

Montana Labor Day Report: A Summary

by Barbara Wagner, Chief Economist

Every year, the Montana Department of Labor and Industry produces a report on the progress of Montana's economy for the governor and for Montanans. The Labor Day Report reviews the performance of Montana's economy over the past year within the larger context of the historic and projected future performance of the economy. This Economy at a Glance article provides some highlights from the 2014 Labor Day Report, which was presented to the governor on August 29, 2014. The full report is available at www.lmi.mt.gov.

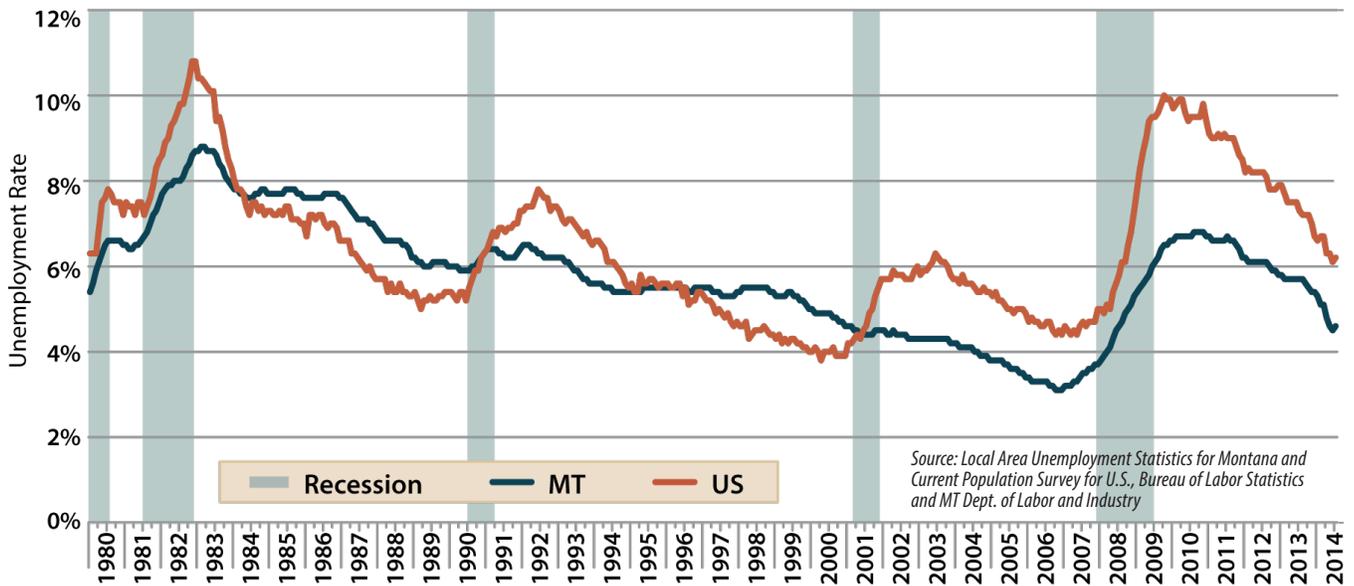
Montana's economy is healthy on Labor Day 2014, with several years of above-average job growth placing us at record employment levels and ideal unemployment rates. Montana is among the leading states in the nation for a number of economic indicators, including personal income, GDP, job growth, wage growth, business startups, and educational attainment.

Throughout 2013 and 2014, Montana's unemployment rate has been in decline, and is now at ideal levels. Figure 1 illustrates the U.S. and Montana unemployment rate since 1980.¹ At 4.6% in July 2014, Montana had the 11th lowest unemployment rate in the nation. Economists generally consider unemployment rates between four to five percent as "normal" unemployment, which is the level of unemployment that provides a healthy balance of most workers being able to find jobs at reasonable pay and businesses being able to find workers with the right skills and experience to do the job. Unemployment rates higher than the normal level indicate workers will find it difficult to find jobs, causing financial stress to families and ultimately reducing demand for Montana's products due to lower wage income available for spending. Unemployment rates lower than normal suggest worker shortages, where businesses have a difficult time finding

workers to fill positions. Without workers, businesses can't produce goods and services, slowing the growth of our state's economic production. Montana's current unemployment rate is in the happy medium of these two outcomes. While job growth is expected to continue at an above-average pace, the decline in the unemployment rate will likely slow as more Montanans join the labor force in response to our positive economic conditions.

