# Montana's Legal Environment
## Are We Open For Business?

*by Jack Morton and Michael Harrington*

Whenever we compare Montana's business sector to surrounding states, we are envious. We often wonder why Montana hasn't grown more of the types of firms that we see in our neighboring states of Idaho and South Dakota.

Idaho can boast of the presence of Albertsons, Hewlett-Packard, Micron Technology, Washington Group, and J. R. Simplot. Similarly, South Dakota has attracted Citibank and grown Daktronics and Gateway Computer. Montana has many businesses of which we can be proud, but is it possible that the laws of Idaho and South Dakota make it easier for those states to grow and attract larger businesses?

In 1980, South Dakota put itself on the business map by changing its laws and eliminating its usury interest rate ceiling on credit cards.The result was that Citibank moved much of its credit card operation from New York to Rapid City.

What if Montana had changed its credit card laws? Perhaps the Citibank employees working in Rapid City could be living in Montana. Would our Legislature have made such a move in the 1970s? Would no-growth advocates have preferred the status quo by arguing that we would be better off without having large businesses like the Citibank credit card operation? Would consumer protection advocates have argued that such a usury rate change would have made it easy to take advantage of credit card customers by charging higher interest rates? For every proposal to change the law, there are those who can argue against it. In any event, South Dakota has those 3,200 employees and Montana doesn't.

Any change in the legal environment invites controversy. Let's take a look at some of Montana's laws and ponder whether changes in the laws could make Montana more open for business.

## Employee Noncompete Agreements

**"Any contract by which anyone is restrained from exercising a lawful profession, trade, or business of any kind . . . is to that extent void." Montana Code Annotated § 28-2-703.**

The Montana Supreme Court has repeatedly held that this 1895 law prohibits an employer from using an employee noncompete agreement, which would prevent an employee from going to work for a competitor or from starting a competing business. In its most recent case on point, *Montana Mountain Products v. Curl* (April, 2005), the Montana Supreme Court held that this statute prohibited an agreement not to compete between a jewelry manufacturer and its plant manager who quit to manage a competing firm. The noncompete issue has been litigated repeatedly in Montana, with the decisions nearly always in favor of the employee.

The laws and court decisions on point in Idaho and South Dakota make them much more appealing to high-tech businesses and research firms. A review of the South Dakota law clearly reveals an approach vastly different from Montana's:

South Dakota Codified Laws § 53-9-11

> **An employee may agree with an employer at the time of employment or at any time during his employment not to engage directly or indirectly in the same business or profession as that of his employer for any period not exceeding two years from the date of termination of the agreement and not to solicit existing customers of the employer within a specified county, first or second class municipality or other specified area for any period not exceeding two years from the date of termination of the agreement, if the employer continues to carry on a like business therein.**

## Workers' Compensation

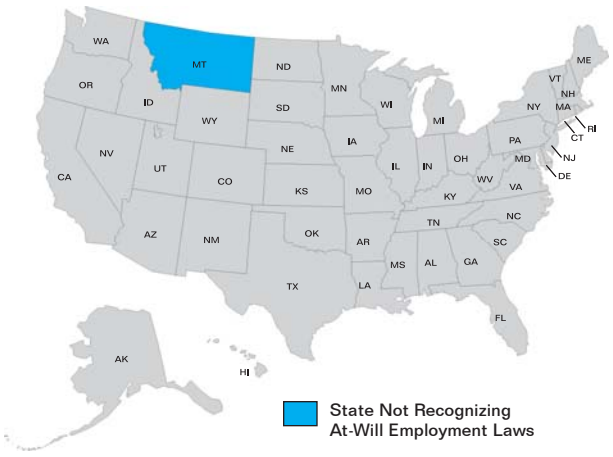
As of 2004, Montana ranked as the eighth highest state with respect to workers' compensation premium costs. (A higher ranking means higher costs.) Other states in our general area enjoy much lower rankings – Nevada is 26th, Wyoming is 28th, Idaho is 34th, Washington is 35th, South Dakota is 41st, Oregon is 42nd, Utah is 46th, and North Dakota leads the pack at 51st. (Table 1) The challenge is to balance the benefits to the injured worker with the insurance premium cost to the employer while preventing abuse by either. Workers' compensation premiums are a serious and costly issue for many businesses facing relocation decisions. Unfortuately, Montana does not appear to be as inviting as its neighbors.

**Table 1**
**2004 Workers' Compensation Premium Rate Ranking**

| 2004 Ranking | 2002 Ranking | State |
|---|---|---|
| 1 | 1 | California |
| 2 | 15 | Alaska |
| 3 | 2 | Florida |
| 4 | 3 | Hawaii |
| 5 | 14 | Ohio |
| 6 | 16 | Kentucky |
| 7 | 4 | Delaware |
| 8 | 10 | MONTANA |
| 9 | 7 | Louisiana |
| 10 | 17 | District of Columbia |
| 11 | 13 | Connecticut |
| 12 | 18 | New Hampshire |
| 13 | 8 | Maine |
| 14 | 5 | Texas |
| 15 | 19 | Oklahoma |
| 16 | 6 | Rhode Island |
| 17 | 25 | Vermont |
| 18 | 9 | New York |
| 19 | 12 | Alabama |
| 20 | 23 | Pennsylvania |
| 21 | 22 | Minnesota |
| 22 | 26 | Missouri |
| 23 | 20 | Illinois |
| 24 | 24 | West Virginia |
| 25 | 29 | Tennessee |
| 26 | 11 | Nevada |
| 27 | 36 | New Mexico |
| 28 | 38 | Wyoming |
| 29 | 31 | New Jersey |
| 30 | 30 | Michigan |
| 31 | 21 | Colorado |
| 32 | 34 | North Carolina |
| 33 | 32 | Wisconsin |
| 34 | 27 | Idaho |
| 35 | 45 | Washington |
| 36 | 33 | Mississippi |
| 37 | 28 | Georgia |
| 38 | 39 | Nebraska |
| 39 | 42 | South Carolina |
| 40 | 40 | Maryland |
| 41 | 48 | South Dakota |
| 42 | 35 | Oregon |
| 43 | 43 | Iowa |
| 44 | 41 | Kansas |
| 45 | 37 | Massachusetts |
| 46 | 44 | Utah |
| 47 | 49 | Virginia |
| 48 | 47 | Arkansas |
| 49 | 46 | Arizona |
| 50 | 50 | Indiana |
| 51 | 51 | North Dakota |

Source: Department of Consumer and Business Services, Salem, Oregon.

**Figure 1**
**Montana is the Only State Not to Recognize At-Will Employment Laws**




Source: "The Right to Fire," Forbes, 11/10/2003, Vol. 172, Issue 10, p. 126.

## At-Will Employment Laws

At-will employment laws allow employers to terminate employees at any time for any reason. According to a recent *Forbes* magazine article, "every state but one recognizes at-will employment law. The exception is Montana, where the law states that discharge must be for 'just cause.'" (Figure 1) The difficulty, of course, is that the Montana Supreme Court is the final arbiter of whether the firing is for good cause. Firing employees is always a difficult decision and one that is not undertaken lightly. Reducing the likelihood of time-consuming, expensive litigation when an employer finds it necessary to replace a worker would signal that Montana is willing to return to the mainstream of employment law.

## Right to Work

Montana is surrounded by "right to work" states which protect a worker's right to choose whether to join, or financially support, a union. Much of the economic growth in the United States has occurred in right to work states. These states, when compared with Montana, may enjoy advantages in growing existing businesses and attracting new businesses. Montana is certainly among the minority in the Rocky Mountain and Midwest areas of the country. (Figure 2)

## Environment and Montana's Constitution

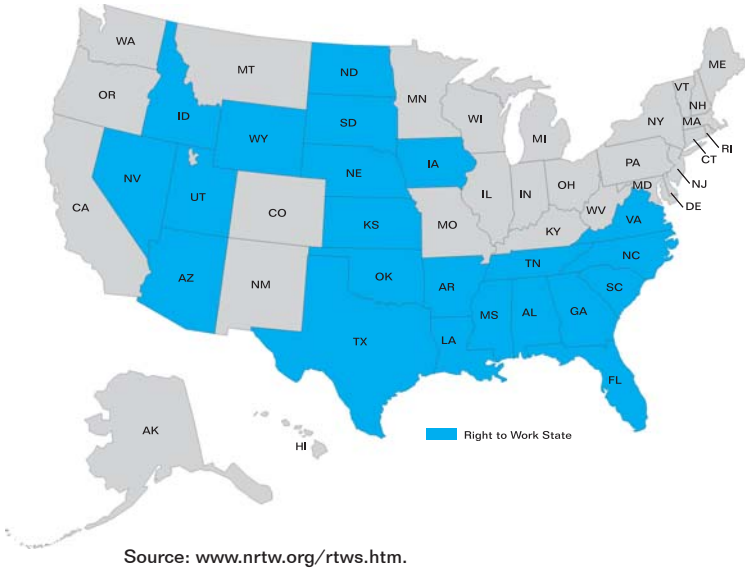
**"All persons are born free and have certain inalienable rights. They include the right to a clean and healthful environment. . . ." Montana Constitution, Article II, Section 3.**

Only seven other states have strong constitutional language regarding environmental rights. Montana was among the first states to include such language in its Constitution. Montana businesses support a clean environment, but are concerned that the rules need to be clearly stated. Are the Montana courts in a better position to determine environmental policy than the Montana Legislature and the administrative agencies? The fear is that, like the school funding quandary, this constitutional issue will still be in litigation in the next century. Neither Idaho nor South Dakota has seen fit to put such an environmental provision in its constitution.

## Conclusion

Would changes in Montana laws improve the business climate in Montana? Based on insights gleaned from members of the business and legal communities throughout the state, a conversation on these topics might represent a good starting point.

**Figure 2**
**Right to Work States**




Source: www.nrtw.org/rtws.htm.

# U.S. Economy was Remarkably Strong in 2005

## Expect More of the Same for 2006

*by Paul E. Polzin*

The U.S. economy has been remarkably resilient in the face of hurricane shocks, higher energy prices, and rising interest rates. Reconstruction activity will support growth in first half of 2006, but may ease late in the year. Higher energy costs will push the consumer index price higher in early 2006. Inflation risks will keep the Federal Reserve tightening monetary policy and raising interest rates. The United States and China will continue to be the main locomotives of global growth.

## Top 10 Economic Predictions for 2006 (Courtesy of Global Insight Inc.)

1. Solid growth will last for at least another year. In the United States, an expected slowdown in consumer spending and housing will be offset by strength in capital spending and exports, helped by a fiscal boost from hurricane-related construction.

2. The United States will, once again, outpace Europe and Japan. Japan's growth spurt may sputter, the European Central Bank (ECB) raised interest rates, and German fiscal policy is turning restrictive.

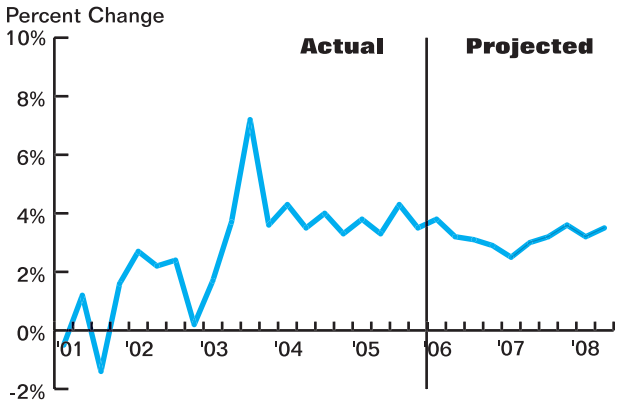
3. China and the rest of Asia (except Japan) will remain the star performers in the global economy. Growth in China cools (8.4 percent vs. 9.3 percent) while India and South Korea continue to expand rapidly.

4. Oil prices will slide gradually, but the risks are on the upside.

5. Core U.S. inflation will edge upward. Productivity growth stays strong and compensation increases are still tame, therefore, inflation is unlikely to get out of control.

6. The Fed will keep tightening through the spring. Global Insight predicts a 4.75 percent Federal Funds rate by mid-2006, and then the Fed will take a breather.

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




Source: Global Insight Inc.

7. House prices will level off without crashing. British and Australian housing markets have already cooled without crashing.

8. The U.S. current account deficit will plumb new depths – again. The inflow of investment from rest of the world continues.

9. The U.S. dollar will end the year lower than at the start.

10. There will be no recession in the next couple of years without the convergence of two or more big shocks. What would it take to trigger a recession? Answer: the combination of oil prices greater than $100/barrel, interest rates 3 percentage points above current levels, and a 10 percent drop in home prices. All possible, but unlikely in 2006 or 2007.

**Table 1**
**Economic Trends for the U.S. Economy, 2001-2009**
**Actual and Projected as of December 2005**

| | Actual | | | | | Projected | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Real GDP (chained $), percent change | 0.8 | 1.6 | 2.7 | 4.2 | 3.7 | 3.5 | 2.9 | 3.3 | 3.3 |
| Inflation (CPI-U), percent change | 2.8 | 1.6 | 2.3 | 2.7 | 3.4 | 2.4 | 1.4 | 1.8 | 2.0 |
| Interest Rates | | | | | | | | | |
| 90-day T-bills, percent | 3.4 | 1.6 | 1.0 | 1.4 | 3.2 | 4.5 | 4.6 | 4.7 | 4.9 |
| Mortgage rates (30 years), percent | 7.0 | 6.5 | 5.8 | 5.8 | 5.9 | 6.7 | 6.8 | 6.9 | 7.2 |
| Housing starts, millions | 1.60 | 1.71 | 1.85 | 1.95 | 2.10 | 1.90 | 1.80 | 1.80 | 1.70 |
| Unemployment rate, percent | 4.8 | 5.8 | 6.0 | 5.5 | 5.1 | 4.8 | 4.9 | 4.8 | 4.6 |
| Oil, West Texas Intermediate ($/barrel) | 25.96 | 26.11 | 31.12 | 41.47 | 56.57 | 56.00 | 48.39 | 45.25 | 43.88 |

Source: Global Insight Inc.

