After four consecutive years of growth, it appears that 2015 was the first year that Montana saw a decline in manufacturing jobs. Montana’s manufacturing sector had experienced steady gains since the Great Recession ended. Manufacturing employment in the state grew between 3.5 and 5.0 percent annually from 2011 through 2014, outperforming manufacturing employment growth at the national level (Fig. 1). And, over the same period, Montana manufacturing income grew by 3.5 to 7.5 percent annually. These gains were due, in part, to growth in a variety of manufacturing industries in the state, including brewing and distilling, oil refining, fabricated metals, computers and electronics, and printing. Even wood products grew, as new home starts slowly increased nationally.

Several changes during late 2014 and 2015 have created challenges for Montana manufacturing. The stronger U.S. dollar has put domestic manufacturers at a disadvantage in foreign markets and made imports cheaper at home. In concert with the strong dollar, slowing foreign economies have led to reduced exports, especially to China and Europe. The value of Montana-made exports dropped more than three percent annually from 2013, and exports have slipped from 10 to eight percent of Montana manufacturers’ total shipments. Slower than expected U.S. housing starts and over-supplied lumber markets hampered wood products during 2015, and substantially lower crude oil prices have begun to reduce sales by manufacturers serving the oil industry in the Bakken.

Nationally, unemployment remains fairly low, and consumer spending saw some growth during 2015. Other factors benefiting manufacturers in Montana include lower energy costs from the declines in natural gas and crude oil prices, as well as lower prices of other commodities (e.g. metals), which have helped to reduce costs of inputs for many manufacturers in Montana, including oil refineries and chemical producers. Reduced activity in the Bakken may indirectly benefit manufacturing firms in central and eastern Montana by freeing up some skilled labor, which has been in short supply. House Bill 478, Montana’s cottage food law, which took effect Oct. 1, 2015, streamlines regulations affecting in-home or mobile food establishments. The new law may benefit some small-scale food manufacturers who do only direct (in-person) sales, do not sell out-of-state, and do not use a commercial kitchen.

The new Trans-Pacific Partnership (TPP) trade agreement among 12 Pacific Rim nations, including the U.S., Canada, and Mexico (but not China) still requires Congressional approval. The TPP would impact roughly 40 percent of global GDP and could help improve the competitiveness of U.S. manufacturers by eliminating tariffs and other trade barriers, protecting intellectual property, and otherwise promoting fair competition in foreign markets. However, there are numerous concerns about the new trade rules, and approval by Congress is uncertain. It is not yet clear how the various manufacturers in Montana would be impacted by this important trade agreement.

The Montana nonresident travel industry has a $5 billion impact on the state, supporting jobs and wages across a wide spectrum of industries throughout Montana. Trends and developments that shape the outlook for the industry in Montana are driven by developments in the national economy, the global pursuit of vacation travel, and demographic shifts in the U.S.
Montana Manufacturing: Issues & Outlook 2016

Todd A. Morgan, CF
Pending Trade Agreements

Trans-Pacific Partnership (TPP)
• 11 countries + U.S.
• Account for about 70% of MT exports
• Largest: chemicals, fuels, consumer goods

Transatlantic Trade & Investment Partnership (T-TIP)
• European Union + U.S.
• Account for about 12% of MT exports
• Largest: chemicals, high-tech instruments
2015-2016 Montana Manufacturers Survey

- annual survey
- conducted in November
- open-ended & multi-choice questions
- current & coming year
- 184 firms participated
- cooperation rate 96%
Property Tax & Montana Manufacturers

Which property tax class impacts your business most?

51% Class 8: business equipment
29% Class 4: land & improvements
9% don’t know
5% both/same

How have property taxes impacted your business?

45% significant negative impact/cost
33% none/neutral/minimal impact
13% just another expense/pass it on/plan for it
Property Tax & Montana Manufacturers

Your firm’s property tax over the past 3 years?

- 61% increase
- 19% same
- 7% decrease
- 13% don’t know

Property taxes for 2016?