The unemployment rate is the ratio of two different metrics – the labor force and employment levels. The labor force includes people who are working or who are looking for work. Montana's labor force decreased significantly during the recession, falling over 3% during 2008 and 2009. Labor force participation usually decreases during recessionary periods as workers become discouraged looking for work, and choose to pursue other life interests like caring for family or furthering their education. Since the low in December 2009, Montana's labor force recovered fairly quickly, and is now 1.7% above the pre-recession peak (compared to 1.1% higher than the peak for employment). In contrast, the U.S. labor force has recovered much more slowly. The U.S. labor force is less than 1% above the pre-recession peak, raising concerns about slow growth in the U.S. labor force. Fewer workers

Figure 1: Montana and U.S. Unemployment Rates since 1980



in the labor force reduces the economy’s long-term growth potential by reducing the availability of labor and limiting the development of worker skills and human capital that workers would have developed if they were working.

Montana’s decreasing unemployment rate is primarily due to strong job growth. Although employment growth was slow exiting the recession, employment growth since 2012 has been above average. Montana’s total employment growth was 1.7% last year (7,880 jobs), making Montana the 5th fastest state for employment growth in the nation. Payroll job growth was slightly slower than total job growth, adding 6,400 jobs for a 1.5% increase.² Payroll employment has grown at a compounding average rate of 1.4% since 1980, meaning that job growth in 2013 was slightly higher than average. Payroll employment growth was held back by the elimination of roughly 500 federal government jobs in Montana. Private payroll businesses added 6,753 jobs for a growth rate of 1.9%.

Other economic indicators also suggest above average growth for Montana in 2013 and 2014. Personal income data suggests that Montana’s economy is accelerating in 2014 after slower growth at the end of 2013.³ Montana has per capita income of roughly \$39,199, which ranks 36th

in the nation. Personal income includes wages, benefits paid to workers, proprietor income, dividends, interest, rent, and transfer payments to individuals (transfer payments primarily come from government and include social security, veterans benefits, and other similar transfers). Overall, Montana’s personal income growth has outpaced the U.S. over the last five years since the recessionary losses in 2008. Montana had the 13th fastest personal income growth among states over the last year, and had the 6th fastest personal income growth among states over the last five years.

Montana’s GDP expanded by 4.5% in 2013, ranking Montana as the 13th fastest growing state based on GDP in the nation. Montana also has the 8th fastest growing GDP among states for both the five-year and ten-year timeframes. In comparison, the U.S. GDP increased by 3.5% in 2013. Real GDP increased by 3% in Montana over the year compared to 1.8% nationally.

The rate of business startups in Montana also indicates positive growth in 2013 and 2014. Montana’s rate of net business openings is positive, and ranks 12th among states for the highest rate of net business openings.⁴ Other data also suggests that Montana has a high rate of

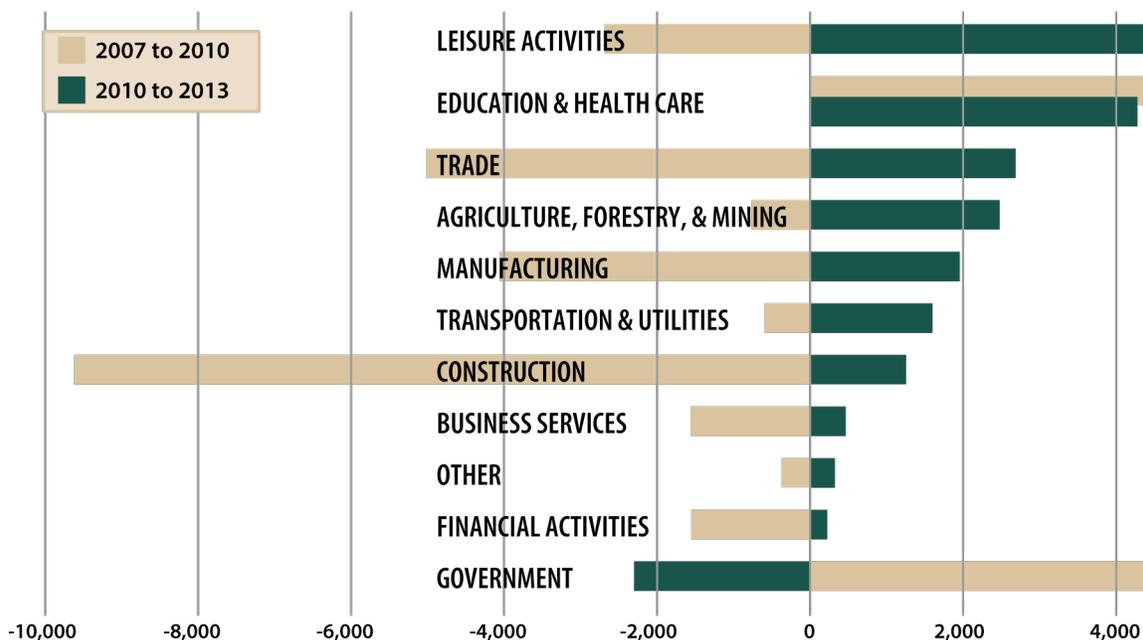
entrepreneurialism – roughly 20% of Montana households have a business, ranking Montana 4th in the nation for this metric.⁵ This entrepreneurialism is vital to the Montana economy, as new businesses are an important source of job creation. New businesses started in the last five years have added nearly 60,000 net jobs to the Montana economy, a critical component to Montana’s job recovery.⁶ Montana entrepreneurs are adding jobs and adding value to Montana’s economy.

