MONTANA
BUSINESS QUARTERLY
VOLUME 48, NUMBER 1, SPRING 2010

OUTLOOK 2010

ECONOMIC RECOVERY?

What's Ahead for Men and Women Workers?

Inside:
- National, State, and Local Forecasts
- Home Sales
- Industry Reports:
  - Travel
  - Health Care
  - Agriculture
  - Manufacturing
  - Forest Products

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BUSINESS
AND ECONOMIC
RESEARCH

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The Bureau of Business and Economic Research has been providing information about Montana's state and local economies for more than 50 years. Housed on the campus of The University of Montana-Missoula, the Bureau is the research and public service branch of the School of Business Administration. On an ongoing basis, the Bureau analyzes local, state, and national economies; provides annual income, employment, and population forecasts; conducts extensive research on forest products, manufacturing, health care, and Montana Kids Count; designs and conducts comprehensive survey research at its on-site call center; presents annual economic outlook seminars in cities throughout Montana; and publishes the award-winning Montana Business Quarterly.

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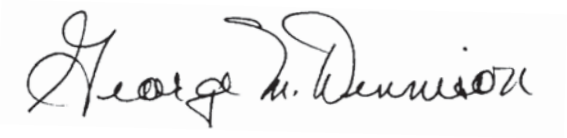
MESSAGE FROM PRESIDENT GEORGE DENNISON

During trying times such as the present, we appreciate all the more the *Montana Business Quarterly* as the source of relevant economic news, whether good or bad. We simply rely on the staff and analysts to keep us informed. The current economic downturn hit Montana after wreaking havoc elsewhere, and we have benefitted greatly from the perspective provided by the even-handed analysis of trends and likely consequences the *Quarterly* has provided. Local developments make sense within this larger economic framework, even if we sometimes prefer quieter times. The analysts for the *Quarterly* remind us that the differences between the Montana and the national economy will not shield us from many of the impacts, even if we have had a bit more time to prepare.

In a very real if sometimes problematic sense, when the macrocosm becomes the microcosm, we sometimes lose our bearings. However, we must keep in mind that economic developments frequently if not usually generate new opportunities that take shape following a period of creative destruction. To navigate uncharted terrain and emerge stronger than when we entered the process, we depend on the insight and guidance that the staff of the *Quarterly* brings to bear. We of The University of Montana, and I dare say the people of the state of Montana, take great pride in the tradition of objective inquiry and realistic counsel provided over the years.

In that regard, I cannot overstate the relevance and quality of the *Quarterly*'s service to the state during good and bad times. While personnel changes occur from time to time, as in any institution, the Bureau of Business and Economic Research, The University of Montana's long-standing and recognized source of proven and trustworthy economic analysis, persists as a voice of reason so important to us all. I commend this issue to the readers for these reasons.

George M. Dennison



President
The University of Montana

MONTANA
BUSINESS QUARTERLY

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Cover design by Gwen Landquist

The *Montana Business Quarterly* (ISSN0026-9921) is published four times a year by the Bureau of Business and Economic Research and is a service of The University of Montana-Missoula. The subscription rates for the *Quarterly* are $35 per year, $65 for two years, $90 for three years, and $10 per issue. Periodical postage is paid in Missoula, MT 59812. POSTMASTER: Send address changes to the *Montana Business Quarterly*, Bureau of Business and Economic Research, The University of Montana, Missoula, MT 59812. The *Montana Business Quarterly* is available on microfilm from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 49106. Reprints of the articles are not available, but additional copies of the *Quarterly* can be secured at $10 per copy. All inquiries regarding subscriptions, publications, etc., should be addressed to: *Montana Business Quarterly,* Bureau of Business and Economic Research, The University of Montana, Missoula, MT 59812, 406-243-5113.

Economic Recovery

What's Ahead for Men and Women Workers?

by Wendy A. Stock

Predicting what is ahead for Montana's men and women workers as we move from the economic downturn and into what is expected to be a slow and subdued recovery requires us to look back on how the recession affected those workers. The recession's impact on men and women differed nationally and even generated the coining of a new term, "mancession," to describe the more negative impacts of the recession on males. Higher rates of job loss for males had the related impact of pushing the percentage of female workers in the national economy upward, to the point where data indicate that women now constitute a near majority of the nation's workforce. Recession-induced changes in family structures and educational attainment are likely to have long-lasting impacts. The recession's impacts on men and women in Montana have matched some, but not all, of the national trends.

> "The recession's impact on men and women differed nationally and even generated the coining of a new term, 'mancession,' to describe the more negative impacts of the recession on males."

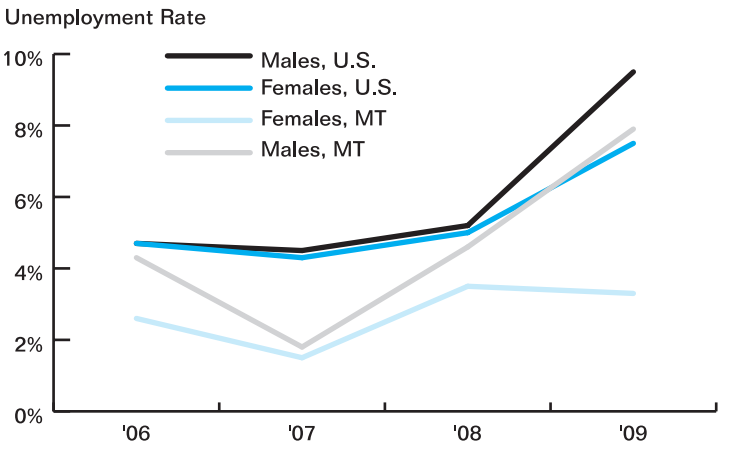
Unemployment

As shown in Figure 1, in 2006 the national unemployment rate was at 4.7 percent for both men and women. It diverged only slightly in March 2008 (to 5.2 for men and 5.0 for women) and then rose dramatically afterward, but much more so for men than for women. By March 2009, the national unemployment rate for men was 9.5 percent compared to 7.5 percent for women. Thus, the nation saw the unemployment rate gap between males and females move from essentially zero at the start of the recession to more than 2 percentage points by 2009. Roughly 1.7 million more men than women entered the ranks of the unemployed between March 2008 and March 2009.

Although much has been made about this male/female unemployment rate gap during the past 18 months, larger increases in male unemployment than female unemployment are not uncommon during recessions. Indeed, during the most recent recessions of 1990-91 and 2001, the male/female unemployment gap was roughly 1 to 2 percentage points – similar to what we have seen during the present recession. These gaps tend to close during economic recovery periods.

The male and female unemployment rates for Montanans show a different pattern than the national data. The unemployment rate for males rose from a low of about 2 percent in 2007 to 4 percent in 2008 and roughly 8 percent in March 2009. The female unemployment rate was similar to that of males in 2007, at roughly 2 percent. It rose to

Figure 1
Male and Female Unemployment Rates



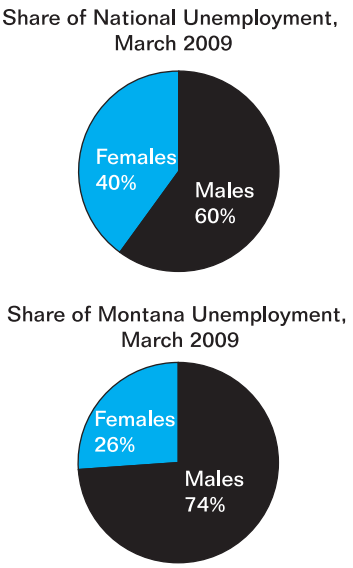
Source: U.S. Bureau of Labor Statistics seasonally adjusted figures for national unemployment rates and author's computations from March Current Population Survey, U.S. Bureau of Labor Statistics, for Montana figures.

near 4 percent in 2008, but then leveled off. These trends generated an unemployment rate gap between males and females in Montana of about 4.5 percentage points – double the national unemployment gap. By this measure at least, the larger negative impacts of the recession on males relative to females were worse in Montana than in the United States more broadly. Although male/female unemployment gaps tend to narrow during expansions, the larger gaps in Montana have not narrowed as systematically as at the national level.

Figure 2 further illustrates the more negative relative impact of the recession on males in Montana than in the United States. Although males made up 60 percent of the nation's unemployed in 2009, in Montana they accounted for roughly 75 percent of the unemployed.

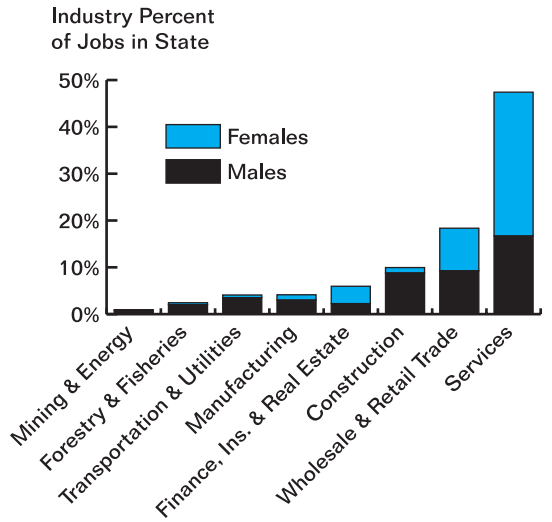
Explanations for the larger impact of the recession on Montana males than females come largely from differential changes in employment among industries and occupations where males versus females tend to work. Figure 3 on page 4 shows the industrial distribution of nonagricultural employment in Montana, as well as the share of males and females in these industries. Males account for over 80 percent of the workers in the mining and energy, construction, forestry and fisheries, and transportation and utilities industries in the state. Females are more prevalent in the services and finance, insurance, and real estate sectors. As shown in Figure 4 on page 4, the male-dominated

Figure 2
Shares of Unemployment
United States and Montana
March 2009



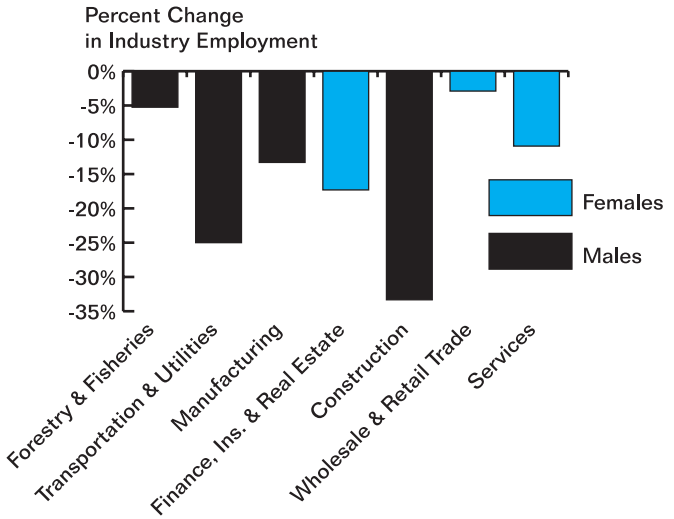
Source: U.S. Bureau of Labor Statistics seasonally adjusted figures for national unemployment rates and author's computations from March Current Population Survey, U.S. Bureau of Labor Statistics, for Montana figures.

Figure 3
Male-Female Employment In Montana by Industry, 2005-2009



Source: Author's computations from March Current Population Survey data from the U.S. Bureau of Labor Statistics. Percentages exclude agriculture. Data are averaged over 2005-2009.

Figure 4
Montana Industry Employment Changes, 2008-2009



Source: Author's computations from March Current Population Survey data from the U.S. Bureau of Labor Statistics. Percentages exclude agriculture. Small sample size for mining and energy precludes reporting changes for this period.

industries – particularly construction and transportation and utilities – saw much larger drops in employment during the 2007-2009 period than did the predominately female services and finance, insurance, and real estate sectors.

A similar result holds if we examine employment by occupation rather than industry. The public service, technical services, and laborer occupations, which are more than 80 percent male, saw much larger employment declines than the clerical and support occupations, which are more than 80 percent female. In addition, the personal services and health-related occupations (which are just under 80 percent female) saw employment gains during 2008-2009.

Women Closer to Majority of Workforce Nationally

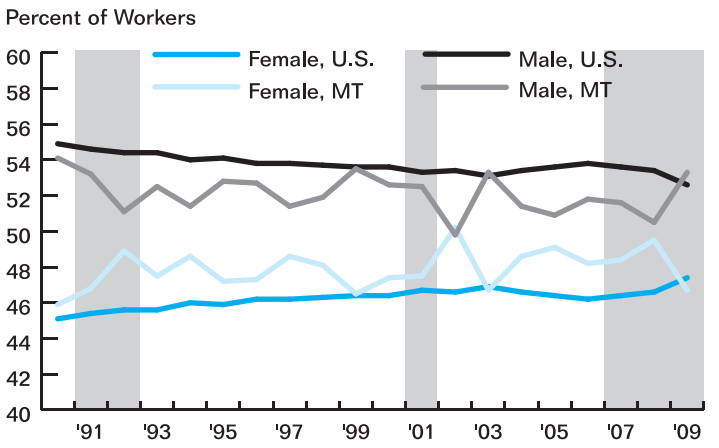
The higher rates of job loss among males than females generated another trend nationally that does not appear to be matched in Montana: Women moved closer to becoming the majority of the nation's workers. As shown in Figure 5, between March 2008 and March 2009, the male percentage of the workforce fell from its steady rate of 53 percent for several years to 52 percent. Correspondingly, the percentage of the nation's workers who are female rose from 47 percent to 48 percent.

Similar estimates for Montana show that the recession has come with a divergence rather than a convergence in the male/female percentages of the workforce. The percentage of workers in Montana who are women increased – similar to the national trend – throughout 2007-2008. Between 2008 and 2009, however, the percent of Montana's workers who are women fell to roughly 46.5 percent. The decline in women's representation in the state's workforce arises because women are exiting the labor force altogether at larger rates in Montana than nationally. Those exiting the labor force are disproportionately women from lower-income households and women with young children, groups particularly sensitive to the declines in wages or hours that accompany economic downturns.

Changes in Family Structure and Educational Attainment

Although entry into marriage tends to fall during recessions and the rate of divorce rises during economic contractions, these impacts are smaller than headlines in the popular press tend to imply.[1] Evidence does indicate that women tend to delay pregnancy during recessions. Data from the Guttmacher Institute indicate that 44 percent of sampled women report that they want to reduce or delay their childbearing because of the economy. This impact is larger

Figure 5
Male and Female Percentages of Workers



Source: Author's computations from March Current Population Survey from the U.S. Bureau of Labor Statistics. Shaded areas represent recession periods.

among families with lower household incomes and in worse economic situations (such as unemployment).[2]

One positive outcome of the recession is record college enrollment, both nationally and in Montana. Enrollment at institutions in the Montana University System rose by 2.3 percent between 2008 and 2009 (to 36,375 full-time equivalent students), particularly at Montana's community colleges and colleges of technology.[3] This reflects national trends, where enrollment of 18- to 24-year-olds at two-year colleges rose by roughly 300,000 students between October 2007 and 2008. This does not appear to be the result of a large influx of older students entering college after layoff. Indeed, the percentage of U.S. college students who are either 25-35 or 35 and older has been stable at roughly 20 percent for each group since 1990.[4]

What's Ahead for Men and Women Workers?

