

What is Montana's Top Industry?

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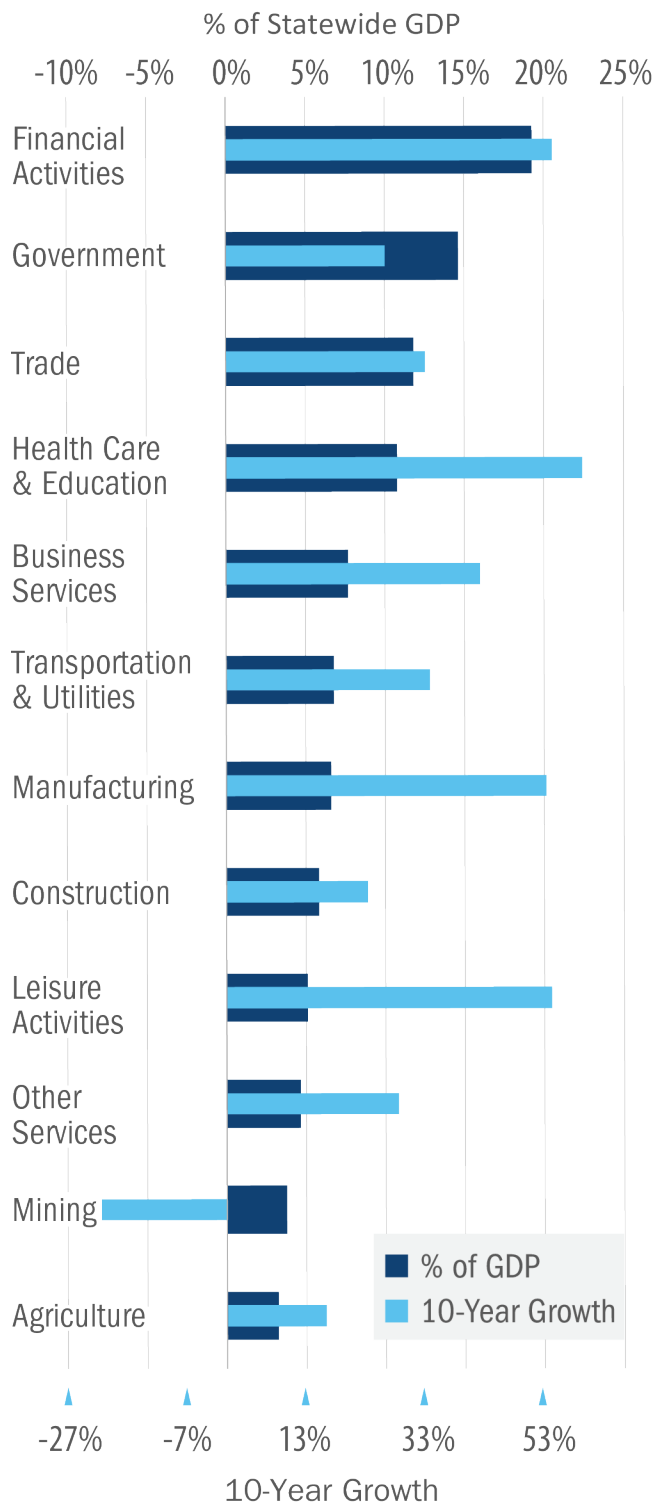
If a person were to ask “What is Montana’s top industry,” the truth is that each industry plays an important role in Montana’s economy. While one industry pays the highest wages, another employs the most workers. One may produce the most value in the state, while another provides the most income to Montanans. Just as a financial advisor may recommend a diverse investment portfolio for the best performance, so too does Montana’s economy benefit from having a strong mix of industries. Each industry has value to Montana’s economy, and has contributed to Montana’s economic growth over the last 10 years. This article reviews the different ways each industry contributes to the statewide economy.

Gross Domestic Product

Gross Domestic Product (GDP), or the total value of goods and services produced by an industry, can be used to measure and compare the economic contribution of Montana’s industries. As seen in **Figure 1**, Montana’s largest industries by GDP in 2018 were Financial Activities, Government, and Trade. The industries that make up a large portion of GDP are generally those that are utilized by the largest number of people.

