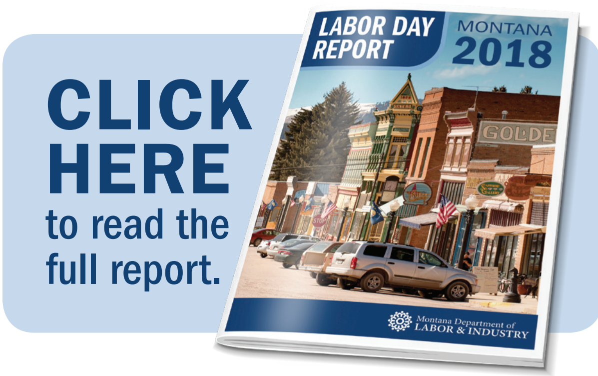
Montana Labor Day Report 2018 in Brief

by Barbara Wagner, Chief Economist

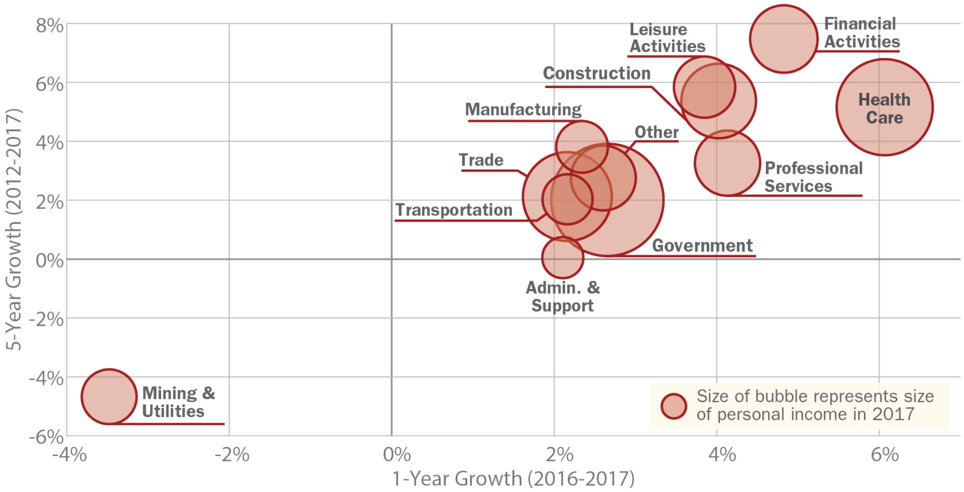
Every Labor Day, the Montana Department of Labor & Industry produces a report on the performance of the Montana economy over the past year, called the Labor Day Report. This article provides a summary of that report. The full report is available at lmi.mt.gov.



Montana's economy enjoyed steadier economic growth than the U.S. economy in the last ten years, with lower unemployment rates and faster economic growth from 2007-2017 than the nation. In the last two years, the U.S. economy caught up with Montana and posted 2.7% personal income growth annually in 2016 and 2017, near Montana's pace of 2.6% growth. Even with the slower growth in the prior two years, Montana's personal income growth over the past ten years was the 11th fastest among all states. Personal income measures the monetary value received by Montana residents from economic activity, and thus is an overall measure of economic growth. Nearly all industries have joined to create the personal income growth in Montana, although agriculture, mining, and utilities industries have posted some losses in the recent past. **Figure 1** illustrates the five year and one year growth of Montana's industries. Much of the growth in the last ten years has been in the healthcare and real estate industries.

Montana's real GDP growth over the 2007 to 2017 time frame also outpaced the nation, adding 1.3% per year (roughly $513 million) compared to 1.2% in the U.S. Montana's total GDP in 2017 was $48 billion in nominal terms (real GDP was $41.8 billion in 2009 dollars). The industries adding personal income growth (shown in **Figure 1**) are the same industries adding GDP to our state's economy, with health care, financial activities (which includes real estate), and professional services having strong growth in both the one year and five year time lines. In addition, Montana's manufacturing sector had the third fastest growth among states over the last five years.

