

# **Comments on the Montana Economy and Implications for Our Tax Structure**

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WELCOME TO **EOS** 2020

# FINDING GOOD WORKERS

NEW CHALLENGES, NEW SOLUTIONS

45TH ANNUAL ECONOMIC OUTLOOK SEMINAR

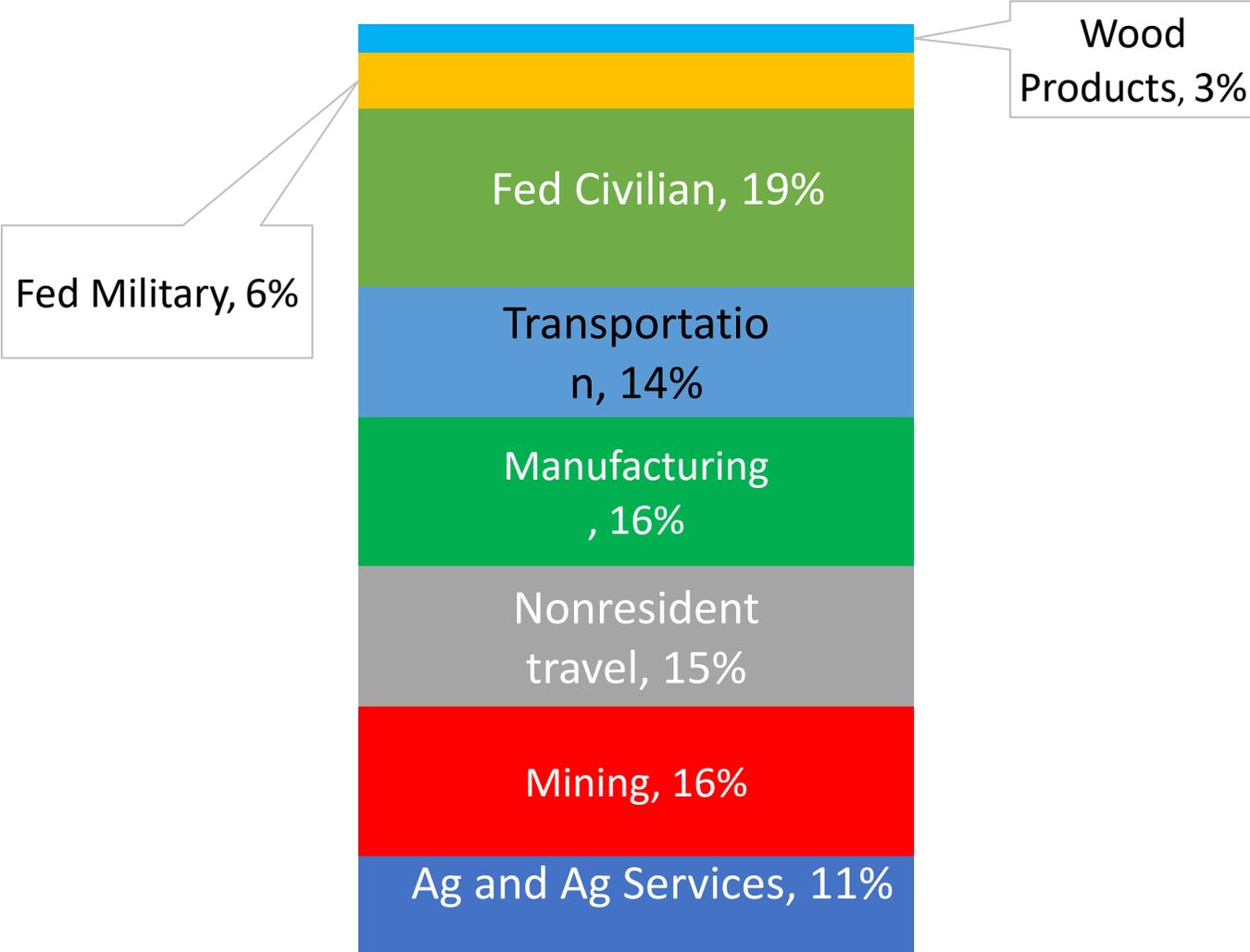


# Who We Are

- Dominant services economy
- Aging population
- Rising importance of unearned income
- Urban growth outpacing rural
- Disruption from online retail
- Large Federal Government presence
- No Boise, Salt Lake or Denver
- Older, less diverse population
- Natural resources
- Low corporate presence in economy
- Low wages

# Drivers of Economic Activity

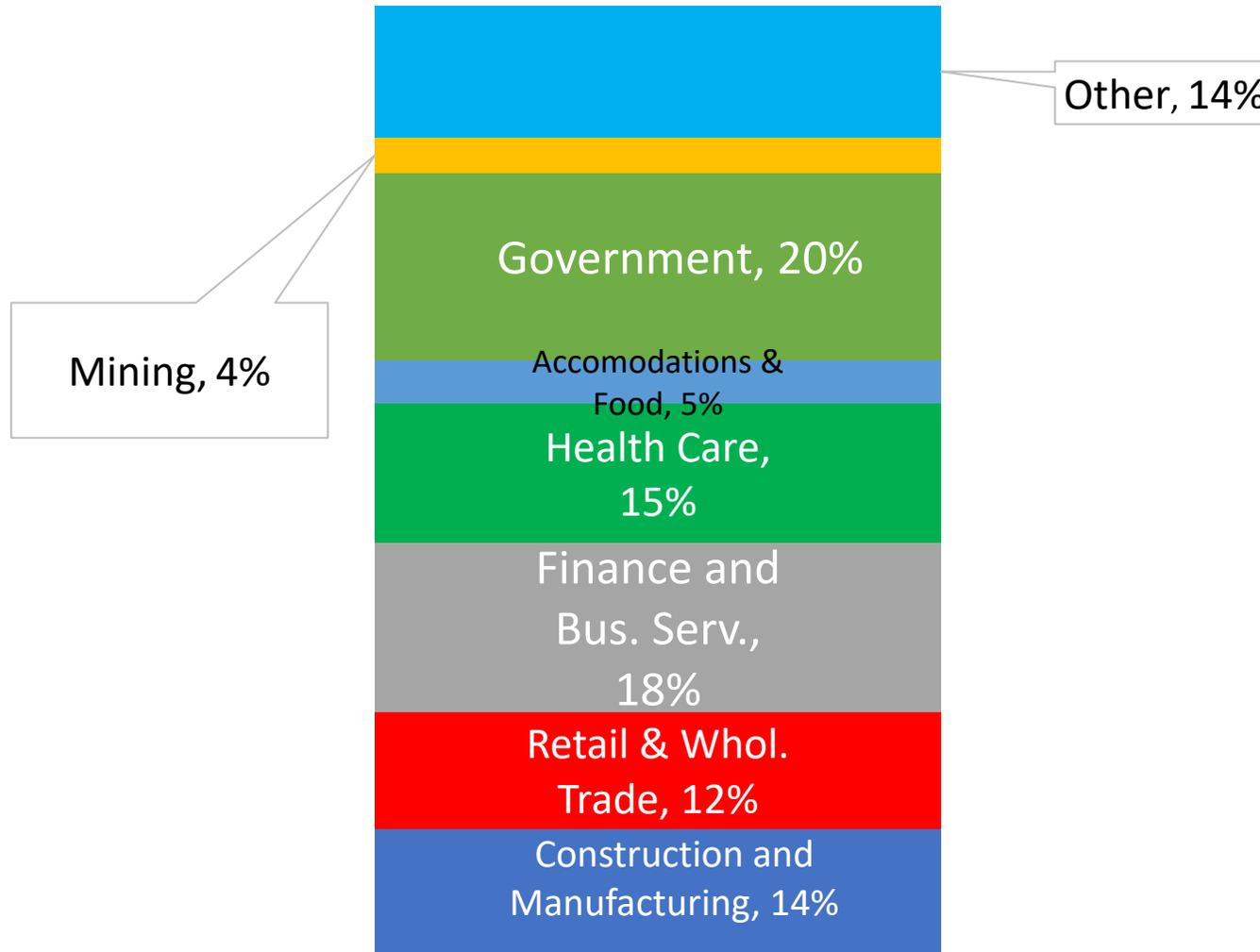
Percent Share of Income in Basic Industries, Montana, 2019



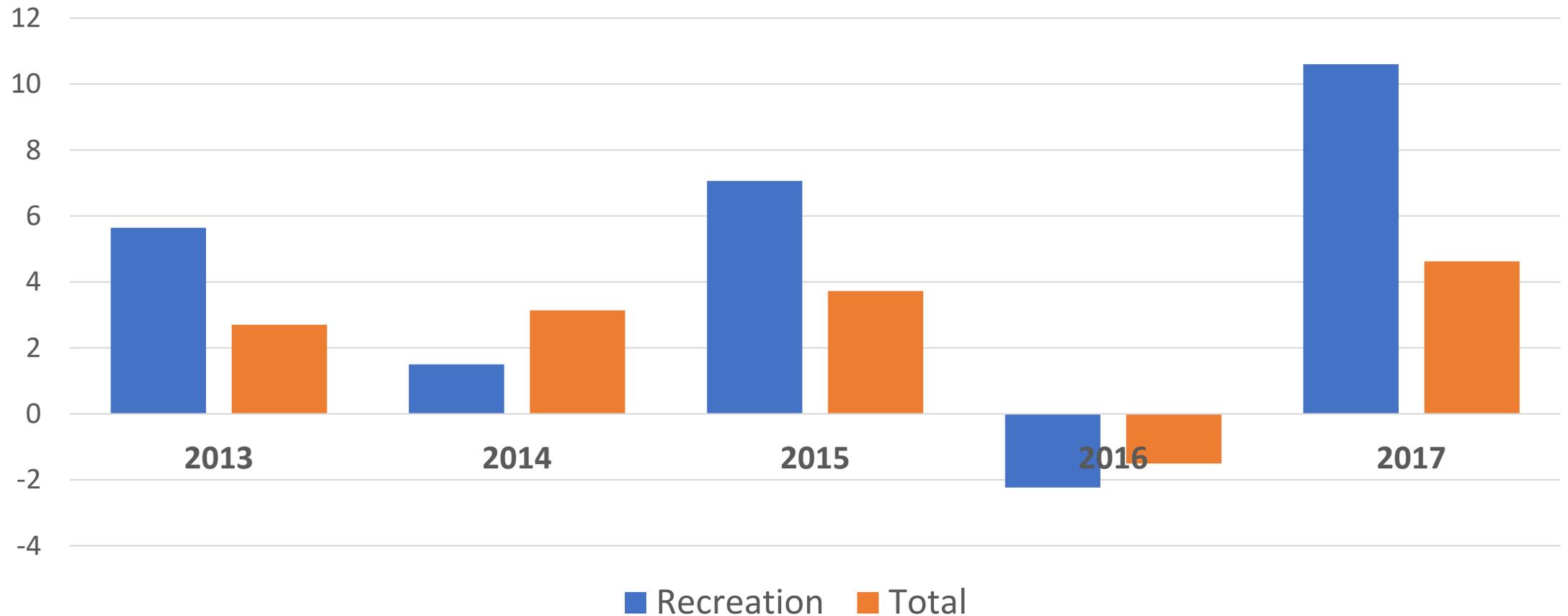
Source: U.S. Bureau of Economic Analysis and BBER

