

Montana's Industrious Economy

Understanding each industry's contribution to the statewide economy

by Olivia Hayes, Economist



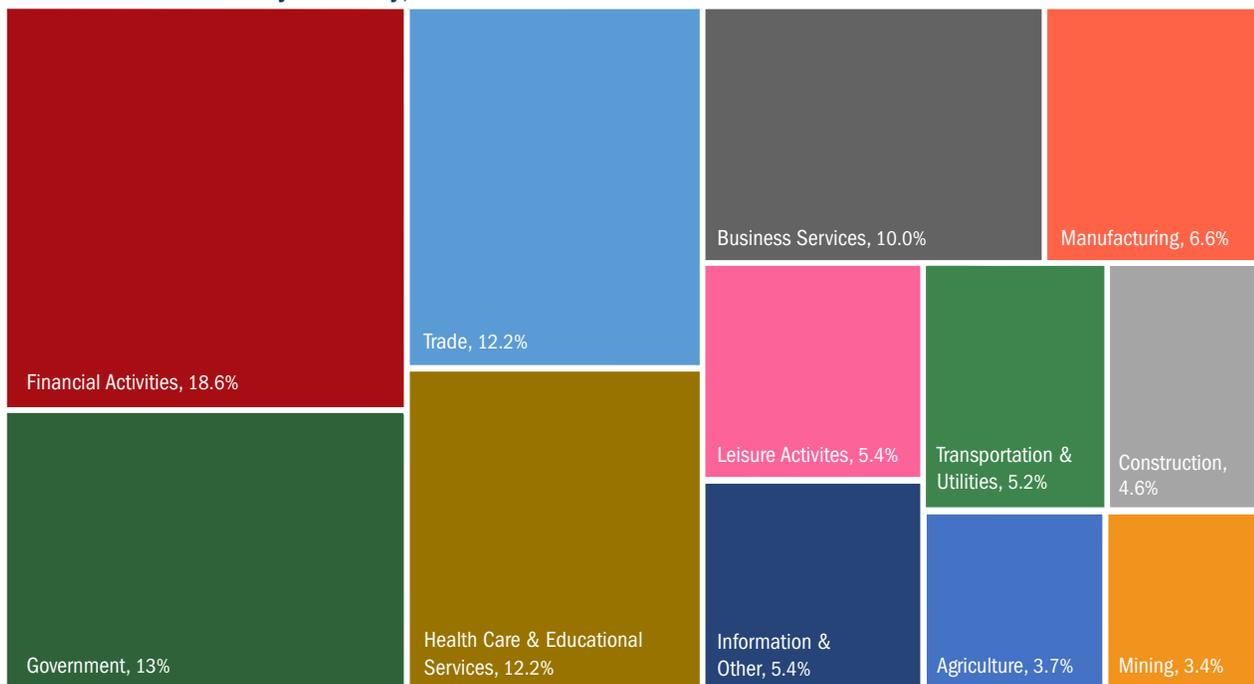
Montana’s economy is as diverse and unique as its the landscape. Much of the vast land in the Big Sky state is used for ranching and farming. Meanwhile, the state’s more populous towns are home to tech firms, financial institutions, specialty retail shops, and local eateries. The northwest is known for wood products manufacturing, and the east boasts productive mining operations. The state’s beautiful landscape offers ample outdoor recreation opportunities enjoyed year-round. With so many different industries, the question becomes whether there is one industry most critical to the state’s economy. This month’s Economy at a Glance explores different ways each industry contributes to Montana’s diverse and robust economy.

Industries Driving Economic Production

One way to measure the size or contribution of an industry to the overall economy is by measuring the value of goods and services the industry produces. **Figure 1** shows the economic

FIGURE 1

Montana Real GDP by Industry, 2022



Source: U.S. Bureau of Economic Analysis. Healthcare and education include only private entities. Local schools and public healthcare providers are included in government. Business services is the sum of NAICS 54,55, and 56. Financial activities includes NAICS 52 and 53. Leisure activities is NAICS 71 and 72. Trade includes NAICS 42 and 44-45.

production of each industry as a percentage of the total output produced by Montana’s economy in 2022, measured by Gross Domestic Product (GDP).

