2024 MONTANA ECONOMIC REPORT

ANALYSIS AND ASSESSMENT OF MONTANA'S ECONOMIC PERFORMANCE

IMPLEMENTING THE GREEN ENERGY TRANSITION

A message from the President of the University of Montana

A new year offers a unique chance to reflect on the past and look forward to the opportunities ahead.

Here at the University of Montana, we are proud of our 2023 accomplishments, especially as they relate to providing access for all Montanans to reach their full, unique potential. In addition to delivering four- and two-year degrees that are relevant to Montana's needs, we have been developing adaptive workforce programs and partnerships with employers to provide job training and high-value, in-demand skills to students.

We have also been focusing our efforts on providing internships and professional opportunities for all students. UM's commitment to experiential learning is evidenced by this magazine, which was redesigned with assistance from a talented UM senior in the School of Journalism, McKenna Johnson, whose hands-on experience will help her thrive after graduation.

As we look forward, there is much to celebrate, like the 75th anniversary of the Bureau of Business and Economic Research (BBER) and their ongoing work to provide timely analysis for the state's business and government leaders. I am grateful to Director Patrick Barkey and his team for their efforts to serve our state through the statewide Economic Outlook Seminar that will be traveling to nine cities—from Helena in January to Havre in March.

Like all of you, I look forward to the valuable information the Montana Economic Report provides each year. In this issue, BBER focuses on sustainability in the economy — with articles ranging from green energy to sustainable tourism to wildfires — in addition to economic assessments of Montana's key industries.

All of us at UM wish you tremendous success in 2024. We hope to see you on campus in the new year!

Seth Bodnar
President
University of Montana

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OFFICES
Bureau of Business and Economic Research
Gallagher Business Building, Suite 231
32 Campus Drive, University of Montana,
Missoula, Montana 59812
WEBSITE www.montanabusinessquarterly.com
EMAIL info@montanabusinessquarterly.com

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Photo courtesy of the National Park Service.

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CELEBRATING 75 YEARS

BBER
BUREAU OF BUSINESS AND ECONOMIC RESEARCH

The Bureau's purpose is to serve the general public as well as people in business, labor, and government, by providing an understanding of the economic environment in which Montanans live.

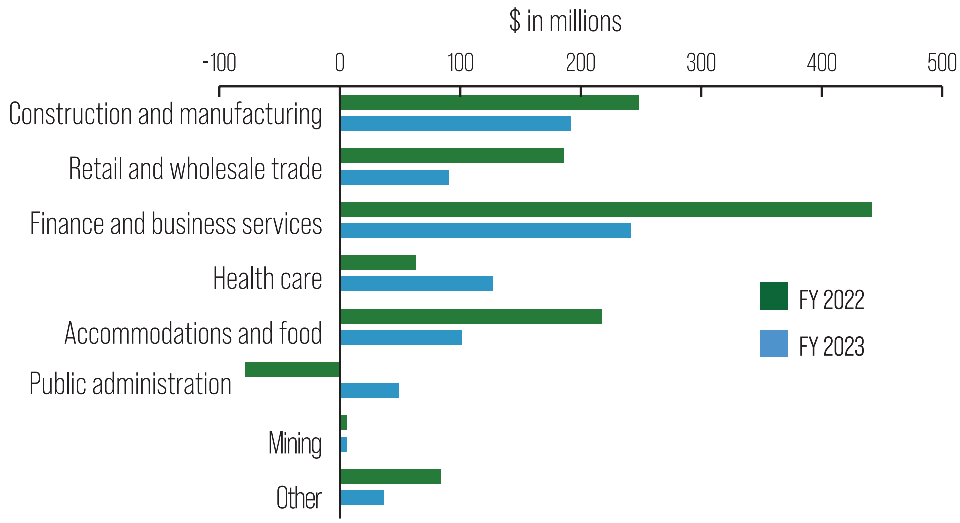
Montana's growth returns to earth

By Patrick M. Barkey

Montana emerged from the pandemic as one of the clear winners among the 50 states in the strength of its economic recovery, but those hectic days of booming growth are behind us. Lost in the news of inflation, high housing prices and tight labor markets is growing evidence that Montana's underlying growth rate has returned to something much closer to its historical average.

The development was not unexpected. The outsized economic stimulus – three separate spending bills, in fact – rolled out in 2020 and 2021 were not repeated. Enhanced and extended unemployment insurance benefits were terminated, generous loans and grants to businesses were not duplicated, and even suspended student loan payments were reinstituted. And since Montana was a state whose economy opened to ordinary economic activity after the pandemic lockdowns earlier than most, the surge in business activity from the snap back in people-facing commerce has tapered earlier as well.

FIGURE 1 **Real total wage growth by sector, Montana, 2022 vs. 2023**



Source: U.S. Quarterly Census of Employment and Wages

The performance of Montana's industries

Even at a more subdued rate of growth, the breakdown of Montana's economic performance last year by industry continues to exhibit broad-based strength. The sectors of the economy that experienced the biggest slowdowns in 2023 experienced extremely strong growth the previous year.

Measuring growth by inflation-corrected total wages, the two industries that contributed the most to the state's overall slowdown were finance and business services along with accommodations and food, as shown in Figure 1. The causes of these slowdowns, however, were different.

Finance and business services' growth in inflation-corrected total wages was $200 million less in 2023, largely due to a dramatic increase in interest rates that brought the surge in mortgage applications and other borrowing activity to an abrupt halt. High-tech business growth also cooled, mirroring national trends. On the other hand, the slowing growth of total wages in the accommodations and food sector reflects, more than anything, the expiration of super-heated visitor growth that took place in 2022.

But if growth has declined, it remains reasonably robust. Two sectors of the state economy, health care and public administration, had faster growth last year. In the case of health care, however, even the faster growth registered last year remains low by historical standards as providers continue to struggle with costs and workforce challenges.

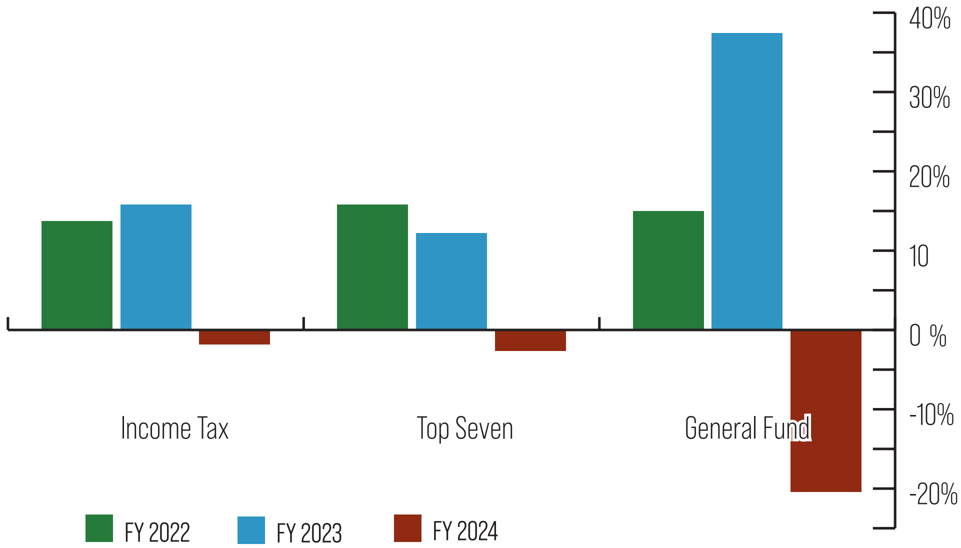
A different picture for the State Treasury

Most of us understood that the end of the big federal government stimulus spending would change the revenue picture for state government, but the abruptness of the change in revenue growth shown in Figure 2 is nonetheless dramatic.

The swing in income tax revenues for the first five months of the three fiscal years shown – from almost 16% growth in fiscal year 2023 to a 1.8% decline in fiscal year 2024 – is more pronounced than the slowdown in total wages for at least two reasons. First, the total wage growth shown in Figure 1 is corrected for inflation. Additionally, business-owner income is typically subject to state income taxes, and that income got a significant boost from stimulus spending.

General fund revenue growth saw the most dramatic change of all. Rest assured the Montana economy was neither quite as good as general fund revenue growth suggested in 2022 nor as bad as those collections portrayed it for the first five months of fiscal year 2024.

FIGURE 2 **Year over year growth in Montana general fund revenue, percent, 2022-24**



Growth based on collections for the first five months of each fiscal year. Revenues are not adjusted for inflation.

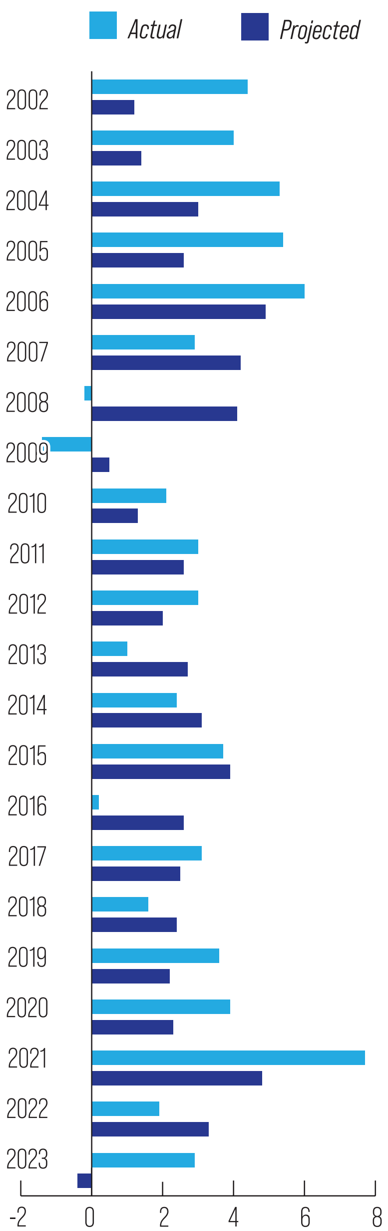
Source: Montana Department of Revenue

But the data clearly show that the era of booming state growth has come to an end. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

Navigating economic turbulence

FIGURE 1 Performance of BBER forecast actual and projected growth in real nonfarm earnings, percent



Source: Bureau of Business and Economic Research

By Derek Sheehan

The Bureau of Business and Economic Research's economic forecasting has been marked by unforeseen challenges and confusing indicators. Over the past three years, we navigated an economic landscape that was as unpredictable as the Montana weather.

The year 2020 brought with it a global pandemic, leading to an economic downturn that was both dramatic and short-lived. Unlike many, this downturn was primarily a labor market disruption and incomes, surprisingly, rose. Actual real nonfarm earnings growth remained positive and strong at 3.9%, a divergence from our conservative projection of 2.3%.

The following year, 2021, was a year of economic rebound with continuing, but still short-lived, drama. Earnings growth soared to 7.7%, substantially higher than the projected 4.8%. This surge reflected the continuing reopening of the economy and the stimulus circulating throughout the markets.

In 2022, we observed a slowdown to 1.9% in actual growth against a more optimistic projection of 3.3%. This slowdown was earlier than expected. Following a period of rapid expansion, we had anticipated that labor markets would be slow to adjust to new economic conditions.

As for the past year, 2023, our projection stands out since we expected a real decrease in earnings of 0.4%. However, the actual growth defied this projection, recording a 1.9% increase. The U.S. and Montana labor markets demonstrated a resilience not expected when the Fed began raising rates last year. Inflation also remained surprisingly stubborn for most of the first half of 2022 but continued to decrease in 2023, contributing to the higher actual earnings observed this past year. Time will tell if our prediction of a decrease was premature or if we get the "soft landing" anticipated, hopefully, by the Fed.

Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.

Anatomy of a slowdown

By Patrick M. Barkey

Recounting the growth performance around the regions of the state gives us a feel for the drivers of growth in each local economy.

The story of how Montana's economic growth unfolded across its prodigious physical landscape in 2023 was, as always, a story of differences. Yet the strength of the pandemic's dramatic pattern of deep economic decline and vigorous snap back obscured the variability in economic performance. Most areas of the state continued to exhibit strong growth in 2022 with the re-opening of the economy, the arrival of visitors and new residents, and the stimulus-fueled spending of households and businesses.

But now that this down-up cycle is largely worked out, the differences in growth trajectories around the state are once again apparent. Recounting the growth performance around the regions of the state gives us a feel for the drivers of growth in each local economy.

In recent years, this kind of growth accounting has also revealed something else – the warts and shortcomings of our economic data. The evolution of the modern workplace over the decades has made it much harder to talk about where jobs and wages actually are, for at least two reasons. The newest one, of course, is remote work. For economic statistics, this is a variant of commuting without the physical presence of the worker in the workplace. Thus, reporting on jobs and earnings provided by a company don't translate directly to spending power in the communities.

The second challenge comes from the increasing utilization of employment service companies that engage, contract with and pay employees, who then actually work at other companies. Those employment service companies don't always accurately report where their workers physically work. When it is a different county or state, the reported data are inaccurate. In some industries, such as temporary help service, the discrepancies are significant.

Growth around the state

Looking at the most recent growth performance of the economies in the eight most urbanized counties in the state shown in Figure 1, one can spin the story in two different ways. Clearly, there was a significant slowdown in growth, as measured by the change in inflation-corrected nonfarm earnings between 2021 and 2022. The drop in growth was especially pronounced in the state's fastest growing areas, with Gallatin County's growth plummeting by more than half a billion dollars in the most recent data.

That's a sobering picture backed up by state tax collections, which have tailed off significantly from their booming growth in the last year and a half. But another assessment of the same data puts a more positive spin on the situation. Montana's urbanized areas managed to build, if only slightly, on the sky-high earnings growth propelled by economic reopening, strong visitor spending, and boatloads of federal stimulus that superheated economic growth in the pandemic recovery, which peaked in 2021.

So what about 2023? The broad-based, most comprehensive measures of economic activity that we use to track state economic performance at the county level take almost a full year to arrive. The less complete data on wage and salary income, which represents roughly 65% of household earnings, tell a brighter story about growth for the first half of 2023. This supports the notion that the big swings in growth shown in Figure 1 are largely coming from the ups and downs of earnings from sources other than paychecks, including business owner income.

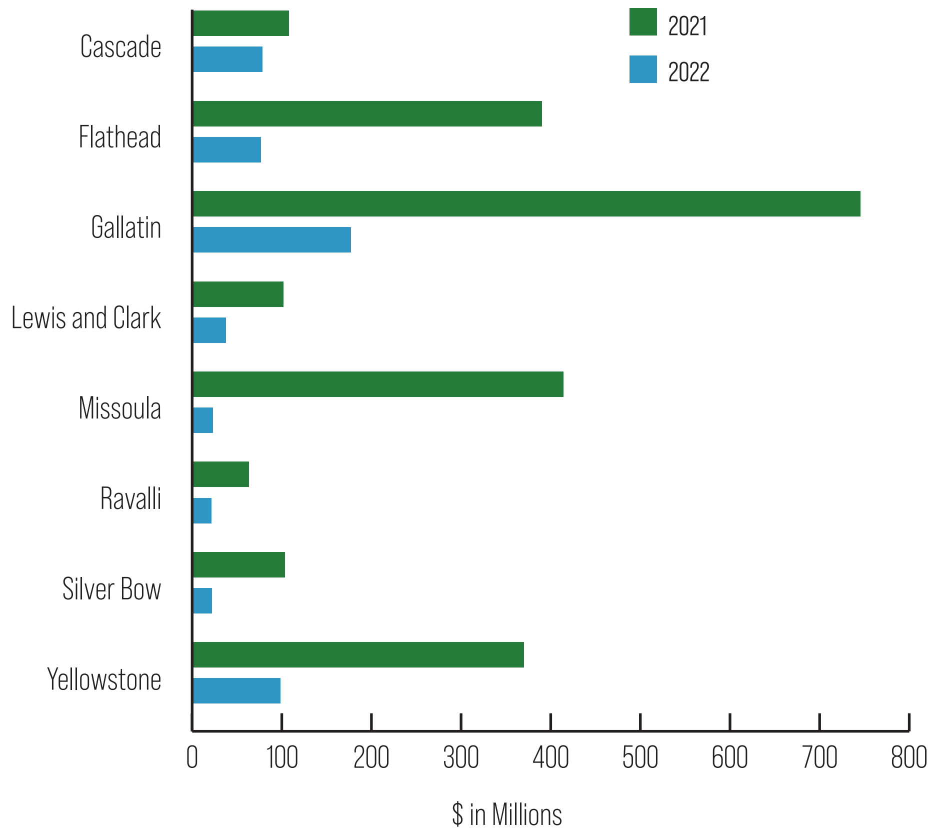
Growth in less urbanized areas

Trying to summarize economic developments across the sprawling landscape of Montana's less urbanized, rural, and frontier counties is an impossible task. Broadly speaking, the smaller counties fall into categories: natural resource producing (Stillwater, Richland), amenity (Lake, Madison), and agricultural (Fergus, Pondera) as well as tribal lands with their own geographic boundaries.

When you examine the average growth over the last five years, measured in inflation-corrected nonfarm earnings (Figure 2), for each of Montana's 56 counties, the variation across the state is striking. The strongest growth since 2018 has been almost completely confined to the western, and especially the southwestern, portion of the state. Growth in Bozeman has spread to adjacent counties; Park, Madison, and Broadwater Counties now rank in the 10 fastest growing counties in the state.

The flip side has been slower, or negative, growth experienced in much of the eastern side of the state, particularly in the oil patch region adjacent to the border. The last five years have seen a nearly complete reversal from the situation in the immediate aftermath of the Great Recession when the Bakken boom, coupled with the housing bust, tilted the growth picture to the east. Richland County, the state's largest crude oil producer, has had more than its share of challenges, the most recent stemming from the closure of the nearly century-old sugar beet refinery last April.

FIGURE 1 Growth in inflation-corrected nonfarm earnings, selected Montana counties, 2021 and 2022



Source: U.S. Bureau of Economic Analysis

Cascade County:
Construction boom is waning

For the last two years, a surge in commercial and residential construction related to the opening of the new Touro College of Osteopathic Medicine last August fueled faster overall growth in Cascade County. In 2022, payroll employment was up by 3.5%. The new school represents another important growth driver for the overall region, expanding its footprint in the health care industry for a larger geographic area.

Manufacturing was another bright spot, with the traditional oil refinery operated by Calumet Specialty Products reconfigured as part of a $1.3 billion investment to devote half its capacity to renewable fuel production, reaching its full output in 2023.

