October 2011	6.9%

Sources: American Community Survey, U.S. Census Bureau; Research and Analysis Bureau, Montana Department of Labor and Industry.

faster than anticipated rate in 2011. If price growth had been as originally forecasted, actual growth in 2011 would have been almost a percentage point higher.

Weak Individual Sector Performances. Several sectors of the state economy performed much more weakly than we anticipated in 2011. There were larger than anticipated declines in earnings of federal government workers due to the wind down of the Census and

Figure 2
Earnings in Basic Industries, Montana, 2009-2011 (Percent of Total)

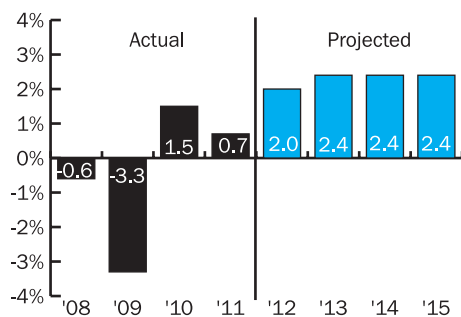


Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

the less active fire season. Health care earnings growth also has been much more sluggish than expected, as health providers deal with higher regulatory compliance costs and lower demand for elective procedures.

U.S. Economic Growth. Growth in the national economy was revised down

Figure 3
Actual and Projected Change in
Nonfarm Earnings, Montana,
2008-2015



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

sharply for the first half of the year, with overall economic growth just fractionally above zero. Although job growth has continued, discretionary consumer spending remains weak, and with it, the prospects for spending by nonresident visitors to Montana remain cloudy as well.

The exceptions to these developments have been agriculture and, especially, natural resources and energy. Because of oil-related fabrication, repair, engineering, and other development activity, rural eastern Montana's growth has been much stronger than elsewhere in the state. And reasonably strong prices for wheat and calves have helped farmers and ranchers realize another good season for their gross receipts.

In preparing this outlook, we have attempted to strike a balance between the recent performance of the state economy, which outside of housing has been reasonably good, and the climate for future growth, which has become increasingly cloudy. While as of this writing the U.S. economic expansion looks a bit more secure, the prospects for Asia and especially Europe have worsened considerably. A recession in Europe appears more and more certain, with the only question being how severe

Table 1
Population, Montana and Regions, 1990-2010

	Thousands of Persons			Percent Change	
	1990	2000	2010	1990-2000	2000-2010
Montana	800	902	989	12.9%	9.7%
West	287	329	367	14.6%	11.6%
Missoula	79	96	109	21.8%	14.1%
Flathead	60	74	91	25.8%	22.2%
Silver Bow	34	35	34	2.0%	-1.2%
Ravalli	25	36	40	44.2%	11.5%
Rest of West	89	88	93	-1.1%	5.7%
North Central	229	259	266	13.1%	2.7%
Cascade	78	80	81	3.4%	1.2%
Lewis & Clark	48	56	63	17.3%	13.8%
Hill	18	17	16	-5.6%	-3.5%
Fergus	12	12	12	0.0%	0.0%
Rest of North Central	73	94	94	28.8%	0.0%
Southeast	284	314	356	10.6%	13.4%
Yellowstone	114	129	148	14.0%	14.4%
Gallatin	51	68	90	34.4%	32.0%
Richland	11	10	10	-9.8%	0.0%
Custer	12	12	12	0.0%	0.0%
Rest of Southeast	96	95	96	-1.0%	1.1%

Sources: U.S. Census Bureau.

and whether it will be accompanied by a banking crisis.

In this environment, especially with housing and construction still ailing, the prospects of a swift return to faster growth are small. Our baseline forecast calls for growth of between 2.0 percent and 2.5 percent in nonfarm earnings over the next four years, substantially less than the growth that prevailed before the recession. This outlook assumes that:

- The U.S. economy will avoid recession but continue to operate well below its potential for at least the next two years, as spending and savings adjustments in the wake of the 2009 financial crisis continue to be worked out;
- The housing price declines end in 2012, with a modest recovery in construction under way by 2013;
- Global prices for commodities, energy, and food will remain high by historical standards;

- Spending growth will remain severely restrained by revenue shortfalls due to the recession, especially at the state and local levels; and
- Energy and natural resource developments will tilt faster growth toward the eastern part of the state.

The main risk to the forecast is of a new global recession that causes prices of energy and natural resource commodities to fall sharply, as occurred in 2008-09. Such an event is possible, especially if political leaders in Europe allow problems there to snowball to produce an unmanageable situation. On the other side, if construction comes back more quickly than predicted, or business and consumer confidence bounces back sharply, our forecast of near-term growth could be too low. ¹²