Gross Domestic Product is a measure of the total value of goods and services produced within a region or by an industry. The U.S. Bureau of Economic Analysis (BEA) estimates GDP at a national, state, and county level with estimates broken down by component or industry.

Financial activities has been the largest contributor to GDP in Montana for the last 10 years.¹ In 2022, financial activities generated 19% of Montana’s total GDP. Including banks, real estate, insurance companies, and other similar businesses, activity in this industry often involves the sale of very high-value assets such as homes, commercial buildings, or insurance policies. Like for Montana, Financial activities is also the largest industry for GDP for the U.S. as a whole.

Government and trade are the next largest contributors to economic production. These industries generate a relatively large portion of

¹ U.S. Bureau of Economic Analysis.

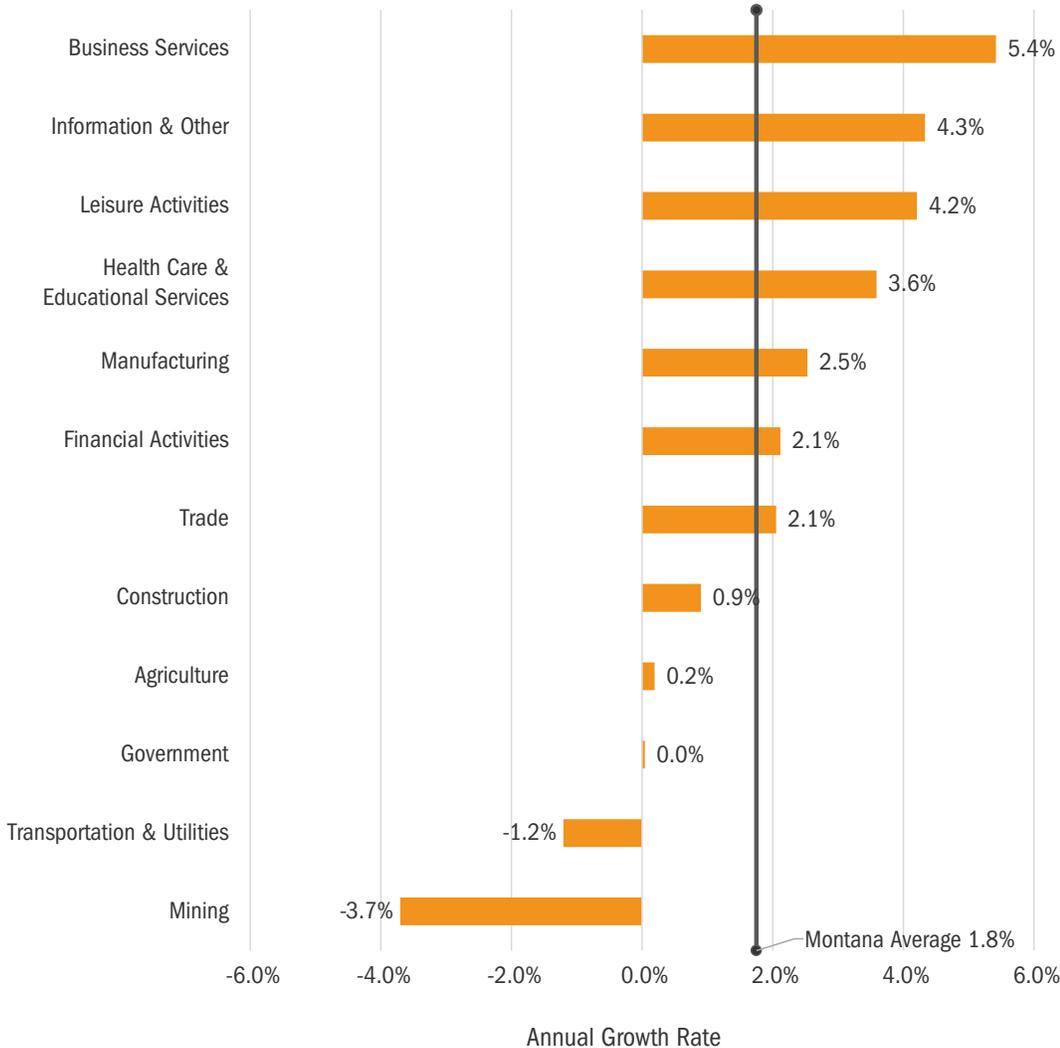
the state's overall economic activity due to the widespread utilization of their goods and services by people in all areas of the state. Government encompasses public sector activity at all levels, including local school systems and the postal service in every community. Similarly, trade includes wholesale and retail businesses such as grocery stores and gas stations that provide essential goods and services to every Montanan.