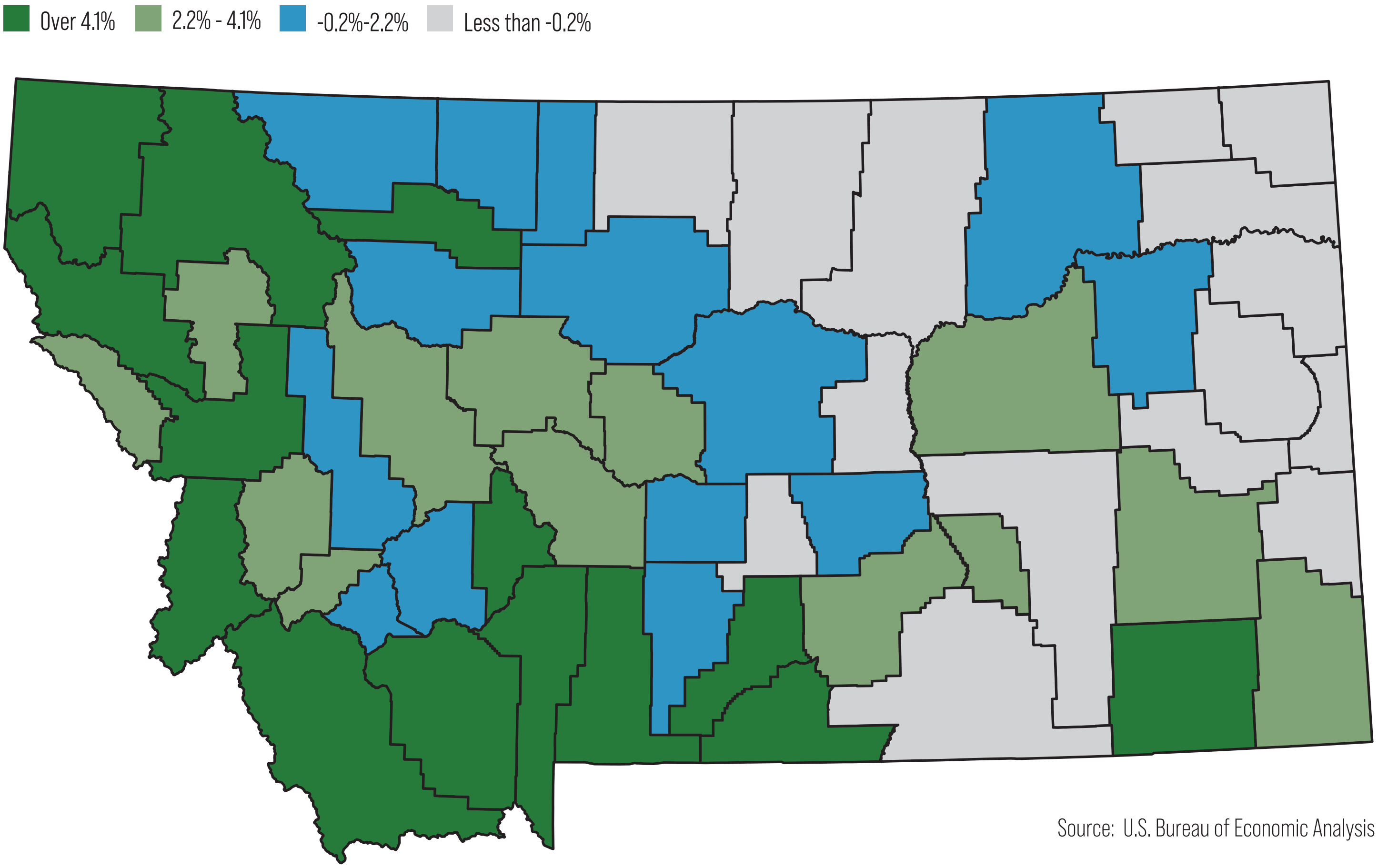
Lewis and Clark County:
The ups and downs of COVID spending

Other than times of economic hardship, stability has been the dominant characteristic of the economy of our capital region, owing to the dominance of government as a driver of economic activity.

The post-COVID federal spending surge marks an exception to that historical pattern with more pronounced fluctuations occurring as the waves of stimulus spending arrive and recede.

Recent years have seen more growth in high-tech activity, and manufacturing's footprint has grown with the arrival and recent growth of Boeing. The region has seen a surge in construction, both in commercial and residential development. Its dormant retail sector has grown as

FIGURE 2 Real nonfarm earnings growth by county, 2018 - 2022



Source: U.S. Bureau of Economic Analysis

well. But the big player remains state government, and new federal spending stemming from the CHIPS act and the Inflation Reduction Act have kicked up activity in the beginning of last year.

Missoula and Ravalli Counties:
A more normal year

Missoula, like many other parts of the state, couldn't top its super-fueled growth performance of 2021 as industries supported by visitor spending, real estate, and trade center activities fell back to earth.

Bright spots are plentiful. The growth in manufacturing, especially in the redevelopment of the old Bonner Mill site, has been a success that other parts of the state want to emulate.

The turbulence of the large tech firms nationally has not shown up among Missoula's tech employers, who continue to perform well. 2023 was a year of significant growth in rental housing as well.

Neighboring Ravalli County's fall to earth was just as apparent, if slightly less pronounced as its northern neighbor. The county still is experiencing the "Yellowstone effect" of in-migration of new residents, which has fueled demand for residential construction as well as demand for locally supplied services, such as health care.

Yellowstone County:
Economic engine still misfiring

After underperforming the rest of the state in the years following the 2014 oil price bust, the state's largest regional economy's pace of growth picked up toward the end of the decade as energy-related declines in the four-state region it serves stabilized. Growth coming out of the pandemic has been strong, but slightly less than the state average. Investors are shifting their attention to lower-cost oil producing areas in Texas, away from the Bakken, and the outlook for coal – an important driver for the Billings economy that also serves demand across the broader region – continues to be dour.

The state's largest health care economy captured its share of headlines in 2023 with the merger of Billings Clinic and Kalispell-based Logan Health as well as the designation of Billings Clinic as a Level 1 trauma center – the first in the region. In Billings and throughout the state, the industry remained under significant financial pressure, both from higher labor costs and underperforming revenues.

The 63,000 Lockwood oil refinery operated by Exxon since 1973 was sold to Par Pacific, who took over operations mid-2023. The outlook for the smaller sized refineries in Montana, including the three operating in Yellowstone County, remains guarded, owing to tightening federal emissions and renewable mandates that could render them uneconomic.

Gallatin County: growth spreads out

The Gallatin County growth experience of recent years is a little like raising a teenager during a growth spurt as they empty your refrigerator and keep you busy buying new clothes. Yes, rapid growth has caused problems, most notably for housing affordability. But the growth has been amazing, more than twice as fast as the statewide growth rate since 2018 that is, itself, impressive.

Only a few years ago, Gallatin County ranked behind Missoula in terms of personal income. Today it is within a whisker of Yellowstone County and will soon be the largest economy in the state. Yet the county experienced the same growth slowdown as the rest of the state in 2022, albeit coming off a stratospheric growth in inflation-corrected nonfarm earnings of nearly 16% the previous year.

The big story in the Gallatin Valley has been the spread of faster economic growth to adjacent counties, perhaps due to the ferocious housing costs closer to Bozeman. Construction has always had an outsized footprint in the valley economy, and growth has spurred a lot of building, especially in multi-family housing projects as well as commercial construction.

Butte-Silver Bow: stringing growth together

After ending the last decade with the size of its economy essentially unchanged, the Butte-Silver Bow economy has enjoyed sustained growth in the aftermath of the pandemic. Part of the reasons are familiar – the rally in copper prices that fed bonuses paid to the employee owners of the Montana Resources mine.

But part of the story may be new – and that is the attraction of its much lower housing costs to mobile, often remote-based, potential new residents being priced out of other areas. Construction and health care have contributed to recent growth while visitor spending industries have not fared as well.

Flathead County: A story of in-migration

It wasn't until 2020 that Flathead County resumed its historical position as the second-fastest growing economy in the state – surpassed only by Gallatin County. Its growth stumble was short-lived, and the high rates of in-migration of new residents from other states in the wake of the pandemic helped propel strong growth that has continued to this day.

The growth surge has three familiar components: visitor spending industries, specialty manufacturing and construction.

Huge numbers of visitors motivated the unpopular restrictions on vehicle traffic within adjacent Glacier National Park in 2023. But despite those restrictions, growth in visitor spending was almost triple anything seen in the last two decades.

The area remains home to a vibrant, but smaller, wood products industry that has been a bedrock of its economic base for more than half a century, but it was other manufacturers that produced growth last year. The challenges for health care in the region have been more daunting than most other urban areas. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

Reserve fund stabilized state budget

By Terry Johnson

The general fund pays for public education, human services and public safety programs, among other services.

In the 2023 fiscal year, total general fund revenue collections were $3.94 billion with 74.1% coming from individual, corporate or property taxes. These collections increased by $51.8 million, or 1.3%, from 2022.

This change was unusually low due to a decline in individual income taxes but was offset by a transfer from the Budget Stabilization Reserve Fund (BSRF). This rainy day account is used to smooth out budget dips if revenue collections fall below expectations and is refilled when the state collects more than predicted.

The total of the fund, however, is capped and any excess is returned to the state general fund. This occurred in 2022 ($115.1 million) and 2023 ($260.8 million). It is shown in Table 1 as "Other sources" of revenue.

Without this transfer in 2023, general fund collections would have declined by $209.0 million, or 5.4%.

The remaining revenue sources increased $76.4 million, primarily because of higher collections from corporation, property, and oil and natural gas taxes. Other than individual income taxes, investment earnings also declined in 2023. This was due to legislative changes that redirected a portion of these revenues to a non-general fund account.

The change in individual income tax collections can be explained by federal legislation enacted to address the impacts of COVID-19. The federal stimulus bills resulted in substantial payments to Montanans, according to statistics maintained by the U.S. Bureau of Economic Analysis.

Figure 1 shows the year-over-year change in transfer payments since 2014. The amount of change increased by $2.9 billion from 2019 to 2020 with a further increase of $1.2 billion from 2020 to 2021.

Once the stimulus payments were eliminated, transfer payments declined by $1.6 billion from 2021 to 2022. Transfer payments in 2022 are still high but are more comparable to historical trends. Since these monies are considered taxable income under Montana law, income tax collections changed accordingly.

The pandemic also had an impact on the number of workers available to Montana businesses.

Statewide, many businesses posted signs searching for workers. This workforce demand increased the wage offerings of businesses. Higher wages increased total state wage and salary incomes as shown in Figure 2. Total wage income increased by 10.9% from 2020 to 2021 and 9.4% from 2021 to 2022.

Higher wages increased state individual income tax collections in 2022 but were diminished by the decline in transfer payments. Those collections are expected to return to a more normal growth pattern in subsequent years. ■

Terry Johnson is the former chief revenue forecaster for the state of Montana, now retired.

TABLE 1 State general fund revenue collections

Revenue category	Fiscal 2019 collections	Fiscal 2020 collections	Fiscal 2021 collections	Fiscal 2022 collections	Fiscal 2023 collections	% of FY 23 total	$ Change FY 22 to 23	% Change FY 22 to 23
Top seven sources:								
Corporation tax	$186.5	$187.4	$266.5	$293.7	$309.9	**7.9%**	$16.2	5.5%
Individual income tax	1,429.0	1,435.2	1,765.4	2,393.8	2,254.3	**57.2%**	(139.5)	-5.8%
Insurance tax	76.1	82.5	87.3	97.9	106.2	2.7%	8.3	8.4%
Oil & natural gas tax	54.2	38.4	39.5	70.5	71.0	1.8%	.05	.08%
Property tax	289.2	308.6	310.7	335.1	356.0	**9.0%**	20.9	6.2%
Vehicle fee	109.5	108.5	117.8	121.1	123.0	3.1%	1.9	1.5%
Video gaming tax	63.2	57.4	74.9	77.9	80.1	2.0%	2.2	2.9%
Business sources	63.8	72.2	69.4	94.1	96.3	2.4%	2.1	2.3%
Consumption sources	86.5	88.4	92.9	119.9	135.7	3.4%	15.7	13.1%
Interest earnings sources	41.9	41.8	21.1	28.3	18.1	0.5%	(10.2)	-36.1%
Natural resource sources	50.2	45.4	40.6	54.3	73.1	1.9%	18.8	34.6%
Other sources	123.1	67.0	77.6	204.9	319.8	8.1%	114.9	56.1%
Total general fund	**$2,573.4**	**$2,532.9**	**$2,963.7**	**$3,891.6**	**$3,943.4**		**$51.8**	**1.3%**

Source: Statewide Accounting, Budgeting, & Human Resource System

FIGURE 1 Year-over-year change in Montana transfer payments

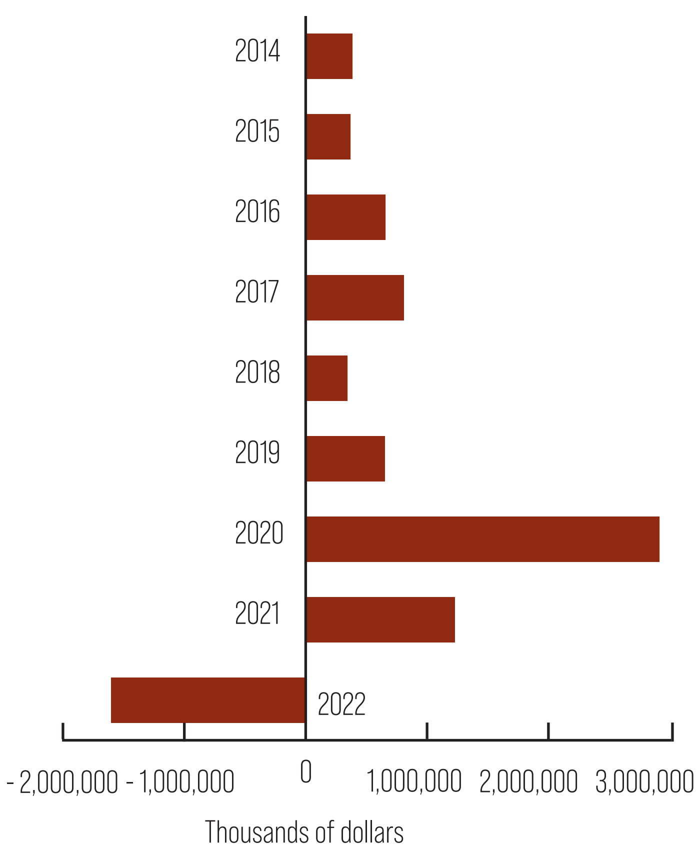
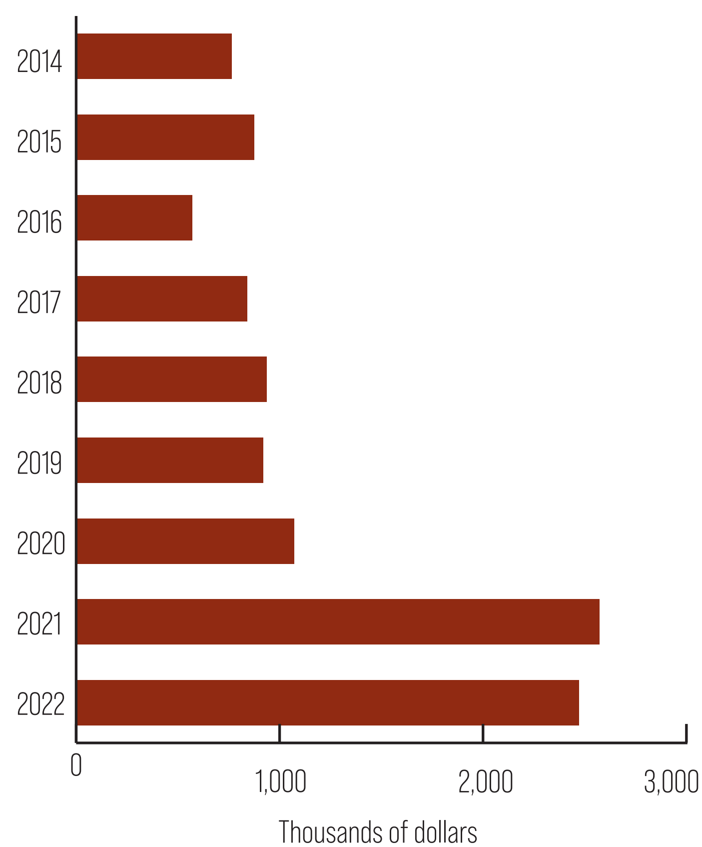


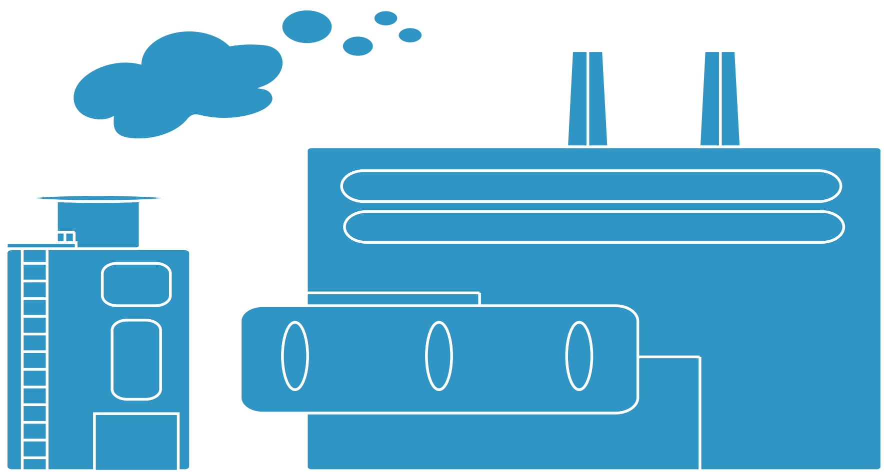
FIGURE 2 Year-over- year change in Montana wage and salary income



Source: U.S. Bureau of Economic Analysis

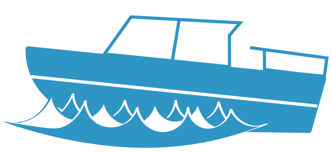
Last year packed with investments, growing pains

By Patrick M. Barkey



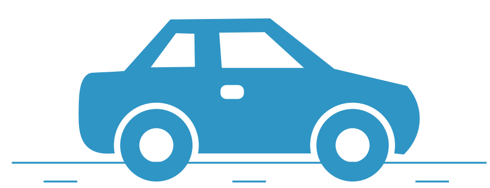
While the national limelight shifted between Donald Trump's indictments and Taylor Swift's boyfriends, the Montana economy had some significant developments in 2023. Some of particular note were:

1. German manufacturer VACOM has committed to invest $90 million in a new manufacturing facility in Lewistown, which will serve as their U.S. headquarters and is expected to employ 500 people by 2029. The company will make vacuum technology items, including cleaning, measurement, optical and mechanical components. The company has committed to help the small central Montana community build up its housing and other infrastructure to support its operations.

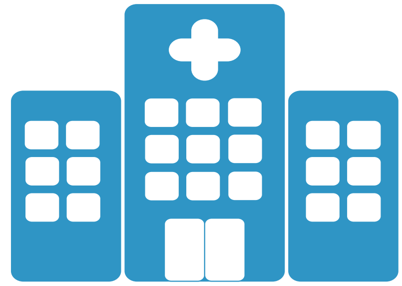


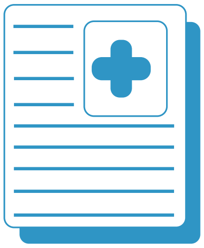
2. An early snowmelt followed by a hotter, drier late spring contributed to a significant decline in water levels in Flathead Lake, prompting marina closures and an early removal of private boats in July. The political temperature rose as well as angry residents appealed to elected leaders to change policies on intakes and discharges to address their concerns over the loss of recreation-related business.

3. Glacier National Park extended its 2021 policy that effectively rationed vehicle access to the popular Going to the Sun Road and to other parts of the park last summer, seeing mixed results. Traffic was more manageable, but the early sell out of road passes left local residents frustrated and calls for change were loudly voiced.



4. Billings Clinic merged with Kalispell-based Logan Health (formerly Kalispell Regional Medical Center) in September, bringing a national trend of consolidation in health care to Montana.



