

Montana's Manufacturing Industry

Better Conditions on Tap

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For a fourth consecutive year Montana's manufacturing sector has posted increases in production, employment, and earnings by workers. The BBER's annual survey of manufacturers had 178 respondents this year, representing a cooperation rate of 90 percent from the state's largest manufacturers. More than half of surveyed firms indicated that gross sales increased in 2014 from 2013, and 47 percent saw an increase in production levels. Although 45 percent indicated increased profits during 2014, one-quarter of firms indicated a decline in profits compared to 2013. Roughly half of manufacturers indicated major capital expenses in 2014, and one-quarter of firms started new product lines. On a very positive note, just 4 percent of firms indicated eliminating capacity during the year, while 15 percent said they temporarily curtailed production.

Manufacturing employment in Montana was estimated at nearly 23,500 workers for 2014, solidly on par with pre-recession levels and a marked improvement from the 2010 low of 19,800 workers (Table 1). One-third of firms responding to the BBER's annual survey indicated increasing their workforce during 2014, while just under 20 percent said they reduced employment. More than one-third of firms indicated having a shortage of workers during 2014. At 42 percent of respondents, the food and beverage manufacturing sector had the highest proportion of firms reporting worker shortage, and wood

products, at 30 percent, reported the lowest.

Indicators for manufacturing workers and firms alike improved during 2014. Earnings of manufacturing employees were estimated at around \$1.15 billion

during 2014, an increase of about 6 percent from 2013 earnings of \$1.09 billion when five Montana counties had more than \$60 million in manufacturing employee earnings (Table 2). The increased levels of

Table 1
Employment in Montana Manufacturing Sectors, 2010 and 2014

Manufacturing Sector	2010	2014*	Percent Change
Wood, paper & furniture	4,216	4,460	6%
Food & beverage	938	1,550	65%
Primary & fabricated metals	2,063	3,020	46%
Chemicals, petroleum & coal	2,085	2,085	0%
Machinery	1,168	1,220	4%
Nonmetallic minerals	938	1,550	65%
Textiles, clothing & leather goods	784	910	16%
Computers, electronics & appliances	641	810	26%
All other manufacturing	6,969	7,890	13%
Total	19,802	23,495	19%

*Estimate.

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Table 2
Montana Manufacturing Earnings by County, 2010 and 2013

	2010 Manufacturing Worker Earnings (Millions of 2013 \$)	Percent of Total	2013 Manufacturing Worker Earnings (Millions of 2013 \$)	Percent of Total	Percentage Change 2010 to 2013
Yellowstone	265	26%	282	26%	6%
Flathead	149	15%	173	16%	17%
Gallatin	123	12%	138	13%	12%
Missoula	111	11%	100	9%	-10%
Cascade	62	6%	64	6%	4%
Silver Bow	43	4%	45	4%	5%
Lewis and Clark	38	4%	45	4%	19%
Ravalli	39	4%	39	4%	-1%
Lake	21	2%	22	2%	3%
Park	17	2%	19	2%	10%
Lincoln	8	1%	9	1%	12%
Other counties	130	13%	154	14%	18%
Montana total	1,006	100%	1,090	100%	8%

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

employment and earnings of Montana manufacturing employees in 2014 coincided with improved sales as well. Annual sales from Montana manufacturers were estimated at around \$15 billion in 2014, an increase of about 7 percent from 2013.

While Montana manufacturing has been growing fairly consistently since the end of the Great Recession, some industries in the sector have grown even more rapidly. Brewing is one of the fastest growing industries in the Montana manufacturing sector. Based on economic impact studies conducted by the BBER during 2012 and 2014, Montana beer production was up 49 percent from 2010 to 2013, and brewery employment increased 110 percent over the four-year period. By the end of 2013, there were 40 breweries operating in the state; the total is expected to pass 50 breweries during 2015. With increasing popularity of craft beer around the country and within Montana, the outlook is strong in this Montana manufacturing industry.

