
State of Montana Economic Outlook

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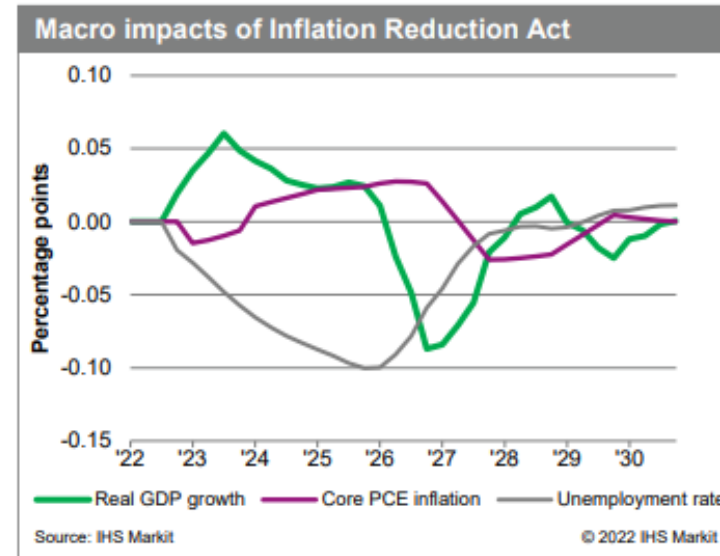
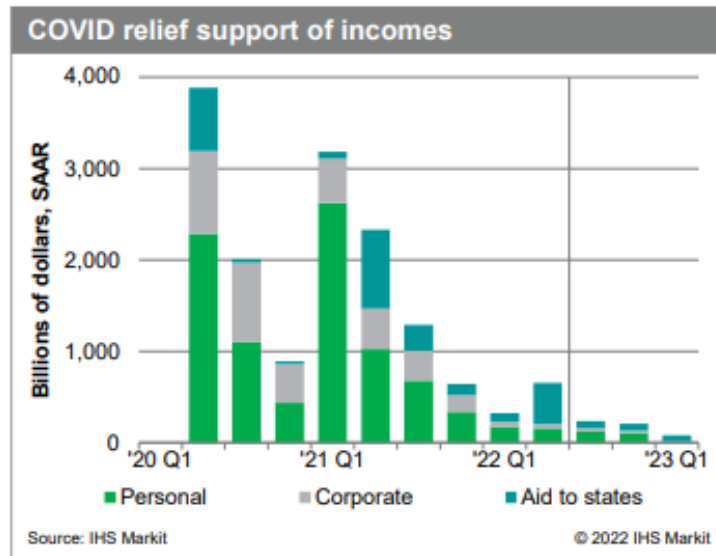
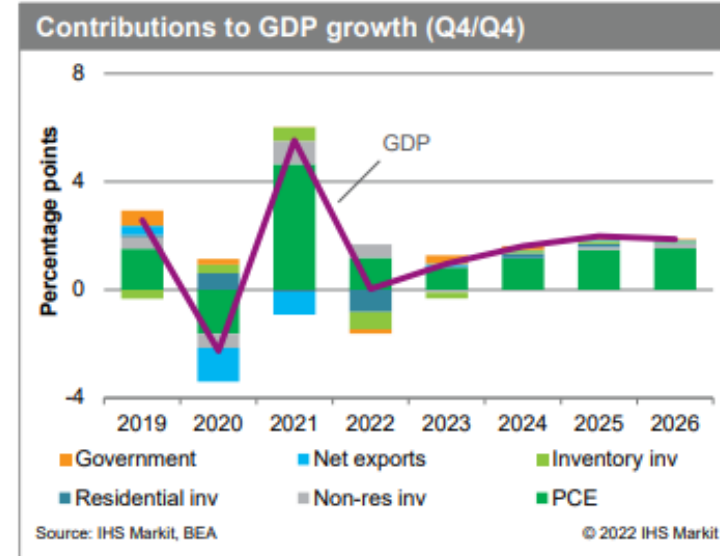
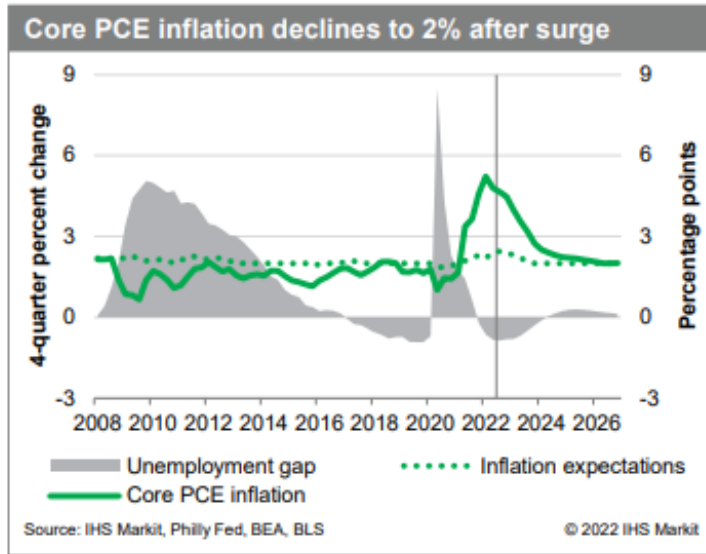
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US Outlook: Slow growth on the horizon with risks weighted to the downside

