



The Bureau of Business and Economic Research

# Results from the 2010-2011 Montana Manufacturers Survey

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RESEARCH**



## Results from the 2010-2011 Montana Manufacturers Survey

The Bureau of Business and Economic Research at The University of Montana started an annual survey of Montana's largest manufacturers in 1999. The surveys are conducted each year during November, December, and January and query 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 twelfth such survey, completed in January 2011. A total of 203 were contacted for this year's survey, including Montana's largest manufacturing facilities (as measured by the number of people employed), as well as smaller firms representative of their sectors. Of the firms contacted, 72 percent responded to the survey.

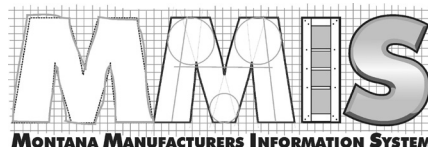
The information collected through the manufacturers survey is featured in the Bureau's annual Montana Economic Outlook Seminar, where it is used in forecasting conditions for the manufacturing sectors for the upcoming year. While partial information is published in the Outlook booklet and in BBER's Montana Business Quarterly, this publication provides a complete description and analysis of the survey results. Additional information and forecasts for Montana's economy, economic conditions throughout Montana, and major economic sectors in the state can be found in the spring issue of the Montana Business Quarterly or on the Bureau's website, [www.bber.umt.edu](http://www.bber.umt.edu).

### 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 more than 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](http://www.mmis.umt.edu)





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### AN OVERVIEW OF MANUFACTURING IN MONTANA

The manufacturing sector includes more than 3,000 entities ranging from large industrial facilities, such as oil refineries, to a broad array of lighter production activities, including the assembly of sophisticated high-technology equipment and small cottage industries.

Overall, the state's manufacturing sector in 2010:

- produced approximately \$10 billion in product output,
- directly employed 20,473 workers (including the self-employed) who earned more than \$1 billion in labor income, and
- accounted for more than 20 percent of Montana's economic base.

Manufacturing industries in the state pay high wages, with employees averaging more than \$38,000 per year (compared to an average \$34,000 per year for all Montana nonfarm workers)



### THE YEAR 2010 IN REVIEW

After substantial declines in employment of 2,000 workers in 2009, manufacturing employment continued to decline and fell by an additional 765 workers in 2010. The largest single loss in 2010 was the closure of the Smurfit-Stone Container pulp and paper mill in Frenchtown, Montana – dropping overall manufacturing employment by 400 workers. All other manufacturers lost an estimated 365 workers. Estimated workers' earnings in 2010 were approximately equal to the \$1 billion reported for 2009.

After a 2009 decline in value of production of \$4 billion dollars, value of production rose in 2010 by an estimated \$1.3 billion to about \$9.6 billion. The increase was due to generally higher product prices and output across most sectors; Montana's petroleum refineries in particular had substantially higher sales value compared to 2009.

The BBER survey of Montana manufacturers indicates the somewhat improved conditions for Montana manufacturers after the very poor conditions in 2009. In 2010, 38 percent of manufacturers reported increased sales and 34 percent reported increased production. Fewer than 30 percent reported experiencing decreases in sales and production. In contrast, more than 60 percent of responding Montana manufacturers reported decreases in sales and production in 2009. Profits increased for 30 percent of responding firms in 2010, up from 18 percent in 2009. However, 44 percent of manufacturers reported decreased profits in 2010 versus 2009, illustrating that 2010 was still a difficult year.



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Further illustrating the tenuous nature of the recovery, the proportion of respondents that reported curtailments of production dropped from 49 percent, but still 30 percent of responding manufacturers curtailed production during 2010. Six percent permanently eliminated production capacity in 2010 versus 17 percent in 2009. The number of workers in 2010 relative to 2009 declined at 34 percent of the respondent facilities while 24 percent showed an increase. In 2009, employment declined at half of the respondent facilities while only 10 percent showed an increase.

The proportion making major capital expenditures was about the same, with 37 percent in 2009 and 38 percent in 2010. New product lines were released by 28 percent of respondents in 2010 compared to 31 percent in 2009.

### GENERAL OUTLOOK FOR 2011

The 2011 outlook is for modest improvement in Montana manufacturing activity. Expectations are that the United States and other major economies will continue the slow recovery that began in the last half of 2009. Montana manufacturers should continue to benefit from improved export activities. The weakness of the dollar spurred sharp increases in U.S. exports as the global economy improved in 2010; emerging economies in particular showed rapid growth. Exports are projected to continue to increase by 8 percent in 2011 and 10 percent in 2012. In part due to strong global markets, the high-tech related sectors have shown recent growth which will continue through 2011. Also benefitting U.S. and Montana manufacturers is an expected reduction in 2011 and 2012 in the rate of imports of manufactured goods which increased during 2010.

