

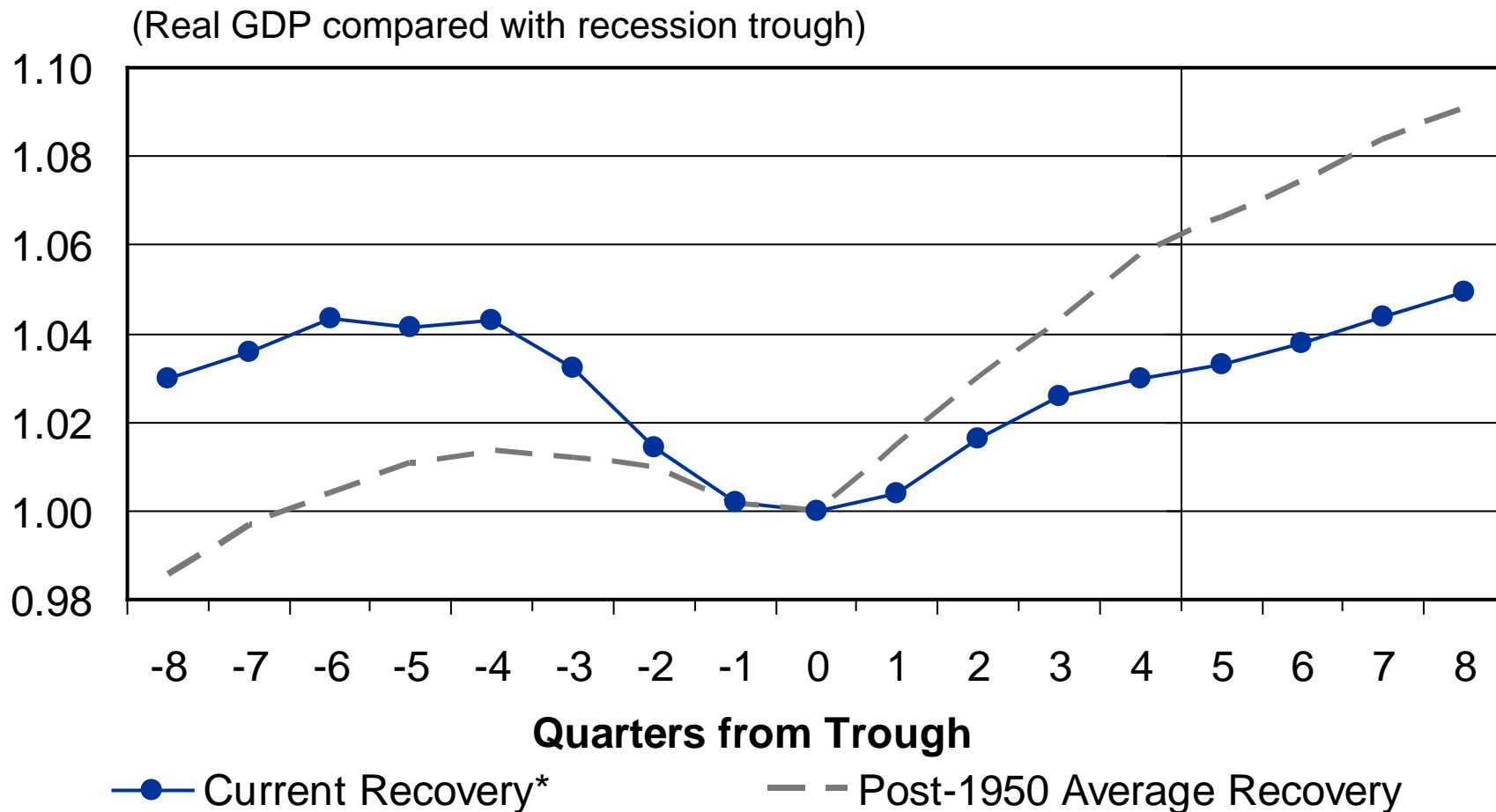
The Macroeconomic Landscape for Montana and the U.S. 2011-2013

James Diffley
Chief Regional Economist
IHS Global Insight



The Source for Critical Information and Insight™

A Subpar U.S. Recovery: The Damage from the Financial Crisis Lingers

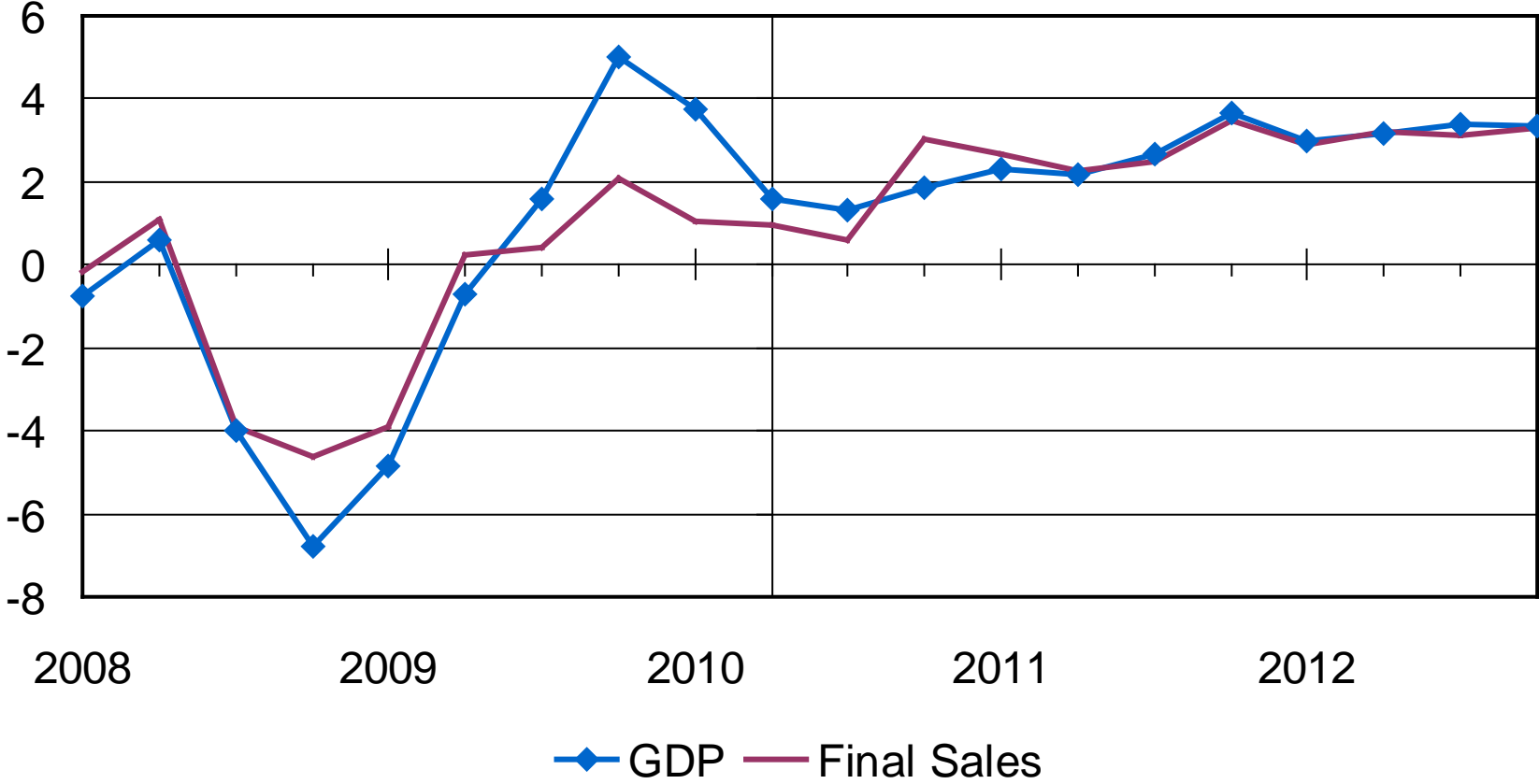


* Assumes 2009Q2 trough

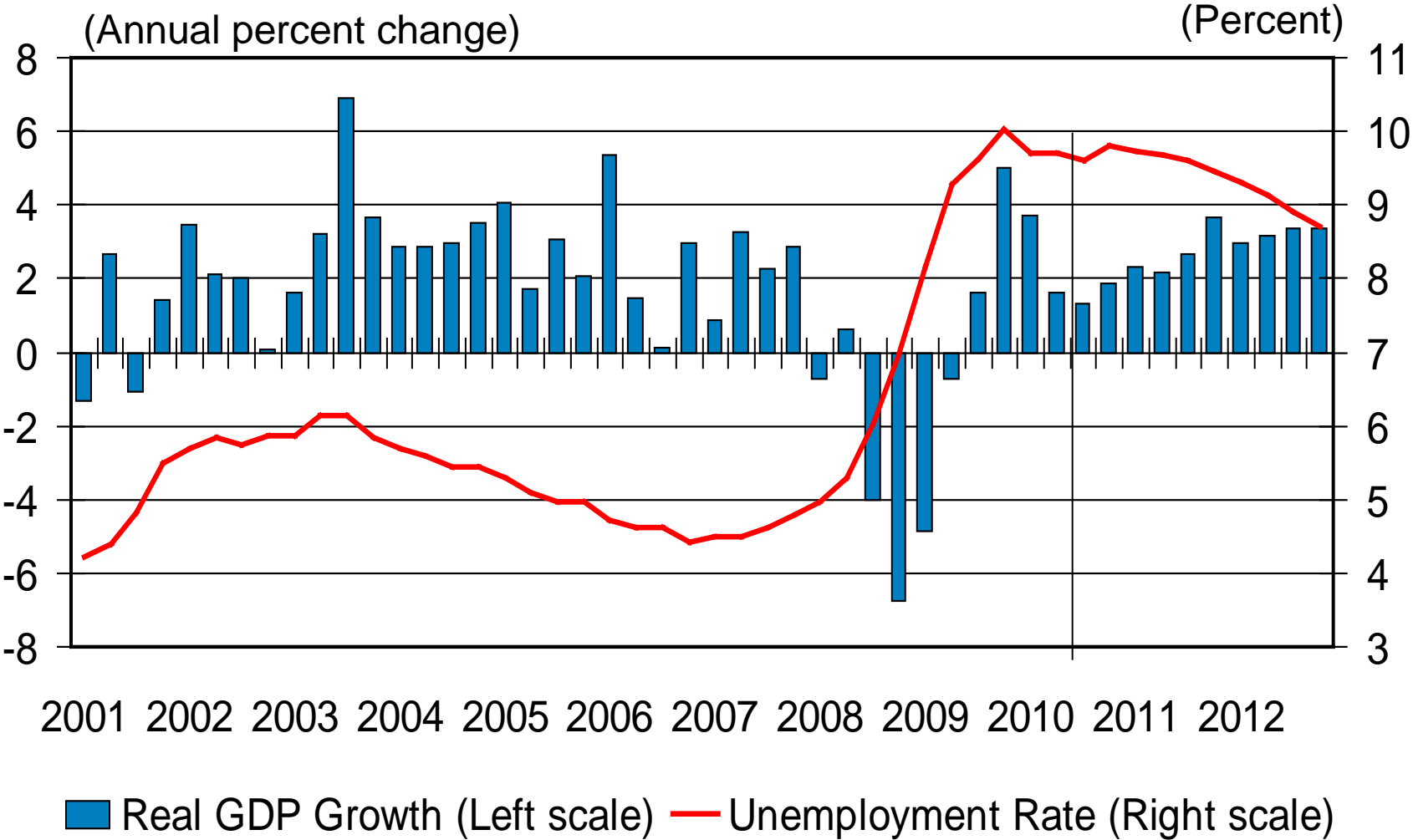


Inventory Cycle and Fiscal Stimulus Support for Growth Has Peaked

(Annualized real rate of growth, Q/Q, percent)