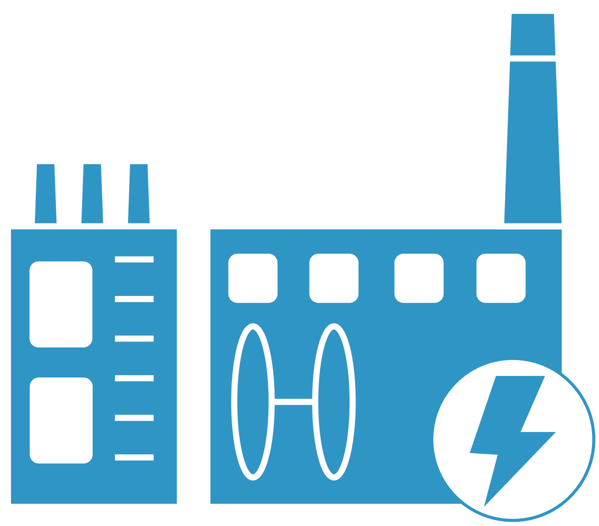


5. Montana ended its temporary suspension of regulations requiring an annual review of Medicaid recipients' continued eligibility. In the first seven months, the state reports renewing coverage for about 80,000 Montanans and ending coverage for another 112,000 people – mostly because they did not return paperwork by deadline.

6. Gallatin County personal income estimates came in at almost $10.2 billion for 2022, the U.S. Bureau of Economic Analysis announced at the end of the year. That puts the county only $500 million short of personal income in Yellowstone County, the state's most populous. Trends suggest that Gallatin will surpass Yellowstone with the release of data for 2023 or 2024 and will become the largest economy in the state by this measure.

7. The 2023 legislative session implemented some reforms aimed at expanding housing supply to address affordability challenges across the state, including a bill to preempt local regulations and require cities to allow duplexes, accessory dwelling units and residential development in tracts zoned commercial. Meanwhile, evidence suggests that rents are softening slightly in many Montana markets, but home prices have pushed higher.

8. NorthWestern Energy agreed to acquire by January 2026 Spokane-based Avista's share of the still-operating Units 3 and 4 of the coal-fired Colstrip generating plant, effectively doubling its current ownership stake in the facility. The company said there was no need for regulatory review since there was no purchase price and no rate implications for the transaction.



9. Calumet Specialty Products, which acquired the crude oil refinery located in Great Falls in 2012, completed a $1.3 billion investment to convert half the facility to produce renewable diesel and jet fuel from oil seed and other renewable feed stock. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

The soft landing has arrived

By Patrick M. Barkey

They said it couldn't be done and perhaps it still won't happen. But each passing day gives more evidence that the soft landing of the economy, with moderating inflation without setting off a recession, has been accomplished. 2024 will be a year that growth underwhelms and sees the Federal Reserve start to push interest rates back down. Weak growth will improve somewhat in China, with growth challenges persisting in western Europe.

Spending on renewable energy and, especially, electric car components is causing a spurt in construction activity that is helping to support growth as well.

Here are some predictions for the U.S. and global economies courtesy of our friends at S&P Global:

1. Inflation will continue to moderate in the U.S. and the developed economies. The pace of the reductions will ease, but the mix of price changes will be different. Commodity price declines that helped bring overall inflation down in 2023 will not persist, but there will be more moderation in prices for services.

2. Overall U.S. economic growth will be below potential in 2024, with real GDP expected to grow by about 1.4% for the year.

3. Slow growth comes mainly from a slowdown in spending by consumers who are close to exhausting pandemic-fattened savings balances and who will continue to face higher borrowing costs until the Federal Reserve begins meaningful rate cuts.

4. Higher mortgage rates and continued strong housing demand have helped produce a housing unaffordability spiral for existing homes, with potential sellers locked into existing low rates unwilling to sell and resulting low inventories continuing to support high prices. Slowly rising levels of new home construction are expected to eventually relieve the bottleneck.

5. Starting in the last quarter of 2023 and continuing through the end of the 2024 forecast, federal interest expenses are projected to exceed defense consumption and gross investment combined, with the gap widening to some $160 billion in fiscal year 2025. Since 1929, when the currently published statistics begin, there has not been a single such year, and only in 1998 were the two figures even close.

6. The mainland China economy will recover slowly in 2024 as its government pours on stimulus and pivots away from anti-market policies that scared investors. The changes will be incremental, and a return to very high growth rates of the past are not anticipated.

7. The Federal Reserve will trim interest rates slowly in 2024, although not as much or as fast as markets are predicting. The first rate cut of 25 basis points (or .25 percentage points) should occur around July, with a cumulative decline of 75 basis points over the entire year.

8. Recent strength in the U.S. dollar will abate as domestic growth cools sharply and emerging markets once again move forward.

9. The quality of debt will continue to deteriorate in the U.S. and in other major economies. Nonperforming loans as a proportion of total loan portfolios will increase mildly in the U.S., with larger increases in developing economies. The results will be tighter credit conditions continuing through 2024.

TABLE 1 Actual and forecasted annual rates

	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2022	2023	2024	2025	2026
Real GDP (% annual change)	2.1	5.2	0.9	-1.1	0.6	1.9	2.4	1.5	1.3	1.4
Real consumer spending (% annual change)	0.8	3.6	2.4	1.5	1.1	2.5	2.2	1.8	1.2	1.5
Federal funds rate (%)	4.99	5.26	5.34	5.35	5.31	1.68	5.03	5.13	3.80	2.73
10-yr. T-note yield (%)	3.59	4.15	4.5	4.19	4.06	2.05	3.97	3.94	3.40	3.17
Brent crude price ($/barrel)	78.39	86.57	85.64	82.00	84.00	100.72	82.97	84.83	76.83	84.32
CPI (% change from previous quarter)	2.7	3.6	2.5	2.1	2.7	8.0	4.1	2.6	2.0	2.5
Housing starts (millions)	1.450	1.367	1.378	1.345	1.343	1.551	1.395	1.339	1.352	1.358
Unemployment rate (%)	3.5	3.7	3.8	3.9	4.0	3.6	3.6	4.0	4.3	4.5

Source: S&P Global

10. The recent upward revision in the forecast underscores an emerging risk: A resilient economy remains stronger for longer than previously anticipated, requiring a more aggressive and persistent monetary tightening to contain inflation, and precipitating a recession that is later but more severe. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

Photo coutesy of Preston Keres.

Implementing the green energy transition:

What would it take?

By Patrick M. Barkey

JUST AS "WAR is too important to be left to the generals," as World War I French Prime Minister Georges Clemenceau once said, the transition from fossil fuels to energy resources that emit less carbon is too big and consequential to be left to the advocates. Re-engineering the global energy infrastructure that currently produces 595 quadrillion BTU of energy, all but 13% percent of which use fossil fuels, in a mere 25 years is an undertaking without precedent. And the fact that global energy consumption continues to rise as less developed countries industrialize and raise their standards of living makes the challenge even more daunting.

Montana is a state with a bigger stake in this game than you may realize. We're a state that relies on energy to power our economy and lifestyle. Montana ranks first among states in BTUs consumed for residential use per capita. We're potentially more exposed than most to developments that affect energy prices and availability. Yet our state's mineral resources, both proven and potential, in copper, lithium and rare earths, stand to rise in value as green energy investments ramp up.

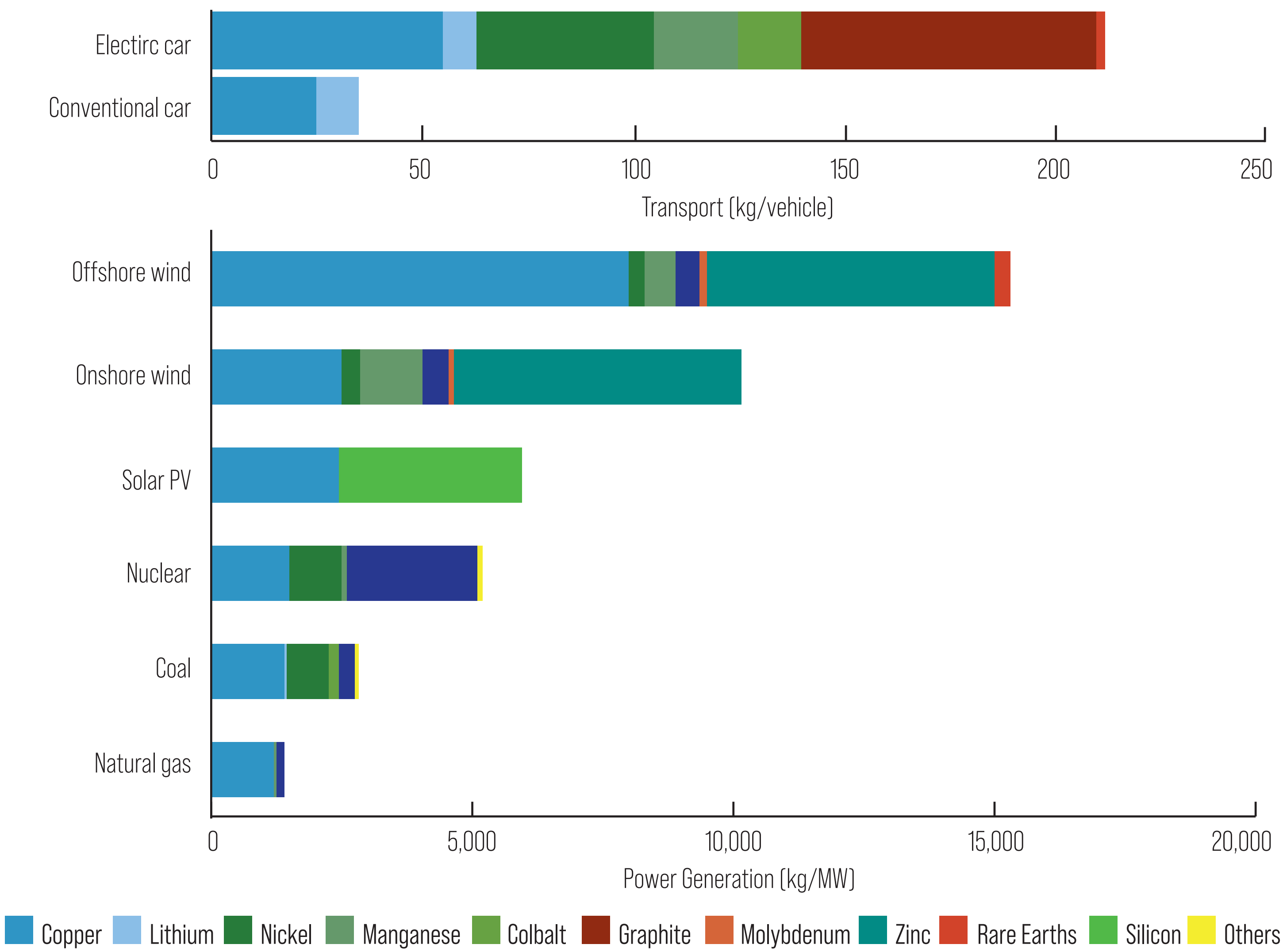
Most of us realize there is more to accomplishing a reduction or elimination of fossil fuel energy than having national politicians announce ambitious carbon reduction targets for years that end in "0" or "5," as Canadian energy researcher Vaclav Smil has noted. Let's dig into this question from a Montana perspective: How might such a transition play out, and what challenges and opportunities might it present our state?

A transition like no other

There have been other transitions in energy across the long span of human history, dating back to the domestication of animals to replace human labor, up to the switch from coal to oil to power ships, and, eventually, the adoption of cars. The transition to non-carbon-emitting sources of energy is quite different in several respects, including:

- It is a transition being brought about by policy, not economics.

FIGURE 1 Minerals used in selected clean energy technologies



Source: International Energy Adminstration

Fossil fuels remain reasonably cheap, abundant and well supported by trillions of dollars of infrastructure that is slated for retirement well before the end of its productive life.

- The green energy transition is total, with fossil fuels phased out completely. This has not been the case for previous transitions. As a share of all energy sources, for example, oil surpassed coal about 60 years ago. Yet today, the amount of coal used globally has increased threefold.
- The speed envisioned for a shift to non-carbon-emitting energy resources is much faster than any transitions of the past, which have taken at least a century to unfold.
- To have a meaningful impact on greenhouse gas emissions and climate change, the transition must take place everywhere – across the entire globe.

What these differences imply for Montana is difficult to fully assess. Even in an idealized world with no geopolitical tensions, without energy security concerns and with total commitment of country, the change will be slower than advocates envision. But even in a more deliberate, less-complete transition, the adoption of new technologies promises to usher new demand for materials and resources that Montana could arguably provide.

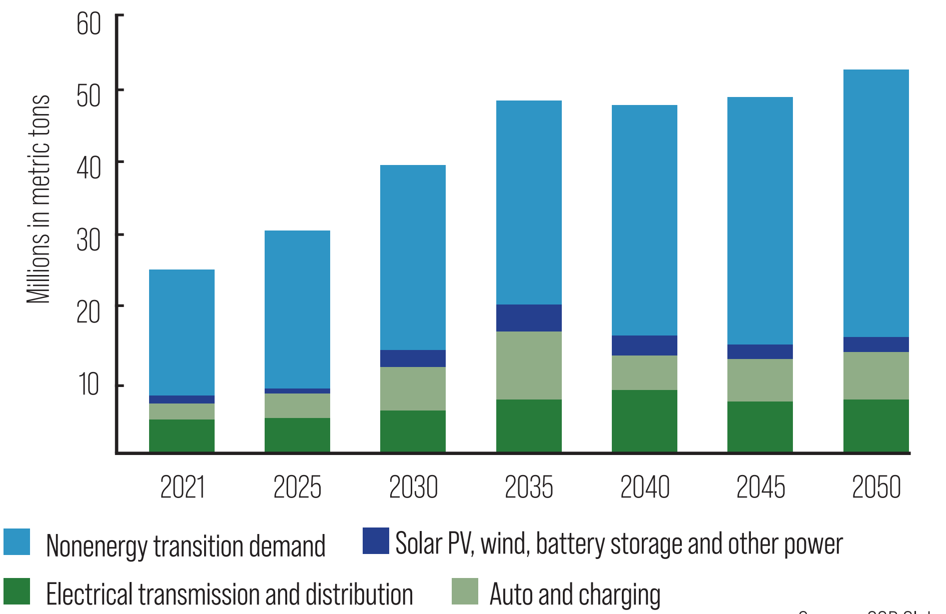
Scale and scope of the challenge

The progress in growing the global share of energy consumption that comes from renewables and nuclear energy in the last 10 years has been impressive. In 2011, 9% of energy consumed was produced by renewables, primarily solar and wind. By 2021, that share had grown to 13%. But over this same interval of time, global energy demand grew by 14%, according to McKinsey.

As a result, carbon emissions grew at the same time as many countries poured billions into building more renewable capacity.

The fundamental challenge to converting the 82% share of energy consumption produced by carbon-emitting oil, coal,

FIGURE 2 **Global refined copper usage, 2021-2050**



Source: S&P Global

and natural gas to carbon-free generation is the scale of the problem. For actual carbon emissions to stay on track to meet announced targets in the U.S., we will need 27 gigawatts (GW) of new wind generation capacity and 40 GW of new solar generation capacity each year between now and 2040, according to McKinsey. That is almost triple the average amount of wind generation built in the last five years and more than triple the new solar capacity added each year between 2016 and 2021.

Depending on a variety of factors, meeting the national target for wind generation could require as much land as exists in the state of Montana – or more. Another 8,300 square miles of land would be needed to meet the target for new solar capacity. The Department of Energy has estimated that new electricity transmission capacity would need to roughly double to meet goals of carbon-free generation by 2035. And addressing the issues of solar and wind intermittency would be daunting.

It is a future with great promise as well. Many of the carbon-free sources of energy have very low or zero fuel cost. Reductions in particulate matter emissions and other pollutants could have enormous public health benefits. Not to mention the tremendous new demand for labor and materials to build the capacity that is needed. A well-managed, less-hurried transition to significantly reduce carbon emissions creates many opportunities and benefits. The same cannot be said for a transition that is reckless.

Opportunities for Montana

Some have said mining and natural resource development are part of Montana's economic past. But the projections for new demand for minerals that a global embrace of carbon reduction targets, if realized, could drive new development of mining capacity that could profoundly alter the industry's trajectory.

As S&P Global Vice-Chairman Daniel Yergin puts it, green energy's needs for new equipment and infrastructure are so large that we might say that the era of "Big Oil" is soon to be replaced with "Big Shovels."

Support for that statement comes from estimates of the materials needed for zero-emission power generation and transportation equipment options shown in Figure 1. Battery-powered electric cars being built today require almost seven times as many minerals as conventional cars, many of which have known deposits in Montana. Likewise the power-generation technologies envisioned as replacements for fossil fuels make comparatively heavy demands on minerals – not to mention the steel, concrete and energy required to produce them. A transition to green energy involves building things, which itself takes energy, materials and workforce.

Increasingly in recent years, U.S. mineral demand – in particular, demand for refined metals – has been satisfied by imports. But with mineral demand spiking globally, it is doubtful we could depend on others to ramp up production to meet our needs.

Consider the case of copper. Currently, more than one third of world copper production is sourced from just two countries: Chile and Peru. About 40% of copper refining takes place in China. As Figure 2 makes apparent, future demand for copper to support a transition to carbon-zero energy use in transportation will be very strong – but this is not the only source of new demand growth.

The forecast of global copper demand shown in Figure 2 reveals that, by year 2050, the world will consume fully twice as much copper as what is produced today. More than half of that increase is expected to come from electrification and industrialization in developing countries unrelated to green energy transformation.

What would it take?

It should be clear an order of magnitude change in investment, development, construction, and support for equipment and infrastructure is needed to replace the energy and transportation equipment powered by fossil fuels today. To make that happen, several other challenges need to be met:

- The incentives of investors and policy makers must be aligned. Allowing investors to earn a return on green energy is critical if we expect investment on the scale that is needed to take place.

- ✦ We must recognize that the transition will itself take energy. We cannot hope to manufacture, mine, and fabricate the minerals, wire, equipment and transport that will replace the fossil fuel-powered machinery of today without the power and transportation capacity its construction will require. There is a need for continued investment in fossil fuels.
- ✦ We need to be transparent about the scale and especially the costs of the transition. Going forward with the notion that shifting to green energy will bring nothing but new jobs and prosperity, while ignoring the costs and potential disruptions, could be a disaster for public support.
- ✦ The review and approval of all kinds of capital projects, particularly new mines, transmission lines and generators, needs to be rebalanced to reflect the need for action.

The efforts of one company, Sandfire Resources, to develop what would be Montana's first new copper mine in more than 40 years, the Black Butte Copper Mine north of White Sulphur Springs, are illustrative of this last point. The mine's development, as depicted in the timeline shown in Figure 3, began in earnest in 2010. Fourteen years later it still awaits a Montana Supreme Court decision to go ahead.

