



Montana

Department of Labor and Industry

Labor Day Report 2011

Preparing for Future Growth



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LDR Executive Summary

- Montana's economy is on the path to recovery. Since the trough in 2009, Montana personal income increased by 8.1% and state GDP grew by 1.1%. Montana private employment has grown over 3% from the recession trough, while both total wages and average wages have also increased.
- Montana has outperformed the U.S. economy throughout the recession, losing only 4.5% of its December 2007 employment compared to 6.1% nationally. State GDP loss from 2007 to 2009 was only 2.3%, compared to a loss of 2.8% nationally. Montana had only two quarters of personal income losses compared to four nationally.
- Despite an improving economy, many Montanans have experienced job losses during the recession, particularly in the construction industry. Job losses in the construction industry comprise over 55% of all payroll job losses from 2007 to 2010. Retail and Wholesale Trade lost over 5,600 jobs, while Manufacturing jobs declined by 4,000 during the three year timeframe. At the same time, the Health Care and Education sector added over 6,500 jobs, which helped soften the blow of the recession on the Montana economy.
- All industries except Construction, Manufacturing, and Public Administration have added jobs during the economic recovery. Job growth in Manufacturing is expected within the next year, while Construction is expected to have a slow recovery due to lingering problems in the national housing market. Public Administration, which includes government workers not associated with health care or education, is a counter-cyclical industry that added jobs during the recession and has been decreasing employment in recovery.

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- The Montana unemployment rate is performing similarly to past recessions in being slow to decline after the recession. Total job growth and decreased unemployment is being stymied by continued job losses in the public sector. Unemployment insurance claims are declining from their peaks.
- The Northwestern region of the state was the area most affected by the recession because of a high concentration of impacted industries. All other Montana regions have already resumed job growth after the recession.
- Montana's American Indian reservations performed roughly the same as the rest of Montana with a small decrease in employment and a 2.4% growth in wages.
- Future employment growth expectations indicate that jobs requiring a post-secondary degree will need new workers in the future. In contrast, jobs requiring less than a post-secondary degree will be growing, but job losses have resulted in an oversupply of labor for these jobs. Workers may be interested in improving job prospects by increasing their education and training levels to be prepared for future jobs.

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2011 Labor Day Report **Preparing for Future Growth**

On Labor Day, 2011, Montana's workers have weathered the recession, and the economy has started on the path towards recovery. Despite this more positive outlook, many are frustrated about slow job growth and remain uncertain about the future of the U.S. economy. Continued difficulties in the financial markets, a delayed recovery in the housing market, questions about the future of government spending, and continued oil price shocks have buffeted the U.S. economy and slowed recovery. Yet, Montana's economy continues to outperform the national economy, with stronger GDP growth, higher gains in personal income, lower unemployment, and encouraging job growth in the private sector. Montana's workers must prepare themselves for a stronger economy by upgrading their skills and re-training for new job opportunities.

Recession and Recovery:

