

Montana Economy at a Glance



PAYROLL EMPLOYMENT BY INDUSTRY

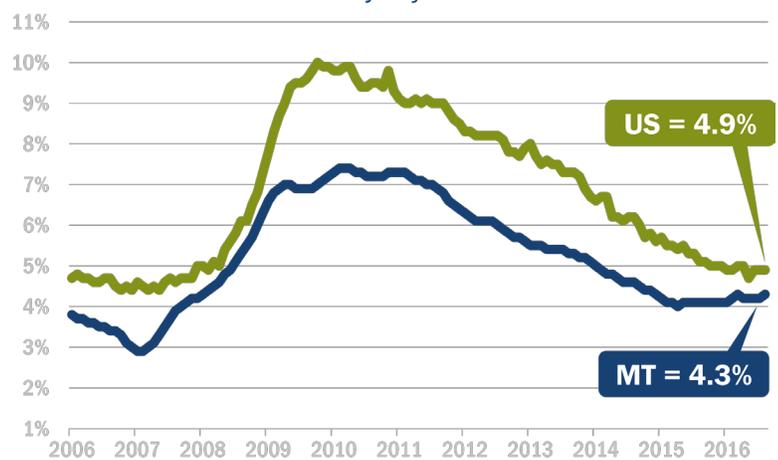
In Thousands - Seasonally Adjusted

Industry	August 2016 (prelim)	July 2016	Net Change	% Change
Total Non-Ag Employment	459.3	461.3	-2.0	-0.4%
Natural Resources & Mining	7.1	7	0.1	1.4%
Construction	24.6	24.6	0.0	0.0%
Manufacturing	19.8	19.6	0.2	1.0%
Trade, Transportation, & Utilities	94.2	93.5	0.7	0.7%
Information	6.3	6.2	0.1	1.6%
Financial Activities	24.4	24.2	0.2	0.8%
Professional & Business Services	40.2	41.4	-1.2	-2.9%
Education & Health Services	73.6	74.7	-1.1	-1.5%
Leisure & Hospitality	61.8	63.1	-1.3	-2.1%
Other Services	17.5	17.5	0.0	0.0%
Total Government	89.8	89.5	0.3	0.3%

Excludes self-employed and agricultural employment

UNEMPLOYMENT RATE

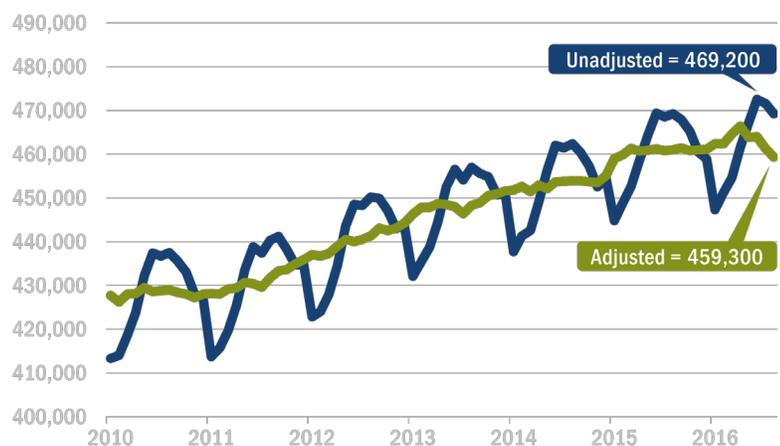
Seasonally Adjusted



Montana's unemployment rate for August 2016 increased slightly, moving to 4.3% from the July rate of 4.2%. The national unemployment rate went unchanged over the month, remaining at 4.9%.

NON-AGRICULTURAL EMPLOYMENT

In Thousands





Labor Day Report 2016: An Overview

by Barbara Wagner, Chief Economist

Montana's economy had an exceptional year in 2015, according to this year's Labor Day Report. Each year, the Montana Department of Labor & Industry produces a Labor Day Report to provide information on the status and trends in the Montana economy. The report covers all industries and all regions of the state (including reservations), and includes multiple indicators to provide a comprehensive understanding of economic progress for the year. In addition to being an annual update, the report also provides background information for media and policy makers on the size of Montana's industries, composition of the labor force, and other information throughout the year. This overview summarizes the high points of the 2016 Labor Day Report. The full text is available at lmi.mt.gov/Portals/135/Publications/LMI-Pubs/Labor Market Publications/LDR16.pdf.