Although Montanans are good at creating new businesses and adding jobs, Montana’s businesses tend to remain small. Over 66% of Montana businesses have fewer than five employees, and over 91% of Montana businesses have less than 20 employees. While small businesses are important to our economy and are an important source of job creation, small businesses have one obvious downfall – they are small. Montana’s small businesses rarely grow into large businesses, thus limiting the impact entrepreneurialism could have on our economy. Businesses with 20 or more employees may only represent 8.2% of Montana businesses, but they

hire 64% of Montana workers and pay out 69% of total wages paid in the state. Larger businesses are also more likely to pay higher wages, and are more likely to also pay health, retirement, and other benefits compared to small businesses.⁷

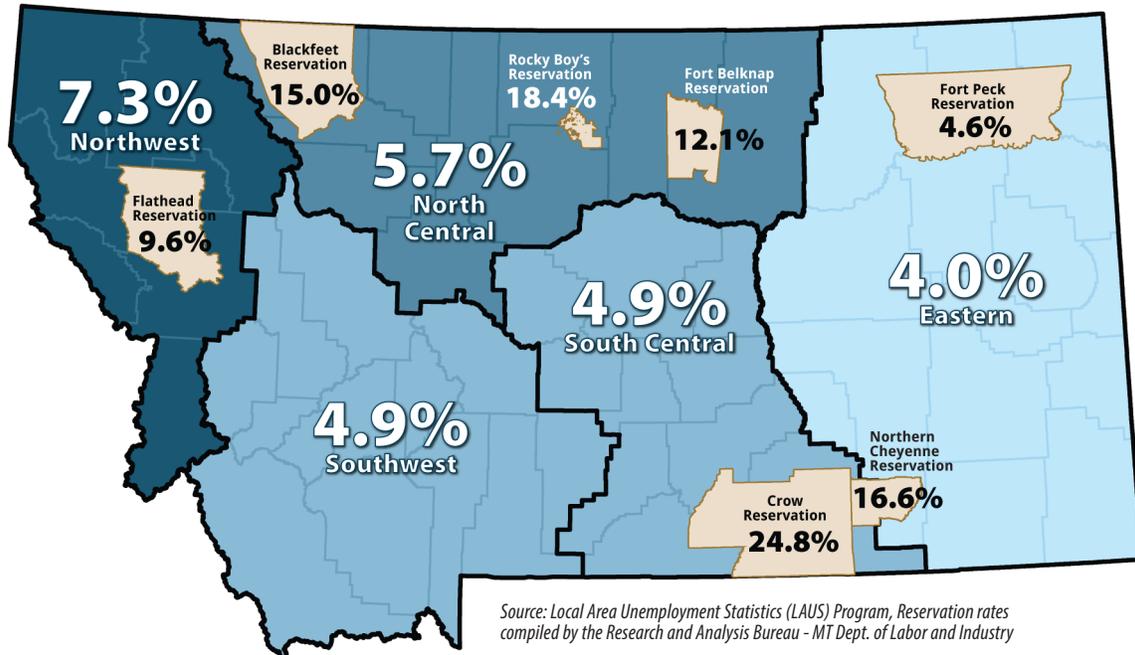
Figure 2 illustrates the employment gains and losses during the recession and recovery by industry in Montana. From 2007 to 2010, the national recession resulted in over 22,000 lost jobs in Montana (roughly 1.5% of jobs per year), leaving a large number of Montana workers unemployed, with the biggest job losses occurring in the construction, manufacturing, and trade sectors. Montana’s employment levels have been in recovery since 2010. By February 2013, Montana regained all of the payroll jobs lost during the recession, nearly a year earlier than the U.S. recovered their pre-recession employment peak. As of July 2014, Montana is at new employment highs of 457,900 payroll jobs (9,800 jobs or 2.2% above the previous peak) and 496,600 total jobs (6,800 jobs or 1.4% above the previous peak).