Like the recession, the economic recovery will likely have different impacts on men and women in Montana. Bright spots include the public services, education, and health care sectors, which fared well during the downturn and are likely to grow during the recovery and in response to the American Recovery and Reinvestment Act. This translates into better news for women, since they make up larger portions of the health care and education sectors. Growth in the construction, forestry, transportation, and manufacturing sectors is likely to be slower, since slack in the housing and related markets will slow down recovery in those areas. Because men are dominant in these sectors, a broad economic recovery will likely be slower for them.❑

Wendy Stock is a professor of economics and the department head of Agricultural Economics and Economics at Montana State University.

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[1]See, for example, "Divorce During Recession," *Forbes*, 7/7/2008, "Will the Market Kill Your Marriage?" *Time*, 10/23/2008, James White, (1990) "Discrete Time Models of Entry into Marriage Based on Retrospective Marital Histories of Young Adults in the United States and the Federal Republic of Germany." SIPP Working Paper Series No. 9035/140 and Scott J. South (1985) "Economic Conditions and the Divorce Rate: A Time-Series Analysis of the Postwar United States," *Journal of Marriage and Family*, 47(1) (February): pp. 31-41.

[2]Guttmacher Institute, "A Real Time Look at the Impact of the Recession on Women's Family Planning and Pregnancy Decisions," http://www.guttmacher.org/media/nr/2009/09/23/index.html.

[3]Montana University System, "Annual Average Full-Time Equivalent Enrollment." http://mus.edu/data/enrollment/Summary%20Enrollment%20Report%20(FY99-FY09).pdf.

[4]Richard Fry, Pew Research Center, "College Enrollment Hits All-Time High, Fueled by Community College Surge." October 29, 2009. http://pewsocialtrends.org/pubs/747/.

U.S. Economic Recovery
Slow Getting Started

by Patrick M. Barkey

The deepest recession in several generations is finally over, but the hangover remains. Growth has begun slowly in the national economy, with a very modest uptick in housing and industrial output providing the spark. Expansion will be helped by exports and the weak dollar, but will be held in check by weak consumer spending and tighter credit. Stronger growth is not foreseen until 2011, and until then the economy remains in a fragile state.

Top Ten Economic Predictions for 2010 (Courtesy of IHS Global Insight, Inc.)

1. The U.S. recovery will get out of the gate slowly, with growth in real GDP stuck in the 2.0 to 2.5 percent range for much of 2010.
2. Europe and Japan will rebound more slowly than the United States, especially eastern Europe, Ireland, Spain, and Iceland, which may continue to contract through part of the year. Growth in the European Union will be around 0.8 percent in 2010.
3. Most emerging markets – especially in Asia – will outpace the developed economies. Non-Japan Asia will be at the forefront, with growth of 7.1 percent in GDP, with Latin American and Middle East economies also enjoying faster growth.
4. Interest rates in all of the major economies will remain very low.
5. Fiscal stimulus will begin to ease. Estimates are that $561 billion of the $787 billion stimulus package passed in spring 2009 will be expended during the first two calendar years.
6. Commodity price increases will ease. The slow pace of worldwide recovery will deflate some of the speculative pressure that has helped increase commodity prices, with oil prices expected to fall back to the $65/barrel range by the spring.
7. Inflation will (mostly) not be a problem, with high unemployment rates and excess capacity reducing the price-setting power of workers and companies. Inflation will only be an issue in Asian economies and a few other countries that tie their currencies to the dollar.
8. After improving for a while, global imbalances will worsen again. The trade deficit, which plunged by $450 billion in 2009, will widen again by $90 billion in 2010 as export-led economies like Germany and China once again increase exports to the United States.
9. While the dollar may strengthen a little, it is on a downward glide path. The dollar will be mixed against the euro and the yen, but will weaken significantly against emerging market currencies.
10. The risk of a growth slowdown – a "W" recovery – remains uncomfortably high. There is a one-in-five chance of a double-dip downturn, possibly triggered by premature tightening of fiscal and/or monetary policies, a retrenchment of consumer spending, or by new surprises in financial markets.

Table 1
Economic Trends for the U.S. Economy, 2004-2013
Actual and Projected as of December 2009

	Actual					Projected				
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP (chained $), percent change	3.6	3.1	2.7	2.1	0.4	-2.5	2.2	2.9	3.8	3.1
Inflation (CPI-U), percent change	2.7	3.4	3.2	2.9	3.8	-0.3	1.7	2.0	1.9	1.9
Interest Rates										
90-day T-bills, percent	1.4	3.1	4.7	4.4	1.4	0.1	0.5	2.1	3.4	3.7
Morgage rates (30 years), percent	5.8	5.9	6.4	6.3	6.0	5.0	5.1	5.5	6.1	6.4
Housing starts, millions	1.95	2.07	1.81	1.34	0.90	0.56	0.81	1.24	1.59	1.71
Unemployment rate, percent	5.5	5.1	4.6	4.6	5.8	9.3	10.2	9.6	8.6	7.7
Oil, West Texas Intermediate ($/barrel)	41.47	56.56	66.12	72.18	99.76	61.98	68.25	77.17	83.16	87.02

Source: IHS Global Insight Inc.

Montana Outlook
The Transition to Growth

by Patrick M. Barkey

It certainly has been a trying time for the Montana economy. The state remains in the grip of its worst recession since the 1980s, and news of closures and layoffs is depressingly easy to find. Yet it is also apparent that a long-awaited recovery in the economy has begun to take hold. We know that the U.S. economy has already swung to growth, beginning as early as late last summer. We believe that the Montana economy has also swung to growth as well – although the data to prove it won't be available for several months.

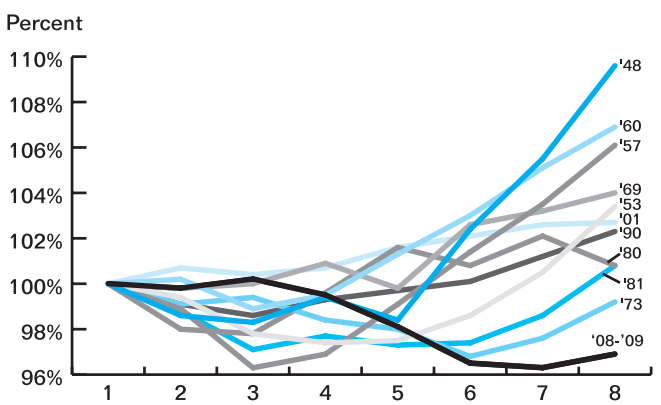
But it will not be a robust recovery, either for Montana or for the U.S. economy. To understand why that is so, we need to first understand why this recession – dubbed the Great Recession by some – has been so different from other downturns in recent experience.

The Recession of 2008-2009

The 2008-2009 recession has been the longest and deepest contraction in the U.S. economy since World War II. In the eight quarters since the recession was declared, total economic output fell by almost 4 percent. As shown in Figure 1, the depth and the duration of this recession exceed any of the 10 officially declared national recessions that preceded it. But this most recent recession experience is still on the same page as others the economy has suffered and not the full-scale panic and depression that many had feared.

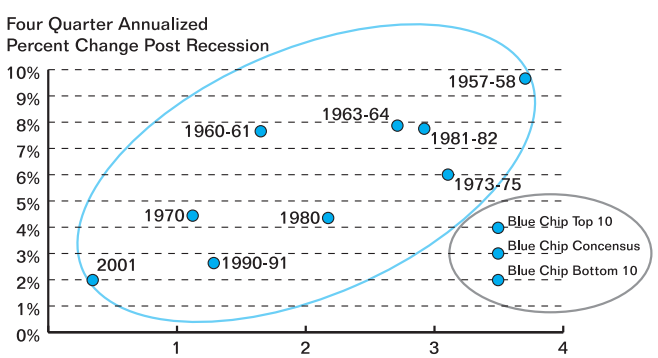
But beneath this superficial similarity, there are important differences between the recent recession and those of the past. This is evident from the kind of recovery that most economists are projecting. If you were to plot out all of the post-World War II recessions according to the depth of the downturn (measured in percentage change in Gross Domestic Product (GDP) from pre-recession peak to recession trough on the horizontal axis) and growth in the recovery (as measured by the four-quarter average of the percent change in GDP immediately following), a clear relationship can be seen, as depicted in Figure 2. Broadly stated, deep recessions are usually followed by robust recoveries, and vice versa, at least in the immediate wake of the downturn.

Figure 1
Real GDP as a Percent of Pre-Recession Peak
Post-World War II Recessions



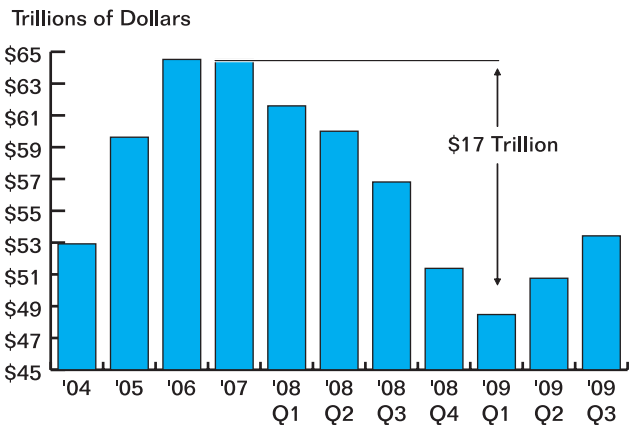
Source: U.S. Bureau of Economic Analysis.

Figure 2
Peak to Trough Decline in GDP
vs. Post-Recession Growth
Post-World War II Recessions



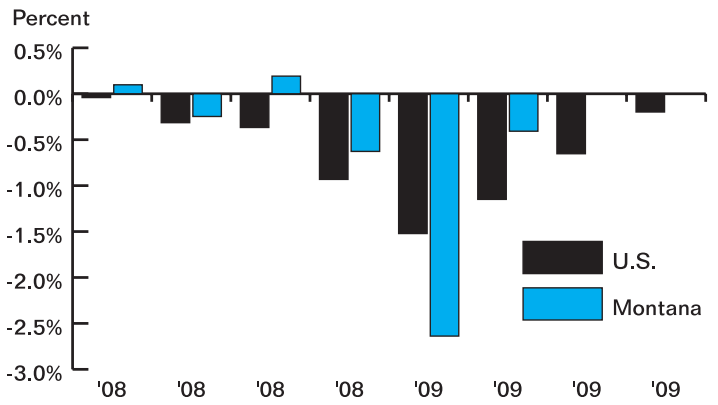
Source: U.S. Bureau of Economic Analysis, Blue Chip.

Figure 3
U.S. Household Net Worth
Trillions of Dollars



Source: Federal Reserve.

Figure 4
Payroll Employment, Percent Change
U.S. and Montana, 2008 Q1 - 2009 Q4



Source: U.S. Bureau of Labor Statistics.

The difference emerges when you plot the recent recession. We obviously don't have data yet for the post-recession recovery, but if we were to use instead the growth forecast by a survey of economic forecasters – the Blue Chip Consensus forecast – a striking contrast can be noted. Despite the fact that this recession has been the most severe, all three of the forecasts – the most optimistic, the consensus, and the most pessimistic from the Blue Chip survey – are quite pessimistic. No burst of "make-up" growth is anticipated by forecasters in the wake of this recession.

The reasons for this pessimism have to do with the nature of this recession. Whereas previous recessions have disrupted income flows in different pieces of the economy – energy, high tech, defense, or real estate – this has clearly been what might be called a "net worth" recession. It has produced an enormous decline in asset values, effectively wiping out $17 trillion of U.S. household net worth in the span of eighteen months. Those declines occurred as home prices, equity prices, and commodity prices all fell significantly.

As shown in Figure 3, there has been some recovery in net worth since the trough reached in the first quarter of last year, thanks to a rebound in stock markets and progress toward stability in home prices. Yet consumers still find themselves in a significantly worse position than before the recession, which why they have been saving more and spending less. Every economic recovery has been characterized by an increase in credit that fuels fast growth in consumer spending. But in the wake of the crash in asset prices, this spending surge is going to take much longer to arrive.

Recession in Montana

The most recent data on the 2008-2009 recession in Montana make it clear that:

- the recession has impacted every part of the state, with once faster-growing western counties most severely affected;
- downturns in private sector employment have occurred in every industry except health care;
- the Montana economy has been much more in sync with the U.S. economic downturn than has occurred in previous recessions.

The recession has produced declines in inflation-adjusted nonfarm income in the state economy in two consecutive years, 2008-2009, for the first time since 1986. What began as a contraction in construction and wood products industries in 2008 spread out into almost every other sector of the state economy as the recession worsened, with retail trade, trucking, and warehousing industries especially affected. Job declines across Montana peaked in the first quarter of 2009.

The pattern of job declines in Montana over time closely resembles what has occurred in the national economy, as shown in Figure 4. For both Montana and the United States., job declines were most severe in the first three months of 2009, with declines tapering off significantly since that point. Almost all sectors of the Montana economy experienced job losses, as shown in Figure 5.

The data make it clear that wealth-destroying declines in asset prices affected Montana consumers and businesses in much the same way as those across the country, producing weakness in both business and consumer spending that was felt in all segments of the economy. In the national economy, recovery in consumer spending is expected to be slow, as households increase savings and shed debt. Will the recovery in Montana over- or undershoot that performance?

The Montana Outlook

Only modest growth is projected for the national economy in 2010, with tepid new hiring expected to produce little change in uncomfortably high national unemployment rates. There are several reasons why Montana's economic performance in the coming year can be expected to exceed these modest expectations:

- the significant recovery in prices of important commodities, including copper, zinc, lead, and oil improves the prospects for Montana's natural resource industries;
- Montana's exposure to the housing market adjustments that have produced high rates of foreclosures and large numbers of unsold homes elsewhere is limited, so the negative impacts of the housing bust will be less severe;
- the state economy has a stronger reliance on industries like agriculture and activities of the federal government which have fared relatively better during the downturn.

On the other side of the equation, there are some special challenges to growth in the state economy in 2010 that the national economy does not face. Perhaps the most significant obstacle to growth in Montana is the decline in the state's forest products industry. The permanent closures of facilities in western Montana are still reverberating through the rest of the economy, and can be expected to act as a drag on growth in the coming years. There is also no prospect of a quick return to fast growth for residential construction. We project that housing construction, as measured by residential housing starts, will only reach 65 percent of its pre-recession peak levels by the end of year 2013.