Diversity Led to Strong Growth Despite Losses in Mining

Montana's economy posted strong growth in 2015, beating the nation in most economic metrics, even though low oil prices continued to impact the mining industry. Overall economic output, or Gross Domestic Product, increased by 3.5% compared to only 2.8% nationally. This growth makes Montana 5th fastest among states for GDP growth over the last year.

The rapid GDP growth was driven by the Manufacturing, Agriculture, and Financial activities sectors. Industry contribution to 2015 growth is illustrated in **Figure 1**. The Financial activities sector is the largest contributor to Montana's GDP, accounting for nearly 18%. The

Financial activities sector includes financial institutions, insurance companies, and real estate, with most of the value coming from real estate. The \$224 million gain in Financial activities represents a growth of 3.2% for the sector.

However, the largest contributors to over-the-year real GDP growth are two smaller industries: Agriculture and Manufacturing. The Manufacturing industry added \$293 million in GDP over the last year—a 12% increase—a sizable feat for a relatively small industry. Agriculture added \$209 million in real GDP for a 13.7% increase. Agriculture represents a fairly small share of Montana's GDP at about 4%, but is an important

FIGURE 1
2015 GDP by Industry and Performance

Industry	2015 GDP		2015 GDP GROWTH OVER PRIOR YEAR		
	Millions \$	Share of Total	Growth Rate	Millions \$	Percent of Total Growth
AG AND FORESTRY	1,706	4.1%	13.7%	205	14.9%
MANUFACTURING	2,645	6.4%	12.5%	293	21.3%
CONSTRUCTION	2,370	5.8%	7.9%	173	12.6%
OTHER	1,852	4.5%	4.3%	77	5.6%
BUSINESS SERVICES	2,980	7.2%	4.2%	121	8.8%
TRADE	5,092	12.4%	4.0%	194	14.1%
HEALTH CARE AND EDUCATION	3,910	9.5%	3.7%	141	10.3%
FINANCIAL ACTIVITIES	7,236	17.6%	3.2%	224	16.3%
LEISURE ACTIVITIES	1,984	4.8%	2.8%	54	3.9%
GOVERNMENT	6,005	14.6%	1.8%	109	7.9%
TRANSPORTATION	1,756	4.3%	-4.7%	(86)	-6.3%
MINING AND UTILITIES	3,353	8.2%	-5.3%	(188)	-13.7%
ALL INDUSTRY TOTAL	41,109	100.0%	3.5%	1,374	100.0%

Source: Bureau of Economic Analysis, Real GDP in 2015 Dollars

exporting industry and the primary source of new investment in many rural areas. Agriculture also posted 8.5% employment growth over the last year.

However, Mining has been a drag on growth since the price of oil declined in 2014. Mining real GDP was \$156 million lower in 2015 than 2014, while the Transportation sector also posted GDP losses related to the decreased demand for trucking and rail to haul fracturing fluids and crude oil. Mining has lost over 1,584 jobs from 2015 (1st quarter) to 2016 (1st quarter), with the majority of these job losses in oil and gas mining.

