

# Local Outlook

## Recession Impacts Different in Every County

by Paul E. Polzin

**T**here 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.



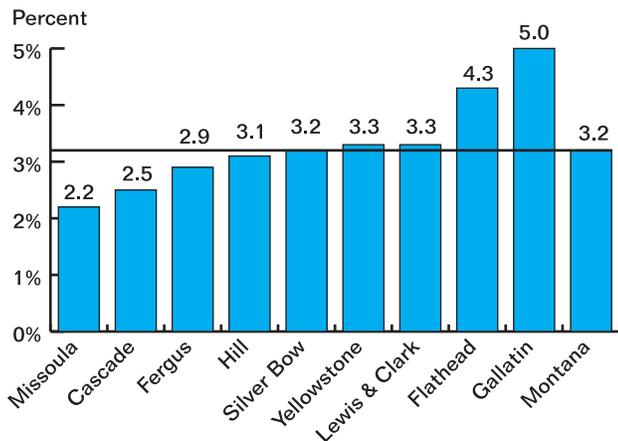
As shown in Figure 1, statewide economic growth averaged about 3.2 percent per year from 2001 to 2007. This growth was above the long-term figure because it was fueled by the energy and commodity boom of the mid-2000s. From 2004 to 2006, Montana experienced some of the fastest statewide growth since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

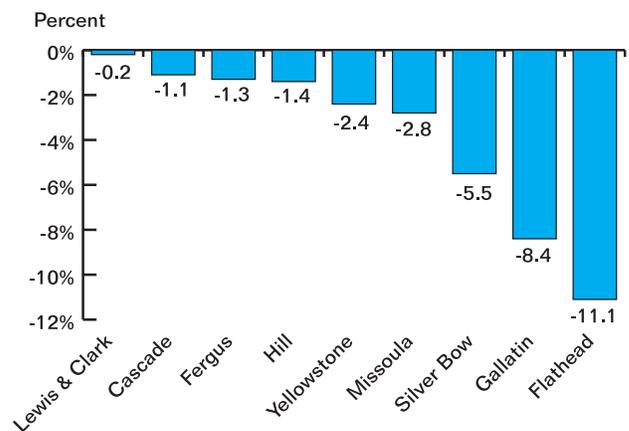
Figure 2 examines the impacts of the recession on Montana communities. It presents the percent change in

**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

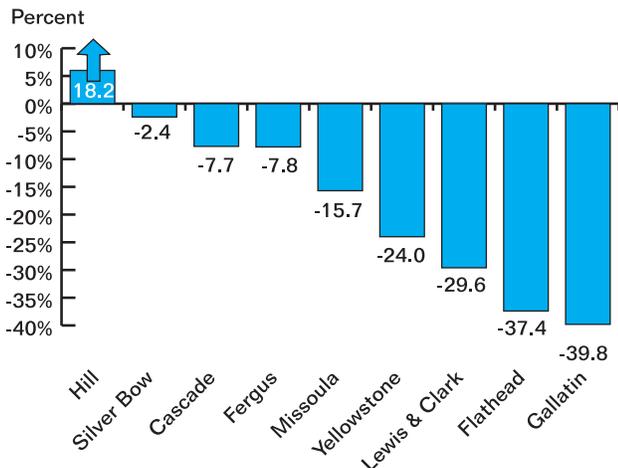
the recession began earlier and is likely to last longer than elsewhere. There were layoffs and closures in the wood products industry before the official cycle peak in late 2007, and the shutdown of Smufit-Stone occurred in early 2010.

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.

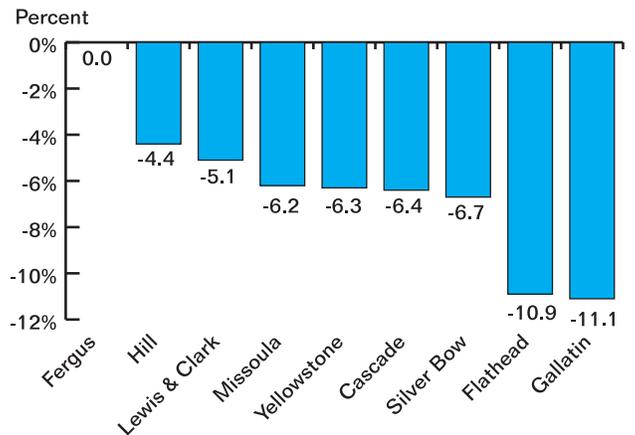
The changes in retail trade employment between March 2008 and March 2009 are pictured in Figure 4. As expected, Flathead and Gallatin counties suffered most, with declines of about 11 percent. But once again, communities where the overall recession effects were only moderate still experienced significant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

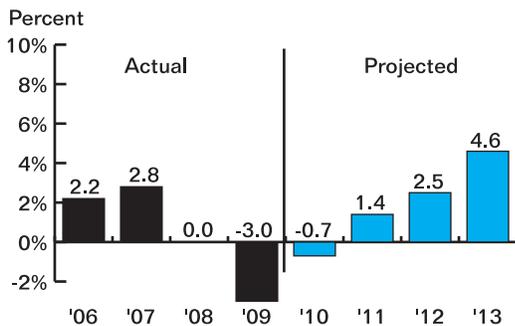


Source: U.S. Bureau of Labor Statistics.

