

STATE OF MONTANA

Labor Day Report to the GOVERNOR

A SUMMARY by Barbara Wagner, Chief Economist

Each year on Labor Day, the Montana Department of Labor and Industry releases a report on the performance of the Montana economy over the last year. This article summarizes the 2015 [Labor Day Report](#), which is available at www.lmi.mt.gov.

On Labor Day 2015, Montana's workers and businesses are enjoying higher wages, strong output growth, and an ideal unemployment situation. With the rest of the nation finally catching up to Montana's performance, consumers and businesses are gaining confidence that our economy is resilient enough to absorb global financial shocks. The U.S. and Montana economies are once again leading the world in economic strength and maintaining stability for developed and emerging economies alike.

WAGE GROWTH

Montana once again posted strong wage growth in 2014, with the average wage increasing 3.5% over the year to \$38,874. Montana's wage growth outpaced the nation's (3.1%), ranking 11th fastest among states. Consistent with previous wage growth, the increases were the fastest in the private sector, with private wages increasing by 3.7% over the year. Federal, state, and local government all had wage growth less than 3%. With inflation at only 1.6% over the year, real wages increased by 1.8%. Real wage gains, or those above the rate of inflation, mean that Montanans can afford more goods and services with their earnings than they could the year before, resulting in an increase in the standard of living for Montana families.

Montana's wages have been growing faster than the nation's for most of the last ten years, ranking 6th fastest among 50 states for both the five-year and ten-year timeframes. In dollar terms, Montana's average wage grew by \$1,300 over the last year, and by over \$5,100 in the last five years.

FIGURE 1 illustrates wage growth in the United States, Montana, and in Montana's five regions for both five-year and one-year timeframes. Wage growth in Montana's Eastern and South Central regions has outpaced the other regions over the past five years. In 2014, wage growth became more balanced throughout the state, with all regions except South Central having faster wage growth in the last year than their five-year average. The Eastern portion of Montana posted a very large 7% wage increase despite a moderation in employment growth.

FIGURE 1
WAGE GROWTH COMPARISON AMONG U.S., MONTANA, AND MONTANA'S REGIONAL ECONOMIES



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

MONTANA JOB GROWTH CONTINUES AT STRONG PACE

Montana's economy continues to add jobs in 2015, adding an average of over 2,000 jobs per month in the first half of the year. This strong job growth has thrust Montana's total employment levels over half a million for the first time in our state's history. Continued job growth in 2015 builds upon the strong job growth over the last four years, with 2012 and 2013 employment growth in Montana over 2%—more than twice the historic average of about 1% per year.

FIGURE 2
MONTANA TOTAL EMPLOYMENT AND LABOR FORCE

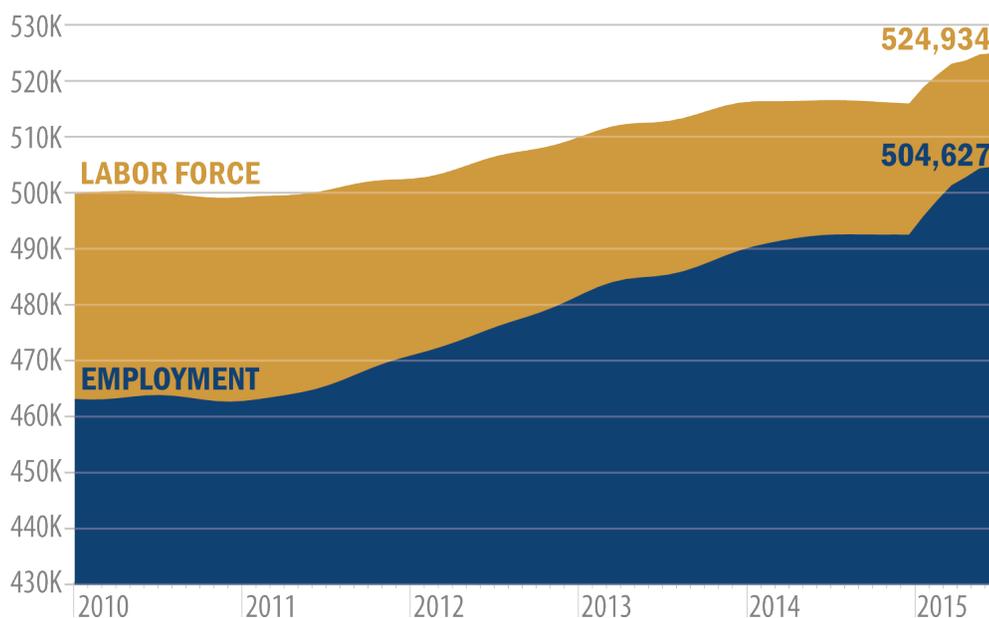


FIGURE 2 illustrates the growth of the labor force and employment in Montana over the last five years.

