

NORTH DAKOTA

ECONOMIC DRIVERS



EMPLOYMENT GROWTH RANK

2013-2015

1

1st quintile

2013-2018

7

1st quintile

Best=1, Worst=54

BUSINESS COSTS

INDEX

90%

U.S.=100%

RANK

41

Highest=1, Lowest=51

VITALITY

RELATIVE

88%

U.S.=100%

RANK

41

Best=1, Worst=51

BUSINESS CYCLE STATUS

APRIL 2014



STRENGTHS & WEAKNESSES

STRENGTHS

- » Rapid growth of energy exploration in the Bakken Shale formation.
- » Major producer and exporter of several important agricultural commodities.
- » Strong state fiscal situation.
- » Location along a key trade corridor and proximity to Canada and major interstates.

WEAKNESSES

- » Lack of strong growth drivers outside energy and agriculture.

FORECAST RISKS

SHORT TERM



LONG TERM

RISK EXPOSURE
2014-2019

9

1st quintile

Highest=1
Lowest=51

UPSIDE

- » Increases in energy prices and production boost incomes enough to offset near-term ag weakness.
- » Western infrastructure is updated fast enough to accommodate rapid growth in the energy industry.

DOWNSIDE

- » Safety concerns force costly regulations and decreased volumes of oil traveling by rail.

MOODY'S RATING

Aa1

AS OF DEC 16, 2010

Recent Performance. North Dakota remains the country's top performer thanks to an energy boom and its ripple effects. After a brief lull around the turn of the year, payroll employment is once again rising and growth exceeds that in all other states. A big reason for improvement is faster job creation in the state's rural areas. Two-fifths of ND's population and about half of its jobs are located outside of its three metro areas. Difficulty gauging gains associated with oil exploration in some of the more remote areas is one reason why benchmark revisions to employment have been so large in recent years.

Energy. The state's historic oil boom will ensure that growth is above average throughout the forecast. The use of new exploration and recovery methods to unlock ND's shale formations has been a game changer for the state economy. After years of unprecedented growth, the energy industry is making the transition from an exploration to a production phase. Consequently, even though the statewide rig count is down 15% from its 2012 peak and is little changed over the past year, oil and gas production has soared as miners have learned to drill more wells with fewer rigs and increase the flow from existing ones. In April, daily oil production in the state exceeded 1 million barrels, more than in any other state except Texas and all but 20 countries. Although the next phase of the energy boom will not be as labor-intensive, many industries will benefit from the surge in output and longer-term infrastructure projects. The lift from energy will be especially important to rural economies, which have been dinged by weaker farm profits.

Agriculture. Although it provided surprising support for ND's economy last year, the farm industry has struggled over the past few months and is unlikely to return to last year's form soon. The farm industry is often overlooked because it

has become a small share of the U.S. economy, but in ND it still accounts for about 8% of output and 13% of income. Farm income is down significantly in the state, by more than 50% from a year earlier in the first quarter. Although more-diverse crop portfolios in the state usually help limit volatility, there has been no such buffer this year. Geopolitical pressure related to the Ukraine-Russia conflict has the potential to boost prices for core crops such as wheat, but agriculture will not add much to growth this year or next.

Government. ND's public sector will underperform this year despite strong local fiscal conditions. Though recent federal government losses signify actual cuts from sequestration and budget consolidation, state government weakness is the result of labor scarcity and higher private sector wages. The private sector share of employment has increased by 5 percentage points since 2010, or about twice the rise nationally, despite what are undoubtedly the healthiest state fiscal conditions in the country. As private sector growth cools, more qualified applicants will find their way onto public payrolls, lending more stability to the state and its metro areas.

North Dakota's economy will outperform the nation's for the next several years thanks to a booming energy industry and the positive spillover that it generates. The weakness in agriculture has the potential to eat away at the state's enviable position as the country's top-performing state, but job and income growth will remain well above average. Whether ND can build out the transportation and utility infrastructure in its western oil patch that is needed to ensure future prosperity will ultimately determine how well the state performs over the longer term.

Dan White
June 2014

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help@economy.com

2008	2009	2010	2011	2012	2013	INDICATORS	2014	2015	2016	2017	2018	2019
28.6	29.5	31.6	34.1	38.7	41.1	Gross state product (C\$B)	43.4	45.5	47.0	48.2	49.5	50.7
367	367	376	397	429	444	Total employment (ths)	462	476	488	497	502	505
2.4	-0.2	2.5	5.5	8.2	3.6	% change	3.9	3.0	2.6	1.8	1.0	0.6
3.2	4.1	3.8	3.4	3.0	2.9	Unemployment rate (%)	2.8	3.1	3.1	2.8	2.7	2.8
14.0	-1.0	9.6	10.9	18.7	7.6	Personal income growth (%)	4.8	8.6	7.5	6.3	4.8	4.2
658	665	674	685	701	723	Population (ths)	741	752	760	768	774	780
1.2	3.8	5.8	6.9	12.2	18.1	Net migration (ths)	13.4	7.0	4.1	3.9	2.8	2.5
1,888	1,704	2,084	2,913	4,540	3,899	Single-family permits (#)	5,320	4,053	3,614	3,433	3,143	2,261
945	1,491	1,749	3,288	5,800	6,633	Multifamily permits (#)	4,637	4,331	3,296	3,016	2,730	2,332
248	252	255	264	280	309	FHFA house price (1980Q1=100)	330	341	348	354	363	373
3.0	3.8	3.4	3.2	2.9	2.7	Mortgage delinquency rate (%)	1.8	1.9	2.1	2.1	2.2	2.2
25.7	22.4	27.7	35.5	39.4	43.8	New vehicle registrations (ths)	44.7	44.4	40.2	37.2	35.9	36.3
1,307	1,528	1,582	1,222	945	792	Personal bankruptcies (#)	747	744	804	899	1,064	1,249

ECONOMIC HEALTH CHECK							STATE TAX REVENUE	
	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	\$ PER CAPITA	
Employment, change, ths	1.4	0.7	1.9	2.6	3.2	1.6		
Unemployment rate, %	2.7	2.7	2.6	2.6	2.6	2.6		
Initial unemployment claims, ths	2.2	2.3	2.4	2.0	1.9	1.6		
Labor force participation rate, %	71.0	70.9	70.9	71.0	71.0	71.1		
Merchandise exports, \$ bil, NSA	3.9	3.9	4.0	4.3	4.8	ND		
Average weekly hours, #	35.8	35.6	35.6	35.6	35.9	ND		
Industrial production, 2007=100	100.7	100.9	101.4	102.2	102.8	ND		
Residential permits, #	11,516	9,834	11,531	12,849	16,982	14,902		
	Better than prior 3-mo MA		Unchanged from prior 3-mo MA		Worse than prior 3-mo MA			

Sources: BLS, Census Bureau, Dept. of Labor, Moody's Analytics

EMPLOYMENT OUTLOOK		CURRENT EMPLOYMENT TRENDS			HOUSE PRICE																																																									
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Economic & Consumer Credit Analytics

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