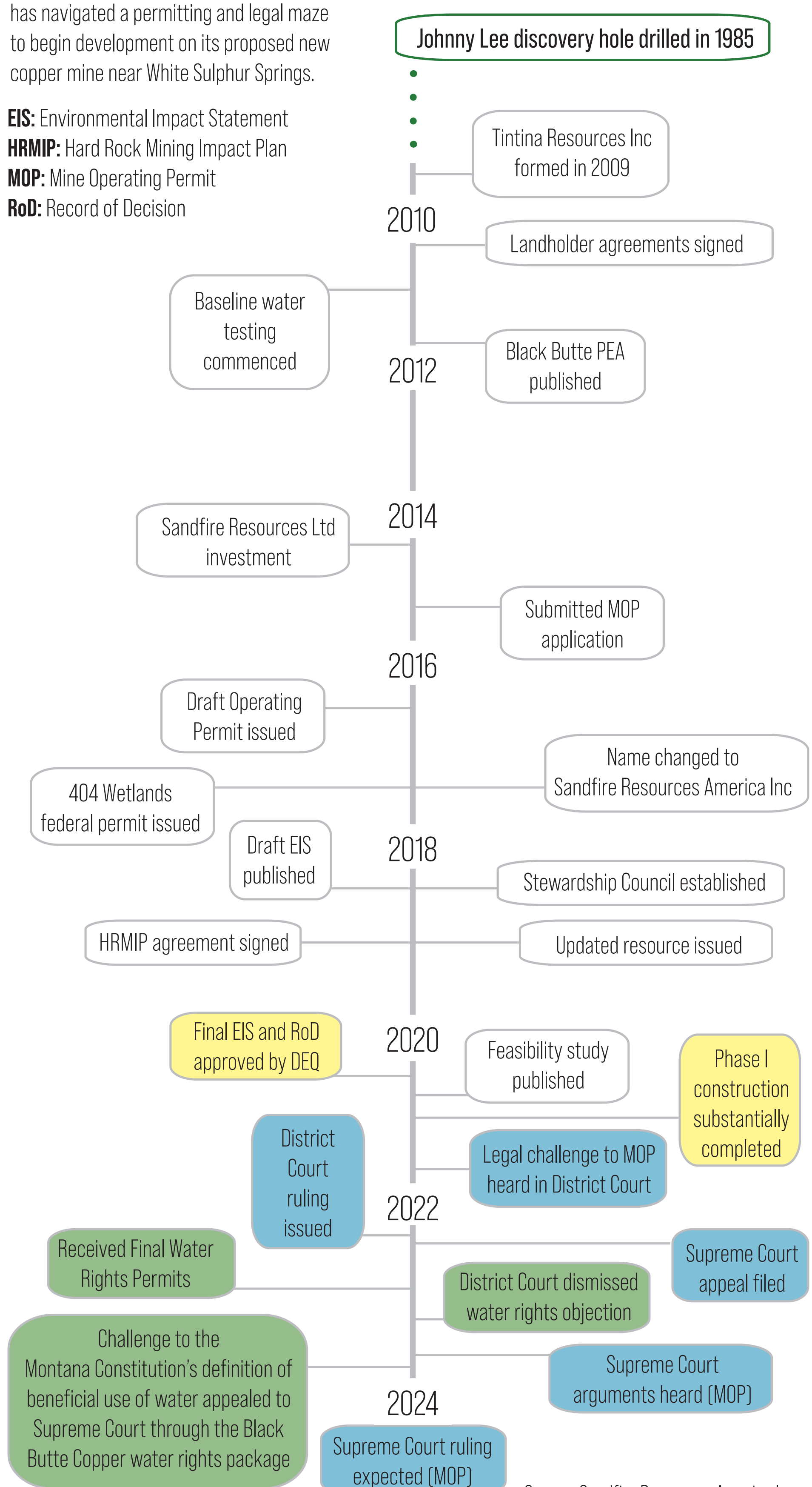
It is hard to see how support for a green energy transition, on the one hand, and the determined – and effective – opposition to acquiring the needed minerals to support it, on the other, can possibly coincide. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

FIGURE 3 Permitting timeline for Black Butte Copper Mine

▶ Since 2010, Sandfire Resources America has navigated a permitting and legal maze to begin development on its proposed new copper mine near White Sulphur Springs.

EIS: Environmental Impact Statement
HRMIP: Hard Rock Mining Impact Plan
MOP: Mine Operating Permit
RoD: Record of Decision



Source: Sandfire Resources America Inc.

Fire crews burn slash piles around the Apgar Visitor Center to reduce fuels that could otherwise contribute to destructive wildfires. Photo courtesy of the National Park Service.

Living with wildfire:

How to protect more homes, businesses as fire risk rises in a warming climate

By Justin Angle

HUMANS HAVE LEARNED to fear wildfire. It can destroy communities, torch pristine forests and choke even faraway cities with toxic smoke.

Wildfire is scary for good reason, and over a century of fire suppression efforts has conditioned people to expect wildland firefighters to snuff it out.

But as Livingston-based journalist Nick Mott and I explore in our new book, "This Is Wildfire: How to Protect Your Home, Yourself, and Your Community in the Age of Heat," and in our podcast "Fireline," this expectation and the approach to wildfire will have to change.

Over time, climate change, extensive fire suppression, and increased development in wildfire-prone lands, have set the stage for the increasingly destructive wildfires we see today.

Montana is no exception. Given the frequency of wildfire in Montana and the proximity of our communities to stuff that can burn, it's not unreasonable to expect a catastrophic event like the 2018 Camp Fire that destroyed Paradise, Calif. or the 2021 Marshall Fire in Boulder, Colo. That is, unless we change our ways.

Fortunately, private and public sector solutions exist.

The problem with fighting every fire

The way the U.S. deals with wildfires today dates back to around 1910, when the Great Burn torched some 3 million acres across Washington, Idaho, Montana and British Columbia. After watching the fire's swift and unstoppable spread, the fledgling Forest Service developed a military-style apparatus built to eradicate wildfire.

The U.S. got really good at putting out fires. So good that citizens grew to accept fire suppression as something the government simply does.

Today, state, federal and private firefighters deploy across the country when fires break out, along with tankers, bulldozers, helicopters and planes. The Forest Service touts a record of snuffing out 98% of wildfires before they reach 100 acres.

As a result, many forest ecosystems that would have periodically burned have become clogged with underbrush, new growth and woody debris that can easily ignite. Efforts by the Forest Service to adopt a more selective policy have run into opposition from Western politicians.

At the same time, people have built more homes and cities in fire-prone areas. And the greenhouse gases released by decades of increasingly burning fossil fuels have caused global temperatures to rise.

Climate change and wildfires

The relationship between climate and wildfire is fairly simple: Higher temperatures lead to more fire. Higher temperatures increase moisture evaporation, drying out plants and soil and making them more likely to burn. When hot, dry winds are blowing, a spark in an already dry area can quickly blow up into a dangerous wildfire.

Given the rise in global temperatures that the world has already experienced, much of the Western United States is actually in a fire deficit because of the practice of suppressing most fires. That means that, based on historical data, we should expect far more fire than we're actually seeing.

Fortunately, there are things everyone can do to break this cycle.

What fire and land managers can do

First, everyone can accept that firefighters can't and shouldn't put out every low-risk wildfire.

Remote fires that pose little threat to communities and property can breathe life into ecosystems Low-level fires that clear out

Prescribed fire can help restore and sustain long-term environmental health. Crews also implement mechanical treatments, such as thinning, to reduce hazardous fuels and restore ecosystem health. These treatments are used to protect park visitors and infrastructure. Photo courtesy of National Park Service.

undergrowth but don't kill the trees create space for trees, plants and wildlife species to thrive, and they return nutrients to the soil. Some tree and plant species depend on fires to open their seeds to reproduce.

Natural fires can also help avoid catastrophic fires that occur when too much underbrush has built up for fuel. And they create fuel breaks on the landscape that could halt the advance of future flames. Fire managers have advanced mapping technology that can help them decide when and where forests can burn safely. Some of the most advanced work on risk modeling and threat assessment is currently being done here in Montana by companies like Pyrologix. The demand for these services will only continue to grow as insurers and lenders grapple with accurately pricing risks to homes and other valued assets.

Thoughtful prescribed burning – meaning low-intensity fires intentionally set by professionals – can offer many of the same benefits as the flames that historically burned in forests and grasslands.

The Forest Service is aiming to ramp up its prescribed burning on more acres in more areas across the country. However, the agency struggles to train adequate staff and pay for the projects, and environmental reviews sometimes cause yearslong delays. Other groups offer beacons of hope.

Indigenous groups across the country, for example, are returning fire to the landscape.

In Montana, our state agencies typically embrace a full suppression policy, making it difficult to allow even potentially beneficial natural fires to burn, let alone increase our prescribed burning. Several communities here have Community Wildfire Preparedness Plans, which are interagency documents designed to assess and plan for the threat wildfire at the local level. Fires don't care about property boundaries, so coordination is critical, especially in areas where the forest intermingles with neighborhoods.

Adapting homes to fire risk

For decades, scientists have understood the relationship between wildfire and community destruction. However, little has been done to live safely with fire on the ground. More than one-third of U.S. homes are in what's known as the wildland-urban interface – the zone where houses and other structures intermingle with flammable vegetation.

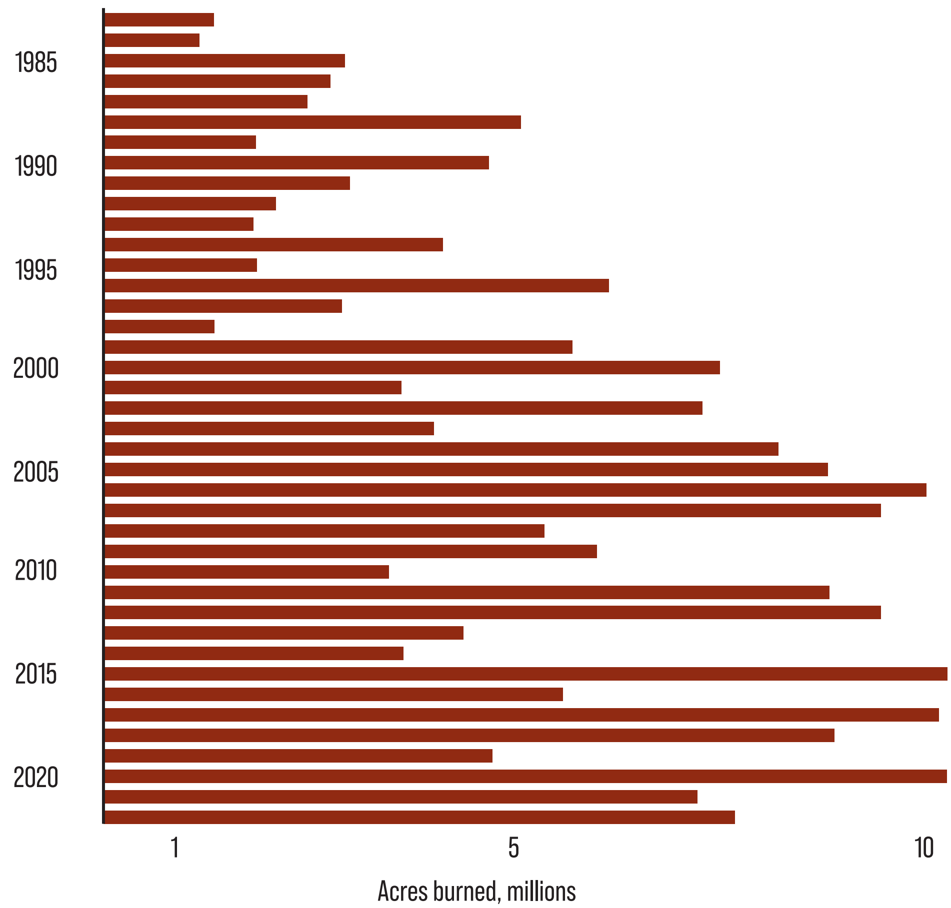
The biggest risk to homes comes from burning embers blowing on the wind and landing in weak spots that can set a house ablaze. Those embers can travel over a mile to nestle in dry leaves or pine needles clogging a gutter, a wood-shingle roof or shrubs, trees and other flammable vegetation close to a structure.

Some of these vulnerabilities are easy to fix. Cleaning a home's gutters or trimming back too-close vegetation requires little effort and tools already around the house.

Grant programs exist to help harden homes against wildfire. But enormous investment is needed to get the work done at the scale the fire risk requires. For example, nearly 1 million U.S. homes in wildfire-prone areas have highly combustible wooden roofs. Retrofitting those roofs will cost an estimated $6 billion, but that investment could save both lives and property and reduce wildfire management costs in the future.

Homeowners can look to resources like Firewise USA to learn about the "home ignition zone." It describes the types of vegetation and other flammable objects that become high risks at different distances from a structure and steps to make properties more fire resilient. For example, homes should not have flammable plants, firewood, dried leaves, or anything burnable, within 5 feet of the house. Between 5 and 30 feet, grasses should be mowed short, tree branches should be pruned to at least 6 feet from the ground, and the tree canopy should be at least 10 feet from the structure.

FIGURE 1 **Annual wildfire burn area has increased over time**



Source: National Interagency Coordination Center

What communities can do

Many counties and cities have their own wildfire programs to educate homeowners and connect them with resources. Some have started "tool libraries" to help anyone begin the necessary work on their property.

Beyond individual actions, states and communities can enact forward-looking wildfire resilience policies. These can include developing zoning rules and regulations that require developers to build with fire- resistant materials and designs or might even prohibit building in areas where the risk is too high.

The International Wildland-Urban Interface Code, which provides guidance for safeguarding homes and communities from wildfire, has been adopted in jurisdictions in at least 24 states. Prevention and suppression will always be critical pieces of wildfire strategy, but adapting to our fiery future means everyone has a role.

In Montana, zoning and building codes are particularly thorny issues and we have made little progress embracing wildfire preparedness at the regulatory level. But given the demand for housing and new construction, lenders and insurers can play a role in incentivizing change. And there is a burgeoning industry of wildfire preparedness consulting service in Montana.

Wildfire Defense Systems of Bozeman, for example, is a national leader in providing wildfire fighting and consulting services to insurers. Remote sensing technology will play an important role in our future as well, and Hyundai recently made a significant investment in developing Ultimate Mobility Vehicles here in Montana.

Beyond private industry, United Way of Missoula County is pioneering non-profit engagement in fostering community preparedness and connecting homeowners to funding opportunities to make their homes more wildfire resilient.

Living in a world with wildfire

Educate yourself on proposed forest projects in your area. Understand and address risks to your home and community. Help your neighbors. Advocate for better wildfire planning, policy and resources.

Living in a world where more wildfire is inevitable requires that everyone see themselves as part of solving the problem. Wildfire can be terrifying, but also natural and essential. Embracing both isn't always easy, but I believe it is the only way forward. ■

Justin Angle is a professor of marketing and the Poe Family Distinguished Faculty Fellow at the University of Montana's College of Business.

The green rush

How Montana's outdoor economy fuels sustainable tourism

By Melissa Weddell

MONTANA'S ECONOMIC history has seen booms and busts tied to natural resource extraction since the Lewis and Clark Expedition in the early 1800s. From bison hunts to fur trapping, as well as gold rushes and mining, the state's boomtowns rose and fell rapidly. Sectors like mining and timber saw periods of rapid growth characterized by booming economies and high demand, followed by downturns when resources were depleted, or market conditions shifted.

Over time, Montana has sought to diversify its economy to reduce reliance on these cyclical industries, aiming for greater stability and resilience. Additionally, many of these activities created concern about the state being designated as a "natural sacrifice area." In the latter half of the 20th century, environmental worries led to the protection of wilderness, scenic rivers and wildlife.

Today, Montana's economic landscape blends traditional industries like mining, agriculture and timber with a burgeoning focus on renewable energy, technology, tourism and outdoor recreation.

Today, Montana's economic landscape blends traditional industries like mining, agriculture and timber with a burgeoning focus on renewable energy, technology, tourism and outdoor recreation.

The protection of Montana's natural resources has led to a network of pristine protected lands and rivers.

The state encompasses approximately 32 million acres of public land managed by federal agencies like the National Park Service, U.S. Forest Service, Bureau of Land Management and the U.S. Fish and Wildlife Service. This public land accounts for nearly 29% of Montana's total land area. Even more public land is managed by the state government.

Additionally, Montana has numerous options for public access through collaborations, both public and private, such as conservation easements and block management, contributing to the preservation of natural landscapes and biodiversity. The state's commitment to conservation efforts has led to the creation of a robust outdoor recreation economy.

This economy encompasses a wide array of components, including outdoor activities such as hunting, fishing, hiking, gear manufacturing, transportation, conservation efforts and community engagement. In practical terms, the facets of an outdoor economy have long supported economic growth, social well-being and environmental preservation, especially for rural areas.

As the outdoor economy has evolved, there's been a greater focus on its potential to foster positive outcomes in social, health, education and economics, especially in communities affected by industrial decline.

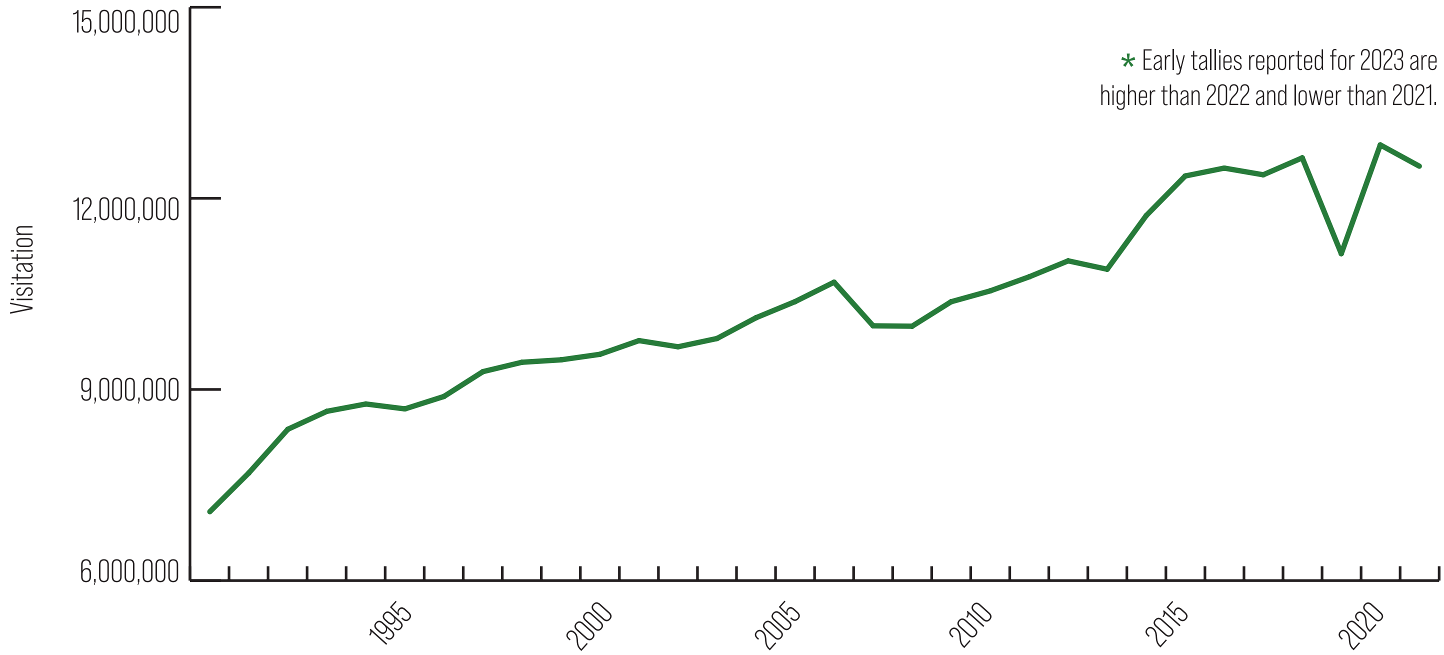
Moreover, the Outdoor Recreation Jobs and Economic Impact Act of 2016 directed the U.S. Department of Commerce to evaluate the outdoor recreation economy, leading to the Bureau of Economic Analysis (BEA) producing its inaugural report on the outdoor economy's annual contribution to national Gross Domestic Product in 2018.

Recognizing this potential, there's been increasing interest at community, state and federal levels to coordinate efforts to harness the outdoor economy for rejuvenation at the local level.

According to the 2022 update of the BEA report, the nationwide economic

Bear spray was first developed just outside of Glacier National Park. Here you can see how the bear spray canisters are assembled and filled with ingredients in the factory. Photo courtesy of the National Park Service.

FIGURE 1 Montana annual nonresident visitation



Source: Institute for Tourism and Recreation Research

USGS staff sand tree cookies to study patterns in growth over time. Photo courtesy of National Park Service.

impact of outdoor recreation amounts to a staggering $1.1 trillion, supporting 5 million jobs. In the national economy, outdoor recreation constitutes 2.2% of the GDP and employs 3.2% of the workforce.