When asked about their outlook for 2011, 45 percent of responding firms expected 2011 to be better than 2010 compared to the year before when 49 percent expected 2010 to be better than 2009. In 2009, only 19 percent expected improvement over 2008. Only 13 percent expected conditions to worsen in 2011 while 41 percent anticipated it to be the

## 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, MDF, particleboard, 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 plastic 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.



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same (Figure 1). The most optimistic sector was machinery/equipment facilities, with 65 percent expecting a better year in 2011.

## SALES, PRODUCTION, PROFITS

Fifty-seven percent of manufacturers anticipated 2011 sales would increase over 2010 (Figure 2), with 49 percent expecting increased production (Figure 3) and 47 percent anticipating increased profits for 2011 (Figure 4). This is very similar to 2009 when 40 to 50 percent of manufacturers expected increased sales, production, and profits.

Figure 1  
Overall Outlook for 2011

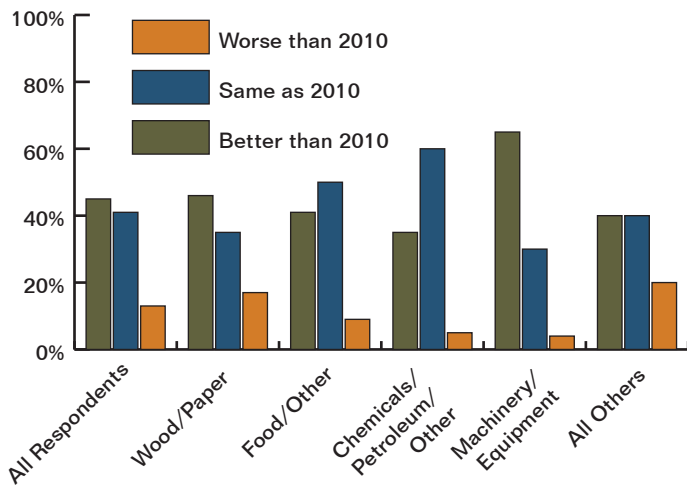


Figure 2  
Sales Outlook for 2011

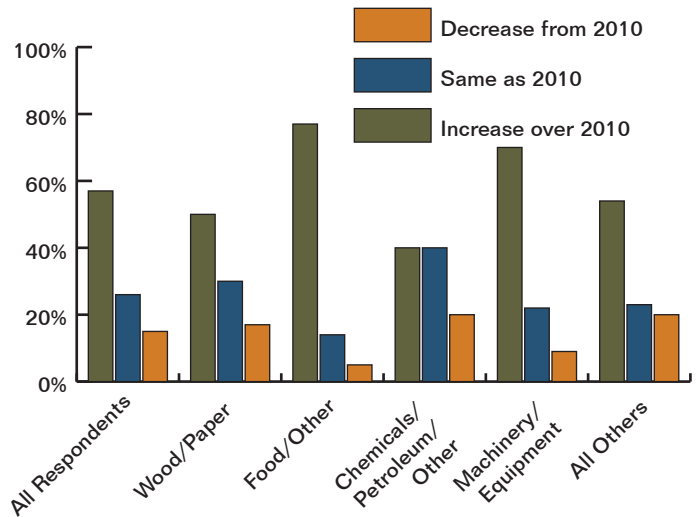


Figure 3  
Production Outlook for 2011

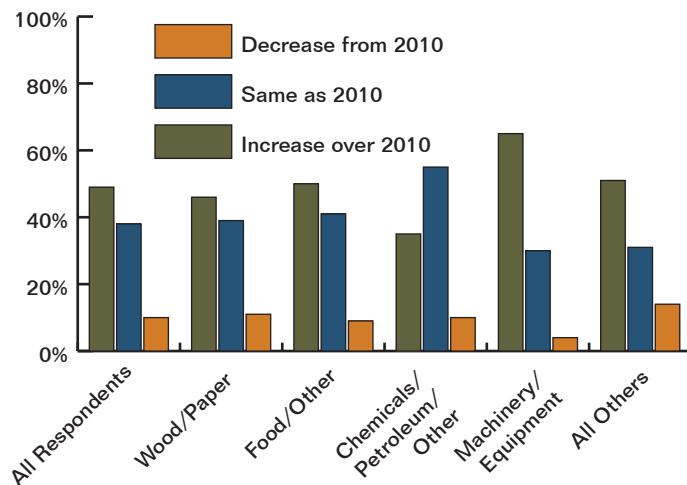
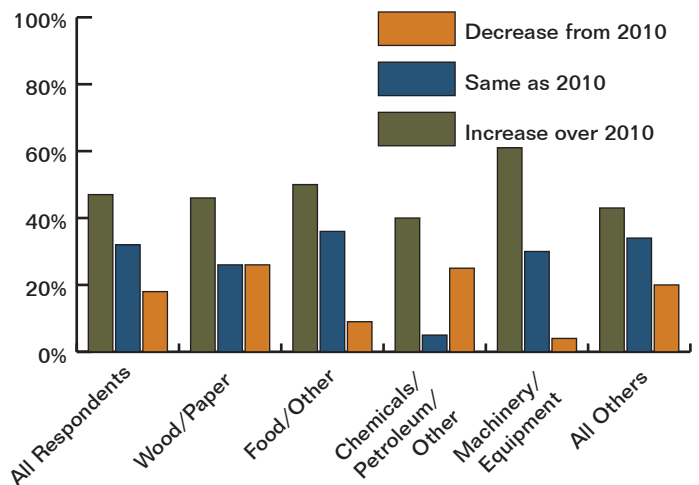