For example, Financial Activities, which includes banks, insurance companies, and real estate, are resources that many Montanans use. Similarly, Government includes public sector activities that are found across the state, from local schools, police departments, and city and county administration to federal activities such as the postal service, national parks and forests, and Veterans Affairs.

FIGURE 1
Montana Industry GDP
 2018 Percent and 10-Year Growth



Source: US Bureau of Economic Analysis

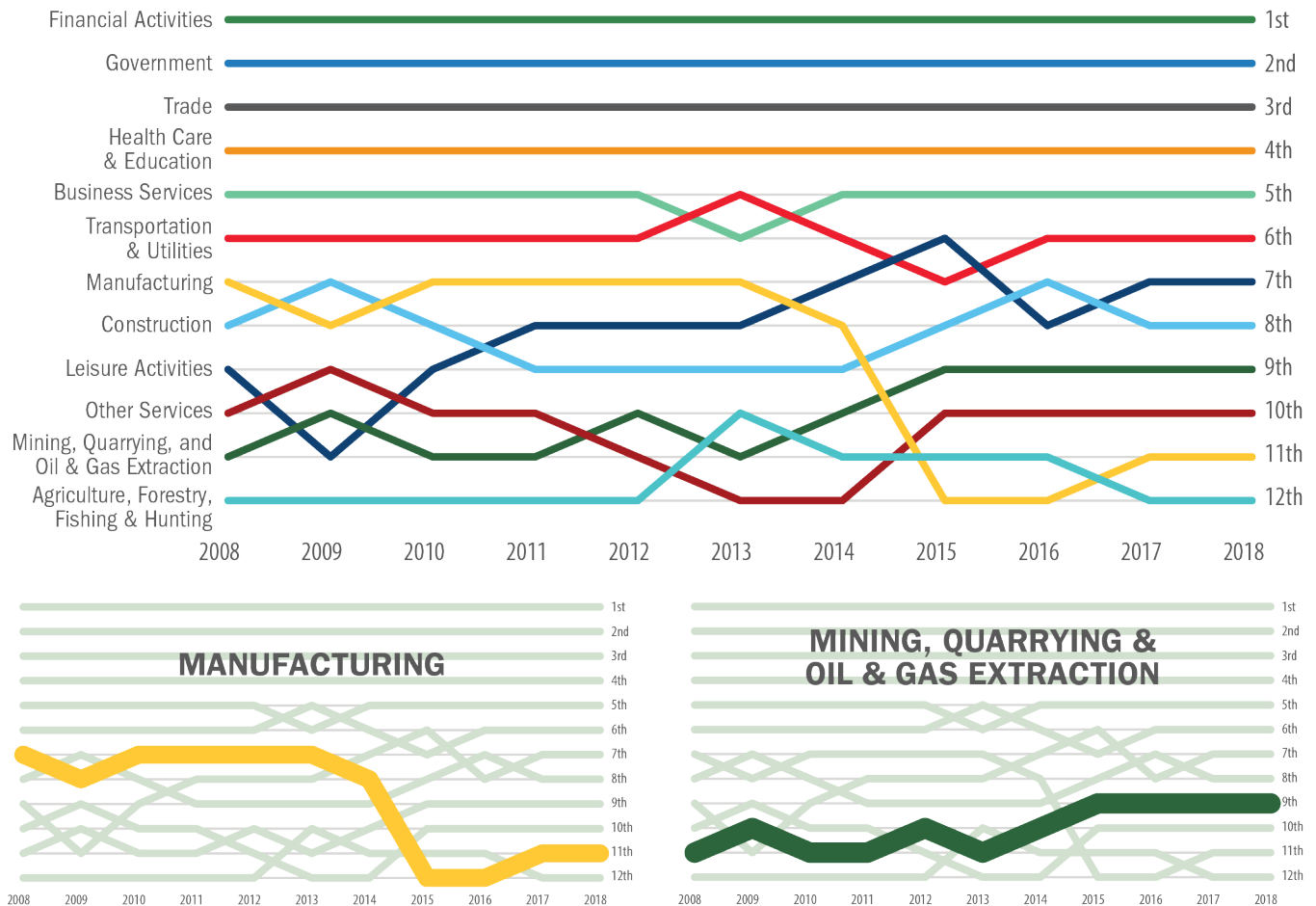
GDP growth by industry identifies areas where economic activity is expanding. Over the past decade, Montana's fastest-growing industries were not necessarily the largest. Healthcare, Manufacturing, and Leisure Activities had the fastest GDP growth over the past 10 years (**Figure 1**). Healthcare is playing a larger role in Montana's economy as the state ages, and more healthcare services are required. Growth in Manufacturing has been an area of success for Montana's economy, growing at an annual average of 5.4% from 2008-2018 compared to 2.9% nationwide, as it has become a greater share of statewide GDP. Growth in wood products and food and beverage products manufacturing has fueled this trend for the Manufacturing industry.