While financial activities, government, and trade have been mainstays of economic production in Montana over the last decade, other industries are

experiencing more rapid growth in production. Business services GDP has been growing faster than any industry in the state, increasing by an average of 5.4% annually since 2012. **Figure 2** shows the average annual growth in GDP by industry since 2012.

Leisure activities GDP has been growing faster than the statewide average, increasing by an average of 4.2% annually since 2012. Hotels, restaurants, and other tourism and recreation have been growing rapidly. For some cities, towns or regions, recreation and tourism can be

FIGURE 2
Average Annual Change in Real GDP by Industry, 2012-2022



Source: U.S. Bureau of Economic Analysis Healthcare and education include only private entities. Local schools and public healthcare providers are included in government. Business services is the sum of NAICS 54,55, and 56. Financial activities includes NAICS 52 and 53. Leisure activities is NAICS 71 and 72. Trade includes NAICS 42 and 44-45.

the foundation of the local economy. The value of economic production in healthcare has also grown more rapidly than the statewide average. Montana's growing and aging population has increased demand for health care services, contributing to the industry's 3.6% annual growth in GDP since 2012. As Montana's demographics continue to evolve, so will the contribution of each industry to the Montana economy.

Industries Impacting the Labor Market

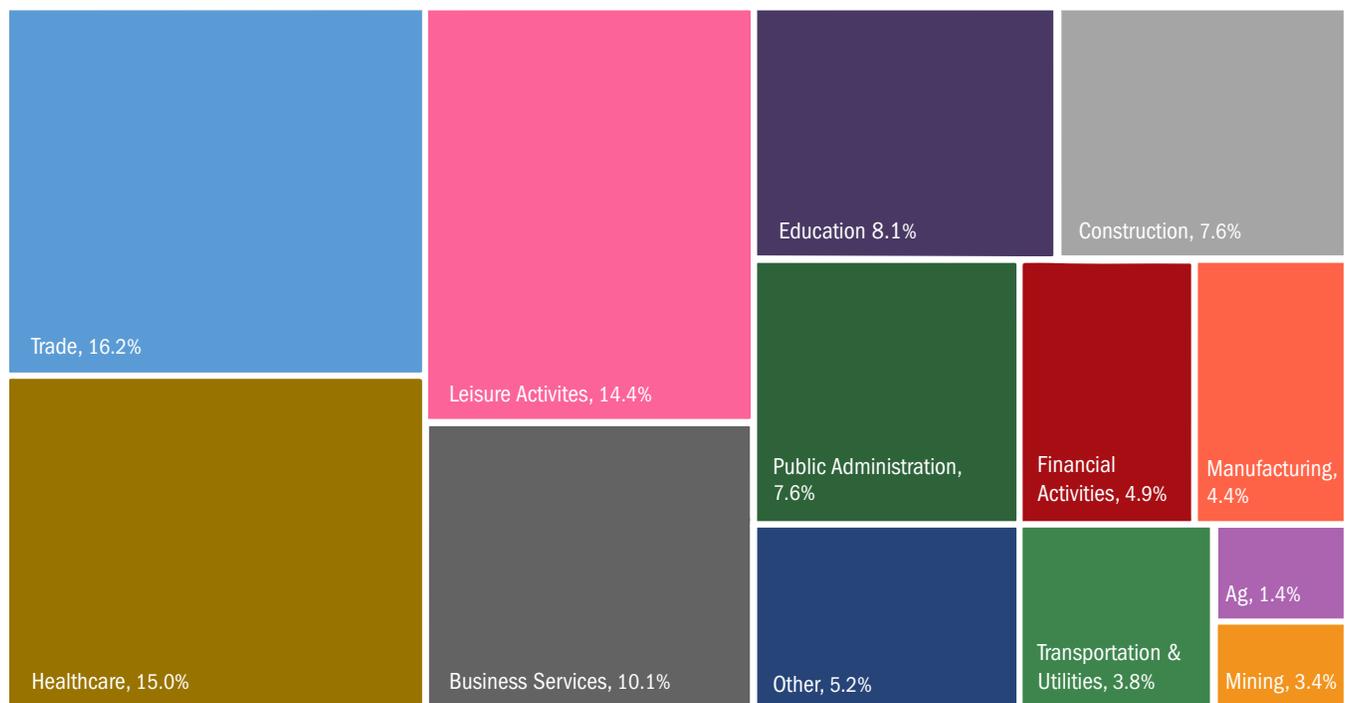
Jobs and wages provide an important mechanism through which the value produced by industries makes its way back to Montanan's pocketbooks. In 2022, nearly 60,000 businesses employed approximately 500,000 Montanans, which generated \$26 billion in wages.² **Figure 3** shows distribution of employment by industry in 2022.