# Strong Economic Growth Continues in Montana

*by Paul E. Polzin*

The preliminary 2005 data show 4.0 percent inflation-adjusted growth in the Montana economy, only slightly less than the 4.7 percent in 2004 and 4.3 percent in 2003. The last time there were three consecutive years with 4.0 percent or more growth was during the late 1970s.

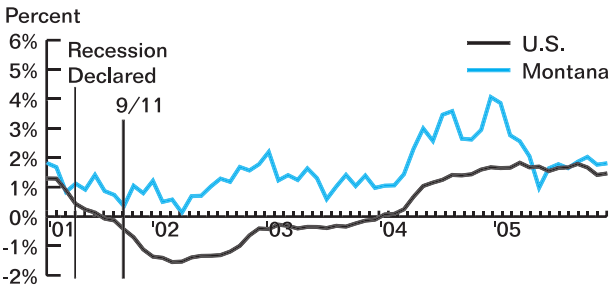
Strong worldwide demand growth has put upward pressure on all commodity prices – not just oil – and provides incentives for increased production. For example, the oil boom continues in eastern Montana, copper prices are at an all-time high, and mines in Silver Bow and Lincoln counties have reopened and are producing at capacity.

Rapid economic growth in China, India, and other developing nations has been one of the important economic engines fueling the world economy. Baring unforeseen events (such as the 1997 "Asian Flu" meltdown), these worldwide trends combined with the increasing possibility of renewed coal-related development underlie the projected statewide growth of 4.0 percent or better during the remainder of the decade.

## House Price Increases Continue

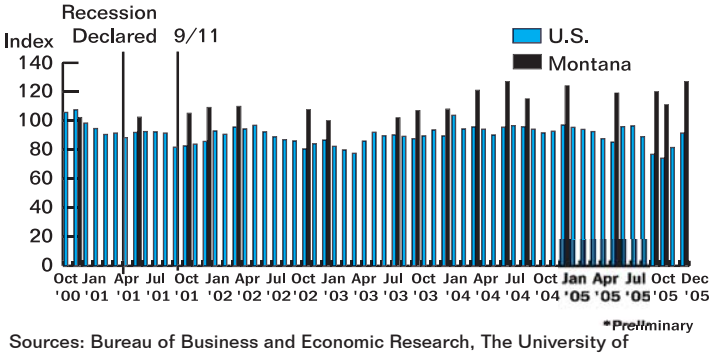
Rising interest rates have not cooled the Montana real estate market. Statewide, house prices in late 2005 continue to rise at double-digit rates, only slightly less than the national average. The fact that Missoula, Great Falls, and Billings prices were all lower than the statewide figure suggests even more rapid increases in hotspots such as Bozeman and Kalispell.

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



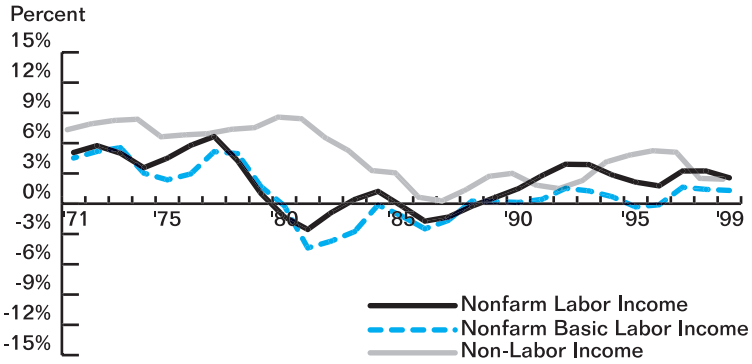

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

### Figure 2
### Index of Consumer Sentiment, U.S. and Montana, Oct. 2000 to Dec. 2005



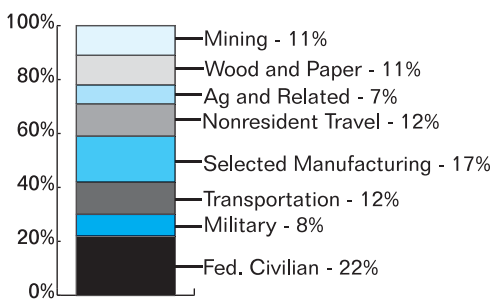

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

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



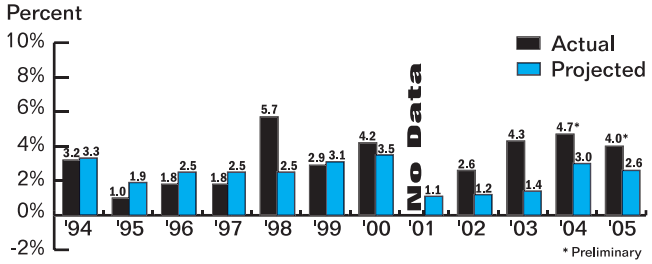

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 4
### Labor Income in Basic Industries, Montana, 2001-2003 (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, 1994-2005**




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

**Figure 6**
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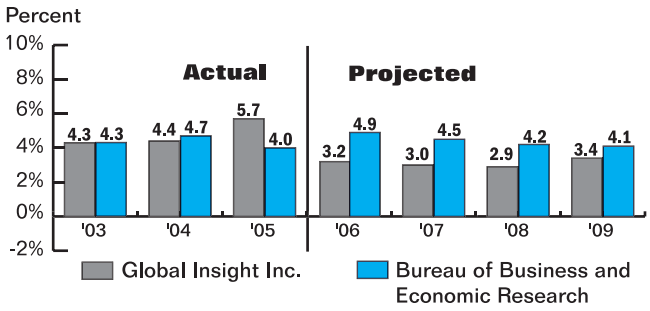



Sources: Bureau of Business and Economic Research and Global Insight Inc.

## Risks

There are always concerns about the weather, insects, and volatile agricultural incomes. National and international events pose most of the other risks to the Montana economic outlook including:

- World energy supplies remain tight. Terrorism or some other international event could lead to another oil price spike.
- The developing nations are growing fast, but their economies are often fragile with significant problems. A "hard landing" in China or elsewhere could quickly soften commodity prices.
- If interest rates rise too far or too rapidly, Montana's construction and wood and paper industries may be adversely impacted. The real estate industry, which has become an important contributor to growth in certain parts of the state, could also be adversely impacted by rising interest rates.

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

| | Missoula County | Cascade County | Yellowstone County | Montana | United States |
|---|---|---|---|---|---|
| 2004Q3 - 2005Q3 | 9.6 | 9.3 | 10.4 | 11.7 | 12.0 |
| 2003Q3 - 2004Q3 | 9.3 | 4.1 | 9.8 | 11.7 | 13.1 |
| 2002Q3 - 2003Q3 | 13.1 | 4.3 | 6.7 | 6.3 | 6.0 |

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

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

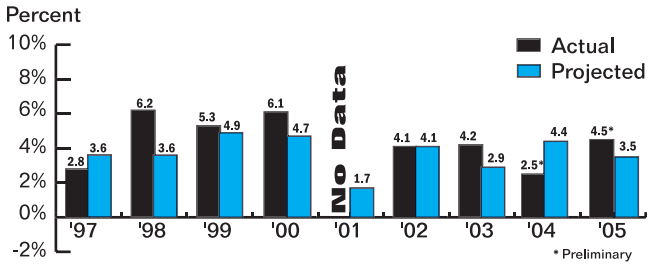
| | Thousands of Persons — Actual | | Thousands of Persons — Projected | | Average Annual Percent Change | | |
|---|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2004 | 2010 | 1990-2000 | 2000-2004 | 2004-2010 |
| Montana | 800 | 902 | 929 | 968 | 1.2% | 0.7% | 0.7% |
| Missoula | 335 | 400 | 414 | 444 | 1.8% | 0.9% | 1.2% |
| Flathead | 79 | 95 | 99 | 105 | 1.9% | 1.0% | 1.0% |
| Silver Bow | 60 | 75 | 81 | 90 | 2.3% | 1.9% | 1.8% |
| Lewis and Clark | 34 | 35 | 33 | 35 | 0.3% | -1.5% | 1.0% |
| Ravalli | 48 | 56 | 58 | 61 | 1.5% | 0.9% | 0.8% |
| Rest of West | 25 | 36 | 39 | 43 | 3.7% | 2.0% | 1.6% |
| | 89 | 103 | 104 | 110 | 1.5% | 0.2% | 0.9% |
| North-Central | 181 | 183 | 182 | 184 | 0.1% | -0.1% | 0.2% |
| Cascade | 78 | 80 | 80 | 81 | 0.3% | 0.0% | 0.2% |
| Hill | 18 | 17 | 16 | 17 | -0.6% | -1.5% | 1.0% |
| Fergus | 12 | 12 | 12 | 12 | 0.0% | 0.0% | 0.0% |
| Rest of North-Central | 73 | 74 | 74 | 74 | 0.1% | -0.0% | 0.0% |
| Southeast | 284 | 319 | 333 | 340 | 1.2% | 1.0% | 0.3% |
| Yellowstone | 114 | 128 | 135 | 145 | 1.2% | 1.3% | 1.2% |
| Gallatin | 51 | 68 | 76 | 85 | 2.9% | 2.8% | 1.9% |
| Richland | 11 | 10 | 9 | 10 | -0.9% | -2.6% | 1.8% |
| Custer | 12 | 12 | 11 | 12 | 0.0% | -2.1% | 1.5% |
| Rest of Southeast | 96 | 101 | 102 | 88 | 0.5% | 0.2% | -2.4% |

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

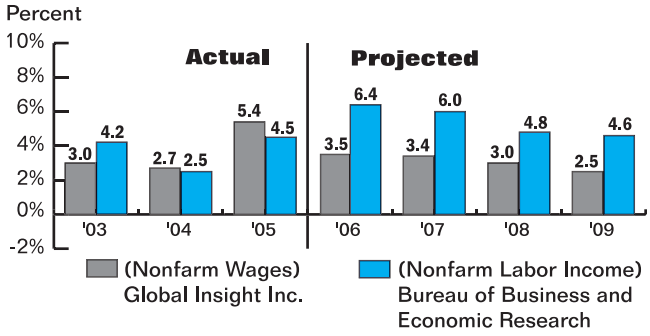
Missoula continues as the dominant trade and service center in Western Montana. It is the second largest trade center in the state. The employment data (Figure 3) show that Missoula outperformed the state early in the decade, but recent growth has been in line with statewide averages. Very strong projected growth in 2006 and 2007 reflect the opening of a new call center and environmental cleanup activities. The index for single-family home prices in Missoula County increased 9.6 percent in 2005 (Table 1 page 7). Missoula ranked 110 out of 265 metropolitan areas in the United States in terms of house price increases in 2005. Missoula's real estate industry has grown significantly since 2000, and may be vulnerable to an interest rate induced softening of the housing market. The 2001-2003 data report that most of the recent growth in Missoula's economic base was in the federal government (perhaps national security related), state government (mostly research at UM), nonresident travel, and retail related trade center activities.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 1997-2005



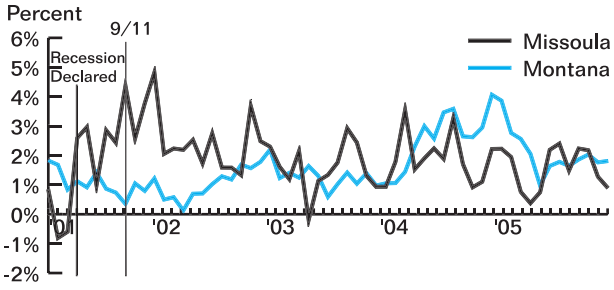

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Missoula County, 2003-2009




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 November 2005

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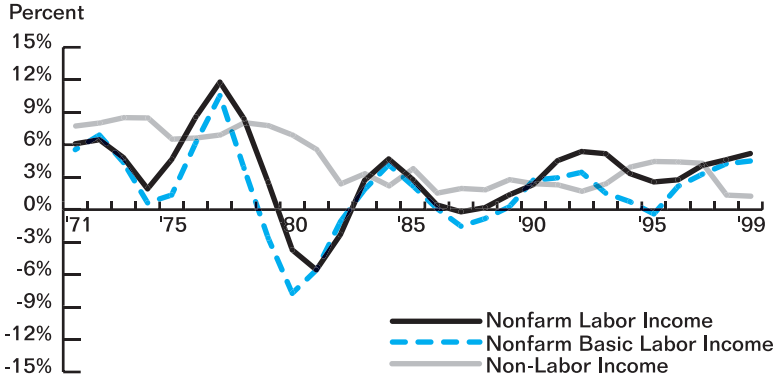


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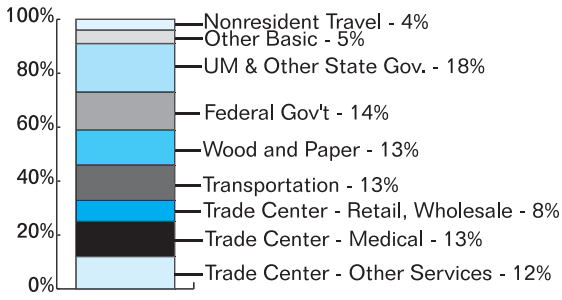


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Flathead County

Flathead County has been one of the consistently fast-growing urban counties in the state. It is also one of the most volatile, as growth rates vacillate from one year to the next. Flathead County has a diversified economic base, which includes manufacturing (primary metal, wood products, and high-tech), the federal government (including the USDA Forest Service), transportation (railroads), and nonresident travel. Kalispell has also evolved into a second-order trade and service center (including health care). The much slower growth in 2002 indicates that Flathead County was one of the few areas of the state to feel impacts of the last recession. Declines in basic labor income between 2001 and 2003 were mostly due to the adjustments at Columbia Falls Aluminum Company, the impacts of the dot.com meltdown, and higher value of the U.S. dollar on the high-tech manufacturing sector