With Montana's industries growing at different rates, their relative standing changes over time. **Figure 2** shows the GDP ranking for Montana's industries from 2008 to 2018. While Montana's largest GDP industries stayed in the same position over the last 10 years, there was fluctuation among smaller industries. The changes in GDP contribution over time reflect the value of industry diversity in balancing cycles of growth and contraction in the state.

An example of the value of a diverse industry mix is Montana's Mining and Manufacturing industries during and after the last recession. Montana's Mining industry was the 7th highest for GDP share in 2008, due to high commodity prices before the recession. Oil and gas industry growth in the early 2010s provided further expansion. Beginning in 2014, the Mining industry began to see declining GDP due to a sharp drop in oil

FIGURE 2
Montana Industry GDP Rank
 2008 to 2018

Source: US Bureau of Economic Analysis



prices. By 2018, Mining was 11th in the state's GDP rank. Meanwhile, Montana's Manufacturing industry had a reverse trajectory. The industry declined during and immediately following the 2008 recession, falling as low as 11th highest for GDP in the state in 2009. Since then, gains across multiple manufacturing subindustries have contributed to a rebound in industry growth. Manufacturing was the 6th largest industry for GDP in 2018. These offsetting trends helped the statewide economy remain stable, and even grow, throughout it all.

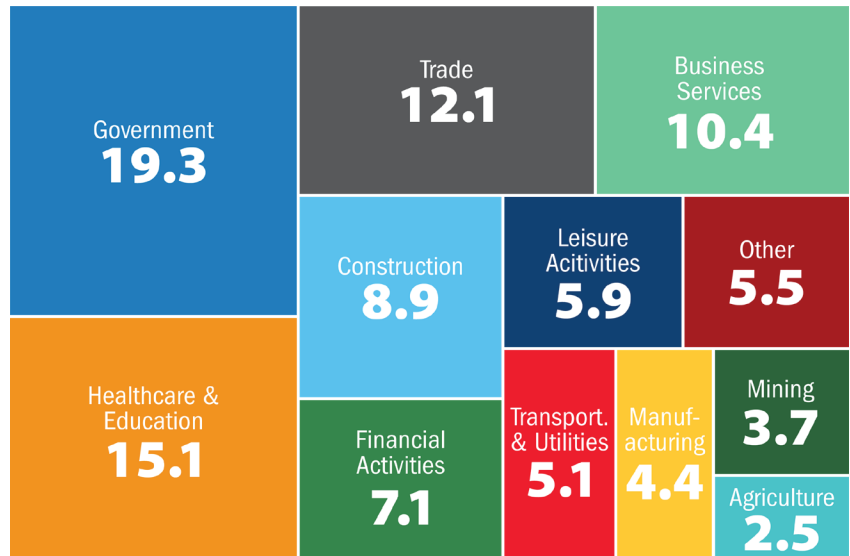
Personal Income

Personal income is the portion of GDP that is returned to Montanans in the form of work earnings or investment income. Of equal importance to having high GDP output is high personal income because it represents the portion of GDP that goes back to Montanans. Personal income can be reinvested locally through actions such as purchasing goods and services, and investing in business ventures, providing further positive effects on local growth in the state.

Government and Healthcare are the two largest industries for personal income in the state. In total, Government makes up 19.3% of personal income, with about three quarters of that coming from state and local government. Healthcare makes up 15.1% of personal income followed by Trade, which includes retail and wholesale trade, making up about 12% of personal income.