- US enters a “growth recession” as fiscal support and pent-up demand wane, financial conditions tighten, foreign growth sags, and surging prices erode real income and wealth
 - Recent data clarify the economy is not in recession, but downside risks are elevated
- The Fed’s priority is to lower inflation, if it takes a recession so be it
 - We expect another 75-basis point increase during the Sept meeting
- Employment growth stalls in 2023 leading to a material rise in the unemployment rate
 - Unemployment will peak between 4.5% and 5% by late 2024 in our baseline
- Core PCE inflation retreats gradually: 4.8% in 2022, 3.4% in 2023, 2.4% in 2024
- Housing market weakens in the face of affordability pressures but won’t collapse
- This forecast includes the Inflation Reduction Act
 - The incentives encourage more renewable energy use and limits prescription drug costs increases but the impacts on headline growth and inflation will be modest

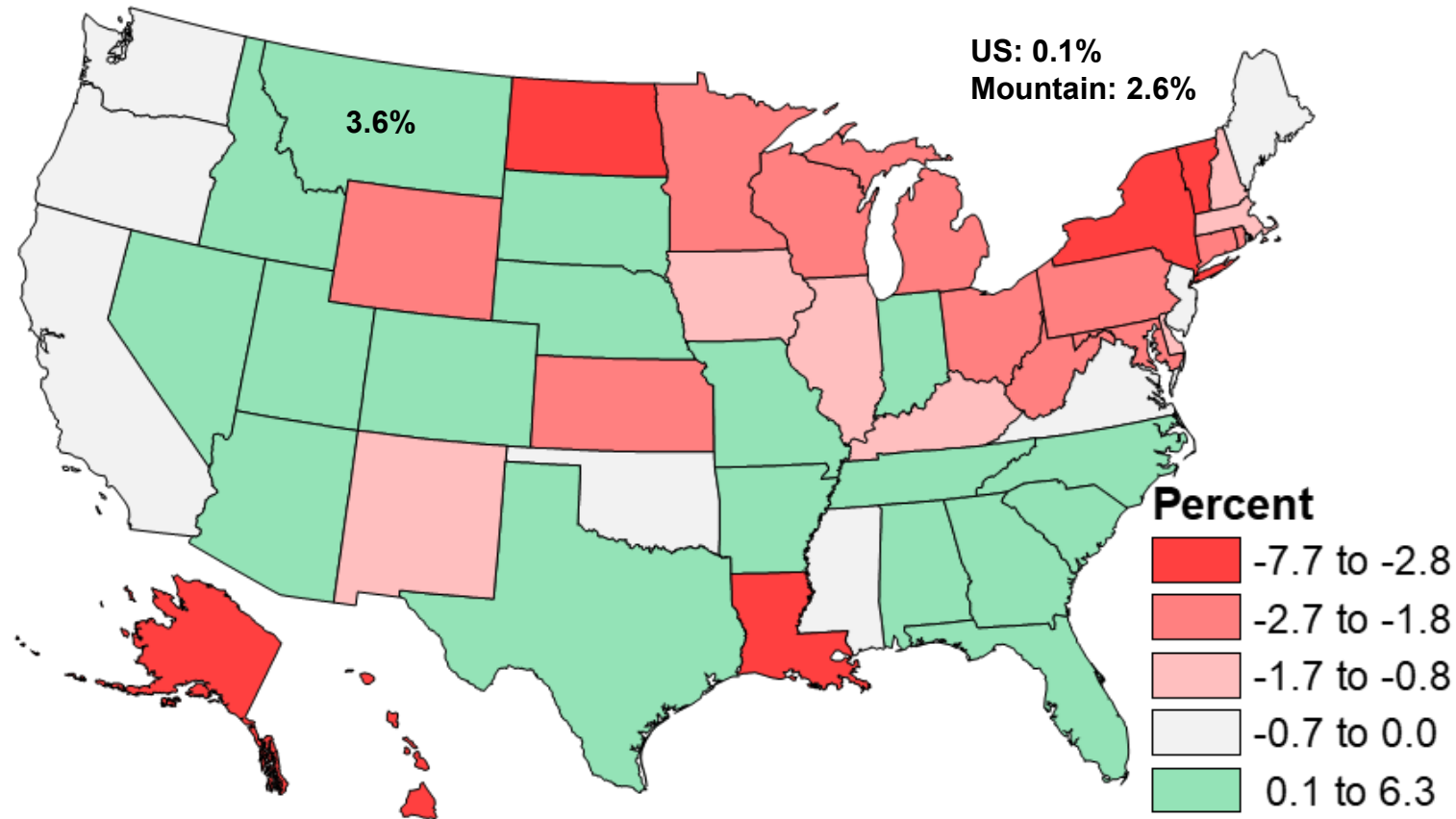
Key forecast assumptions



Mountain and South Atlantic states have recovered from pandemic losses

Montana third highest growth since pandemic began, trailing only Idaho and Utah

Employment, percent change from February 2020 to July 2022

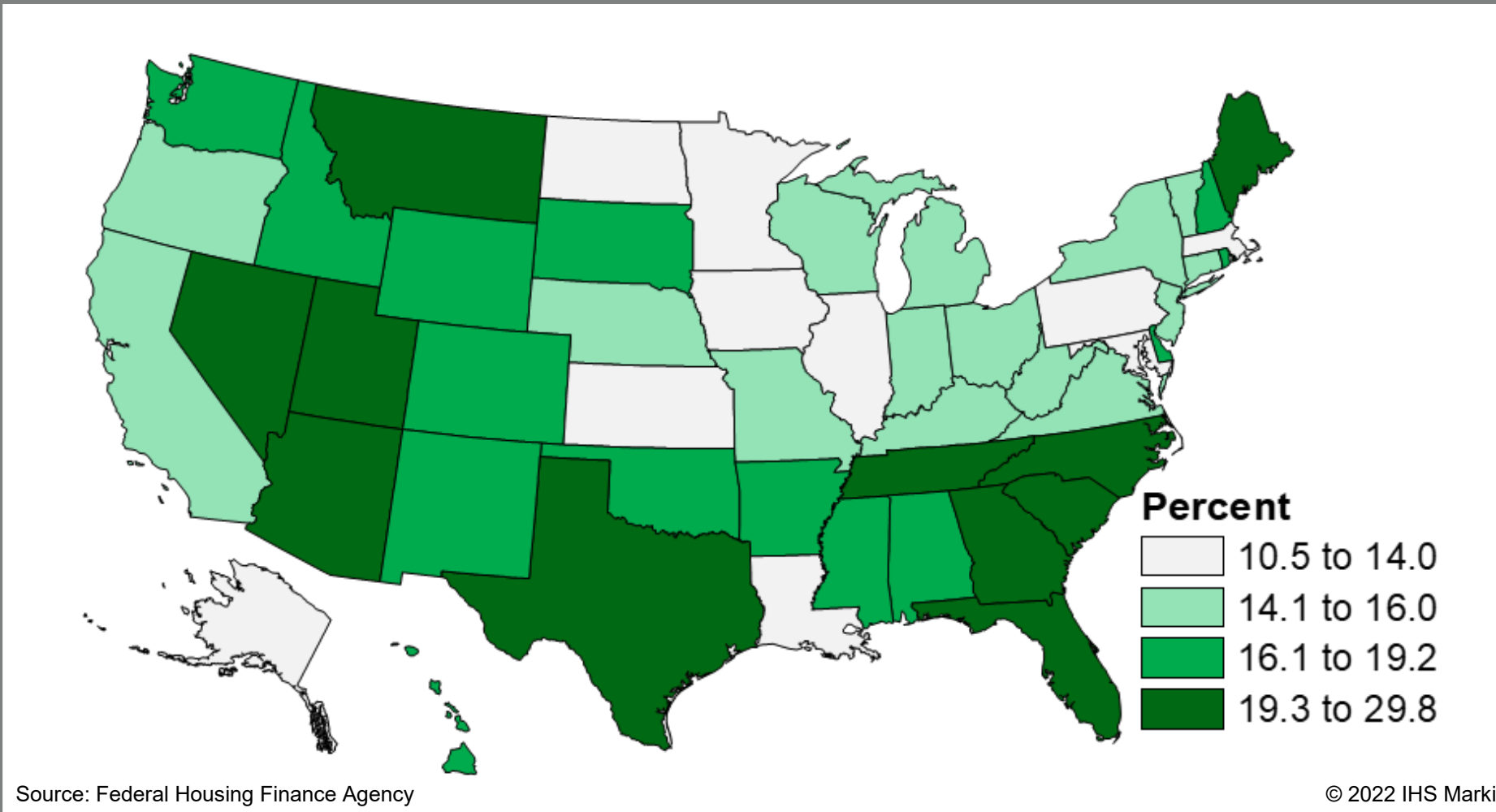


Source: IHS Markit

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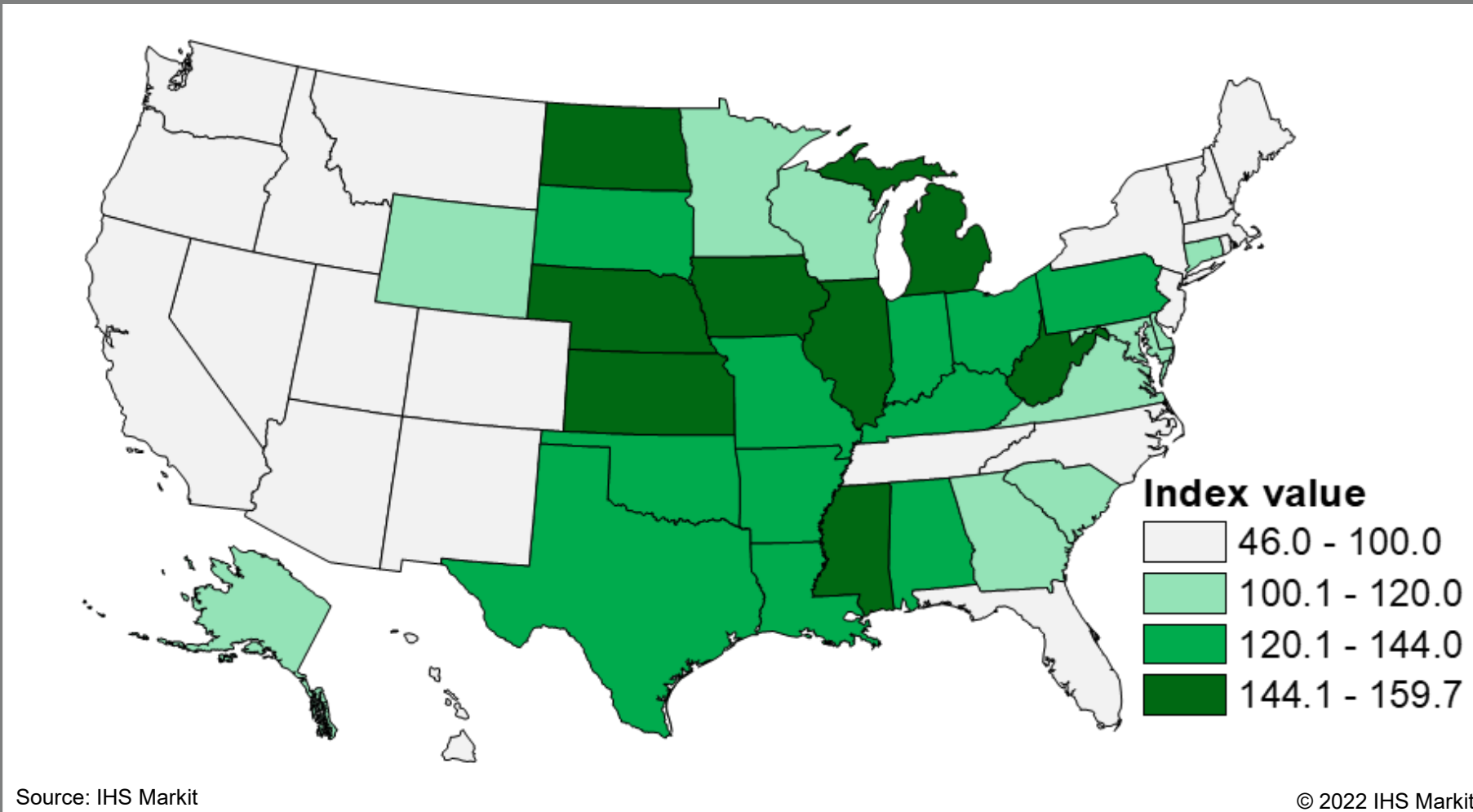
Home prices in the Mountain and Southeast expanded most rapidly

