

Montana's Growing Wages

Income and Wages are Gaining Ground on National Average

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Montana's average wage growth has outpaced most other states in recent years, with the 5th fastest wage growth among states from 2003 to 2013. Yet even with the recent above average growth, Montana's wages remain low compared to other states. At \$38,875 in 2014, Montana's average annual wage ranks 47th out of 50 states, ahead of only Mississippi, Idaho, and South Dakota. The recent wage growth has improved our positioning – Montana ranked 48th for wages in 2012 – but it will take several years of rapid wage growth to gain ranking relative to other states. Higher wages would not only improve the standard of living for Montana workers and their families, but would also lead to increased demand for many Montana-made goods and services.

Montana's ranking improves when including other sources of income instead of just wages. Montana's per capita income, which includes income from wages, business ventures, and government transfer receipts, was at \$40,601 in 2014, ranking 35th in the country. Montana's higher per capita income ranking is partially due to our high rate of entrepreneurial

activity, which increases the amount of income from nonwage sources. As another positive, Montana's wages are also above the national average for some industries and across some groups of workers. This article explains what Montana's low wage ranking means, which is the first step in understanding the causes for lower wages in Montana.

State Ranking for Wages, Compensation, and Income

The average annual wage data typically used to measure wage rankings comes from the Quarterly Census of Employment and Wages, and is a calculation of the total amount of wages paid in the state divided by the employment. The annual wages generated are better thought of as how much the average job pays, not necessarily how much the average person earns. People can hold multiple jobs or earn income from other sources. The average job in Montana paid roughly \$38,875 in 2014, ranking 47th in the nation. Idaho, South Dakota, and Mississippi had lower average wages than Montana. The average private sector job in Montana paid about a thousand dollars less than the overall average at \$36,499, ranking 49th among states for private sector wages above only Mississippi.

Including benefits along with wages does not improve Montana's wage ranking. Benefits are an important part of compensation, comprising roughly 30% of compensation in the U.S.¹ Although data on the provision of benefits is limited

in Montana, the Bureau of Economic Analysis provides estimates on the total amount paid by employers for employee retirement, insurance, and employer-paid contributions for government social assistance (like unemployment insurance and social security). When including these benefits, Montana's average compensation in 2013 was \$47,840 per worker, ranking 47th among 50 states. There is no indication that Montana workers are receiving their compensation in the form of benefits instead of higher wages. In general, workers at higher salary levels have greater access to benefits, particularly because employer retirement contributions are usually calculated as a percentage of the worker's salary.

Montana did not get to its low wage ranking overnight. In fact, Montana's wages relative to the national average declined throughout the second half of the 20th century, with the decline reversing itself in the 21st century. Figure 1 illustrates Montana's and the U.S. average compensation per worker from 1969 to 2013, with compensation expressed in real 2010

dollars. Real compensation per worker increased steadily for U.S. workers throughout the period, but Montana's real compensation per worker declined from 1978 to 1997, only regaining the 1978 peak of about \$41,850 in 2006. It was during this period that Montana's wage rank lost its standing compared to other states. Montana's compensation was ranked 32nd in 1978 compared to 47th in 2013.

The right hand axis of Figure 1 tracks the Montana wage as a percent of the U.S. wage, allowing for an easier comparison of whether the gap between the U.S. and Montana compensation is growing or decreasing. Montana's compensation has been lower than the U.S. compensation throughout the period shown, hitting a peak of about 90% of the U.S. wage in 1979. In the twenty following years, the gap between the U.S. and Montana compensation levels increased, with Montana's relative compensation falling to only 70% of the U.S. compensation in 2000. Montana's compensation has now started to regain on the U.S., reaching 77.1% of the U.S. average compensation in 2013.