The rankings for GDP and personal income are similar because personal income is a subset of GDP. This means personal income can only be as high as GDP, and the higher GDP is, the higher personal income can be. However, there is variation between industries in terms of how much of GDP is realized as personal income

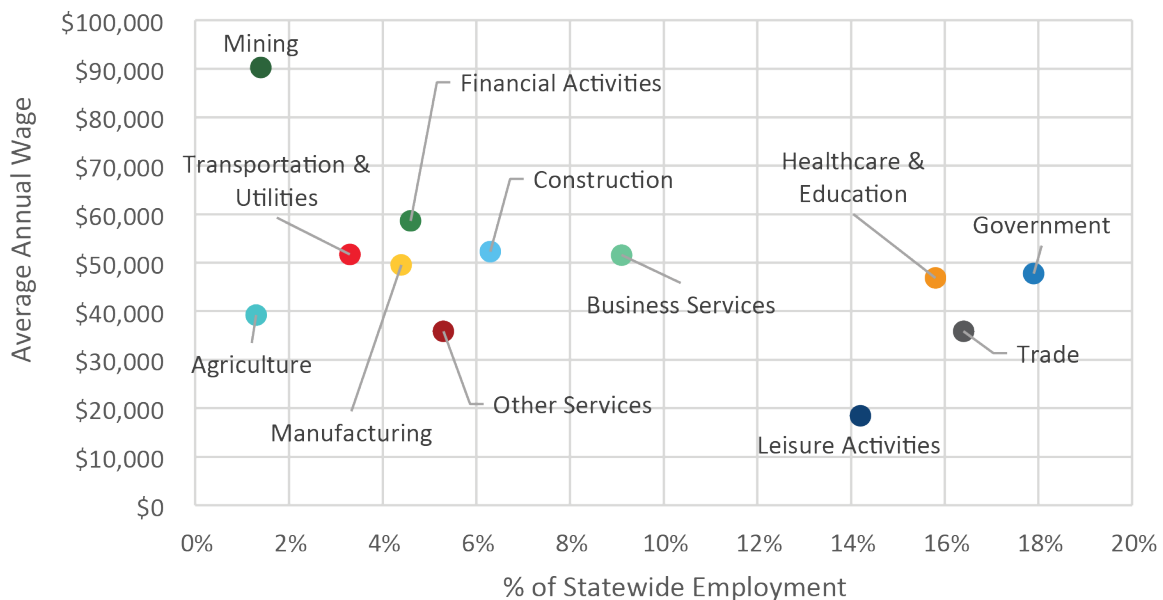
FIGURE 3
Montana Personal Income by Industry
2018



Source: US Bureau of Economic Analysis

in Montana. The Financial Activities industry makes up only 7% of personal income even though it is 19% of GDP. Much of the output of the Financial Activities industry is realized by out-of-state companies that offer resources like bank accounts, credit cards, and insurance policies to Montanans. In contrast, Healthcare is 15% of personal income despite being only 11% of GDP, in part due to the large number of workers and the high wages paid to workers in the Healthcare industry.

FIGURE 4
Montana Wages and Employment by Industry
2018



Other factors contribute to differences between industry GDP and personal income as well. Labor intensiveness of an industry and how profits are spent are other factors. Construction, for example, is a labor-intensive industry that requires a lot of workers with specialized skill sets who earn above average wages. The Construction industry makes up 9% of personal income compared to 6% of GDP because a large amount of the value produced in Construction returns to workers as wages. Comparatively, the Manufacturing industry makes up a greater share of GDP (6%) than personal income (4%). Manufacturing is less labor intensive and more capital intensive. Additionally, a greater portion of GDP is likely to be spent on expanded operations, capital investments, or research and development.