Home price index – purchase only, 2022Q2, year-over-year change

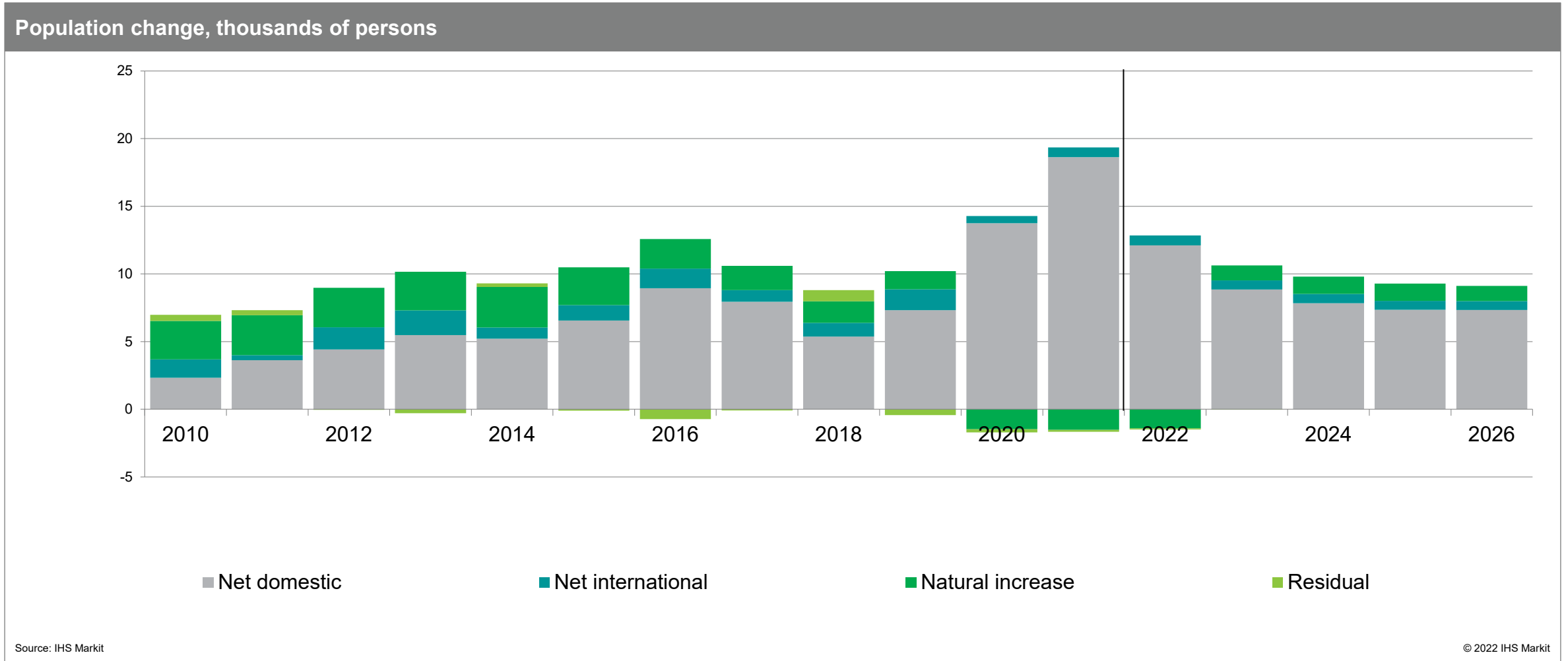


The Mountain region saw the sharpest decline in affordability

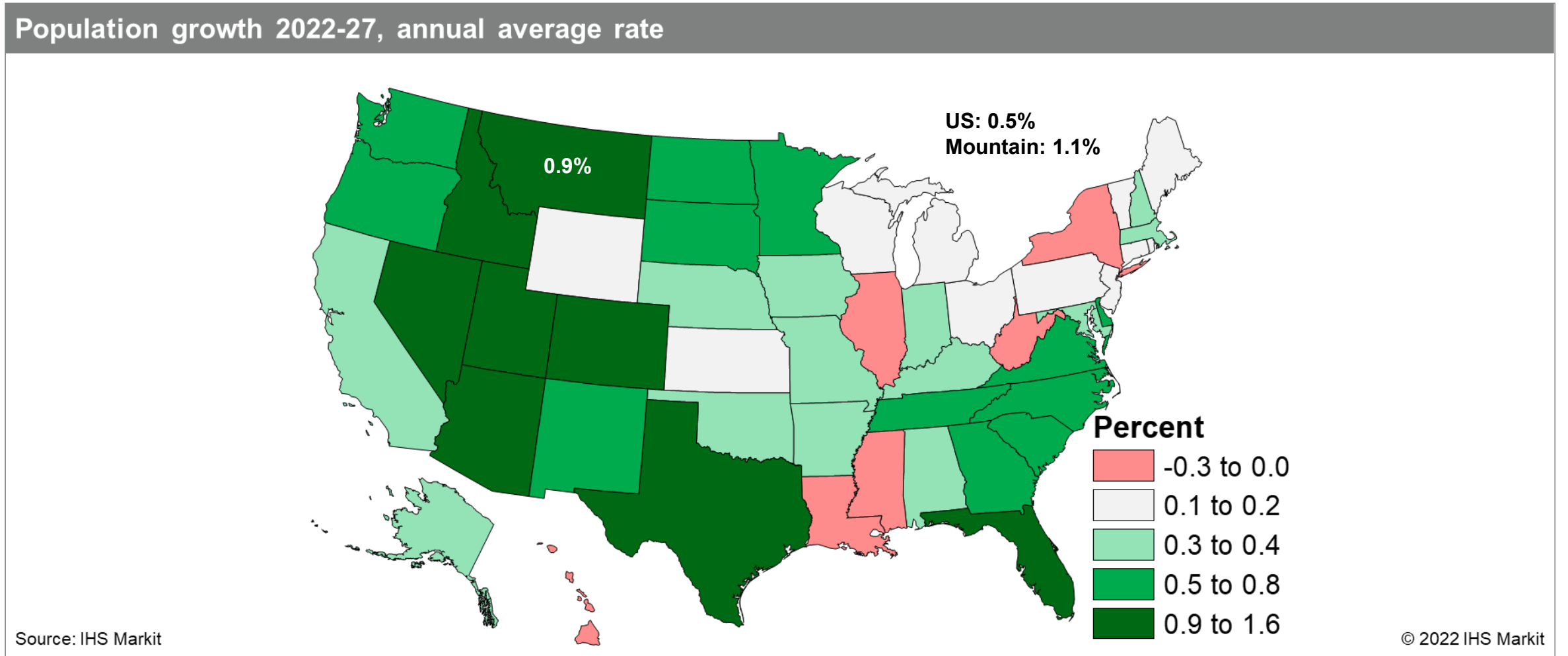
Affordability index, median, higher index = more affordable, 2022Q2