Although wages are the primary source of income for many Montanans, our state also has a high level of nonwage income compared to other states. Therefore, Montana's economic well-being achieves higher ranking when including income from business ventures, royalties, rent, and government

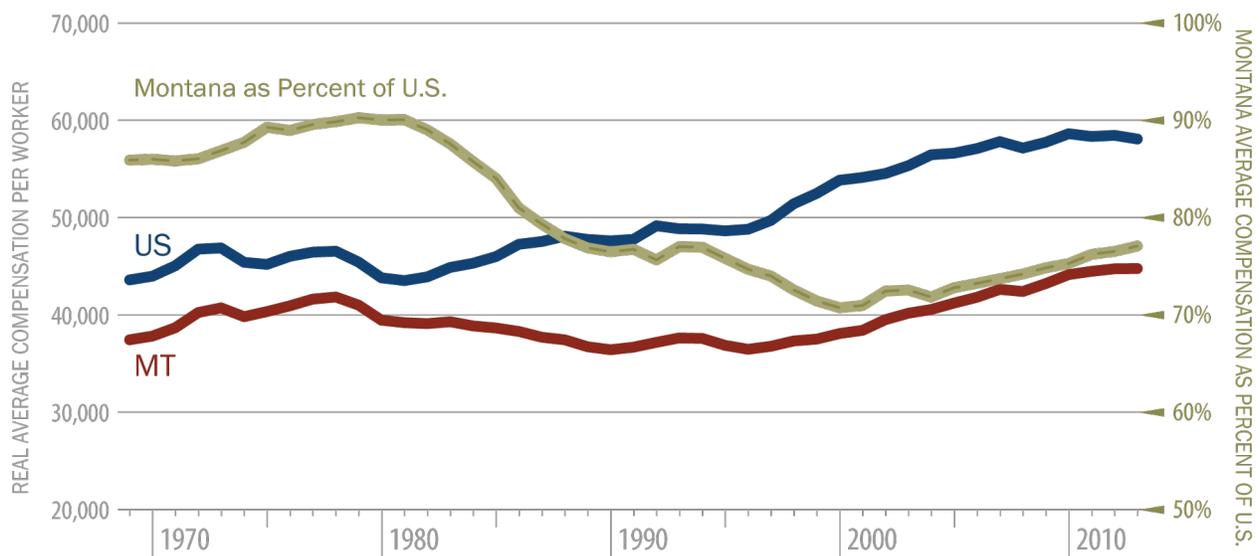
transfer receipts along with wages. Montana's per capita income was at \$40,601 in 2014, ranking 35th in the country.

Montana's higher ranking when including all income is partly a result of a high rate of entrepreneurial activity, with roughly 20% of Montanans reporting the presence of a business within their household (ranking second highest in the nation behind South Dakota). Roughly 10.6% of Montana's personal income is derived from proprietor income, higher than the 9.4% in the nation as a whole and ranking 11th in the nation for this metric. While Montana's high rates of entrepreneurialism help encourage a dynamic economy and help raise income levels, the combination of relative high entrepreneurialism with low wages suggests that many of these entrepreneurs started businesses because they were unable to meet their desired income levels through their payroll job, and therefore started their own business to increase their income. Entrepreneurialism is a positive aspect of Montana's economy, but it is also a symptom resulting from our low wages.

Per capita income data is also available for a longer historic period than the data on compensation, allowing us to gain an even greater understanding of how Montana's comparative wages have changed over time. Figure 2 illustrates the U.S. and Montana per capita income since 1929, again including the

Figure 1:

Comparison of MT and U.S. Real Average Compensation per Worker, 1969 to 2013, (2010 dollars)



Source: Bureau of Economic Analysis data adjusted to 2010 dollars with the CPI-U, Bureau of Labor Statistics

ratio of Montana to U.S. per capita income on the right hand axis. Montana’s income levels were much closer to the U.S. levels prior to 1950, and even were higher than the U.S. level during the 1940s. The decline in relative income occurred for the entire second half of the 20th century, suggesting that the small increase from 1969 to 1979 illustrated in the compensation data was just a temporary improvement in a long-term decline. While income is not a perfect proxy for wages, Figure 2 suggests that Montana will need many more years of above average wage growth to make up for last century’s long-term decline.