Trade is the largest employing industry in the state. With 16% of employment, wholesale

and retail trade employ over 80,000 people. Healthcare is the next largest industry for employment, followed by leisure activities. Both industries employed over 70,000 Montanans in 2022. Trade, healthcare, and leisure activities all make up a larger portion of employment than GDP due to the labor-intensive nature of the industries. Retail stores, restaurants, hotels, and hospitals all rely more heavily on personnel than financial institutions or manufacturers. For comparison, financial activities contributes almost 20% of the state's GDP with under 5% of the state's total jobs.

In addition to employment, wages are also an important factor in determining an industry's impact on the Montana economy. A higher income typically allows workers to afford a higher standard of living, increases consumer spending and investments, and circulates more money through the state economy.

FIGURE 3
Proportion of Total State Employment by Industry, 2022



Source: MTDLI Quarterly Census of Employment and Wages. Healthcare and education employment include both private and public entities. Business services is the sum of NAICS 54, 55, and 56. Financial activities includes NAICS 52 and 53. Leisure activities is NAICS 71 and 72. Trade includes NAICS 42 and 44-45.

² US Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Figure 4 shows the average wage paid in each industry relative to the share of employment in each industry. Mining, financial activities, and business services report the highest wages among industries in the state. Albeit small in terms of employment, the mining industry pays the highest average annual wage at \$98,000 – 81% higher than the Montana average. Wages are the primary income source for most Montanans, and therefore industries paying higher wages are important contributors to the state economy.