## 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.

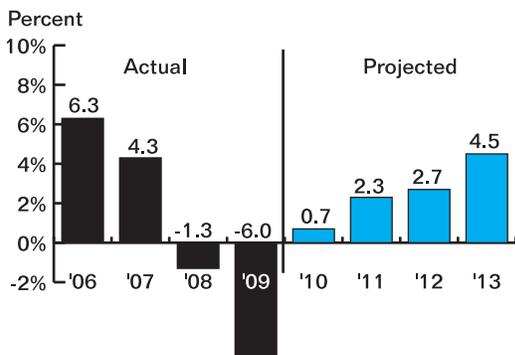
## Missoula

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.

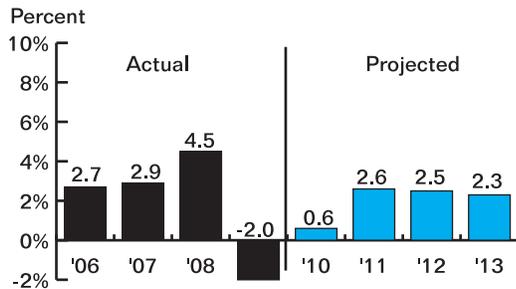
## Flathead

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.

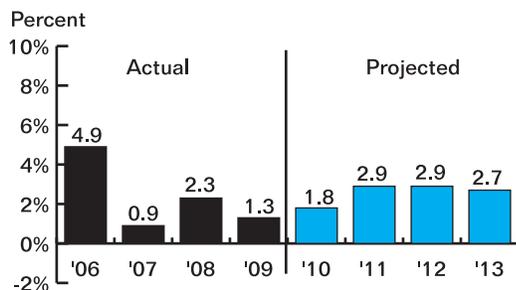
## Butte-Silver Bow County

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.

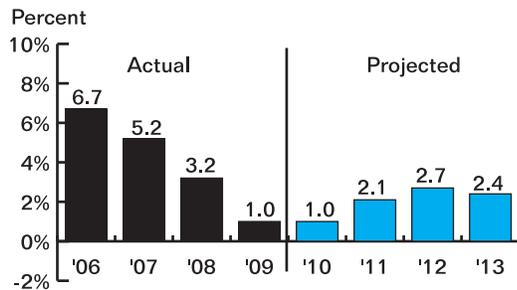
## Cascade County

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.

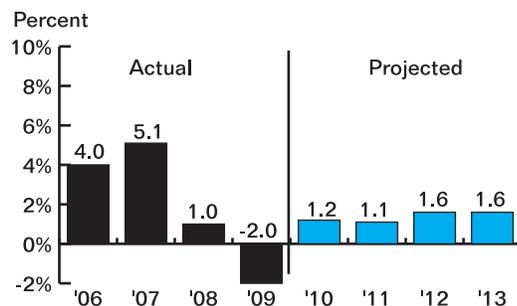
## Lewis and Clark County

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.

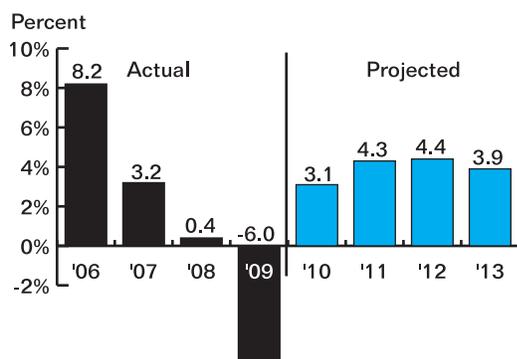
## Yellowstone County

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.

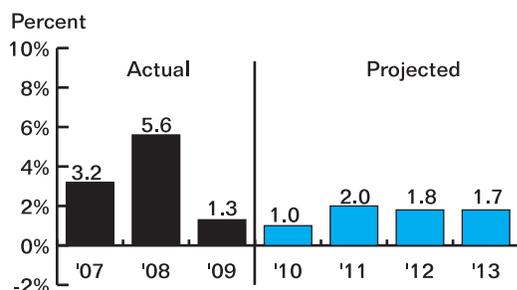
## Gallatin County

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.

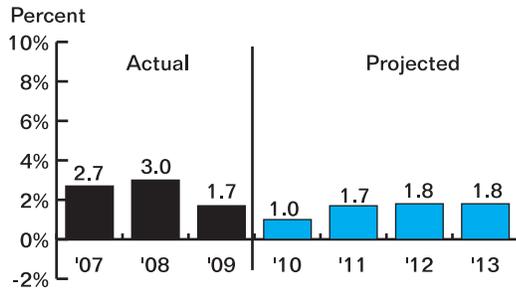
## Fergus County

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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*Paul E. Polzjin is director emeritus at The University of Montana Bureau of Business and Economic Research.*

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