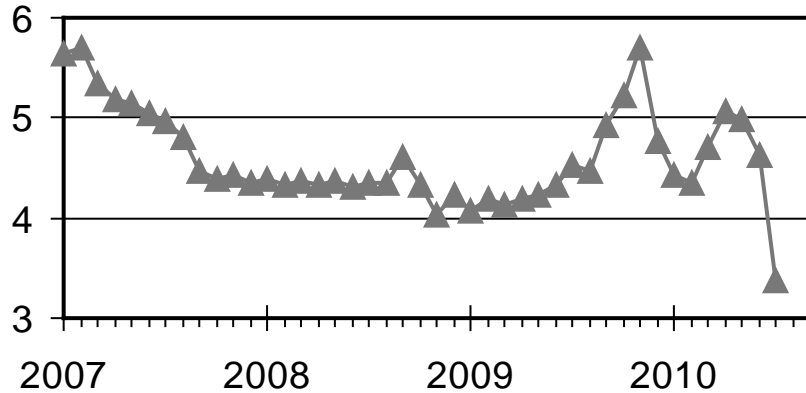


The U.S. Expansion Proceeds at a Slower Pace

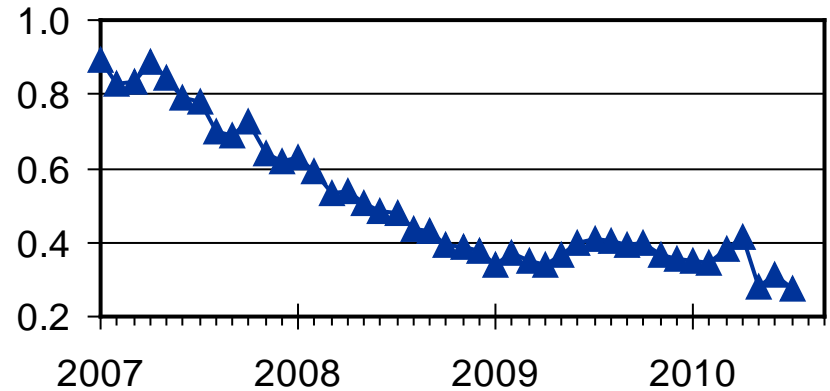


Key Single-Family Housing Indicators: No Underlying Improvement Yet

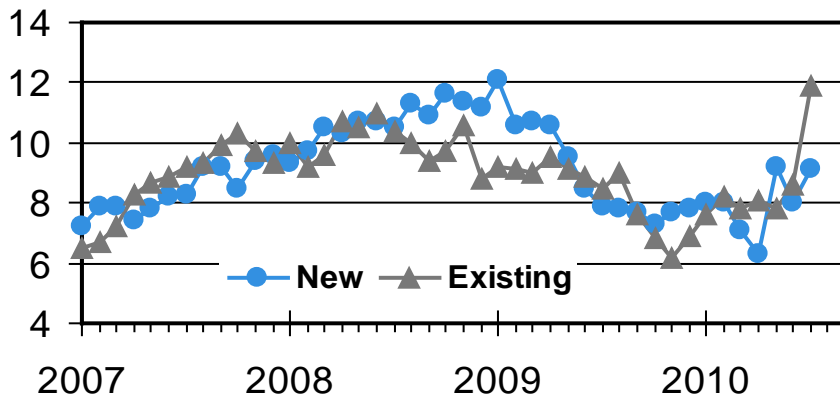
Existing Home Sales*



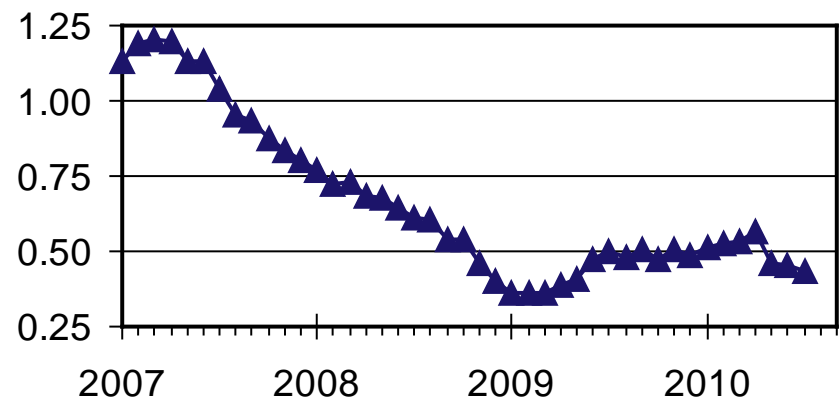
New Home Sales*



Months' Supply of Homes**

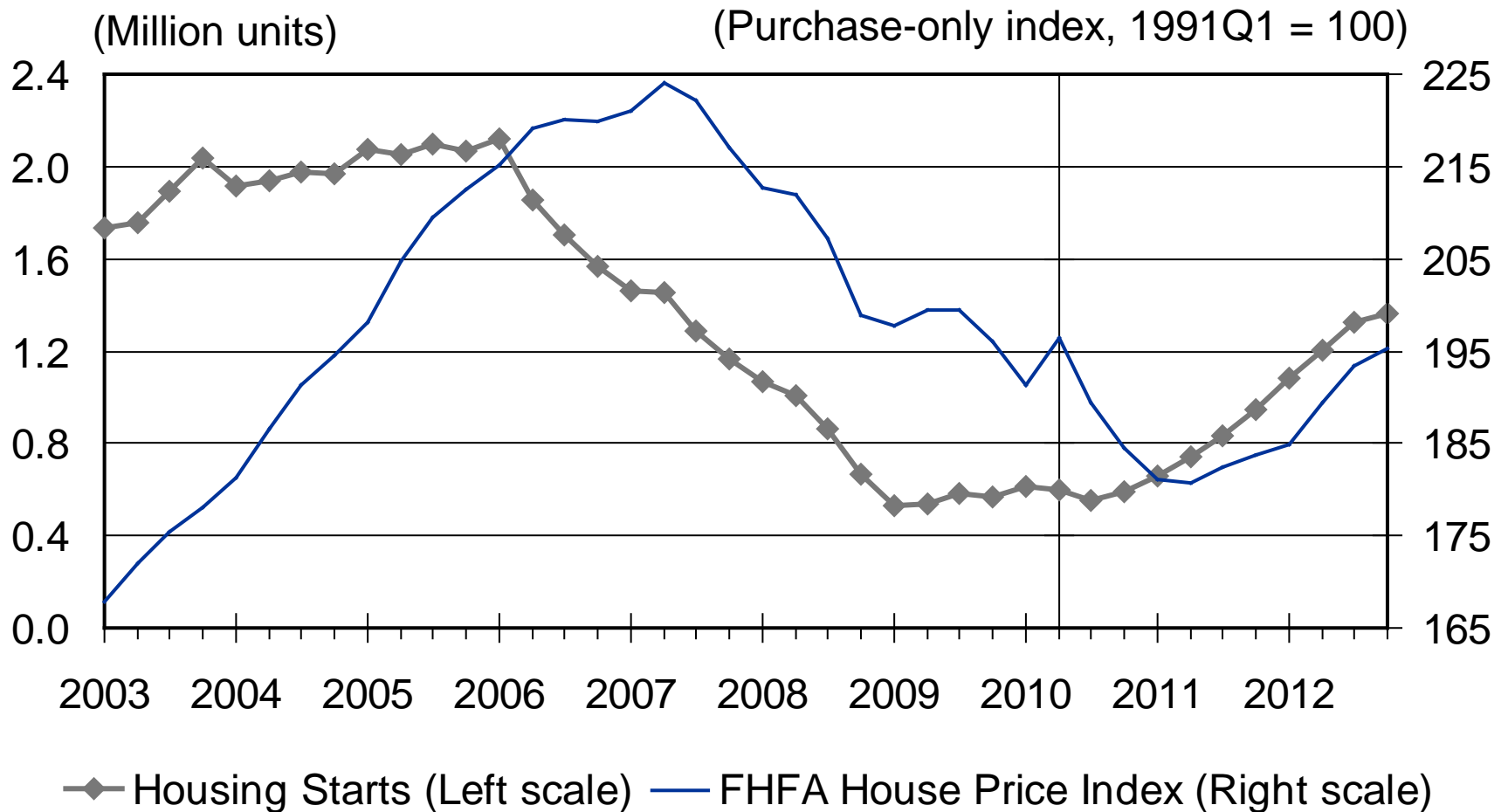


Housing Starts*



*Millions, SA; **Single-Family Homes for sale divided by monthly selling rate

Housing Starts Have Hit Bottom: Prices Not Quite There Yet

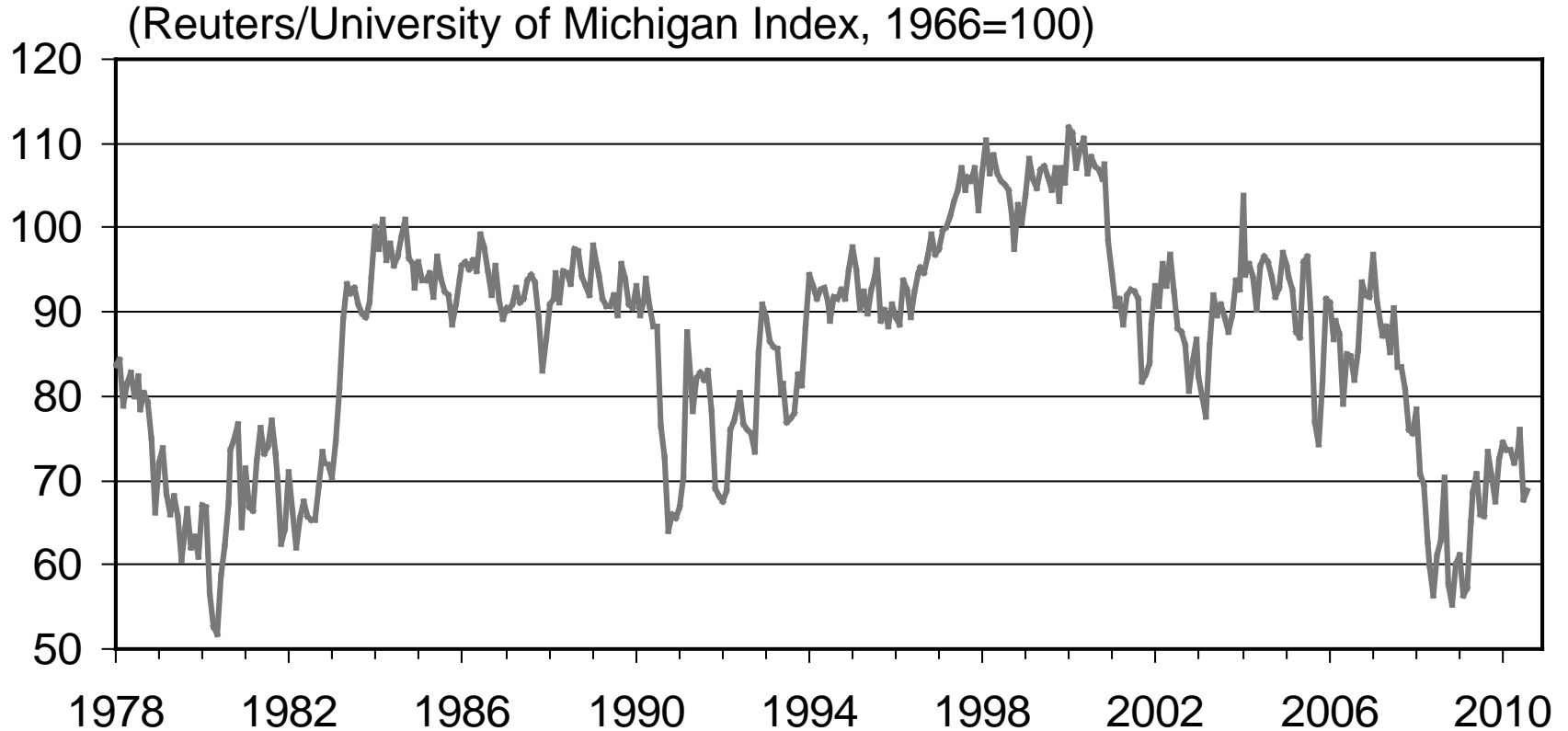


U.S. Construction Growth in Key Sectors

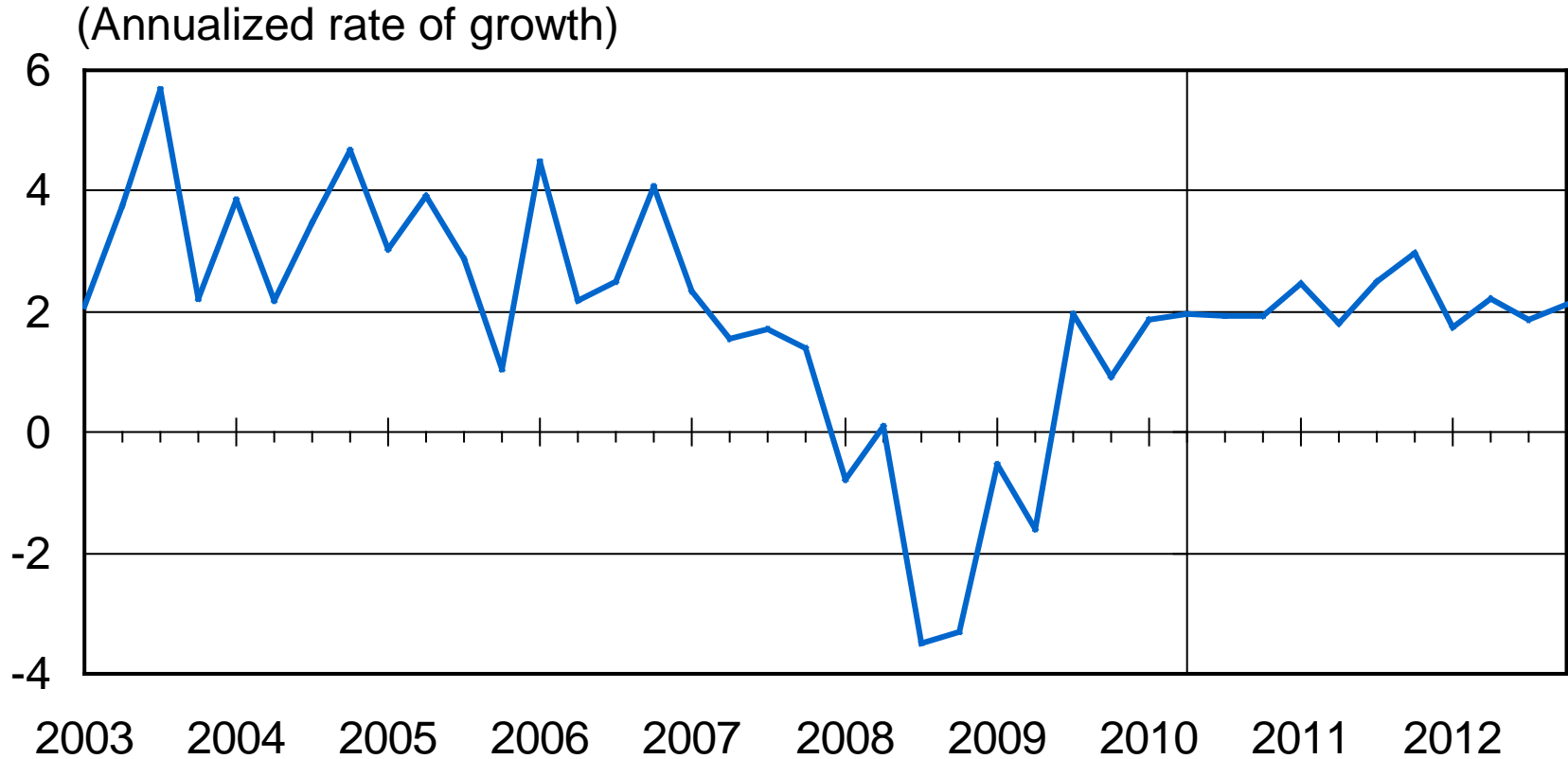
(Percent change, 2005 dollars)

	2009	2010	2011	2012
Total Construction	-21.6	-10.1	0.8	18.4
Residential	-23.2	-4.1	7.7	33.6
Commercial	-36.4	-34.7	-10.7	9.6
Manufacturing	7.6	-31.6	-22.2	-0.3
Mines & Wells	-35.5	16.5	0.1	0.0
Health Care	0.3	-3.1	6.1	6.4
Public Utilities	1.5	-3.9	-1.7	-1.3
Highways & Streets	-1.0	1.3	6.1	-0.3
Public Education	3.9	-7.5	-14.4	5.4