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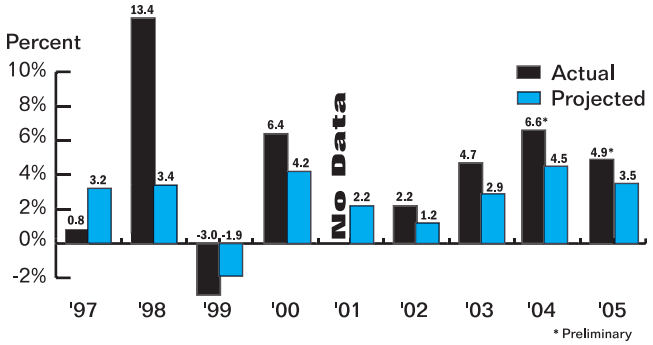


Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

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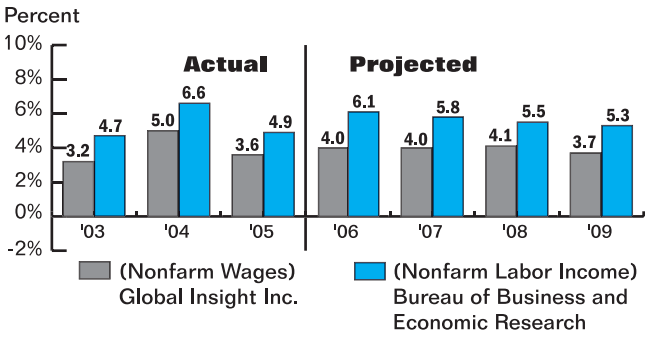
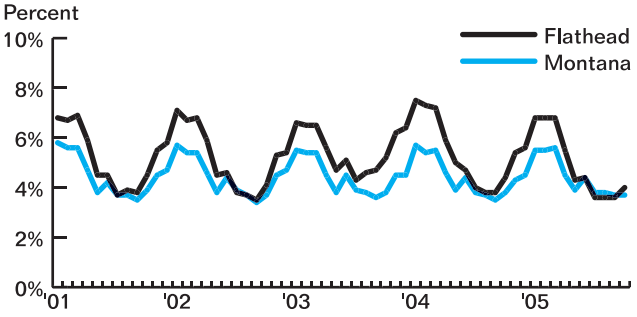



Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

### Figure 3
### Monthly Unemployment Rate January 2001-November 2004

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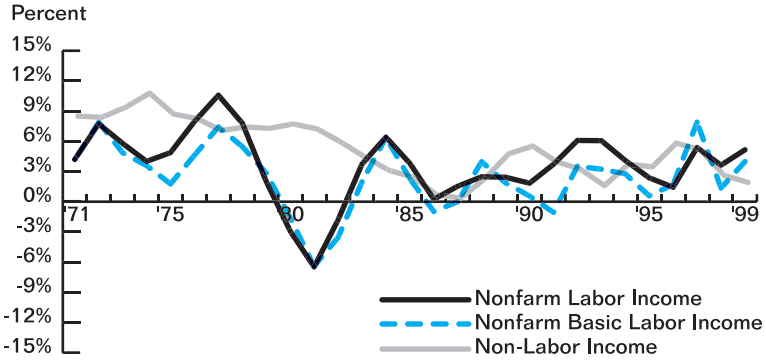


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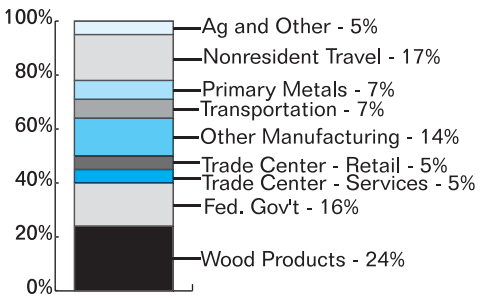
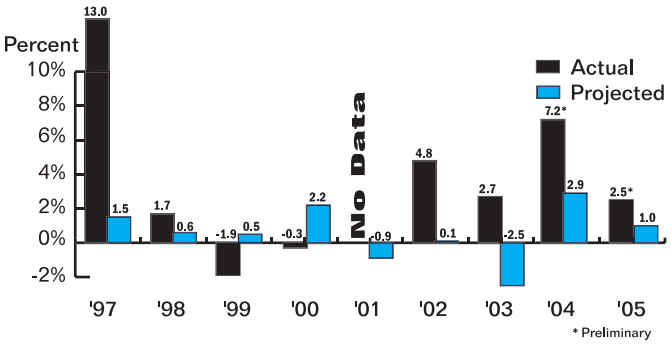



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Silver Bow County

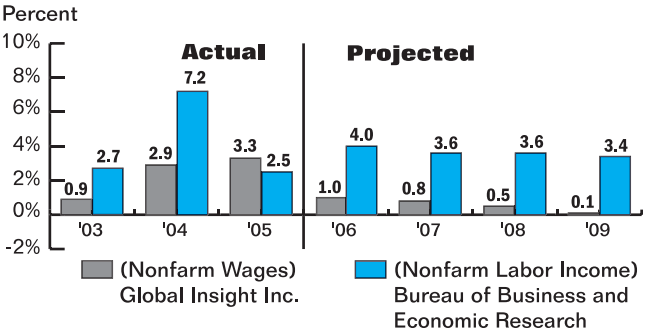
The positive impacts of the worldwide commodity price boom are easily seen in the economic data for Silver Bow County. The 7.2 percent increase in 2004 reflects the reopening of the Montana Resources mine and its continued operation at capacity. The mine reopening, along with the continued environmental cleanup activities, underlie the 3.5 to 4.0 percent projected growth for 2006 to 2009. 2001-2003 labor income changes predate the commodity price spike, but they do reveal important characteristics of the Butte area economy. The sizable increase in trade center–services reflects the role of Butte as a regional trade and service center. The decline in oil-gas was associated with the final disposition of natural resource operations of the former Montana Power Company.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 1997-2005



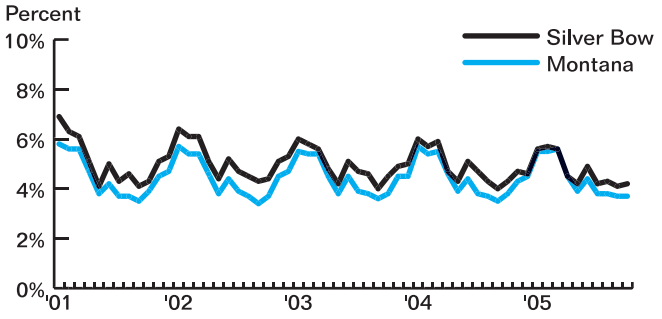

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Silver Bow County, 2003-2009



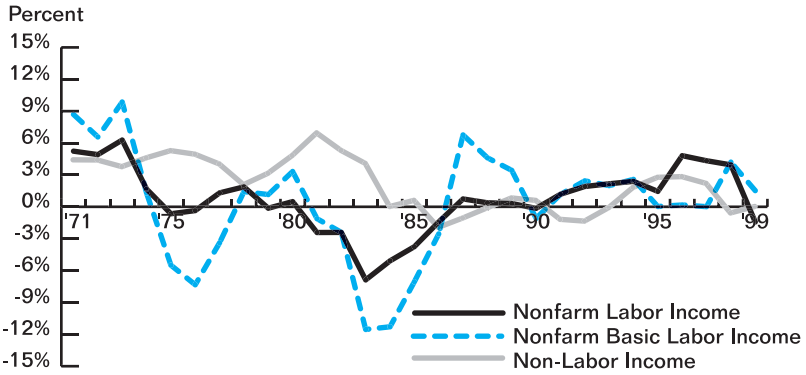

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

### Figure 3
### Monthly Unemployment Rate January 2001-November 2005



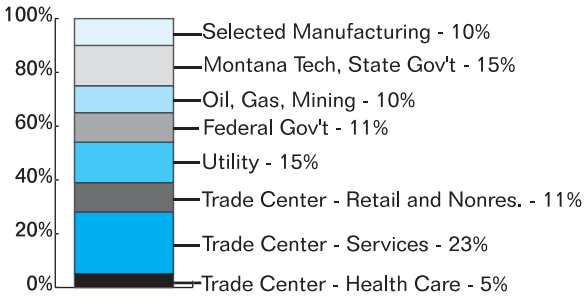

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, 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, 2001-2003 (percent of total)

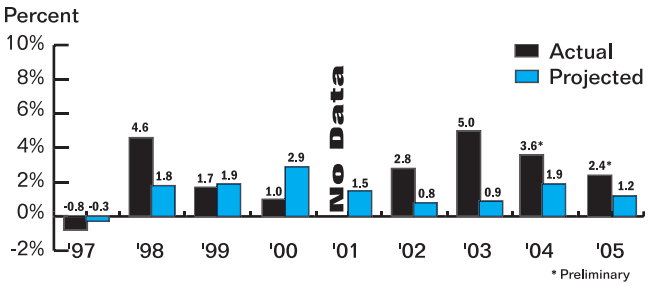



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Cascade County

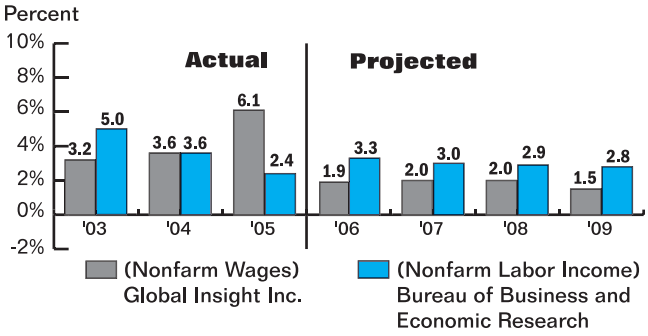
Malmstrom Air Force Base and regional trade center activities (including health care and financial services) account for about two-thirds of the economic base in the Great Falls area. The real estate boom may finally have hit central Montana; single family home prices in Cascade County rose 9.3 percent in the year ending 2005 Q3. (Table 1, page 7) Also, much of the employment growth in late 2004 and 2005 (Figure 3) appears to be in construction. Between 2001 and 2003, most of the growth in basic labor income was associated with Malmstrom Air Force Base and may reflect both active duty and reserve personnel.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 1997-2005



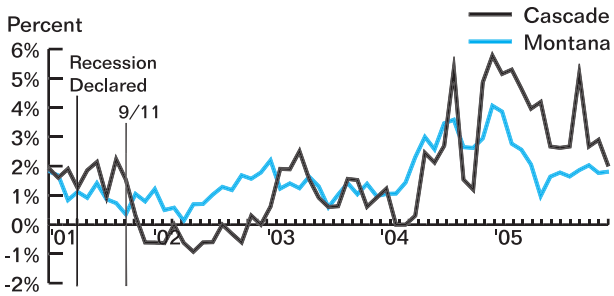

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Cascade County, 2003-2009



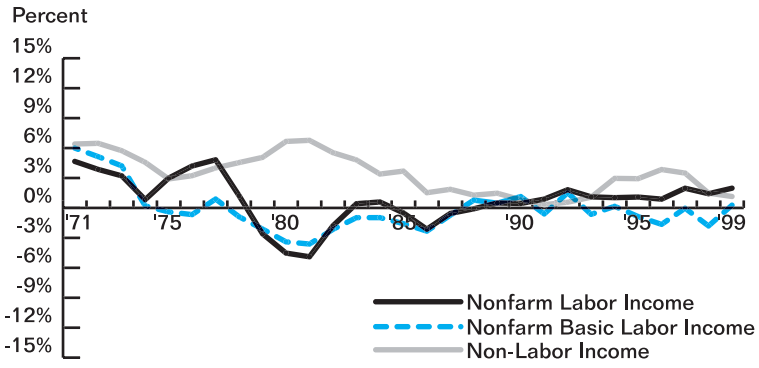

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

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



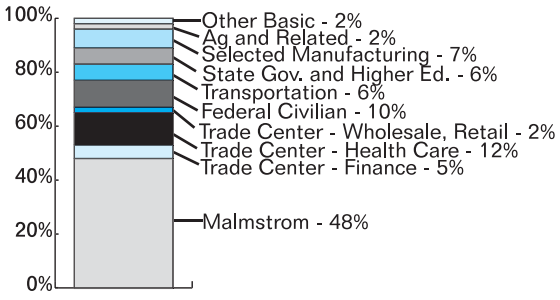

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

### 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, 2001-2003 (percent of total)

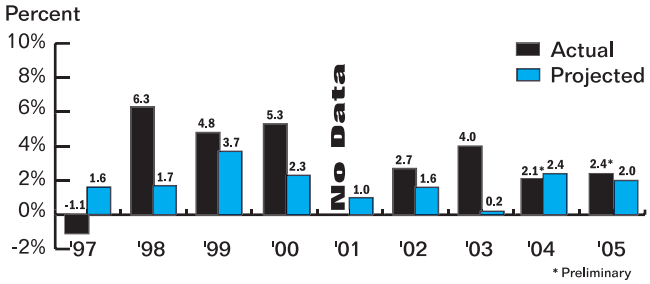



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Lewis and Clark County

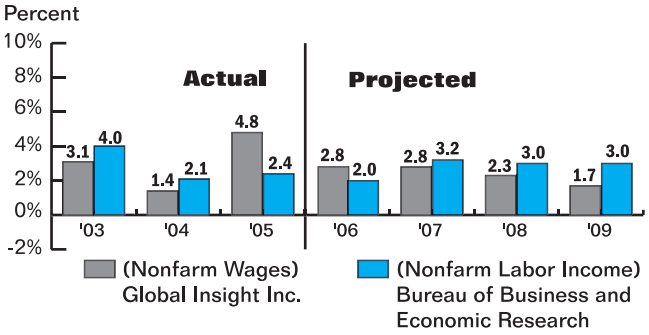
Helena is a government town, and state and federal governments together account for almost 60 percent of the economic base in Lewis and Clark County. The 2001-2003 decline in manufacturing labor income primarily reflects the final closing of the smelter in East Helena. The increase in the federal government occurred in both the civilian and military components (Fort Harrison is just to the west of Helena) – but both may be due to increased national security activities. The growth in state government happened before wage freeze enacted by the 2003 Legislature.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Lewis and Clark County, 1997-2005



