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MONTANA'S TRANSPORTATION FUTURE

Opportunities Around the Next Curve



NEXT
1 MILE

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Montana's Transportation Future Opportunities Around the Next Curve

by Steve Albert and Jaydeep Chaudhari

Transportation – the movement of people and goods over physical distance – has always been a vital ingredient of economic growth. Prosperity is derived from trade, which requires access to markets, workers, and suppliers – both in our own backyard and beyond. We depend on the highways, railroads, airports, pipelines and other infrastructure around us to make that happen. With innovations in technology and increasing globalization affecting all aspects of life, we should be aware that the demands on that infrastructure, particularly in rural states like Montana, are growing and changing.

Transportation and the Economy

The impacts of transportation on the economy are all around us. Roads, bridges, railroad crossings, and airports are built, maintained, and expanded, creating thousands of jobs in construction, engineering, and professional services. But long after the pavement is dry, those investments continue

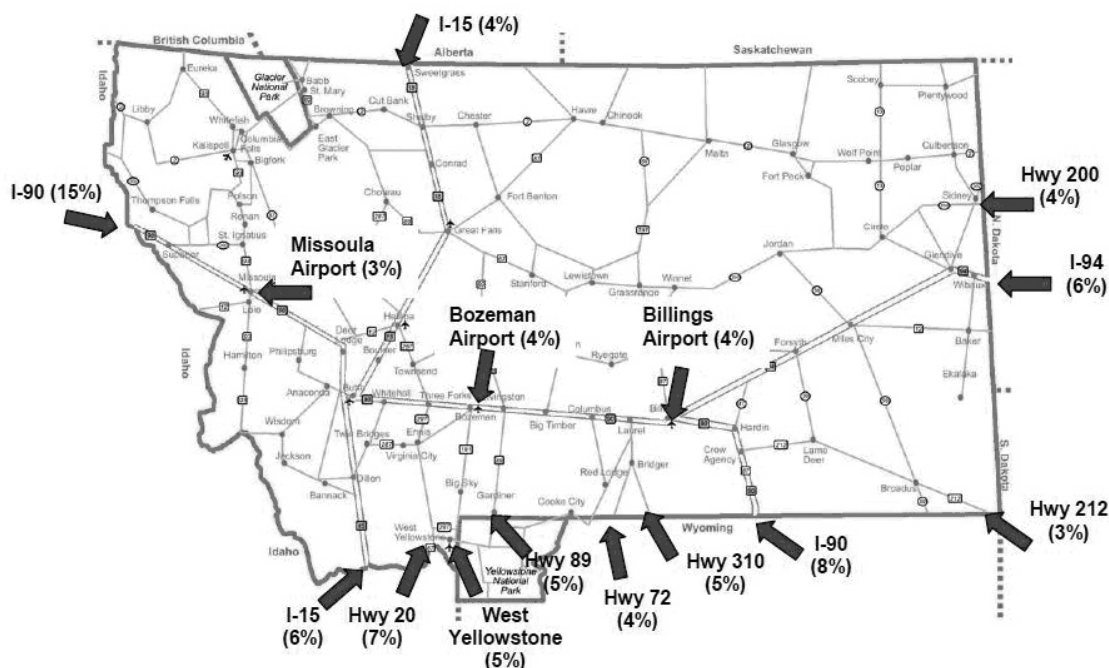
to pay dividends as workers, shippers, governments, and businesses use them to connect to one another. Transportation affects economic productivity and growth both directly and indirectly as reflected in the jobs it enables and the mobility it provides for people and products.

Highway construction, for example, supports 27 jobs for every million dollars spent. Of these, 10 jobs are direct (construction related), four are indirect (supply sector), and 13 are induced jobs (general economy).¹ The transportation sector also contributes vehicle manufacturing, infrastructure development and, of course, moving goods to market.

A 2002 study of the impact of expenditures by the Montana Department of Transportation showed that every dollar it spends in the private sector generates another \$0.47 in indirect and induced spending throughout the state economy.

Freight shipments valued at \$44 billion travel every year on Montana's roads. According to the American Association of State Highway and Transportation Officials, domestic freight

Figure 1
Top 15 Entry Points to Montana by Nonresidents, 2005



Source: The Economic Review of the Travel Industry in Montana.
Institute for Tourism and Recreation Research, The University of Montana.

tonnage for all modes of transport is expected to increase 50 percent by 2020; freight movement by trucks alone is estimated to increase nearly 60 percent. Based on the Federal Highway Administration's Freight Analysis Framework, the value of Montana freight shipments will go from \$44 billion (2002) to \$130 billion by 2035 (Figure 2).

As shown in Figure 3, trucks are the primary mode (vs. other modes) of freight movement for Montana, carrying 69 percent of goods entering the state, 32 percent of goods leaving the state, and 89 percent moving within the state.²

Key Factors Driving Transportation Demand

Policy, demographics, geography, freight, and technology all play a role in creating and maintaining an effective transportation system, and their effects in Montana, a large state with a small population, are particularly acute.

While in the short term we can expect transportation demand to fluctuate with the economy, a longer perspective reveals three crucial trends that stand out as especially important in Montana. These are:

- the geography and pace of Montana population growth;
- the aging of Montana's population; and
- the evolution of Montana's economic base, especially growth in nonresident visitors.

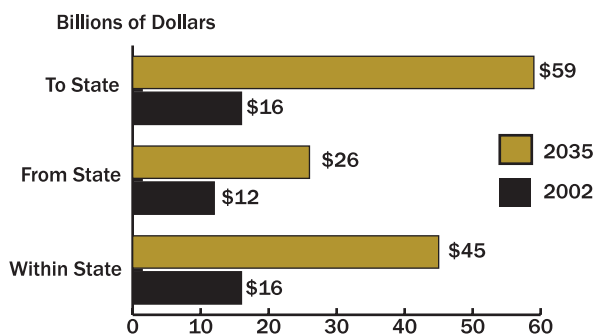
Statewide, Montana's population increased significantly between the years 1996 to 2006. But that growth was concentrated in the state's seven most urban counties. The 22 most rural counties in Montana collectively lost 11,755 people

during the same period. The seven most urban counties, by contrast, gained 61,573 people between 1996 and 2006. This pattern of growth and decline in different corners of the state puts strains on both transportation capacity and finance.

By 2030, a quarter of Montanans will be 65 or older, creating one of the largest older population fractions of any state.³ This aging population will impose different demands on transportation, such as transportation assistance for health care and daily needs.

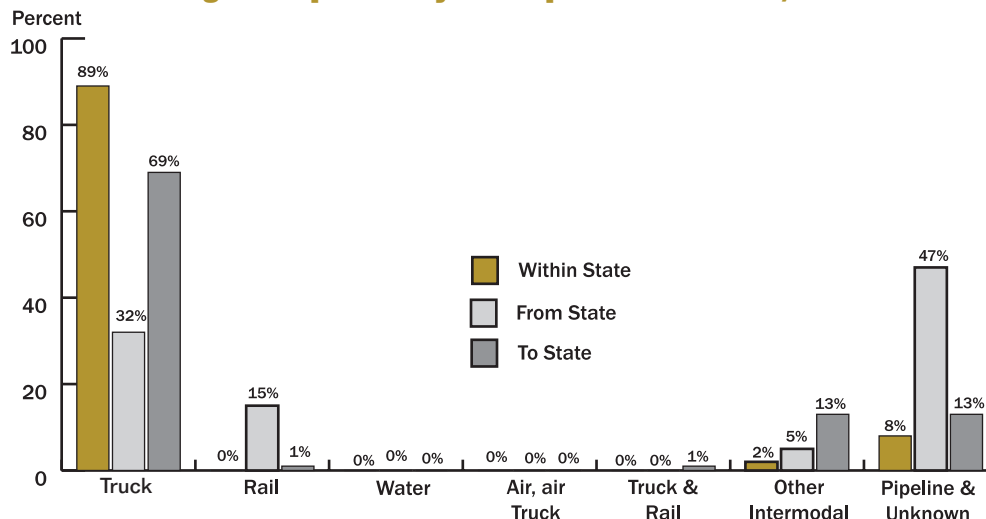
Nonresident visitors are a powerful generator of economic activity in Montana, offering significant opportunities for economic growth throughout the state. But tourism depends

Figure 2
Freight Shipments by Value
All Modes of Transportation
2002 and 2035



Source: Office of Freight Management and Operations, FHWA.

Figure 3
Montana Freight Shipment by Transportation Mode, 2002



Source: Office of Freight Management and Operations, FHWA.

crucially on the safety and efficient operation of our roads and airports. As Americans live longer and enjoy more leisure time, those demands will tax the capacity of Montana's transportation system.

Some of the Challenges We Face

Rapid population growth, increased tourism, and expanded freight movement are all putting strains on the capacity of our highways. Rural roads are a major and essential part of our nation's highways system, and they are what move us most. Rural roads comprise 80 percent of national road miles and carry 40 percent of vehicle miles traveled. Ninety percent of rural roads are two lanes or less.

As travel on secondary highways increases, accidents will increase as well. Accidents and congestion have a detrimental fiscal impact on job productivity and freight mobility. The high incidence of crashes in rural areas has a disproportionate impact on rural law enforcement agencies, health care facilities, and transportation agencies, which have limited fiscal resources.

Rural households travel 38 percent more miles than urban households, even though they make 5 percent fewer trips. Nearly 40 percent of the country's transit-dependent population, primarily senior citizens, persons with disabilities, and low-income individuals, live in rural areas. Due to a lack of travel services, rural populations are more automobile dependent than their urban counterparts.

Public transportation has rarely been viewed as viable in rural areas due to low population densities and long travel distances. It is time to move past this mode of thinking. The Bozeman-area transit service, Streamline, and a nearby regional transit system, Skyline, provide excellent examples of how public transportation can work in rural environment to serve the elderly, students, tourists, and others without destroying the rural character people are seeking.

As strains on capacity increase, our aging infrastructure is becoming a victim of financial crisis. The Highway Trust

Fund, established in 1956 to build and maintain our highway system using federal fuel taxes, faces a dramatic revenue shortfall and struggles even to maintain the current capacity of our highway system.

Opportunities for Our Future

A healthy economy demands a strong transportation infrastructure. Through advanced technologies to enhance safety, expanding services to rural and elderly populations through public transportation, coordination of freight movement at regional levels by developing intermodal facilities, and integrating transportation and tourism to promote rural economic development, we can address these transportation challenges. Now is the time to put the focus on developing a complete, integrated, seamless national transportation infrastructure that would allow people and goods to move safely and efficiently across and throughout the country. □

Steve Albert is director of the Western Transportation Institute at Montana State University—Bozeman.

Sources

¹Federal Highway Administration. www.fhwa.dot.gov/policy/otps/pubs/impacts/impacts.pdf.

²Davis, Gregg E. & Polzin Paul E. The Revenue Contribution of Montana Department of Transportation Expenditures to the General Fund. MDT. www.mdt.mt.gov/research/docs/revenue_final_report.pdf.

³Census and Economic Information Center. <http://ceic.mt.gov>.



Recession: How Long and How Deep?

by Paul E. Polzin

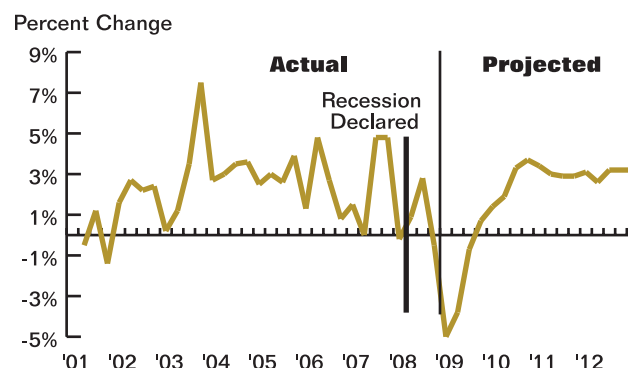
What started as a real estate bubble bursting, with an associated financial industry crisis, has now morphed into an economy-wide (and even a worldwide) recession. Since the official beginning was pegged as December 2007, this recession will probably be one of the longest and deepest since World War II. IHS Global Insight Inc. forecasts continued declines in real GDP until the third quarter of 2009.

Top 10 Economic Predictions for 2009

(Courtesy of IHS Global Insight Inc.)

1. The U.S. recession will be one of the deepest – if not THE deepest – in the postwar period.
2. The rest of the developed world also will suffer: The downturn will be the worst in Europe over a couple of decades and the worst in Japan since 1998.
3. Growth in emerging markets will decelerate dramatically. There are three transmission mechanisms to the emerging world: a) the collapse in commodity prices (Russia, Iran, Venezuela); b) drying-up of capital flows (Eastern Europe); c) decline in world trade (Asia).
4. The Federal Reserve and other central banks will keep cutting rates.
5. More fiscal stimulus in the pipeline. It will include tax cuts, infrastructure spending, and other provisions.
6. Commodity prices will remain at depressed levels for much of the next year.
7. Inflationary fears will be replaced by concerns about deflation.
8. Global imbalances will improve markedly. U.S. current account deficit will drop by 50 percent. The drop in commodity prices will improve the terms of trade between commodity importing and commodity exporting countries.
9. The dollar will remain relatively strong as long as the financial crisis continues.
10. The single biggest risk facing the U.S. and world economies is a timid response to the crisis. The good news is that the United States and China are taking the crisis very seriously. The bad news is that Japan and the Eurozone are much more timid.

Figure 1
Actual and Projected GDP Growth,
Constant Dollars, United States



Source: IHS Global Insight Inc.

Table 1
Economic Trends for the U.S. Economy, 2003-2012
Actual and Projected as of December 2008

	Actual					Projected				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP (chained \$), percent change	2.5	3.6	2.9	2.8	2.0	1.2	-1.8	2.1	3.2	3.0
Inflation (CPI-U), percent change	2.3	2.7	3.4	3.2	2.9	3.8	-1.5	2.4	3.1	2.3
Interest Rates										
90-day T-bills, percent	1.0	1.4	3.1	4.7	4.4	1.4	0.4	1.8	4.1	4.6
Mortgage rates (30 years), percent	5.8	5.8	5.9	6.4	6.3	6.1	5.4	5.7	6.8	7.1
Housing starts, millions	1.85	1.95	2.07	1.80	1.34	0.92	0.66	0.97	1.34	1.57
Unemployment rate, percent	6.0	5.5	5.1	4.6	4.6	5.8	8.2	8.6	8.1	7.5
Oil, West Texas Intermediate (\$/barrel)	31.12	41.47	56.56	66.12	72.18	100.22	43.08	56.71	78.67	86.75

Source: IHS Global Insight Inc.

The Montana Outlook

Changing Conditions Lead to Changed Forecast

by Paul E. Polzin

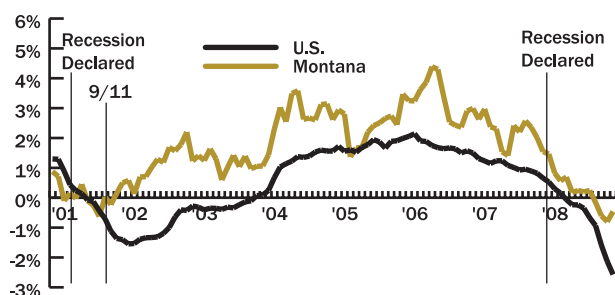
Montana's economic outlook has darkened during the past year as a national economic slow-down concentrated in a few industries (most of which aren't important here) spread to more and more sectors (some of which are important here). The Bureau slightly lowered its forecast at midyear 2008 to account for the deterioration then present. The current

forecast (Figure 6) calls for barely positive growth in 2009, with modest accelerations to 2.2 percent in 2012.