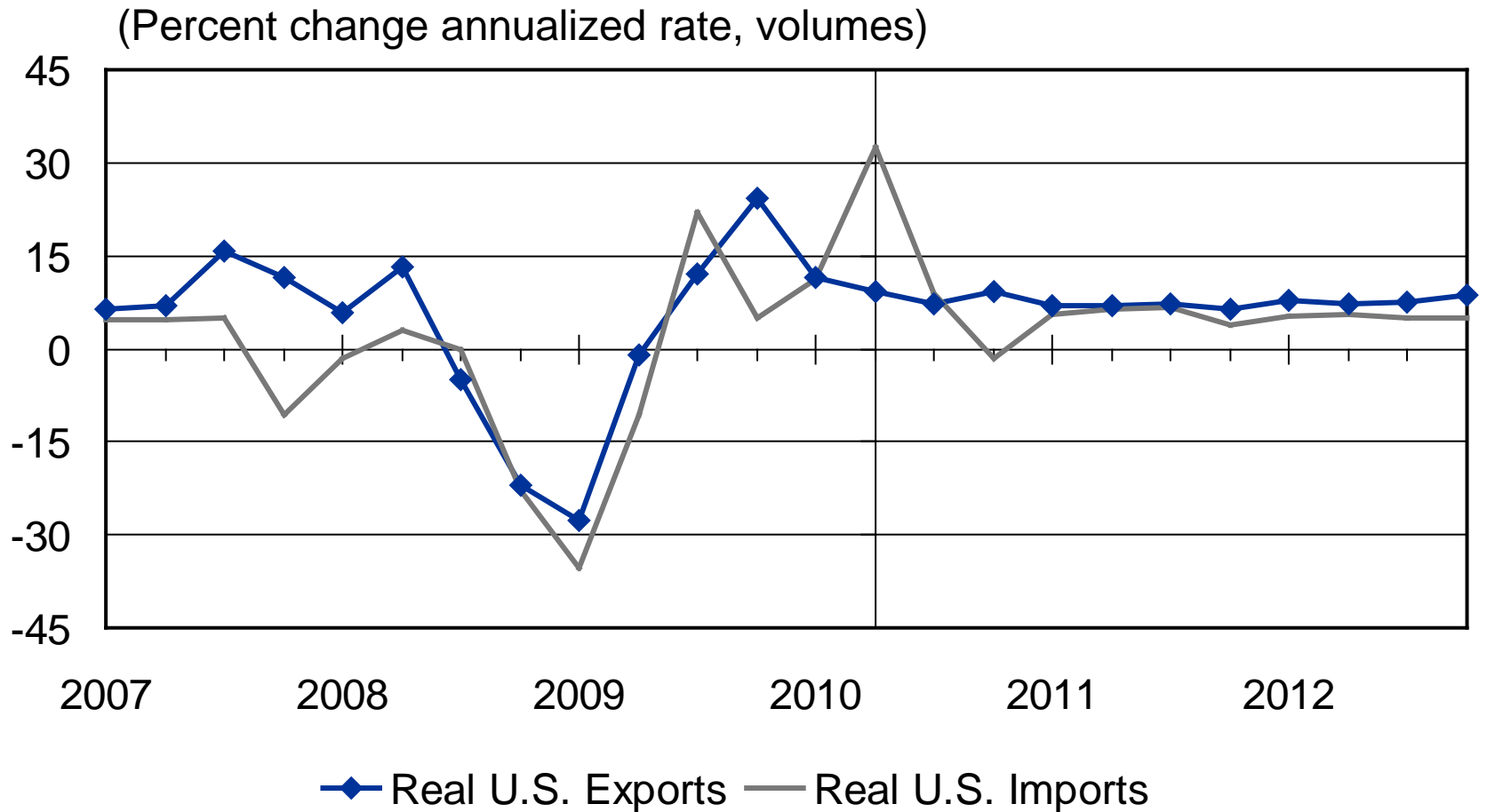
Consumer Sentiment Off the Floor But Still Weak



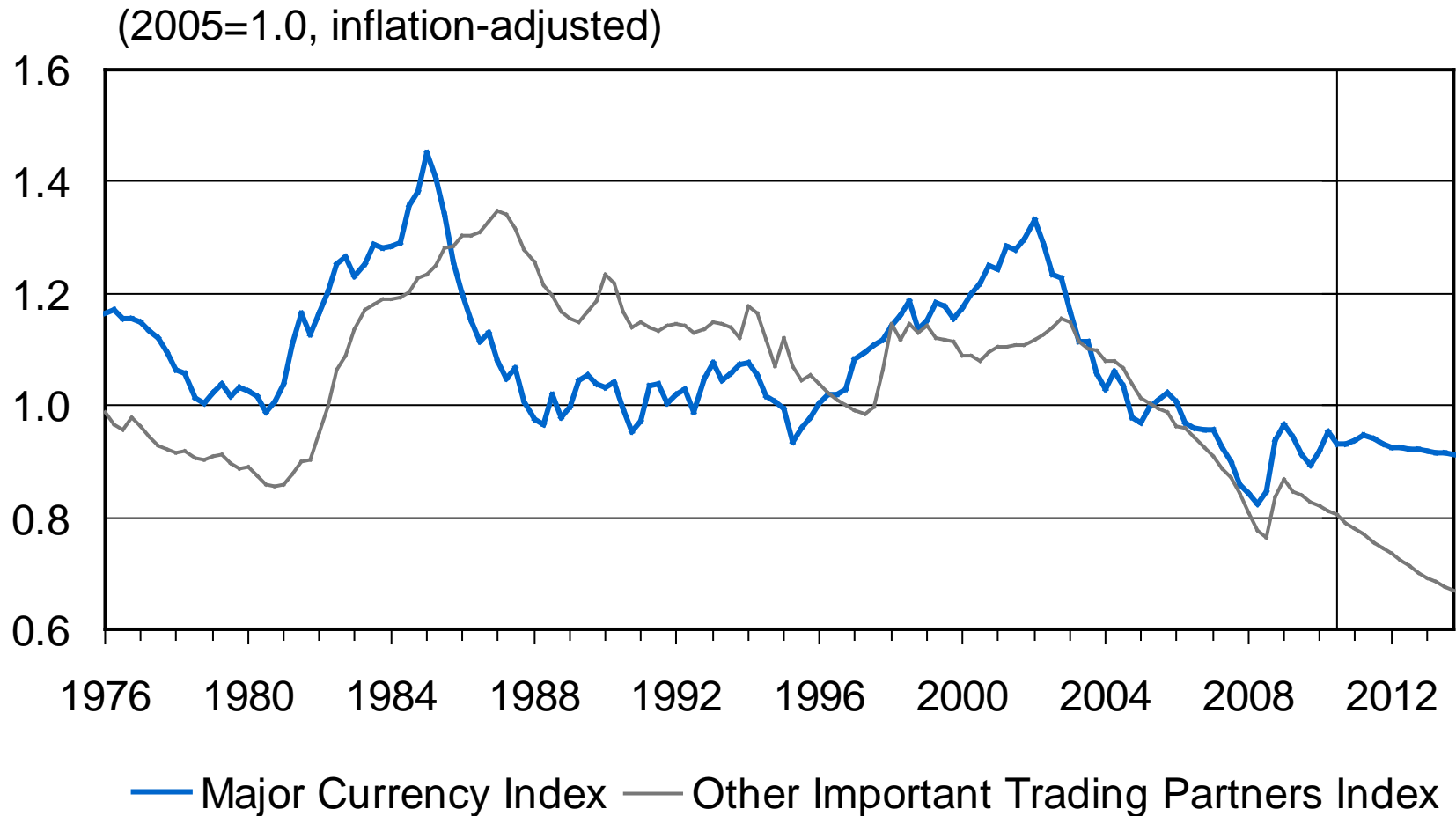
Consumer Spending Stabilizing, But Not a Strong Driver of Recovery



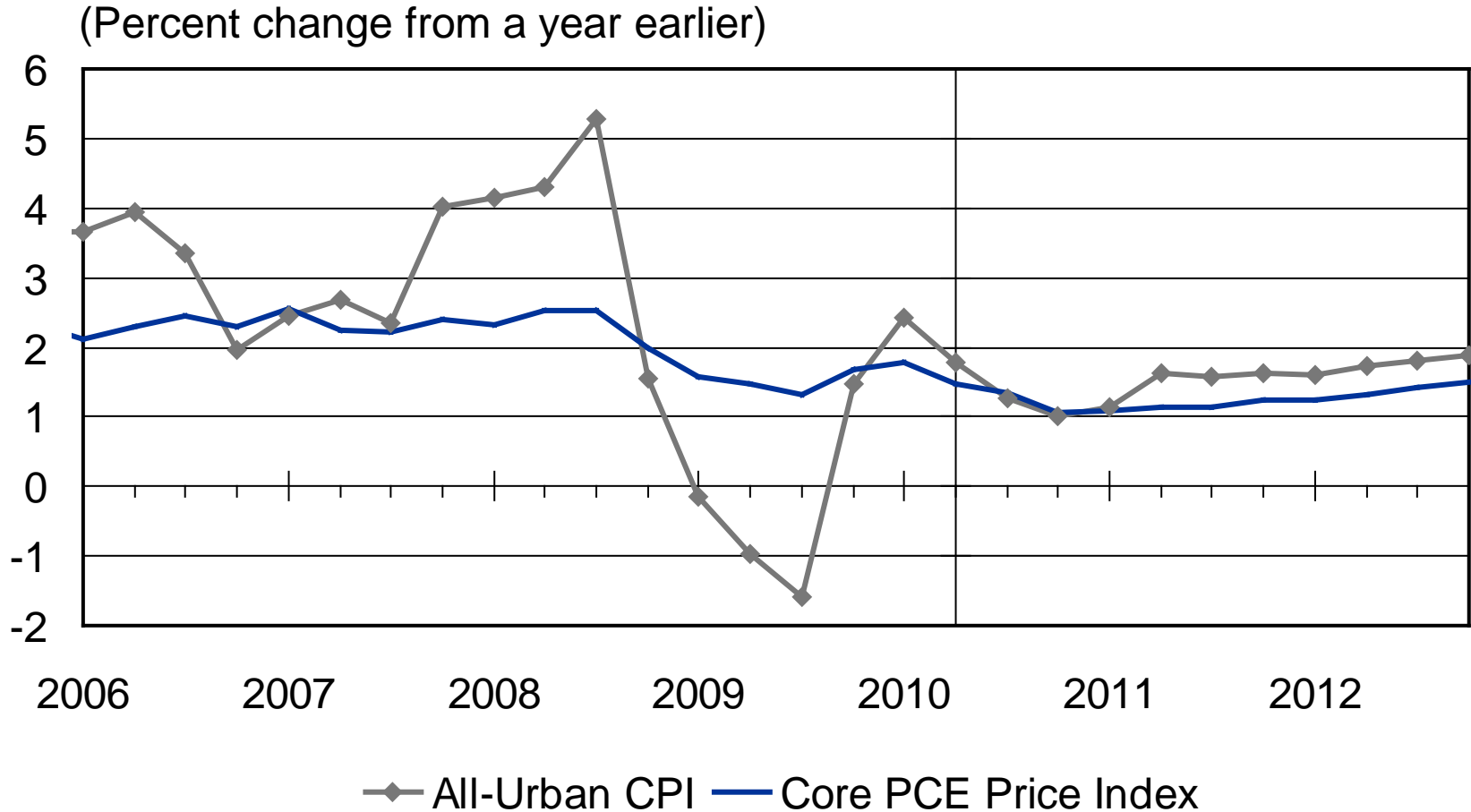
We Expect Exports to Outpace Imports



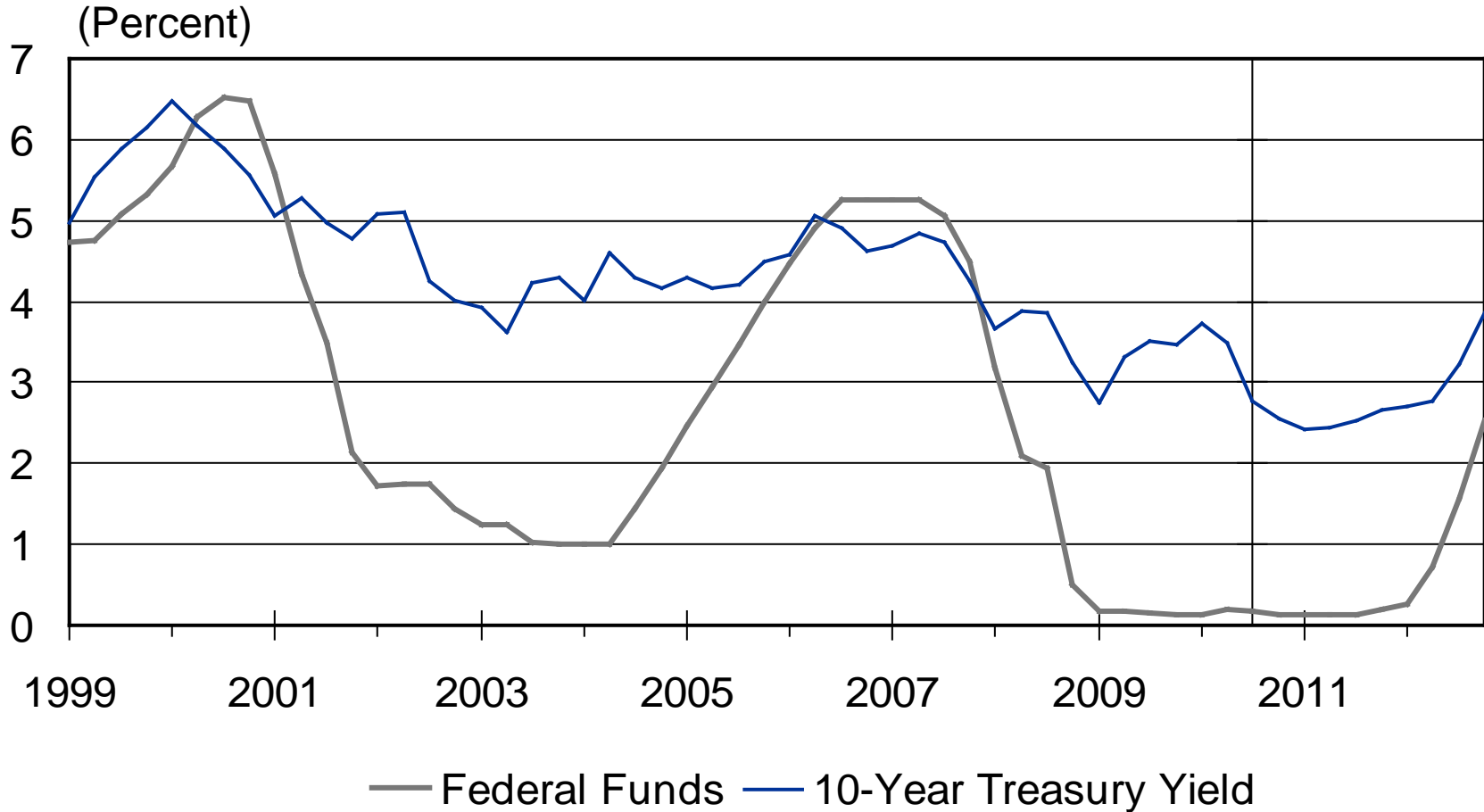
The U.S. Dollar: Secular Weakness Against EMG Currencies



