An Overview of Montana Taxes

by Douglas J. Young

Tax reform is an ongoing process in Montana – not a one-time event. This article describes Montana's current taxes, how they compare with other states, and important changes since 1990. Some of the most divisive political issues of recent years have concerned taxes. How, in fact, has Montana's tax structure been changed?

Are Taxes High in Montana?

First consider the overall level of taxes (Table 1). These data include all state and local taxes – property, income, sales, severance, etc. – levied by all levels of Montana governments including state, county, city, schools, and various other special districts.

Montana's taxes are 48th highest among the states on a per capita basis, and 39th highest as a percentage of income. Total taxes are similar in Idaho, while South Dakota has exceptionally low taxes relative to income. Wyoming's taxes have increased significantly in recent years, reflecting rapid revenue growth from the natural resource boom in that state.

Are Montana's Taxes Rising?

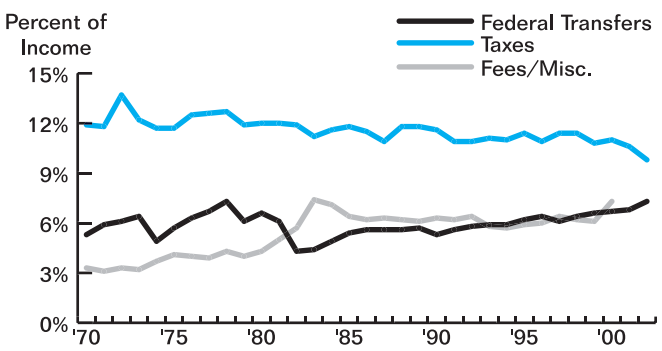
Taxes declined from about 12 percent of income in 1970 to 9.8 percent in 2002 (Figure 1). The decline was especially rapid since 1998, because taxes grew only 11 percent while incomes grew 26 percent (U.S. Bureau of Economic Analysis).

Table 1
Total Taxes

State	Dollars Per Capita	Rank	Percent of Income	Rank
Montana	$2,346	48	9.8%	39
Idaho	$2,451	44	10.0%	37
North Dakota	$2,721	31	10.5%	19
South Dakota	$2,423	45	9.0%	48
Wyoming	$3,644	8	12.2%	4
U.S. Average	$3,143		10.4%	

Source: U.S. Bureau of the Census, Government Finances in FY 2002.

Figure 1
Revenue Sources, 1970 - 2002



Source: U.S. Bureau of the Census, Government Finances in FY 2002.

Figure 1 also illustrates the two other sources of Montana government revenues. Fees and miscellaneous revenues is a broad category including charges for services (university tuition is the largest, but also including parks and recreation, sewerage, and others) and other revenues such as interest earnings. The rise in fees and miscellaneous revenues in the early 1980s resulted from growth in the coal and other trust funds, and the record high interest rates at the time. Some readers will remember mortgages that carried interest rates of 15 percent or more.

The third revenue category is intergovernmental transfers from the federal government. This category includes only transfers to state and local governments — not transfers and other payments to individuals — so Social Security, Medicare, Crop insurance, CRP, etc. are not included. In the 1970s, the largest portion of these transfers were for highways, and Montana governments still receive a lot of Federal gas tax money. But the largest transfers now are for health and human services including the Medicaid program, which in Fiscal Year 2004 totaled $575 million, up 64 percent in just 5 years. Medicaid provides health care services, including nursing home care, to low income Montanans.

The mix among taxes, fees and miscellaneous revenues, and federal transfers has changed quite dramatically over the years. Taxes were 58 percent of revenues in 1970 but only 42 percent in 2002. Federal transfers are at an all-time high of 31 percent. With the federal budget substantially out of balance, and with no end in sight to rising health care costs, dependence on federal transfers may be a problem in the future.

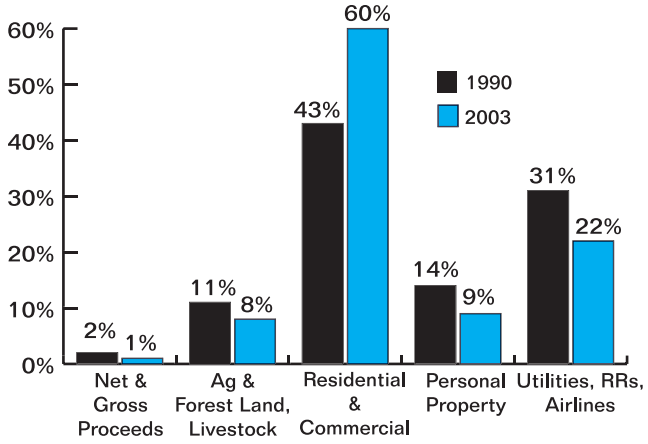
Property Taxes

One of the most dramatic changes has been in Montana's property tax base. As Figure 2 indicates, residential and commercial property is now 60 percent of the statewide property tax base, up from 43 percent in tax year 1990. Thus, residential and commercial property pays over half the total taxes for the 101 mills levied state-wide for schools and the university system. The shares of the other classes have shown a corresponding decline.

This "shift" in the property tax burden has resulted from two major factors: changes in property tax laws and changes in the economy. Among the legal changes, the taxable value rate for most business equipment dropped from 9 percent to 3 percent, electrical generation and telecommunications equipment dropped from 12 percent to 6 percent, and livestock dropped from 4 percent to zero. The taxable value rate for residential and commercial property fell from 3.86 percent to 3.37 percent, and 31 percent of the value of residential property is now exempted from tax (13 percent for commercial property).

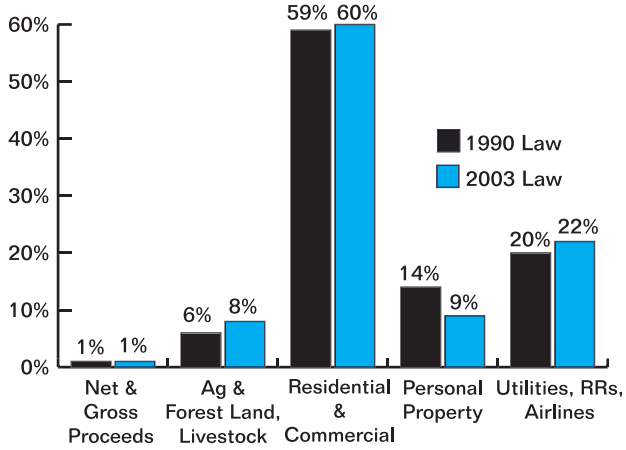
Changes in the economy also affect the tax base. Substantial in-migration to Western Montana resulted in new construction and rapidly rising property values, which would have increased the residential and commercial share even if the laws hadn't changed. Figure 3 illustrates this idea: The market value of property in 2003 is used to compute the property tax base under 1990 law; i.e. what the 2003 property

Figure 2
The Changing Property Tax Base
1990 and 2003



Source: Biennial Reports, Montana Department of Revenue.

Figure 3
Tax Base Under 1990 and 2003 Laws



Source: Biennial Reports, Montana Department of Revenue.

tax base would have been if there had been no changes in the law. The striking feature of the chart is that residential and commercial property would have grown to 59 percent of the tax base even if the law had not changed. That is, most of the shift in the property tax burden has resulted from changes in the economy itself — specifically the growth of residential and commercial property — not from changes in the law.

Montana's Income Tax Reform

Montana's income tax underwent substantial changes effective January 1, 2005. As Table 2 indicates, the top marginal tax rate declined from 11 percent to 6.9 percent. However,

Table 2
Top Income Tax Rates

State	Statutory	Deduct Federal?	Effective Ordinary	Effective Capital Gains
Montana	**11.0%**	**Yes**	**5.6%**	**6.5%**
2005	**6.9%**	**Max=$10k**	**4.8%**	**4.1%**
Idaho	7.8%	No	5.5%	5.5%
North Dakota	5.5%	No	3.9%	2.6%
South Dakota		No Income Tax		
Wyoming		No Income Tax		

Note: Assumes taxpayer is in the 30 percent federal tax bracket.

Source: Federation of Tax Administrators, author's calculations.

Montana previously allowed taxpayers to deduct the full amount of their federal income taxes when filling out their state returns. Thus, the "effective rate," which takes account of both the deductibility of federal taxes on state returns and state taxes on federal returns, was considerably less than the statutory rate. Beginning in 2005, a married couple filing jointly will be able to deduct a maximum of $10,000 ($5,000 filing single). For most taxpayers, the deductions limits won't be binding. But the new limitations will be binding for about 15 percent of taxpayers, mostly at the highest income levels. For a taxpayer in the new 6.9 percent bracket who can continue to deduct all federal taxes, the marginal effective rate declines to 3.5 percent. Taxpayers who reach the limit on federal tax deductions will have a top effective rate of 4.8 percent.

One of the unusual features of Montana's income tax was that capital gains from asset sales were taxed at a higher rate than ordinary income. Many states and the federal government tax capital gains at *lower* rates, because the so-called "gain" is often partly a phantom result of inflation, and partly to encourage investment and entrepreneurial activity. Montana's higher effective rate actually resulted from lower rates of federal tax on capital gains: With lower federal taxes, the taxpayer had less to deduct on the Montana return and thus owed more to the state. Beginning in 2005, capital gains receive a 1 percent tax credit that more than offsets the lower Federal rate, and so effective rates are substantially reduced. Even taxpayers whose federal tax deductions are limited will see the top effective rate reduced from 6.5 percent to 4.1 percent. The tax credit for capital gains is scheduled to increase to 2 percent in 2006, further reducing the effective rate.

Summary

Montana's taxes have declined relative to income and in comparison with other states, especially in recent years. The property tax base has changed dramatically, reflecting the equally dramatic changes in the economy of Western Montana. Income tax reform will lower overall bills by about 7 percent and significantly change the taxation of capital gains. But income taxes remain high in comparison with many other states, including most of our neighbors. While the state budget is at least temporarily in balance, paying for education and health care is likely to become more difficult. Thus, tax reform will continue to be an important issue. ❑

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2005 U.S. Economic Outlook

by Paul E. Polzin

The fits and starts that followed the 2001 recession and 9/11 terrorist attacks appear to have ended, and the U.S. economy is in the midst of a solid – if unspectacular – recovery. Higher interest rates and oil prices and the end of the tax cuts will likely lead to somewhat slower GDP growth in 2005. Even a major economic shock, however, would probably not derail the recovery.

So, with apologies to David Letterman and thanks to Global Insight Inc., here are our Top 10 economic predictions for 2005:

1. A slowdown, but no slump. The deceleration is not the beginning of a more serious downturn.

2. Oil prices will come down – a little, to between $40 and $45 a barrel in 2005, $30-$35 a barrel in longer term.

3. Inflation is a low-level threat. U.S. inflation will be kept in check by strong productivity growth and excess worldwide capacity.

4. Interest rates will rise – slowly. Monetary policy has become tighter in the United States and other countries.

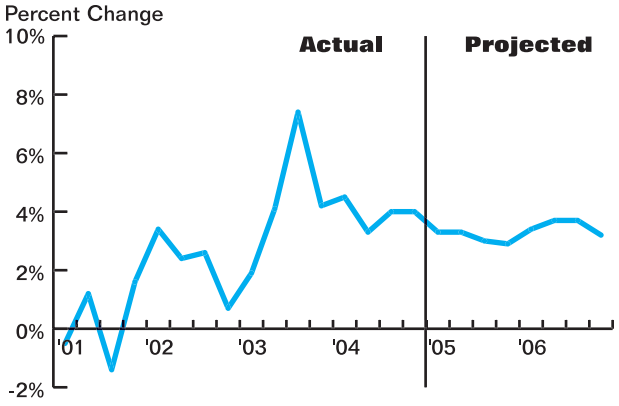
5. Euro-zone and Japan will continue to languish. Both these economies suffer from supply problems (slow labor-force and productivity growth rates) and demand problems (growth-unfriendly macroeconomic policies).

6. No hard landing for China. Some sectors of the economy are overheating, but a hard landing is not the most likely scenario.

7. The U.S. dollar will fall, but not crash. Given the size of the U.S. economy, its locomotive role in the world recovery, and the reserve status of the dollar, a crash is unlikely.

8. Despite campaign promises, taxes will rise. Cuts in non-defense discretionary spending will not be large enough to close the budget gap, so taxes will have to rise.

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



Source: Global Insight Inc.

9. Offshore outsourcing: more to come. The impact of "offshoring" is identical to technology, and trade. Some jobs are displaced, more jobs are created, and living standards improve.

10. A major shock will not derail the recovery. The U.S. and non-Japanese recoveries are strong enough to withstand another big shock – such as a dollar crash, a Chinese hard landing, much higher oil prices, or even another terrorist

Table 1
Economic Trends for the U.S. Economy, 2000-2008
Actual and Projected as of December 2004

	Actual				Projected				
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP (chained $), percent change	3.7	0.8	1.9	3.0	4.4	3.5	3.3	3.4	3.2
Inflation (CPI-U), percent change	3.4	2.8	1.6	2.3	2.7	2.3	1.6	1.8	2.0
Interest Rates									
90-day T-bills, percent	5.8	3.4	1.6	1.0	1.4	3.0	3.4	3.8	4.1
Mortgage rates (30 years), percent	8.1	7.0	6.5	5.8	5.9	6.4	6.7	7.1	7.5
Housing starts, millions	1.57	1.60	1.71	1.85	1.96	1.82	1.69	1.66	1.64
Unemployment rate, percent	4.0	4.8	5.8	6.0	5.5	5.3	5.4	5.4	5.3

Source: Global Insight Inc.

Strong Economic Growth Continues in Montana

by Paul E. Polzin

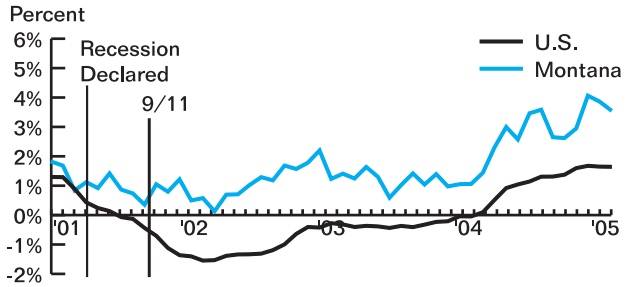
Ever the maverick, Montana continues to show economic trends decidedly different than those seen nationally. For example, compare employment growth in Montana to the nation as a whole. If you look at the U.S. data through January 2005, you can clearly see the onset of the 2001 recession and the economic impact of the Sept. 11, 2001 terrorist attacks (Figure 1). 9/11 turned a short, mild recession into a much longer and deeper dip.

Now look at the Montana data. It simply does not show the same trend as the U.S. data. Montana did not feel the impact of the 2001 recession or the economic bust that followed the terrorist attacks. Through most of 2001, 2002, and 2003, the Montana economy outperformed the U.S. economy. Just recently, job growth in the United States began outperforming Montana – but not because of a slowdown here. The nation has simply – finally – recovered from the recession.

We can see the same trends in other data. Look at the Consumer Sentiment Index, an important indicator because it is completely independent of the labor market data. The Montana and U.S. indices were about equal in 2000 (Figure 2). Since then, the Montana index has remained well above the U.S. index. You can clearly see the important economic events pictured in the U.S. data. Consumer sentiment declined at the onset of the last recession and then again right after the Sept. 11 attacks. There were also declines in 2002 reflecting the corporate scandals. And in early 2003, there were pre-Iraq war jitters. The Montana index does not show any of those trends.

