



Economic Summary: 1Q2014



Economic Analysis Division

State of Wyoming

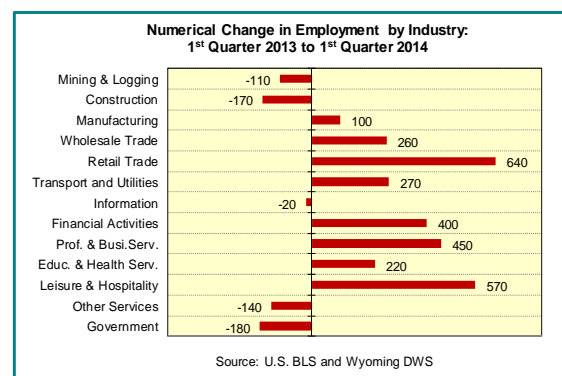
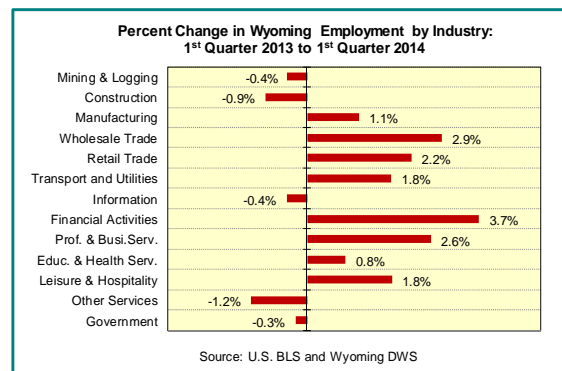
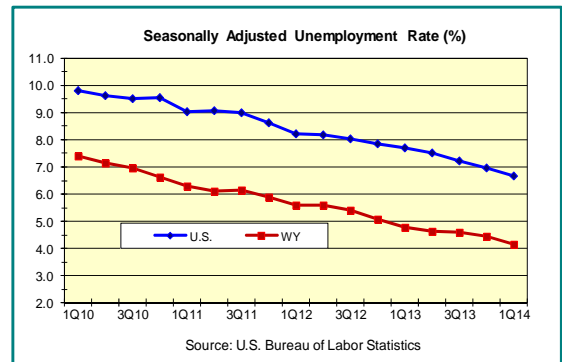
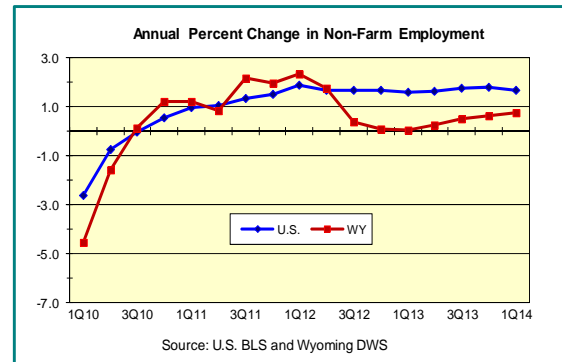
Current Global and U.S. Economy

Global economic activity has been soft since the start of the year, but it is expected to gain strength in the second half as pent-up demand begins to propel the U.S. economy and as the Euro zone recovery solidifies. World GDP growth is expected to gain momentum and return to a normal growing trend by 2015. Easing fiscal drag and improving credit conditions will support growth in developed nations. Improving global demand, weaker currencies, and moderate fiscal stimuli will support emerging economies. Europe's long-term prospects largely depend on policymakers' commitment to structural reforms to increase investment and productivity.

Extraordinary winter weather, the expiration of the emergency unemployment insurance program, and a drop in inventory accumulation disrupted U.S. economic growth in the first quarter. As these impacts fade, the U.S. economy's underlying growth drivers remain solid and its strength is increasingly evident. Payroll employment growth has accelerated above 200,000 per month since the start of the year. More of the new jobs are also higher paying than those created earlier in the recovery. Real GDP is expected to grow around 3 percent in the second quarter. Despite the stronger job growth, unemployment and underemployment remain high. There was a high number of people out of work for more than six months and many of them left the labor force.