Headline CPI Inflation Is Positive Again; But Core Inflation Is Still Easing



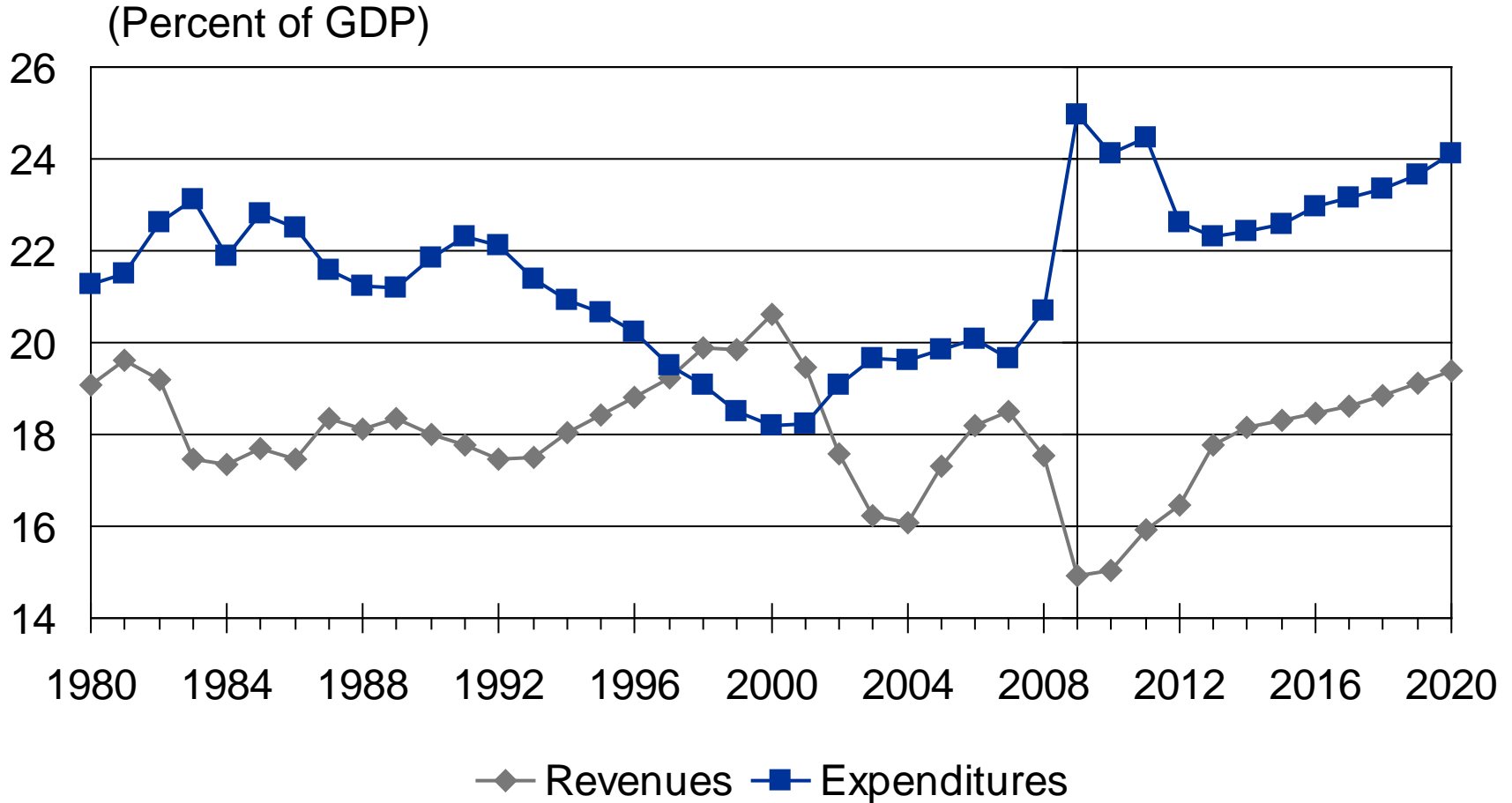
Federal Funds Rate to Stay Near Zero Until 2012: More Quantitative Easing Is Probable



Federal Fiscal Policy Assumptions

- Long-run tightening essential... but immediate tightening risky... and markets are not demanding it
- We assume:
 - Bush tax cuts extended for one more year (1.1% of GDP in CY 2011)
 - Making Work Pay tax credit extended one more year (0.3% of GDP in CY 2011)
- Upper-income tax cuts (0.3% of GDP) and Making Work Pay tax credit (0.3% of GDP) assumed to expire in 2012
- Further income-tax increases in 2013 and beyond

The Federal Budget Gap



U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

	2009	2010	2011	2012
Real GDP	-2.6	2.6	2.2	3.1
Final Sales	-2.1	1.2	2.3	3.0
Consumption	-1.2	1.5	2.2	2.2
Light Vehicle Sales (Millions)	10.4	11.4	12.8	14.8
Residential Investment	-22.9	-3.9	7.5	32.9
Housing Starts (Millions)	0.55	0.59	0.79	1.24
Business Fixed Investment	-17.1	4.9	6.6	8.5
Federal Government	5.7	3.8	-0.7	-3.7
State and Local Government	-0.9	-1.2	0.5	0.2
Exports	-9.5	11.9	7.6	7.3
Imports	-13.8	12.3	6.2	5.3

Other Key Indicators

(Percent unless otherwise noted)

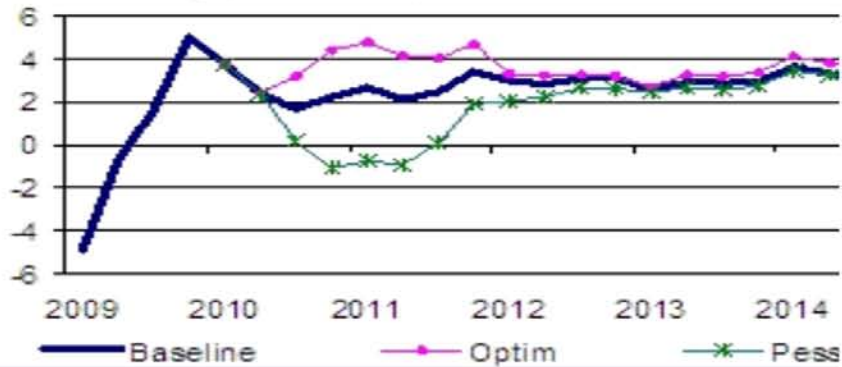
	2009	2010	2011	2012
Industrial Production (% growth)	-9.3	5.3	2.8	3.3
Employment (% growth)	-4.3	-0.5	0.9	2.2
Unemployment Rate	9.3	9.7	9.6	9.0
CPI Inflation	-0.3	1.6	1.5	1.8
Oil Prices (WTI, US\$/bbl)	62	77	83	89
Core PCE Price Inflation	1.5	1.4	1.2	1.4
Federal Funds Rate	0.16	0.16	0.14	1.27
10-year Government Bond Yield	3.26	3.13	2.51	3.14
Dollar (Major Currencies, 2005=1)	0.93	0.91	0.92	0.90

Implications

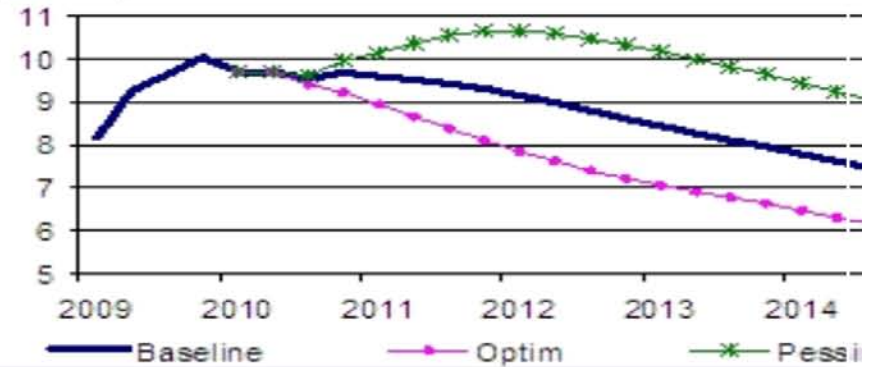
- Growth boost from the inventory cycle and stimulus is fading
- Employment and consumption improving, but slowly
- Exports, business equipment spending moving higher
- Nonresidential construction still declining; no sustainable residential construction recovery yet
- Inflation trend is down; Fed to stay loose
- “Double-dip” risk: 25%
- The question is not whether taxes will rise but *when* and *how*
- A deficit reduction *plan* is needed—but not yet *action*

Alternative Scenarios

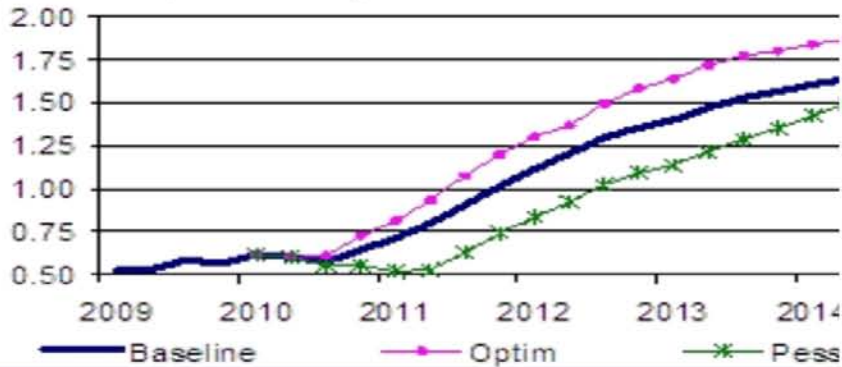
Real GDP
(Percent change, annual rate)



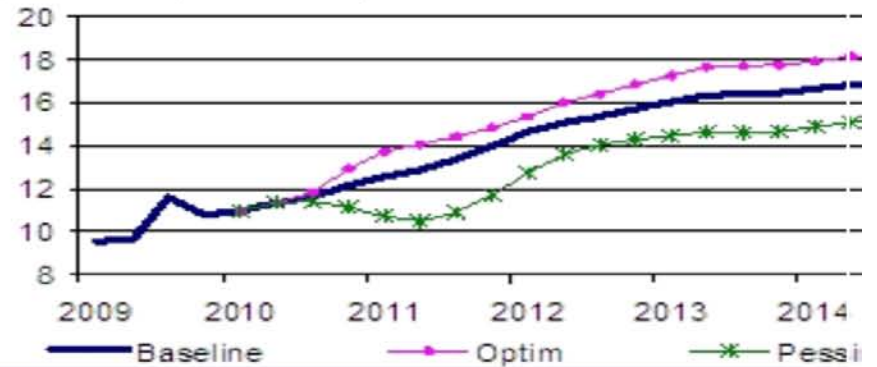
The Unemployment Rate
(Percent)



Housing Starts
(Million units, annual rate)



New Light-Vehicle Sales
(Million units, annual rate)



The Industry Bottom Line

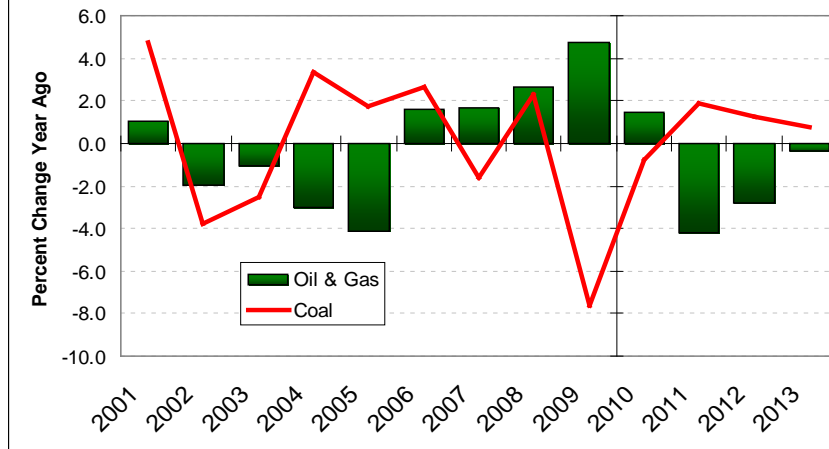
- **Manufacturing is still set to grow faster than GDP over the next three years.**
- **The recovery was led by material producers (chemicals, metals) and the high-tech sector six to nine months ago.**
- **Traditional capital goods industries is finally participating in the recovery.**
- **Housing, real estate, and related industries will not fully participate in the recovery until 2011.**
- **Even though many depressed industries will be recovering, it will still take years for them to feel recovered.**
- **Beyond 2013, much of the service sector will carry the burden of growth.**

Mining

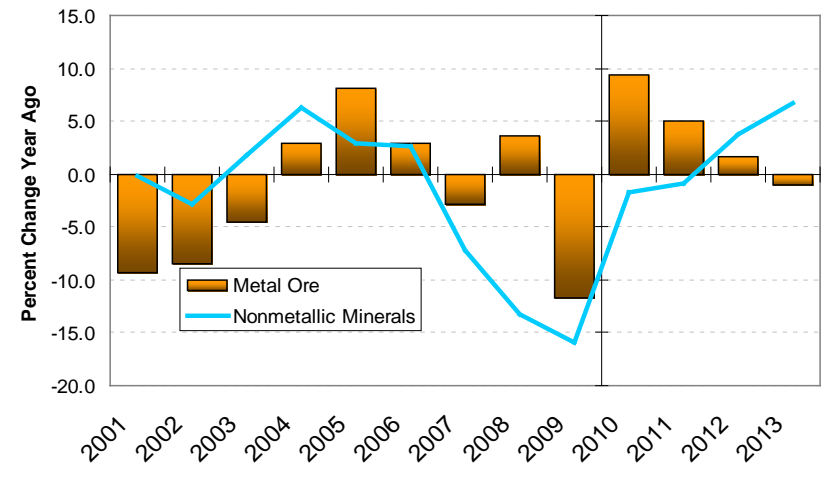
- Even with commodity prices softening slightly, firms have carefully restarted mining operations. Additional expansion will proceed with caution.
- Even with the BP oil spill, energy exploration firms will remain in high demand over the longer term. Growing energy prices will stimulate many projects.
- The large multinational mining firms are, for the most part, financially healthy, the end product of the consolidation wave and high prices of recent years. In coming years, another wave of industry consolidation to further maximize economies of scale and geographic scope would not be surprising.