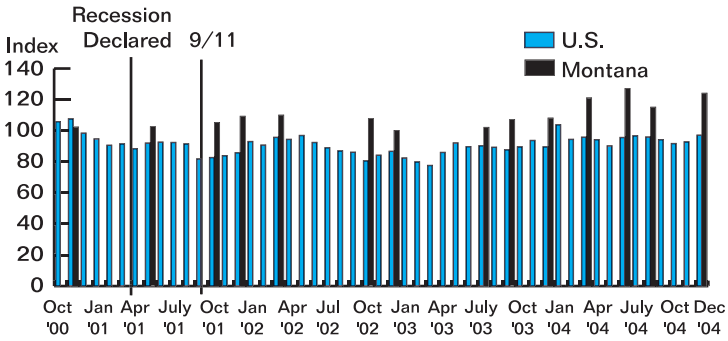
The data are obvious. Montana avoided the 2001 recession and the economic aftermath of 9/11. The U.S. industries most affected by the last recession included dot-coms, financial services, and high-tech manufacturing. These industries are relatively unimportant in Montana's economic base, so

Figure 1
Annual Percent Change in Nonfarm Employment Growth, U.S. and Montana, January 2001 to January 2005



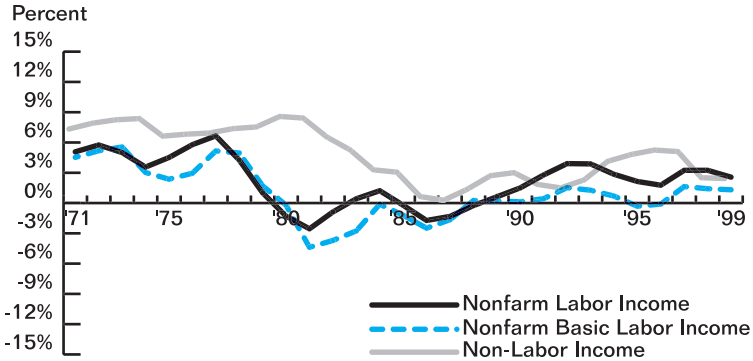
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 2
Index of Consumer Sentiment, U.S. and Montana, Oct. 2000 to Dec. 2004



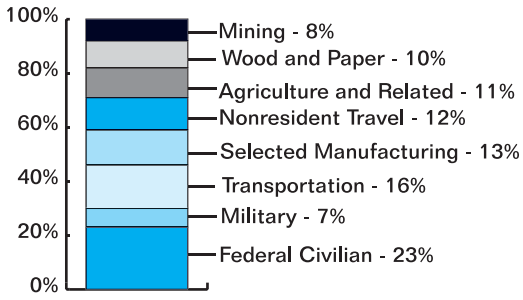
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percentage Change, 3-Year Moving Average (in constant dollars)



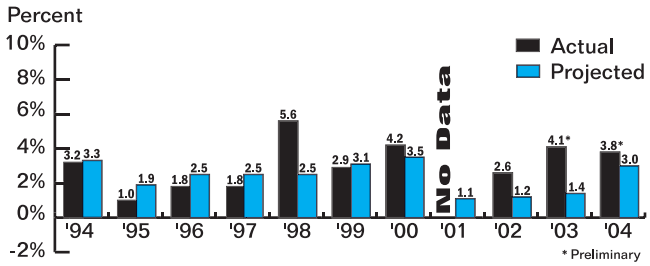
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Labor Income in Basic Industries, Montana, 2000-2003 (percent of total)



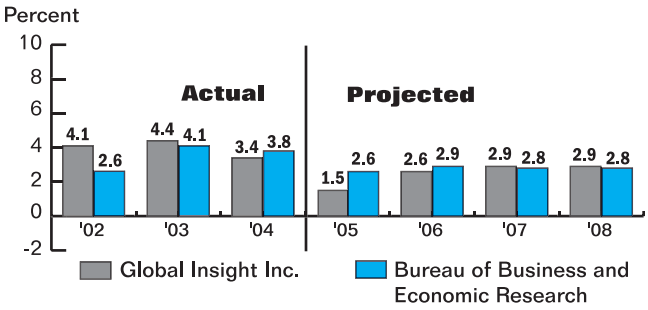
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1994-2004



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

Figure 6
Actual and Projected Change in Nonfarm Labor Income, Montana, 2002-2008



Sources: Bureau of Business and Economic Research and Global Insight Inc.

we were spared many of the repercussions. We may not be so lucky during future recessions. If future recessions are concentrated in our basic industries, Montana will feel the impacts.

Basic Industries Determine Trends

Why do we spend so much time talking about our basic industries? The simple answer is that they explain long- and short-term trends in the Montana economy. Figure 3 depicts three-year moving averages, which smooth irregularities but may not accurately picture lead-lag relationships. There was no deterioration in the predictive power of basic industries even though the Montana economy underwent significant structural changes from the early 1970s to the late 1990s.

Nonfarm labor income (transfer payments plus dividends, interest, and rents) is sometimes suggested as an important growth determinant for Montana because it may incorporate retirees, amenity migrants, and other factors not included in the basic industries. Changes in nonfarm labor income are not correlated with overall trends in the Montana economy.

Montana House Price Bubble?

One noteworthy development in Montana's economy has been accelerating house prices. These increases have led to stories in the media questioning whether or not the increases have outpaced the improved fundamentals (mostly borrowing costs and income growth), leading to a bursting of the housing bubble. Statewide house price increases have been equal to or less than the national average, suggesting low risk of a burst (Table 1, page 8). But Missoula County house price increases have outpaced U.S. figures, sometimes by a considerable margin. There is also anecdotal evidence of similar house price increases near Bozeman, Kalispell, and elsewhere in Western Montana. Therefore, some parts of the state appear to be at risk to experience bubble-burst effects, if they occur.

Forecasts

This year, The University of Montana's Bureau of Business and Economic Research looked at the accuracy of our past forecasts. We began our current forecasting system in 1993, so our first forecast was for 1994. As is true with the U.S. economy, we are presenting our year-ahead projections. And like most data presentations, there are some footnotes. The figures for 2002, 2003, and 2004 are still preliminary. Also, there is no actual data for 2001. That is when the federal government changed its statistical definitions. Figures before this data are simply not comparable to those after this data.

Looking at the forecasts, we see that we were too high in three years, too low in five years, and right on in two years – at least within 0.2 percent (Figure 5). At the statewide level, there doesn't seem to be a pattern of consistently being too high or two low.

Our two biggest forecasting errors were in 1998 and in 2003. We know what the problem was in 1998 – the Columbia Falls Aluminum Co. wage settlement. CFAC pumped almost $100 million into the state's income that year. We are not yet sure what the problem was in 2003. The data are still preliminary. We think it was in construction. There were a number of major government projects underway, plus the low interest rates stimulated private construction.

You can see a pattern here. At the national level, the forecasting difficulties were mostly associated with recessions. But Montana is small. Our biggest forecasting problems are single events – or what happens to a single plant.

That brings us directly to the forecasts for 2005. In addition to the BBER's own forecasts, we are also presenting those prepared by Global Insight Inc. (Figure 6) We are forecasting

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

	Missoula County	Cascade County	Yellowstone County	Montana	United States
2003Q3 - 2004Q3	16.2	4.3	9.3	11.9	13.0
2002Q3 - 2003Q3	7.4	4.5	7.1	6.3	6.0
2001Q3 - 2002Q3	9.1	3.4	5.2	5.9	7.2

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

about a 2.6 percent increase in 2005, while Global Insight is a little lower – at 1.5 percent. For 2006 to 2008, both of us are forecasting growth from 2.6 percent to 2.9 percent.

At first glance, it appears that both the BBER and Global Insight are forecasting a slowdown in Montana. The projected growth rates are about 3 percent, while the historic rates are closer to 4 percent. I can't speak for Global Insight, but I know that our forecasts do not reflect a significant slowdown. The slightly lower rates of growth really reflect conservative assumptions about the future growth in labor productivity. They do not mean a slowdown in overall economic activity.

In short, we are looking for a continuation of the current strong commodity prices, continued strong oil and gas exploration, and perhaps a slight slowdown in construction associated with higher interest rates. The major risks to this forecast are really national or international in scope – namely that something will happen in China or elsewhere to soften commodity prices or sharply raise interest rates.

Table 2
Population, Montana and BEA Regions, 1990-2010

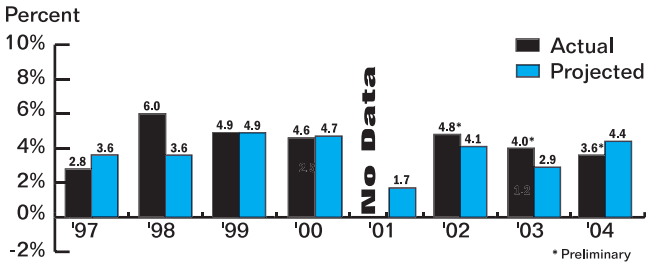
	Thousands of Persons				Average Annual Percent Change		
	Actual			Projected			
	1990	2000	2003	2010	1990-2000	2000-2003	2003-2010
Montana	800	902	918	964	1.2%	0.6%	0.7%
West	335	400	410	440	1.8%	0.8%	1.0%
Missoula	79	95	99	108	1.8%	1.4%	1.3%
Flathead	60	75	80	90	2.3%	2.1%	1.7%
Silver Bow	34	35	33	35	0.3%	-1.9%	0.8%
Lewis and Clark	48	56	57	61	1.5%	0.6%	1.0%
Ravalli	25	36	39	44	3.7%	2.7%	1.7%
Rest of West	89	103	102	102	1.5%	-0.3%	0.0%
North-Central	181	183	181	182	0.1%	0.4%	0.1%
Cascade	78	80	80	81	0.3%	0.0%	0.2%
Rest of North-Central	103	103	101	101	0.0%	-0.6%	0.0%
Southeast	284	319	327	342	1.2%	0.8%	0.6%
Yellowstone	114	128	133	144	1.2%	1.3%	1.1%
Gallatin	51	68	73	82	2.9%	2.4%	1.7%
Richland	11	10	9	10	-0.9%	-3.5%	1.5%
Custer	12	12	11	12	0.0%	-2.9%	1.2%
Rest of Southeast	96	101	101	94	0.5%	0.0%	-1.0%

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

Outlook for Missoula County

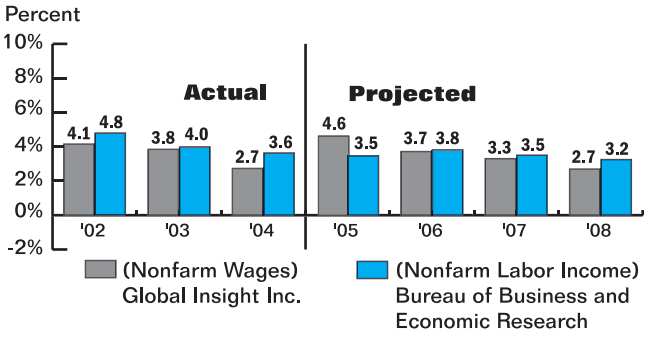
Missoula continues as the dominant trade and service center in Western Montana. It is the second largest trade center in the state after Billings. The employment data (Figure 3) show that Missoula completely avoided the 2001 recession and the economic aftermaths of the Sept. 11 terrorist attack. The employment data also show that the Missoula economy significantly outperformed the state throughout the first half of the decade. The employment growth peak in early 2004 is preliminary, and may not appear in revised data. Most of Missoula's recent growth occurred in trade center-related activities such as health care, business and professional services (including advertising, engineering, and similar services). The index for single-family home prices in Missoula County grew 16.2 percent in 2004, well above the statewide and national averages (Table 1, page 8). Missoula County ranked 54 out of 245 metropolitan areas in the United States in terms of house price increases in 2003. Both BBER and Global Insight Inc. project Missoula to continue to grow about 3.0 to 4.0 percent during the 2005-2008 period.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 1997-2004



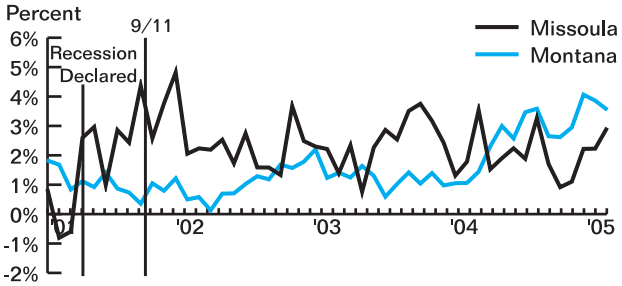
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Missoula County, 2002-2008



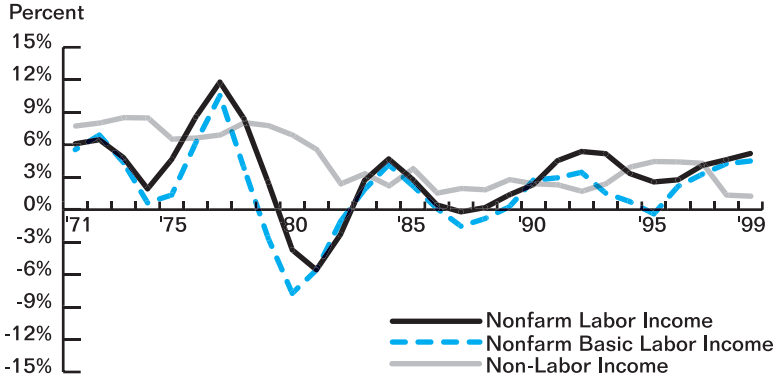
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment January 2001 to January 2005



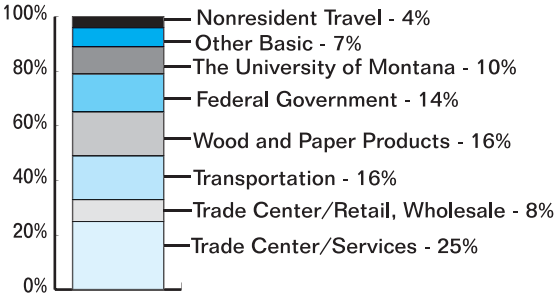
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Missoula County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Missoula County, 2000-2003 (percent of total)

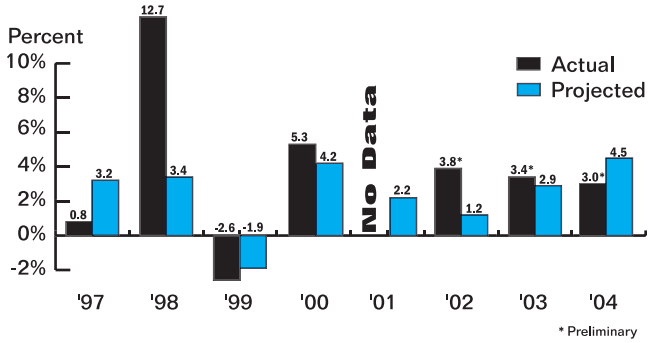


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Flathead County

Flathead County has been one of the consistently fast-growing urban counties in the state. But it was also one of the most volatile, as growth rates vacillated from one year to the next as shown in Figure 4. Flathead County has a diversified economic base built. Manufacturing (wood products, primary metals refining, and high-tech) accounts for about 45 percent of the economic base. Other major components are the federal government (including the USDA Forest Service and the U.S. Park Service), transportation (including railroads), and nonresident travel. Kalispell has also evolved into a second-order trade and service center (including health care). BBER's major forecasting error occurred in 1998 when the Columbia Falls Aluminum Company's wage settlement injected almost $60 million into the local economy. BBER projects the nonfarm labor income will grow between 3.0 and 4.0 percent per year from 2005 to 2008. Global Insight Inc. sees slightly faster growth in 2005, and then a deceleration.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 1997-2004