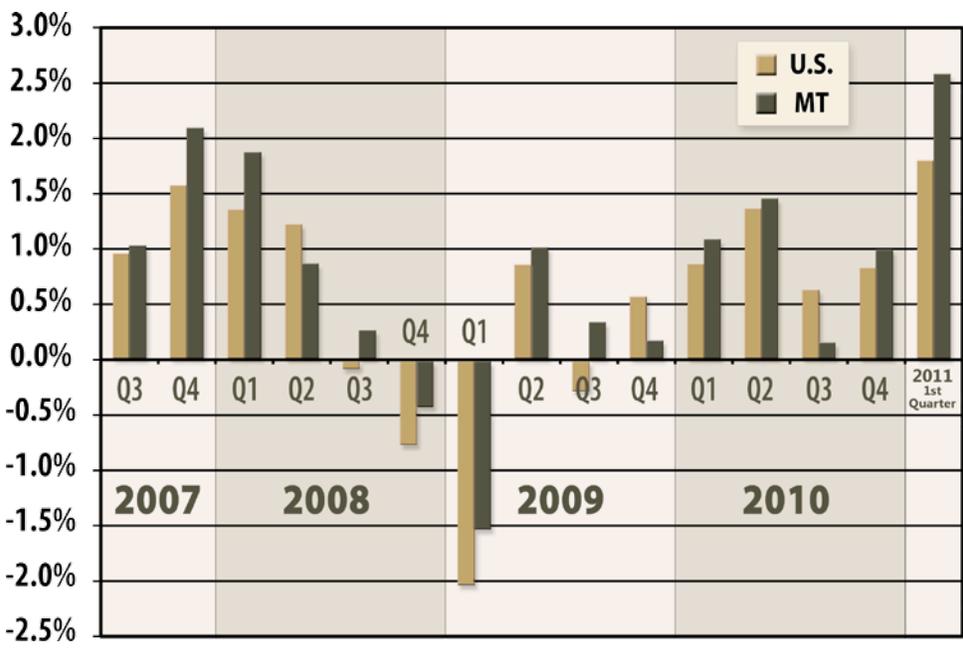
Montana's economy has outperformed the U.S. economy throughout the recession. The recession officially started in the fourth quarter of 2007 and ended 18 months later in the second quarter of 2009. During that time, the U.S. economy lost 5.1% of its GDP, making the 2007 recession the worst and longest recession since the Great Depression. However, the size of the recent recession was diminutive in comparison to the 27% loss of GDP during the 45-month long Great Depression. State-level GDP statistics are only available annually, but Montana's state GDP loss from 2007 to 2009 was only 2.3%, compared to a loss of 2.8% nationally. Since the trough in 2009, both the Montana and U.S. economies are on the path to recovery with GDP increases of 1.1% and 2.6%, respectively.

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Montana also outperformed the nation in terms of personal income, as shown in Figure 1. Quarterly personal income statistics indicate that Montana had only two quarters of losses compared to four nationally. Montana regained its pre-recession personal income peak as early as the first quarter of 2010, slightly earlier than the rest of the nation. Montana is now up 8.1% from the recession trough, with strong personal income growth in the first quarter of 2011.

Figure 1: Montana and U.S. Quarterly Personal Income Growth



Source: Regional Economic Information System, Bureau of Economic Analysis, U.S. Dept. of Commerce.

One of the largest components of personal income is wage income. The average annual wage in Montana has continued to increase throughout the recession, moving up 2.5% to \$34,600 in 2010. The average wage in Montana increased even during the worst of the

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recession job losses in 2008 and 2009, partially because low-wage jobs were more likely to be lost during the recession. Figure 2 provides the average annual wage for the last five years.

Figure 2: Montana's Average Annual Wage

	Average Annual Wage	Increase over Prior Year
2005	\$29,155	4.7%
2006	\$30,609	5.0%
2007	\$32,225	5.3%
2008	\$33,308	3.4%
2009	\$33,763	1.4%
2010	\$34,601	2.5%

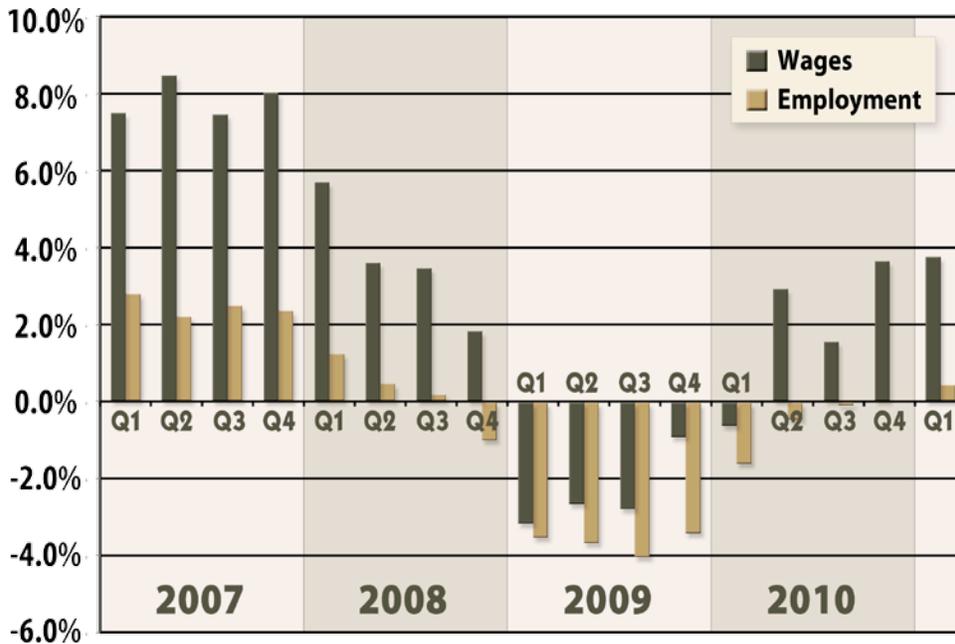
Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the Montana Department of Labor and Industry