FIGURE 1:
Personal Income by Industry
2017



Source: Montana Department of Labor & Industry (MTDLI) using BEA data

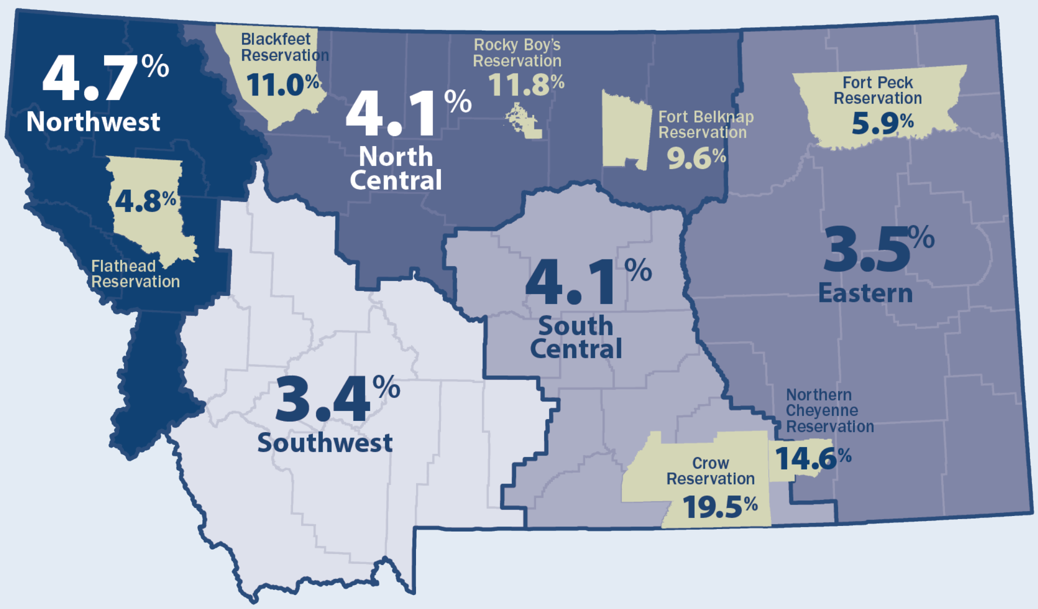
Growth in payroll employment has followed similar patterns to GDP and personal income, with healthcare, professional services, leisure activities, and construction adding the most jobs in the last year. Healthcare added 1,900 payroll jobs over the year, while manufacturing added 400 jobs. State government, federal government, mining, and retail and wholesale trade posted job losses in 2017. Overall, Montana added 4,600 jobs for an employment growth rate of 1%. Current job growth is slower than average, which is expected during periods of tight labor markets.

Regionally, the more populated western half of Montana has had stronger job growth than the more rural counties in the north and eastern portions of the state, largely due to the types of industries concentrated in each area. The energy and agriculture industries are more concentrated in the rural areas of the state, and these industries struggled in the last two years. The industries that are more focused on urban centers (including health care, real estate, construction, and professional services) outperformed other industries and drove growth in Montana's more populated areas. The Northwest region of Montana added 2,250 payroll jobs in 2017 for 1.7% growth, while the Southwest region posted payroll job gains of 2,100 for 1.6% growth. Similarly, the Flathead reservation saw employment grow faster than the state at nearly 1.3%.

Slower growth in agriculture, coal, and mining has affected the North Central, South Central, and Eastern regions, with the city of Billings also affected due to lower consumer spending in the overall region. In particular, Rosebud County, Musselshell County, and the Crow and Northern Cheyenne Reservations have struggled with the loss of coal-related revenues. Coal production increased in 2017, improving these economies in the near term, but long-term demand will remain uncertain while low natural gas prices provide a cheaper alternative for power generation. The North Central and South Central regions had little change in payroll employment levels over the last year, with both areas losing roughly 100 jobs. The Eastern region, including the Fort Peck reservation, posted strong growth exiting the recession due to oil and gas production, but has since posted job declines. The Eastern region lost nearly 600 jobs over the last year, for a loss of -1.9%.

Unemployment Rates of Regions and Reservations

With strong employment growth in the western half of the state, unemployment rates in the Northwest region decreased in 2017, down 0.2 percentage points to 4.7%. The Southwest region also posted strong economic growth, but had a fairly large number of workers join the labor force. The increased labor supply in the region kept the unemployment rate unchanged over the year at 3.4%, and will help promote future economic growth in the region through the addition of more human capital. The urban areas of the state posted stronger job gains than the rural regions. Both the North Central and Eastern regions of the state had decreased unemployment rates over the year driven by small declines in the labor force and in employment levels, reducing unemployment down to 4.1% in the North Central region and 3.5% in the Eastern region. Finally, the South Central region had a small increase in employment paired with a larger increase in the labor force. While this resulted in the unemployment rate moving up slightly in 2017, from 3.9% in 2016 to 4.1% in 2017, the increased labor force will assist the region in future economic growth.



The reservation communities also demonstrate the pattern of faster urban job growth, with the Flathead reservation posting a drop in its unemployment rate down to 4.8%. Rocky Boy's reservation gained a handful of jobs, helping the unemployment rate slip down to 11.8%. Unemployment rates also decreased on the Blackfoot, Fort Belknap, and Fort Peck reservations, although these reservations only experienced small job changes.

