Rising Asia and Montana

Becoming Closer Neighbors

by Philip West

"I believe that one day, America and the other nations clustered along the shores of the Pacific will be neighbors along a lake, a closely interwoven community sharing common interests and common goals."

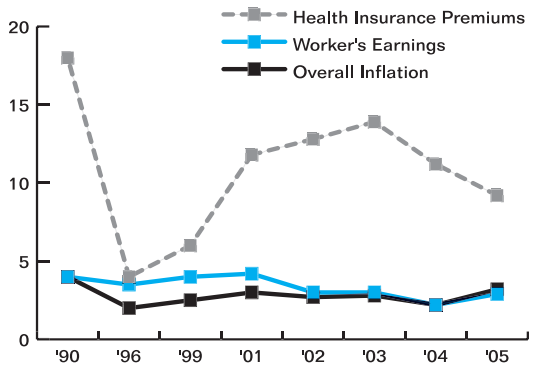
In the context of world history the idea of a powerful and rising Asia is not new. A thousand years ago the emerging countries of today, including much of Asia, were more powerful economically than the countries that we define today as developed. Seventy years before Columbus' discovery of America, the Chinese navy was building ships that were four times larger than the Santa Maria. In 1800, the second largest city in the world was London with a population of 861,000. The largest city then was Beijing with 1,100,000 and the third largest was Guangzhou (Canton) with 800,000. Philadelphia at that time, America's largest city, had a population of 40,000.

"There" he growled, pointing his finger at China on a map of the world, "is a sleeping giant. Let him sleep. If he wakes he will shake the world."
-Napoleon Bonaparte, 1803

Economics and Political Order

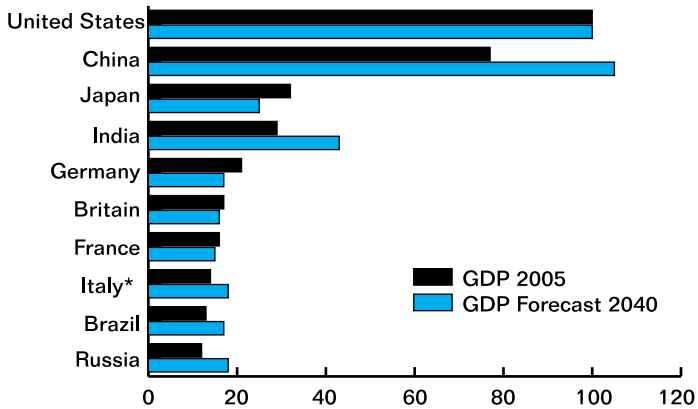
Among the four largest economies in the world by 2040 three are projected to be in Asia—China, Japan, and India—with the possibility, barring major catastrophes, that the economy of China will by then be larger than that of the United States. Per capita GDP of course is another matter. Our understanding of the Chinese economy can begin with the Chinese concept of government and political order, zhi, as understood in Chinese philosophy and history. Notice how one of the components for character zhi, to rule (see page 3), is

Figure 1
Emerging Economies* in World History, Share of Global GDP**



Note: *Emerging economies are countries often referred to as poor, third world, developing. Developed economies are countries that were members of OECD before 1994. **At purchasing-power parity. ***The Economist forecasts.
Sources: Organisation for Economic Co-operation and Development; International Monetary Fund; The Economist.

Figure 2
2040 Vision, World's Ten Biggest Economies (United States=100)



Note: *2005 forecast is for Italy; 2040 forecast is for Mexico

Sources: International Monetary Fund; Goldman Sachs; The Economist.

"The Western economic model – the fossil fuel based, automobile-centered, throw-away economy – will not work for China... .If it doesn't work for China, it will not work for India or the three billion other people in developing countries who are also dreaming the American dream."

–Lester Brown, AFP, May 31, 2006

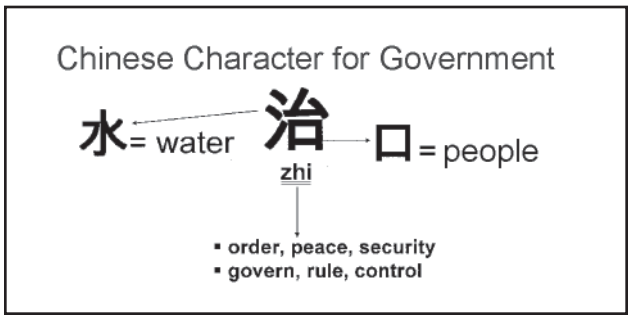
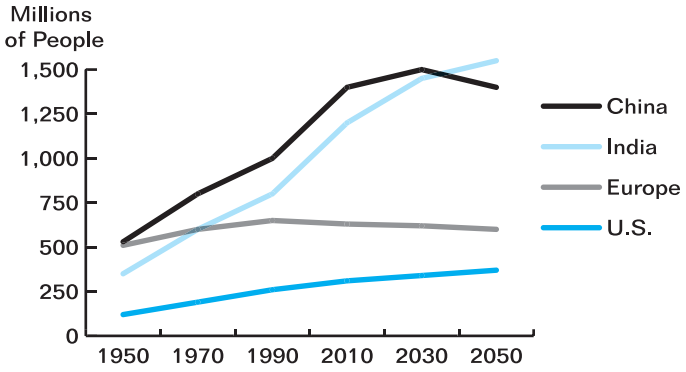


Figure 3
Population Growth and Projections, 1950-2050



Source: United Nations, The Economist.

water, while another one is people, representing food, people, and consumption. To rule with legitimacy and to earn the mandate of Heaven, in traditional Chinese ways of thinking, a government had to manage the alternating cycles of feast and famine, caused by floods and droughts that are unique to China's climate and geography. Even today, despite the many revolutionary changes in modern Chinese history, legitimacy still pivots on the ability of the government to control water and provide food security.

Populations

About four decades ago Chinese leaders, along with others in the West, radically changed their views on the relationship between population size and economic progress. Before then, a political order that sustained more mouths was a sign of holding the mandate of Heaven, as it were. Since then, growing populations have been seen not as good in and of themselves and could pose insurmountable problems. In the modern West, the familiar population problem is resolving itself, as family incomes rise and parents chose the number of children they want to have. As a result of the One Child Policy in place since the 1980s, China's population growth rate has declined significantly, while the size of its population is projected to begin declining in the 2030s.

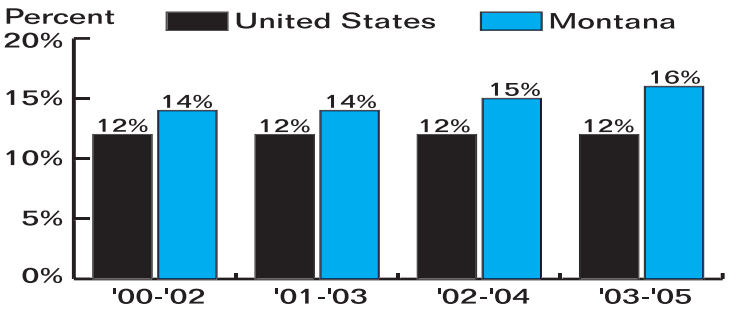
The comparisons with India and Japan are revealing. There is no One Child Policy in India, where Indian people, like us, stoutly resist government intervention in their personal lives. But will India be able to slow down population growth before it becomes unmanageable and counterproductive? Population patterns in Japan pose a different set of problems. Beginning last year already, the Japanese population began to decrease in size, similar to patterns in Europe, raising questions about how to sustain an aging society.

Table 1
Rising Asia, 2004 Indicators

Country	Population (Millions)	GDP, U.S. $ (Billions)	PPP, U.S. $ (Billions)	GDP/cap U.S. $	PPP/cap U.S. $	Life Expectancy Female/Male	CO2/cap 1980 (mttn)	CO2/cap 2003 (mttn)
United States	295	11,712	11,651	39,883	39,676	79/74	20.1	19.8
China	1,308	1,932	7,642	1,490	5,896	73/69	1.5	3.2
Japan	127	4,623	3,737	36,182	29,251	84/77	7.9	9.7
India	1,087	691	3,390	640	3,139	64/63	0.5	1.2

Source: Human Development Report, United Nations.

Figure 4
Body Count, University Students Graduating in Science and Engineering



Sources: The Economist.

"Some economic booms grind to a halt, others run out of steam, but in China the biggest risk is that growth will dry up. Water, the country's scarcest resource, is running out. Pollution, waste and over-exploitation have combined with the expansion of mega-cities to foul up wells and suck rivers dry."

-The Guardian, October 9, 2006

Water and Consumption

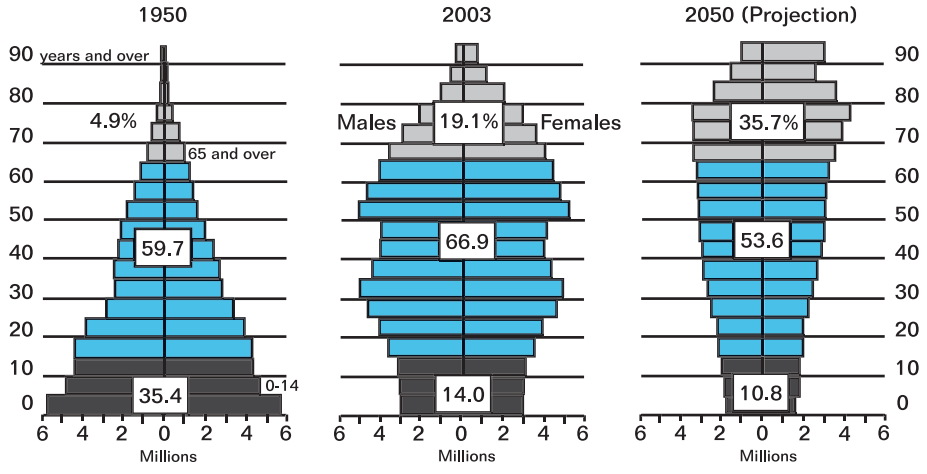
The idea that water management is key to good government may seem irrelevant in a time when the price tag of using water for agricultural, industrial, and domestic purposes is far below its economic value. Even in America where water is relatively abundant, we are beginning to look at that price tag and to reexamine the relationship between private property and water rights. Water is China's scarcest resource, and it is running out.

The changing patterns of food production and consumption also affect sustainability in this big picture of a Rising Asia. Rice is the preferred cereal for most Asian people. Yet wheat in the form of flour is used widely in making noodles and pasta, which also make up a large part of the Chinese diet, especially in North China. Preferred as rice may be, wheat as a percentage of total cereal production can be expected to increase because compared to rice it requires less water to produce. At the same time, the growing population and the industrial and urban encroachment on farmland should increase China's demand for imported wheat from Montana.

Montana Beef

China can also be expected to increase its imports of beef. As urbanization changes Chinese diets, the proportion of meat consumed is increasing in comparison to cereal. The wild growth of McDonalds in China is one indicator of this trend. Still it is not clear how large an opportunity these new Chinese demands will be given the persistence of dietary patterns in Asian cultures. As Figure 6 shows, approximately three-fourths of the Chinese diet it made up of cereals, compared to about a fourth in the American diet, while the consumption of animals and animal products in the American diet is about four times that in the Chinese diet. The

Figure 5
Changes in the Population Pyramid for Japan



Sources: Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications; Ministry of Health, Labour and Welfare.

National Cattleman's Beef Association sees the "huge potential" for expanding beef exports, noting that with 300 million middle class consumers and more on the way, "there is no other place on earth that holds the potential that China does for our business." Tempering this optimism is the fact that poultry and pork continue to dominate the expanding meat diet of emerging countries. Water and pastureland too are becoming more scarce. It could be the Montana beef industry will find a niche in the Chinese market in the form of breeding stock, semen, and embryos.

Becoming Neighbors

How can Montana become a closer neighbor to Rising Asia? In its subtle yet powerful ways, globalization has already pulled us more closely together. Many Montana consumers already prefer Japanese made automobiles and enjoy made-in-China products.

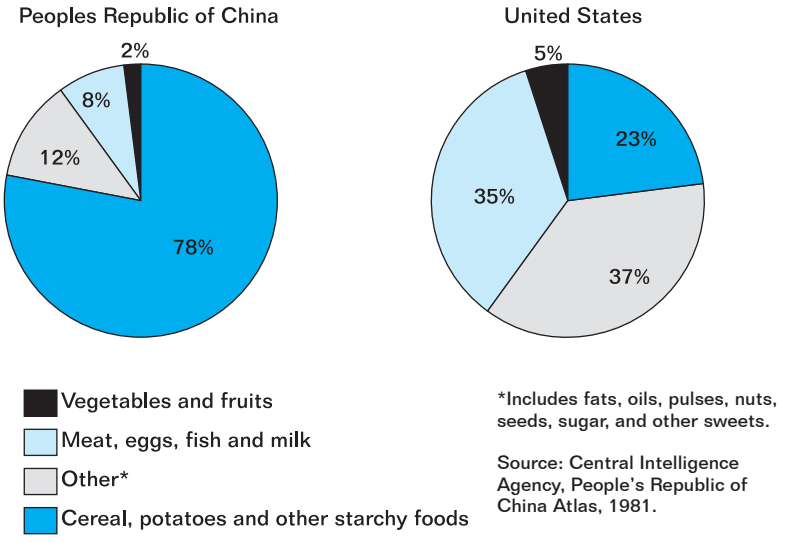
A century ago, Chinese and Japanese workers provided much of the labor in the mining and railroad industries throughout the West, including Montana. Some of them died here and are buried in Montana cemeteries. In a different kind of closeness, thousands of Montana soldiers fought in the Asia Pacific, Korean, and Vietnam Wars. Through sister-city and sister-school relations, dozens of Montana students participate in exchange programs with Asian communities. Chinese and Japanese languages courses are now offered at UM and MSU. Over the past eight years, 119 Montana teachers have completed a two-hour graduate course on East Asia sponsored by the Mansfield Center in Missoula.