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

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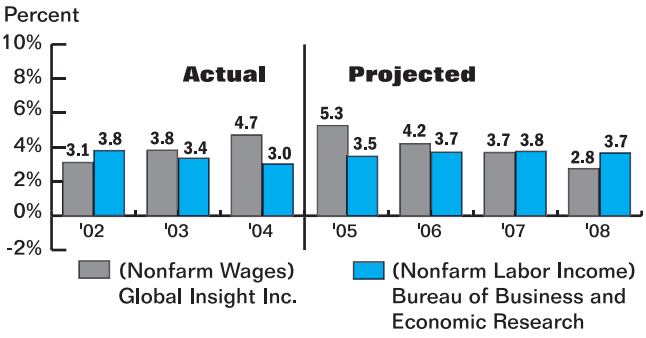
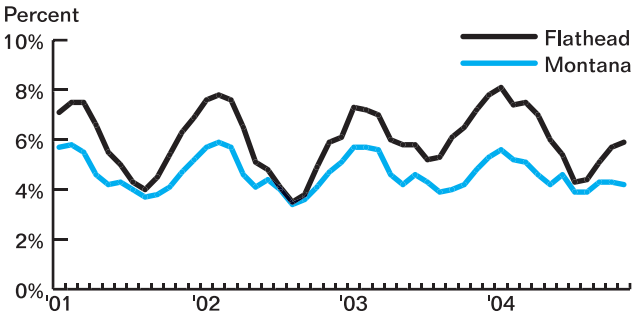
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Flathead County, 2002-2008



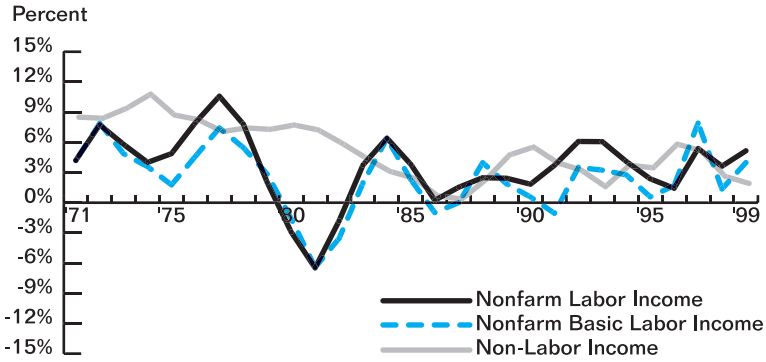
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



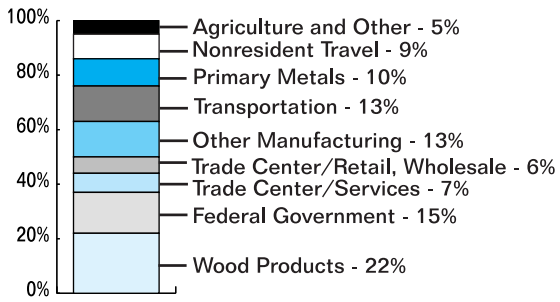
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Flathead County, Percentage Change, 3-Year Moving Average [in constant dollars]



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

Figure 5
Labor Income in Basic Industries, Flathead County, 2000-2003 [percent of total]

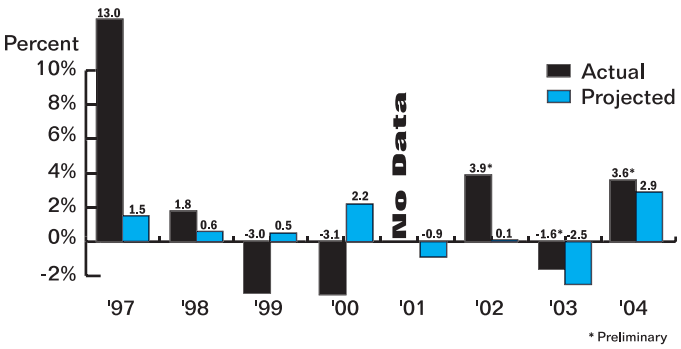


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Silver Bow County

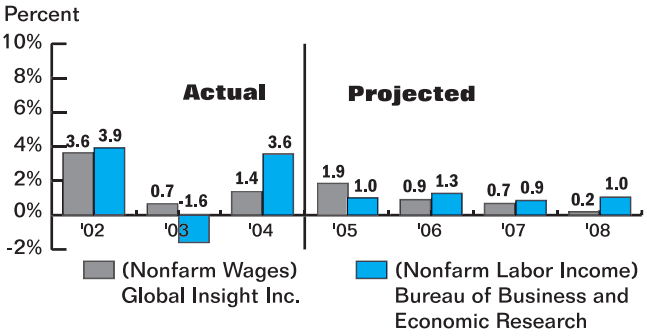
The healthy 3.6 percent increase during 2004 reflects the reopening of the Montana Resources mine. The growth would have been even greater if this good news were not balanced by bad news associated with utility-related job losses and the final shutdown of Touch America. Year-to-year growth rates for Silver Bow County have been very difficult to accurately predict because they can be influenced by a single event. For example, the 13.0 percent growth in 1997 was caused by the construction and opening of the Advanced Silicon Materials, LLC plant. BBER projections are for approximately 1.0 percent growth per year from 2005 to 2008. The Global Insight Inc. forecasts are in the same ballpark, but show deceleration in the projected growth rate.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 1997-2004



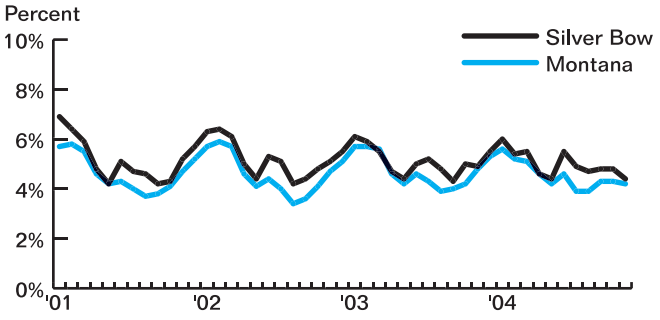
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Silver Bow County, 2002-2008



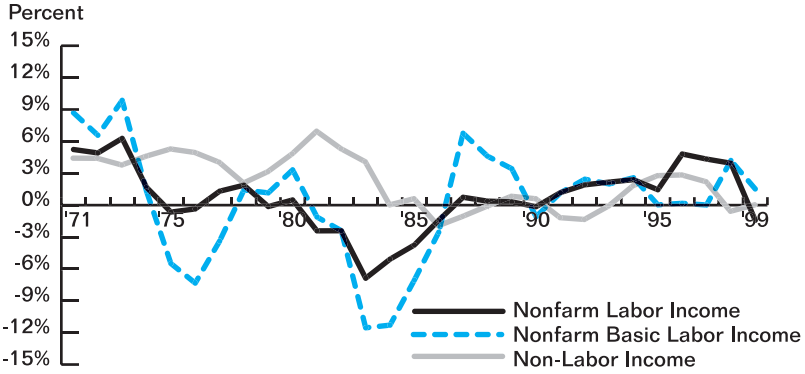
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



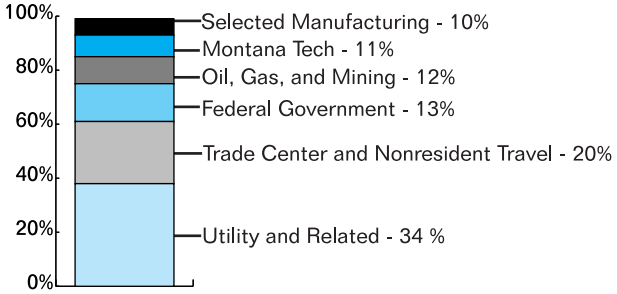
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Silver Bow County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Silver Bow County, 2000-2003 (percent of total)

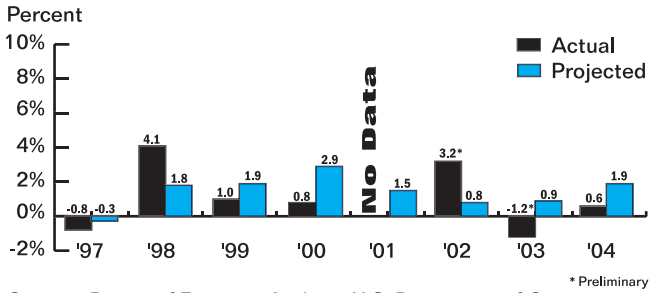


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Cascade County

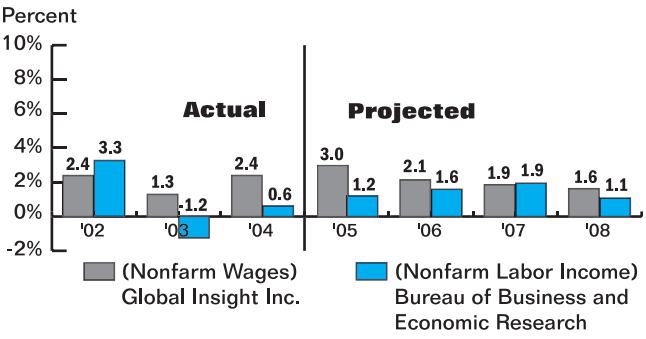
Malmstrom Air Force Base and regional trade center activities (including health care) account for more than one-half of the economic base in Great Falls. Financial services were one of the fastest-growing components of the trade center activities. Since the mid-1980s, there has been only slow growth in the economy. The index of single-family home prices increased 4.3 percent in Cascade County during 2003, considerably less than the statewide and national averages (page 8, Table 1). With the exception of 1998 and 2002, the BBER forecasts for Cascade County have been too optimistic. BBER projects the Cascade County economy will grow 1.0 to 2.0 percent per year from 2005 to 2008. The Global Insight Inc. projections are slightly higher, but they anticipate a modest deceleration late in the forecast period.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 1997-2004



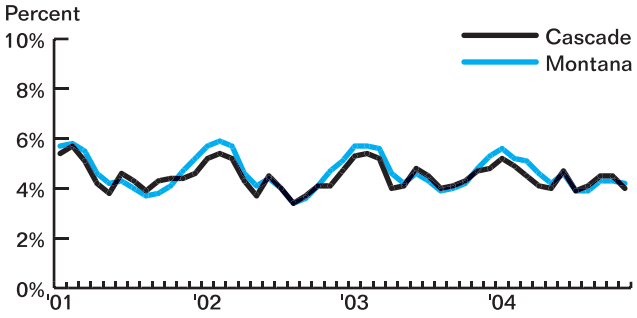
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Cascade County, 2002-2008



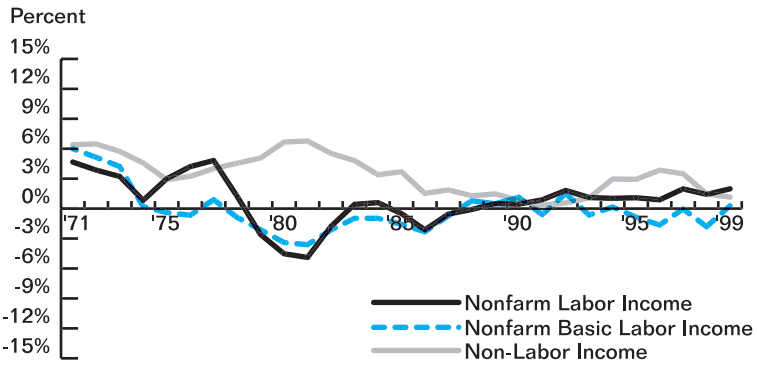
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



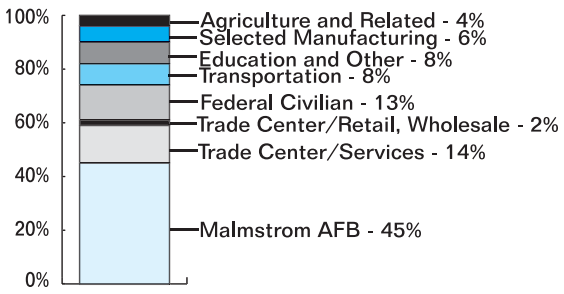
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Cascade County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 4
Labor Income in Basic Industries, Cascade County, 2000-2003 (percent of total)

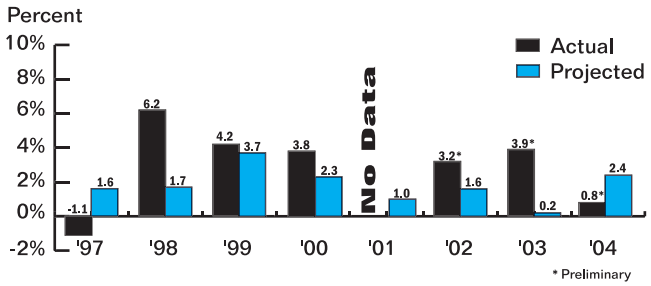


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Lewis and Clark County

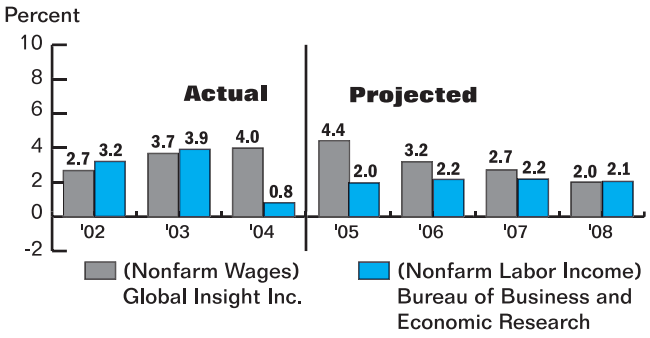
State and federal governments together account for more than 60 percent of the economic base in Lewis and Clark County. The largest recent forecasting error occurred in 2003 when unexpectedly strong growth in retail trade (perhaps due to the opening of large retail units) countered the freeze in state worker salaries. BBER projects acceleration in 2005, partially due to a resumption of state worker salary increases, and then continued growth of about 2.0 percent per year. Global Insight Inc. anticipates somewhat more rapid growth in 2005, and a gradual deceleration in growth thereafter.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Lewis and Clark County, 1997-2004



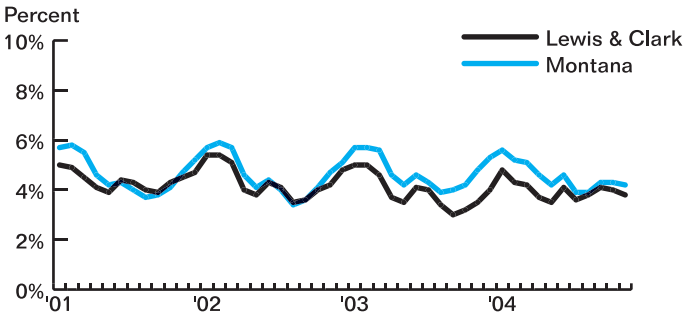
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Lewis and Clark County, 2002-2008



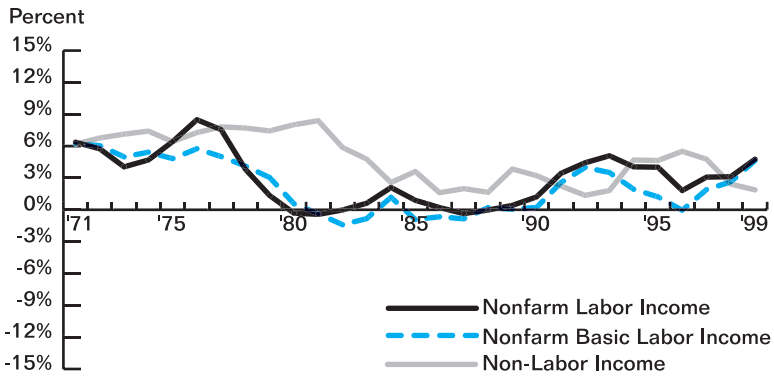
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



