Results from the 2008-2009 Montana Manufacturers Survey

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The Bureau of Business and Economic Research at The University of Montana started an annual survey of Montana's largest manufacturers in 1999. Conducted each year during November, December, and January, the survey queries manufacturers on a variety of business issues pertaining to both the year just completed and the outlook for the coming year.

The results shown here are from the tenth such survey, completed in January 2009. Montana's largest manufacturing facilities (as measured by the number of people employed), as well as smaller firms representative of their sectors, for a total of 216, were contacted for this year's survey. Seventy-five percent of the firms (161 total) responded.

The information collected through the manufacturers survey is featured in the Bureau's annual Montana Economic Outlook Seminar, where it is used in forecasting conditions for the manufacturing sectors for the upcoming year. While partial information is published in the Outlook booklet and in BBER’s Montana Business Quarterly, this publication provides a complete description and analysis of the survey results.

AN OVERVIEW OF MANUFACTURING IN MONTANA
The manufacturing sector includes traditional heavy industries, as well as a broad array of lighter production activities, ranging from the assembly of sophisticated high-technology equipment to small cottage industries. Overall, the state’s manufacturing sector:

- produces over $8 billion in output annually,
- directly employs more than 23,000 workers (including the self-employed) earning over $1.1 billion in annual labor income,
- includes over 3,000 entities ranging from large industrial facilities like oil refineries and paper mills to at-home cottage industries,
- pays high wages with employees averaging approximately $40,000 per year (compared to an average of about $32,000 per year for all Montana workers), and
- accounts for over 20 percent of Montana’s economic base.
THE YEAR 2008 IN REVIEW

After four years of growth, Montana’s manufacturers saw a decline in activity during 2008. Through the first half of 2008, most manufacturers actually saw growth, and declines were primarily in Montana’s wood products sector. With the continued decline in U.S. housing leading to a global financial crisis in the last half of 2008, the U.S. and global economies slowed sharply, impacting manufacturing in Montana.

By late 2008, virtually every sector of Montana manufacturing was negatively impacted, and numerous layoffs took place. Overall, in 2008, Montana manufacturing employment was on a par with 2007; however, estimates are that the number of manufacturing workers in Montana in December 2008 was down approximately 800 workers from December 2007. Value of production dropped over $500 million, and income to workers declined by more than $100 million during 2008. Nearly half of surveyed Montana manufacturing firms reported decreased profits, with another 16 percent indicating profits equal to 2007.

The survey results indicate that in 2008 Montana manufacturers operations were well below 2007 levels, with more than 40 percent of responding firms experiencing decreased production, sales, and profits.

The proportion of respondents that reported curtailments of production increased to 37 percent, up from 25 percent in 2007. Nine percent permanently eliminated production capacity in 2008 versus 14 percent in 2007.

The number of workers in 2008 relative to 2007 declined at 40 percent of the respondent facilities, while 20 percent showed an increase.

The proportion making major capital expenditures was up slightly from 48 percent in 2007 to 52 percent in 2008. New

Manufacturing Categories

Although the manufacturing industry consists of hundreds of highly specific categories, for the purposes of this report, it has been divided into five segments:

Wood/Paper
Facilities that harvest and/or process timber into products like lumber, plywood, log homes, pulp and paper, and posts and poles, as well as facilities that further process primary wood products into products such as furniture, laminated beams, trusses, window and door frames, and wood carvings.

Chemicals/Petroleum/Refining
Includes a wide range of facilities, such as those manufacturing products by transforming organic and inorganic raw materials by a chemical process (chemical manufacturing ) or by transforming mined or quarried nonmetallic minerals such as sand, gravel, stone, or clay (nonmetallic mineral product manufacturing), as well as facilities engaged in the transformation of crude petroleum and coal into usable products (petroleum and coal products manufacturing), and facilities engaged in smelting and refining ferrous and nonferrous metals (primary metal manufacturing).

Food/Beverages
Facilities that manufacture food and beverages, including primary processors of Montana’s crops and livestock, as well as those producing for retail sale. Examples include sugar beet plants, flour mills, bakeries, and dairies.

Machinery/Equipment
Facilities engaged in manufacturing machinery, equipment or instruments. Included here are industrial and commercial machinery, computer equipment, electrical equipment, transportation equipment and fabricated metals.

All Others
Facilities engaged in mostly light manufacturing such as plastics products, sporting goods, games and toys, apparel, and jewelry, as well as those engaged in printing or performing services for the printing trade such as bookbinding.
product lines were released by 36 percent of respondents in 2008 – about the same as 2007.

**GENERAL OUTLOOK FOR 2009**

The 2009 outlook is for declines in Montana manufacturing activity and related employment, with expectations that the U.S. and other major economies will remain weak through 2009. When asked about their outlook for 2009, respondents were much more pessimistic about 2009 than in past years. Nineteen percent of responding firms expected 2009 to be better than 2008, compared to the year before when 46 percent expected 2008 to be better than 2007. Thirty-eight percent expected conditions to worsen in 2009 while 43 percent anticipated it to be the same (Figure 1). In no sector did more than one-third of responding firms feel 2009 would be better. In the least pessimistic sectors, food/beverage-based manufacturers and chemicals/petroleum/refining facilities, 32 and 33 percent, respectively, expected a better year in 2009.