Both the Northern Cheyenne and Crow reservations have been impacted by the changing global demand for coal. The Northern Cheyenne unemployment rate increased to 14.6% in 2017. On the Crow reservation, declines in coal production, the closure of the Hardin power plant, and local government funding declines from lower coal receipts have led to employment losses, spiking unemployment from 11% in 2016 to 19.5% in 2017. The unemployment rate on the Crow reservation has started to decline in 2018, and coal production in Montana has been gaining steam, suggesting more positive economic outcomes for these two reservations in the near future.

Low Unemployment Brings Strong Income and Wage Gains

Strong economic growth has created a low unemployment rate in Montana and nationally. Montana's unemployment rate has hovered around the 4.0% level for much of the last three years. In the last year, the U.S. unemployment rate joined Montana's at around 4%. The tight labor markets have benefited Montana's workers through faster wage growth. Average wages posted strong gains in the last year, increasing by 3.2% to over $42,045. With inflation increasing by 2.1%, real wages have grown by 1.1%. Real wage growth suggests that Montana workers have been able to afford more goods and services with their wages, increasing their standard of living. Montana has posted strong real wage growth for most of the last decade, with the 4th fastest wage growth among states from 2007-2017. All regions of the state have experienced wage gains.

Montanans have also experienced income growth. People earn income in a variety of ways – wages from a payroll job, profits from business ownership, or rents and royalties from property ownership. Montanans tend to earn a larger portion of their income from nonwage sources than most Americans, with a high share of personal income coming from proprietor income (proprietor income is income earned by business owners from their own businesses). Montana has the highest rate of business ownership among households, with 21% of Montana households reporting income from a business or a farm. This entrepreneurialism benefits more than just the business owner. Roughly 45,000 Montana workers are employed by businesses that have been created in the last five years. Montana startups are also more likely to be successful than businesses nationally. The likelihood of keeping a business running for five years is 56.2% in Montana, compared with 48.6% in the U.S. The ten-year survival rate is 39.6% compared with the U.S. rate of 33.5%.

The gains in proprietor income and other nonwage sources has help to lift per capita income in Montana. The state's per capita income of $43,907 ranked 35th among states in 2017 – one place higher than in 2016. In many ways, per capita income is a better measure of well-being than wages because it includes the benefits of entrepreneurial activity. Over the last ten years, Montana's per capita income has grown quite rapidly, with the 10th fastest increase among states.

...But Has Also Raised Inflation Concerns

While wage gains have benefited Montana, wage gains can also create greater inflation risk. Further, tax cuts and additional government spending that occur when the economy is already at full employment can generate inflation. Tariffs and other trade barriers implemented to protect certain industries also have the negative effect of increasing input prices for other industries and putting upward pressure on consumer prices. Although still relatively low in historic terms, the Consumer Price Index for All Urban Consumers (CPI-U), the most commonly used measure of inflation, has increased by 2.9% over the last year. Over the last year, gasoline prices have increased by over 24%, slowing tourism into Montana and placing pressure on workers' paychecks.

Home buyers are also facing rapid increases in housing prices, both from inflationary pressure and rising interest rates. The median home value in Montana in 2016 was $217,200, the 19th highest among states. As inflationary pressures build, the Federal Reserve must increase interest rates to keep inflation under control. Increases in the Federal Funds rate typically drives up the rates for all loans, including mortgages. While rising home prices benefit homeowners, high costs for first-time home buyers make it difficult for some Montana communities to recruit and retain younger and low-wage workers. Retaining these workers in our labor force is critical in addressing our worker shortage.

The Need for Worker Training Continues

In addition to increasing prosperity, Montana's economic growth and low unemployment rates have combined with an aging population to create an environment where workers are in high demand. Increased labor force participation has kept the state hovering around 4% unemployment for the last two years. However, with steady growth in employment and continued retirements of the large Baby Boomer population, Montana's labor market is expected to tighten in 2018 and beyond. The labor force in the next five years is expected to expand by roughly 3,200 workers per year. During the same period, employment is projected to grow by 4,200 jobs per year, pushing unemployment rates lower. Every Montana worker is vital to maintaining economic growth in tight labor markets, making workforce investments a critical concern for businesses, workers, and policy makers alike.

