

ECONOMIC OUTLOOK

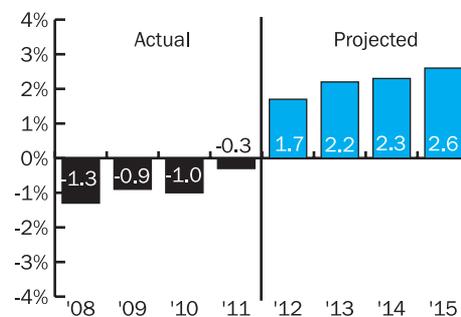
modest growth since late 2010. On the other hand, health care's trajectory has slowed significantly, and the expansion in government earnings due to both the Census and the stimulus has swung towards modest contraction.

Standing alone from these trends has been the growth at The University of Montana, the largest part of Missoula's economic base. Steady increases in research activities and a recession-related enrollment increase of nearly 15 percent have provided steady, if unspectacular, growth in its total payroll. It stands virtually alone among Missoula's major employers in displaying accelerating growth in 2011.

The Outlook

The short-term prospects for Missoula hinge on improvement in the climate for consumer spending and an end to the housing price and construction slump. Our baseline forecast calls for the resumption in growth in 2012, as currently declining sectors such as construction and retail swing to at least modest growth. Overall growth in the Missoula economy will continue to slightly undershoot the state average, as natural resource-led growth propels other parts of the state faster and Missoula continues to experience the gradual erosion of its trade center role to other communities. 12

Figure 3
Actual and Projected Change in Nonfarm Earnings, Missoula County, 2008-2015



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Ravalli County Waiting for Recovery

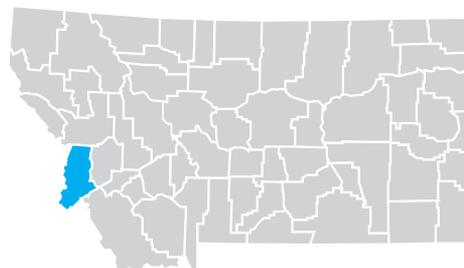
James T. Sylvester, Director of Survey Operations, Bureau of Business and Economic Research

Ravalli County continues to experience the hard times of the current recession, which is evident in the depressed real estate market. While residential real estate sales are about the same in 2011 as in 2009 and 2010, prices continue to decline. The median price for recent residential sales is about 12 percent lower than 2010.

The weak real estate market is affecting Ravalli County household mobility. The latest American Community Survey data show that 11 percent of Ravalli County households live in a different house compared to one year ago. In 2007 when

markets were stronger, 20 percent of households changed homes. Net migration between Missoula County and Ravalli County is essentially zero, reversing a trend from the last decade when people moved from Missoula to Ravalli because of lower housing costs. High gasoline prices and a sluggish housing market have significantly affected migration patterns.

Housing construction, a mainstay of the Ravalli economy, continues to lag, with employment levels about half what they were in 2007. A return to 2007 levels is not seen in the foreseeable future. Construction on Highway 93 is nearly complete,



Ravalli County Profile

Total Population, 2010	40,212
Percent Change in Population, 2000-2010	11.5%
Median Age, 2010	46
Percent 65 or Older, 2010	19.2%
Percent of Population with Bachelor's Degree or Higher, 2010	23.9%
Median Household Income, 2010	\$39,931
Percent of Population without Health Insurance Coverage, 2010	18.9%
Unemployment Rate, November 2011	8.8%

Sources: American Community Survey, U.S. Census Bureau; Research and Analysis Bureau, Montana Department of Labor and Industry.

so future highway construction will decline substantially in the next year.

Recovery in the wood products industry, primarily log home

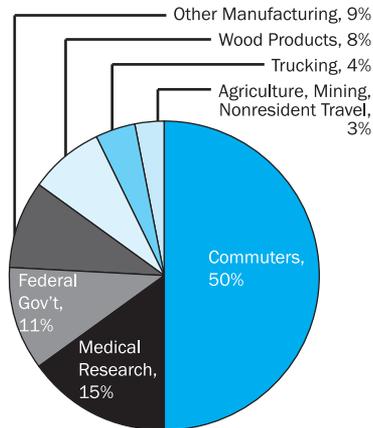
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manufacturing, depends on a recovery in the national housing market. Wood supply remains a concern, but poor markets for building materials dominate the decline.

The bright spot in the Ravalli economy is the growth in professional services led by Glaxo-Smith-Kline, a major pharmaceutical company, and the U.S. Center for Disease Control's Rocky Mountain Lab. Both facilities employ medical researchers who earn average annual wages that are more than double the county average of \$23,000 per year.

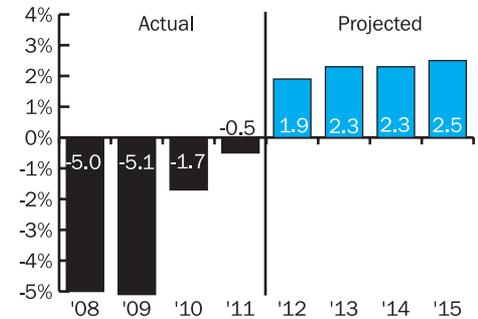
Ravalli County's nonfarm earnings should increase about 2 percent per year through 2015 if the national housing market rebounds, reversing four years of decline. 12

Figure 1
Earnings in Basic Industries,
Ravalli County, 2009-2011
(Percent of Total)



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Change in
Nonfarm Earnings, Ravalli County,
2008-2015



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

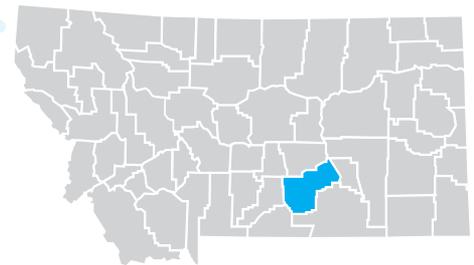
Yellowstone County Economy Improves Moving East

Patrick M. Barkey: Director, Bureau of Business and Economic Research

The Billings-area economy saw respectable growth in 2011 led by growth in its traditional base as a services and distribution hub, as well as by a one-time surge in activities associated with the cleanup of the Yellowstone River from the Exxon-Mobil pipeline rupture. Yellowstone County's growth prospects look bright relative to other parts of the state in light of the oil boom unfolding just across the North Dakota border.

Should that boom shift into Montana – to Glendive, say – then our forecast of growth for Yellowstone County in the coming years could prove to be too low. But despite energy's promise, the uncertain situation for commercial and residential real estate and signs of weakness in consumer spending make the forecast more restrained.

With few exceptions, the Great Recession impacted every part of Yellowstone County's economic base.



Yellowstone County Profile

Total Population, 2010	147,972
Percent Change in Population, 2000-2010	14.4%
Median Age, 2010	38.3
Percent 65 or Older, 2010	14.1%
Percent of Population with Bachelor's Degree or Higher, 2010	29.4%
Median Household Income, 2010	\$47,980
Percent of Population without Health Insurance Coverage, 2010	14.9
Unemployment Rate, November 2011	4.7%

Sources: American Community Survey, U.S. Census Bureau; Research and Analysis Bureau, Montana Department of Labor and Industry.