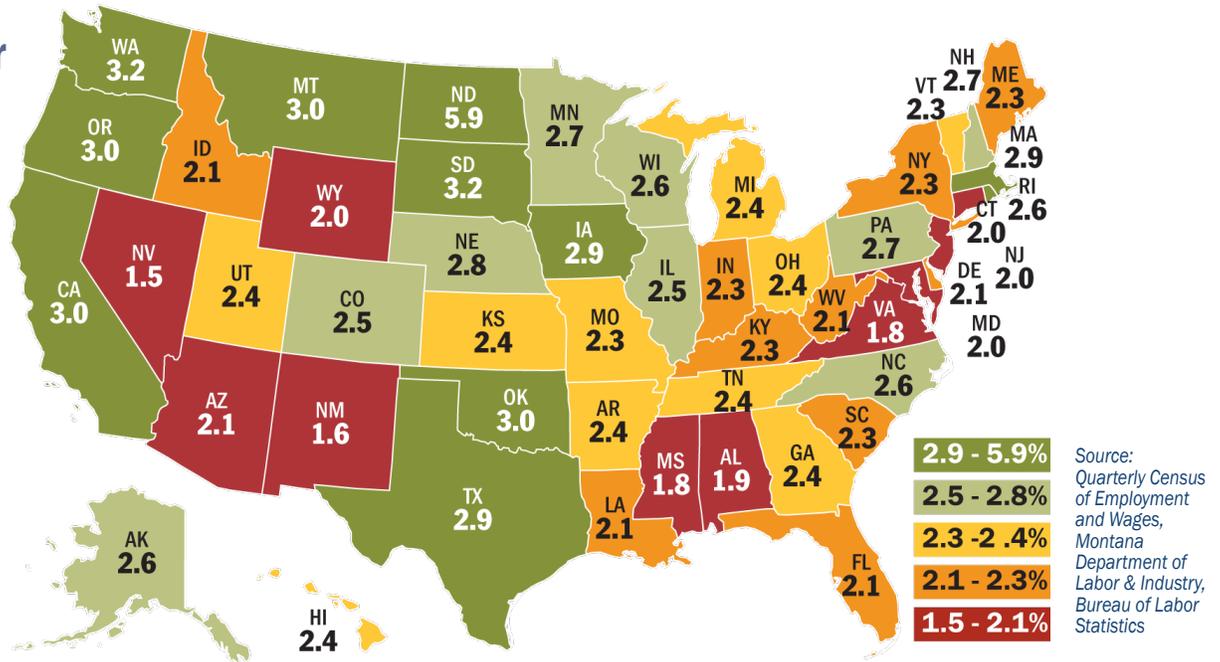
Montana's personal income grew 4.4% in 2015, equal to the nation and ranking 16th among states. Montana has outperformed the U.S. economy in personal income growth on an annual basis in

eight of the last ten years (with 2013 and 2014 as exceptions). Montana ranks 9th among states for the fastest personal income growth since 2005.¹

It is a testament to the robust growth in the rest of the economy that Montana posted strong GDP and personal income growth during 2015 despite the losses in Mining. Although oil and gas development (along with Agriculture) supported the state's economy throughout the recession and in recovery, the situation has now reversed with the rest of Montana's industries providing growth while the natural resource sectors contend with lower commodity prices. Both now and then, industry diversification has been the key to Montana outperforming the national economy.

¹ All personal income and GDP data are from the Bureau of Economic Analysis, U.S. Department of Commerce.

FIGURE 2:
Five Year
Average
Annual
Wage
Growth
2010-2015



2015 Real Wage Growth is the Highest Recorded

Montana workers experienced very strong wage growth in 2015, with the average wage increasing by 3% to \$40,065. Montana’s wages have been increasing faster than the nation’s for most of the last ten years, with Montana’s wages increasing by 3.2% annually since 2005 compared to only 2.7% for the nation. In fact, Montana ranks 6th among states for the fastest wage growth over the 2005 to 2015 timeframe. **Figure 2** illustrates the average wage growth among states since 2010.

What makes Montana’s recent wage growth remarkable is the real wage gains. With inflation at only 0.1% for 2015, Montana had real wage gains of 2.9%, which is the fastest gain in real wages since the data series began in 1990. Real wage gains are increases that occur above the rate of inflation, which signal that workers are able to increase their standard of living with their work earnings. Montanans can now afford more goods and services with their wage earnings than ever before.

Job Growth Continues

Employment levels made strong gains in 2015, adding 9,200 jobs for a growth rate of 2.1% — nearly twice the historic average of about 1.0%. This strong job growth thrust Montana’s total employment level over half-million jobs in 2015 for the first time in our state’s history. Since 2010, Montana job growth has averaged 1.6% per year, faster than the 1.4% per year nationally and ranking 14th fastest among states.

Figure 3 illustrates Montana’s payroll employment and total wage growth by quarter since 2009, measured as the gain in employment and wages from the same quarter in the prior year. Payroll employment data excludes the self-employed, including only employment reported to the unemployment insurance program. Total wages include all wages paid by Montana employers to payroll workers. Employment and wage growth maintained a high pace throughout 2015, with growth in the 4th quarter hitting 2.5%. The Accommodation and food service industry was

the largest contributor to employment growth in 2015, adding over 2,000 jobs for a gain of 4.1%. Construction and Retail trade also gained over 1,000 jobs in 2015.