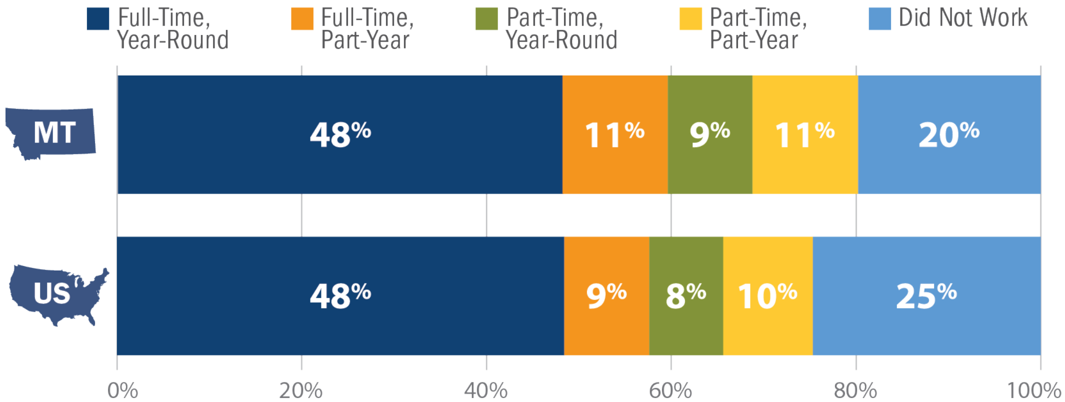
One solution is to increase the number of people available for work in Montana, both by increasing migration and by improved labor force participation. Montana already has positive net in-migration of roughly 6,300 people per year. However, increasing population through migration is not enough to meet all worker needs. Montana also needs to engage its existing population to more fully participate in the labor force, and businesses need to invest in worker training to maximize the potential of every worker. For example, equipment modifications have helped disabled workers access work opportunities. Flexible scheduling can help stay-at-home parents arrange childcare or school pick-ups around their jobs. As Montana's labor market tightens, workers are also facing increased struggles in finding sufficient childcare arrangements. Roughly 95% of Montana families with children under 18 have at least one parent in the labor force. Businesses that assist workers in finding work-life balance can gain an edge in today's competitive labor market.

The Montana Department of Labor & Industry is also doing its part to increase access to workers in Montana. Research by the Bureau of Business and Economic Research suggests that the HELP-Link program, which provides career services and workforce training to the Montana Medicaid population, has increased labor force participation among low-income workers. Research in other states regarding workforce programs for unemployment insurance recipients found that reemployment services reduce unemployment periods and makes it more likely for workers to remain in the labor force during periods of unemployment.

Montana businesses are also adopting new practices to gain access to workers. Many Montana businesses are connecting with local high schools and colleges to create work-based learning opportunities for students. Research suggests that greater ties between employers and college students helps to retain Montana's workers in the state. Roughly 75% of graduates from Montana's colleges work in Montana at some point in the five years after graduation. Incumbent workers, who have an existing connection to a Montana business during their school years through an internship or other work-based learning activity, are more likely to remain in Montana after graduation. Employers who offer internships and career exploration through work experience get early access to recruiting the best workers and retaining graduates within our economy.

Another solution to Montana's worker shortage is to increase worker hours and to ensure each worker hour is of the highest quality by improving labor productivity. Montana has a high share of part-time employment, with only 32.9 hours worked per week per job, tied for lowest in the nation. The low average hours per week is not because Montana has fewer full-time jobs – 48% of working age adults work full-time jobs in both Montana and the nation. Rather, Montana has more people working part-time jobs instead of not working, as seen in **Figure 2**.

FIGURE 2:
Work Status For Montana population older than 16



Source: MTDLI using 2016 American Community Survey (ACS) 5-year estimates

Nationally, 25% of the working age population did not work, compared to only 20% in Montana. Part-time jobs benefit the Montana economy by allowing semi-retired workers, students, and others who choose to only work part-time to participate in the labor market; however, many other part-time workers may prefer full-time employment.

In addition, increasing labor productivity would reduce labor needs. Labor productivity refers to the amount of output created with each labor hour and is a measure of the efficiency of labor. Productivity gains benefit businesses through more efficient production, but also benefit workers through faster wage growth, because each labor hour becomes more valuable to the employer. Enhancing productivity is achievable through better workforce education that allows workers to continuously upgrade skills and knowledge, and by businesses learning about and implementing the latest innovative technologies and practices. Better productivity also requires communication and networking with researchers who are identifying best practices, as well as communication with upstream and downstream businesses to identify ways to save labor hours.

Productivity enhancing investments will occur naturally in response to market forces. As labor becomes more expensive, businesses will invest in productivity-enhancing machines and automation to allow each worker to produce more output. The new technologies will produce more output with fewer labor hours, re-deploying workers into more productive activities, and allowing economic growth to continue despite the labor shortage. Research on the effects of automation suggest that many repetitive work tasks may be automated in the future, changing the workday to require more critical and creative thinking, communication skills, customer service, and cross-disciplinary problem solving. Ultimately, Montana's long-term growth depends on our ability to increase technology, productivity, and innovation.

Montana's Growth is Expected to Continue

Montana's economic growth continues, adding benefits for both businesses and workers. While challenges to our state's economy will always be present, our economic resiliency and industry diversity make it possible to overcome these challenges. Montanans have once again shown our mettle in lifting the state's economy to superior growth. With the first half of 2018 in the books, preliminary data indicates that the state's economy continues to gain steam. Montana workers and businesses look forward to continued economic prosperity.