BUREAU OF BUSINESS AND ECONOMIC RESEARCH

Bureau of Business & Economic Research
Gallagher Business Building, Suite 231
32 Campus Drive
Missoula, MT 59812-6840

# OUTLOOK 2010

35th Annual Economic Outlook Seminar | Presented by the Bureau of Business and Economic Research


The University of Montana

# 2010 Economic Outlook Seminar

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## 2010 Seminar Agenda

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| 7:45 - 8:00 | **Coffee and Registration** |
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| 8:05 - 8:45 | **Keynote Presentation**<br>*Wendy A. Stock* |
| 8:45 - 9:15 | **National and State Outlooks**<br>*Patrick M. Barkey* |
| 9:15 - 9:30 | **Local Outlook**<br>*Paul E. Polzin* |
| 9:30 - 9:40 | **Coffee Break** |
| 9:40 - 10:00 | **Nonresident Travel**<br>*Norma P. Nickerson* |
| 10:00 - 10:20 | **Health Care**<br>*Gregg Davis* |
| 10:20 - 10:40 | **Agriculture**<br>*George Haynes* |
| 10:40 - 10:50 | **Coffee Break** |
| 10:50 - 11:10 | **Real Estate**<br>*Scott Rickard* |
| 11:10 - 11:30 | **Manufacturing & Forest Products**<br>*Todd A. Morgan* |
| 11:30 - 11:50 | **Local Chamber of Commerce Report**<br>*Local Speaker* |
| 11:50 - 12:00 | **Break** |
| Noon - 12:50 | **Luncheon Program**<br>Investment in Early Childhood Education<br>*Julie Ehlers and Daphne Herling* |
| 12:50 | **Closing Remarks** |

# Economic Recovery
## What's Ahead for Men and Women Workers?

*by Wendy A. Stock*

Predicting what is ahead for Montana's men and women workers as we move from the economic downturn and into what is expected to be a slow and subdued recovery requires us to look back on how the recession affected those workers. The recession's impact on men and women differed nationally and even generated the coining of a new term, "mancession," to describe the more negative impacts of the recession on males. Higher rates of job loss for males had the related impact of pushing the percentage of female workers in the national economy upward, to the point where data indicate that women now constitute a near majority of the nation's workforce. Recession-induced changes in family structures and educational attainment are likely to have long-lasting impacts. The recession's impacts on men and women in Montana have matched some, but not all, of the national trends.

## Unemployment

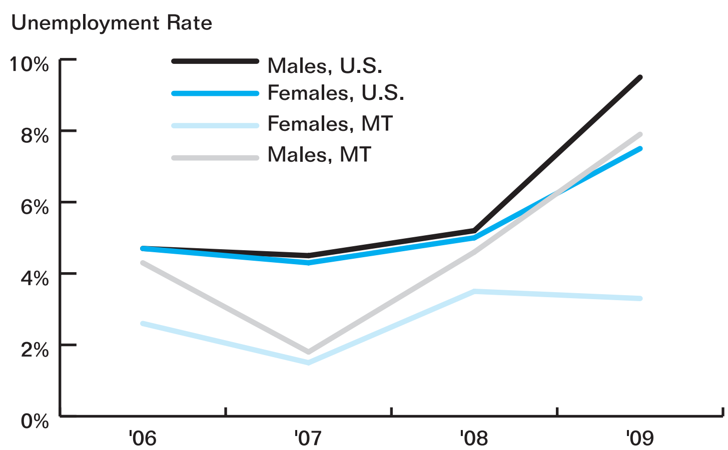
As shown in Figure 1, in 2006 the national unemployment rate was at 4.7 percent for both men and women. It diverged only slightly in March 2008 (to 5.2 for men and 5.0 for women) and then rose dramatically afterward, but much more so for men than for women. By March 2009, the national unemployment rate for men was 9.5 percent compared to 7.5 percent for women. Thus, the nation saw the unemployment rate gap between males and females move from essentially zero at the start of the recession to more than 2 percentage points by 2009. Roughly 1.7 million more men than women entered the ranks of the unemployed between March 2008 and March 2009.

Although much has been made about this male/female unemployment rate gap during the past 18 months, larger increases in male unemployment than female unemployment are not uncommon during recessions. Indeed, during the most recent recessions of 1990-91 and 2001, the male/female unemployment gap was roughly 1 to 2 percentage points – similar to what we have seen during the present recession. These gaps tend to close during economic recovery periods.

The male and female unemployment rates for Montanans show a different pattern than the national data. The unemployment rate for males rose from a low of about 2 percent in 2007 to 4 percent in 2008 and roughly 8 percent in March 2009. The female unemployment rate was similar to that of males in 2007, at roughly 2 percent. It rose to near 4 percent in 2008, but then leveled off. These trends generated an unemployment rate gap between males and females in Montana of about 4.5 percentage points – double the national unemployment gap. By this measure at least, the larger negative impacts of the recession on males relative to females were worse in Montana than in the United States more broadly. Although male/female unemployment gaps tend to narrow during expansions, the larger gaps in Montana have not narrowed as systematically as at the national level.

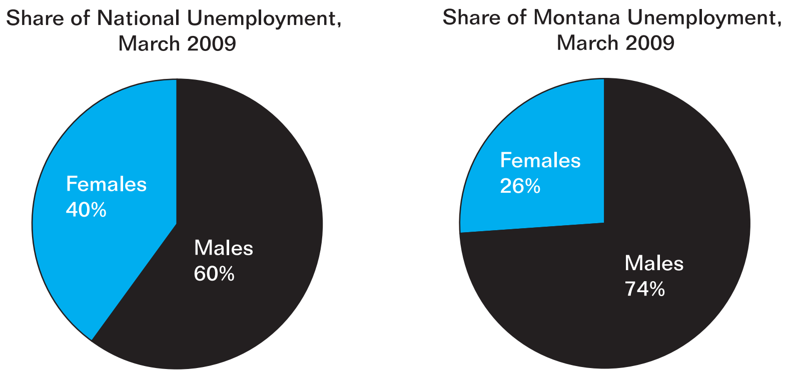
Figure 2 further illustrates the more negative relative impact of the recession on males in Montana than in the United States. Although males made up 60 percent of the nation's

**Figure 1**
**Male and Female Unemployment Rates**




**Source: U.S. Bureau of Labor Statistics seasonally adjusted figures for national unemployment rates and author's computations from March Current Population Survey, U.S. Bureau of Labor Statistics, for Montana figures.**

**Figure 2**
**Shares of Unemployment, United States and Montana, March 2009**



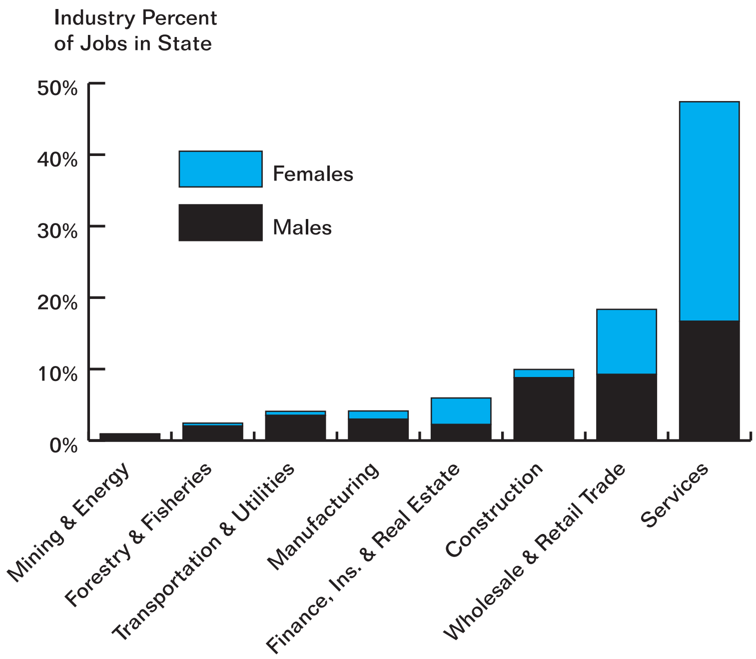

**Source: U.S. Bureau of Labor Statistics seasonally adjusted figures for national unemployment rates and author's computations from March Current Population Survey, U.S. Bureau of Labor Statistics, for Montana figures.**

unemployed in 2009, in Montana they accounted for roughly 75 percent of the unemployed.

Explanations for the larger impact of the recession on Montana males than females come largely from differential changes in employment among industries and occupations where males versus females tend to work. Figure 3 shows the industrial distribution of nonagricultural employment in Montana, as well as the share of males and females in these industries. Males account for over 80 percent of the workers in the mining and energy, construction, forestry and fisheries, and transportation and utilities industries in the state. Females are more prevalent in the services and finance, insurance, and real estate sectors. As shown in Figure 4, the male-dominated industries – particularly construction and transportation and utilities – saw much larger drops in employment during the 2007-2009 period than did the predominately female services and finance, insurance, and real estate sectors.

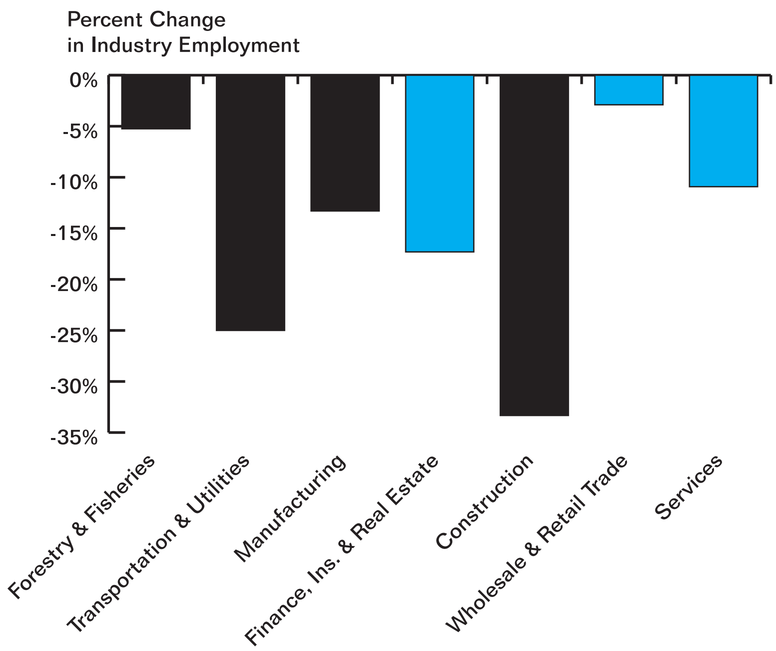
A similar result holds if we examine employment by occupation rather than industry. The public service, technical services, and laborer occupations, which are more than 80 percent male, saw much larger employment declines than the clerical and support occupations, which are more than 80

**Figure 3**
**Male-Female Employment In Montana by Industry, 2005-2009**




**Source: Author's computations from March Current Population Survey data from the U.S. Bureau of Labor Statistics. Percentages exclude agriculture. Data are averaged over 2005-2009.**

**Figure 4**
**Montana Industry Employment Changes, 2008-2009**




**Source: Author's computations from March Current Population Survey data from the U.S. Bureau of Labor Statistics. Percentages exclude agriculture. Small sample size for mining and energy precludes reporting changes for this period.**

percent female. In addition, the personal services and health-related occupations (which are just under 80 percent female) saw employment gains during 2008-2009.

## Women Closer to Majority of Workforce Nationally

The higher rates of job loss among males than females generated another trend nationally that does not appear to be matched in Montana: Women moved closer to becoming the majority of the nation's workers. As shown in Figure 5, between March 2008 and March 2009, the male percentage of the workforce fell from its steady rate of 53 percent for several years to 52 percent. Correspondingly, the percentage of the nation's workers who are female rose from 47 percent to 48 percent.

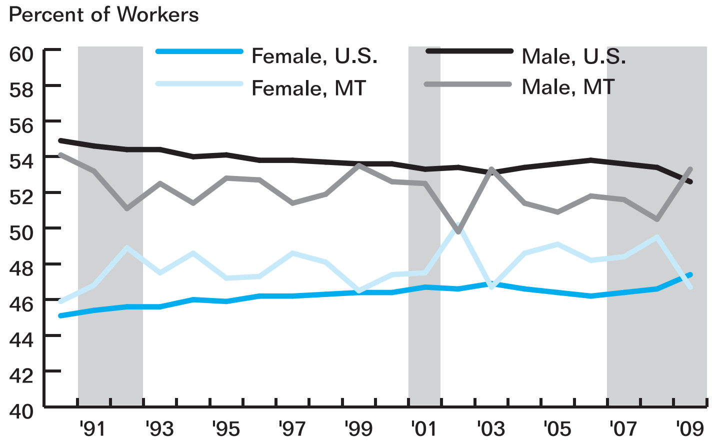
Similar estimates for Montana show that the recession has come with a divergence rather than a convergence in the male/female percentages of the workforce. The percentage of workers in Montana who are women increased – similar to the national trend – throughout 2007-2008. Between 2008 and 2009, however, the percent of Montana's workers who are women fell to roughly 46.5 percent. The decline in women's representation in the state's workforce arises because women are exiting the labor force altogether at larger rates in Montana than nationally. Those exiting the labor force are disproportionately women from lower-income households and women with young children, groups particularly sensitive to the declines in wages or hours that accompany economic downturns.

## Changes in Family Structure and Educational Attainment

Although entry into marriage tends to fall during recessions and the rate of divorce rises during economic contractions, these impacts are smaller than headlines in the popular press tend to imply.[1] Evidence does indicate that women tend to delay pregnancy during recessions. Data from the Guttmacher Institute indicate that 44 percent of sampled women report that they want to reduce or delay their childbearing because of the economy. This impact is larger among families with lower household incomes and in worse economic situations (such as unemployment).[2]

One positive outcome of the recession is record college enrollment, both nationally and in Montana. Enrollment at institutions in the Montana University System rose by 2.3 percent between 2008 and 2009 (to 36,375 full-time equivalent students), particularly at Montana's community colleges and colleges of technology.[3] This reflects national trends, where enrollment of 18-24-year-olds at two-year colleges rose by roughly 300,000 students between October 2007 and 2008. This does not appear to be the result of a large influx of older students entering college after layoff. Indeed, the percentage of U.S. college students who are either 25-35 or 35 and older has been stable at roughly 20 percent for each group since 1990.[4]

**Figure 5**
**Male and Female Percentages of Workers**




**Source: Author's computations from March Current Population Survey from the U.S. Bureau of Labor Statistics. Shaded areas represent recession periods.**

## What's Ahead for Men and Women Workers?

Like the recession, the economic recovery will likely have different impacts on men and women in Montana. Bright spots include the public services, education, and health care sectors, which fared well during the downturn and are likely to grow during the recovery and in response to the American Recovery and Reinvestment Act. This translates into better news for women, since they make up larger portions of the health care and education sectors. Growth in the construction, forestry, transportation, and manufacturing sectors is likely to be slower, since slack in the housing and related markets will slow down recovery in those areas. Because men are dominant in these sectors, a broad economic recovery will likely be slower for them.

## References

[1]See, for example, "Divorce During Recession," *Forbes*, 7/7/2008, "Will the Market Kill Your Marriage?" *Time*, 10/23/2008, James White, (1990) "Discrete Time Models of Entry into Marriage Based on Retrospective Marital Histories of Young Adults in the United States and the Federal Republic of Germany." SIPP Working Paper Series No. 9035/140 and Scott J. South (1985) "Economic Conditions and the Divorce Rate: A Time-Series Analysis of the Postwar United States," *Journal of Marriage and Family*, 47(1) (February): pp. 31-41.

[2]Guttmacher Institute, "A Real Time Look at the Impact of the Recession on Women's Family Planning and Pregnancy Decisions," http://www.guttmacher.org/media/nr/2009/09/23/index.html.

[3]Montana University System, "Annual Average Full-Time Equivalent Enrollment." http://mus.edu/data/enrollment/Summary%20Enrollment%20Report%20(FY99-FY09).pdf.