Accounting for Cost of Living

Many people argue that Montana has a lower cost of living than the U.S., allowing Montanans to meet their budget needs at lower wage levels. However, Montana’s cost of living is roughly equal to the U.S. average. According to the cost of living indexes published by the Council for Community and Economic Research, Montana’s cost of living is actually 0.8% higher than the national average, with higher than average costs for groceries, housing, and health care, with lower prices for utilities, transportation, and other goods. Similar data published by the Bureau of Economic Analysis suggests the cost of living in Montana in 2012 was slightly less than the national average, with Montana’s cost of living

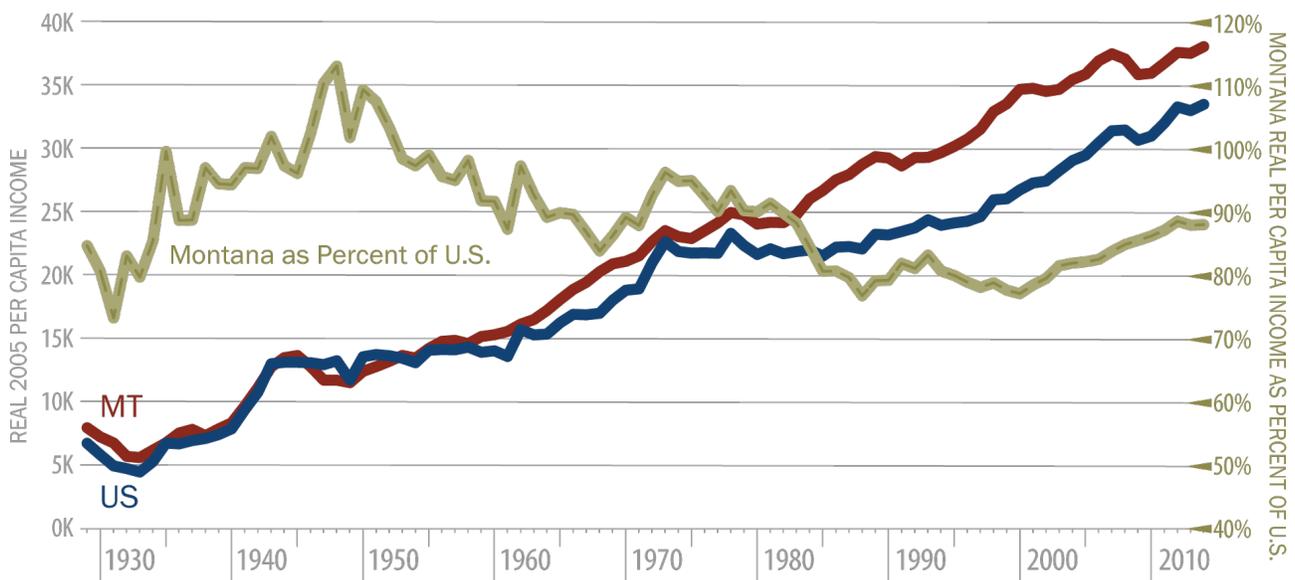
being at 94.2% of the national average, but this difference is not enough to account for the large differences in wage earnings between Montana and other states.

Hourly Wages Rank Better

None of the wage rankings mentioned above for wages, total compensation, or income account for the number of hours worked in a job. When considering hourly wages, Montana’s ranking increases several spots up to 44th among states.² The rankings difference is because workers who only work a few hours per week will have much lower wages than workers who work full time, and Montana has a relatively high rate of part-time work. The average job in Montana had a work week of only 32.8 hours in 2014 – the shortest work week in the nation.³

This metric is not necessarily indicative of people not working many hours – many Montanans choose to work multiple jobs or to have a side business – but is instead an indication of the number of hours paid for by employers on average for each job. In fact, Montana usually falls in the top ten states for the percentage of workers holding multiple jobs.⁴ Once the hours from multiple jobs are included, the typical Montanan works 38.1 hours per week, moving the state to the middle of the pack in terms of hours worked per week.⁵

Figure 2:
Comparison of Montana and U.S. Real Per Capita Income, In 2005 Dollars



Montana has a high level of part time jobs compared to the U.S. partially because Montana’s industry mix is concentrated in industries that tend to have short work weeks. Figure 3 illustrates the typical hours worked by industry in the U.S. along with the percentage employment within that industry in Montana and the United States. Mining has the highest usual hours worked per week in the U.S., while the Leisure Activities industry has the shortest work week. While both Montana and the U.S. have high levels of employment in the Health Care and Education, Trade, and Leisure Activities, Montana has higher shares in these part-time industries. The U.S. has more employment in industries with a work week of 40 hours or more (with the exception of mining).