Whatever role trade will play in becoming closer neighbors, it is important that we take the long view. That begins by recognizing the shared aspirations and challenges we face on both sides of the Pacific in creating sustainable economies and protecting the environment. Good neighbors are also able to live with differences in the way they view themselves and the world.

Good neighbors don't have to think alike, but they do have to find a common language. In America we could do more. For every one of us who is studying Chinese, there are a thousand Chinese who are studying English. We would do well to listen to Mike Mansfield's advice, repeated again and again, to better understand Asia through an appreciation of its peoples, histories, and cultures.❑

Philip West, a Mansfield professor of Modern Asian Affairs at The University of Montana, teaches courses on China, Japan, and Korea.

Figure 6
Average Daily Diet Calories



*Includes fats, oils, pulses, nuts, seeds, sugar, and other sweets.

Source: Central Intelligence Agency, People's Republic of China Atlas, 1981.

U.S. Economy Slows Slightly
Will Montanans Even Notice?

by Paul E. Polzin

There is a little chill in the air for the U.S. economy. GDP growth should average just 2 percent from mid-2006 to mid-2007 compared to 3 percent to 4 percent from 2004 to 2006. The two causes of the slowdown are: (1) a plummeting housing market and (2) a more cautious consumer. The Federal Reserve may start cutting interest rates, bringing to an end the tight monetary policy and rising interest rates.

Top 10 Economic Predictions for 2007 (Courtesy of Global Insight Inc.)

1. Sluggish growth for the U.S. economy. The American economy will grow only 2.2 percent during 2007.

2. Eurozone and Japan to slow (again). Eurozone to grow 2 percent in 2007, down from 2.6 percent in 2006. Japan to decelerate from 2.7 percent to 1.8 percent.

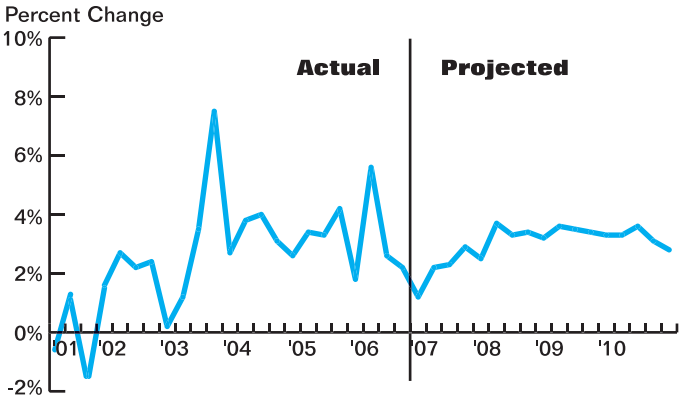
3. Once again, China and India will be star performers. China's growth will slow(!) to 9.5 percent. India continues at about 8 percent.

4. Oil prices to remain in $60-65 range for the next three to four years and then gradually ease. The longer term price relief will come as high prices encourage new supplies of both conventional and nonconventional fuels.

5. Core inflation will ease. The record high oil prices have had very little impact on core inflation. Slower increases in housing costs will ease overall upward pressure on prices.

6. The Federal Reserve will cut rates as other central banks tighten rates. Slower GDP growth and fewer price pressures will lead the Fed to cut federal funds rates back to 4.5 percent. But the European Central Bank, the Bank of Japan, and the People's Bank

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



Source: Global Insight Inc.

of China will raise rates.

7. Housing will keep dampening U.S. growth and could become a threat elsewhere. In a weak-growth environment, strong home price appreciation is unlikely to be sustained anywhere. There is already a housing crunch in the United States and booming markets in Ireland, U.K., Spain, and Australia may be heading for a cliff.

8. Current account imbalance will ease a bit. A combination of (1) weaker domestic demand, (2) stronger growth elsewhere in the world, and (3) booming U.S. exports are finally bringing about the long-desired correction in global imbalances.

9. Continued downward pressure on the dollar. With growth slowing and interest rate cuts expected, the forces on the dollar are uniformly downward.

10. No recession without all (or most) of the following: higher oil prices, higher inflation, and higher interest rates. Most likely recession scenario: deeper housing recession and higher inflation and interest rates (with a disruption in oil supplies) would probably push U.S. and world economies into a recession.❑

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

Table 1
Economic Trends for the U.S. Economy, 2000-2010
Actual and Projected as of December 2006

	Actual					Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP (chained $), percent change	0.8	1.6	2.5	3.9	3.2	3.3	2.2	3.2	3.4	3.3
Inflation (CPI-U), percent change	2.8	1.6	2.3	2.7	3.4	3.2	1.7	2.0	1.8	1.8
Interest Rates										
90-day T-bills, percent	3.4	1.6	1.0	1.4	3.1	4.7	4.7	4.4	4.5	4.6
Mortgage rates (30 years), percent	7.0	6.5	5.8	5.8	5.9	6.4	6.1	6.4	6.9	7.0
Housing starts, millions	1.60	1.71	1.85	1.95	2.10	1.80	1.50	1.60	1.70	1.80
Unemployment rate, percent	4.7	5.8	6.0	5.5	5.1	4.6	4.9	5.0	4.7	4.4
Oil, West Texas Intermediate ($/barrel)	25.96	26.11	31.12	41.47	56.57	65.97	64.44	64.75	63.88	63.40

Source: Global Insight Inc.

Montana's Headline-Grabbing Growth Continues

by Paul E. Polzin

Montana's economic boom is spreading, with all major sectors of the economic base now participating. Growth has taken place in manufacturing, nonresident travel, agriculture, mining, and the federal government. Buoyant conditions in construction and real estate may add a short-term boost in certain parts of the state.

The metal (mostly copper) and energy-related sectors of mining have received much of the attention. This natural resources boom is caused by long-term worldwide demand conditions rather than short-term supply interruptions, like those associated with past oil price peaks. The growth rates during this boom appear to be less than those during previous ones, but this boom may last longer.

Montana continues to buck national trends when it comes to construction, real estate, and house prices. Despite more than two years of rising interest rates, the state's construction industry remains at record levels. Flathead and Gallatin counties especially are benefiting from vibrant construction activity and expanding real estate employment.

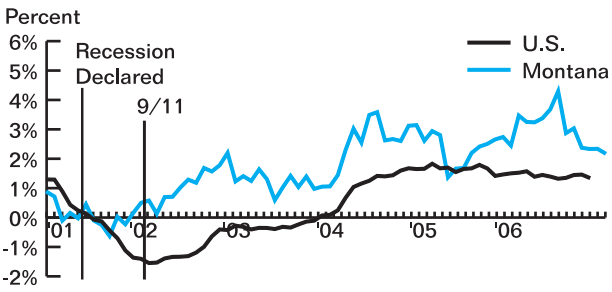
The latest data (Table 1, page 10) confirm the often heard claim – at least around Bozeman – that, the state's highest home prices are in Gallatin County. Missoula County is a close second. The bust in home prices has not yet hit Mon-

tana. During the third quarter of 2006, Montana home price increases (Table 2, page 10) continued above the national average, with the exception of Yellowstone County.

Risks

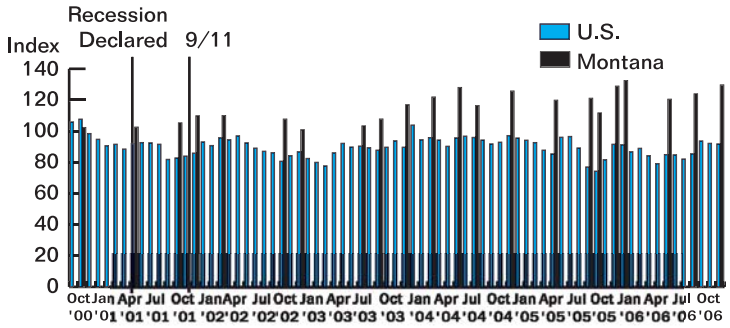
There are always concerns about the weather, insects, and volatile agricultural prices. But worldwide geopolitical events that dampen the fast growth in developing countries could quickly slow the natural resources boom – such as financial crises or political turmoil. Certain areas, Flathead and Gallatin counties in particular, have become (some may say dangerously) dependent on the construction and real estate industries. Nationwide, both the construction and real estate industries have slowed.

Figure 1
Annual Percent Change In Nonfarm Wage and Salary Employment, January 2001 to November 2006



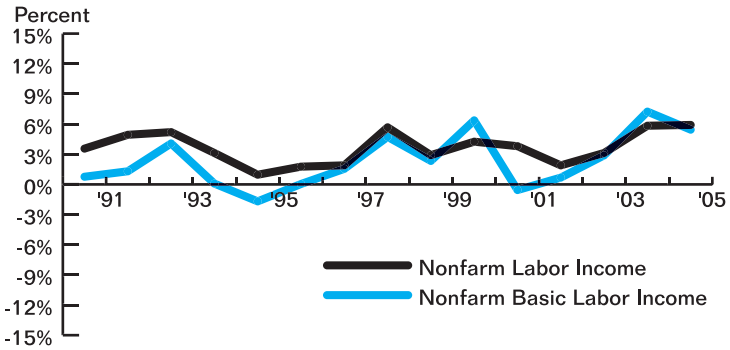
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 2
Index of Consumer Sentiment, U.S. and Montana, Oct. 2000 to Dec. 2006



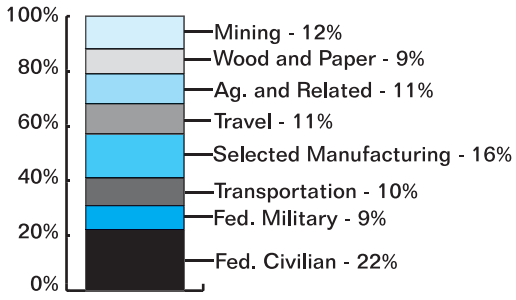
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, (in constant dollars)



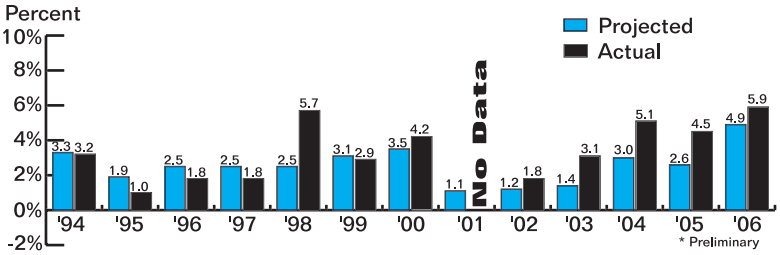
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Labor Income in Basic Industries, Montana, 2003-2005 (percent of total)



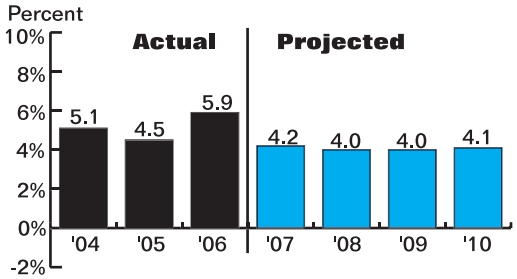
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1994-2006



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

Figure 6
Actual and Projected Change in Nonfarm Labor Income, Montana, 2004-



Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Table 1
Median Value, Owner Occupied Homes, 2005

Montana	$131,600
Cascade County	$112,600
Flathead County	$183,000
Gallatin County	$216,900
Missoula County	$204,000
Yellowstone County	$133,300

Source: U.S. Census Bureau.

Table 2
Index of Single-Family Home Prices, Annual Percent Change

	Missoula County	Cascade County	Yellowstone County	Montana	United States
2005Q3 - 2006Q3	11.3	13.2	6.3	12.9	7.7
2004Q3 - 2005Q3	10.1	8.1	10.9	12.7	12.7
2003Q3 - 2004Q3	13.7	5.0	9.7	11.3	12.7

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

Table 3
Population, Montana and Regions, 1990-2010

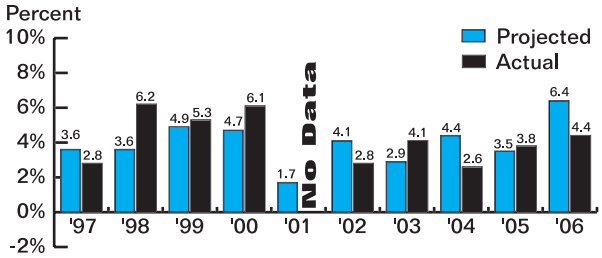
	Thousands of Persons				Average Annual Percent Change		
	Actual		Projected				
	1990	2000	2005	2010	1990-2000	2000-2005	2005-2010
Montana	800	902	936	974	1.2%	0.7%	0.8%
West	335	400	416	445	1.8%	0.8%	1.4%
Missoula	79	95	100	106	1.9%	1.0%	1.2%
Flathead	60	75	83	90	2.3%	2.0%	1.6%
Silver Bow	34	35	33	37	0.3%	-1.2%	2.3%
Lewis and Clark	48	56	58	61	1.5%	0.7%	1.0%
Ravalli	25	36	40	43	3.7%	2.1%	1.5%
Rest of West	89	103	102	108	1.5%	-0.2%	1.1%
North-Central	181	183	183	184	0.1%	0.0%	0.1%
Cascade	78	80	80	82	0.3%	0.0%	0.5%
Hill	18	17	16	17	-0.6%	-1.2%	1.2%
Fergus	12	12	12	13	0.0%	0.0%	1.6%
Rest of North-Central	73	74	75	72	0.1%	0.3%	-0.8%
Southeast	284	319	337	345	1.2%	1.1%	0.5%
Yellowstone	114	128	137	145	1.2%	1.4%	1.1%
Gallatin	51	68	78	86	2.9%	2.8%	2.0%
Richland	11	10	9	11	-0.9%	-2.1%	4.1%
Custer	12	12	11	12	0.0%	-1.7%	1.8%
Rest of Southeast	96	101	102	91	0.5%	0.2%	-2.2%