[4]Richard Fry, Pew Research Center, "College Enrollment Hits All-Time High, Fueled by Community College Surge." October 29, 2009. http://pewsocialtrends.org/pubs/747/.

# U.S. Economic Recovery
## Slow Getting Started

*by Patrick M. Barkey and Paul E. Polzin*

The deepest recession in several generations is finally over, but the hangover remains. Growth has begun slowly in the national economy, with a very modest uptick in housing and industrial output providing the spark. Expansion will be helped by exports and the weak dollar, but will be held in check by weak consumer spending and tighter credit. Stronger growth is not foreseen until 2011, and until then the economy remains in a fragile state.

## Top Ten Economic Predictions for 2010 (Courtesy of IHS Global Insight, Inc.)

1. The U.S. recovery will get out of the gate slowly, with growth in real GDP stuck in the 2.0 to 2.5 percent range for much of 2010.
2. Europe and Japan will rebound more slowly than the United States, especially eastern Europe, Ireland, Spain, and Iceland, which may continue to contract through part of the year. Growth in the European Union will be around 0.8 percent in 2010.
3. Most emerging markets – especially in Asia – will outpace the developed economies. Non-Japan Asia will be at the forefront, with growth of 7.1 percent in GDP, with Latin American and Middle East economies also enjoying faster growth.
4. Interest rates in all of the major economies will remain very low.
5. Fiscal stimulus will begin to ease. Estimates are that $561 billion of the $787 billion stimulus package passed in spring 2009 will be expended during the first two calendar years.
6. Commodity price increases will ease. The slow pace of worldwide recovery will deflate some of the speculative pressure that has helped increase commodity prices, with oil prices expected to fall back to the $65/barrel range by the spring.
7. Inflation will (mostly) not be a problem, with high unemployment rates and excess capacity reducing the price-setting power of workers and companies. Inflation will only be an issue in Asian economies and a few other countries that tie their currencies to the dollar.
8. After improving for a while, global imbalances will worsen again. The trade deficit, which plunged by $450 billion in 2009, will widen again by $90 billion in 2010 as export-led economies like Germany and China once again increase exports to the United States.
9. While the dollar may strengthen a little, it is on a downward glide path. The dollar will be mixed against the euro and the yen, but will weaken significantly against emerging market currencies.
10. The risk of a growth slowdown – a “W” recovery – remains uncomfortably high. There is a one in five chance of a double-dip downturn, possibly triggered by premature tightening of fiscal and/or monetary policies, a retrenchment of consumer spending, or by new surprises in financial markets.

**Table 1**
**Economic Trends for the U.S. Economy, 2004-2013**
**Actual and Projected as of December 2009**

| | Actual | | | | | Projected | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Real GDP (chained $), percent change | 3.6 | 3.1 | 2.7 | 2.1 | 0.4 | -2.5 | 2.2 | 2.9 | 3.8 | 3.1 |
| Inflation (CPI-U), percent change | 2.7 | 3.4 | 3.2 | 2.9 | 3.8 | -0.3 | 1.7 | 2.0 | 1.9 | 1.9 |
| Interest Rates | | | | | | | | | | |
| 90-day T-bills, percent | 1.4 | 3.1 | 4.7 | 4.4 | 1.4 | 0.1 | 0.5 | 2.1 | 3.4 | 3.7 |
| Morgage rates (30 years), percent | 5.8 | 5.9 | 6.4 | 6.3 | 6.0 | 5.0 | 5.1 | 5.5 | 6.1 | 6.4 |
| Housing starts, millions | 1.95 | 2.07 | 1.81 | 1.34 | 0.90 | 0.56 | 0.81 | 1.24 | 1.59 | 1.71 |
| Unemployment rate, percent | 5.5 | 5.1 | 4.6 | 4.6 | 5.8 | 9.3 | 10.2 | 9.6 | 8.6 | 7.7 |
| Oil, West Texas Intermediate ($/barrel) | 41.47 | 56.56 | 66.12 | 72.18 | 99.76 | 61.98 | 68.25 | 77.17 | 83.16 | 87.02 |

Source: IHS Global Insight Inc.

# The Montana Outlook

## The Transition to Growth

*by Patrick M. Barkey*

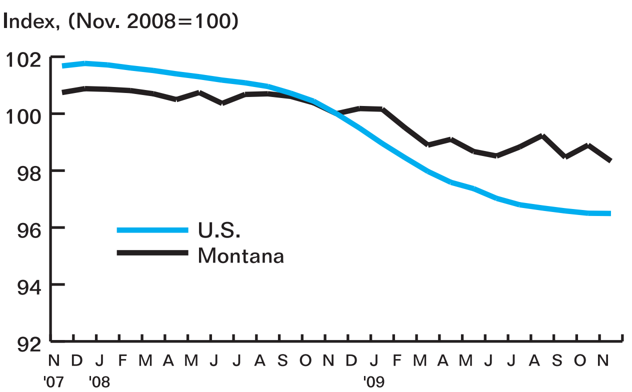
The recession tightened its grip on Montana's economy in 2009, producing the first back-to-back declines in consecutive years in real nonfarm labor earnings since 1986. What began as downturns in construction and wood products industries in 2008 spread out into nearly every segment of the economy in 2009, as well as into every corner of the state.

It was a year that saw the global recession arrive at the doorstep of almost every sector of the state's economy. In the first half of 2009:

- Construction continued to see double-digit declines in earnings, led by big dips in building construction;
- Montana's transportation industries continued to be hurt by declines in goods shipments, with earnings in transportation and warehousing industries down by 4 to 5 percent;
- Once fast-growing Flathead and Gallatin counties saw sharp declines in wage income due to steep cutbacks in construction and (for Flathead) forest products industry employment. The more modest declines in Missoula and Yellowstone counties were closer to the state average.
- Most employment and earnings declines tapered off in their severity as we moved toward the summer.

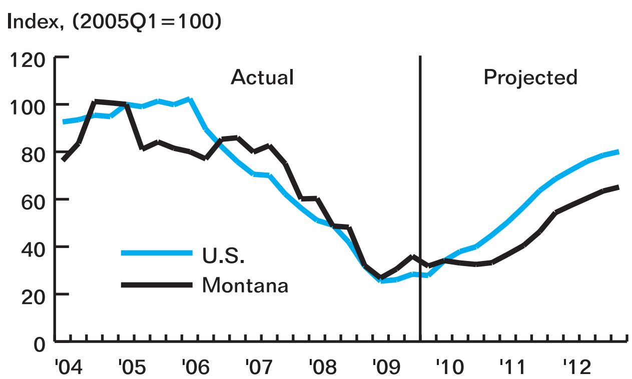
We expect to see some recovery overall in the state economy in 2010 as consumer spending in the national economy stabilizes and markets for Montana's products begin to improve. Job growth will be slow, and the unemployment rate is expected to remain high through 2010. The closure of Smurfit-Stone in 2010 represents another challenge to growth.

**Figure 1**
**Nonfarm Wage and Salary Employment, Montana and U.S.**



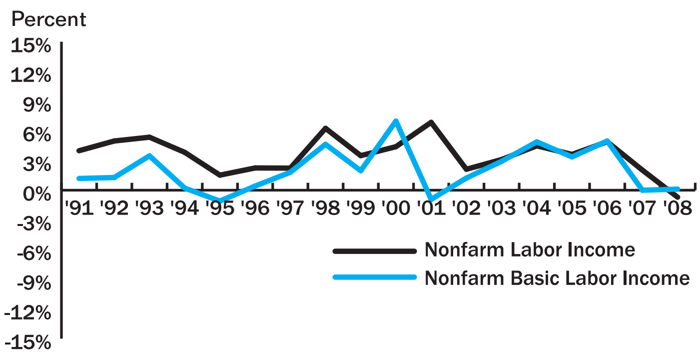

Sources: U.S. Bureau of Labor Statistics and Montana Department of Labor and Industry.

**Figure 2**
**Residential Housing Starts, Montana and U.S. 2004 Q1 to 2012 Q1**



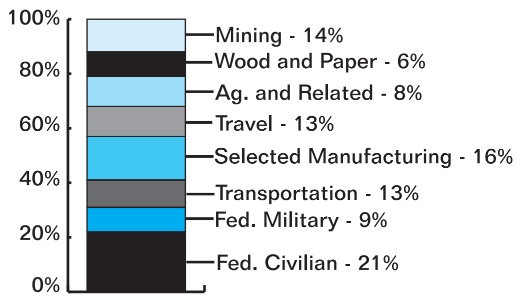

Source: U.S. Bureau of the Census and IHS Global Insight, Inc.

**Figure 3**
**Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, 1971-2008, (In Constant Dollars)**



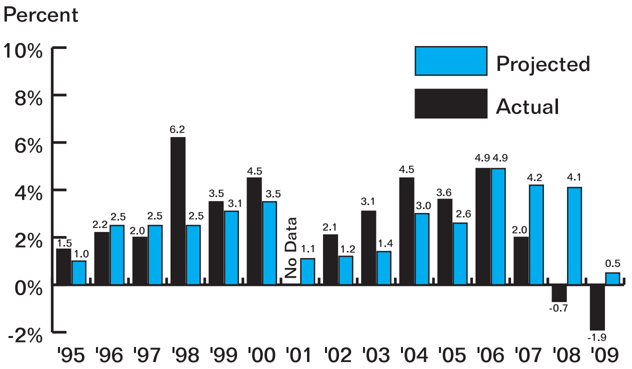

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 4**
**Labor Income in Basic Industries, Montana, 2007-2009 (Percent of Total)**



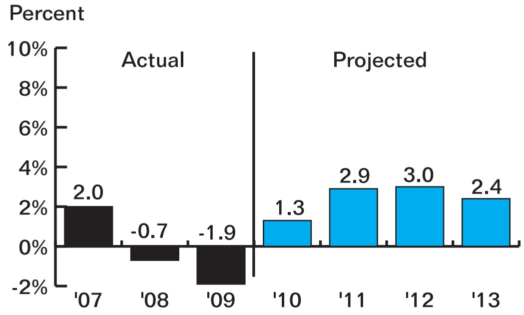

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Figure 5
## Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1995-2009




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

## Figure 6
## Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 2007-2013




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

The biggest risk to the forecast is a "double-dip" recession in the national economy. This risk is particularly high if monetary authorities decide to tighten the economy too early. There is also a significant risk that U.S. job losses and high savings rates will keep consumer spending weak and leave the economy stagnant for a prolonged period.

## Table 3
## Index of Single-Family Home Prices, Annual Percent Change

| | Missoula County | Cascade County | Yellowstone County | MT | US |
|---|---|---|---|---|---|
| 2008Q3 - 2009Q3 | -0.2 | 0.7 | 0.9 | 4.5 | -4.2 |
| 2007Q3 - 2008Q3 | -0.7 | 3.1 | 2.0 | 0.9 | -6.0 |
| 2006Q3 - 2007Q3 | 4.1 | 4.7 | 7.3 | 5.6 | 1.1 |

Sources: U.S. Office of Federal Oversight.

## Table 4
## Population, Montana and Regions, 1990-2010

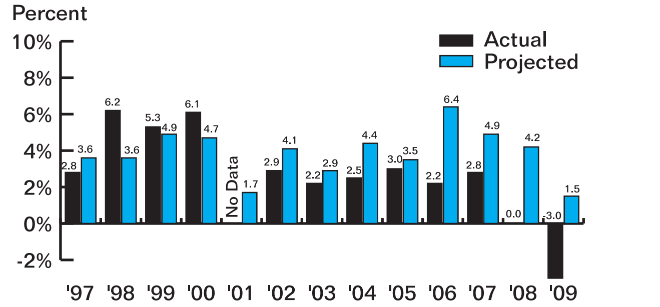
| | Thousands of Persons | | | | Average Annual Percent Change | | |
|---|---|---|---|---|---|---|---|
| | Actual | | | Projected | | | |
| | 1990 | 2000 | 2008 | 2010 | 1990-2000 | 2000-2008 | 2008-2010 |
| **Montana** | 800 | 902 | 967 | 980 | 1.2% | 0.9% | 0.7% |
| **West** | 335 | 400 | 434 | 450 | 1.8% | 1% | 1.8% |
| Missoula | 79 | 95 | 107 | 110 | 1.9% | 1.5% | 1.4% |
| Flathead | 60 | 75 | 88 | 91 | 2.3% | 2% | 1.7% |
| Silver Bow | 34 | 35 | 33 | 34 | 0.3% | -0.7% | 1.5% |
| Lewis and Clark | 48 | 56 | 61 | 61 | 1.5% | 1.1% | 0.0% |
| Ravalli | 25 | 36 | 41 | 43 | 3.7% | 1.6% | 2.4% |
| Rest of West | 89 | 103 | 104 | 111 | 1.5% | 0.1% | 3.3% |
| **North-Central** | 181 | 183 | 183 | 184 | 0.1% | 0.0% | 0.3% |
| Cascade | 78 | 80 | 82 | 82 | 0.3% | 0.3% | 0.0% |
| Hill | 18 | 17 | 16 | 16 | -0.6% | -0.8% | 0.0% |
| Fergus | 12 | 12 | 11 | 11 | 0.0% | -1.1% | 0.0% |
| Rest of North-Central | 73 | 74 | 74 | 75 | 0.1% | 0.0% | 0.7% |
| **Southeast** | 284 | 319 | 350 | 346 | 1.2% | 1.2% | -0.6% |
| Yellowstone | 114 | 128 | 142 | 146 | 1.2% | 1.3% | 1.4% |
| Gallatin | 51 | 68 | 90 | 93 | 2.9% | 3.6% | 1.7% |
| Richland | 11 | 10 | 9 | 9 | -0.9% | -1.3% | 0.0% |
| Custer | 12 | 12 | 11 | 11 | 0.0% | -1.1% | 0.0% |
| Rest of Southeast | 96 | 101 | 98 | 87 | 0.5% | -0.4% | -5.8% |

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

# Missoula County

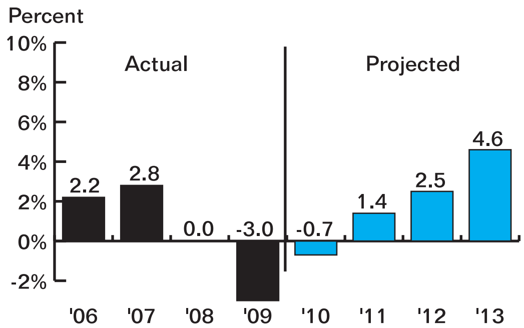
Missoula was the first community in Montana to feel the impact of the recession, and it is likely to last longer in Missoula than elsewhere. The recent announcement that Smurfit-Stone would close its mill on December 31, 2009, was just the latest shock to the Missoula economy. The first piece of bad news was the shutdown of the Stimson plywood plant in 2007. This was followed in 2008 by the further closing of the Stimson sawmill, combined with cutbacks in transportation and declines in retail trade and services. The projected -0.7 percent decline in 2010 may well be too optimistic. The three straight years of no growth or declines (2008 to 2010) is Missoula's worst economic performance since the early 1980s. The bad news was not solely due to the recession. As shown in Figure 3, the Missoula economy was lagging behind the rest of the state since mid-2004. It will be at least mid-2011 before Missoula's real nonfarm labor income (an overall measure of the economy) regains its 2007 peak.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 1997-2009