Another way to look at Montana's wages is by examining the total amount of wages paid by all Montana businesses. Figure 3 illustrates the percent change over the prior year in total wages by quarter from 2007 through the first quarter of 2011, along with the change in total employment. Because of the large number of job losses during 2009, the total amount of wages paid to all Montana workers decreased. However, total wages have been increasing since the second quarter of 2010, two quarters before employment growth returned. In other words, before starting to hire new employees, businesses started paying out more in wages to their existing employees, either through increased wage rates, overtime, or bonuses.

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Figure 3: Total Wages and Employment Increases over Prior Year



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the Montana Department of Labor and Industry

Workers retaining their employment through the recession have experienced the benefits of economic recovery through increased wages, but those that are unemployed have continued to find challenges to finding a job. Total employment growth exiting the recession has been stymied by a loss of government jobs. Figure 4 illustrates the private and total employment change during the recession for Montana and the U.S. Employment is indexed to its level at the start of the recession in December 2007 so that the chart illustrates the percent employment loss during the recession. A reading of 95% on the chart indicates that employment is at 95% of its pre-recession level.

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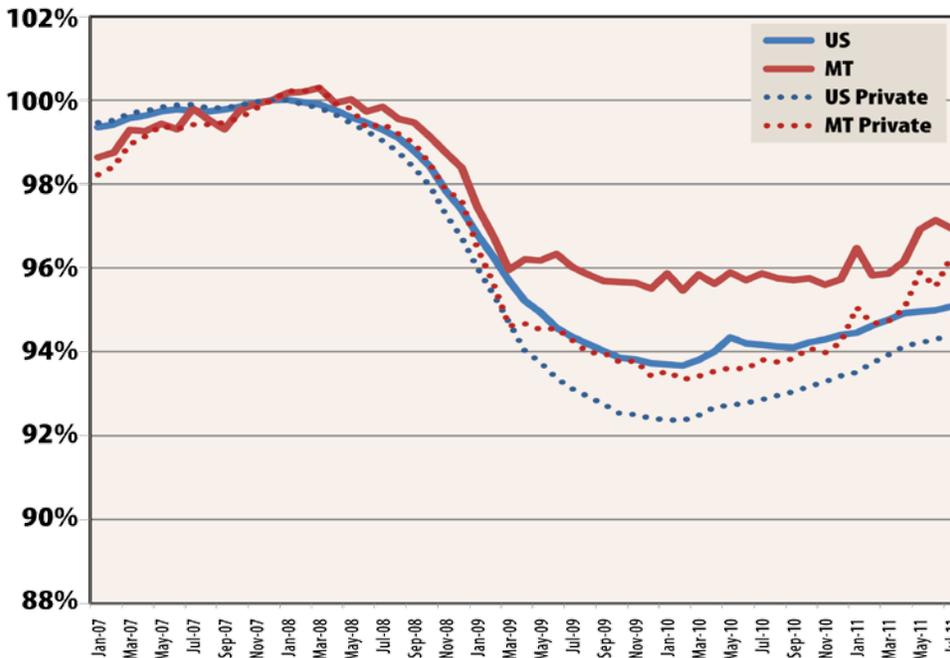
Total employment, shown by the solid lines on Figure 4, includes both private and government employment. Montana has outperformed the U.S. economy throughout the recession, losing only 4.5% of its December 2007 employment compared to 6.1% nationally. However, U.S. employment has been trending upwards since February 2010 and has regained jobs to now be at about 95% of pre-recession employment. Montana total employment growth exiting the recession has been delayed, largely due to government job losses.

