



# 2020 Hindsight

## A Summary of Montana's Economic Changes in 2020

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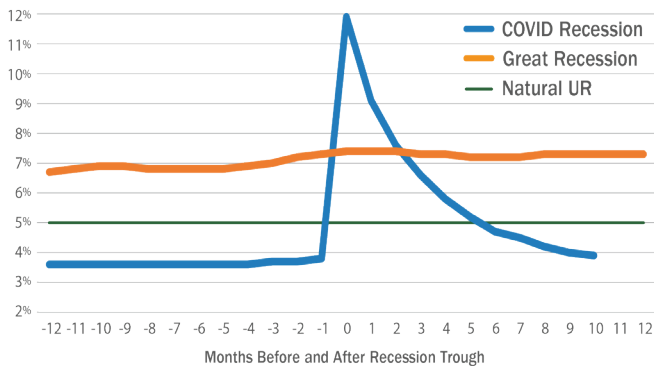
The Montana economy has undergone some drastic changes over the last year as the COVID pandemic swept through the state and the rest of the world. In a short period of time tens of thousands of jobs were lost and sectors of the economy were reshaped to function in the new pandemic-present environment. A year later the state's labor market is beginning to show signs of its pre-pandemic days, as the unemployment rate dips below 4%. However, there are still some headwinds on the path to full economic recovery. This article summarizes the changes in the state's economy that have occurred over the last year.

### Labor Market showing signs of Pre-Pandemic Economy

The COVID pandemic hit the state's economy suddenly and with significant force. In April 2020 the unemployment rate tripled from 3.8% to 11.9%, as businesses, schools, and child care providers closed to help slow the spread of the virus. Over the course of one month nearly 44,000 Montanans found themselves suddenly out of work, which translates to 8% of the state's workforce. For perspective, during the Great Recession from 2007 to 2010 average annual unemployment increased by 18,500, or about 4% of the state's workforce.

Almost as suddenly as the state's economy entered a recession it began its path to recovery. Over the next four months, from May to August, unemployment fell by 75% - meaning over 32,000 people were able to return to work. The state's unemployment rate fell below 5% in October, only six months after the recession began. After the Great Recession the state's unemployment rate didn't return to a normal range until almost four years later. **Figure 1** shows the relative trough and subsequent recovery of the COVID recession compared to the Great Recession more than a decade earlier.

**FIGURE 1**  
**Montana Unemployment Rate**  
*One Year Before and After Recession Trough*



Source: Local Area Unemployment Statistics.

An unemployment rate around 5% is considered a natural rate of unemployment in Montana.<sup>1</sup> An unemployment rate within the natural range means it is not too difficult for people to find work and it is relatively easy for businesses to find workers they need. Although the state has become accustomed to experiencing unemployment below 4% over the last few years, unemployment rates that low indicate a worker shortage with businesses reporting difficulty finding workers.

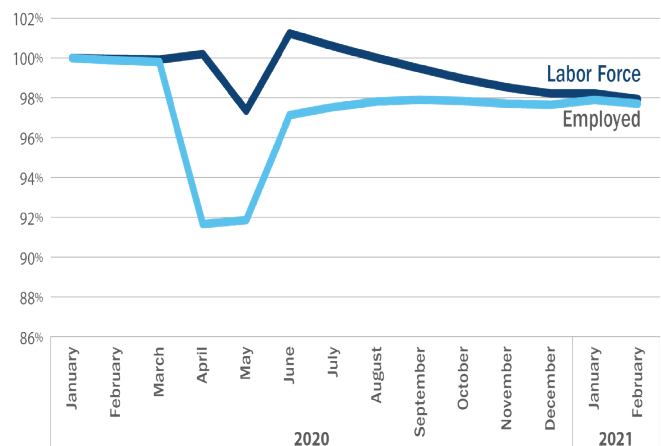
## Labor force sees steady decline

Almost a year after the COVID recession began, the state's unemployment rate has once again fallen below 4%. While this means that most people who have been looking for work were able to find a job, unemployment rates have also fallen because of workers dropping out of the labor force. An individual must be employed or unemployed and actively seeking work to be considered a part of the labor force. Individuals who are unemployed, but who are not seeking work because they are in school, taking care

of family, or because they don't believe a job is available for them, are not considered a part of the labor force. **Figure 2** shows the state's labor force and employment levels indexed to January 2020.

The state's labor force fell 3% in May after business closures discouraged many unemployed people from looking for work.<sup>2</sup> The pandemic may have also encouraged some individuals to retire earlier to reduce their risk of contracting the virus. National labor force participation rates of those 65 and older dropped by 3% between February and March 2020.<sup>3</sup> School and child care closures also meant many Montana parents were unable to look for work because they had to care for their children and monitor at-home learning. However, many people were able to return to work the following month, as the economy began to reopen. By June the state had recovered 65% of the jobs that were lost two months earlier, and the labor force had returned to its prerecession size.