Total employment growth slowed slightly in 2014, but remained above the long-term average at 1.3%. Uncertainty about the oil price decline slowed employment growth in the second half of the year.

Source: Local Area Unemployment Statistics, Montana Department of Labor & Industry and Bureau of Labor Statistics

UNEMPLOYMENT IN MONTANA AT IDEAL LEVELS

The strong job growth over the past five years has reduced Montana's unemployment to ideal levels, with the rate hitting 4.0% for July 2015. Economists consider unemployment rates between four and 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 for the job. Unemployment rates higher than the normal level indicate that workers will have difficulty finding jobs, which causes financial stress on families and ultimately reduces demand for Montana's products due to lower spending. Unemployment rates lower than the normal level suggest worker shortages, where businesses have a difficult time finding workers to fill positions, slowing the growth of our state's economic production.

MONTANA'S LOOMING WORKER SHORTAGE

Montana's continued economic growth is threatened by a shortage of workers, with our population demographics restricting labor force growth. The Montana Department of Labor and Industry projects that Montana's labor force will only grow by 4,100 workers per year for the next ten years, leaving a shortfall in the number of workers needed to fill the expected 6,500 jobs per year. Even accounting for increased migration and greater labor force participation, Montana's unemployment rate is expected to reach levels of 1% to 2% within the next decade.

Tight labor markets caused by worker shortages 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

Montana finds ways to increase the available labor by increasing participation rates to record highs, shifting to more full-time jobs, and investing in productivity-enhancing technologies.

Montana is pursuing a number of options to address the upcoming worker shortage. One solution is to increase the number of hours worked by each employee. Montana has a high share of part-time employment. Among Montana workers aged 16 to 64, roughly 22% work less than 35 hours per week – the sixth highest percentage of part-time workers in the nation. While part-time jobs may be ideal for semi-retired workers, students, and others who choose to only work part time while pursuing life goals, many workers would prefer full-time employment.

Montana will also need to pursue efforts to increase labor productivity, thus producing more output for every hour worked. Enhancing productivity is achieved with better workforce education that allows workers to continuously upgrade skills and knowledge so that businesses can implement the latest technologies and practices. Better productivity also requires more communication and networking with researchers who identify best practices. Ultimately, Montana's growth depends on our ability to increase technology, productivity, and innovation.

Montana's workforce and education systems must continue efforts to make worker training more affordable and easily accessible. More efficient education and training systems, particularly those for adults already in the labor force, allow working professionals to earn income while learning new skills. Businesses must also have greater involvement in the training systems, providing more on-the-job training to perfect worker skills and working with the education systems to ensure that programs teach the right skills for the job.

Montana's workforce is fairly well-educated compared to other states. For Montanans 25 years and older, 92.5% have a high school diploma – the highest percentage in the nation. Montana ranks 20th of the

50 states in bachelor's degree holders at 29%, roughly equal to the national average. However, Montana's ranking slips to 33rd in the nation for graduate degree holders. Only 9.1% of Montanans 25 and older hold graduate degrees, well behind the national average of 10.9% and the top-ranking state of Massachusetts at 17%.

MONTANA INDUSTRIES

Since the recession, Montana's fastest-growing industry in terms of jobs has been health care, but the trade industry has surged in 2014 to claim the fastest-growing industry spot. **FIGURE 3** illustrates the employment change, wage growth, and GDP growth by industry sector in 2014. Retail and wholesale trade posted strong employment gains by adding nearly 1,250 jobs at 1.7% growth. Wages for workers in the trade sector have also posted solid gains with a 3.8% increase in the average annual wage, moving it up to \$32,870.

Employment growth in health care slowed in 2014, adding only about 950 jobs over the last year at a pace of 1.4%. This job growth is lower than recent years. Employment growth in health care from 2010 to

2013 averaged 1.9% per year. However, GDP growth in the health care industry was slightly faster than the five year average. Faster GDP growth with slower employment growth suggests that health care industry improved productivity levels over the last year.

Another industry showing signs of increased productivity is manufacturing, where employment grew by 2.9% over the year (adding over 500 jobs), and GDP grew at a very good pace of 5.8%. Manufacturing has been an important component to Montana's economic growth over the last five years, with very large gains of 15.4% GDP annual average growth. Montana's largest manufacturing products in terms of employment include food and beverages, wood products, petroleum and coal refining, fabricated metals, machinery, and nonmetallic minerals. These industries are also the largest manufacturing sub-industries in terms of GDP, but the output value from petroleum and coal product manufacturing is more than the output from all other manufacturing combined.