# ~~Drivers of Economic Activity~~

Percent Share of Income in ~~Basic Industries~~, Montana, 2019



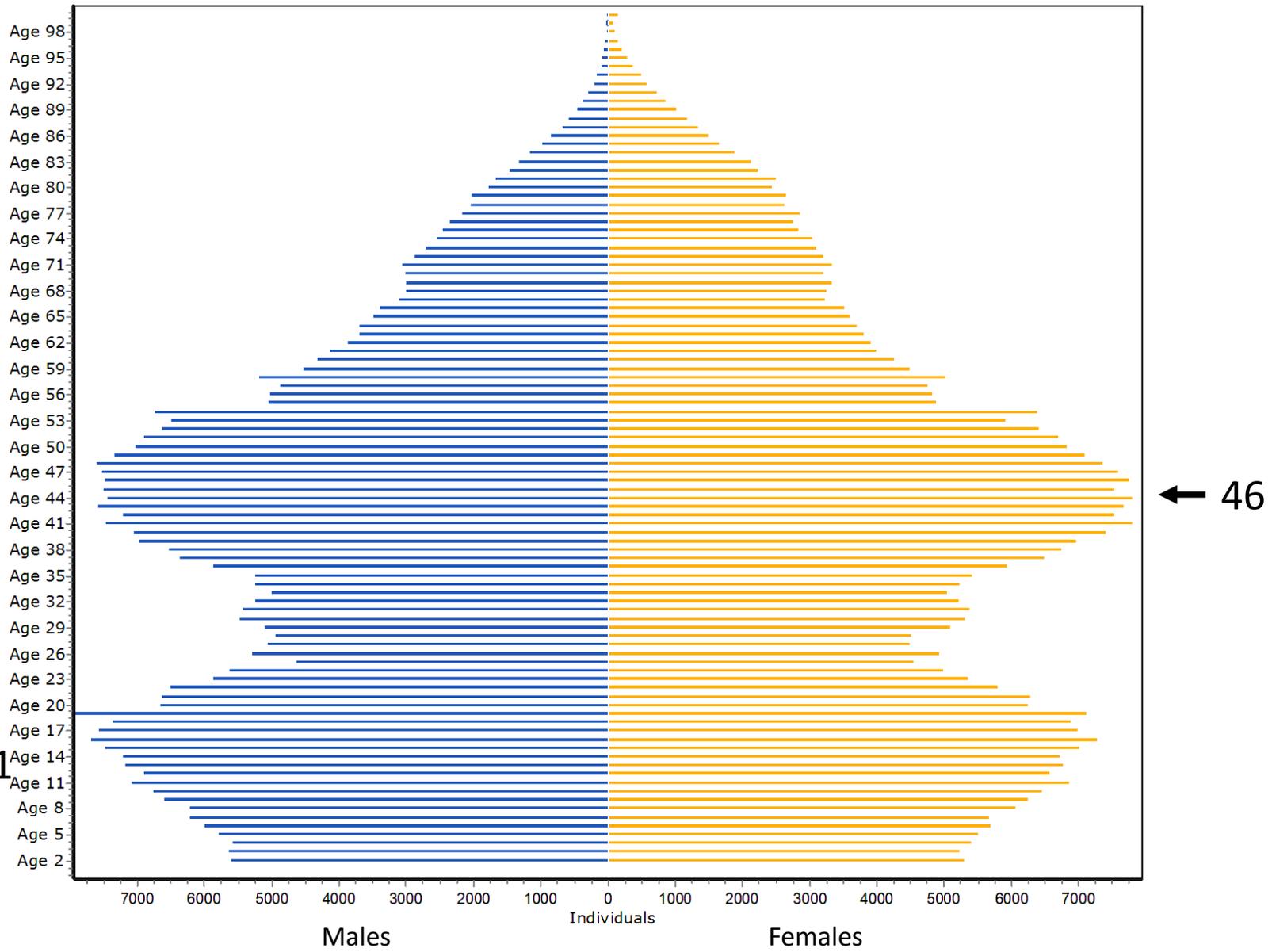
# Outdoor Recreation Economy Grew More Strongly in 2017