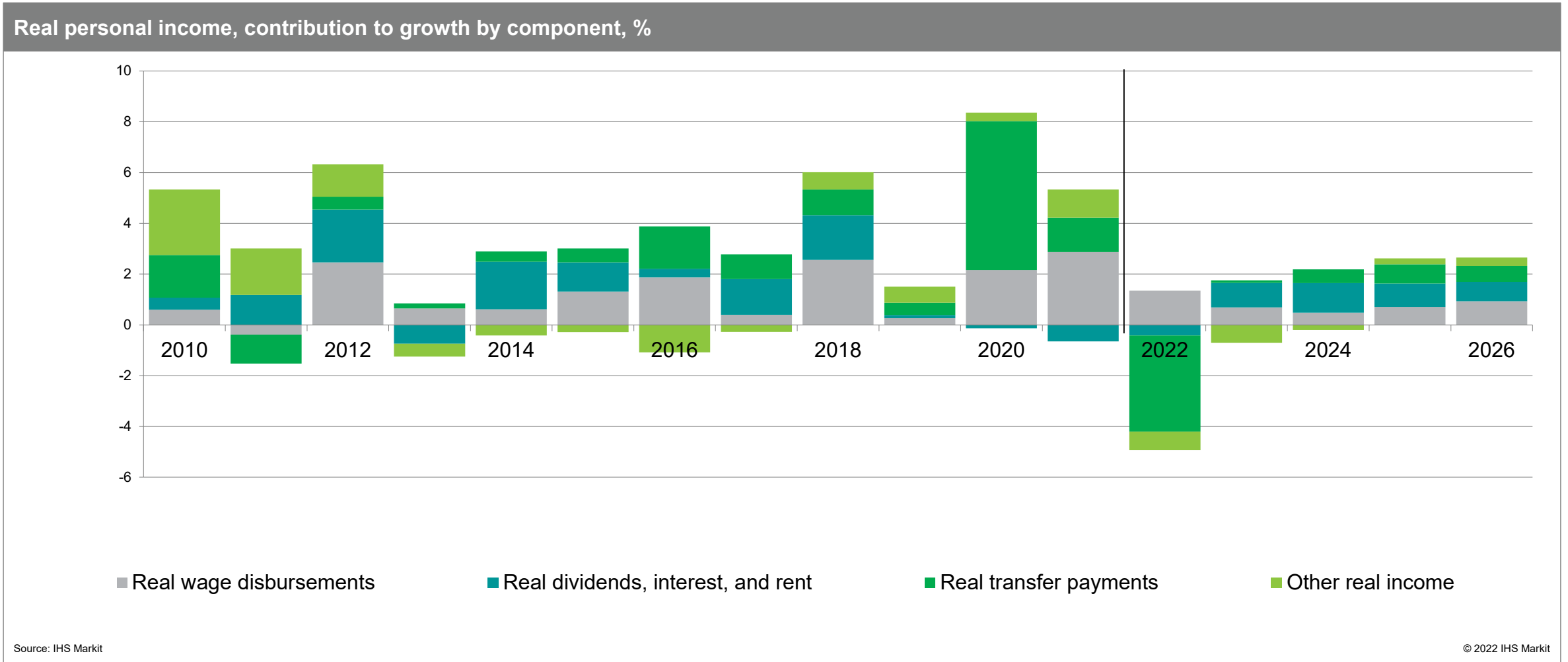
Net domestic migration will cool but remain the driver of population growth