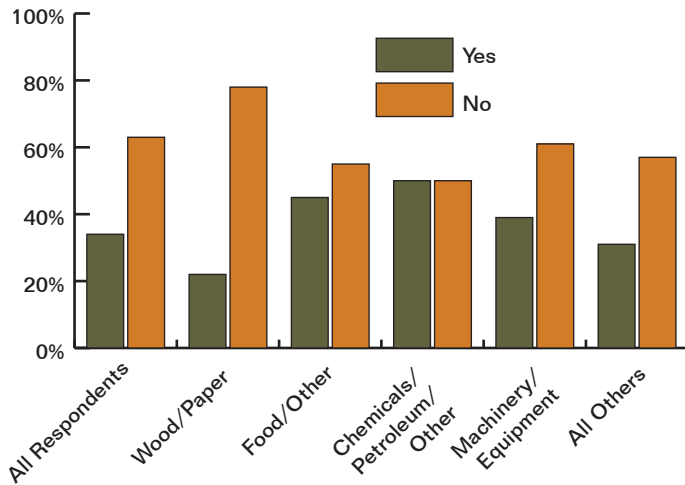
Figure 4  
Profit Outlook for 2011



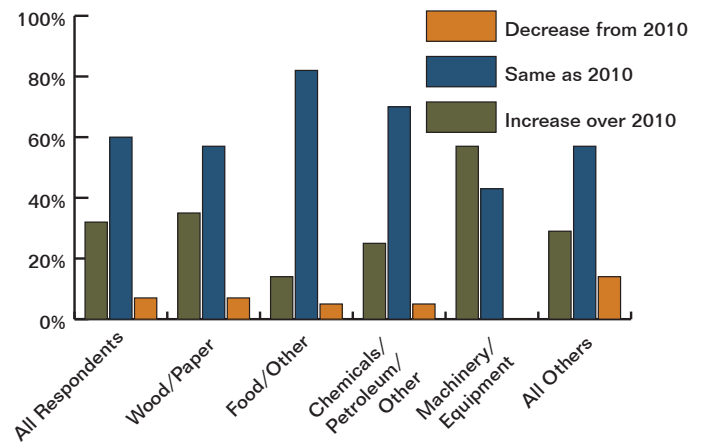


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**Figure 5**  
Outlook for Major Capital Expenditures in 2011



**Figure 6**  
Employment Outlook for 2011



Machinery/equipment and food/beverage manufacturers were the most optimistic about 2011 with more than 75 percent expecting increased sales and more than half expecting increased production and profits. The most pessimistic outlook was among the chemicals/petroleum/refining with 40 percent expecting increased sales and profits and 35 percent expecting increased production in 2011.