The blows to the Montana economy include (in rough order of appearance):

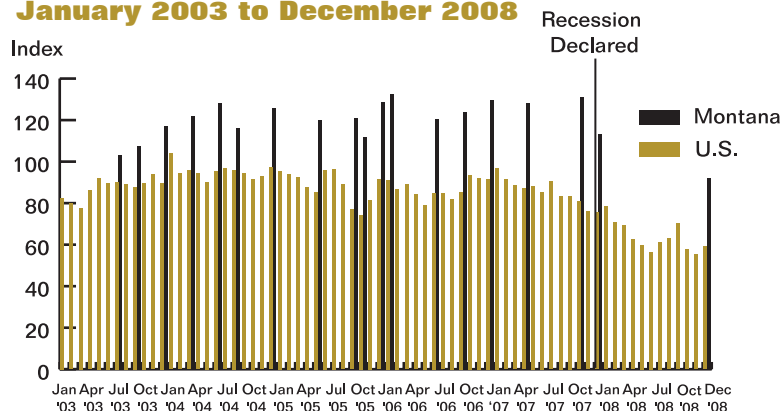
- Closures and shutdowns in the wood products industry.
- Construction plummeting and real estate stalled, with Missoula house prices now turning negative.

Figure 1
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2008



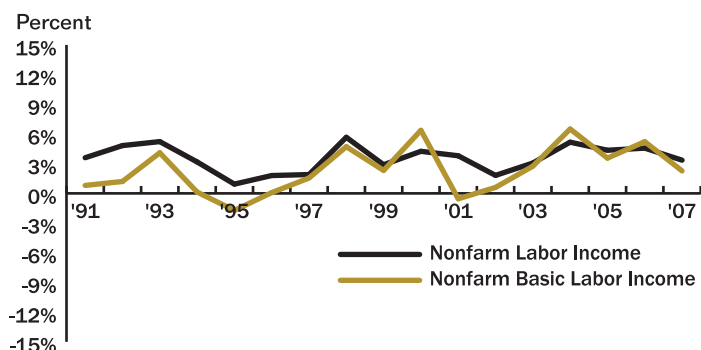
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 2
Index of Consumer Sentiment, U.S. and Montana, January 2003 to December 2008



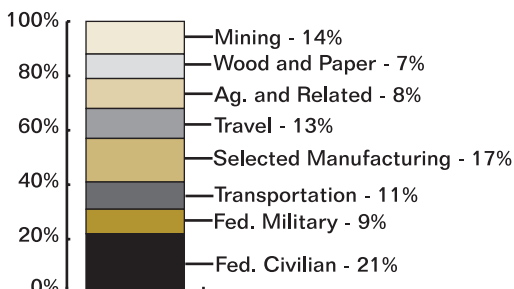
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, [in constant dollars]



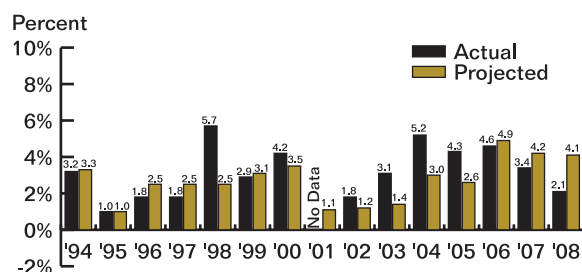
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Labor Income in Basic Industries, Montana, 2005-2008 [percent of total]



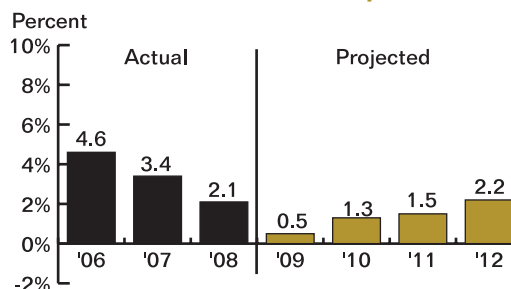
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce

Figure 5
Actual and Projected Percent Change in
Nonfarm Labor Income, Montana, 1994-2008



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 6
Actual and Projected Percent Change in
Nonfarm Labor Income, Montana, 2006-2012



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

- Announced closing of Columbia Falls Aluminum Company.
- Wheat prices plummet. Agriculture's record revenue growth confined to a single year.
- Plunging metal prices lead mines to issue precautionary layoff notices.
- Announced layoffs in high-tech and other manufacturing industries.

The house price bubble is bursting in Montana, but the impacts so far are not as disastrous as elsewhere in the nation. Single family house prices in Montana eked out a 0.3 percent increase from the fourth quarter of 2007 to the fourth quarter of 2008 (Table 1). Nationwide, house prices declined 4.5 percent during the same period. Missoula County was the only major urban area to post a decline – house prices decreased 1.0 percent from the fourth quarter of 2007 to the fourth quarter of 2008. We do not, however, have data for the highflying housing markets in Gallatin and Flathead

counties because the U.S. government does not publish that information. House prices increased 0.5 percent in Cascade County and 3.6 percent in Yellowstone County between the fourth quarter of 2007 and the fourth quarter of 2008. In every case, there has been a significant deceleration in house prices. For example, the Yellowstone County change in house price decelerated from 9.0 percent to 7.2 percent to 3.6 percent between 2005 and 2008.

In addition to the events in the basic industries, there is now an additional negative factor impacting Montana's economy – abysmal consumer sentiment. As shown in Figure 2, Montana's Consumer Sentiment Index has consistently been above U.S. index since 2003. But, the December 2008 figure for Montana is an all-time low since it was first calculated in 1982. The downward trend in Montana consumer sentiment since late 2007 has mirrored national trends. This erosion in consumer sentiment helps to explain the weakness in November and December data for certain retail trade sectors in Montana.

Table 1
Index of Single-Family Home Prices,
Annual Percent Change

	Missoula County	Cascade County	Yellowstone County	MT	US
2007Q4 - 2008Q4	-1.0	0.5	3.6	0.3	-4.5
2006Q4 - 2007Q4	2.9	7.5	7.2	6.5	0.6
2005Q4 - 2006Q4	7.5	9.1	9.0	8.3	3.8

Source: U.S. Office of Federal Housing Oversight.

Table 3
Population, Montana and Regions, 1990-2010

	Thousands of Persons				Average Annual		
	Actual		Projected		Percent Change		
	1990	2000	2007	2010	1990-2000	2000-2007	2007-2010
Montana	800	902	957	980	1.2%	0.8%	0.8%
West	335	400	428	450	1.8%	1.0%	1.7%
Missoula	79	95	106	108	1.9%	1.6%	0.6%
Flathead	60	75	87	93	2.3%	2.1%	2.2%
Silver Bow	34	35	33	37	0.3%	-0.8%	3.9%
Lewis and Clark	48	56	60	61	1.5%	0.9%	0.4%
Ravalli	25	36	40	43	3.7%	1.5%	1.9%
Rest of West	89	103	102	108	1.5%	-0.1%	1.5%
North-Central	181	183	184	184	0.1%	0.1%	0.0%
Cascade	78	80	82	82	0.3%	0.4%	0.0%
Hill	18	17	17	17	-0.6%	0.0%	0.0%
Fergus	12	12	11	12	0.0%	-1.2%	2.2%
Rest of North-Central	73	74	74	73	0.1%	0.0%	0.3%
Southeast	284	319	345	346	1.2%	1.1%	0.1%
Yellowstone	114	128	140	145	1.2%	1.3%	1.2%
Gallatin	51	68	87	89	2.9%	3.6%	0.8%
Richland	11	10	9	11	-0.9%	-1.5%	3.6%
Custer	12	12	11	12	0.0%	-1.2%	2.9%
Rest of Southeast	96	101	98	90	0.5%	-0.4%	-2.8%

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

The Bureau's forecasts are summarized in Figure 6. We are currently anticipating that Montana's economy will grow about one half of 1 percent in 2009. Depending on the risk factors mentioned below, the actual figure could turn out to be a decline of one half of 1 percent. We are sure of one thing, however: 2009 will probably be the worst year for the Montana economy in decades. The last year the state's economy grew less than 2 percent was 1996, and the year 1988 was the last year we posted a decline.

The Bureau believes the Montana economy will follow the national economy and begin to recover in 2010 when the projected growth is 1.3 percent. Notice that the overall projected rates of growth in 2010, 2011, and 2012 are generally less than those of 2006 and 2007. The growth in 2006 and 2007 (as well as the years before) was buoyed by the unsustainable bubbles in construction and real estate. It will be many years before these sectors eliminate the current excess supplies and return to "normal."

There are a number of risks to the forecast. First of all, there are always concerns about the weather, insects, and volatile agricultural incomes.

Secondly, the actual 2009 outcome will depend on how many more layoffs and closures are announced and whether or not they actually materialize. It could be that the commodity price decline is now over and some of the mining layoffs may be delayed or cancelled. On the other hand, the state's small but important high-tech manufacturing industries may be facing further difficulties, as they did during the 2001 recession. High-tech manufacturing is concentrated in Flathead County and the Bozeman area.

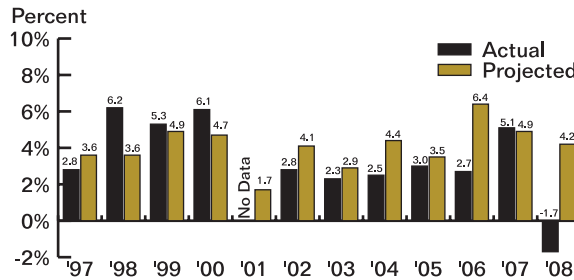
Thirdly, the financial gridlock may worsen. U.S. credit flows have dried up and this suggests a dearth of investment spending in the future. This will impact Montana as well as the rest of the nation.

Finally, the U.S. recession may get even worse. If the malaise spreads to more sectors of the national economy, some of these impacts will be felt here in Montana.

Missoula County

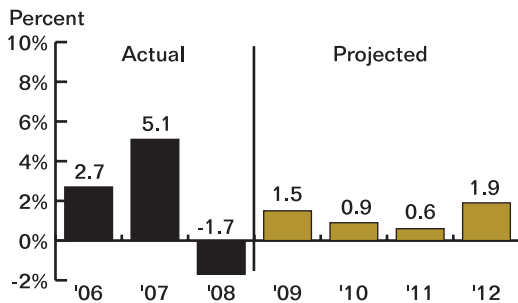
The economic slowdown began earlier in Missoula than in other counties and is likely to last longer. The shutdown of the Stimson plywood plant in mid-2007 blunted the positive impacts of the Direct TV call center opening. The delayed impacts of the plywood plant closure, combined with the further closing of the Stimson sawmill and other events, led to the small decline in Missoula's economy during 2008. The bad news was not confined to wood products. Missoula continues as the dominant trade and service center in western Montana, but the opening of chain stores and other establishments in nearby communities has meant that retail trade is no longer a significant contributor to Missoula's economic growth. Even health care and professional services are not growing at their historic rates. Missoula is the only Montana metro area to experience house price declines (Page 7, Table 1). Wood products jobs will not return, and the outcome of the competition with other communities is uncertain. Missoula's economy is projected to grow about 1 to 2 percent per year, well below 2 to 3 percent between 2002 and 2005.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 1997-2008



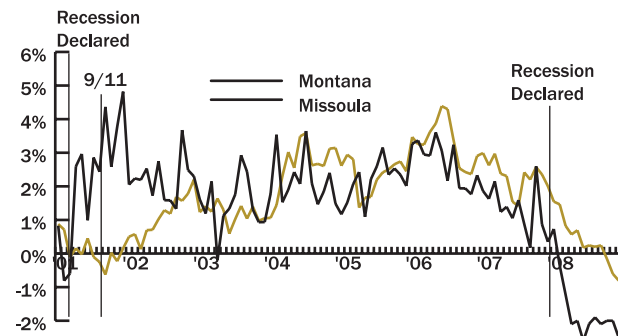
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 2006-2012



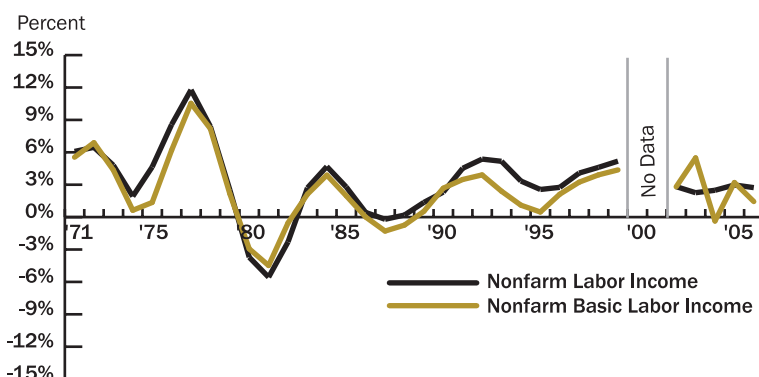
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2008



Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

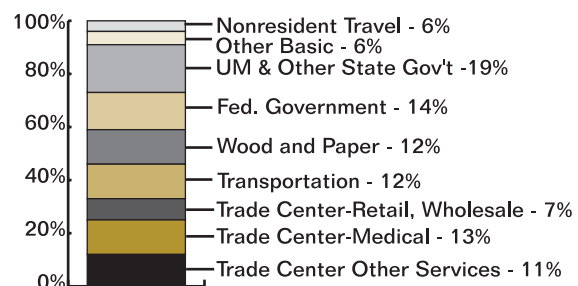
Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Missoula County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.

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

Figure 5
Labor Income in Basic Industries, Missoula County, 2006-2008 [percent of total]

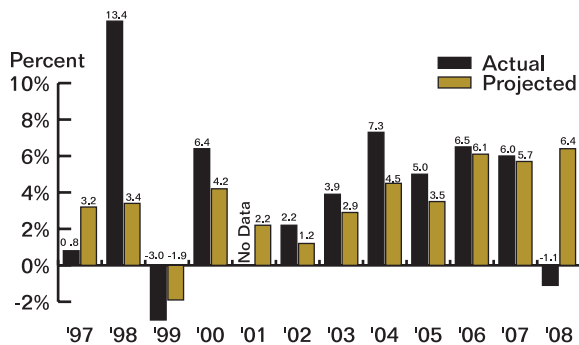


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Flathead County

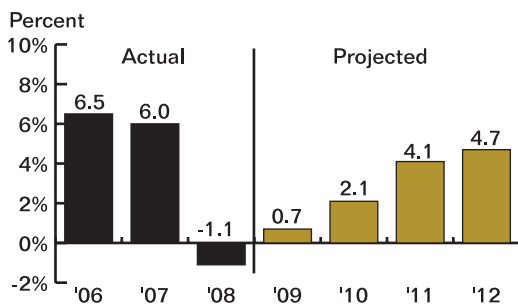
Flathead County was one of the fastest growing areas in Montana. But repeated blows during 2008 resulted in a 1.1 percent decline in the overall economy. First came the collapse of the high-flying construction and real estate industries. Then there was a seemingly endless series of cutbacks and shift reductions in the wood products industry. The national economy took its toll on the nonresident travel industry. During late-2008 there were further announcements of layoffs and cutbacks in manufacturing industries and nearby mining operations. Still to come is the looming possibility of a final shutdown of the Columbia Falls Aluminum Company. On the positive side, the evolution of Kalispell into a regional trade center continues to be one of the major contributors to growth in the economic base. After the negative figure in 2008, the Flathead economy is projected to recover relatively quickly, reaching 4 to 5 percent growth by 2012.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 1997-2008



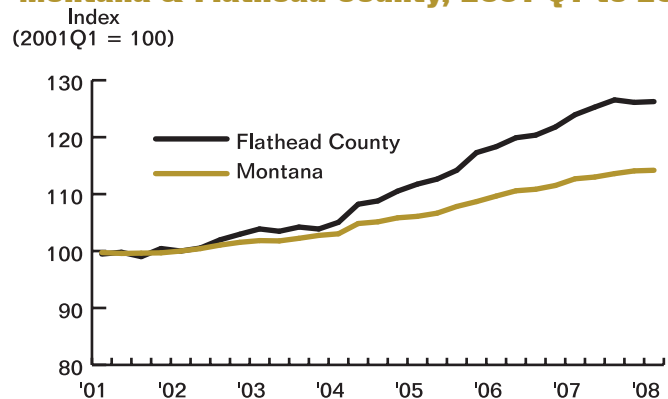
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 2006-2012