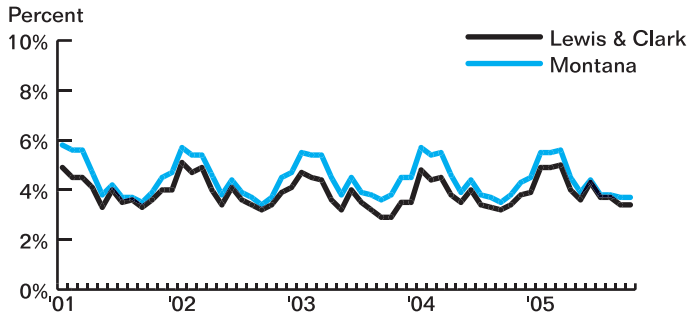

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Lewis and Clark County, 2003-2009



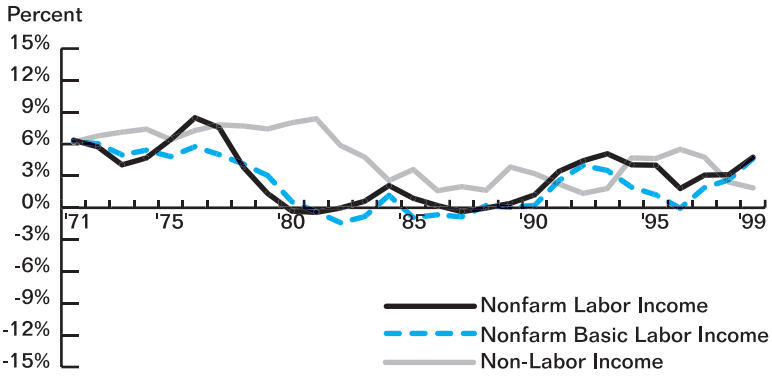

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

### Figure 3
### Monthly Unemployment Rate January 2001-November 2005



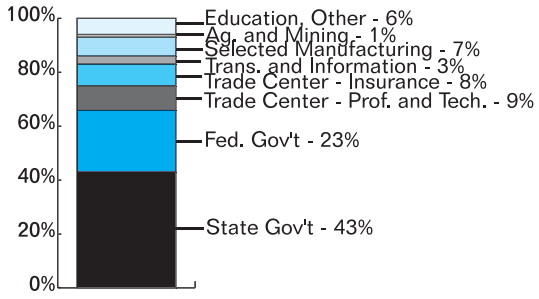

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

### Figure 4
### Nonfarm Labor Income and Nonfarm Basic Labor Income, 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, 2001-2003 (percent of total)

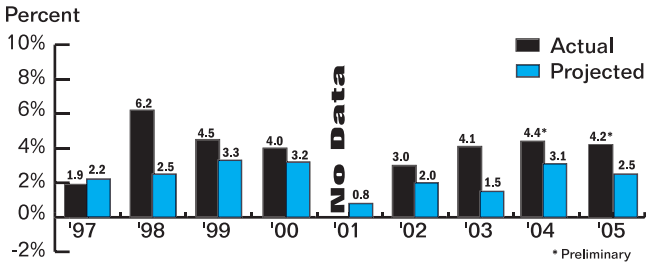



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Yellowstone County

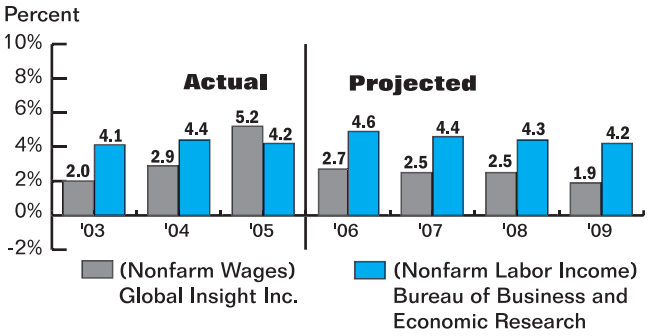
Billings is Montana's largest trade and service center. Economic events in rural eastern Montana are quickly felt in Yellowstone County. The acceleration of employment growth in late 2004 and 2005 closely follows the statewide trends and reflects the direct and indirect impacts of oil-related developments. The index for single-family home prices in Yellowstone County increased 10.4 percent in 2005. (Table 1, page 7) Billings ranked 99 out of 265 metropolitan areas in the United States in terms of house price increases in 2005. The 2001-2003 basic labor income changes predate the current energy-commodity price spike. A number of manufacturing industries experienced growth. Declines in retail-wholesale trade may be attributed to the increased competition from smaller trade centers such as Bozeman and Miles City. Continued growth in health care and other services indicate a shift in Billings' role to more of a regional service center.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 1997-2005



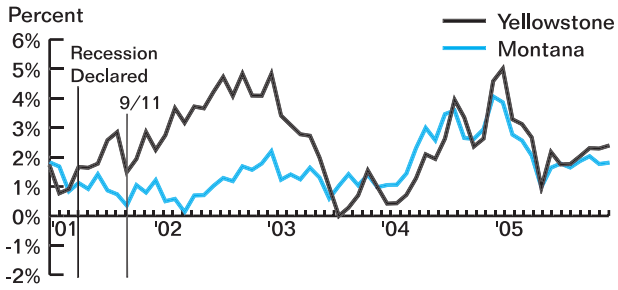

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Yellowstone County, 2003-2009



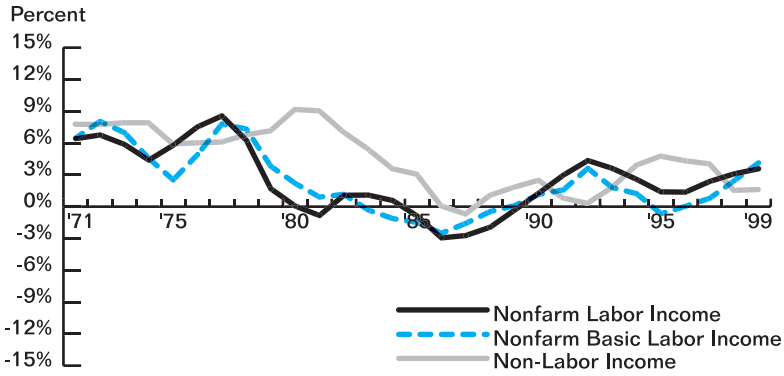

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

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



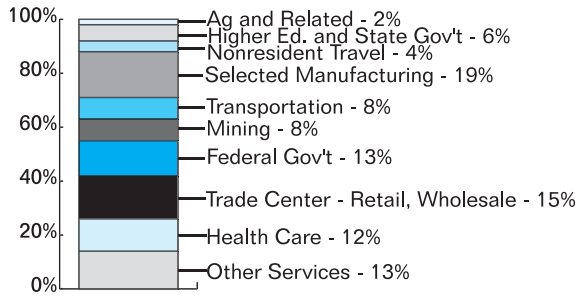

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

### 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, 2001-2003 (percent of total)

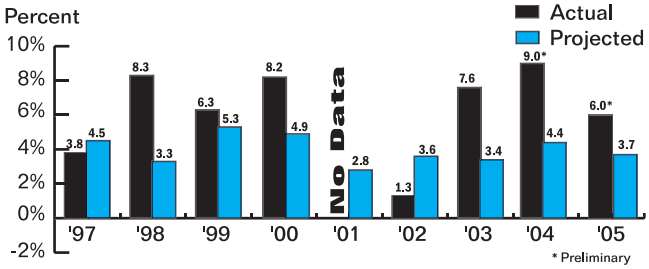



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

# Outlook for Gallatin County

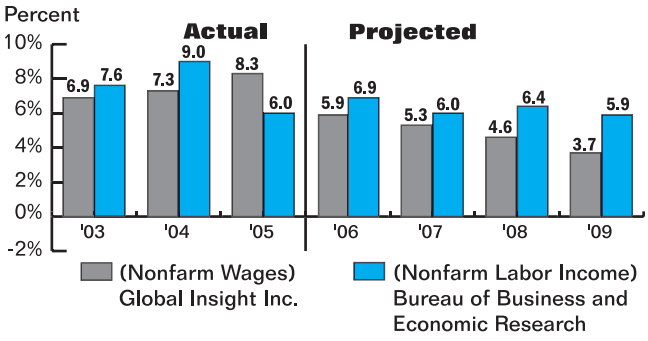
Gallatin County has been one of the fastest growing counties in Montana during the last 30 years. Bozeman is now a second order trade center, with the export components of retail trade and health care accounting for a sizable share of the economic base. The construction and real estate industries have been particularly robust in Gallatin County and may be especially vulnerable to higher interest rates in the future. 2001-2003 declines in manufacturing include Bozeman's high-tech industry, which was particularly hard hit in the last recession. The growth at MSU may reflect increased research activities.

## Figure 1
## Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 1997-2005



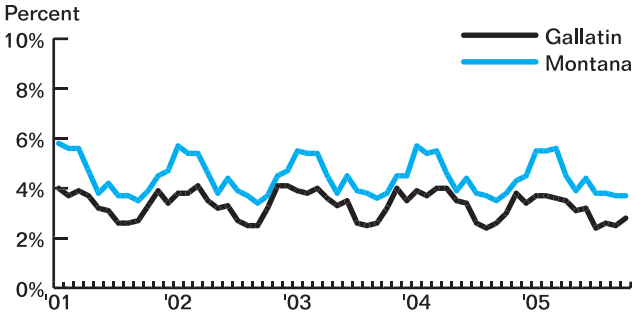

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

## Figure 2
## Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Gallatin County, 2003-2009



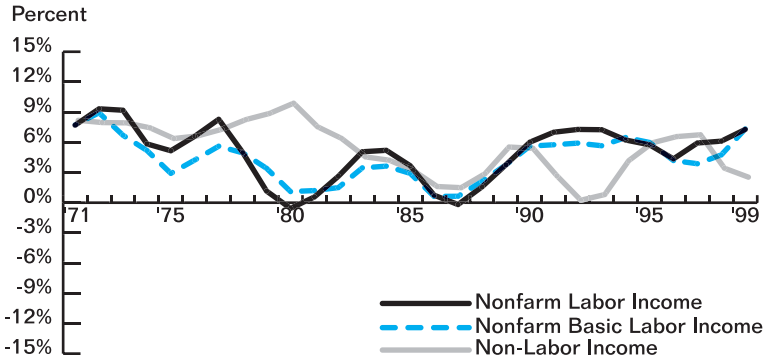

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

## Figure 3
## Monthly Unemployment Rate January 2001-November 2005



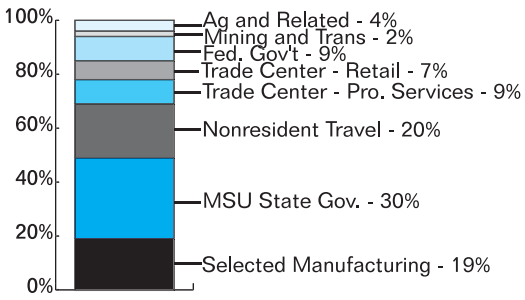

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

## Figure 4
## Nonfarm Labor Income and Nonfarm Basic Labor Income, 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, 2001-2003 (percent of total)

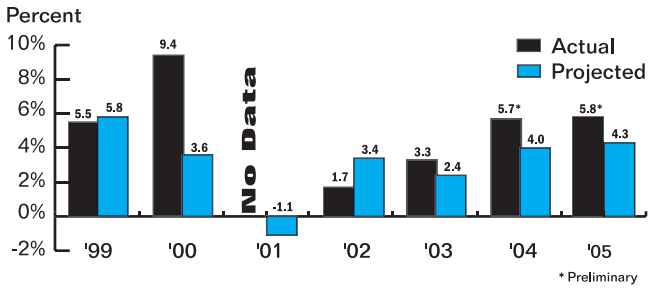



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula. Bureau of Economic Analysis, U.S. Department of Commerce.

## Outlook for Ravalli County

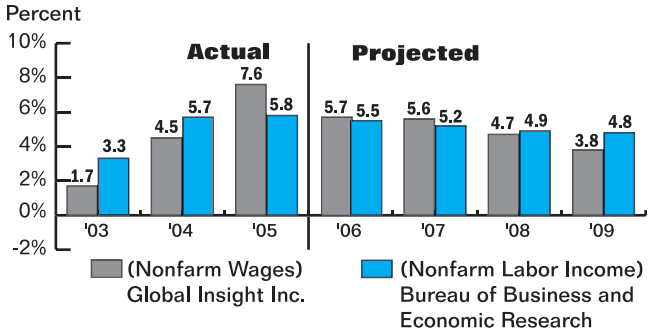
Northern Ravalli County is part of the Missoula economy, and commuters (those living in Ravalli County but working in Missoula) are the largest component of the economic base. The 2001-2003 decrease in wood products labor income occurred in log home manufacturing and was the first period of extended weakness in the last 20 years for this industry in Ravalli County.

### Figure 1
### Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 1999-2005



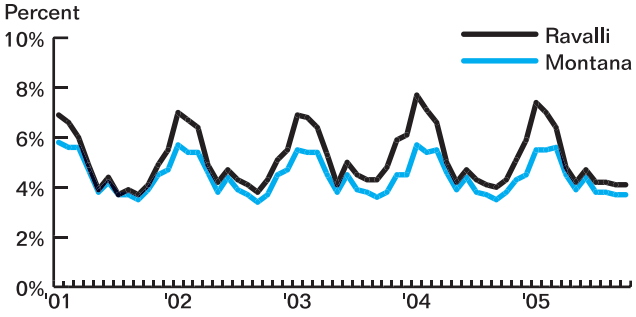

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

### Figure 2
### Actual and Projected Change in Nonfarm Labor Income and Nonfarm Wages, Ravalli County, 2003-2009



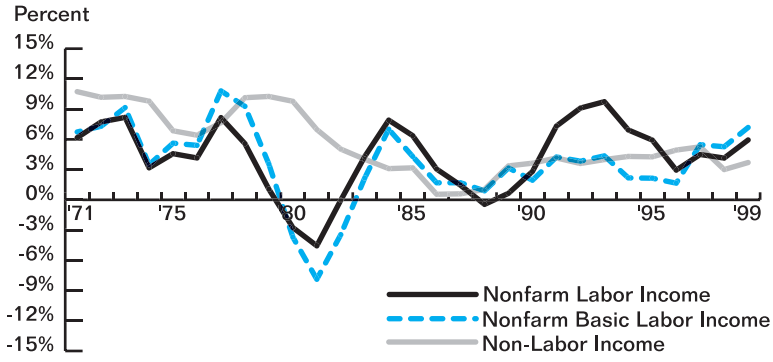

Sources: (Nonfarm Labor Income) Bureau of Business and Economic Research, (Nonfarm Wages) Global Insight Inc.