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

Missoula County

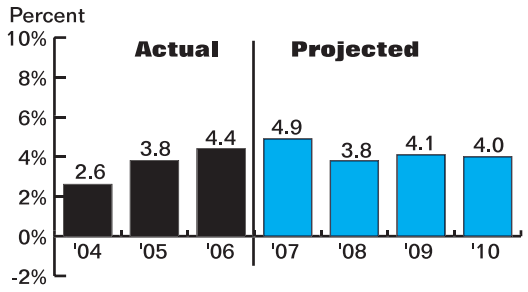
Missoula is the second largest trade and service center in the state and the dominant trade center in Western Montana. Like Billings, the Missoula retail industry is being challenged by the opening of "big box" and other specialized retailers in smaller communities. But Missoula's trade center-service industries (such as health care and business and professional services) continue to grow and expand. Newly released Census Bureau data show the 2005 Missoula median home price was $204,000, just behind Gallatin County. Missoula home prices increased 11.3 percent (Table 2, page 10) from late 2005 to late 2006, slightly less than the statewide average but greater than the nationwide figure. The 2001-2004 data report that the fastest-growing basic industries were in state government (mostly research at UM), the federal government, and nonresident travel.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 1997-2006



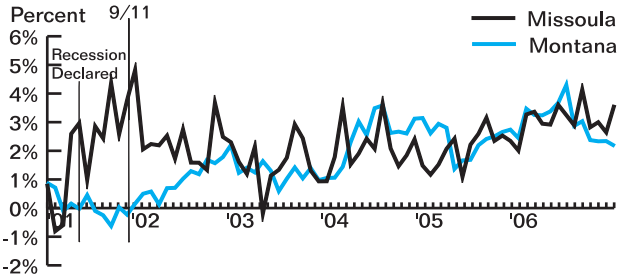
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Missoula County, 2004-2010



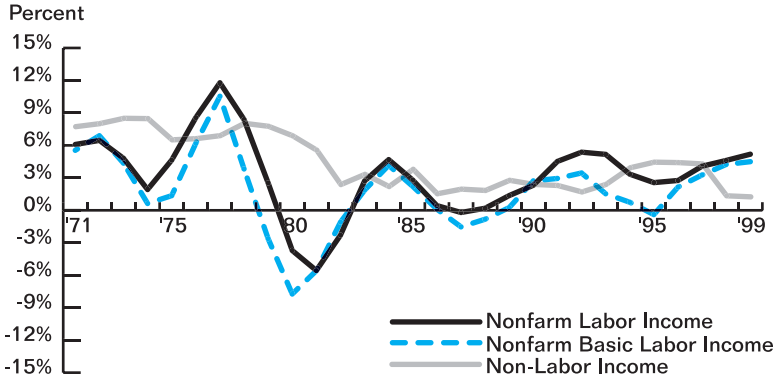
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2006



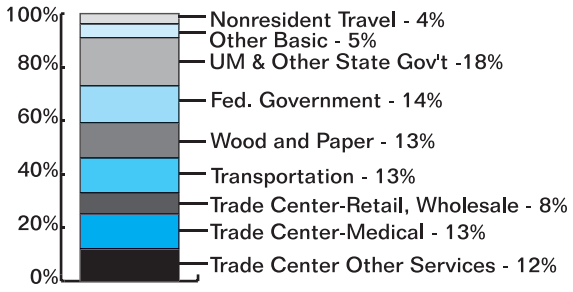
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

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



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

Figure 5
Labor Income in Basic Industries, Missoula County, 2003-2005 (percent of total)

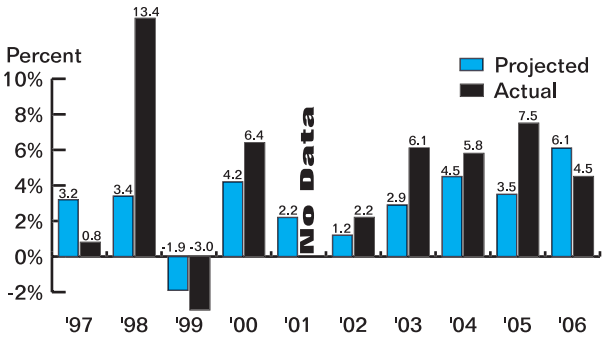


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Flathead County

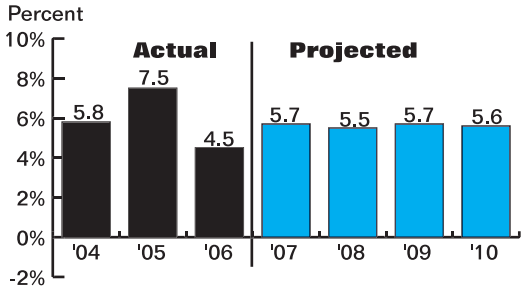
Flathead County has been one of the consistently fast-growing counties in the state. It has a diverse economic base, which includes manufacturing (primary metals, wood products, and high-tech), transportation (railroads), nonresident travel, and the federal government (including the USDA Forest Service and the National Park Service). Kalispell is now a second order trade and service center, and this sector was one of the major contributors to 2001-2004 growth. Flathead County was one of the few areas in Montana to feel major impacts of the last recession, primarily in high-tech manufacturing. The Columbia Falls Aluminum Company remains open and operating, but at lower levels than earlier. After the trade center industries, the largest contributors to growth between 2001 and 2004 were the federal government and nonresident travel. Newly released Census Bureau data show the 2005 Flathead County median home price was $183,000. The construction and real estate industries remain very strong in Flathead County, and there could be sizable impacts if they slow.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 1997-2006



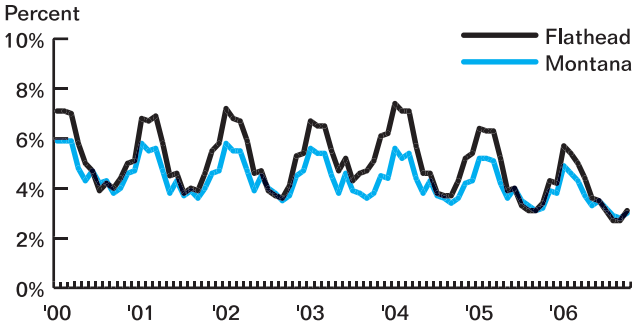
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Flathead County, 2004-2010



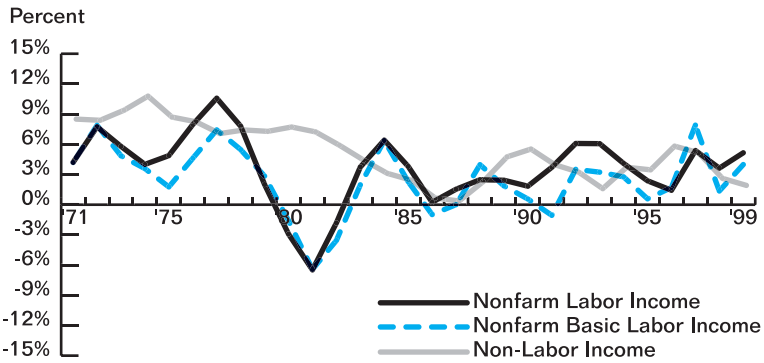
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Monthly Unemployment Rate January 2000-November 2006



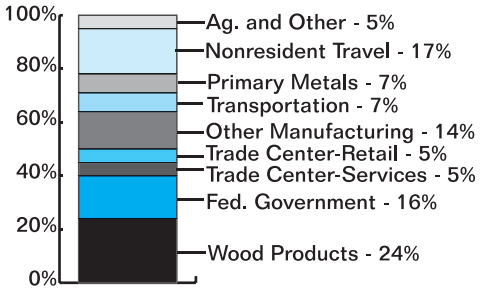
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

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



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

Figure 5
Labor Income in Basic Industries, Flathead County, 2003-2005 (percent of total)

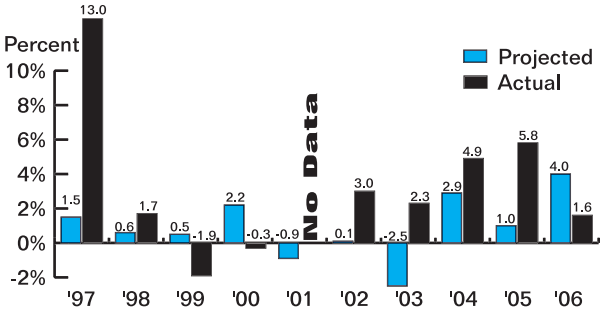


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Silver Bow County

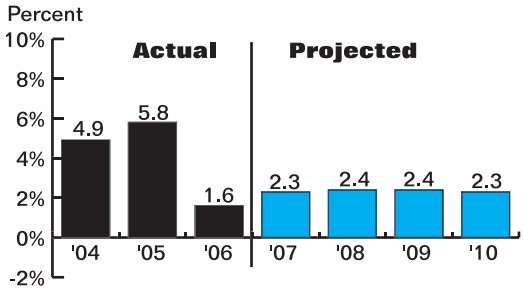
The Butte-Silver Bow economy benefited directly from the worldwide commodity price boom. The 4.9 and 5.8 percent increases posted in 2004 and 2005 reflect the reopening of the Montana Resources mine. Continued environmental cleanup activities and capacity operation of the mine underlie the projections for 2.5 to 3.0 percent annual growth from 2007 to 2010. In addition, Butte continues to develop as a regional trade and service center. All three components (retail trade, health care, and other services) experienced increases between 2001 and 2004.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 1997-2006



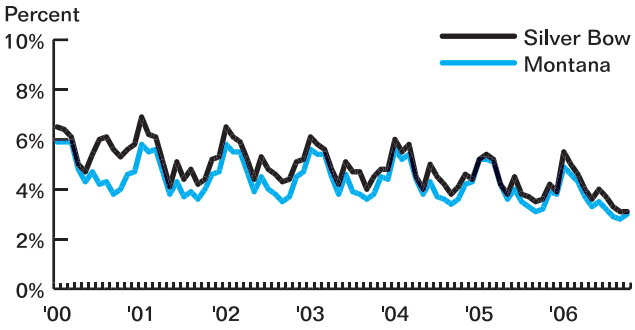
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Silver Bow County, 2004-2010



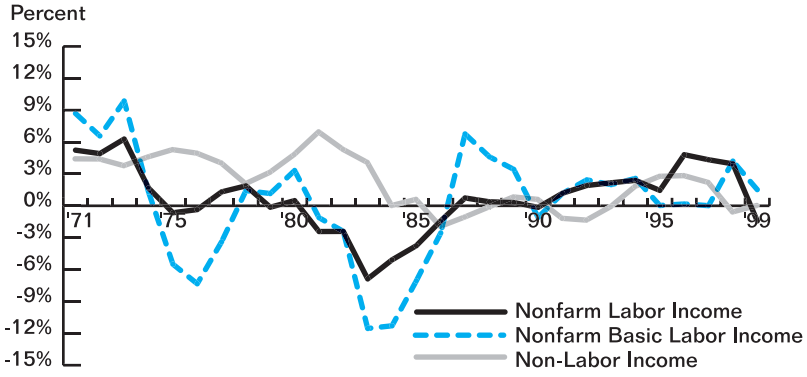
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Monthly Unemployment Rate January 2000-November 2006



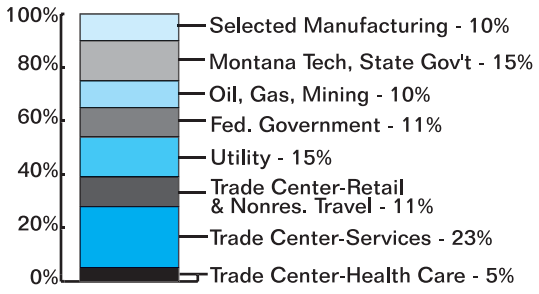
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Silver Bow County, Percent 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, 2003-2005 (percent of total)

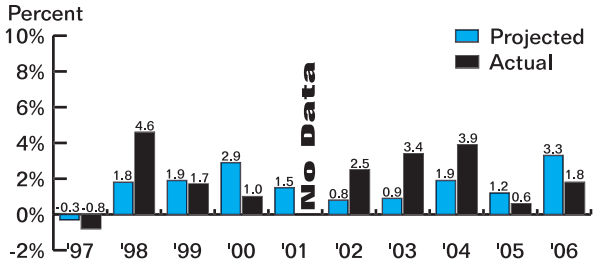


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Cascade County

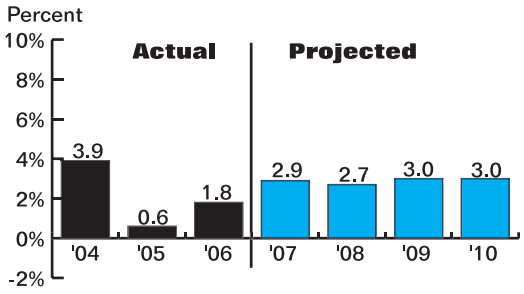
Malmstrom Air Force Base and regional trade and service center activities (including health care and financial services) account for approximately two-thirds of the economic base in the Great Falls area. The real estate boom was late in arriving in central Montana, but it appears to be remaining for awhile. Single-family home prices increased 13.2 percent (Table 2, page 10) during the year ending in the third quarter of 2006—well above statewide and national averages. Even so, the Census Bureau reports the median 2005 value for owner-occupied homes to be a very affordable $112,000. Between 2001 and 2004, there were significant increases in basic labor income, mostly associated with Malmstrom AFB, which may reflect active duty and reserve personnel plus additional homeland