Figure 2: Recession Job Losses (2007 to 2010) and Recovery Job Gains (2010 to 2013) by Industry



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT Dept. of Labor and Industry

Figure 3: Unemployment Rates for Montana’s Labor Market Regions and Reservations



Throughout the recession and recovery, the health care sector continued to add jobs and provide economic opportunities for Montana’s workers, adding over 8,000 jobs since 2007. The health care industry provides above average salaries and is expected to continue to demand large numbers of workers in the future, making this industry an excellent prospect for students and other workers considering future careers.

All of Montana’s industries are now adding jobs in recovery, with the exception of the government sector. Leisure activities, trade and transportation, and health care have added the most jobs, but the mining industry has been growing at the fastest rate. The government sector provided critical counter-cyclical support by adding jobs and increasing spending during the recession, and then reducing employment as the private sector recovered. Much of the temporary growth in government jobs during the recession came as a part of the 2010 Decennial Census, which provided employment opportunities during a time when the national economy needed additional spending to stabilize. However, the post-recession federal

government cut backs and sequester activities have slowed the economic and employment growth during the last three years.

In terms of wage growth, Montana’s average wage growth has been outpacing the national average and most other states.⁸ In fact, Montana ranks 5th in terms of average annual wage growth over the last ten years. Wage growth has been driven by the private sector, which had the second fastest growth in the nation in 2012 with a 4.3% increase over the year. This rapid wage growth has helped Montana catch up to wages in the rest of the nation. Montana’s average wage of \$37,575 ranks 47th out of 50 states, too low for Montana’s working families, but up one place from the previous year due to our above average wage growth. South Dakota, Idaho, and Mississippi have lower wages than Montana.

Most recently over the last year, wage growth in Montana slowed from the rapid increases of earlier years, with nominal wage growth of 1.3% overall. Private wages increased 1.4% compared to 1.8% for local government, 2% for state government, and a decline of 0.4% in the

federal government. The slow growth in the state average was due to a decline in the average annual wage in the Southwest and North Central regions of Montana. Other regions of the state increased their average annual wages in 2013 both in nominal and real terms.

Regionally, the Northwest posted the strongest improvement in their labor market, with their unemployment rate dropping from 8% in 2012 to 7.3% in 2013. Figure 3 illustrates the unemployment rates in each of Montana's five labor market regions and on Montana's seven reservation areas. During the recession, the Southwestern region of Montana had the second highest unemployment rates, but the Southwest has posted strong employment growth during the recovery, bringing the unemployment rate down to 4.9% in 2013. The North Central region has not improved their unemployment rate over the last year, and now has the second highest unemployment rate among regions in Montana at 5.7%. The South Central and Eastern regions continue to post low unemployment rates, with some counties in Eastern Montana experiencing extreme worker shortages due to the development of the Bakken oil fields and the resulting demand for goods and services in the region.

Most of Montana's reservation communities also enjoyed lower unemployment rates in 2013 than in years past.⁹ Unemployment dropped significantly over the year on the Fort Peck Reservation (down 4.8 percentage points to 4.6%) and Flathead Reservation (down 1.2 percentage points to 9.6%). Small declines occurred over the year on the Crow Reservation (0.3 percentage point decline) and the Northern Cheyenne Reservation (0.1 percentage point decline). Most of these reservations also posted job gains, with the strongest job gains occurring on the Crow reservation with 4.4% growth. Unfortunately, three reservations faced increases to their unemployment rates over the year, with the unemployment rate on the Black-foot Reservation increasing 0.8 percentage points to 15%,

the Fort Belknap Reservation increasing 0.7 percentage points to 12.1%, and Rocky Boy's Reservation increasing to 18.4%. Employment losses on the reservations may be related to lower federal government spending because the declines in employment occurred in the education and health services industries, which are often federally funded services. In general, Montana's reservation areas are the most economically sensitive areas of our state, with unemployment rates much higher than the surrounding region.