Preliminary data suggests employment growth in the first six months of 2016 has slowed from the rapid 2015 pace. Payroll data indicates solid job gains of nearly 7,800 (1.8% growth) for the year ending in the first quarter of 2016, but a slight slowdown from the rapid job growth in 2015 due to continued losses in oil and gas mining.

Montana Entrepreneurs Continue to Lead the Nation

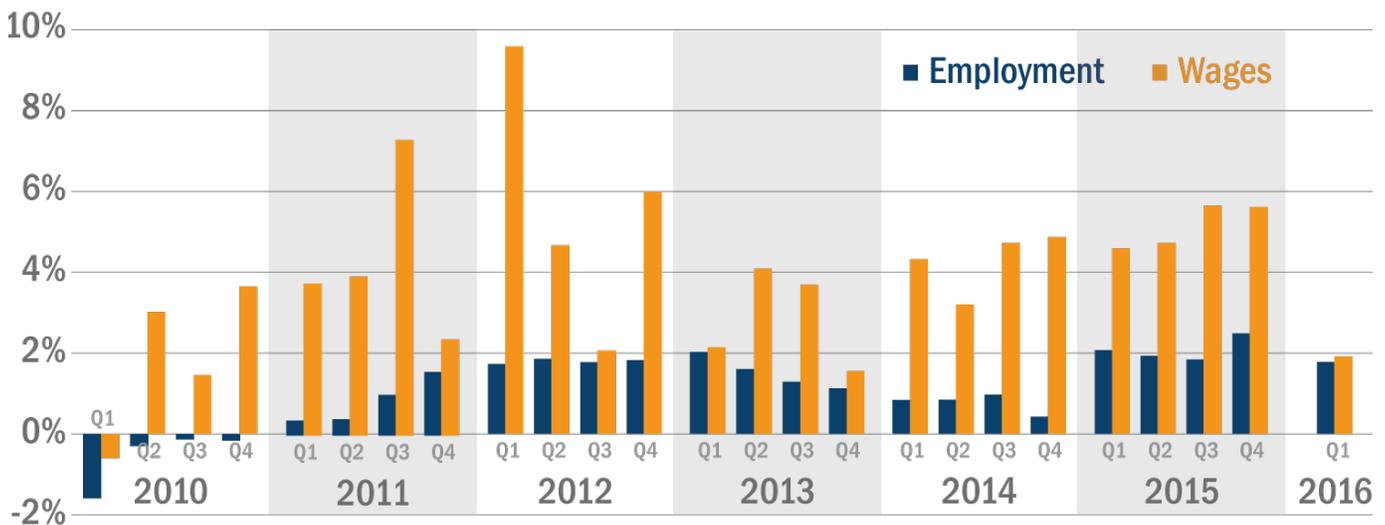
Much of Montana's superior economic performance can be credited to our entrepreneurs, many of whom are workers who have their own businesses on the side. Montana is one of the top states in the nation for entrepreneurialism. Montana's new business openings accounted for 7.4% of existing businesses in 2015, ranking 1st

among states. Business closures were only at 5.7%, making Montana's net business opening rate of 1.7% the second highest rate in the nation.²

Montana's entrepreneurialism is reaping rewards for our economy. Businesses less than five years old have added 43,835 jobs to the state's economy, roughly 12.2% of total private employment. The industries with the highest job growth from new firms include Leisure activities, Trade, and Health care.³ Montana business owners received \$4.1 billion in proprietor income in 2015, suggesting that owning a business in Montana remains a viable path to economic prosperity for both owners and workers.⁴ Proprietor income constitutes 9.6% of Montana's personal income, higher than the national rate of 9% and ranking 13th among states.