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 1997-2006



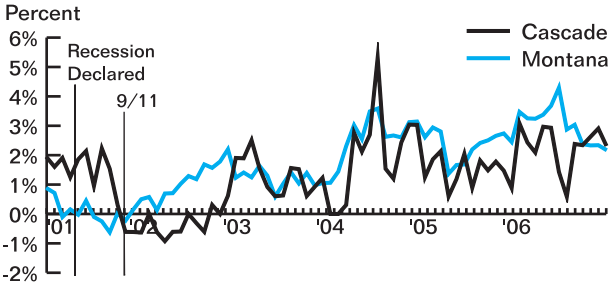
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Cascade County, 2004-2010



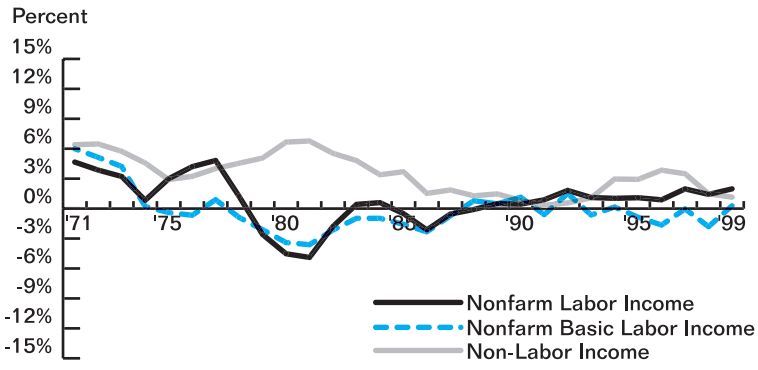
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2006



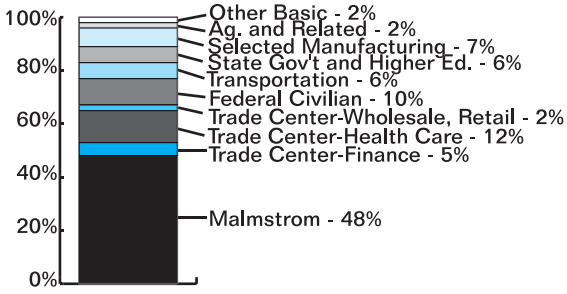
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Cascade County, Percent 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, Cascade County, 2003-2005 [percent of total]

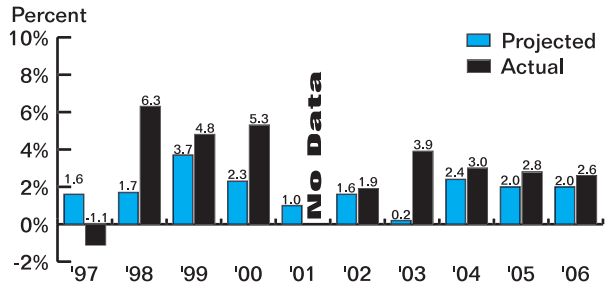


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Lewis & Clark County

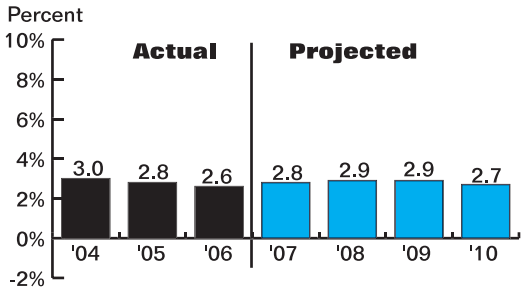
Helena is a government town, and state and federal governments combine for about two-thirds of the economic base in Lewis and Clark County. Between 2001 and 2004, both state and federal government contributed to growth. The increases in state government were mostly before and after the wage freeze enacted by the 2003 Legislature. The increases in the federal government occurred in both the civilian and military components (including Ft. Harrison and other reserve facilities), and both may be associated with homeland security activities.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 1997-2006



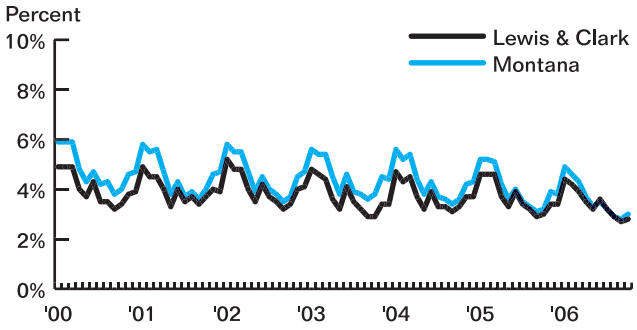
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Lewis & Clark County, 2004-2010



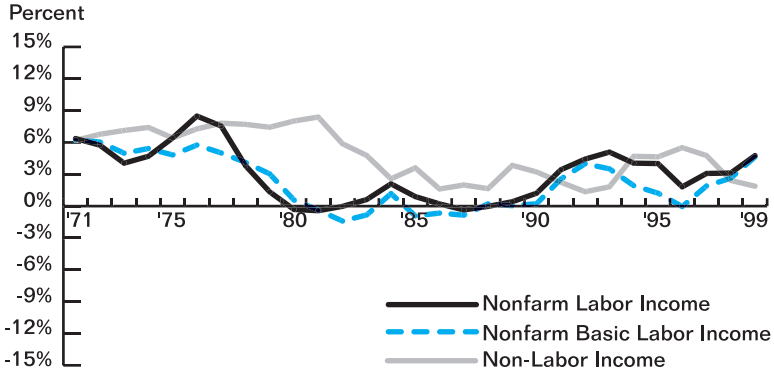
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Monthly Unemployment Rate January 2000-November 2006



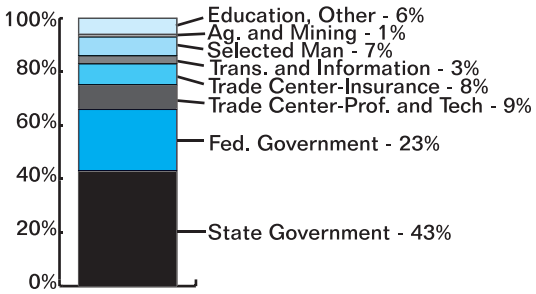
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Lewis & Clark County, Percent 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 & Clark County, 2003-2005 (percent of total)

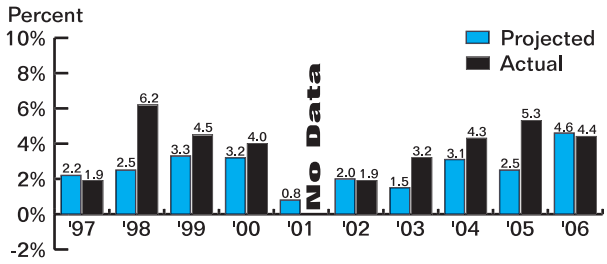


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Yellowstone County

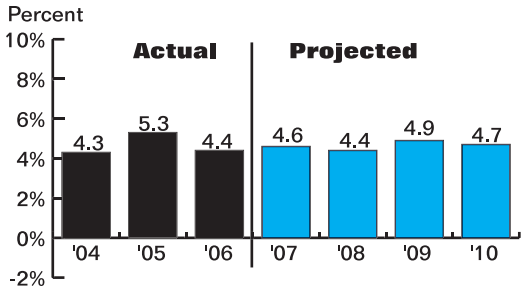
Billings is Montana's largest trade and service center. Economic events in rural eastern Montana are quickly transferred to Yellowstone County. Energy-related development is behind the accelerations from 2003 to 2005. As oil-related activities in rural areas impacted Billings businesses, oil and gas employment grew in Yellowstone County (probably headquarters and management personnel), and the oil refineries expanded their capabilities. Retail-wholesale businesses continued to feel the competition from smaller centers like Bozeman and Miles City. Continued growth in health care and other services bolsters Billings' roles as a service center. Single-family home prices increased a modest 6.3 percent (Table 2, page 10) in the year ending the third quarter of 2006. The Census Bureau reports the median 2005 value to be a very affordable $133,300.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 1997-2006



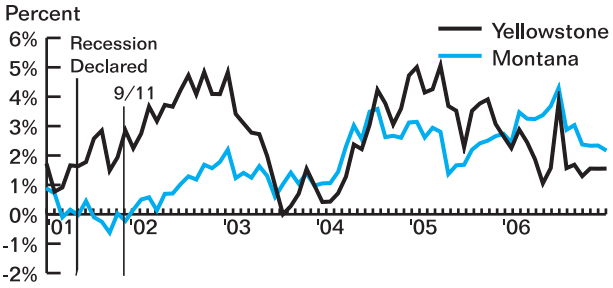
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Yellowstone County, 2004-2010



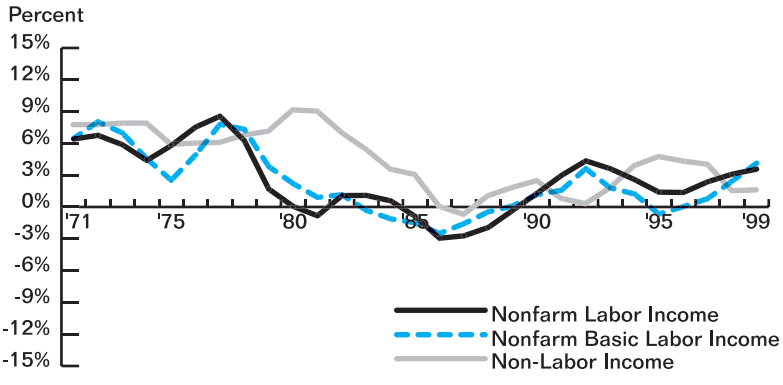
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Annual Percent Change in Nonfarm Wage and Salary Employment, January 2001 to November 2006



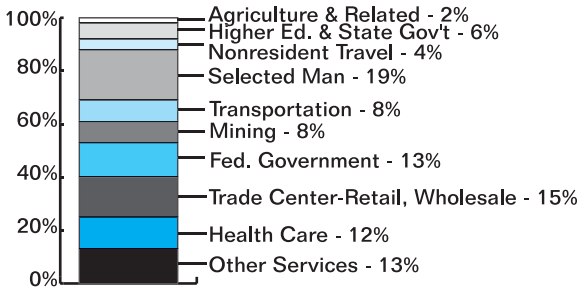
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Yellowstone County, Percent Change, 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, 2003-2005 (percent of total)

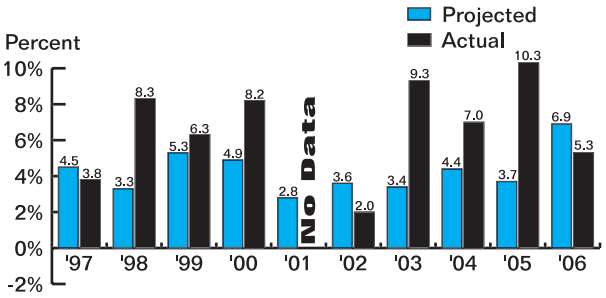


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Gallatin County

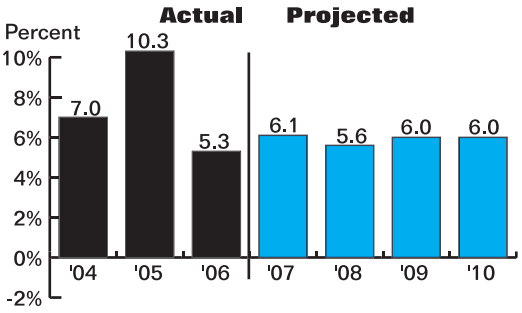
Gallatin County has been one of the fastest-growing counties in Montana. Bozeman has developed into a trade and service center. Growth in state government (mostly research at MSU), the federal government, and nonresident travel have also been major contributors to the trends since 2001. The Bozeman area is home to much of the state's high-tech industry, and this sector grew rapidly prior to the 2001 recession. Following national trends, this industry suffered significantly during the recession but has now regained its 2001 level. Newly released Census Bureau data show the 2005 Gallatin County median home price was $216,000, the highest in the state. Construction and real estate are the wild cards impacting the short-term outlook for Gallatin County. The construction-real estate boom began in 2005, as reflected in the almost 10 percent growth in nonfarm labor income that year. There may be a distinct deceleration if these industries start reflecting the cooling reported in the national data.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 1997-2006



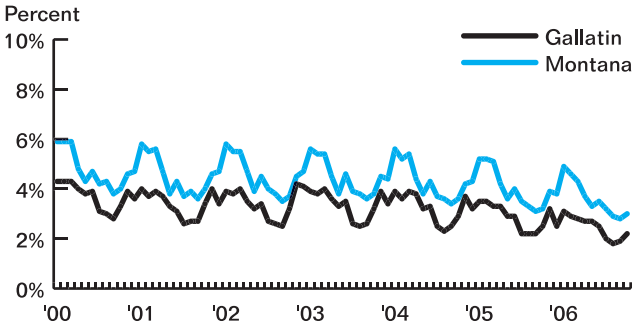
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Gallatin County, 2004-2010



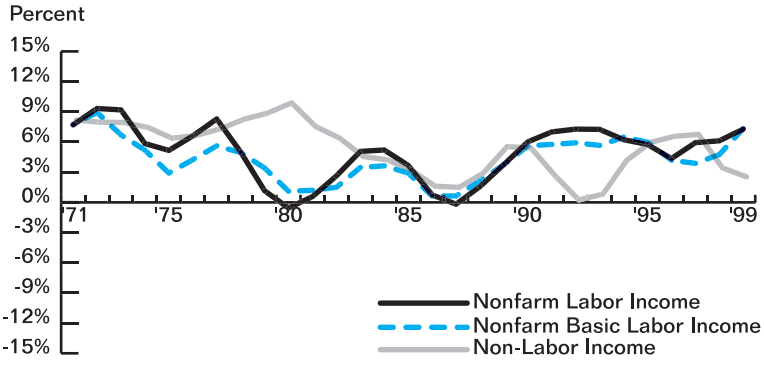
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Monthly Unemployment Rate January 2000-November 2006