Source: U.S. Bureau of Economic Analysis

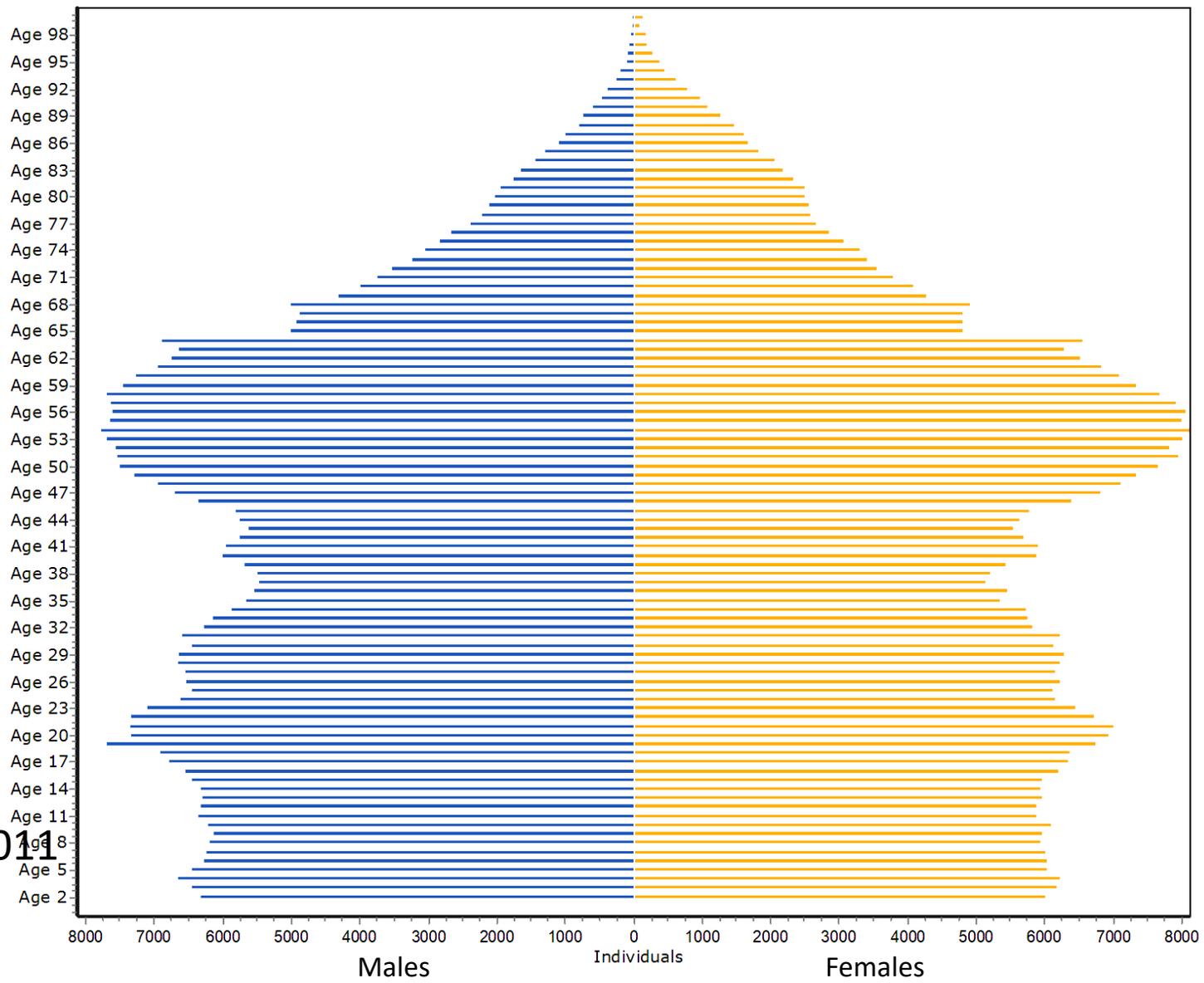
# Montana Population Tree

Year: 2001



# Montana Population Tree

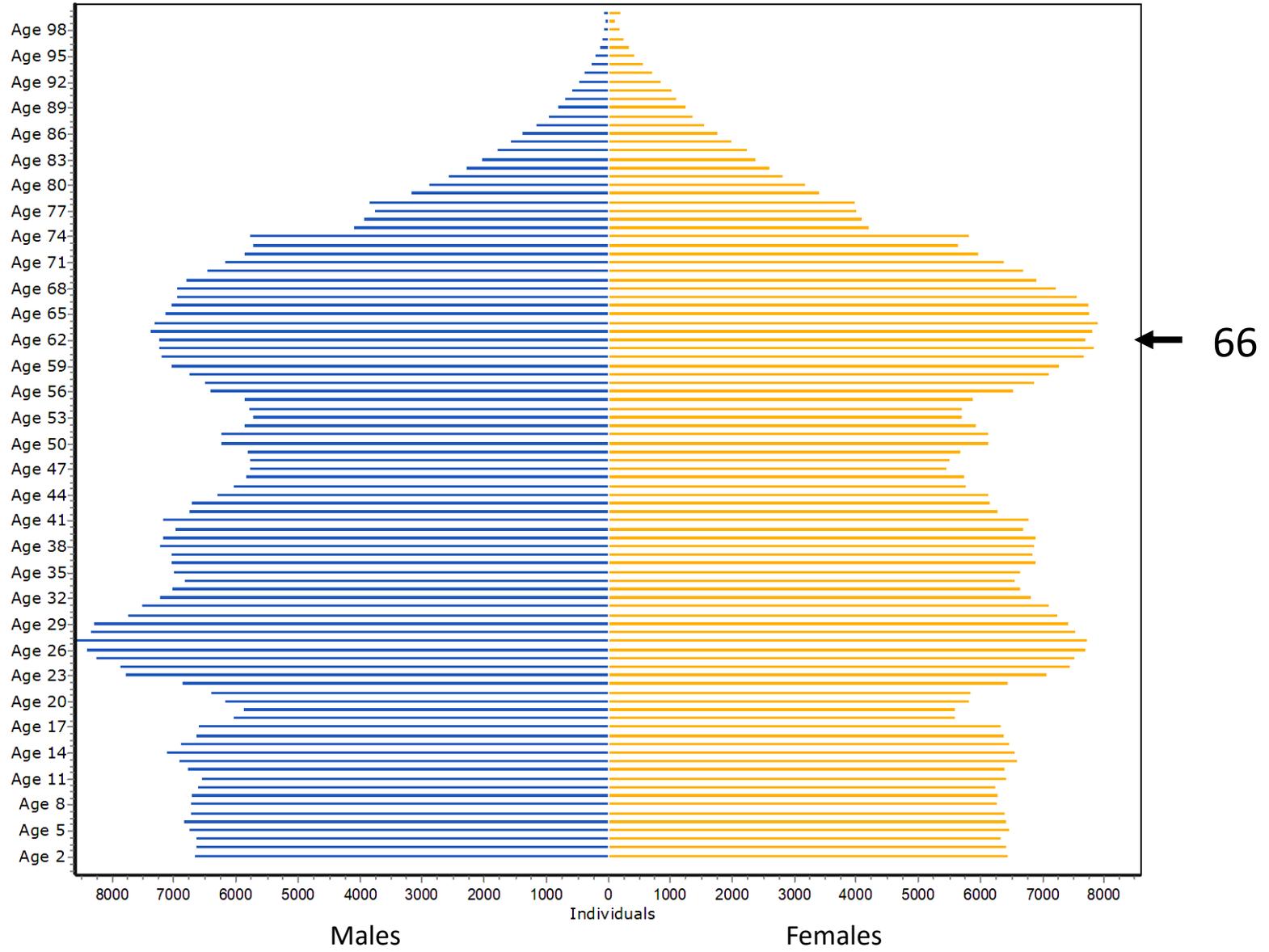
Year: 2011



← 56

# Montana Population Tree

Year: 2021

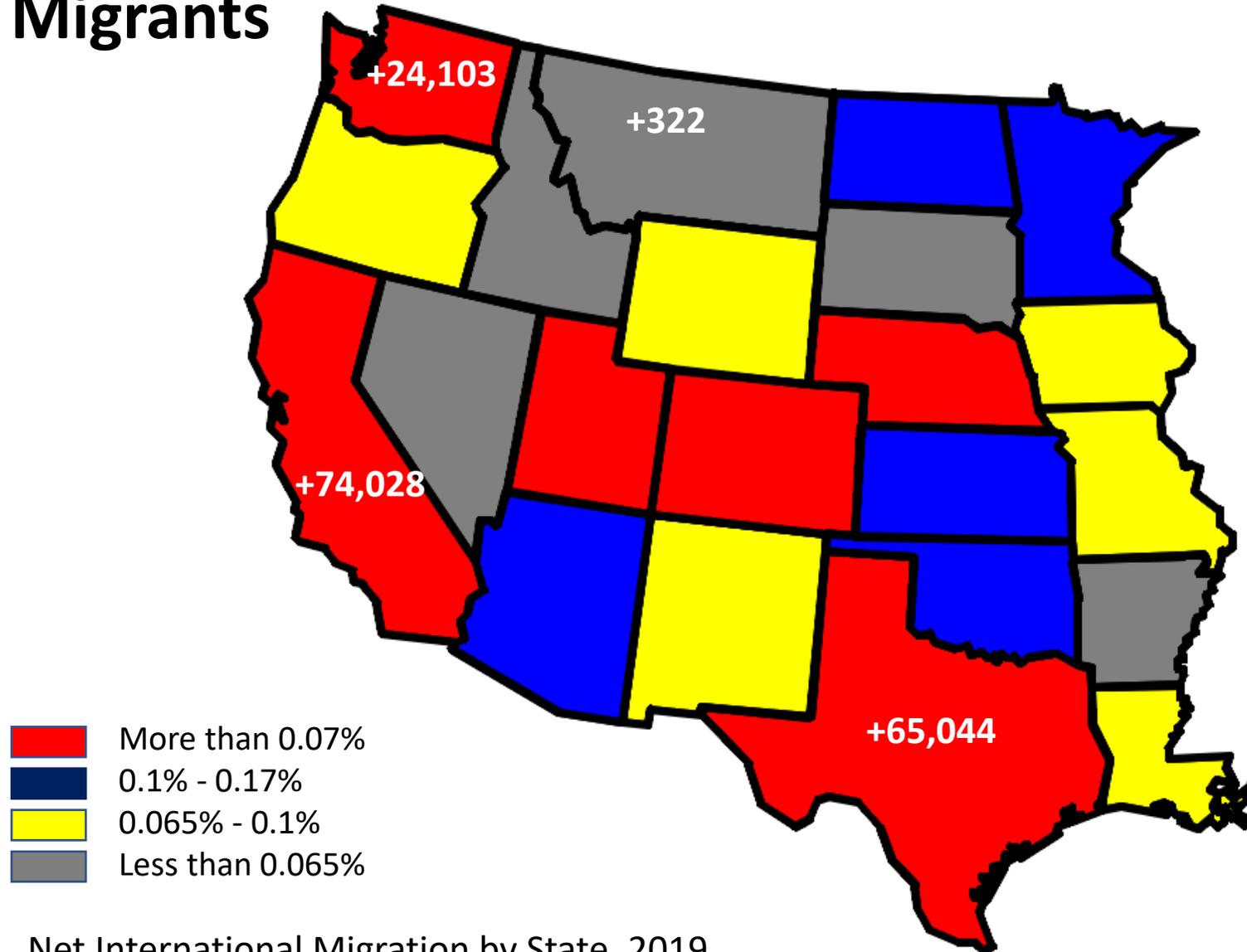








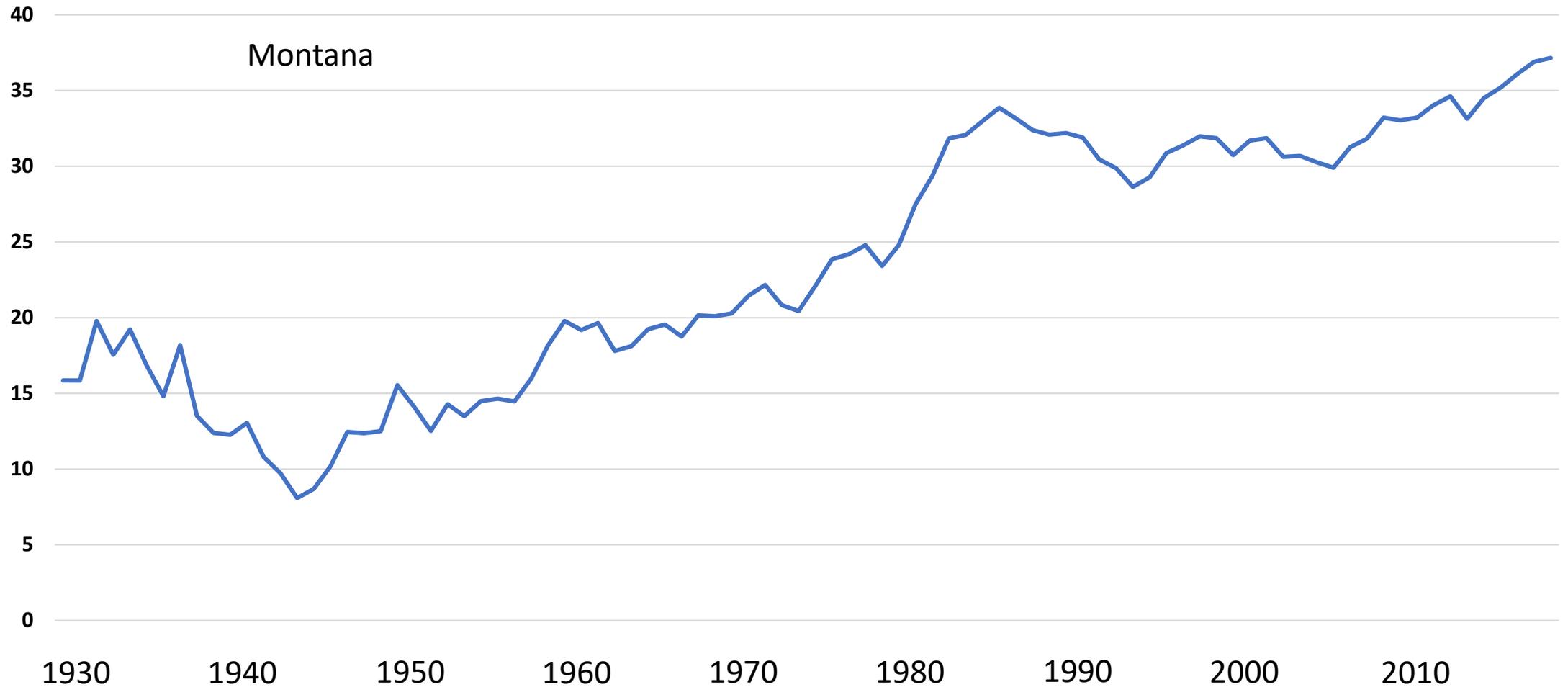
# Border and Urban States Attract Foreign Migrants