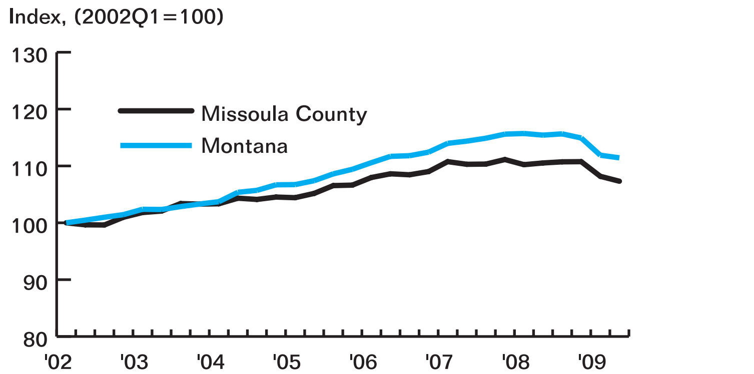

**Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.**

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 2006-2013



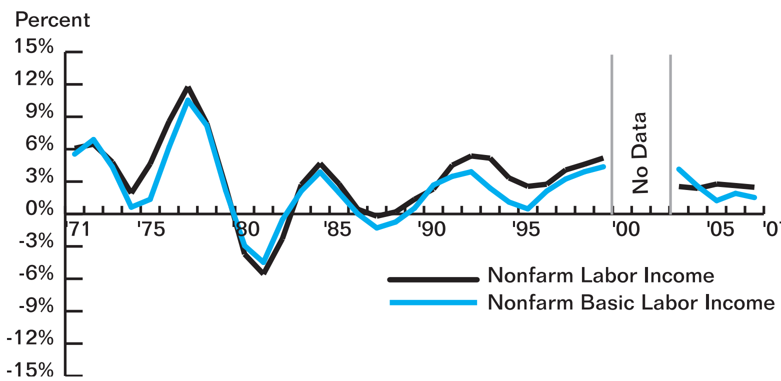

**Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.**

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Missoula County, 2002 Q1 to 2009 Q2



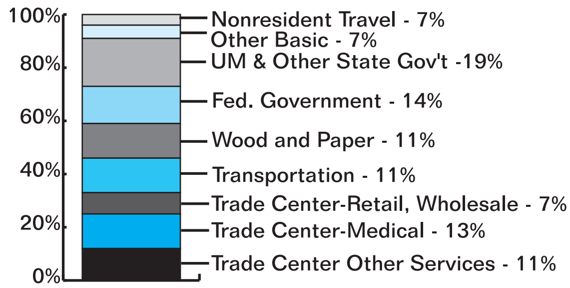

**Note: Data seasonally adjusted by BBER.**
**Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.**

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Missoula County, Percent Change, 1971-2007 (In Constant Dollars)




**Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.**
**Source: Bureau of Economic Analysis, U.S. Department of Commerce.**

### Figure 5
### Labor Income in Basic Industries, Missoula County, 2007-2009 (Percent of Total)

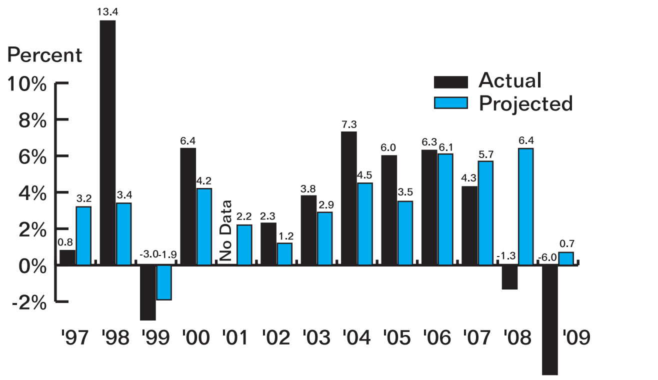



**Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.**

## Flathead County

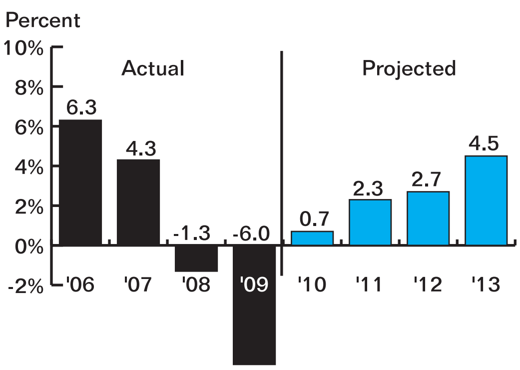
The Flathead economy is the epicenter of the recession in Montana. Preliminary data show that Flathead County employment had dropped by almost 9 percent by mid-2009, the greatest decrease of any of the major urban areas in Montana. The bad news began in early-2008 with the collapse of the high-flying construction and real estate industries. Then there were a seemingly endless series of cutbacks, shift reductions, and nearby shutdowns in the wood products industry. The national economy took its toll on the nonresident travel industry and manufacturing. Finally, there was the shutdown of the Columbia Falls Aluminum Company. On the positive side, the evolution of Kalispell into a regional trade and service center continues to be one of the growing sectors of the economic base. It will be at least mid-2013 before real nonfarm labor income (an overall measure of the economy) in Flathead County regains its 2007 peak. It will take even longer for employment to regain its pre-recession levels.

**Figure 1**
**Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 1997-2009**



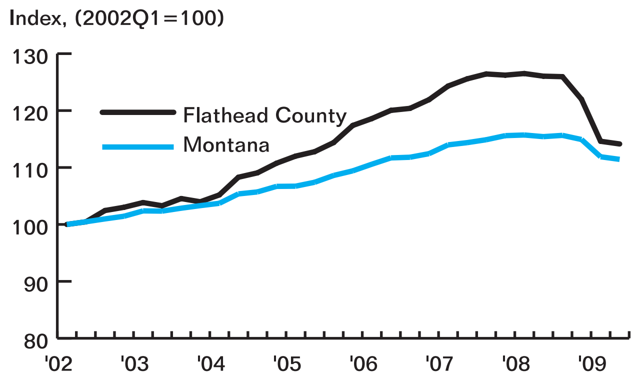

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 2**
**Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 2006-2013**



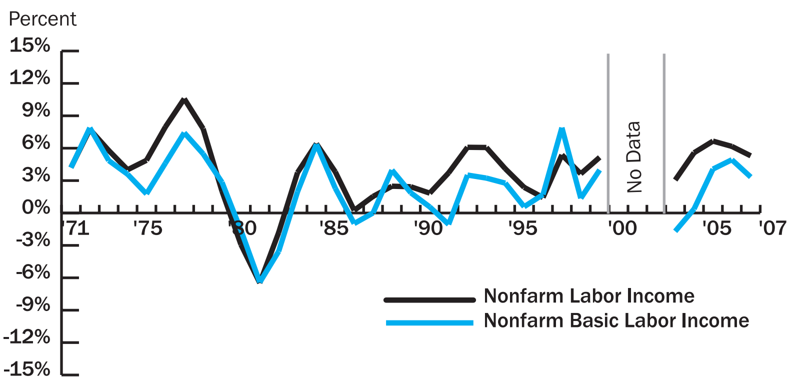

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 3**
**Nonfarm Wage and Salary Employment, Montana & Flathead County, 2002 Q1 to 2009 Q2**



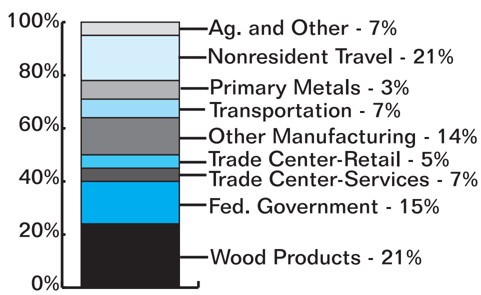

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

**Figure 4**
**Nonfarm Labor Income and Nonfarm Basic Labor Income, Flathead County, Percent Change, 1971-2007 (In Constant Dollars)**




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 5**
**Labor Income in Basic Industries, Flathead County, 2007-2009 (Percent of Total)**

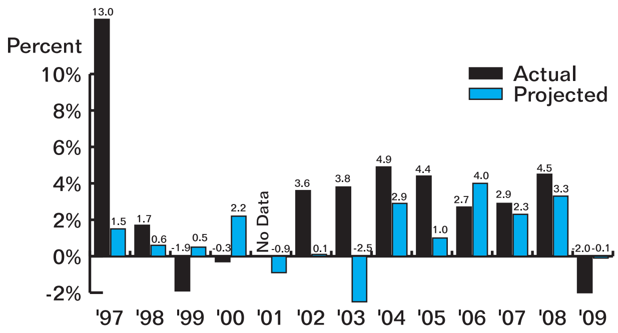



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Butte-Silver Bow County

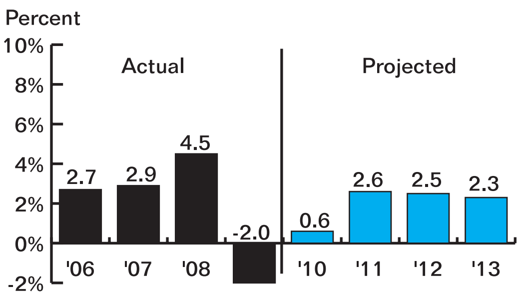
The continued worldwide energy/commodity boom appeared at first to insulate the Butte economy from the current recession. The 4.5 percent growth in 2008 was the highest among Montana's major urban areas. The figures for late-2008 indicated a distinct softening, and the preliminary data for 2009 show an overall decline. The final numbers are not yet in, but there appears to have been declines in mining, transportation (mostly trucking), real estate, construction, and retail trade. Our forecast assumes that the Montana Resources mine remains open and operating at about current levels, but that employee bonuses reflect changes in the price of copper. The trade center components of Butte's economic base (retail trade and services) continue to grow, reflecting the city's development as a regional trade and service center.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 1997-2009



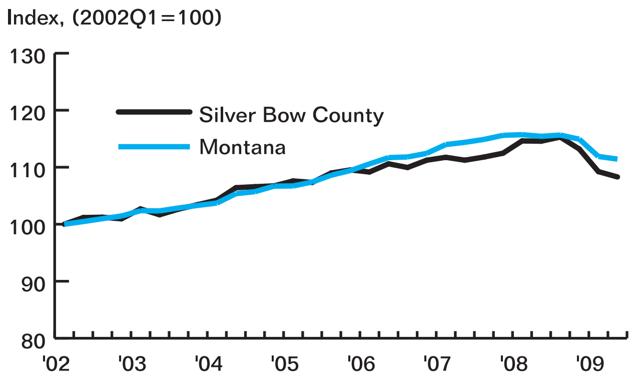

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 2006-2013



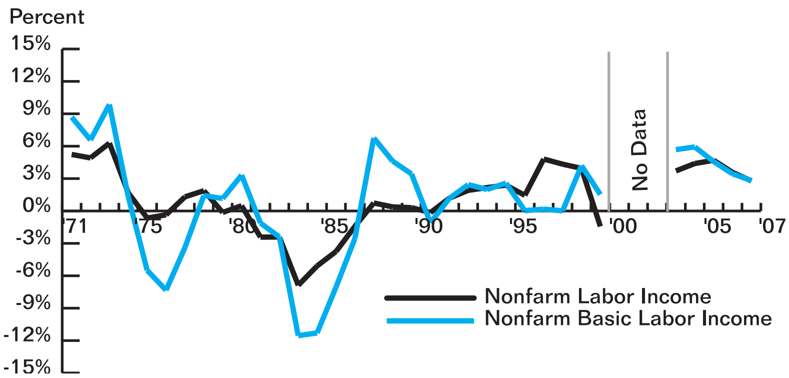

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Silver Bow County, 2002 Q1 to 2009 Q2



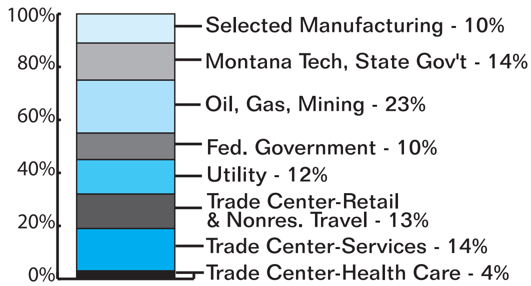

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Silver Bow County, Percent Change, 1971-2007 (In Constant Dollars)




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Silver Bow County, 2007-2009 (Percent of Total)

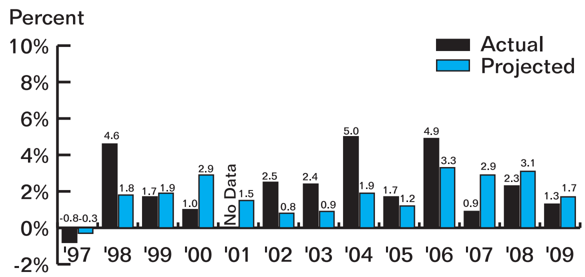



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Cascade County

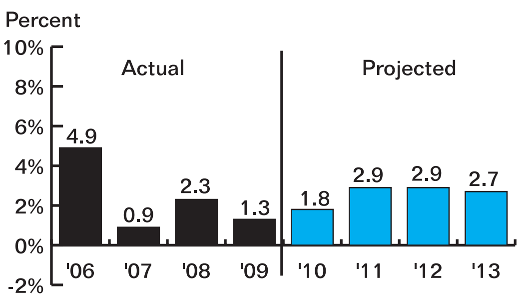
Not even the Great Falls economy will completely escape the current recession. Preliminary 2009 data show weakness in construction, real estate, retail trade, wholesale trade, and transportation (mostly trucking). The 1.3 percent growth for 2009 shown in Figure 2 may be too optimistic. Malmstrom Air Force Base (including both civilian and military workers) accounts for almost one-half of the economic base in Cascade County, and stable or slightly increasing staffing levels lend stability to the local economy. Great Falls continues as the dominant medical center in north central Montana, but recent growth has been moderate. The rapid growth during 2003-2006 was mostly due post-Sept. 11 build up of federal and civilian employment and is not likely to be repeated.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 1997-2009



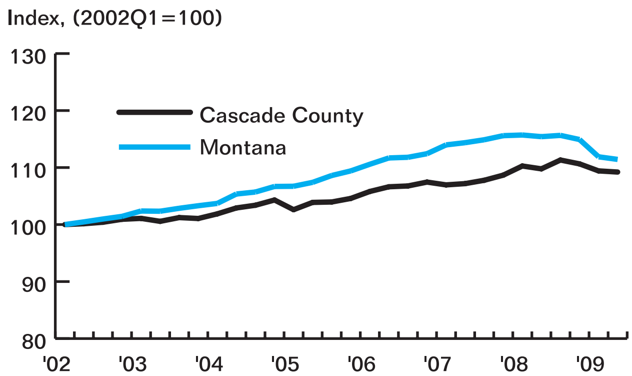

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 2006-2013



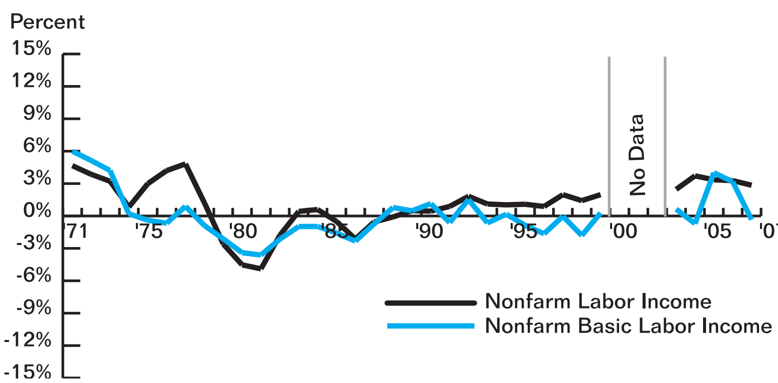

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Cascade County, 2002 Q1 to 2009 Q2



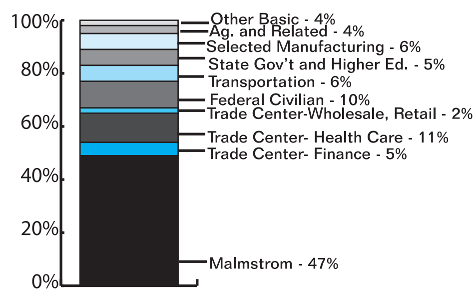

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Cascade County, Percent Change, 1971-2007 (In Constant Dollars)




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Cascade County, 2007-2009 (Percent of Total)