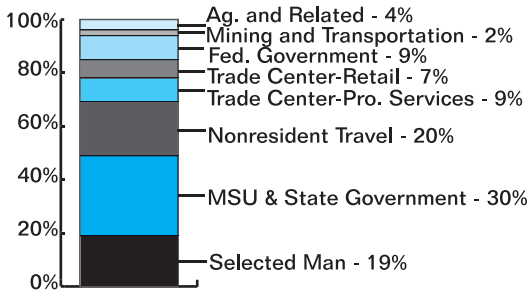
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Gallatin County, Percent 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, 2003-2005 (percent of total)



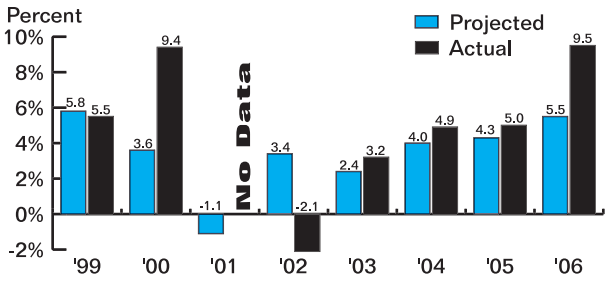
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Ravalli County

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. Ravalli County's growth rates since 2001 have averaged less than those in the late 1990s, possibly indicating moderating flows of commuters. Construction activity (including highway rebuilding) contributed to the 2006 acceleration in nonfarm labor income. Continued highway construction, plus likely new commercial buildings (such as the Wal-mart), will spur growth from 2007 and later.❑

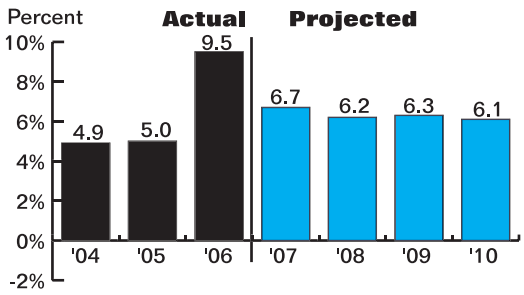
Paul E. Polzin is director of The University of Montana Bureau of Business and Economic Research.

Figure 1
Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 1997-2006



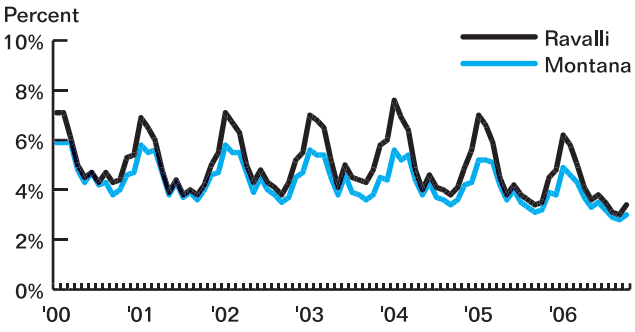
Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Actual and Projected Change in Nonfarm Labor Income, Ravalli County, 2004-2010



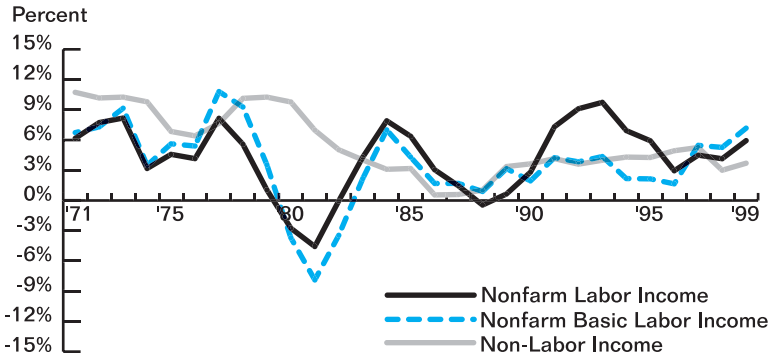
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 3
Monthly Unemployment Rate January 2000-November 2006



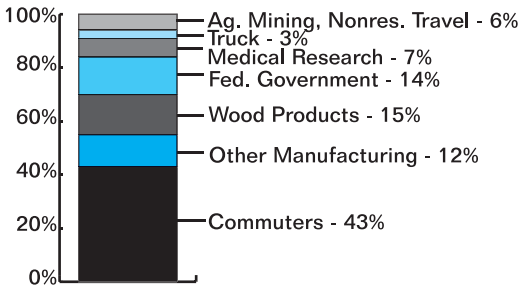
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 4
Nonfarm Labor Income and Nonfarm Basic Labor Income, Ravalli County, Percent 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, 2003-2005 (percent of total)

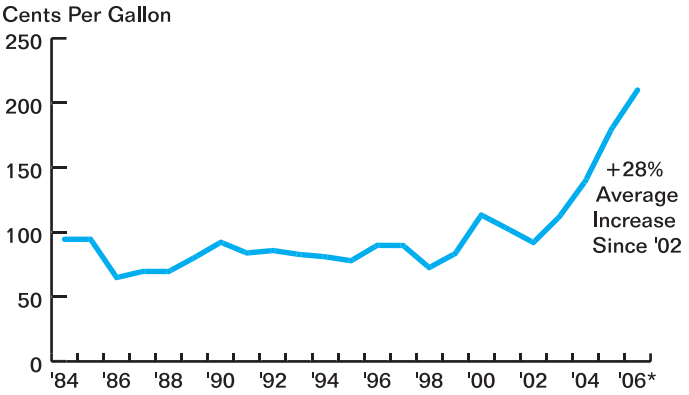


Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

The Real Story Behind Gas Prices and Other Travel Industry Numbers

by Norma P. Nickerson and Melissa Dubois

Figure 1
Montana Regular Gasoline Prices, 1984-2006



*Sept. year to date.
Source: Energy Information Administration.

Quit Griping about Gas Prices

The current price of gasoline is actually less now than in 1980 when adjusted for inflation (Hargreaves, 2006).

"Not only is the recent price per gallon lower in real terms than the high hit in 1980, the recent price also represents a lower percentage of the average worker's income. Nationwide, gas recently averaged around $2.60 a gallon – the inflation-adjusted high in 1980 was around $3.15. Moreover, in 1980, the average American had to work 105 minutes to buy enough gas to drive the average car 100 miles," according to David Wyss, chief economist at Standard & Poor's. "By 2006, the average American needed to work only 52 minutes, thanks in part to better fuel efficiency but mostly due to higher wages."

Table 1
Nonresident Average Daily Group Expenditure, 2005

Expenditure	Average Daily Per Group^* (group size=2.45)	Allocation by Category	Total Expenditures**
Gasoline, Oil	$39.91	28%	$773,300,000
Restaurant, Bar	$30.66	21%	$586,400,000
Retail Sales	$22.80	16%	$433,700,000
Hotel, B&B, etc.	$13.61	9%	$257,800,000
Groceries, Snacks	$12.07	8%	$232,900,000
Auto Rental and Repairs	$6.94	5%	$129,400,000
Outfitter, Guide	$6.21	4%	$118,700,000
Transportation Fares	$3.16	2%	$55,200,000
Licenses, Entrance Fees	$2.80	2%	$56,300,000
Misc. Services	$2.22	1%	$39,700,000
Campground, RV Park	$2.05	2%	$44,900,000
Gambling	$1.52	1%	$27,400,000
Total	$143.95	100%	$2,755,700,000

^ Reflects average expenditure distribution over all visitor groups, regardless of how many actual groups spent money in any particular category.
*Based on total year expenditures.
**Based on totaled quarterly expenditures.
Source: Institute for Tourism and Recreation Research, The University of Montana-Missoula.

Gas prices and the effect on travel has been the most frequently asked question at the Institute for Tourism and Recreation Research (ITRR) for the past two years. Our reply is always that Americans have not hit their threshold on the price they are willing to pay for gasoline. We are still traveling and will continue to do so. Only when a shortage occurs, will we see a decrease in travel-related activities. However, if the price increase continues as seen in the past three years (Figure 1), America may have something to gripe about.

In terms of nonresident spending in Montana, higher gas prices reflect a larger portion of the average daily expenditures than in past years (Table 1). In 2002, only 21 percent of nonresidents' daily expenditures were on gasoline and oil. Today, that has risen to 28 percent. It is also the one purchase that nearly all nonresidents incur while visiting the state.

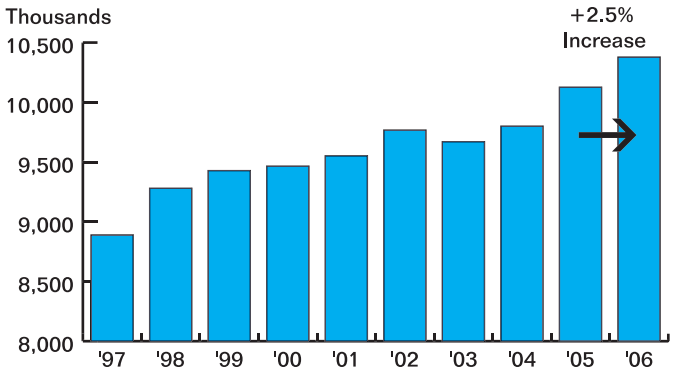
Interestingly, as gas prices climb, indicators within Montana's travel industry do not show a negative correlation such as higher gas prices and slower travel industry growth. In fact, the opposite appears to be true. As gas prices go up, the travel industry continues to grow.

Growth in Montana's Travel Industry

Montana's travel industry has been on a growth projection for years. Looking at just the past 10 years, even though minor fluctuations have occurred, the overall trend has been continual growth. In 1995, Montana's nonresident travel industry contributed 6.4 percent of the state's total employment and grew to 7.5 percent of total employment in 2005. Ten-year trends show increases in nonresident visitors (17 percent increase, Figure 2) and nonresident expenditures (50 percent increase, Figure 3), as well as travel-generated personal income (128 percent increase) and travel-generated employment (41 percent increase). Other trends show increases in lodging demand, employment, and revenues; Amtrak deboardings; airline deboardings; food service employment and revenues; and arts, entertainment and recreation services employment, income and revenues (Grau, Dubois, & Nickerson 2006). The industry is experiencing continual growth and is contributing jobs, revenues, and taxes to Montana's economy.

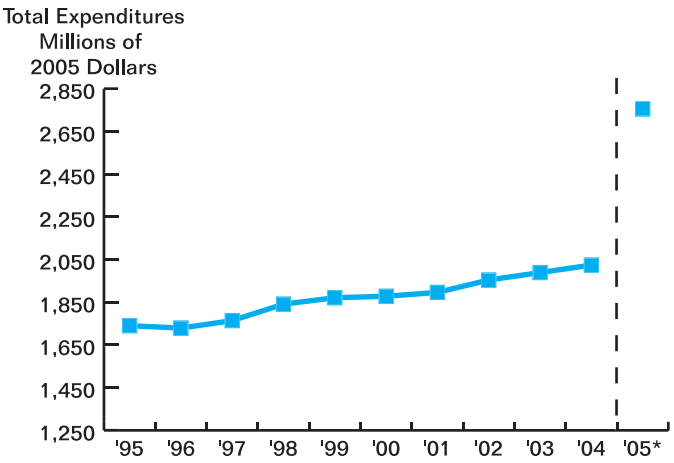
Comparing 2006 to 2005, growth occurred in virtually all travel indicators within the state. Estimates show nonresident visitor numbers growing 2.5 percent from 2005 to 2006. Recreational visits to Glacier and Yellowstone National Parks

Figure 2
Montana Nonresident Visitor Trends



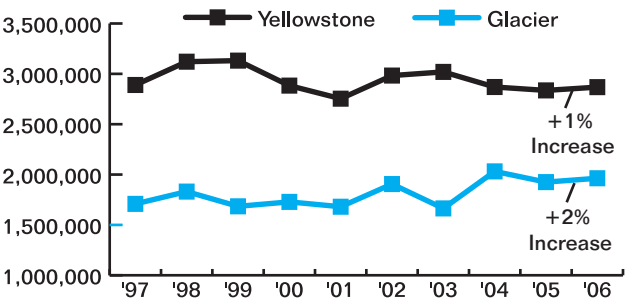
Source: Institute for Tourism and Recreation Research, The University of Montana-Missoula.

Figure 3
Nonresident Inflation-Adjusted Expenditures



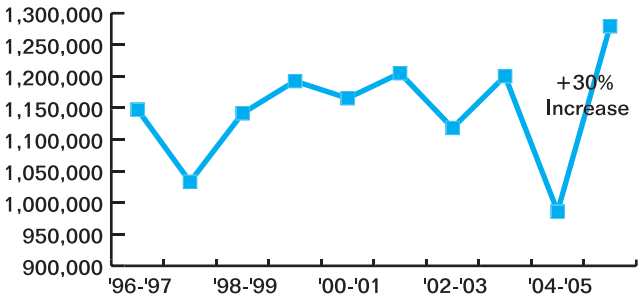
*No comparison to previous years can be made. 2005 represents a new IMPLAN model, new visitation model data, and updated visitor characteristics (length of stay and expenditures).
Source: Institute for Tourism and Recreation Research, The University of Montana-Missoula.

Figure 4
National Park Visitation



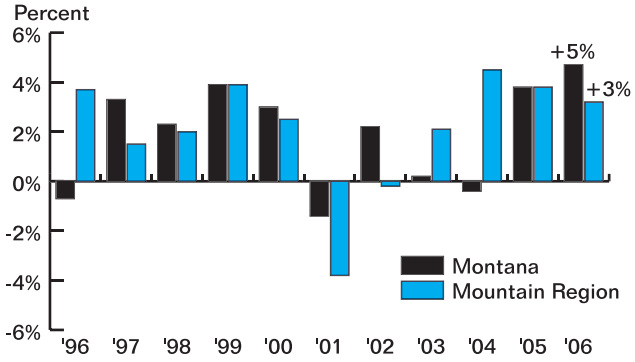
Source: National Park Service.