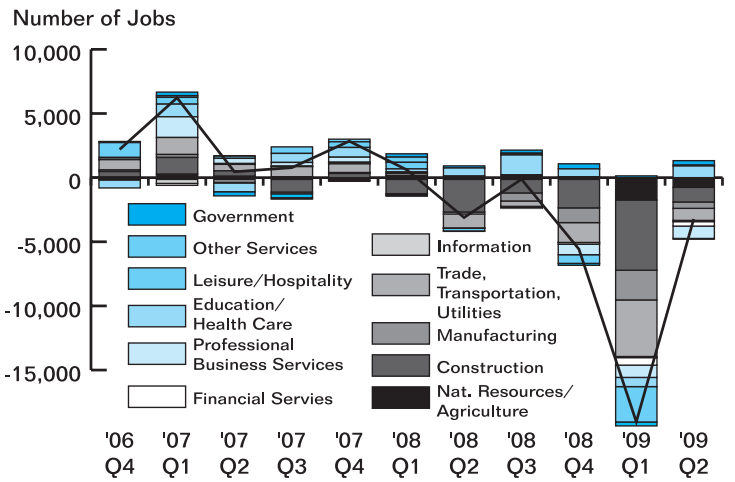
We expect to see some recovery overall in the state economy in 2010, as consumer spending in the national economy stabilizes and markets for Montana's products begin to improve. Modest improvement in residential construction and natural resources industries will combine with increases in health care and government spending to produce slow growth in the state economy. Job growth will be slow, and the unemployment rate is expected to remain high through the end of the year. The recovery will be slow, and rapid growth is not foreseen until 2011.

The BBER forecast for the state economy calls for significantly slower growth than prevailed prior to the recession, as shown in Figure 6. In the period since the end of the 2001 recession and the beginning of the current recession, Montana enjoyed an average rate of growth in nonfarm labor income of 3.3 percent. Over this time period the state experienced an energy boom, a significant increase in construction activity, and a steady rise in spending by nonresident visitors.

During the eight quarters of recession beginning in 2008, growth turned negative, hitting an average decline of 1.2 percent. Beginning in 2010, the BBER forecast calls for average growth of only 2.4 percent, with growth not even hitting that mark for most of 2010. We are more optimistic that the recovery will show more strength beginning in 2011, as the imbalances in the economy work themselves out and consumer spending resumes faster growth.❑

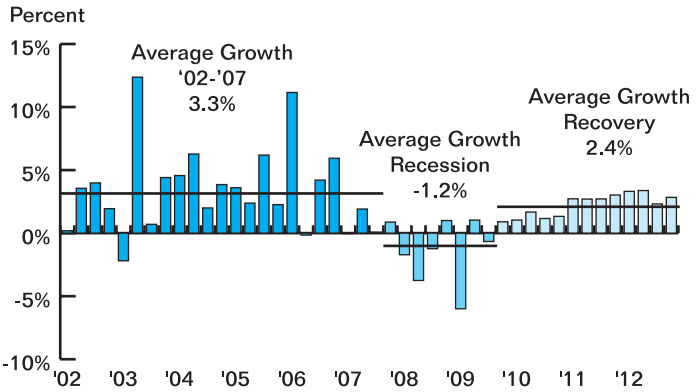
Patrick M. Barkey is the director of The University of Montana Bureau of Business and Economic Research.

Figure 5
Montana Payroll Employment Growth by Sector



Source: U.S. Bureau of Labor Statistics.

Figure 6
Montana Nonfarm Labor Income, Percent Growth, Actual and Predicted, 2002Q1 - 2013 Q4



Source: Bureau of Economic Analysis and BBER forecast.

Local Outlook

Recession Impacts Different in Every County

by Paul E. Polzin

There is almost no place in Montana that escaped this recession, but the recession impacts do vary from city to city. This article looks at the way the recession is playing out in the various cities around the state.

Before looking at the recession, let's look at where we were when the recession began in late 2007. The period from 2001 to 2007 was the recovery phase of the business cycle which began with the post-Sept. 11 recession.

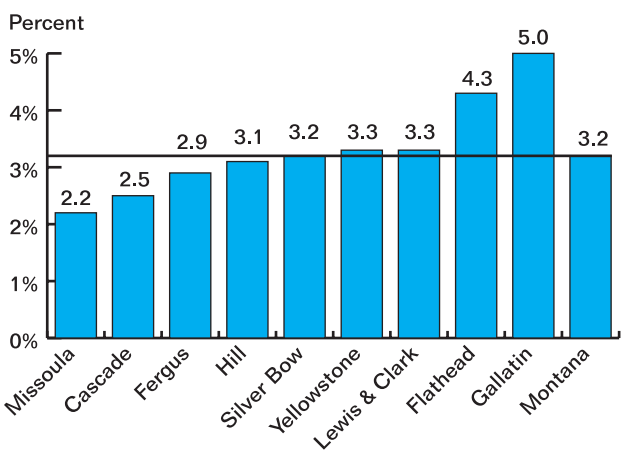
As shown in Figure 1, statewide economic growth averaged about 3.2 percent per year from 2001 to 2007. This growth was above the long-term figure because it was fueled by the energy and commodity boom of the mid-2000s. From 2004 to 2006, Montana experienced some of the fastest statewide growth since the 1970s.

Figure 1 also presents the average annual growth for Montana's communities, arranged from the slowest to the fastest. These counties may be roughly categorized into three groups. The slowest growing were Missoula and Cascade counties. Five counties were growing at about the statewide average, including Butte-Silver Bow, Fergus, Hill, Lewis and Clark, and Yellowstone. The fastest growing areas of the state were Flathead and Gallatin counties. For the most part, this rapid growth was due to the construction/real estate bubble, which was most pronounced in these two counties.

Missoula County's low ranking may be surprising because is often portrayed as a fast growth economy. The data in Figure 1 suggest that Missoula County was lagging even before the onset of the recession. The major reason for this relatively slow growth is that most of the energy/commodity growth occurred in eastern Montana, and Missoula's role as a regional trade center began to suffer.

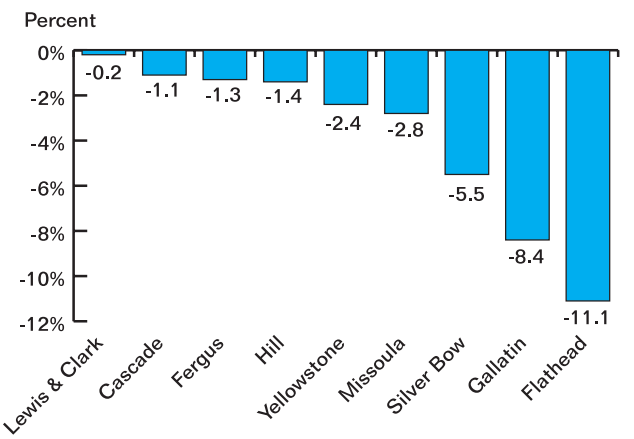
Figure 2 examines the impacts of the recession on Montana communities. It presents the percent change in

Figure 1
Annual Percent Change in Nonfarm Labor Income (in Constant Dollars), 2001-2007



Source: U.S. Bureau of Economic Analysis.

Figure 2
Annual Percent Change in Total Wage and Salary Employment, March 2008 to March 2009



Source: U.S. Bureau of Labor Statistics.

wage and salary employment from March 2008 to March 2009. This does not exactly correspond to a peak-to-trough measure, but it is a good approximation for most Montana communities. The cycle peak has been established as the fourth quarter of 2007. The cycle trough has not yet been dated, but many economic variables appear to have bottomed during the first quarter of 2009.

It takes only a quick glance to see what happened in Gallatin and Flathead counties. They were the fastest growing during the recovery phase and experienced the largest declines during this recession. Nonfarm wage and salary employment declined 11.1 percent in Gallatin County and 8.4 percent in Flathead County between March 2008 and March 2009.

Lewis and Clark, Cascade, Fergus, and Hill counties experienced the least recession impacts. The decline in nonfarm wage and salary employment was less than 2 percent in each county. Two of the counties (Lewis and Clark and Cascade) are dominated by the federal or state governments, which helped to stabilize the local economies, and two counties (Hill and Fergus) are smaller communities and are home to noncyclical industries such as agriculture.

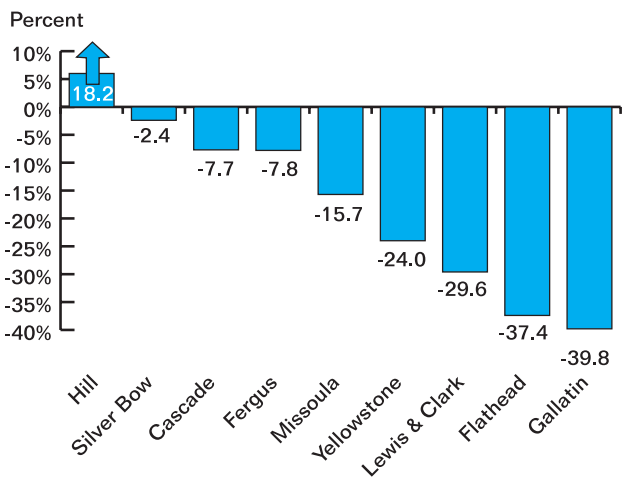
The employment declines in Yellowstone, Missoula, and Butte-Silver Bow counties were 2 to 6 percent, in between the greatest and least impacted counties. The 2.8 percent decline in employment in Missoula County probably understates the overall recession impact on this community because the recession began earlier and is likely to last longer than elsewhere. There were layoffs and closures in the wood products industry before the official cycle peak in late 2007, and the shutdown of Smufit-Stone occurred in early 2010.

Another way to look at the recession impacts across Montana communities is to examine trends in the construction and retail trade industries – two of the hardest hit industries. The housing and construction bubble was one of the headline events of this cycle, and the loss of wealth significantly affected consumer spending.

Figure 3 presents the change in construction employment between June 2007 and June 2009. As expected, the greatest decreases were in the areas where the housing bubble was the largest. Construction employment declined by 35 to 40 percent in both Flathead and Gallatin counties. Surprisingly, communities with only mild overall recession impacts still experienced significant construction declines; the decrease was 29.6 percent in Lewis and Clark County and 24.0 percent in Yellowstone County. Hill County was the only community to have an increase in construction employment during this period, and this was due to a major downtown road rebuilding project.

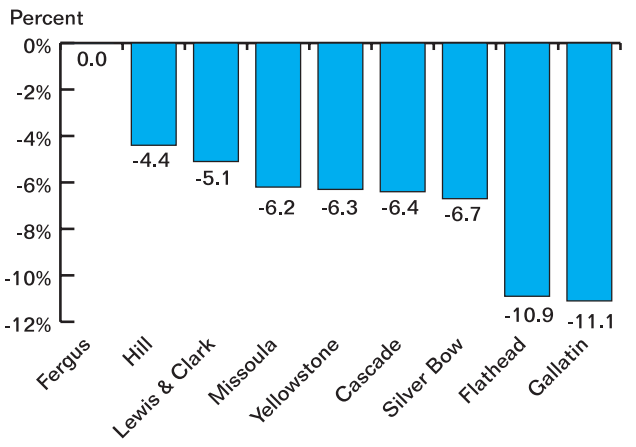
The changes in retail trade employment between March 2008 and March 2009 are pictured in Figure 4. As expected, Flathead and Gallatin counties suffered most, with declines of about 11 percent. But once again, communities where the overall recession effects were only moderate still experienced significant retail trade declines; Yellowstone and Cascade counties were down more than 6 percent.

Figure 3
Percent Change in Construction Employment, June 2007 to June 2009



Source: U.S. Bureau of Labor Statistics.

Figure 4
Percent Change in Retail Trade Employment, March 2008 to March 2009

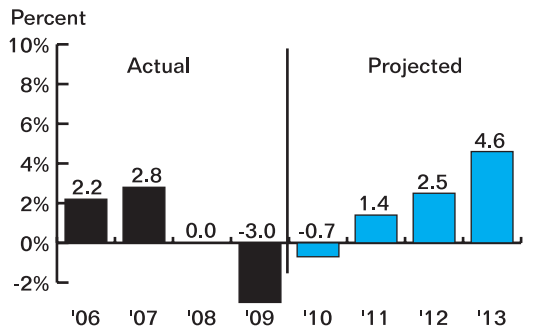


Source: U.S. Bureau of Labor Statistics.

Missoula County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	6%	
Nonresident Travel	6%	Stable
Transportation	12%	Stable
Wood and Paper	12%	Decline
Federal Government	14%	Stimulus?
Trade Center Medical	13%	Reform?
Trade Center Retail, Service	18%	Negative to Flat
UM, Other State	19%	Pay Freeze
Construction	–	Flat

Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

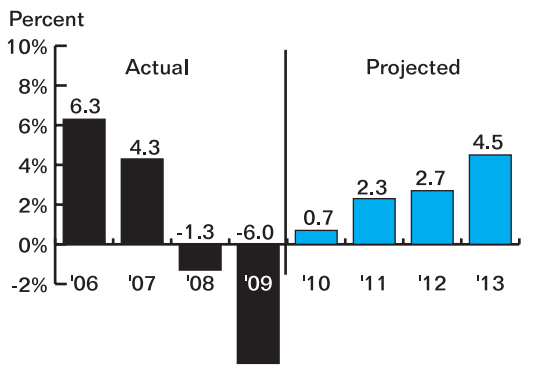
Missoula

Missoula was the first community in Montana to feel the impact of the recession, and it is likely to last longer in Missoula than elsewhere. The announcement that Smurfit-Stone would close its mill on December 31, 2009, was just the latest shock to the Missoula economy. The first piece of bad news was the shutdown of the Stimson plywood plant in 2007. This was followed in 2008 by the further closing of the Stimson sawmill, combined with cutbacks in transportation and declines in retail trade and services. The projected -0.7 percent decline in 2010 is based on preliminary data and may well be too optimistic. The three straight years of no growth or declines (2008 to 2010) is Missoula's worst economic performance since the early 1980s. The bad news was not solely due to the recession. As shown in the figure, the Missoula economy has been lagging behind the rest of the state since 2001. Missoula continues as the dominant trade and service center in western Montana, but competition from other communities means that these sectors are contributing much less to local growth. The accelerations in 2012 and 2013 are partially due to the end of the state government wage freeze. It will be at least mid-2011 before Missoula's real nonfarm labor income (an overall measure of the economy) regains its 2007 peak.

Flathead County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	6%	
Primary Metals	3%	CFAC Closure
Transportation	7%	Flat
Trade Center	12%	Slow Growth
Other Manufacturing	14%	Reduced Risk
Federal Government	16%	Stimulus?
Nonresident Travel	20%	Stable
Wood Products	22%	Stable
Construction	–	Depressed

Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

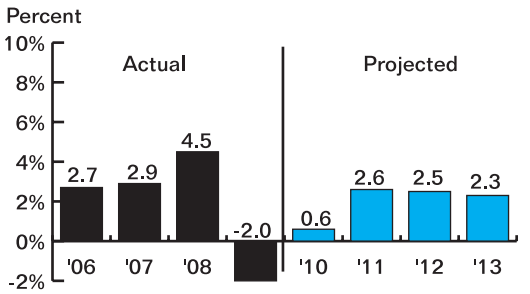
Flathead

The Flathead economy is the epicenter of the recession in Montana. The bad news began in early 2008 with the collapse of the high-flying construction and real estate industries. Then there were a seemingly endless series of cutbacks, shift reductions, and shutdowns in the wood products industry. The national economy took its toll on the nonresident travel industry and manufacturing. Finally, there was the shutdown of the Columbia Falls Aluminum Company. On the positive side, the evolution of Kalispell into a regional trade and service center continues to be one of the growing sectors of the economic base. It will be at least mid-2013 before real nonfarm labor income (an overall measure of the economy) in Flathead County regains its 2007 peak. It will take even longer for employment to regain its prerecession levels.