The high level of part-time jobs in Montana could be a good thing for students, family caretakers, semi-retired workers, and others who work part time in order to balance work and life goals. Montana’s labor force participation rates for workers over 65 and for young workers in school tends to be higher than the national average, and providing flexible schedules is often necessary to keep these groups in the labor force and working. With Montana facing a worker shortage in the upcoming years, keeping workers in our labor force benefits workers who are unable to work full-time and businesses that struggle to find the right workers.

But even among the working age population aged 16 to 64, roughly 22% work less than 35 hours per week, the sixth highest percentage of part-time workers in the nation. Some of these workers would likely prefer to work full time, but are unable to find full-time work.

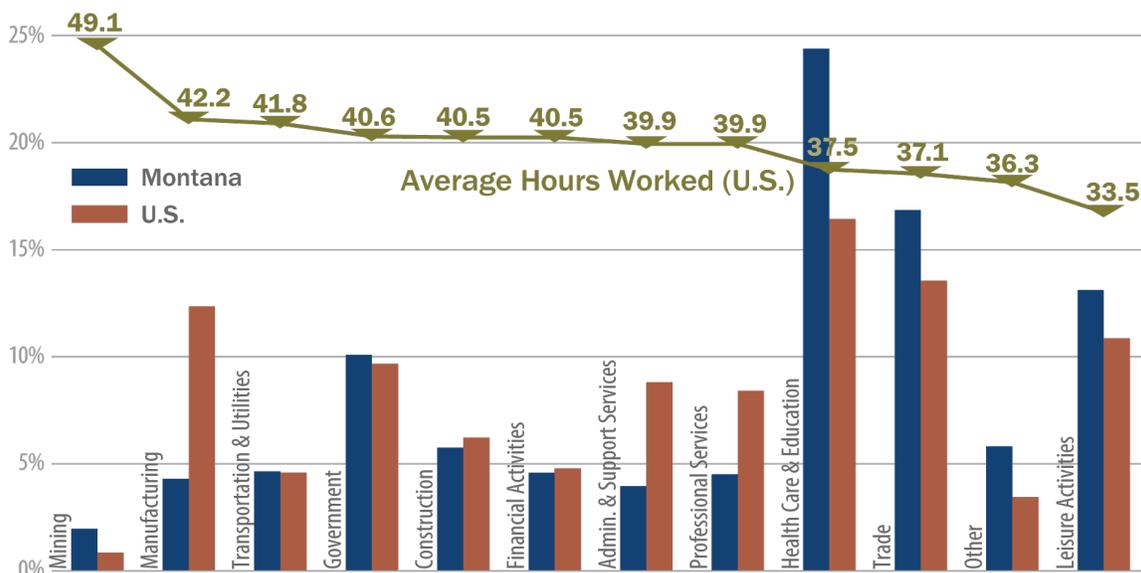
Using hourly wages increases Montana’s wage ranking up a few spots, with Montana having higher hourly wages than Idaho, South Carolina, Arkansas, West Virginia, South Dakota, and Mississippi. Montana’s hourly mean wage for all occupations was \$19.17 per hour in 2013, ranking Montana as having the 44th highest hourly wage rate in the nation. However, Montana’s hourly wage is a lot more competitive among low-wage workers, with the 25% of workers earning the lowest wages earning roughly the same as the 25% lowest earning workers in other states. The wage gap between Montana and the U.S. average primarily comes from a disparity in pay among mid-range and high-wage jobs.

Wage Ranking among Low vs. High Earning Workers.

When comparing low-wage workers in Montana to low-wage workers in other states, wages are fairly even. The 10% of Montana workers who earn the lowest wages earn an average hourly salary of \$8.77 per hour (compared to \$8.82

Figure 3:

Usual Hours Worked by Industry (US) and Industry Share of Total Employment, MT and US



Source: 2014 Occupational Employment Statistics and 2014 Current Population Survey, Bureau of Labor Statistics

nationally), ranking Montana as having the 23rd highest wage rate among the low-earning workers. For this grouping of lowest wage earners, Montana’s wages are 99% of the U.S. average. The wage rates among the lowest earning workers in Montana are likely bolstered by Montana’s minimum wage, which is higher than the national mandatory minimum wage. Montana also has a very low unemployment rate, which places upwards pressure on the wage levels for low-wage jobs.