The Montana outdoor recreation economy grew 14% from 2021 to 2022 and 30% from 2020 to 2021. It accounted for 4.3% of Montana's GDP, positioning the state third in the country for its proportion of economy associated with outdoor recreation. Montana's contribution is impressive, driving $2.9 billion in economic output and providing support for 29,450 jobs across the state. The growth from $2.5 billion in 2021 to the current $2.9 billion in 2022 GDP showcases the vibrant outdoor recreation industry and the economic prospects that come with embracing and investing in the outdoors.

White bark pine saplings being planted. Photo courtesy of the National Park Service.

Tourism

Tourism and recreation are deeply interconnected in Montana, playing vital roles in the state's economy and culture.

Tourism significantly contributes to various sectors in Montana, such as hospitality, guiding services, outfitters, equipment rental and local artisans in addition to creating employment and entrepreneurial opportunities linked to recreational pursuits.

In 2022, Montana's tourism industry had 12.5 million visitors who spent $5.82 billion that supported 43,900 jobs. Nonresidents report that their top activities when visiting are day hiking, wildlife watching, nature photography and scenic driving. Visitors are also drawn to national parks like Glacier and Yellowstone, renowned for their natural beauty and diverse ecosystems. The state's cowboy culture, rich Native American heritage and small-town charm contribute to its appealing and authentic image that invite tourists to experience a blend of outdoor adventures and cultural immersion.

As visitors immerse themselves in history, traditions and local communities,

FIGURE 2 Sustainability's triple bottom line

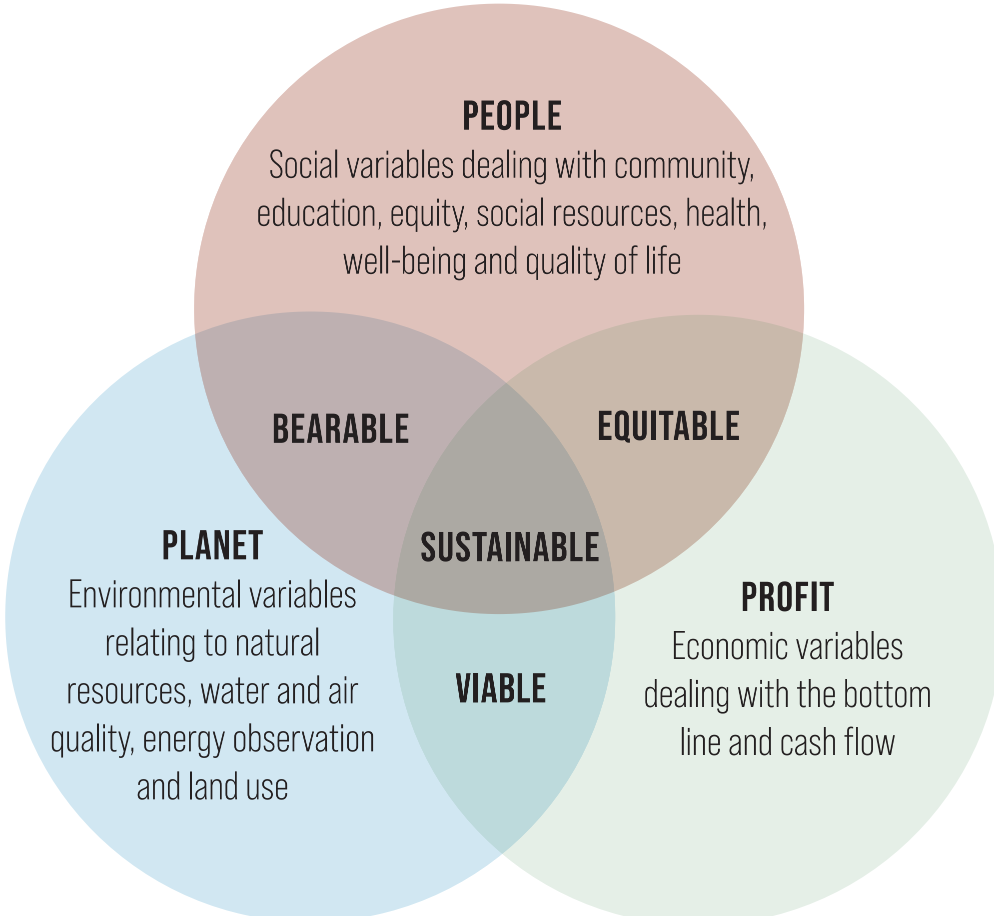
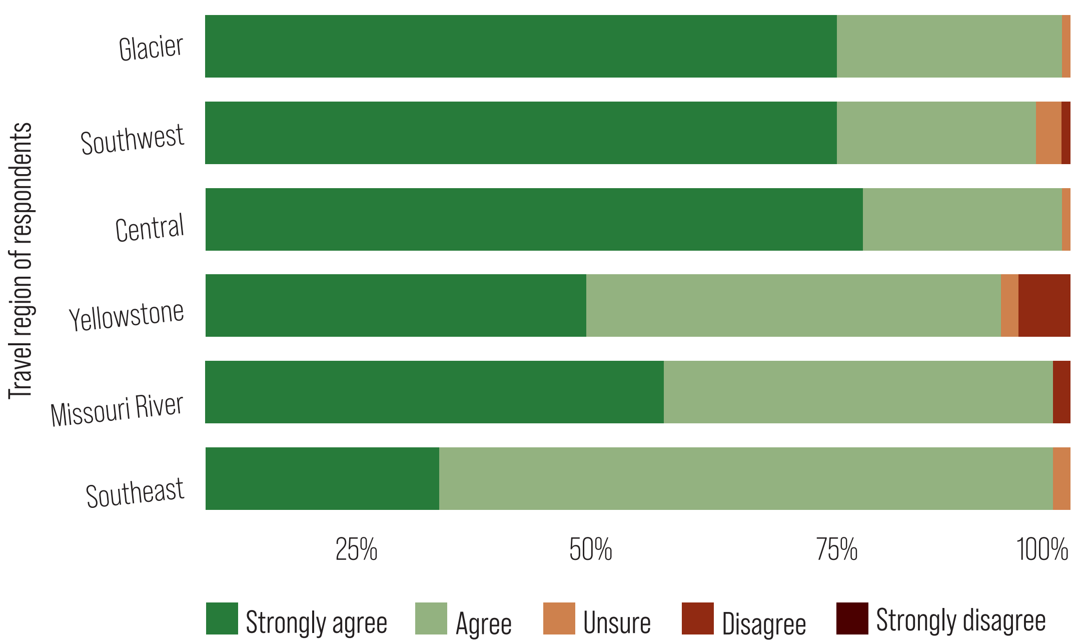


FIGURE 3 Outdoor recreation is important to the quality of my life

▶ The vast majority of Montanans surveyed – 97% — said outdoor recreation is important to their quality of life, according to the most recent report by the Institute for Tourism and Recreation Research. Almost half said they participate in such activities on a weekly basis, followed by 22% who participate monthly and 20% who participate daily. A majority of respondents also agreed that there should be more investment in the development (53%) and maintenance (60%) of outdoor recreation areas and facilities in their area.

Note: The results are based on a survey of 3,562 Montana residents between April 1 and June 30 in 2023.



Source: Institute for Tourism and Recreation Research

DESTINATION STEWARDSHIP

Here are some ways local communities, along with the public and private sectors, can practice destination stewardship that benefits everyone.

Conservation and preservation

Destination stewardship focuses on conserving natural areas, maintaining biodiversity and protecting ecosystems. Outdoor recreation activities aim to ensure these areas are enjoyed sustainably, minimizing negative impacts on the environment.

Education and awareness

Both public and private entities collaborate in educating visitors and residents about responsible practices, such as Leave No Trace principles, Recreate Responsibly, wildlife conservation and respecting local cultures. This creates awareness and encourages responsible behavior among outdoor enthusiasts.

Infrastructure Development

Collaboration between recreation and stewardship involves building infrastructure that supports outdoor activities while minimizing environmental impact. Trails, campsites and facilities are developed with sustainability in mind to maintain the natural integrity of the area.

Community Involvement

Engaging local communities in stewardship efforts fosters a sense of ownership and responsibility. Collaborative efforts ensure that community needs are considered in recreation planning while preserving the area's cultural heritage.

Policy and Regulation

Both work together to develop policies and regulations that balance recreation opportunities with conservation goals. This includes zoning, permitting and regulations to manage visitor numbers and protect sensitive areas.

Monitoring and Adaptation

Collaborative efforts involve continuous monitoring of visitor impact and environmental changes. This data helps in adapting strategies and management practices to ensure long-term sustainability.

they gain understanding and appreciation of the state's heritage. That often includes the importance of responsible stewardship. Sustainable tourism practices and conservation efforts aim to preserve Montana's natural beauty and resources for future generations while allowing visitors to enjoy these spaces.

Challenges and changes

While tourism has many benefits, it also has challenges, such as strains on infrastructure, housing, and transportation, economic dependency, negative behaviors, and issues of overcrowding. Mitigating these challenges requires responsible tourism practices, sustainable development and community engagement to balance the positive impacts of tourism with its potential drawbacks.

The COVID-19 pandemic sparked a boom for Montana in the travel and tourism industry. In many locations, travel came to a halt during the pandemic due to government restrictions, health concerns, border closures and lockdowns, all contributing to a significant decrease in movement and non-essential travel. Montana, however, experienced an increase in visitation and thrived during the pandemic due to its appeal for outdoor activities, open spaces and alignment with safer, domestic travel options.

Another part of the story is Montana also experienced an influx of new residents, with estimates suggesting that over 40,000 individuals moved to the state. Montana has consistently grown over the past 12 years, reaching a current population of about 1.1 million. This represents a 13.3% increase since 2010, noting growth in every single year between 2010 and 2022. This migration is fueled by various factors. They include the appeal of the outdoors, lifestyle change and the ability to work remotely.

The increase of people during the pandemic – both visitors and new residents – along with an increase of in-state tourism, strained community resources, public lands and infrastructure. That impacted accommodations, services and the environment. This increase in people serves as a valuable lesson for Montana, like other boom cycles, that planning, managing infrastructure and destination stewardship are necessary for sustainable development.

The path ahead

To bolster resilient economies, particularly in rural areas, outdoor recreation is a crucial player.

It diversifies economies, enhances the quality of life, generates income, retains young workers, preserves cultural heritage, develops infrastructure, champions conservation efforts and ensures seasonal stability. By enriching residents' lives through access to a healthy environment while providing economic benefits through sustainable tourism, outdoor recreation emerges as an essential element of success for local economies. This sustainable tourism ecosystem rests upon the foundation of destination stewardship.

Destination stewardship can be defined as an approach to governance that seeks to balance and meet the economic, environmental and social-cultural needs of a destination while operating within a governance model that meaningfully includes active participation from local residents and the public and private sectors.

The future of outdoor recreation and tourism in Montana hinges on the synergy between utilization and responsible destination stewardship.

Montana is poised to embrace responsible destination stewardship, emphasizing responsible visitor behavior, conservation efforts and community involvement in sustainable initiatives. Collaborative efforts between stakeholders, government entities, and local communities will shape policies promoting sustainable tourism. As Montana continues to attract visitors – and new residents – who seek its pristine landscapes, the integration of destination stewardship principles will ensure the long-term preservation and vitality of its natural wonders. ■

Melissa Weddell is the director of the Institute for Tourism and Recreation Research and research faculty in the department of Society and Conservation in the W.A. Franke College of Forestry at the University of Montana.

Preparing Montana property taxes for the future

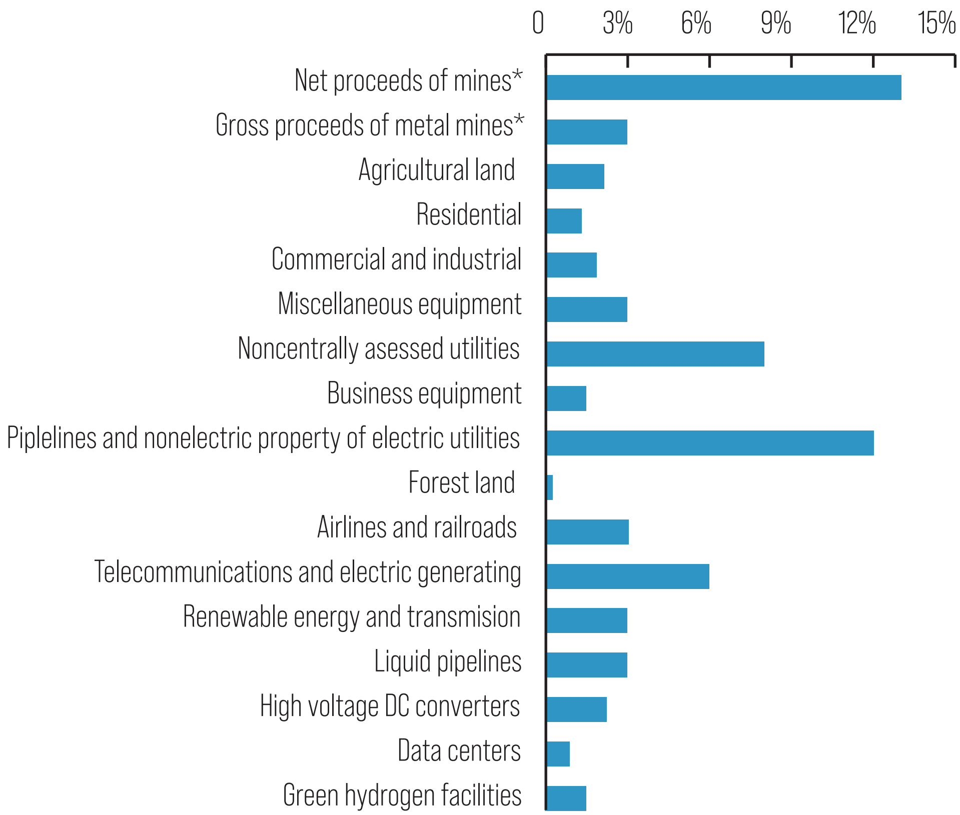
By Llew Jones

THE PROPERTY TAX, by some accounts, dates its origins all the way back to 5,000 B.C. Its longevity owes to its stability and significance as a source of funding for local government, and Montana is one of many states that relies on it heavily.

It has never been a popular tax – can any tax truly be said to be popular? And with the jump in residential assessments that hit taxpayers at the end of last year, calls for action on property tax reform have intensified. There is no question we can do better in helping this tax do its job to support local governments and schools with more fairness and transparency. But if we do not account for, or fully understand, how it works, we can also make things worse.

This article aims to lay the foundation for the reform discussion that is surely in our future.

FIGURE 1 Tax rates by property class, 2023



Source: Montana Department of Revenue

*While collected by the state and remitted to local governments, these taxes are not levied on property value and thus their statutory rates are not comparable to other property classifications.

A stable, important revenue source

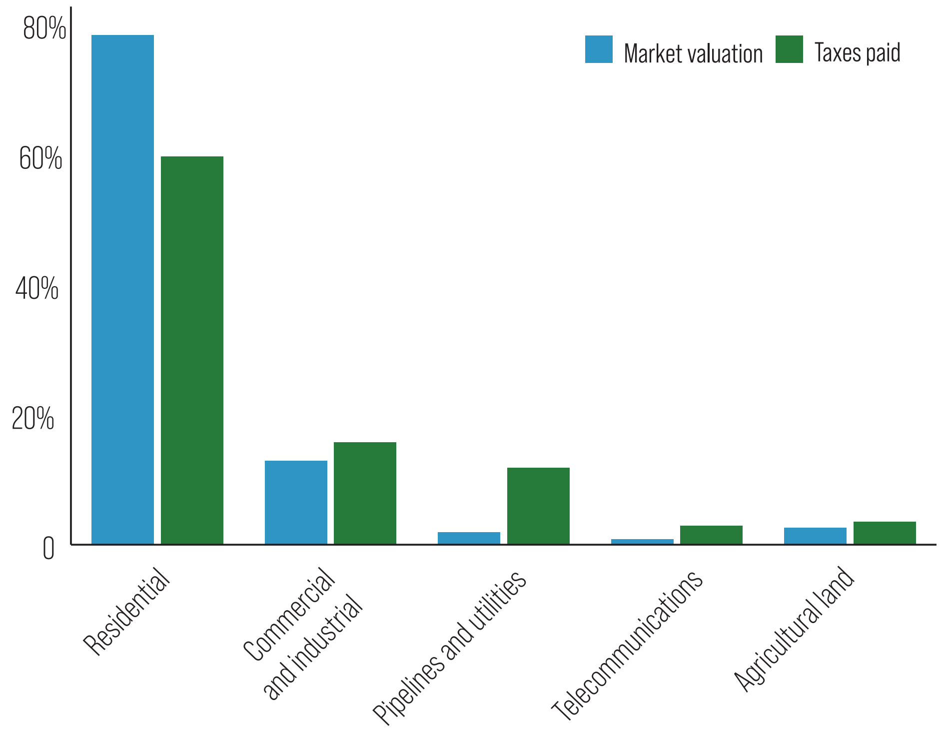
While state government's largest source of funding is income tax, the property tax is the primary funding source for local governments and schools. The Tax Foundation, a nonpartisan tax policy nonprofit, ranks Montana 34th highest out of 50 states for property tax on owner-occupied housing and the 5th best business climate. The significant residential property value increases in the 2022-23 reappraisal cycle have not yet been factored into property tax bills or Montana's property tax ranking nationally.

In the 2023 fiscal year, Montana's property tax system is forecast to collect \$2.1 billion from 18 property tax classes representing \$259 billion of market value, according to the 2022 Montana Department of Revenue (DOR) appraisal. The legislature sets the tax rate for each class of property, the DOR, an executive agency, centrally appraises property, and local governments and schools set the mills needed to provide services, within legal limits. More than half of taxes collected go to schools, about a quarter to counties and the rest to cities, towns and the university system.

How much property owners pay in local taxes are ultimately determined by the unique mix of property types and levied mills in each of the 56 counties, 397 school districts, 129 incorporated cities and towns, and 447 other districts with taxing authority. Added to the local collections are two statewide levies: 6 mills directed to the university system and 95 mills used to ensure statewide equity in local school funding. The proceeds from the latter are redistributed to schools in areas with less tax base, accounting for more than a third of the $1.1 billion the state distributes to schools annually.

As shown in Figure 1, the residential property rate of 1.35% is lower than all other classes except timber and qualifying data centers. That lower rate explains why the total value of homes accounts for a larger share of the taxable property value than its share of the total taxes collected (Figure 2). The situation is reversed for most other property classes. Centrally assessed pipelines and utility assets that do not generate electricity, for example, make up just 1.8% of the tax base yet the bills for them amounted to 11.3% of all property tax collections in 2023.

FIGURE 2 Share of market valuation and taxes paid, selected property classes, 2023



Source: Montana Department of Revenue

Property tax base is changing

While the property tax is considered the most stable overall tax revenue source for governments, Montana is seeing profound changes within the classes.

The most significant has been the outsized growth in residential property. Twenty years ago, residential made up 57.5% of the tax base compared to 75.7% in 2023. The increase in residential value is most pronounced in regions that offer ample outdoor recreation opportunities, higher education settings and good air travel services. These areas often support high-tech or telecommuting jobs and are popular with tourists who might decide to relocate.

Conversely, property classes for traditional natural resources, particularly timber, have significantly decreased their share of total taxable value.