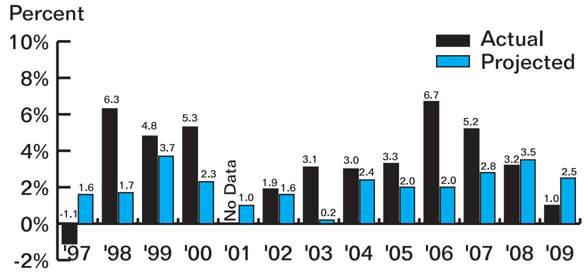



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Lewis and Clark County

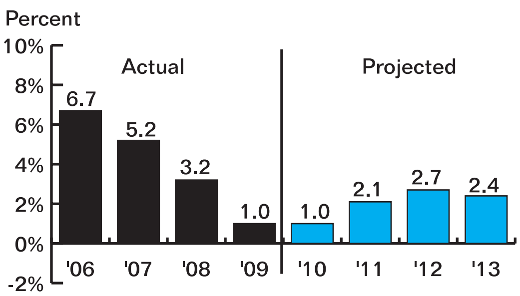
The Helena economy will not totally escape the impacts of the current recession despite it being a "recession proof" government town. The preliminary 2009 data show significant weakness in real estate, construction, and retail trade. Overall, growth in 2009 will be slightly positive. State and federal government workers account for more than 65 percent of the economic base in Lewis and Clark County, and government employment is traditionally less cyclic. The major recession impact will be a state government pay freeze, which will reduce growth rates in 2009, 2010, and 2011. If past trends repeat, there may be accelerated growth in 2012 and later as "catch-up" raises are approved.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 1997-2009



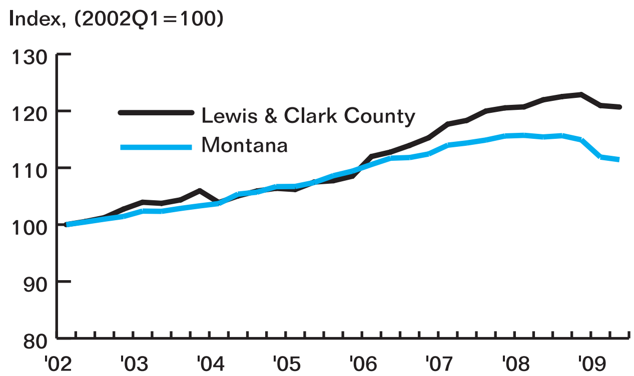

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 2006-2013



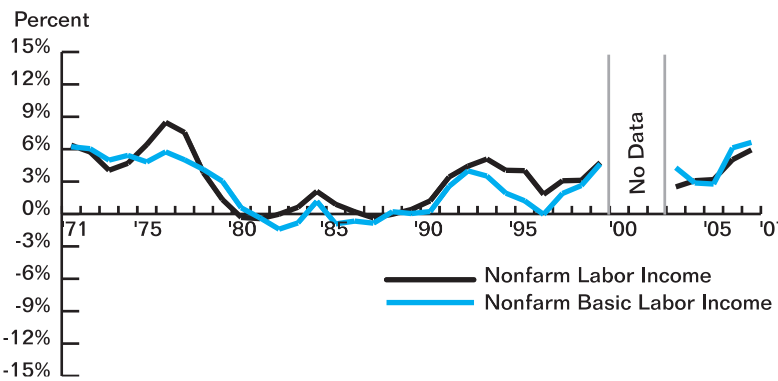

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Lewis & Clark County, 2002 Q1 to 2009 Q2



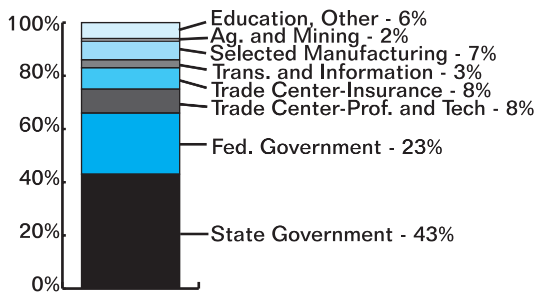

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Lewis & Clark County, Percent Change, 1971-2007 (In Constant Dollars)




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Lewis & Clark County, 2007-2009 (Percent of Total)

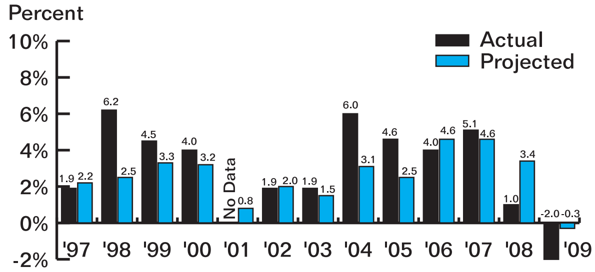



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

# Yellowstone County

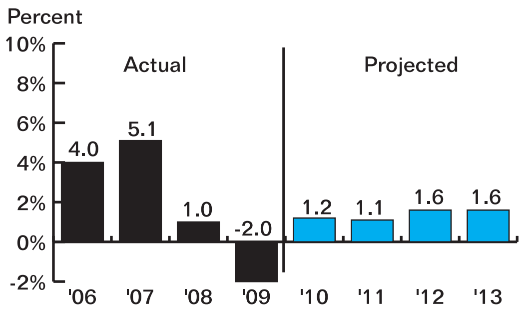
The energy/natural resources freefall that appeared imminent last year luckily failed to materialize. Even so, the Billings economy did not escape recession impacts. Real estate and construction began to nosedive in mid-2008, and the downward slide accelerated in 2009. During early 2009, declines also appeared in retail trade, wholesale trade (including farm implements), finance, transportation, warehousing, and certain sectors of manufacturing. So far, employment and earnings in the vital oil refining sector remains stable or even slightly increasing. The slow rates of growth forecast for 2010 and later reflect continued weak conditions in construction and real estate plus increased competition from retail and service establishments in second-order trade centers such as Bozeman and Miles City.

**Figure 1**
**Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 1997-2009**



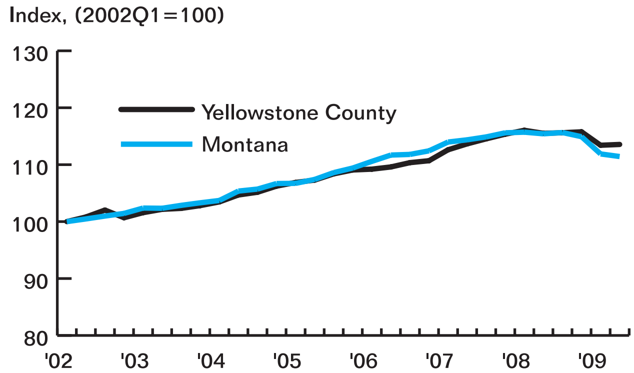

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 2**
**Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 2006-2013**



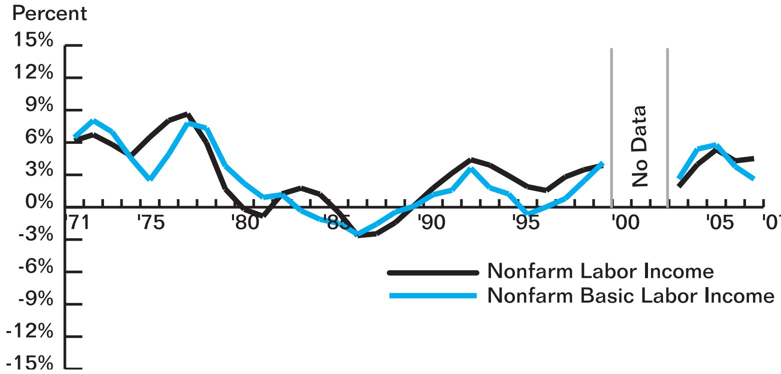

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 3**
**Nonfarm Wage and Salary Employment, Montana & Yellowstone County, 2002 Q1 to 2009 Q2**



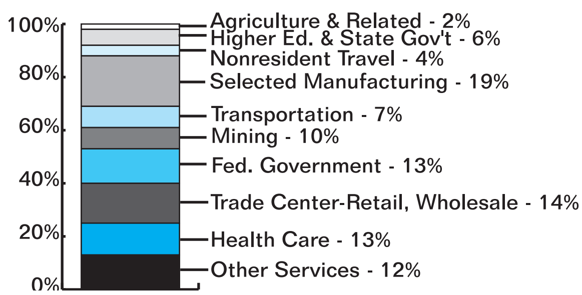

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

**Figure 4**
**Nonfarm Labor Income and Nonfarm Basic Labor Income, Yellowstone County, Percent Change, 1971-2007 (In Constant Dollars)**




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 5**
**Labor Income in Basic Industries, Yellowstone County, 2007-2009 (Percent of Total)**

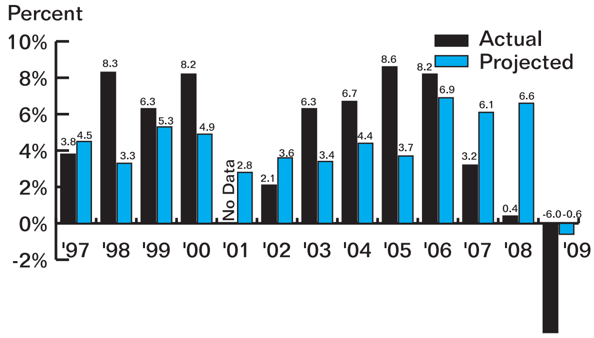



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Gallatin County

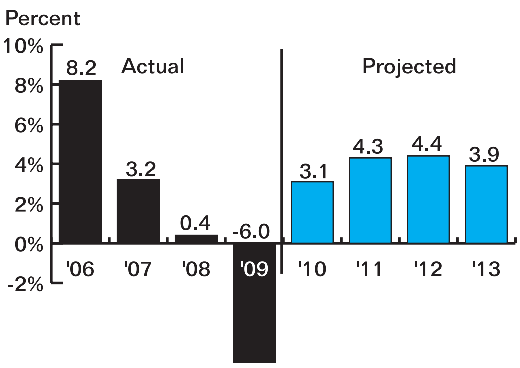
The housing/real estate bubble was the biggest in Gallatin County. The corresponding bust was particularly stark. By mid-2009, construction employment was down 30 percent (or more than 1,600 jobs) from mid-2008 levels, which themselves were 15 percent below the corresponding 2007 figures. Adding to the "bubble" impacts, there were sizable declines in retail trade, transportation, and business services in early 2009. Finally, the national recession impacted nonresident travel. The 6.0 percent decline in 2009 in Gallatin County matches the decrease posted by Flathead County. On the bright side, manufacturing employment has been only modestly impacted. Montana State University, other state agencies, and the federal government account for about 40 percent of the economic base and contribute stability to the local economy. Growth is projected to return in 2010 and later, but the growth rates will be far below those posted from 2003 to 2007.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 1997-2009



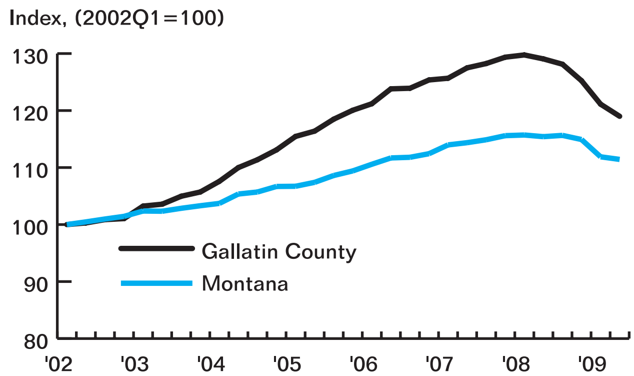

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 2006-2013



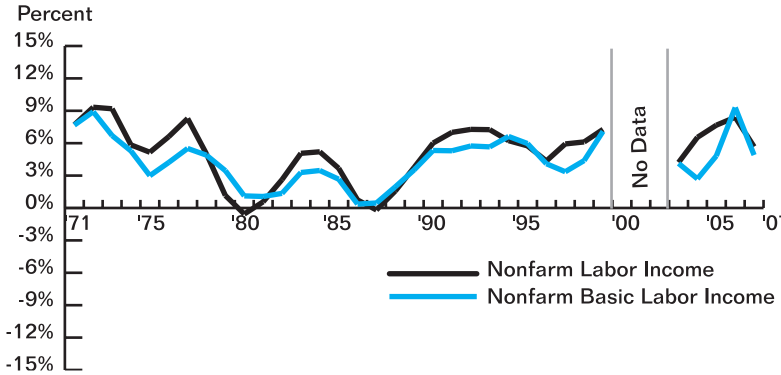

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Gallatin County, 2002 Q1 to 2009 Q2



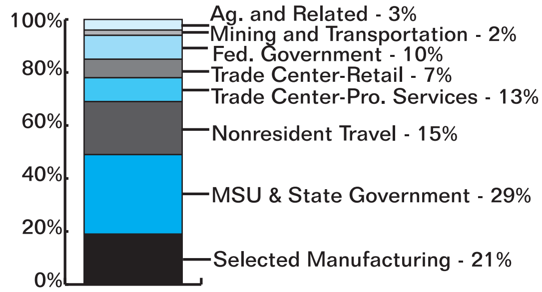

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Gallatin County, Percent Change, 1971-2007 (In Constant Dollars)




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Gallatin County, 2007-2009 (Percent of Total)

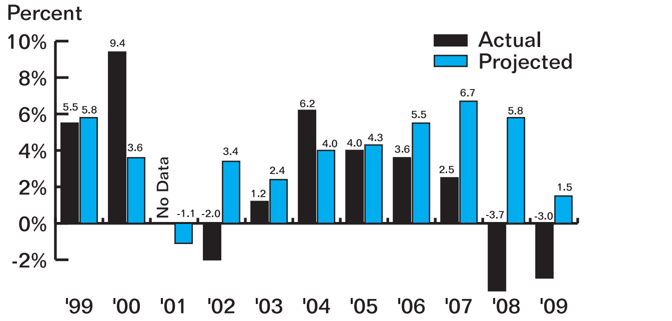



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

## Ravalli County

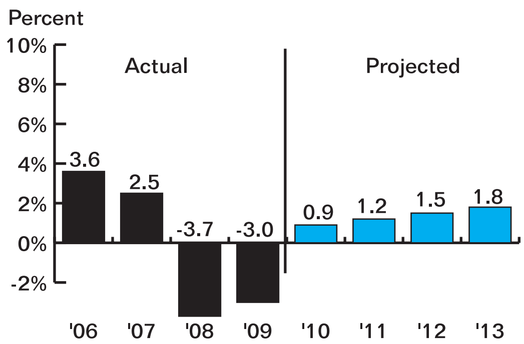
The real estate and construction bubble was not as prominent in Ravalli County as in Gallatin and Flathead counties. Nevertheless, when it burst it was with a bang. Nonfarm labor income turned negative in 2008, and the preliminary data suggest the declines continued in 2009. By mid-2009, Ravalli County construction employment was down by 40 percent (or more than 400 workers) from its peak in 2006 and 2007. In addition, the doldrums in the U.S. housing market significantly impacted the local wood products industry, especially the log home manufacturers who were producing for the high-end market. 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. The slight positive growth forecast for 2010 may be too optimistic. The one bright spot is that Hamilton continues to evolve into a regional trade and service center, with the presence of major retailers and growth in selected services.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 1999-2009



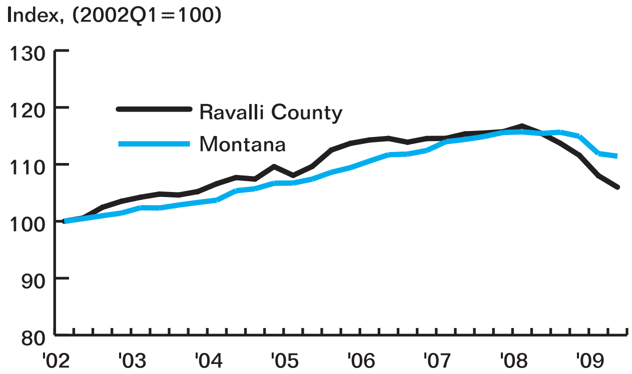

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 2
### Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 2006-2013