Butte-Silver Bow County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Manufacturing	10%	Stable
Federal Government	10%	Stimulus?
Utility	12%	Stable
Trade Center Retail	13%	Slow Growth
Montana Tech, State Gov't	14%	Pay Freeze
Trade Center Services	18%	Slow Growth
Mining	23%	Stable

Actual and Projected Percent Change in Nonfarm Labor Income, Butte-Silver Bow County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

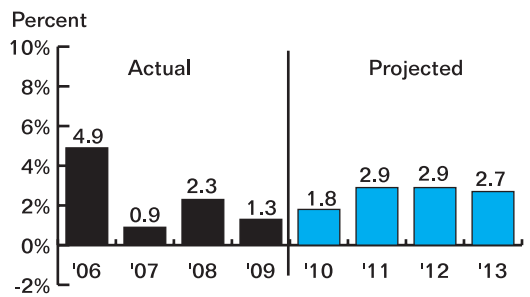
Butte-Silver Bow County

The continued worldwide energy/commodity boom appeared at first to insulate the Butte economy from the current recession. The 4.5 percent growth in 2008 was the highest among Montana's major urban areas. The figures for late 2008 indicated a distinct softening and the preliminary data for 2009 show an overall decline. The final numbers are not yet in, but there appears to have been declines in mining, transportation (mostly trucking), real estate and construction, and retail trade. Our forecast assumes that the Montana Resources mine remains open and operating at about current levels, but that employee bonuses reflect changes in the price of copper. The trade center components of Butte's economic base (retail trade and services) continue to grow, reflecting the city's continued development as a regional trade and service center.

Cascade County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	6%	
Transportation	6%	Stable
State Gov't and Higher Ed.	6%	Pay Freeze
Manufacturing	6%	? At Risk
Trade Center - Other	8%	Stable
Trade Center - Health	11%	Reform?
Federal Civilian	10%	Stimulus?
Malmstrom AFB	47%	Slight Increase

Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

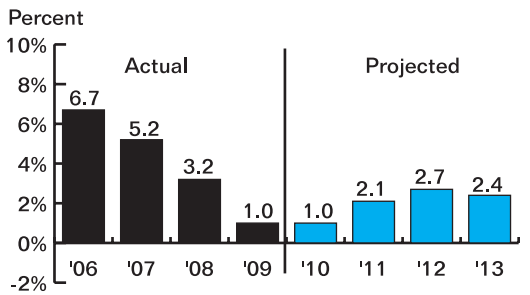
Cascade County

Not even the Great Falls economy will completely escape the current recession. Preliminary 2009 data show weakness in construction and real estate, retail trade, wholesale trade, and transportation (mostly trucking). The 1.3 percent growth forecast for 2009 may be too optimistic. Malmstrom Air Force Base (including both civilian and military workers) accounts for almost one-half of the economic base in Cascade County, and stable or slightly increasing staffing levels lend stability to the local economy. Great Falls continues as the dominant medical center in northcentral Montana, but recent growth has been moderate. Cascade County experienced rapid growth during 2003-2006 mostly due post-Sept. 11 build up of federal and civilian employment.

Lewis and Clark County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	12%	
Manufacturing	7%	At Risk
Trade Center	16%	Slower Growth
Federal Government	23%	Stimulus?
State Government	42%	Pay Freeze

Actual and Projected Percent Change in Nonfarm Labor Income, Lewis and Clark County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

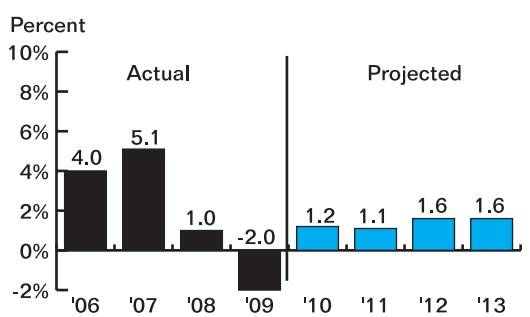
Lewis and Clark County

The Helena economy is not totally escaping the impacts of the current recession despite it being a "recession proof" government town. The preliminary 2009 data show significant weakness in real estate, construction, and retail trade. Overall, growth in 2009 will be slightly positive. State and federal government workers account for more than 65 percent of the economic base in Lewis and Clark County, and government employment is traditionally less cyclic. The major recession impact will be a state government pay freeze which will reduce growth rates in 2009, 2010, and 2011. If past trends repeat, there may be accelerated growth in 2012 and later as "catch-up" raises are approved.

Yellowstone County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	2%	
Nonresident Travel	4%	Stable
Transportation	7%	Slow Recovery
Mining	9%	Price Freefall Over
MSU-B and State Gov't	6%	Pay Freeze
Federal Government	13%	Stimulus?
Health Care	13%	Reform?
Manufacturing	19%	Stable, So Far
Trade Center	27%	Negative to Stable

Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

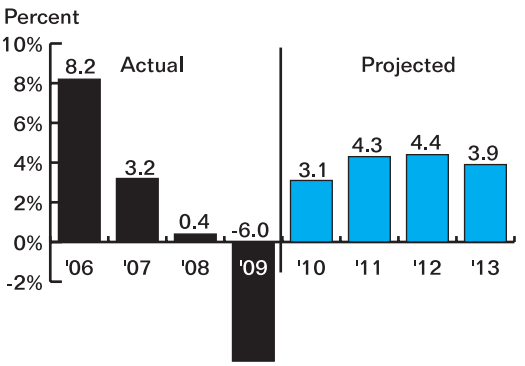
Yellowstone County

The energy/natural resources freefall that appeared imminent last year luckily failed to materialize. Even so, the Billings economy did not escape recession impacts. Real estate and construction began to nosedive in mid-2008, and the downward slide accelerated in 2009. During early 2009, declines also appeared in retail trade, wholesale trade (including farm implements), finance, transportation, warehousing, and certain sectors of manufacturing. So far, employment and earnings in the vital oil refining sector remain stable or even slightly increasing. The slow rates of growth forecast for 2010 and later reflect continued weak conditions in construction and real estate plus increased competition from retail and service establishments in second order trade centers such as Bozeman and Miles City.

Gallatin County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Other Basic	5%	
Federal Government	10%	Stimulus?
Nonresident Travel	15%	Stable
Trade Center	19%	Slow Growth
Manufacturing	21%	Risks Receding
MSU and State Gov't	30%	Pay Freeze
Construction	-	Depressed

Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

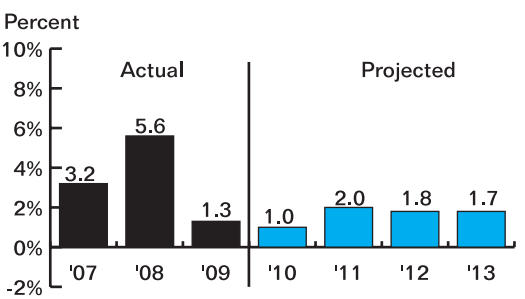
Gallatin County

The housing/real estate bubble was largest in Bozeman, Big Sky, and elsewhere in Gallatin County. The corresponding bust in construction and real estate was particularly stark. In addition, the recession impacted nonresident travel, which accounts for about 15 percent of Gallatin County's economic base. On the bright side, manufacturing employment has been only modestly impacted, suggesting that there will not be a repeat of the significant high-tech layoffs of the 2001 recession. Montana State University, other state agencies, and the federal government account for about 40 percent of the economic base and contribute stability to the local economy. But the two-year pay freeze for state workers will soften the positive stimulus from this sector. Growth is projected to return in 2010 and later, but the growth rates will be far below those posted from 2003 to 2007.

Fergus County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Mining, Travel, and Others	8%	Slight Increase
State Government	14%	Pay Freeze
Federal Government	20%	Stimulus?
Agriculture and Related	28%	Down From Peak
Manufacturing	30%	Stable, Hopefully

Actual and Projected Percent Change in Nonfarm Labor Income, Fergus County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

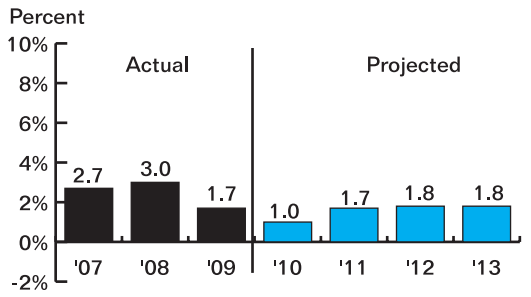
Fergus County

The Fergus County economy did not escape the Great Recession, but the effects have been relatively small. For a small Montana county, manufacturing is large and diverse and accounts for about 30 percent of the economic base. Beginning in mid-2009, there were moderate declines in manufacturing employment. Fergus County nonfarm labor income is projected to grow a modest 1.0 percent in 2010 and then accelerate slightly to about 2.0 per year during the 2011-2013 period.

Hill County's Economic Base, 2008-2010

Industry	% of Base	Outlook
Travel and Other	4%	Stable
Oil, Gas, and Mining	8%	World Trends?
Man. and Communication	9%	Stable
Federal Government	12%	Stimulus?
State Government	14%	Pay Freeze
Agriculture and Related	21%	Down From Peak
Railroad	32%	Slight Increase?

Actual and Projected Percent Change in Nonfarm Labor Income, Hill County, 2006-2013



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Hill County

Hill County's economic base is dominated by railroads and agriculture (including closely linked activities), and these industries muted the recession impacts felt elsewhere. But unlike almost all other Montana communities, Hill County construction employment remained stable due to a downtown road construction project. Hill County nonfarm labor income is projected to increase approximately 1.0 percent in 2010 and then rise to about 2.0 percent per year between 2011 and 2013.

Conclusion

Lewis and Clark, Cascade, Fergus, and Hill counties suffered the least during the current recession; they are rural counties or home to sizable government units. The recession was worst in Gallatin and Flathead counties because of the sharp declines in real estate and construction. Yellowstone, Missoula, and Butte-Silver Bow counties fall between the least and most impacted counties. But these data may understate the effects in Missoula County because the declines started earlier and have continued longer than in other counties.❑

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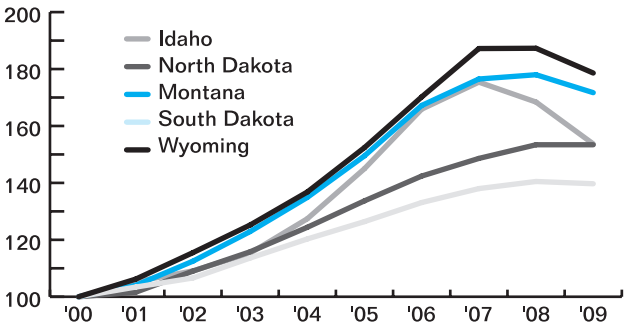
Montana's Housing Sector

by Scott Rickard

Figure 1
Home Price Growth Since 2000



Source: U.S. National Association of Realtors.

Table 1
Regional Price Changes for Metro Areas

City	State	Percent Change in Q4	Percent Change over 5 years
Sioux City	SD	3.1	13.93
Bismark	ND	1.3	28.63
Pocatello	ID	1.2	13.76
Billings	MT	0.9	28.81
Great Falls	MT	0.7	30.79
Fargo	ND	0.6	15.61
Sioux Falls	SD	0.5	15.39
Rapid City	SD	0.2	19.36
Missoula	MT	-0.2	24.31
Cheyenne	WY	-0.5	17.47
Idaho Falls	ID	-1.6	27.75
Casper	WY	-2.6	36.48
Coeur D'Alene	ID	-7.2	33.18
Boise	ID	-11.4	21.03

Source: U.S. Federal Housing Finance Agency.

It has been a shaky year for Montana's housing sector. Montana is experiencing many of the problems facing the rest of the nation, albeit to a lesser degree. Home prices may be declining in some parts of the state. Sales and construction are both down relative to previous years. Mortgage defaults are growing but are still lower than the national average. And against this backdrop of bad news, a statewide reappraisal process reminds every Montana homeowner how much his or her home has grown in (taxable) value, whether or not they have any desire to sell.

Housing Prices

Nationally, average home prices have been falling along with other prices. The Federal Housing Finance Agency (FHFA), which tracks changes in home prices, estimates that U.S. home prices fell 3.8 percent in the past 12 months, at the same time that the general price level declined 2.8 percent. This means that in real terms, average home values declined by about 1 percent. The National Association of Realtors statistics show even greater declines of 7 percent. In our region, state-level home values have grown between 40 percent and 80 percent since 2000. But since 2007, average prices in first Idaho, and later Montana and Wyoming, are tending to be lower (Figure 1). For Montana, this decline is 3.6 percent.

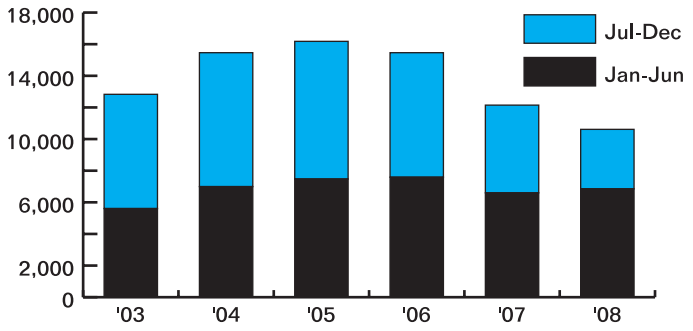
For those urban areas that are tracked, Billings and Great Falls show year-over-year price increases, while Missoula's index shows a small decline. Outside of these areas, the FHFA-derived prices are down 3 percent. Compared to Montana, the indices for urban areas in the Dakotas are performing a little better, while those in Wyoming and especially Idaho are performing worse, especially Boise, with an 11 percent decline in the past year (Table 1).

Table 2
Montana Housing Starts

County	Percent Change over 12 months	Percent Change Peak
Lewis & Clark	50%	-31%
Cascade	-22%	-48%
Yellowstone	-26%	-56%
Rest of State	-33%	-53%
Gallatin	-36%	-75%
Flathead	-41%	-73%
Missoula	-45%	-73%
Total	-29%	-58%

Source: Montana Building Industry Association.

Figure 2
Montana Home Sales



Source: Montana Department of Revenue.

Housing Sales and New Construction

As elsewhere in the nation, home construction in Montana continued to decline in 2009. Nationally, construction of single-family homes has fallen by two-thirds, to under 600,000 units annually. In Montana, housing starts declined nearly 30 percent in 2009.

Within Montana, construction has held up better in some counties than in others. With the exception of Lewis and Clark County, housing starts in our most populated counties were down between 22 percent and 45 percent in the past year and down 31 percent to 75 percent from their respective peaks (Table 2). Most dramatic is the building decline in Flathead, Gallatin, and Missoula counties.

As we are seeing fewer homes built, existing homes are less likely to stand empty. Since early 2008, vacancy rates have declined to 2.5 percent of all residences.