It is when comparing jobs at higher wage levels that Montana starts to slip behind other states. Figure 4 shows that workers earning wages at the 25th percentile level earn an hourly salary of \$10.50 (95% of the U.S.), ranking the state at 33rd highest wage at that percentile. It is among mid-range and high-wage workers that Montana’s wages start to fall behind their counterparts in other states. Montana’s median wage (the 50th percentile) ranks 41st at \$15.15 per hour. By the 75th percentile, Montana’s wages drop to being the 42nd, with the rank dropping down to 46th at the 90th percentile. Montana’s highest earning workers at the 90th percentile are earning only 79% of the hourly wage of their U.S. counterparts.

The low relative wages for high income earners results in Montana having a fairly egalitarian wage distribution compared to other states. Figure 5 illustrates the wage

spread in states using the ratio of the highest 10% of earners compared to the lowest 10% of workers. Montana has a ratio 3.88, meaning that the highest earners receive about 3.8 times the wage of the lowest earners. There are only four states with lower ratios – North Dakota, Vermont, Mississippi, and South Dakota. In the U.S. overall, the ratio is 4.9, meaning that the highest earners receive an hourly wage that is nearly five times higher than the lowest paid workers. It is important to note that this data source compares “typical workers” by excluding pay that exceeds \$250,000 per year, and the data only includes wage earnings (excluding stock options or other benefits). In the U.S. in 2013, the average CEO earned roughly 330 times more than the earnings for the average worker.⁶ Therefore, if these high-earning individuals were included in the data, the ratios would be higher.

Wage Ranking by Educational Attainment

The egalitarian distribution of wages in Montana could be cultural. For example, there may be many employers who simply think wages over \$100,000 are “too high” and are unwilling to offer high wages regardless of the worker’s productivity. The types of jobs available in Montana’s economy also likely play a role. Roughly 80% of Montana’s jobs require less than a bachelor’s degree to enter the occupation. Many of the jobs facing the greatest demand for workers, such as nurses, truck drivers, and preschool teachers can be filled by workers with some type of post-secondary education, but not necessarily a bachelor’s degree. Lower demand for workers with high education levels may reduce wage rates for high earning workers.

For workers aged 25 years and older, Montanans with a bachelor’s degree earn roughly 151% of those with a high school diploma.⁷ In the U.S. as a whole, workers with bachelor’s degrees earn 183% of the earnings of those with a high school diploma. Montana is in the bottom ten states for the return on a bachelor’s degree. Although many