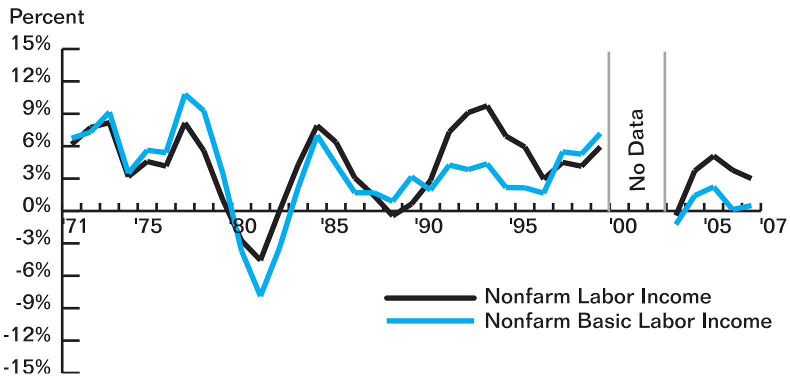

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 3
### Nonfarm Wage and Salary Employment, Montana & Ravalli County, 2002 Q1 to 2009 Q2



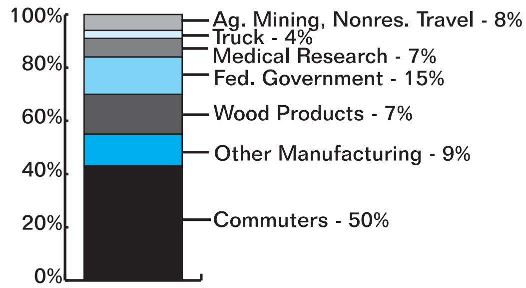

Note: Data seasonally adjusted by BBER.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, Ravalli County, Percent Change, 1971-2007 (In Constant Dollars)




Note: 1971-1999 are three-year averages. 2002-2007 are two-year averages.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Ravalli County, 2007-2009 (Percent of Total)

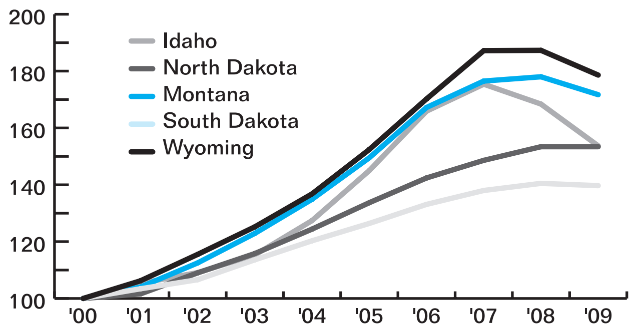



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

# Montana's Housing Sector

*by Scott Rickard*

**Figure 1**
**Home Price Growth Since 2000**




Source: U.S. National Association of Realtors.

**Table 1**
**Regional Price Changes for Metro Areas**

| City | State | Percent Change in Q4 | Percent Change over 5 years |
|---|---|---|---|
| Sioux City | SD | 3.1 | 13.93 |
| Bismark | ND | 1.3 | 28.63 |
| Pocatello | ID | 1.2 | 13.76 |
| Billings | MT | 0.9 | 28.81 |
| Great Falls | MT | 0.7 | 30.79 |
| Fargo | ND | 0.6 | 15.61 |
| Sioux Falls | SD | 0.5 | 15.39 |
| Rapid City | SD | 0.2 | 19.36 |
| Missoula | MT | -0.2 | 24.31 |
| Cheyenne | WY | -0.5 | 17.47 |
| Idaho Falls | ID | -1.6 | 27.75 |
| Casper | WY | -2.6 | 36.48 |
| Coeur D'Alene | ID | -7.2 | 33.18 |
| Boise | ID | -11.4 | 21.03 |

Source: U.S. Federal Housing Finance Agency.

It has been a shaky year for Montana's housing sector. Montana is experiencing many of the problems facing the rest of the nation, albeit to a lesser degree. Home prices may be declining in some parts of the state. Sales and construction are both down relative to previous years. Mortgage defaults are growing but are still lower than the national average. And against this backdrop of bad news, a statewide reappraisal process reminds every Montana homeowner how much his or her home has grown in (taxable) value, whether or not they have any desire to sell.

## Housing Prices

Nationally, average home prices have been falling along with other prices. The Federal Housing Finance Agency (FHFA), which tracks changes in home prices, estimates that U.S. home prices fell 3.8 percent in the past 12 months, at the same time that the general price level declined 2.8 percent. This means that in real terms, average home values declined by about 1 percent. The National Association of Realtors statistics show even greater declines of 7 percent. In our region, state-level home values have grown between 40 percent and 80 percent since 2000. But since 2007, average prices in first Idaho, and later Montana and Wyoming, are tending to be lower (Figure 1). For Montana, this decline is 3.6 percent.

For those urban areas that are tracked, Billings and Great Falls show year-over-year price increases, while Missoula's index shows a small decline. Outside of these areas, the FHFA-derived prices are down 3 percent. Compared to Montana, the indices for urban areas in the Dakotas are performing a little better, while those in Wyoming and especially Idaho are performing worse, especially Boise, with an 11 percent decline in the past year (Table 1).

## Housing Sales and New Construction

As elsewhere in the nation, home construction in Montana continued to decline in 2009. Nationally, construction of single-family homes has fallen by two-thirds, to under 600,000 units annually. In Montana, housing starts declined nearly 30 percent in 2009.

Within Montana, construction has held up better in some counties than in others. With the exception of Lewis and Clark County, housing starts in our most populated counties were down between 22 percent and 45 percent in the past year and down 31 percent to 75 percent from their respective peaks (Table 2). Most dramatic is the building decline in Flathead, Gallatin, and Missoula counties.

**Table 2**
**Montana Housing Starts**

| County | Percent Change over 12 months | Percent Change Peak |
|---|---|---|
| Lewis & Clark | 50% | -31% |
| Cascade | -22% | -48% |
| Yellowstone | -26% | -56% |
| Rest of State | -33% | -53% |
| Gallatin | -36% | -75% |
| Flathead | -41% | -73% |
| Missoula | -45% | -73% |
| **Total** | **-29%** | **-58%** |

Source: Montana Building Industry Association.

As we are seeing fewer homes built, existing homes are less likely to stand empty. Since early 2008, vacancy rates have declined to 2.5 percent of all residences.

Home sales numbers are also lower. Using preliminary data, the number of transactions in Montana in 2008 fell by over 10 percent for the year, putting total sales one-third below the 2005 peak (Figure 2). This slow down in home sales is also evident in vacancy data. According to the U.S. Postal Service, the average length of time a vacant housing unit remained empty in Montana grew to 308 days or by 52 percent since 2007.

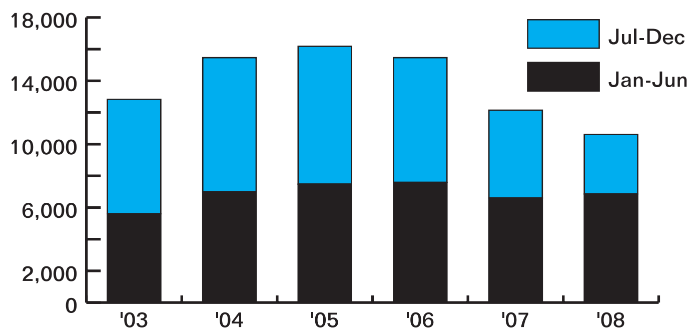
At the time this was written, data were not available to see if the federal first-time homebuyer incentives produced a significant increase in Montana sales in 2009. Nationally, this seems the case, with October 2009 sales 23 percent above October 2008 sales levels.

## The Mortgage Market

In Montana, while fewer mortgages are being entered into, a larger percentage of them are coming from the state's banking industry. Over $2.75 billion of FDIC-insured home loans were made by Montana commercial banks and savings institutes in 2008, up 40 percent since 2001. This corresponds with the drying up of the private mortgage market. Since most individuals cannot purchase a home without a mortgage loan, tightening lending standards could explain part of the fall in home sales. However, if you can qualify, rates are low. As of October 2009, the interest rate for a conventional 30-year fixed mortgage loan was 4.95 percent. Just a few years ago, a rate this low was more likely the teaser rate for a variable rate loan.

The bursting of the housing bubble has driven up U.S. average delinquency and foreclosure rates. In the United States, 4.5 percent of mortgages are in some stage of the foreclosure

**Figure 2**
**Montana Home Sales**




Source: Montana Department of Revenue.

process and another 4.4 percent are delinquent. In Montana, we have much less exposure. Currently, 1.6 percent of Montana mortgage loans are in foreclosure and an additional 1.9 percent are 90 days delinquent.

One reason for our low delinquency rate is that, compared to U.S. averages, Montanans didn't opt for subprime mortgages (4 percent compared to 11 percent). This is important because foreclosure rates of subprime mortgages in Montana are eight times larger than the rates for prime mortgages (and four times larger in the U.S. overall). Montana mortgage loans are more likely to have fixed as opposed to adjustable interest rates (84 percent fixed rates in Montana compared to 78 percent for the United States), and the foreclosure rate for adjustable rate mortgages (ARMs) is five times larger than for fixed loans.

Less than two years ago, Montana's overall foreclosure rate was one-half the existing rate, and we are not immune from further housing defaults. Many U.S. foreclosures are driven by factors other than interest-rate resets or deflating home values. If the recovery of the national and Montana economies are slow to materialize, our state's foreclosure rates could continue to increase.

## Property Reappraisal

Another major housing-related story in 2009 concerned the reappraisal of residential (Class 4) real estate by the Montana Department of Revenue. As required by statue, the department estimated the value of all homes and assessed property taxes based upon these new valuations. Property tax rates are developed based upon these new appraisal values and changes in the taxes owed are phased in over a six-year interval.

The average appraised value of residential property was 54 percent higher than that of the previous appraisal cycle (2002). For the majority of Montana's homeowners, reassessment did not significantly change their tax obligations. After assessment rates were adjusted, over 70 percent of owners received notices showing that their annual property taxes will change by less than $60 per year. For a few percent of owners, this increase is significantly larger, due to the specifics of their property or an idiosyncrasy of the appraisal process, and 2010 will likely be a busy year for those employees dedicated to resolving reappraisal protests.

### Table 3
### Property Reappraisal

| County | Class 4 Property Tax Ave. Percent Increase |
|---|---|
| Gallatin County | 67% |
| Flathead County | 66% |
| Missoula County | 56% |
| Lewis & Clark County | 53% |
| Silver Bow County | 49% |
| Fergus County | 48% |
| Jefferson County | 48% |
| Deer Lodge County | 47% |
| Yellowstone County | 43% |
| Cascade County | 38% |
| Hill County | 38% |

Source: Montana Department of Revenue.

## Summary

The performance of Montana's housing market since the start of the U.S. recession is an example of how difficult it is for Montana, as a part of a highly-integrated U.S. economy, to completely avoid collateral damage from economic shocks located far away. It also highlights the diversity of markets across Montana, with growth continuing in some areas while others decline. It is unlikely that the housing market will see much improvement until the U.S. economy recovers, and the longer this takes, the greater the chance Montana will experience additional housing-sector problems.

# Travel and Recreation Outlook 2010

## Conscious Consumption

*by Norma P. Nickerson*

By all accounts, travel and recreation around Montana and the nation took a few hits in 2009 due to the economic situation around the world. Most businesses and land managers said it wasn't as bad a year as they thought it would be, which is, of course, good news. However, 2009 will end as a year in which some areas did well while others struggled. This somewhat mixed assessment of the travel and recreation industry's performance in 2009 seems to be the result of changes in the way consumers are traveling and spending. The following sections illustrate some of these changes by looking at the trends, both increases and decreases, seen in 2009 in various segments of the industry.

## U.S. Travel: Looking Back

Just over a year ago, the cost to fill up a gas tank was blamed for changes in travel and recreational behavior. In 2009, gasoline prices were no longer the issue, but the instability of the economy had many people guessing and hedging. According to the U.S. Travel Association, total U.S. domestic travel is projected to be down 3.8 percent in 2009 (Table 1). Domestic leisure travel volume declined 2.7 percent, but spending declined 10.3 percent through the third quarter of 2009. Business travel volume was down 7.5 percent through September, with business spending down 13.6 percent (Cook, 2009).

Many travel segments throughout the United States experienced declines in 2009. U.S. lodging performance was down 7 percent year-to-date (YTD) through September compared to 2008. Likewise, domestic passenger air travel was down 2 percent through September YTD (ATA 2009). The number of recreational vehicles sold in 2009 was down 54 percent compared to 2008. The attraction industry is also expecting 2009 overall attendance to be down 4 percent to 6 percent compared to 2008. New boat sales are projected to be down in 2009 between 30 and 35 percent. The majority of outfitters and guides around the country also experienced a decrease in revenues in 2009, and, the alpine ski industry was down in the 2008-09 season by 5 percent from the previous year.

Some travel segments did experience increases in 2009. For instance, the restaurant industry projects a 2.5 percent increase for the year. The National Park Service projects 2009 to end with a 4 percent increase in visitation. Likewise, private campgrounds such as KOA experienced a 1 percent increase in visitation over 2008. Snowmobile registrations were up 1 percent in 2009 compared to 2008.

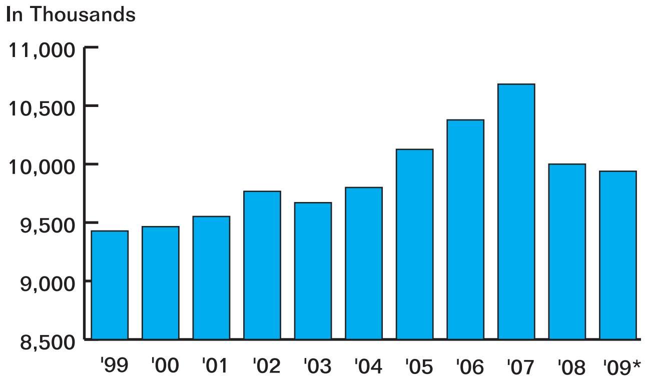
Indicators for travel and recreation are difficult to piece together. The Conference Board Consumer Confidence Index declined in September and October 2009, while the University of Michigan Consumer Sentiment index increased in September, but slipped again in October. Traveler sentiment (a derivative of six attitudinal variables) has made up for losses experienced in 2008. Consumers' perception of travel affordability has been the major driver. The Travel Price Index (Cook 2009) shows that travel prices are down more than 8 percent through September 2009 compared to the same time frame in 2008.

**Table 1**
**Travel Trends 2008/2009 (Percent Change)**

| | Montana | U.S. |
|---|---|---|
| Overall Travel/ Visitor Numbers | -1.0% | -3.8% |
| Airline Travel | -5.4% | -2.0% |
| Rooms Sold | -3.8% | -7.0% |
| National Parks | Yellowstone +7.4%<br>Glacier +12.2% | +4.0% |
| Skier Visits | -5.9% | -5.0% |

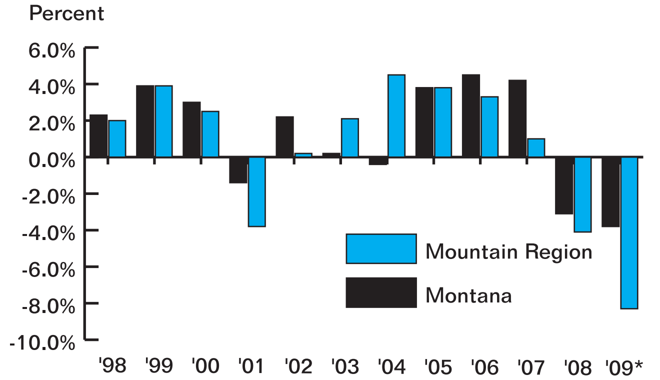
Sources: Institute for Tourism and Recreation Research; U.S. Travel Association; National Park Service; Airline Transport Association; Smith Travel Research; U.S. Forest Service.