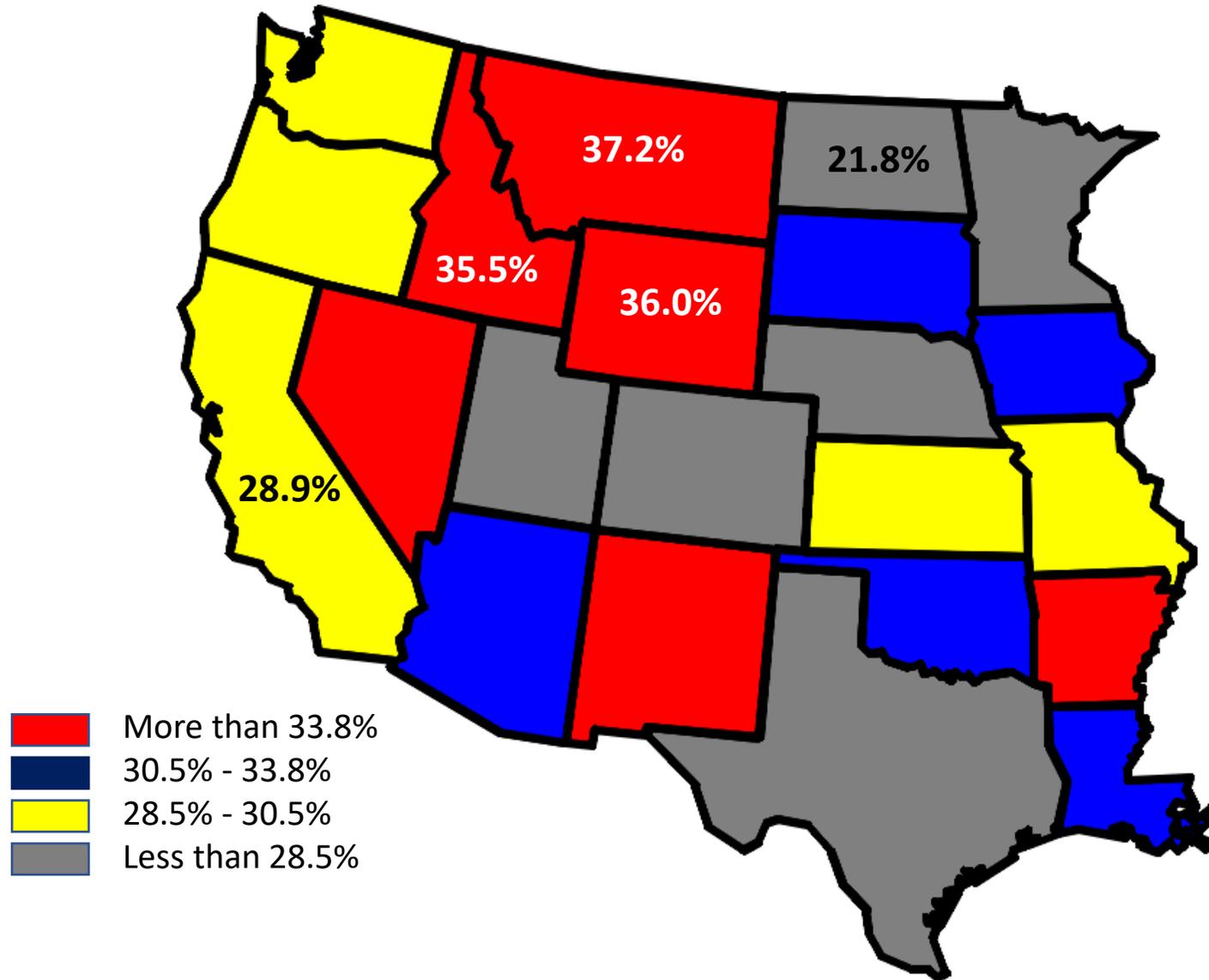
Net International Migration by State, 2019

# Share of Unearned Income Has Grown Since World War II

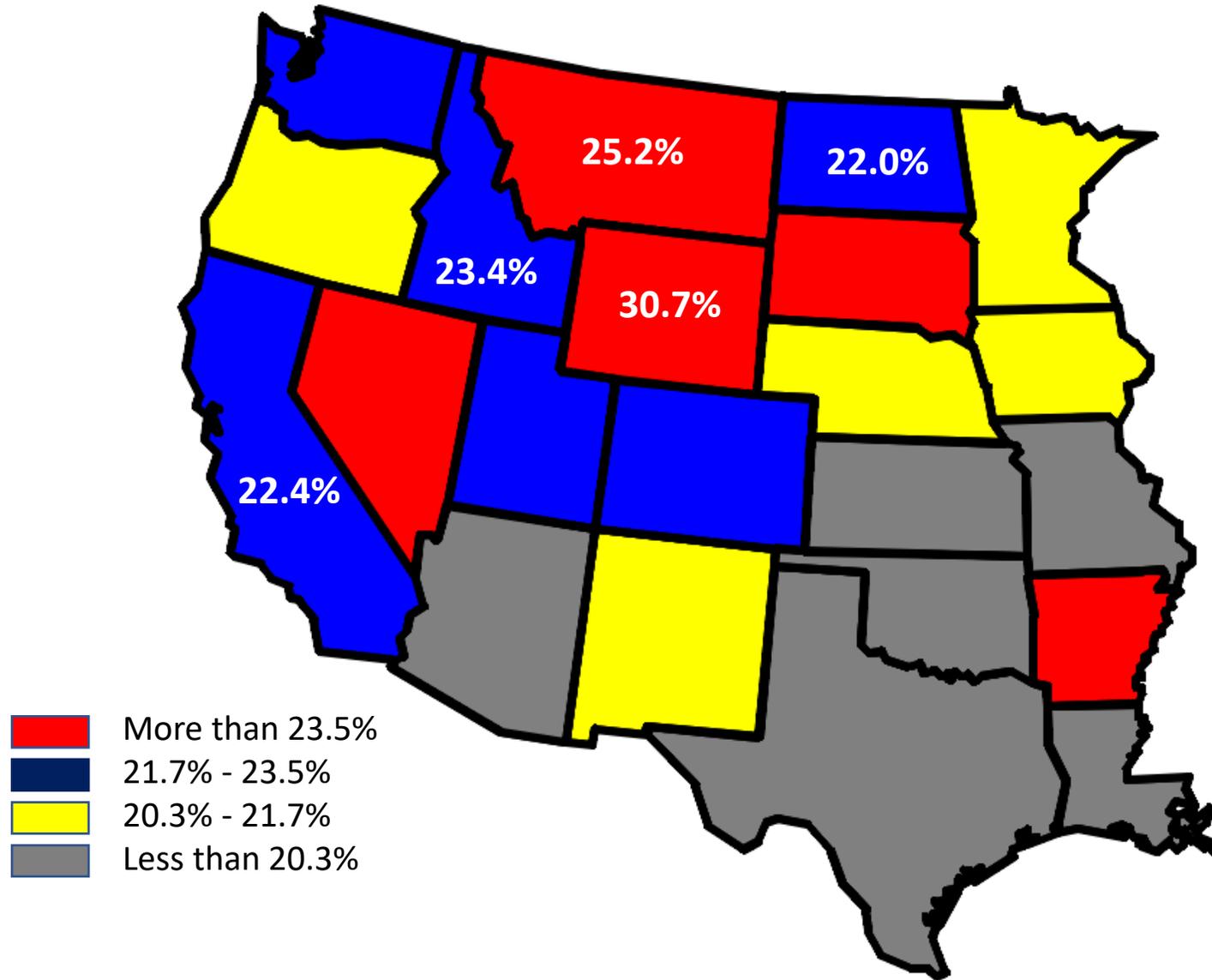
Property Income Plus Transfer Payments as a Share of Personal Income, Percent



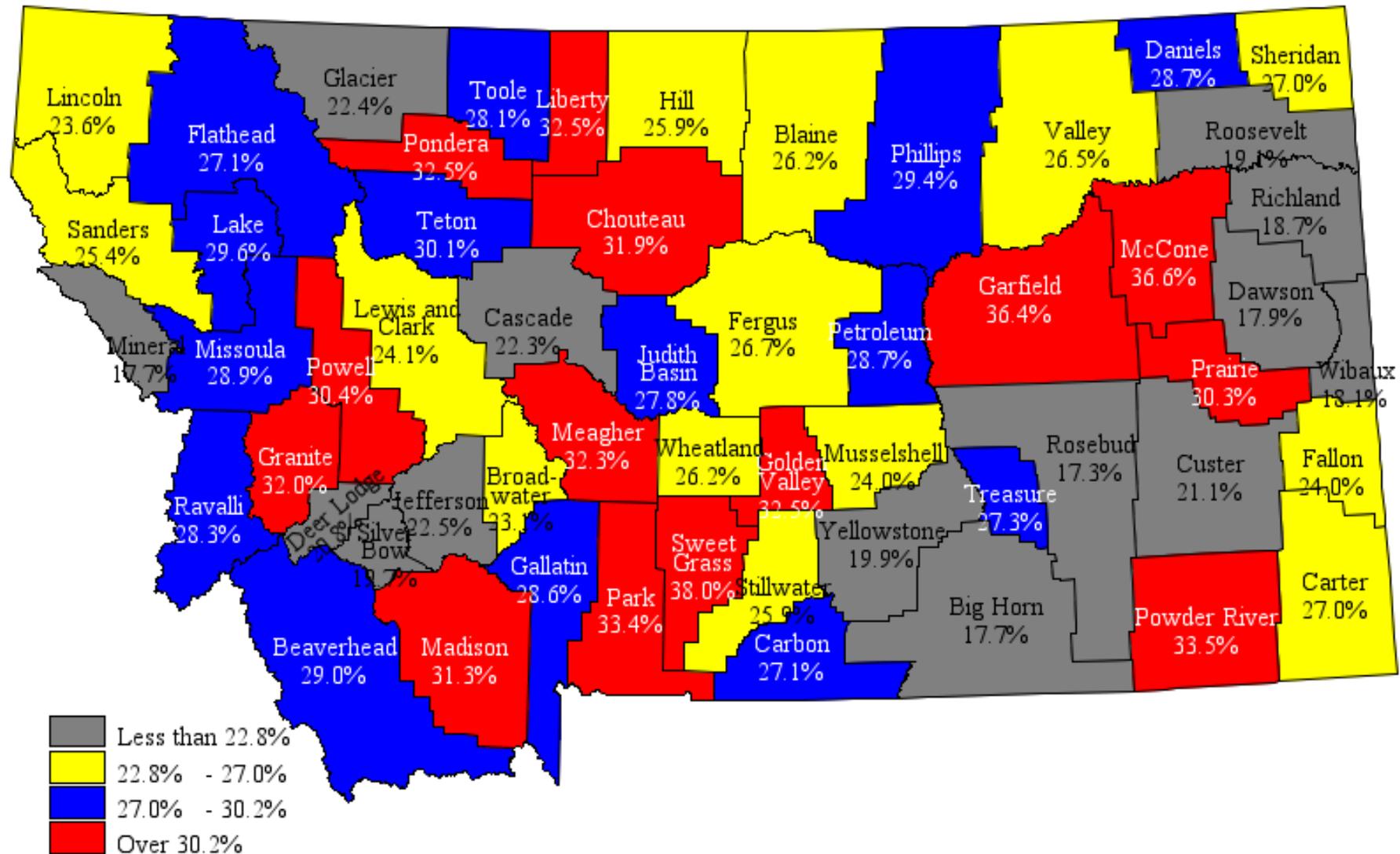
# Unearned Income Shares Reflect Variety of Factors