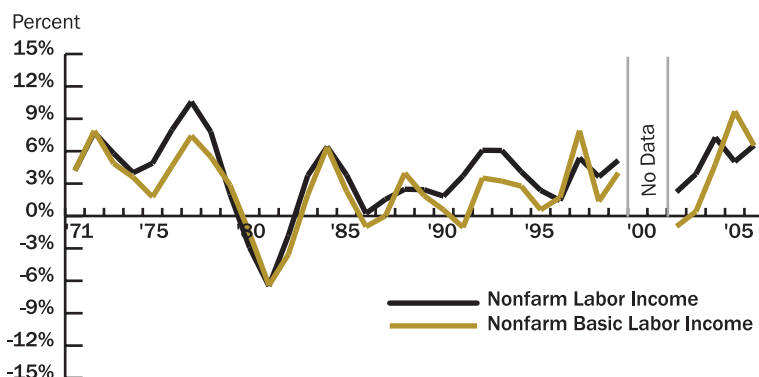
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Flathead County, 2001 Q1 to 2008 Q1



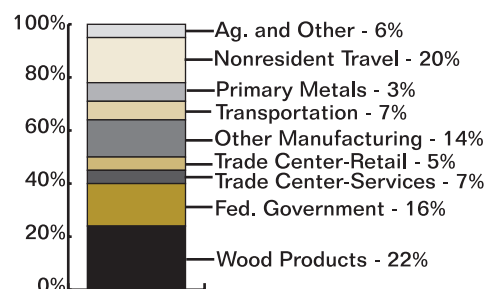
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Flathead County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Flathead County, 2006-2008 [percent of total]

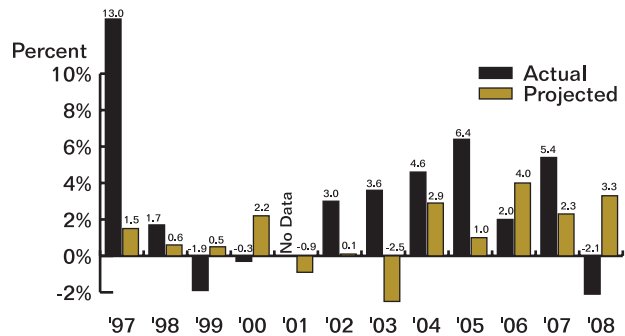


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Butte-Silver Bow County

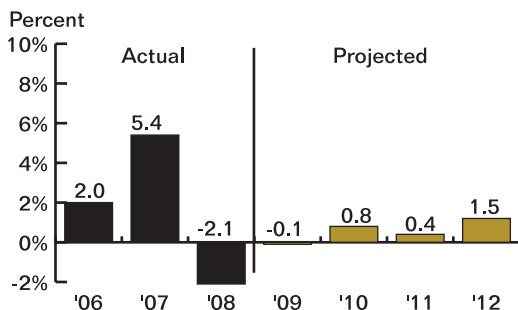
The worldwide energy/commodity boom had significant impacts on the Butte-Silver Bow economy, as illustrated by the 5 to 6 percent growth during the 2004 to 2007 period. Future economic trends depend crucially on events in the mining industry. Our forecast assumes that the Montana Resources mine will remain open but that the employee bonuses will decline as lower prices for copper reduce profits. If there are mining layoffs or the mine itself closes, our forecasts for 2009 and beyond are probably too optimistic. The good news is that the trade center components (retail and services) continue to grow, reflecting Butte's continued development as a regional trade and service center.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 1997-2008



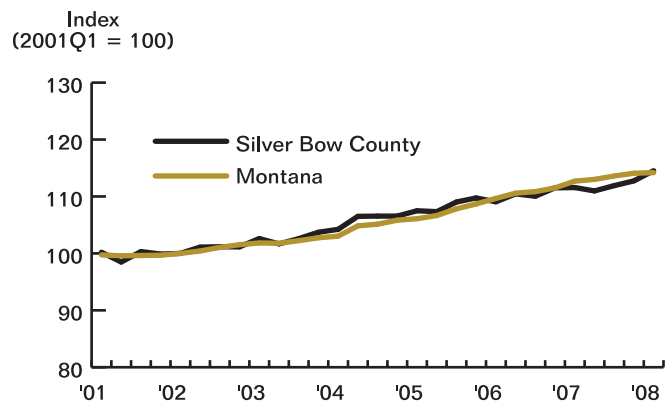
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 2006-2012



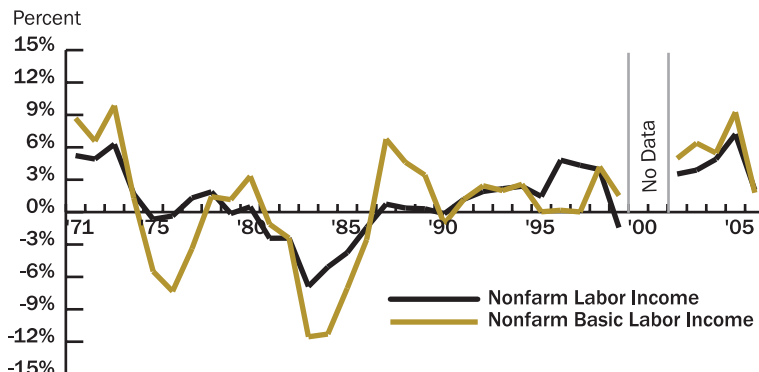
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Silver Bow County, 2001 Q1 to 2008 Q1



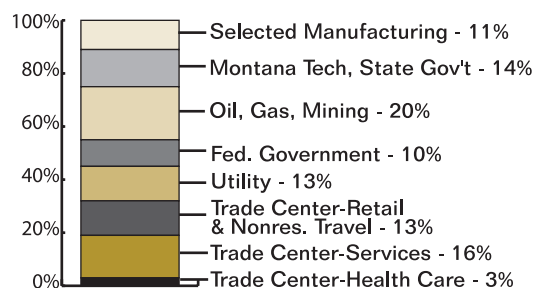
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Silver Bow County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Silver Bow County, 2006-2008 [percent of total]

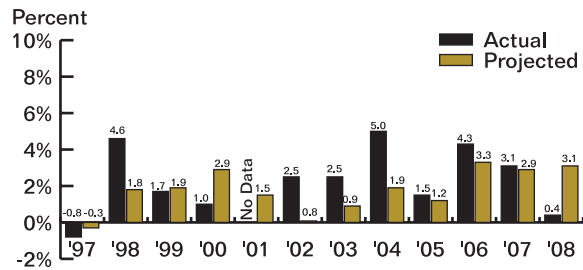


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Cascade County

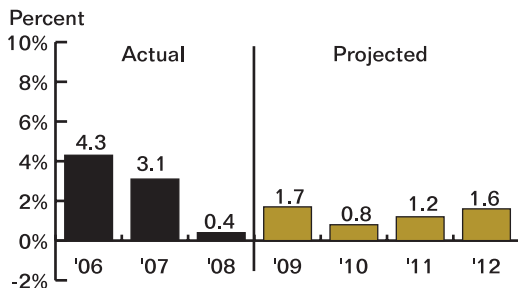
The Cascade County economy will be among the least impacted of Montana's major urban areas by the current recession. Malmstrom Air Force Base (including both civilian and military workers) accounts for almost one-half the economic base in the Great Falls area, and stable or slightly increasing staffing levels lends stability to the local economy. Weaker construction and real estate, along with declines in financial services, led to the sharp deceleration in growth during 2008. House price increases have slowed but are still heading upward (Page 7, Table 1). Great Falls continues as the dominant medical center in North Central Montana, but recent growth in this sector has moderated. Projected overall growth in the next four years is likely to average less than the last few years because the post-Sept. 11 build up of federal civilian and military employment will not be repeated.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 1997-2008



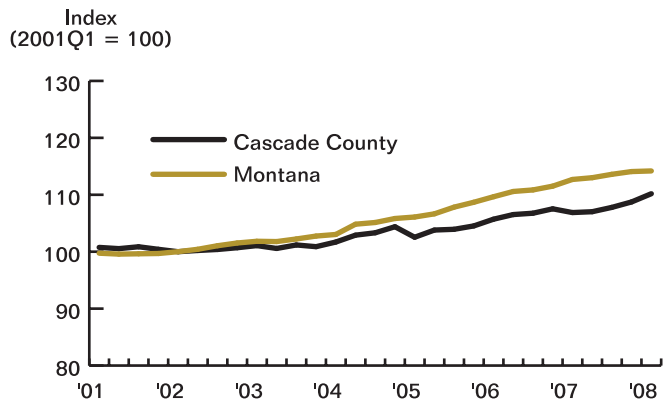
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 2006-2012



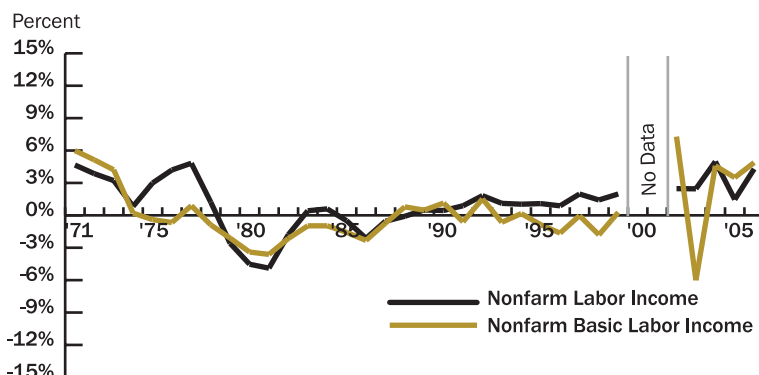
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Cascade County, 2001 Q1 to 2008 Q1



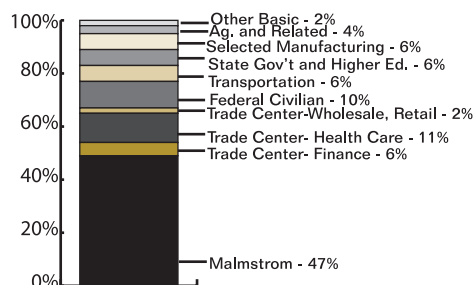
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Cascade County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Cascade County, 2006-2008 [percent of total]

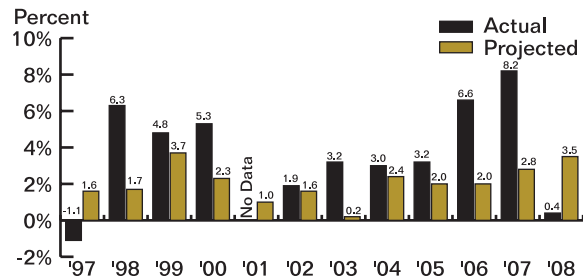


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Lewis and Clark County

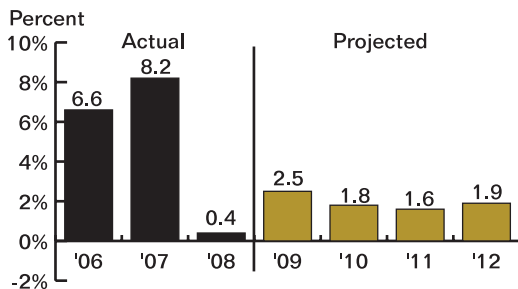
The current recession will likely have a relatively small impact on the Helena-area economy. State and federal government workers account for almost 65 percent of the economic base in Lewis and Clark County, and government employment is traditionally less cyclic. A potential state government pay freeze in response to reduced tax revenues may reduce the growth rates in 2009, 2010, and 2011 but then increase the rate in 2012 and later as “catch-up” raises are approved. Although the Helena area never experienced the house-price bubble of other areas, the sharp acceleration in 2007 and then the slowdown in 2008 was mostly due to construction and real estate.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 1997-2008



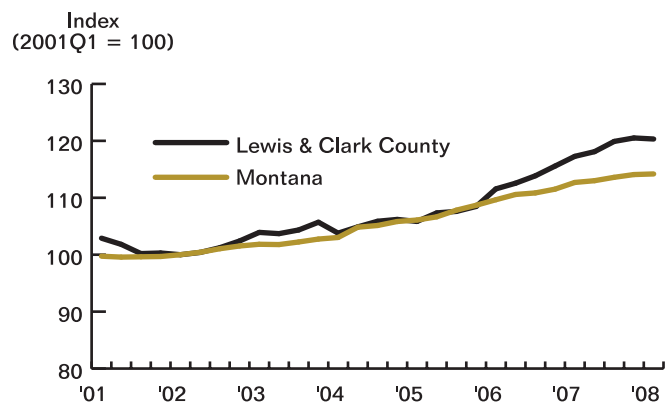
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 2006-2012



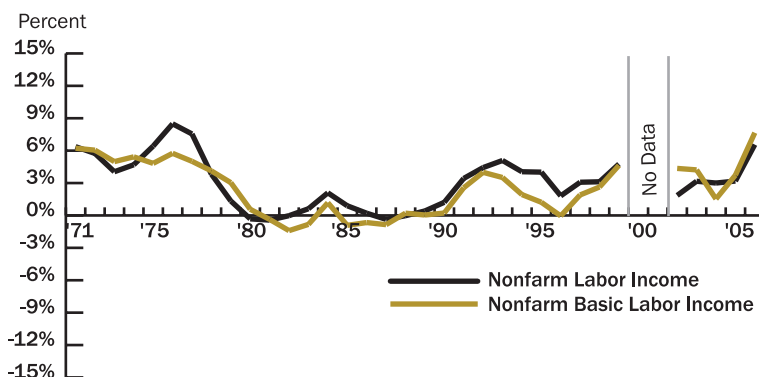
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Lewis & Clark County, 2001 Q1 to 2008 Q1



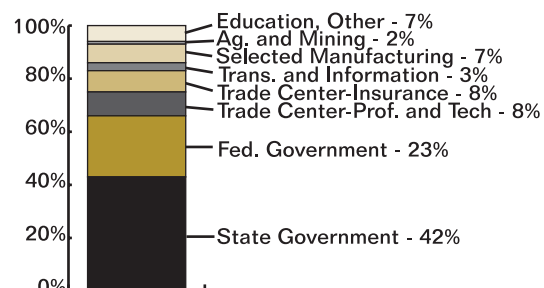
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Lewis & Clark County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Lewis & Clark County, 2006-2008 [percent of total]

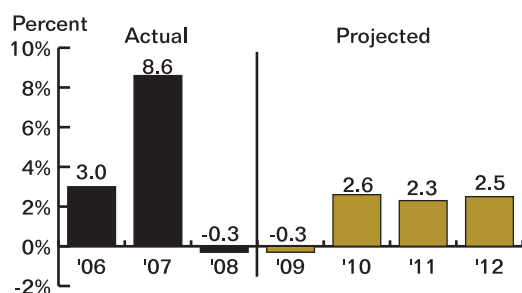


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Yellowstone County

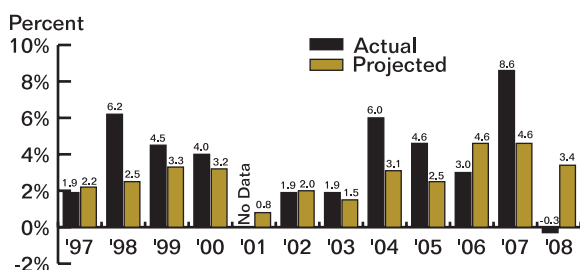
A slowdown in the natural resource industries is likely to have a “double whammy” on the Yellowstone County economy. First of all, Billings is the dominant trade and service center in the region. Layoffs or closings in Richland or Stillwater counties will be quickly felt by local suppliers and other firms serving the rural areas. Secondly, even though there are few mines or drilling rigs in Yellowstone County, many energy and natural resource-related headquarters and management personnel live in and near Billings. The forecasts do not incorporate actual shutdowns and closures, but should they occur, the projections may be too optimistic. Retail and service establishments in Miles City and Bozeman continue to provide stiff competition. Although house prices remain relatively strong (Page 7, Table 1), the negative growth in 2008 (and also 2009) reflects significant declines in construction and real estate employment and earnings.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 2006-2012