Montana's population growth will outpace US average due to domestic in-migration

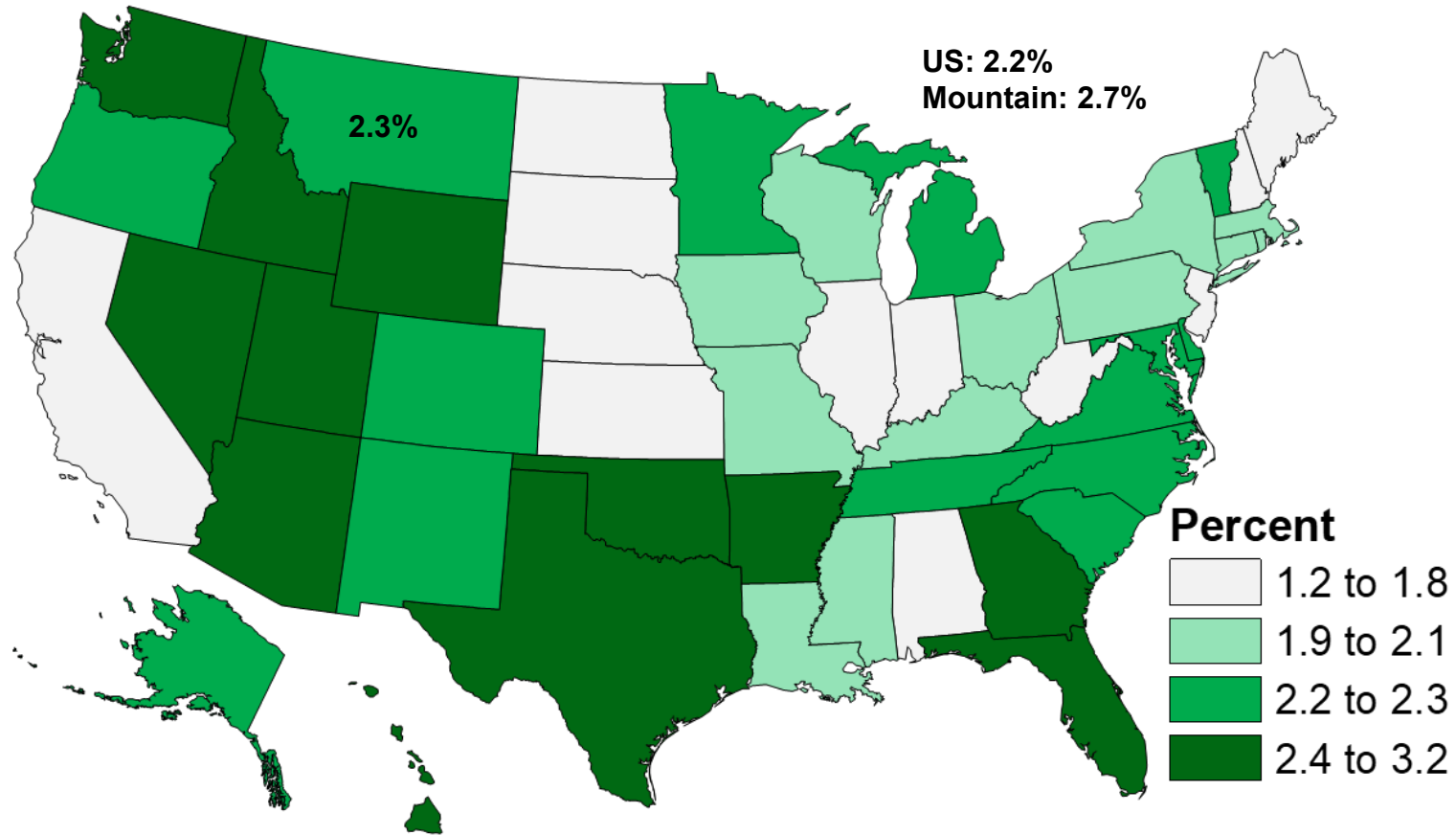


Real income growth will normalize by 2024 after transfer payments cause 2022 contraction



Montana's real income will trail Mountain region as employment recovery loses momentum