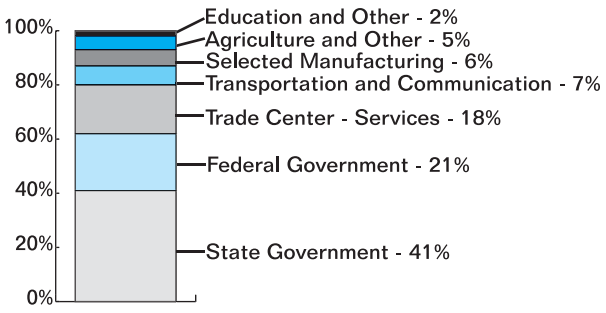
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Lewis and Clark County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Lewis and Clark County, 2000-2003 (percent of total)

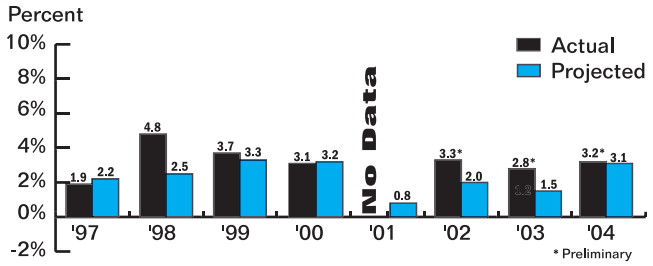


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Yellowstone County

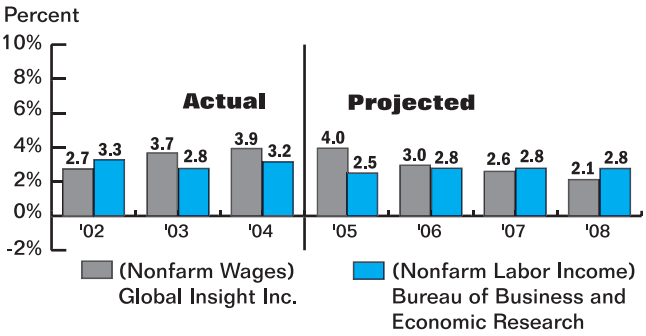
Billings is Montana's largest trade and service center. The service industries — such as business services, health care, and professional services — are the strongest of the trade center activities. Increased competition from smaller trade centers such as Bozeman and Miles City has measurably impacted Billings' retail businesses. The monthly employment data shown in Figure 3 suggest that Yellowstone County has generally exceeded the statewide averages from 2001 to 2004. The index for single-family home prices in Yellowstone County increased 9.3 percent in 2004. This growth was slightly less than the statewide and nationwide figures, but Yellowstone County was 108 out of 245 metro areas ranked by the federal government. BBER forecasts Yellowstone County growth to slow slightly in 2005, and then continue in the 2.0 to 3.0 percent range until 2008. Global Insight Inc. projects Yellowstone County growth to decelerate throughout the 2005 to 2008 period.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 1997-2004



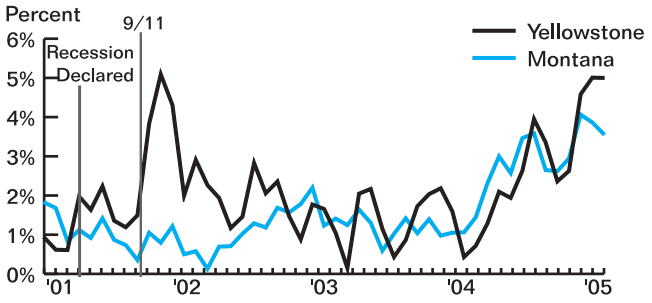
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Yellowstone County, 2002-2008



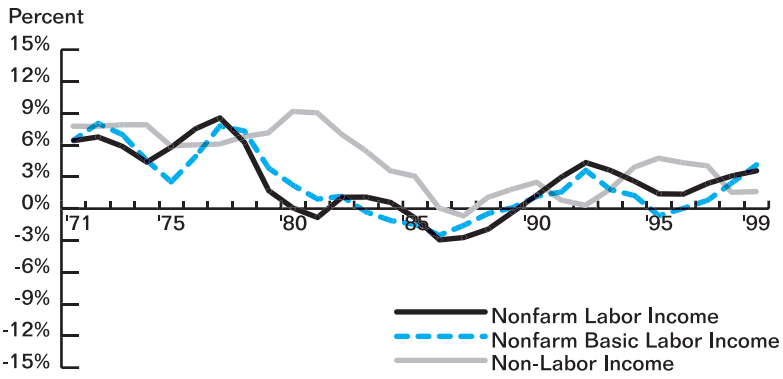
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment January 2001-November 2005



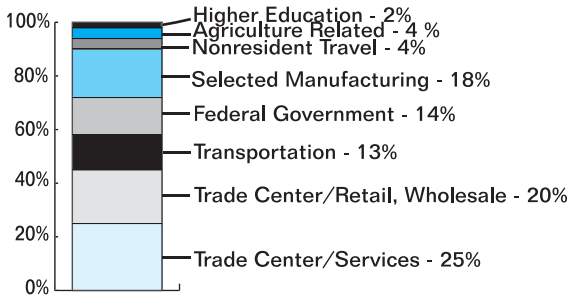
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Yellowstone County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Yellowstone County, 2000-2003 (percent of total)

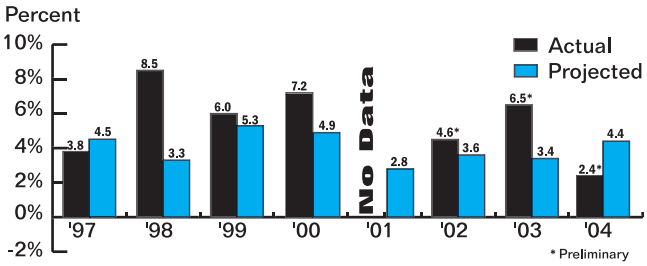


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Gallatin County

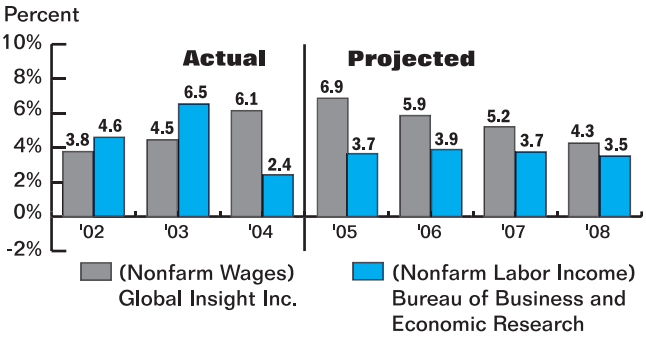
Gallatin County was one of the fastest growing counties in Montana during the last 30 years. Even during the disastrous 1980s, there were no periods of decline (although they came close in 1980 and again in 1986). Bozeman is now a second-order regional trade center; the export components of retail trade and services (including health care and business services) account for almost one-quarter of the economic base. BBER labor income projections have consistently understated the actual growth in Gallatin County. BBER projects acceleration in 2005 and then continued growth in the 3.5 to 4.0 percent per year range to 2008. Global Insight Inc. projects slightly faster growth in 2005 and then a deceleration to 2008.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 1997-2004



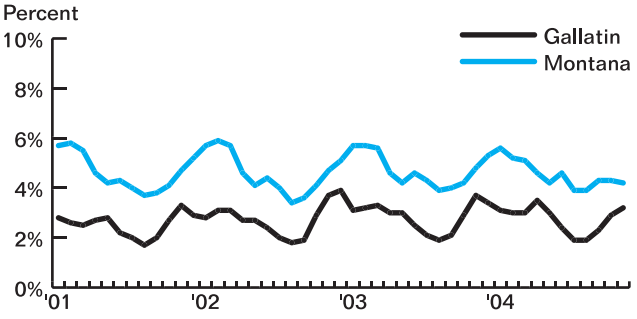
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Gallatin County, 2002-2008



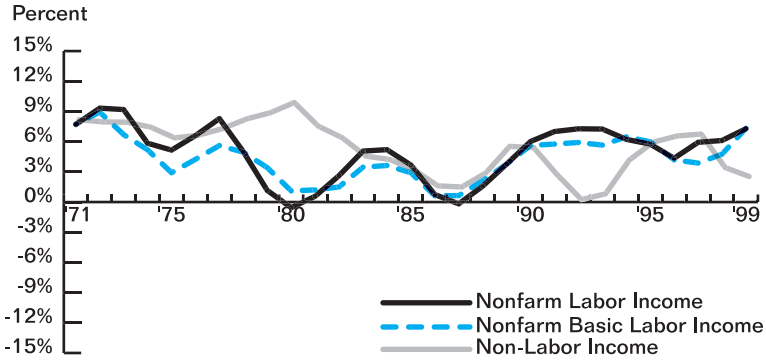
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



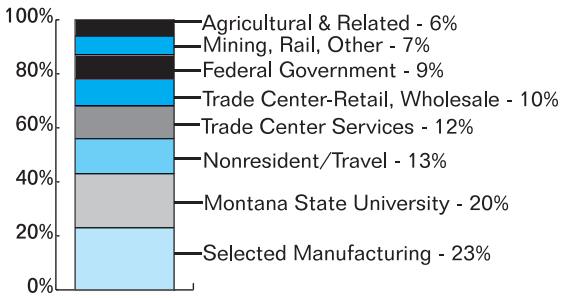
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Gallatin County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Gallatin County, 2000-2003 (percent of total)

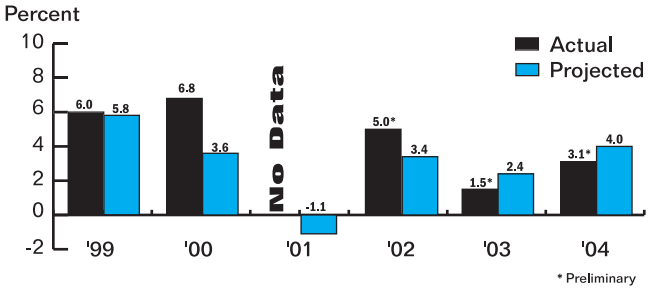


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Ravalli County

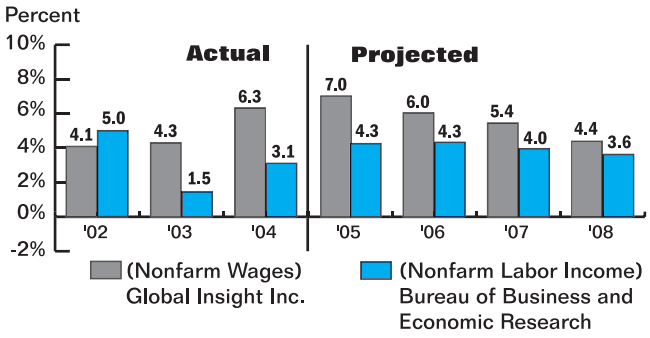
Northern Ravalli County is part of the Missoula-area economy, and commuters (those living in Ravalli County but working in Missoula) are the largest component of the economic base. BBER projects slightly faster growth in 2005 and then increases of roughly 4.0 percent per year between 2006 and 2008. The Global Insight Inc. forecasts are slightly higher, but they call for a deceleration between 2005 and 2008.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 1999-2004



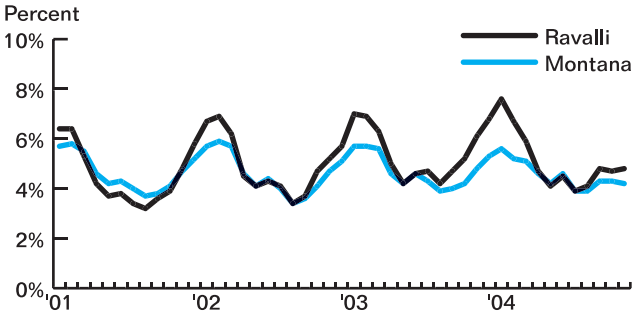
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Ravalli County, 2002-2008



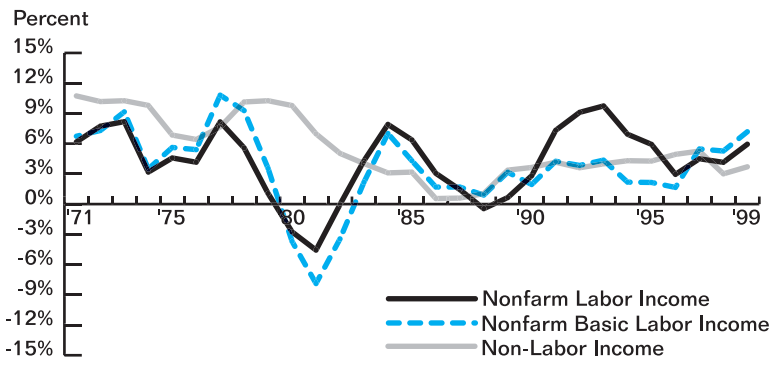
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate January 2001-November 2004



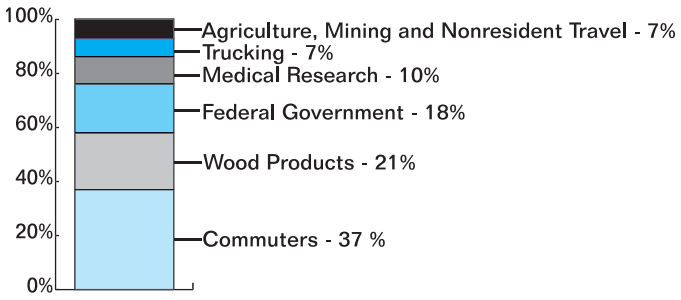
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Ravalli County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Ravalli County, 2000-2003 (percent of total)

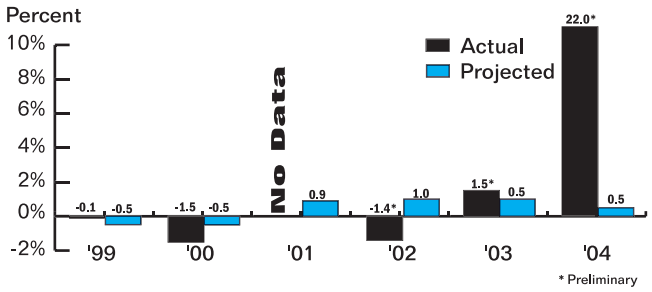


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Richland County

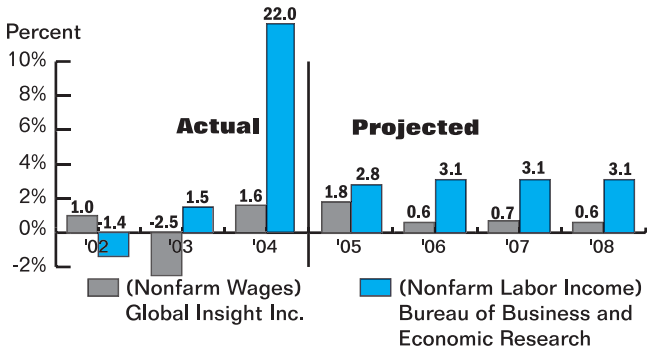
There is no question about the economic topic in Richland County It is the resurgence in energy activity and the associated economic impacts. The recent oil price spike was caused mostly by demand factors associated with rapid third-world economic growth (China, India etc.) rather than by supply constrictions. This situation suggests that world prices may not return to their earlier levels for a number of years (although the recent $50 plus per barrel/bbl prices will probably not last), and the local activity will not suddenly cease. We still do not exactly know the actual impacts because the 2004 data are preliminary, but the current spike may rival that of the early 1980s. The BBER forecasts assume a continuation of energy activity at about the current levels until 2008.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Richland County, 1999-2004