Private employment growth has been strong, as shown by the dotted lines on Figure 4. Private employment growth in Montana has outperformed the nation, regaining almost 3% of its December 2007 employment level compared to about 2% nationally. The distance between the solid total employment line and private employment dotted line is the number of government jobs. Government employment increased during the recession due to counter-cyclical spending and workers involved with the decennial census, but public sector employment has since decreased dramatically.

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Figure 4: Private and Total Employment Growth for Montana and the U.S., Jan. 2007 to July 2010



Source: Current Employment Statistics, Bureau of Labor Statistics and the Montana Department of Labor and Industry

Health Care and Leisure Activities are the industries that have been driving growth as Montana exits the recession, as shown in Figure 5. The Education and Health Care sector posted strong counter-cyclical job growth throughout the recession, adding over 6,500 jobs from 2007 to 2010. The Public Administration industry, which includes most government workers except those in education and health care, added another 2,800 jobs to soften Montana's fall into recession. Exiting the recession, the Education and Health Care industry has continued to grow, while Leisure Activities, Mining, and Other Services are also adding jobs. Construction and Manufacturing have not yet posted positive job gains, but Manufacturing is expected to post job

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gains by 2012. Construction employment is expected to remain at depressed levels for several years due to a slow recovery in the national housing markets.

Figure 5: Projected Job Growth in Montana's Industries

	Actual Growth			Projected Growth
	2000 to 2007	2000 to 2010	Job Change 2007 to 2010	2010 to 2012
Natural Resources and Mining	4.1%	2.2%	-760	3.1%
Construction	6.9%	1.2%	-9,556	-0.4%
Manufacturing	-1.2%	-3.0%	-4,040	1.0%
Trade, Transportation, and Utilities	1.2%	0.2%	-5,599	1.1%
Information	-0.5%	-0.6%	-227	0.8%
Financial Activities	2.3%	0.8%	-1,554	1.4%
Business Services	4.3%	2.6%	-1,551	1.7%
Education and Health Care	2.1%	2.2%	6,537	0.9%
Leisure Activities	2.4%	1.2%	-2,672	2.1%
Other Services	1.1%	0.7%	-127	1.7%
Public Administration	1.7%	1.8%	2,839	-2.3%
Total Payroll	2.2%	1.1%	-17,308	1.0%
All Employment, Including Non-payroll	1.2%	0.3%	-23,795	0.8%

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the Montana Department of Labor and Industry; and Montana Unemployment Projections, Montana Department of Labor and Industry, Research and Analysis Bureau

Although other economic indicators show clear signs of recovery, Montana's unemployment rate has remained high. The performance of Montana's unemployment rate during and after the recession is not surprising, however, as it mimics the outcome of past recessions. Montana's unemployment rate is compared to the U.S. rate since 1976 in Figure 6 (next page). The cyclical nature of both the U.S. and Montana economies is one of the most prominent features of Figure 6.

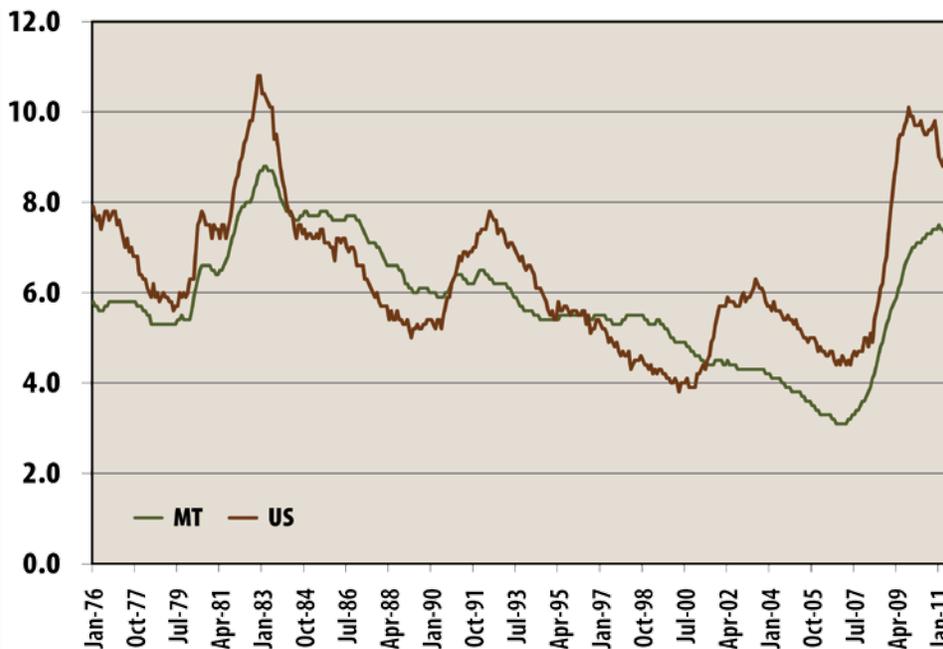
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Montana's economy is less volatile than the U.S. economy, with the U.S. series having higher peaks and lower valleys than Montana's unemployment rate. Further, the Montana unemployment rate takes longer to decrease after recessionary peaks than the U.S. rate.