Real personal income growth 2022-27, annual average rate



Source: IHS Markit

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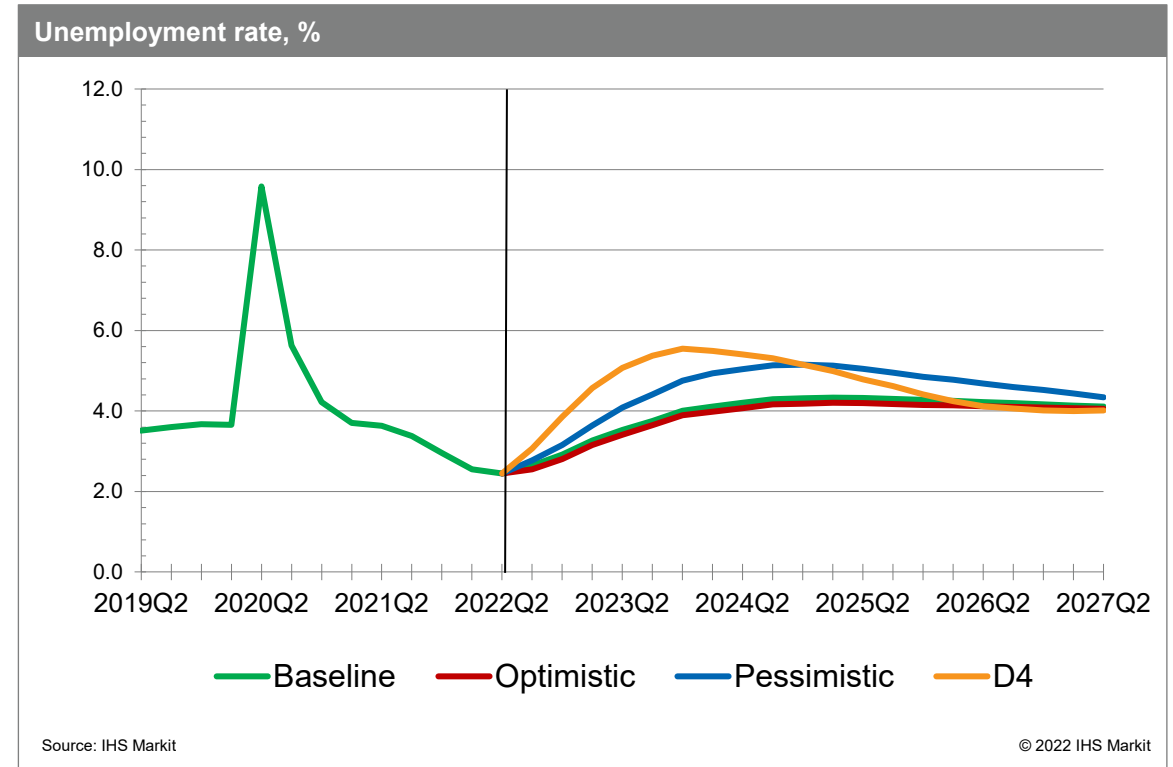
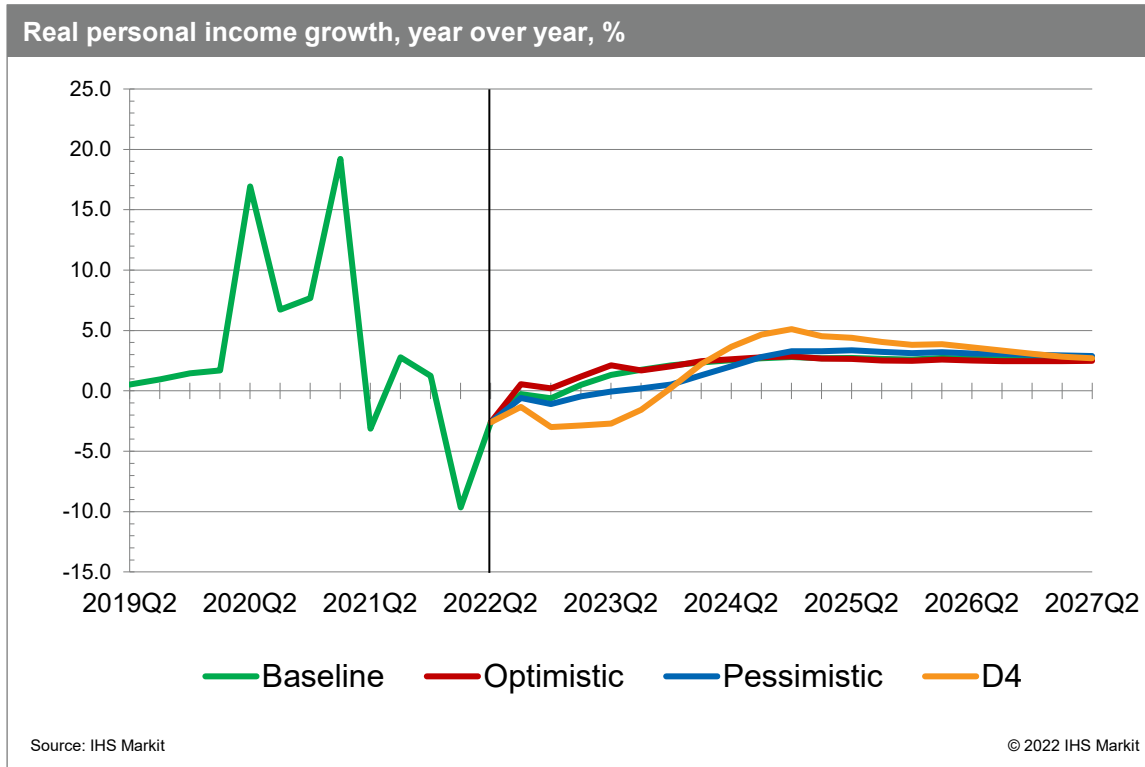
Risks to the forecast