# Importance of Property Income Explains a Lot

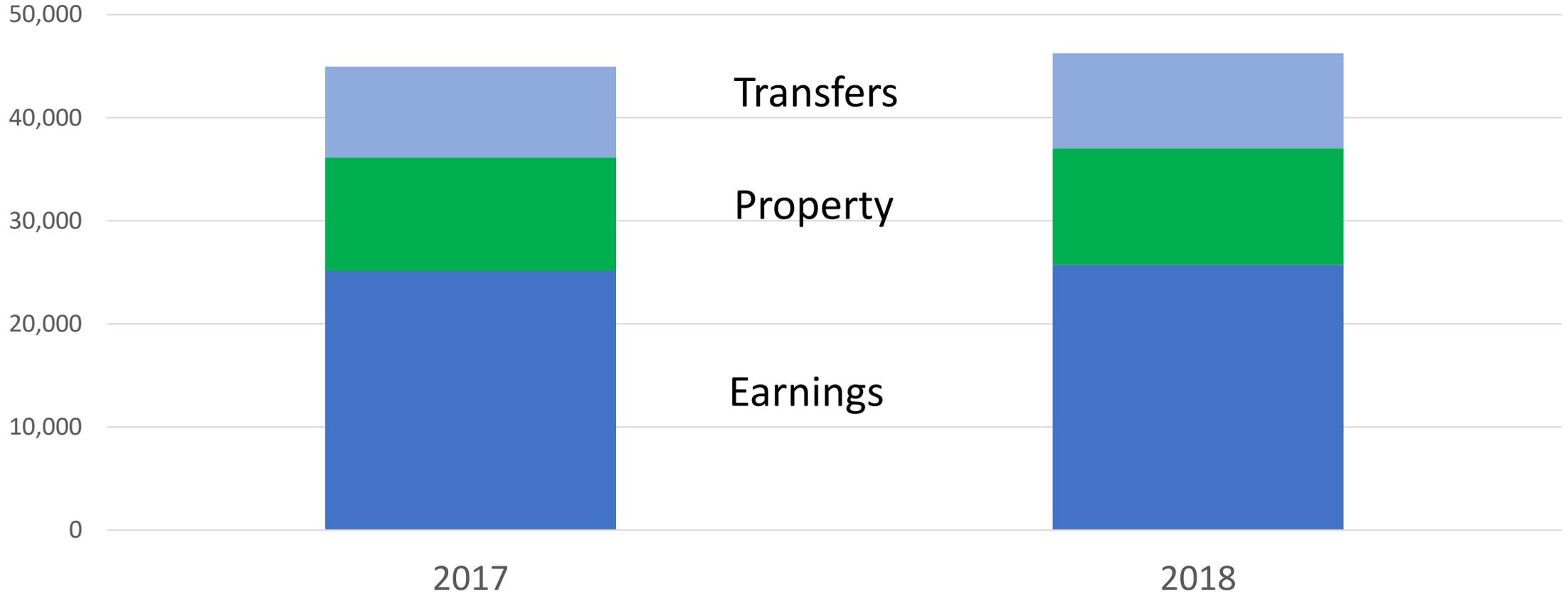


# Property Income as Percent of Personal Income



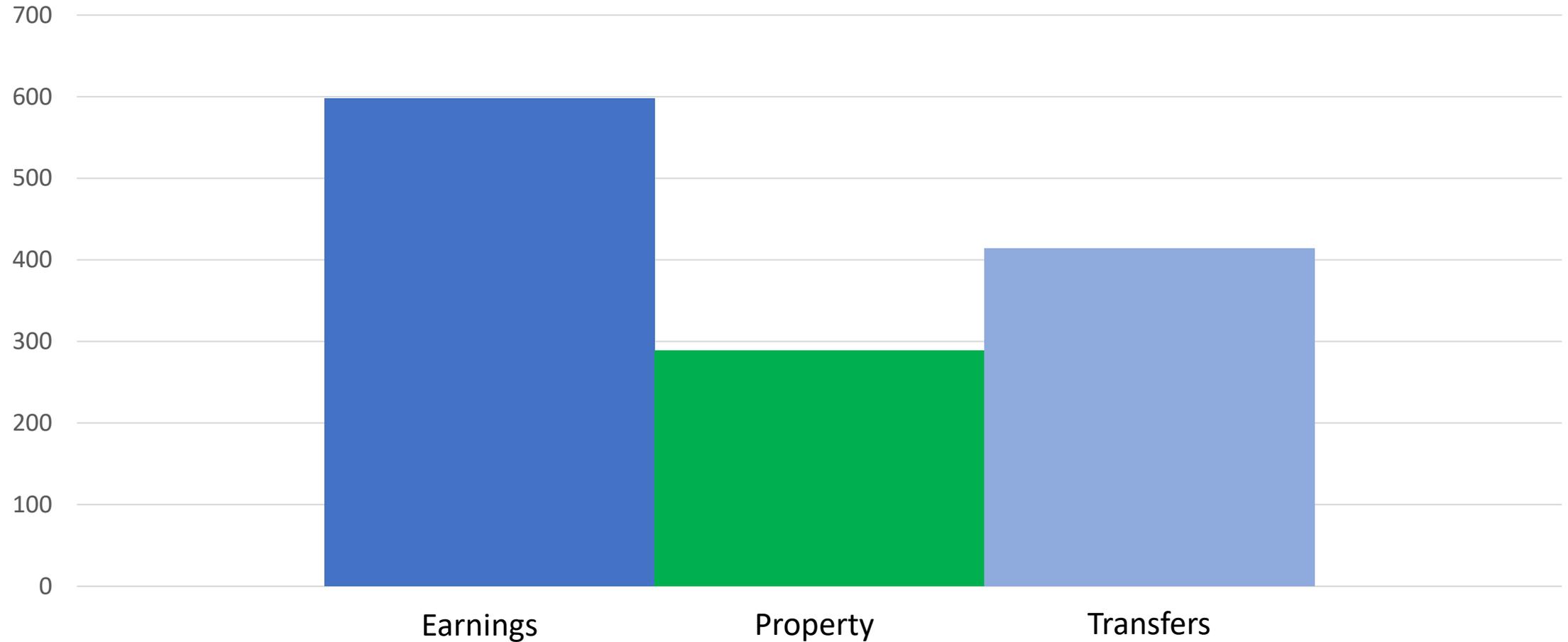
# Income is Much More Than Earnings

Montana Real Personal Income, 2017 and 2018

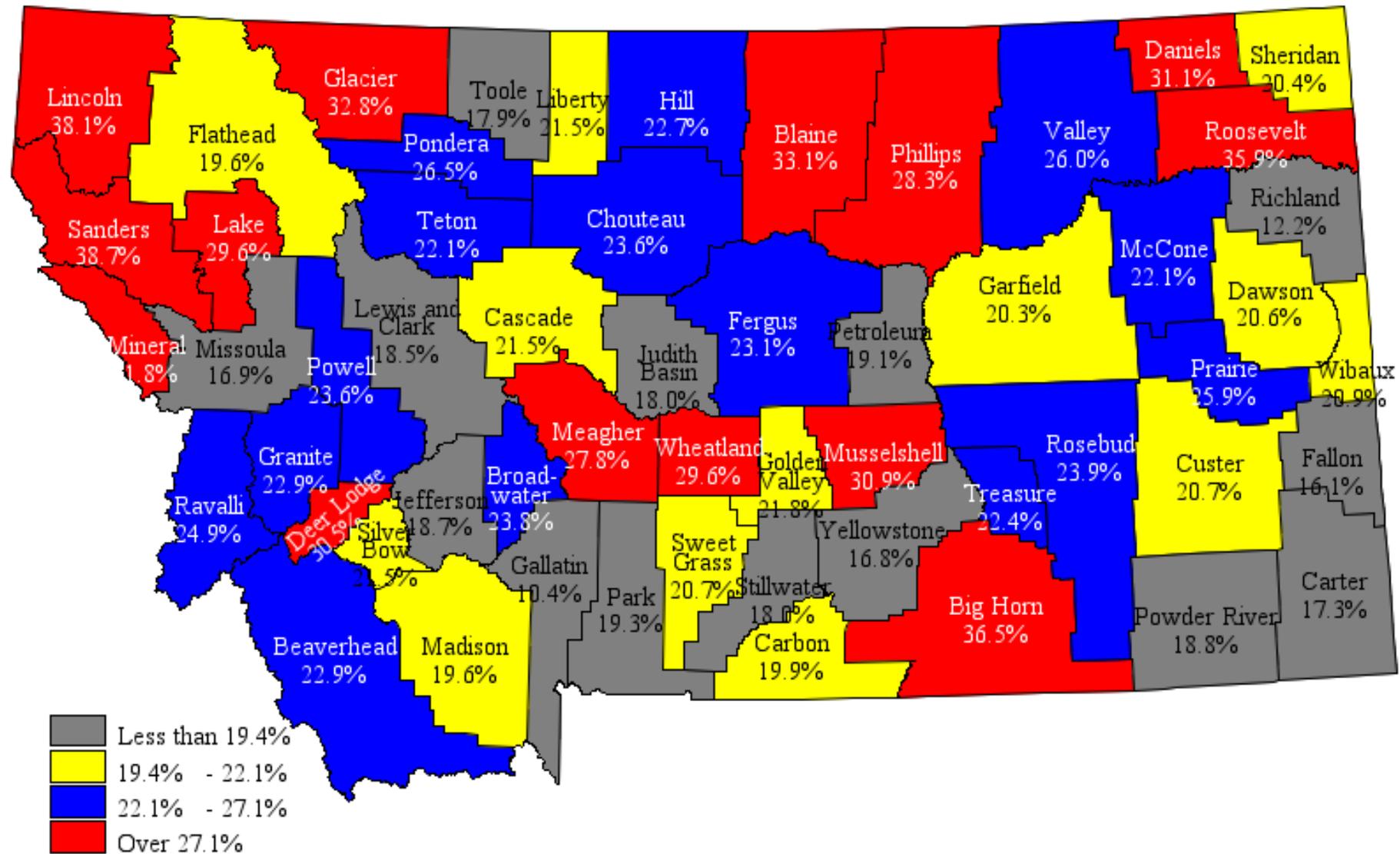