Metal Ore Mining Set to Grow at Near Double-Digit Rates This Year

U.S. Energy Mining Production



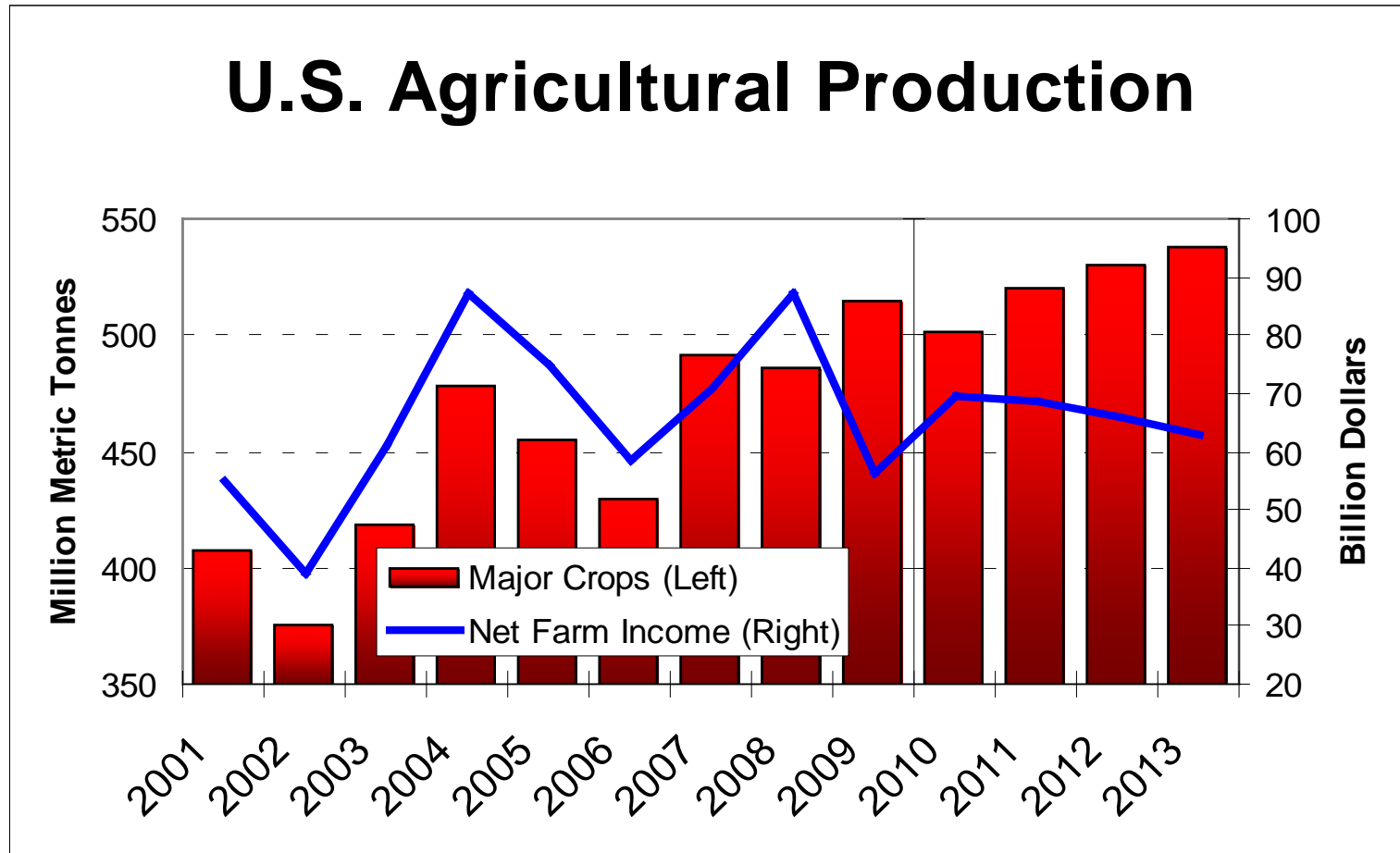
U.S. Nonenergy Mining Production



Agriculture

- The global recession took a toll on domestic and export demand for crops and livestock.
- Domestic demand should improve as the United States emerges from recession. A weak dollar and the global economic recovery will lift exports.
- The production of major crops could ease slightly in 2010, but then grow 2-3% per year on average from 2011 to 2013.
- Net farm income tumbled a whopping 35% to \$56.3 billion in 2009, from a near record \$87.1 billion in 2008.
- Looking ahead, rising demand and firming prices should allow farm income to stage a comeback to \$67.0 billion in 2010 and \$73 billion in 2011.

Even Though Crop Production is Expected to Decline in 2010, Net Farm Income is Likely to Increase Because of an Improved Livestock Sector



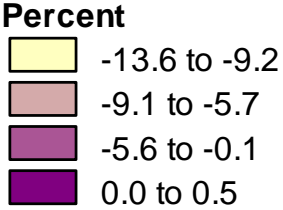
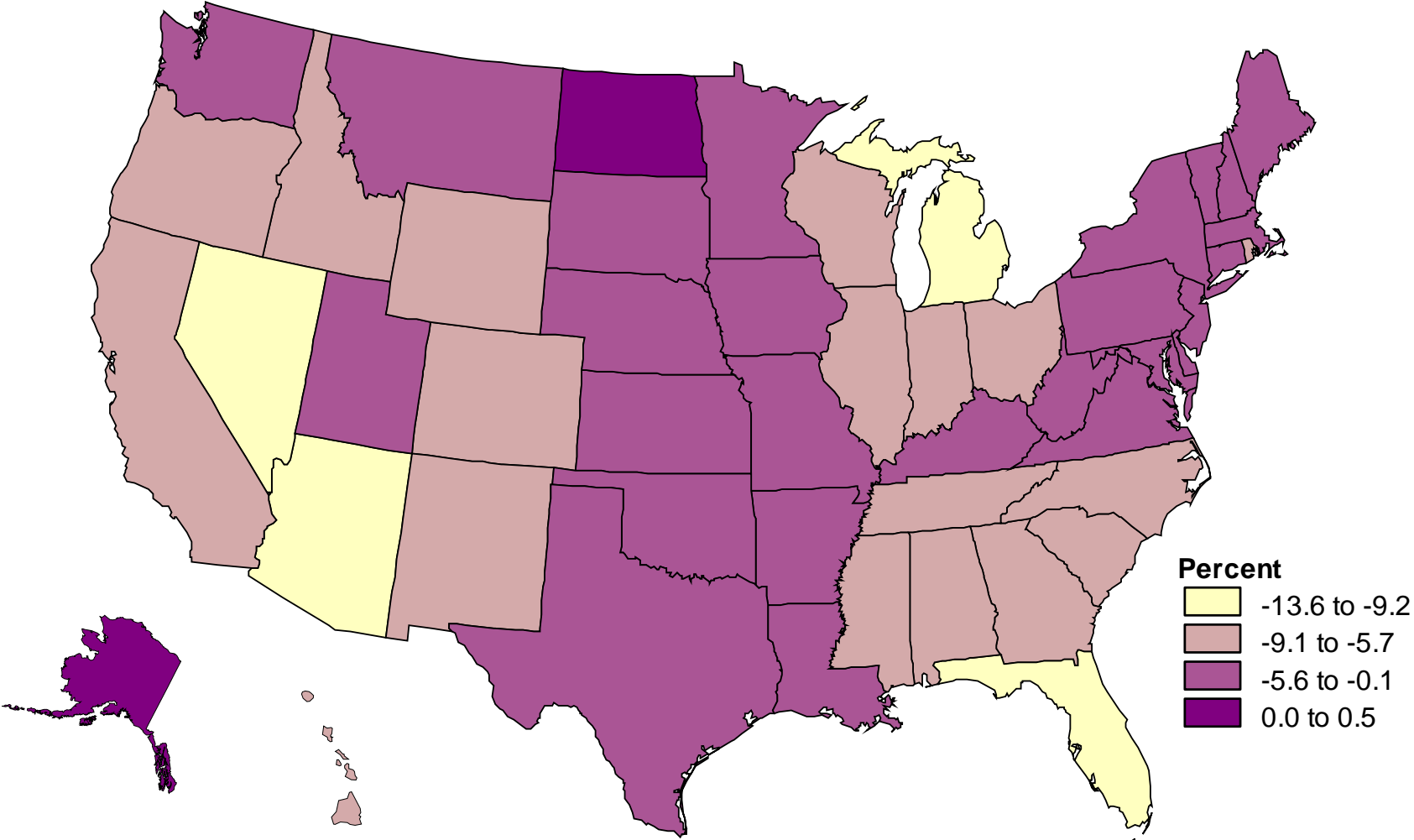
The Regional Economy



The Source for Critical Information and Insight™

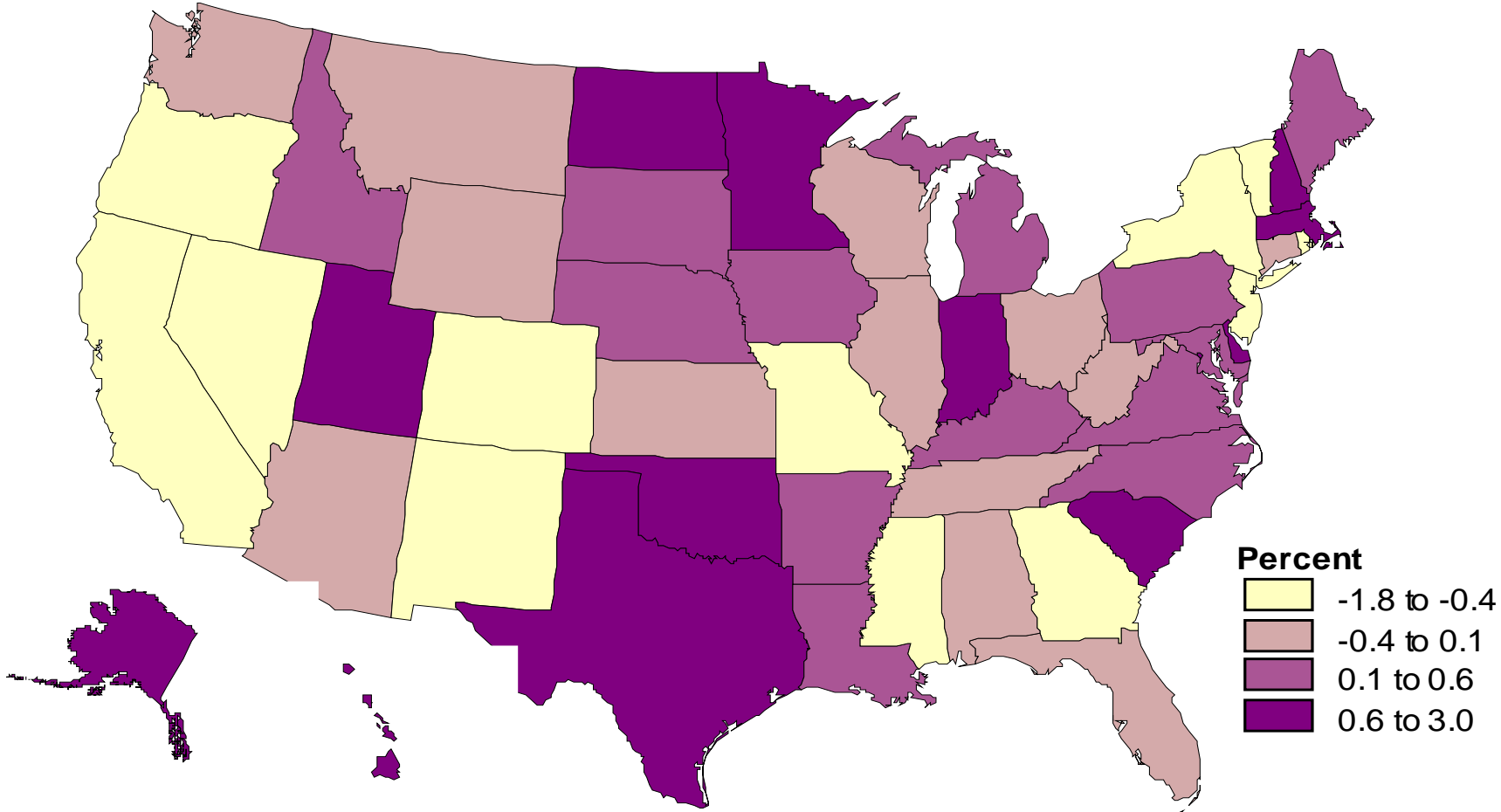
Where We've Been: Jobs

(Percent Job Loss – Peak to Jun 2010)



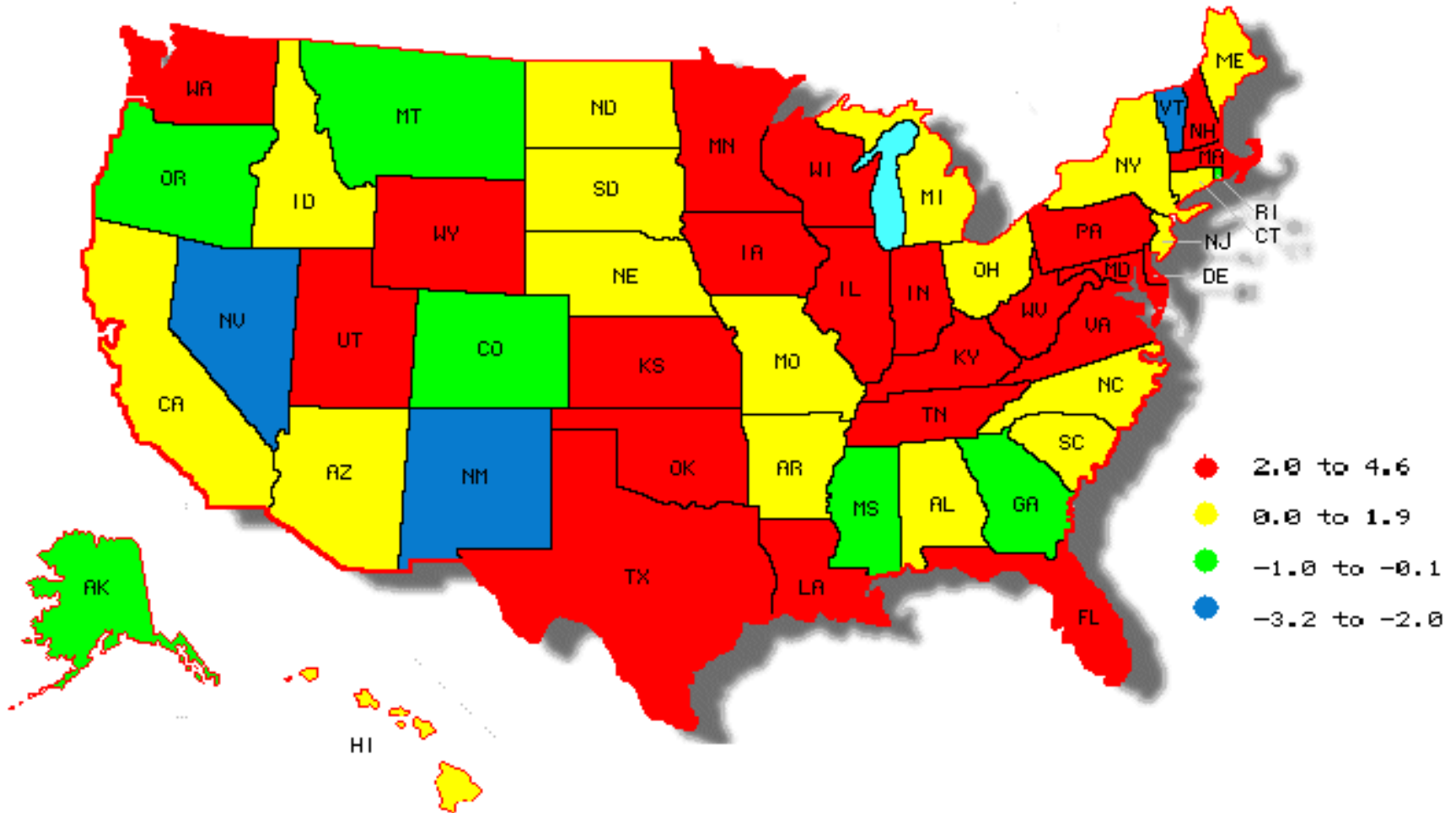
The Recovery Thus Far

(Percent Employment Change – July 2009 to July 2010)