| Scenario | Characteristics |
|--|---|
| <p>Pessimistic: Recovery stumbles as Russia-Ukraine conflict intensifies, grinds on (Probability = 35%)</p> | <ul style="list-style-type: none"> • The pessimistic scenario is characterized by a weaker recovery in consumer spending and GDP growth than in the baseline forecast and a shallow recession that extends the decline in GDP that occurred in the first half of this year through the first quarter of 2023. • Underlying this narrative is the assumption that the Russia-Ukraine conflict drags on, leading to higher price paths for energy commodities, other industrial commodities, and grains. • As a result, personal consumption expenditures (PCE) remain essentially flat over the second half of 2022. Annually, PCE rises 2.1% in 2022 and 0.6% in 2023. • GDP declines through early 2023. On an annual basis, GDP grows 1.3% in 2022 and declines 0.3% in 2023. • The price of Brent spikes to average \$120 per barrel by the fourth quarter of 2022. |
| <p>Optimistic: Faster resolution to the Russia-Ukraine conflict and improving supply issues (Probability = 15%)</p> | <ul style="list-style-type: none"> • The optimistic scenario is characterized by stronger growth of consumer spending and by stronger productivity relative to the baseline. • We assume the consumer and business response to the Infrastructure Investment and Jobs Act (IIJA) is more robust than in the base, while a quicker resolution to the Russia-Ukraine war allows for a lower path of energy prices. • GDP rises at a 2.2% annual rate over the second half of 2022 and 1.8% year-over-year. • The price of Brent oil remains on average \$3 below baseline for the remainder of 2022 before converging to baseline. This allows consumer spending to rise 2.6% over 2022 versus 2.5% in the base. • The unemployment rate quickly falls to 3.4% by the end of 2022 and PCE inflation falls below the FOMC's target by mid-2024. |
| <p>Baseline forecast (Probability = 50%)</p> | <ul style="list-style-type: none"> • Real GDP rises at a 1.8% annual rate over the second half of 2022 and 1.7% year-over-year. • Real PCE grow 2.5% in 2022 as core PCE price inflation rises to 4.8% in 2022. • The upper end of the federal funds rate target is raised to 3.75% by year end. • Average price of Brent crude oil rises to \$106 in 2022 before falling to \$98 in 2023. |

D4: Moderately severe recession and consumer-pull back scenario

- Assumes Russia-Ukraine conflict intensifies and persists for an extended time.
 - Leads to sharply higher energy prices stifling global economic recovery.
- Businesses scale back investment for next two years and consumer spending remains weak as higher energy prices erode real disposable income.
- Ongoing deterioration of supply chains remains a drag on domestic production and consumer spending for the foreseeable future.
- New COVID-19 cases remain elevated, but containment measures are not reimplemented though a voluntary pullback from “socially dense” consumption.
- Higher energy prices, sanctions against Russia, elevated uncertainty and risk aversion causes global and US recessions.
 - Nationally, GDP falls 2.8% (not annualized) and the unemployment rate rises to 8.1% by late 2023.

Alternative forecast impacts on Montana



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