Montana's unemployment rate increased from historic lows in 2007 to 7.7% in July 2011, for a 4.1 point upturn since December 2007. The U.S. rate increased more dramatically with an uptick of 5.1 points. Neither the U.S. nor Montana's rate has hit the record highs experienced during the 1982 recession. Since the end of the recession, the U.S. rate has decreased by about a point, remaining far above Montana's rate. In comparison, Montana's rate has followed the same patterns as previous recessions with a delayed decline.

Figure 6: Montana and U.S. Unemployment Rates since 1976



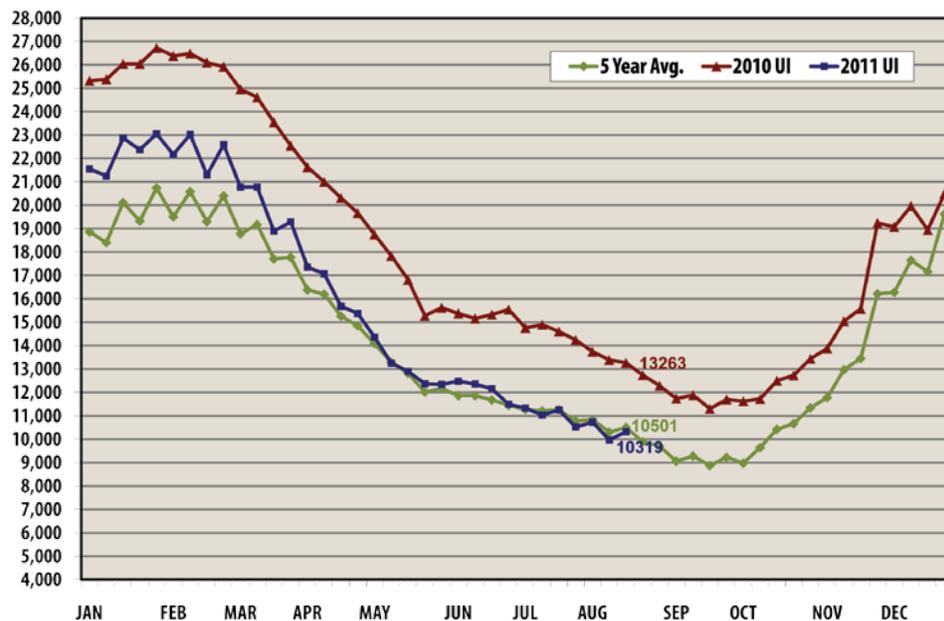
Source: Local Area Unemployment Statistics, U.S. Bureau of Labor Statistics and the Montana Department of Labor and Industry

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Although the unemployment rate remains stubbornly high, unemployment insurance claims have fallen in recent months, indicating that fewer workers are experiencing job loss. Figure 7 illustrates the level of people collecting unemployment insurance during 2011 compared to the prior year and the five-year average. The number of individuals claiming unemployment insurance during 2010 was above the 5-year average, demonstrating the delayed employment growth during the economic recovery. The claims level has since fallen below the five year average. In general, unemployment insurance claims decrease during summer months as more seasonal employment opportunities provide jobs for workers.