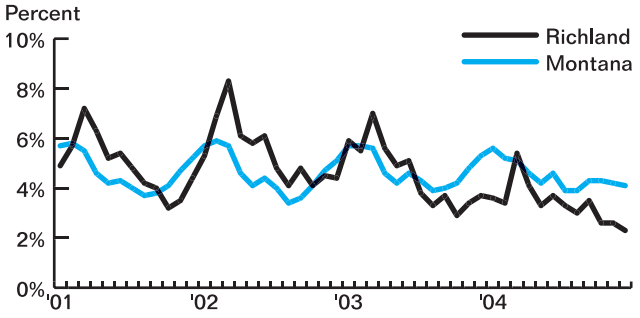
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income and Nonfarm Wages, Richland County, 2002-2008



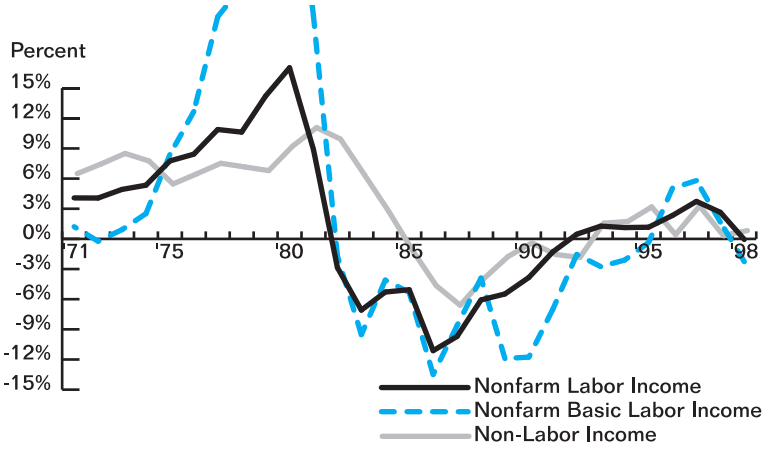
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate, January 2001-November 2004



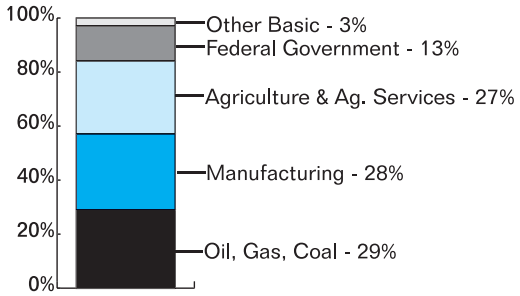
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Richland County, Percentage Change, 3-Year Moving Average [in constant dollars]



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

Figure 5
Labor Income in Basic Industries, Richland County, 2000-2003 [percent of total]



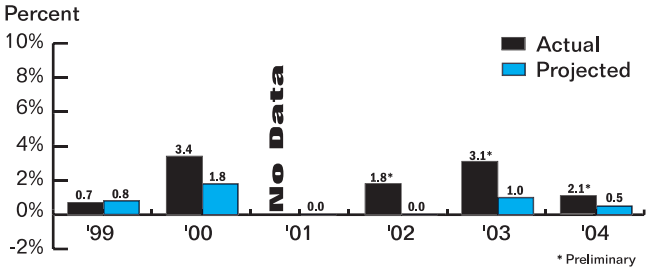
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook for Custer County

Miles City is not what you may think! State and federal workers account for more than one-half of the local economic base, and provide stability in what otherwise would be a volatile agricultural economy. The federal facilities include the Bureau of Land Management, the USDA Forest Service, and the U.S. Veterans Administration Hospital. Miles City Community College, Pine Hills School, and administrative offices for other agencies account for the state employees. Miles City has evolved into a second-order trade center serving nearby rural areas. Much of this activity is concentrated in general merchandise retail stores and health care. BBER forecasts have underestimated local growth in Custer County. The U.S. Veterans Administration has experienced downsizing in the last few years, but the change in its emphasis to long-term care should help to insure its continued operation. The excess electric generating capacity in the North Central United States has now been eliminated, and there are possibilities for new energy projects (both coal and electricity) in Eastern Montana. ❑

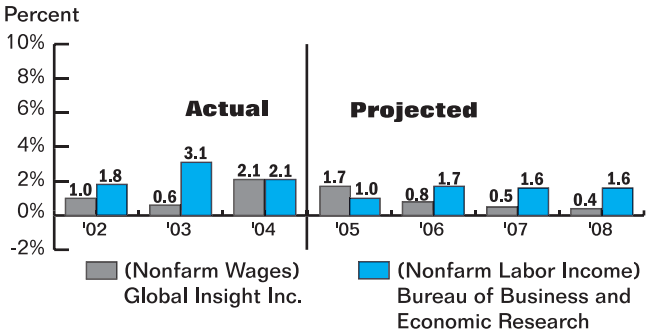
Paul E. Polzin is director of The University of Montana Bureau of Business and Economic Research.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Custer County, 1999-2004



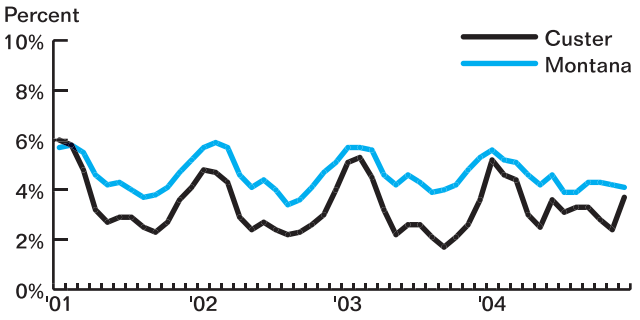
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Percent Change in Nonfarm Labor Income and Nonfarm Wages, Custer County, 2002-2008



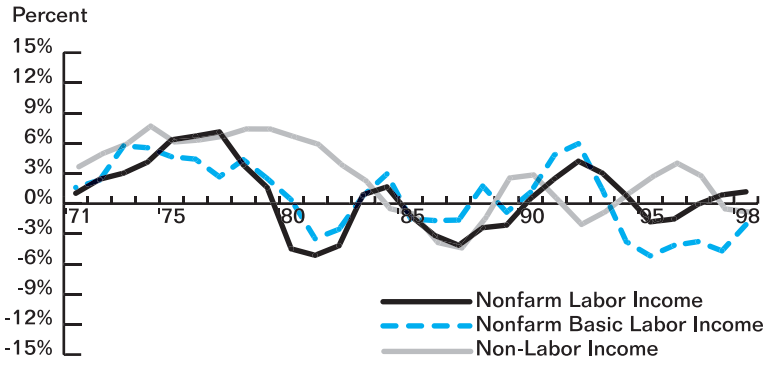
Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

Figure 3
Monthly Unemployment Rate, January 2001-November 2004



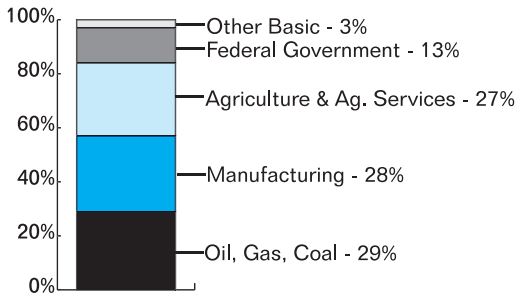
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Custer County, Percentage Change, 3-Year Moving Average (in constant dollars)



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

Figure 5
Labor Income in Basic Industries, Custer County, 2000-2003 (percent of total)



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

Another Slow Year for Montana Tourism

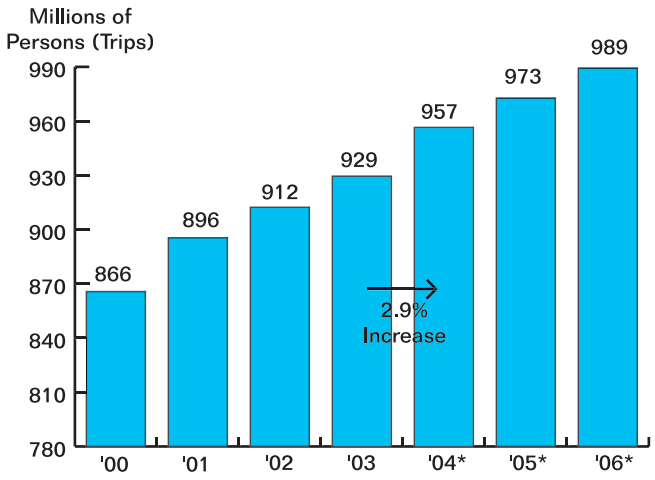
by Norma P. Nickerson, Jim Wilton, and Melissa Dubois

While domestic travel in the United States increased by nearly 3 percent in 2004 (Figure 1), nonresident travel in Montana remained flat from 2003 to 2004 (Figure 2).

It is unclear why Montana is not experiencing the same increase as the United States. Speculation suggests a number of possibilities:

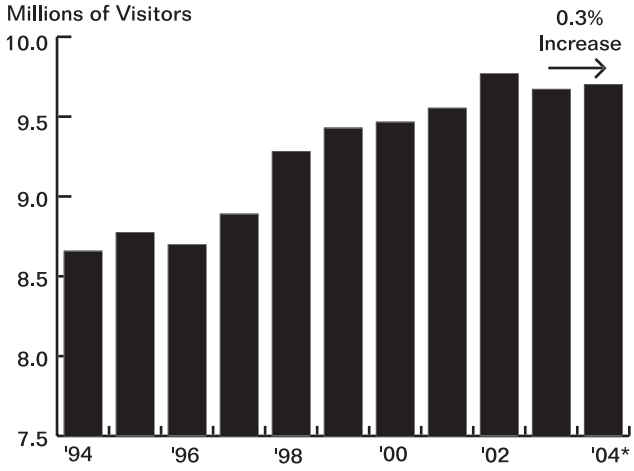
1. Gas prices may have reduced the number of long-haul trips. Nationally, people are vacationing closer to home. Montana does not have a population base nearby to draw nonresidents. Therefore, nonresident visitation to Montana suffers when travelers stay closer to home.
2. Montana is beginning to feel a change in the visitor profile. There are now fewer cars in the summer months compared to previous years — likely due to a reduction in long-haul trips — but more cars in the spring and fall. However, the additional spring and fall cars have fewer people per car. Therefore, the overall nonresident visitation number has barely changed in the past year, but the number of vehicles has increased.
3. Tourism advertising is a very competitive business. The Montana Division of Travel Promotion states their available dollars for advertising has not kept pace with the cost of

Figure 1
Domestic Leisure Travel Will Grow Slowly



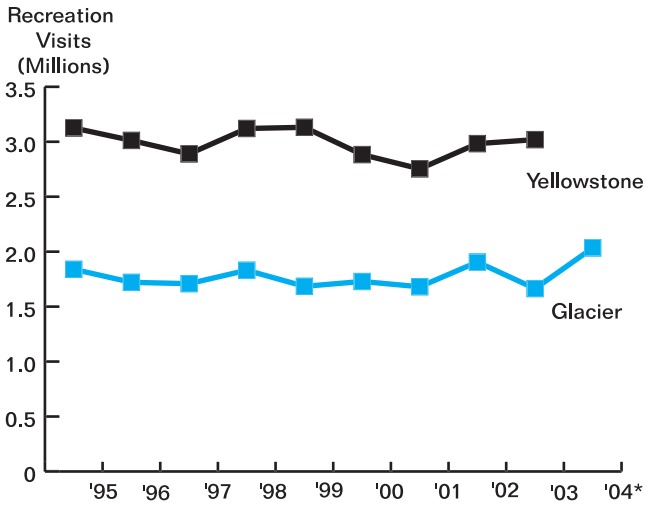
*forecasted
Source: Travel Industry Association of America, 2004 Outlook Forum.

Figure 2
Montana Nonresident Visitor Trends



*preliminary
Source: Institue for Tourism and Recreation Research.

Figure 3
National Park Visitation



*preliminary
Source: National Park Service.

advertising increases, as well as other mountain states' advertising budgets. When other destinations are out-advertising Montana, it is a "harder sell" to get visitors to the state.

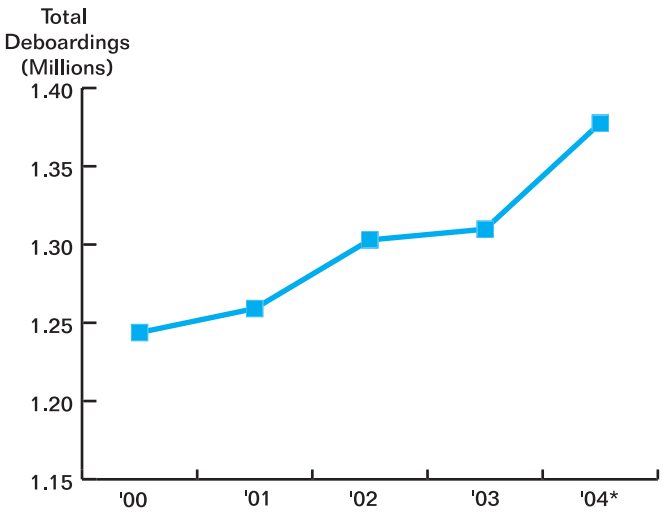
4. The largest single draw to Montana is Yellowstone National Park. 2004 preliminary estimates indicate that Yellowstone National Park saw 5 percent fewer visitors than in 2003. Without Yellowstone visitors, Montana has a hard time increasing their overall visitation (Figure 3).

Even though overall visitation to Montana was flat in 2004, air traffic actually increased 5 percent (Figure 4). Every major community in Montana experienced an increase in deboardings over 2003 (Table 1). Helena experienced the largest percentage growth at nearly 12 percent, followed closely by Bozeman at 10 percent.

Trends in Montana accommodations continue to be quite different than the overall Mountain Region trend (Figure 5). In 2004, the number of rooms sold decreased 0.4 percent over 2003, while the Mountain Region increased 4.6 percent.

The 2003-04 skier visits in Montana increased 6 percent over 2002-03 visits (Figure 6). While there appears to be an overall trend of increasing skier visits, it is not a straight line. Skier visits are perhaps one of the most difficult futures to project. While snow may fall heavily on one resort, it may

Figure 4
2000-2004 Montana Air Traffic



*preliminary
Source: Montana Aeronautics Division.

Table 1
Airport Deboardings by City
(Nov. Year to Date)

City	Percent Change 2004 vs. 2003
Helena	11.6%
Bozeman	9.7%
Kalispell	6.9%
Missoula	5.9%
Great Falls	5.8%
Billings	4.6%
Butte	3.7%

Source: Montana Aeronautics Division.

leave another one with minimal snow. To illustrate, Table 2 highlights the highest visitation year for 15 Montana resorts since 1988.

Lewis and Clark

It's time! Two hundred years ago, Lewis and Clark spent the summer in Montana on their trek to the Pacific Ocean. Montana has been gearing up for this commemoration for nearly 10 years. While there have been a wide range of estimates of how many people will visit during 2005 and 2006, no one really knows what this commemoration will bring. If the experience of other states is a gauge, Montana will see as few as 15,000 or as many as 500,000 visitors over a number of days of events. Figure 7 illustrates the estimated attendance at Lewis and Clark Signature Events, beginning January 2003 at Monticello, Virginia. These estimates were generated by the actual counts as people went through gates (accuracy guaranteed) to the number of cars in a parking lot, to the amount of toilet paper used (accuracy not guaranteed)!