# Transfer Income Punches Above Its Weight

Growth in Montana Real Personal Income, 2018

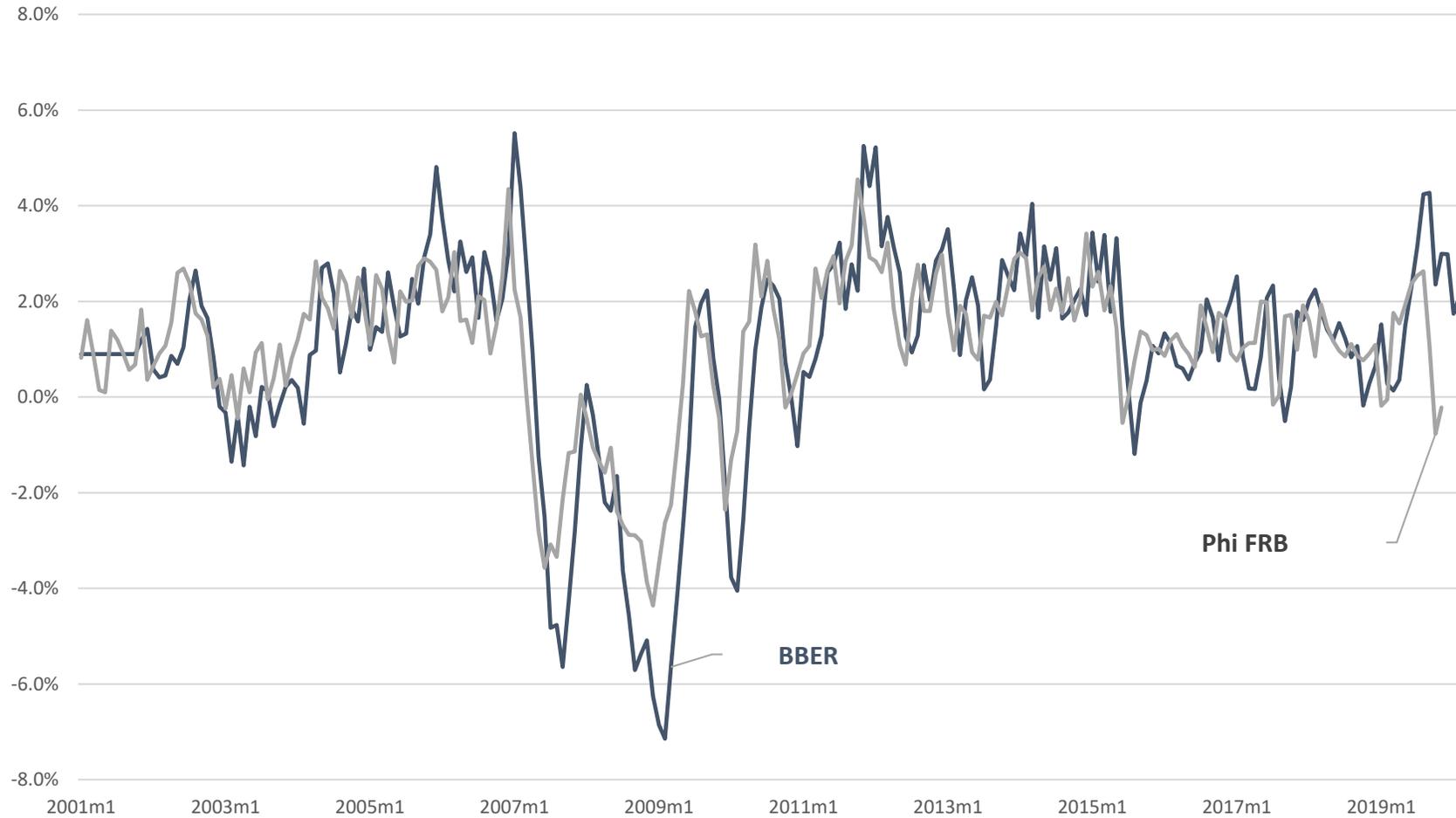


# Transfer Payments as Percent of Personal Income



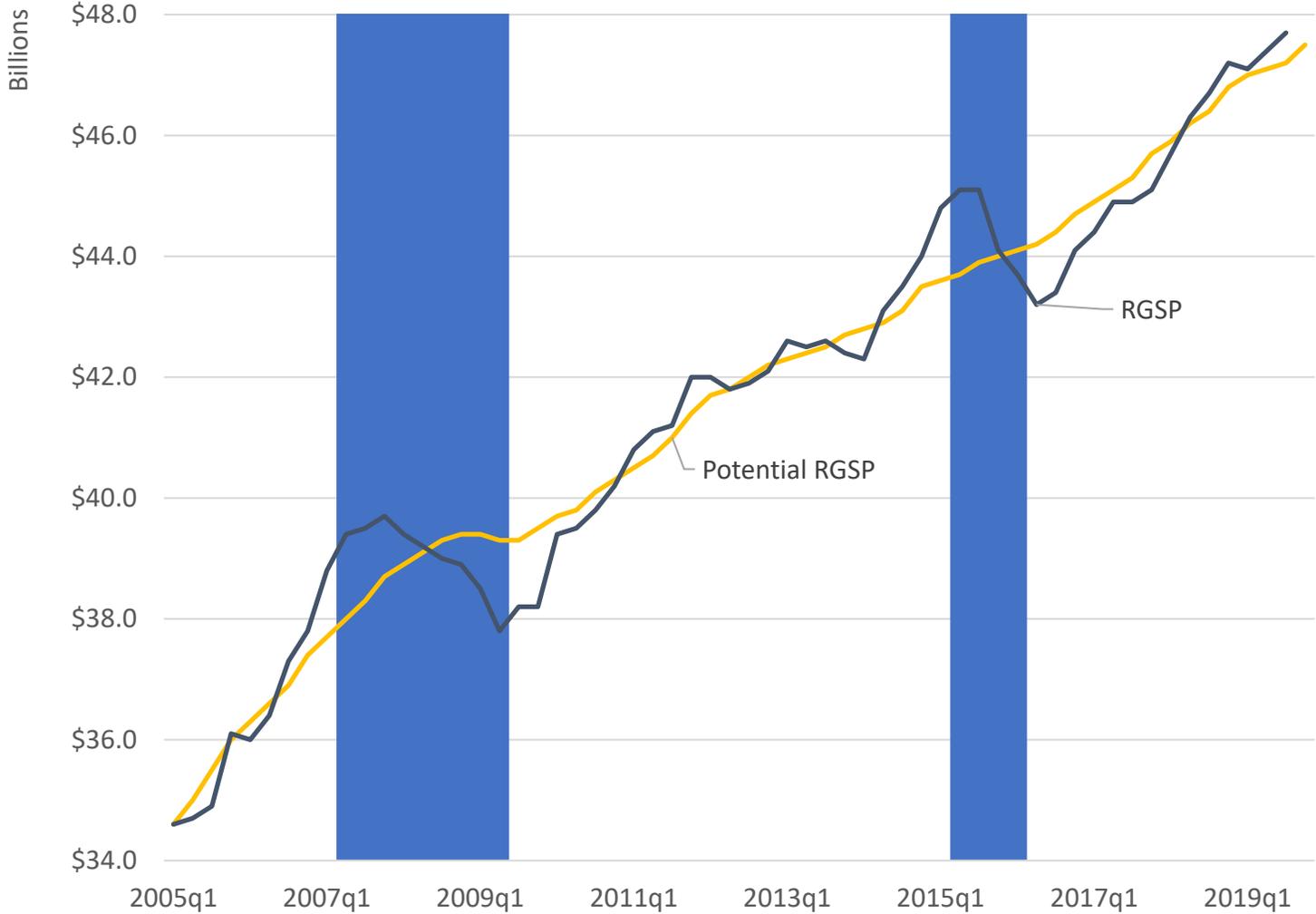


# CEAI BBER/Phi FRB Estimates: 2001M1 – 2020M6



Source: State Leading Indexes,  
Federal Reserve Bank of  
Philadelphia (11/2019) and  
BBER calculations (1/2020)