**FIGURE 2**  
**Montana Laborforce and Employment**  
*Indexed to January 2020*



Source: Local Area Employment Statistics. Seasonally adjusted.

<sup>1</sup> Natural unemployment rate is calculated as the 10-year average, which in Montana is 4.8%.

<sup>2</sup> Census Pulse Survey data for Montana collected May 7th-12th 2020, shows pandemic related business closures and retirement as the primary reason individuals were not working.

<sup>3</sup> U.S. Bureau of Labor Statistics, Labor Force Participation Rate - With No Disability, 65 Years and Over [LNU01375379], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/LNU01375379>, April 11, 2021.

However, as the fall approached and remote learning became a reality for many school-aged children, Montana parents found themselves taking more time away from work to care for children and monitor remote learning. In September, the Montana labor force once again dipped below pre-pandemic levels and the number of parents reporting reduced work hours increased by nearly 60%. While this reduction in hours was temporary for many parents, about 20% of all parents continued to work reduced hours through the rest of the year – translating to an average of 55,000 parents, or roughly 10% of the labor force.<sup>4</sup>

The size of the state's labor force has continued to slowly decline while employment levels rise, which suggests that some unemployed workers have stopped searching for work. Since September, an average of 25,000 people missed work, reduced their hours to part-time, or were unemployed and not looking for work due to family responsibilities and a lack of childcare.<sup>5</sup> The combination of rising employment and a decreasing labor force has driven the unemployment rate below 4%, making it difficult for Montana businesses to find workers. Engaging more Montana parents and caregivers in the labor force will be a critical piece of the state's continued economic recovery.

## Economic Recovery Persists

Despite labor market challenges, the state's economy has continued to recover from the COVID recession. Montana's real GDP fell by 8.8% in the second quarter of 2020. However, the third quarter brought a strong recovery with 6.9% growth. Growth moderated in the fourth quarter,

<sup>4</sup> Current Population Survey, IPUMS.

<sup>5</sup> Current Population Survey, IPUMS.

## Unemployment is Good?

To economists, full employment does not mean everyone is employed. There will always be some people who are unemployed, and it can be a sign of a healthy economy depending on the cause.

Frictional unemployment, which is the most common type of unemployment, occurs because of temporary transitions in workers' lives – such as moving cities, searching for a better job, or graduating college and entering the workforce. Workforce mobility and education are two very important elements of a healthy economy, even though they result in periods of unemployment for some workers.

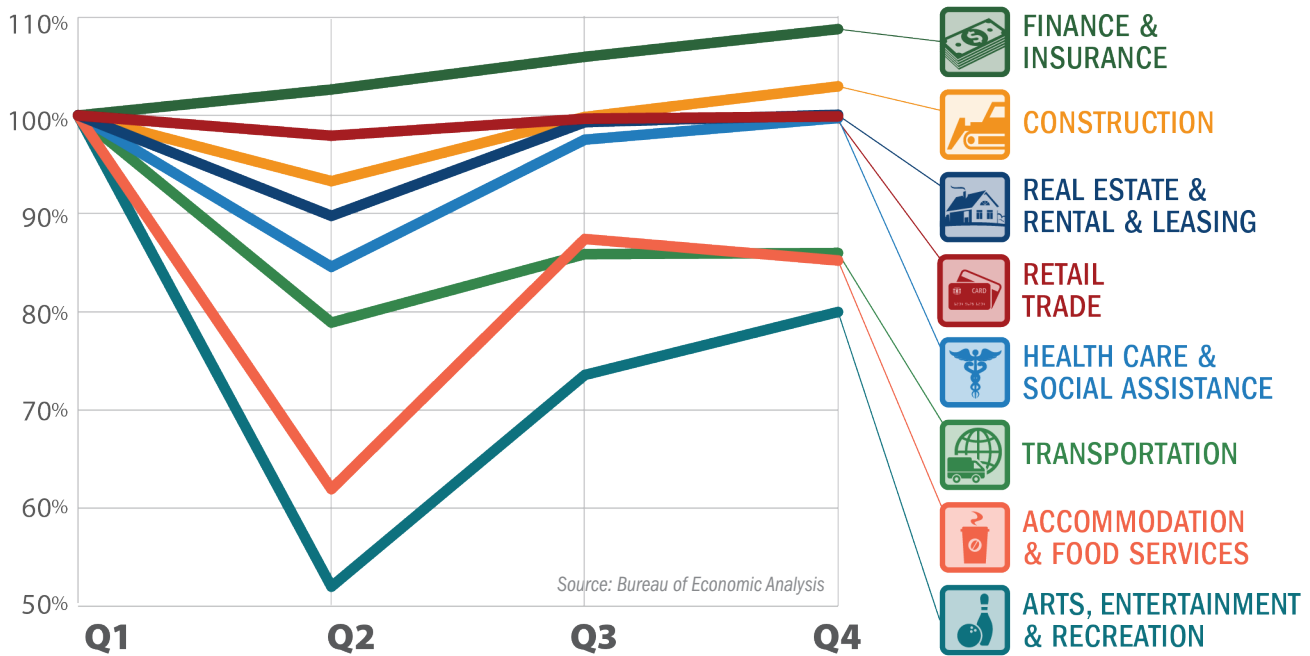
Seasonal unemployment is also a big factor during the winter months when construction and tourism slows. Retail, food service, hospitality, and construction are all important industries to the state economy, but the seasonal nature of employment in those industries means unemployment will grow in the off-season.

