DR. ANNE ALEXANDER
Office of Academic Affairs
Associate Vice Provost for Undergraduate Education
University of Wyoming
Meet the new boss. Same as the old boss?

I'll tip my hat to the new constitution, take a bow for the new revolution, smile and grin at the change all around me. Pick up my guitar and play.

Just like yesterday.

Then I'll get on my knees and pray,

We don't get fooled again.
US Outlook

Fear the Bust
U.S. Unemployment rate

Sept 2017 = 4.2%
The rate of unemployment is now well below what we would call the “natural” rate of unemployment.

In fact, unemployment is at the lowest rate we’ve seen in 16 years. That would usually signal a very tight labor market nationwide.

We would expect wages to be rising. We don’t see that happening right now, though – which is a head-scratcher. More on this in a second....
Labor force participation rate Sept. 2017 = 63.1%
The share of Americans leaving the labor force accelerated in the Great Recession and has not recovered to pre-recession levels. Labor force participation has not risen above 64% since 2011.
• Prime working age (25-54) population: rate of exit has level off but is still high compared to prior to the Great Recession.

• Baby Boomers: Some of this churn is due to acceleration in retirements.

• Millennials: A large generation whose full force hasn’t been felt yet. However, they are
  • choosing to stay in school longer
  • staying out of the labor force for home-keeping
  • the largest number are participating in the “Gig Economy,” which is reflecting heavily in participation rates and slow-ish wage growth.
U.S. Employment Situation

Percent of American labor force who want to work full time but can’t find full time work

Sept. 2017 = 8.0%
The number of Americans who want to work full time but can’t find full time work topped out at an eye-popping 17% in 2009, staying above 15% until 2012.

Last month, the number dropped to 8%, which is the lowest number in a decade.
U.S. Employment Situation – wage growth is sluggish
Gig economy participation is a big piece of this. The short-term nature of the employment relationship means conversations about pay are one-off and resemble bids more than regular employment negotiations.

In addition, many employers are offering more fringe benefits (higher contributions to 401Ks, for example) instead of higher wages and raises – it’s easier to retract benefits in hard times than it is to pull back pay raises. This may explain some of the wage stagnation as well.
US: Economic expansion already long in the tooth

Recession in 2019 will trouble Trump

Risks to this forecast:
• Big slowdown in China forecast for 2018 – US recession sooner?
• Businesses could loses confidence in administration
• Or households/business cope with higher debt-servicing costs for longer
Proposed Tax Plan

• Political will and capital = biggest unknown. Will this die an “around the margins” death or be substantial reform, seizing a once-in-a-generation opportunity?
Fed beginning to initiate normalization of interest rates.

Fed Funds rate currently at 1.25%
US Highlights/Outlook

• National economic growth continues at a moderate pace consistent with an approximate 2%-3% annual rate for the year.
  – Hurricane impacts will slow Q3, early Q4 growth nationally
  – Rebound in activity in Q4 and early 2018 as recovery efforts occur.
• National labor market conditions continue to tighten
  – Employment continues to grow
  – Wage growth continues at moderate pace
• Inflation remains below 2%
• Federal Reserve normalizing monetary policy will serve to constrain some potential growth as it gradually raises interest rates.
Global Outlook

Keep Calm and Carry On
The Swan Chart

- Political uncertainty drag (30%)
- Sharp increase in bond yields (25%)
- China hard landing (20%)
- Isolationism and trade wars (15%)
- More capex (10%)
- Significant fiscal accommodation & fast track reform (5%)

Downside risks to the growth outlook

Upside risks to the growth outlook

The y-axis gives an indication of how probable we consider a risk factor to be. The size of the swans gives an indication of how important the impact of that event materialising would be in terms of its upside or downside shock to the outlook.

Source: SG Cross Asset Research/Economics
China remains the big 'pure' economics risk.
## Key themes in 2017-18

<table>
<thead>
<tr>
<th>Good economics</th>
<th>Volatile politics</th>
<th>2018: year of high anxiety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth strengthens in US and Europe</td>
<td>Trump impeachment risk moderate, unstable ally for Germany, Canada</td>
<td>US politics continues to look inward as 2018 midterms approach</td>
</tr>
<tr>
<td>Russia and Brazil (probably) out of recession</td>
<td>UK-EU Brexit negotiations to suffer series of crises</td>
<td>Chinese leadership grasps the nettle, economy slows</td>
</tr>
<tr>
<td>China grows quickly, in spite of some financial tightening</td>
<td>Isolation of Qatar continues in MENA</td>
<td>Time running out for Brexit negotiations</td>
</tr>
<tr>
<td>India to see Modi pay-off, other hotspots in ASEAN, SSA, Iran</td>
<td>No toleration of dissent in Russia, Turkey or Philippines, warning signs in Indonesia</td>
<td>Other risks: North Korean nuclear programme, Russia election, OPEC deal ends</td>
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Wyoming

Fear the Boom
Highlights/Outlook

- The state economy continues to struggle after a downturn in oil and natural gas prices, and the downturn in coal production.
- Wyoming unemployment declines despite employment levels dropping significantly suggest the state is experiencing significant out-migration.
- Regional conditions vary – locations dependent on energy production struggling, while less dependent areas resilient to state downturn.
- Persistent energy downturn will result in continued austerity in the state.
Modest employment growth July 2016 - March 2017, but has been dropping since April 2017.