Industries Propelling Future Job Growth

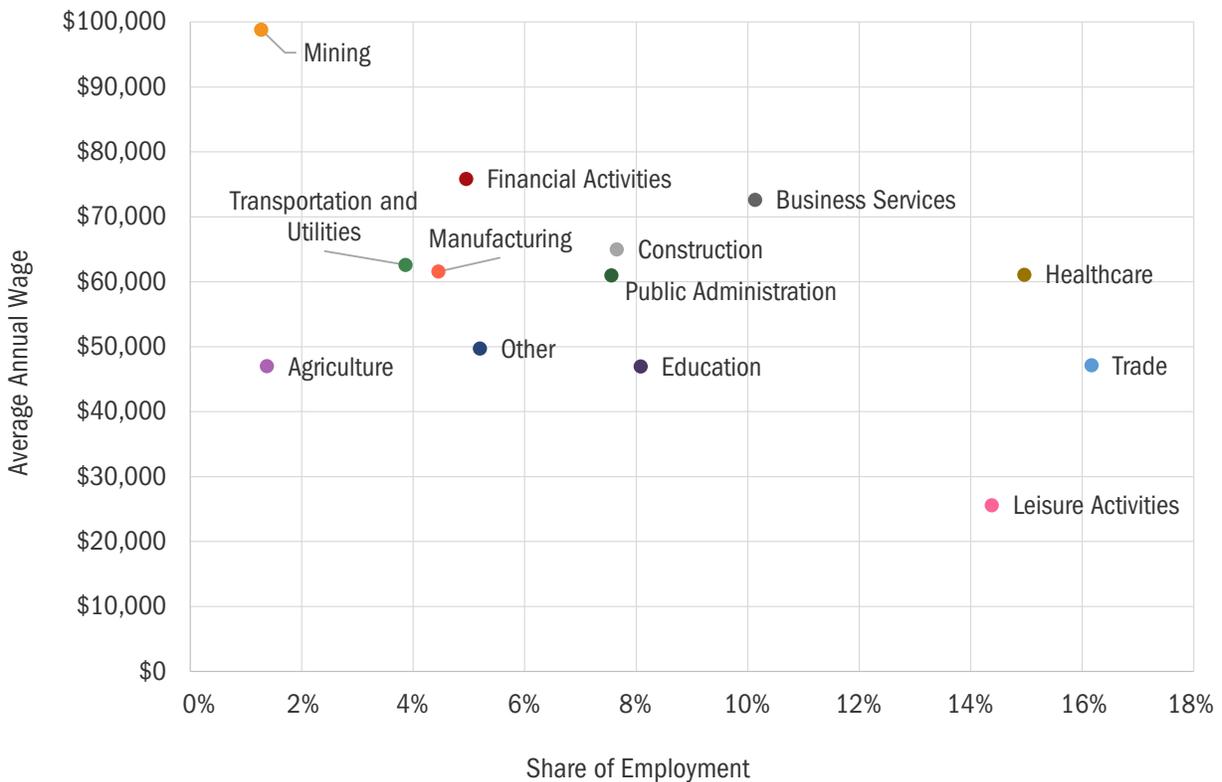
Industries that are growing and creating new jobs are important contributors to the state’s continued economic growth. Montana has averaged 1.5% annual employment growth over the last ten years, translating to roughly 6,600 jobs per year. Many of these job gains have been in construction and leisure activities, which

account for 40% of total employment growth. Both industries averaged over 1,200 jobs per year since 2012. Healthcare was the next largest contributor, adding 900 jobs per year. Trade and business services follow closely behind, adding 890 and 860 jobs per year, respectively.

Figure 5 shows the employment growth rate by industry over the last ten years and since 2020. Construction employment grew the fastest in the short and long-run, averaging 4.2% growth annually since 2012. The 2008 recession caused significant and sustained job losses in construction, depressing construction employment in 2012 which has rebounded over the last 10 years. In the last couple years construction jobs have grown rapidly, adding over 2,500 jobs per year since 2020.

Leisure activities has also been another significant contributor to employment growth over the last two years. In a strong recovery from pandemic