Figure 7: Montana Unemployment Insurance Claims



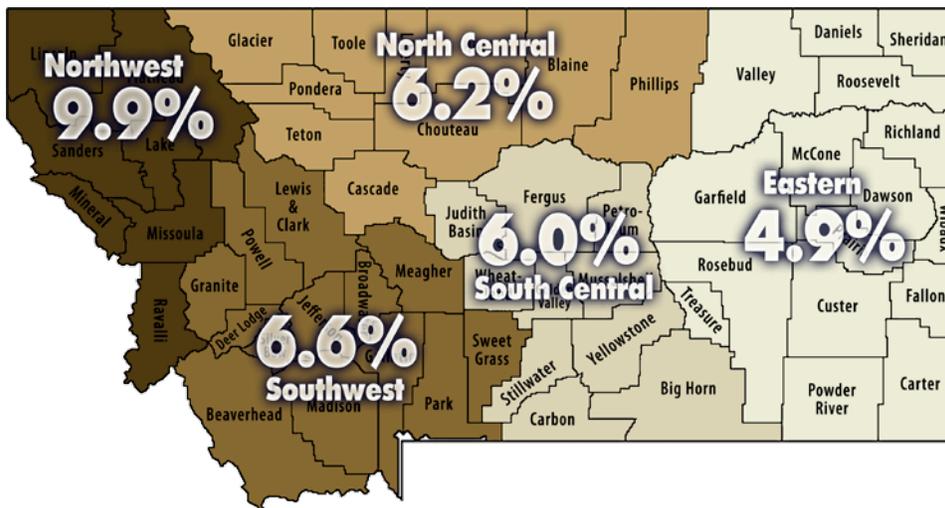
Source: Unemployment Insurance Claims, Continued Weeks Claimed, Montana Department of Labor and Industry

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Throughout the recession and recovery, the Montana Department of Labor and Industry has worked hard to efficiently and appropriately distribute Unemployment Insurance benefits to Montana's dislocated workers and their families. These benefits are not only critical to keeping food on the table, but also help our economy through counter-cyclical spending that prevents job losses from spreading to other industries.

Figure 8: Unemployment Rate by Region, 2010



Source: Local Area Unemployment Statistics, U.S. Bureau of Labor Statistics and the Montana Department of Labor and Industry

The impact of the recession and recovery has affected various areas of Montana differently. Figure 8 illustrates the five regions of Montana and their unemployment rates for 2010. The Northwest portion of Montana had an unemployment rate of almost 10% during 2010, while the Eastern portion of Montana had a low rate of 4.9%. The Northwest and Southwest portions of Montana were the hardest hit during the 2007 recession, largely because these areas were more reliant on the Construction and Manufacturing industries compared to

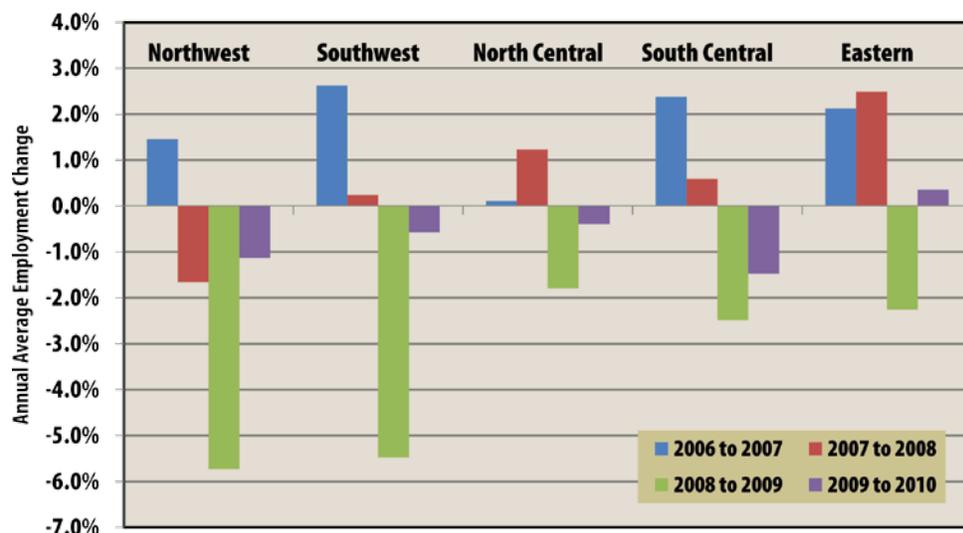
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other portions of the state. In contrast, the Eastern portion of Montana had the fewest job losses because of a heavy reliance on energy, agriculture, health care, and government employment – all industries that performed relatively well during the recession.