The share of taxes paid by residential property owners has increased more slowly than the growth in total value because of tax law changes enacted by legislators, including exemptions and changes in statutory rates. This results in what is, essentially, a 3% discount for residential properties in 2023 compared to 2003.

Surge in assessed values ramps up calls for action

In the last two years, Montana has experienced huge increases in property values that has, naturally, increased the government's assessment of their taxable value and, therefore, the bills owners ultimately pay.

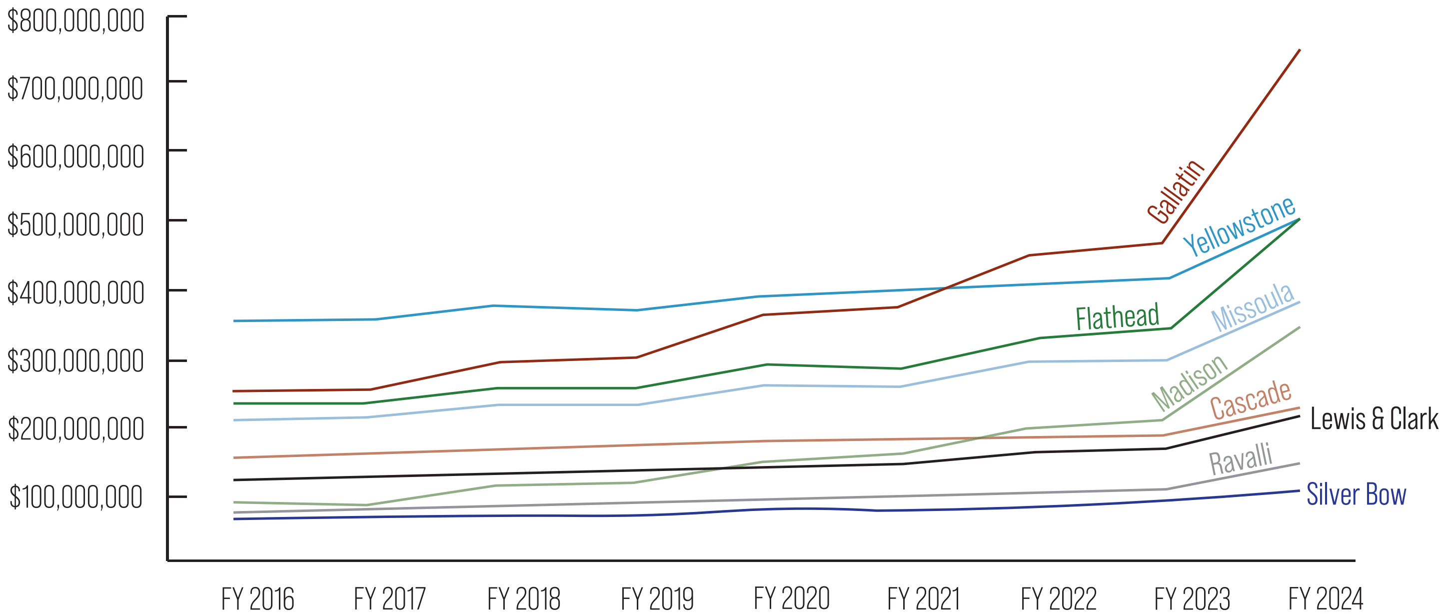
But the recent 43.6% average increase in residential values in just one year – from tax year 2022 to 2023 – has not been evenly spread across the state. While certain regions of Montana experienced significant increases, 20 counties experienced less than a 20% increase, 11 counties went up single digits, and Richland County had no increase at all.

The trajectory of taxable value for the nine largest counties, shown in Figure 3, shows the remarkable transformation of the property tax base in just a few years. By 2021, Gallatin County had grown to the same total taxable value as Yellowstone County, the state's most populous. By 2024, Gallatin's tax value is projected to be $250 million larger than Yellowstone's.

The expanding technology sector in Bozeman is a major contributor to its economic growth. The city is home to numerous startups and established companies specializing in software development, biotechnology, aerospace and other high-tech industries. Bozeman is also the home of Montana State University, promoting collaboration between academia and industry that further fuels the growth of the technology sector.

Bozeman also benefits from a robust tourism industry that brings millions of visitors each year, contributing to local economic growth through spending on

FIGURE 3 Taxable value growth for selected Montana counties



Source: Montana Department of Revenue

accommodations, dining, and other goods and services. Overall, Bozeman represents a rapidly growing destination economy that relies on its scenic beauty and outdoor recreation to attract both visitors and permanent residents.

Flathead County, with Kalispell as the county seat, has a similar story. As the logging industry in the area declined, the region transitioned into a booming destination economy. By 2024, Flathead County is projected to match Yellowstone County's taxable value despite having two-thirds as many residents.

Perhaps the biggest surprise among destination economies is Madison County, population 8,917. Most of its taxable value is linked to the Big Sky Resort region's vacation homes in the Yellowstone Club, Spanish Peaks Mountain Club and Moonlight Basin. That makes the tax base of Madison County larger than counties with almost 10 times as many residents: Cascade County, population 84,511, and Lewis and Clark County, population 72,223.

Scenic and destination areas of Montana are experiencing above-average population growth, the fastest rising home prices in Montana, and a surge in short-term rentals and vacation homes. Tax data reveals a substantial increase in the number of houses valued at $1.5 million or more from 1,207 in 2018 to 4,886 in 2023. And the number of short-term rentals in Montana is expected to reach 15,000 by 2024.

New approaches necessary

Montana's property tax collections have dramatically changed over the past two decades, presenting state and local leaders with a serious challenge to update our traditional policies.

In particular, we've seen the Montana economy, and subsequently the Montana property tax base, shift from a focus on natural resources to one driven by services and growing destination economies. These changes are leading to increased residential values and, often, higher property taxes for homeowners, particularly in high-demand areas. Although not discussed here, income tax collections, too, will be affected as people's type of work changes.

The evolution of Montana's property tax system could be a complex and time-consuming process.

One future policy could be to redefine the residential class so short-term rentals and out-of-state vacation homes do not qualify for the same low tax rate set for owner-occupied dwellings and long-term rentals.

The agriculture class, which is assessed by production rather than on market value, may also need redesign to prevent large tracts of recreational property from receiving favorable ag production treatment.

The need to redefine these classes may lead to legal challenges.

But the changes in Montana's economy have had a significant impact on residents, and that demands policy response. From my perspective as a veteran legislator, leaders should prioritize the affordability of living and raising a family in Montana for its residents. It is crucial, however, to thoroughly analyze the potential consequences of property tax changes as we work toward creating a comprehensive plan. ■

Llew Jones is a veteran Montana legislator from Conrad who has frequently chaired state budget committees.

Farming and ranching

Drought relief and strong commodity prices in 2023

By George Haynes and Joel Schumacher

Montana farmers and ranchers were met with a combination of surging cattle prices, moderating crop prices, and improved production conditions.

Calf prices surged by 42%, while wheat prices declined by 16% in the first 10 months of 2023 (Figure 1). All major crops (wheat, barley, pulses, and hay) increased production following a severe drought one year earlier.

Photo courtesy of the U.S. Department of Agriculture

Crop Production and Prices

Crop production returned closer to long-run average production levels. Spring and winter wheat production increased by 17% and 33%, respectively. Barley and hay production increased by more than 20%.

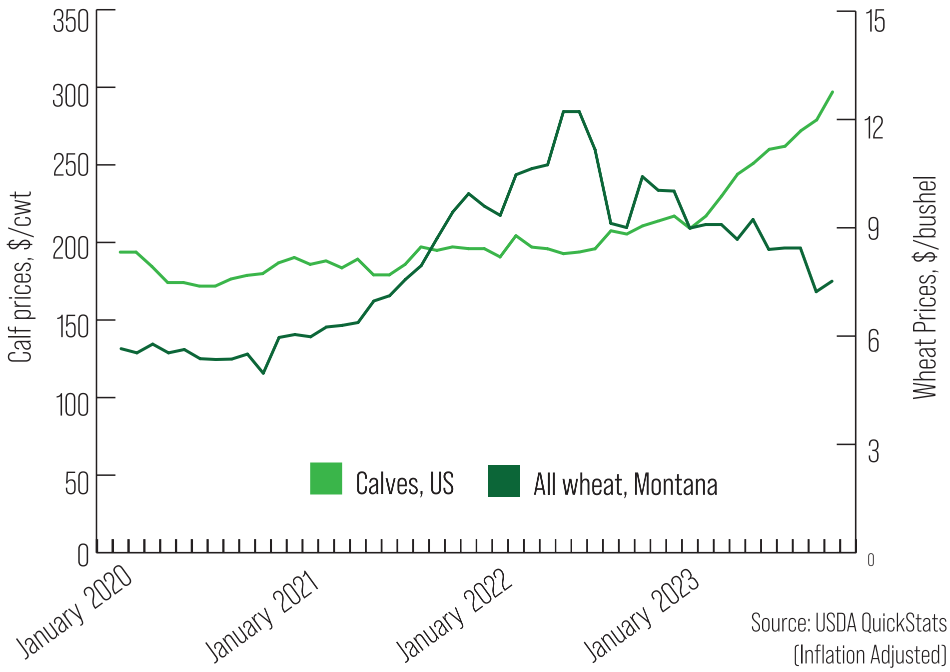
Total pulse acres decreased by 25% from a high of 1.5 million acres in 2017 to less than 1.2 million acres in 2023. Although lentil production increased by 9%, dry edible peas production increased by 27% and chickpea production trended upward by 68%.

When comparing commodity prices between 2022 and 2023, spring and winter wheat prices trended downward through September. Barley prices increased by 48%, while pulse (lentils, peas, and chickpea) prices declined by over 5%. With some relief from the drought, hay production increased by nearly 30% and hay prices declined by 20% from $215 to $175/ton from 2022 to 2023. Rangeland in eastern Montana was stressed by an infestation of grasshoppers, which resulted in slightly higher pasture rent.

Livestock Production and Prices

U.S. beef production decreased by 5 percent in 2023. Beef production forecasts suggest that the downward trend will continue, decreasing by 6% in 2024. U.S. beef exports decreased by 14% from 2022 and are expected to decrease by another 6% in 2024. Over 70% of U.S. beef exports were

FIGURE 1 Indexed commodity prices, January 2020 through November 2024



Source: USDA QuickStats (Inflation Adjusted)

purchased by five countries (Japan, Mexico, Canada, South Korea and China) in 2023.

Given the declines in U.S. beef production, U.S. beef imports have become an important issue in late 2023. U.S. beef imports increased by 6% from 2022 and are expected to increase slightly in 2024, according to USDA forecasts. More than 70% of beef imports are from Canada, Mexico, New Zealand and Australia.

Cow numbers for Montana dropped to the lowest level since 1962 in 2022. While there has been a substantial decline of over 200,000 cows over the past decade, early indications suggest that herd rebuilding is moving slowly. This past year has been an incredible year, with calf prices surging and improved hay and pasture conditions, which improved the bottom line (profitability) of many ranchers.

Farm Financial Conditions and Subsidy Programs

U.S. cash receipts were forecasted to decrease by over 4% from last year. However, Montana producers realized somewhat higher cash receipts because of less drought stress and surging cattle prices. Based on estimates through November, livestock and crop cash receipts are expected to increase by over 10%, while direct government payments are expected to decline in Montana.

The average U.S. farm balance sheet has remained healthy with a debt-to-equity ratio below 15%, debt-to-asset ratio below 13%, and current ratio (current assets/current liabilities) of less than 2.1. As reported last year, these ratios suggest that U.S. agriculture is facing short-term liquidity challenges, but not long-term solvency challenges. ■

George Haynes is an agricultural policy specialist with the Department of Agricultural Economics and Economics at Montana State University.

Joel Schumacher is an associate extension specialist in the Department of Agricultural Economics and Economics at Montana State University.

Forest products

Stable for now, future looks greener

By Samuel Scott

Compared to the recent past, the Montana forest products industry had a stable year in 2023 due to several offsetting trends.

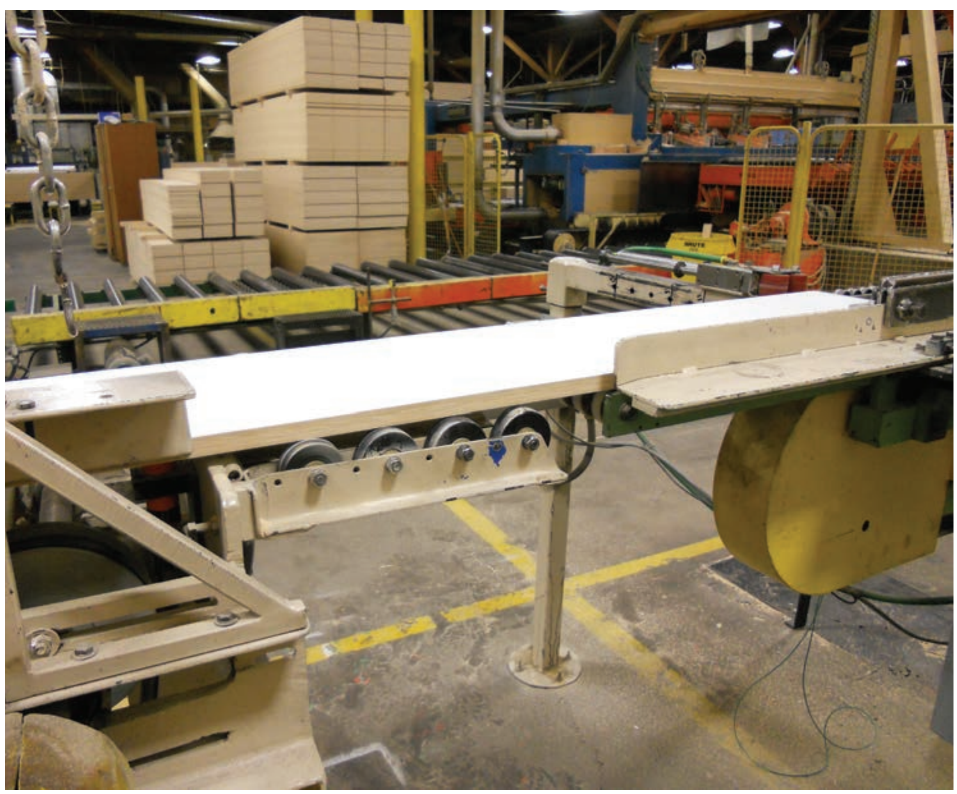
The days of sky-high prices for finished wood products and producer revenue fueled by the pandemic are gone, but consumer inflation and increases in production costs dropped to less than half of that seen in 2022.

Domestic home construction is a key driver of the wood products industry.

The U.S. Census Bureau estimates 1.4 million new homes started construction in 2023, a 13% decrease from a 17-year high of 1.6 million in 2021 and a 10% decrease from 2022.

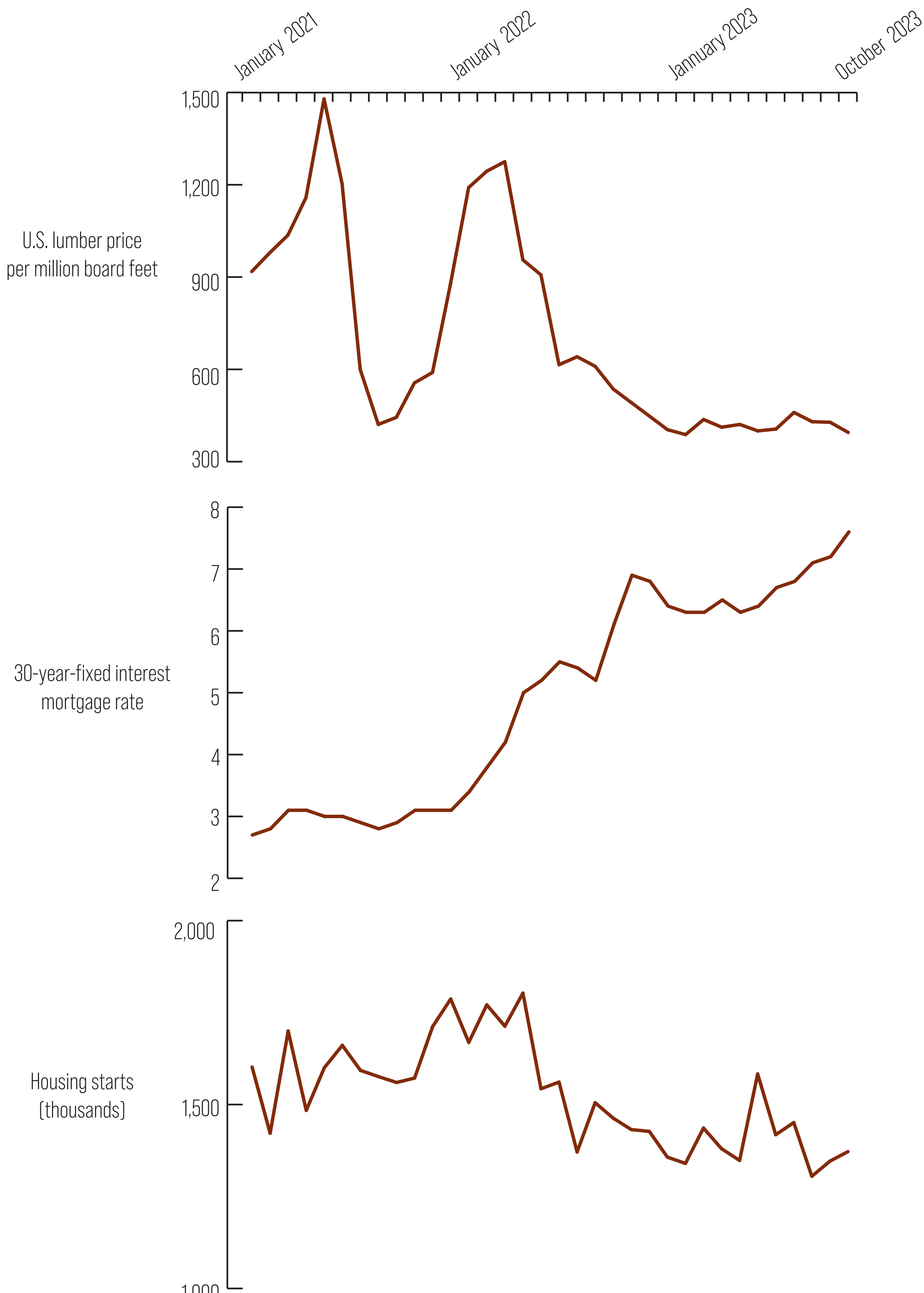
The decline is due, in part, to rising mortgage rates. In 2023, Freddie Mac reported 30-year fixed-interest mortgage rates averaged 6.7%, which is a 25% increase over 2022 and a 125% increase over 2021 (Figure 1). However, housing supply in the United States is still low compared to demand,

Domestic home construction is a key driver of the wood products industry.