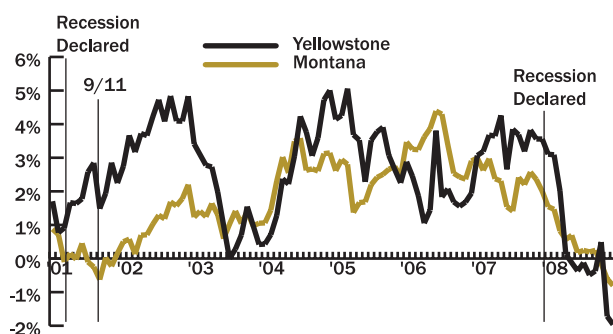
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 1997-2008



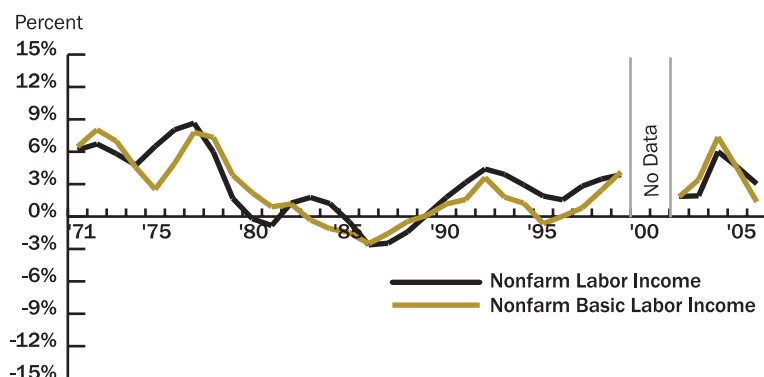
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2008



Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

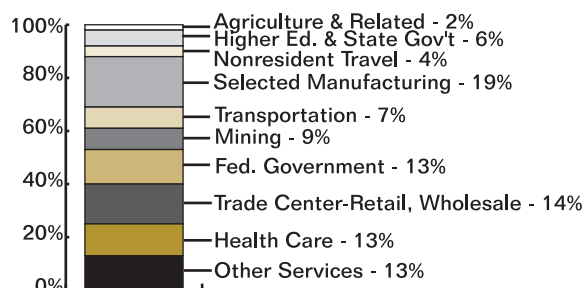
Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Yellowstone County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.

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

Figure 5
Labor Income in Basic Industries, Yellowstone County, 2006-2008 [percent of total]

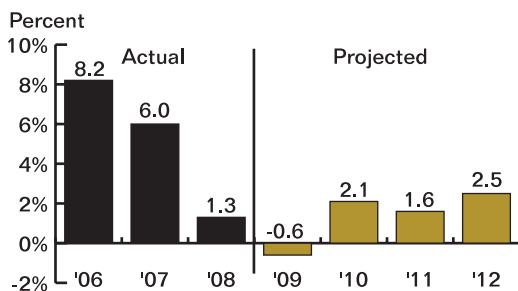


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Gallatin County

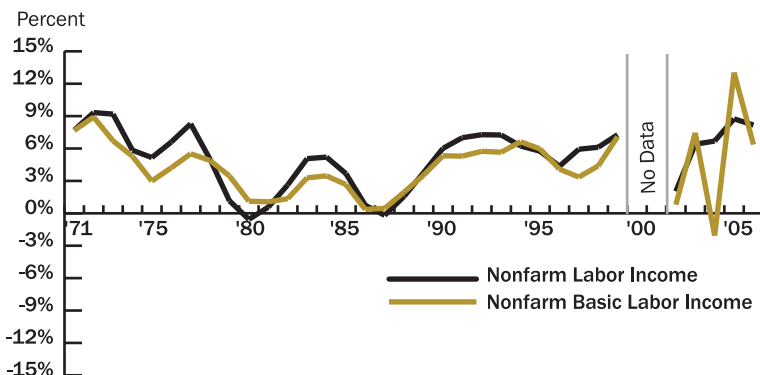
There is no question about the causes of the slowdown in the Gallatin County economy. The housing bubble was probably most pronounced in the Bozeman and Big Sky area, so the corresponding bust in construction and real estate is particularly stark. In addition, the slowing national economy also impacted nonresident travel, which accounts for about 15 percent of the Gallatin County economic base. A very big risk concerns the future trends in Bozeman area manufacturing. During the 2001 recession, there were significant employment declines among the high-tech firms in the area. Montana State University, other state government agencies, and the federal government account for about 40 percent of the economic base and should contribute some stability to the local economy. Unlike the state's largest counties, all trade center components (especially professional services) continue to grow in Gallatin County.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 2006-2012



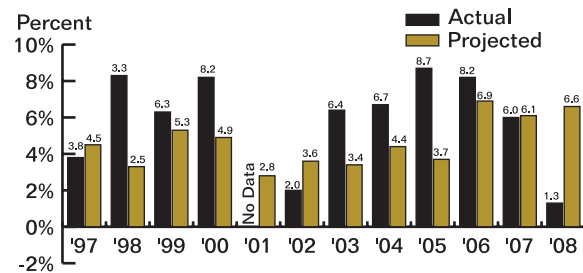
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Gallatin County, Percent Change, [in constant dollars]



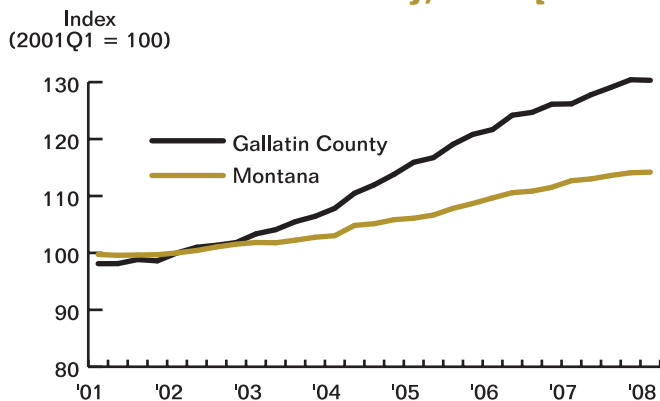
Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 1997-2008



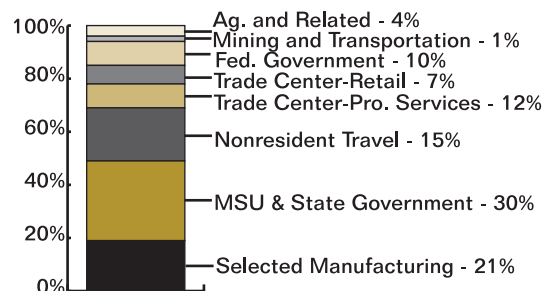
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce

Figure 3
Nonfarm Wage and Salary Employment, Montana & Gallatin County, 2001 Q1 to 2008 Q1



Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 5
Labor Income in Basic Industries, Gallatin County, 2006-2008 [percent of total]

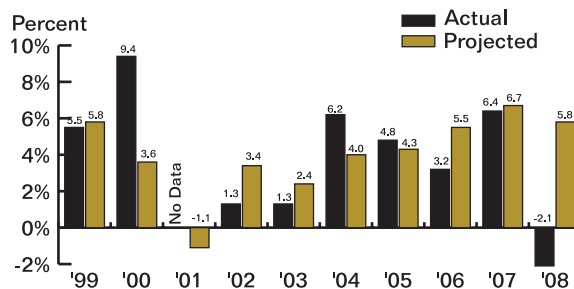


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Ravalli County

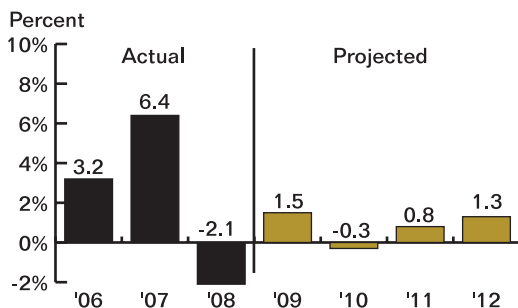
Although not as prominent as in other Montana communities, the bursting of the real estate and construction bubble in Ravalli was the major cause of the decline in nonfarm labor income during 2008. In addition, the slowdown in nearby Missoula also contributed because of the large number of workers who live in Ravalli County but commute to jobs across the county line. Ravalli County's growth has decelerated significantly since the 1990s as migration has slowed. The prime home sites in the northern portion of the county are now occupied, and new residents face ever increasing time and congestion on Highway 93. On the positive side, Hamilton continues to evolve into a regional trade and service center, with the opening and expansion of major retailers and the growth of selected services.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 1999-2008



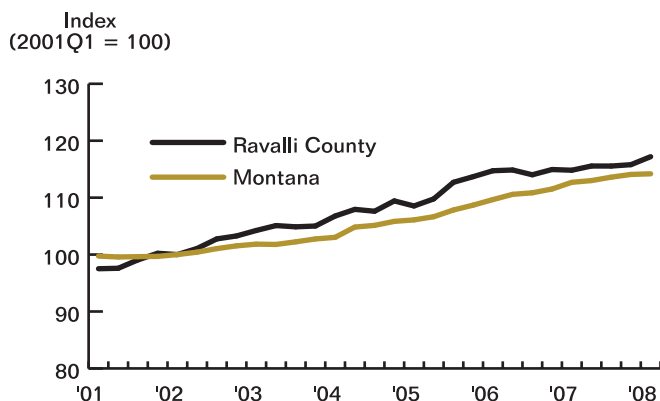
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 2006-2012



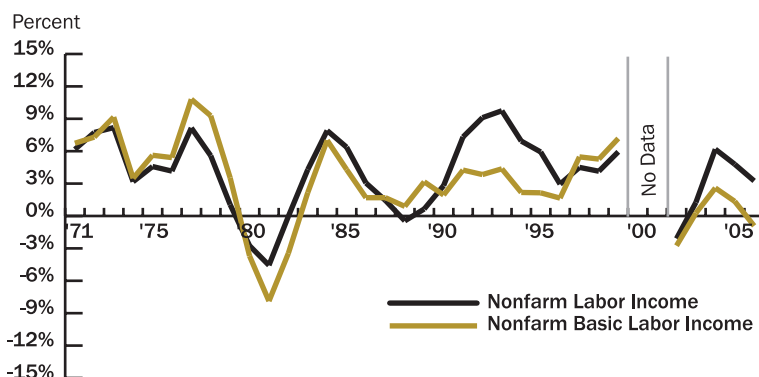
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Ravalli County, 2001 Q1 to 2008 Q1



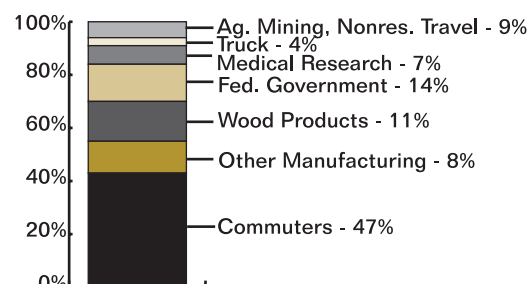
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Ravalli County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Ravalli County, 2006-2008 [percent of total]

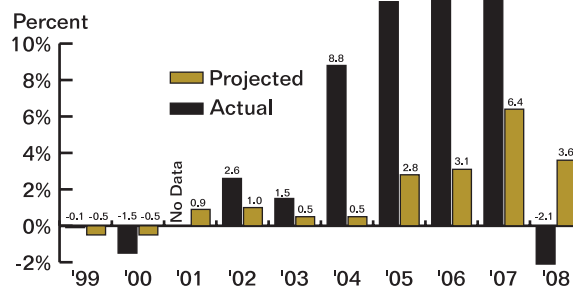


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Richland County

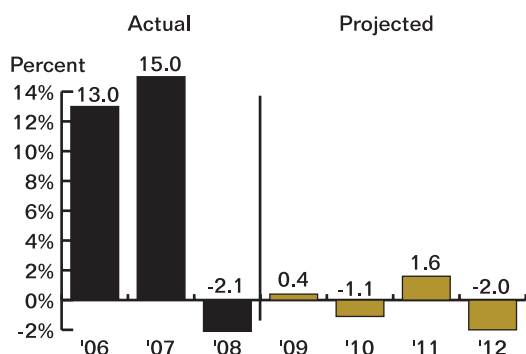
The big question on everybody's mind is whether or not the energy boom in Richland County is over. After plummeting in late-2008, energy and commodity prices appear to have stabilized. The current prices are roughly equal to their values in mid-2005, which were all-time highs at the time. After three years of double-digit growth, the Richland County economy was approximately stable in 2008. The forecasts call for continued stability in 2009 and for the next three years. We hope the 10 years of declines (see Figure 4) following the oil boom of the early 1980s will not be repeated.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Richland County, 1997-2008



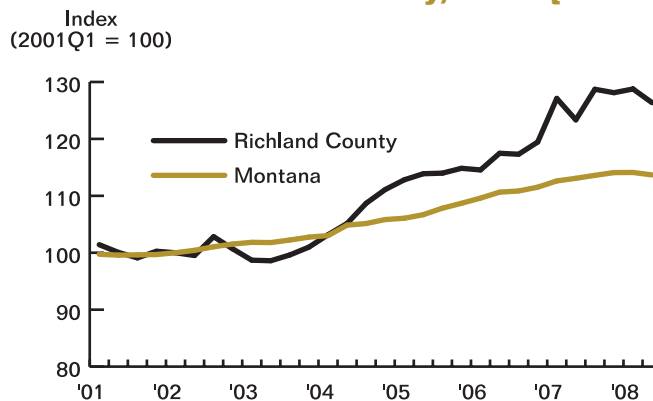
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Richland County, 2006-2012



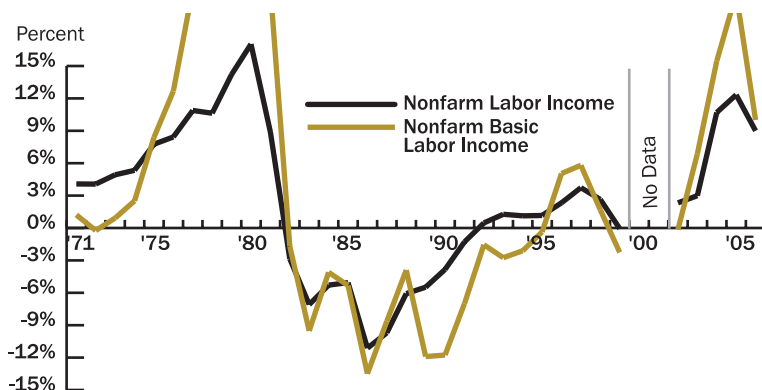
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Richland County, 2001 Q1 to 2008 Q1



Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

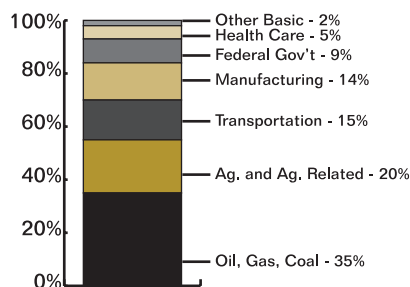
Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Richland County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.