**SALES, PRODUCTION, PROFITS**

Only 28 percent of manufacturers anticipated 2009 sales would increase over 2008, with 32 percent expecting increased production and 24 percent anticipating increased profits for 2009 (Figure 2, 3, and 4). In 2007, well over half of respondents expected increased sales, production, and profits in 2008. Only among food/beverage-based manufacturers did the majority expect increased sales and production, and in no sector did a majority expect profits to increase. The most pessimistic outlook was among the wood/paper products manufacturers, with only 12 percent expecting increased profits and 8 percent expecting increased production and sales in 2009.

**PLANNED CAPITAL EXPENDITURES**

Only 24 percent of respondent firms planned major capital investments in 2009 – the lowest percent since the survey began in 1999. Entering 2008, 47 percent of respondent firms planned major capital investments.
Food/beverage-based manufacturers reported the highest rate of planned capital expenditures at 53 percent, while the lowest proportion planning major capital expenditures was among machinery/equipment manufacturers at 14 percent (Figure 5).

EMPLOYMENT AND WORKER AVAILABILITY
After four years of growth preceding declines in 2008, Montana manufacturing employment should decline again in 2009. Thirty percent of respondents expected decreases in employment in 2009 while only 15 percent expected to increase employment (Figure 6). Entering 2008, only 5 percent of firms expected to decrease employment, with 36 percent expecting increases.

With the substantially weakened economic conditions, far fewer Montana manufacturers – 20 percent – reported “significant worker shortages” in 2008 (Figure 7). In 2007, 57 percent of responding firms indicated they had experienced significant worker shortages at some point during 2007.

BUSINESS-RELATED ISSUES
Survey recipients were given a list of eight business-related issues and were asked to rate each in terms of its importance to their business. There was no specified time frame, indicating the general and enduring nature of these issues.

Once again, health insurance cost was the number one issue, with 72 percent of respondents rating it very important, followed by energy costs, which rated very important by 65 percent. Workers’ compensation rates were very important to 62 percent of responding firms, with 50 percent indicating workers’ compensation rules were very important. The proportion indicating a shortage of qualified workers was very important in 2008, dropping to 45 percent from 50 percent in 2007 and 69 percent in 2006. Raw material availability was rated very important by 44 percent of respondent firms. Foreign competition and the cost of workforce development were rated as a very important issue by 23 and 14 percent of responding firms, respectively (Figure 8).
In response to the question, “How, if at all, has the recent financial crisis affected your business?” many manufacturers indicated that sales were down because of the inability of customers to secure credit to purchase products. A number also indicated the financial crisis impacted their own ability to secure credit for operations and capital projects.

**TRANSPORTATION-RELATED ISSUES**

Many manufacturers indicated that transportation-related issues were impacting their business during 2008. About 94 percent identified “shipping and delivery prices going up” as very or somewhat important, while 96 percent said that fuel cost was very or somewhat important. More than 90

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**Figure 5**
Outlook for Major Capital Expenditures in 2009

**Figure 6**
Employment Outlook for 2009

**Figure 7**
Significant Worker Shortage During 2008?

**Figure 8**
Other Business-Related Issues
percent of Montana manufacturers rely on trucking as their primary mode of transportation for raw material inputs, and nearly 85 percent rely on trucking as their primary mode of transportation for outputs. Costs of fuel and freight were the major transportation-related issues most frequently noted by manufacturers as expected to affect their business in 2009.

On a positive note, access to markets does not appear to be a serious issue for most Montana manufacturers. Nearly 81 percent said “national carriers won’t stop in area” was a very or somewhat unimportant issue, and 68 percent indicated that “not enough carriers available in area” was very or somewhat unimportant. However, 44 percent of manufacturers noted that “markets too far from plant(s)” was a somewhat or very important issue.

About the Montana Manufacturers Information System

Because of Montana’s large size and sparse population, Montana manufacturers are often unaware of other manufacturers within the state, leading to missed business opportunities. The primary goal of the Montana Manufacturers Information System (MMIS) is to eliminate this situation by providing one place where detailed and up-to-date information about Montana manufacturers and service providers can be found. A second goal is to provide additional exposure to Montana manufacturers’ products and capabilities. A third goal is to collect and report accurate information about manufacturing in Montana, helping people make informed decisions.

MMIS is located at The University of Montana’s Montana Business Connections and has been developed in cooperation with the Bureau of Business and Economic Research, Montana State University’s Montana Manufacturing Extension Center, and the Montana Department of Commerce. The system allows for the inclusion of detailed information regarding products, processes, equipment, certifications, and licenses. MMIS currently contains data on over 1,200 facilities, and those firms listed in the MMIS can enter the system through a password-protected program to update their profiles.

Visit our Web site for a directory of Montana manufacturers.
www.mmis.umt.edu