**Figure 1**
**Montana Nonresident Visitor Trends**
**1999-2009**




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

**Figure 2**
**Percent Change in Rooms Sold**
**1998-2009**




* Preliminary
Source: Smith Travel Research.

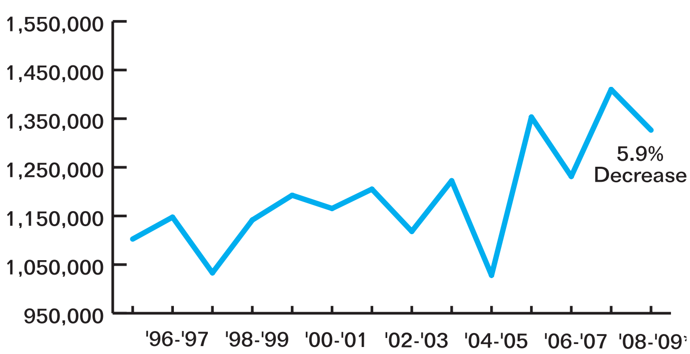
# Montana Travel and Recreation: Looking Back

Preliminary 2009 data indicates that Montana did much better than the rest of the nation with only a 1 percent decline in nonresident visitation (compared to the -3.8 percent nationally). This follows a 6.4 percent decrease experienced in 2008 (Figure 1). Most other travel and recreation visitation data in Montana exhibited similar declining trends albeit smaller decreases.

According to Smith Travel Research, the percent change in rooms sold in Montana in 2009 compared to 2008 was down 4.1 percent (November YTD). The Mountain Region, however, had a 8.3 percent decrease in 2009, indicating that Montana fared better than the Mountain Region in rooms sold (Figure 2). Similarly, ski area visits in Montana were down 5.9 percent in the 2008-09 ski season after a 14.5 percent increase the previous season (Figure 3). Much of the ski visit behavior is related to snow conditions, but in 2009, nationwide statistics showed that the destination resorts fared much worse in skier visits due to the economy and people cutting back on their travels.

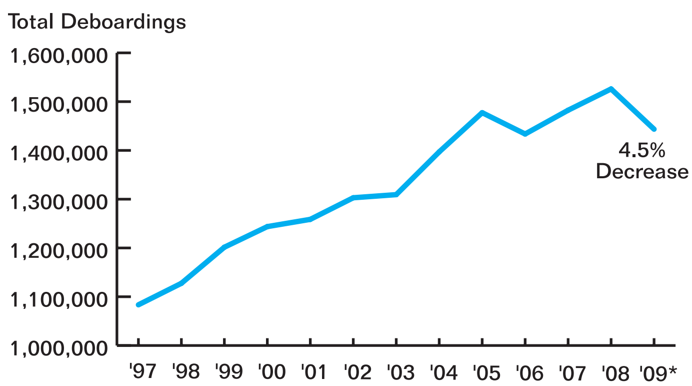
Deboardings at Montana airports (November YTD) show an overall decline of 4.5 percent in 2009 compared to 2008 (Figure 4). Only Helena and Great Falls airports had a slight increase in deboardings in 2009 (Figure 5). Butte, year after

**Figure 3**
**Montana Ski Area Visits, 1995-2009**



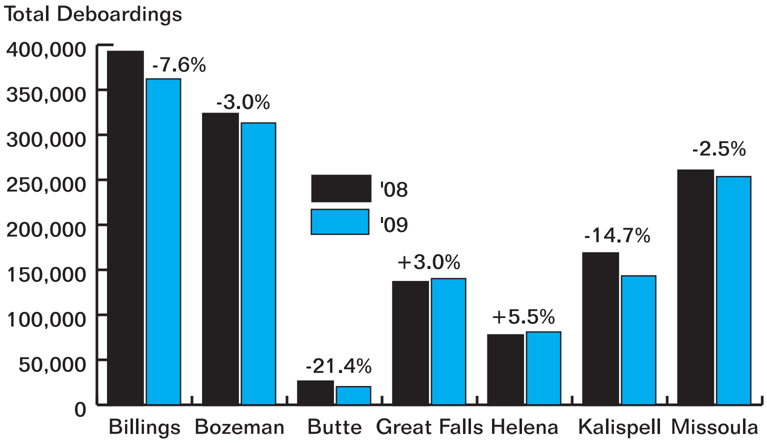

* Preliminary
Source: Institute for Tourism and Recreation Research, The University of Montana.

**Figure 4**
**Montana Air Traffic, 1997-2009**



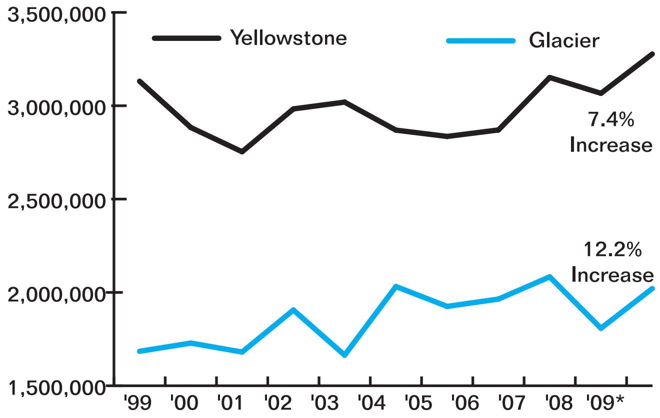

* Preliminary
Source: Smith Travel Research.

**Figure 5**
**Airport Deboardings Change by City, 2008-2009**




Source: Montana Aeronautics Division.

**Figure 6**
**National Park Recreation Visits, 1999-2009**




* November YTD
Source: National Park Service.

year, has shown large decreases in deboardings, with a 21 percent decrease in 2009. Montana, like everywhere, has been affected by the decline in airline capacity. Nationwide airline capacity from first quarter 2008 to first quarter 2010 show United Airlines down 15.2 percent, Alaska Airlines down 9.7 percent, Delta/Northwest Airlines down 8.3 percent, and Continental down 4.9 percent. These capacity decreases fall below the 1999 domestic seating capacity level (ATA 2009) and are a result of recession, regulation, and fuel-price volatility.

The one positive trend for Montana comes from an increase in national park visitation. Through November 2009, Glacier National Park recreation visits were up 12.2 percent, and Yellowstone National Park recreation visits were up 7.4 percent for an all-time Yellowstone visitation record of nearly 3.3 million visitors.

A survey of tourism businesses around the state conducted by the Institute for Tourism and Recreation Research (ITRR) in November shows that the year was indeed a mixed bag for businesses. Out of the 269 respondents, half of the travel businesses had a decrease in visitation in 2009 while 32 percent indicated that visitation for their business was up. Eighteen percent said their visitation was the same in 2009 as it was in 2008.

## Conscious Consumption

Desire by consumers to decrease debt and increase savings seems to be the current behavior. According to the Gallup World Poll, discretionary consumer spending has been consistently running about 30 percent below last year throughout 2009 (Cook 2009). These changing behaviors all reflect a much more frugal consumer who is engaged in "conscious consumption." As evidence of this, today's trips are marked by shorter durations, shorter distances, and bargain hunting.

Travel spending has been affected by these changes. September YTD 2009, U.S. domestic leisure travel spending was down 10.3 percent. Domestic business travel expenditures were down 13.6 percent through September, and spending by international visitors fell 17.5 percent (Cook 2009). Travelers are likely to continue to remain extremely cost-conscious, affirming the belief that downward pressure on the average household budget continues to present the biggest challenge for the travel industry, not a lack of interest in or desire to travel, according to Cook (2009).

Similar behavioral changes by visitors to Montana in 2009 were expressed in the results from the Institute for Tourism and Recreation Research outlook survey: 53 percent observed an increase in last-minute bookings; 37 percent saw an increase in walk-in visitors; 55 percent had a decrease in retail sales; 47 percent said their visitors decreased their dining out opportunities; 60 percent said their visitors were looking for less expensive activities; 39 percent indicated having more Montanans visiting than in the past (staycation phenomenon); and, while 33 percent indicated visitors' length of stay decreased, 46 percent said it remained the same. Most tourism professionals agree that travelers are likely to continue to remain extremely cost-conscious.

**Table 2**
**Business Owner Projections for 2010**

| Projected Year | Expect an increase | Expect to remain the same | Expect a decrease |
|---|---|---|---|
| 2010 | 47% | 42% | 12% |
| 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: ITRR Outlook surveys.

## Travel and Recreation: Looking Forward

Looking ahead, the U.S. Travel Association predicts a modest recovery in 2010. U.S. domestic leisure travel is projected to increase 1.9 percent while business travel is expected to increase 2.5 percent. Total international travel to the United States is projected to increase 2.8 percent, with greater gains in travel expected from Canada and Mexico (+4 percent) compared to the overseas market (+1.2 percent). Attractions are forecasting a slight increase for 2010 but do not expect to see pre-recession levels until 2011 or 2012. The National Park Service is forecasting a 2.0 percent increase for 2010 including a 3.9 percent increase in the Mountain Region. Even the ski industry is projecting an increase over last year, which would bring skier visits above the previous five-year average.

In a survey of travel intentions reported by U.S. Travel Association, intentions varied by region. "Intentions have declined the most among residents of the South, are holding steady among those living in the Northeast, and actually increased slightly among those living in the West and Midwest. We also saw an increase in the share of intended leisure travelers saying that they planned to drive more instead of fly (Cook 2009)."

Montana tourism and recreation businesses and organizations are optimistic for 2010. Only 12 percent believe they will experience a decline in visitation in 2010 while 47 percent said they are expecting an increase (Table 2). This is a more positive outlook than that expressed in projections made for 2009, although it seems that people are being cautiously optimistic in their projections for 2010 as compared to 2008 and earlier years' projections. The U.S. Travel Association has forecasted a 1.9 percent increase for 2010. Likewise, nonresident visitation to Montana should increase by 2 percent in the next year. Montana will benefit from the cost-conscious traveler as travel in Montana is considered a good value for the money.

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# Health Care
## Different Challenges for Different Genders

*by Gregg Davis*

While much of America is focused on health care costs and access, the differences between women and men in the prevalence of disease, health outcomes, and access to health care continue to be a challenge. Compared to men, women are more likely to be raising children alone, have lower incomes and hence more likely to be on Medicaid, and have higher rates of chronic illnesses. Women are also more likely to use community health centers and Title X clinics that provide services to low-income individuals on a sliding fee scale, just two of many safety nets for disadvantaged populations. And at the same time, women also serve as the primary decision makers regarding health matters for family members.

One way to "bend the cost curve for health" is to improve the health of all population groups. Postponing health care due to cost or lack of insurance is expensive. In Montana, over $54 million is spent each year on avoidable emergency room visits alone. And improved health increases productivity and reduces the strain on the health care system.

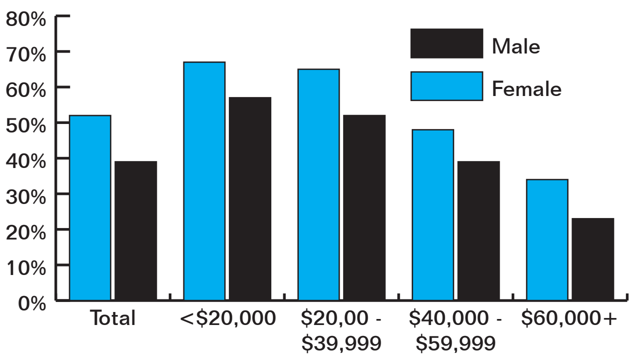
The proportion of women and men in Montana without health insurance is comparable (17.6 percent for women versus 20.2 percent for men). But among all adults 19-64 years of age, and across all income classes, women are more likely to forego needed medical care due to cost (Figure 1). Women are also more likely to forego cost effective preventive services, such as colon cancer screening and dental exams.

For adults 65 years of age and over, women report more health problems than men. And for every age and race group, women are more likely than men of the same age to have one or more physical limitations, and these differences between men and women widen with increasing age.

Disparities in health for women occur due to access and utilization problems, social determinants, and health status. Figure 3 shows how women in Montana fare relative to women in the United States on select disparity measures. On all but three dimensions, women in Montana fare worse than their national counterparts. Interestingly, fewer minority women (non-white) in Montana failed to get a Pap smear within the last two years when compared to all women in Montana and the United States. But on all other measures, the proportion of minority women who did not receive recommended medical care is well above that for women nationally and in Montana. Delayed or avoided medical care places additional burdens on the health care system when care is eventually sought, resulting in higher medical expenditures, and sometimes, less favorable outcomes.

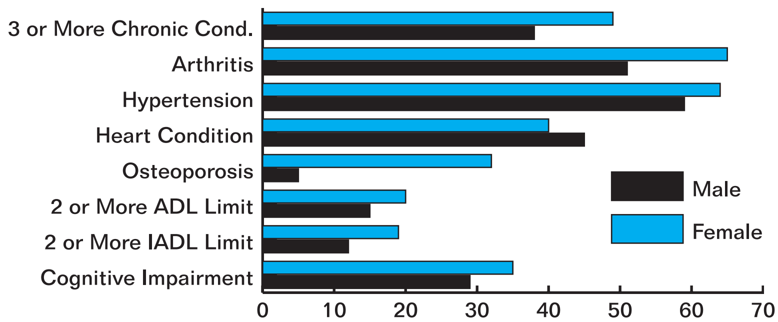
On health status measures, obesity, smoking behavior, and psychological distress, women in Montana fare comparably to women throughout the nation. The exceptions are the state's minority populations, where particularly for obesity and smoking behavior Montana's minority women are well above that of U.S. women. According to the U.S. Department of Health and Human Services, twice as many women as

**Figure 1**
**Percent Foregoing Medical Care, by Gender and Income Class, 2007**



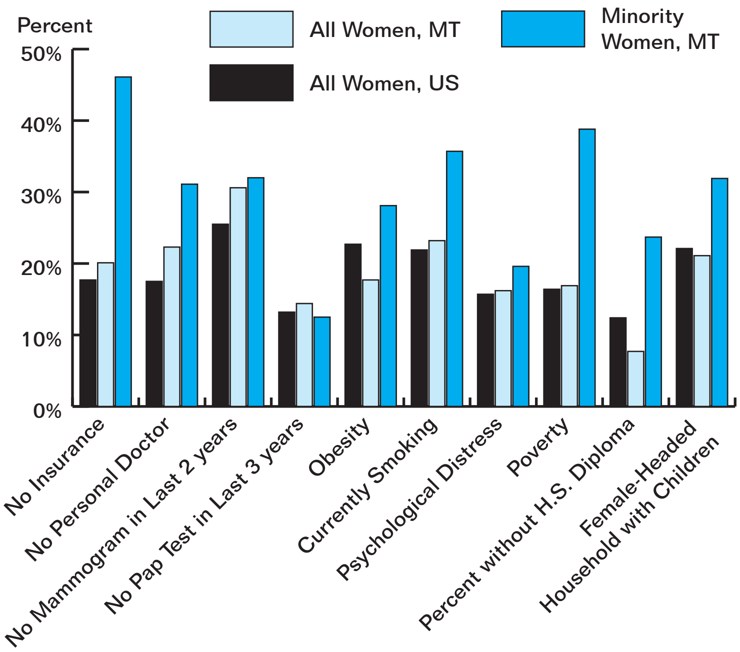

Source: The Commonwealth Fund Biennial Health Insurance Survey, 2007.

**Figure 2**
**Health Status of Medicare Population, by Gender, 2005**




Note: Instrumental Activities of Daily Living (IADL) includes housework, making meals, managing money, shopping and using the telephone.
Activities of Daily Living (ADL) includes bathing, dressing, eating, walking, using the toilet, and getting in and out of chairs.
Sources: Medicare's Role for Women, Women's Fact Sheet, Kaiser Family Foundation, June 2009.