### Figure 3
### Monthly Unemployment Rate January 2001-November 2005



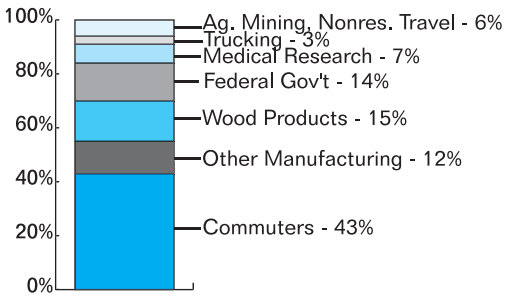

Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

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



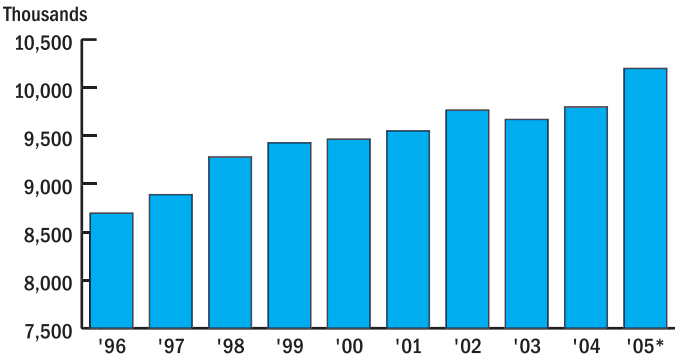

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

### Figure 5
### Labor Income in Basic Industries, Ravalli County, 2001-2003 (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 1**
**Montana Nonresident Visitor Trends**




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

# Montana's Milestone: 10 Million Nonresident Visitors

*by Norma P. Nickerson, James Wilton, and Melissa Dubois*

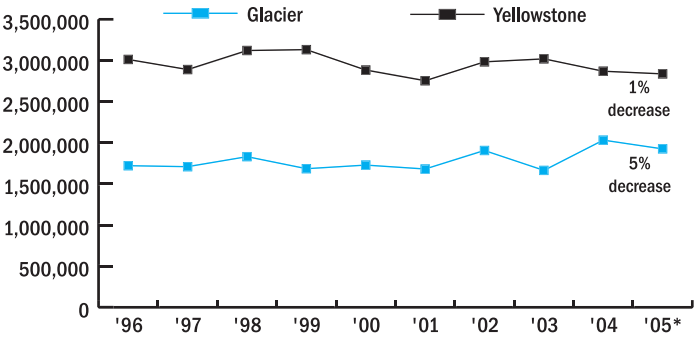
Preliminary estimates show that Montana's nonresident visitation reached a milestone in terms of numbers – 10 million visitors in 2005. That does not mean that 10 million cars drove into Montana in 2005 as the average group size was a little over two people per travel party, but it does indicate a strong year for travel in Montana both by car and by air. Nonresident visitation in Montana increased 4 percent over 2004 (Figure 1), which was the same increase expected for the United States. Nonresident visitors dropped new dollars into the state at a rate of approximately $2 billion per year, contributed over 29,000 jobs, and generated $531 million in income.

A review of key indicators in Montana's travel industry shows that it was a strange year for visitation. In fact, most indicators would suggest that Montana would have seen a decrease in overall visitation in 2005. For example, both Glacier and Yellowstone parks experienced decreases in visitation through October 2005 (Figure 2), with August and September driving the overall declines. However, when reviewing the number of visitors and percent change at various attractions, overall visitation to attractions was virtually flat (-0.6 percent).

The 2004-05 ski season was abysmal. Snow conditions around the state were poor and reflect the 18 percent decrease in skier visits. (Figure 3) Most likely, the decrease was attributed to resident rather than nonresident skier days as discussions with the major ski area representatives mentioned that nonresidents still came, but locals were harder to please.

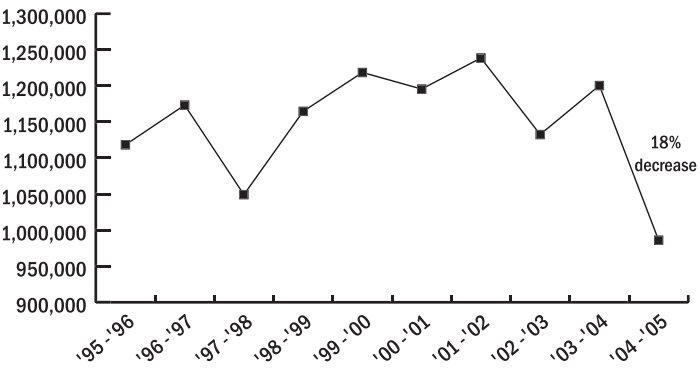
On the upside, the number of rooms sold increased 3 percent in 2005 over 2004. (Figure 4) In addition, airport deboardings increased 7 percent in 2005 (Figure 5). The state's eight major airports increased in 2005, with the West Yellowstone airport showing a 77 percent increase. Keep in mind, however, that West Yellowstone provides the least amount of visitors compared to other cities. (Table 1)

**Figure 2**
**National Park Visitation**



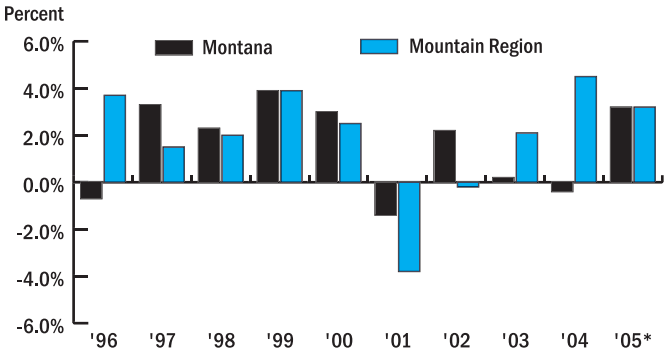

Source: National Park Service.
* Preliminary

**Figure 3**
**Montana Ski Area Visits**



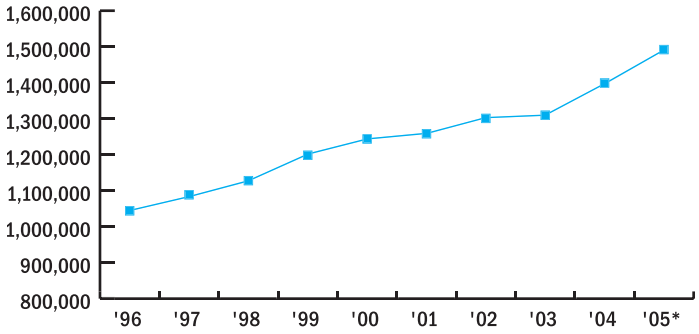

Source: USDA Forest Service, Big Sky, Great Divide.

**Figure 4**
**Percent Change in Rooms Sold (Year to Date)**




Source: Smith Travel Research.
* Oct YTD Figure

**Figure 5**
**Montana Air Traffic, 1996 - 2005**




Source: Montana Aeronautics Division.
* Preliminary

## A Closer Look at Montana's Visitors

Over the years, we have asked Montana visitors to tell us what their primary attraction to the state was for a particular trip. Table 2 on page 18 represents 92 percent of all nonresident vacation visitors and highlights the spending pattern of visitors based on what attracted them to Montana.

Vacationers primarily attracted to Yellowstone National Park represent 21 percent of the nonresident vacationer population, but spent only 12 percent of the dollars in the state. In contrast, visitors primarily attracted to Glacier National Park represent 17 percent of the vacationer visitor population, and 19 percent of the dollars. Glacier Park visitors spend twice as much time in Montana as do the Yellowstone visitors.

Vacationers primarily attracted to Montana for fishing spent more time in the state and more money per day than any other type of visitor. These visitors only represent 4 percent of all vacationers, but their overall dollar contribution is 10 percent of the state tourism dollars. Likewise, those attracted to the state for hunting have the second longest length of stay and contribute 6 percent to the overall direct tourism dollars. Combined, fishing and hunting represent 16 percent of all visitor dollars.

Finally, Montana's natural resource amenities are a big draw to the state. Six of the nine listed attractions are natural-resource based (two national parks, fishing, hunting, open space, and mountains) and represent 70 percent of all tourism dollars spent in Montana. Not surprisingly, Montana's natural beauty, wildlife, parks, and uncrowded areas are what make it a treasured state in terms of many travelers' experience.

**Table 1**
**Airport Deboardings by City and Percent of Montana Air Traffic**

| City | Percent Change 2005 vs. 2004* | Percent of 8-City Air Traffic |
|---|---|---|
| West Yellowstone | 77.1% | 0.3% |
| Great Falls | 18.4% | 10.4% |
| Helena | 12.5% | 6.1% |
| Bozeman | 9.8% | 22.8% |
| Kalispell | 9.2% | 13.0% |
| Butte | 7.2% | 2.7% |
| Missoula | 5.1% | 18.0% |
| Billings | 2.6% | 26.6% |

Source: Montana Aeronautics Division.
* October YTD

**Table 2**
**Average Daily Expenditures by Top Nine Main Attractions in Montana**

| | Fishing | Open Space | Yellowstone Park | Glacier Park | History & Culture | Friends & Relatives | Hunting | Mountains | Special Events |
|---|---|---|---|---|---|---|---|---|---|
| Sample Size (N=2,819) | 119 | 326 | 586 | 469 | 138 | 368 | 152 | 297 | 123 |
| Percent of Population | 4% | 12% | 21% | 17% | 5% | 13% | 5% | 11% | 4% |
| Gas | $26.88 | $26.52 | $29.25 | $27.17 | $30.47 | $23.65 | $29.98 | $26.59 | $30.13 |
| Retail sales | $29.67 | $41.64 | $25.59 | $25.27 | $28.39 | $37.35 | $18.61 | $21.49 | $27.29 |
| Restaurant, bar | $26.22 | $34.65 | $29.48 | $23.19 | $28.15 | $23.57 | $22.12 | $24.49 | $20.48 |
| Hotel, lodge, B&B | $15.98 | $20.82 | $27.75 | $18.46 | $20.62 | $12.65 | $15.72 | $25.98 | $15.15 |
| Groceries | $17.48 | $9.30 | $11.04 | $12.47 | $7.37 | $10.75 | $10.10 | $9.61 | $6.00 |
| Auto rental, repairs | $13.68 | $3.03 | $3.47 | $5.86 | $4.37 | $8.23 | $4.77 | $4.14 | $3.95 |
| Outfitter, guide | $30.32 | $1.28 | $2.35 | $6.91 | $0.00 | $2.77 | $12.87 | $3.77 | $0.44 |
| Licenses, entrance fees | $10.05 | $3.32 | $5.81 | $3.58 | $4.57 | $2.53 | $6.66 | $3.62 | $1.32 |
| Campground, RV park | $2.10 | $1.98 | $3.09 | $5.45 | $4.09 | $1.41 | $1.48 | $1.89 | $1.28 |
| Transportation fares | $0.00 | $0.00 | $0.11 | $0.30 | $0.00 | $0.00 | $0.00 | $0.00 | $0.12 |
| Misc. expenses, services | $3.90 | $3.95 | $1.63 | $1.58 | $0.73 | $2.18 | $0.67 | $1.28 | $0.69 |
| Total Avg. Daily/Group | $176.29 | $146.49 | $139.56 | $130.23 | $128.75 | $125.09 | $122.99 | $122.85 | $106.85 |
| Avg. length of stay* | 9.31 | 5.53 | 3.02 | 6.29 | 4.12 | 6.32 | 6.80 | 5.65 | 6.07 |
| Avg. Trip Expenditures | $1,641.26 | $810.09 | $421.47 | $819.15 | $530.45 | $790.57 | $836.33 | $694.10 | $648.58 |
| Total Direct Expenditures of Sample | $195,000 | $264,000 | $247,000 | $384,000 | $73,000 | $291,000 | $127,000 | $206,000 | $80,000 |
| % of Total Contribution | 10% | 13% | 12% | 19% | 4% | 14% | 6% | 10% | 4% |

Source: Institute for Tourism and Recreation Research, The University of Montana-Missoula.
* Delimited to 30 nights

## Tourism and Montana's Legal Environment

In the annual tourism outlook survey conducted by the Institute for Tourism and Recreation Research, two questions relating to the outlook seminar theme were asked of Montana tourism business owners. First, owners were asked to identify their top two legal or regulatory issues that make it difficult to succeed in their business. Second, owners were asked to identify the top two legal or regulatory issues that help develop or sustain their business.

Seventeen percent of Montana's tourism business owners (247 respondents) replied to the survey, with nearly all of the respondents commenting on the first question related to what is a problem in the legal or regulatory environment. As seen in Table 3, laws and regulations – especially those dealing with public land use permits – were the top concern. This was followed by taxes of all sorts, which dip into profits, are hard to understand, and are seen as unfair by some. Other concerns strongly voiced by respondents related to insurance, especially the cost and availability of liability insurance, which is necessary in recreation businesses, as well as workers' compensation and affordable health insurance.

Various laws and regulations that are helpful to their business environment were mentioned by 39 percent of respondents, including the limits on hunting outfitters and the guarantee of nonresident hunting licenses to outfitters. Not surprisingly 32 percent of respondents could not think of any laws and regulations that were helpful. However, 20 percent appreciate the use of the bed tax for marketing, and another 10 percent mentioned various laws protecting Montana's environment which help their natural-resource based business succeed.