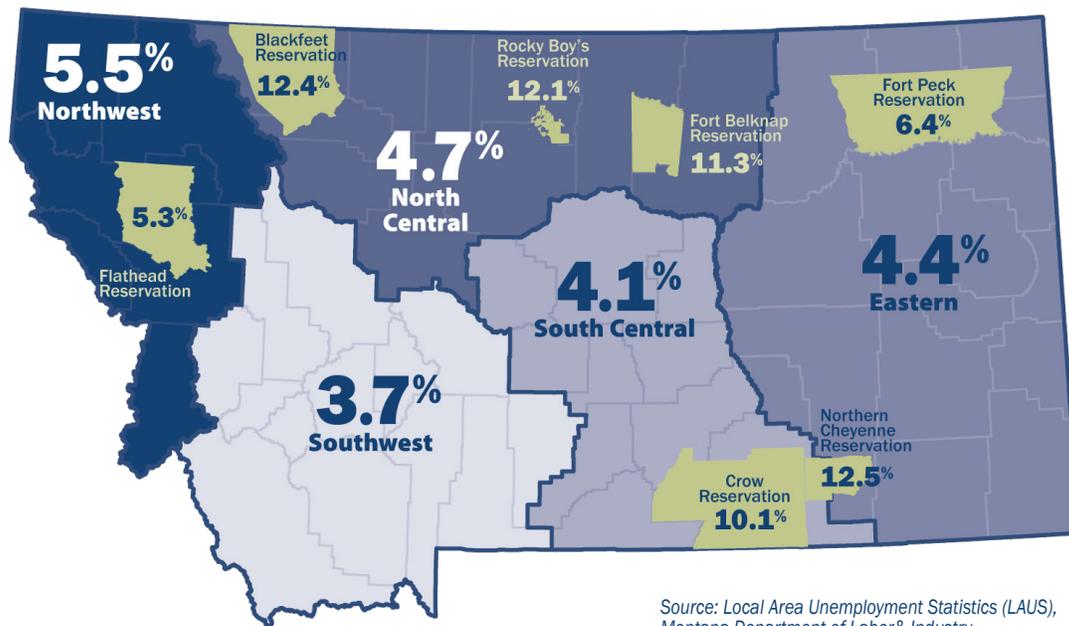
² *Business Employment Dynamics, Bureau of Labor Statistics. Data includes averages from 2015.*
³ *Quarterly Workforce Indicators, Local Household Employment Dynamics (LEHD), U.S. Census Bureau and Bureau of Labor Statistics.*
⁴ *Bureau of Economic Analysis, Personal income statistics, 2015.*

FIGURE 3:
Employment and Wage Growth
 OVER-THE-YEAR PAYROLL EMPLOYMENT AND WAGE GROWTH BY QUARTER



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

FIGURE 4:
Regional Unemployment Rates
 INCLUDING RESERVATIONS



Source: Local Area Unemployment Statistics (LAUS), Montana Department of Labor & Industry

Unemployment at Ideal Levels

Montana’s unemployment rate is at ideal levels, sitting in the 4% to 4.3% range for all of 2015 and 2016. 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 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.

Regionally, all areas of the state had decreasing unemployment over the past year except the Eastern Region, shown in **Figure 4**. After several years of having the lowest unemployment rates in the state, the Eastern region now has unemployment roughly equal to the state average at 4.4%. The Southwest region surrounding the fast-growing city of Bozeman has the lowest unemployment at only 3.7%.

While Northwest Montana still has the highest unemployment rate in the state, the region’s employment situation has improved dramatically over the last year, with 3,700 jobs added and 3.4% real wage growth in 2015. The Construction industry has returned to be a strong driver of growth in the Northwest Region, with 7.5% employment growth over the year, adding roughly 500 jobs. The North Central region has posted a small decline to unemployment rates, but has the smallest real wage and employment growth among the five regions over the last five years. Finally, Construction in Montana’s most populated city of Billings has driven job growth in the South Central region in 2015.

Also shown in **Figure 4** are unemployment rates for 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. Six of the seven reservations have lower unemployment rates than the previous year, with large declines on the Crow and Rocky Boy's reservations.

The Fort Peck reservation had a small uptick in unemployment, similar to the surrounding counties, with lower oil and gas development over the year. However, not all of the declines in the unemployment rate were due to positive employment growth.

Worker Shortage Expected

The strong job growth over the past five years has reduced unemployment and increased wages. However, Montana's population continues to age, creating tightness in the labor market as the large baby boomer generation retires. With little population growth among younger age groups, labor markets are expected to tighten significantly in the upcoming years. Montana's workforce is projected to grow by approximately 45,000 workers over the next ten years – less than the anticipated job growth of 7,300 jobs per year, leading to low unemployment rates near 2% by 2025.