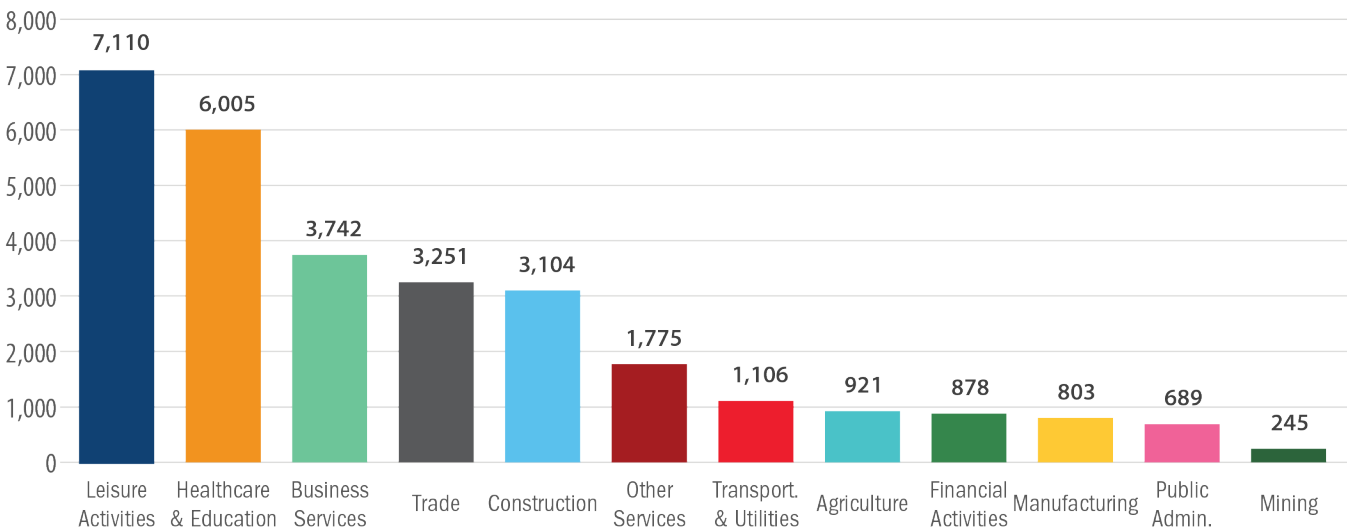
Employment and Wages

Another tool for comparing Montana’s industries is payroll employment and wages from the

Quarterly Census of Employment and Wages (QCEW). QCEW measures payroll employment and wages of UI-covered workers and provides valuable information about the number of jobs in each industry as well as the average earnings of workers in those jobs. Payroll wages are the primary source of income for most Montanans, therefore QCEW data is useful for looking at how industries benefit workers.

Montana’s industry with the highest average annual wage is Mining, followed by Financial Activities and Construction. At nearly \$91,000, the average annual wage for a Mining industry job is about \$31,000 more than the next closest industry. High wage jobs allow workers to set aside money for retirement, postsecondary education and training, and other large purchases, such as homes or cars. On top of that, high wage jobs allow greater consumer spending on discretionary items such as dining out, vacations, or sporting goods that boosts economic activity in other industries.

FIGURE 5
10-Year Net Job Creation for Montana Industries
2018



Source: US Census Bureau, Quarterly Workforce Indicators (2008-2018)

Government is the largest employer with about 18% of jobs, followed by Trade and Healthcare. Government makes up a large portion of jobs for similar reasons that it is a large share of personal income and GDP. The inclusion of local government and schools makes it a large employer across the state. Even though industries such as Trade and Leisure Activities pay relatively lower wages, they employ very large numbers of Montanans.

Job Creation

One last valuable metric for comparing Montana's industries is job creation over the last 10 years. Recent job creation helps us understand which industries have a growing role in Montana's economy. The industry with the most job creation over the past 10 years in Montana was Leisure Activities, with over 7,100 jobs created since 2008, according to the U.S. Census Bureau's Quarterly Workforce Indicator (QWI) program. The expanding economy in Montana over the past decade has led to increased consumer spending on things like dining out, vacations, or outdoor recreation. Not only have Montanans increased spending in these areas, but Montana is also a

destination for domestic and international travel, spurring further activity in the Leisure Activities sector.

The Business Services industry has also seen a significant amount of job creation. With over 3,700 jobs added over the last 10 years, Business Services stands out as an emerging industry with the third most jobs created, despite being the fifth largest industry. Included in the industry are accounting, engineering, and legal firms, but also software development or tech firms which have experienced especially large growth in southwest Montana.

Conclusion

Montana's economy has expanded over the last decade. Understanding how each industry has contributed to the state's economic growth is valuable understanding our state's economy. In doing so, it becomes clear that Montana's growth cannot be attributed to a single industry. Each of industry is a piece of an interconnected web of activity that makes up Montana's economy, which benefits from its diverse industry mix.