## Montana's Outlook – 2006

According to the Travel Industry Association of America, the United States is expecting a slower rate of growth in 2006, with a forecasted 2 percent increase in domestic leisure travel. In Montana, 64 percent of tourism business owners are expecting an increase in 2006, and 30 percent are expecting to remain the same as in 2005. While there is still optimism about future growth in travel, looming fuel prices including home heating for the winter will certainly dip into the pocketbook a little deeper in 2006. In addition, consumer confidence is at a two-year low, indicating unease about spending and earning potential. These indicators suggest that Montana, like the rest of the nation, will have a moderate growth in tourism of about 2 percent in 2006.

## References

Cook, S. (2005). U.S. Domestic Travel Outlook. Presentation at the Travel Industry Association Marketing Outlook Forum, October 21, 2005, Seattle, Washington.

## Table 3
## Legal or Regulatory Obstacles and Assistance to Tourism Business Success

| Category | Percent Comments | Top Examples |
|---|---|---|
| **Obstacles to Business Success (174 comments)** | | |
| Regulations and Laws | 24% | 1) Public lands special use permits - number, type, cost<br>2) MDOT highway signs- not business friendly<br>3) YNP snowmobiling – inconsistency<br>4) Lack of camping enforcement – i.e. Walmart |
| Taxes | 23% | 1) Taxes too high – property tax, bed tax, income tax<br>2) Montana's tax structure deters business<br>3) Too much time filling out forms |
| Insurance | 18% | 1) Liability insurance – costly, hard to get, need tort reform<br>2) Workers' Compensation<br>3) Affordable health insurance<br>4) Insurance in general |
| Outfitter and Guides | 9% | 1) Limitations on some rivers for commercial use<br>2) Over regulation of outfitters<br>3) Unregulated outfitters and guides |
| Lack of Coordination/ Complicated Processes | 6% | 1) Too many agencies to deal with – combine or work together<br>2) Complicated licensing, permits, tax forms, paperwork – very time consuming |
| No impediments | 6% | Respondent did not have a concern |
| Fish, Wildlife and Parks | 5% | 1) Cost of nonresident hunting licenses<br>2) Allow more licenses for nonresidents |
| Environment | 5% | 1) Environmentalist in way of development and use of lands<br>2) Closing off stream/river access by private land owners<br>3) Need to protect our environment |
| **Assistance to Business Success (111 comments)** | | |
| Various Laws/Regs. | 39% | 1) Limits on hunting outfitters<br>2) FWP – guarantee of nonresident hunting licenses to outfitters<br>3) Open access to public waterways<br>4) No smoking law, no sales tax, continued winter access to YNP, resort tax, LLC filing is easy, opportunity for special use permits allows us to have a business, licensing of outfitters, new contractor laws |
| No Assistance/Help | 32% | Respondents could not think of any helpful regulations/laws |
| Bed Tax | 20% | 1) Promotion through bed tax<br>2) Visitmt Web page<br>3) Research |
| Environment | 10% | 1) Environmental protection<br>2) Conservation easements<br>3) Acquisition of fishing access sites |

Sources: Cook, S. (2005). U.S. Domestic Travel Outlook.
Presentation at the Travel Industry Association Marketing Outlook Forum, October 21, 2005, Seattle, Washington.

# Health Care Costs
## Regulation and Reform

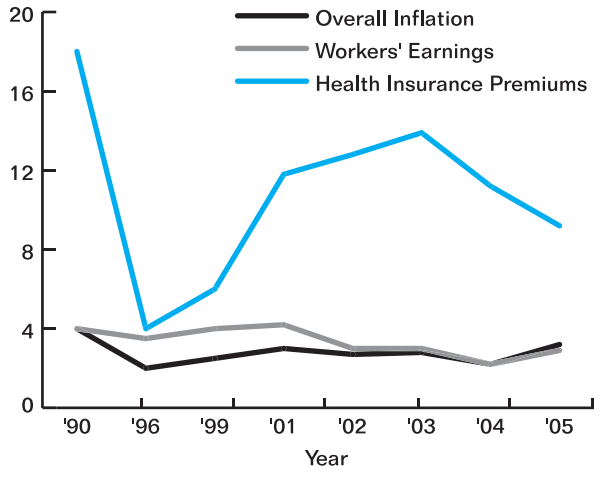
*by Steve Seninger and Daphne Herling*

Total health care spending in Montana is estimated at $4.9 billion in 2005, which represents an increase of $400 million, or 7 percent, from the previous year. Montana's spending increase mirrors that of the nation, with total U.S. spending on health care now up to $1.9 trillion. The United States now spends more per capita ($6,423) on health care than any other nation. In comparison, Canada spends $2,931 per capita on health care and the United Kingdom spends $2,160. 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 $1.9 trillion in spending.

Montana's $4.9 billion health care bill represents 16 percent of the state's gross domestic product. In spite of this high level of health care spending, more than 170,000 Montanans do not have any kind of health insurance – public or private. Lack of health insurance is lack of access to health care and means that workers, their families, and children go without regular checkups and normal preventative health care services. Lack of adequate health care represents a serious under-investment in Montana's most important asset: people, workers, families, and children. Under-investment in the health of Montanans is partly due to the ever-higher costs of health care and health insurance to employers and consumers, a problem that is getting worse every year.

Changes in laws and legislation have been proposed to lessen the impact of rising health care costs on consumers and employers. Regulation of malpractice insurance, creation of tax credits and purchasing pools, and statewide reforms in health insurance coverage have been proposed to control health care costs. These proposals will be discussed and related to broader issues of health care.

**Figure 1**
**Annual Percent Change in Health Insurance Premiums and Per Capita Health Care Spending per Privately Insured Person**




Source: Kaiser/Health Research (www.kaisernetwork.org) and U.S. Bureau of Labor Statistics (www.bls.gov).

## Increased 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 one-fourth of the recent 7 percent growth in national health care spending, and increased prices accounted for three-fourths. Population growth, and a growing elderly age cohort, accounted for the balance of the national growth rate.

Over the past four years, health insurance premiums have increased dramatically at annual percentage rates greater than 10 percent, a rate 8 percentage points above the growth in workers' earnings. (Figure 1)

The annual rate of increase has slowed to around 9 percentage points in the past two years, although these rates remain well above the rate of overall inflation and growth in workers' earnings.

Increased health insurance premiums are only partly explained by increased health insurance claims. 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.

There is a significant gap between premium increases and utilization over the past several years as shown in Figure 2. 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. 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.

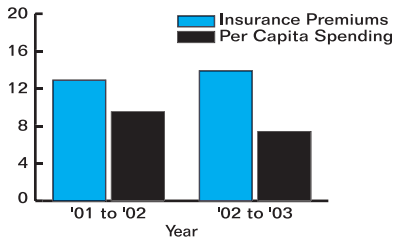
## Policy Responses to Rising Health Care Costs

Numerous reform proposals and changes in laws and regulations are emerging from continuing concerns over rising health insurance premiums. Malpractice insurance reform is one major issue proposed as a way to control health care costs. Tax and legislative relief for small business health insurance coverage is another important focus for alleviating the high costs of health insurance. An increasing number of states are considering state reform because of a lack of serious commitment to health policy change at the national level.

## Malpractice Insurance

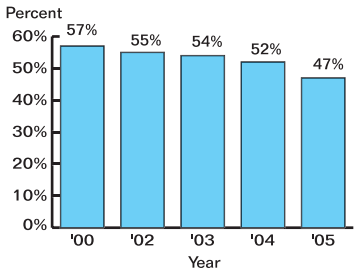
The average doctor in surgery or obstetrics is sued about once every six years and average jury verdicts are usually around

**Figure 2**
**Annual Percent Change in Health Insurance Premiums and Per Capita Health Care Spending per Privately Insured Person**




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

**Figure 3**
**National Percent of Small Firms (Less than 10 Workers) Offering Health Insurance, U.S. 2000 to 2005**




Source: www.healthaffairs.org

$500,000, with the most common malpractices cases based on missed or delayed diagnosis. General surgeons pay from $30,000 to $200,000 a year for malpractice insurance premiums, with premium rates up to 50 percent higher for neurosurgeons and obstetricians. It is not uncommon for doctors in some states to be looking at cumulative malpractice premiums of $ 500,000 over the next 10 years.

Malpractice insurance obviously impacts doctors' income in particular practices, although the overall cost impact of malpractice insurance and lawsuits does not represent a large proportion of the nation's health care spending bill. The U.S. Government Accounting Office estimates that malpractice expenses are about 2 percent of national spending, or about $40 billion in current terms of $1.9 trillion national health expenditures.

Since the medical malpractice crisis of the mid-1970s, most states have enacted changes in their laws to dampen increases in medical malpractice premiums. Common elements in these laws designed to reduce the number of claims filed include limitations on the size of awards and settlements, as well as on the time and costs associated with resolving claims. Most of the state laws aimed at controlling premium rates attempt to reduce insurer losses related to medical malpractice claims.

The 2005 Montana Legislature addressed Montana's malpractice insurance laws by creating an association consisting of certain casualty insurers to provide insurance when it was not reasonably available, along with a stabilization reserve fund. The purpose of the association is to provide medical malpractice insurance on a self-supporting basis.

Limitations, or caps, on subjective, non-monetary losses such as pain and suffering (non-economic damages) have been some of the most contentious aspects of malpractice insurance reform. Several insurers and medical associations argue that such a cap will help control losses on medical malpractice claims and therefore, moderate premium rate increases. Trial lawyers and consumer rights groups view caps as limiting consumers' ability to collect appropriate compensation for their injuries and ineffective in reducing medical malpractice premium rates.

There are alternatives to legal reform of malpractice insurance including compensation funds similar to those established for vaccine manufacturers and consumers. In 1987, Congress passed a 75 cents surcharge (about 15 percent of total costs) that goes into a fund for children injured by vaccine. Expert panels determine the validity of claims, and if dissatisfied, a person can sue. More than $3.5 billion was paid out against doctors and manufacturers between 1980 and 1986, but since 1988, the program has paid a total of $1.5 billion. New Zealand has a similar national system for a range of health care injuries and mistakes that offers compensation for medical injuries that occur infrequently or injuries that result in death or prolonged disabilities.

## Montana's Small Businesses Health Care Affordability Act

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. Nationally, small business (3-9 workers) offer rates have dropped from 57 percent in 2000 to 47 percent in 2005. Approximately 41 percent of Montana's small businesses offered health insurance in 2003, an offer rate that has most declined in the past two years.

The impacts of rising health care costs disproportionally affect this state as small firms struggle to contain costs. Small firms lack purchasing power and are unable to reduce insurance costs by bearing the risk themselves and self-insuring. The 2005 Montana Legislature addressed this problem with the Small Business Health Care Affordability Act, a program that started this January. Tax credits and premium assistance are two parts of the program targeted to firms with 2 to 5 employees.

The tax credit provides a refundable state income tax credit to employers currently paying some or all the cost of group health insurance for their employees. Additional credits are available

when employers pay for insurance for the employee's spouse or dependants. An initial allocation of $4.6 million of tax credits is being offered to small businesses currently offering insurance. The program is fully enrolled at this point and will affect 2,000 employees (information available through the Montana State Auditor, www.sao.mt.gov).

Premium assistance for businesses currently not offering health insurance provides a monthly assistance payment for both the employer and the employee's portion of the health insurance premium. This assistance will pay the cost of an employee's health insurance when the employer has not offered insurance in the past. Employers and employees for businesses participating in a new state health insurance purchasing pool or another qualified association plan are eligible for this program which is expected to extend health insurance coverage to 6,000 new enrollees. Both the tax credit and premium assistance programs are currently fully subscribed.

## Health System Reforms at the State Level

There are efforts underway to expand Montana's Children's Health Insurance Program (CHIP) by 3,000 children. Changes in Montana's Medicaid program are designed to extend this public health insurance coverage to another 5,000 uninsured Montana children. Another 2,100 children should receive public health insurance through special waivers with the federal government. This increased coverage for 10,100 more children under the age of 18 is a very positive development, although nearly 27,000 Montana kids will still not have any kind of health insurance.

Montana has undertaken some good initiatives toward increased access to health care through public insurance programs in the past several years, but most of these initiatives represent augmentations of existing programs. Other states are taking more comprehensive steps to change health insurance coverage for all citizens.

Maine with its Dirigo program (www.maine.gov/governor/baldacci/healthpolicy) is implementing a hybrid, politically acceptable universal coverage for Maine residents. Georgia formed a statewide coalition of health care consumers and providers (www.gaforhealthcare.com/) working toward health insurance reform that will cover all citizens while promising to get a handle on health care costs.

Massachusetts is now moving toward comprehensive insurance coverage for the 460,000 uninsured people in Massachusetts, 106,000 of who were determined to be eligible for Medicaid but not receiving benefits. The Commonwealth Care Exchange, allows insurers to offer lower-cost plans by reducing state requirements on what the plans must cover, such as in-vitro fertilization, and facilitates the pre-tax payment of premiums by working people to create a 15 to 30 percent savings on insurance. The state's Medical Security Trust is designed to provide payments for the unemployed for 30 weeks and helps cover newly-employed people during the waiting period before their employer-provided insurance starts. Finally, proposed legislation would convert the state's uncompensated care pool into an insurance plan for the state's 150,000 working poor and long-term unemployed, directing them to a specified network of clinics, community health centers, and hospitals.

## Outlook for Containing Costs of Health Care

Growth in health care spending is projected to level off and run at about 7 percent a year between 2003 and 2007 while 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 there are some expectations that price increases will moderate over the next couple of years thereby reducing pressure and justifications for higher health insurance premiums. The 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 depends on how much health care people consume and on limiting price increases for medical services, pharmaceuticals, and 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 buyers' side of the market, be it a market for hospital, physician, and prescription drugs, or health insurance coverage.

Savings accounts as a means of reducing utilization – both medical savings accounts and more recent variations such as health savings accounts – provide a savings/reimbursement account, tax exclusion of deposits, and carryover balances in combination with a high-deductible health plan, usually of at least $1,000 and a cap on out-of-pocket expenses from the savings account of, say, $5000.