Home sales numbers are also lower. Using preliminary data, the number of transactions in Montana in 2008 fell by over 10 percent for the year, putting total sales one-third below the 2005 peak (Figure 2). This slow down in home sales is also evident in vacancy data. According to the U.S. Postal Service, the average length of time a vacant housing unit remained empty in Montana grew to 308 days or by 52 percent since 2007.

At the time this was written, data were not available to see if the federal first-time homebuyer incentives produced a significant increase in Montana sales in 2009. Nationally, this seems the case, with October 2009 sales 23 percent above October 2008 sales levels.

The Mortgage Market

In Montana, while fewer mortgages are being entered into, a larger percentage of them are coming from the state's banking industry. Over $2.75 billion of FDIC-insured home loans were made by Montana commercial banks and savings institutes in 2008, up 40 percent since 2001. This corresponds with the drying up of the private mortgage market. Since most individuals cannot purchase a home without a mortgage loan, tightening lending standards could explain part of the fall in home sales. However, if you can qualify, rates are low. As of October 2009, the interest rate for a conventional 30-year fixed mortgage loan was 4.95 percent. Just a few

years ago, a rate this low was more likely the teaser rate for a variable rate loan.

The bursting of the housing bubble has driven up U.S. average delinquency and foreclosure rates. In the United States, 4.5 percent of mortgages are in some stage of the foreclosure process and another 4.4 percent are delinquent. In Montana, we have much less exposure. Currently, 1.6 percent of Montana mortgage loans are in foreclosure and an additional 1.9 percent are 90 days delinquent.

One reason for our low delinquency rate is that, compared to U.S. averages, Montanans didn't opt for subprime mortgages (4 percent compared to 11 percent). This is important because foreclosure rates of subprime mortgages in Montana are eight times larger than the rates for prime mortgages (and four times larger in the U.S. overall). Montana mortgage loans are more likely to have fixed as opposed to adjustable interest rates (84 percent fixed rates in Montana compared to 78 percent for the United States), and the foreclosure rate for adjustable rate mortgages (ARMs) is five times larger than for fixed loans.

Less than two years ago, Montana's overall foreclosure rate was one-half the existing rate, and we are not immune from further housing defaults. Many U.S. foreclosures are driven by factors other than interest-rate resets or deflating home values. If the recovery of the national and Montana economies are slow to materialize, our state's foreclosure rates could continue to increase.

Property Reappraisal

Another major housing-related story in 2009 concerned the reappraisal of residential (Class 4) real estate by the Montana Department of Revenue. As required by statue, the department estimated the value of all homes and assessed property taxes based upon these new valuations. Property tax rates are developed based upon these new appraisal values and changes in the taxes owed are phased in over a six-year interval.

The average appraised value of residential property was 54 percent higher than that of the previous appraisal cycle (2002). For the majority of Montana's homeowners, reassessment did not significantly change their tax obligations. After assessment rates were adjusted, more than 70 percent of owners received notices showing that their annual property taxes will change by less than $60 per year. For a few percent of owners, this increase is significantly larger, due to the specifics of their property or an idiosyncrasy of the appraisal process, and 2010 will likely be a busy year for those employees dedicated to resolving reappraisal protests.

Table 3
Property Reappraisal

County	Class 4 Property Tax Average Percent Increase
Gallatin	67%
Flathead	66%
Missoula	56%
Lewis & Clark	53%
Silver Bow	49%
Fergus	48%
Jefferson	48%
Deer Lodge	47%
Yellowstone	43%
Cascade	38%
Hill	38%

Source: Montana Department of Revenue.

Summary

The performance of Montana's housing market since the start of the U.S. recession is an example of how difficult it is for Montana, as a part of a highly integrated U.S. economy, to completely avoid collateral damage from economic shocks located far away. It also highlights the diversity of markets across Montana, with growth continuing in some areas while others decline. It is unlikely that the housing market will see much improvement until the U.S. economy recovers, and the longer this takes, the greater the chance Montana will experience additional housing-sector problems. ❑

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Travel and Recreation Outlook 2010

Conscious Consumption

by Norma P. Nickerson

By all accounts, travel and recreation around Montana and the nation took a few hits in 2009 due to the economic situation around the world. Most businesses and land managers said it wasn't as bad a year as they thought it would be, which is, of course, good news. However, 2009 will end as a year in which some areas did well while others struggled. This somewhat mixed assessment of the travel and recreation industry's performance in 2009 seems to be the result of changes in the way consumers are traveling and spending. This article illustrates some of these changes by looking at the trends, both increases and decreases, seen in 2009 in various segments of the industry. Perhaps the best way to sum nonresident travel to Montana in 2009 is expressed by tourism business owners around the state: "They (visitors) seem to be looking for less expensive ways to enjoy themselves." "They shop around more. Don't plan as far ahead for a vacation. Many last minute bookings." "Retail store sales are down and people didn't sign up for as many activities." And, "More camping, visiting national parks, shorter stays."

U.S. Travel: Looking Back

In 2008, the cost to fill up a gas tank was blamed for changes in travel and recreational behavior. In 2009, gasoline prices were no longer the issue, but the instability of the economy had many people guessing and hedging. According to the U.S. Travel Association, total U.S. domestic travel was down 3.8 percent in 2009 (Table 1). Domestic leisure travel volume declined 2.7 percent, but spending declined 10.3 percent through the third quarter of 2009. Business travel volume was down 7.5 percent with business spending down 13.6 percent (Cook, 2009).

Many travel segments throughout the United States experienced declines in 2009. U.S. lodging performance was down 8 percent compared to 2008. Likewise, domestic passenger air travel was down 2 percent through September YTD (ATA 2009). The number of recreational vehicles sold in 2009 was down 54 percent compared to 2008. The attraction industry is also expecting 2009 overall attendance to be down 4 to 6 percent compared to 2008. New boat sales are projected to be down in 2009 between 30 and 35 percent. The majority of outfitters and guides around the country also experienced a decrease in revenues in 2009, and the alpine ski industry was down in the 2008-2009 season by 5 percent from the previous year.

Some travel segments did experience increases in 2009. For instance, the restaurant industry projects a 2.5 percent increase for the year. The National Park Service projects 2009 to end with a 4 percent increase in visitation. Likewise, private campgrounds such as KOA experienced a 1 percent increase in visitation over 2008. Snowmobile registrations were up 1 percent in 2009 compared to 2008.

Indicators for travel and recreation are difficult to piece together. The Conference Board Consumer Confidence Index declined in September and October 2009, while the University of Michigan Consumer Sentiment index increased in September, but slipped again in October. Traveler sentiment (a derivative of six attitudinal variables) has made up for losses experienced in 2008. Consumers' perception of travel affordability has been the major driver. The Travel Price Index (Cook 2009) shows that travel prices are down more than 8 percent in 2009 compared to 2008.

Table 1
Travel Trends 2008/2009 (Percent Change)

	Montana	U.S.
Overall Travel/ Visitor Numbers	-1.0%	-3.8%
Airline Travel	-5.4%	-2.0%
Rooms Sold	-3.8%	-7.0%
National Parks	Yellowstone +7.4% Glacier +12.2%	+4.0%
Skier Visits	-5.9%	-5.0%

Sources: Institute for Tourism and Recreation Research; U.S. Travel Association; National Park Service; Airline Transport Association; Smith Travel Research; U.S. Forest Service.

> “Travelers are likely to continue to remain extremely cost-conscious, affirming the belief that downward pressure on the average household budget continues to present the biggest challenge for the travel industry, not a lack of interest in or desire to travel.”

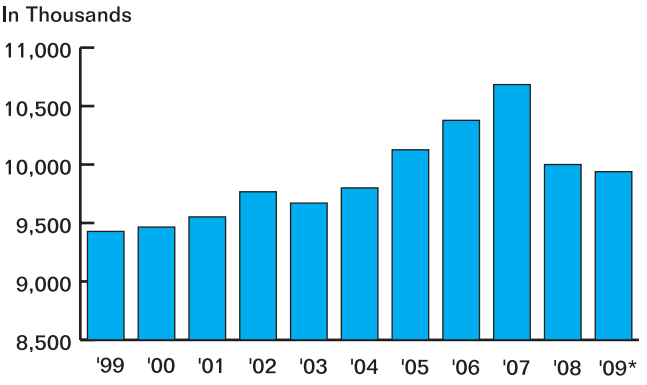
Montana Travel and Recreation: Looking Back

In 2009, Montana did much better than the rest of the nation with only a flat visitation of nonresidents compared to the decline of 3.8 percent nationally. Montana’s flat visitation follows a 6.4 percent decrease experienced in 2008 (Figure 1). Most other travel and recreation visitation data in Montana exhibited similar declining trends albeit smaller decreases.

According to Smith Travel Research, the percent change in rooms sold in Montana in 2009 compared to 2008 was down 4.1 percent (November YTD). The Mountain Region, however, had a 8.3 percent decrease in 2009, indicating that Montana fared better than the Mountain Region in rooms sold (Figure 2). Similarly, ski area visits in Montana were down 5.9 percent in the 2008-2009 ski season after a 14.5 percent increase the previous season (Figure 3). Much of the ski visit behavior is related to snow conditions, but in 2009, nationwide statistics showed that the destination resorts fared much worse in skier visits due to the economy and people cutting back on their travels.

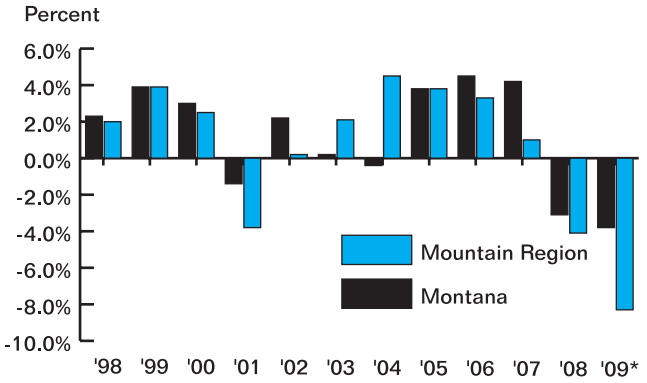
Deboardings at Montana airports (November YTD) show an overall decline of 4.5 percent in 2009 compared to 2008 (Figure 4, page 22). Only Helena and Great Falls airports had a slight increase in deboardings in 2009 (Figure 5, page 22). Butte, year after year, has shown large decreases in deboardings, with a 21 percent decrease in 2009. Montana, like everywhere, has been affected by the decline in airline capacity. Nationwide airline capacity from first quarter 2008

Figure 1
Montana Nonresident Visitor Trends 1999-2009



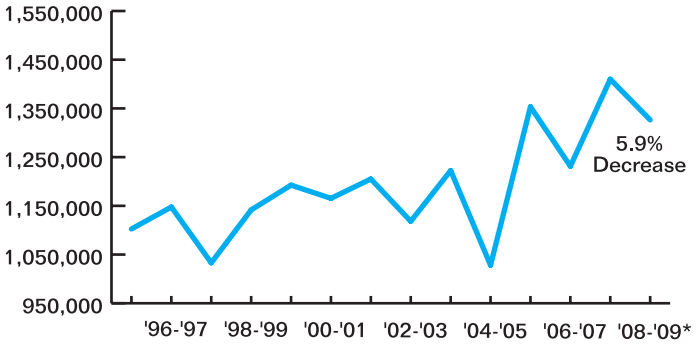
* Preliminary
Source: Institute for Tourism and Recreation Research, The University of Montana.

Figure 2
Percent Change in Rooms Sold 1998-2009



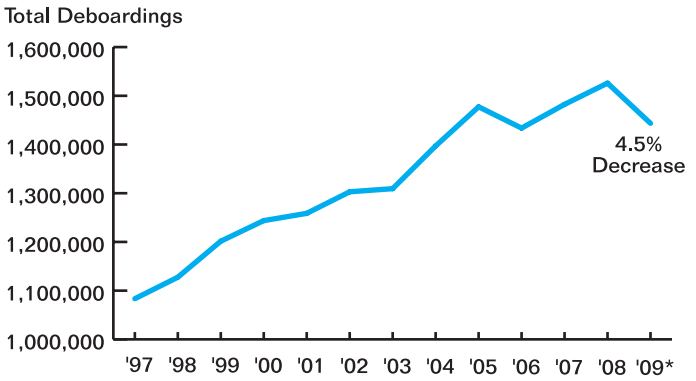
* Preliminary
Source: Smith Travel Research.

Figure 3
Montana Ski Area Visits, 1995-2009



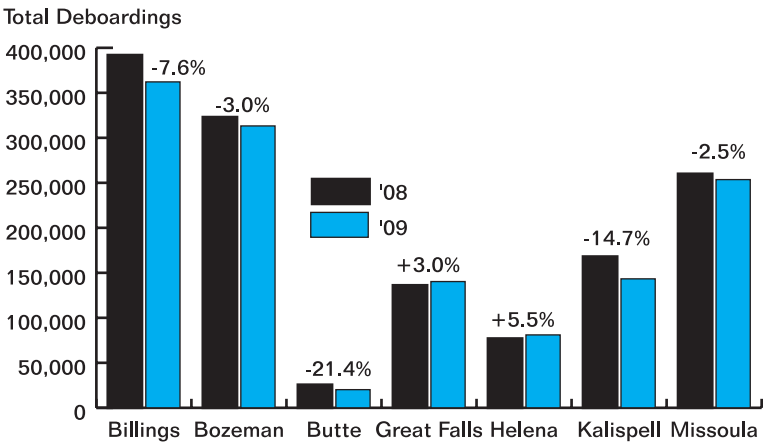
* Preliminary
Source: Institute for Tourism and Recreation Research, The University of Montana.

Figure 4
Montana Air Traffic, 1997-2009



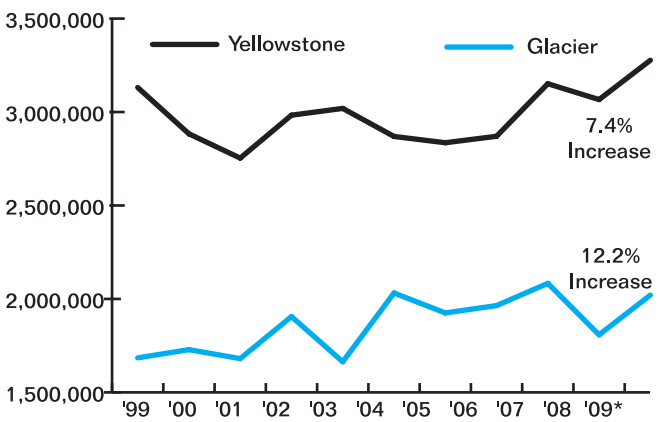
*** Preliminary**
Source: Smith Travel Research.

Figure 5
Airport Deboardings Change by City, 2008-2009



Source: Montana Aeronautics Division.

Figure 6
National Park Recreation Visits, 1999-2009



*** November YTD**
Source: National Park Service.

to first quarter 2010 show United Airlines down 15.2 percent, Alaska Airlines down 9.7 percent, Delta/Northwest Airlines down 8.3 percent, and Continental down 4.9 percent. These capacity decreases fall below the 1999 domestic seating capacity level (ATA 2009) and are a result of recession, regulation, and fuel-price volatility.