Figure 4:
Montana vs. U.S. Hourly Wages by Percentile

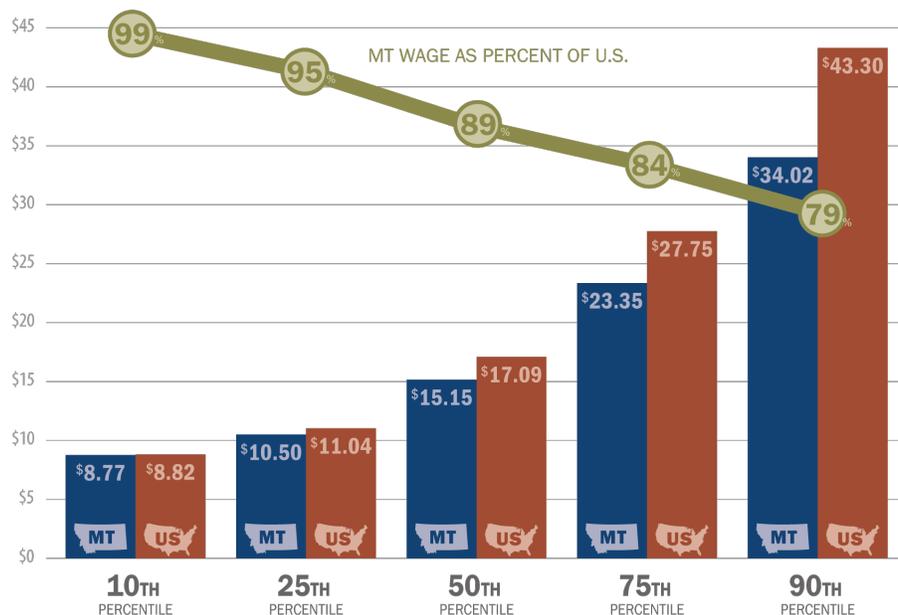
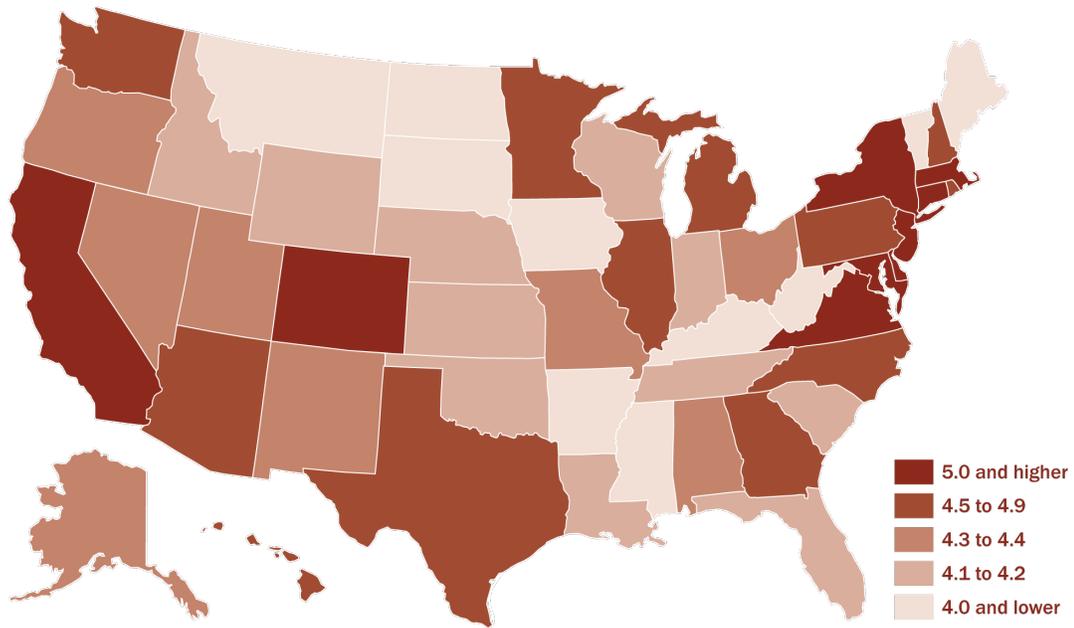


Figure 5:
State Wage Ratios between the 90th and 10th Percentiles, May 2014



may welcome the news of the egalitarian wage structure in Montana, the risk of low wages for highly educated workers reduces the incentive to achieve higher education. The wage structure also offers relatively low incentives for highly productive workers, who may choose to seek employment

in other states in order to get better rewards for their efforts. While most Montana workers work hard to do well in their jobs, the relatively low returns for outperformance may not provide enough incentive for the best workers to strive for promotion or advancement.

Conclusion

Regardless of how you look at it, Montana has low wages compared to the national average, although lower earning workers have wages that are much more comparable to other states. A high level of part-time work status partially explains the low ranking for average annual wages, with Montana’s ranking for hourly wages moving up to 44th highest. But that gain still leaves Montana in the bottom ten states for wages. One silver lining is that Montana’s low wages likely help drive the high level of entrepreneurial activity in the state, particularly among the highest performing workers. When including income from other non-wage sources like business income and rental payments, Montana’s per capita income ranking moves to 35th among states.

The positive news is that Montana is now on the right track for continued wage improvement. While wage declines for most of the last century left us in a low wage position, Montana’s wages are now gaining on the U.S. with above average wage gains and a move up in the rankings. With the continued strong economic growth that is expected in Montana in the upcoming years, and the worker shortages expected from the aging and retiring workforce, Montana’s wages are likely to continue their upward progress in the next few years, improving our ranking even further. With continued economic growth and focus on improving our economy, Montana’s wages can once again catch up to the nation.

References

¹2014 Employer Costs for Employee Compensation, Bureau of Labor Statistics. All civilian workers total for all occupations.
²2014 Occupational Employment Statistics, Bureau of Labor Statistics.
³2014 Current Employment Statistics, Bureau of Labor Statistics.
⁴Current Population Survey, Bureau of Labor Statistics.

⁵2013 American Community Survey, 3-year estimates.
⁶2014 “Paywatch 2013” AFL-CIO. <http://edit.aflcio.org/Corporate-Watch/Paywatch-2014>
⁷2013 American Community Survey 3-Year Estimates, U.S. Census Bureau, Table S2001