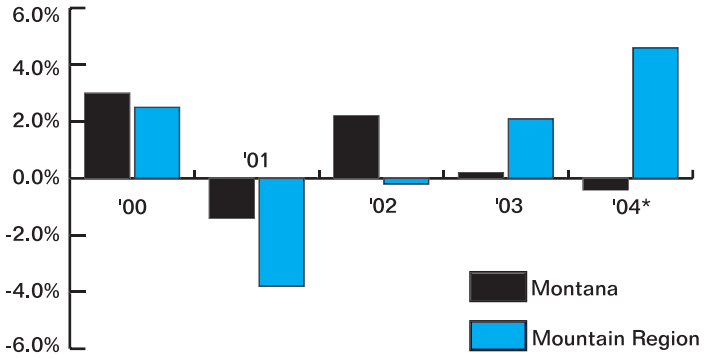
Fifteen Signature Events have been scheduled along the trail, two in Montana. "Explore! The Big Sky," a national Lewis and Clark Bicentennial Signature Event commemorating the expedition and the Plains Indians they encountered, will take place in Fort Benton and Great Falls from June 1 – July 4, 2005 and will last 34 days. "Clark on the Yellowstone" will occur the following summer, July 22-25, 2006, at Pompey's Pillar east of Billings and will last 4 days. The Fort Benton/Great Falls event should generate a substantial number of visitors. The only question is — will they be fellow Montanans or out-of-state visitors? Time will tell.

Looking beyond *events* surrounding Lewis and Clark, ITRR has gathered estimates of visitation at various Lewis and Clark sites over the past few years. Figure 8 provides an interesting picture of visitation at Montana sites between 2000 and 2003. As shown, visitation to these sites went down in 2003 by nearly 3 percent. 2004 numbers, while not complete, appear to be down again from 2003. The decrease may be attributed to the same speculations as to why Montana nonresident visitation overall is flat — gas prices, staying closer to home, and less advertising compared to other states. However, numbers may be down because the Lewis and Clark enthusiasts are visiting the states where Lewis and Clark were 200 years ago. If that holds true, sites in Montana should experience a comeback in 2005.

Tourism Businesses' Views on Taxes

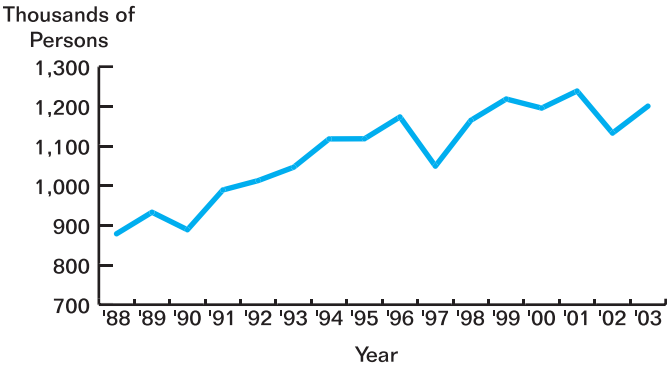
In keeping with the theme of the 2005 Outlook seminar topic – taxes – ITRR asked tourism business owners around the state their reflections on six tax questions. As seen in Table 3, the sales tax issue is receiving support from the tourism business community.While 67 percent of tourism business owners believe that nonresidents already pay their fair share of taxes for the services they use, nearly half (49 percent) said Montana should tax their visitors as other states do. Seventy-two percent do not believe a sales tax would deter nonresidents from visiting Montana, and 64 percent believe a statewide sales tax would benefit Montana's economy. When

Figure 5
Percent Change in Rooms Sold (2000-2004 Year to Date)



*Oct. YTD figure.
Source: Smith Travel Research.

Figure 6
Montana Ski Area Visits



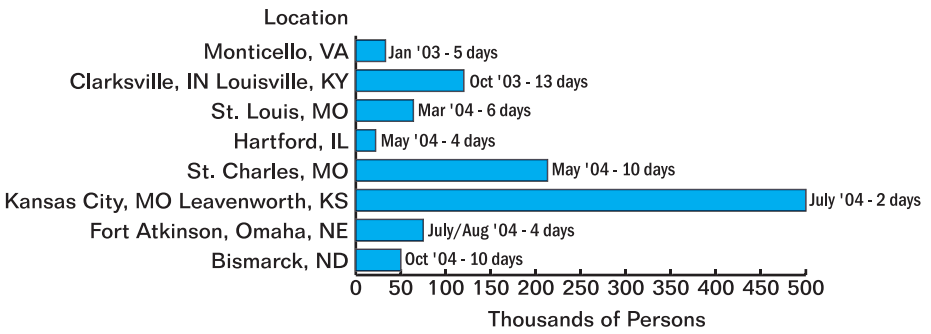
Source: USDA Forest Service, Big Sky, Great Divide.

Table 2
Best Ski Year Reported Since 1988

Ski Area	Year	Skier Visits
Lookout Pass		46,858
Great Divide	'03-04	70,000
Blacktail		35,715
Marshall		33,526
Snowbowl	'01-02	68,832
Turner		5,596
Big Sky	'00-01	320,767
Lost Trail	'99-00	45,738
Red Lodge	'97-98	147,406
Maverick	'96-97	11,964
Discovery	'95-96	62,066
Big Mountain		296,909
Bridger	'94-95	192,551
Showdown		59,152
Teton Pass/Rocky Mt.	'93-94	7,861

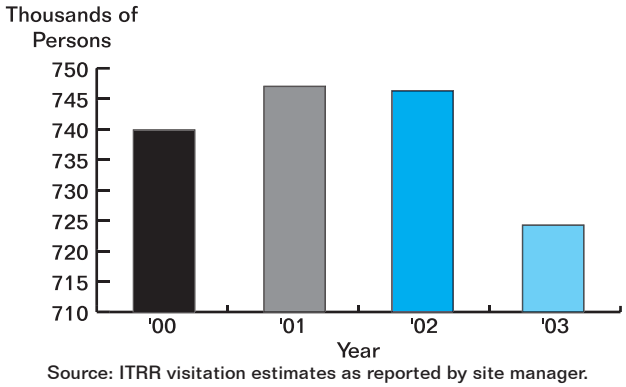
Source: USDA Forest Service, Big Sky, Great Divide.

Figure 7
Lewis and Clark Signature Events Attendance Estimates



Source: ITRR visitation estimates as reported by event organizer.

Figure 8
Montana Lewis and Clark Site Visitation*



Source: ITRR visitation estimates as reported by site manager.

* Sites include: Big Hole National Battlefield, Fort Peck Lake, Fort Union Trading Post, Headwaters Heritage Museum, Lewis & Clark Interpretive Center, Missouri Headwaters State Park, Pompey's Pillar National Monument, Fort Benton, Museum of the Upper Missouri, Museum of the Rockies, Upper Missouri River (BLM float estimates), Upper Missouri River Visitor Center.

Table 3
Tourism Business Owners Reflect on Sales Taxes* N=154

	Strongly Agree	Agree	Disagree	Strongly Disagree
Nonresident visitors pay their fair share of taxes for the services they use	19%	48%	22%	11%
Other states charge a sales tax to visitors, therefore Montana visitors should pay a sales tax	16%	33%	33%	18%
Montana would lose nonresident visitors if a sales tax were enacted	10%	18%	52%	20%
Enacting a statewide sales tax would benefit Montana's economy	22%	41%	20%	16% 26% 28%
I would support a statewide sales tax	21%	33%	20%	
I would support a local option sales tax	11%	31%	31%	

*may not add to 100 percent due to rounding.

asked about their personal support of a statewide sales tax, 54 percent said they would support it, while only 42 percent would support a local option sales tax.

The Future

According to the Travel Industry Association of America, in 2005 the United States should see a 1.7 percent increase in domestic leisure travel over 2004 (Figure 1). International visitation has still not returned to 2000 levels, but the weakening dollar suggests that international visitation to the United States will rebound in 2005.

The future of Montana nonresident travel is positive. In the annual ITRR survey of travel businesses and organizations, 154 respondents shared their business year and their predictions for 2005. First of all, in 2004, 49 percent said their visitation numbers increased over 2003, 28 percent remained the same, and 24 percent saw a decrease. Only 7 percent predict a decrease in 2005, while 67 percent anticipate an increase in visitation for 2005.

With Lewis and Clark as a draw, and fewer Americans traveling overseas due to a weakening dollar, Montana should experience at least a 2 percent increase in nonresident visitors in 2005. ❑

Norma P. Nickerson is director of The University of Montana's Institute for Tourism and Recreation Research. James J. Wilton is assistant director of ITRR and Melissa Dubois is ITRR's program assistant and Web coordinator.

Health Care Costs

by Steve Seninger and Daphne Herling

Total health care spending in Montana is estimated at $4.6 billion in 2004, which represents an increase of $300 million, or 7 percent, from the previous year. Montana's increase in health care spending mirrors the national growth, with total U.S. spending on health care now up to $1.8 trillion. The United States now spends more per capita on health care than any other nation. The 43 million Americans without health insurance place our nation first in the world among industrialized countries for the number of people without health insurance or direct access to the $1.8 trillion in spending.

The increased cost associated with higher health care spending affects affordability for consumers and employers. This article examines rising health costs and the impact on Montana workers and families. Different alternatives for containing health care costs are also discussed. The employment impact of health spending on the Montana economy and selected regions are identified.

Health Services Industry in Montana

The $4.6 billion total health spending in Montana makes health services – a mix of health care providers and care-giving organizations – one of the largest employers in Montana, with more than 40,000 workers throughout the state.

Hospitals are the largest sector in Montana's health care industry, accounting for about 50 percent of the revenues and employing 19,000, or 40 percent, of the health services work force. Physicians and other professional clinics and offices, along with outpatient clinics, account for another 40 percent. Nursing and residential care facilities represent 20 percent of total health services employment.

Health Care Spending

Increased health care spending is based on two parts: increased utilization of, and higher prices for, health care services. Increased utilization accounted for 2.3 percentage points, while increased prices accounted for 3.3 percentage points of the 7.2 percent growth in national health care spending between 2003 and 2004. Population growth and a growing elderly age cohort accounted for 1.6 percentage points of this growth (Table 1).

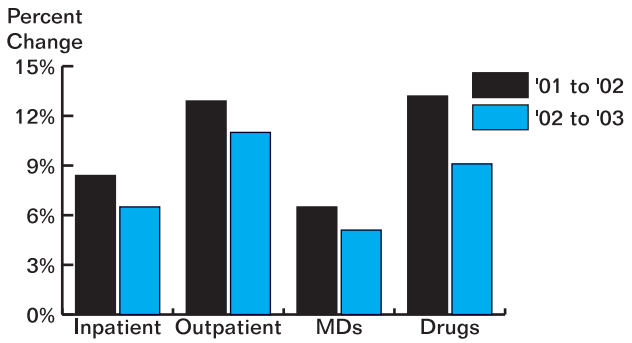
Hospital outpatient services and prescription drugs are the biggest drivers of the increases (Figure 1). Double-digit percentage increases in health insurance premiums over the past four years have also fueled the rising costs of health care to

Table 1
2003 Health Services as a Percent of Total Employment and of Total Wage Earnings for Montana and Select Counties

Region/County	Health Services Employment as % of Total Regional Employment	Health Services Earnings as % of Total Regional Wage Earnings
Montana	10%	18%
Missoula	13%	22%
Flathead	9.4%	17%
Silver Bow	15%	20%
Lewis and Clark	11%	14%
Cascade	13.6%	24%
Yellowstone	12.5%	22%
Gallatin	7.2%	11%
Custer	14%	23%
Richland	14.5%	14.2%

Source: http://ceic.commerce.state.mt.us/BEACountyData.htm

Figure 1
Percent Change in Per Capita Health Care Spending by Type of Service



Source: www.hschange.org

consumers. Per person or per capita measures of spending give a cleaner picture of these patterns since some of these changes are due to a larger population.

Per capita spending on hospital outpatient services increased by 11 percent and on prescription drugs by 9.1 percent between 2002 and 2003. The large percentage changes in per capita spending on prescription drugs and hospitals were largely due to higher prices which, in the case of hospitals, were partly accounted for by higher wage rates and demand for labor.

Increases in per capita spending on all prescription drugs – both brand name and generic – are due to higher utilization (accounting for about two-thirds of the increase) and higher prices (about one-third of the increase). The higher usage of prescription drugs is partly due to an increase in the number of people diagnosed with a disease and then treated through drug therapy. For example, asthma drugs and cholesterol-lowering drugs are being prescribed to a growing number of aging baby boomers.

Advertising has also stimulated consumer spending on particular brands. Heavily-advertised brand-name drugs have increased significantly in price, especially for drugs most frequently used by the elderly. The price of brand-name drugs such as Lipitor (used to reduce cholesterol) increased by 4.5 times the rate of overall inflation between 2001 and 2004. Celebrex, used to treat arthritis and joint pain, increased by 4 times, and Zoloft, used to treat depression, increased by 3.2 times the rate of overall inflation. On average, drug prices increased 3.6 times the rate of inflation for 26 brand-name drugs that have been on the market for over three years and are most frequently used by the elderly.

Generic drug prices offer some relief to the cost squeeze exerted by brand-name drug price inflation. Typically, when brand-name drugs go off patent and generic versions appear on the market, prices fall, sometimes to levels lower than in Western Europe and in Canada.

Health insurance premiums have increased at annual percentage rates greater than 10 percent over the past four years, a rate 8 percentage points above the growth in workers earnings. Data from the Milliman USA Health Cost Index show that estimated medical claims expenses rose 7.4 percent in 2003 which, when compared to premium increases, means that underwriting profits of insurers grew.

Additional insights on the gap between premium increases and claims expense through higher utilization can be shown by comparing health care spending per privately insured person to annual percentage change in health insurance premiums. Premium increases between 2002 and 2003 were 6.5 percentage points higher than health care utilization as measured by per capita spending per privately insured persons (Figure 2). This point spread for higher premium prices may be due to higher prices, insurance companies' need for more cash reserves, and recovery of investment losses from the stock market downturn of 2001. The resulting increased cost of health insurance premiums affects the affordability of health care to consumers and employers alike.

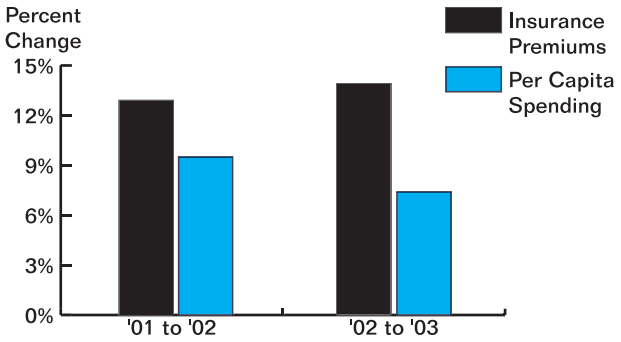
Impacts of Rising Health Care Costs

It is important to look at what these increases in health care costs mean to people: employees and their families and employers, both large and small. The issue of how America will deal with this issue has been the focus of much debate and endless rhetoric, from doomsday predictions to incremental adjustments. However, as the debate continues, what actually is happening in the workplaces around the country – and especially in Montana – is the topic of this next section.