In this low-unemployment scenario, workers who are flexible and able to meet the skill needs of employers will have significant opportunities to improve their wages and hold consistent employment. However, economic growth will be constrained if businesses cannot find the right workers, or enough workers to produce their goods. Employers will need to expend more effort to locate and retain skilled employees, including increasing pay and benefits. Businesses unable to increase pay rates will need to find creative ways to recruit and retain workers, or identify processes to automate and reduce worker needs.

Montana's Economic Growth is Expected to Continue

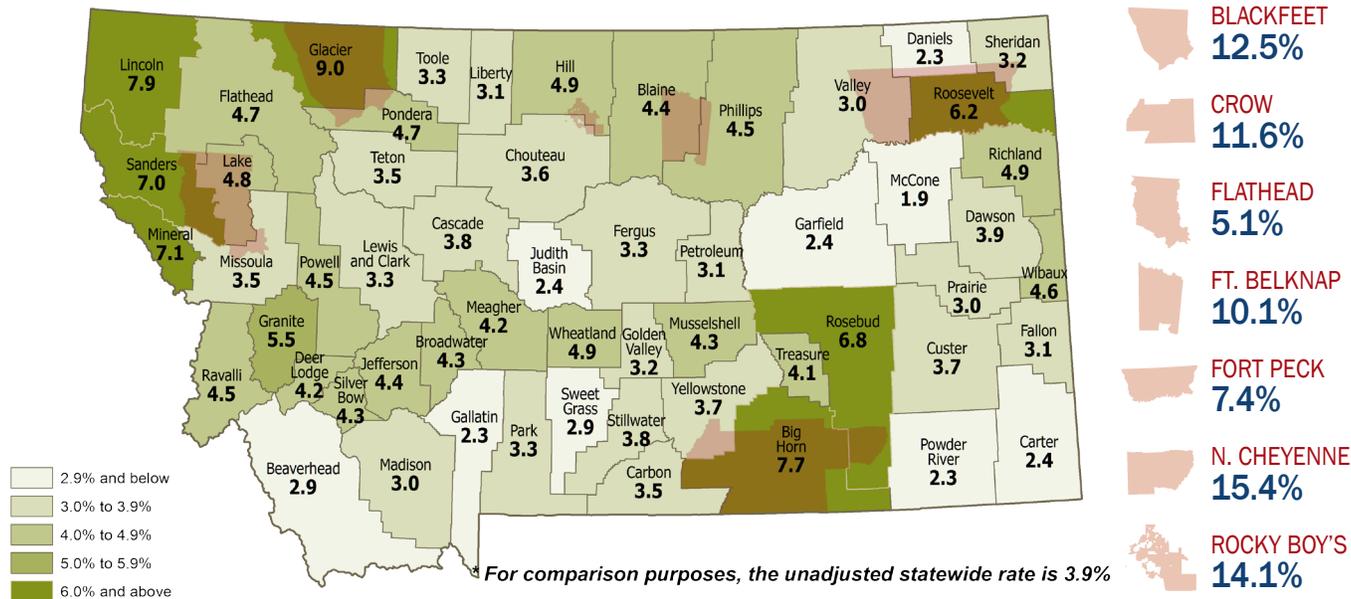
Montana's economy posted an exceptional year of economic growth in 2015, with the western half of the state posting robust job and wage growth to push the overall state numbers higher despite the drag from mining in the east. Montana's industry diversity has once again shown its mettle in lifting the state's economy to superior growth despite losses in oil-impacted areas.

The path forward is not without challenges. With a stronger domestic economy and weakness overseas, the dollar will continue to appreciate in the next few years, slowing demand for Montana's exports. However, the U.S. and Montana economies have displayed strength and resilience in the face of these challenges over the last year, and this momentum is likely to continue.

Long-term challenges present themselves with the aging of Montana's workforce and the lack of young people to replace retiring workers. Actions are being taken through private/public partnerships to streamline education and workforce training programs to allow workers to learn while on the job, reducing costly time out of the labor market. The Montana Department of Labor & Industry continues to take the lead in addressing the worker shortage and other issues faced by the Montana 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 our economic growth.

COUNTY AND RESERVATION UNEMPLOYMENT RATES – AUGUST 2016

Not Seasonally Adjusted



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