Simulation studies of savings accounts' impact on spending show that they will be most effective for the young and healthy who can afford the up-front costs of a high deductible. (Moon, Nichols, and Wallin, www.urbaninstitute.org)

## Investment Will Save Future Costs

Health care spending on preschool children is another strategy for saving longer term health care costs. Health care investment in children before age five has been shown to offer a number of positive returns including better health during childhood, with associated lower health costs during the school years and into adulthood. National research by Dr. James Heckman, the 2000 Nobel Laureate in economics, and economists at the Minneapolis Federal Reserve Bank (www.minneapolisfed.org ), shows high rates of return on investments in health care and preschool education for preschool children. Early childhood programs have estimated returns for every dollar spent of up to $9 in future earnings and taxes plus savings to schools, the criminal justice system, and welfare. Such high payoffs offer some of the best returns to public investments in a state's economy.

Some national corporations are now recognizing the importance of raising healthy, educated children today for their work force needs of the future. Studies by Voices for Corporate America (www.voicescorporateamerica.org) show high returns at the community level from early child investments in health and preschool educational development. Long-run payoffs to taxpayers and businesses include better K-12 school outcomes and more productive and engaged persons in adulthood.

# Montana Agriculture

*by David Buschena*

Montana's agricultural sector continues to be a vibrant and essential core sector of the Montana economy. Figure 1 shows that in 2003, total cash receipts for Montana farms amounted to $2.22 billion dollars, higher than in the late 1990s and early 2000s, and similar to the mid-1990s. About 52 percent of farm cash income came from livestock and 33 percent from sales of crops, mainly wheat. Government programs provided 15 percent of total cash receipts. Typically, Montana farmers derive between 75 and 85 percent of incomes earned from the sale of cattle and wheat. In 2004 and 2005, wheat prices remained close to their 2003 levels and wheat production increased substantially over 2003 levels. Cattle prices increased in 2004 and remained high in 2005. So, while official data are not yet available for 2004 and 2005, it seems likely that farm cash income in Montana remained at, or increased above, its 2003 level. The 2006 outlook for Montana farm incomes continues to depend heavily on revenues from the sale of wheat and cattle.

## Wheat Outlook

World wheat prices are closely linked to world wheat production, and prices received by Montana producers are very closely linked to world wheat prices. Figure 2 shows the evolution of wheat prices in Montana from 1990 to 2005.

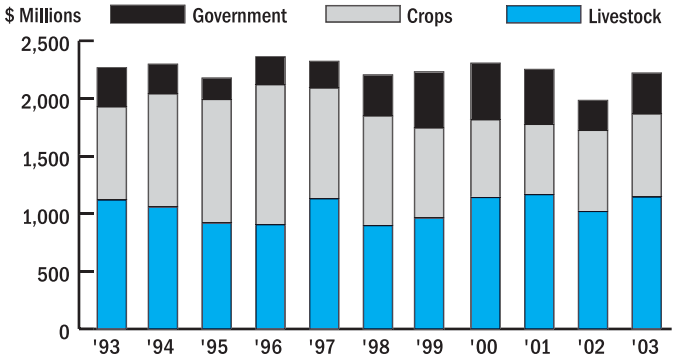
The USDA World Board currently projects that global wheat production in the 2005-2006 crop year will be about 615.4 million tons, slightly lower than in the 2004-2005 crop year, but above the most recent five-year average of about 580 million tons. These estimates, and the fact that carry over stocks have been relatively high, have resulted in wheat futures prices for March, June, and September contracts that are either very similar to those available in the current cash market (in the case of hard red spring wheat) or that show a modest strengthen of prices of up to 20-25 cents a bushel (in the case of hard red winter wheat). In the United States, wheat production in 2006 is currently projected to be similar to its 2005 level of approximately 57 million tons. However, as is always the case with annual crops such as wheat, actual global and local wheat production will depend on actual growing conditions.

## Cattle Outlook

Cash receipts from sales of Montana cattle, which typically account for well over 40 percent of total Montana farm cash receipts, depend heavily on cattle prices. Over the past 15 years, cattle prices in Montana (shown in Figure 3) and the United States have been driven both by changes in beef supplies and beef demand.

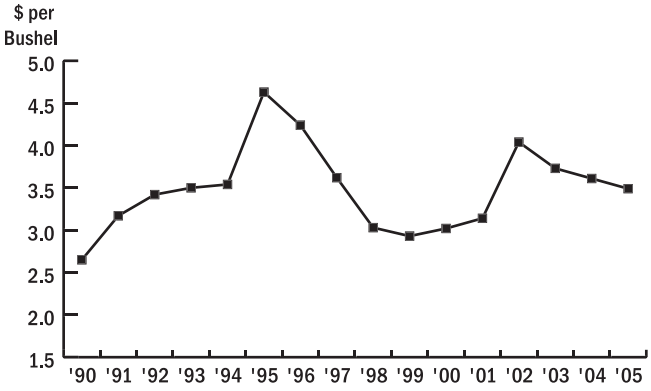
The price outlook for 2006 currently remains favorable for feeder cattle. Futures prices for feeder cattle contracts through November of 2006 are currently very similar to current cash market prices, which remain at historical record high levels. Futures prices for fed cattle contracts are stable at current cash price levels through April 2006, but then decline by about 6 percent, although they still remain well above their long run average levels.

**Figure 1**
**Montana Farm Cash Receipts, 1993 - 2003**



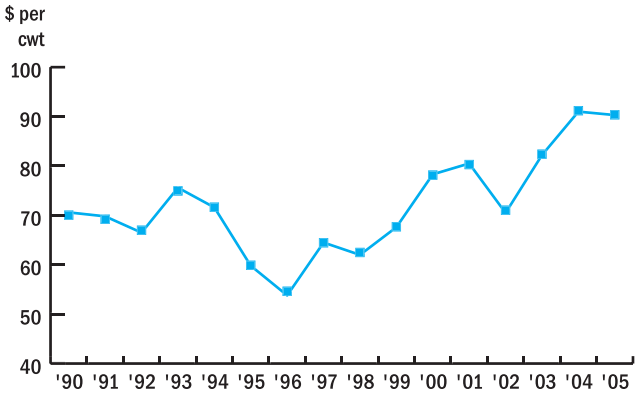

Source: U.S. Department of Agriculture, National Agricultural Statistics

**Figure 2**
**Montana Wheat Prices, 1990 - 2005**




Source: U.S. Department of Agriculture, National Agricultural Statistics

**Figure 3**
**Montana Cattle Prices, 1990 - 2005**



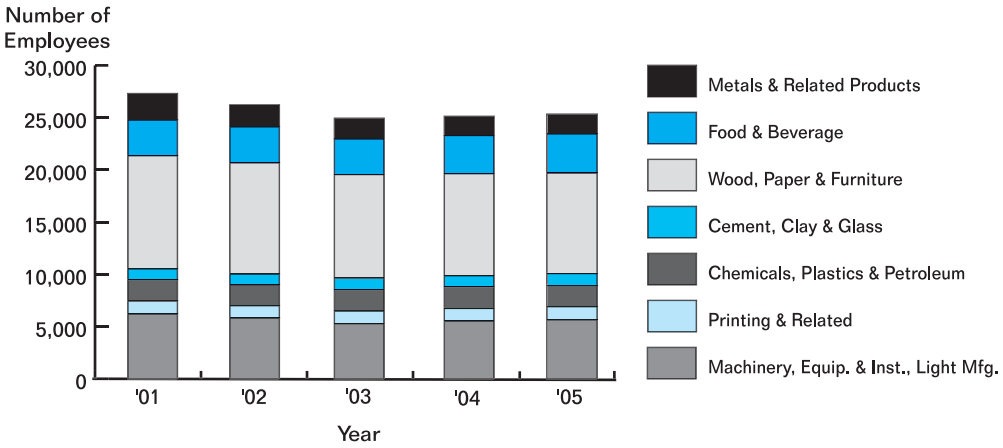

Source: U.S. Department of Agriculture, National Agricultural Statistics

The continued strength in cattle prices is linked to current U.S. cattle inventory levels, which remain relatively low, although the size of the national herd increased modestly in 2005. In addition, in December 2005, the Japanese government announced that, under certain conditions, its ban on U.S. beef imports would be lifted, providing U.S. producers with renewed access to a major export market in 2006.

# Montana's Manufacturing Industry

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

**Figure 1**
**Montana Manufacturing Employment, 2001-2005**




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

**Table 1**
**Employment and Labor Income in Montana's Manufacturing Sectors, 2001 and 2005**

| Manufacturing Sector | Labor Income [thousands 2003$] 2001 | Labor Income [thousands 2003$] 2005 | Employment 2001 | Employment 2005 |
|---|---|---|---|---|
| Machinery, Equip. & Inst., Light Mfg. | $226,049 | $206,425 | 6,204 | 5,649 |
| Printing & Related | 37,435 | 38,088 | 1,229 | 1,256 |
| Chemicals, Plastics & Petroleum | 191,842 | 219,446 | 2,001 | 2,037 |
| Cement, Clay & Glass | 44,500 | 45,177 | 1,094 | 1,134 |
| Wood, Paper & Furniture | 434,797 | 399,278 | 10,828 | 9,618 |
| Food & Beverage | 116,238 | 127,088 | 3,400 | 3,751 |
| Metals & Related Products | 118,112 | 90,175 | 2,546 | 1,880 |
| TOTAL | $1,168,974 | $1,125,676 | 27,302 | 25,285 |

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

Following three years of declining production, sales, and employment, Montana's manufacturing industry saw improvement both in 2004 and 2005. The sector currently:

- Employs over 25,000 people
- Produces approximately $5 billion in output annually, and
- Accounts for over 20 percent of Montana's economic base.

After a 1 percent increase in 2004, average monthly manufacturing employment was up approximately 1 percent in 2005 as well. Over half of surveyed Montana manufacturing firms reported increased profits, with another 19 percent indicating profits equal to 2004. Sales were up for 61 percent in 2005, and production increased for 60 percent. The increased manufacturing activity in Montana can be attributed primarily to a continued strong U.S. economy, even with dramatically higher energy costs and the impacts of several major hurricanes.

A number of factors prevented a better performance by Montana manufacturers in 2005.

- Virtually all of surveyed[1] Montana manufacturing firms reported their plants being negatively affected by high energy prices in 2005, with higher raw material, operating/production, and transportation costs being the most common consequences.
- Labor availability continues to be a problem. Not only do firms have difficulty recruiting and retaining skilled workers, they also have difficulty attracting quality employees for entry-level positions, resulting in problems with work ethics, absenteeism, and performance.
- As in the past, raw material availability and cost continued to be a problem in 2005. This is especially the case for the wood products industry (see pages 27-28), but shortages and higher prices for items such as steel, plastics, and concrete made this problem more universal.
- Additionally, freight availability (and now also cost) is still an issue, especially for those firms shipping primarily out of state.

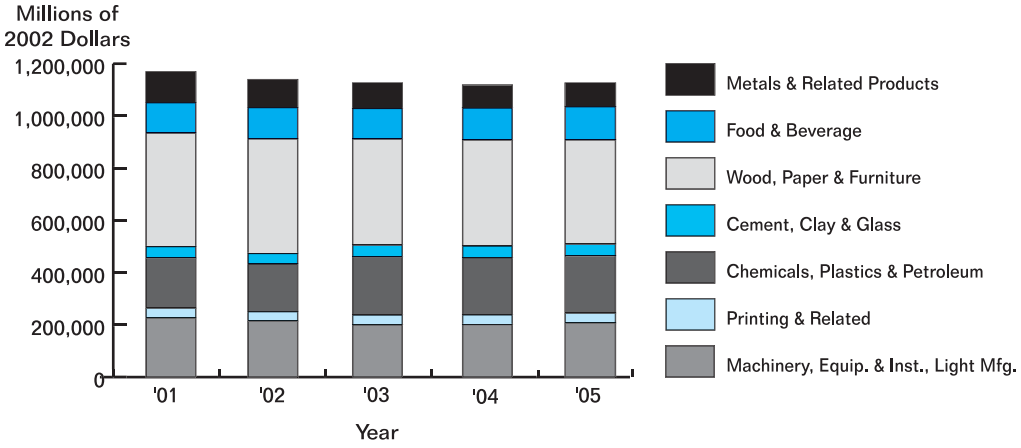
## Table 2
## Manufacturing Employment and Labor Income Among Montana Counties, 2003

| County | 2003 Manufacturing Employment* | Percent of State's Manufacturing Employment | 2003 Manufacturing Labor Income [thousands 2003$] | Percent of State's Manufacturing Labor Income |
|---|---|---|---|---|
| Yellowstone | 3,670 | 16% | $215,000 | 23% |
| Flathead | 3,520 | 15% | $148,300 | 16% |
| Missoula | 3,060 | 13% | $137,400 | 15% |
| Gallatin | 2,630 | 12% | $108,700 | 12% |
| Ravalli | 1,310 | 6% | $ 51,400 | 5% |
| Cascade | 1,020 | 4% | $47,200 | 5% |
| Lake | 960 | 4% | $29,300 | 3% |
| Lewis & Clark | 790 | 3% | $32,800 | 4% |
| Lincoln | 600 | 3% | $23,100 | 2% |
| Silver Bow | 590 | 3% | $30,000 | 3% |
| Remaining 46 Counties | 4,610 | 20% | $113,300 | 12% |
| Montana | 22,760 | 100% | $ 936,500 | 100% |

*Estimates do not include the logging and forest management industries, which would add more than 2,000 jobs and over $107 million in labor income.

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

## Figure 2
## Labor Income in Montana Manufacturing Industries, 2001-2005




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

Manufacturers expressed concerns over the availability and cost of both truck and rail transport.