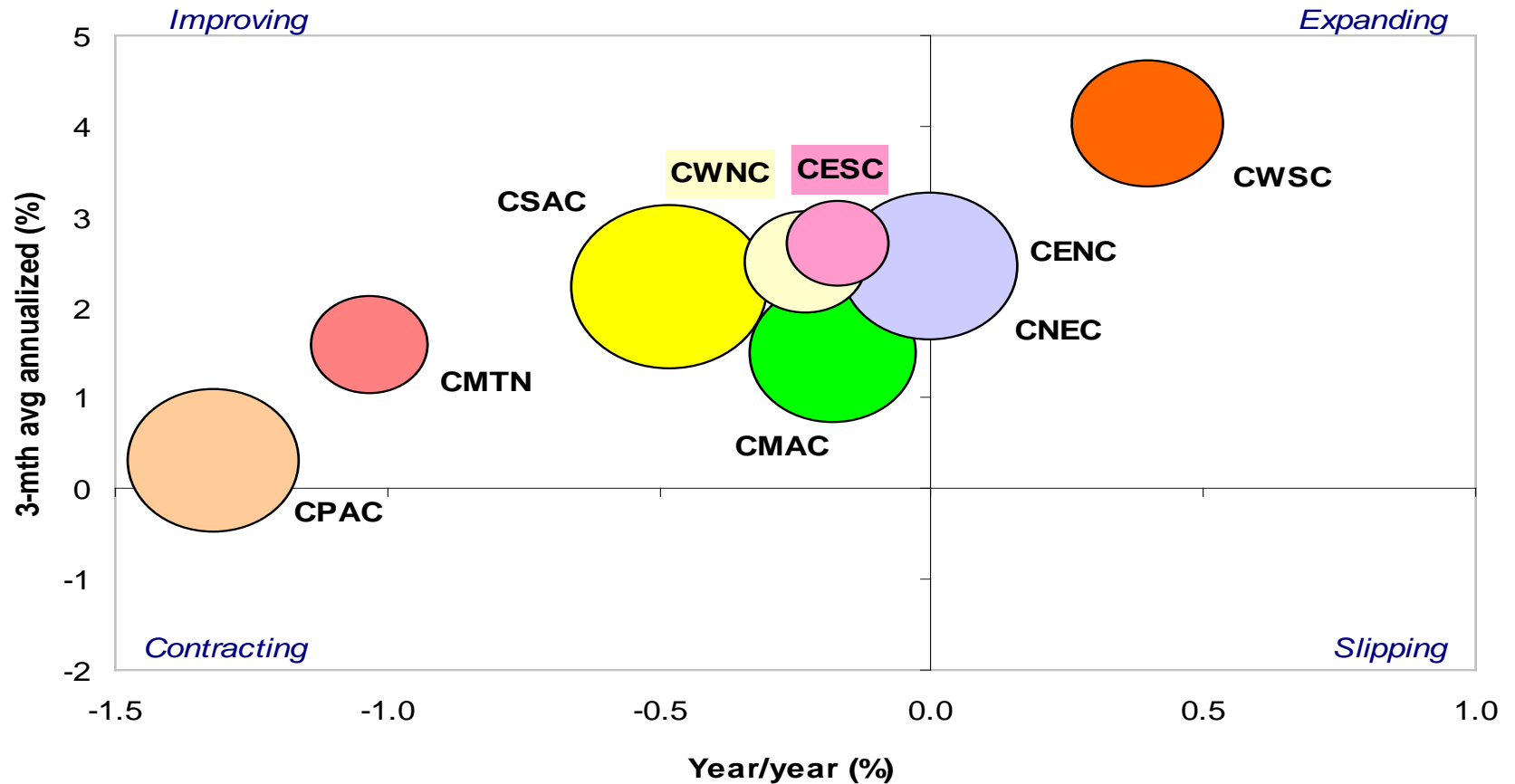
Private Employment Starting to Turn

(Average annualized job growth, First half of 2010)



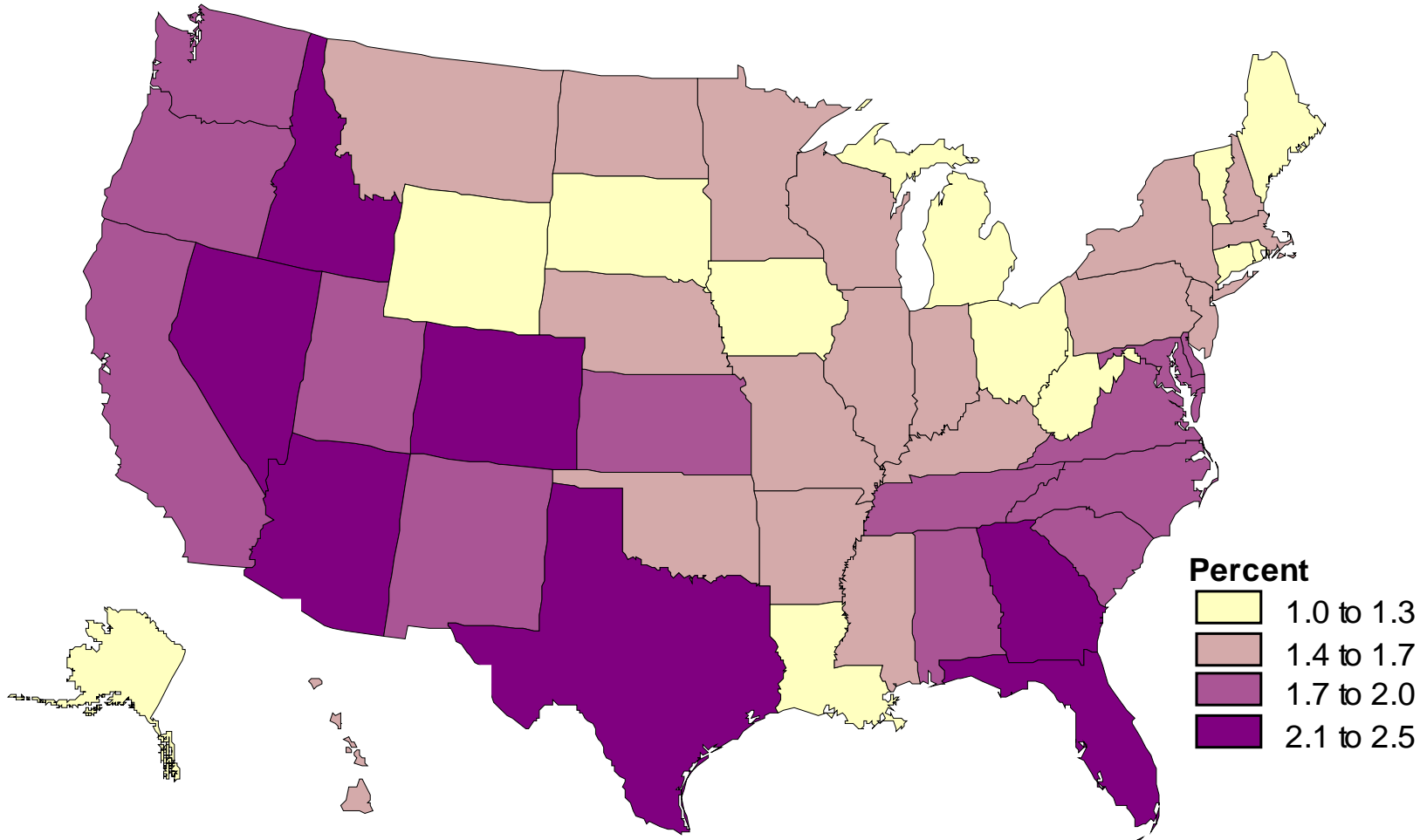
Mountain Region Now Lagging the Recovery

Employment Momentum



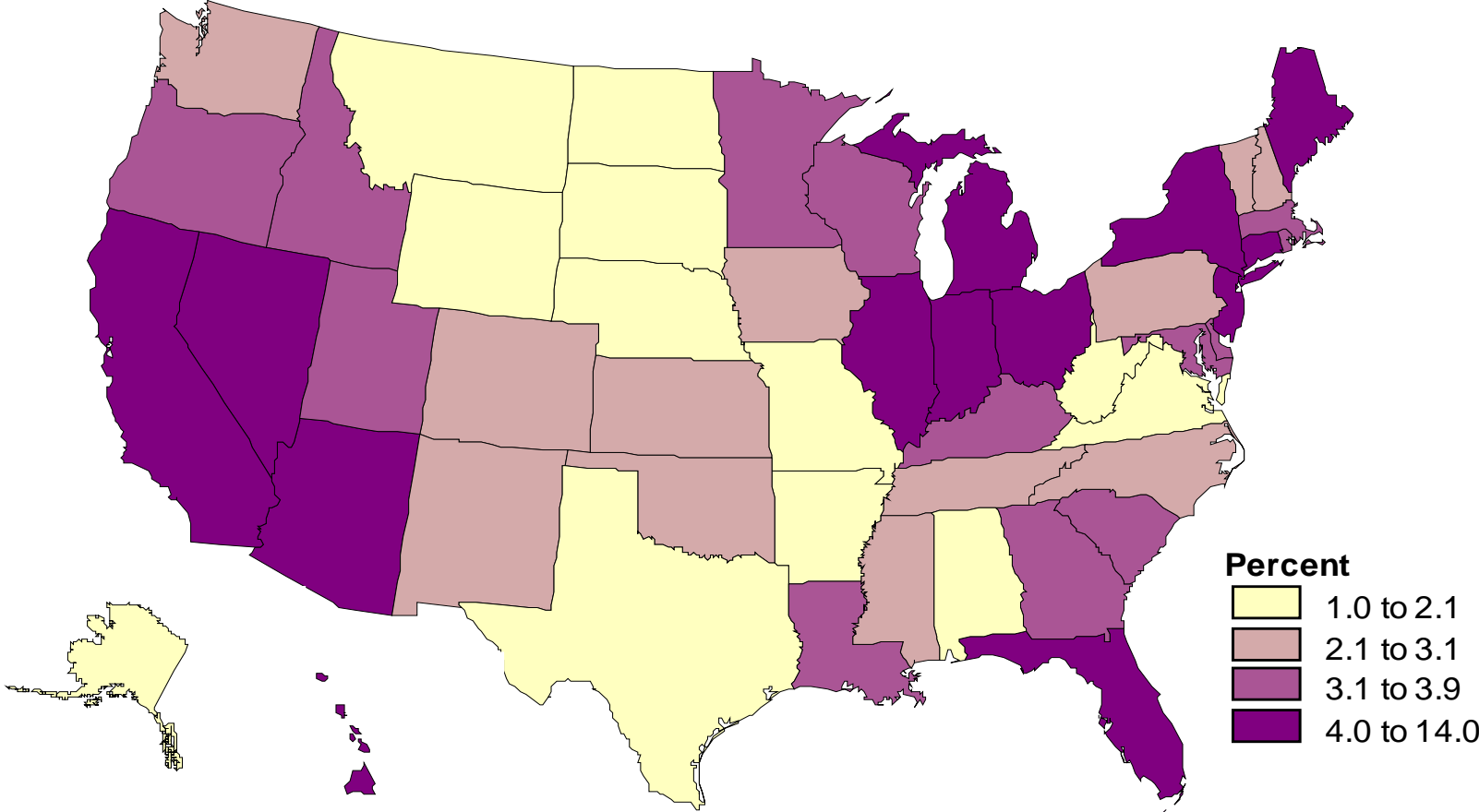
Jobs Outlook

(Employment Growth, 2010–2015, % annual rate)