Unemployment rate down to 4% from a high of 5.7% in July 2016.
Wyoming Labor Force

Modest labor force growth since bottom of bust through April 2017, then dropping again to levels similar to trough – people are exiting the state.

Peak, August 2015 = 310,483

July 2016 = 299,125

Sept. 2017 WY Labor Force = 293,820
Wyoming Number of Unemployed, 2006-2017
Wyoming economic conditions show downturn persists...
But regional economic conditions vary...

Source: Wyoming Economic Analysis Division
Natural resources price trends

- **Opal Hub Prices** ($ per MMBtu)
  - September Average: $2.65

- **WTI Prices** ($ per bbl.)
  - September Average: $49.72

- **Powder River Coal** ($ per Ton)
  - September Average: $11.53

**As of September 28, 2017**

- **Fiscal Year 2018 Average Price:** 
  - Opal Hub: $2.64
  - WTI: $48.10
  - Powder River Coal: $11.52

- **Calendar Year 2017 Average Price:**
  - Opal Hub: $2.71
  - WTI: $49.30
  - Powder River Coal: $11.53

Source: Bloomberg and Wyoming Economic Analysis Division
Natural Resource Production

- Wyoming Natural Gas Withdrawals (MMCF - Monthly)
- Wyoming Oil Production (Thousands of bbls. - Monthly)
- Wyoming Coal Production (Millions of Tons - Monthly)

Cumulative Change YTD:
- Jul 2017 vs. Jul 2016: -9.2%
- Jul 2017 vs. Jul 2016: -3.1%
- Sep 2017 vs. Sep 2016: +14.9%

Source: Energy Information Administration.

Economic Analysis Division • State of Wyoming
Wyoming’s Major Revenue Streams — Historical and Projected

Source: October 2017
CREG Forecast.
Revenue Implications

• Energy contributes approximately one third of total economic output of the state.
• Energy contributes about 60% of state tax revenues.
• Major sources of energy revenues are
  – Severance taxes
  – Ad valorem taxes
  – Mineral royalties
• Each is dependent on the value of production (price x quantity) in the state
  – When prices and production fall, so too does state revenue.
Wyoming Outlook

– Continued headwinds on energy production value will cause reduced severance and mineral royalties to persist.
  • Coal lease bonuses ending in 2018 – creating concern regarding school construction funding.
– Continued state government austerity (and possible tax increases?) in future.
– Both will cause weak growth overall in state over several few years.
  • Consensus Revenue Estimating Group suggesting weak energy production and revenues persist through 2022 (end of their forecast window).
– Weak energy sector will have continued implications for regional growth – especially PRB, and central/southwest Wyoming.
Jobs lost in current energy downturn

Total: 18,000
Energy: 9,000

• The **weight of Wyoming jobs, income, and infrastructure funding** has been on the shoulders of a very few for a long time. And, we rely on exporting our goods and services to the rest of the US and the world.
Is History Destiny?

- Do we not have strengths we can play to? Yes, many.
  - Incredible quality of life
  - Ability to experiment and test bed new ideas due to less hierarchy and entrepreneurial spirit.
  - We can turn our educational system on a dime compared to other states.
  - We can tap into cross-skilled professionals who do not want to leave.
  - Untapped potential in high tech manufacturing, value added tourism, value added agriculture, and services.
  - We can diversify. And we should do it on OUR terms, instead of letting it happen TO us.
Is History Destiny?

• Limitations are only limitations if we throw up our hands:
  – But we don’t have a good transportation system!
    \((\text{Say the people whose ancestors built the UPRR, massive irrigation systems, and an interstate system across vast areas of tough land})\)
  – But we have terrible connectivity!
    \((\text{Say the people who have invested in one of the best education systems in the country and significant broadband})\).
  – But we can’t disrespect our traditional sources of economic growth!
    \((\text{Since when was asking others to do the heavy lifting instead of asking the same few industries to do it all “disrespectful?”})\).
  – But we don’t want to pay for it!
    \((\text{Says the state that exports the vast majority of its taxes})\)
  – But we don’t want to grow!!
    \((\text{Then we will die, I’m afraid})\)
Thriving in the age of anxiety?

• Practice your inner Marcus Aurelius
Thank you!
Welcome to our esteemed panelists!

- Cindy DeLancey, President, Wyoming Business Alliance
- Buck McVeigh, Executive Director, Wyoming Tax Payers Association
- Matt Micheli, Partner, Holland & Hart
- Dale Steenbergen, CEO & President, Greater Cheyenne Chamber of Commerce
CINDY DELANCEY
President
Wyoming Business Alliance
BUCK MCVEIGH
Executive Director
Wyoming Taxpayers Association
DALE G. STEENBERGEN
President & Chief Executive Officer
Cheyenne Chamber of Commerce

SOUTHEAST ECONOMIC FORECAST
THANK YOU FOR ATTENDING

SOUTHEAST ECONOMIC FORECAST

OTHER UPCOMING EVENTS

Central Economic Forecast
February 1, 2018
Ramkota Hotel • Casper, Wyoming