but remained positive. Over the year, Montana's GDP remained down 3%, which ranks 20th in the nation. Real GDP decreased in all 50 states in 2020.

Accommodation and food service, arts and entertainment, and transportation industries were the most impacted in 2020. The arts, entertainment, and recreation industry lost nearly half (48%) of its GDP in the second quarter. Accommodation and food service GDP dropped by roughly 40% in the same quarter. While both industries experienced a strong rebound in the third quarter, their GDP remains far below pre-pandemic levels. **Figure 3** shows real GDP for select industries in Montana indexed to the first quarter of 2020.



**FIGURE 3**  
**Real GDP by Select Industry**  
 Indexed to First Quarter 2020



The construction and finance and insurance industries were the leading contributors to moderating the decline in state GDP. Buoyed by a strong housing market, the construction and finance industries ended the year 3% and 9% above pre-pandemic levels. Real estate and retail trade were also able to return to pre-pandemic GDP levels by the end of 2020. Retail trade lost 15% of GDP in the second quarter of 2020 as businesses closed to prevent the spread of COVID. However, many retail stores were able to rely on online sales and reopen with COVID precautions in the months following the initial shutdown. Consumer spending increases in the second half of 2020 driven by federal stimulus payments also helped the industry reach pre-pandemic output. Consumer spending on durable and non-durable goods returned to pre-pandemic levels by the end of 2020.<sup>6</sup>

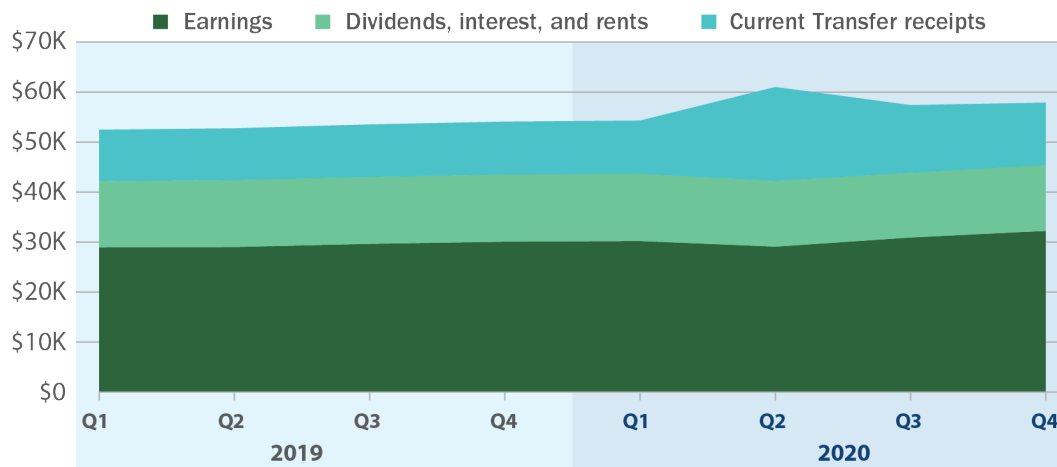
### Strong Income Growth Drives Recovery

Montana experienced the fastest personal income growth in the nation in 2020. Personal income grew by 8.4% over the year in the state, which ties Arizona for the strongest growth. Strong personal income growth has helped spur consumer spending and drive the state's economic recovery. Over the year Montana's per capita income rose from \$49,600 to over \$53,000, which ranks 31st in the nation.

An increase in transfer receipts, which includes unemployment benefits and stimulus payments, was the leading contributor to personal income growth, particularly in the second quarter when earnings and proprietary income fell. **Figure 4** shows the growth in the state's personal income by component over the last two years. Transfer receipts grew by 32.8% in Montana in 2020,

<sup>6</sup> Bureau of Economic Analysis, 2020 US real personal consumption expenditures by major type of product.

**FIGURE 4**  
**Montana Personal Income by Component**



Source: U.S. Bureau of Economic Analysis. Earnings is the sum of wages and salaries, supplements to wages and salaries, and proprietors' income.

which reflected new government relief payments provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020.