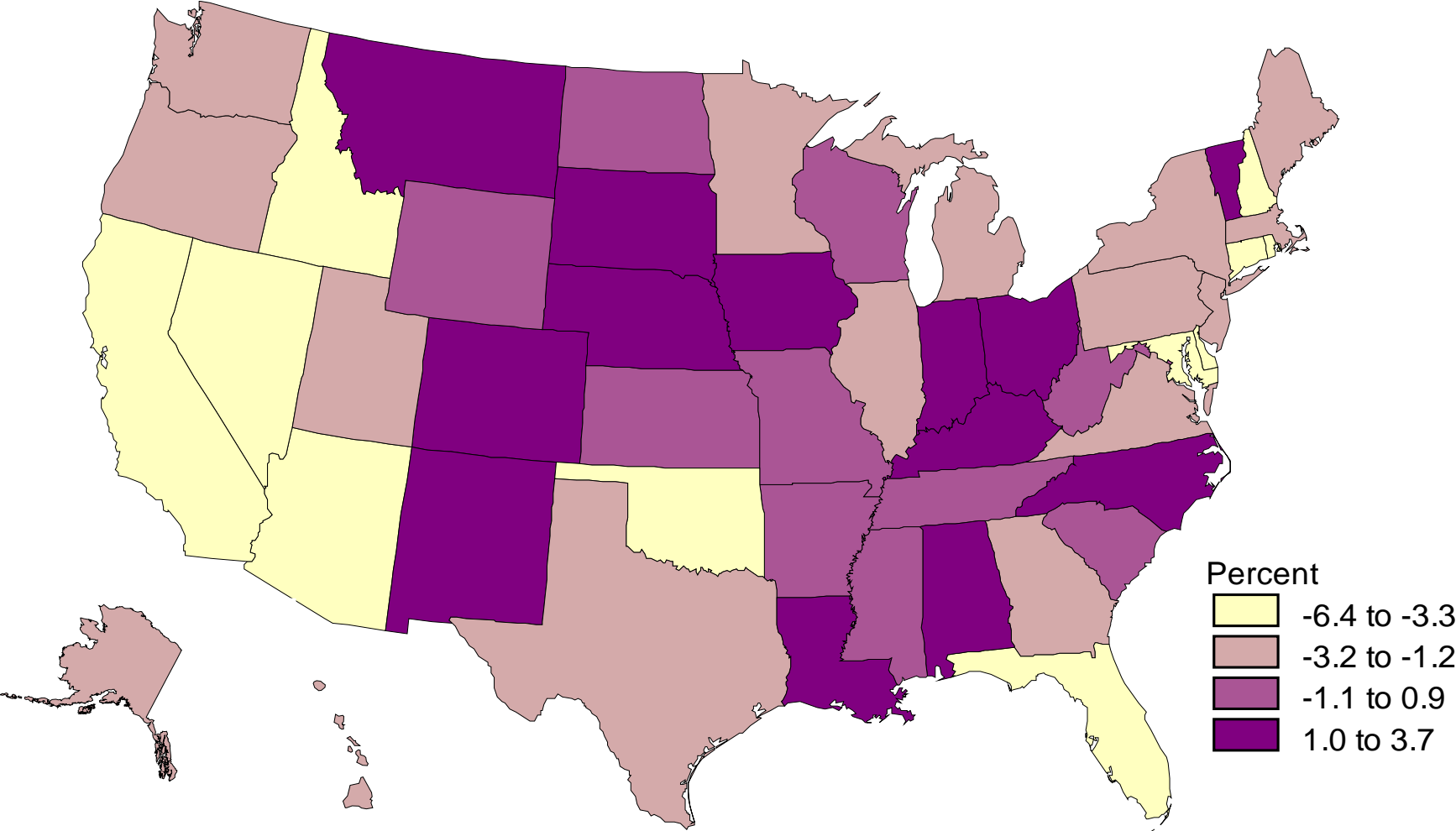
Mortgages in Foreclosure

(Inventory, end of 2010q2)



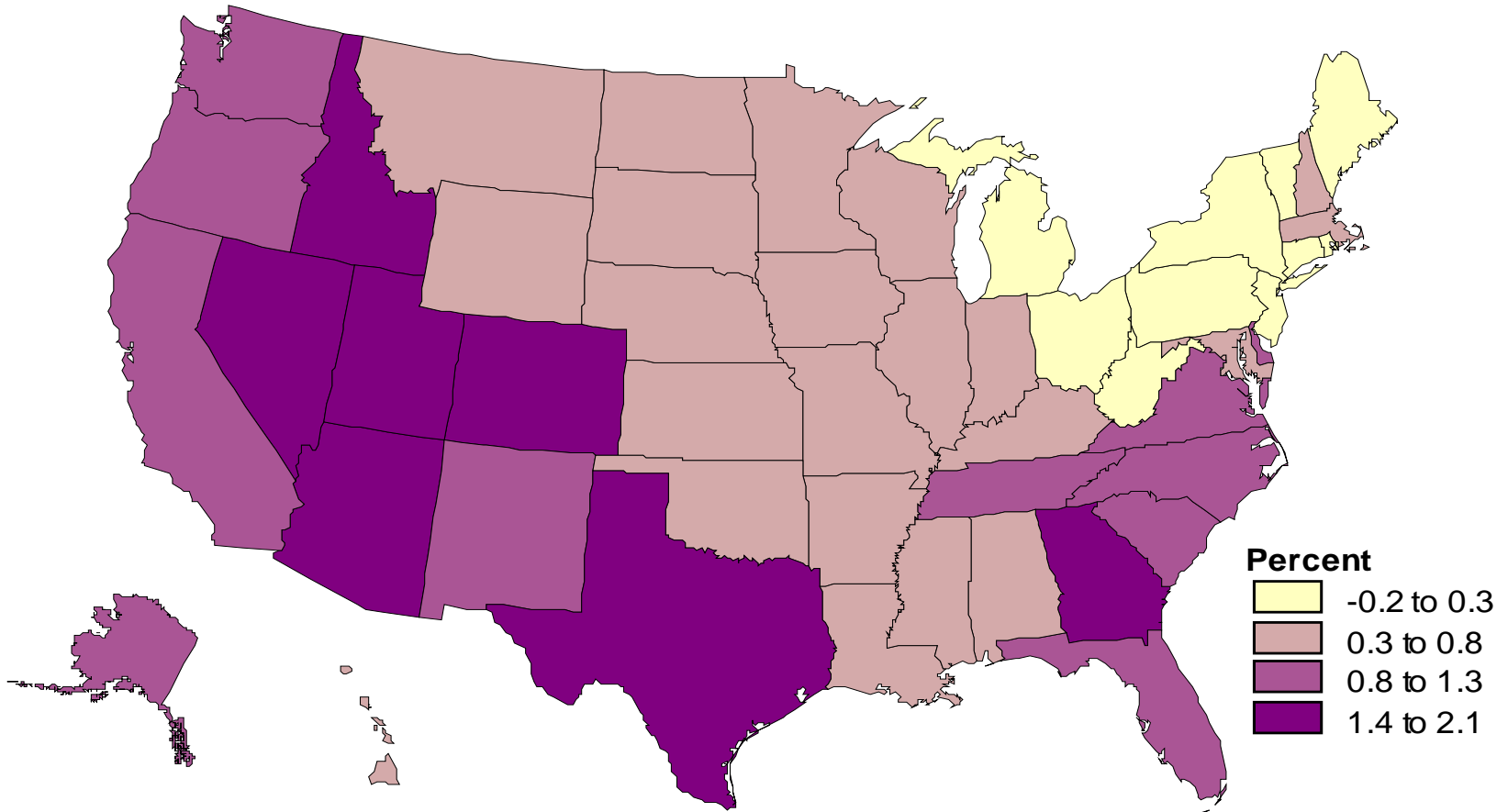
Home Prices Stabilize

(Existing Home Price, % Change, 2011q1, Year-over-year)



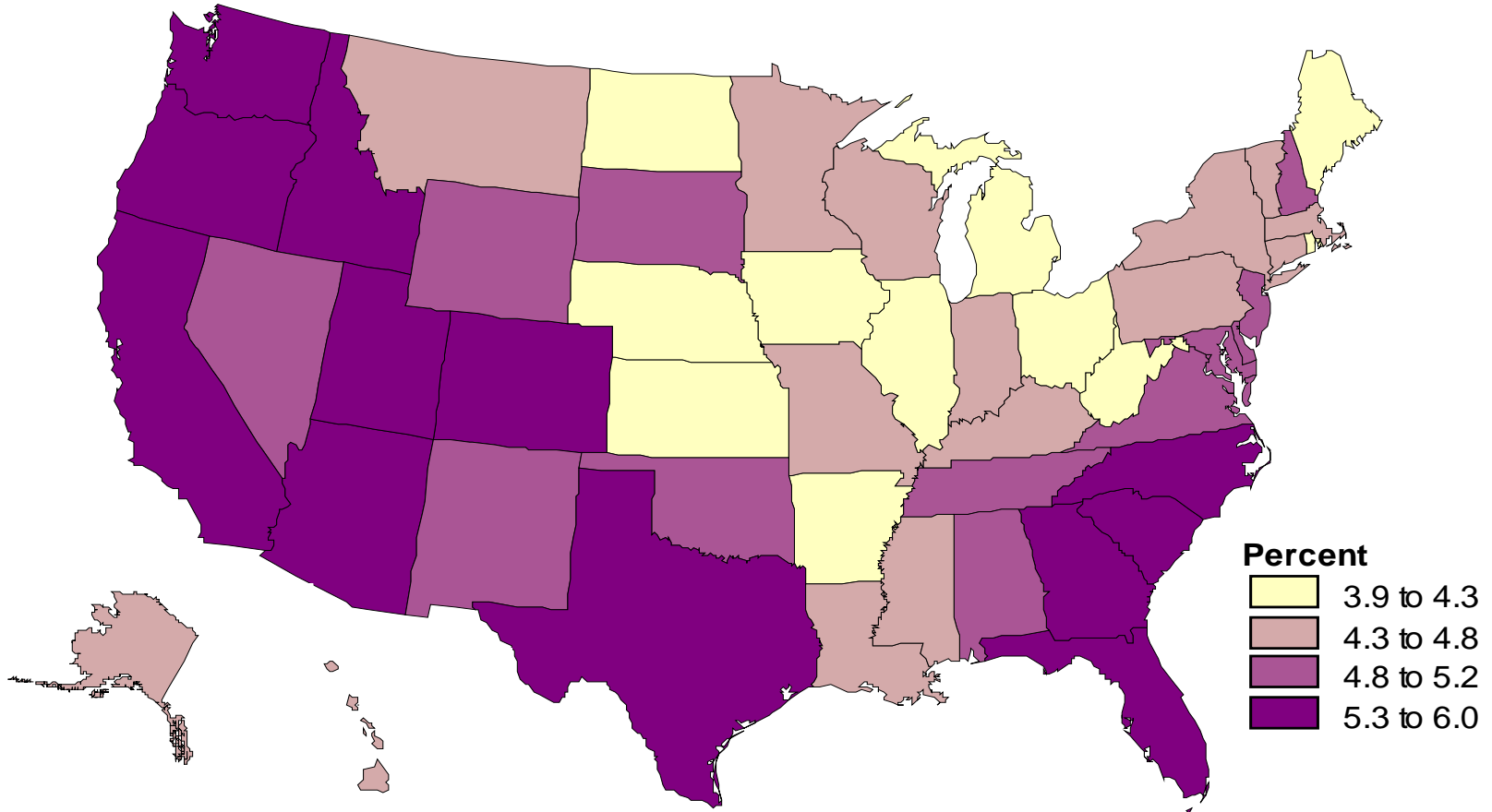
Population Growth

(2010–2015, % annual rate)



Personal Income Growth

(2010–2015, % annual rate)