The one positive trend for Montana comes from an increase in national park visitation. In 2009, Glacier National Park recreation visits were up 12.4 percent, and Yellowstone National Park recreation visits were up 7.5 percent for an all-time Yellowstone visitation record of nearly 3.3 million visitors.

A survey of tourism businesses around the state conducted by the Institute for Tourism and Recreation Research (ITRR) in November shows that the year was indeed a mixed bag for businesses. Out of the 269 respondents, half of the travel businesses had a decrease in visitation in 2009 while 32 percent indicated that visitation for their business was up. Eighteen percent said their visitation was the same in 2009 as it was in 2008.

Conscious Consumption

Desire by consumers to decrease debt and increase savings seems to be the current behavior. According to the Gallup World Poll, discretionary consumer spending has been consistently running about 30 percent below last year throughout 2009 (Cook 2009). These changing behaviors all reflect a much more frugal consumer who is engaged in "conscious consumption." As evidence of this, today's trips are marked by shorter durations, shorter distances, and bargain hunting.

Travel spending has been affected by these changes. September YTD 2009, U.S. domestic leisure travel spending was down 10.3 percent. Domestic business travel expenditures were down 13.6 percent through September, and spending by international visitors fell 17.5 percent (Cook 2009). Travelers are likely to continue to remain extremely cost-conscious, affirming the belief that downward pressure on the average household budget continues to present the biggest challenge for the travel industry, not a lack of interest in or desire to travel, according to Cook (2009).

Similar behavioral changes by visitors to Montana in 2009 were expressed in the results from the Institute for Tourism and Recreation Research outlook survey: 53 percent observed an increase in last-minute bookings; 37 percent saw an increase in walk-in visitors; 55 percent had a decrease in retail sales; 47 percent said their visitors decreased their dining out opportunities; 60 percent said their visitors were looking for less expensive activities; 39 percent indicated having more Montanans visiting than in the past (staycation phenomenon); and, while 33 percent indicated visitors' length of stay decreased, 46 percent said it remained the same. The decline

in nonresident spending during third quarter 2009 compared to previous years is drastic. According to data collected by the Institute for Tourism and Recreation Research, nonresident visitors' daily expenditures dropped 31 percent in the highest visitor months (July, August and September) in one year to $111.55 compared to $163 in 2008 (Figure 7). Every category except campground expenditures declined in 2009. Most tourism professionals agree that travelers are likely to continue to remain extremely cost-conscious.

Travel and Recreation: Looking Forward

Looking ahead, the U.S. Travel Association predicts a modest recovery in 2010. U.S. domestic leisure travel is projected to increase 1.9 percent while business travel is expected to increase 2.5 percent. Total international travel to the United States is projected to increase 2.8 percent, with greater gains in travel expected from Canada and Mexico (+4 percent) compared to the overseas market (+1.2 percent). Attractions are forecasting a slight increase for 2010 but do not expect to see pre-recession levels until 2011 or 2012. The National Park Service is forecasting a 2.0 percent increase for 2010 including a 3.9 percent increase in the Mountain Region. Even the ski industry is projecting an increase over last year, which would bring skier visits above the previous five-year average.

In a survey of travel intentions reported by U.S. Travel Association, intentions varied by region. "Intentions have declined the most among residents of the South, are holding steady among those living in the Northeast, and actually increased slightly among those living in the West and Midwest. We also saw an increase in the share of intended leisure travelers saying that they planned to drive more instead of fly (Cook 2009)."

Montana tourism and recreation businesses and organizations are optimistic for 2010. Only 12 percent believe they will experience a decline in visitation in 2010 while 47 percent said they are expecting an increase (Table 2). This is a more positive outlook than that expressed in projections made for 2009, although it seems that people are being cautiously optimistic in their projections for 2010 as compared to 2008 and earlier years' projections. The U.S. Travel Association has forecasted a 1.9 percent increase for 2010. Likewise, nonresident visitation to Montana should increase by 2 percent in the next year. Montana will benefit from the cost-conscious traveler as travel in Montana is considered a good value for the money.❑

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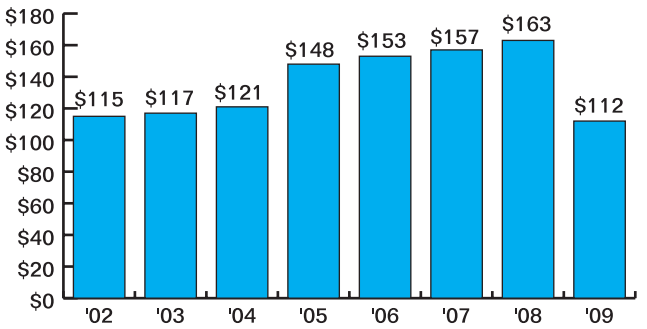
Table 2
Business Owner Projections for 2010

Projected Year	Expect an increase	Expect to remain the same	Expect a decrease
2010	47%	42%	12%
2009	32%	39%	27%
2008	55%	34%	10%
2007	64%	31%	5%
2006	63%	31%	6%
2005	67%	26%	7%
2004	79%	18%	3%
2003	70%	22%	8%
2002	56%	33%	10%

Source: ITRR Outlook surveys.

Figure 7
Average Daily Expenditures for Nonresident Visitors, Third Quarter, 2009



Source: ITRR Outlook surveys.

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Women's Health Care

Why It Matters in the Health Care Reform Debate

by Gregg Davis

The Patient Protection and Affordable Care Act was signed into law by President Barack Obama on March 23, 2010. Different provisions of the law will be phased in over the next decade. Still central to America's debate is whether the new law will change status quo spending on health care from an unsustainable path to one that will "bend the cost curve." The factors underlying the present trajectory of health care spending are complex and intertwined, making any debate on health care reform challenging for the American public to comprehend. One way to bend the cost curve is to identify differential patterns of health care utilization and spending. Identifying where "excess rates of disease" occur, and addressing ways to reduce those diseases, is one direct way to bend the cost curve. For example, four diseases that are highly amenable to reduced prevalence rates through preventive measures alone are diabetes, hypertension, stroke, and renal disease. One study quantified the increased costs to the U.S. health care system at $337 billion for these four diseases over a 10-year period, nearly two and half times the projected savings in all the health care bills before Congress. So why focus on health care disparities?

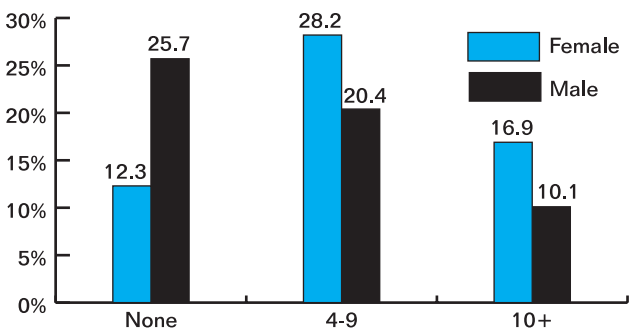
Disparities in health care reflect variations in access, utilization, and health status among certain demographic groups. One group that is large in number and a frequent user of health care is women. Compared to men, women are more likely to be raising children alone, have lower incomes and hence more likely to be on Medicaid, and have higher rates of chronic illnesses. Women are also more likely to use community health centers and other government programs that provide health services to low-income individuals. Women also serve as the primary decision-makers regarding health matters for family members, so they indirectly control health care spending for the entire family.

Improving the health of all population groups is vital if we are to succeed in changing the current unsustainable path of health care spending. Postponing health care due to cost or lack of insurance is expensive. In Montana, more than $54 million is spent each year on avoidable emergency room visits alone. Improved health increases productivity and reduces the strain on the health care system.

Women are more frequent users of health care than men. Women are almost one and a half times more likely than men to have visited health care professional 10 or more times in the last year. (Figure 1). Nearly 75 percent of all women have seen a health care professional within the last six months, compared to only 61 percent of men.

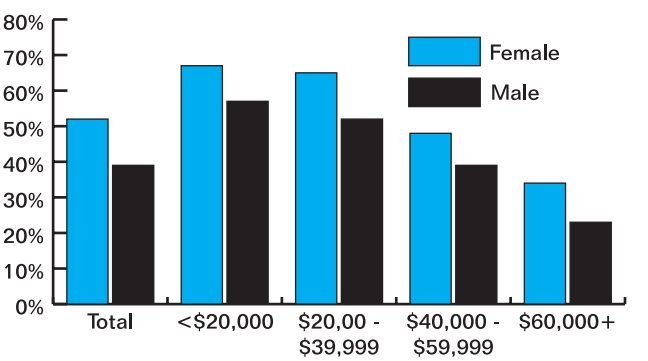
Although the proportion of women and men in Montana without health insurance is comparable (17.6 percent for women versus 20.2 percent for men), among all adults

Figure 1
Number of Medical Office Visits in the Past 12 Months, Percent by Gender, 2008



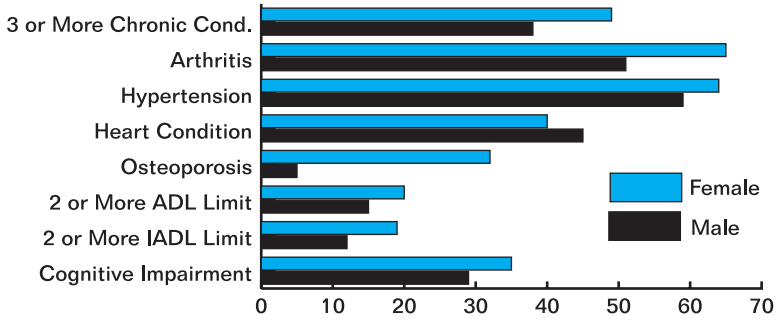
Source: National Health Interview Survey, 2008, Department of Health and Human Services.

Figure 2
Percent Foregoing Medical Care, By Gender and Income, 2007



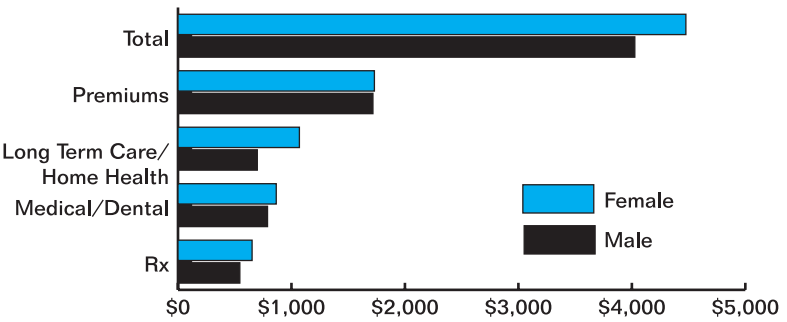
Source: The Commonwealth Fund Biennial Health Insurance Survey, 2007.

Figure 3
Health Status of Medicare Population, by Gender, 2005



Note: Instrumental Activities of Daily Living (IADL) includes housework, making meals, managing money, shopping, and using the telephone.
Activities of Daily Living (ADL) includes bathing, dressing, eating, walking, using the toilet, and getting in and out of chairs.
Sources: Medicare's Role for Women, Women's Fact Sheet, Kaiser Family Foundation, June 2009.

Figure 4
Out-of-Pocket Spending by Gender, Medicare Population



Source: Kaiser Family Foundation, 2009.

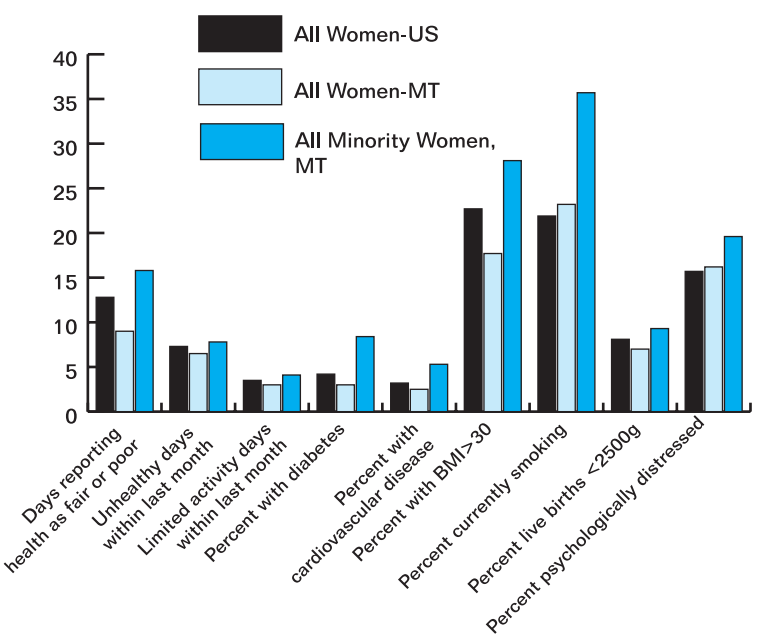
19-64 years of age and across all income classes, women are more likely to forego needed medical care due to cost (Figure 2). Women are also more likely to forego cost effective preventive services, such as colon cancer screening and dental exams.

For adults 65 years of age and older, women report more health problems than men (Figure 3). And for every age and race group, women are more likely than men of the same age to have one or more physical limitations, and these differences between men and women in the prevalence of one or more physical limitations widens with increasing age. As a result, women on average spend 17 percent of their income on health care while on Medicare, compared to 15 percent of income for men 65 years of age or older. Out-of-pocket spending for women is also higher than that for men (Figure 4). Women on average spend more than $400 more per year than men on health care.

Disparities in health for women occur due to access and utilization problems, social determinants, and health status. Figure 5 shows how women in Montana fare relative to women in the United States on select disparity measures. The proportion of women without health insurance, a usual source of care such as a family physician, mammograms, and Pap smears reflects a woman's ability to obtain timely medical care and use of preventive services. On all dimensions, women in Montana, including minority women, fare worse than their national counterparts. Interestingly, fewer minority women (non-white) in Montana failed to get a Pap smear within the last two years when compared to all women in Montana and the United States. But on all other measures, the proportion of minority women who did not receive recommended medical care is well above that for white women nationally and in Montana. Delayed or avoided medical care places additional burdens on the health care system when care is eventually sought, resulting in higher medical expenditures, and sometimes, less favorable outcomes.

On health status measures – obesity, smoking behavior, and psychological distress – women in Montana fare comparably to women in the United States. Again the exceptions are the state's minority populations, where particularly for obesity and smoking behavior, Montana's minority women are well above that of U.S. women.

Figure 5
Health Status Disparities



Source: Kaiser Family Foundation, 2009.

According to the U.S. Department of Health and Human Services, twice as many women as men between the ages of 45 and 54 have strokes. One in four women dies from heart disease. Cancer mortality rates (not shown) for American Indian women are almost 50 percent higher than for all women in the United States (230.6 per 100,000 compared to 162.2 per 100,000).

Social determinants also influence a woman's ability to access health care and maintain healthy lifestyles. Fewer women in Montana are without high school degrees than their national counterparts. Montana women are comparable to their national counterparts in terms of female-headed households with children and those living below the federal poverty level. But again, minority women in Montana have rates of poverty and female-headed households with children well above national averages.