Figure 5
Montana Ski Area Visits, 1996-2006



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

Figure 6
Percent Change in Rooms Sold (Nov. Year to Date)



Source: Smith Travel Research.

grew 2 percent and 1 percent, respectively (Figure 4). Not surprisingly, a good snow year (following a bad snow year), showed a 30 percent increase in skier visits in the 2005-06 ski season (Figure 5). The number of motel rooms sold in the state increased 4.5 percent over 2005 (Figure 6). The only indicator down for 2006 was airport deboardings at 2.8 percent (Figure 7). This decrease represents the airline industry changes which brought smaller jets to many Montana airports and resulted in decreases in passenger deboardings. As shown in Table 2, the Missoula and Billings airports were the only ones in the state that showed an increase in deboardings in 2006.

Table 2
Percent Change in Airport Deboardings by City, 2005-2006

	% Change from 2005
Statewide	-2.8%
Missoula	5.0%
Billings	0.2%
Bozeman	-6.2%
Helena	-6.3%
Great Falls	-6.6%
Kalispell	-7.2%
Butte	-12.7%
West Yellowstone	-15.7%

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

Travel Numbers by Geography

Nonresident dollars distributed throughout Montana show the geographic concentration of tourism in the state. Yellowstone and Glacier Country travel regions receive nearly 60 percent of all nonresident travel dollars (Figure 8). Vacationers outspend all other travel types at $183.37/day — $38 more than visitors here for business, $44 more than those visiting friends/relatives, $87 more than those passing through (Grau 2006). Additionally, 73 percent of vacationer nights are spent in the two travel regions: Yellowstone region, 39 percent of all nights and Glacier region, 34 percent of all nights (Oschell & Nickerson 2006).

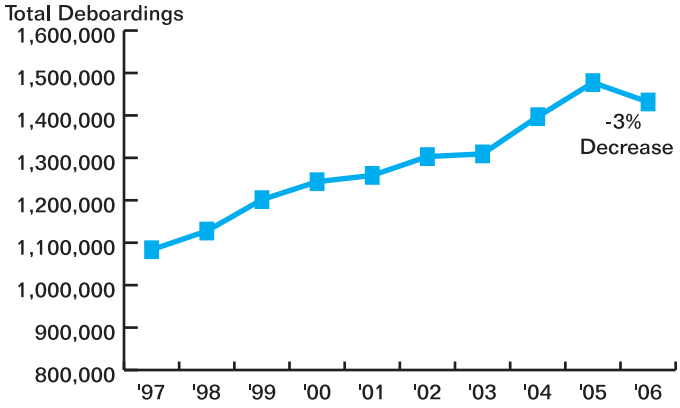
Geographically, vacationers arrive in the state on nearly every highway entering Montana. However, the highest percent of vacationers arrive on Highway 20 coming up from Idaho toward West Yellowstone (12 percent), or into West

Yellowstone or Gardiner from Yellowstone National Park (10 percent each), or from the west on Interstate 90 (10 percent). Only 13 percent of vacationers fly directly into Montana even though a full 30 percent fly on a portion of their trip.

2007 Outlook

According to Suzanne Cook, Travel Industry Association (2006), the United States should experience a 2 percent growth in domestic travel in 2007. Respondents to the ITRR Outlook Survey show a positive view for tourism in 2007 as well. A full 64 percent of tourism industry businesses expect an increase over 2005, while 31 percent expect it to remain the same. It appears that Montana's travel industry will continue in a slow but steady growth of 2 percent in 2007.❑

Figure 7
Montana Air Traffic, 1997-2006



Source: Montana Aeronautics Division.

References

Cook, S. (2006). *Outlook for U.S. Travel and Tourism*, Presentation at the Travel Industry Marketing Outlook Forum, Oct. 13, 2006.

Energy Information Administration, (2006). http://tonto.eia.doe.gov/dnav/pet/hist/d120440302A.htm.

Grau, K., Dubois, M., & Nickerson, N.P. (2006). The Economic Review of the Travel Industry in Montana: 2006 Biennial Edition, Institute for Tourism and Recreation Research, The University of Montana: Missoula, MT.

Grau, K. (2006). 2005 Montana Nonresident Expenditure Profiles, www.itrr.umt.edu/nonres/05NonresExpProfile.pdf.

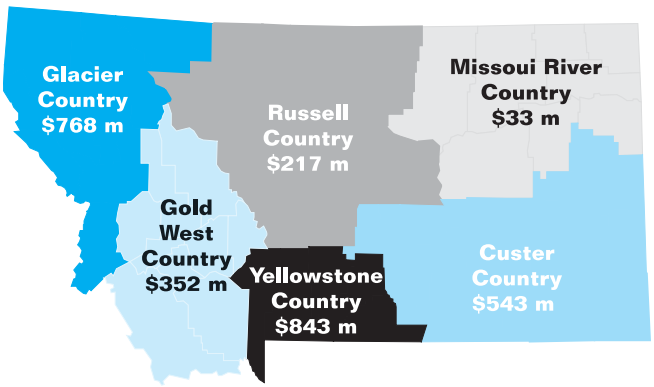
Hargreaves, S. (2006). *Quit Griping about Gas Prices.* CNNMoney.com.

Oschell, C. and Nickerson, N. (2006). Niche News: Glacier Country Traveler Characteristics, www.itrr.umt.edu/NicheNews06/GlacierCountryChar.pdf.

Oschell, C. and Nickerson, N. (2006). Niche News: Yellowstone Country Traveler Characteristics, www.itrr.umt.edu/NicheNews06/YellowstoneCountryChar.pdf.

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

Figure 8
Expenditures by Nonresident Travelers Per Travel Region



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

Children's Health Insurance Coverage Rates Decline

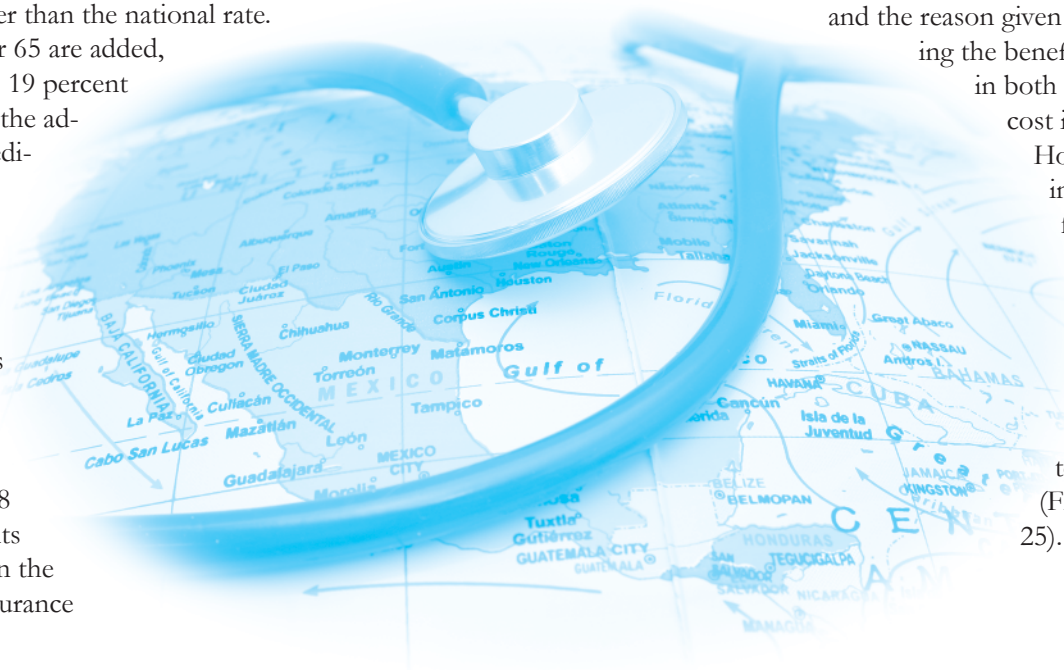
by Daphne Herling

Editor's note: This article is based on research conducted by BBER, Health Care Research and Montana Kids Count, Steve Seninger, Ph.D.

Health care spending in the United States continues to have a major impact on the national economy. In 2005, our nation spent $2 trillion on health care, representing 16 percent of the Gross National Product. This translates into a $6,500 per person on health care. At the same time, health insurance premiums rose 7.7 percent and drug prices increased 15 percent. Figure 1 (page 24) shows increases in premiums in the United States from 1990 to 2005 compared to the workers' earnings and overall inflation. Even with this level of spending, 18 percent of Americans under age 65 do not have any health insurance. The share of U.S. firms offering health benefits fell from 69 percent in 2000 to 60 percent in 2005. The lack of federal level reform has lead many states to enact changes to control the level of spending. Some states such as Maine, Massachusetts, New Mexico, and New York have undertaken sweeping reforms at a systemic level, while others are working on a more incremental approach. Montana has made several such incremental changes to address the rate of uninsured in the state.

Health Care in Montana

The 22 percent uninsured rate in Montana for people under 65 is higher than the national rate. When those over 65 are added, the rate drops to 19 percent primarily due to the addition of the Medicare population. In Montana, we spent about $5 billion on health care in 2005, which represents 17 percent of the Gross State Product. Of that $5 billion, 28 percent represents state spending on the public health insurance programs Medicare, Medicaid, and the Children's Health Insurance Plan. Spending on prescription drugs was slightly below $460 million.

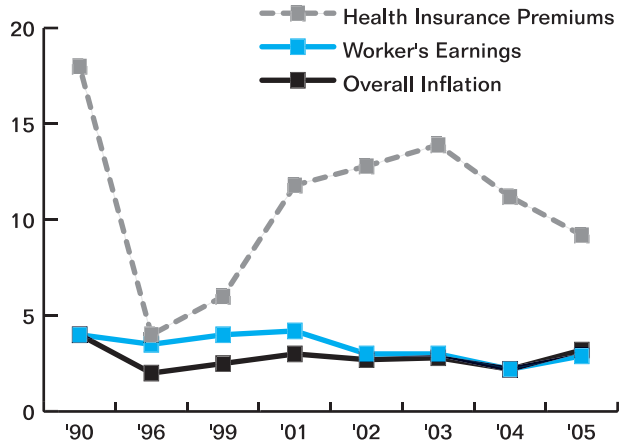


BBER Research Findings

In 2003, and then again in 2006, BBER conducted survey research on employer-based health insurance to determine uninsured rates and employer-based offering of health insurance. The findings showed that 173,000 Montanans were without health insurance, and that the 19 percent uninsured rate did not change between 2003 and 2006. Figure 2 (page 24) shows the comparison between offer rates by firm size in 2003 and then 2006. Forty-nine percent of all Montana firms offered health insurance to their employees in 2006, with the majority of them (94 percent) offering it to all employees. The size of the firm is a major determinant of whether the firm offers this benefit; as the firm size increases so does the likelihood of an employee being offered health insurance. Forty percent of firms with five or fewer workers offer health insurance, and 69 percent of firms with 11 to 20 employees offer insurance. One hundred percent of firms with 100 or more employees offered health insurance to their entire work force.

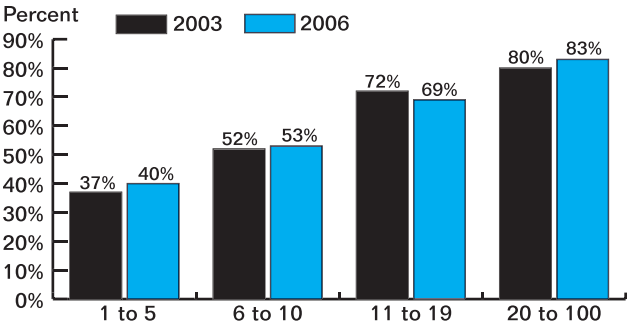
Changes in the findings from the research conducted between 2003 and 2006 centered mainly on the costs to both employers and employees. The number of firms offering health insurance did not change over the three-year period, and the reason given for not offering the benefit was similar in both studies: the cost is prohibitive. However health insurance costs for employers have increased dramatically over the past three years, with much of the cost shifted to employees (Figure 3, page 25).

Figure 1
U.S. Health Insurance Premium Increases, 1990-2005



Sources: Kaiser/Health Research; U.S. Bureau of Labor Statistics; Bureau of Business and Economic Research Health Care Research, The University of Montana-Missoula.

Figure 2
Percent of Firms Offering Health Insurance by Number of Employees, 2003 and 2006



Source: Bureau of Business and Economic Research Health Care Research, The University of Montana-Missoula.

Montana's increase of 10 percentage points in the uninsured rate for kids below poverty is in contrast to 27 other states where the uninsured rate for kids below poverty decreased over the same period.

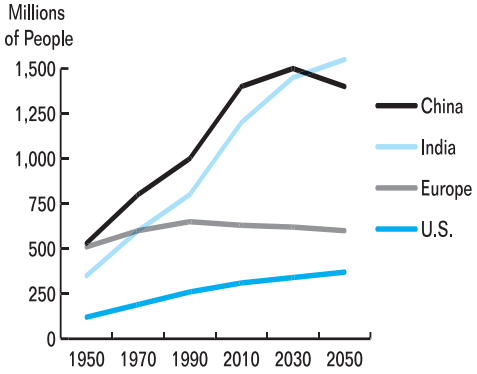
Uninsured Rates for Children in Montana

A similar story of high uninsured rates also plays out for children in the state. The percent of Montana children of all ages lacking private or public health insurance went from 14 to 16 percent over a four-year period ending in 2005. Using three-year averages, Figure 4 shows the rates for the U.S. compared to the rates for Montana. Children below the federal poverty level had some of the biggest declines in health insurance coverage, going from an uninsured rate of 19 percent four years ago to 29 percent by 2005. This represents a state rate that is 1.5 times higher than the national rate. Montana's increase of 10 percentage points in the uninsured rate for kids below poverty is in contrast to 27 other states where the uninsured rate for kids below poverty decreased over the same period. Figure 5 shows the rates of uninsured children who fall in different poverty levels, Table 1 (page 26) explains the Federal Poverty Level.