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

Figure 5
Labor Income in Basic Industries, Richland County, 2006-2008 [percent of total]



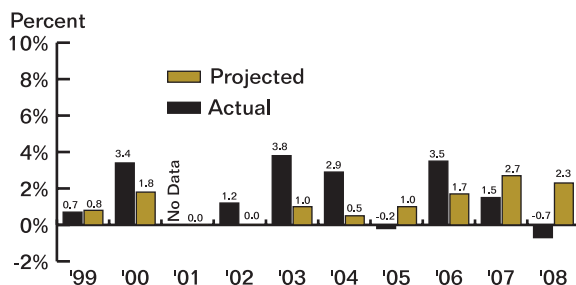
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Custer County

The recent boom and bust in energy and commodities had few obvious impacts on the Custer County economy. But Miles City may benefit from future energy projects (either coal or electricity) in southeastern Montana because of its location. State and federal workers account for more than 60 percent of Custer County's economic base. They provide stability to what otherwise would be a volatile agricultural economy. The federal facilities include the Bureau of Land Management, the USDA Forest Service, and the U.S. Veterans Administration. The state facilities are Miles City Community College, Pine Hills School, and the regional administrative offices for other state agencies. Miles City is evolving into a regional trade and service center. People throughout southeastern Montana now stop in Miles City for certain items (primarily from "big box" stores or similar retailers) rather than drive to Billings. Also, the health care providers in Miles City serve a large geographic area. □

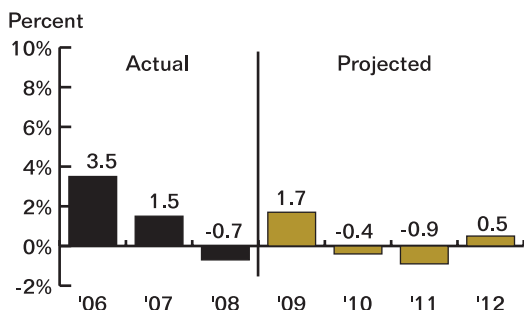
Paul E. Polzin retired as director of the Bureau of Business and Economic Research on June 30. He continues as research associate.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Custer County, 1999-2008



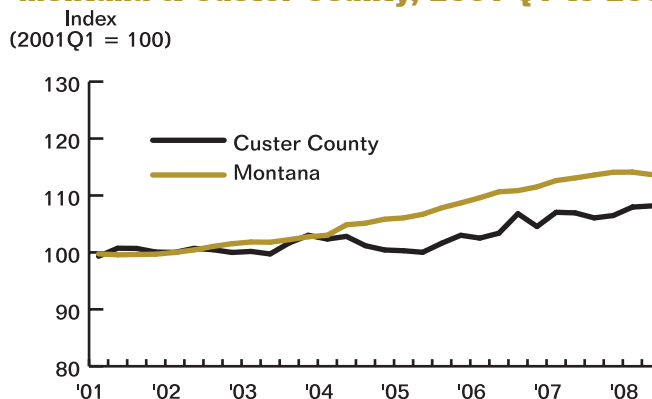
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income, Custer County, 2006-2012



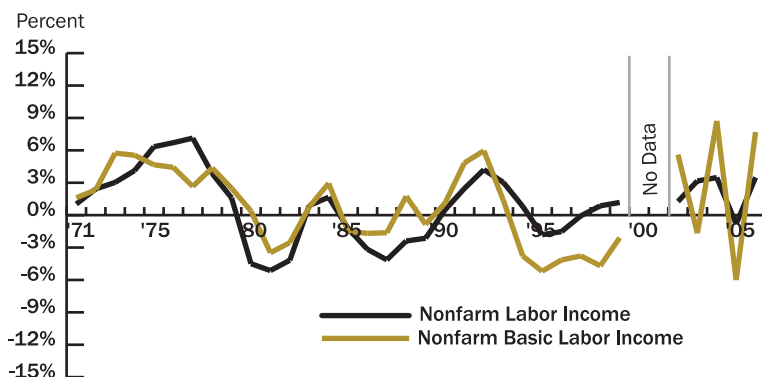
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 3
Nonfarm Wage and Salary Employment, Montana & Custer County, 2001 Q1 to 2008 Q1



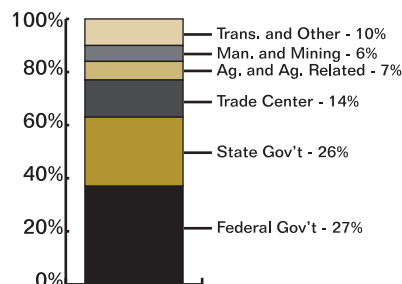
Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Custer County, Percent Change, [in constant dollars]



Note: 1971-1999 are three-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Labor Income in Basic Industries, Custer County, 2006-2008 [percent of total]



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Montana Home Sales

by Scott Rickard

More than 76,000 home sales took place in Montana since January 1, 2003. 2005 was the peak year for sales, with 16,179 transactions taking place, but this was only slightly higher than the 2004 and 2006 sales levels (Figure 1). In calendar year 2007, sales dropped by more than 20 percent. The available 2008 year-to-date data show further declines.

The majority of home sales take place in just a few counties. On average, two-thirds of the homes sold were located in Yellowstone, Flathead, Missoula, Gallatin, Cascade, or Lewis and Clark counties, generally following a pattern of the most-populated counties having the highest sales levels. Many other counties have relatively few sales in a given year.

Total sales volume in Montana was more than \$14 billion from 2003 to 2007, with sales in eight counties representing more than 80 percent of the total dollars spent in home purchases. Flathead County had the highest sales, totaling nearly \$2.6 billion between 2003 and 2007. Available 2008 year-to-date data shows \$1.4 billion in total sales.

Newly-constructed homes sold for, on average, 30 to 50 percent more than existing homes, pushing statewide average home prices higher (Figure 2). While the average price of existing homes rose from \$151,109 to \$226,255 between 2003

and 2008, average prices of new homes rose from \$208,964 to \$349,071 in the same time period. Comparisons of median prices show a similar pattern, with the median price of new homes 25 percent above that of existing homes.

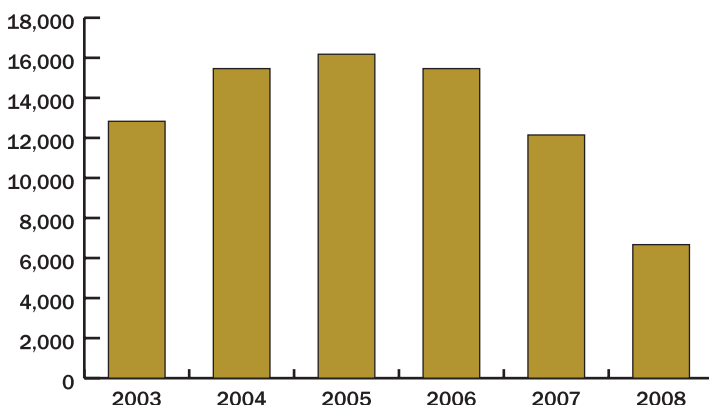
Over the past five years, fewer inexpensive homes were sold, with homes priced at less than \$150,000 declining from 57 percent of sales in 2003 to less than 30 percent in 2007. During the same time frame, sales of homes costing \$500,000 or more grew from 2 to 5 percent of transactions statewide.

Statistical tests confirm that average home prices grew in 20 of Montana's counties in 2006 and in 13 counties in 2007. Using available data, seven counties showed statistically-significant increases between 2007 and 2008. In two cases – Gallatin County in 2006-2007 and Flathead in 2007-2008 – average prices fell by a significant amount. In the rest of Montana, price differences from year to year were too small for the tests to identify.

Average Prices: The Mix Matters

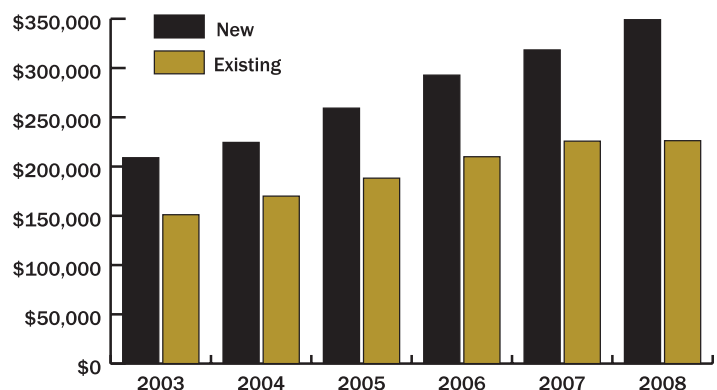
If you have ever shopped for a home, you know how difficult it can be to compare properties, which may differ in such areas as size, style, and location. This problem also exists when you compare average home prices between year-to-year

Figure 1
Montana Home Sales, 2003-2008



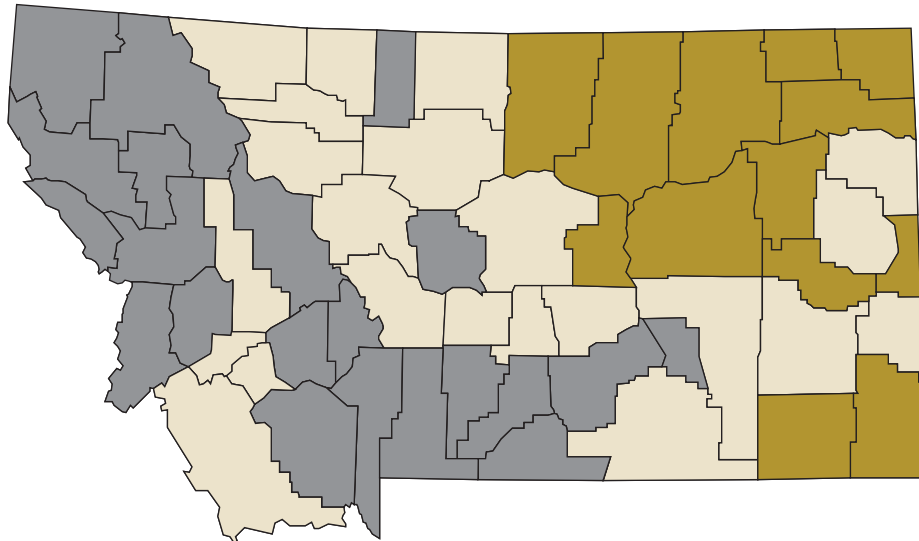
Source: Rickard, Scott. *An Analysis of Montana Home Sales, 2003-2008*, Montana Department of Revenue.

Figure 2
Average Price for New vs. Existing Homes, 2003-2008



Source: Rickard, Scott. *An Analysis of Montana Home Sales, 2003-2008*, Montana Department of Revenue.

Figure 3
The East-West Housing Value Spread
[50 percent price differential in housing values
from gray to gold]



Source: Rickard, Scott. *An Analysis of Montana Home Sales, 2003-2008*. Montana Department of Revenue.

or county-to-county. Average prices could be higher one year due more to the characteristics of the properties that sold than because overall home values in that area were increasing.

Using a statistical model of home prices, which reduces the influence of the home's characteristics, it often is possible to see if prices are changing because the underlying value is changing or just the mix of properties which sold in that time frame. Using this type of model – once differences in the size, age, style, condition, and location of the home are isolated – it appears that the underlying value of Montana housing properties continued to grow even in 2008.

Average Montana home sale prices grew by a statistically-significant amount each year since 2003. In 2008, this increase is estimated at 2 to 3 percent. A 40-square-foot increase in living area or a three-year decrease in the effective age of the home added 1 percent to its sale price. Higher appraisal scores for Condition, Desirability, and Usability (CDU) or Residential Grade, led to higher prices.

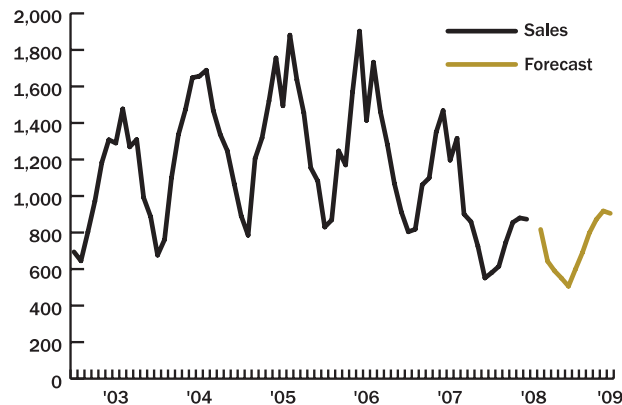
The style of home also mattered, with log homes, for example, selling for 35 percent above average and condominium units selling for 25 percent less.

These model results also suggest that a home sold in some parts of Montana would bring a significantly higher price than if this same house were found in other parts of the state. For example, a given house located in one of the gray-shaded counties in Figure 3 would likely sell for 50 percent or more than if that same home was located in one of the gold-shaded counties. In some counties, this price differential could be even higher.

Using the same model-based approach, the available data shows that average Montana home values continued to grow in 2008 for each of the following categories: small homes, large homes, new homes, and existing homes.

With these results, it appears that the decline in 2008 average prices for small and large homes was due to the characteristics of the homes sold in that year, not to a decline in the underlying value of these home types.

Figure 4
Sales Forecast for July 2008 - June 2009



Source: Rickard, Scott. *An Analysis of Montana Home Sales, 2003-2008*. Montana Department of Revenue.

A Forecast of 2009 Housing Sales

Forecasting sales for 2009 is a daunting task. Figure 4 shows the substantial decline in the number of homes sold each month since 2006. A time-series analysis of 2003 to 2008 data suggests a 25 percent or larger decrease in total 2008 home sales, with approximately 8,950 transactions, and an additional 5 percent decline in 2009. Important factors of this forecast include an estimated 50 percent decline in new home sales and continued weakness in the overall economy.

From the available data, it is possible that average Montana home sale prices will decline in 2009, while underlying home values hold steady or even grow. With newly-built homes selling for significantly more than existing homes, the fall-off in their share of total sales will reduce sales price averages. Also declining are sales of high-end properties, with price tags of more than \$1 million. The combination of these factors could, in themselves, reduce the average price of those sales

that *do* take place in 2009. But to date there is insufficient evidence that the typical Montana home, if sold in 2009, would bring less than it would have sold for in previous years.

Summary

From its peak in 2005 to 2006, the Montana housing market has slowed considerably, but in general, home prices continue to hold. A few of the counties that saw the most rapid run-up in sales and prices are now experiencing price declines, but overall, the value of typical Montana homes continues to grow. This sales downturn may continue into 2009, with the change in the mix of homes sold pushing average sale prices lower than previous years. □

Scott Rickard is the director of the Center for Applied Economic Research at Montana State University–Billings.

Travel and Recreation Outlook and Trends

By Norma Polovitz Nickerson

Table 1
Travel Trends, 2007-2008

Travel Indicators	% Change 2007-2008
Overall Travel	
Domestic travel: United States	-1.0%
International travel: United States	+9.0%
Canadian	+14.0%
Overseas	+10.0%
Montana	-3.7%
Airline Travel	
United States (July YTD)	-3.9% Domestic +5.4% International
Montana (2008)	+2.9% All air
Rooms Sold [Sept. YTD]	
United States	-1.8%
Montana	-3.0%
Mountain Region	-4.1%
National Parks (2008)	
United States	-0.1%
Glacier National Park	-2.5%
Yellowstone National Park	-2.7%
Skier Visits 2007/2008 ski season	
United States	+9.8%
Montana	+14.5%
Gas Prices	
United States (July 07/08: \$2.95/\$4.11)	+39.0%
Montana (July 07/08: \$3.09/\$4.21)	+36.0%

Sources: Travel Industry Association; Institute for Tourism and Recreation Research, The University of Montana; Montana Aeronautics Division; Smith Travel Research; National Parks Service Statistics; National Ski Areas Association; AAA gas price survey.

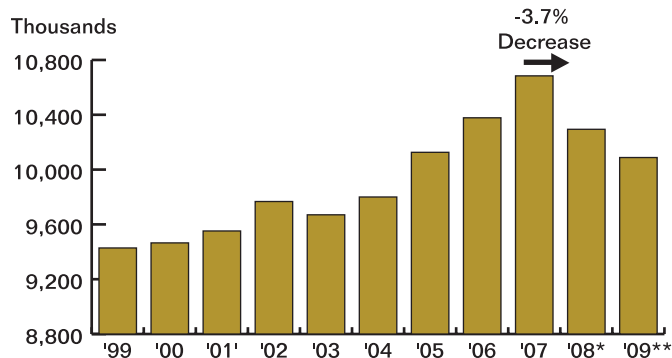
2008 Recap

It is now possible to say that the current consumer tolerance on gasoline prices in regard to travel behavior is around \$4.00/gallon. The highest average gasoline prices ever recorded hit during Montana's busiest travel month – July 2008 – at \$4.21 per gallon. This trend went beyond Montana borders, with the United States also seeing the highest average prices in July 2008 at \$4.11 per gallon. Consumers changed their behavior, both at home and while on vacation. Through August 2008, consumers reduced their consumption of gasoline by 5 percent. They took fewer trips to grocery stores, banks, and dry cleaners and at the same time increased biking, walking, and public transportation use. On vacations they stayed closer to home, stayed longer in one spot with fewer side trips, and spent less on retail so they could fill up their gas tank. Some even stayed home.