Employment

Mainly hindered by the decline in natural gas prices in early 2012, Wyoming's economic recovery slowed down in the second half of 2012 and the first half of 2013. The mineral extraction industry lost jobs and total employment growth was weak during that period. However, the state's economy appeared to regain strength gradually starting in the third quarter of 2013, thanks to rebounding natural gas prices, continued oil drilling, and the strength of service providing industries. Compared to a year ago, total employment increased by 0.8 percent, or 2,290 jobs in the first quarter of 2014, a continued improvement from the previous quarter. Wyoming's unemployment rate dropped slightly to 4.2 percent in the quarter, while in the U.S., it fell to 6.7 percent. Most industrial sectors in the state exhibited job growth during the period, with the financial activities and wholesale trade industries demonstrating the fastest annual increase, at 3.7 and 2.9 percent, respectively. The state's pivotal industry, mining, continued to suffer job losses in the first quarter, but at a much slower speed than in the fourth quarter of 2013. Beyond the winter spike due to the weather effect, recent natural gas prices were still about 30 percent higher than a year ago. In addition, both production and spot prices for Powder River Basin coal are gradually recovering. Oil drilling is still very active and has the potential to expand if the current high price level continues.



Personal Income and Earnings

Wyoming's total personal income grew 3.5 percent in the first quarter of 2014 from the previous year. U.S. personal income also increased 3.5 percent during the same period. Personal income is the income received by all residents from all sources. It is the sum of wage & salary and proprietors' earnings; dividends, interest, and rental income; and personal transfer receipts, such as SSI (Social Security Income), Medicare and Medicaid benefits. Total earnings in the state grew 2.9 percent annually in the quarter, while dividends, interest, and rental income grew 6.0 percent. The earnings for a vast majority of the state's industries demonstrated increases from a year ago. The mining industry increased 9.1 percent, the fastest growth since the second quarter of 2012, and it contributed 57.7 percent of all earnings growth. Only the leisure and hospitality industry experienced decrease from a year ago, -6.4 percent in the quarter.

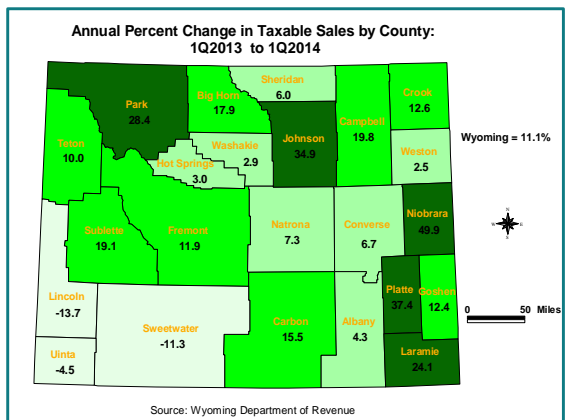
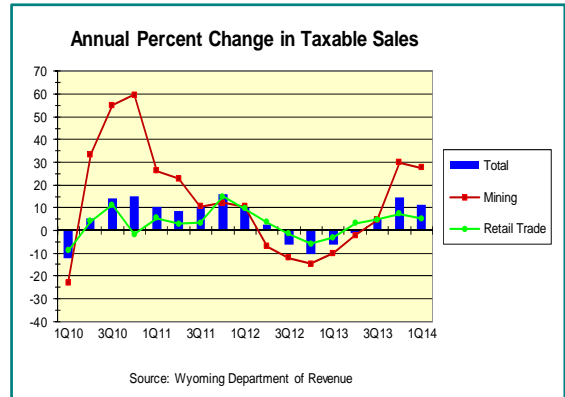
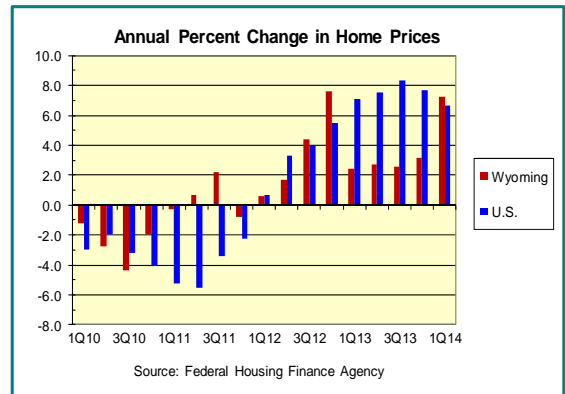
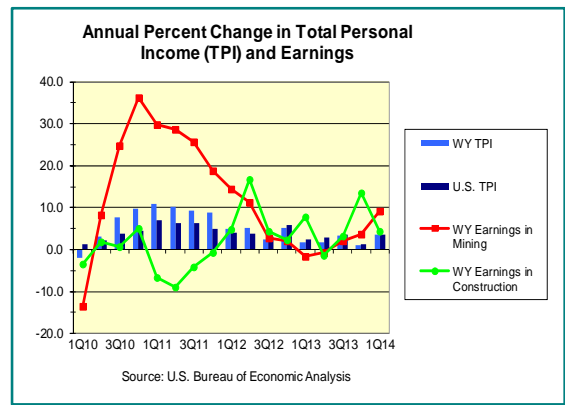
Housing