The construction industry gained ground in 2014, adding about 900 jobs at 3.8% growth, making it the fastest-growing industry over the year in percentage

FIGURE 3

EMPLOYMENT CHANGE, WAGE GROWTH, AND GDP GROWTH BY INDUSTRY SECTOR, 2014

	Payroll Employment Change 2013-14		GDP Growth		Wages	
	Percent Change	Job Change	Last Year	Last Five Years 2009-2014	2014 Average Annual Wage	Growth in Average Wage 2013-2014
Trade	1.7%	1,244	5.0%	4.7%	\$32,869	3.8%
Education and Health Care	1.4%	958	4.1%	4.0%	\$41,141	2.5%
Construction	3.8%	908	2.9%	2.5%	\$46,209	2.9%
Manufacturing	2.9%	536	5.8%	15.4%	\$45,724	4.3%
Leisure Activities	0.6%	379	5.6%	4.8%	\$16,730	5.4%
Government	0.3%	241	1.5%	1.9%	\$43,283	2.5%
Agriculture	3.2%	155	-0.8%	9.7%	\$35,054	7.1%
Transportation	1.1%	128	4.1%	5.9%	\$41,426	1.5%
Financial Activities	0.2%	44	3.2%	4.4%	\$50,810	3.9%
Mining & Utilities	-2.6%	(311)	-2.7%	3.5%	\$86,496	4.9%
Business Services	-0.8%	(323)	5.9%	4.3%	\$46,472	5.8%
Other	-2.9%	(687)	-0.1%	1.3%	\$32,051	2.2%
Total	0.7%	3,272	2.9%	4.5%	\$38,880	3.5%

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT Department of Labor & Industry. GDP statistics from Bureau of Economic Analysis.

terms. Construction was hit hard by the 2007 recession, losing about 30% of the total workforce, and has taken a long time to recover from those losses. The construction industry is expected to grow by about 3% in the next few years, but is not expected to regain its peak employment levels until after 2020 due to the heavy job losses during the recession.

Employment growth in mining has been fairly volatile in the last ten years, with the large gains related to the development of the Bakken oil fields. Surprisingly, given the decline in oil prices in 2014, the job losses in mining are not in the oil and gas industry. Oil and gas employment levels in Montana have stayed fairly steady over the year, adding roughly 24 jobs. Instead, the job losses have come from other types of mining and from the support activities related to mining. Low prices for all commodities and a slowing global economy have negatively impacted all types of mining in Montana. Mining comprises only about 2% of employment in Montana, but it represents a larger share of GDP (about 5%) because of its high annual wages. Mining has the highest average annual wage of all the industries in Montana.

Government posted little employment change over the last year. In the past few years, the federal sequesters, fiscal cliff, and other cuts in federal government spending have reduced government employment in Montana. In general, the government sector grows at the same pace as the overall population, but growth in this industry has been slower than population growth in recent years.

REGIONAL AND RESERVATION PERFORMANCE

With job growth, unemployment rates in all of Montana's regions have decreased over the year. **FIGURE 4** illustrates the 2014 unemployment rates for each region, along with the reservation unemployment rates. Unemployment rates declined in all of Montana's five regions, with the largest drop occurring in the Northwest portion of the state. The Northwest's 6.0%