2008 was a sobering year for domestic travel in the United States (Table 1). Nationwide, preliminary numbers show domestic travel was down 1 percent (Sept. YTD). Preliminary numbers for Montana indicate a 3.7 percent drop in nonresident visitors to Montana in 2008 compared to 2007 (Figure 1). International visits to the United States were the one redeeming factor for the year, with an overall increase of 9 percent. This included an increase of Canadian visits to the United States of 14 percent and an increase of overseas visits of 10 percent. Visits from Mexico, however, were down 7 percent. While Montana does not have international visitation data, it is clear from hoteliers, retailers, attractions, and parks that Canadian travel in Montana was its highest in years, and visitors from overseas grew as well. International travel was buoyed by the low value of the U.S. dollar compared to the Euro and the Canadian dollar for the first three quarters of 2008.

Total nonresident visitor numbers were down in Montana but that does not paint a clear picture. Some areas, especially along the Hi-Line and in the Kalispell area, were experiencing higher numbers of Canadian visitors. The Yellowstone area saw an influx of international visitors. In the Institute for Tourism and Recreation Research (ITRR) survey of tourism industry business owners (N=313), 44 percent indicated their numbers were up in 2008 while 36 percent saw a decrease.

Figure 1
Montana Nonresident Visitor Trends
1999-2009

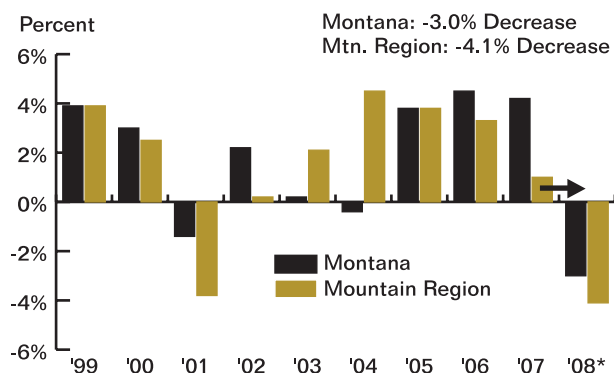


*Preliminary

**Forecast

Source: Institute for Tourism and Recreation Research,
The University of Montana.

Figure 2
Percent Change in Rooms Sold
1999-2008



*Preliminary

Source: Smith Travel Research.

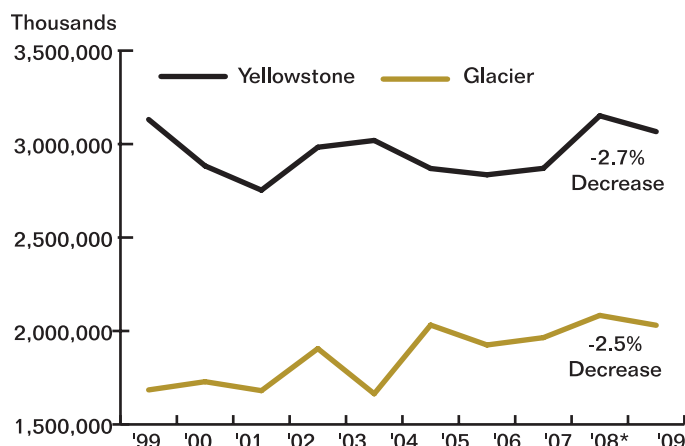
Twenty-three percent of respondents said they saw a change in the type of visitor – more Canadians and more international. Seventeen percent said they didn't see any change in the type of visitors. The rest of the business owners (60 percent) reported mixed changes including fewer families, more families, tighter wallets, more affluent travelers, more regional visitors, less regional visitors, larger groups, and more couples. It seems that the change in the type of visitor seen by businesses differed depending on the type of business, location of the business, and maybe the economic conditions. It is clear that the situation for each business was unique.

According to Smith Travel Research, the decrease in nonresident visitation was seen in Montana accommoda-

tions. Hotels experienced a 3 percent decrease in rooms sold compared to a 4.1 percent decrease in the Mountain West and a 1.8 percent decrease overall across the United States (Figure 2). The nation's national parks also experienced a slight decline this past year of 0.1 percent, while both Yellowstone and Glacier National Parks each experienced a decrease of 2.7 and 2.5 percent, respectively, in recreation visits this past year (Figure 3).

There were two positive numbers in the Montana travel industry this year. First, Montana airline deboardings increased 2.9 percent in 2008 over 2007 (Figure 4). As illustrated in Table 2, numerous communities experienced air travel increases, with the highest increases in Kalispell (5.1

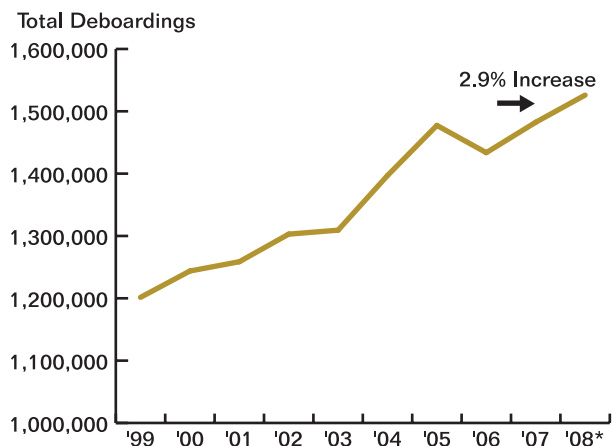
Figure 3
National Park Recreation Visits
1999-2009



*Preliminary

Source: National Park Service.

Figure 4
Montana Air Traffic
1999-2008



*Preliminary

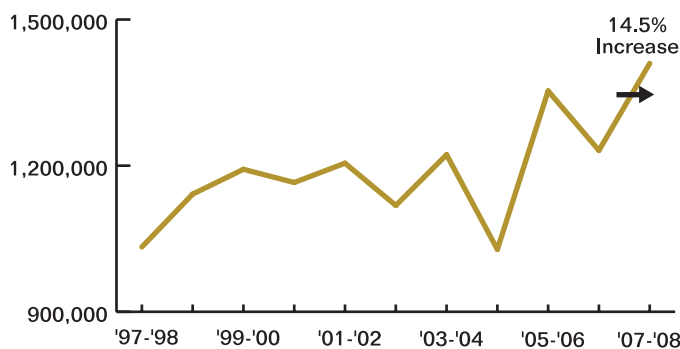
Source: Montana Aeronautics Division.

Table 2
Percent Change in Airport
Deboardings by City,
2007-2008

% Change from 2005	
Billings	2.9%
Bozeman	4.7%
Butte	-11.2%
Great Falls	1.2%
Helena	1.7%
Kalispell	5.1%
Missoula	2.5%
West Yellowstone	6.0%

Source: Institute for Tourism and Recreation Research, The University of Montana.

Figure 5
Montana Ski Area Visits, 1997-2008



Source: USDA Forest Service: Big Sky Resort; Moonlight Basin; Great Divide Ski Area.

Missoula (2.5 percent). Second, the ski industry had a good year as well. Skier visits in the state were up 14.5 percent over the 2006-07 ski season (Figure 5). Similarly, the National Ski Area Association reported a 9.8 percent increase in skier visits nationally. Montana ski area managers partially attribute their higher numbers to more locals hitting the slopes due to the good snow conditions.

Travel Economic Indicators

In response to potential travel behavior change due to higher gasoline prices, ITRR conducted a mid-summer survey of nonresidents to Montana. The purpose was to determine if visitor characteristics and spending were different from previous years. While the results cannot be generalized to the full nonresident population, it was possible to reliably compare July and August vacationers of 2005 with July and August vacationers of 2008. Some differences emerged in visitor characteristics and visitor spending patterns. Length of stay decreased by nearly a day, income level in the \$100,000 to \$120,000 range increased by 10 percent, and the number of first-time visitors increased to 44 percent compared to 26 percent in 2005 (Grau 2008). Average daily visitor spending dropped 15 percent, with significant decreases in spending on retail, auto rental, guides, and entrance fees (Table 3).

In October 2008, the University of Michigan Consumer Sentiment Index showed the third lowest level of consumer sentiment in 30 years at 57.6. The Index is a survey of consumer confidence regarding consumer expectations on the overall economy. The only two months lower than this past October were March and May of 1980 (52.7 and 51.7 respectively). Compare that to the three highest consumer sentiment months, which occurred in January, February, and May of 2000 at 112.0, 111.3, and 110.7 (Consumer Sentiment Index, 2008).

Overall employment in the United States fell by 1.2 million in the first 10 months of 2008, with more than half of the decrease occurring in August through October (BLS 2008). And quarterly spending fell in quarter three for the first time since 1991. Finally, the Traveler Sentiment Index, which measures consumers' perception on affordability, personal finance, interest in pleasure trips, time available, and perception of service quality, continues to show declines month after month (Cook 2008).

Outlook for 2009

Real Person Disposable Income and Real Consumer Spending are each projected to decline by 0.3 percent in 2009 (Cook 2008). With unemployment on the rise, an uncertain economic recovery, and virtually a global recession, travel to Montana and elsewhere will not grow in 2009 and will likely decline.

According to the Travel Industry of America, the United States should expect a drop in leisure person trips of 3.5 percent and a drop in business person trips of 5.6 percent in 2009 (Cook 2009). International inbound trips will decrease 3 percent, with as much as a 4 percent decline from overseas. An additional crunch to the travel industry is the expected 10 percent reduction in airline seat capacity each year until 2012. The lodging industry is also predicting a 1 percent decline in rooms sold in 2009.

Montana tourism business owners who annually respond to the ITRR outlook survey provided their view on the upcoming year. This is the first year since the inception of the survey in 1995 that more than one-fourth of business owners admitted to expecting a decline. Table 4 shows the dramatic change in the sentiment of business owners for 2009 compared to the past seven years.

ITRR predicted Montana would experience a 2 to 3 percent increase in nonresident travel for 2008. How quickly things can change and how unknown the future can be! Instead of a 3 percent increase, there was a nearly 4 percent decrease. Now, with the U.S. predicting a travel decrease, the Canadian dollar hovering around 80 cents to the U.S. dollar, and some European countries in the worst recession in 30 years, we can only hope the 2009 decline in nonresident visitation to Montana is at least on par with the U.S. predictions. At the time of this writing, gasoline prices are still below the \$2 mark, which is always a good sign for the travel industry. Additionally, a survey by TravelHorizons (Cook 2008) revealed that leisure travel intentions among U.S. adults in October 2008 were the same as their intentions in October 2007. People are not willing to sacrifice their vacation time. Looking at the full travel and economic picture, however, Montana can expect to see another decline in nonresident travel of 2 percent in 2009. □

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Table 3
Nonresident Vacationer Spending
Comparisons, July and August, 2005 and 2008

Average Daily Expenditures	2005	2008	% change
Expenditure Category	2008 Dollars		
Gasoline, oil	\$49.04	\$49.16	0%
Restaurant, bar	\$45.04	\$40.77	-9%
Hotel, motel, B&B	\$21.81	\$22.86	5%
Groceries, snacks	\$20.30	\$20.22	0%
Retail purchases	\$31.87	\$20.48	-36%
Campground, RV park	\$6.83	\$8.50	24%
Auto rental, repair	\$10.59	\$4.92	-54%
Outfitters, guides	\$12.72	\$4.22	-67%
Licenses, entrance fees	\$6.64	\$3.74	-44%
Transportation fees	\$2.84	\$2.77	-3%
Gambling	\$1.28	\$0.18	-86%
Misc. services	\$1.40	NA	
Total	\$210.36	\$177.82	-15%

Source: Institute for Tourism and Recreation Research, The University of Montana. 2005 vacationer sample size = 998; 2008 vacationer sample size = 248.

Table 4
Business Owner Projections for 2009

Projected Year	Expect an increase	Expect to remain the same	Expect a decrease
2009	32%	39%	27%
2008	55%	34%	10%
2007	64%	31%	5%
2006	63%	31%	6%
2005	67%	26%	7%
2004	79%	18%	3%
2003	70%	22%	8%
2002	56%	33%	10%

Source: Institute for Tourism and Recreation Research, The University of Montana, Outlook Surveys.

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Expanding Health Insurance Coverage

by Patrick M. Barkey

This is shaping up to be a year for significant changes to the American health care system. Congress has already enacted into law the reauthorization and expansion of the State Children's Health Insurance Program (SCHIP), funded largely through a 62 cent a pack increase in the federal tax on cigarettes. Extensions to Medicaid and funding for health information technology were passed in the recently enacted stimulus bill. And the Montana Legislature, at this writing, continues to debate the funding of the Healthy Montana Kids initiative approved by the voters last November.

Given the rhetoric of last year's presidential campaign, when both candidates promised more comprehensive changes, expectations are running high. But finding the consensus – and the money – that is needed to make

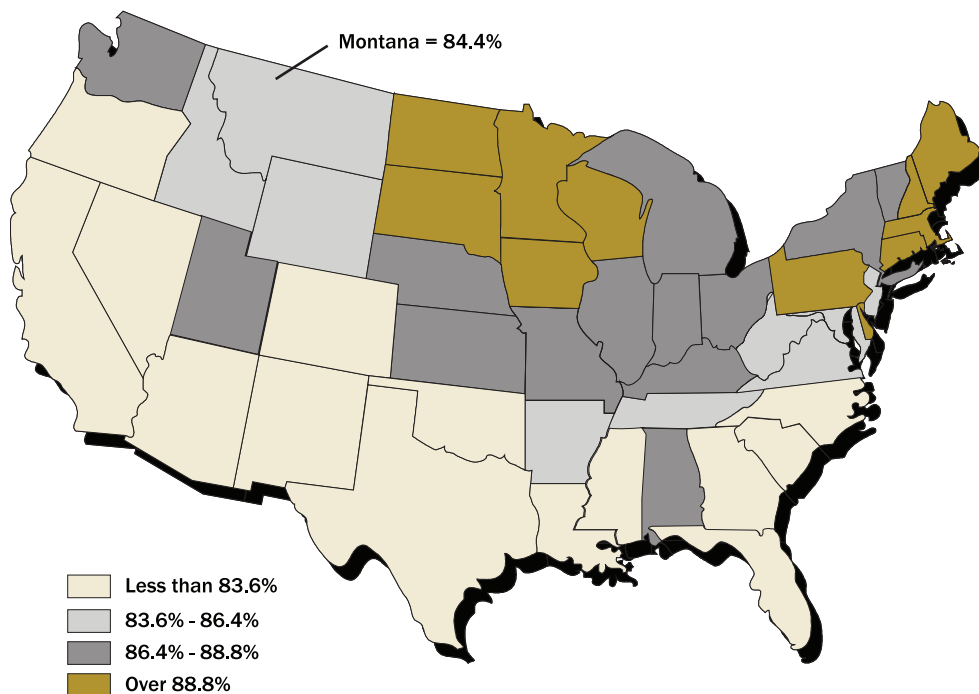
significant changes to the structure of health care delivery and finance remains, as always, an obstacle to change.

Where We Are Today

The health care system in the United States has evolved in a way that is distinctly different from that of other industrialized countries. The majority of the U.S. population (62 percent) has group health insurance from private companies that is offered – and substantially paid for – through arrangements with their employers.

This peculiar system – an artifact of tax law changes made during the wage and price control era of World War II – has endured for more than 60 years, largely for one simple reason: It has proven to be a very effective way of pooling risk. Since

Figure 1
Health Insurance Rates, by State, 2007



Source: U.S. Current Population Survey, March 2008 Supplement.

a large fraction of insurance premiums for most employer-sponsored group insurance plans are paid for by the employer, most employees usually enroll. This puts plenty of healthy, younger people in the risk pool, and helps make the inevitable cash transfers from the healthy to the sick sustainable.