Montana's manufacturing industry has not always been faced with as many challenges as it is today. There was substantial growth in the industry throughout the 1990s, a decade in which Montana manufacturers added over 2,000 jobs, reaching a peak of over 27,000 workers. This increase was followed by a rapid decline that continued through 2003, when employment fell back under 25,000 workers.[2] 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: 2006 and Beyond

The U.S. economy is projected to remain strong in 2006, with global economic conditions expected to weaken slightly. However, a weaker U.S. dollar may aid a number of Montana manufacturers. In line with these expectations, Montana manufacturers have a fairly optimistic outlook for 2006. Over half of the manufacturers responding to our survey (Montana manufacturers with 20 or more employees) expect improved conditions, while 43 percent think 2006 will turn out about the same as 2005, leaving only 6 percent who foresee worsening conditions. Fifty-seven percent expect to keep their work force at the same level in 2006, while a full 39 percent foresee an increase. Fifty-one percent of firms expect higher profits in the coming year, with 40 percent expecting them to stay the same as 2005. Given that 2005 exceeded expected production, sales, and profits for surveyed manufacturers this reflects a generally optimistic outlook for Montana manufacturers.

When manufacturers were asked to rate a list of issues in terms of general importance to their business, 97 percent of respondents rated energy costs as important, followed by the availability of qualified workers and health insurance costs, both important to 95 percent of respondents. Workers' compensation rates were important to 92 percent.

As in previous years, surveyed manufacturing firms highlighted several issues that will influence their operations in the coming year. By far, the biggest concern for 2006 is the cost of energy, including fuel, gas, and electricity. There seems to be little optimism here, though, as only 10 percent foresee a reduction in natural gas prices, and a mere 2 percent predict electricity prices will go down (see sidebar).

The future of energy costs clearly colors expectations for manufacturing performance in the coming year. Along with labor shortage and transportation problems, it can make it difficult for the industry to be competitive in Montana. However, with some energy prices showing decreases and the U.S. economy projected to remain strong or even strengthening further, there is good reason for a positive outlook. Lowered energy costs would ripple through all parts of manufacturing, improving many of the issues that were problematic in 2005, such as the cost of raw materials, freight, and production. The quality and size of the Montana labor pool is still a problem, though, with no expected near-term improvement. According to the Montana Department of Labor and Industry, the retention rate for college graduates is improving. However, our surveys still indicate a limited availability of the technically trained workers the industry needs.

[1]We surveyed 222 Montana manufacturers employing 20 or more employees and selected other firms, of which 80 percent responded.

[2]The change from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS) has made it problematic to provide consistent and continuous time series data for employment and labor income. Numbers for years prior to 2001 are based on the old SIC system, while the more recent figures are based on NAICS.

### Energy Issues

Survey recipients were asked their expectations with regard to the prices of various types of energy. (Table 3) Respondents were the least optimistic with regards to the price of natural gas. Close to three-quarters (71 percent) anticipate further increases in this area, while only 10 percent anticipate price decreases. Respondents also showed low optimism regarding electricity, with 55 percent expecting a price increase and 43 percent expecting prices to remain at the current levels. Gasoline and diesel inspired the highest level of optimism, with over 20 percent anticipating the prices of each to go down. However, the survey was administered during peak gasoline and diesel prices. Still, price increases were anticipated by 40 percent for gasoline and by 43 percent for diesel. For fuel oil, 52 percent of respondents expect prices to go up, while 15 percent anticipate a price decrease.

**Table 3**
**Energy Prices**
**"Compared to [prices in Nov. 2005], what do you anticipate will happen to energy prices in 2006?"**

| Energy Source | Up | Same | Down |
|---|---|---|---|
| Fuel Oil | 52% | 33% | 15% |
| Electricity | 55% | 43% | 2% |
| Natural Gas | 71% | 19% | 10% |
| Gasoline | 40% | 39% | 21% |
| Diesel | 43% | 35% | 22% |

# Montana's Forest Products Industry
## Current Conditions and 2006 Forecast

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## Operating Conditions

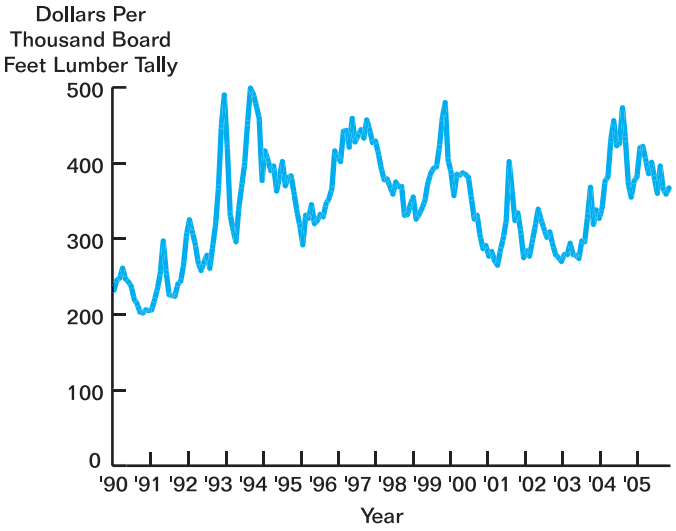
Prices for most wood products were down slightly in 2005 relative to the high prices in 2004. After starting the year at high levels, lumber prices declined in the first half of 2005, then spiked during the hurricanes in late summer and early fall. Following the initial reactions to the hurricanes, lumber prices fell and then settled down to a modest level by the end of the year. (Figure 1) However, even with the slight decrease in lumber prices, the 2005 average remained considerably above prices seen from 2001 to 2003. The yearly average lumber price in 2005 was approximately 4 percent below that of 2004.

Numerous factors impacted prices, sometimes in offsetting ways. Some factors include:

- Mortgage rates remained low, contributing to record high lumber consumption in the United States.
- A severe hurricane season led to a spike in demand.
- The Canadian dollar continued to gain strength against the U.S. dollar, assisting U.S. producers.
- Imports of softwood lumber from Canada and other nations reached new high volumes.
- High energy prices increased logging, milling, and transportation costs.

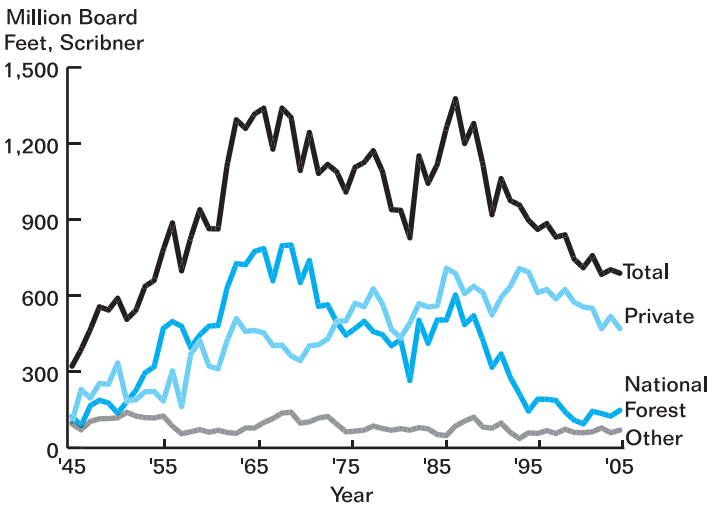
Raw material availability continued to constrain Montana's forest products industry with virtually every timber processing facility listing raw material availability and cost as a major concern during 2005. Estimated timber harvest from all ownerships was

**Figure 1**
**Nationwide Composite Lumber Prices Monthly, 1990-2005**



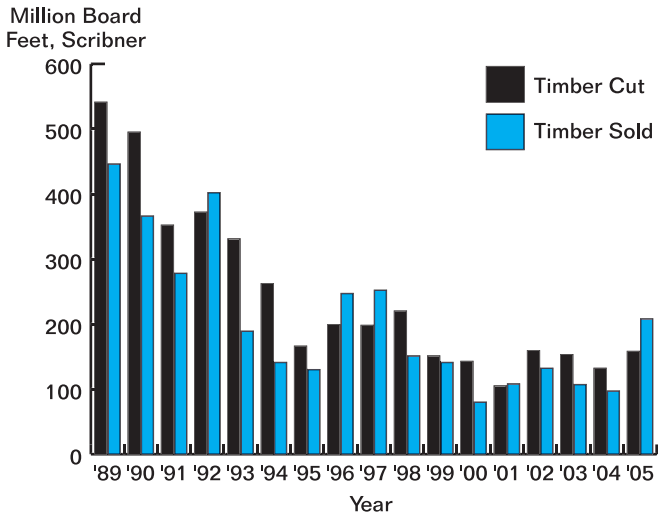

Source: Random Lengths Publications.

**Figure 2**
**Montana Timber Harvested by Ownership, 1945-2005**



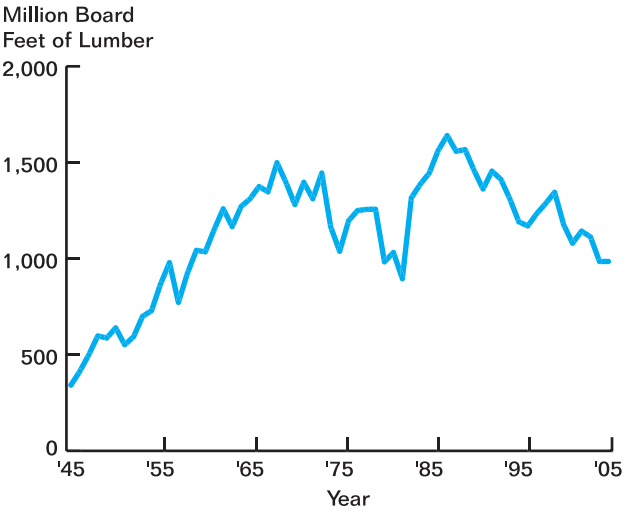

Source: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

**Figure 3**
**Montana National Forest Timber Cut and Sold Volumes, 1989-2005**



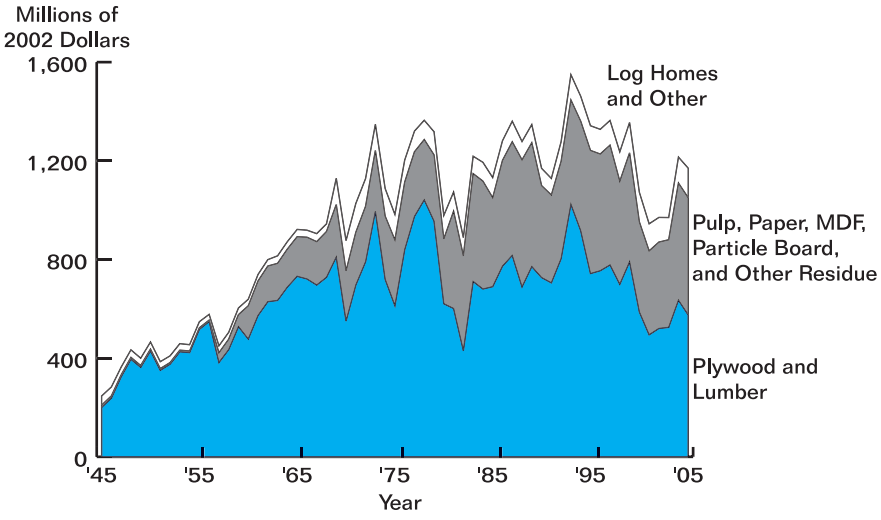

Source: USDA Forest Service Region One, Missoula, Montana.

**Figure 4**
**Montana Lumber Production, 1945-2005**




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

**Figure 5**
**Sales Value of Montana's Wood and Paper Products, 1945-2005**




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

down slightly from 2004 levels. (Figure 2) National forest harvest and timber sales were actually up in fiscal 2005, which ended in October. (Figure 3) Private timber harvest was down from 2004, indicating that perhaps inventory levels are constraining timber harvest on private timberlands. Lower harvest levels in Northern Idaho increased regional competition for Montana timber.

## Sales, Employment, Production

Lumber production in 2005 was just under 1 billion board feet, about equal to 2004. (Figure 4) As in 2004, Montana 2005 lumber production was disappointing and lower than during the poor market years of 2001-2003. Limited timber availability led to the closure of the Owens & Hurst sawmill in Eureka in the last half of the year. A slight increase in production at other sawmills nearly offset the output from that mill closure. Long-term market conditions caused the Stimson plant in Bonner to discontinue their commodity plywood line.

The output of other major components of Montana's wood and paper products industry was generally higher in 2005. (Figure 5) Due in large part to slightly lower lumber prices, total sales value of the state's primary wood and paper products in 2005 decreased to about $1.17 billion (fob the producing mill) from just over $1.20 billion in 2004. Employment during 2005 was about 9,700 workers, off by about 100 workers from 2004.

## Outlook for 2006

In 2006, prices for lumber and other wood products may be off somewhat from 2004 and 2005 levels, but prices are expected to remain well above the average for the years 2000 through 2003.

Total U.S. wood products consumption is expected to decline slightly from record levels in 2005. Increasing mortgage rates should cause housing starts in the United States to slow slightly, while repair and remodel markets should be strong and on par with 2005. The nation's non-residential wood use is expected to increase. Increased demand from hurricane recovery should be spread over several years and increase demand modestly. Further, weakening of the U.S. dollar may partly offset substantially lower duties on Canadian softwood lumber.

The Bureau's survey of wood products industry executives, conducted as part of the annual economic outlook, indicates that 55 percent of Montana mill operators expect 2006 to be better than 2005, while just 9 percent expect it to be worse. Roughly 61 percent expect production to be up, and 58 percent expect prices to be higher in 2006. Nearly 64 percent of those surveyed expect profits to be higher in 2006. Twenty-four percent expect their employment to increase from 2006 levels, while 12 percent expect employment to decrease.

Virtually all of the of the mill operators surveyed expect raw material availability and timber cost from both public and private lands to be a major issue affecting their operations during 2006. Uncertainty over log supply involves public and private lands as well as log flows. As indicated earlier, inventory may be limiting output from private lands. Harvest and sales from public lands increased in 2005 in particular on the national forests. (Figures 2 and 3) National forest harvest, however, remains very uncertain. Litigation, conflicting court decisions, and budget uncertainty make predicting federal harvest levels imprecise.

Further, for virtually every year in the last two decades, Montana has imported 5 to 10 percent of the timber processed in the state – mostly from Idaho. During 2005, more timber flowed out of Montana and into adjacent states than came into the state. Changes in land ownership patterns and changing long- term agreements between land owners and mill operators indicate that this shift may become the norm for the foreseeable future.