Montana Solutions

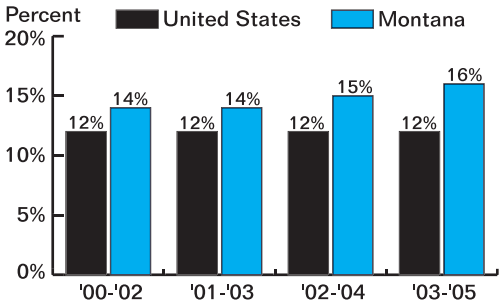
There are an array of solutions available to states that are trying to control costs or to completely overhaul their health care systems. An incremental approach includes tax credits, premium assistance, health savings accounts, and increases in the eligibility levels in public insurance programs. The state of Montana has responded to higher uninsured rates through initiation of the Insure Montana Program for small employers and expanded coverage of the Children Health Insurance Program and for mothers with young children in the Medicaid program. These two approaches have both costs and benefits.

Figure 3
Percentage Change in Monthly Health Insurance Premiums, 2003 to 2006



Source: Bureau of Business and Economic Research Health Care Research, The University of Montana-Missoula.

Figure 4
Percent of Montana Children Without Health Insurance, 3-Year Averages



Source: Bureau of Business and Economic Research Health Care Research, The University of Montana-Missoula.

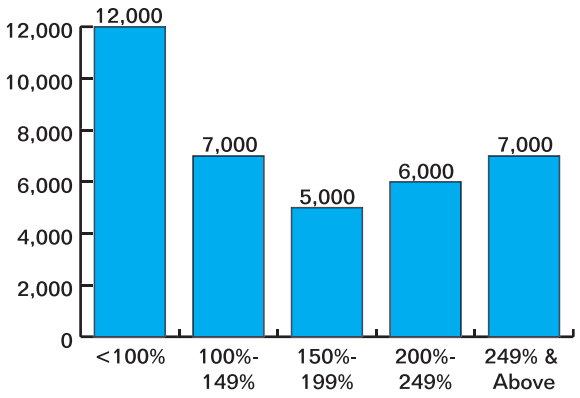
Insure Montana

In the 2005 legislative session, the Insure Montana Program was passed as the Small Business Healthcare Affordability Act. It provides tax credits and premium payments to small business owners for employee health insurance. The Act also provides for small business formation of purchasing pools designed to negotiate lower-priced health plans through group purchasing.

The tax credit is targeted to employers already providing health insurance who employ two to five employees and where no employee is paid more than $75,000 per year (owner excluded). The tax credit cannot be more than 50 percent of premiums paid. To qualify for Premium Incentive and Assistance Payments, employers of two to five employees cannot currently provide employee health insurance. Eligible employers also must go through the new State Health Insurance Purchasing Pool or another qualified Association Plan and cannot have an employee who is paid more than $75,000 per year (owner excluded).

Employer tax credits have a number of direct and indirect cost impacts to the state and to taxpayers. Tax credits result in a loss of tax revenues as employer-provided health insurance expenditures not taxed. Workers covered elsewhere may shift to their employer's health plan, and small firms with low-wage workers may bring a higher risk and higher cost group into the insured pool. Tax credits also fail to address rising premiums since firms are cost enabled through the credit.

Figure 5
Number of Montana Children at Different Poverty Levels Without Health Insurance



Source: Bureau of Business and Economic Research Health Care Research, The University of Montana-Missoula.

Table 1
2006 Federal Poverty Guidelines by Size of Household

No. of Persons in Family or Household	Poverty Income Thresholds
1	$9,800
2	$13,200
3	$16,600
4	$20,000
5	$23,400
6	$26,800
7	$30,200
8	$33,600

The amounts above represent 100 percent of the FPL. The FPL is used to determine eligibility for poverty programs. For instance, a family of four lives in poverty if the household earns $20,000 or less in one year. Different programs use different levels of income to determine eligibility; some may use 150 percent of the FPL or in the case of some Medicaid programs 51 percent to 100 percent of the FPL. A family of 4 at 150 percent of the FPL would be earning $30,000 (20,000 x 1.5). A family of 4 at 200 percent of the FPL would be earning $40,000 (20,000x2).
Source: http://aspe.hhs.gov/poverty/06poverty.shtml

Children's Health Insurance Program

Significant expansions in CHIP would go a long way to improving health care access for Montana kids, particularly for the 24,000 children living in households below 200 percent of the federal poverty level. State budget dollars required for providing health care access to the majority of children in Montana can be calculated using $1,734 per child, with Montana's match being $371. These amounts are based on state fiscal year 2006 CHIP program data. Thus, the cost to the state would be $4.5 million to insure the 12,000 children below 100 percent of the federal poverty level. To insure the 12,000 more Montana kids who are between 100 percent and 200 percent of the federal poverty level, the cost to the state would be $4.4 million (Figure 5).

Another 6,000 Montana children would have health insurance if the eligibility cutoff were raised from 200 percent to 250 percent of the federal poverty level and would cost an additional $2.2 million in state funds. Coverage of kids at 250 percent and above the federal poverty level would enroll another 7,000 children and cost another $2.6 million in state dollars. Extending coverage to all Montana children would eliminate lack of health insurance for all children 18 years of age and under at a total cost to the Montana treasury of $13.7 million.

Economic Benefits and Costs to CHIP Expansion

Lower health care costs for children, cost savings on employer-based health insurance premiums, and positive impacts on the state economy through outside federal dollars are direct benefits from extending health insurance coverage to all of Montana's children.

The estimated $13.7 million in state outlays for covering all children is a significant investment even though it would bring in almost $55 million in federal dollars. These outside dollars would have a cumulative impact of $60 million on labor income throughout the Montana economy, generating state income taxes that would offset part of the state budget outlay.

Providing health insurance to all children has some potential consequences. "Crowding out" is one result. If all children are signed up for CHIP, parents have no reason to sign them up on employers' health insurance plan. If employees decline insurance offered through their work place, employers have less incentive to offer the benefit to families.

Conclusions

Despite the state's strong economic growth, the prospect of improvement in Montana's uninsured rate is not strong. The Legislature will see continued debate on how best to approach the issue. However, many states that have already started this debate and have made more incremental changes than Montana are still struggling with containing costs. Thus Montana is relatively new to the work of addressing the issue and has a long, politically-bumpy road ahead, although there is much to be learned from the work done in other states.

According to BBER research, Montana employers expect to do more cost shifting to workers as they do not anticipate their costs of offering health insurance benefit to go down.❑

Daphne Herling is director of community relations for the Montana Kids Count and BBER.

Montana Agriculture

by George Haynes

Montana's agricultural sector produced over $3.2 billion of sales in 2005, while generating net farm income of over $700 million, or 4.4 percent of Gross State Product. Montana's net farm income declined by nearly 15 percent from 2004, but was substantially above the five-year average for net farm income. The 2007 Montana agricultural outlook for both crops and livestock is promising, with relatively strong prices.

Grain/Wheat Outlook

World and U.S. grain prices have risen over the past year, primarily because of decreased production. World wheat production declined by 5 percent, while U.S. wheat production declined by about 14 percent from 2005 to 2006 (Table 1). Montana's shares of the world and U.S. wheat markets have remained relatively constant at around 0.7 percent (world) and 8.5 percent (U.S.). World wheat stocks are projected to be about 119 million tons, their lowest level since the 1981-1982 crop year. The futures market for wheat suggests that wheat prices will be strong in 2007, but somewhat lower than prices received in the fall of 2006.

Montana wheat production fell by over 20 percent because of a very hot, dry summer in 2006 that severely stressed the spring wheat crop. Winter wheat in 2005-2006 and winter wheat production was about 13 percent less than in 2004-2005. Spring wheat production declined by 22 percent from 2004-2005 because of fewer planted acres and a 10 bushel per acre decline in average yield. Average wheat prices increased by over 20 percent (from $3.65/bushel in 2005 to over $4.50/bushel in 2006). Other grain crops in Montana followed a similar pattern, with substantial declines in production for durum, barley, and oats, but somewhat stronger prices for those crops.

The major factors impacting the 2007 wheat markets appear to be the low carryover stocks, Australian drought, and winter and spring wheat plantings. Higher wheat futures market prices will likely pull more acreage into wheat production in 2007. The other major factor affecting markets for all field crops is the demand for corn, especially for ethanol production. The increased demand for corn for producing ethanol has increased the price of corn from $2.00 per bushel in 2005 to over $3.00 per bushel in the fall of 2006. Higher corn prices have increased feed prices for cattle, putting downward pressure on the stocker and feeder cattle markets.

Cattle Outlook

U.S. commercial beef production in 2006 was about 5 percent higher than in 2005, and feeder cattle prices have been steady to somewhat lower than in 2005 (Table 2). Beef prices in 2006 have been influenced by higher feed grain prices, deteriorating pasture conditions, and export demand. Montana beef production declined by about 8 percent from 2004 to 2005, with Montana's share of the U.S. beef market remaining stable. Futures prices for the cattle market suggest that feeder and fat cattle prices will be strong in 2007, but somewhat lower than prices received in the fall of 2006.

Higher feed grain prices have been driven by the sharp increase in the price of corn. The U.S. typically exports about 10 percent of its beef production. However, while beef exports are expected to top 1.5 billion pounds in 2006, this is only about 60 percent of 2003 total beef exports.

Japan and South Korea have recently announced the resumption of beef imports from the U.S., however a majority of the increase in export demand will be caused by exports to Mexico and Canada returning to pre-BSE levels.

U.S. domestic beef demand is expected to remain near 2005 levels, which are only 65 percent of those in the early 1980s. Current forecasts suggest that domestic consumer demand for beef may weaken in 2007.

2007 Farm Bill

The attention of policy analysts will turn to the 2007 Farm Bill in the next few months. Early indications suggest that substantial changes may be proposed for the 2007 Farm Bill, with vegetable and fruit producers competing for payments, more emphasis on conservation programs and increased interest in risk management and insurance programs. ❑

George Haynes is a professor and extension specialist in the Department of Agricultural Economics and Economics at Montana State University-Bozeman.

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

Geographic Area	Millions of Bushels 2004	2005	2006
World	23,105.9	22,741.4	21,561.6
U.S.	2,158.3	2,104.7	1,812.2
U.S. share	9.3%	9.3%	8.4
Montana	173.2	192.5	153.1
MT share of world market	0.7%	0.8	0.7
MT share of U.S. market	8.0%	9.1	8.4
Prices, all wheat, dollars per bushel	3.61	3.60	4.51

Table 2
U.S. and Montana Beef Production

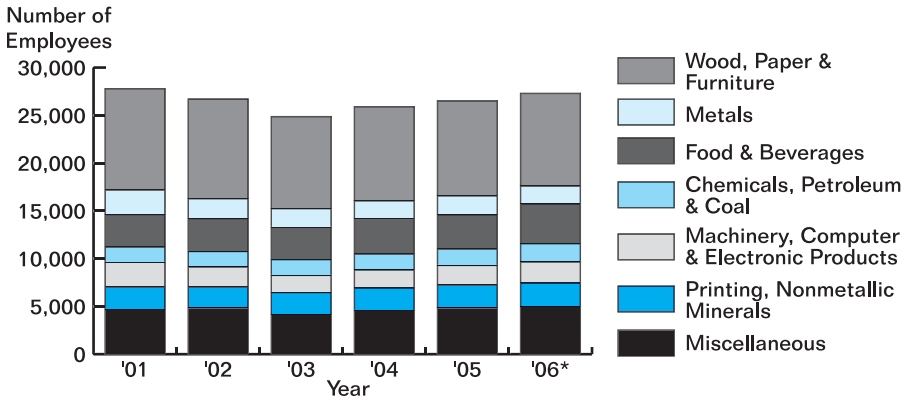
Geographic Area	1,000 Tons - Carcass Weight Equivalent 2004	2005	2006
U.S.	20,748.6	20,789.1	n/a
Montana	525.0	481.6	n/a
MT share of U.S. market	2.5	2.3	n/a
Prices received, calves, dollars per hundred weight	125	138	135

Sources: World Agricultural Supply and Demand Estimates (WASDE-440, 11/9/2006); National Agricultural Statistics Service, Montana.

Montana's Manufacturing Industry

by Charles E. Keegan III, Thale Dillon, Laurie Toomey

Figure 1
Montana Manufacturing Employment, 2001-2006



*Estimate.
Sources: Bureau of Business and Economic Research, The Universtiy 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 2006

Manufacturing Sector	Labor Income [thousands 2004$] 2001	Labor Income [thousands 2004$] 2006*	Employment 2001	Employment 2006*
Wood, Paper & Furniture**	$432	$404	10,631	9,690
Metals	117	115	2,546	2,059
Food & Beverages	116	135	3,400	4,133
Chemicals, Petroleum & Coal	191	233	1,598	1,929
Machinery, Computer & Electronic Products	110	107	2,610	2,204
Printing, Nonmetallic Minterals	81	88	2,323	2,480
Miscellaneous	115	136	4,681	4,959
TOTAL	$1,162	$1,218	27,789	27,453

*Estimate.
**Includes logging.

Montana's manufacturing industry had increased sales, employment, and worker earnings in 2006 building on improvement both in 2004 and 2005.

The sector in 2006 produced approximately $8 billion in product output and employed close to 27,500 people who earned $1.2 billion in labor income. The manufacturing sector accounted for over 20 percent of Montana's economic base.