During the recent recession, the slump in Wyoming's real estate market was not as steep as that of the U.S. as a whole, and it also turned around faster than the national market. Due to inventory build-up and weak demand, Wyoming's home prices started to decline in the second quarter of 2008. The housing market was down further in 2009 when the price contraction of 4.6 percent in the state was the deepest since the late 1980s. Along with the national trend, home prices dropped again in 2010, but at a lower rate of 2.4 percent. While it continued to decline in the U.S., Wyoming's housing market, turned around in the third quarter of 2011, after more than two years of decline. The U.S. housing market finally turned around at the beginning of 2012 and performed strongly throughout 2013 with increases in home sales, construction, and prices. Meanwhile, Wyoming's housing market was less robust than the national market in 2013, partly due to slower population and employment growth than the previous year. However, the state's home price appreciation appears to be slightly higher than the national average in the first quarter of 2014.

Taxable Sales

Based on sales and use tax collections, total taxable sales in the state amounted to \$4.4 billion in the first quarter of 2014, another double-digit increase, 11.1 percent from the first quarter of 2013, the second fastest annual growth in two years. Increases occurred across nearly all economic industries, with the fastest growth in the mining sector which contributed half of the total increase for the quarter. About half of taxable sales occurred in the mining (including oil and gas extraction) and retail trade industries. The state does not impose a sales tax on the production of minerals, but rather on the supplies, equipment, and services used in mineral extraction.

Due to increased energy activities driven by the price rebound of natural gas, the recovery of coal production, and continued expansion of oil exploration, sales of equipment and services in the mining sector demonstrated year over year growth of 27.7 percent for the first quarter of 2014, the second



fastest increase since the fourth quarter of 2010. Retail trade taxable sales grew 5.3 percent, while the leisure & hospitality industry increased 7.5 percent. For the financial activities sector, taxes are primarily generated through machinery and equipment rental and leasing, and it showed 9.8 percent annual increase in the quarter. Oil exploration in the state continued to be quite active in the quarter. Both active rig counts and oil production were up significantly from a year ago. It appears that some oil drilling activities are shifting somewhat from Converse County into Johnson and Campbell counties.

Most counties experienced growth in taxable sales, led by Niobrara, Platte, and Johnson. Southwest Wyoming showed improvement, but still lagged behind the rest of the state in the first quarter, possibly reflecting a slowing in natural gas exploration and production activity in the southwest region.

Tourism

The number of recreational visitations to Yellowstone National Park reached 73,789 in the first quarter of 2014, slightly down 0.8 percent from the previous year, while it increased 2.7 percent to 131,445 in Grand Teton National Park during the same period. However, lodging sales in the state during the first quarter were 13.6 percent higher than a year ago. As the state’s main tourism attraction area, Teton County’s lodging sales experienced a significant annual increase of 17.1 percent for the quarter. Steady improvement in the national labor market and rising asset prices are good for Wyoming’s tourism industry.

Agriculture

The index of prices received by farmers for all U.S. livestock and products in the first quarter of 2014 was higher than the previous quarter and one year ago. Reduced cattle inventory, strong beef exports, and recovery in domestic demand continued to keep livestock prices at an elevated level. Despite record level livestock prices, total farm earnings in the state declined to \$261 million, which was significantly lower than the previous quarter’s \$327 million and previous year’s \$315 million. In the last few years, livestock producers have experienced sharply higher feed costs. However, a record crop yield for 2013 has pushed prices down substantially – to the lowest level in about four years. Lower crop prices should lead to lower feed costs and improved profitability for livestock producers, but it directly hurts crop growers.

Revenue

Investment income into the state general fund, including income from the Permanent Wyoming Mineral Trust Fund (PWMTF) and state agency pooled income accounts, reached \$49.2 million in the first quarter of 2014, 15.9 percent more than the amount recorded a year ago. The huge boosts in the second quarters were due to the net realized capital gains being distributed at the end of each fiscal year, which ends on June 30. The \$266.8 million in mineral severance taxes generated in the first quarter of 2014, the highest amount since the third quarter of 2008 before the recession started, was 20.0 percent higher the previous quarter and previous year.