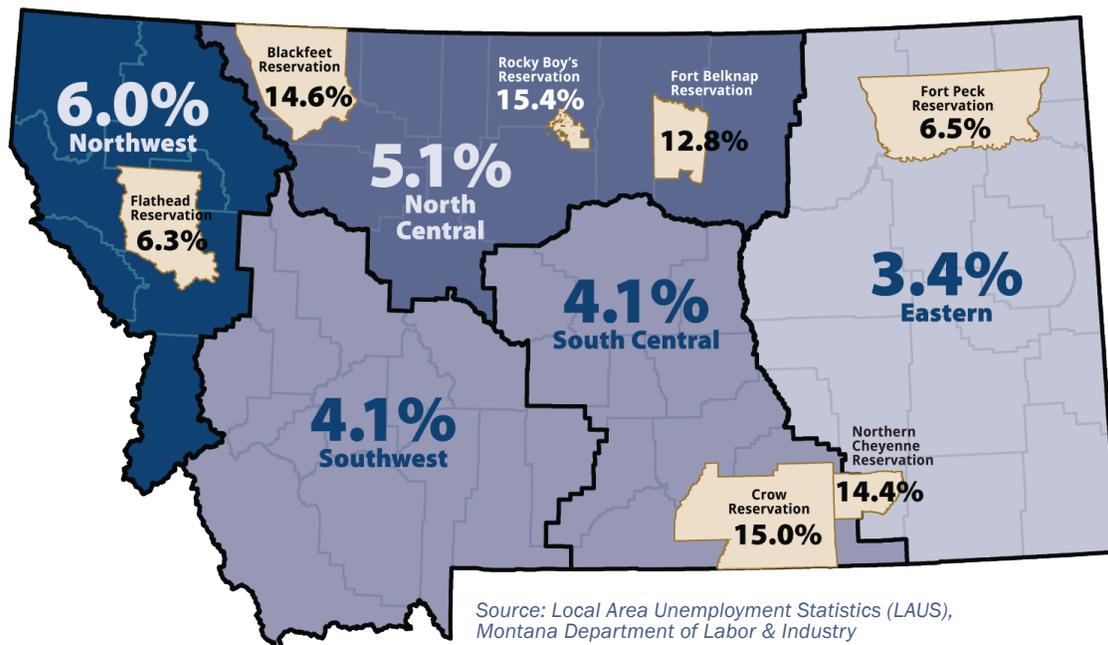
unemployment rate is still higher than desired, but the job gains in recent years demonstrate that this region is regaining strength. Unemployment rates continue to fall the further you move east, with a low rate of 3.4% in the Eastern region of the state. Some counties in this region continue to have unemployment rates at or below 2%, marking worker shortages in the region.

All regions of the state had job growth in 2014 except the North Central region. In the North Central region, manufacturing and transportation employment expanded, but federal government spending cutbacks negatively impacted growth. Wage growth continues in the North Central region, suggesting stronger employment growth in the future. Employment in the Eastern portion of Montana has slowed from recent years with some job losses towards the end of the year after the slide in oil prices. Oil and gas exploration has been harmed by the lower market price for oil, but refining and production efforts remain fairly stable, suggesting that the feared "oil bust" will instead be a soft landing. The Northwest region of Montana has now posted respectable job and wage gains for the last three years, finally reducing the high unemployment incurred during the recession. The fastest-growing area of the state in 2014 was the Southwest region, primarily driven by employment gains around Bozeman. This region added over 3,350 jobs at a rate of 2.4% in 2014 – much faster than the 1.3% for the state as a whole.

Also illustrated in **FIGURE 4** is the unemployment rates of Montana's seven reservations. Montana's reservations are some of the most economically sensitive regions of our state, and unemployment rates on the reservations are often two to three times higher than their surrounding areas. All of the reservations have improving unemployment rates over the last year with large declines on the Crow, Northern Cheyenne, and Rocky Boy's reservation. The Flathead reservation also posted job growth over the last year, bringing down unemployment rates. Rocky Boy's unemployment rate is highest, but job growth has reduced unemployment over the last year.

FIGURE 4

2014 UNEMPLOYMENT RATES FOR MONTANA'S REGIONS AND RESERVATIONS



However, the economic news is less favorable for the Blackfeet reservation, which experienced employment losses over the last year. The labor force also declined on the Blackfeet reservation, resulting in lower unemployment rates despite the job losses. The contradiction between the declining unemployment rate suggesting positive growth, and employment losses indicating a contraction underscores the importance of including different economic metrics when analyzing economies. Montana's reservation communities often have labor force participation rates below the rest of Montana because job opportunities have been scarce over a long period of time. Few job opportunities and low wages reduce economic engagement.

MONTANA'S ECONOMIC GROWTH EXPECTED TO CONTINUE

Montana's economy outperformed the nation again in 2014, with rapid wage increases, strong employment growth, and declining unemployment. Wage and employment growth has occurred throughout Montana, with the western half of Montana

strengthening growth to rebalance the economy geographically.

The path forward is not without challenges. Montana's limited working-age population will cause tightness in the labor market in the future, with unemployment rates expected to reach very low levels within the next ten years. More job opportunities and higher wages will naturally bring more workers into the labor force, but these natural forces may not be enough to meet the labor demands of Montana's employers.

The Montana Department of Labor and Industry continues to take the lead in addressing the worker shortage and other issues faced by the Montana economy. The Department will continue to partner with businesses to address worker shortages, developing apprenticeships and other programs to ensure workers are quickly trained with the right skills for today's economy. With actions designed to improve training, hiring, and retention practices, Montana will meet these upcoming challenges and continue to outperform the nation and other states in economic growth.