Manufacturing employment has shown steady increases in the past three years (10 percent), and income to workers rose commensurately. Three years of declines have now been followed by three years of consistent increases in Montana manufacturing output and employment.

With the exception of the wood products sector (see pages 31-32) the continued improved conditions in 2006 were broad based. Nearly 60 percent of surveyed Montana manufacturing firms[1] reported increased profits in 2006; sales were up for nearly two-thirds, and production increased for 61 percent.

The continued increase in manufacturing activity in 2006 can be attributed to a strong global economy, which spurred demand even as growth rates in the U.S. economy slowed. This resulted in high prices for a number of base commodities (such as petroleum and metals) as well as high technology products.

Also, positively impacting some Montana manufacturers was the continued growth of the economy in Montana and adjacent states.

[1]We surveyed 215 Montana manufacturers employing 20 or more people, and selected other firms, of which 80 percent responded.

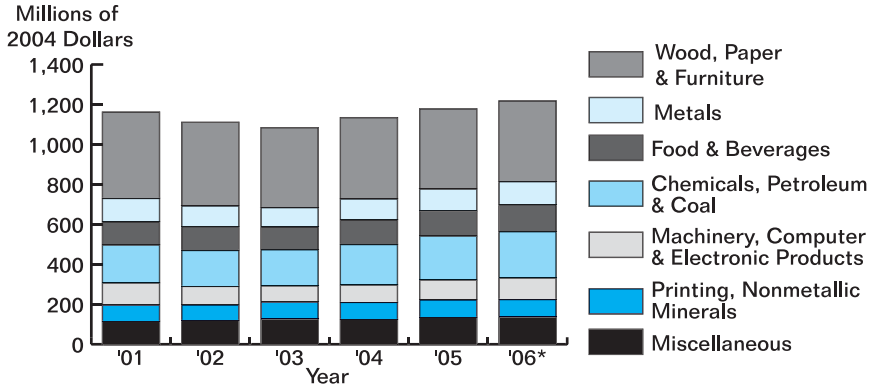
Table 2
Manufacturing Employment and Labor Income Among Montana Counties, 2004

County % of Total	2004 Manufacturing Employment*	Percent of State's Manufacturing Employment	2004 Manufacturing Labor Income [thousands 2004$]*	Percent of State's Manufacturing Labor Income
Yellowstone	3,778	17%	$253,363	25%
Flathead	3,456	15%	$156,230	15%
Missoula	3,168	14%	$144,570	14%
Gallatin	2,535	11%	$119,032	12%
Ravalli	1,216	5%	$43,243	4%
Cascade	949	4%	$44,808	4%
Lake	949	4%	$30,367	3%
Lewis & Clark	853	4%	$41,402	4%
Silver Bow	562	2%	$31,018	3%
Lincoln	487	2%	$17,228	2%
Remaining 46 Counties	4,653	21%	$143,860	14%
STATE TOTAL	22,606	100%	$1,025,121	100%

*County-level estimates do not include the logging sector, which would add more than 2,500 jobs and over $109 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, 2001-2006



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

Table 3
Ranking of Issues Deemed Important to Manufacturers*

Issue	Percent Responding "Very Important"	Ranking 2006	Ranking 2005
Health Insurance Costs	78%	1	2
Availability of Qualified Workers	73%	2	3
Workers' Compensation Rates	64%	3	4
Cost of Energy	52%	4	1
Raw Material Availability	52%	4	5
Workers' Compensation Rules	45%	6	6
Cost of Workforce Development	24%	7	7
Foreign Competition	21%	8	8

*As reported in our annual survey of Montana manufacturers.
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Outlook: 2007 and Beyond:

The U.S. economy is projected to slow further in 2007 as are Japan and most European economies. However, continued strong economic performances in China and India will help maintain global economic activity. A weakening U.S. dollar should help U.S. exports and make imported products less competitive in the U.S. market. Lower interest rates and lower energy prices could stimulate business and consumer spending as 2007 progresses.

Montana manufacturers who responded to our annual survey are surprisingly optimistic in the face of a slowing U.S. economy. Forty-five percent still foresee improved conditions for 2007, and 43 percent think 2007 will turn out about the same as 2006. Only 12 percent expect worsening conditions. Over half of manufacturing respondents expect to keep their work force at the same level in 2007, while well over one-third foresee an increase.

When manufacturers were asked to rate a list of issues in terms of general importance to their business (Table 3), 78 percent of respondents rated health insurance cost as very important, followed by the availability of qualified workers (73 percent), and workers' compensation rates (64 percent). Energy costs and raw material availability and cost were very important to just over 50 percent of respondents.❑

Charles E. Keegan III is director of forest industry research at The University of Montana Bureau of Business and Economic Research. Thale Dillon is a BBER research associate. Laurie Toomey is director of Montana Business Connections.

Montana's Forest Products Industry
Current Conditions and 2007 Forecast

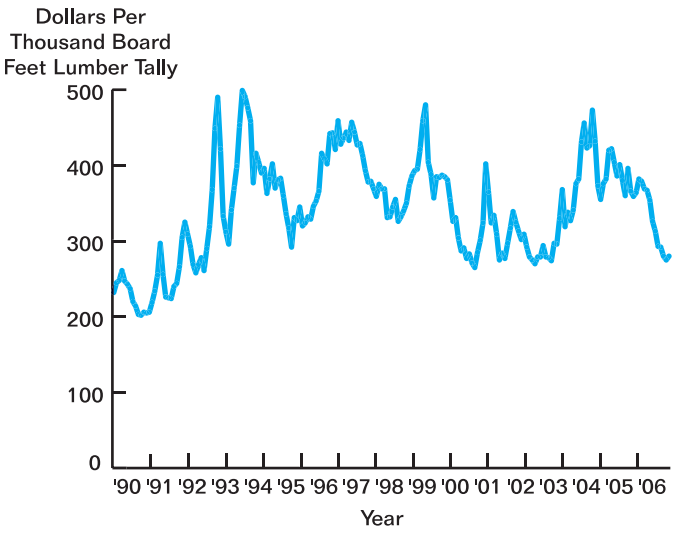
by Charles E. Keegan III, Thale Dillon, Jason P. Brandt, and Todd A. Morgan

Operating Conditions

In response to dramatically lower U.S. housing starts, prices for most wood products were down sharply in 2006 relative to 2005. Average lumber prices fell by over 20 percent as 2006 progressed (Figure 1). Lower prices coupled with continued constraints on timber harvest caused a decline in sales, production, and employment in Montana's forest products industry.

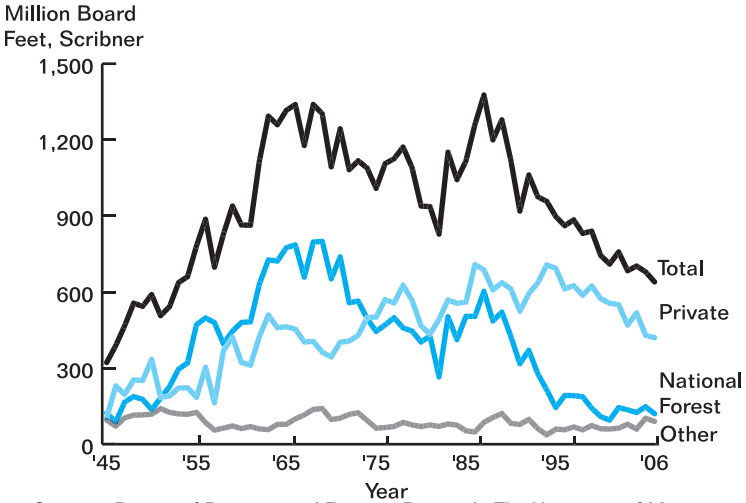
Housing starts fell in response to a build up in inventories of unsold homes brought on by higher mortgage rates and very high housing construction in the previous few years, part of which was speculative. Raw material availability continued to constrain Montana's forest products industry, with virtually every timber processing facility listing raw material availability and cost as a major concern during 2006. Appeals and litigation were the major factors impacting the national forest timber program (Figures 2 and 3). Private timber harvest was down slightly from 2005, indicating declining regional inventories and response to lower prices. Higher energy costs impacted logging costs as well as operating costs at mills.

Figure 1
Nationwide Composite Lumber Prices Monthly, 1990-2006



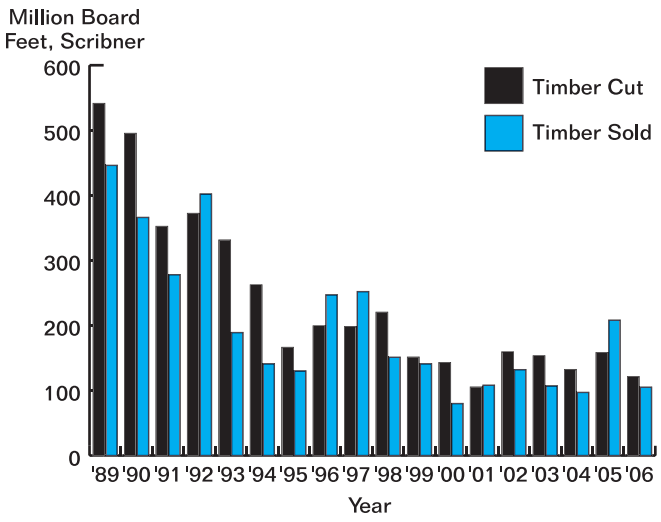
Source: Random Lengths Publications.

Figure 2
Montana Timber Harvested by Ownership, 1945-2006



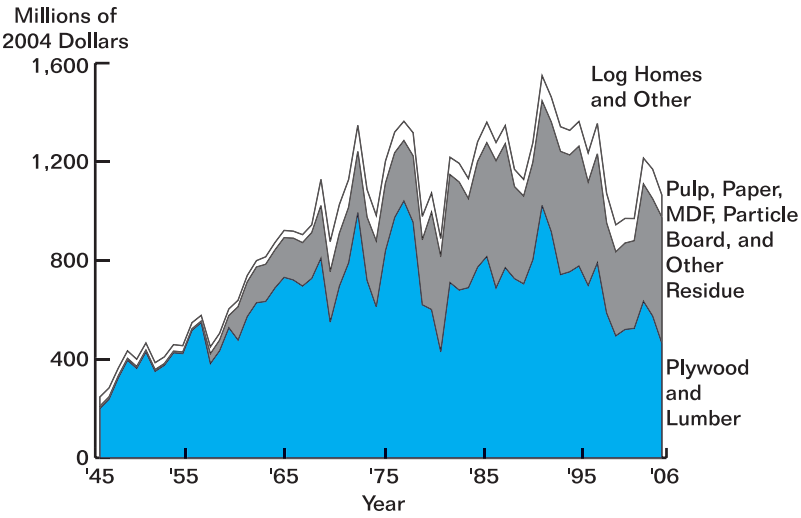
Sources: Bureau of Business and Ecnomic Research, The Universtiy of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

Figure 3
Montana National Forest Timber Cut and Sold Volumes, 1989-2006



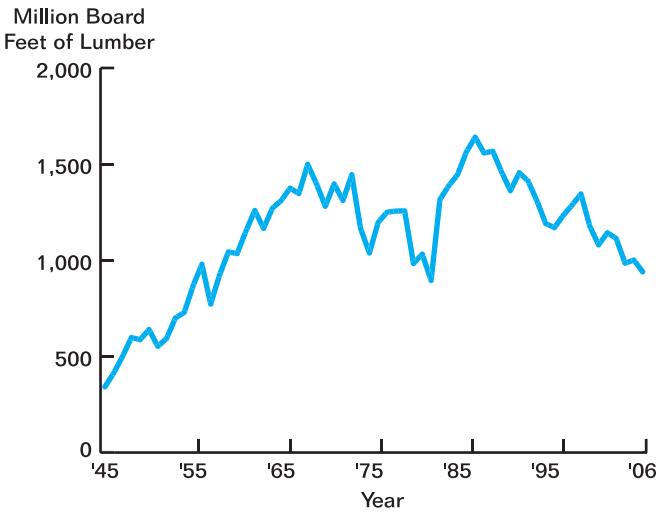
Source: USDA Forest Service Region One, Missoula, Montana.

Figure 4
Sales Value of Montana's Wood and Paper Products, 1945-2006



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

Figure 5
Montana Lumber Production, 1945-2006



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

2006 Sales, Employment, Production

Total sales value of the state's primary wood and paper products in 2006 decreased by about $100 million (fob the producing mill) from just over $1,170 million in 2005 (Figure 4). Employment during 2006 was about 10,000 workers, off by about 200 workers from 2005. Lumber production in 2006 was an estimated 940 million board feet, down approximately 6 percent from 2005 (Figure 5).

Outlook for 2007

No dramatic improvements are expected in 2007. Weakness in the U.S. housing industry is expected to persist at least through the first half of the year due to high inventories of unsold homes. Additional lumber production in some competing regions could remain high – for example, interior British Columbia is harvesting large volumes of timber to deal with an insect epidemic.

Several factors could cushion negative market influences in 2007:

- expected lower interest rates,
- further weakening of the U.S. dollar,
- a new softwood lumber agreement with Canada which may provide some lumber price support in low markets and reduced price volatility.

The Bureau's survey of wood products industry executives, conducted as part of the annual economic outlook, indicates that 2006 was substantially worse than expected.

In late 2005, only 9 percent expected poorer conditions in 2006. However, when reporting on 2006, one-third indicated decreased sales, production, and profits. After a weak year in 2006, only 30 percent of Montana wood products producers expect 2007 to be better than 2006.❑

Charles E. Keegan III is director of forest industry research at The University of Montana Bureau of Business and Economic Research. Thale Dillon is a BBER research associate. Jason P. Brandt is a BBER research forester and Todd A. Morgan is BBER's assistant director of forest industry research.