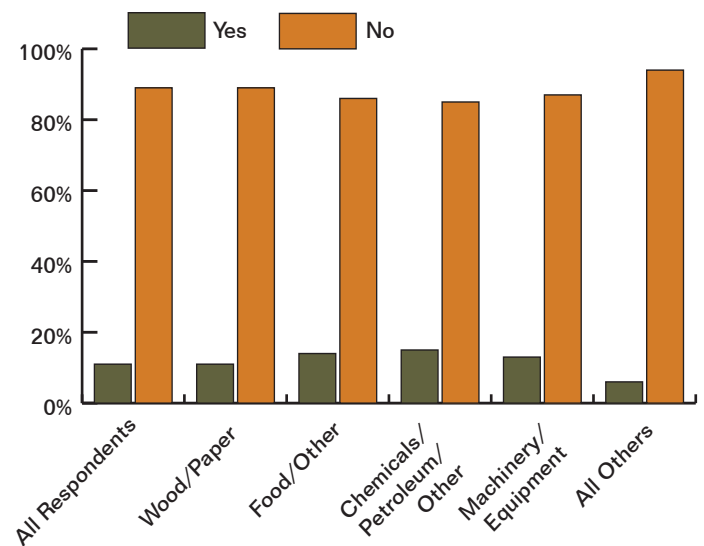
## PLANNED CAPITAL EXPENDITURES

The proportion of firms planning major capital expenditures remained about the same with one-third of respondent firms in 2010 and 34 percent in 2011. Chemicals/petroleum/refining facilities reported the highest rate of planned capital expenditures with 50 percent planning major capital expenditures while only 22 percent of wood products manufacturers planned expenditures (Figure 5).

## EMPLOYMENT AND WORKER AVAILABILITY

The outlook for employment in manufacturing continues to improve with 32 percent expecting increased employment in 2011 and only 7 percent expecting decreases (Figure 6).

**Figure 7**  
Significant Worker Shortage During 2010



Last year, 28 percent of manufacturers expected increased employment in 2010 and 11 percent expected decreases. Entering 2009, 30 percent of respondents expected decreases in employment while only 15 percent expected to



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increase employment. Relatively weak economic conditions have reduced the demand for workers, with 11 percent of respondents for 2010 and 10 percent for 2009 reporting “significant worker shortages” (Figure 7). This number is down from 20 percent for 2008 and 57 percent for 2007.

## BUSINESS-RELATED ISSUES

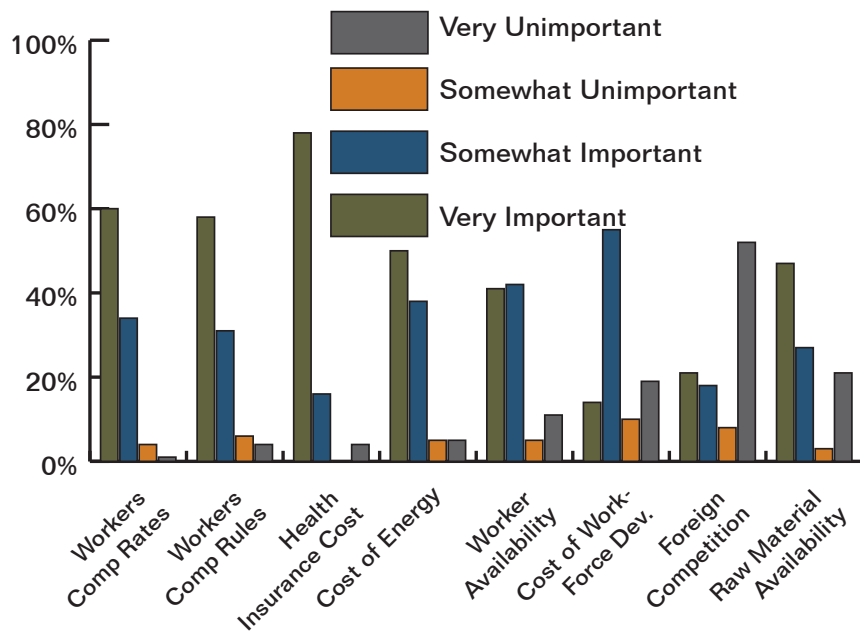
Survey recipients were given a list of eight business-related issues and were asked to rate each in terms of its importance to their business. There was no specified time frame, indicating the general and enduring nature of these issues.

Once again health insurance cost was the number one issue, and 78 percent of respondents rated it very important, nearly identical to last year when 79 percent rated this as very important. Workers’ compensation rates were very important to 60 percent of responding firms with workers compensation rules rated as very important to 58 percent. Energy costs were somewhat less important to respondents with 50 percent rating them as very important versus 52

percent last year. Raw material availability was rated very important by 47 percent of respondent firms. The proportion indicating a shortage of qualified workers as very important in 2010 was 41 percent, up from 35 percent in 2009 but down from 45 percent in 2008, 50 percent in 2007 and 69 percent in 2006 when the economy was much stronger. Foreign competition and the cost of workforce development were rated as very important issues by 21 and 14 percent of responding firms, respectively (Figure 8).

More than 62 percent of responding firms indicated the recession has caused their firm to fundamentally change the way they plan to operate in the future. Most of the major changes involved reducing costs and operating more efficiently. Other major changes included diversification into new products and markets, or focusing on key products and projects. A number indicated they were forced to reduce their workforce and or implement pay freezes, lower wages, or reduce benefits.

Figure 8  
Other Business-Related Issues



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