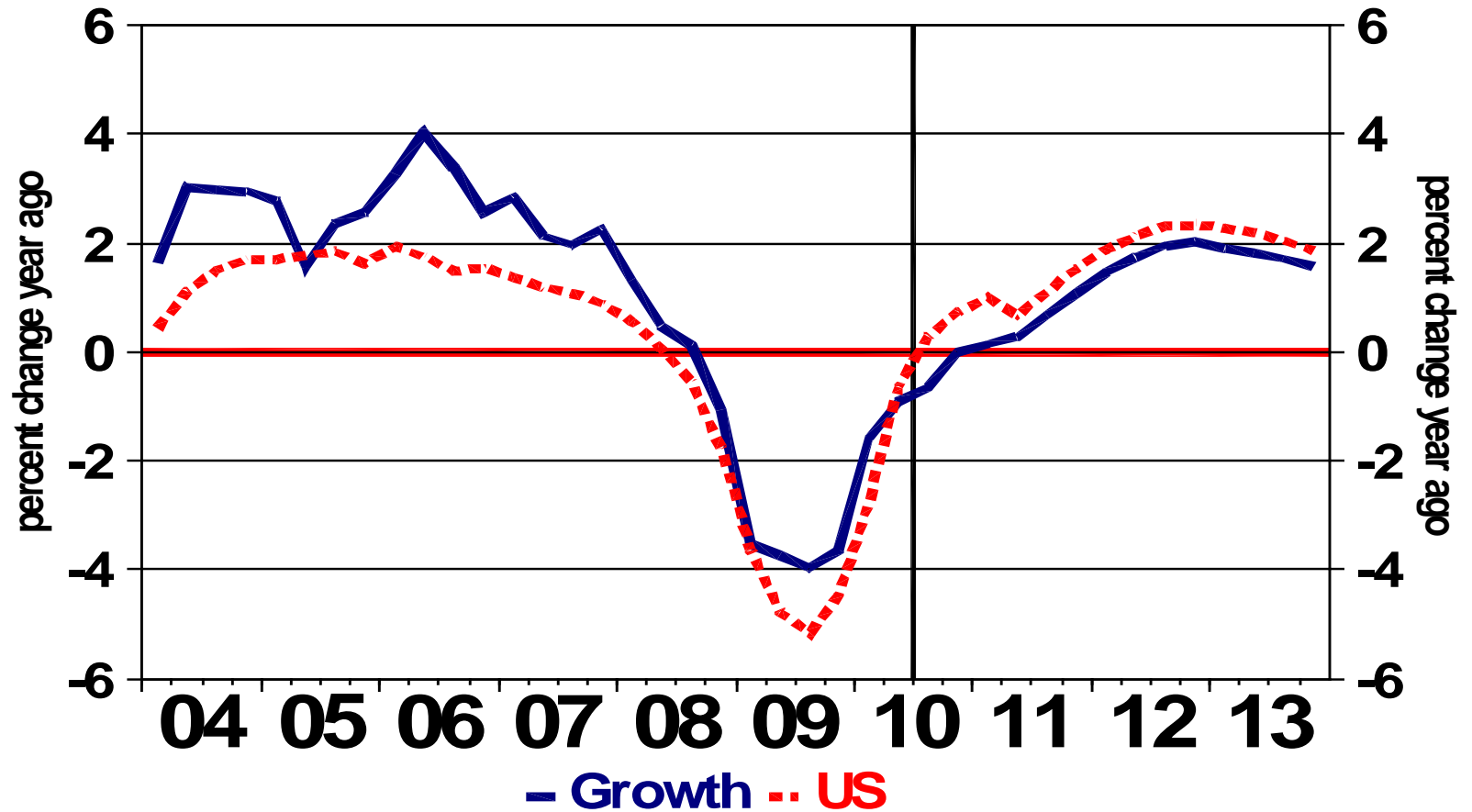


The Montana Outlook

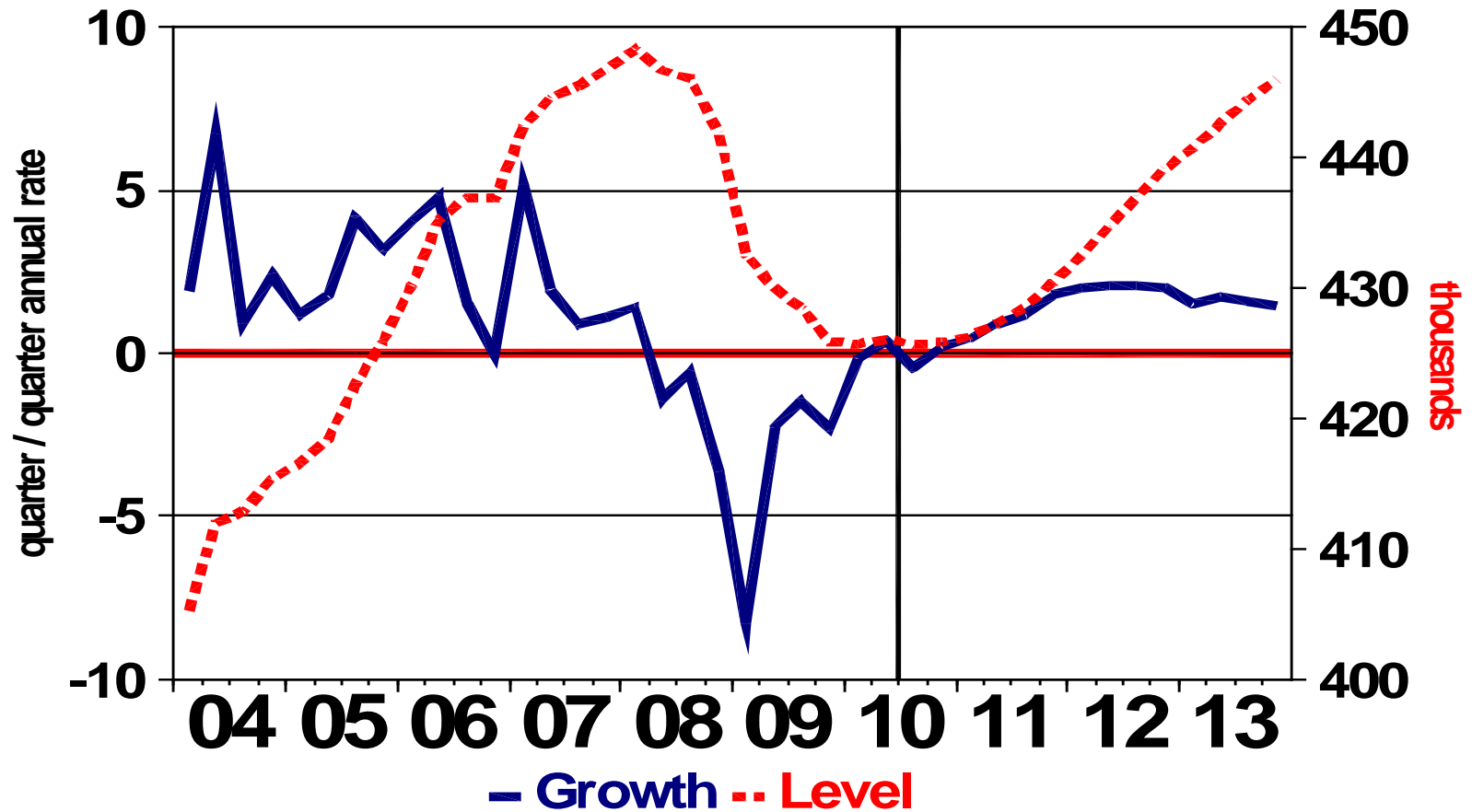


The Source for Critical Information and Insight™

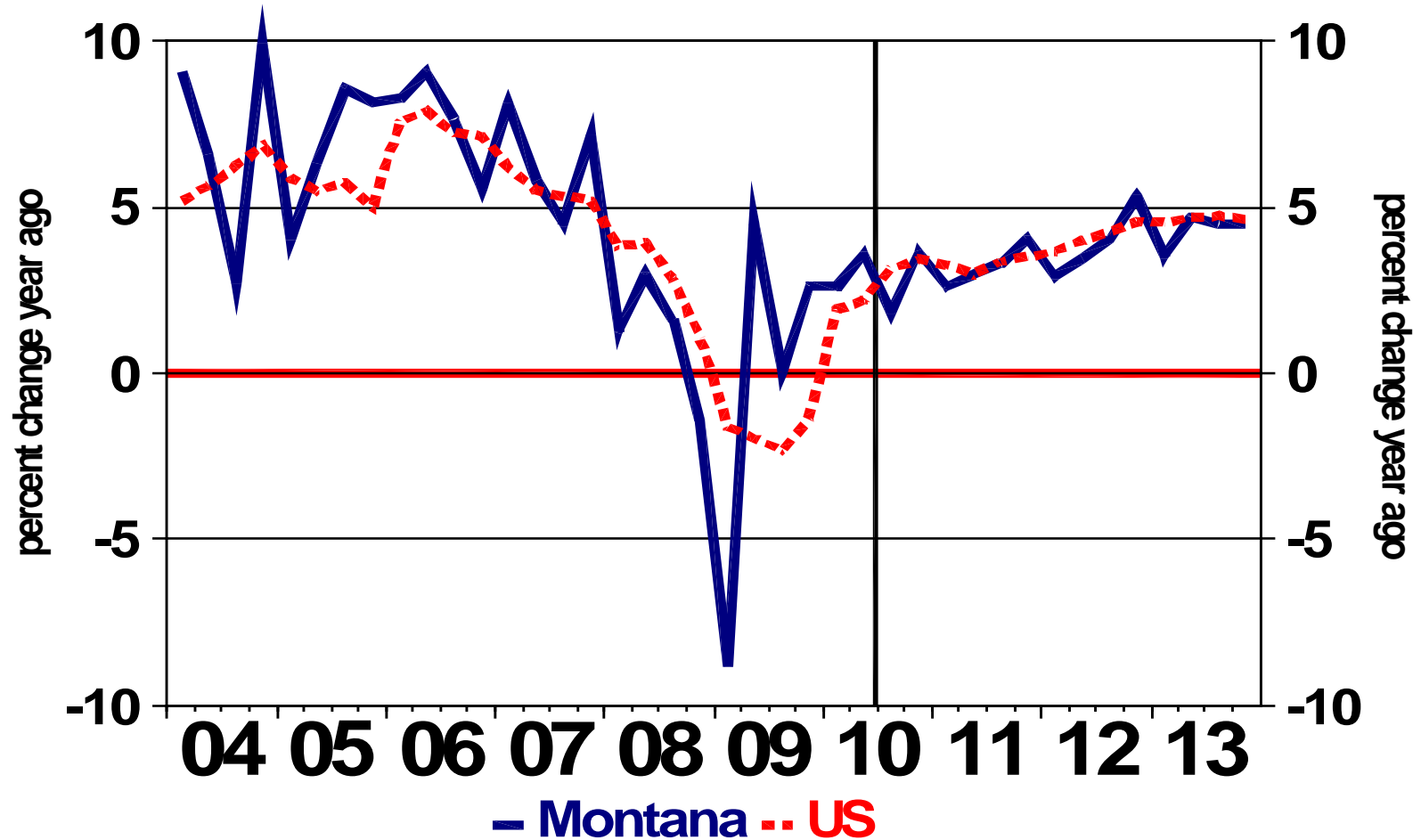
Employment Forecast



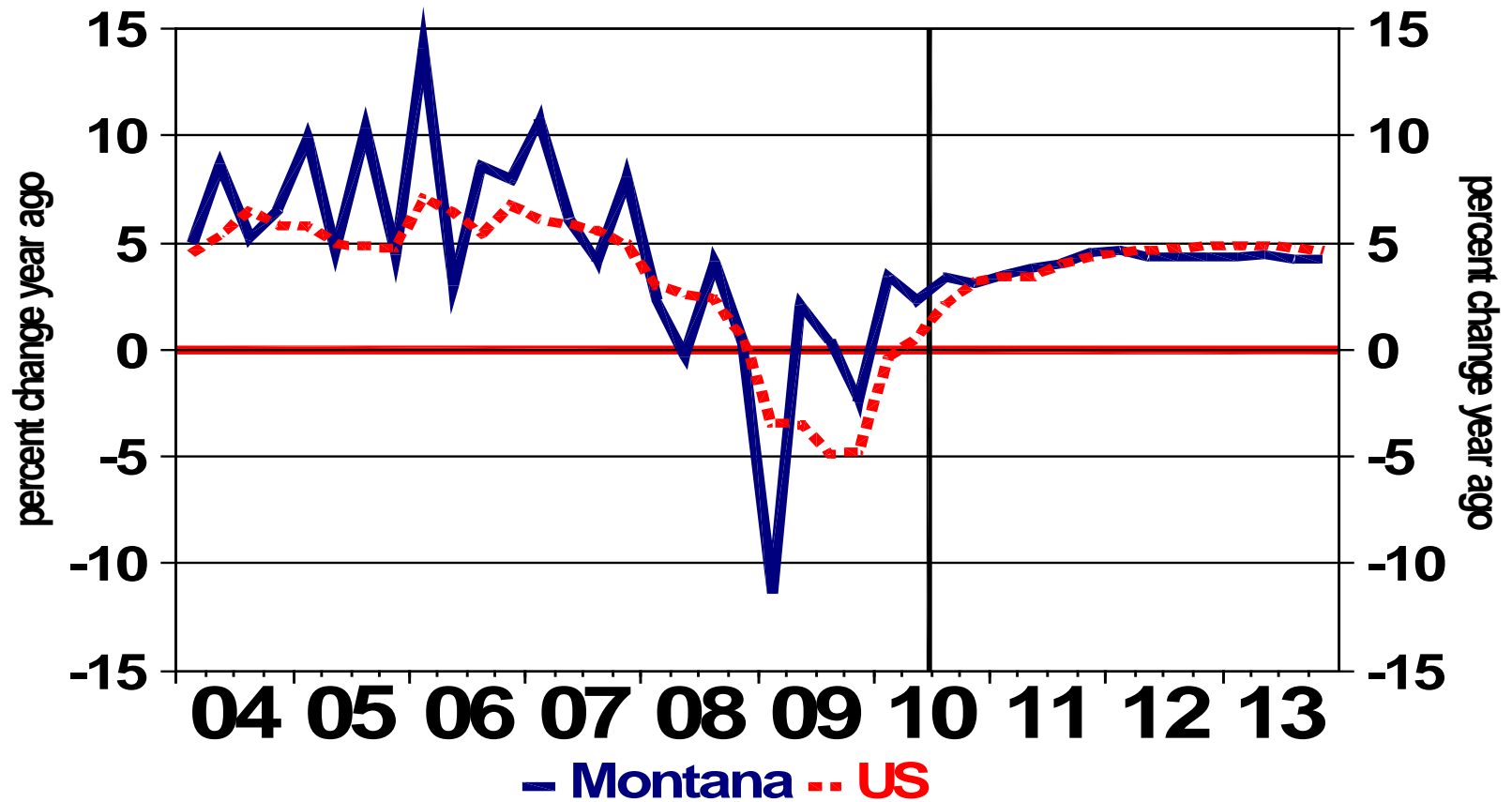
A Very Slow Recovery



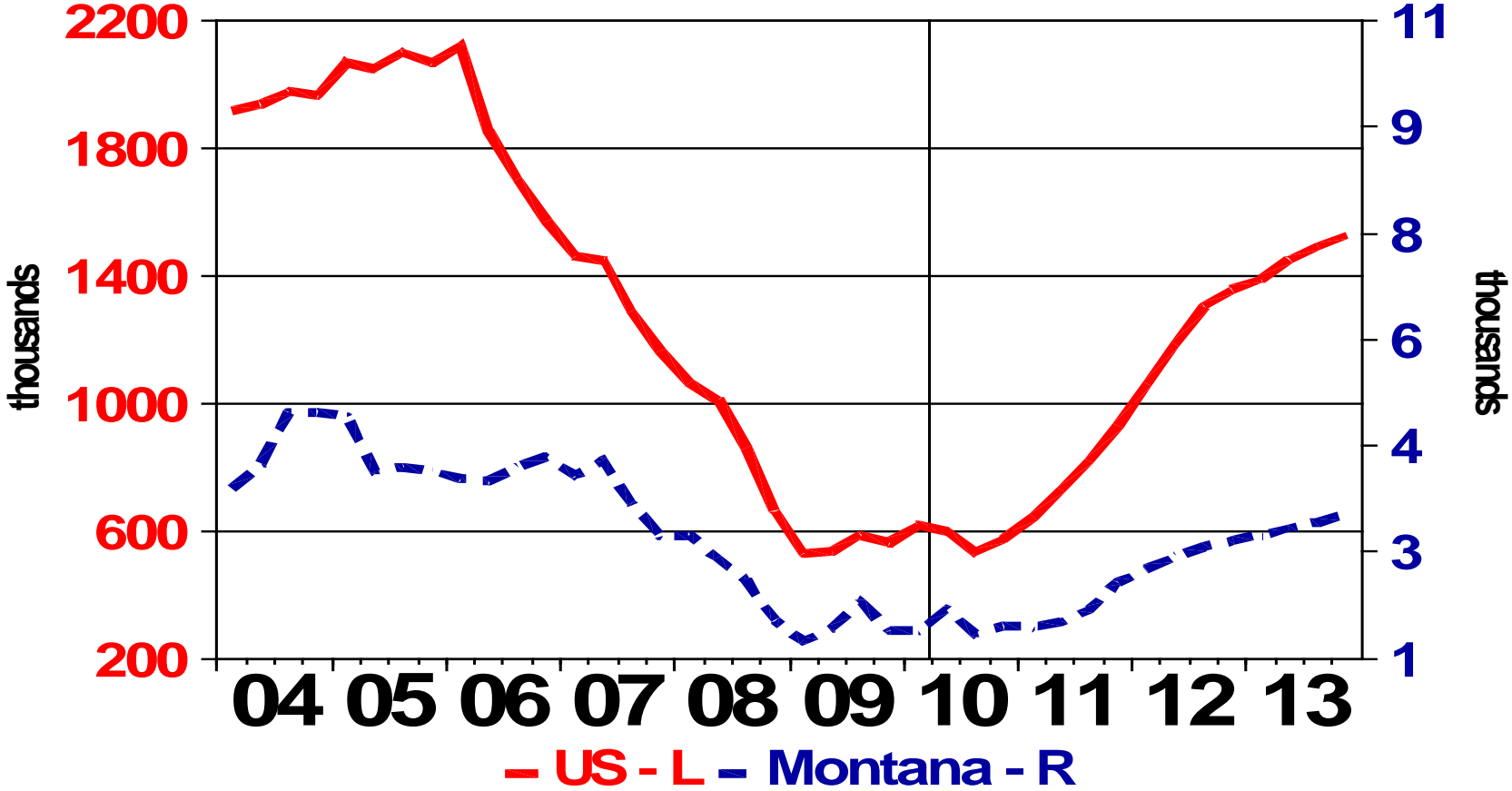
Income Forecast : Total Personal Income



Income Forecast : Labor Income



Housing Starts



Thank you

Jim Diffley

Senior Director, U.S. Regional Services, IHS Global Insight

james.diffley@ihsglobalinsight.com



The Source for Critical Information and Insight™