The Northwest region was the first to enter the recession, with job losses occurring mid-2007 because of the decline in demand for the wood products used in home construction. Job losses in the Northwest occurred prior to the official start date of the recession, December 2007. (Figure 9) The Northwest region lost approximately 12,000 jobs between 2007 and 2010, or about 8% of its 2007 employment. The Northwest is the only region in the state where job losses continue during 2011.

Figure 9: Employment Change in Montana by Region, 2007 to 2010



Source: Local Area Unemployment Statistics, U.S. Bureau of Labor Statistics and the Montana Department of Labor and Industry

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For all other Montana regions, employment peaked in the summer of 2008, and job losses did not occur until the fall of 2008, about the same time as the crux of the financial crises and the large drop in global stock markets. The Southwestern region lost approximately 6% of its 2007 employment level, or about 8,000 jobs, before starting its turnaround in the fall of 2010. Job gains in the Southwestern region have averaged over 1,000 per month for the first six months of 2011, making its recovery faster than anticipated. The central regions of Montana are expected to regain their 2007 employment levels the soonest, while the Eastern region gained jobs from 2007 to 2010.

Montana's American Indian reservations have also felt the impact of the national recession. As shown in Figure 10, employment on Montana's reservations overall remained largely unchanged from 2009 to 2010, outperforming the statewide average of -0.5%. Growth was fastest on the Rocky Boy's Reservation at 14%.

The average wage paid on the American Indian reservations increased by 2.4% to \$31,955 over the year. The Rocky Boy's Reservation saw the highest increase in the average wage paid, increasing by 4.4% to \$39,474. The Crow, Fort Belknap, and Rocky Boy's Reservations have higher average wages than the state average. The lowest wage among the reservations was on the Flathead Reservation. The unemployment rates on Montana's reservations remain above the 2009 state average of 6.2% and above the unemployment rates in their surrounding region.

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Figure 10: Employment and Wages on Indian Reservations in Montana

	Employment		Wages		Unemployment Rate
	2010 Employment	2009 to 2010 Growth	2010 Annual Average	2009 to 2010 Growth	2010 Average
Blackfeet	2,961	2.5%	\$32,092	1.8%	15.9%
Crow	2,174	-5.4%	\$34,866	3.0%	13.9%
Flathead	8,054	-2.2%	\$30,075	1.4%	10.1%
Fort Belknap	341	4.6%	\$41,512	2.8%	N/A
Fort Peck	3,240	1.6%	\$31,446	2.8%	9.3%
Northern Cheyenne	1,472	2.8%	\$31,634	3.8%	17.1%
Rocky Boy's	966	14.0%	\$39,474	4.4%	18.3%
Total	19,208	-0.1%	\$31,955	2.4%	