Montana's economy is expected to continue above average employment growth of 1.7% in 2014 and 2015.¹⁰ Montana is already on pace to beat this expected growth in 2014. However, after 2015, job growth is expected to slow due to worker shortages caused by the retirements of Montana's aging workforce. About 27% of Montana's workforce is 55 or older and approaching retirement age, with these impending retirements potentially reducing Montana's labor force by 137,000 workers. The group of young workers entering the labor force (aged 16 to 24) is simply not big enough to accommodate these retirements, with a total population of individuals aged 16 to 24 at only 113,000.¹¹ Increased migration could help address the shortfall, but other states will also have similar problems with an aging workforce, making it less likely that workers from other states will come to Montana seeking employment. Migration is not expected to fully accommodate the shortfall. Even if labor force participation increases at all age levels, it is likely that there will be fewer people available for work in the future.

Tight labor markets can provide economic benefits for workers because jobs are easy to find and wages increase rapidly. However, economic growth can be constrained if businesses cannot find the right workers, or enough workers, to produce their goods. Montana's overall economic growth will be slowed by worker shortages unless businesses make productivity-enhancing investments to

allow each worker to produce more output, thus allowing economic growth to continue despite fewer workers. While Montana's labor force participation rates must increase, and likely will in response to higher wages and better economic opportunities, Montana's economic growth ultimately depends on our ability to increase technology, productivity, and innovation.

Labor Day 2014 brings with it continued good news about Montana's economic performance. Job growth in 2013 continued at above-average pace, with record-breaking job growth in the first half of 2014. Montana continues to outperform the nation in terms of job growth, wage growth, GDP growth, personal income growth, and other measures. Montana entrepreneurs continue to start new businesses and add jobs to Montana's economy. Montana is poised to improve prosperity in the years to come.

Although the recession is in our rear-view mirror, lingering concerns remain. While Montana entrepreneurs do an excellent job of starting businesses, we need to do a better job ensuring those businesses grow to larger employment sizes. Finally, Montana is facing slower economic growth in the future due to the loss of human capital and lower number of workers due to an aging workforce. Efforts must be made to increase labor force participation rates, and enhance and protect human capital so that it can be utilized for our economic productivity.

The future brings with it continued challenges for our economy, but Montana's workers and businesses are ready to meet this challenge. With a strong and improving economy, a well-educated and trained workforce, and investments in our state by businesses, Montana will continue to outperform the nation in our economic growth, strengthening our economy and making Montana an even better place to live and do business.

Sources

- ¹ All state-level unemployment, labor force, and total employment figures come from the Local Area Unemployment Statistics, Bureau of Labor Statistics and the Montana Department of Labor and Industry. U.S. unemployment, labor force, and total employment statistics from the Current Population Survey, Bureau of Labor Statistics.
- ² Payroll employment figures come from the Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the Montana Department of Labor and Industry.
- ³ Personal income and GDP figures from the Bureau of Economic Analysis, U.S. Department of Commerce.
- ⁴ Business Employment Dynamics, Bureau of Labor Statistics
- ⁵ Current Population Survey micro data available through DataFerret, U.S. Census Bureau. Compiled by the MT Dept. of Labor and Industry using data from a two-year timeframe ending in May 2014.
- ⁶ Quarterly Workforce Indicators, Employment by Firm Age, U.S. Census Bureau and the Bureau of Labor Statistics. Data compiled by the Montana Department of Labor and Industry. Employment totals from 2012Q3 through 2013Q2.
- ⁷ Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT DLI. Medical Expenditure Panel Survey, U.S. Dept. of Health and Human Services and National Compensation Survey, Bureau of Labor Statistics.
- ⁸ Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT DLI
- ⁹ Reservation unemployment, employment, and wage data compiled by the MT DLI.
- ¹⁰ Employment forecasts produced by the Montana Department of Labor and Industry and available at www.lmi.mt.gov.
- ¹¹ Population by age from the U.S. Census Population estimates. Labor Force data from the Local Area Unemployment Statistics annual labor market situation by demographics table.