# MT Actual and Potential Real GSP

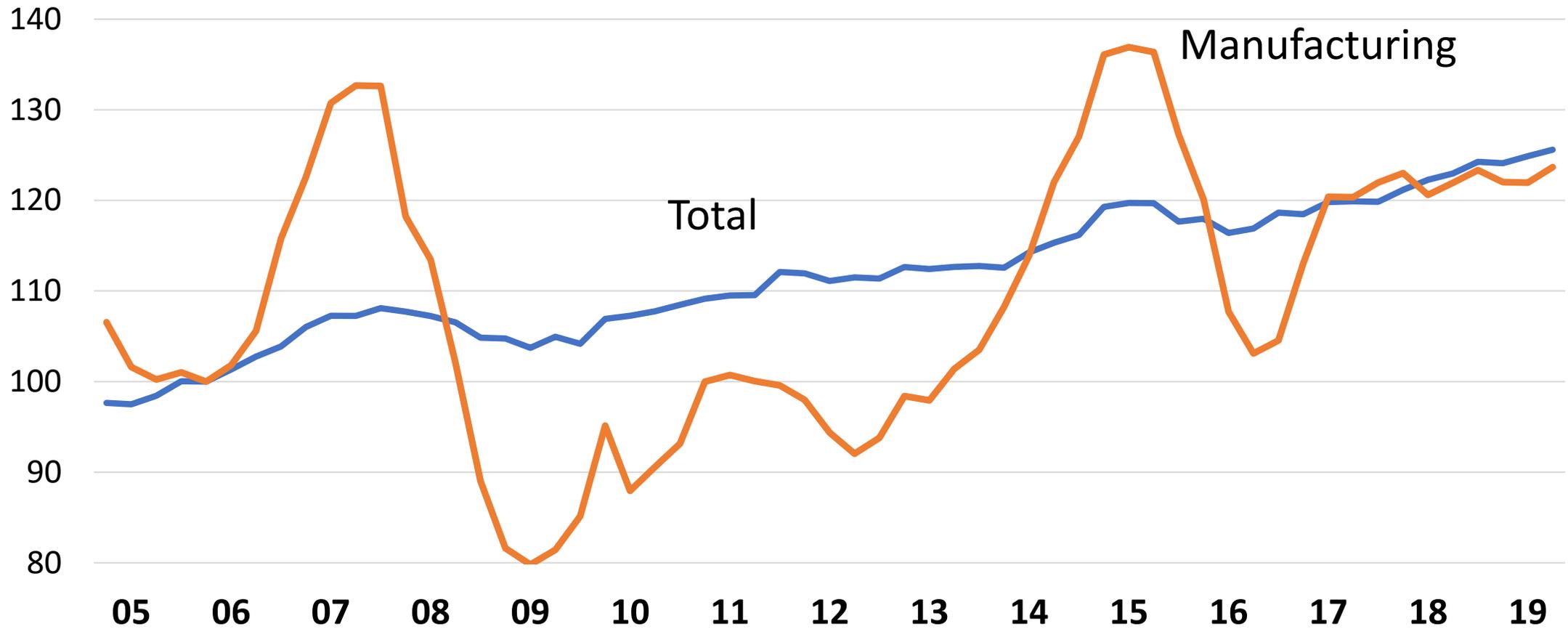


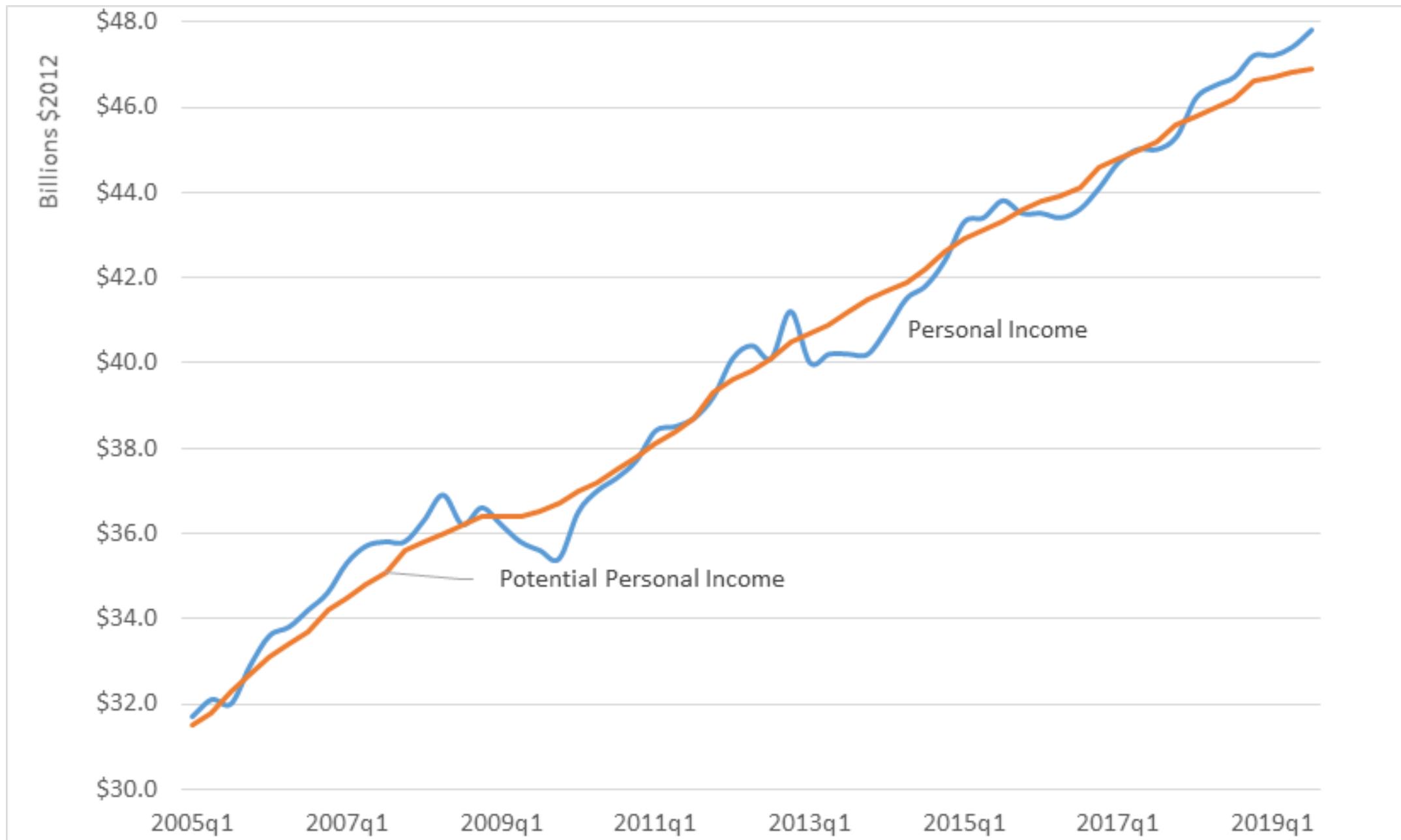
Shaded area unofficial MT recessions

Source: BEA and BBER calculations using modified CBO model

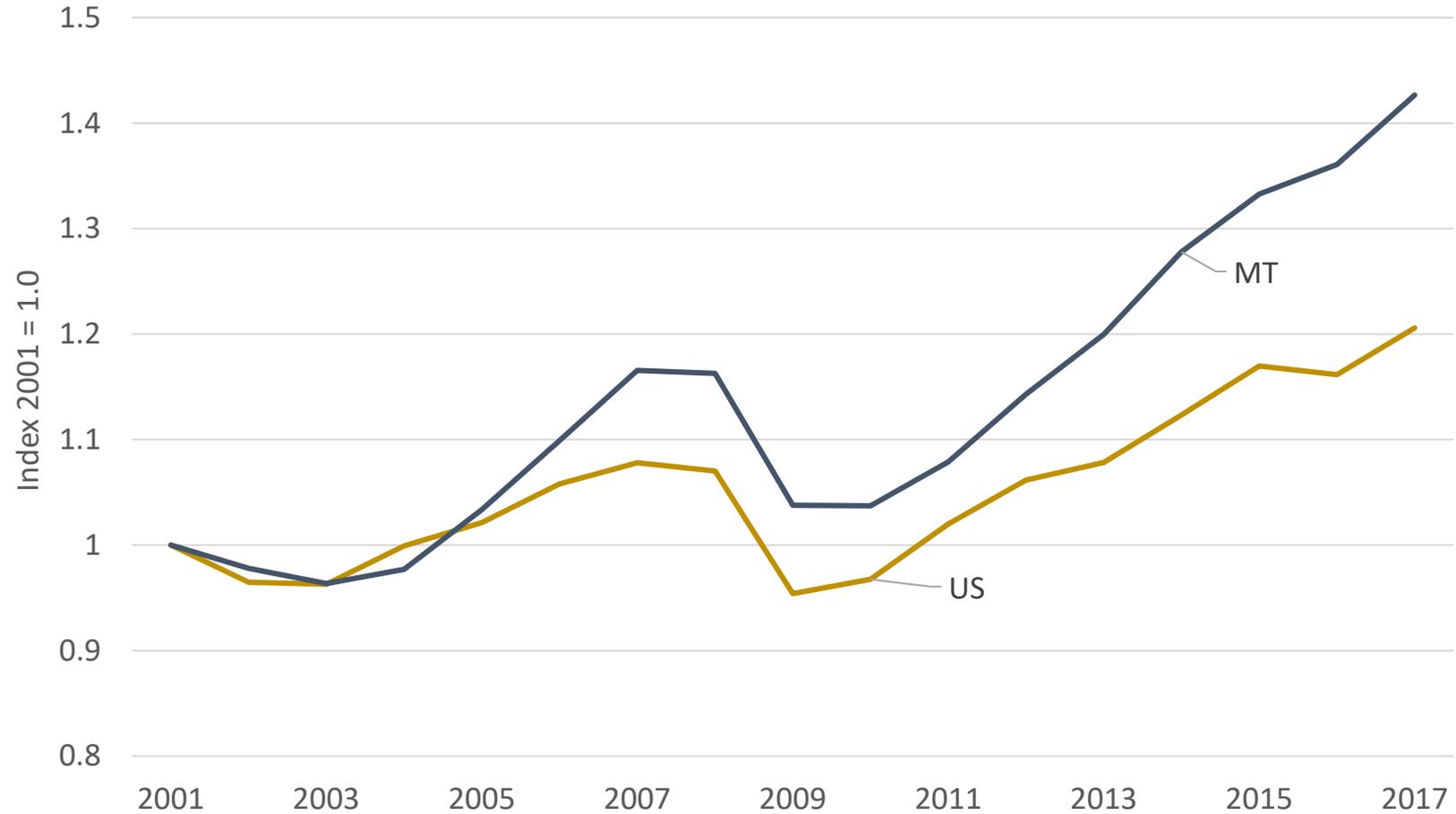
# Fluctuations in Oil Prices Make Montana GDP Changes More Difficult to Interpret

