

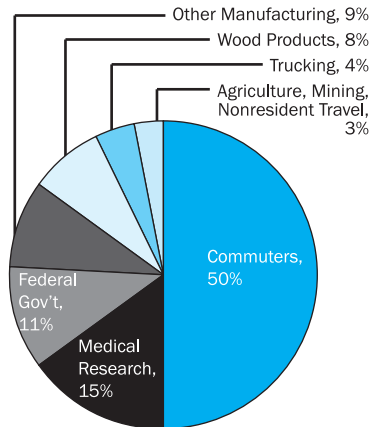
ECONOMIC OUTLOOK

manufacturing, depends on a recovery in the national housing market. Wood supply remains a concern, but poor markets for building materials dominate the decline.

The bright spot in the Ravalli economy is the growth in professional services led by Glaxo-Smith-Kline, a major pharmaceutical company, and the U.S. Center for Disease Control's Rocky Mountain Lab. Both facilities employ medical researchers who earn average annual wages that are more than double the county average of \$23,000 per year.

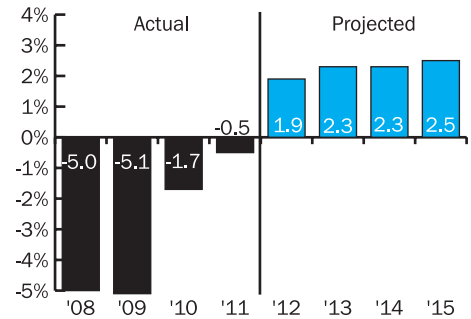
Ravalli County's nonfarm earnings should increase about 2 percent per year through 2015 if the national housing market rebounds, reversing four years of decline. 12

Figure 1
Earnings in Basic Industries,
Ravalli County, 2009-2011
(Percent of Total)



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

Figure 2
Actual and Projected Change in
Nonfarm Earnings, Ravalli County,
2008-2015



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

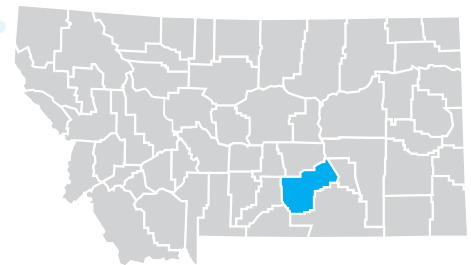
Yellowstone County Economy Improves Moving East

Patrick M. Barkey: Director, Bureau of Business and Economic Research

The Billings-area economy saw respectable growth in 2011 led by growth in its traditional base as a services and distribution hub, as well as by a one-time surge in activities associated with the cleanup of the Yellowstone River from the Exxon-Mobil pipeline rupture. Yellowstone County's growth prospects look bright relative to other parts of the state in light of the oil boom unfolding just across the North Dakota border.

Should that boom shift into Montana – to Glendive, say – then our forecast of growth for Yellowstone County in the coming years could prove to be too low. But despite energy's promise, the uncertain situation for commercial and residential real estate and signs of weakness in consumer spending make the forecast more restrained.

With few exceptions, the Great Recession impacted every part of Yellowstone County's economic base.



Yellowstone County Profile

Total Population, 2010	147,972
Percent Change in Population, 2000-2010	14.4%
Median Age, 2010	38.3
Percent 65 or Older, 2010	14.1%
Percent of Population with Bachelor's Degree or Higher, 2010	29.4%
Median Household Income, 2010	\$47,980
Percent of Population without Health Insurance Coverage, 2010	14.9
Unemployment Rate, November 2011	4.7%

Sources: American Community Survey, U.S. Census Bureau; Research and Analysis Bureau, Montana Department of Labor and Industry.

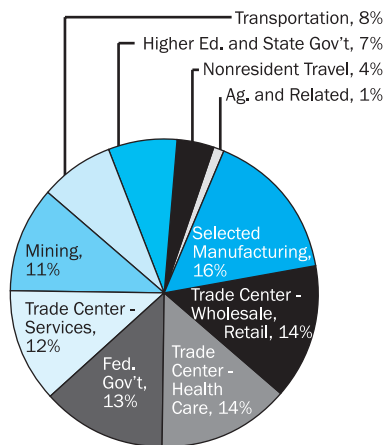
The collapse in commodity prices in 2009, the sharp contraction in the trade, transportation, and distribution of goods, and the housing price bust contributed to a loss of more than \$80 million in inflation-corrected wages and salaries paid, a 3.1 percent decline. The wage decline was most severe for construction, followed by wholesale trade and transportation and warehousing. The overall decline would have been much more severe had it not been for a \$35 million expansion in health care services earnings that occurred at the same time.

The evidence suggests that the trough of the recession for Yellowstone County occurred during the last three months of 2009.

It is heartening to note that most of the major industries in the Billings area that contributed most to the overall decline during the recession have halted their skid. Wholesale trade earnings growth has wiped out almost a third of the recession-induced decline, while transportation and warehousing has eradicated 70 percent of earnings losses since the end of 2009. Support activities for the oil and gas industry have grown enormously since the trough of the recession, posting a 47 percent gain since that time. The data do not yet fully capture the impact of the cleanup activities following the Yellowstone River oil spill, which gave a one-time boost to area contractors, equipment rental companies, and the accommodations industry.

Of Montana's larger cities, Billings is uniquely situated, both geographically and economically, to benefit from the more than four-fold increase in oil drilling activity that has occurred on

Figure 1
Earnings in Basic Industries,
Yellowstone County, 2009-2011
(Percent of Total)

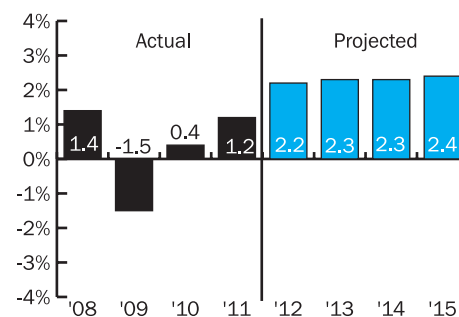


Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

the North Dakota side of the Bakken formation, which straddles the state border with Montana. Even with Montana drilling dormant (to date) by comparison (Figure 3), the repair, engineering, and other services in Yellowstone County have captured a considerable amount of Bakken-related business. Speculation that drilling activity will move west has heated up commercial real estate activity in Billings, particularly for warehousing and industrial space.

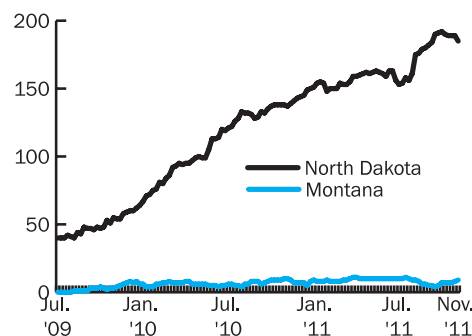
Yet some of the uncertainties that hang over almost every other Montana city cause our outlook for the Yellowstone economy in the coming years to be more restrained than the optimism over energy would suggest. As is the case elsewhere, consumer spending remains extraordinarily weak – the retail trade sector has continued to shrink even as the rest of the economy

Figure 2
Actual and Projected Change in
Nonfarm Earnings,
Yellowstone County, 2008-2015



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

Figure 3
Oil Drilling Rigs, North Dakota
and Montana, 2009-2011



Sources: Baker Hughes.

grew in 2011. Office space remains abundant, housing prices weak, and construction activity is low.

We expect Yellowstone County growth to accelerate in 2012, with inflation-corrected nonfarm earnings growth roughly at the state average throughout the forecast period of our baseline forecast. 12