U.S. and Montana Economic Outlooks
Presenter: Jim Diffley, IHS

IHS is the economic forecasting subscription service purchased by the state. Their national forecasts of GDP, CPI, S&P500, various long and short term interest rates, and energy prices, and state-specific forecasts of incomes, employment, and GSP are just a few of the forecast variables that are used to develop the revenue estimates. In addition to monthly updates to the national and Montana forecast data, IHS provides monthly written analysis of key trends in the U.S. economy, as well as the key underlying assumptions in their forecasts and associated risks.

The interaction between the IHS national and state-specific forecast has been an issue of concern in the past. For example, to what extent did the IHS models utilize Montana-specific industries and demographics to produce the outlook for state growth? IHS published a summary of their regional forecast methodology in January 2014; the paragraph below highlights the key points:

> *"IHS Global Insight's state econometric models are linked to IHS Global Insight's model of the U.S. Economy, incorporating national demands for goods and services as drivers of economic activity within a state. The influence of the national economy is shaped by state-specific conditions of industry mix; relative cost structures, demographics, and income/expenditure patterns. A state's evolving competitive strengths and weaknesses determine its success in capturing a share of the national market by industry sector.*
>
> *"Our basic objective is to project how state economic activity varies, given an economic environment as laid out by IHS Global Insight's U.S. Macroeconomic and U.S. Industry forecasts. Analyst input is an important factor in finalizing the forecast."*

Steven Frable, the regional economist for Montana, follows up with any direct questions regarding the Montana forecast and on occasion integrates locally relevant information into his analysis.

The following list of U.S. forecast assumptions is based on the August edition of the U.S. Executive Summary.

Fiscal policy: Based on current law; assumes that no future government shutdowns will occur due to either budget or debt-ceiling stalemates

- Government shutdowns have a negative impact on economic growth overall, and a regionally measurable impact on tourism and related industries
- Stable federal policies reduce taxpayer behavior changes due to future tax policy uncertainty

Potential Question:

- What is the outlook for individual income tax simplification at the federal level? Is there a likely scenario under which significant changes would be enacted prior to 2018?

Federal Reserve: Tapering process should be completed in October; the federal government will replenish the nearly empty Highway Trust Fund in order to prevent state and local governments from cutting back on road and mass transit construction spending in FY 2015

- The Highway Trust Fund pays for about 87% of Montana highway construction. According to a recent article in the Billings Gazette, about 13,000 jobs are tied to Montana highway construction; nearly 4,000 jobs could be at risk if federal funding is not addressed

Exchange rates and non-US GDP growth: The inflation adjusted, trade-weighted value of the dollar is expected to rise 1.2% over the 10-year forecast period against the currencies of the United States' major trading partners and fall 13.5% against the currencies of other important trading partners

- One of the agricultural industry's largest impacts on the Montana economy is through bulk grains exports, particularly to Asian markets.

Potential Question:

- How will the appreciation/depreciation of the U.S. dollar impact exports in general, and Montana grain exports in particular?

Energy: West Texas Intermediate prices will fall to $98/barrel by the end of 2014 and then to $90 by the end of 2015. This implicitly assumes that no additional price premium will be added as a result of the increased political tensions in Iraq, Libya, and elsewhere.

Potential Question:

- Previous editions of the Executive Summary have explicitly included the assumption that US regulations will be eased around 2016 to permit exports of crude oil, which would link the US-based WTI prices more closely to global Brent prices, ultimately driving WTI prices higher. Is this assumption still driving the increase in WTI following 2015? What are the political headwinds to such a policy change?