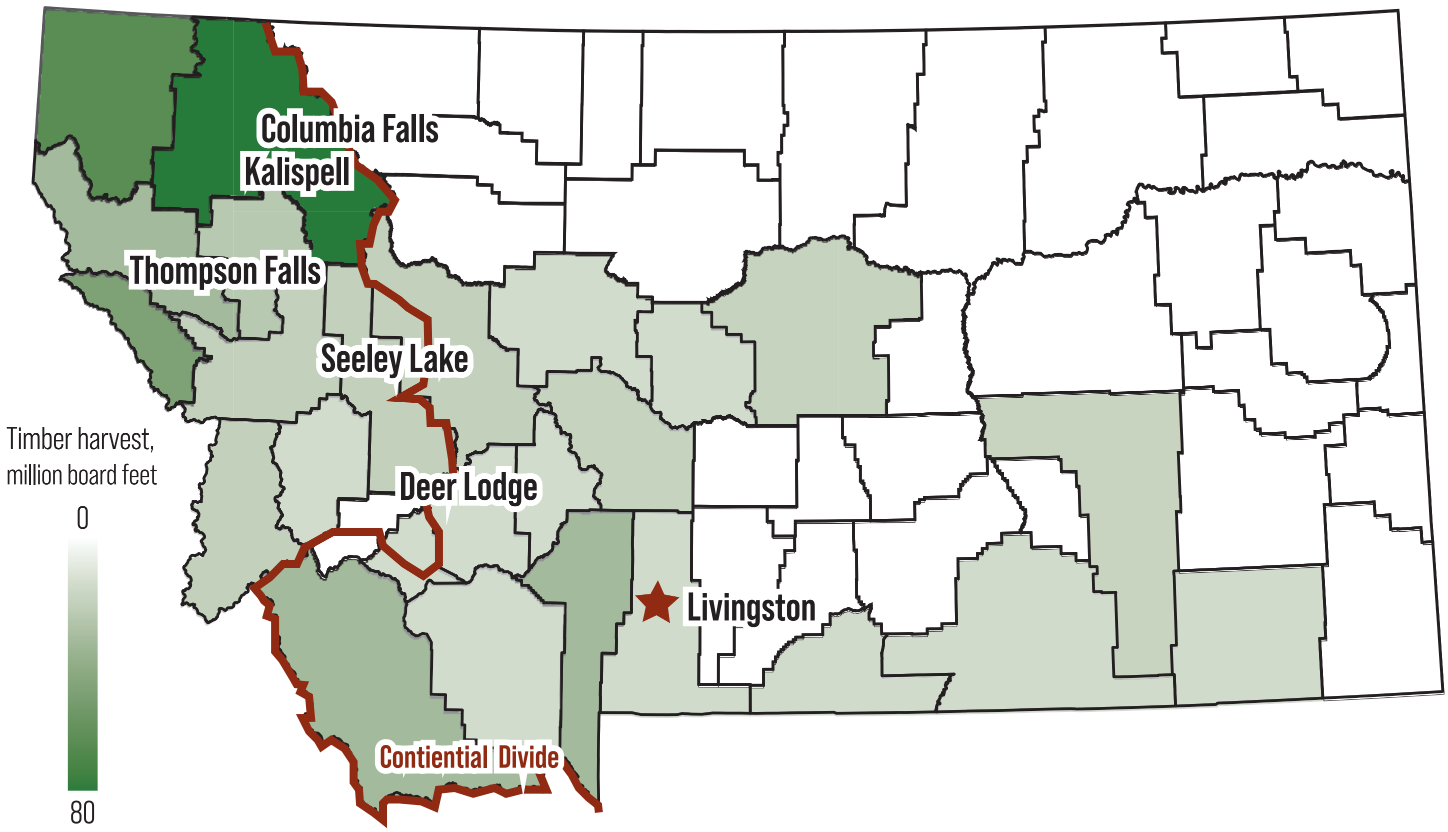
Photoby the Bureau of Business and Economic Research.

FIGURE 1 **U.S. lumber prices, 30-year-fixed mortgage rates and housing starts, 2021-23**



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, U.S. Bureau of Labor Statistics, Random Lengths Publications, Inc., Freddie Mac

FIGURE 2 Montana's timber harvest by county, 2022



which may have tempered the reduction in residential construction.

Looking forward, the Federal Reserve is expected to reduce interest rates in the latter half of 2024. This could provide some relief in the housing market and lead to an increase in residential construction, which would likely drive up the demand and prices for lumber and other building materials.

On the supply side, timber harvest in the state was 4% lower in 2023 than 2022 at 311 million board feet while lumber production decreased 5% to 326 million board feet.

According to producers, the principal bottleneck when it comes to industry growth has shifted somewhat from a limited supply of timber to a limited supply of labor.

The Livingston mill is a crucial component of the wood products infrastructure in Montana.

In wood products manufacturing news, the R-Y Timber sawmill in Livingston was damaged by a pair of destructive fires in 2022. Initially, it seemed the facility was going to shutdown entirely, but Sun Mountain Lumber in Deer Lodge purchased the mill and intends to resume production in 2024. The Livingston mill is a crucial component of the wood products infrastructure in Montana. It is the only large sawmill east of the Continental Divide (Figure 2).

Much of the forest and fuels treatment in the region—on both private and public land—would be economically unfeasible if the mill were to completely shutter due to the long hauling distances to next closet mill.

In other industry news, growing interest in sustainable and renewable biomaterials for building and energy production is bringing exciting new opportunities into the state.

For example, mass timber construction has seen rapid growth, and Montana is in a position to take advantage of the trend. SmartLam — a cross-laminated timber producer in Columbia Falls — has grown significantly in the past few years and plans to continue expanding their operation.

Photo by the Bureau of Business and Economic Research.

On the bioenergy side, nearby F. H. Stoltze Land and Lumber has been using their sawdust and bark by-products to generate energy and power homes in the Flathead Valley since 2013.

So, despite the slow growth of the wood products industry in Montana, things are looking up.

As forest fires and fuels treatment continues to drive the actions of individuals and the budgets of agencies, our production facilities will continue to be the center of local economies and state discussion. Additionally, the ongoing boom of wood fiber replacing fossil fuel-based building materials and energy feedstock may provide economic opportunities into the future. ■

Samuel Scott is a forest economist at the Forest Industry Research Program in the Bureau of Business and Economic Research at the University of Montana.

Energy

Living with geopolitics

By Patrick M. Barkey

Refineries in Billings, MT. August 2008. Photo courtesy of the U.S. Department of Agriculture.

The news in energy markets in 2023 was what didn't happen: Even as the mideast corner of the globe erupted in open conflict that risked spreading in an area where so much oil is produced and shipped, markets were largely calm and the price of crude oil did not spike.

Overall, 2023 was a year when many primary sources of energy became cheaper in Montana – especially gasoline, diesel and natural gas. It was quite a change from last year when western Europe was reeling from the cutoff of natural gas and volatility was the norm.

Let's take a look at the major events in the energy economy affecting Montana:

1. NorthWestern Energy's natural gas-fired 175-megawatt generation facility in Laurel is expected to come online in summer 2024. The reciprocating internal combustion engine unit will add peaking capacity and improve integration with variable wind and solar generation. In other news, the company announced that it acquired Avista's share of units 3 and 4 of the coal-fired Colstrip generator. The transaction, which had a purchase price of zero, becomes effective in January 2026 and doubles NorthWestern's current ownership share of the overall facility.

2. The CHIPS and IRA (Inflation Reduction Act) incentives for green energy investments have set off a sizable building spree for manufacturing facilities to produce electrical, electronic and computer equipment. The $112.8 billion in investment in October was almost 2.5 times larger than year-ago levels.

3. After reacting more slowly to rising prices, the U.S. oil industry pushed production past pre-pandemic levels in 2023 even though domestic gasoline consumption remained lower than 2019.

The big production gains have come from the Permian Basin and other shale oil plays in Texas and New Mexico, and more of the output has gone into exports, especially to Europe.

Overall, 2023 was a year when many primary sources of energy became cheaper in Montana – especially gasoline, diesel and natural gas.

Photo courtesy of the U.S. Department of Agriculture.

Photo courtesy of the U.S. Air Force.

4. Bakken oil production activity in western North Dakota and eastern Montana continued to disappoint as new investment concentrated elsewhere in fields with lower costs of production and better transportation access.

5. Montana coal producers experienced another year of relative stability, with production through the first three quarters of the year edging up slightly from year-ago levels. Production remains 20% lower than pre-pandemic levels, however, as the shutdown of Colstrip generating station's older two units in 2020 and other weaknesses in customer sales were felt in demand.

6. Global coal prices rose in 2023, with stronger demand in Europe and Asia sparked by the Russian gas disruption and the rollout of significant new generation capacity in China.

7. The Energy Information Administration reported that megawatt hours of energy produced by the electric power sector from renewable sources (wind, solar, biomass, geothermal and hydro) surpassed energy produced by coal-fired generation for the first time in 2022.

8. Documents went public that revealed the U.S. government is actively exploring agreements to breach four dams on the Snake River that have harmed salmon stocks. The dams produce significant hydropower for Montana electric cooperatives and also play a key role in the area's water transportation and irrigation infrastructure. ■

Patrick M. Barkey is director of the Bureau of Business and Economic Research at the University of Montana.

Manufacturing

Navigating through uncertainty to resilient growth

By Derek Sheehan

As the echoes of the COVID-19 pandemic continue to reverberate through the global economy, the ongoing war in Ukraine exacerbates economic uncertainty. So far, Montana's manufacturing sector shows resilience and adaptability.

Throughout the pandemic, the state's manufacturers reported lower rates of significant problems than national surveys, but concerns continue to echo those of the nation. Compared to previous BBER surveys, fewer manufacturers reported major supply chain problems last year and, overall, the businesses reported lower rates of issues across all categories.

Despite the ongoing challenges, Montana's manufacturing sector appears to be adapting to supply chain disruptions and recovering, by most measures, more quickly than elsewhere in the nation. Last year's primary concern over supply chains aligns more closely with ongoing workforce recruitment and retention issues. While new worries about inflation and the rising cost of inputs are emerging, they are still less prevalent than the one third of firms reporting supply chain or labor force challenges.

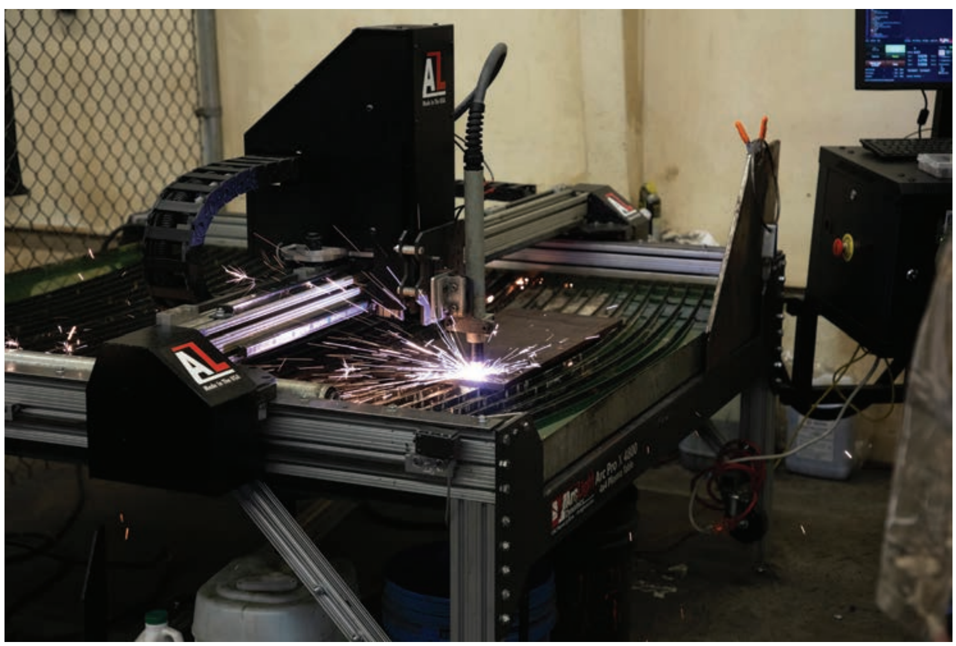
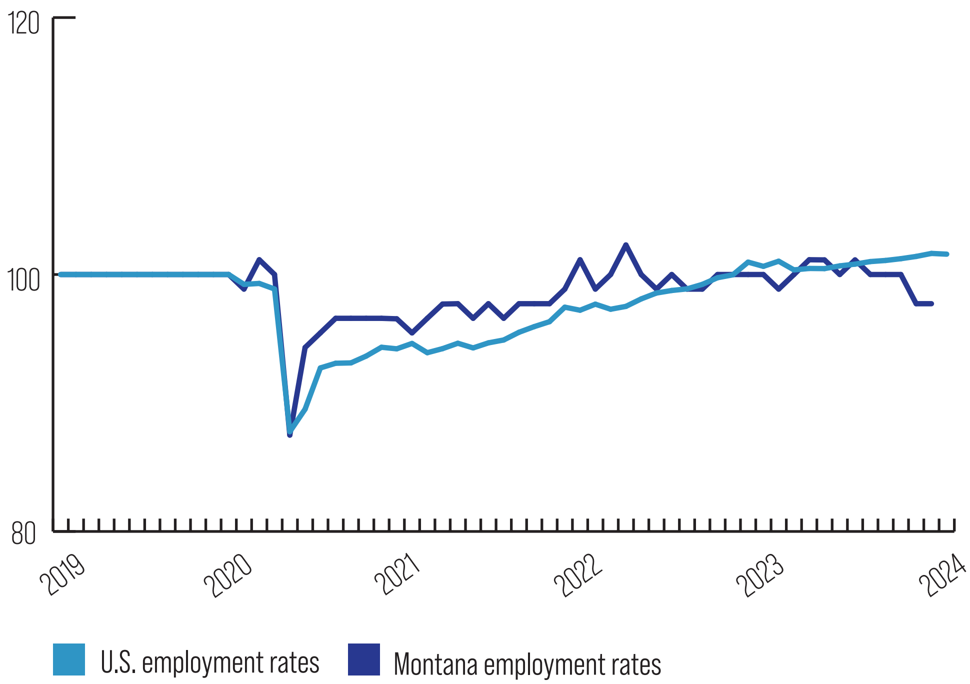


Photo courtesy of University of Montana.

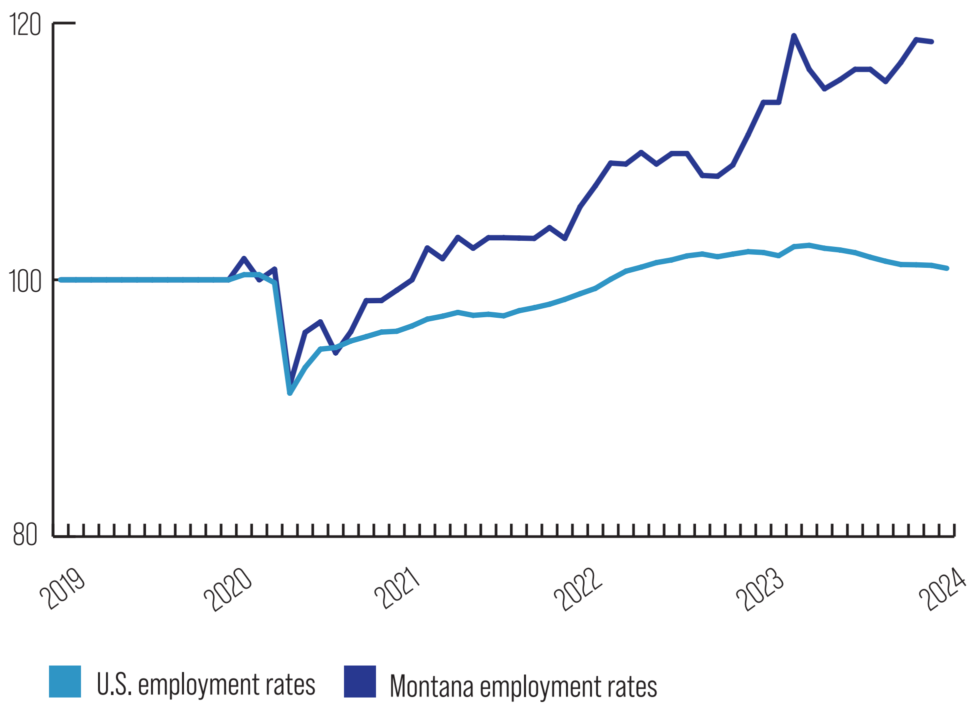
Some of the state's recovery is due to its unique manufacturing composition. Sectors like petroleum and coal products, wood products, and food, beverage and tobacco continue to be significant. This distinct industrial composition is one cause of its stability. The concentration of non-durable goods — essential items

FIGURE 1 Non-durable manufacturing employment compared to 2019 levels



Source: U.S. Bureau of Labor Statistics

FIGURE 2 Durable manufacturing employment compared to 2019 levels



Source: U.S. Bureau of Labor Statistics

consumed regularly — tends to be more economically stable regardless of conditions. Growth also tends to be slow for this sector, but Montana's employment for the non-durable sector recovered to 2019 levels nearly a year before that of the nation, as illustrated in Figure 1.

Durable manufacturing in the state has entered a boom period since returning to growth in 2021. Specifically, rapid growth in computer and electronics and transportation equipment manufacturing paces the growth in terms of employment and earnings. These sectors also climbed up to the top eight for the value of international exports last year. Figure 2 highlights how quickly Montana's durable sector returned to pre-pandemic growth and continues to outpace the nation.

As we move further from the pandemic's immediate impacts, the future of Montana's manufacturing appears cautiously optimistic. Much like the rest of the world, the sector continues to navigate uncertainties and global economic shifts. However, the foundational strengths of the industry in Montana – its unique industrial composition, size, adaptability and modernization – position it well for continued growth.

In short, manufacturing remains a vital component of the state's economy. Having largely overcome recent challenges, the sector has grown more robust and adaptable. Emerging pressures, such as high interest rates and inflation, will test the sector's resilience and adaptability in the years ahead. ■

Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.

Travel, tourism and recreation

The resilient rebound of tourism to sustainable levels

By Melissa Weddell and Kara Grau

Looking ahead to 2024, 87% of business owners anticipate visitor and customer volume to increase or stay the same.

In 2023, Montana welcomed 12.5 million visitors enticed by its breathtaking landscapes, outdoor activities, renowned national parks like Glacier and Yellowstone, cultural attractions and vibrant rural communities. Aside from a minor dip in 2020, visitation has held steady over the last eight years, averaging slightly more than 12 million annually.

Glacier National Park has consistently hosted around 3 million visitors annually for the past three years. Although June saw a 14% increase due to an early opening of the Going-to-the-Sun Road, the overall summer visitation remained comparable to 2022. The park has maintained these steady figures by continuously adjusting its vehicle reservation system in response to input from the local community. Along with other national parks the system is crucial to manage visitor numbers and potential overcrowding, particularly during peak periods.

Yellowstone National Park has maintained an average visitation of around 4 million annually over the last decade, apart from exceptional events like the 2020 pandemic and a 2022 flood. In 2023, Yellowstone marked its second-highest visitation year with 4.5 million visitors. During June, July, August, and September, the tally soared about 35% higher than the previous year when the devastating flood reduced access to the park and some neighboring communities.