More women in Montana (47 percent) than nationally (43 percent) live in areas designated as primary care shortage areas, where access to medical care is limited or nonexistent. Almost six in 10 live in areas designated as mental health shortage areas. Crucial for these underserved areas are primary care providers. These providers often serve as the first point of entry into the health care system for undiagnosed medical problems. But primary care providers are in decline nationally and in the state of Montana, leaving some without health care access.

Lack of access is also compounded by the insurance situation many women face. Although on average more women are insured, fewer have insurance through job-based employment (38 percent versus 48 percent for men), and significantly more are a dependent on their spouse's insurance (25 percent versus 13 percent for men). The Joint Economic Committee of Congress estimates that 1.7 million women have lost health insurance since December 2007, with 75 percent losing their insurance because of a spouse's job loss. Divorce and widowhood may also leave many women uninsured.

Health Care Reform and Women

The arduous process underlying health care reform is now over. Now the difficulty of unraveling the effects of reform begin. While it will be several years before the full ramifications of health reform become apparent, certain provisions are certain to benefit women in particular. Almost immediately efforts are to commence to enhance the collection and reporting of data on race, ethnicity, sex, language, and disability status, with analysis to monitor the trends in disparities to follow. Also for fiscal 2010, support for the delivery of evidence-based and community-based prevention and wellness services that address health care disparities, especially in rural areas, are funded for five years.

A recent study found that among those falling into the Medicare Part D prescription "donut hole," women are particularly at risk. For individuals spending between $2,850 and $6,440 per year in prescription medicines, Medicare's payment share was in effect zero. Now, effective this year, Medicare beneficiaries who reach the Medicare Part D coverage gap are eligible for a $250 rebate. Then over the next decade, the co-insurance rate is phased down from its present 100 percent to 25 percent. And in 2011, pharmaceutical companies are to provide a 50 percent discount on prescriptions filled in the Medicare Part D coverage gap.

Within the next six months, qualified health plans are to provide at a minimum coverage without cost sharing for preventive care and screenings for women. Cost sharing for important prevention services provided by Medicare and Medicaid are eliminated beginning in 2011. And effective in October of this year, Medicaid coverage for tobacco cessation services for pregnant women begin.

Community Health Centers and the National Health Service Corps, so important for increasing access to health care for low-income and rural residents, will receive increased funding of $11 billion nationally over the next five years beginning in 2011. The Indian Health Care Improvement Act, originally signed into law in 1976, has over the past 10 years had no authorization for appropriations. With President Obama's signature, the act is now permanent. Changes in the act improve the overall delivery of health care for American Indians and Alaska natives.

Effective next year is the Community Living Assistance Services and Supports (CLASS) program. Following a five-year vesting period, women will be able to receive cash benefits to purchase non-medical services necessary to keep them in their communities. And since women represent a disproportionate share of dual eligibles, those on both Medicare and Medicaid, a new office for the coordination of care should be of benefit. And finally, adults without children will now benefit from the expansion of Medicaid through the guarantee of a benchmark benefit package providing at a minimum essential health benefits.

Any expansion in Medicaid should disproportionately benefit women since nationally they represent nearly two-thirds of Medicaid beneficiaries.

Of course, there are many provisions of the law that should increase access to the health care system for women and other minorities. Exactly how the reform plays out on bending the cost curve while at the same time improving the health status of Montanans is difficult to predict. Isolating each component of the health reform law and separating its affects from all other components will prove challenging. But one thing is certain, we will still be debating the merits of the reform for years to come.❑

Gregg Davis is the director of health care industry research at the Bureau of Business and Economic Research.

Outlook for Montana Agriculture

by George Haynes

General Financial Overview

Montana agricultural producers have weathered the financial storm better than other industrial sectors and agricultural producers from other states. Preliminary studies in Montana suggest that 2009 net farm income will decline about 20 percent from 2008 net farm income of $690 million, while the U.S. Department of Agriculture is predicting a decline of more than 30 percent from 2008 for all agricultural producers in the United States. (ERS Briefing Room, 2009). Montana agricultural producers have fared better than others because they entered this recession in relatively strong financial positions (meaning debt-to-asset ratios around 12 percent), agricultural land prices have remained relatively stable, and farm programs have helped to mitigate the downside risk. While agricultural prices were substantially lower in 2009 than 2008 for crop producers, commodity prices declined to levels approaching longer term historical averages. These lower agricultural prices are largely the result of lower demand for agricultural products created by the global recession.

Agricultural producers dance on an international stage; hence, food sales in the United States and export sales to international trading partners are important to Montana producers. While the quantity of carbohydrates and protein consumed in 2009 appears to be stable, consumers are opting for lower cost substitutes. Food sales for in-home consumption declined in seven of 12 months last year from the year before, while food sales for away from home consumption declined in all but December (ERS, 2010b). The United States exports about 50 percent of total wheat produced and about 8 percent to 10 percent of total beef produced in an average year. The export markets reflected the same decline in demand, with wheat exports approaching a 35-year low, about 40 percent of total U.S. wheat production. Beef exports declined slightly from 2008 and remain well below the tonnage exported prior to the BSE scare in 2003, about 7 percent of total U.S. beef production (Johnson, 2010; Vocke, Allen & Leifert, 2010). The 2010 Montana agricultural outlook for both crops and livestock is similar to 2009, with stable to slightly higher commodity prices.

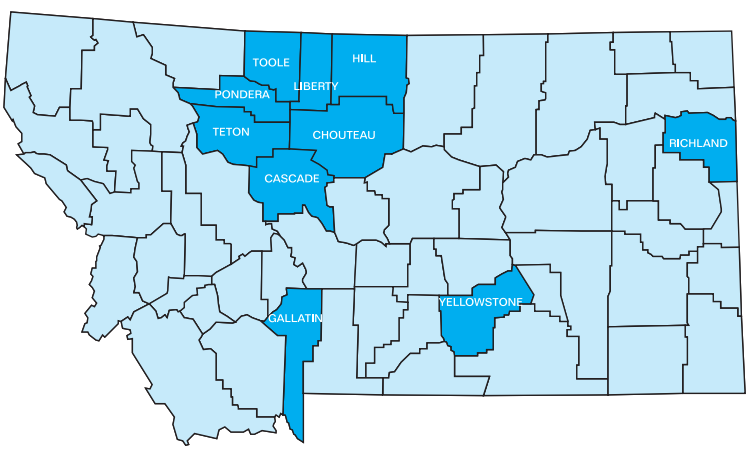
Crop Outlook

The counties comprising the "Golden Triangle" produce about 40 percent of the total cash receipts from crop production, with one county, Chouteau, producing nearly 10 percent of total cash receipts for Montana (Figure 1).

The grain producers have realized a challenging year, with world and U.S. average wheat prices declining by over 30 percent between 2008 and 2009 from $6.70 per bushel in 2008 to less than $5.00 per bushel in 2009 (Vocke, et al, 2010). Even though production declined in the United States, an extended growing season and favorable harvest weather increased expected production in the former Soviet Union countries (FSU-12), primarily Russia, Kazakhstan, and Ukraine. Between 2008 and 2009, world wheat production decreased by less than 2 percent worldwide (from 25.1 to 24.7 billion bushels), U.S. wheat production decreased by nearly 12 percent (from 2.5 to 2.2 billion bushels), and Montana wheat production increased by just over 7 percent (from 165 to 177 million bushels) (WASDE, 2010; NASS, 2009). Montana and U.S. shares of world wheat production and sales have remained relatively constant at around 0.7 percent (world) and 7.5 percent (U.S.), respectively. The futures markets for wheat suggest that wheat prices may rise in 2010, but remain close to the five-year historical average price (2004-2009).

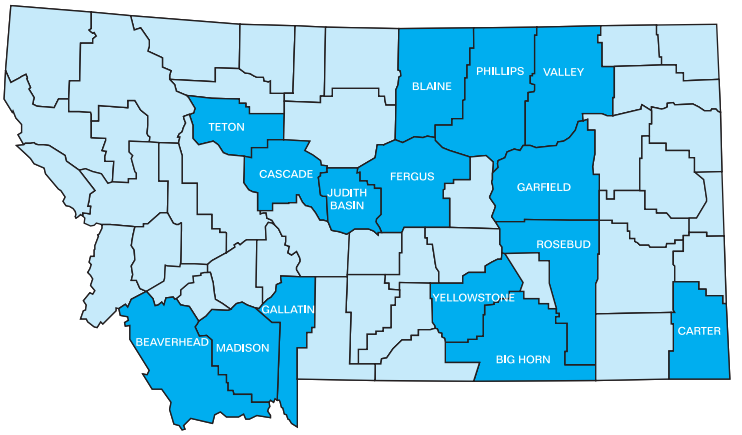
U.S. wheat exports were down about 12 percent from 2008. Analysts suggest that relatively high U.S. prices and large wheat exports from Russia, Ukraine, and Kazakhstan are the major reason why U.S wheat exports have been lackluster in relation to last year (Vocke, Allen & Liefert, 2010). Wheat exports from these three countries have increased by nearly twofold since 2007 and now comprise about 25 percent of world wheat exports (WASDE, 2010).

Figure 1
Top 50 Percent of Crop Producing Counties in Montana, 2007 Cash Receipts



Source: National Agricultural Statistics Service, Montana Field Office.

Figure 2
Top 50 Percent of Livestock Producing Counties in Montana, 2007 Cash Receipts



Source: National Agricultural Statistics Service, Montana Field Office.

Cattle Outlook

Yellowstone and Beaverhead counties produce about 10 percent of the total cash receipts from livestock production. Fergus, Big Horn, Cascade, Rosebud, Valley, Phillips, Gallatin, Madison, Carter, Teton, Garfield, Judith Basin, and Blaine contribute another 40 percent to total cash receipts (Figure 2). Montana's beef inventory decreased by just over 2 percent from 2008 to 2009, with fewer calves being held as replacement heifers and the lowest number of cattle on feed (26,000) since these numbers were collected in 1983 (NASS, 2009). The national cattle herd is at the lowest level since 1951 (Johnson, 2010). Montana's share of the U.S. beef market remains steady at 2.5 to 3.0 percent of 20.3 million tons of beef produced nationwide. Futures prices for the cattle market suggest that feeder and fat cattle prices will be somewhat stronger in 2010.

U.S. beef demand continues to trend downward, with export demand improving, but well below export demand prior to the BSE scare. Domestic consumption of beef declined by about 3.9 percent in 2009 to just over 60 pounds per person (LMIC, 2010). Over 90 percent of all beef exports are to four countries: Canada, Mexico, Japan, and South Korea. Beef exports for 2009 are expected to be 4 percent lower than in 2008, but they are expected to increase by about 10 percent in 2010 (Johnson, 2010). Most recently, beef exports have been adversely affected by weak global demand for more expensive cuts of grain-fed beef and the value of the dollar. Japan has seen its currency appreciate against the dollar, while Canada, Mexico, and South Korea have seen their currencies depreciate against the dollar. While exports to Japan to have increased by 19 percent year-to-date, exports to Mexico and Canada have decreased by 15 percent and 6 percent year-to-date, respectively (Johnson, 2010). Over 90 percent of beef imported in the United States comes from Australia, Canada, New Zealand, Brazil, and Uruguay. Beef imports into the United States from all sources increased by 7 percent in 2009, primarily because of increases in imports from Australia (Johnson, 2010). Beef imports are expected to increase by 3 percent in 2010 (Johnson, 2010).

What's Expected in 2010?

Preliminary estimates suggest that net farm income is expected to increase by over 10 percent in 2010 (ERS, 2010). The financial situation for crop producers is expected to stabilize with prices that approach long-term averages and input costs that are declining. Fertilizer prices have declined by over 50 percent in the past two years and cost of debt remains somewhat lower, especially for operating lines of credit. The financial situation for livestock producers is expected to improve as cattle numbers reach historical lows and consumer demand for protein increases. Expectations about net farm income in 2010 are somewhat more optimistic than in 2009; however, lenders are expected to remain cautious.❑

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Montana's Manufacturing Industry

by Todd A. Morgan and Charles E. Keegan III

Despite the recent recession and extensive declines in wood products, manufacturing remains a substantial component of Montana's economy. Measured as products left the plants, Montana manufacturers had sales nearing $7 billion in 2009. The state's manufacturers generated more than 21,400 jobs (Figure 1), and workers earned more than $1 billion in labor income during 2009 (Figure 2).

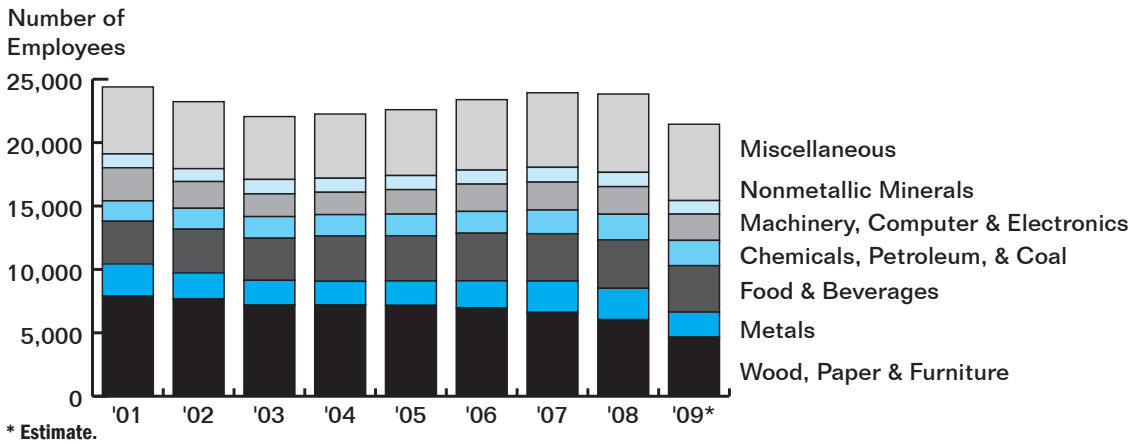
The manufacturing sectors account for more than 20 percent of Montana's economic base, and prior to the recent downturn, four Montana counties each had more than 2,500 manufacturing employees and more than $120 million in labor income from manufacturing (Table 1).

The full force of the global financial crisis and recession did not hit Montana manufacturers until late in 2008, leading to substantial declines in 2009. Value of production dropped by an estimated $1 billion to approximately $7 billion, with estimated employment at Montana manufacturers dropping from 23,800 (including the self-employed) in 2008 to approximately 21,400 in 2009. Workers' earnings fell by an estimated $110 million (10 percent) to an estimated $1 billion during 2009.

Comparing 2009 to the recession year of 2001, long-term employment and labor income growth (in constant dollars) occurred in a few manufacturing sectors, but total employment and labor income during 2009 are estimated to be lower than 2001 levels for manufacturing as a whole in Montana (Table 2).