Impacts on Employees and their Families

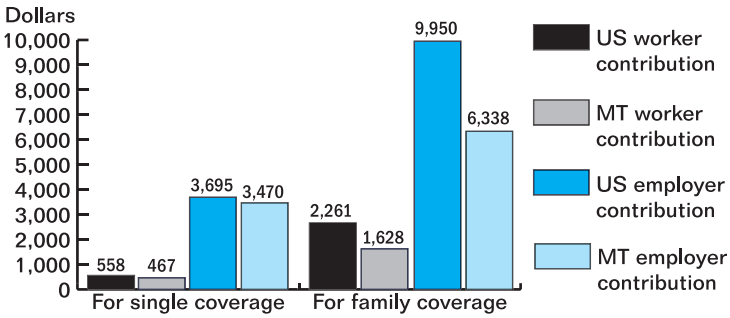
Employees that receive health insurance generally cost share with their employer. In 2004, 80 percent of covered workers with single coverage and over 90 percent of covered

Figure 2
Percent Change in Health Insurance Premiums and Per Capita Health Care Spending per Privately-Insured Person, 2001-2003



Source: www.healthaffairs.org and www.hschange.org

Figure 3
Worker and Employer Contributions to Single and Family Health Insurance Plans for U.S. and Montana, 2002-2003



Source: http://www.kff.org/insurance/index.cfm and http://www.bber.umt.

workers with family coverage made contributions toward premiums. Nationally, the average worker contributes $558 for single coverage, with an annual cost to the employer of $3,695. For family coverage, the average U.S. worker contributes $2,661, with an annual cost to the employer of $9,950. Figure 3 shows Montana's costs of coverage for both single employees and their families, by both workers and employers, and compares it to the average national costs.

The data in Table 2 show the cost increase between 2000 and 2003 for middle-income families, all of whom have employer-provided health insurance. Middle-income families are defined as those in the middle fifth in income of all U.S. families. The bottom line for these families is that even though they have health insurance, they have less money to spend on other living expenses or consumer purchases when the higher out-of-pocket health spending is combined with the higher premium payments.

Medical debt due to family out-of-pocket health bills is another important measure of health care cost impacts on Montana families. A 2003 BBER survey showed that there is a significant range of medical debt impacts on household and individual budgets in the state. Statewide medical debt was 13 percent of household income. The debt-to-household income ratio dropped to 9 percent for persons with health insurance, with an average debt of $2,506.

Many workers do not seek needed or recommended health care, a fact they attribute to the cost, according to a 2004 study by The Commonwealth Fund. The study reported that in 2003 the lowest and middle-level compensated workers (those earning under $10/hour and $10 to $15/hour, respectively) said that they did not seek medical treatment, fill a prescription, skipped a recommended medical test, or did not see a specialist when it was recommended due to cost.

Impacts on Large and Small Employers

Rising health care costs have a significant impact on employers in a nation where employer-based health insurance provides the majority of workers with access to health care. In 2003, employer-sponsored health insurance reached more than three out of every five non-elderly Americans. Nationally in 2004, the percentage of firms offering health benefits is unchanged from the previous year, although it has gradually declined over the last few years. The private sector employer-provided health insurance coverage for all workers fell by 2.5 percent between 2000 and 2003, with males seeing a greater loss of coverage than females – 3.4 percent compared to 1.3 percent. The change in employer-offered health insurance in Montana is higher, with coverage falling by 4.5 percent (www.epinet.org).

The difference between offer rates by large and small firms is significant, both nationally and in Montana. In Montana, small firms are the norm, with only a small percentage of firms employing more than 100 workers. Thus, the impacts of rising health care costs disproportionally affects this state as small firms struggle to contain costs. To contain costs, firms across the nation are imposing higher cost sharing mechanisms. In 2003, premiums for small firms (3 – 199 workers) increased 15.5 percent compared with the 13.2 percent increase of larger firms. Employers have increasingly had to be creative in their need to ameliorate the rising costs of offering health insurance as a benefit. Small firms lack purchasing power and are unable to reduce insurance costs by bearing the risk themselves and self-insuring. Without the more sophisticated human resource departments of large firms, the small employer faces numerous challenges in offering health insurance while containing costs.

Table 2
Health Costs of Middle Fifth, Different Family Types, 2000-2003

	2000	2003	Change 2000-03	Percent Change
Married-couple families with children				
Entire family has employer-provided health insurance				
Out-of-pocket expenditures	$1,010	$1,343	$333	33%
Family premium	1,620	2,412	790	49%
Total	2,630	3,755	1,125	43%
Single-mother families				
Entire family has employer-provided health insurance				
Out-of-pocket expenditures	$511	$680	$169	33%
Family premium	1,620	2,412	792	49%
Total	2,131	3,092	961	45%
Elderly couples				
Both family members only have Medicare Part B				
Out-of-pocket expenditures	$2,146	$2,940	$794	37%
Medicare Part B premium	1,092	1,409	317	29%
Total	3,238	4,349	1,111	34%
Single persons, age 25-34				
Individual has employer-provided health insurance				
Out-of-pocket expenditures	$223	$297	$74	33%
Individual premium	336	504	168	50%
Total	559	801	242	43%

Source: www.epinet.org

Outlook for Containing Costs of Health Care

Growth in health care spending is projected to level off and run at about 7 percent per year between 2003 and 2007. National health care expenditures as a percent of GDP are projected to be 16 percent, or about $2.2 trillion. Health care utilization will continue to grow although price increases will likely moderate over the next couple of years, thereby reducing pressure and justifications for higher health insurance premiums. Bottom line is that health care spending and costs to consumers and employers alike will, most likely, go up — perhaps at more moderate rates.

Getting a handle on spending and costs involves two major strategies: moderate how much health care people consume in order to reduce our growth rates in utilization, and moderate or dampen price increases for health care services of all types and for health insurance premiums. Limiting growth in utilization is based on health care consumer behavior and choice. Limiting price increases is based on instilling more bargaining power on the buyer's side of the market, be it a market for hospital, physician, prescription drugs, or health insurance coverage.

Medical and health savings accounts are designed to reduce health care utilization by allowing consumers to pay medical bills with their own money, which has been excluded from taxes. Balances can be carried over from one year to the next. These savings accounts are used in combination with a high-deductible health plan, usually of at least $1,000 and a cap on out-of-pocket expenses. Simulation studies of savings accounts' impact on health spending show that they are most effective for the young and healthy who can afford the up-front costs of a high deductible (Moon, et. al., www.urbaninstitute.org).

Increasing bargaining power on the buyer's side of the market to reduce health care price inflation is increasingly popular these days in various purchasing pool concepts. State and consortiums of local government purchasers of prescription drugs for employee health plan coverage is an ongoing approach in many states for controlling drug price inflation. Short- term results suggest significant, upfront savings on prescription drugs costs and avoidance of long-run price increases.

Both the reduced utilization and reduced price inflation through enhanced buyer power policy strategies stop short of more fundamental health care reform ongoing in some noteworthy state programs. Maine with its Dirigo program (www.maine.gov/governor/baldacci/healthpolicy/what_is_dirigo_health/summary.htm) is implementing a hybrid, politically acceptable, universal coverage for Maine residents, and a broad-based, statewide coalition of Georgia health care consumers and providers is working toward health insurance reform that will cover all citizens while promising to get a handle on health care costs (www.gaforhealthcare.com/). ❑

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Outlook for Agriculture

by Kevin McNew

Wheat Outlook

Grain prices tumbled this past year because of record-setting corn and soybean crops in the United States. While U.S. wheat production was off by about 10 percent in 2004 versus 2003, world production of wheat is projected to reach a record 618,000,000 tons, up 12 percent from last year.

In Montana, wheat production this past year was up 21 percent because of good yields. After years of persistent drought, beneficial rains during the wheat-growing season helped push Montana's yields to their highest level in nearly a decade.

With large world wheat production, prices were expected to come under pressure this year. At harvest this past summer, Montana's wheat prices did come under pressure, falling about 14 percent below the levels seen at harvest in the previous year. However, since then harvest wheat prices in Montana have increased, eclipsing $4 per bushel in most parts of the state.

Why the dramatic turn around in prices? This year's crop, although relatively favorable in terms of bushels, suffered from poor protein content. In the Northern Plains and Pacific Northwest, high quality spring wheat, which normally has high protein, tends to be favored by millers and importers for its good milling and baking characteristics. This year, with a lack of high protein wheat, spring wheat prices have climbed sharply.

Protein quality has not only been poor in the United States. Canada experienced early freezes in August and excessive moisture during harvest, which damaged the Canadian Western Red Spring wheat and reduced the quality. Preliminary reports indicate as much as 60 percent of the Saskatchewan spring wheat crop is of feed grade, not suitable for milling. As such, U.S spring wheat prices have climbed as world buyers have a hard time filling their needs for high protein wheat.

While the short-term picture for the wheat market is favorable until the summer of 2005, the longer-term picture is less positive. Long-run demand problems continue to plague the wheat market. U.S. consumption of wheat has grown slowly at about 1 percent per year in the past decade. However, U.S. exports of wheat have declined steadily over the same period, averaging a 3.2 percent drop per year since 1992, with the exception of this year. All uses of U.S. wheat have declined 1.5 percent per year in the last 10 years with no indications this trend will reverse in the near future.

Favorable prices for spring wheat will likely induce an expansion in production in 2005. In addition, U.S. corn and soybean prices remain depressed relative to wheat so more U.S. wheat plantings seem likely in 2005. Assuming normal weather for the United States, Montana's wheat prices will likely fall to the $3.25 per bushel level from the 2005 all wheat price of $3.75 per bushel.

Cattle Outlook

U.S. commercial beef production in 2004 will average about 6 percent lower than 2003, but fed cattle prices are now averaging about 11 percent lower than last year. Beef prices in 2004 have been pressured by a sharply reduced export demand caused by the single case of BSE that was discovered in an isolated incident in 2003. All countries immediately closed their borders to U.S. beef and those markets have been slow to reopen trade with the United States. Important Pacific Rim countries, in particular, are still not accepting U.S. beef, but negotiations are continuing on a daily basis.

Typically, the United States exports about 10 percent of its beef production, but that will fall to about 2.5 percent in 2004. So even though beef production is lower this year, U.S. consumers will purchase about the same amount of beef that they did last year.

In 2003, there was a robust demand for beef exports. BSE was discovered in a Canadian cow with a resulting loss in the country's beef export market. The United States was able to capture some of the markets that Canada had previously served.

Domestic beef demand is also faced with ample supplies of competing, lower-priced meats such as pork and chicken. Higher energy prices are also negatively affecting consumer budgets. However, the good news is that consumer demand has been on the rise in recent years. Consumer demand for beef continued a strong upward climb in 2003, with U.S. beef demand increasing more than 5 percent compared to 2002 and more than 15.4 percent since reversing its 20-year decline in 1998. Higher consumer incomes and the success of the low-carbohydrate diets in the United States seem to be stimulating the demand for beef products.

Even with a detrimental trade situation for U.S. beef, prices have remained relatively high by historical norms. Average 2004 fed cattle prices in the United States are about $84 per hundredweight, mostly unchanged from 2003. Looking ahead to 2005, beef production is expected to show a slight recovery from 2004, but still small by comparison to recent years. With a modest recovery expected in U.S. beef exports and continued growth in U.S domestic beef demand, cattle prices in 2005 are expected to be at or slightly higher than 2004.❑

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Montana's Manufacturing Industry

by Charles E. Keegan III, Thale Dillon, and Robert Campbell

Following three years of declining production, sales, and employment, Montana's manufacturing industry saw improvement as 2004 progressed. The value of Montana's manufacturing output increased by more than $500 million in 2004; however, employment was essentially unchanged. The sector currently:

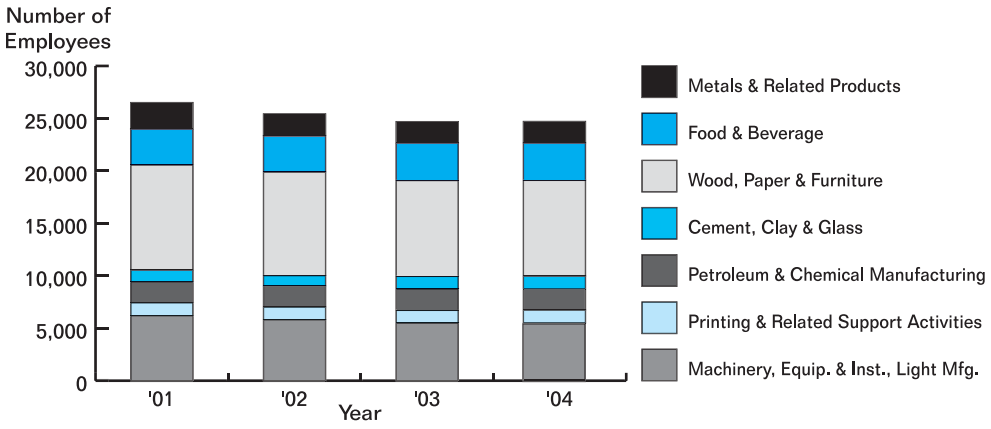
- employs over 24,000 people earning $1 billion in labor income,
- produces approximately $5 billion in output annually, and
- accounts for over 20 percent of Montana's economic base.

Even though manufacturing firms faced higher raw material, energy, and shipping costs, as well as higher health insurance premiums, a slight majority reported increased profits in 2004. Several factors lead to better conditions including improvements in economies in the United States and in developing countries, a weak U.S. dollar, continued relatively low interest rates, and increased military and homeland security spending.

The rise in output value was primarily due to higher per-unit prices, and was not reflected in substantial increases in volume or employment. Comparisons of 2003 and 2004 manufacturing employment numbers indicate a decline early in 2004 followed by increases later in the year. Total worker earnings were up slightly for the year. While the employment losses were concentrated in the durable products sector of manufacturing (primarily wood products), the gains occurred in the non-durable products sector.

Current exchange rates have benefited most firms, but negatively impacted those that import their raw materials or production equipment. Additionally, there continue to be raw material shortages. Most notable are concerns over the supply and cost of timber (see pages 31-32), steel, and petroleum-

Figure 1
Montana Manufacturing Employment, 2001-2004



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

Table 1
Employment and Labor Income in Montana's Manufacturing Sectors, 2001 and 2004

Manufacturing Sector	Labor Income [thousands 2002$] 2001	2004	Employment 2001	2004
Wood, Paper & Furniture	$408,930	$386,851	10,033	8,971
Petroleum & Chemical Manufacturing	162,588	175,369	1,600	2,049
Food & Beverage	108,412	111,519	3,401	3,554
Metals & Related Products	113,573	90,962	2,546	1,997
Cement, Clay & Glass	42,071	46,538	1,093	1,176
Printing & Related Support Activities	35,538	37,502	1,228	1,203
Machinery, Equip. & Inst., Light Mfg.	205,923	159,386	6,606	5,449
TOTAL	$1,077,034	$1,008,128	26,507	24,399

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

based products such as plastic.

While Montana's manufacturing industry has struggled for much of the last three years, there was substantial growth in the industry throughout the 1990s, a decade in which Montana manufacturers added over 2,000 jobs to employ more than 27,000 workers. This increase was followed by a decline that continued through 2003, when employment fell back under 25,000 workers. (The change from SIC to NAICS has made it problematic to provide consistent and continuous time series data for employment and labor income.) After suffering job losses during the "manufacturers' recession" in 2001, firms throughout the nation continued to cut back through 2003. Job losses in Montana were proportionately less than in the nation as a whole in 2002, but proportionately higher in 2003.