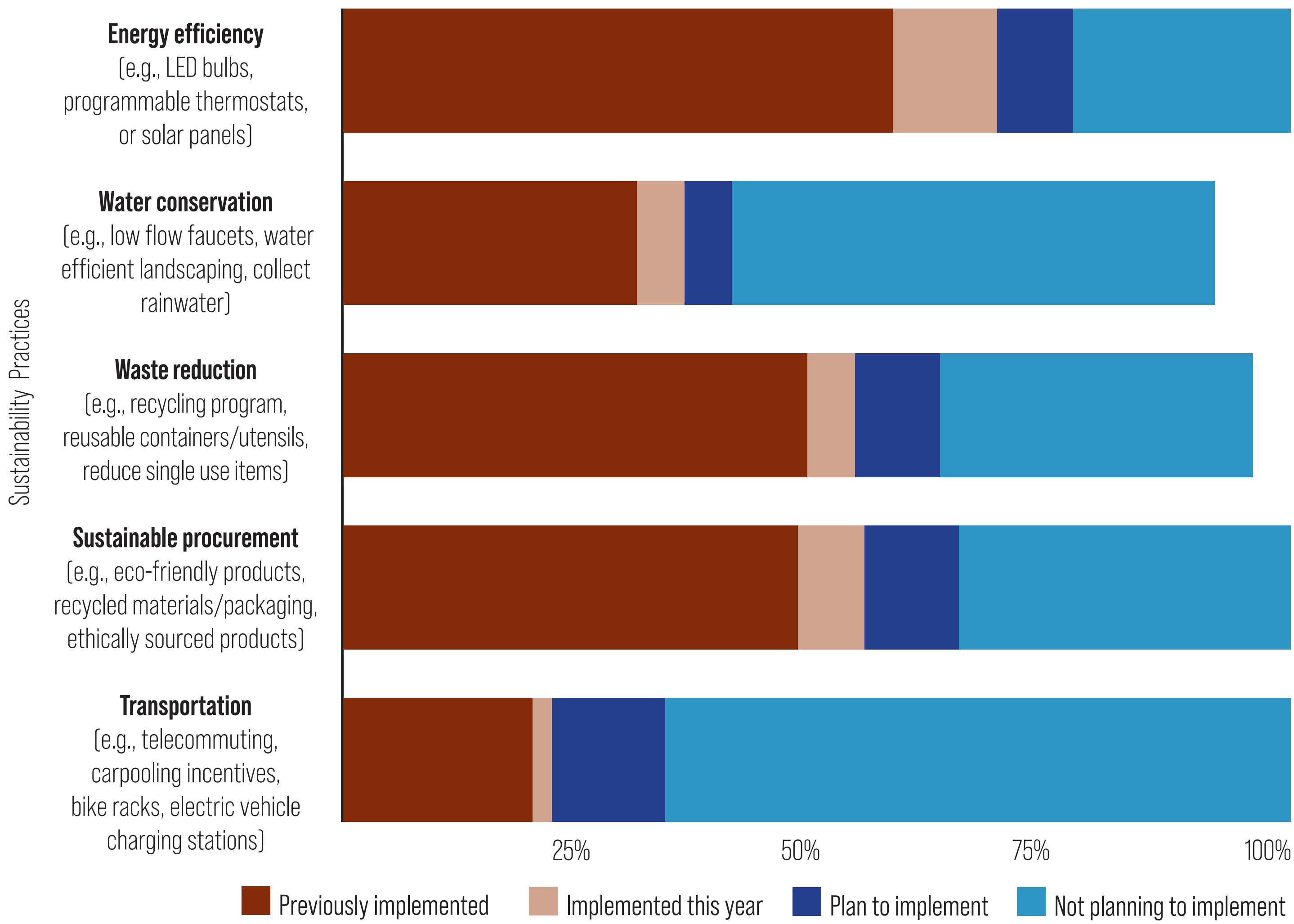
In a survey by the Institute for Tourism and Recreation Research of more than 200 tourism-related businesses, 42% reported increased customer volume in 2023 compared to 2022 while 27% said visitation remained consistent.

The survey also highlighted population practices for sustainability and destination management (Table 1). The most common included efforts toward energy efficiency, waste reduction, and sustainable procurement. Transportation ranked lowest, likely due to Montana's vastness and transportation challenges. About a third of businesses surveyed said cost was the main obstacle to implementing sustainable practices.

Expectations for 2024

Looking ahead to 2024, 87% of business owners anticipate visitor and customer volume to increase or stay the same. When questioned about the prospects for 2024 tourism, respondents envisioned opportunities to modify, expand or diversify aspects of their businesses to drive growth while

FIGURE 1 **Common sustainability practices of Montana tourism businesses**



Source: Institute for Tourism and Recreation Research

intensifying marketing efforts, targeting either their local community or specific business initiatives.

The open-ended responses to the survey revealed the challenges business operators anticipate in 2024, including concerns regarding potential economic downturns or political instability. Environmental factors also emerged as a worry: fires, droughts and natural disasters. Some also expect ongoing impact from COVID-19. A smaller number of respondents voiced apprehension about a shortage of employees, often attributed to the lack of affordable housing.

Travel and tourism will return to sustainable levels in 2024. However, the outlook remains challenged by economic factors like high inflation, transportation costs, natural disasters and geopolitical tensions.

Another impact is the increasing number of mindful travelers, who seek deeper, more meaningful experiences. Unique cultural experiences, adventure activities and natural beauty in destinations are gaining popularity. Amid this, there's mounting pressure on the industry to prioritize climate action and ensure tourism benefits are more evenly distributed among local communities.

This constantly evolving environment underscores the need for adaptability and responsiveness within the industry to meet the changing demands and expectations of travelers. ■

Melissa Weddell is director and research faculty at the Institute for Tourism and Recreation Research at the University of Montana.

Kara Grau also works at the institute as assistant director of economic analysis.

Health care

Disruptions stabilize as medical prices rise

By Christiana Stoddard

The last few years witnessed numerous disruptions in the health care system, with wild swings in health care utilization, expenditures on medical care, and labor markets for health care workers.

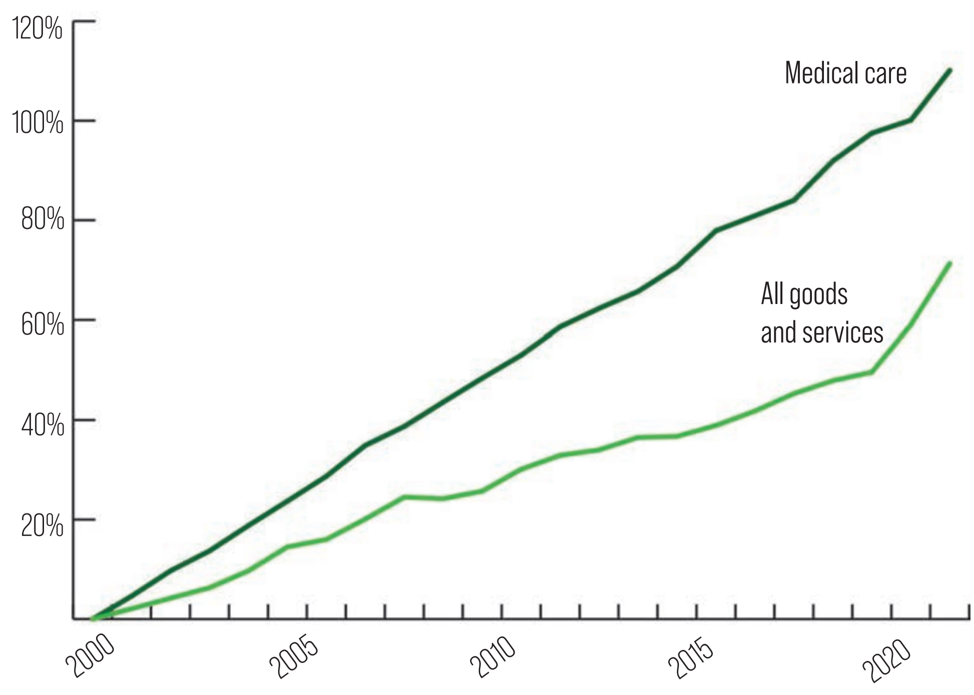
Many of these disruptions are now resolving from the acute changes, returning the United States to trends in health care utilization that are more consistent with the pre-pandemic period. But three issues continue to affect the market: medical prices, Medicaid enrollment and labor availability.

In the last two years, medical prices were relatively flat even though the rest of the economy experienced significant inflation. This was largely due to longer-term contracts between insurers and providers that created lags in price changes. Most analysts expect medical prices to rise significantly in 2024.

These price changes are projected to lead to higher health insurance premiums. Premiums rose by 7% in 2023, and most analysts expect the 2024 rates to increase by the same or slightly more. Health insurers who have posted 2024 prices for the federal marketplace show a median increase in premiums of 6%, with the rate changes for Montana insurers ranging from 1.5% to 6.4%.

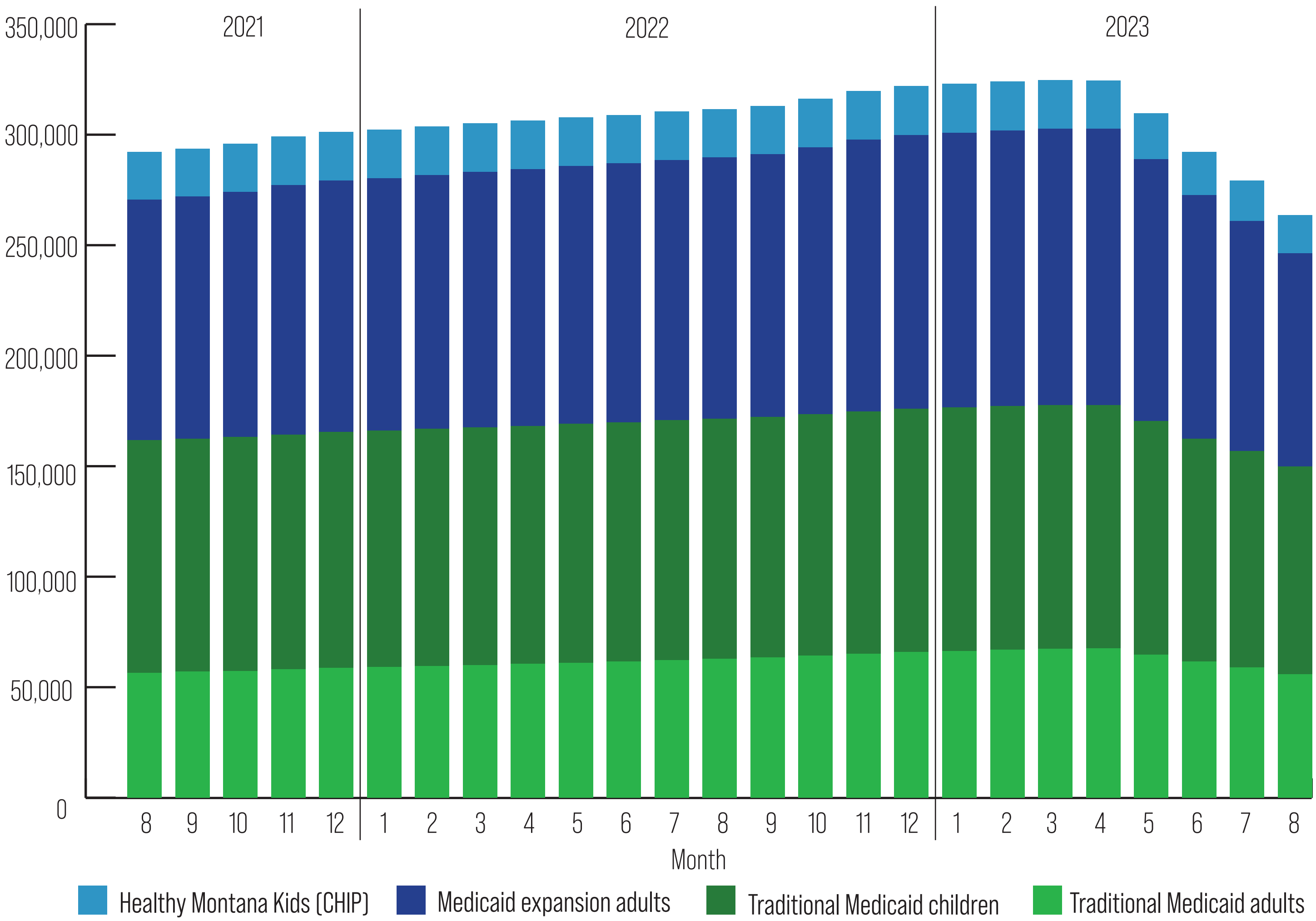
Also in 2024, states will continue to unwind pandemic emergency provisions for Medicaid enrollment.

FIGURE 1 Cumulative percent change in Consumer Price Index among urban consumers



Source: Kaiser Family Foundation Analysis of Bureau of Labor Statistics Consumer Price Index data.

FIGURE 2 Medicaid enrollment in Montana



Source: Montana Department of Public Health and Human Services

About one-in-five of Montanans were insured through Medicaid in 2022, and individuals were not required to re-verify eligibility during the pandemic. Partly as a result, the proportion of Americans without health insurance fell to the lowest rate since being tracked: 8%. In April 2023, this continuous enrollment provision expired, leading to rapid declines in enrollment.

Increasingly, states are reporting that many people are losing coverage because of procedural issues rather than failing to meet eligibility requirements.

And lastly, health care continues to be affected by labor markets that changed during COVID.

The last two years have seen significant disruptions in staffing in the medical field. Part of this was burnout and turnover associated with the intense working conditions during the pandemic. However, data indicate that the labor market in health care may continue to be tight into the future.

The American Associate of Colleges in Nursing reported 17% lower enrollment in the most recent academic year for registered nursing programs and bachelor's of science degrees in nursing. And the Association of American Medical Colleges and American Medical Association have both expressed concerns about physician shortages. These staffing conditions are likely to continue to affect Montana with particularly acute impacts in rural areas.

One future possibility is that generative artificial intelligence (AI) may increasingly assist in ways that reduce the need for staffing.

AI is already used in genomics and other fields, and the options are rapidly expanding. Analysts suggest administrative tasks like scheduling appointments or reviewing prior authorizations are likely to be completed by AI programs rather than people. Other applications may be chatbots or virtual assistants for answering questions, sending personalized reminders and for remote patient monitoring. In future years, we will see how this evolving field may affect health care costs and patient health.

Christiana Stoddard is a professor in the Department of Agricultural Economics and Economics at Montana State University.

Real estate and construction

Understanding the peaks and valleys in Montana's residential supply dynamics

By Derek Sheehan

The residential real estate market in Montana is undergoing a significant transformation. This change is shaped by an intricate interplay of three pivotal factors: net migration into the state, a constrained housing supply response and the recent escalation in the cost of borrowing. These elements add up to a market grappling with tight supply and declining affordability.

Finished framing on the inside of a house being built by the Sustainable Construction program at Missoula College. Photo courtesy of University of Montana.

Valley of low supply

A key challenge is the shortage of housing construction following the subprime mortgage crisis in 2008. It wasn't until 2021 that the total permitted units surpassed their 2004 peak for the first time, primarily due to multifamily unit construction.

In larger cities, these developments offer a potential solution to adapt to the growing demand since construction costs less per unit and the projects face fewer planning and infrastructure hurdles. However, zoning laws often restrict these developments, limiting land availability and density that are crucial for low-income and renter households.

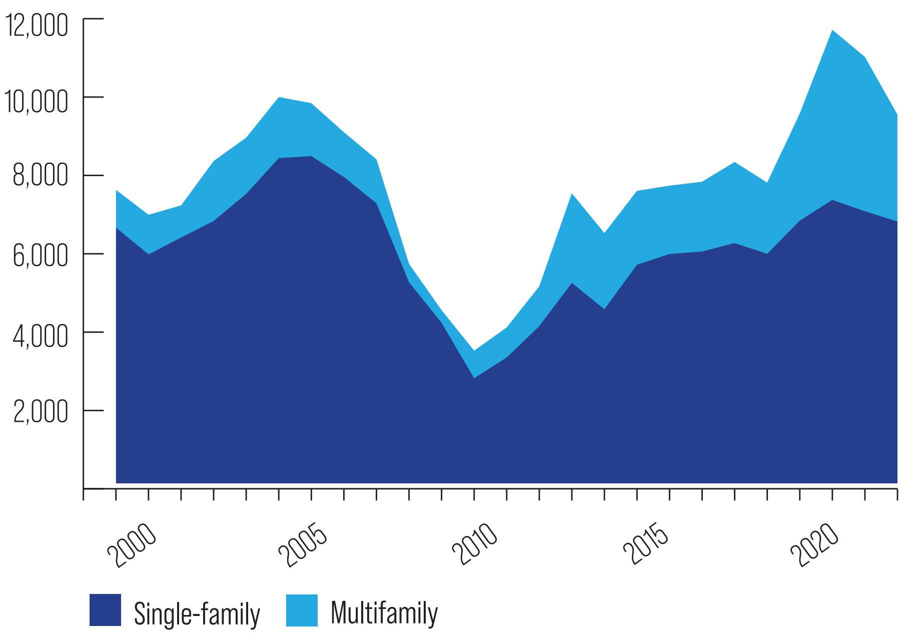
Single-family development continues to dominate housing for much of the state. Still, the reluctance to build these homes remains particularly pronounced. They involve substantial investment: land acquisition, subdivision, and establishing essential infrastructure like roads, water and sewage. For many developers, these longer-term projects are perceived as riskier.

Impact of climbing interest rates

Recently, rising interest rates have further complicated Montana's housing supply issues. The Federal Reserve's rate hikes broadly increased borrowing costs. Over the long term, this impacts residential construction, as evidenced by the fact construction loans from Montana-based banks have fallen two consecutive quarters. This signals tightening

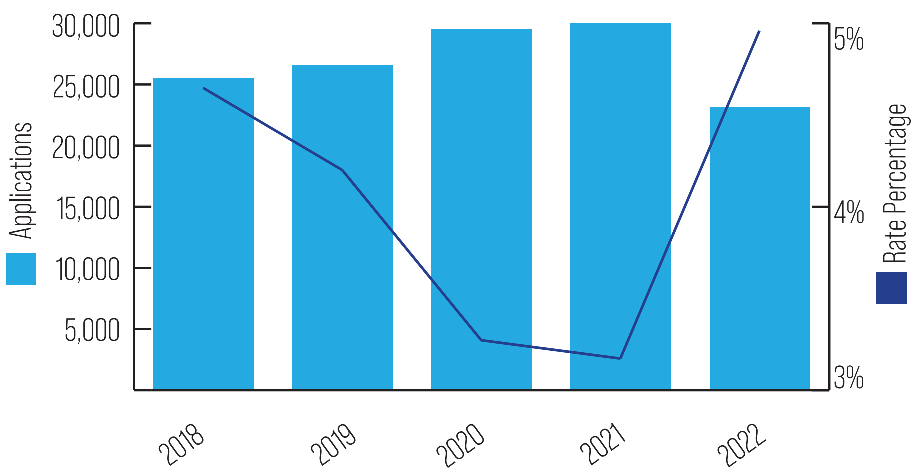
As homeowners postpone selling in expectation of sustained high rates, the fluidity of the market is diminished.

FIGURE 1 **Permits for new residential construction in Montana**



Source : BBER Analysis of MDLI Electrical Permits and US Census Building Permits Survey.

FIGURE 2 **Montana mortgage applications vs. rates**



Source: FFEIC Housing Mortgage Disclosure Act, loan-level data.

of credit standards and a diminished demand for loans from developers.

The increase in interest rates has also resulted in a declining number of homes for sale. As homeowners postpone selling in expectation of sustained high rates, the fluidity of the market is diminished. Concurrently, there's a noticeable drop in potential homebuyers, as shown by the negative correlation between escalating mortgage rates and the number of loan applications seen in Figure 2. Despite the reduced demand driven by higher mortgage rates, Montana has yet to see prices decline, which is indicative of a market still dominated by supply-side shortages.

The rise in mortgage rates substantially impacted younger homebuyers, evidenced by a 26% decline in mortgage applications from people under 35 between 2020 and 2022. As these potential homebuyers postpone plans to purchase homes, they occupy the rental market. This shift indirectly contributed to Montana experiencing its lowest rental vacancy rate, 5.34%, last year.

Conclusion

The residential market in Montana is undergoing significant changes, highlighting the urgency for a proactive and equitable approach to boost housing availability. Consumers naturally turn to their next feasible option in markets where supply is scarce, and prices are rising. It is critical to recognize the demand for housing, ranging from homeless shelters to vacation homes, is interconnected.

At present, broader economic factors are slowing the housing supply response. But ongoing zoning reforms, incentives for developers and innovative financing methods can contribute significantly to creating a more adaptive and robust housing market in Montana. ■

Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.

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