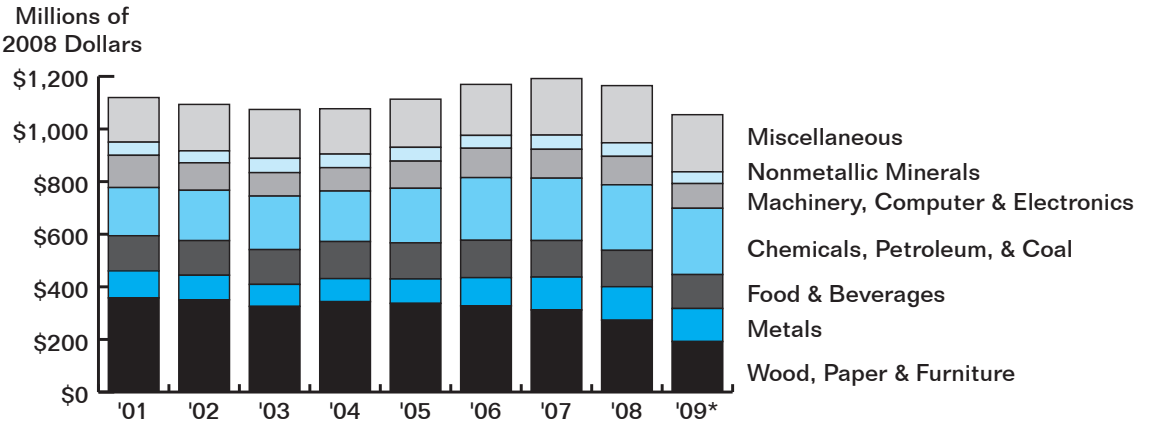
Year-to-year declines were largest in Montana's forest products industry (see pages 31-32) with segments of Montana's metals, machinery, and nonmetallic minerals manufacturers also suffering declines. None of the major

Figure 1
Montana Manufacturing Employment, 2001-2009



* Estimate.
Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 2
Labor Income in Montana Manufacturing, 2001-2009



* Estimate.
Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

manufacturing sectors showed increased employment in 2009, although chemical/petroleum manufacturing did see a slight increase in worker earnings. Even with these declines, Montana manufacturing out-performed U.S. manufacturers as a whole, who saw employment declines exceeding 15 percent in 2009.

Just under 63 percent of the Montana manufacturing firms BBER surveyed reported decreased profits for 2009, with 18 percent indicating profits higher than 2008.

As indicated on page 4, manufacturing employment in Montana (like the rest of the nation) has a high proportion of male workers. Our survey highlights some of the differences in male and female employment. Responses indicate that females comprise about 25 percent of Montana's total manufacturing workforce, with women holding about 55 percent of administrative and clerical positions but only 16 percent of production jobs. This suggests that as the manufacturing sector grows or contracts, men are more likely to be impacted.

Outlook: 2010 and Beyond

The 2010 outlook is for modest improvement in Montana manufacturing activity with expectations that the United States and other major economies will continue the recovery that began in the last half of 2009. The U.S. dollar has weakened considerably over the past year, making some Montana manufacturers more competitive in international markets.

The recovery in Montana manufacturing will be hampered by the announced permanent closure of a number of major manufacturing facilities including the Smurfit-Stone Container linerboard plant, Columbia Falls Aluminum Company smelter, and several large sawmills.

Montana manufacturers who responded to our annual survey are somewhat more optimistic about the outlook for 2010 than they were for 2009. Only 19 percent expected improved conditions for 2009, versus 47 percent who expected better conditions for 2010. About 38 percent expected worsening conditions in 2009, versus 15 percent for 2010. Nearly 60 percent of manufacturing respondents expect to keep their workforce at the same level in 2010, while 27 percent foresee an increase in employment.

In response to the question, "How, if at all, has availability or access to credit negatively impacted your business since January 2008," less than 25 percent of Montana manufacturers indicated they had experienced problems. Those who reported credit issues said their firms or their customers had difficultly maintaining an adequate line of credit. Responding to, "How if at all, has the federal stimulus benefitted your business," 20 percent of Montana manufacturers indicated they did benefit.

When manufacturers were asked to rate a list of issues in terms of general importance to their business, 79 percent of respondents rated health insurance cost as very important, followed by workers' compensation rates (60 percent), and workers' compensation rules (52 percent). The cost of energy was very important to 51 percent of respondents.

More detail from the "Results from the 2009- 2010 Montana Manufacturers Survey" is available on the Bureau's Web site www.bber.umt.edu/manufacturing.❑

Todd A. Morgan is the Bureau's director of forest industry research. Charles E. Keegan III is the retired director of forest industry research.

Table 1
Montana Manufacturing Employment and Labor Income, by County, 2007

County	2007 Manufacturing Employment	Percent of Total	2007 Manufacturing Labor Income (Millions of 2007 $)	Percent of Total
Flathead	4,158	17%	202	16%
Yellowstone	3,804	16%	323	25%
Gallatin	3,103	13%	179	14%
Missoula	2,970	12%	147	11%
Ravalli	1,294	5%	53	4%
Cascade	1,009	4%	54	4%
Lake	957	4%	33	3%
Lewis & Clark	930	4%	60	5%
Silver Bow	632	3%	37	3%
Lincoln	466	2%	14	1%
Park	382	2%	18	1%
All other counties	4,273	18%	168	13%
Montana total	23,978	100%	1,288	100%

Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Table 2
Employment and Labor Income in Montana Manufacturing Sectors, 2001 and 2009

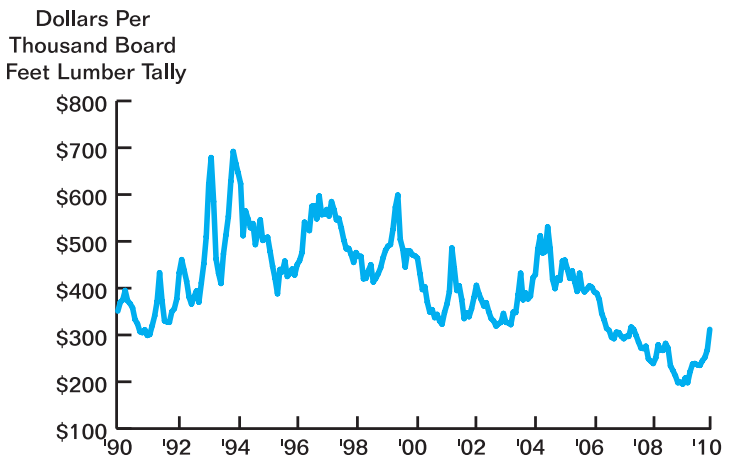
	Labor Income (millions 2008 $)		Employment	
	2001	2009*	2001	2009*
Wood, Paper & Furniture	358	192	7,907	4,660
Metals	103	126	2,526	1,977
Food & Beverage	134	129	3,365	3,661
Chemicals, Petroleum & Coal	183	252	1,607	1,997
Machinery, Computers & Electronics	123	94	2,612	2,068
Nonmetallic Minerals	50	45	1,090	1,071
Miscellaneous	169	217	5,283	6,016
Total	1,120	1,054	24,390	21,448

*** Estimate**
Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Montana's Forest Products Industry
Current Conditions and 2010 Forecast

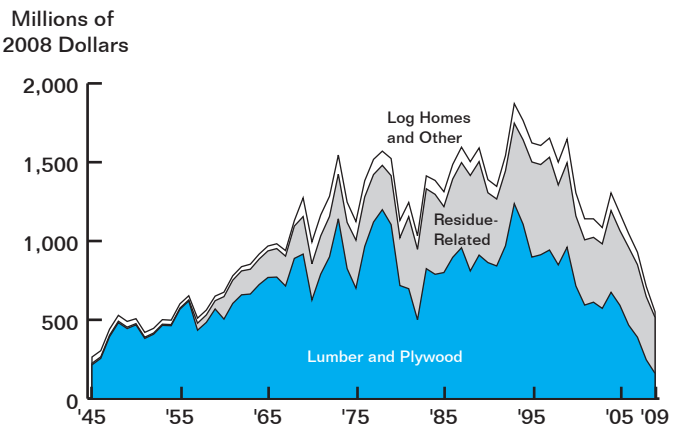
by Todd A. Morgan and Charles E. Keegan III

Figure 1
Nationwide Composite Lumber Prices Monthly, 1990-2009



Source: Random Lengths Publications.

Figure 2
Sales Value of Montana's Wood and Paper Products, 1945-2009



Sources: Bureau of Business and Economic Research, The University of Montana; Western Wood Products Association.

Operating Conditions

Economic conditions for Montana's forest products industry went from very bad in 2008 to dreadful in 2009. Lumber consumption in the United States was at its lowest level since the current statistical series began in 1950. Annual U.S. housing starts, which reached 2.1 million in 2005, fell to less than 1 million in 2008. In 2009, housing starts fell to just over 550,000 units, their lowest level in more than six decades. In response to the ongoing declines in housing, lumber prices dropped nearly 50 percent from 2005 to 2009 (Figure 1).

The federal stimulus program was perceived by most Montana wood-processing executives as not having much benefit for their firms. However, 25 percent of executives responding to the Bureau's annual survey indicated their firm did benefit from the stimulus program. Most firms that reported a benefit said they received a low-interest loan from the government, while only a few indicated having more work as a result of stimulus activities.

2009 Sales, Employment, and Production

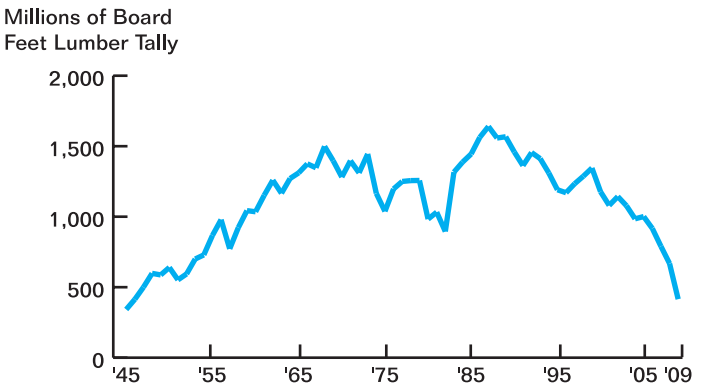
In response to the market conditions of 2009, every sector of Montana's forest products industry was negatively impacted and virtually every major mill and most small mills in the state closed or curtailed operations. This caused substantial drops in sales, production, employment, and labor income from 2008's already low levels.

Total sales value of Montana's primary wood and paper products was approximately $550 million (fob the producing mill) in 2009. Sales were down about $160 million, or almost 25 percent from 2008, and were about $625 million lower than 2005, when sales were just under $1.2 billion (Figure 2). Total forest industry employment during 2009 was about 7,070 workers (including the self-employed), down by about 20 percent from the revised 2008 estimate of 8,840 workers. Labor income in Montana's forest industry was less than $275 million during 2009, about 30 percent lower than 2008.

Lumber production in 2009 fell to an estimated 415 million board feet lumber tally. Production was down almost 60 percent from the 2005 level, more than 35 percent lower than 2008, and was at the lowest level in more than five decades (Figure 3, page 32).

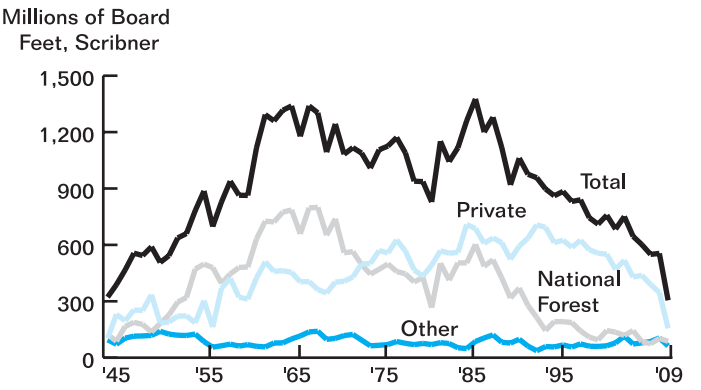
Montana's timber harvest volume during 2009 was an estimated 305 million board feet (Scribner), the lowest timber

Figure 3
Montana Lumber Production, 1945-2009



Sources: Bureau of Business and Economic Research, The University of Montana; Western Wood Products Association.

Figure 4
Montana Timber Harvested by Ownership, 1945-2009



Sources: Bureau of Business and Economic Research, The University of Montana; U.S. Forest Service Region One.

harvest on record since 1945 (Figure 4). The harvest from private lands fell more than 50 percent from 2008, in large part because of extremely weak markets for wood products. National forest timber harvest during fiscal year 2009 (Figure 5) was reported to be about 9 percent higher than 2008, but those volumes include considerable amounts (more than 40 percent) of residential firewood and non-sawlog material.

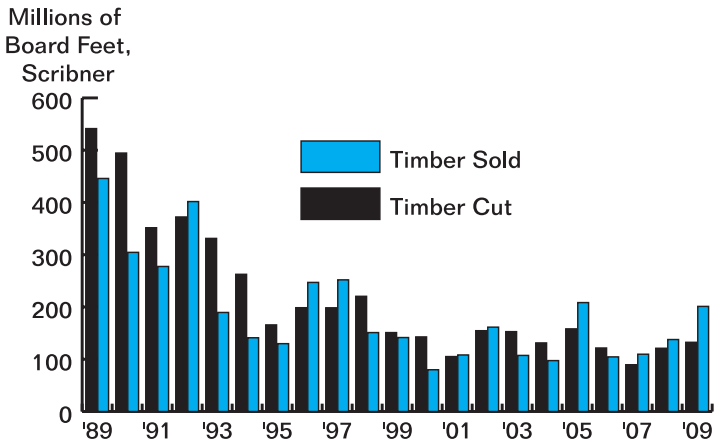
Outlook for 2010

National forecasts call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products in 2010 from the extremely low levels of 2009. There was a sharp jump in lumber prices (Figure 1) in early 2010 with a small uptick in demand. With large scale mill curtailments and closures throughout North America and low inventories on hand, a modest increase in wood products consumption led to large price increases. This increase will likely moderate as mills come back on line, but with the large scale losses in capacity that occurred in 2009 the ability of the North American industry to respond to increased demand is more limited than previous recessions.

Some optimism is also reflected in the outlook of Montana's wood products industry executives, with 51 percent expecting 2010 to be better than 2009, and 28 percent expecting conditions to be about the same as 2009.

More than 30 percent of executives anticipate that production, prices for their products, and sales will increase in 2010. Thirty-five percent expect the cost of inputs to be higher than in 2009, while 40 percent indicated that raw material availability is still very important to their business despite the poor market conditions for finished products. Health insurance costs, workers' compensation rates, and workers' compensation rules were also indicated as very important concerns for the majority of Montana's wood products industry.

Figure 5
Montana National Forest Timber Cut and Sold Volumes, 1989-2009



Source: USDA Forest Service Region One, Missoula, MT.

Three factors, however, are expected to have lingering impacts on sawmills, logging, and wood products related trucking in the state, including:

- weakened financial underpinnings of many Montana forest industry firms due to limited timber availability during the previous two decades;
- the extended housing downturn and four consecutive years of weak wood products markets;
- the closure of Frenchtown's Smurfit-Stone Container linerboard plant.

Because of these issues, continued losses are expected in all of Montana's forest industry sectors during the coming year.❑

Todd A. Morgan is the Bureau's director of forest industry research. Charles E. Keegan III is the retired director of forest industry research.

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