- 41% increase
- 33% same
- 1% decrease
- 25% don’t know

As a result of the 2015 re-appraisal?

- 46% increase
- 14% same
- 5% decrease
- 35% don’t know
Major Issues for Montana Manufacturers

2015

- Labor, skilled workers: 36% of firms
- General economy, markets, competition, sales: 24%

2016

- Labor, skilled workers: 25% of firms.
- General economy, markets, competition, sales: 27%
Overall Outlook by Sector

- All Manufacturing
- Wood, paper & furniture
- Food & beverage
- Chemicals, petroleum & coal
- Machinery
- All other

Declining/Improving

2016

2015

0.40 0.50 0.60 0.70
Montana Forest Products 2015/2016

- U.S. homebuilding growth continues
- Strong dollar, weaker demand from China, interest rate hike, end of SLA = challenges to U.S. wood products industry
- Private & public timber availability is the major constraint for most Montana mills
  - Private land ownership changes
  - Many small, young trees in private forest inventory
  - Federal forest management issues
Montana Wood Products Outlook

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2016</th>
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</thead>
<tbody>
<tr>
<td>Overall</td>
<td>0.65</td>
<td>0.5</td>
</tr>
<tr>
<td>Sales</td>
<td>0.7</td>
<td>0.65</td>
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<tr>
<td>Profit</td>
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<td>0.65</td>
</tr>
<tr>
<td>Production</td>
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<td>0.5</td>
</tr>
<tr>
<td>Employment</td>
<td>0.5</td>
<td>0.4</td>
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Declining/Improving
Overall Outlook by City

<table>
<thead>
<tr>
<th>City</th>
<th>2016</th>
<th>2015</th>
</tr>
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<tbody>
<tr>
<td>Helena</td>
<td></td>
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<tr>
<td>Great Falls</td>
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<tr>
<td>Missoula</td>
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<td>Billings</td>
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<tr>
<td>Bozeman</td>
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<td>Kalispell</td>
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<td>Lewistown</td>
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</tr>
<tr>
<td>Montana</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Declining/Increasing
Helena Area Manufacturing Outlook

- **Overall**: Declining/Improving
- **Employment**: 2016: 0.5, 2015: 0.7
- **Sales**: 2016: 0.8, 2015: 0.8
- **Production**: 2016: 0.7, 2015: 0.8
- **Profit**: 2016: 0.6, 2015: 0.7
Great Falls & Havre Area Manufacturing Outlook

2016
2015

Overall
Employment
Sales
Production
Profit

Declining/ Improving
Missoula Area Manufacturing Outlook

- Overall
- Employment
- Sales
- Production
- Profit

2015 vs. 2016: Declining/Improving
Billings Area Manufacturing Outlook

- Overall
- Employment
- Sales
- Production
- Profit

2016 vs 2015

Declining/ Improving
Bozeman Area Manufacturing Outlook

- Overall
- Employment
- Sales
- Production
- Profit

2016 vs 2015

Declining/Improving
Butte Area Manufacturing Outlook

- Overall: Declining/Improving
- Employment: 2015 (0.5) vs. 2016 (0.6)
- Sales: 2015 (0.7) vs. 2016 (0.6)
- Production: 2015 (0.6) vs. 2016 (0.7)
- Profit: 2015 (0.6) vs. 2016 (0.6)
Kalispell Area Manufactures Outlook

- Overall
- Employment
- Sales
- Production
- Profit

2016 vs 2015

Declining/Improving
Lewistown Area Manufacturing Outlook

- Overall
- Employment
- Sales
- Production
- Profit

Declining/Improving
Havre & Great Falls Area Manufacturing Outlook

- **Overall**
  - 2016: 0.6
  - 2015: 0.7

- **Employment**
  - 2016: 0.5
  - 2015: 0.6

- **Sales**
  - 2016: 0.7
  - 2015: 0.7

- **Production**
  - 2016: 0.7
  - 2015: 0.7

- **Profit**
  - 2016: 0.6
  - 2015: 0.6

Scale: Declining/Improving

- Red: Declining
- Blue: Improving