But the problems with that system have been apparent for years as well. Since insurance is connected with employment, those without jobs are shut out. So are those whose employers cannot or do not offer insurance as a benefit.

And the falloff from employer-offered group insurance is steep. Individual insurance plans are usually uncompetitive, with high premiums and stingy benefits. Lower income households can't afford them and healthy, younger people don't buy them, producing a pool that is sicker and costlier than the general population, feeding a cycle that pushes up costs.

The Status of Health Insurance Coverage

The basic problem of the U.S. health care system, as many see it, is that many households have no insurance coverage. About 15 percent of the population, or 46 million people, are not covered by public or private health insurance. And substantial differences in insurance coverage exist between states and regions as well.

In 2007, 15.6 percent of Montana's population – over 147,000 people – lacked health insurance, according to the U.S. Current Population Survey. As shown in Figure 1, that puts us squarely in the middle of states on this score, between the more highly insured populations of the upper Great Plains states and New England, and the more sparsely insured south and southwest states.

But in Montana insurance coverage is much less likely to be the comparatively more generous employer-based plans than the nation as a whole, as shown in Table 1. Only 52.1 percent of Montanans were covered by such plans, compared to 62.7 percent nationally. The typical insured Montanan is more likely to have individual health plan coverage, or be covered by Medicare or a military-based health care plan, than his or her national counterpart.

Addressing the Situation

The plan put forth by President Obama during the presidential campaign contains a number of elements designed specifically to address gaps in insurance coverage, depicted in Table 2. Examining this plan highlights the issues involved in crafting policy to increase insurance coverage.

The National Health Insurance Exchange (NHIE) envisions a marketplace of regulated private insurance plans that would offer individual insurance policies that met criteria

Table 1
Health Insurance Coverage
Montana and U.S., 2007

	Montana (percent)	U.S.
Covered by health insurance	84.4	84.7
Private health insurance	67.6	71.9
Employer-based group insurance	52.1	62.7
Public health insurance		
Medicaid	13.5	13.2
Medicare	16.1	13.8
Military	5.4	3.3
Uninsured	15.6	15.3

Source: U.S. Current Population Survey, March 2008 Supplement.

Table 2
The Obama Health Care Plan

The Obama Health Care Plan
» National health insurance exchange
» Tax credits for low-income individuals
» Small business tax credit
» Pay-or-play for larger employers
» Mandates

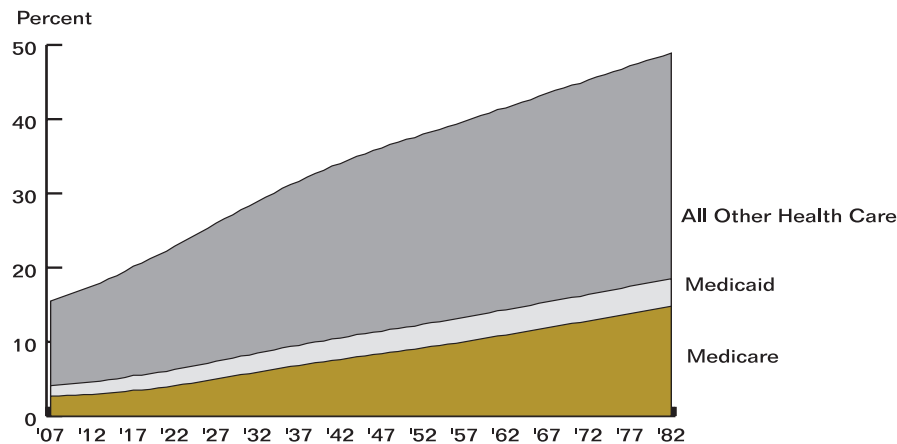
established by the federal government. Individuals could purchase plans from the NHIE with some confidence that regulators had looked over the details and declared them sound. One of the plans in the exchange would be a national health plan, offering benefits similar to those enjoyed by federal government employees.

Can private insurance companies with responsibilities to stockholders really compete with a federal health plan with access the public purse? That remains to be seen.

But making insurance available isn't enough. Low income households would need subsidies to afford it. In fact, the Obama plan calls for some level of subsidy for the NHIE for families and individuals with incomes up to 400 percent of the poverty line, or about 61 percent of the American population.

Part of the plan is to allow those who currently enjoy employer-sponsored group coverage the option of changing nothing. But that, in turn, depends on policymakers crafting penalties and incentives to maintain a careful balance. Since part of the plan is to impose a pay-or-play mandate on employers, who must either offer group coverage or pay a tax, regulators face a dilemma. If they make the penalty – the tax – too low, then employers will drop their expensive plans and pay the tax. If the penalty is too high, companies may reduce hiring or go out of business.

Figure 2
Projected Spending on Health Care
as a Percentage of GDP, 2007-2082



Source: Congressional Budget Office.

There are plenty of other provisions deserving of full treatment here, including small business tax credits, mandates for child health insurance, and pushes for electronic medical records.

Paying for It All

Even if the passage of some legislation that will expand insurance coverage looks certain, the cost of those reforms remains up in the air. Most plans either duck the issue entirely, or make unrealistic assumptions about the private sector's reaction to reform. Perhaps even more importantly, proposals to expand insurance coverage and help families pay their medical bills will almost certainly pour fuel on the fire of health care spending growth in general, which is clearly on an unsustainable trajectory.

Cost growth in health care is perhaps the single biggest issue impacting the long-run sustainability of entitlement programs and – ultimately – the federal government's long term debt. Since 1965, health care spending has grown from a 6 percent share of national output to more than 16 percent today. The Congressional Budget Office projects that by 2035 the health care share of the economy will be more than 30 percent, with public programs accounting for roughly half of the spending total.

Proposals to limit the growth in health care spending to date have mirrored the nature of the health care economy

itself. While the ideas themselves are varied – capping or reducing reimbursement payments to doctors and hospitals, allowing the reimportation of prescription drugs that sell for less in other countries, or ramping up the adoption of health information technologies – they all share one characteristic in common. They all top down, administrative solutions designed to restrict or redirect health care spending to cut waste and increase efficiency.

There are certainly plenty of examples of both to be found in health care. Yet previous efforts to do the same have not meaningfully impacted the trajectory of cost growth. One can only conclude that we have not yet discovered how to bring this trajectory down to earth.

Decision Time for Health Care Reform

Expectations of significant reform to health care are higher today than at any time since the first Clinton administration. But if curing the ills of our health care system were easy, it would be done by now. Let's hope that the reforms to come in the next year make the situation better instead of worse. □

Patrick M. Barkey is director of The University of Montana Bureau of Business and Economic Research.

Outlook for Montana Agriculture

by George Haynes

General Financial Overview

Montana's agricultural sector had an excellent year, producing an estimated \$3.2 billion of sales in 2008 and an estimated \$1 billion in net farm income. Nationally, farm household income for 2008, which includes off-farm income, is projected to increase by 10 percent, substantially larger than the 2001-2007 average. The 2009 Montana agricultural outlook for both crops and livestock is promising with lower, but still relatively strong prices for crops and livestock.

Grain/Wheat Outlook

World and U.S. average grain prices increased by nearly 6 percent in the 2007-2008 marketing year compared to the previous marketing year (Vocke and Allen, 2008). Better planting conditions, more acres available for planting and more moderate weather patterns during the summer of 2008 contributed to a substantial world-wide expansion in wheat production. Between 2007 and 2008, world wheat production increased by nearly 13 percent while U.S. wheat production increased by nearly 21 percent (Table 1). Montana and U.S. shares of world wheat production and sales have remained

relatively constant at around 0.7 percent (world) and 7 percent (U.S.), respectively. The futures markets for wheat suggests that wheat prices will be lower in 2009, but well above the most recent five year historical average price (2004-2008).

In Montana, wheat production increased by nearly 10 percent from 149.8 million bushels in 2007 to 164.7 million bushels in 2008 (National Agricultural Statistics Service for Montana, 2008). Forecasters were concerned about the Montana wheat crop in early summer. Lack of snow cover and relatively dry conditions meant that winter wheat, spring wheat and barley crops were progressing more slowly than in 2007. However, moderate to light rainfall, coupled with warm weather in late July and August, improved the winter and spring wheat forecast. At harvest time, winter wheat production was 13 percent higher than in 2007, primarily because 16 percent more acres were planted. Spring wheat production increased by 8 percent from 2007 because more acres were planted and average yields were slightly higher. Barley production increased by over 19 percent because of substantially higher average yields. The production of other grain crops (durum and oats) decreased, but prices for those crops were relatively strong.

Table 1
World, U.S., and Montana Wheat Production

Geographic Area	2006	2007	2008
	(Millions of Bushels)		
World	21,811.4	22,167.5	25,021.3
United States	1,812.2	2,066.8	2,500.0
U.S. share of world market	8.3%	9.3%	10.0%
Montana	153.1	149.8	164.7
Montana share of world market	0.7%	0.7%	0.7%
Montana share of U.S. market	8.4%	7.2%	6.6%
Prices of all wheat, \$/bushel (11/2008)	4.54	6.48	6.85

Source: World Agricultural Supply and Demand Estimates (WASDE-464, 11/10/2008) and National Agricultural Statistics Service, Montana.

Table 2
U.S. and Montana Beef Production

Geographic Area	2005	2006	2007
	(1,000 Tons - Carcass Weight Equivalent)		
United States	20,724.2	20,953.2	20,747.8
Montana	477.9	459.3	574.3
Montana share of U.S. market	2.3%	2.2%	2.8%
Prices received, calves, \$/hundred weight	138	131	123

Source: National Agricultural Statistics Service, Montana.

The major factors likely to impact the 2009 wheat market are a substantial supply response to the high grain prices experienced in 2008, a strengthening dollar, and bio-fuels production. A year ago, world and U.S. wheat stocks, projected to be at historically low levels, were a major factor. This year, global year end stocks of wheat are projected to be 22 percent higher than at the end of 2007, while U.S. wheat stocks are expected to be 97 percent higher than last year (602 million bushels). Substantial increases in wheat production in the European Union (21.6 percent) and Russia (25 percent) more than offset reductions elsewhere. While U.S. exports experienced a 15-year high in 2007/2008, a stronger dollar and more favorable weather conditions in other wheat producing regions of the world will likely reduce the level of U.S. wheat exports in 2009.

Finally, the use of corn and oil seeds for the production of bio-fuels is still affecting crop and livestock markets. The increased demand for corn for producing ethanol has led to an increase in the price of corn from \$2 per bushel in 2005 to over \$4 per bushel in 2008. However, the increase in demand for corn for ethanol that led to higher corn prices was closely linked to increases in oil prices over the same period. Lower oil prices are adversely affecting the demand for ethanol, ethanol prices, and the demand for corn for ethanol. So it is likely that corn prices will be somewhat lower than they were between January and July of 2008. Ethanol is unlikely to be produced in Montana, but in-state production of other bio-fuels may be feasible, using canola, safflower, camelina, or other oilseeds as feedstocks. Somewhat lower prices for corn may also lower feed costs for cattle, resulting in upward pressure on stocker and feeder cattle prices.

Cattle Outlook

U.S. cattle inventories have been relatively stable since 2007 (Table 2). Beef prices in 2008 have been influenced by higher feed grain prices, import and export demand, and domestic consumption. Higher feed grain prices have been driven by the sharp increase in the price of corn, which is expected to moderate somewhat 2009. One factor that has led to lower corn prices is the use of wheat to feed livestock. The use of wheat as cattle feed is expected to increase by about one billion bushels in 2009.

U.S. beef exports for 2008 were 32 percent higher than in 2007 and are expected to remain steady to slightly lower in 2009. Most recently, beef exports have been adversely affected by a stronger U.S. dollar, declining global demand for more expensive cuts of grain-fed beef, and tighter credit markets. The expected decline in exports in 2009 is linked to anticipated reductions in demand in Mexico and other smaller and emerging markets.

Cattle imports into the United States from all sources are declined by 17 percent to 2.2 million head in 2008, primarily because of reductions in imports from Australia, Mexico and Uruguay (LDP, 2-17-09). Drought-induced herd liquidations in Australia have subsided, and Australian producers are now attempting to rebuild their herds. The result has been a 25 percent decline in Australian imports through the fourth quarter of 2008. Cattle imports from Uruguay are also lower. Imports from Mexico have dropped sharply. Mexican producers are currently expected to take advantage of better grazing conditions to increase their herd size and to decrease the shipments of cattle to the U.S. in 2009. Cattle imports from Canada increased by 7 percent. U.S. beef import in 2009 are expected to increase 6 percent to 2.68 billion pounds.

Mandatory Country of Origin Labeling (MCOOL) was introduced on September 30, 2008. MCOOL is also likely to affect cattle and beef imports, especially from Mexico and Canada. It requires retailers to inform consumers at the point of purchase of the origin of the commodity and to maintain sufficient records to support labeling claims for one year. It is clear that MCOOL will increase farm-to-retail costs because careful tracking is mandated. MCOOL may also cause imported animals to be discounted by packers and discourage Canadian and Mexican producers from sending feeder animals to the U.S. This may be good news for U.S. beef producers, as packers are likely to bid higher prices for U.S. produced (born, raised, and slaughtered) beef. Consumers will be evaluating different products and deciding which products they prefer and at what price. Stay tuned!

Montana's cattle inventory remained steady at about 2.6 million head in 2008. Montana's share of the U.S. cattle inventory remains around 2.5 to 3.0 percent (Table 2). Futures prices for the cattle market suggest calf prices will be somewhat weaker in 2009.

Montana beef producers have been adversely impacted by two major events: record high hay prices and the discovery of brucellosis in Western Montana. Increases in hay prices have been driven by increased demand, caused by high corn and feed barley prices; and lower hay supplies. In May 2008, the stock of hay in the United States was lower than at any time since 1960. The occurrence of brucellosis has affected Montana producers who sell breeding stock to producers in other states and countries. All breeding stock must be vaccinated and tested prior to shipping. Some cattle operations are incurring somewhat higher production costs.

Growth in U.S. beef consumption is predicted to be slow over the next few years. Slower or negative growth rates in the U.S. and global economies will cause consumers to watch their food budgets more carefully. In addition, beef is expected to face continued competition for the consumer's dollar from pork and chicken.

2008 Farm Bill

The 2008 Farm Bill was signed into law by President Bush in May, 2008. While the 2008 Farm Bill retained many of the old commodity programs with some minor changes, two new programs have been established: the average crop revenue election (ACRE) and supplemental revenue

assistance (SURE) programs. The ACRE program essentially offers producers an alternative to the countercyclical price support program with a support program based on total farm revenue. The SURE program replaces previous ad hoc disaster programs with a standing (permanent) disaster program.

Financial Crisis

In the summer of 2008, with strong grain and livestock cash and futures market prices, many Montana agricultural producers were guardedly optimistic about their financial prospects in 2009. Their optimism was muted in late-September. In just 14 trading days in late September and early-October, futures prices for wheat and corn declined by over 20 percent, ethanol prices declined by 24 percent and cattle and hog prices declined by more than 10 percent. Expectations about farm revenues from market sales in 2009 are now considerably less optimistic, although lower oil and gas prices hold out the prospect of lower production costs. With net profits expected to be somewhat lower in 2009, lenders may become more cautious. Even though agricultural producers often have close customer-borrower relationships, producers should not be surprised by requests from their banker for more information before obtaining operating and equipment loans. □

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Montana's Manufacturing Industry

by Todd A. Morgan, Charles E. Keegan III, Jason P. Brandt

After four successive years of growth, Montana manufacturers saw a decline in activity during 2008. Through the first half of the year, most of manufacturing actually saw growth, and declines were primarily in Montana's wood products sectors (see pages 35-36). Based on announced layoffs, total employment and labor income in manufacturing were estimated to have decreased by year's end (Figures 1 and 2).