**Figure 3**
**Health Status of Medicare Population**




Source: The Henry J. Kaiser Family Foundation, June 2009.

men between the ages of 45 and 54 have strokes. One in four women dies from heart disease. Cancer mortality rates (not shown) for American Indian women are almost 50 percent higher than for all women in the U.S. (230.6 per 100,000 compared to 162.2 per 100,000).

Social determinants also influence a woman's ability to access health care and maintain healthy lifestyles. Fewer women in Montana are without high school degrees than their national counterparts and are comparable to U.S. women in the number of female-headed households with children, along with those living below the federal poverty level. But again, minority women in Montana have rates of poverty and female-headed households with children well above national averages.

More women in Montana (47 percent) than nationally (43 percent) live in areas designated as primary care shortage areas, where access to medical care is limited or nonexistent. Almost 6 in 10 live in areas designated as mental health shortage areas. Crucial for these underserved areas are primary care providers. These providers often serve as the first point of entry into the health care system for undiagnosed medical problems. But primary care providers are in decline nationally and in the state of Montana, leaving some without health care access.

Lack of access is also compounded by the insurance situation many women face. Although on average more women are insured, fewer have insurance through job-based employment (38 percent versus 48 percent for men), and significantly more are a dependent on their spouse's insurance (25 percent versus 13 percent for men). This may leave women uninsured should divorce or widowhood occur.

## Will Health Care Reform Efforts Help?

Both the Senate and House bills on health care reform have aspects that address the situation of the minority population's health and their access to the health care delivery system. Both proposals include premium and cost-sharing credits for low-income individuals up to 400 percent of the federal poverty level, along with expansion of the Medicaid program. Any expansion in Medicaid should disproportionately affect women, since nationally they represent nearly two-thirds of the beneficiaries. Both proposals also lower out-of-pocket expenses and completely eliminate cost sharing for prevention services. And for rural areas, plans to incentivize primary care reflect an effort to change the orientation of the health care delivery system from one of costly specialty care to one of lower cost, higher quality primary care. Since women may also be predisposed to long-term care needs, the voluntary insurance programs for purchasing community living assistance may be of particular value. But mandates, subsidies, provider payment reforms, insurance exchanges, and all other proposed provisions of both plans still leaves nearly 18 to 24 million uninsured nationally. What shape reform actually takes and how it benefits women in particular may be determined in the next year of health care reform.

# Outlook for Montana Agriculture

*by George Haynes*

## General Financial Overview

Montana's agricultural sector has been less severely harmed by the recent financial crisis than other industrial sectors. In 2008, the revised net farm income for Montana agricultural producers was less than $690 million on gross sales of $3.2 billion. Montana's agricultural sector had an average production year in 2009; however, all commodity prices declined to levels approaching historical averages. Nationally, net farm income is expected to decline by more than 35 percent from 2008 to 2009 (ERS Briefing Room, 2009), but Montana's net farm income decline is expected to be less severe. The 2010 Montana agricultural outlook for both crops and livestock is similar to 2009, with stable to slightly higher commodity prices.

## Grain/Wheat Outlook

World and U.S. average wheat prices declined over 25 percent between 2008 and 2009, from $6.70 per bushel in 2008 to about $5.00 per bushel in 2009. Even though production declined in the United States, an extended growing season and favorable harvest weather increased expected production in the former Soviet Union countries. Between 2008 and 2009, world wheat production decreased by less than 2 percent worldwide, while U.S. wheat production decreased by nearly 12 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 7.5 percent (U.S.), respectively. The futures markets for wheat suggest that wheat prices may be somewhat higher in 2010, but very close to the five-year historical average price (2004-2009).

In Montana, wheat production increased by over 7 percent, from 165 million bushels in 2008 to 177 million bushels in 2009 (National Agricultural Statistics Service for Montana, 2009). An excellent winter wheat crop emerged in the spring, but a relatively wet spring delayed the planting of the spring wheat and barley crops. Adequate rainfall and good growing conditions meant that winter wheat, spring wheat, and barley crops were progressing more rapidly than in 2008. However, above average moisture delayed harvesting and lowered the quality of the winter wheat crop. At harvest time, winter wheat production was 5 percent lower than in 2008, primarily because fewer acres were planted and average yields were lower. Spring wheat production increased by 18 percent from 2008 because of substantially higher average yields. Barley production increased by nearly 9 percent because of substantially higher average yields. The production of other grain crops (durum and oats) increased, but prices for those crops declined.

U.S. wheat exports are down about 12 percent from 2008. Recent declines in the U.S. dollar against other currencies should improve the price competitiveness of U.S. wheat, however there is no indication that wheat exports are increasing. Analysts suggest that large wheat exports from Russia, Ukraine, and Kazakhstan are the main reason that U.S wheat exports have been very lackluster in relation to last year.

The major factors likely to impact the 2010 wheat market

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

| Geographic Area | 2007 | 2008 (Millions of Bushels) | 2009 |
|---|---|---|---|
| World | 22,437 | 25,084 | 24,685 |
| United States | 2,051 | 2,499 | 2,216 |
| U.S. share of World Market | 9.1% | 10.0% | 9.0% |
| Montana | 150 | 165 | 177 |
| Montana Share of World Market | 0.7% | 0.7% | 0.7% |
| Montana Share of U.S. Market | 7.3% | 6.6% | 8.0% |
| Prices of all Wheat, $/Bushel (10/2009) | 7.14 | 6.84 | 5.04 |

**Source: World Agricultural Supply and Demand Estimates (WASDE-476, 11/10/2009) and National Agricultural Statistics Service, Montana.**

are the decreased consumer demand for wheat, a strengthening dollar, and bio-fuels production. Total domestic use of wheat is expected to decline by 3 percent from last year. Even though foreign wheat use is expected to increase by about 1 percent, favorable growing conditions in the former Soviet Union countries and a stronger dollar will mean that U.S. wheat exports are likely to decline. Global year end stocks of wheat are projected to be 14 percent higher at the end of 2009, while U.S. wheat stocks are expected to be nearly 35 percent higher than last year (885 million bushels). If these higher wheat stocks are realized, these year ending stocks in the United States would reach a 10-year high.

Finally, the use of corn and oil seeds for the production of bio-fuels continues to affect crop and livestock markets. The increased demand for corn for producing ethanol has led to an increase in the price of corn from $2.00 per bushel in 2005 to over $3.50 per bushel in 2009. 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. Higher oil prices are affecting the demand for ethanol, ethanol prices, and the demand for corn for ethanol. The corn harvest has been delayed in 2009; therefore, corn prices have remained higher than expected through the fall of 2009 and are expected to remain relatively strong in 2010. 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 feed stocks. Somewhat higher prices for corn may also increase feed costs for cattle, resulting in downward pressure on stocker and feeder cattle prices.

## Cattle Outlook

U.S. commercial beef production has been relatively stable since 2006 (Table 2). Beef prices in 2009 have been influenced by continued high feed grain prices, import and export demand, and domestic consumption. More recently, somewhat higher feed grain prices have been driven by a modest increase in the price of corn. Factors that have led to higher corn prices are the higher demand for ethanol in 2009 and delayed corn harvest.

U.S. beef exports for 2009 are expected to be 4 percent lower than in 2008, but they are expected to increase by about 7 percent in 2010. Most recently, beef exports have been adversely affected by weak global demand for more expensive cuts of grain-fed beef and the value of the dollar. Japan has seen its currency appreciate against the dollar, while Canada, Mexico, and South Korea have seen their currencies depreciate against the dollar. While exports to Japan have increased by 16 percent year-to-date, exports to Mexico and Canada have decreased by 18 and 14 percent, respectively. Mexico has been severely affected by the global recession. While the demand for U.S. beef has fallen substantially in Mexico, exports of pork and chicken have increased.

Cattle imports into the United States from all sources are expected to increase by 9 percent in 2009, primarily because of increases in imports from Australia. Imports of Australian beef have increased by 46 percent through August 2009. Total beef imports are expected to increase by 4 percent in 2010.

Montana's beef production decreased by about 10 percent from 2007 to 2008, with Montana's share of the U.S. beef

### Table 2
### U.S. and Montana Beef Production

| Geographic Area | 2006 | 2007 | 2008 |
|---|---|---|---|
| | (1,000 Tons - Carcass Weight Equivalent) | | |
| United States | 20,953.2 | 20,718.5 | 20,339.7 |
| Montana | 447.8 | 539.9 | 484.9 |
| Montana Share of U.S. Market | 2.1% | 2.6% | 2.4% |
| Prices Received, Calves, $/Hundred Weight | 131 | 123 | 109 |

Source: National Agricultural Statistics Service, Montana.

market remaining around 2.5 to 3.0 percent (Table 2). Futures prices for the cattle market suggest that feeder and fat cattle prices will be somewhat stronger in 2010.

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. Recent information on food sales suggests that consumers are spending about 2 percent less on food prepared at home and about 3 percent less on food away from home in 2009 than 2008. Consumers appear to be buying about the same quantity of food; however, they are selecting lower cost products. Given the decline in food expenditures, beef is expected to face continued competition for the consumer's dollar from pork and chicken.

## 2008 Farm Bill

The 2008 Farm Bill provisions were implemented in 2009. The Farm Bill established two new programs: 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 adhoc disaster programs with a standing (permanent) disaster program. Farmers in Montana have been reluctant to experiment with new ACRE program. Only 4 percent of all farmers, farming about 10 percent of total acreage in Montana, signed up for the ACRE program. All farmers were eligible for the SURE program as long as they had crop insurance on all economically significant crops, hence most farms are eligible for SURE payments.

## Financial Crisis

Montana's agricultural sector has weathered the financial crisis better than other industrial sectors. Even though lower domestic and foreign demand and a relatively strong U.S. dollar have adversely impacted crop and livestock commodity prices, agricultural producers entered the financial crisis in relatively good financial condition. Strong commodity prices in 2007 and 2008, coupled with very good crop yields, enabled agricultural producers to strengthen their financial statements. Agricultural producers entered this financial crisis with strong debt to assets ratios, averaging around 12 percent, and long-term relationships with their lenders enabling them to gain access to financial capital. In addition, agricultural real estate values have remained steady when other real estate values have realized substantial declines. Expectations about net farm income in 2010 are somewhat more optimistic than in 2009, but lenders are expected to remain cautious.

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# Montana's Manufacturing Industry

*by Todd A. Morgan and Charles E. Keegan III*

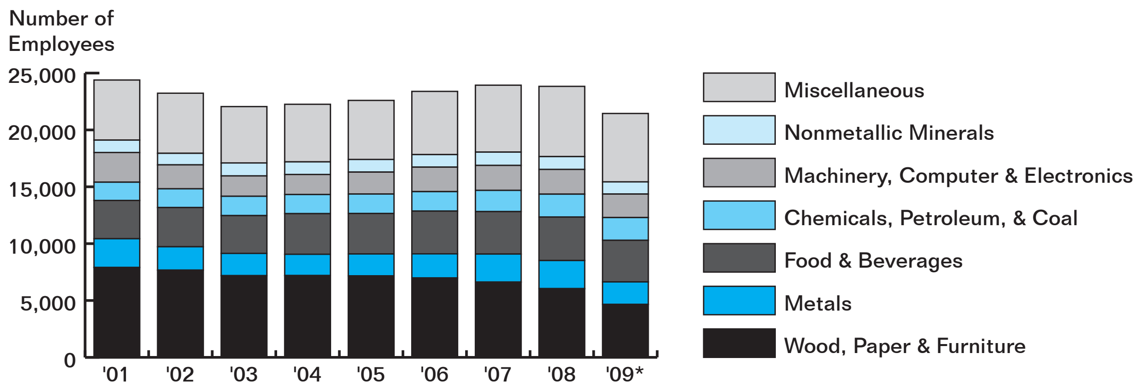
Despite the recent recession and extensive declines in wood products, manufacturing remains a substantial component of Montana's economy. Measured as products left the plants, Montana manufacturers had sales nearing $7 billion in 2009. The state's manufacturers generated more than 21,400 jobs (Figure 1), and workers earned more than $1 billion in labor income during 2009 (Figure 2).

The manufacturing sectors account for more than 20 percent of Montana's economic base, and prior to the recent downturn, four Montana counties each had more than 2,500 manufacturing employees and more than $120 million in labor income from manufacturing (Table 1).

The full force of the global financial crisis and recession did not hit Montana manufacturers until late in 2008, leading to substantial declines in 2009. Value of production dropped by an estimated $1 billion to approximately $7 billion, with estimated employment at Montana manufacturers dropping from 23,800 (including the self-employed) in 2008 to approximately 21,400 in 2009. Workers' earnings fell by an estimated $110 million (10 percent) to an estimated $1 billion during 2009.

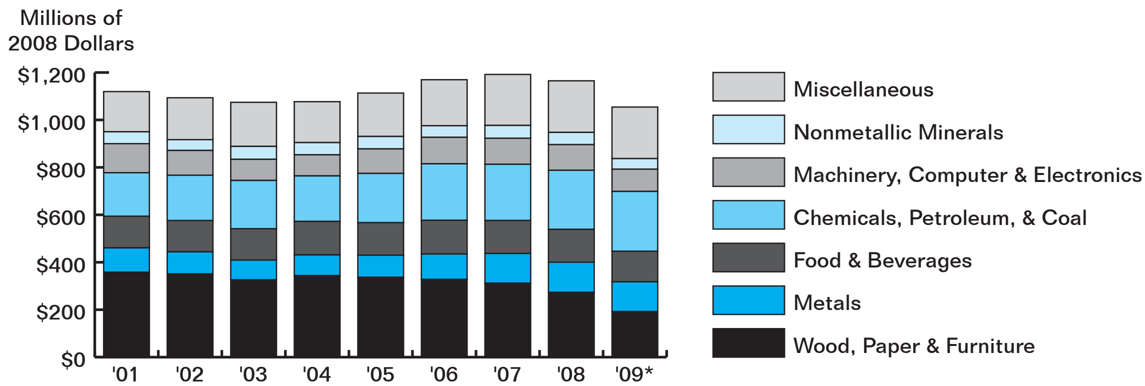
Comparing 2009 to the recession year of 2001, long-term employment and labor income growth (in constant dollars) occurred in a few manufacturing sectors, but total employment and labor income during 2009 are estimated to be lower than 2001 levels for manufacturing as a whole in Montana (Table 2).

**Figure 1**
**Montana Manufacturing Employment, 2001-2009**




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

**Figure 2**
**Labor Income in Montana Manufacturing, 2001-2009**




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

Year-to-year declines were largest in Montana's forest products industry (see pages 30-31) with segments of Montana's metals, machinery, and nonmetallic minerals manufacturers also suffering declines. None of the major manufacturing sectors showed increased employment in 2009, although chemical/petroleum manufacturing did see a slight increase in worker earnings. Even with these declines, Montana manufacturing out-performed U.S. manufacturers as a whole, who saw employment declines exceeding 15 percent in 2009.

Just under 63 percent of the Montana manufacturing firms BBER surveyed reported decreased profits for 2009, with 18 percent indicating profits higher than 2008.

As indicated on page 3, manufacturing employment in Montana (like the rest of the nation) has a high proportion of male workers. Our survey highlights some of the differences in male and female employment. Responses indicate that females comprise about 25 percent of Montana's total manufacturing workforce, with women holding about 55 percent of administrative and clerical positions but only 16 percent of production jobs. This suggests that as the manufacturing sector grows or contracts, men are more likely to be impacted.

## Outlook: 2010 and Beyond

The 2010 outlook is for modest improvement in Montana manufacturing activity with expectations that the United States and other major economies will continue the recovery that began in the last half of 2009. The U.S. dollar has weakened considerably over the past year, making some Montana manufacturers more competitive in international markets.

The recovery in Montana manufacturing will be hampered by the announced permanent closure of a number of major manufacturing facilities including the Smurfit-Stone Container linerboard plant, Columbia Falls Aluminum Company smelter, and several large sawmills.