2015 Outlook: Channeling the Positive Energy

Following on the successes of the past few years, manufacturers in Montana have positive expectations for 2015. Overall, the 2015 manufacturing outlook for Montana is quite positive, with more than 92 percent of firms expecting 2015 to be the same as or better than 2014. Just over half of the manufacturers who responded to the BBER’s annual survey expect production to increase in 2015, 55 percent expect profits to increase, and more than 60 percent expect gross sales to increase. Ten percent or fewer of survey respondents expect

declines in production, prices, gross sales, and profits during 2015. For the third consecutive year, more than 90 percent of respondents expect to keep their workforce at the same level or increase employment, while only 6 percent anticipate a decline in their employment during 2015 (Figure 1).

With cautious eyes on operating conditions, a growing majority (65 percent this year compared to 60 percent last year) of manufacturers expect costs of major inputs to increase in the coming year; and less than half (40 percent) are planning a major capital expense for 2015.

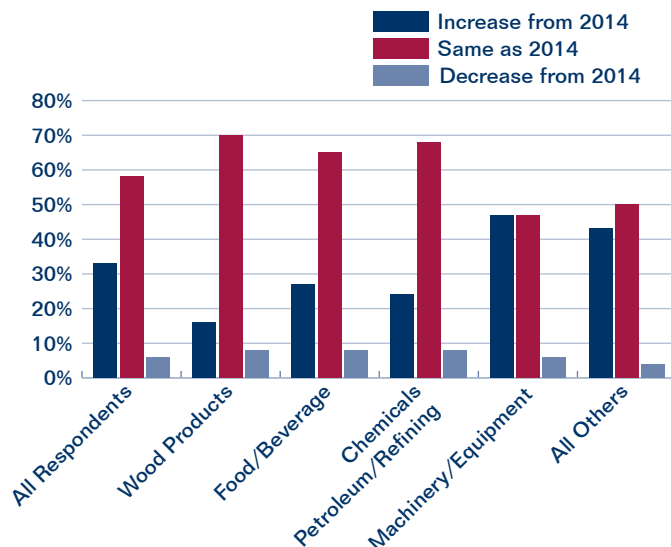
Like last year, almost 80 percent of Montana manufacturers rated health insurance cost as very important to their business, with another 11 percent rating it somewhat important (Figure 2). Other important issues included worker compensation, the cost of energy, and the supply of qualified workers. Once again, foreign competition was ranked the

least important among the eight issues presented, with more than half of respondents rating it as very unimportant and just 15 percent rating it as very important.

Increased domestic production of natural gas and oil and relatively low energy costs compared to other industrialized countries are widely believed to benefit manufacturers in the United States. To better understand the impacts of Montana’s energy development on manufacturing in the Treasure State and in keeping with the 2015 Outlook Seminar’s theme, manufacturers were asked a variety of energy-related questions.

Responses from Montana manufacturers were divided on the question of how energy development in Montana has impacted their businesses. About 60 percent of respondents indicated that the impacts of energy development on their firms were unknown, small, or

**Figure 1
Employment Outlook for 2015 by Montana Manufacturing Sector**



Source: Bureau of Business and Economic Research, University of Montana.

none. The remaining responses were split evenly between positive and negative. The most common positive responses were from firms that indicated selling products directly or indirectly to the energy sector or its employees, and thus having increased sales and more business activity. The negative responses were from firms that noted increased costs of labor, shortages of workers, and increased energy and transportation costs. Clearly, energy development activity in Montana is not impacting Montana manufacturers uniformly, and most manufacturers are not noticing much impact on their businesses.

