Results from the 2011-2012 Montana Manufacturers Survey

Survey Authors
Steven W. Hayes, Charles E. Keegan, Todd A. Morgan, Colin B. Sorenson

May 2012
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 and December 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 thirteenth such survey, completed in December 2011. A total of 241 firms 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, 88 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 more detailed 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 on the Bureau’s website, 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.

Located in the Gallagher Business Building, MMIS 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 website for a directory of Montana manufacturers.
www.mmis.umt.edu
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 to small cottage industries.

Overall, the state’s manufacturing sector in 2011:
- produced approximately $10 billion in product output,
- directly employed 19,940 workers (including the self-employed) who earned more than $1 billion in labor income, and
- accounted for roughly 20 percent of Montana's economic base.

Manufacturing industries in the state pay high wages, with employees averaging more than $43,000 per year (compared to an average $35,000 per year for all Montana nonfarm workers).

THE YEAR 2011 IN REVIEW

Montana manufacturing employment has declined from nearly 24,000 workers at the start of the recession in 2007 to approximately 19,938 workers in 2011, with the majority of the decline (2,700 workers) occurring between 2007 and 2009 when wood, paper, and furniture lost nearly 2,000 jobs. Employment dropped by nearly 700 workers in 2010, followed by a little over 600 job losses during 2011. (Figure 1) Manufacturing employment turned upward in mid-2010, but fell late in the year and dropped further as the U.S. economy weakened and national unemployment hovered around 9 percent throughout 2011. Estimated workers’ earnings in 2011 were approximately equal to the $1.1 billion reported for 2010.

Value of production increased slightly in 2011 to more than $10 billion. The increase was due to higher gasoline and diesel prices received by Montana’s petroleum refineries and increased product prices and output across most manufacturing sectors, offsetting the 2010 closure of the Frenchtown linerboard facility.

The BBER survey of Montana manufacturers indicates a slight improvement in operating conditions for Montana manufacturers in 2011 compared to 2010. In 2011, 45 percent of manufacturers reported increased sales and increased production. Fewer than 25 percent reported decreases in sales and production in 2011 versus 2010 when around 27 percent of responding Montana manufacturers reported decreases in sales and production. Profits increased for 37 percent of responding firms in 2011, up from 30 percent in 2010. However, 33 percent of manufacturers reported decreased profits in 2011 versus 2010, illustrating that 2011 was still a difficult year.
Further illustrating the tenuous nature of the recovery, the proportion of respondents that reported production curtailments dropped from 30 percent in 2010 to 22 percent in 2011. However, 9 percent permanently eliminated production capacity in 2011 versus 6 percent in 2010. The number of workers in 2011 relative to 2010 declined at 27 percent of the respondent facilities while 29 percent showed an increase. In 2010, employment declined at 34 percent of the respondent facilities while 24 percent showed an increase.

The number of facilities reporting new product lines stayed the same in 2011 and 2010, at 28 percent. The proportion making major capital expenditures was 44 percent of respondents in 2011 compared to 38 percent in 2010.

**GENERAL OUTLOOK FOR 2012**

The manufacturing outlook for Montana in 2012 is for modest improvement with expectations of employment growth among several manufacturing sectors as Montana manufacturers benefit from a U.S. economy that is gradually gaining strength. When asked about their outlook for 2012, 36 percent of responding firms expected 2012 to be better than 2011 compared to the year before when 45 percent expected 2011 to be better than 2010. Only 11 percent expected conditions to worsen in 2012, while 52 percent anticipated conditions to be the same (Figure 2). The most optimistic sector was machinery/equipment facilities, with 48 percent expecting a better year in 2012.

**SALES, PRODUCTION, PROFITS**

Fifty-one percent of manufacturers anticipated 2012 sales would increase over 2011 (Figure 3), with 49 percent expecting increased production (Figure 4) and 44 percent anticipating increased profits for 2012 (Figure 5). This is very similar to 2010 when 40 to 50 percent of manufacturers expected increased sales, production, and profits.

**Machinery/equipment** manufacturers were the most optimistic about 2012, with more than 67 percent expecting...
increased sales and more than 55 percent expecting increased production and profits. Food/beverage manufacturers were the next most optimistic with more than 50 percent expecting increased sales and production and 43 expecting increased profits in 2012. The most pessimistic outlook was among the wood products segment, with only 32 percent expecting increased sales and profits and 24 percent expecting increased production in 2012.

**Figure 2**
Overall Outlook for 2012

**Figure 3**
Sales Outlook for 2012

**Figure 4**
Production Outlook for 2012

**Figure 5**
Profit Outlook for 2012

**PLANNED CAPITAL EXPENDITURES**

The proportion of firms planning major capital expenditures remained the same between the 2011 and 2012 surveys, with 34 percent of responding firms planning major capital spending in 2012 (Figure 6). Food/beverage facilities reported the highest rate of planned capital expenditures, with 57 percent planning...
major capital expenditures while only 11 percent of wood products manufacturers planned expenditures.

EMPLOYMENT AND WORKER AVAILABILITY

The outlook for employment in manufacturing remains stable, with 30 percent expecting increased employment in 2012 and only 7 percent expecting decreases (Figure 7). Last year, 32 percent of manufacturers expected increased employment in 2011 and 7 percent expected decreases. Entering 2010, 28 percent of respondents expected decreases in employment while only 11 percent expected to increase employment. Improving economic conditions have increased the demand for workers, with 19 percent of respondents for 2011 reporting “significant worker shortages” (Figure 8), up from 11 percent for 2010 and 10 percent for 2009. However, this number is down from 20 percent for 2008 and still significantly less than the over 50 percent of firms that reported significant worker shortages for 2007 and 2006.
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, identical to last year. Workers’ compensation rates were very important to 61 percent of responding firms, with workers’ compensation rules rated as very important to 53 percent. Energy costs were somewhat less important to respondents, with 49 percent rating them as very important versus 50 percent last year. Raw material availability was rated very important by 52 percent of respondent firms. The proportion indicating a shortage of qualified workers as very important in 2011 was 51 percent, up from 41 percent in 2010, 35 percent in 2009, 45 percent in 2008, and 50 percent in 2007, but down from 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 20 and 24 percent of responding firms, respectively (Figure 9).

Changes in federal government spending, particularly in the Department of Defense, could impact numerous Montana manufacturers that produce items used by the military. Changes in federal civilian spending, while considered necessary by many of the manufactures responding to BBER’s survey, could impact a variety of firms that provide goods related to the medical, educational, alternative energy and natural resource sectors.

More than half of manufacturers surveyed expect energy development in Montana – including coal, natural gas, oil, wind, solar, biomass, and geothermal – to impact their business very little or not at all. Approximately 30 percent responded that energy development would positively impact their business, primarily through lower energy costs and through improvements in general economic conditions that could potentially boost sales. Less than 25 percent of manufacturers indicated that energy development would negatively impact their business, with many expressing concern over competition for skilled labor.