Outlook: 2005 and Beyond

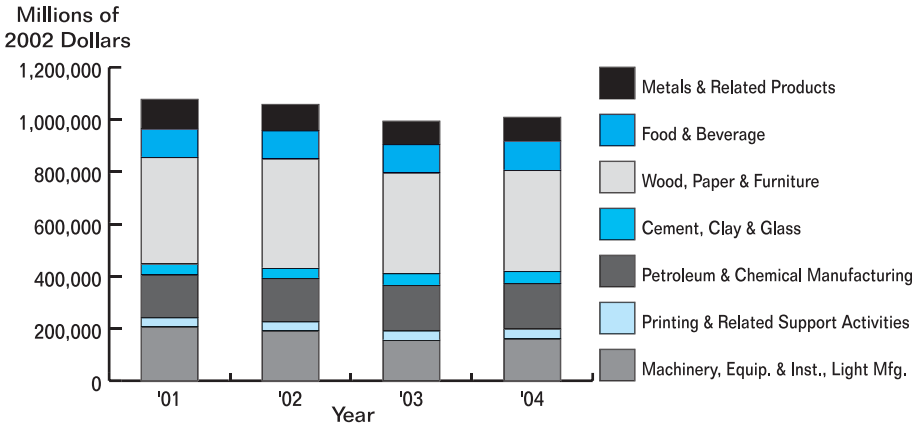
Montana manufacturers have a modestly optimistic outlook for 2005. Close to half (47 percent) of the state's largest manufacturers responding to BBER's annual survey of manufacturers expect improved conditions, while 34 percent

Table 2
Manufacturing Employment and Labor Income Among Montana Counties, 2002

County	2002 Manufacturing Employment*	Percent of State's Manufacturing Employment	2002 Manufacturing Labor Income [thousands 2002$]	Percent of State's Manufacturing Labor Income
Yellowstone	3,535	15%	$191,727	20%
Flathead	3,338	14%	$155,617	16%
Gallatin	2,808	12%	$108,165	11%
Missoula	2,917	13%	$133,884	14%
Ravalli	1,447	6%	$54,771	6%
Cascade	1,055	5%	$43,316	5%
Lewis & Clark	864	4%	$38,728	4%
Lake	919	4%	$28,196	3%
Lincoln	849	4%	$32,188	3%
Silver Bow	511	2%	$22,885	2%
Remaining 46 Counties	5,011	22%	$138,061	15%
STATE TOTAL	23,254	100%	$947,538	100%

*County-level estimates do not include the logging industry, which would add over 2,500 jobs and close to $100 million to labor income.

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



think 2005 will turn out about the same as 2004, leaving only 19 percent who foresee worsening conditions. Fifty-seven percent expect to keep their work force at the same level in 2005, while a full 30 percent foresee an increase. Forty-five percent of firms expect higher profits in the coming year, with 33 percent expecting them to stay the same as 2004. Given three years of declines prior to 2004 and some slowing of growth in the U.S. economy expected in 2005, this is an encouraging outlook by Montana manufacturers.

When manufacturers were asked to rate a list of issues in terms of their importance to their business, 99 percent of respondents rated health insurance costs as important, followed by workers' compensation rates, which were also important to 99 percent of responding businesses, and the cost of energy, important to 96 percent.

As in previous years, numerous Montana manufacturers mentioned concerns over raw material availability and availability of qualified labor. Also mentioned by a number of manufacturers were transportation, shipping, and freight problems involved in getting products to markets at a competitive price, in a timely fashion, and the high cost of in-shipping of raw materials. Taxes important to manufacturers are detailed in the sidebar.

Looking at the first decade of the 21st century, it will be difficult for Montana manufacturing industries to duplicate the growth of the 1990s, which ran counter to national trends. Within the state, a number of factors ranging from an improved tax structure to the growing ability to do business online have made manufacturing in Montana more competitive. Increases in energy costs and reduced timber availability indicate potential to lose manufacturers. However, stronger natural resource commodity markets may allow some growth, especially if supply problems and energy costs are overcome.

A portion of the growth in the 1990s, and perhaps declines since 2000, were related to a mix of business and non-business decisions to locate plants in Montana or move them elsewhere. Personal or lifestyle decisions on the part of entrepreneurs developing or relocating manufacturing facilities will continue to be a significant, if unpredictable, factor in shaping Montana's manufacturing industry. ❑

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Tax Issues

While most Montana taxes influence the state's business owners in one way or another, some are a larger concern than others (Table 3). Montana manufacturers were surveyed to determine the relative importance of these taxes, resulting in 93 percent of respondents indicating the business equipment tax as important to their business. Other important taxes included the property taxes (88 percent), followed by corporate income taxes (86 percent), and personal income taxes (85 percent). Of lowest importance was the state inheritance tax; however, it is still important to 43 percent of respondents. Capital gains taxes were cited as important by 67 percent.

Table 3
Tax Issues ("The Importance of Various State Taxes to Your Business")

Type of Tax	Important*	Unimportant**
Business Equipment Tax	94%	7%
Property Tax	88%	12%
Corporate Income Tax	85%	14%
Personal Income Tax	84%	15%
Capital Gains Tax	67%	33%
Inheritance Tax	43%	57%

*Percentage of respondents who answered "Very Important" or "Somewhat Important." **Percentage of respondents who answered "Very Unimportant" or "Somewhat Unimportant."

Source: Bureau of Business and Economic Research, The University of Montana-Missoula (annual survey of Montana manufacturers).

Montana's Forest Products Industry
Current Conditions and 2005 Forecast

by Charles E. Keegan III, Todd A. Morgan, Jason P. Brandt, Francis G. Wagner, and Keith A. Blatner

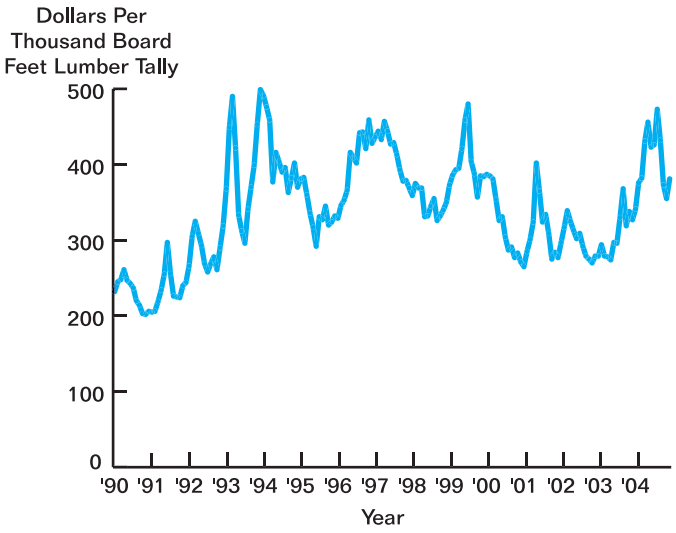
Operating Conditions

Prices for most wood and paper products were up substantially in 2004 relative to 2003. Lumber prices moved from near historic lows in early 2003 to near record highs in the third quarter of 2004 (Figure 1). Yearly average lumber prices in 2004 were about 30 percent above 2003.The high wood product prices were primarily due to:

- Record levels of domestic lumber consumption driven by low mortgage rates and high levels of building activity;
- Increased demand for lumber and wood products in a number of other countries;
- A further decline in the value of the dollar against most major currencies;
- Wood products orders by the federal government for reconstruction in Afghanistan and Iraq;
- Increased demand for wood products in the southeastern United States due to the hurricane season.

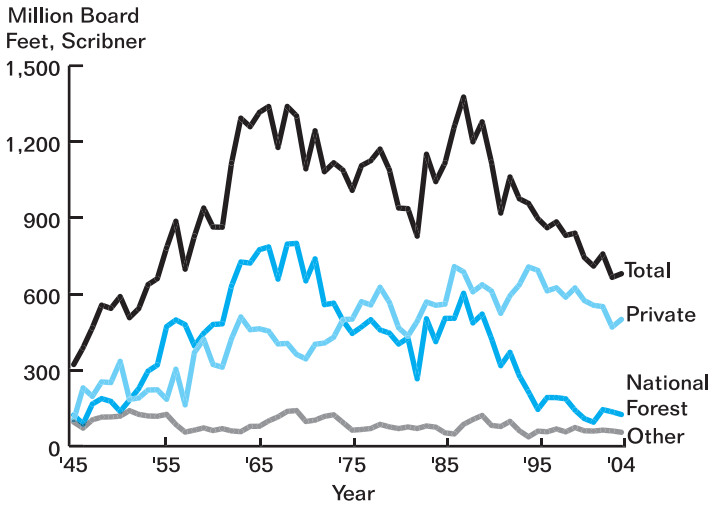
Raw material availability continued to constrain Montana's industry. For example, national forest offerings in Fiscal Year 2004, which ended in October of 2004, actually declined from the already low levels of 2003 (Figure 2). Timber harvest from all ownerships was about equal to 2003 levels, with private harvest rising slightly in response to higher prices.

Figure 1
Nationwide Composite Lumber Prices Monthly, 1990-2004



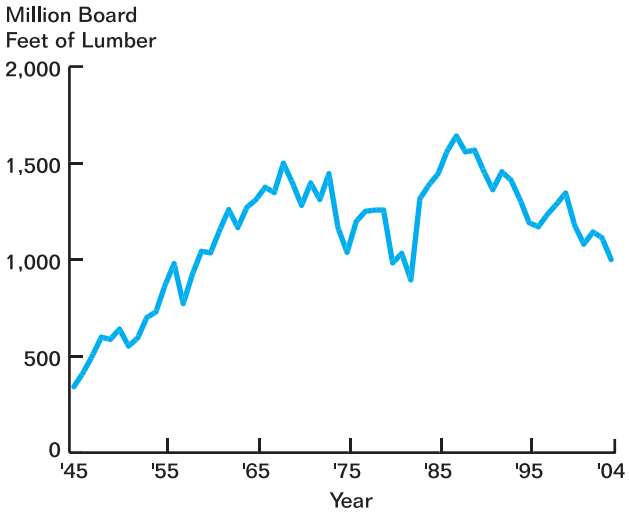
Source: Random Lengths Publications.

Figure 2
Montana Timber Harvested by Ownership, 1945-2004



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

Figure 3
Montana Lumber Production, 1945-2004



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

Sales, Employment, Production

Lumber production in 2004 was an estimated 1 billion board feet versus 1.07 billion in 2003 (Figure 3). Given the very high prices, Montana lumber production in 2004 was disappointing with declines from 2003 levels due to a major mill closure and low timber volumes provided from the national forests (Figure 4). The output of other major industry sectors was generally higher in 2004. Due in large part to higher prices, total sales value of the state's primary wood and paper products increased to about $1.2 billion (fob the producing mill) from $970 million in 2003 (Figure 5). Employment was about 9,100 workers, off by about 100 workers from the previous year (Figure 6). Worker earnings adjusted for inflation increased slightly.

Outlook for 2005

In 2005, prices for lumber and other wood products may be somewhat lower than 2004 levels, but prices are expected to remain well above average levels for the last several years.

Increasing mortgage rates should cause housing starts in the U.S. to slow slightly, and small declines may also occur in the repair and remodel markets. These changes are forecast to be somewhat offset by increased non-residential wood uses and further weakening of the U.S. dollar. Continuing conflict between Canada and the United States over tariffs and penalties on softwood lumber imports adds to price uncertainty.

The Bureau's survey of wood products industry executives, conducted as part of the annual economic outlook, indicates that 38 percent of Montana mill operators expect 2005 to be better than 2004, and 34 percent expect it to be worse. Roughly 49 percent expect production to be up, and 40 percent expect prices to be higher in 2005. Nearly 36 percent expect profits to be higher in 2005. Twenty-three percent expect their employment to increase from 2004 levels while 26 percent expect employment to decrease. Virtually all of the mill operators surveyed expect raw material availability and timber cost to be a major issue affecting their operations in 2005. Uncertainty over log supply involves public and private lands. Harvest from public lands may increase somewhat in 2005 with the national forests and the state planning increased sales.

However, the national forest harvest and volume sold were near 50-year lows in 2004 (Figures 2 and 4). Also, any sustained national forest harvest increases are likely to be associated with fire hazard reduction or ecosystem restoration treatments, which are dependent on budgets and other social factors. Projects that produce commercial timber products from federal lands are frequently targeted for appeals and litigation. As a result, treatments are expected to include increased volumes of sub-merchantable material with limited use as timber products. Private harvest may decrease in parts of the state due to high levels of harvest over the past decade.

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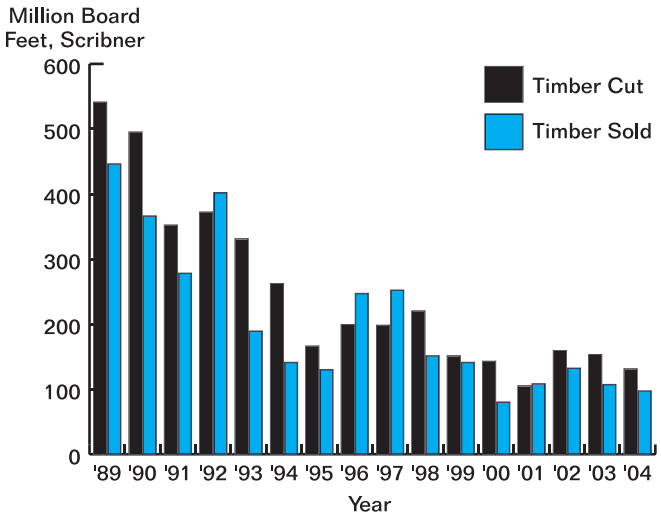
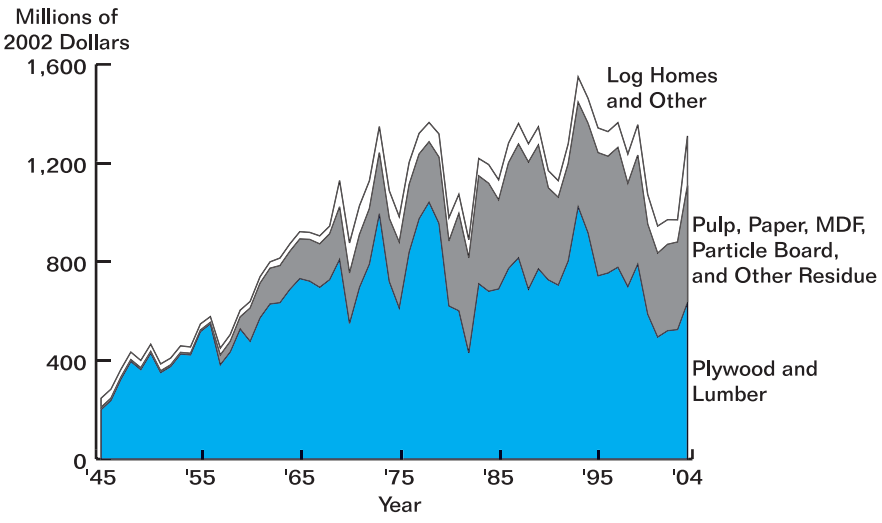
Figure 4
Montana National Forest Timber Cut and Sold Volumes, 1989-2004



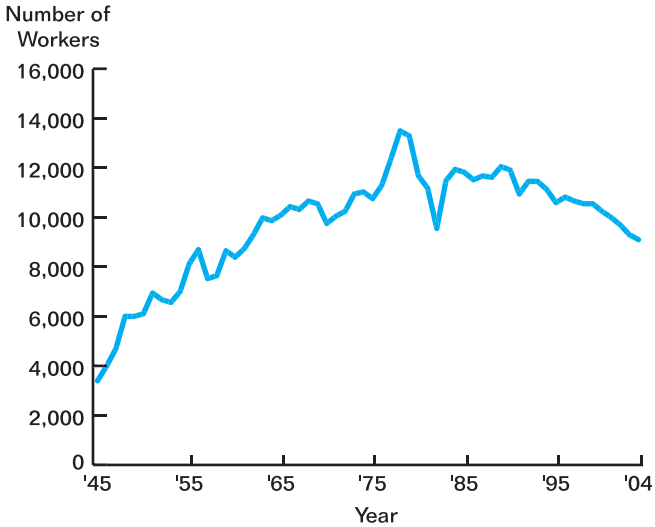
Source: USDA Forest Service Region One, Missoula, Montana.

Figure 5
Sales Value of Montana's Wood and Paper Products, 1945-2004



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

Figure 6
Montana Forest Industry Employment, 1945-2004



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