Montana Total GDP, Manufacturing GDP, as Percent of 2006Q1





# MT vs US Overall Manufacturing

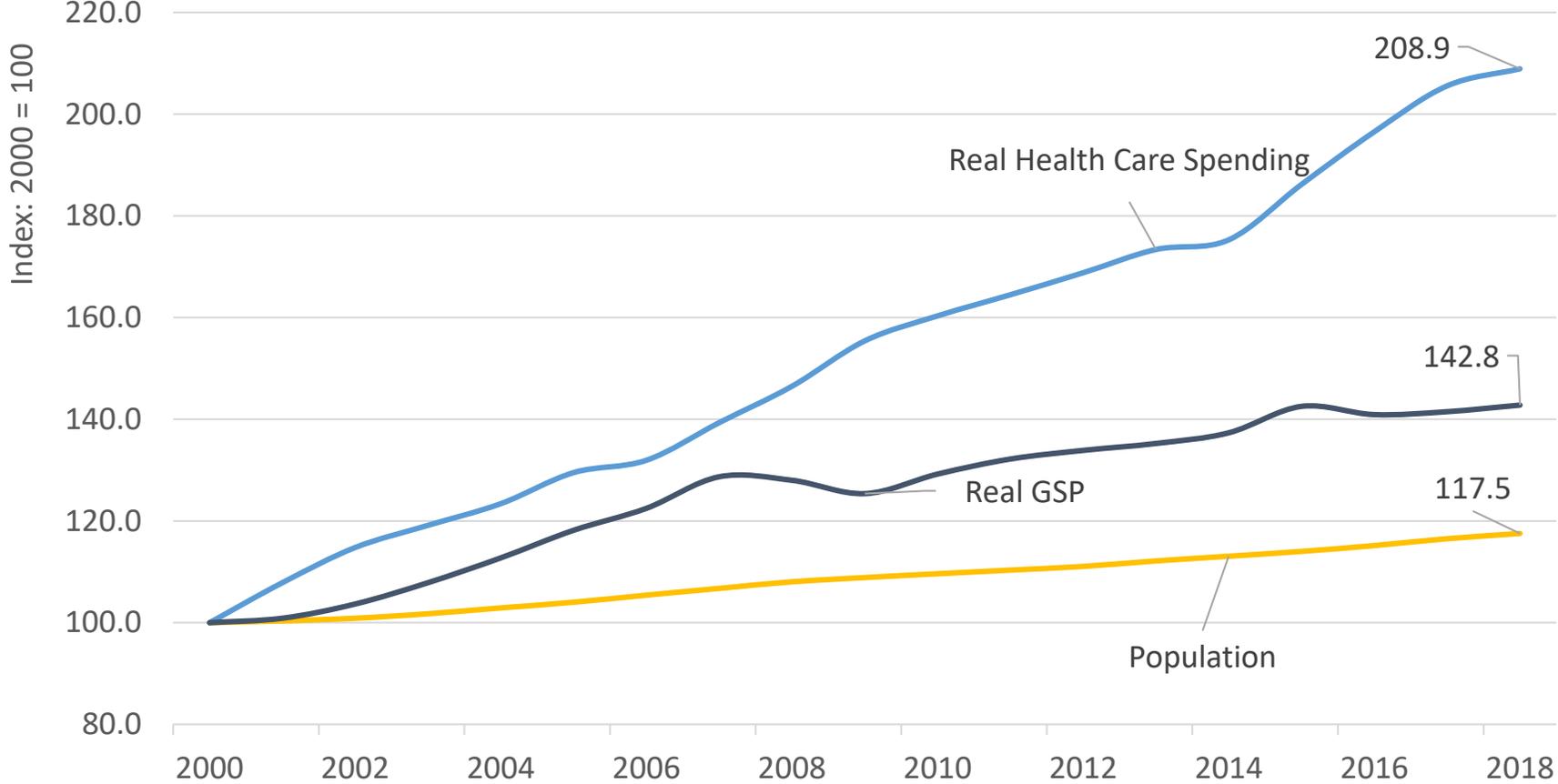


# Employment Growth by sector: 2007 - 2017

NAICS	Sector	Employees	Growth 2007-2017	
			Average	Total
321	Wood	3,193	-3.9%	-35.6%
333	Machinery	1,401	-1.2%	-12.8%
323	Printing & related support*	1,229	-0.8%	-8.1%
337	Furniture & related	1,194	-0.3%	-3.5%
311	Food*	3,062	0.3%	3.4%
327	Nonmetallic mineral	1,507	2.3%	28.9%
339	Miscellaneous	3,181	2.4%	30.5%
324	Petroleum & coal*	1,329	2.7%	34.1%
332	Fabricated metal	3,038	3.9%	53.0%
312	Beverage & tobacco*	1,421	5.7%	84.1%

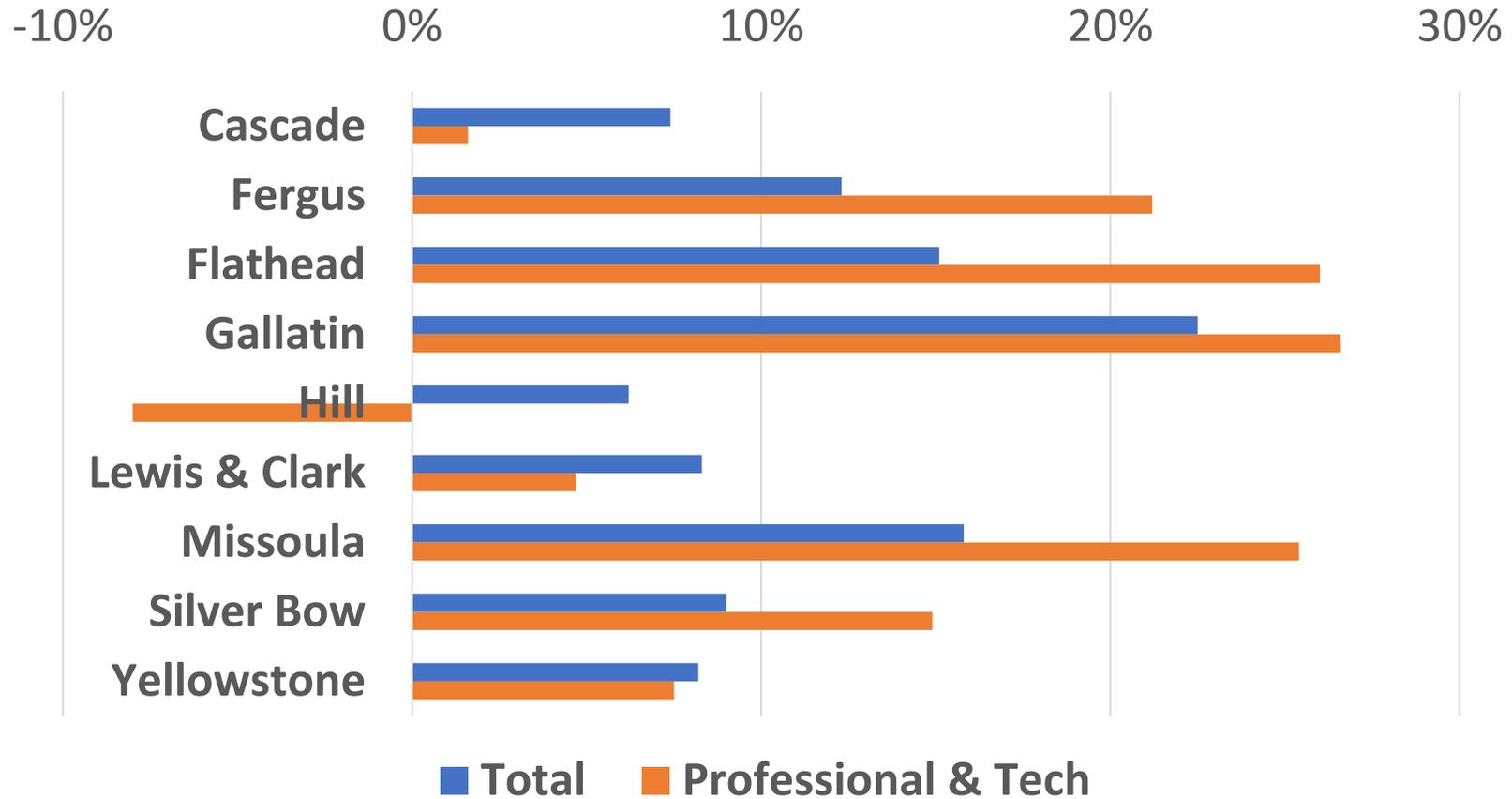
\* = Nondurable

# MT: Health Care, Real GSP, Population



# Tech Underlies the Faster Growth Since 2015

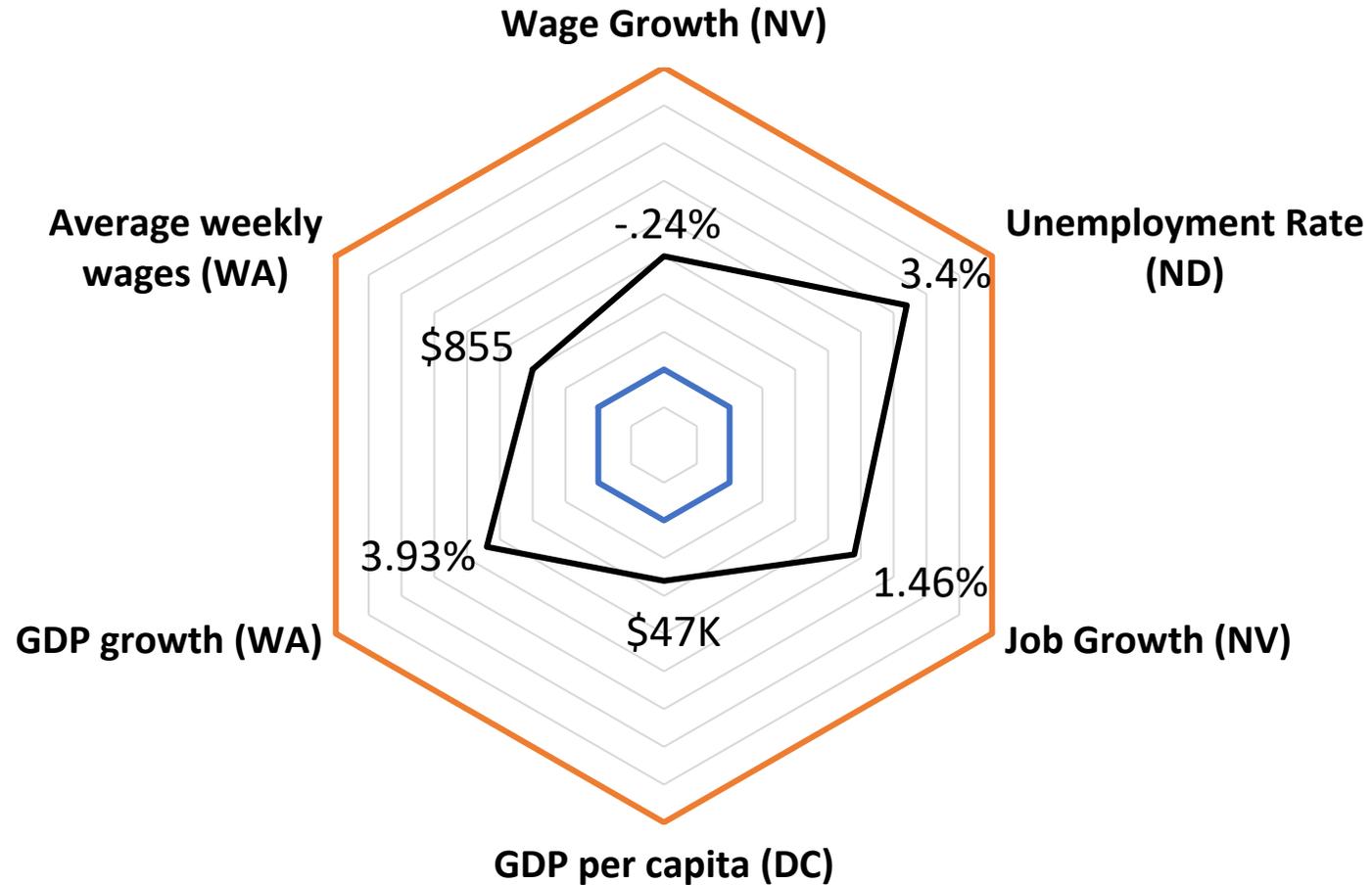
## Percent Growth in Earnings Since 2015



Source: U.S. Bureau of Economic Analysis

# Montana's Relative Economic Performance

Relative Position Among All States and DC, 2019



Source: howmuch.net

# Implications for Montana Taxes: Tax Adequacy

- State government: Income tax ✓
- State government: All other taxes ←
- Local government: Property tax ←

# Implications for Montana Taxes: Bills Coming Due

- Health care spending continues to grow much faster than the economy
- Public pensions: Using a reasonable 4 percent risk free rate of return, Montana pensions are 50 percent underfunded (Federal Reserve)
- Public infrastructure:

# Infrastructure Maintenance: Back of the Envelope

- \$35,000 in public infrastructure per person (OECD)
- Montana has \$35 billion
- Suppose it has an average life of 80 years
- $1/80$  needs to be replaced each year
- \$400-\$500 million in spending required each year