In separate questions, two-thirds of BBER's survey respondents indicated that their firm's energy costs have increased over the past three years, and almost 60 percent expect their energy costs to increase in 2015 (Figure 3). These results are similar to those from BBER's 2012 Outlook survey, when 58 percent of

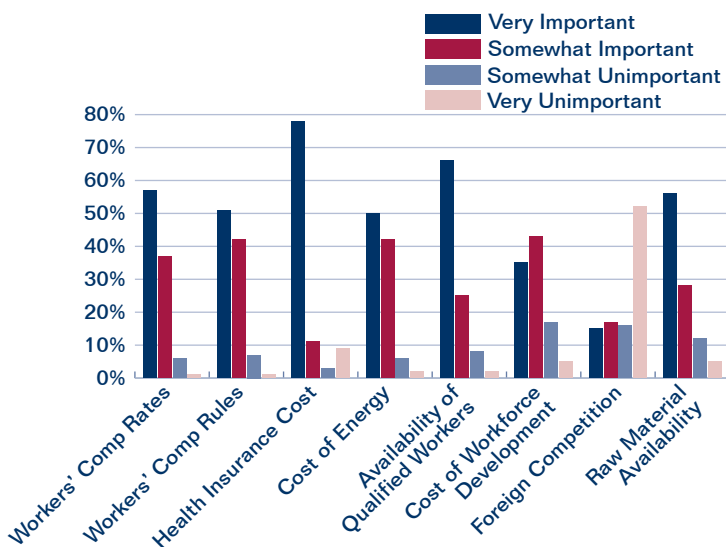
firms indicated their energy costs increased from 2010 to 2011, and 55 percent expected energy costs to increase in 2012. Whether energy costs nationally are declining in real terms or not, there is a consistently strong perception among Montana manufacturers that their energy costs are increasing, with fewer than 10 percent of firms surveyed in 2011 and 2014 indicating a decline in past or future energy costs.

When asked if they had a formal energy audit or other assessment of energy use and efficiency in the past three years, 40 percent of firms in the 2015 Outlook survey said that they had. These results are also similar to what was found in the 2012 Outlook survey when 42 percent of all Montana manufacturers indicated having an energy audit in the previous five years. Although most manufacturers in Montana indicate experiencing increasing energy costs, less than half are taking part in formal

energy audits or other assessments of energy use and efficiency. Perhaps this is an area where improvements can be made, helping manufacturers to become more energy efficient and have more control of their own energy costs.

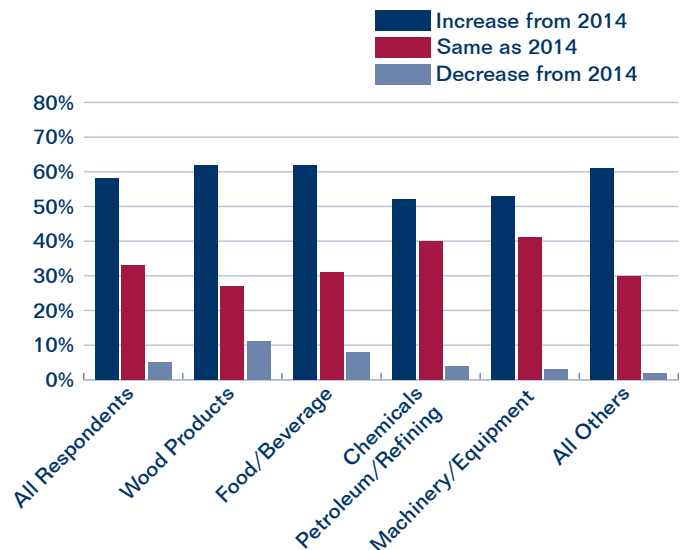
Looking to the future, Montana manufacturers were a bit more optimistic about the impacts of energy development. While most (55 percent) were still unsure if energy development would have much if any impact on their business, those expressing a positive outcome from energy development in Montana outweighed those expressing negative impacts by two-to-one. Continued labor shortages and high labor costs were the predominant concerns. The more frequent positive outcomes expressed were hopes for lower energy costs, overall economic improvement for the state, and increased business activity. ¹⁵

Figure 2
Other Business-Related Issues for Montana Manufacturers



Source: Bureau of Business and Economic Research, University of Montana.

Figure 3
Energy Cost for 2015 by Montana Manufacturing Sector



Source: Bureau of Business and Economic Research, University of Montana.