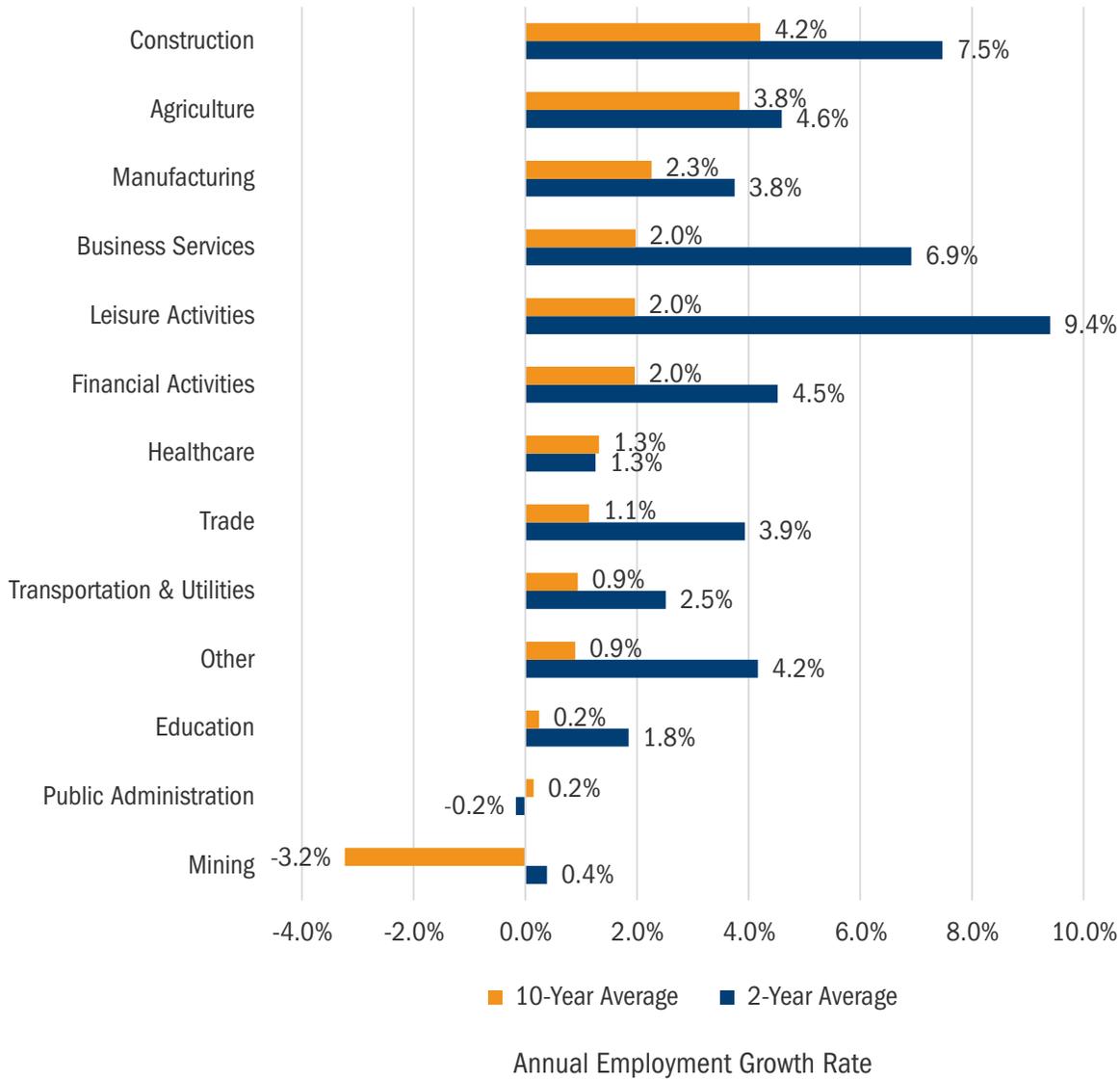
FIGURE 4
Montana Wages and Employment by Industry, 2022



Source: MTDLI Quarterly Census of Employment and Wages.

FIGURE 5

Annual Employment Growth Rate by Industry



Source: MTDLI Quarterly Census of Employment and Wages.

job losses, leisure activities employment has grown by 9.4% per year, which is much faster than the industry’s ten-year growth rate of 2%. Business services has also grown rapidly since 2020. The growth in business services reflects Montana’s growing employment in professions like software development, architecture, and law. New jobs in leisure activities demonstrates increasing disposable income among Montanans and reflects a growing national trend of domestic

travel and outdoor recreation spending.³ Montanans have increased their personal spending on recreation activities 4% and increased food services and accommodation spending 7% since 2012.⁴

Agriculture and manufacturing are also two industries with strong long-run job growth in Montana. Agriculture employment grew by 3.8% per year, translating to roughly 200 jobs per year

3 Grau, Kara, “2021 Nonresident Visitation, Expenditures, & Economic Impact Estimates” (2022). Institute for Tourism and Recreation Research Publications. 430. https://scholarworks.umt.edu/itrr_pubs/430

4 Bureau of Economic Analysis, Personal consumption expenditures by major type of product, 2021 data

since 2012. Manufacturing jobs in Montana increased 2.3% annually over the last ten years. The state average job growth during this same period was 1.5%.

Mining and public administration, which includes government, have experienced declines in employment. Mining's workforce reduction is an example of the responsiveness of the Montana economy to broader trends; a decline in oil prices and a drop from the peak of the Bakken Formation boom. Recent trends show mining employment rebounding slightly.

Conclusion

Montana has a diverse and robust economy whose continued growth depends on the success of businesses in every industry. There is no single industry on which the entire state economy rests. In fact, a diverse industry mix is an essential element of a healthy economy, allowing the state to better weather economic downturns and capitalize on times of economic expansion. From financial activities to healthcare to agriculture, every industry plays a unique and critical role in ensuring the state's economy continues to grow.