Montana's earnings growth significantly outperformed the national average, despite a decline in the second quarter. Net earnings grew by 4% in 2020, compared to the national average of 0.3%. Farm earnings were the leading contributor to the increase in Montana personal income, particularly in the fourth quarter. Farm income grew by 64% in the fourth quarter of 2020 compared to the prior quarter, while non-farm earnings remained relatively flat. The increase in farm earnings followed increases in payments to farmers from the Coronavirus Food Assistance Program provided by the CARES Act.

The average wage in Montana, which is a subset of personal income, surpassed \$48,000 in 2020 resulting in an annual growth rate of 7.9%. The average annual wage growth in the five years prior was 2.9%, meaning wages grew nearly three times as fast as average in 2020. Part of this wage

growth occurred because the COVID recession disproportionately impacted low-wage workers, leaving many unemployed. With fewer low-wage workers employed, the average wage increased.<sup>7</sup> The finance and insurance; professional and business services; healthcare and education; retail trade; and arts, entertainment, and recreation industries experienced the fastest average wage growth. **Figure 5** shows average payroll employment and wages, as well as the growth rate over the last year by industry.

Average wages in the arts, entertainment and recreation industry grew substantially, despite suffering significant GDP and employment losses. The information industry, which also experienced large employment losses in 2020, was able to post the fastest wage growth among industries. Finance and insurance, and real estate were the other two industries to post double-digit wage growth in 2020. Ultimately, the state's wage and income growth were bright spots in an otherwise bearish year for economic growth.

<sup>7</sup> Bradley, Christopher. *A Tale of Two Recessions: An Analysis of the Impacts on High and Low Wage Jobs. Montana Economy at a Glance. March 2021. MTDLI*

**FIGURE 5**  
**Employment and Wages by Industry in 2020**

Industry	Payroll Employment	Over-the-Year Emp Growth	Average Wage	Average Wage Growth
ALL INDUSTRIES	467,036	-1.5%	\$48,444	7.9%
11 Agriculture	6,285	5.0%	\$42,223	6.9%
21 Mining	6,164	-8.5%	\$89,491	-3.2%
22 Utilities	3,263	-1.7%	\$94,090	8.0%
23 Construction	33,913	4.5%	\$56,000	2.7%
31-33 Manufacturing	20,948	-1.8%	\$54,079	4.8%
42 Wholesale trade	16,947	-1.5%	\$65,421	6.6%
44-45 Retail trade	59,919	1.2%	\$33,796	8.1%
48-49 Transportation	15,760	0.5%	\$49,455	5.9%
51 Information	5,884	-7.0%	\$64,973	16.0%
52 Finance and insurance	16,404	-0.2%	\$76,426	10.0%
53 Real estate	6,498	0.4%	\$42,601	10.0%
54 Professional services	24,269	1.4%	\$73,197	9.5%
55 Management of companies	2,109	1.2%	\$88,736	8.5%
56 Admin and waste services	19,023	2.3%	\$38,936	8.3%
61 Educational services	41,328	-6.0%	\$44,595	8.9%
62 Health care & social assistance	73,172	-1.1%	\$54,446	6.6%
71 Arts, entertainment, and recreation	11,000	-10.0%	\$26,906	15.0%
72 Accommodation & food services	48,504	-8.5%	\$19,988	3.1%
81 Other services	17,543	-5.2%	\$34,243	7.9%
92 Public administration	37,521	3.2%	\$57,154	5.2%

Source: Quarterly Census of Employment and Wages. Data for Q4 2020 is preliminary. Average wage growth is calculated as the change in the average annual wage from 2019 to 2020. Payroll employment shown as of 2020 Q4. Over-the-year employment growth is calculated as the change between employment in the fourth quarter of 2019 and 2020.

## Conclusion

2020 was a challenging year for many, as the COVID pandemic took a toll on Montanans' physical, mental, and economic wellbeing. Unemployment skyrocketed in the second quarter of 2020, and the economy entered a recession suddenly as the state and world scrambled to slow the spread of the virus. However, almost as quickly as the recession began, the economy began to rebound. Strong growth in the third quarter and growth in the fourth quarter meant Montana's economy only shrunk 3% over the year. Despite significant employment losses, Montana's personal income grew the fastest in the nation at 8.4%. Looking forward, one of the most

significant barriers the state faces in its path to full economic recovery is finding ways to more fully engage Montanans in the labor market, specifically parents who have had to balance work with increasing family responsibilities and inconsistent child care over the last year.

To find the most updated economic information visit Montana Department of Labor and Industry's job tracking dashboard, found here: [lmi.mt.gov/home/job-tracking](https://lmi.mt.gov/home/job-tracking). The interactive dashboard is updated monthly with labor market data, unemployment claims, job postings, and more.