Montana manufacturers who responded to our annual survey are somewhat more optimistic about the outlook for 2010 than they were for 2009. Only 19 percent expected improved conditions for 2009, versus 47 percent who expected better conditions for 2010. About 38 percent expected worsening conditions in 2009, versus 15 percent for 2010. Nearly 60 percent of manufacturing respondents expect to keep their workforce at the same level in 2010, while 27 percent foresee an increase in employment.

In response to the question, "How, if at all, has availability or access to credit negatively impacted your business since January 2008," less than 25 percent of Montana manufacturers indicated they had experienced problems. Those that reported credit issues said their firms or their customers had difficultly maintaining an adequate line of credit. Responding to, "How if at all, has the federal stimulus benefitted your business," 20 percent of Montana manufacturers indicated they did benefit.

### Table 1
### Montana Manufacturing Employment and Labor Income, by County, 2007

| County | 2007 Manufacturing Employment | Percent of Total | 2007 Manufacturing Labor Income (Millions of 2007 $) | Percent of Total |
|---|---|---|---|---|
| Flathead | 4,158 | 17% | 202 | 16% |
| Yellowstone | 3,804 | 16% | 323 | 25% |
| Gallatin | 3,103 | 13% | 179 | 14% |
| Missoula | 2,970 | 12% | 147 | 11% |
| Ravalli | 1,294 | 5% | 53 | 4% |
| Cascade | 1,009 | 4% | 54 | 4% |
| Lake | 957 | 4% | 33 | 3% |
| Lewis and Clark | 930 | 4% | 60 | 5% |
| Silver Bow | 632 | 3% | 37 | 3% |
| Lincoln | 466 | 2% | 14 | 1% |
| Park | 382 | 2% | 18 | 1% |
| All Other counties | 4,273 | 18% | 168 | 13% |
| Montana total | 23,978 | 100% | 1,288 | 100% |

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

### Table 2
### Employment and Labor Income in Montana Manufacturing Sectors, 2001 and 2009

| | Labor Income (millions 2008 $) | | Employment | |
|---|---|---|---|---|
| | 2001 | 2009* | 2001 | 2009* |
| Wood, Paper & Furniture | 358 | 192 | 7,907 | 4,660 |
| Metals | 103 | 126 | 2,526 | 1,977 |
| Food & Beverage | 134 | 129 | 3,365 | 3,661 |
| Chemicals, Petroleum & Coal | 183 | 252 | 1,607 | 1,997 |
| Machinery, Computers & Electronics | 123 | 94 | 2,612 | 2,068 |
| Nonmetallic Minerals | 50 | 45 | 1,090 | 1,071 |
| Miscellaneous | 169 | 217 | 5,283 | 6,016 |
| Total | 1,120 | 1,054 | 24,390 | 21,448 |

* Estimate

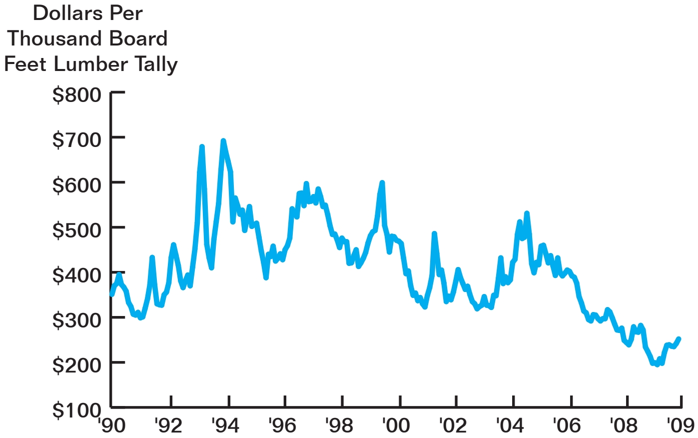
Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

When manufacturers were asked to rate a list of issues in terms of general importance to their business, 79 percent of respondents rated health insurance cost as very important, followed by workers' compensation rates (60 percent), and workers' compensation rules (52 percent). The cost of energy was very important to 51 percent of respondents.

# Montana's Forest Products Industry
## Current Conditions and 2010 Forecast

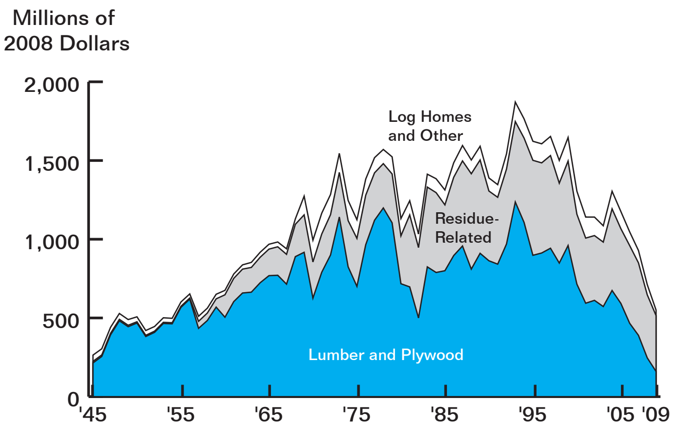
*by Todd A. Morgan and Charles E. Keegan III*

**Figure 1**
**Nationwide Composite Lumber Prices Monthly, 1990-2009**




Source: Random Lengths Publications.

**Figure 2**
**Sales Value of Montana's Wood and Paper Products, 1945-2009**




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

## Operating Conditions

Economic conditions for Montana's forest products industry went from very bad in 2008 to dreadful in 2009. Lumber consumption in the United States was at its lowest level since the current statistical series began in 1950. Annual U.S. housing starts, which reached 2.1 million in 2005, fell to less than 1 million in 2008. In 2009, housing starts fell to just over 550,000 units, their lowest level in more than six decades. In response to the ongoing declines in housing, lumber prices dropped nearly 50 percent from 2005 to 2009 (Figure 1).

The federal stimulus program was perceived by most Montana wood-processing executives as not having much benefit for their firms. However, 25 percent of executives responding to the Bureau's annual survey indicated their firm did benefit from the stimulus program. Most firms that reported a benefit said they received a low-interest loan from the government, while only a few indicated having more work as a result of stimulus activities.

## 2009 Sales, Employment, and Production

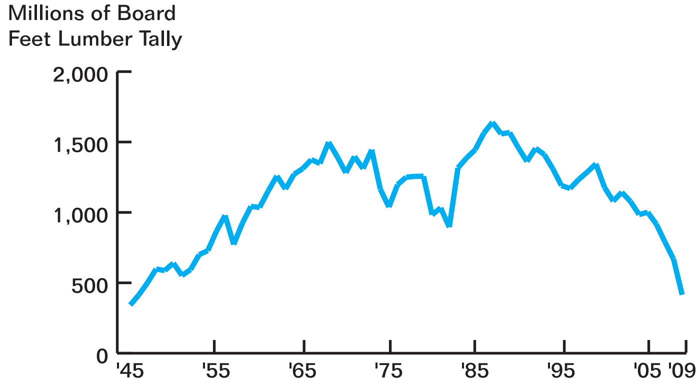
In response to the market conditions of 2009, every sector of Montana's forest products industry was negatively impacted and virtually every major mill and most small mills in the state closed or curtailed operations. This caused substantial drops in sales, production, employment, and labor income from 2008's already low levels.

Total sales value of Montana's primary wood and paper products was approximately $550 million (fob the producing mill) in 2009. Sales were down about $160 million, or almost 25 percent from 2008, and were about $625 million lower than 2005, when sales were just under $1.2 billion (Figure 2). Total forest industry employment during 2009 was about 7,070 workers (including the self-employed), down by about 20 percent from the revised 2008 estimate of 8,840 workers. Labor income in Montana's forest industry was less than $275 million during 2009, about 30 percent lower than 2008.

Lumber production in 2009 fell to an estimated 415 million board feet lumber tally. Production was down almost 60 percent from the 2005 level, more than 35 percent lower than 2008, and was at the lowest level in more than five decades (Figure 3).

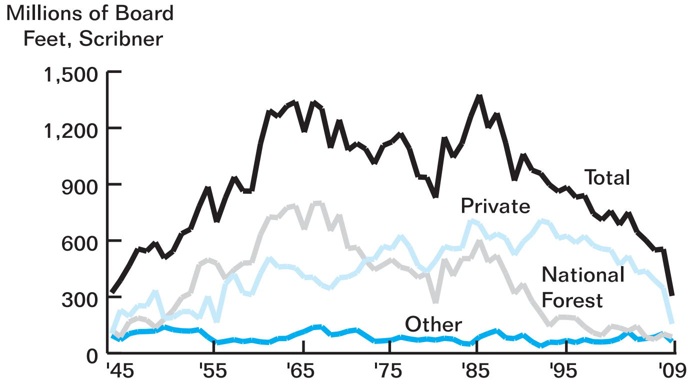
Montana's timber harvest volume during 2009 was an estimated 305 million board feet (Scribner), the lowest timber harvest on record since 1945 (Figure 4). The harvest from

**Figure 3**
**Montana Lumber Production, 1945-2009**




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

**Figure 4**
**Montana Timber Harvested by Ownership, 1945-2009**




Sources: Bureau of Business and Economic Research, The University of Montana; U.S. Forest Service Region One.

private lands fell more than 50 percent from 2008, in large part because of extremely weak markets for wood products. National forest timber harvest during fiscal year 2009 (Figure 5) was reported to be about 9 percent higher than 2008, but those volumes include considerable amounts (more than 40 percent) of residential firewood and non-sawlog material.

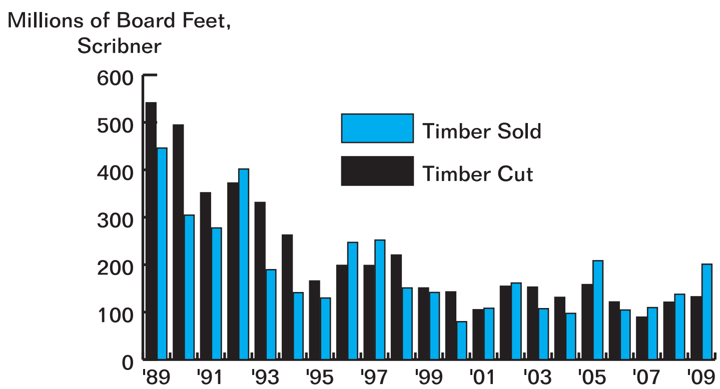
## Outlook for 2010

National forecasts call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products in 2010 from the extremely low levels of 2009. Some optimism is also reflected in the outlook of Montana's wood products industry executives, with 51 percent expecting 2010 to be better than 2009, and 28 percent expecting conditions to be about the same as 2009.

More than 30 percent of executives anticipate that production, prices for their products, and sales will increase in 2010. Thirty-five percent expect the cost of inputs to be higher than in 2009, while 40 percent indicated that raw material availability is still very important to their business despite the poor market conditions for finished products. Health insurance costs, workers' compensation rates, and workers' compensation rules were also indicated as very important concerns for the majority of Montana's wood products industry.

Three factors, however, are expected to have lingering impacts on sawmills, logging, and wood products related trucking in the state, including:

**Figure 5**
**Montana National Forest Timber Cut and Sold Volumes, 1989-2009**




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

- weakened financial underpinnings of many Montana forest industry firms due to limited timber availability during the previous two decades;
- the extended housing downturn and four consecutive years of weak wood products markets;
- the closure of Frenchtown's Smurfit-Stone Container linerboard plant.

Because of these issues, continued losses are expected in all of Montana's forest industry sectors during the coming year.

# Outlook 2010 Speakers

**Patrick M. Barkey** is the director of the Bureau of Business and Economic Research. He has been involved with economic forecasting and health care policy research for 25 years, both in the private and public sector. He previously served as director of the Bureau of Business Research at Ball State University in Indiana for 14 years, overseeing and participating in a wide variety of projects in labor market research, and state and regional economic policy issues. He attended the University of Michigan, receiving a B.A. (1979) and Ph.D. (1986) in economics.
e-mail: patrick.barkey@business.umt.edu

**Julie Ehlers** is the director of communications for Montana Kids Count and the marketing director/event planner for the Bureau of Business and Economic Research. Ms. Ehlers earned a B.A. in economics from Bowdoin College in Brunswick , Maine. Prior to her work at the Bureau, she lived in Minnesota where she worked in broadcasting.
e-mail: julie.ehlers@business.umt.edu

**George Haynes** is a professor and extension specialist in the Department of Agricultural Economics and Economics at Montana State University. He holds a B.S. from The University of Montana, an M.S. from Montana State University, and a Ph.D. from Cornell University. As a faculty member in the Department of Health and Human Development at MSU from 1994 to 2006, Professor Haynes has taught courses ranging from research methods to small business management. He joined the faculty in the Department of Agricultural Economics and Economics at MSU in 2006. His research interests include small business finance and agricultural policy.
e-mail: ghaynes@montana.edu

**Daphne Herling** is the director of Montana Kids Count. Ms. Herling has many years experience in the nonprofit sector as both a fundraiser and a community organizer. She has developed coalitions and trained community leaders in a wide variety of topics. As a trained facilitator, she has conducted focus groups, key informant interviews, and assisted groups in vision, mission, and goal development. She has raised funds through special events and major donor campaigns on state and national levels for private and corporate foundations.
e-mail: daphne.herling@business.umt.edu

**Todd A. Morgan** is the Bureau's director of Forest Industry Research and is a certified forester. He oversees and conducts research related to timber harvesting, logging utilization, and primary wood products manufacturing throughout the western United States. He is also active in the Missoula and national chapters of the Society of American Foresters. Todd earned a B.A. in philosophy and a B.S. in forest science at Pennsylvania State University before completing an M.S. in forestry at The University of Montana. Prior to working at the Bureau, he was a research silviculturist for the Texas Forest Service.
e-mail: todd.morgan@business.umt.edu

**Norma P. Nickerson** serves as director of the Institute for Tourism and Recreation Research and has been a research professor in the College of Forestry and Conservations at The University of Montana since 1995. She grew up in Grand Forks, North Dakota, and attended the University of North Dakota for her undergraduate degree and the University of Utah for her master's and doctorate degrees.
e-mail: norma.nickerson@umontana.edu

**Paul E. Polzin** is a research associate at the Bureau and a professor emeritus in the School of Business Administration's Management Department. Professor Polzin has studied the Montana economy extensively over the past 35 years. In addition to developing economic projections for the future, he conducts research on various long- and short-term economic trends in Montana and specific areas of the state. He grew up in Detroit, Michigan, and attended the University of Michigan and Michigan State University. He was granted a Ph.D. in economics from Michigan State University in 1968.
e-mail: paul.polzin@business.umt.edu

**Scott Rickard** is the director of the Center for Applied Economic Research at Montana State University-Billings. The center produces economic, social science, and market research for state and local government and area businesses. Before joining MSU-Billings, Scott conducted economic research for several federal agencies and national retailers, where he produced predictive demand models. He holds a Ph.D. in economics and a bachelor's degree in systems analysis.
e-mail: srickard@msubillings.edu

**Wendy A. Stock** is a professor of economics and department head of Agricultural Economics and Economics at Montana State University. She holds Ph.D. and M.A. degrees in economics from Michigan State University and a B.A. in economics from Weber State University. Professor Stock's most recent research includes examining factors associated with female labor force participation and investigating the labor market effects of disability discrimination laws, race and sex discrimination laws, and age discrimination laws. She also conducts research on professional labor markets and graduate education outcomes for economists. She has published numerous research articles, has presented her work at various locations across the United States, and holds several research and teaching awards.
e-mail: wstock@montana.edu

**Gregg Davis** is the director of health care industry research at the Bureau of Business and Economic Research, where he examines the state's health care markets, trends, costs, and other high visibility topics. An economics faculty member at Flathead Valley Community College for the past 14 years, Professor Davis directed the Center for Business Information and Research and chaired the Division of Social Sciences. He has earned an undergraduate anthropology degree (1975) and economics master's degree (1977) from The University of Montana and his mineral resource doctorate (1986) from West Virginia University.
e-mail: gregg.davis@business.umt.edu