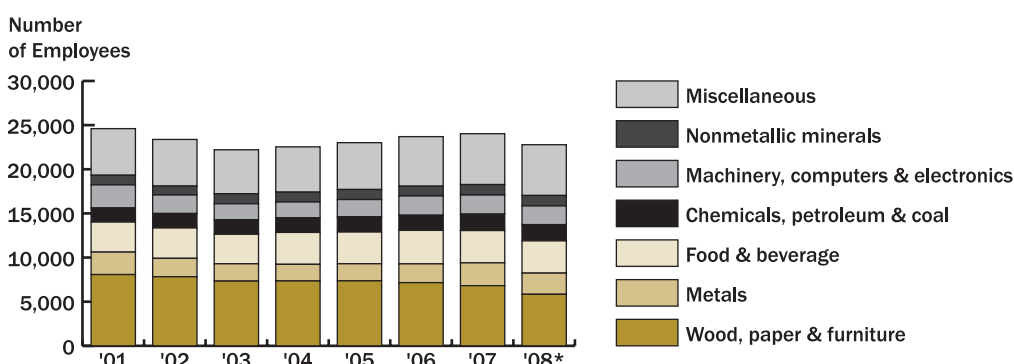
Housing continued to decline as the year progressed, giving rise to a financial crisis that has led to sharp U.S. and global economic downturns. Montana manufacturers faced much weaker demand for their products in addition to tighter credit availability. A strengthening U.S. dollar and lower commodity prices made some Montana producers less competitive worldwide. Lower prices for commodities did, however, decrease raw material and operating costs for some Montana manufacturers. Even so, by late 2008, virtually every sector of Montana manufacturing was negatively impacted and numerous layoffs were announced.

Overall, Montana's 2008 manufacturing employment was estimated to be about 5 percent lower than 2007 and about

7 percent lower than 2001 (Table 1 and Figure 1). However, the number of manufacturing workers in Montana during December 2008 was down approximately 800 workers from December 2007. Value of production dropped by an estimated \$500 million, and income to workers fell by an estimated \$174 million (about 13 percent) during 2008. Accounting for inflation, income to workers during 2008 was about 2 percent lower than income during 2001. Slightly less than one-half of the Montana manufacturing firms that the BBER surveyed reported decreased profits, with another 16 percent indicating profits equal to 2007.

Despite the declines, manufacturing remains a substantial component of Montana's economy. Measured as products left the plants, Montana manufacturers had sales of nearly \$8 billion in 2008. The state's manufacturers generated almost 22,800 jobs (including the self-employed), and workers earned approximately \$1.1 billion in labor income during 2008. The manufacturing sectors account for more than 20 percent of Montana's economic base, and four Montana counties each have more than 2,500 manufacturing employees and over \$100 million in labor income from manufacturing (Table 2).

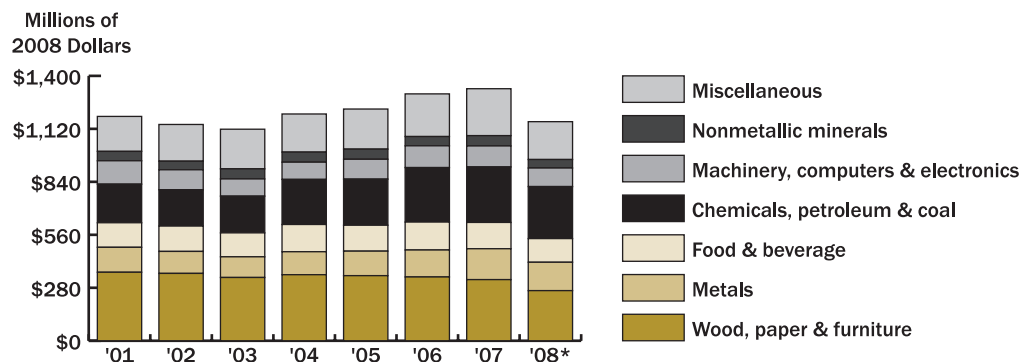
Figure 1
Montana Manufacturing Employment, 2001-2008



*Estimate.

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Labor Income in Montana Manufacturing Industries,
2001-2008



*Estimate.

Source: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook: 2009 and Beyond

The 2009 outlook is for declines in Montana manufacturing activity and related employment, with expectations that the United States and other major economies will remain weak through 2009.

Montana manufacturers who responded to our annual survey are substantially less optimistic about the outlook for 2009 than they were for 2008. Only 19 percent foresee improved conditions for 2009, versus 45 percent who expected better conditions for 2008. About 38 percent expect worsening conditions in 2009, versus 18 percent for 2008. Over 50 percent of manufacturing respondents expect to

keep their work force at the same level in 2009, while about 30 percent foresee a decrease.

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.

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

Table 1
Employment and Labor Income in Montana's
Manufacturing Sectors, 2001 and 2008

Manufacturing Sector	Labor Income [millions 2008\$]		Employment	
	2001	2008*	2001	2008*
Wood, Paper & Furniture	\$362	\$275	8,074	5,840
Metals	\$132	\$150	2,546	2,400
Food & Beverages	\$130	\$125	3,400	3,650
Chemicals, Petroleum & Coal	\$204	\$275	1,598	1,840
Machinery, Computer & Electronic Products	\$124	\$98	2,610	2,120
Printing, Nonmetallic Minerals	\$50	\$45	1,094	1,180
Miscellaneous	\$185	\$200	5,279	5,750
TOTAL	\$1,186	\$1,158	24,601	22,780

*Estimate.

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Table 2
Manufacturing Employment and Labor Income
Among Montana Counties, 2006

County	2006 Manufacturing Employment	Percent of State's Manufacturing Employment	2006 Manufacturing Labor Income [millions 2006 \$]	Percent of State's Manufacturing Labor Income
Flathead	3,928	16%	185	15%
Yellowstone	3,829	16%	298	25%
Missoula	3,051	13%	151	12%
Gallatin	2,965	12%	164	14%
Ravalli	1,289	5%	46	4%
Cascade	1,024	4%	54	4%
Lake	981	4%	31	3%
Lewis & Clark	884	4%	54	4%
Silver Bow	618	3%	32	3%
Lincoln	463	2%	14	1%
Park	461	2%	18	1%
Remaining 46 Counties	4,393	18%	162	13%
Montana	23,886	100%	1,209	100%

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula;
Bureau of Economic Analysis, U.S. Department of Commerce.

was very or somewhat important. More than 90 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.

When manufacturers were asked to rate a list of issues in terms of general importance to their business, 71 percent of respondents rated health insurance cost as very important, followed by cost of energy (65 percent), and workers’ compensation rates (62 percent). Workers’ compensation rules and availability of qualified workers were very important to just under 50 percent of respondents. □

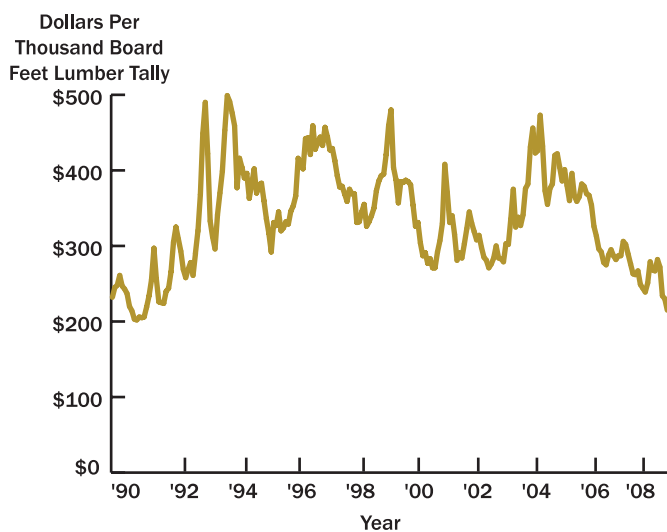
Todd A. Morgan is the Bureau’s director of forest industry research. Charles E. Keegan III is the retired director of forest industry research and a research professor. Jason Brandt is BBER’s assistant director of forest industry research.

Montana's Forest Products Industry

Current Conditions and 2009 Forecast

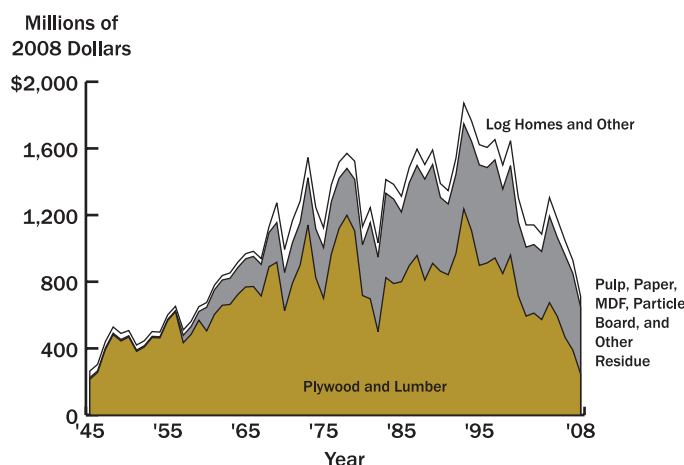
by Todd A. Morgan and Charles E. Keegan III

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2008



Source: Random Lengths Publications.

Figure 2
Sales Value of Montana's Wood and Paper Products, 1945-2008



Sources: American Plywood Association; Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

2008 Conditions

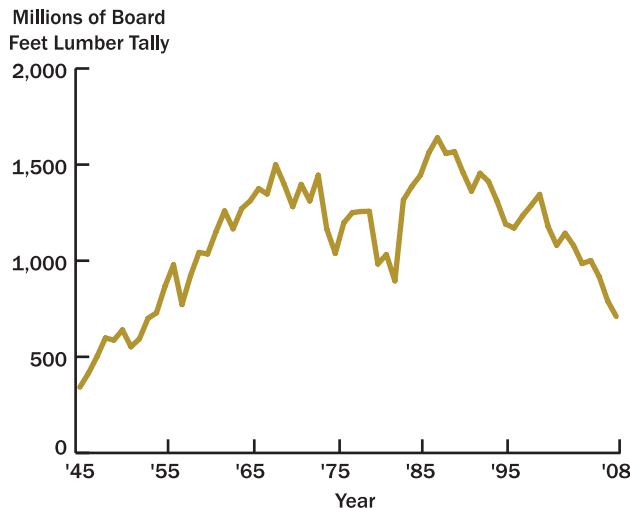
During 2008, Montana's forest products industry was negatively impacted not only by a third weak year in the U.S. housing industry but by the deepening financial crisis which has spurred a global economic downturn. Annual U.S. housing starts peaked at just over 2 million in 2005. There were 906,000 housing starts in the United States during 2008 – the lowest level in more than five decades. In response to ongoing declines in housing and generally weakening demand, lumber prices dropped about 35 percent from 2005 to 2008 (Figure 1).

Total sales value of Montana's primary wood and paper products in 2008 was estimated to be about \$710 million (fob the producing mill). Sales decreased by about \$215 million from 2007 and were about \$460 million lower than 2005 sales (Figure 2). Total wood products employment – including forestry, logging, forestry support activities, solid wood products, and paper manufacturing – was about 9,070 workers, down by about 9 percent from the revised 2007 estimate of 9,927 workers. In-state lumber production was about 684 million board feet, down approximately 13 percent from 2007, and 32 percent from the peak housing year of 2005 (Figure 3).

Partially in response to diminished demand for wood products, Montana's total timber harvest volume during 2008 was estimated to be less than 450 million board feet Scribner, down about 16 percent from 2007, and the lowest timber harvest since 1946 – when statewide harvest was below 400 million board feet (Figure 4). Timber harvest from private lands was estimated to be about 20 percent lower than 2007. The fiscal year 2008 harvest reported by national forests in Montana was up from 2007 (Figure 5) to around 100 million board feet Scribner. However, more than half the volume reported cut from national forests in Montana was classified as “fuelwood” or “non-sawlog” material. Harvest volumes from other owners, including tribal, state, and Bureau of Land Management lands, were estimated to be about 14 percent higher than in 2007 due to salvage logging activity.

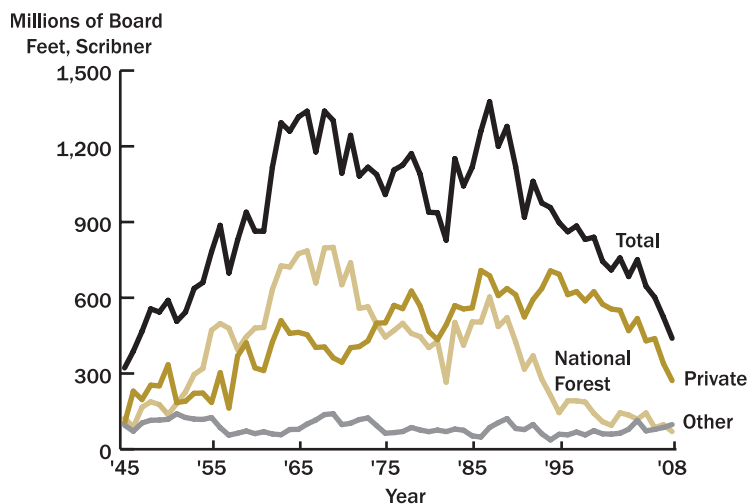
The Bureau's survey of Montana forest products industry executives indicated that 2008 was worse than expected. In late 2007, 35 percent expected 2008 conditions to be worse than 2007. About two-thirds of executives indicated that 2008 production, sales, and profits had decreased from 2007, while less than 20 percent indicated 2008 was about the same.

Figure 3
Montana Lumber Production, 1945-2008



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

Figure 4
Montana Timber Harvested by Ownership, 1945-2008



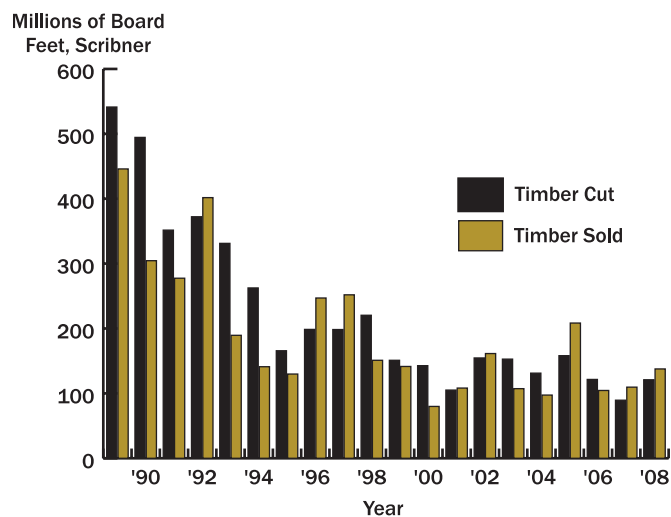
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

Outlook for 2009

Most of Montana's forest products industry executives are pessimistic about 2009. Roughly one-half of executives anticipate that production, prices for their products, and sales will be about the same in 2009 as 2008, and more than 90 percent expect 2009 to be about the same or worse than 2008. Only 26 percent expect the cost of inputs to be higher in 2009, and 55 percent indicated that raw material availability is still very important to their business despite the poor market conditions for finished products. Workers' compensation rates, health insurance costs, costs of energy, and the general economic situation were also indicated as major concerns for most of Montana's forest products industry.

Weak wood products markets and mill curtailments are expected through 2009, with housing starts for 2009 expected to be even lower than 2008 levels. Whether or not Montana's forest products industry can once again thrive depends on two key factors: its ability to ride out the current situation and local timber availability when market conditions eventually improve. Many private forest landowners are postponing timber management activities until market conditions improve and prices offered for logs increase. However, not all wood products markets move together, and local demand for timber by individual mills may still provide public and private landowners with opportunities to generate some revenue

Figure 5
Montana National Forest Timber Cut and Sold Volumes, 1989-2008



Source: USDA Forest Service Region One, Missoula, Montana.

from conducting essential fuel reduction and restoration treatments in the near-term. □

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