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

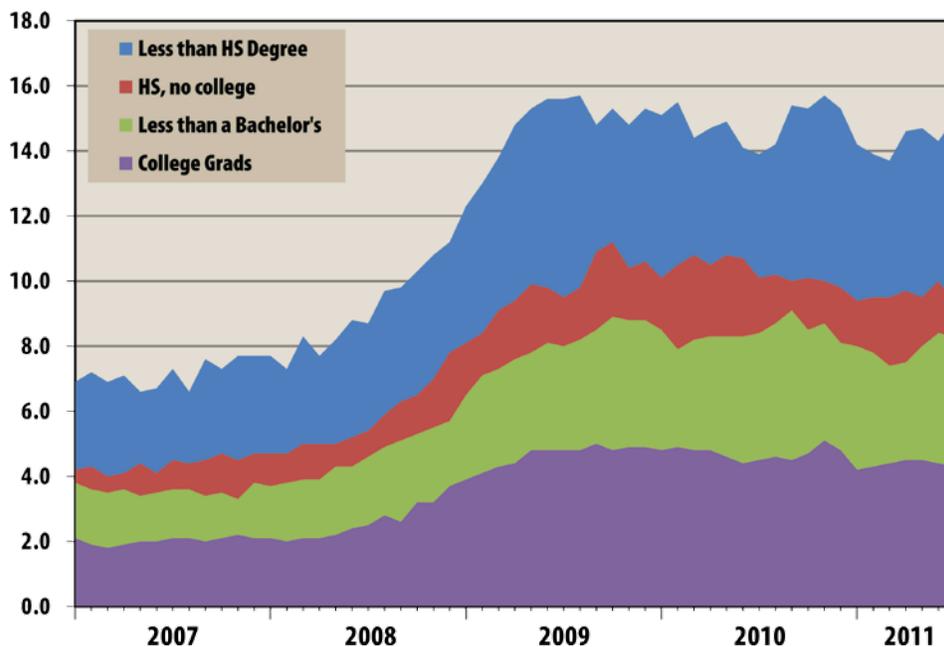
In the past few years, Montana's workers have been faced with significant job losses, high unemployment, and difficulty in finding work. The Montana Department of Labor and Industry has strived to help dislocated workers quickly find new employment or enter into suitable worker training programs that will improve their wages and employability as the economy recovers. During periods of long unemployment, work skills can deteriorate; worker training helps to maintain and to improve work skills so that the worker can maintain or increase their wage levels in the next job. Further, many jobs lost during the recession will take years to regain, such as jobs specific to the Construction and timber industries. Workers in these jobs may need to be retrained into growing occupations in order to decrease their unemployment period.

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While many Montanans have suffered economically, workers with less education were more likely to become unemployed during the 2007 recession. The national unemployment rate for workers with a college degree peaked at 5.1% during the recession. In comparison, workers without a high school degree have faced an unemployment rate higher than 14% for much of the recession, as shown in Figure 11. In Montana, the unemployment rate disparity is even more extreme. During 2010, Montana workers without a high school diploma faced an unemployment rate over 17%, while college educated workers had an unemployment rate of 3.1%.

Figure 11: U.S. Unemployment by Educational Attainment, Jan. 2007 - July 2011



Source: Current Population Statistics, U.S. Bureau of Labor Statistics

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Unfortunately for those without high levels of education and training, the high unemployment rates for low-skilled workers are expected to continue. In an analysis comparing occupational losses in the past two years with projected growth for the upcoming two years, the Research and Analysis Bureau has shown that workers with low skills may need to seek additional education and worker training in order to find new employment. Figure 12 illustrates the 2007-2010 employment change and projected two-year growth by education and training category. Occupations requiring only on-the-job training lost over 23,000 jobs during the recession. These types of jobs are expected to grow in the future, but only at a rate of about 3,000 jobs annually. At this rate of growth, jobs requiring on-the-job training only are not expected to regain their pre-recession peak until after 2016. Without retraining, workers interested in occupations not requiring post-secondary employment will likely continue to experience difficulty in finding employment and slow wage growth due to the oversupply of labor.

In contrast, jobs requiring a post-secondary degree have grown during the recession and are expected to continue to grow within the next two years. Workers with lower education and skills may want to enter into education programs to improve their employability.

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Figure 12: Montana Projected Job Growth and Recession Losses by Education and Training Category

	% of Jobs	Recession Change	Annual Job Growth 2010-2012	Annual Job Growth 2010-2020	Year Jobs Regained
Short- to Moderate-Term On-the-Job Training	55%	(15,959)	2,514	2,537	2016
Long-Term On-the-Job Training or Work Experience	16%	(7,415)	445	802	2020
Associate or Vocational Degree	11%	286	283	477	no losses
Bachelor's Degree or Higher	19%	(78)	608	841	2011

Source: Montana Employment Projections, Research and Analysis, Montana Department of Labor and Industry

On this Labor Day, Montana's workers have endured one of the largest and longest recessions in recent history, but the future is rosier. Montana continues to outperform the nation in terms of personal income and private sector job growth and is likely to regain its pre-recession employment levels sooner than the U.S. economy. Certain workers have felt the recession's impacts more acutely than others, particularly workers in Northwestern Montana, workers that are less educated, and workers in the Construction or Manufacturing industries. The Montana Department of Labor and Industry has worked hard to help those workers displaced from jobs by providing temporary UI benefits and by helping workers plan and retrain for more certain employment in the future. Montana looks forward to stronger economic and job growth in the next year.



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